



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
	+ Positive	= Neutral	- Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Dec 08, 2022

34.86

## High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

## Company details

Market cap:	Rs. 21,101 cr
52-week high/low:	Rs. 10,711 / 7,035
NSE volume: (No of shares)	0.4 lakh
BSE code:	500027
NSE code:	ATUL
Free float: (No of shares)	1.6 cr

## Shareholding (%)

Promoters	45
FII	9
DII	24
Others	22

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-9.1	-14.9	-17.6	-23.1
Relative to Sensex	-10.9	-16.8	-26.3	-29.2

Sharekhan Research, Bloomberg

## Atul Ltd

## Q3 miss, Weak POC performance

## Speciality Chem

Sharekhan code: ATUL

Reco/View: Hold



CMP: Rs. 7,132

Price Target: Rs. 7,700



Upgrade



Maintain



Downgrade

## Summary

- Atul Limited reported weak Q3FY2023 performance, with miss on all fronts. Revenue/EBITDA/PAT at Rs. 1,268/172/92 crores missed our estimates by 8%/22%/35% and was down 15%/33%/30% q-o-q. Operating profit of Rs. 172 crores was 22% below our estimate of Rs. 222 crores on account of miss in gross margin at 47.2% (versus our estimate of 48.9%) and impact of operating leverage.
- Both LSC and POC segments' revenue at Rs. 492/828 crores declined by 14.4%/16.5% q-o-q, respectively. POC segment's low EBIT margin of 2.6% was on account of low export demand and high input costs. EBIT margin of the LSC segment was high at 22.5% (up 1,125 bps y-o-y) on account of better price realisation and volume growth in the crop protection sub-segment.
- We expect near-term earnings to remain under pressure, given expectation of continued margin pressure in the POC segment. We have cut our FY2023/FY2024/FY2025 earnings estimates to factor lower POC revenue/margin assumption.
- We maintain Hold on Atul Limited with a revised PT of Rs. 7,700, given near-term earnings headwinds due to global economic slowdown and valuation of 28x its FY2024E EPS provides limited upside from current levels.

**Q3FY2023 consolidated revenue of Rs. 1,268 crores (down 8% y-o-y; down 15% q-o-q) was 8% below our estimate of Rs. 1,380 crores. Life Science Chemical (LSC)/ Performance and Other Chemical (POC) revenue declined sharply by 14%/16% q-o-q to Rs. 492 crores/ Rs. 828 crores. Operating profit margin (OPM) at 13.6% (down 464 bps y-o-y; down 59 bps q-o-q) was below our estimate of 16.1% due to miss in gross margin at 47.2% (down 341 bps y-o-y; flat q-o-q) and impact of operating leverage. Consequently, operating profit of Rs. 172 crores (down 31.5% y-o-y; down 32.5% q-o-q) was 22% below our estimate of Rs. 222 crores. POC EBIT declined sharply by 86% y-o-y/71% q-o-q to Rs. 21 crores while LSC's EBIT stood at Rs. 111 crores (up 147% y-o-y but down 22% q-o-q). PAT (adjusted for Rs. 15 crores of exceptional income from insurance claim) at Rs. 92 crores (down 41% y-o-y; down 39% q-o-q) was 35% below our estimate of Rs. 142 crores on account of weak revenue/margin in the POC segment (revenue declined by 19% y-o-y/16% q-o-q and EBIT margin declined by 1196 bps y-o-y/480 bps q-o-q to just 2.6%).**

## Key positives

- Resilient LSC performance with 147.1% y-o-y jump in EBIT and EBIT margins at 22.5%, up 1,125 bps y-o-y.

## Key negatives

- Steep revenue/margin decline of 16%/480 bps q-o-q for the POC segment.

**Revision in estimates –** We have lowered our FY2023-FY2025 to factor in a lower revenue/margin assumption for the POC segment.

## Our Call

**Valuation – Retain Hold with a revised PT of Rs. 7,700:** The POC segment's margin continues to see weakness and is likely to remain under pressure in the near term, given concern of global economic slowdown. Moreover, valuation of 28x/24x its FY2024E/FY2025E EPS limits the upside potential from the CMP. Hence, we retain our Hold rating on Atul Limited with a revised price target (PT) of Rs. 7,700 (reflects downward revision in earnings estimates).

## Key Risks

Faster ramp-up of new projects/products and proactive price hike to pass on higher raw-material/logistics/energy costs are key upside risks, while weak revenue growth amid likely delay in commissioning of capex and inadequate price hikes are downside risks to our earnings estimates and rating.

## Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	5,081	5,587	6,293	6,993
OPM (%)	17.9	15.0	18.1	19.2
Adjusted PAT	604	548	759	884
% y-o-y growth	(7.9)	(9.3)	38.4	16.4
Adjusted EPS (Rs.)	204.1	185.2	256.3	298.4
P/E (x)	34.9	38.5	27.8	23.9
P/BV (x)	4.8	4.3	3.7	3.3
EV/EBITDA (x)	22.7	24.4	17.5	14.3
RoCE (%)	18.2	14.6	18.0	18.5
RoE (%)	14.6	11.7	14.4	14.6

Source: Company; Sharekhan estimates

### Q3 miss; Disappointing POC margins, while LSC margins still at high levels

Consolidated revenue of Rs. 1,268 crores (down 8% y-o-y; down 15% q-o-q) was 8% below our estimate of Rs. 1,380 crores. Life Science Chemical (LSC)/ Performance and Other Chemical (POC) revenue declined sharply by 14%/16% q-o-q to Rs. 492 crores/Rs. 828 crores. Operating profit margin (OPM) at 13.6% (down 464 bps y-o-y; down 59 bps q-o-q) was below our estimate of 16.1% due to miss in gross margin at 47.2% (down 341 bps y-o-y; flat q-o-q) and impact of operating leverage. Consequently, operating profit of Rs. 172 crores (down 31.5% y-o-y; down 32.5% q-o-q) was 22% below our estimate of Rs. 222 crores. POC EBIT declined sharply by 86% y-o-y/71% q-o-q to Rs. 21 crores while LSC's EBIT stood at Rs. 111 crores (up 147% y-o-y but down 22% q-o-q). PAT (adjusted for Rs. 15 crores of exceptional income from insurance claim) at Rs. 92 crores (down 41% y-o-y; down 39% q-o-q) was 35% below our estimate of Rs. 142 crores on account of weak revenue/margin in the POC segment (revenue declined by 19% y-o-y/16% q-o-q and EBIT margin declined by 1196 bps y-o-y/480 bps q-o-q to just 2.6%).

#### Results (Consolidated)

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
<b>Revenue</b>	<b>1,268</b>	<b>1,380</b>	<b>(8.1)</b>	<b>1,487</b>	<b>(14.7)</b>
Total expenditure	1,096	1,129	(2.9)	1,267	(13.5)
<b>Operating profit</b>	<b>172</b>	<b>251</b>	<b>(31.5)</b>	<b>220</b>	<b>(21.8)</b>
<b>Adjusted operating profit</b>	<b>172</b>	<b>251</b>	<b>(31.5)</b>	<b>255</b>	<b>(32.5)</b>
Other Income	23	3	644.6	32	(28.2)
Depreciation	50	45	11.0	49	2.7
Interest	2	2	15.2	2	13.4
<b>PBT</b>	<b>142</b>	<b>210</b>	<b>(32.2)</b>	<b>202</b>	<b>(29.7)</b>
Exceptional income/(expense)	15	-	NA	(9)	NA
<b>Adjusted PBT</b>	<b>127</b>	<b>210</b>	<b>(39.5)</b>	<b>211</b>	<b>(39.9)</b>
Tax	39	53	(25.7)	54	(27.6)
<b>Reported PAT</b>	<b>105</b>	<b>155</b>	<b>(32.4)</b>	<b>151</b>	<b>(30.3)</b>
<b>Adjusted PAT</b>	<b>92</b>	<b>155</b>	<b>(40.9)</b>	<b>151</b>	<b>(39.1)</b>
Reported EPS (Rs.)	35.6	52.7	(32.4)	51.1	(30.3)
Adjusted EPS (Rs.)	31.1	52.7	(40.9)	51.1	(39.1)
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>
Adjusted OPM	13.6	18.2	(464)	17.2	(359)
Tax rate	27.7	25.3	243	26.9	82
Adjusted NPM	7.2	11.3	(401)	10.1	(290)

Source: Company; Sharekhan Research

#### Segmental performance (Consolidated)

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
<b>Revenue</b>					
LSC	492	398	23.7	574	-14.4
POC	828	1,026	-19.3	991	-16.5
Others	16	21	-23.9	9	68.9
<b>Total</b>	<b>1,336</b>	<b>1,445</b>	<b>-7.6</b>	<b>1,575</b>	<b>-15.2</b>
<b>Inter segment</b>	<b>67</b>	<b>65</b>	<b>4.3</b>	<b>88</b>	<b>-23.0</b>
<b>Net</b>	<b>1,268</b>	<b>1,380</b>	<b>-8.1</b>	<b>1,487</b>	<b>-14.7</b>
<b>EBIT</b>					
LSC	111	45	147.1	142	-21.9
POC	21	149	-85.7	73	-70.9
Others	3	10	-75.2	-2	-204.9
<b>Total EBIT</b>	<b>135</b>	<b>204</b>	<b>-34.1</b>	<b>212</b>	<b>-36.6</b>
<b>Margin (%)</b>			<b>bps</b>		<b>bps</b>
LSC	22.5	11.3	1,125	24.7	-217
POC	2.6	14.5	-1,196	7.4	-480
Others	16.0	49.1	-3,310	-25.7	4,174
<b>Overall EBIT margin</b>	<b>10.6</b>	<b>14.8</b>	<b>-418</b>	<b>14.3</b>	<b>-367</b>

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Structural growth drivers to propel sustained growth for the specialty chemical sector over the medium to long term

We remain bullish on the medium to long-term growth prospects of the specialty chemical sector, given a massive revenue opportunity from the perspective of import substitution (India's total specialty chemical imports are estimated at \$56 billion), the potential increase in exports given China Plus One strategy of global customers, and favourable government policies (such as tax incentives and PLI schemes similar to that of the pharmaceutical sector). In our view, conducive government policies, product innovation, massive export opportunities, and low input prices would help the sector witness a high double-digit earnings growth trajectory on a sustained basis over the next 2-3 years.

### ■ Company Outlook – Significant export opportunities underway as global players shift base outside China

The company has a healthy balance sheet and intends to continue its ongoing expansion plans in a calibrated manner, be it in expanding capacities through new projects or de-bottlenecking capacities through internal accruals. Growth is likely to be driven by improved utilisation of enhanced capacities. Moreover, significant opportunities are expected to arise in the medium to long term, as global players shift their manufacturing and vendor bases outside China.

### ■ Valuation – Retain Hold with a revised PT of Rs. 7,700

The POC segment's margin continues to see weakness and is likely to remain under pressure in the near term, given concern of global economic slowdown. Moreover, valuation of 28x/24x its FY2024E/FY2025E EPS limits the upside potential from the CMP. Hence, we retain our Hold rating on Atul Limited with a revised price target (PT) of Rs. 7,700 (reflects downward revision in earnings estimates).

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Incorporated in 1947 and headquartered in Gujarat, Atul Limited is a member of the Lalbhai Group. The company is an integrated chemical company and has a diverse product portfolio. The company's businesses are broadly classified into two segments, i.e., lifescience chemicals and performance and other chemicals. Crop protection and pharmaceuticals are sub-segments of the lifescience chemicals segment, while aromatics, bulk chemicals and intermediates, colours, floras, and polymers are sub-segments of the performance and other chemicals segment. The company owns 114 brands and manufactures ~900 products and ~450 formulations in its production facilities situated at Ankleshwar, Atul, Panoli, and Tarapur and through facilities situated at Ambarnath, Ankleshwar, Atul, and Bristol (U.K.) in various subsidiaries. The company operates a network of over 38,000 retail outlets in India and serves more than 6,000 customers across 92 countries.

## Investment theme

Atul Limited intends to expand capacities in a calibrated manner without relying on external borrowings. Moreover, significant opportunities are expected to arise from a medium to long-term perspective, as global players shift their manufacturing base and vendor base outside China. Future growth is expected to be driven by improved utilisation levels, backed by a strong demand outlook along with positive pricing tailwinds and operating leverage. The company achieved debt-free status in FY2018 and return ratios are expected to see a northward trend (after a gap of four years) on account of improved profitability (largely due to ease in input cost pressure) and strong free-cash-flow generation. This gives the company ample scope to explore organic and inorganic growth opportunities further. However, near-term revenue/margin weakness in the POC segment is a concern for the company.

## Key Risks

- ♦ Faster ramp-up of new projects/products and proactive price hike to pass on higher raw-material/logistics/energy costs are key upside risks to our earnings estimate and valuation.
- ♦ Weak revenue growth amid likely delay in commissioning of capex and inadequate price hikes are downside risks to our earnings estimates and rating.

## Additional Data

### Key management personnel

Sunil Lalbhai	Executive Director and Promoter
Samveg Lalbhai	Executive Director and Promoter
Bharathy Mohanan	President, Utilities and Services and Whole-Time Director
Gopi Kannan Thirukonda	Chief Financial Officer and Whole-Time Director
Lalit Patni	Company Secretary and Compliance officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Investment Managers Pvt Ltd	4.28
2	Kotak Mahindra Asset Management Co	2.86
3	Aditya Birla Sun Life Asset Management	2.48
4	Life Insurance Corporation of India	2.41
5	HDFC Asset Management Co Ltd	2.27
6	Canara Rebeco Asset Management	2.20
7	Vanguard Group Inc/The	2.12
8	Mirae Asset Global Investments Co	1.70
9	SBI Life Insurance	1.56
10	Government Pensi	1.36

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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