

31 January 2021

Atul

Mixed Q3, strong recovery expected; maintaining a Buy

Rating: **Buy**

Target Price: Rs.7,500

Share Price: Rs.6,374

Atul's Q3 revenue fell 8.5% y/y, 4.9% q/q impacted by lower exports supported by strong recovery in the domestic market. Ahead, we expect strong recovery considering its greater focus on retail and branded products, ongoing capex to support revenue growth and strong performances across business verticals, subsidiaries, associates and JVs. We maintain a Buy recommendation, at a same target of Rs.7,500 (25x FY23e EPS).

Subdued Q3 performance. Atul's Q3 revenue was Rs.9.5bn, down 8.5% y/y, 4.9% q/q, on the subdued performances at its divisions. Revenue from life-science chemicals fell 9.9% y/y, 17.7% q/q, to Rs.2.8bn due to softer demand in exports. Performance and other chemicals revenue slipped 8.6% y/y, though flat q/q, to Rs.6.9bn. The gross margin expansion continued in Q3 also, up 304bps y/y, 111bps q/q, to 55.3%, driven by better realisations, though partially impacted by higher operating expenses.

Profit growth backed by higher other income. Despite a decline in revenue and EBITDA, profit grew 11.6% y/y, 8.2% q/q, to Rs.1.9bn, backed by higher other income and lower tax expenses. Other income was up 224% y/y, 478% q/q, to Rs.373m boosted by higher dividend income received and adjusting for an exchange loss.

Outlook. The company has approved the buyback of ~68,965 shares for a limited amount (Rs500m) at a price not exceeding Rs.7,250/share. Ahead, we expect revenue/EBITDA/PAT to clock 17%/18%/16% CAGRs over FY21-23, supported by capex, greater utilisation of present capacities, rising share of its retail business, value-added and high-margin products.

Valuation. We maintain a Buy rating on the stock with the same target of Rs.7,500, valuing it at 25x FY23e EPS and 15.4x FY23e EV/EBITDA.

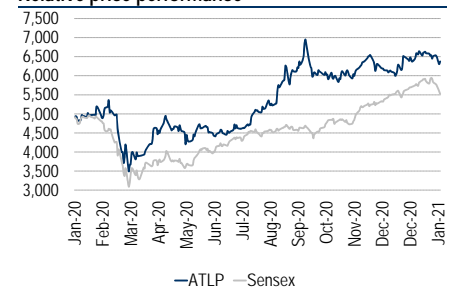
Risks: Drop in spreads of major products, delay in capex and de-bottlenecking implementation, erratic increase in crude and derivatives prices.

Key data	ATLP IN / ATLP.BO
52-week high / low	Rs.7021 / 3256
Sensex / Nifty	46286 / 13635
3-m average volume	\$3m
Market cap	Rs.189bn / \$2591m
Shares outstanding	30m

Shareholding pattern (%)	Dec'20	Sep'20	Jun'20
Promoters	44.8	44.8	44.8
- of which, Pledged	1.5	5.3	3.8
Free float	55.2	55.2	55.2
- Foreign institutions	9.4	8.2	6.7
- Domestic institutions	22.9	23.4	25.3
- Public	23.0	23.6	23.2

Estimates revision (%)	FY21e	FY22e	FY23e
Sales	(9.9)	(9.6)	(9.4)
EBITDA	(3.0)	(3.9)	(3.0)
EPS	1.7	0.5	1.3

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rs m)	40,378	40,931	37,474	44,567	51,230
Net profit (Rs m)	4,322	6,665	6,738	7,884	9,021
EPS (Rs)	145.6	224.5	227.0	265.6	304.0
PE (x)	43.8	28.4	28.1	24.0	21.0
EV / EBITDA (x)	24.4	20.3	18.9	15.6	13.1
PBV (x)	7.0	6.0	5.0	4.2	3.6
RoE (%)	17.5	22.7	19.5	19.2	18.6
RoCE (%)	16.4	21.3	18.3	18.1	17.7
Dividend yield (%)	0.2	0.4	0.4	0.5	0.6
Net debt / equity (x)	-	-	-	-	-

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Net revenues	40,378	40,931	37,474	44,567	51,230
<i>Growth (%)</i>	22.5	1.4	-8.4	18.9	14.9
Direct costs	21,061	19,700	16,863	20,055	22,695
SG&A	11,650	12,210	11,130	13,147	15,369
EBITDA	7,668	9,020	9,481	11,365	13,166
<i>EBITDA margins (%)</i>	19.0	22.0	25.3	25.5	25.7
- Depreciation	1,189	1,302	1,581	1,936	2,395
Other income	349	780	1,124	1,114	1,281
Interest expenses	74	94	87	87	87
PBT	6,753	8,404	8,937	10,456	11,965
<i>Effective tax rate (%)</i>	36.2	20.8	25.0	25.0	25.0
+ Associates / (Minorities)	12	5	36	42	48
Net income	4,322	6,665	6,738	7,884	9,021
Adjusted income	4,322	6,665	6,738	7,884	9,021
WANS	30	29.7	30	30	30
FDEPS (Rs / sh)	145.6	224.5	227.0	265.6	304.0
<i>FDEPS growth (%)</i>	56.3	54.2	1.1	17.0	14.4
<i>Gross margins (%)</i>	47.8	51.9	55.0	55.0	55.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	297	297	297	297	297
Net worth	27,057	31,549	37,614	44,551	52,490
Debt	548	1,085	1,085	1,085	1,085
Minority interest	238	264	308	361	421
DTL / (Assets)	1,390	1,078	1,078	1,078	1,078
Capital employed	29,232	33,976	40,085	47,075	55,074
Net tangible assets	10,492	10,615	12,143	14,379	17,384
Net intangible assets	197	163	163	163	163
Goodwill	323	291	291	291	291
CWIP (tang. & intang.)	1,723	3,681	3,573	4,400	4,000
Investments (strategic)	5,464	4,888	6,088	6,088	6,088
Investments (financial)	2,088	6,517	6,517	7,517	7,517
Current asset (ex cash)	14,604	14,926	13,496	15,998	18,348
Cash	545	354	4,341	5,809	9,843
Current liabilities	6,203	7,460	6,526	7,570	8,560
Working capital	8,401	7,466	6,970	8,428	9,788
Capital deployed	29,232	33,976	40,085	47,075	55,074
Contingent liabilities	1,203	1,148	-	-	-

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT adj. OI and interest	6,479	7,718	7,900	9,429	10,771
+ Non-cash items	1,189	1,302	1,581	1,936	2,395
Oper. prof. before WC	7,668	9,020	9,481	11,365	13,166
- Incr. / (decr.) in WC	784	(935)	(496)	1,458	1,360
Others incl. taxes	2,436	2,129	2,234	2,614	2,991
Operating cash-flow	4,448	7,826	7,743	7,293	8,815
- Capex (tang. + intang.)	2,721	3,319	3,000	5,000	5,000
Free cash-flow	1,727	4,507	4,743	2,293	3,815
Acquisitions					
-Div.(incl. buyback, tax)	536	983	674	946	1,083
+ Equity raised	-	-	-	-	-
+ Debt raised	388	537	-	-	-
- Fin Investments	2,822	3,853	1,200	1,000	-
-Misc. items (CFI+CFF)	(1,293)	400	(1,118)	(1,122)	(1,302)
Net cash-flow	51	(191)	3,987	1,468	4,034

Source: Company, Anand Rathi Research

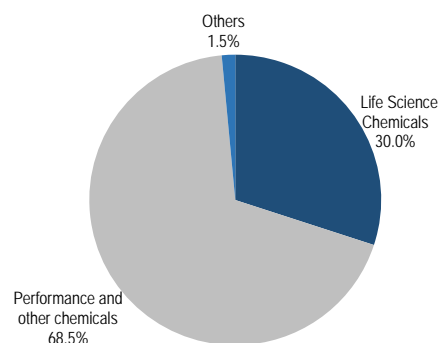
Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	43.8	28.4	28.1	24.0	21.0
EV / EBITDA (x)	24.4	20.3	18.9	15.6	13.1
EV / Sales (x)	4.6	4.5	4.8	4.0	3.4
P/B (x)	7.0	6.0	5.0	4.2	3.6
RoE (%)	17.5	22.7	19.5	19.2	18.6
RoCE (%) - after tax	16.4	21.3	18.3	18.1	17.7
RoIC	16.7	21.6	19.5	20.5	20.9
DPS (Rs / sh)	15.0	27.5	22.7	31.9	36.5
Dividend yield (%)	0.2	0.4	0.4	0.5	0.6
Dividend payout (%) - incl. DDT	10.3	12.2	10.0	12.0	12.0
Net debt / equity (x)	0	0	0	0	0
Receivables (days)	63.1	64.2	66	66	66
Inventory (days)	89	93	97	97	99
Payables (days)	66	88	91	87	87
CFO : PAT %	102.9	117.4	114.9	92.5	97.7

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Revenue contribution, by category


Source: Company

Result Update

Subdued operating performance

Standalone

Standalone revenue was Rs.8.7bn, down 10.6% y/y, 8.6% q/q, driven by subdued segment performance. The gross margin expanded to ~55.6%, up 278bps y/y, 167bps q/q. Despite the strong gross margin, the EBITDA margin rose just 90bps y/y, down 123bps q/q, to 24.6%, impacted by higher employee expenses and other expenses. Despite a decline in the top line and EBITDA, the bottom line grew 9.5% y/y, 3.2% q/q, to Rs.1.7bn, supported by higher other income and lower tax expenses.

Consolidated

Atul's (consolidated) Q3 FY21 revenue was down 8.5% y/y, 4.9% q/q, to Rs.9.5bn, on the subdued performance of segments. The gross margin expanded 304bps y/y, 111bps q/q to 55.3% due to lower input costs. Absolute EBITDA declined 2.5% y/y, 7% q/q, to Rs.2.4bn.

The EBITDA margin expanded 156bps y/y, down 56bps q/q, to 25.5% mainly due to the higher gross margin, partially hurt by higher operating expenses. PAT grew 11.6% y/y, 8.2% q/q, to Rs1.9bn, supported by higher margins, higher other income and lower tax expenses. The company reported other income of Rs.373m, against Rs.115m a year ago and Rs.65m a quarter prior.

Subsidiaries

Revenue from subsidiaries grew 23.6% y/y, 35.5% q/q, to Rs783m, bringing 8.2% to consolidated revenue (~4.5% a quarter prior). EBITDA and PAT were up 58.7% and 49.3% y/y respectively to Rs.279m and Rs.135m.

Expanding MCA capacity

On 21st Oct'20, Atul announced that its JV with Nouryon, a leading global technology manufacturer of mono-chloro-acetic acid (MCA), had received environmental clearance for its 32,000-ton MCA plant in Gujarat. Construction is expected to be complete this year, aiming to supply MCA to the Indian market by the year-end and to reach full production in H1 CY21.

MCA is an essential ingredient for the growing Indian agricultural, personal care and pharmaceutical markets. The JV will have the largest MCA plant in India, which will use chlorine and hydrogen manufactured by Atul to produce up to 32,000 tons of MCA, with the possibility of expanding this to 60,000 tons in future. Atul will consume a portion of the MCA for its own production; the balance will be marketed in India.

Financial highlights

Fig 7 – Financial trend

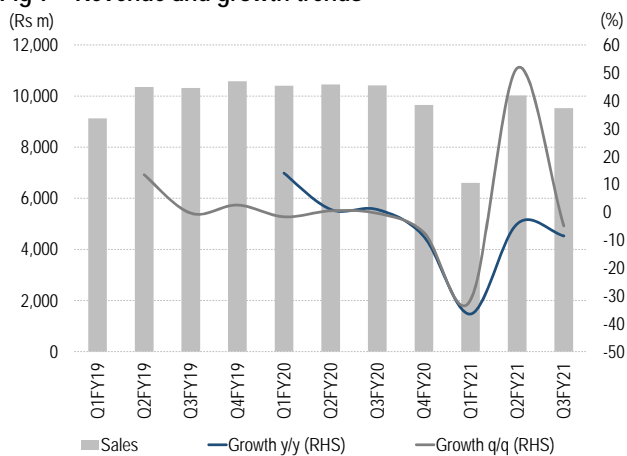
Particulars (Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	% Y/Y	% Q/Q	9M FY20	9M FY21	% Y/Y
Income	10,315	10,580	10,406	10,456	10,414	9,655	6,606	10,021	9,529	(8.5)	(4.9)	31,276	26,155	(16.4)
RM costs	5,334	5,507	5,077	5,073	4,967	4,583	2,843	4,586	4,255	(14.3)	(7.2)	15,117	11,683	(22.7)
Employee expenses	662	704	699	771	754	785	740	768	794	5.2	3.4	2,224	2,301	3.5
Other expenses	2,186	2,340	2,228	2,368	2,200	2,406	1,436	2,056	2,051	(6.8)	(0.2)	6,795	5,543	(18.4)
EBITDA	2,134	2,031	2,403	2,244	2,493	1,881	1,587	2,612	2,430	(2.5)	(7.0)	7,140	6,628	(7.2)
Depreciation	291	330	318	323	324	338	331	332	334	3.1	0.6	965	997	3.4
Interest	19	17	19	20	31	24	27	22	22	(31.2)	-	70	70	(0.7)
Other income	(42)	42	100	210	115	356	406	65	373	224.0	477.7	425	844	98.5
PBT	1,782	1,726	2,166	2,111	2,253	1,875	1,635	2,323	2,447	8.6	5.3	6,530	6,404	(1.9)
Tax	628	607	689	24	572	460	459	596	567	(0.9)	(4.9)	1,286	1,622	26.2
PAT	1,154	1,119	1,477	2,087	1,680	1,415	1,177	1,726	1,879	11.9	8.9	5,244	4,782	(8.8)
MI	(6)	17	14	11	8	12	2	7	18	129.9	149.3	32	26	(18.3)
Profit from asso.& JV	11	13	11	13	17	9	3	24	24	44.3	(1.2)	41	51	26.7
Consol PAT	1,170	1,116	1,473	2,090	1,689	1,413	1,178	1,744	1,886	11.6	8.2	5,252	4,807	(8.5)
EPS (Rs)	39.4	38	49.6	70.4	56.9	47.6	39.7	58.7	63.5	11.6	8.2	177.0	162.0	(8.5)

Source: Company, Anand Rathi Research *MI - minority Interest

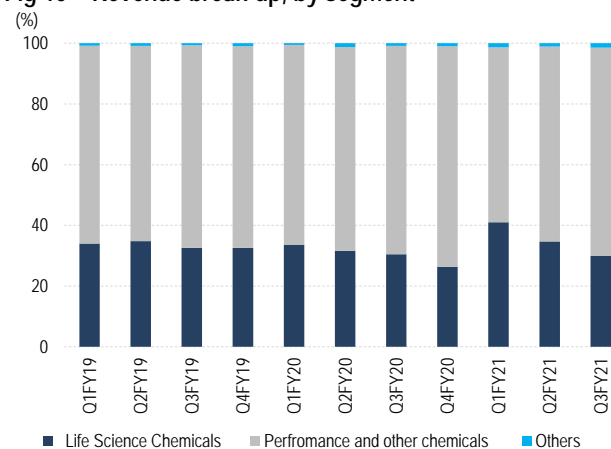
Fig 8 – Quarterly trend, as percent of sales

Particulars (%)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	bps Y/Y	bps Q/Q	9M FY20	9M FY21	bps Y/Y
Gross margins	48.3	48.0	51.2	51.5	52.3	52.5	57.0	54.2	55.3	304	111	51.7	55.3	367
Employee costs	6.4	6.6	6.7	7.4	7.2	8.1	11.2	7.7	8.3	109	67	7.1	8.8	169
Other expenses	21.2	22.1	21.4	22.6	21.1	24.9	21.7	20.5	21.5	40	101	21.7	21.2	(54)
EBITDA margins	20.7	19.2	23.1	21.5	23.9	19.5	24.0	26.1	25.5	156	(56)	22.8	25.3	251
Depreciation	2.8	3.1	3.1	3.1	3.1	3.5	5.0	3.3	3.5	39	19	3.1	3.8	73
Interest	0.2	0.2	0.2	0.2	0.3	0.2	0.4	0.2	0.2	(7)	1	0.2	0.3	4
Other income	(0.4)	0.4	1.0	2.0	1.1	3.7	6.2	0.6	3.9	281	327	1.4	3.2	187
PBT margins	17.3	16.3	20.8	20.2	21.6	19.4	24.8	23.2	25.7	405	250	20.9	24.5	361
Effective tax rate	35.2	35.2	31.8	1.1	25.4	24.5	28.0	25.7	23.2	(223)	(249)	19.7	25.3	564
PAT margins	11.3	10.5	14.2	20.0	16.2	14.6	17.8	17.4	19.8	357	239	16.8	18.4	159

Source: Company, Anand Rathi Research

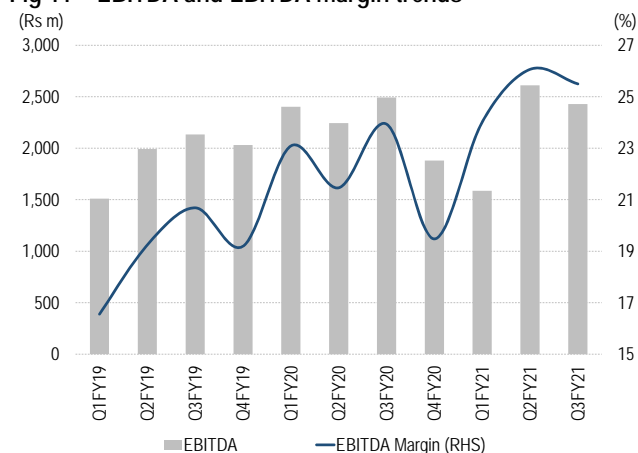
Fig 9 – Revenue and growth trends


Source: Company, Anand Rathi Research

Fig 10 – Revenue break-up, by segment


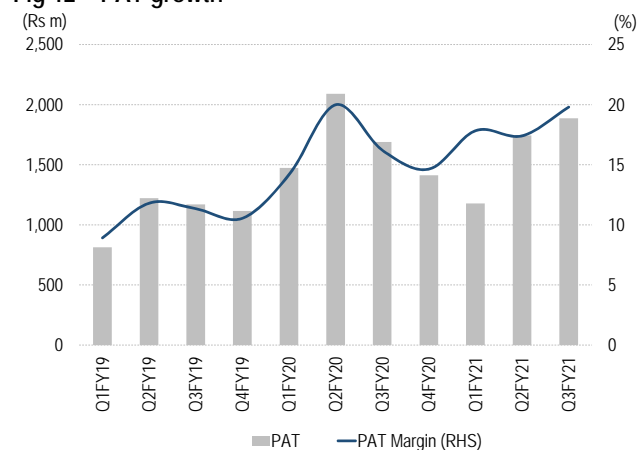
Source: Company, Anand Rathi Research

Fig 11 – EBITDA and EBITDA margin trends



Source: Company, Anand Rathi Research

Fig 12 – PAT growth



Source: Company, Anand Rathi Research

Consolidated performance, by segment

Life-science chemicals

Revenue of the life-science-chemicals division declined 9.9% y/y, 17.7% q/q, to Rs.2.9bn. Absolute EBIT declined 10.6% y/y, 24.4% q/q, to Rs.508m with a 17.7% EBIT margin (down 12bps y/y, 157bps q/q). The RoCE of the life-science chemicals division was 9.1% (9.7% a year ago). The segment's capital employed decreased 5% y/y to Rs.5.6bn.

Performance and other chemicals

Q3 FY21 revenue slipped 8.6% y/y, though flat q/q, to Rs.6.9bn. The EBIT margin was 23.9%, up 180bps y/y, 79bps q/q. Absolute EBIT was Rs.1.6bn, flat y/y, up 4.2% q/q. The RoCE was 12.5% (13.1% a year ago). Investment in the business was Rs.13.3bn.

Fig 13 – Quarterly (consolidated) trends, by segment

Particulars	Q3 FY20	Q2 FY21	Q3 FY21	% Y/Y	% Q/Q	9M FY20	9M FY21	% Y/Y
Revenue (Rs m)								
Life-science chemicals	3,176	3,475	2,861	(9.9)	(17.7)	9,975	9,045	(9.3)
Specialty chemicals	7,598	6,896	6,946	(8.6)	0.7	22,399	18,047	(19.4)
Others	92	108	141	52.8	30.4	277	336	21.3
Inter-segment	452	458	419	(7.3)	(8.6)	1,375	1,272	(7.5)
Net sales	10,414	10,021	9,529	(8.5)	(4.9)	31,276	26,155	(16.4)
EBIT (Rs m)								
Life-science chemicals	568	671	508	(10.6)	(24.4)	1,892	1,689	(10.7)
Specialty chemicals	1,679	1,594	1,660	(1.1)	4.2	4,567	4,110	(10.0)
Others	37	48	25	(33.3)	(48.5)	99	68	(31.2)
EBIT margins (%)								
				bps y/y	bps q/q			bps y/y
Life-science chemicals	17.9	19.3	17.7	(12)	(157)	19.0	18.7	(29)
Specialty chemicals	22.1	23.1	23.9	180	79	20.4	22.8	238
Others	40.4	44.7	17.6	(2,280)	(2,707)	35.6	20.2	(1,539)

Source: Company, Anand Rathi Research

Valuation

Change in estimates

Fig 14 – Change in estimates

(Rs m)	Old estimates			New estimates			Change (%)		
	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
Revenue	41,593	49,296	56,545	37,474	44,567	51,230	(9.9)	(9.6)	(9.4)
EBITDA	9,774	11,831	13,571	9,481	11,365	13,166	(3.0)	(3.9)	(3.0)
PAT	6,623	7,841	8,907	6,738	7,884	9,021	1.7	0.5	1.3

Source: Anand Rathi Research

To arrive at the value of Atul, we use the DCF method. The 11% WACC used has been arrived at as follows:

Fig 15 – WACC

Equity (FY20) (Rs m)	31,549
Cost of equity (%)	11
Debt (FY20) (Rs m)	1,085
Cost of debt (%)	8.0
Weighted average cost of capital (%)	10.9

Source: Anand Rathi Research

To arrive at future cash flows, a 5% terminal growth rate has been assumed.

Fig 16 – Present value of FCFF

(Rs m)	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e	FY31e
EBIT	9,024	10,543	12,052	13,925	16,264	18,811	21,757	25,164	29,105	33,663	38,935
EBIT (1-t)	6,768	7,907	9,039	10,444	12,198	14,108	16,317	18,873	21,829	25,247	29,201
Depreciation	1,581	1,936	2,395	2,799	2,926	3,101	3,287	3,484	3,692	3,913	4,147
WC changes	496	(1,458)	(1,360)	(1,453)	(1,616)	(1,869)	(2,162)	(2,501)	(2,892)	(3,345)	(3,869)
Capex	(3,000)	(5,000)	(5,000)	(1,500)	(1,500)	(2,000)	(2,120)	(2,246)	(2,381)	(2,523)	(2,674)
FCFF	5,846	3,385	5,074	10,290	12,008	13,340	15,323	17,609	20,247	23,291	26,804
PV of FCFF	5,271	2,752	3,720	6,803	7,158	7,171	7,427	7,696	7,979	8,277	8,589

Source: Anand Rathi Research

DCF-based valuation

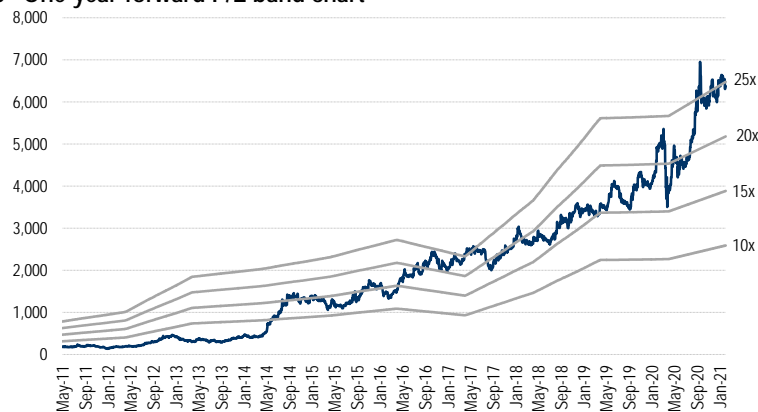
Fig 17–Target price (Rs m)

Present value	72,843
Terminal value	150,488
Debt	(1,085)
Cash	354
Total value	222,600
No. of shares (m)	30
Target price (Rs)	7,500

Source: Anand Rathi Research

At the target price of Rs.7,500, the stock is valued at a PE multiples of 28.2x FY22e and 24.7x FY23e. On an EV/EBITDA multiple, it is valued at 18.5x FY22e and 15.7x FY23e.

Fig 18 –One-year-forward P/E band chart



Source: Bloomberg, Anand Rathi Research

Risks

- Drop in spreads of major products.
- Decrease in prices of major products such as p-cresol, resorcinol, 44 DDS, 2,4- D, dapsone, vat dyes, etc.
- Delay in capex and debottlenecking.
- Erratic increase in prices of crude and crude derivatives.
- Global slowdown, leading to a deceleration in key consumer sectors (agro-chemicals, pharmaceuticals, dyes & pigments).

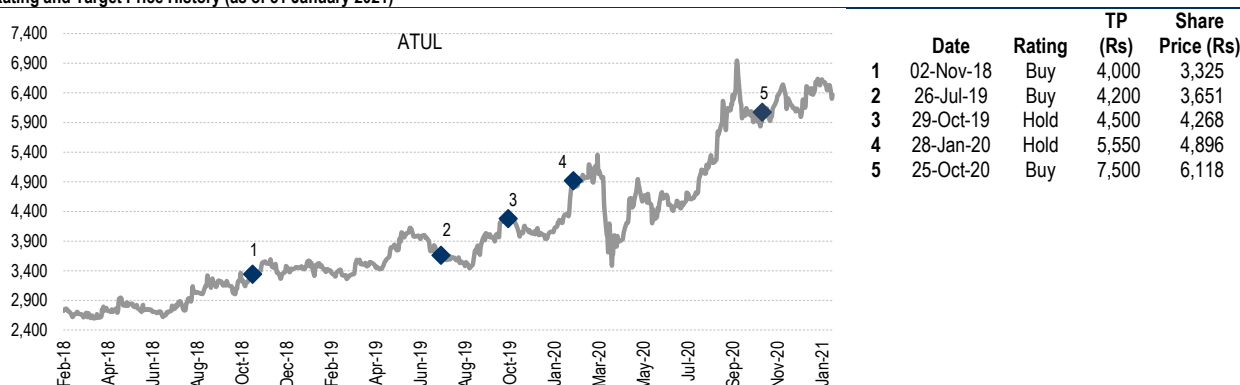
Appendix

Analyst Certification

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