Atul

Acculumate

Result Update

- **Atul Ltd's 3QFY21 sales de-growth of 8.5% YoY to Rs 9.5bn manifests pressure in pickup of volumes amidst the pandemic.**
- **However, the company has divulged prudence in cost control by consistently reporting EBITDA margins over 25% (3QFY21 EBITDA margin: 25.5%, up 160bps YoY).**
- **PAT grew by 11.6% YoY to Rs 1.88bn, given a higher other income of Rs 373mn (~Rs 200mn of dividend income seems to have flown in from Majesco's share) and a lower tax rate compared to 3QFY20, at 23.2%.**

Outlook and Valuation

ATLP has cumulatively incurred a capex of Rs ~13.1bn over the last 5 years (FY16-20) and is likely to provide earnings visibility over the next 3 years, efficient capital allocation (5 yr avg. RoCE: 22.5%) and 5 yr avg. ROE of 17.3% in FY23E builds a strong investment case. Atul Ltd's margins have positively surprised in 9MFY21 with record high EBITDA margins (25.3%) on the back of benign input costs, this coupled with controlled opex has provided cushion on profitability. Atul Ltd has set out an aggressive target of achieving Rs 54bn sales, we believe that it is achievable in FY23E on the back of ~Rs 11.0bn of unrealised sales potential and smaller debottlenecking projects which will aid to volume growth. This includes incremental sales from Atul Bio-science Ltd of ~Rs 2.7bn which will entail a capex of Rs 1.1bn. The company recently received environmental clearance for their JV with Nouyron to manufacture Mono Chloro Acetic acid (MCA), a key intermediate used to manufacture 2,4-D herbicide. MCA of ~32,000 TPA will be manufactured for both internal consumption and external sales (it can be scaled upto 60,000 TPA). The company has approved a buy-back of not exceeding Rs 500mn, at a floor price of Rs 7,250/share (~68965 shares, reducing shares O/S by 0.23%). We are valuing Atul Ltd on FY23E EPS at 24x FY23E EPS, we have an accumulate rating on the stock with target price of Rs 7,028.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	9,529	10,414	(8.5)	10,021	(4.9)
Total Expense	7,099	7,921	(10.4)	7,409	(4.2)
EBITDA	2,430	2,493	(2.5)	2,612	(7.0)
Depreciation	334	324	3.1	332	0.6
EBIT	2,096	2,169	(3.4)	2,280	(8.1)
Other Income	373	115	224.0	65	477.7
Interest	22	31	(31.2)	22	0.0
EBT	2,447	2,253	8.6	2,323	5.3
Tax	567	572	(0.9)	596	(4.9)
RPAT	1,886	1,689	11.6	1,744	8.2
APAT	1,886	1,689	11.6	1,744	8.2
			(bps)		(bps)
Gross Margin (%)	55.3	52.3	304	54.2	111
EBITDA Margin (%)	25.5	23.9	156	26.1	(56)
NPM (%)	19.8	16.2	357	17.4	239
Tax Rate (%)	23.2	25.4	(223)	25.7	(249)
EBIT Margin (%)	22.0	20.8	117	22.7	(76)

CMP	Rs 6,373
Target / Upside	Rs 7,028 / 10%
NIFTY	13,635

Scrip Details

Equity / FV	Rs 297mn / Rs 10
Market Cap	Rs 189bn
	USD 3bn
52-week High/Low	Rs 7,020/ 2,923
Avg. Volume (no)	31,058
Bloom Code	ATLP IN

Price Performance	1M	3M	12M
Absolute (%)	0	5	30
Rel to NIFTY (%)	3	(12)	17

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	44.8	44.8	44.8
MF/Banks/FIs	25.3	23.4	22.8
FIIs	6.7	8.2	9.4
Public / Others	23.2	23.6	23.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	28.2	25.6	22.7
EV/EBITDA	19.2	16.1	13.4
ROE (%)	19.4	18.1	17.3
RoACE (%)	18.3	17.2	16.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	37,657	45,619	53,234
EBITDA	9,489	11,051	12,856
PAT	6,712	7,388	8,344
EPS (Rs.)	226.1	248.9	281.1

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Segment performance (Consolidated)

Life Science segment – Life science segment revenues de-grew by 9.9% YoY to Rs 2.86bn with EBIT falling by 10.6% YoY to Rs 507mn with EBIT margins flat YoY at 17.7%.

Performance & other chemicals – Performance chemicals segment revenues de-grew by 8.6% YoY to Rs 6.94bn while EBIT was flat YoY at Rs 1.66bn with margins improving by 180bps to 23.9%.

Exhibit 1: Product Mix

Particulars (Rs Mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Aromatics	7,121	8,260	8,420	11,270	9,430	8,487	10,184	11,712
Bulk Chemicals	1,594	2,120	2,930	3,690	4,060	3,654	4,385	5,262
Colours	3,922	4,040	4,520	5,480	6,260	5,634	7,536	8,440
Crop Protection	537	580	6,510	7,540	7,030	6,679	7,680	8,832
Polymers	7,168	7,670	8,700	10,600	10,410	9,890	11,867	14,241
Pharma & Intermediates	1,262	1,060	1,270	1,900	1,260	1,386	1,691	2,063
Total	**21,604**	**23,730**	**32,350**	**40,480**	**38,450**	**35,729**	**43,344**	**50,550**

Source: Company, DART

Exhibit 2: Actual V/s DART Estimates (Rs mn)

Particulars	Actual	Estimated	Variance (%)	Comments
Revenue	9,529	8,200	16.2	Higher than expected sales from Subsidiaries
EBITDA	2,430	1,676	45.0	Higher EBITDA margin due to benign raw material cost and controlled Opex.
EBITDA Margin(%)	25.5	20.4	506 bps	
PAT	1,886	1,229	53.4	

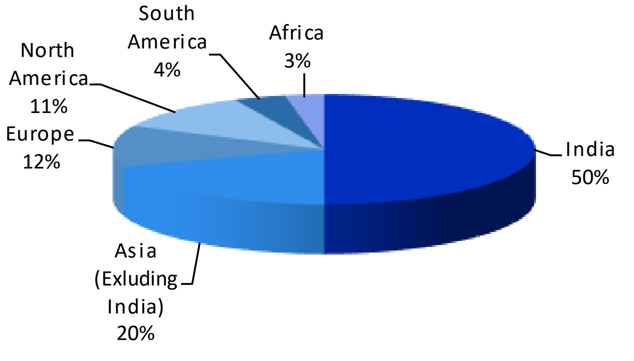
Source: Company, DART

Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E			FY23E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	37,657	40,319	(6.6)	45,619	47,337	(3.6)	53,234	54,404	(2.2)
EBITDA	9,489	8,971	5.8	11,051	10,436	5.9	12,856	11,811	8.8
EBITDA Margin(%)	25.2	22.3	295bps	24.2	22.0	218 bps	24.1	21.7	244 bps
PAT	6,712	6,122	9.6	7,388	7,114	3.9	8,344	7,717	8.1
EPS(Rs)	226.1	206.3	9.6	248.9	239.7	3.9	281.1	260.0	8.1

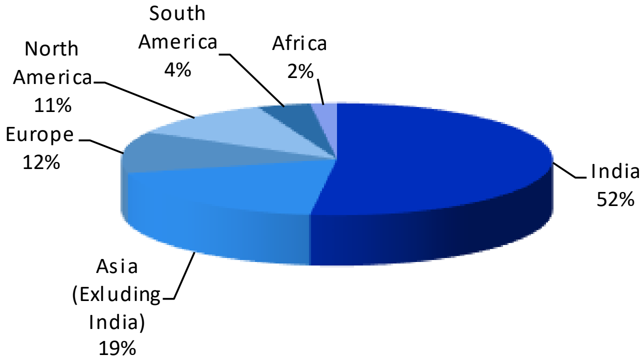
Source: Company, DART

Exhibit 4: Geography wise Sales (FY19)



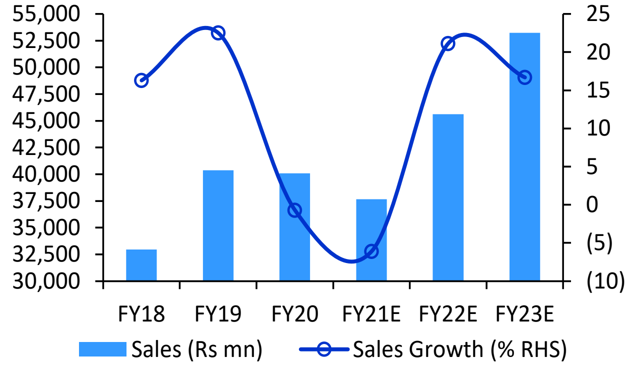
Source: Company, DART

Exhibit 5: Geography wise Sales (FY20)



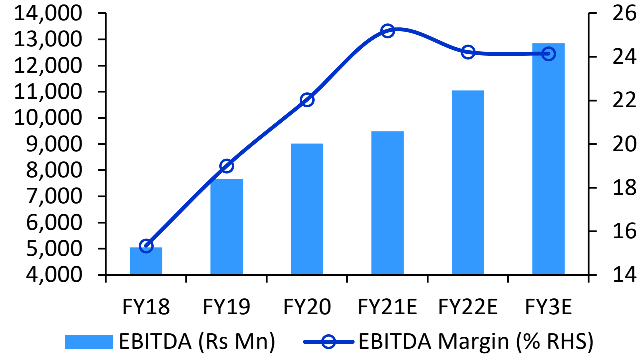
Source: Company, DART

Exhibit 6: Sales (Rs Mn.) & Sales Growth (%)



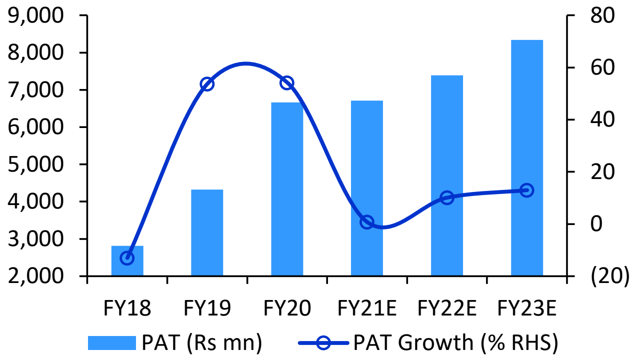
Source: Company, DART

Exhibit 7: EBITDA (Rs Mn.) & EBITDA Margin (%)



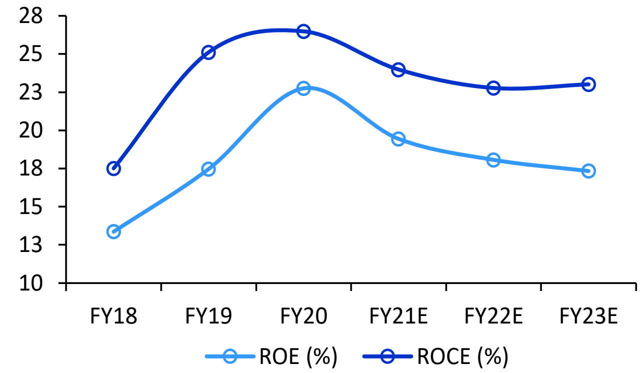
Source: Comany, DART

Exhibit 8: PAT (Rs Mn.) & PAT Growth (%)



Source: Company, DART

Exhibit 9: ROE/ROCE



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**40,098**	**37,657**	**45,619**	**53,234**
Total Expense	**31,084**	**28,168**	**34,568**	**40,379**
COGS	19,700	17,303	21,179	24,967
Employees Cost	3,009	3,234	3,520	3,800
Other expenses	8,375	7,631	9,870	11,613
EBIDTA	**9,014**	**9,489**	**11,051**	**12,856**
Depreciation	1,302	1,392	1,674	1,733
EBIT	**7,712**	**8,097**	**9,376**	**11,122**
Interest	88	40	20	20
Other Income	780	847	537	537
Exc. / E.O. items	0	0	0	0
EBT	**8,404**	**8,904**	**9,893**	**11,640**
Tax	1,745	2,202	2,520	3,315
RPAT	6,665	6,712	7,388	8,344
Minority Interest	45	50	55	60
Profit/Loss share of associates	**50**	**60**	**70**	**80**
APAT	**6,665**	**6,712**	**7,388**	**8,344**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	297	297	297	297
Minority Interest	264	264	264	264
Reserves & Surplus	31,252	37,213	43,991	51,684
Net Worth	**31,549**	**37,509**	**44,287**	**51,981**
Total Debt	1,085	1,015	1,015	1,015
Net Deferred Tax Liability	1,078	978	878	778
Total Capital Employed	**33,976**	**39,766**	**46,444**	**54,038**
Applications of Funds				
Net Block	**11,249**	**15,062**	**17,149**	**16,177**
CWIP	3,681	3,000	500	500
Investments	4,985	4,985	4,985	4,985
Current Assets, Loans & Advances	**21,520**	**23,123**	**30,642**	**39,471**
Inventories	5,034	4,727	6,102	7,412
Receivables	7,197	7,791	9,813	11,743
Cash and Bank Balances	354	1,747	5,550	10,833
Loans and Advances	332	331	401	468
Other Current Assets	2,086	2,010	2,259	2,497
Less: Current Liabilities & Provisions	**7,460**	**6,405**	**6,832**	**7,095**
Payables	4,809	3,754	4,181	4,444
Other Current Liabilities	2,651	2,651	2,651	2,651
sub total				
Net Current Assets	14,060	16,718	23,810	32,376
Total Assets	**33,976**	**39,766**	**46,444**	**54,038**

E – Estimates

DART

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	50.9	54.1	53.6	53.1
EBIDTA Margin	22.5	25.2	24.2	24.1
EBIT Margin	19.2	21.5	20.6	20.9
Tax rate	20.8	24.7	25.5	28.5
Net Profit Margin	16.6	17.8	16.2	15.7
(B) As Percentage of Net Sales (%)				
COGS	49.1	45.9	46.4	46.9
Employee	7.5	8.6	7.7	7.1
Other	20.9	20.3	21.6	21.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	87.8	202.4	468.8	556.1
Inventory days	46	46	49	51
Debtors days	66	76	79	81
Average Cost of Debt	10.8	3.8	2.0	2.0
Payable days	44	36	33	30
Working Capital days	128	162	191	222
FA T/O	3.6	2.5	2.7	3.3
(D) Measures of Investment				
AEPS (Rs)	224.5	226.1	248.9	281.1
CEPS (Rs)	268.4	273.1	305.3	339.5
DPS (Rs)	15.0	42.5	16.0	18.0
Dividend Payout (%)	6.7	18.8	6.4	6.4
BVPS (Rs)	1063.0	1263.8	1492.2	1751.4
RoANW (%)	22.7	19.4	18.1	17.3
RoACE (%)	21.3	18.3	17.2	16.6
RoAIC (%)	24.8	22.6	23.8	26.5
(E) Valuation Ratios				
CMP (Rs)	6373	6373	6373	6373
P/E	28.4	28.2	25.6	22.7
Mcap (Rs Mn)	1,89,139	1,89,139	1,89,139	1,89,139
MCap/ Sales	4.7	5.0	4.1	3.6
EV	1,83,353	1,81,890	1,78,087	1,72,803
EV/Sales	4.6	4.8	3.9	3.2
EV/EBITDA	20.3	19.2	16.1	13.4
P/BV	6.0	5.0	4.3	3.6
Dividend Yield (%)	0.2	0.7	0.3	0.3
(F) Growth Rate (%)				
Revenue	(0.7)	(6.1)	21.1	16.7
EBITDA	17.6	5.3	16.5	16.3
EBIT	19.1	5.0	15.8	18.6
PBT	24.5	5.9	11.1	17.7
APAT	54.2	0.7	10.1	12.9
EPS	54.2	0.7	10.1	12.9

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,688	8,447	5,922	6,363
CFI	(5,231)	(6,789)	(3,677)	(1,005)
CFF	595	(1,849)	(852)	(954)
FCFF	(544)	1,658	2,245	5,358
Opening Cash	494	545	354	1,226
Closing Cash	545	354	1,747	5,631

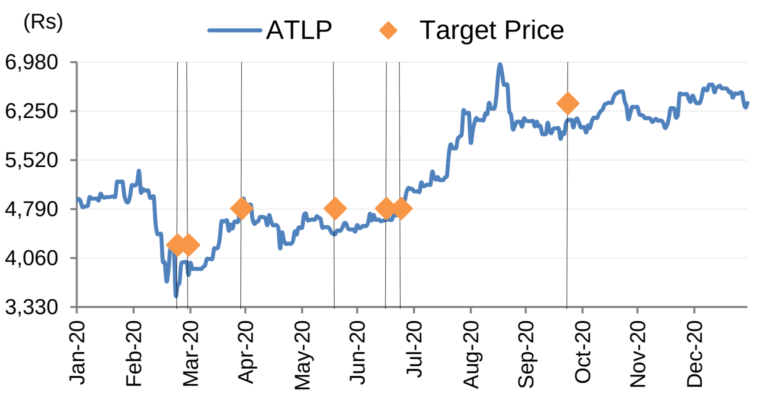
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Buy	4,254	3,654
Mar-20	Reduce	4,254	3,807
Apr-20	Reduce	4,797	4,870
Jun-20	Accumulate	4,797	4,414
Jul-20	Reduce	4,797	4,633
Jul-20	Reduce	4,797	4,923
Oct-20	Acculumate	6,366	6,117

*Price as on recommendation date

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