Atul Limited

05 May 2024

Volumes revive; realisations remain under pressure

ANALYST MEET UPDATE

Sector: Chemicals | **Rating: HOLD**

CMP: Rs 6,142 | **Target Price: Rs 5,949**

Stock Info

Sensex/Nifty	73,878 /22,376
Bloomberg	ATLP IN
Equity shares (mn)	29.6
52-wk High/Low	Rs 7,565/5,738
Face value	Rs 10
M-Cap	Rs 181bn/ USD 2.2bn
3-m Avg volume	USD 4.6mn

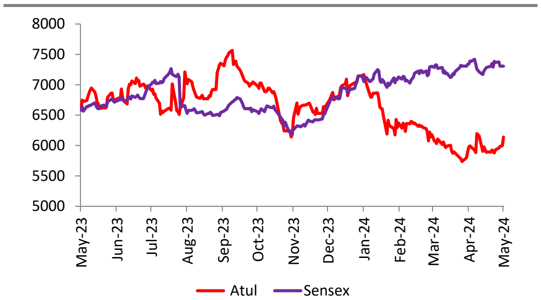
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	47,257	52,037	59,450
EBITDA	6,367	7,805	10,107
PAT (adj.)	3,230	4,081	5,852
EPS (adj.) (Rs)	109.5	138.3	198.3
PE (x)	61.0	48.3	33.7
EV/EBITDA (x)	31.2	25.4	19.5
P/B (x)	3.9	3.6	3.3
RoE (%)	6.6	7.7	10.2
RoCE (%)	7.5	8.7	11.9
D/E (x)	0.0	0.0	0.0
OPM (%)	13.5	15.0	17.0
Dividend payout (%)	15	15	15
Dividend Yield (%)	0.2	0.3	0.4

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	45.2	45.1	45.1
- Pledged	1.0	1.0	1.0
FII	8.5	8.1	7.7
DII	25.7	26.1	26.5
Others	20.7	20.8	20.7

Stock Performance (1-year)



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Atul's (ATLP IN) 4QFY24 operating performance was broadly in line, with revenue/EBITDA recording +1%/-1% YoY and +7%/-3% QoQ growth, respectively. While revenue in its Performance and Other Chemicals (POC) segment was up 5% YoY and 3% QoQ, its Life Science Chemicals (LSC) segment reflected 12% QoQ growth but 8% YoY fall. The crop protection division suffered on account of increased capacity in China but lower demand, although pharmaceuticals fared well. Gross margin expanded 392bps YoY and 261bps QoQ to 49.7% versus our estimate of 46.5%. EBITDA margin contracted 32bps YoY and 116bps QoQ to 12.2% on higher other expense. EBITDA fell slightly by 1% YoY and 3% QoQ to Rs 1.5bn but was broadly in line. Higher depreciation (+48% YoY, +24% QoQ) and interest expense (+132% YoY, +139% QoQ) along with lower other income (-47% YoY, -14% QoQ) led to PBT tumbling 34% YoY and 23% QoQ. APAT at Rs 584mn fell 38% YoY and 18% QoQ, 16% lower than our estimate. Management cited QoQ improvement in outlook for POC, and expects the segment to generate profitability 1QFY25 onwards. However, in the LSC segment, high channel inventory of 2,4D and weak demand outlook could pressure profitability. We have cut EBITDA margin by 50bps, EBITDA by 17% and EPS by 32% for FY25E. We roll forward estimates to FY26 and maintain HOLD with a revised target price of Rs 5,949 (Rs 7,295 earlier), based on a 30x FY26E P/E (unchanged)

POC segment (71% of sales; 53% of EBIT): Steady topline growth but profitability still under pressure - Segmental sales grew 5% YoY and 3% QoQ to Rs 8.7bn, with EBIT declining 18% YoY and 80% QoQ to Rs 129mn. EBIT margin contracted 42bps YoY and 634bps QoQ to mere 1.5%. Volume growth across various sub segments revived in FY24, despite the sharp fall in realization. Aromatics volume was up 16% YoY while realization dropped 16% YoY. Volumes in polymer grew 18% YoY, but prices fell 23% YoY. Demand slowdown in the textile industry (main customer within the color sub-segment) heavily impacted the profitability of this segment, with volumes/prices seeing 3%/10% YoY dip, respectively. Management sees demand restoring slowly and is optimistic on a recovery from 1QFY25. Within the bulk chemicals and intermediates division competition intensified with the Resorcinol Formaldehyde resin producers in China increasing, as demand for the product remains strong, seen from the 4% YoY growth in volumes.

LSC segment (29% of sales; 45% of EBIT): QoQ performance improves - 4Q segmental sales/EBIT rose 12%/57 QoQ but fell 8%/26 YoY to Rs 3.8bn/Rs667mn, respectively. EBIT margin expanded 515bps QoQ but contracted 448bps YoY to 17.7%. The crop protection sub segment bore the impact of the company losing market shares in both its top products – 2,4-Dichlorophenoxyacetic acid (2,4-D) and Indoxacarb. It will likely continue to expand into new geographies, obtain registrations, add new products, and integrate vertically, according to management. The pharmaceutical sub segment registered healthy 17% YoY growth in volume. Surging demand and competition in generics globally could pressure margins.

Underutilized capex - The company incurred consolidated capex of ~Rs 5bn in FY24, with ~Rs20bn spent over FY22-24, which we believe is underutilized. Management is focusing on ramping up its assets, as this capex has an unrealized sales potential of ~Rs15bn.

Investors are advised to refer disclosures made at the end of the research report.

Exhibit 1: Quarterly financial statement

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Net Sales	**12,122**	**11,952**	**1.4**	**11,378**	**6.5**	**47,257**	**54,275**	**(12.9)**
RM cost	6,091	6,475	(5.9)	6,015	1.3	25,105	28,640	(12.3)
Staff cost	1,025	947	8.2	1,016	0.9	3,980	3,702	7.5
Power & Fuel	1,567	1,427		1,303		5,532	6,476	(14.6)
Other Expenses	1,963	1,610	22.0	1,529	28.4	6,272	7,709	(18.6)
Operating Expenses	**10,646**	**10,458**	**1.8**	**9,861**	**8.0**	**40,890**	**46,527**	**(12.1)**
% of Sales	88	88	32.5	87	116bp	87	86	80bp
EBITDA	**1,476**	**1,494**	**(1.2)**	**1,517**	**(2.7)**	**6,367**	**7,749**	**(17.8)**
EBITDA Margins (%)	12.2	12.5	(32.5)	13.3	-116bp	13.5	14.3	-80bp
Other Income (OI)	129	242	(46.9)	150	(14.3)	**582**	**1,149**	(49.3)
Finance Cost	51	22	131.5	21	139.2	111	79	40.3
Depreciation	758	511	48.3	612	23.8	2,429	1,978	22.8
PBT	**796**	**1,203**	**(33.8)**	**1,034**	**(23.0)**	**4,409**	**6,840**	**(35.5)**
Current Tax	242	297	(18.5)	334	(27.5)	1,265	1,812	(30.2)
Effective Tax Rate (%)	30	25	23.1	32	(5.8)	29	26	NM
Reported PAT	**554**	**906**	**(38.9)**	**699**	**(20.8)**	3,144	5,028	**(37.5)**
NPM (%)	4.6	7.6	(301.1)	6.1	-158bp	6.7	9.3	-261bp
Adjusted PAT	**584**	**936**	**(37.6)**	**709**	**(17.7)**	**3,230**	**5,141**	**(37.2)**
No. of equity shares	30	30		30		30	30	
Adj. EPS (Rs)	**20**	**32**	**(37.4)**	**24**	**(17.4)**	**109**	**173**	**(37.0)**

Source: Company, Systematix Institutional Research

Exhibit 2: Ratios

Key Ratios (% of revenues)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Raw Material Cost	50	54	-392bp	53	-261bp	53	53	36bp
Staff Costs	8	8	53bp	9	-47bp	8	7	160bp
Other Expenses	16	13	273bp	13	276bp	13	14	-93bp
Effective Tax rate	30	25	572bp	32	-189bp	29	26	220bp
Gross Margin	49.7	45.8	392bp	47.1	261bp	46.9	47.2	-36bp
OPM	12.2	12.5	-32bp	24.8	-1,261bp	13.5	14.3	-80bp
NPM	4.6	7.6	-301bp	6.1	-158bp	6.7	9.3	-261bp

Source: Company, Systematix Institutional Research

Exhibit 3: Segmental data

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)
REVENUE	**12,122**	**11,952**	1%	**11,378**	7%
Life Science Chemicals	3,767	4,086	-8%	3,378	12%
Performance Chemicals	8,696	8,299	5%	8,406	3%
Other	241	130	85%	109	121%
Less: Intersegment Revenue	(582)	(563)		(516)	
Sales mix:					
Life Science Chemicals	31%	34%	-311bp	30%	138bp
Performance Chemicals	72%	69%	230bp	74%	-214bp
Other	2%	1%	90bp	1%	103bp
EBIT					
Life Science Chemicals	667	906	-26%	424	57%
Performance Chemicals	129	157	-18%	657	-80%
Other	0.1	11	-99%	(3)	NA
EBIT %					
Life Science Chemicals	17.7%	22.2%	-448bp	12.6%	515bp
Performance Chemicals	1.5%	1.9%	-42bp	7.8%	-634bp
Other	0.0%	8.2%	-811bp	-2.6%	NA

Source: Company, Systematix Institutional Research

Exhibit 4: Change in estimates

Particulars (Rs mn)	Old Estimates		New Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	60,766	68,042	52,037	59,450	(14.4)	(12.6)
EBITDA	9,419	11,567	7,805	10,107	(17.1)	(12.6)
EBITDA Margin (%)	15.5	17.0	15.0	17.0	-50bp	bp
Adjusted PAT	5,984	7,176	4,081	5,852	(31.8)	(18.5)
EPS (Rs)	202.8	243.2	138.3	198.3	(31.8)	(18.5)
Target Price		7,295		5,949		(18.5)

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Revenue	**50,809**	**54,275**	**47,257**	**52,037**	**59,450**
Revenue growth (%)	36	7	-13	10	14
- Op. expenses	41,695	46,527	40,890	44,231	49,344
EBITDA (Excl. OI)	**9,114**	**7,749**	**6,367**	**7,805**	**10,107**
EBITDA margins (%)	17.9	14.3	13.5	15.0	17.0
- Interest expenses	92	79	111	139	87
- Depreciation	1,767	1,978	2,429	2,850	2,927
+ Other income	760	1,149	582	781	1,011
- Tax	2,050	1,812	1,265	1,606	2,325
Effective tax rate (%)	26	26	29	29	29
Reported PAT	5,966	5,028	3,144	3,991	5,778
+/- Extraordinary items	-82	-38	-97	-121	-133
+/- Minority interest	5	-75	11	30	59
Adjusted PAT	**6,043**	**5,141**	**3,230**	**4,081**	**5,852**
EPS (Rs/share)	204.8	174.2	109.5	138.3	198.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	295	295	295	295	295
Reserves & Surplus	43,994	46,419	50,849	54,318	59,292
Networth	44,289	46,714	51,143	54,613	59,587
Minority interest	309	480	491	400	327
Total Debt	1,525	635	2,418	1,573	1,068
Def. tax liab. (net)	1,271	1,174	1,529	1,529	1,529
Capital employed	**47,394**	**49,004**	**55,581**	**58,115**	**62,511**
Net Fixed assets	20,338	27,993	30,696	31,846	33,919
Investments	13,138	8,842	13,953	13,953	14,953
Net Working capital	13,229	11,649	10,209	12,007	13,007
Cash and bank balance	689	520	723	309	632
Capital deployed	**47,394**	**49,004**	**55,581**	**58,115**	**62,511**
Net debt	835	115	1,695	1,264	436
WC (days)	89	76	75	77	77
DE(x)	0.03	0.01	0.05	0.03	0.02

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	6,043	5,141	3,230	4,081	5,852
+ Non cash items	1,709	1,881	2,784	2,850	2,927
Cash profit	7,752	7,022	6,014	6,931	8,778
- Incr/(Decr) in WC	5,272	-1,580	-1,440	1,799	1,000
Operating cash flow	**2,480**	**8,602**	**7,454**	**5,132**	**7,779**
- Capex	5,622	9,634	5,132	4,000	5,000
Free cash flow	**-3,142**	**-1,032**	**2,322**	**1,132**	**2,779**
- Dividend	590	771	485	612	878
+ Equity raised	-1	-	-1	1	-
+ Debt raised	105	-889	1,782	-845	-505
- Investments	-261	-4,296	5,111	-	1,000
- Misc. items	-574	1,773	-1,695	90	73
Net cash flow	**-2,793**	**-169**	**203**	**-414**	**323**
+ Opening cash	3,482	689	520	723	309
Closing cash	689	520	723	309	632

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	45.7	39.9	61.0	48.3	33.7
P/BV (x)	6.2	4.4	3.9	3.6	3.3
EV/EBITDA (x)	30.4	26.5	31.2	25.4	19.5
RoE (%)	14.6	11.3	6.6	7.7	10.2
RoCE (%)	16.6	12.0	7.5	8.7	11.9
Fixed Asset turnover (x)	1.7	2.2	1.6	1.5	1.5
Capital empl. turnover (x)	1.1	1.1	0.9	0.9	1.0
Dividend payout (%)	10	15	15	15	15
Dividend yield (%)	0.2	0.4	0.2	0.3	0.4
Debtors days	71	57	72	72	72
Creditor days	46	36	45	45	45
Inventory days	64	55	48	50	50
Revenue growth (%)	36	7	-13	10	14
EBITDA growth (%)	-1	-15	-18	23	29
PAT growth (%)	-8	-16	-37	27	45

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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