



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	✓	↔	✓

Company details

Market cap:	Rs. 20,442 cr
52-week high/low:	Rs. 7,586/5,183
NSE volume: (No of shares)	4.45 lakh
BSE code:	500027
NSE code:	ATUL
Free float: (No of shares)	1.6 cr

Shareholding (%)

Promoters	45
FII	9
DII	26
Others	20

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	17.9	5.2	-1.0
Relative to Sensex	2.8	7.6	-8.1	-21.9

Sharekhan Research, Bloomberg

Atul Ltd

Signs of Recovery Evident in Financial Performance

Speciality Chem

Sharekhan code: ATUL

Reco/View: Buy



CMP: Rs. 6,948

Price Target: Rs. 7,990



Upgrade



Maintain



Downgrade

Summary

- Q1FY2025 Performance Demonstrates a 12% y-o-y and 9% q-o-q Increase in Topline, with Operating Profit of Rs. 223 Crore and Adjusted PAT of Rs. 112 Crore surpassing our estimates, attributed to margin enhancements in LSC and PoC.
- Both LSC and POC segments experienced revenue growth y-o-y and q-o-q. While EBIT Margins Expanded for LSC both on y-o-y and q-o-q note, POC saw some margin pressure y-o-y.
- We are seeing a recovery in key financial metrics such as Revenue, EBITDA, and Margins, signaling an end to the downturn triggered by the China inventory issues. Both LSC and POC segments have demonstrated signs of revival both in terms of revenue growth and EBIT, prompting an upgrade to our earnings estimates for FY25 and FY26 to reflect this positive trend in both revenue and margins.
- We are upgrading our rating on Atul Ltd. from Hold to BUY, with a revised target price of Rs. 7,990. This upgrade reflects the recovery observed across various segments and a valuation of 35x FY25E EPS and 28x FY26E EPS, which indicates significant potential for further upside from current levels.

Consolidated revenue for Q1FY2025 was Rs. 1,322 crore, reflecting a 12% increase from the previous year and a 9% rise from the previous quarter, slightly exceeding our estimate of Rs. 1,314 crore by 1%. The performance and other chemicals (POC) segment posted a revenue of Rs. 939 crore, up 5% q-o-q and 7% y-o-y, though EBIT margin contracted by 111 basis points y-o-y to 9.1%. In comparison, the life science chemicals (LSC) segment achieved a revenue of Rs. 424 crore, marking a 12% q-o-q and 21% y-o-y growth, with an EBIT margin improvement of 184 basis points y-o-y to 16.8%. The operating profit margin (OPM) was at 17%, an increase of 471 basis points q-o-q, which was above our expectations. This resulted in an operating profit of Rs. 223 crore, which represents a 22% increase y-o-y and a 51% increase q-o-q, surpassing our forecasts. LSC's EBIT saw substantial 36% y-o-y and 6% q-o-q increase to Rs. 71 crore, while POC's segment's EBIT was Rs. 85 crore, showing a 4% y-o-y decline but a remarkable 562% q-o-q increase. PAT stood at Rs. 112 crore, up 10% y-o-y and 91% q-o-q, also exceeding our expectations.

Key positives

- Topline grew for both LSC and POC segments, with LSC seeing a 21% y-o-y Increase and a 12% q-o-q Increase, and POC Achieving a 7% y-o-y growth and a 5% q-o-q growth.
- Operating profit saw a 22% y-o-y and 51% q-o-q increase, alongside an expansion in operating margin of 147 bps y-o-y and 471 bps q-o-q.

Key negatives

- While EBITDA margins improved, LSC faced a 95 bps q-o-q decline in EBIT margin, and POC experienced a 111 bps y-o-y contraction in EBIT margins.

Revision in estimates – We have lowered our FY2025 earnings estimates to factor in a lower revenue assumption although we have increased the revenue growth in FY2026 along with margin expansion

Our Call

Valuation – Upgrade our rating to Buy with a TP of Rs. 7,990: We are upgrading our rating on Atul Ltd. from HOLD to BUY, with a revised price target of Rs. 7,990, driven by the significant improvement in key financial metrics. The current valuation at 42x FY25E EPS and 34x FY26E EPS, which indicates substantial upside potential, we have observed a gradual easing of margin pressure over time, signaling signs of a revival. Given these factors, along with the company's overall financial health and recent performance improvements, we believe a more positive outlook is warranted.

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 estimate and ratings.

Valuation (Consolidated)

	Rs cr				
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,081	5,428	4,726	5,293	6,087
OPM (%)	18%	14%	13%	17%	17%
Adjusted PAT	605	507	324	483	598
% y-o-y growth	-8%	-16%	-36%	49%	24%
Adjusted EPS (Rs.)	204.23	174.15	109.54	163.91	203.28
P/E (x)	50x	40x	52x	42x	34x
P/BV (x)	5x	4x	3x	3.7x	3.4x
EV/EBITDA (x)	31x	23x	25x	23x	20x
RoCE (%)	17%	14%	8%	11%	13%
RoE (%)	14%	11%	6%	9%	10%

Source: Company; Sharekhan estimates

Revenue growth and margin expansion observed both yearly and sequentially

Consolidated revenues reached Rs. 1,332 crore, reflecting a 12% year-over-year increase and a 9% quarter-over-quarter rise, surpassing our estimate of Rs. 1,314 crore. Within this, the Performance and Other Chemicals (POC) segment achieved a revenue of Rs. 939 crore, up 7% y-o-y and 5% q-o-q, though EBIT margin contracted by 111 bps y-o-y to 9.1%. Conversely, the Life Science Chemicals (LSC) segment saw a 12% q-o-q revenue increase to Rs. 424 crore, although the EBIT margins declined by 95 bps q-o-q to 16.8%. Operating profit margin improved significantly to 17% (a 472 bps q-o-q increase), exceeding our expectations. Consequently, operating profit surged to Rs. 223 crore, up 22% y-o-y and 51% q-o-q, also surpassing our estimates. LSC's EBIT saw a strong recovery, rising by 36% y-o-y and 6% q-o-q to Rs. 71 crore, while POC's EBIT amounted to Rs. 85 crore, reflecting a 4% y-o-y decline but a substantial 562% q-o-q increase. PAT stood at Rs. 112 crore, marking a 41% y-o-y and 91% q-o-q increase, further exceeding our projections.

Results (Consolidated)

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	1,322	1,182	12%	1,212	9%
Total expenditure	1,099	1,000	10%	1,000	10%
Operating profit	223	182	22%	148	51%
Other Income	13	8	59%	13	1%
Depreciation	77	52	47%	76	1%
Interest	5	2	165%	5	6%
PBT	154	137	13%	80	94%
Exceptional income/(expense)	-	-	NA	-	NA
Tax	46	36	25%	24	88%
Reported PAT	112	102	10%	59	91%
Reported EPS	38.00	35.02	9%	29.44	29%
Margin (%)	Q1FY25	Q1FY24	BPS	Q4FY24	BPS
OPM	17%	15%	147	12%	471
Tax rate	3%	3%	36	2%	145
NPM	8%	9%	-16	5%	363

Source: Company; Sharekhan Research

Segmental performance (Consolidated)

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue					
LSC	424	350	21%	377	12%
POC	939	874	7%	870	8%
Others	19	12	66%	24	-19%
Total Revenue	1382	1236	12%	1270	9%
Inter segment	60	54	10%	58	2%
Net Revenue	1322	1182	12%	1212	9%
EBIT					
LSC	71	52	36%	67	6%
POC	85	89	-4%	13	562%
Others	5	2	176%	0	50200%
Total EBIT	161	143	13%	80	103%
Margin (%)	Q1FY25	Q1FY24	BPS	Q4FY24	BPS
LSC	17%	15%	184	18%	-95
POC	9%	10%	-111	1%	759
Others	26%	16%	1,037	0%	2587
Overall EBIT Margin	12%	12%	8	7%	563

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 chemicals 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 the 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 – Evidence of revival is observable:

The chemicals industry is currently grappling with several challenges, including significant price erosion due to increased supply from China, reduced inventory among customers, and weak global demand. These factors contribute to our cautious stance on the near-term outlook for Atul Limited. However, signs of a potential revival are becoming increasingly visible. Looking ahead, the global "China plus one" strategy presents long-term growth opportunities for companies like Atul. With its strong balance sheet and a commitment to ongoing, strategically managed expansion — whether through new projects or internal capacity enhancements—Atul is well-positioned to capitalize on these opportunities in the future.

■ Valuation – Upgrade to BUY with a revised PT of Rs. 7,990:

We are upgrading our rating on Atul Ltd. from HOLD to BUY, setting a new price target of ₹7,990, due to notable improvements in key financial metrics. With the stock currently valued at 42x FY25E EPS and 34x FY26E EPS, indicating significant upside potential, and observing a gradual easing of margin pressures, we believe the company's recent performance and overall financial health justify a more positive outlook..

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Incorporated in 1947 and headquartered in Gujarat, Atul 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, florals, 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 Ambernath, 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 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, weak global demand and pricing pressure in the chemical industry 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 estimate 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	Life Insurance Corp of India	5.44
2	DSP Investment Managers Pvt Ltd	5.21
3	Kotak Mahindra Asset Management Co	4.55
4	ICICI Prudential Asset Management	3.21
5	SBI Life Insurance Co Ltd	2.65
6	Vanguard Group Inc/The	2.21
7	Adhinami Investments Pvt Ltd	1.55
8	Aditya Birla Sun Life Asset Manage	1.48
9	Norges Bank	1.32
10	FundRock Management Co SA	0.98

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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