27 July 2024

Update | Sector: Specialty Chemicals

Atul

BSE SENSEX	S&P CNX
81,333	24,835

CMP: INR7,551 TP: INR9,100 (+21%) Upgrade to Buy

Rising like a Phoenix!

- ***"They will rise from the ashes, but the burning comes first. For this part, they must be brave."* ATLP has burned for three long years (FY22-24) and it is a classic case of valuations perched higher despite a significant decline in earnings. During FY22/FY23/ FY24, EBITDA declined 1%/15%/18% YoY and earnings declined 9%/15%/39% YoY. Margin contracted sharply by 11.1pp from the high of 24.6% in FY21. Weak demand in end-user markets and significant pricing pressure amid Chinese supplies were the main reasons for this downfall during FY22-24. Accordingly, the stock price tanked ~48% (in absolute terms, as of May'24) from its peak in Oct'21.**
- **During this time, the management has been berated on multiple occasions by the investor community on capital misallocation for setting up commodity chemical capacities instead of specialty ones after it generated a record amount of FCF (INR9b) during FY20-21. However, the management has reiterated several times that these are sound investments and will be beneficial for the overall business.**
- **That said, with the capex cycle (INR19.7b during FY22-24) almost over and teething problems in some capacities put to rest, we believe that ATLP is ready to make a comeback in the next 2-3 years, glimpses of which we have seen in 1QFY25 earnings. Investments are set to be supported by a gradual recovery in the sub segments that ATLP operates in and the management's efforts to expand its capacities for key products and for debottlenecking the existing ones. We upgrade our rating to BUY.**

Getting better with cyclical recovery kicking in

- The **Life Science Chemicals segment** was affected (negative CAGR of 13% during FY22-24) by a double whammy of demand weakness and price erosion due to a glut from Chinese supplies leading to pricing pressure. It is recovering gradually, with crop protection segment (domestic business is 53% out of which 56% is retail business, *see exhibit 9*) supporting the sequential uptick as seen in the 1QFY25 earnings. During Jun-Jul'24 to date, the country has seen a rainfall surplus of ~2%, which bodes well for the domestic agrochem industry. The Indian pharma market (IPM) recorded decent growth YoY in the previous three months, while the aromatics segment is being supported by the Personal and Fragrance industry.
- In the **Performance & Other Chemicals segment**, bulk chemicals, colors and polymers witnessed a negative CAGR of 10%, 17% and 4%, respectively, during FY22-24 as global capacities resumed and supply chain constraints eased across the world in the post-Covid recovery. There was a downturn in commodity prices as well after the peak prices seen during the supply chain disruption. Currently, we are seeing a good demand recovery on the discretionary side of the portfolio and the commodity cycle is turning positive with prices largely bottoming out for most players in the industry. Backward integration into Caustic Soda would help ATLP become a fully integrated player in the sub-segments of bulk chemicals and intermediates.

Stock Info

Bloomberg	ATLP IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	222.3 / 2.7
52-Week Range (INR)	7598 / 5175
1, 6, 12 Rel. Per (%)	14/3/-10
12M Avg Val (INR M)	390
Free float (%)	54.8

Financials Snapshot (INR b)

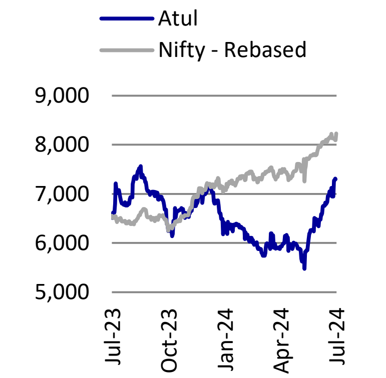
Y/E March	FY25E	FY26E	FY27E
Sales	53.7	61.0	68.2
EBITDA	9.1	11.1	13.3
PAT	4.7	6.3	7.9
EPS (INR)	160.8	214.4	269.8
EPS Gr. (%)	55.5	33.3	25.8
BV/Sh (INR)	1,873.0	2,053.8	2,279.9
Ratios			
Net D:E	0.1	0.0	-0.0
RoE (%)	8.9	10.9	12.5
RoCE (%)	8.4	10.2	11.8
Payout (%)	18.2	18.2	18.2
Valuations			
P/E (x)	47.0	35.2	28.0
P/BV (x)	4.0	3.7	3.3
EV/EBITDA (x)	24.8	20.1	16.6
Div. Yield %	0.4	0.5	0.7
FCF Yield %	-0.1	1.4	2.1

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	45.2	45.2	45.1
DII	25.8	25.7	26.2
FII	8.6	8.5	7.6
Others	20.4	20.7	21.2

FII Includes depository receipts

Stock performance (one-year)



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- The capex cycle is almost over for the company and the unrealized sales potential currently stands at INR17.1b from existing capacities. Incremental sales of INR8b could be contributed by various projects at different stages of commissioning currently. Total revenue potential stands at INR72.4b currently (FY24 revenue at INR47.3b).

Sub-segments offer opportunity for rapid growth

- During Jun-Jul'24 to date, the country has seen a rainfall surplus of ~2% (24% for South Peninsula and 12% for Central India). North West India and East & North East India has accounted for 16%/14% deficit of rainfall in the country during the same period. This bodes well for domestic agrochem companies and should result in a strong recovery in the sector this year. UPL, in its 4QFY24 concall, indicated that demand was gradually improving and could normalize in 2HFY25. Sharda Cropchem in its 1QFY25 call noted that prices in the agrochemicals segment would improve gradually.
- IPM grew 6.7% YoY in Jun'24 (vs. 9.8% in May'24 and 5.3% in Jun'23). For the 12 months ending in Jun'24, IPM grew 7.6% YoY. Growth was led by pricing/new launches, which contributed 4.2% YoY/2.9% YoY to overall growth. This comes on the back of strong growth in May'24 and Jun'24. Dapsone (50% market share of ATLP) is used to treat various medical issues, primarily leprosy, a persistent bacterial infection of the skin and nerves.
- India produced a higher number of cars in 4QFY24 and ATLP management is confident that all the products sold to the tyre industry have a bright outlook. As per Grasim, international average caustic soda prices remained range-bound in 4QFY24 at USD451/mt and they appear to have bottomed as the rates have gradually improved during the latter part of FY24. As per a recent news article, caustic soda prices have surged in Jul'24 as Hurricane Beryl disrupts supply chains.
- Destocking position has come to an end and a gradual recovery is visible. Prices have bottomed out completely in the dyestuff industry. Recently, Heubach GmBH also filed for insolvency, which could prove beneficial for ATLP. The polymer market expanded 8-10% YoY in 1QFY25 and is expected to grow more than 10% YoY in 2QFY25. Reliance Industries has also indicated that demand for Polymer and Polyester remains strong amid robust economic activities. Polymer deltas have been improving due to better realization amid stable demand.

Faster-than-anticipated recovery led to strong 1QFY25

- ATLP reported higher revenue than our estimate in 1QFY25, with a 21% QoQ growth in the life science chemicals segment and a 7% rise in the performance & other chemicals segment. **Gross margin came in at 50%, while EBITDAM expanded 150bp YoY to 16.9%.**
- **The Life Science Chemicals segment's contribution to EBIT expanded to 44% in 1QFY25 (from 37% in 1QFY24),** whereas the contribution of Performance & Other Chemicals declined to 53% in 1QFY25 (from 62% in 1QFY24). Life Science EBIT margin expanded 180bp YoY to 16.8%, while that of Performance and Other Chemicals declined 110bp YoY to 9.1% in 1QFY25.
- The management highlighted that all the capex programs completed in the previous few years have an unrealized sales potential of INR11b for the

standalone business and INR6.1b for subsidiaries. The peak revenue potential from the new capex programs that are at various stages of implementation is INR8b. The total revenue potential for ATLP (consolidated) stands at INR72.4b in the next 2-3 years (*see exhibit 2*).

- **Due to the outperformance in 1QFY25 and a sustained recovery in sight, we raise our EBITDA/EPS estimates by 22%/37% for FY25 and 29%/32% for FY26**. We also introduce FY27 estimates in our model and estimate a CAGR of 13%/28%/38% in revenue/ EBITDA/PAT during FY24-27.

Valuation and view

- End-user market demand has picked up and we believe that overall demand will also pick up in 2HFY25. The company is undertaking various projects and initiatives aimed at improving plant efficiencies, expanding its capacities for key products, debottlenecking its existing capacities, capturing a higher market share and expanding its international presence.
- ATLP is set to commission its liquid Epoxy resins plant of 50ktpa capacity in FY25 (revenue potential of INR8b). Its Caustic Soda plant (300tpd) also faced teething issues in Dec'23, which were largely resolved in 1QFY25. Anaven (Monochloro Acetic acid) is also expected to ramp up its plant for optimum utilization due to better offtake in FY25.
- The stock is trading at 35x FY26E EPS of INR214 and 20x FY26E EV/EBITDA. We value the stock at 40x Jun'26E EPS (discount of 11% to five-year average of 45x) to arrive at our TP of INR9,100. We upgrade our rating to BUY on ATLP. The upside risk could be a faster-than-expected ramp-up of new projects and products. Downside risks include weaker-than-expected revenue growth and margin compression amid further delays in the commissioning of new projects.

Exhibit 1: Unrealized sales potential (INR b)

Segment (as of end FY24)	Unrealized sales potential (INR b)
Atul Standalone	
Aromatics	2.4
Bulk Chemicals and Intermediates	0.6
Colors	4.0
Polymers	1.0
Crop Protection	
Bulk Actives	1.0
Retail	1.0
Pharmaceuticals	1.0
Subsidiaries	
Atul Products Ltd	4.9
Anaven	1.2
Incremental revenue potential	**17.1**

Source: Company, MOFSL

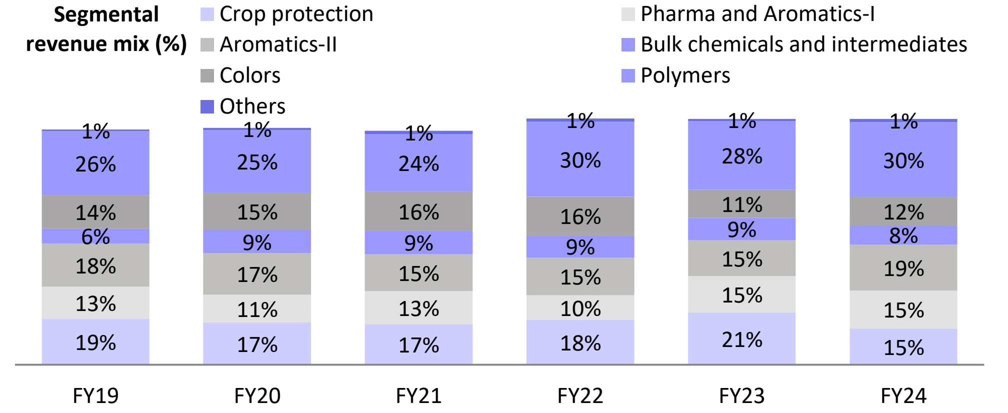
Exhibit 2: Unrealized sales potential (INR b)

Segment	Total revenue potential (INR b)
FY24 revenue	47.3
Peak revenues from new projects	8.0
Unrealized revenue	17.1
Total revenue potential	**72.4**

Source: Company, MOFSL

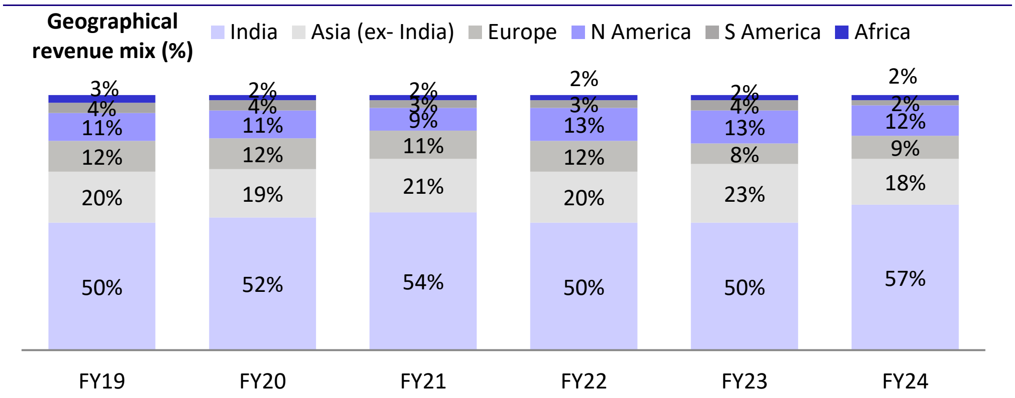
FY24 story in charts

Exhibit 3: Contribution from crop protection and Bulk Chemicals declined while it increased for Pharma, Aromatics and Polymers



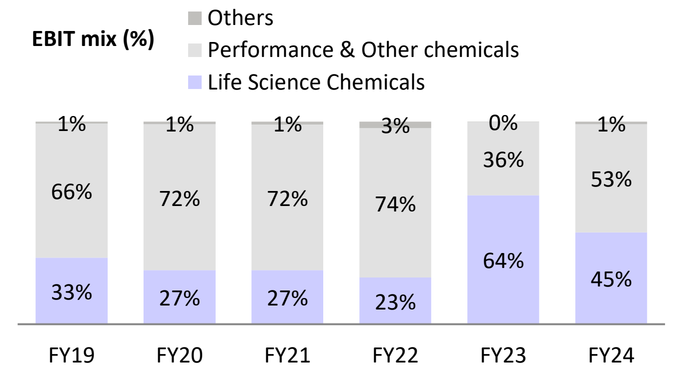
Source: Company, MOFSL

Exhibit 4: Export revenues declined to 43% of total in FY24



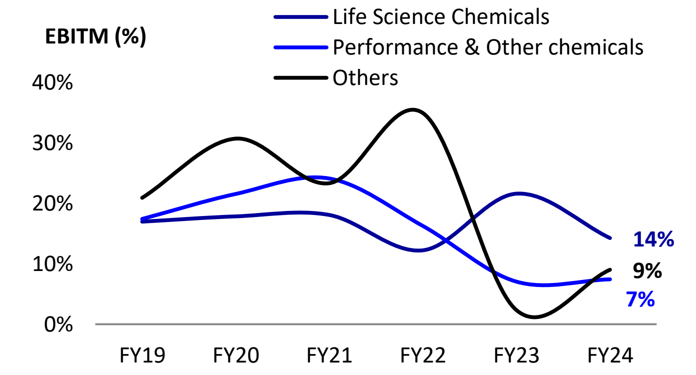
Source: Company, MOFSL

Exhibit 5: Life Science Chemicals contribution declined drastically in FY24…



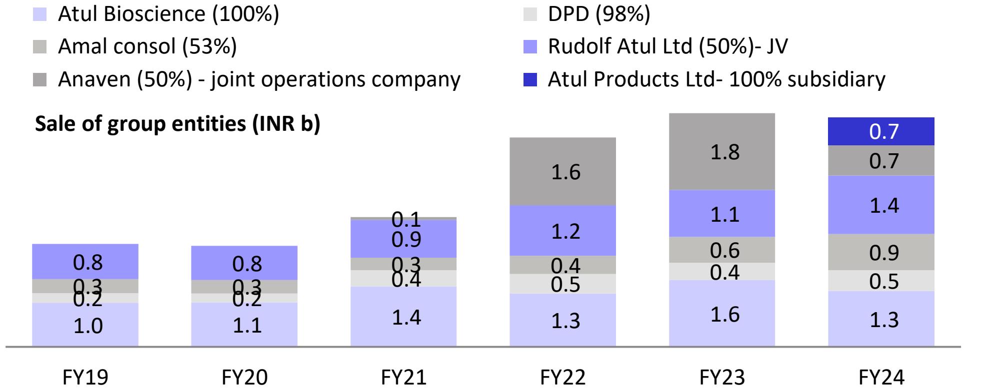
Source: Company, MOFSL

Exhibit 6: …with a decline in EBITM in Life Science Chemicals by 700bp YoY



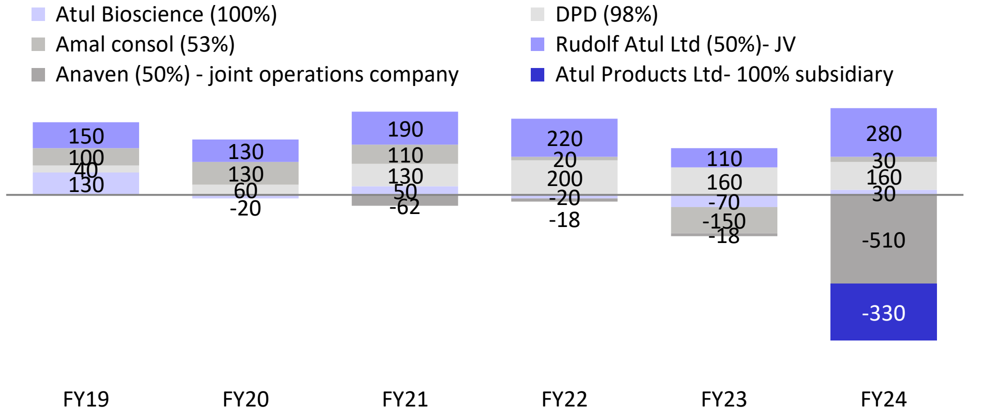
Source: Company, MOFSL

Exhibit 7: Sales of Atul Bioscience and Anaven declined significantly in FY24



Source: Company, MOFSL

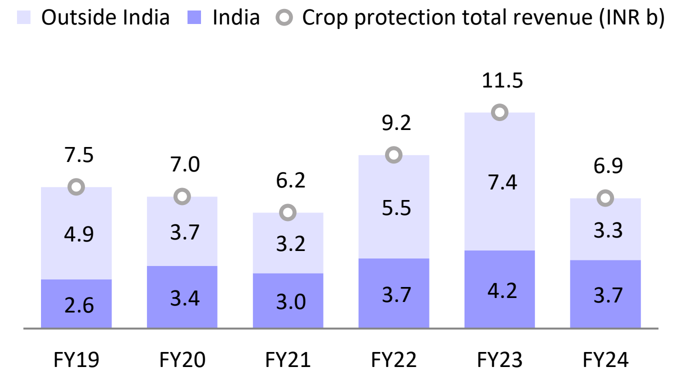
Exhibit 8: Atul Bioscience and Amal (consol) turned profitable, while PBT declined for Anaven and Atul Products



Source: Company, MOFSL

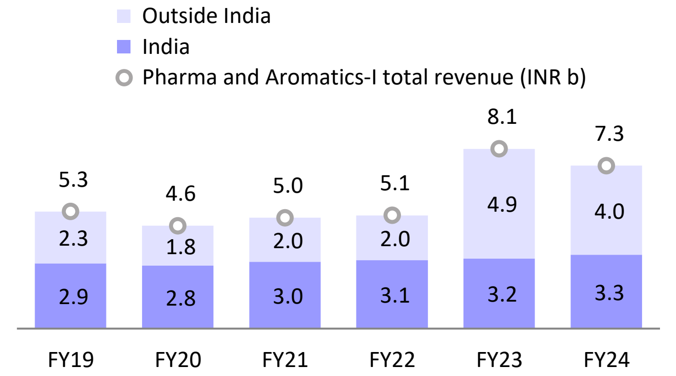
Key business sub-segments

Exhibit 9: ATLP lost market share in 2,4-D in FY24



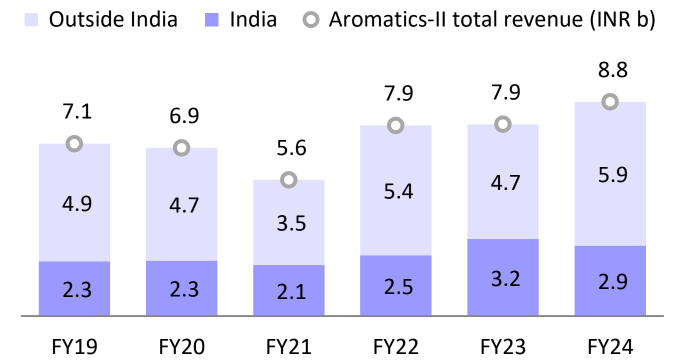
Source: Company, MOFSL

Exhibit 10: Focusing on increasing API sales and increasing CMO business with strategic customers



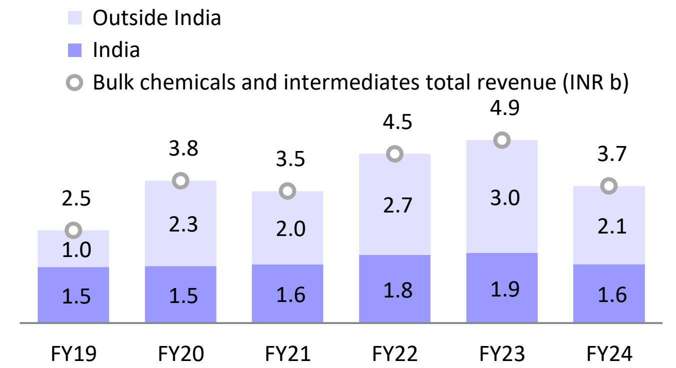
Source: Company, MOFSL

Exhibit 11: Company maintained its market share in FY24



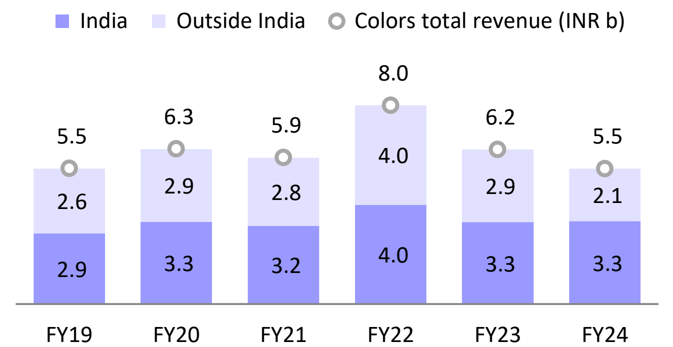
Source: Company, MOFSL

Exhibit 12: Pricing pressure led to decline in Bulk Chemicals



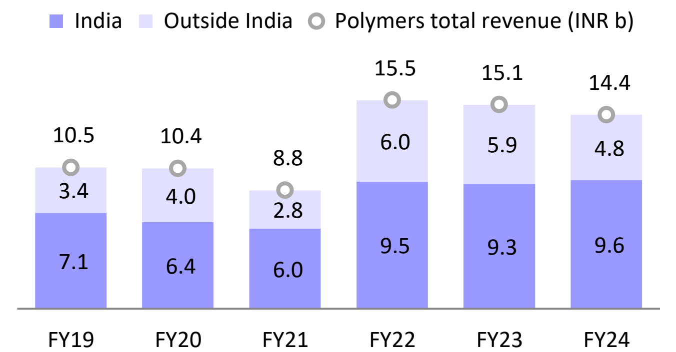
Source: Company, MOFSL

Exhibit 13: Unrealized sales potential of INR4b in Colors



Source: Company, MOFSL

Exhibit 14: Management intends to introduce new products apart from Epoxy in Polymers sub segment

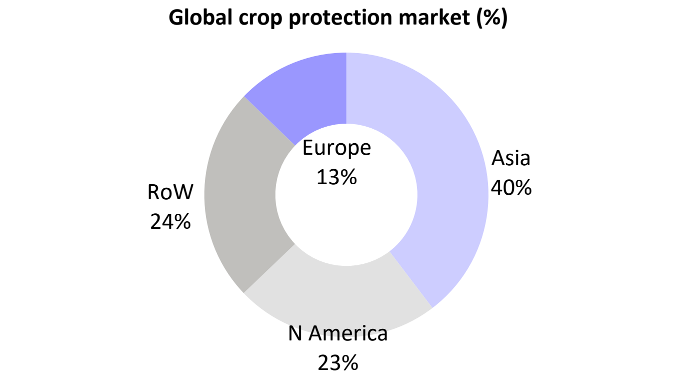


Source: Company, MOFSL

Agrochem — primary issue easing

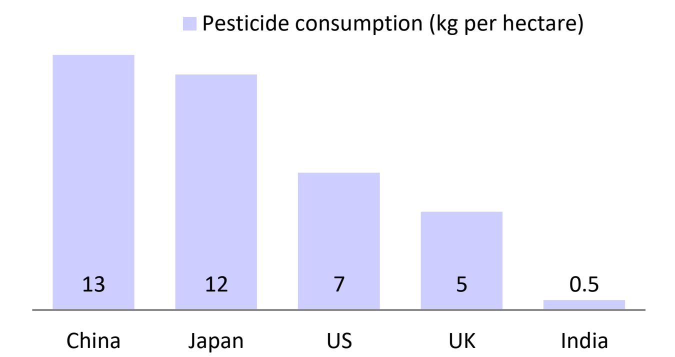
- Global sales of crop protection chemicals dropped from USD69.2b in CY22 to USD68.3b in CY23 due to segment contractions. Key factors were high-cost inventory buildup, falling input prices, and increased supplies from China. However, the market is projected to grow at a 4.2% CAGR from CY24 to CY32, reaching USD98.5b by CY32. Global market is expected to garner revenue of ~USD250-270b by CY25.
- In the domestic market, the IMD predicts above-average rainfall in CY24, estimated at 106% of the long-term average. The weakening El Nino is expected to transition to a neutral phase by the onset of the monsoon, while La Nina conditions may develop later. The surplus of rainfall for Jun-Jul'24 till date has been ~2% for the whole country, while it has been 24% for South Peninsula and 12% for Central India. North West India and East & North East India has accounted for 16%/14% deficit of rainfall in the country during the same period. This bodes well for domestic agrochem players and in turn ATLP's Crop Protection segment (domestic business is 53% out of which 56% is retail business, *see exhibit 9*) that should result in a strong recovery this year.
- India's agrochemical market CAGR is expected to surpass the global average, reaching USD9.8b by CY28 (at a CAGR of 6-6.5%). Growth is fueled by exports and domestic consumption, making India the second-largest exporter of crop protection chemicals in CY24. UPL, in its 4QFY24 concall, indicated that demand is gradually improving and could normalize in 2HFY25. Sharda Cropchem in its 1QFY25 highlighted that prices in the agrochemicals segment would improve gradually. Its volumes in Europe doubled, while other regions also showed growth.

Exhibit 15: Asia dominates the global crop protection market globally



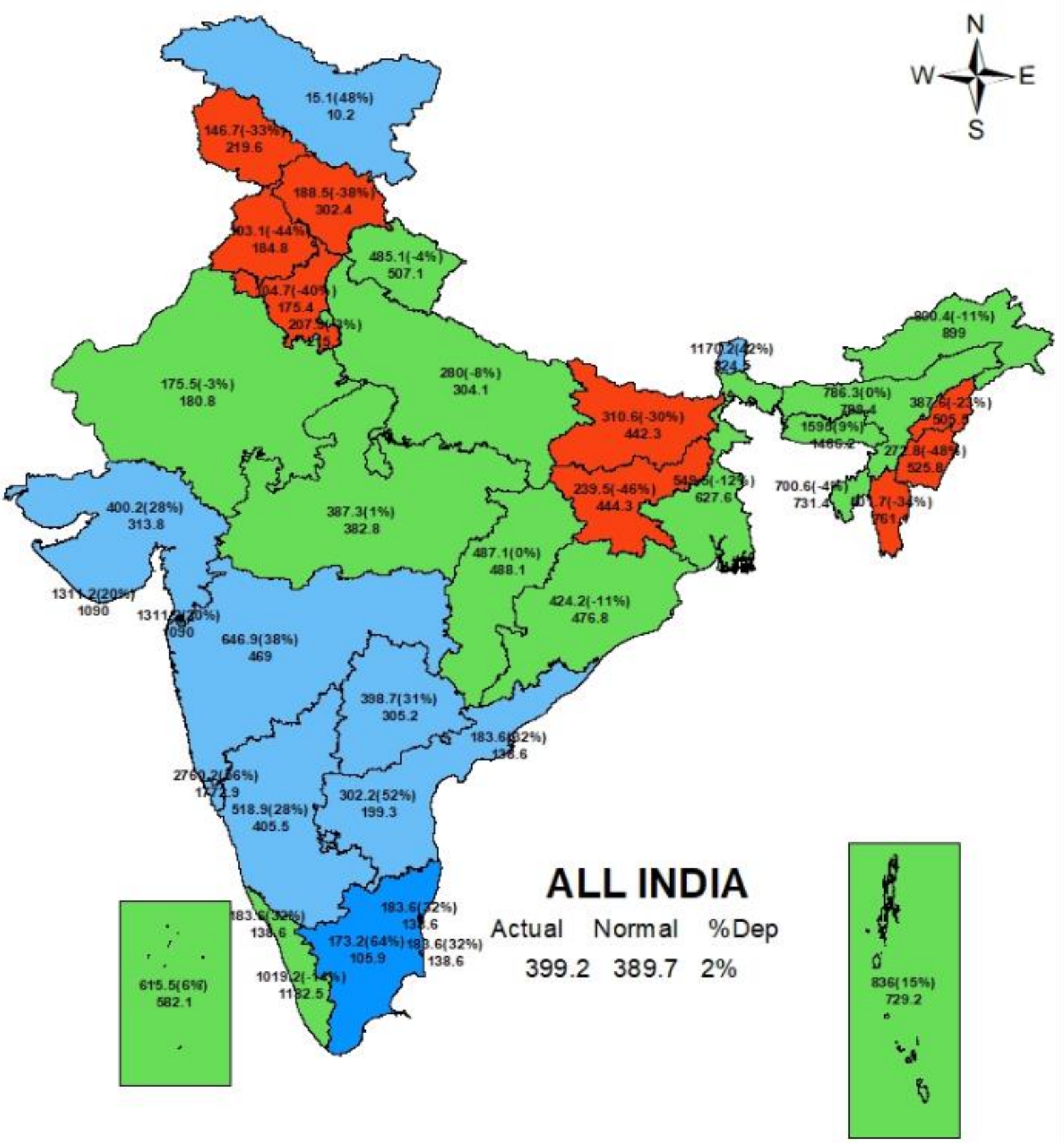
Source: Magma Information Centre, MOFSL

Exhibit 16: Pesticide consumption is still lowest in India



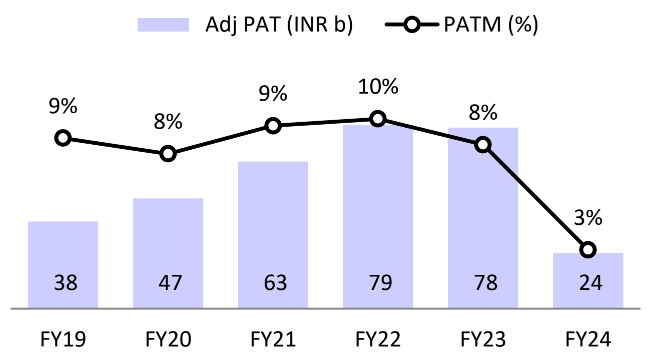
Source: Magma Information Centre, MOFSL

Exhibit 17: Normal to above-normal rainfall in CY24 bodes well for the agrochem sector



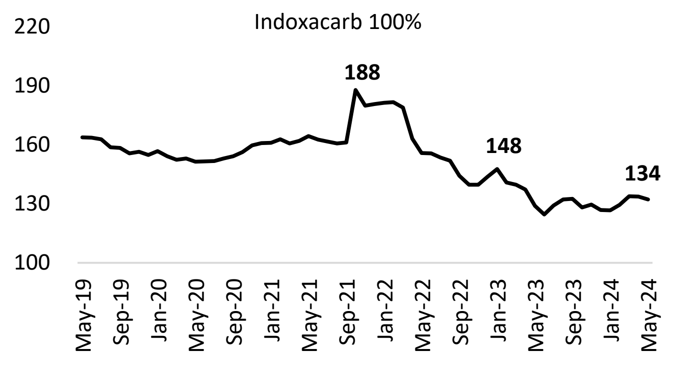
**cumulative status from Jun-Jul'24 till date* Source: Company, MOFSL

Exhibit 18: Drastic earnings decline in FY24



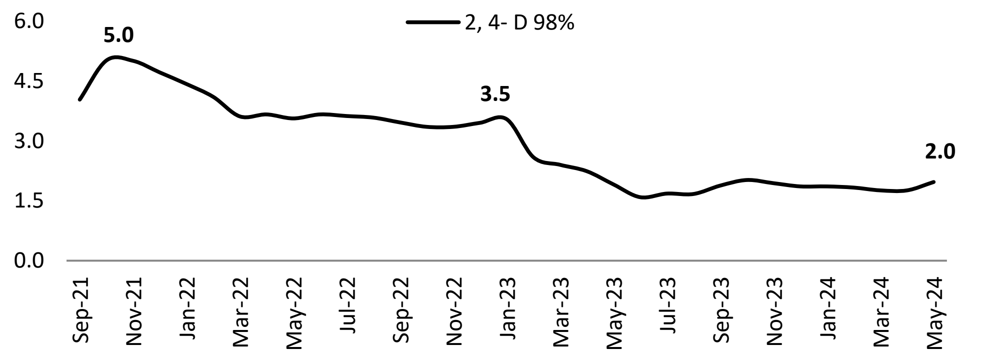
aggregate of 26 domestic agchem cos Source: CLine, MOFSL

Exhibit 19: Indoxacarb insecticide prices at USD134/ kg



Source: agribusinessglobal.com, MOFSL

Exhibit 20: 2, 4- D prices bottoming out

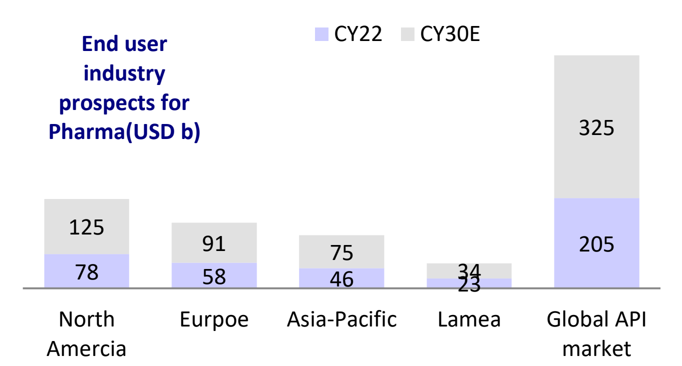


Source: agribusinessglobal.com, MOFSL

Pharma has been stable, expected to grow faster in 2HFY25

- The global pharmaceutical industry, valued at USD1.6t in CY23, is set to reach USD1.7t by CY25, with the conventional segment at USD1.1t. The API industry, valued at USD235b in CY23, is projected to reach USD357b by CY32. Biologics made up 52% of the top 100 products in CY22, with oncology growing at a 12.7% CAGR. The company's presence is vital as the domestic market is expected to grow from USD65b by CY24 to USD120-130b by CY30.
- The IPM grew 6.7% YoY in Jun'24 (vs. 9.8% in May'24 and 5.3% in Jun'23). For the 12 months ending in Jun'24, IPM grew 7.6% YoY. This growth was led by pricing/new launches, which contributed +4.2% YoY/2.9% YoY to the overall growth. This comes on the back of very strong growth in the months of May'24 and Jun'24. Dapsone (50% market share of ATLP) is used to treat various medical issues, primarily leprosy, a persistent bacterial infection of the skin and nerves. Annual market sales Dapsone for the 12 month ending in Oct'23 exceeded USD15m (*source: IQVIA*)
- ATLP has indicated that it would focus on increasing API sales/new intermediate sales, improving the quality of new products and expanding its CMO business with strategic customers. Unrealized sales potential is INR1b. ATLP has also invested in a new facility in Ambernath. Sharda Cropchem in its 1QFY25 highlighted that prices for APIs are gradually recovering and may reach previous highs in the next 6-8 quarters. Normal pricing will be achieved by FY25 end.

Exhibit 21: Global API market to grow at CAGR 6.2%



Source: Company, MOFSL

Exhibit 22: Opportunity size is huge for ATLP

Product group	Market share (FY24)	Competition
APIs and API intermediates	Insignificant (world)	India, Asia, Europe, North America
Dapsone	50%	India, Europe
Phosgene chemicals	Insignificant (world)	Asia, Europe, North America

Source: Company, MOFSL

Exhibit 23: Performance of top therapies in Jun'24 - (INR b)

Company	MAT Jun'24 value	Market share (%)	Growth (%)	YoY growth (%) in the last eight quarters								One month
				Sep'22	Dec'22	Mar'23	Jun'23	Sep'23	Dec'23	Mar'24	Jun'24	Jun'24
IPM	2,207	100.0	7.6	19.0	7.3	3.5	9.2	7.2	8.4	5.9	8.7	6.7
Cardiac	278	12.6	10.5	10.6	5.3	6.9	10.3	9.6	8.9	11.2	12.2	8.3
Anti-Infectives	247	11.2	3.9	40.0	24.6	6.1	11.0	1.8	9.6	-1.8	6.4	8.6
Gastro Intestinal	235	10.7	8.7	22.6	-10.2	-2.0	5.4	8.5	9.4	5.5	11.2	9.7
Anti-Diabetic	195	8.8	6.2	10.8	-0.2	0.5	6.6	4.8	5.7	7.0	7.4	3.9
Respiratory	179	8.1	1.0	6.8	56.7	30.5	11.7	-0.2	5.3	-2.7	1.6	1.6
Pain / Analgesics	176	8.0	7.5	27.1	6.7	-1.5	11.0	7.3	8.3	5.9	8.2	6.3
Vitamins/Minerals/Nutrients	173	7.8	7.8	23.7	-2.6	-4.4	6.7	7.3	8.6	6.7	8.4	5.4
Derma	152	6.9	6.6	20.9	10.2	-3.0	8.5	5.6	3.5	8.1	9.5	5.7
Neuro / Cns	132	6.0	8.3	13.6	3.0	2.8	9.1	8.1	8.8	8.1	8.3	6.5
Gynaec.	110	5.0	6.3	19.0	-6.8	-1.9	5.4	7.8	6.9	5.2	5.4	2.5
Antineoplast/Immunomodulator	57	2.6	23.8	21.1	3.9	9.4	20.3	24.9	27.1	21.3	22.1	22.1
Ophthal / Otologicals	44	2.0	7.4	18.3	2.8	2.1	9.9	19.9	0.9	3.9	5.1	2.3
Urology	48	2.2	13.3	18.6	4.5	5.2	14.6	14.1	12.3	14.0	12.7	8.8
Hormones	34	1.5	6.2	19.1	14.0	9.7	11.3	8.1	6.4	3.6	6.9	3.7

Source: IQVIA, MOFSL

Aromatics — Personal Care and Fragrances provide huge headroom to grow

- The global market for Para-Cresol, now primarily supplied by China and India, is 70ktpa and growing at 2%. The world fragrance industry is valued at USD13.7b, growing at 3.5%-4%. The personal care industry is USD253.3b, with the ingredients segment at USD30b, growing at 5%.
- The fragrance and personal care industries are thriving due to improved living standards. ATLP completed one project during the year.

Exhibit 24: World and India markets growing at average 5%

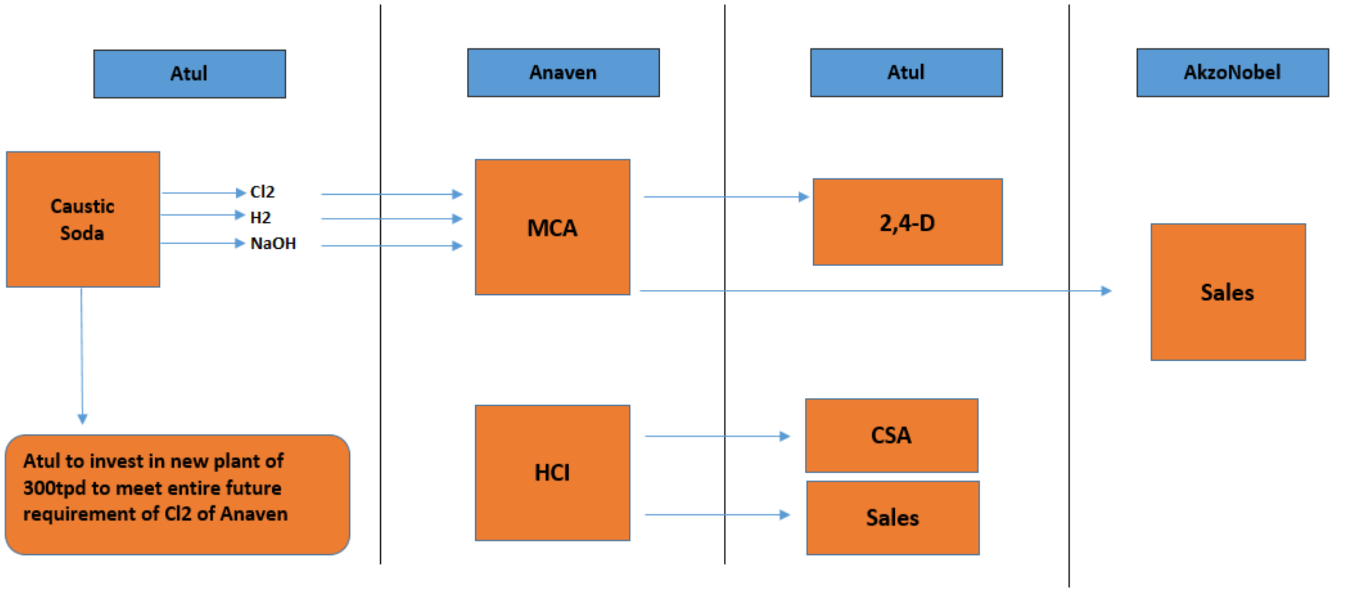
	Additives	Fragrance	Personal care (Ingredients)
World (USD b)	4	14	30
CAGR	5%	4%	5%
India (USD m)	37	680	695
CAGR	5%	5%	6%

Source: Company, MOFSL

Bulk Chemicals and Intermediates — commodity cycle turning positive

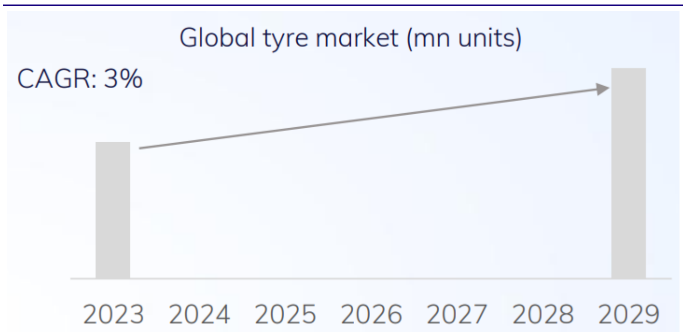
- The global Resorcinol market (primarily used as an antiseptic and disinfectant in topical pharma products) is USD378m, growing at 3.9%. The global tyre industry size is USD287b, growing at 8%. The global Chlor-alkali market is USD72b, growing at 5%. The tyre industry is projected to grow, driven by a resurgence in Asia Pacific. The company's expansion of manufacturing capacities will boost captive consumption of bulk chemicals.
- India produced a higher number of cars in 4QFY24 and the management is confident that all the products sold to the tyre industry have a bright outlook. The global tyre industry is pegged to clock a 3% CAGR during CY23-29 (m units).
- Caustic Soda demand is expected to grow by 8% to 5mmt by FY25. It is the basic raw material and caters to many industries like alumina, textile, chemicals, FMCG industries, etc. As per Grasim, international average caustic soda prices remained range-bound in 4QFY24 at USD451/mt and they appear to have bottomed out as the rates have gradually improved during the latter part of FY24. As per a recent news article, caustic prices have surged in Jul'24 as Hurricane Beryl disrupts supply chains.

Exhibit 25: Backward integration into Caustic Soda fits into the strategy of ATLP



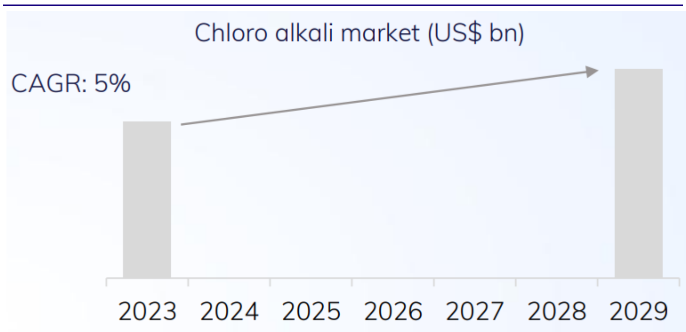
Source: Company, MOFSL

Exhibit 26: Global tyre volumes growing at 3% CAGR



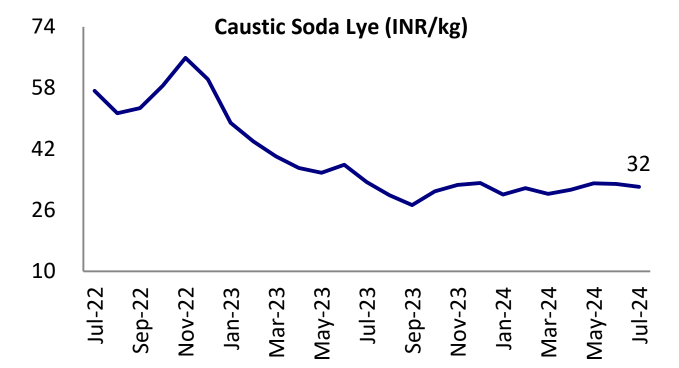
Source: Imarc group, MOFSL

Exhibit 27: Chlor alkali market growing at 5% CAGR



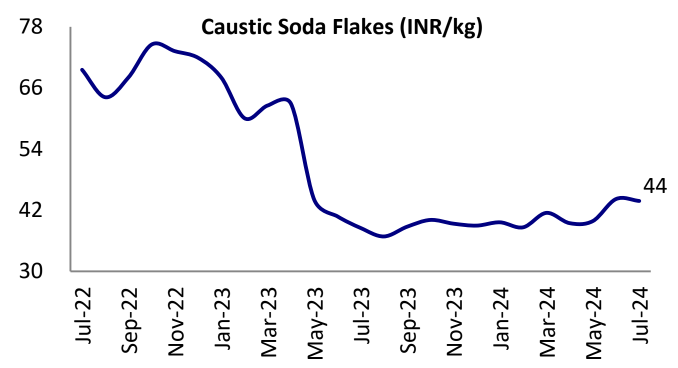
Source: Company, MOFSL

Exhibit 28: Caustic Soda Lye Price has bottomed out



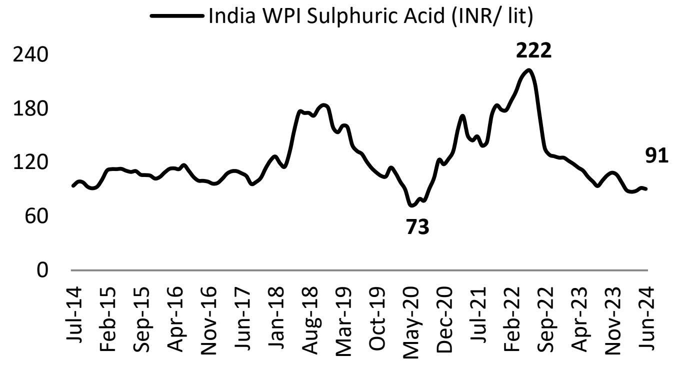
Source: IndiaPetroChem, MOFSL

Exhibit 29: Caustic Soda Flakes price up 2% YoY in FY25'td



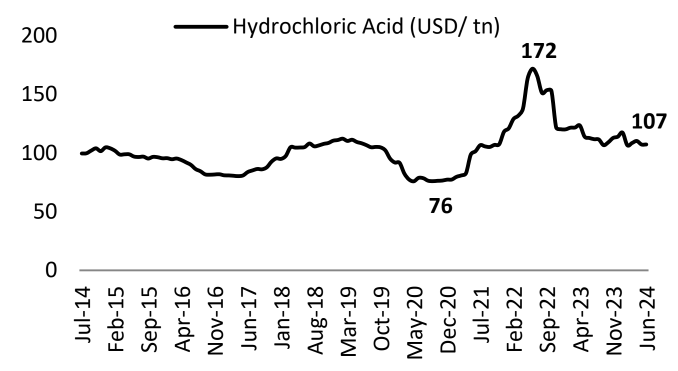
Source: IndiaPetroChem, MOFSL

Exhibit 30: Sulphuric Acid price at INR91/ lit in Jun'24



Source: Bloomberg, MOFSL

Exhibit 31: HCl price at USD107/ tn

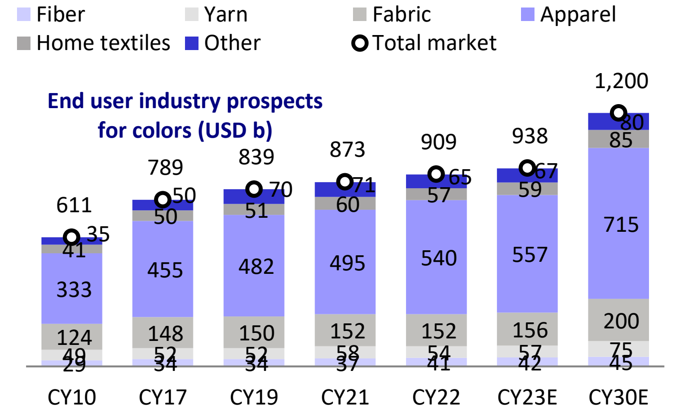


Source: Bloomberg, MOFSL

Colors — end-user industries have robust growth prospects

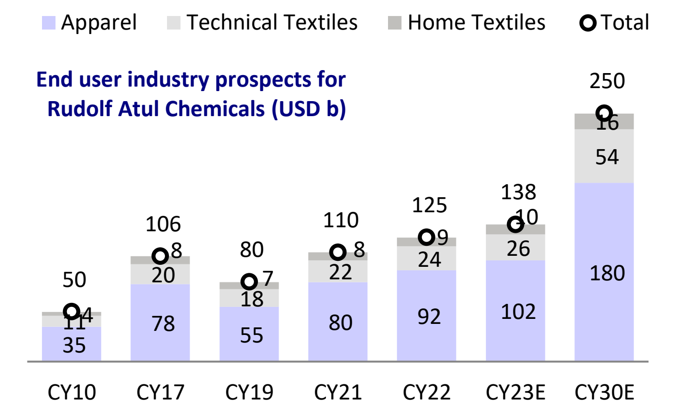
- The global textile dyestuff industry is valued at USD6.6b and is expected to grow by 3%. China is the largest dye manufacturer, followed by India. The high-performance pigments market, valued at USD5.9b, is projected to grow by 4%.
- There has been a structural decline in the unorganized market in the Dye Intermediates and Dyestuffs industry. The Textiles segment constitutes ~80% of the total Dyestuffs demand and is expected to recover gradually. Destocking position has come to an end and a gradual recovery is visible. Prices have bottomed out completely.

Exhibit 32: Colors end use market to see 4% CAGR



Source: Company, MOFSL

Exhibit 33: Rudolf Atul end-user market to clock 9% CAGR

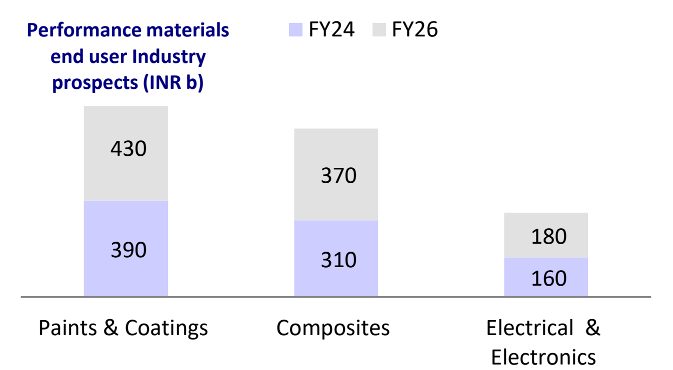


Source: Company, MOFSL

Polymer — margin has already bottomed out, demand is reviving too

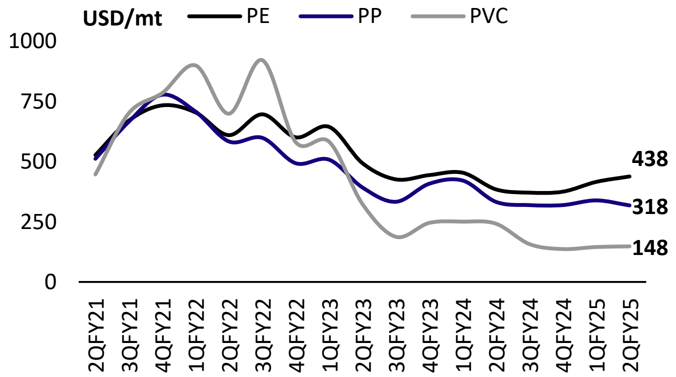
- The global epoxy resins and curing agents market is USD12.4b, growing at 3%, while India's market is USD410m, growing at 8%. Asia Pacific, led by India, drives demand due to infrastructure and automotive growth. The global sulfones market is USD420m, growing at 6%, with aerospace, automotive, defense, and medical applications fueling growth.
- The domestic adhesives and sealants market, at USD2.2b, is expected to clock a 5% CAGR to USD3.1b by 2030. Strong growth is expected in the footwear, foam, furnishings, construction, furniture, and HVAC applications.
- The polymer market expanded 8-10% YoY in 1QFY25 and is expected to grow more than 10% YoY in 2QFY25. Reliance Industries also in its recent presentation indicated that demand for Polymer and Polyester remains strong amid robust economic activities. Polymer deltas have been improving based on better realization amid stable demand.

Exhibit 34: Industry prospects remain robust in Performance Materials sub-segment for ATLP



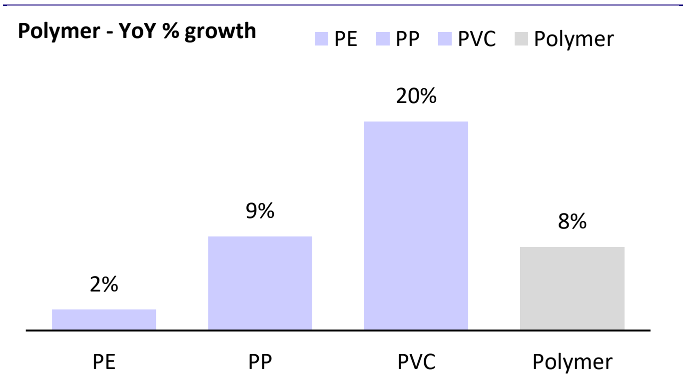
Source: Company, MOFSL

Exhibit 35: Key polymer margin seems to have bottomed out



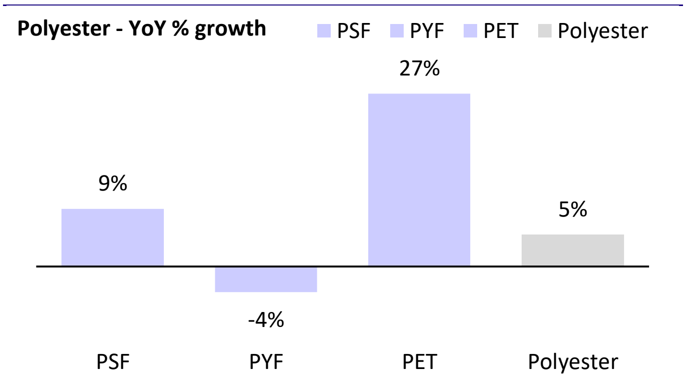
Source: Bloomberg, MOFSL

Exhibit 36: Domestic Polymer demand for 1QFY25



Source: RIL, MOFSL

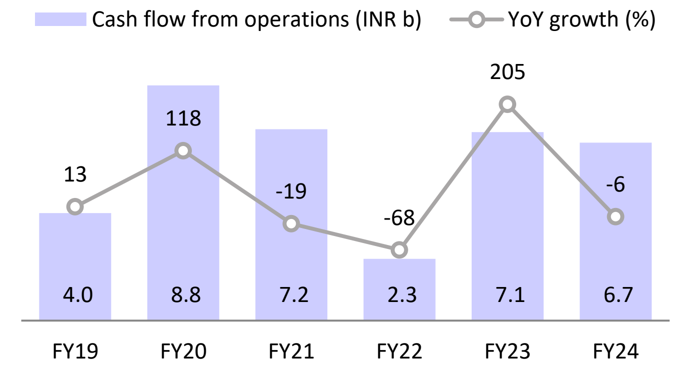
Exhibit 37: Domestic Polyester demand for the quarter



Source: RIL, MOFSL

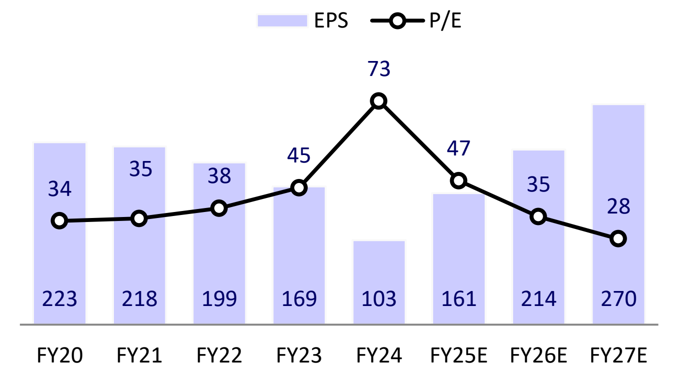
Other key charts and exhibits

Exhibit 38: Cash flow generation from operations



Source: Company, MOFSL

Exhibit 39: Valuation still rich with EPS decline in FY24



Source: Company, MOFSL

Exhibit 40: ATLP has significantly increased its focus on R&D expenses

R&D Expenditure (INR m)	FY19	FY20	FY21	FY22	FY23	FY24
Capital Expenditure	52	46	32	34	20	576
Revenue Expenditure	229	268	260	290	312	340
Total Expenditure	**282**	**313**	**292**	**324**	**332**	**916**
Total R&D expenditure as % of total turnover	0.70%	0.77%	0.78%	0.64%	0.61%	1.94%

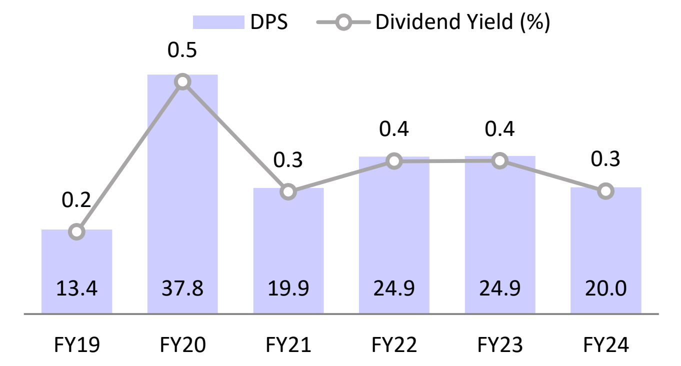
Source: Company, MOFSL

Exhibit 41: Snapshot of R&D expenses and capex in specific technologies to total R&D and capex

% R&D and capex investments to total R&D and capex investments	FY23	FY24	Improvements in environmental and social impacts
R&D	17%	18%	❖ Improvements in yield in 15 products; Reduction in consumption of raw materials in 17 products; Reduction in consumption of solvents in four products and recovery of five value-added products from waste
Capex	37%	19%	❖ Installation of additional MEE, scrubbers, effluent treatment plants; Introduction of additional steam condensate and energy recovery system; Upgradation of fire alarm sensors and fire alarm system

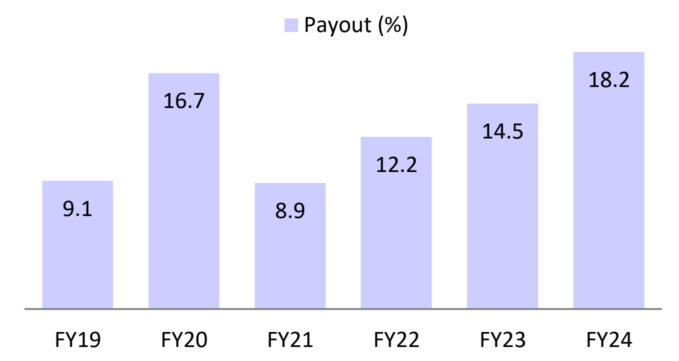
Source: Company, MOFSL

Exhibit 42: Dividend of INR20 per share declared in FY24



Source: Company, MOFSL

Exhibit 43: Higher payout ratio as earnings declined



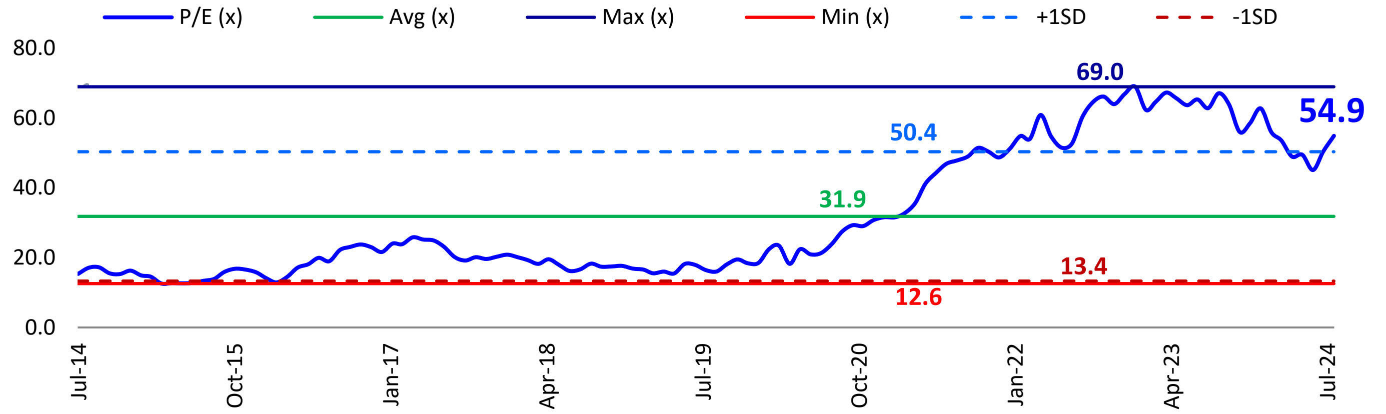
Source: Company, MOFSL

Exhibit 44: Cash conversion cycle at 75days in FY24

Cash conversion cycle (year-end basis)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Days										
Inventory	53	57	45	46	47	46	58	62	53	48
Debtor	57	58	62	79	63	64	72	71	57	72
Creditor	36	42	40	50	34	43	55	46	36	45
Cash conversion cycle	**74**	**73**	**67**	**75**	**76**	**68**	**75**	**88**	**74**	**75**

Source: Company, MOFSL

Exhibit 45: One-year forward P/E trades at 54.9x



Source: Company, MOFSL

Exhibit 46: Peer comparison for our coverage universe

Spec Chem	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Alkyl Amines	Neutral	1,955	29.1	41.5	55.8	70.5	49.4	36.7	8.3	7.5	6.6	40.9	29.2	22.7	12.2	15.9	19.0
Atul	**Buy**	**9,100**	**160.8**	**214.4**	**269.8**	**47.0**	**35.2**	**28.0**	**4.0**	**3.7**	**3.3**	**24.8**	**20.1**	**16.6**	**8.9**	**10.9**	**12.5**
Clean Science	Neutral	1,375	23.0	30.4	34.4	66.6	50.3	44.5	13.5	11.0	9.0	48.6	40.0	33.9	22.1	24.0	22.2
Deepak Nitrite	Neutral	2,705	55.1	69.2	77.3	53.0	42.2	37.8	8.3	7.1	6.1	35.6	27.9	24.7	16.9	18.1	17.3
Fine Organic	Sell	4,095	120.0	119.2	116.9	43.3	43.6	44.4	8.6	7.3	6.3	31.4	31.0	30.7	21.8	18.0	15.2
Galaxy Surfact.	Buy	3,450	85.0	97.7	115.0	33.6	29.3	24.9	4.7	4.2	3.7	21.8	18.2	15.6	14.8	15.0	15.8
Navin Fluorine	Neutral	3,555	46.1	61.6	88.9	76.6	57.3	39.7	7.3	6.7	6.0	47.1	35.3	26.4	10.0	12.2	15.9
NOCIL	Neutral	260	7.9	10.2	13.0	39.4	30.4	23.9	3.1	2.9	2.7	26.2	19.0	15.2	8.1	9.8	11.7
P I Industries	Buy	4,400	110.6	111.9	131.9	38.0	37.6	31.9	7.3	6.2	5.3	28.3	23.8	20.0	21.1	17.9	17.9
SRF	Neutral	2,130	47.5	52.6	74.0	51.7	46.7	33.2	6.4	5.8	5.1	28.4	24.4	19.0	13.0	13.0	16.4
Tata Chemicals	Neutral	1,000	36.1	33.5	51.3	29.6	32.0	20.9	1.2	1.2	1.2	10.9	11.1	8.9	4.4	3.8	5.6
Vinati Organics	Buy	2,340	31.2	42.7	52.0	69.1	50.5	41.5	9.1	8.0	6.9	45.2	33.6	27.6	13.8	16.8	17.9

Source: Company, MOFSL

Story in charts

Exhibit 47: Expect ~13% revenue CAGR over FY24-27…

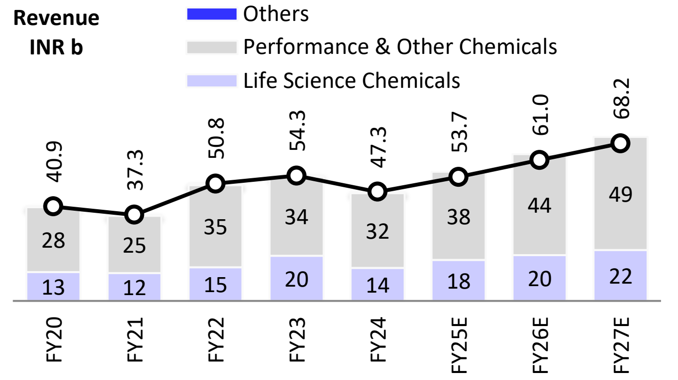


Exhibit 48: … with exports increasing to ~48%

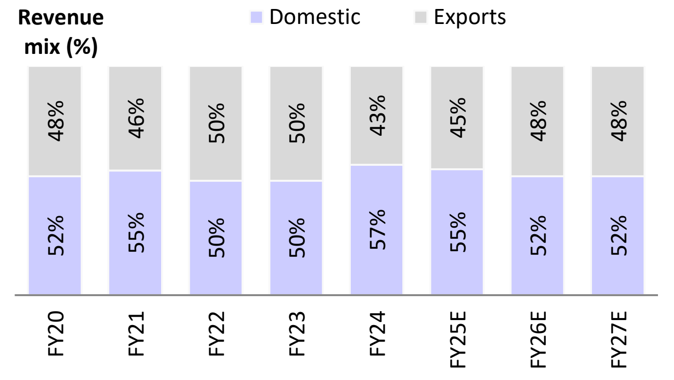


Exhibit 49: Expect EBITDAM to expand to 19% in FY27…

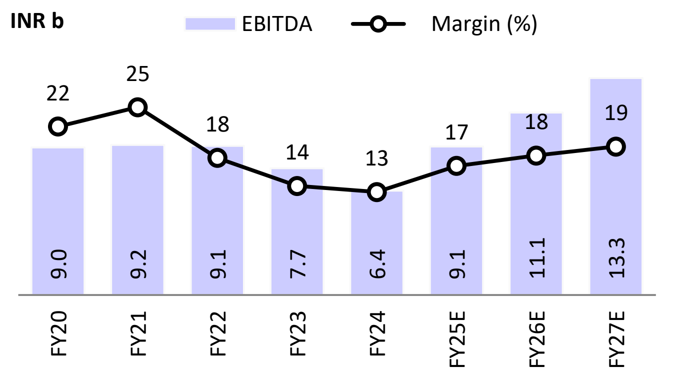


Exhibit 50: …with PAT margin improving to 12%

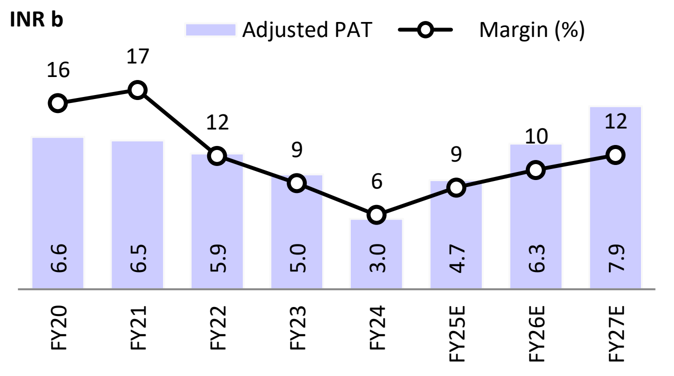


Exhibit 51: One-year forward P/B trades at 3.9x…

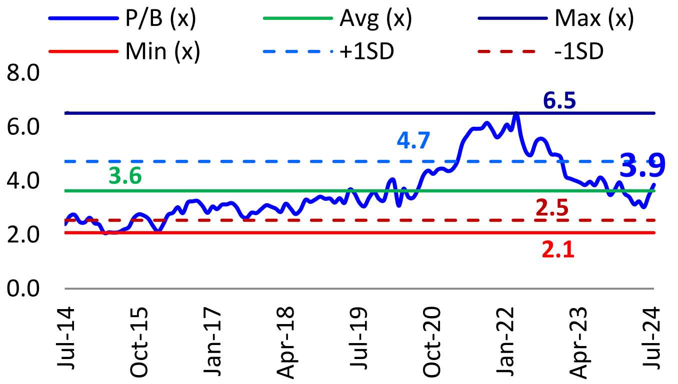


Exhibit 52: …with return ratios at 12%

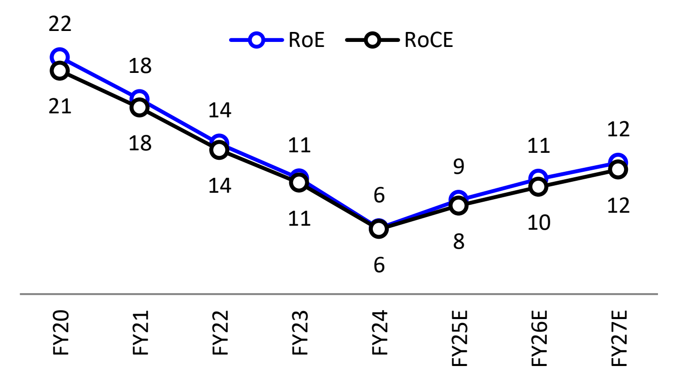


Exhibit 53: : Capex for FY25-27E at ~INR17b

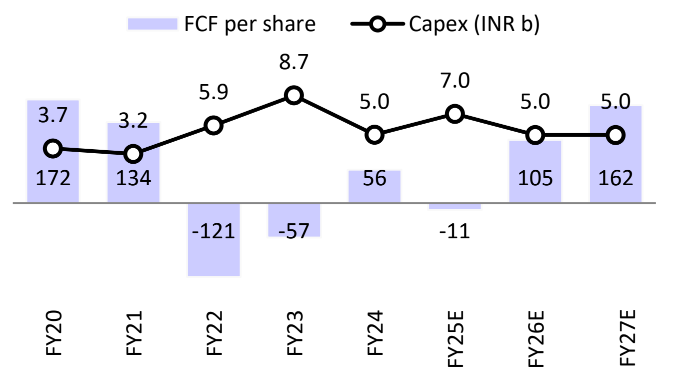
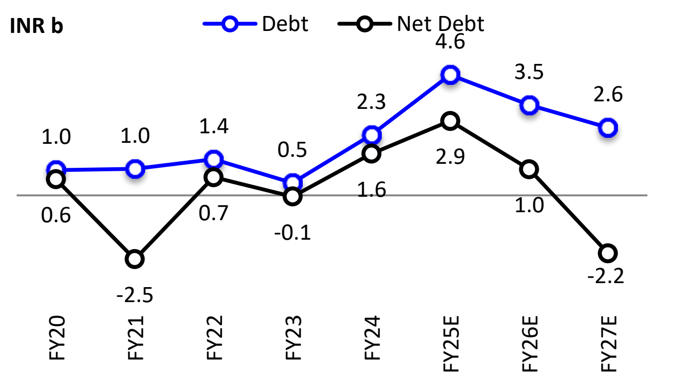


Exhibit 54: Debt profile of ATLP



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	**40,931**	**37,315**	**50,809**	**54,275**	**47,257**	**53,720**	**61,017**	**68,216**
Change (%)	*1.4*	*-8.8*	*36.2*	*6.8*	*-12.9*	*13.7*	*13.6*	*11.8*
Gross Margin (%)	*51.9*	*54.6*	*49.1*	*47.2*	*46.9*	*49.0*	*49.2*	*49.7*
EBITDA	**9,020**	**9,171**	**9,114**	**7,749**	**6,367**	**9,067**	**11,140**	**13,258**
Margin (%)	*22.0*	*24.6*	*17.9*	*14.3*	*13.5*	*16.9*	*18.3*	*19.4*
Depreciation	1,302	1,363	1,767	1,978	2,429	3,140	3,160	3,181
EBIT	**7,718**	**7,808**	**7,348**	**5,770**	**3,938**	**5,927**	**7,980**	**10,077**
Int. and Finance Charges	94	94	92	79	111	139	142	145
Other Income	780	1,030	760	1,149	582	671	732	819
PBT bef. EO Exp.	**8,404**	**8,744**	**8,016**	**6,840**	**4,409**	**6,460**	**8,570**	**10,751**
PBT after EO Exp.	**8,404**	**8,744**	**8,016**	**6,840**	**4,409**	**6,460**	**8,570**	**10,751**
Total Tax	1,745	2,217	2,050	1,812	1,265	1,626	2,157	2,706
Tax Rate (%)	*20.8*	*25.3*	*25.6*	*26.5*	*28.7*	*25.2*	*25.2*	*25.2*
Minority Interest	50	73	82	38	97	97	97	97
Reported PAT	**6,709**	**6,600**	**6,047**	**5,066**	**3,241**	**4,931**	**6,510**	**8,142**
Adjusted PAT	**6,610**	**6,455**	**5,884**	**4,990**	**3,047**	**4,737**	**6,316**	**7,948**
Change (%)	*55.2*	*-2.3*	*-8.8*	*-15.2*	*-38.9*	*55.5*	*33.3*	*25.8*
Margin (%)	*16.1*	*17.3*	*11.6*	*9.2*	*6.4*	*8.8*	*10.4*	*11.7*

Consolidated - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	297	296	296	295	295	295	295	295
Total Reserves	31,252	37,969	43,994	46,419	50,849	54,883	60,210	66,872
Net Worth	**31,549**	**38,265**	**44,290**	**46,714**	**51,143**	**55,178**	**60,504**	**67,166**
Total Loans	970	1,017	1,384	470	2,319	4,637	3,478	2,608
Deferred Tax Liabilities	1,148	1,351	1,436	1,338	1,742	1,742	1,742	1,742
Capital Employed	**33,666**	**40,940**	**47,418**	**49,002**	**55,694**	**62,047**	**66,214**	**72,007**
Gross Block	17,868	19,874	23,835	27,228	39,871	46,871	51,871	56,871
Less: Accum. Deprn.	4,946	6,309	8,076	10,054	12,483	15,622	18,782	21,963
Net Fixed Assets	**12,922**	**13,566**	**15,760**	**17,174**	**27,388**	**31,248**	**33,089**	**34,908**
Goodwill on Consolidation	291	291	291	291	291	291	291	291
Capital WIP	3,681	2,497	4,205	10,329	2,808	2,808	2,808	2,808
Total Investments	**11,373**	**13,643**	**13,419**	**8,842**	**13,953**	**13,953**	**13,953**	**13,953**
Curr. Assets, Loans, and Adv.	**13,236**	**19,375**	**23,389**	**21,045**	**20,322**	**24,056**	**27,783**	**33,137**
Inventory	5,165	5,941	8,641	7,894	6,183	7,028	7,983	8,925
Account Receivables	7,197	7,332	9,890	8,446	9,270	10,538	11,970	13,382
Cash and Bank Balance	354	3,482	689	520	723	1,776	2,477	4,846
Cash	262	469	577	381	603	1,656	2,357	4,725
Bank Balance	92	3,013	112	140	120	120	120	120
Loans and Advances	520	2,619	4,169	4,185	4,146	4,713	5,353	5,985
Curr. Liability and Prov.	**7,838**	**8,432**	**9,645**	**8,678**	**9,069**	**10,309**	**11,709**	**13,091**
Account Payables	4,776	5,631	6,347	5,385	5,793	6,585	7,480	8,362
Other Current Liabilities	2,485	2,170	2,538	2,760	2,754	3,130	3,556	3,975
Provisions	577	631	760	533	522	593	673	753
Net Current Assets	**5,398**	**10,943**	**13,744**	**12,367**	**11,254**	**13,747**	**16,074**	**20,047**
Appl. of Funds	**33,666**	**40,939**	**47,419**	**49,002**	**55,694**	**62,047**	**66,214**	**72,007**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**223.2**	**218.0**	**198.7**	**169.0**	**103.4**	**160.8**	**214.4**	**269.8**
EPS Growth (%)	**55.2**	**-2.3**	**-8.8**	**-15.0**	**-38.8**	**55.5**	**33.3**	**25.8**
Cash EPS	267.2	264.0	258.4	236.0	185.9	267.4	321.6	377.7
BV/Share	1,065	1,292	1,496	1,582	1,736	1,873	2,054	2,280
DPS	37.8	19.9	24.9	24.9	20.0	30.4	40.2	50.2
Payout (%)	16.7	8.9	12.2	14.5	18.2	18.2	18.2	18.2
Valuation (x)								
P/E	33.8	34.6	38.0	44.7	73.0	47.0	35.2	28.0
Cash P/E	28.3	28.6	29.2	32.0	40.6	28.2	23.5	20.0
P/BV	7.1	5.8	5.0	4.8	4.3	4.0	3.7	3.3
EV/Sales	5.5	5.9	4.4	4.1	4.7	4.2	3.7	3.2
EV/EBITDA	24.9	24.1	24.6	28.8	35.2	24.8	20.1	16.6
Dividend Yield (%)	0.5	0.3	0.3	0.3	0.3	0.4	0.5	0.7
FCF per share	171.6	133.9	-121.3	-56.6	55.7	-11.1	104.8	161.8
Return Ratios (%)								
RoE	22.5	18.5	14.3	11.0	6.2	8.9	10.9	12.5
RoCE	21.2	17.7	13.7	10.5	6.2	8.4	10.2	11.8
RoIC	31.9	29.5	21.7	14.5	8.3	10.9	13.2	15.5
Working Capital Ratios								
Fixed Asset Turnover (x)	3.5	2.8	3.5	3.3	2.1	1.8	1.9	2.0
Asset Turnover (x)	1.2	0.9	1.1	1.1	0.8	0.9	0.9	0.9
Inventory (Days)	46	58	62	53	48	48	48	48
Debtor (Days)	64	72	71	57	72	72	72	72
Creditor (Days)	43	55	46	36	45	45	45	45
Leverage Ratio (x)								
Current Ratio	1.7	2.3	2.4	2.4	2.2	2.3	2.4	2.5
Net Debt/Equity ratio	0.0	-0.1	0.0	0.0	0.0	0.1	0.0	0.0

Consolidated - Cash Flow Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	8,454	8,817	8,097	6,878	4,506	6,460	8,570	10,751
Depreciation	1,302	1,363	1,767	1,978	2,429	3,140	3,160	3,181
Interest Expenses	94	94	92	79	111	139	142	145
Others	-536	-826	-580	-206	-408	0	0	0
Direct Taxes Paid	-2,168	-2,023	-2,017	-1,934	-1,073	-1,626	-2,157	-2,706
(Inc.)/Dec. in WC	1,667	-245	-5,046	271	1,110	-1,440	-1,626	-1,604
CF from Operations	**8,813**	**7,180**	**2,314**	**7,067**	**6,675**	**6,673**	**8,089**	**9,766**
(Inc.)/Dec. in FA	-3,733	-3,215	-5,905	-8,739	-5,035	-7,000	-5,000	-5,000
Free Cash Flow	**5,080**	**3,964**	**-3,591**	**-1,672**	**1,640**	**-327**	**3,089**	**4,766**
Change in Investments	-4,344	-3,899	4,136	3,572	-2,000	0	0	0
Others	250	651	93	474	203	0	0	0
CF from Investments	**-7,827**	**-6,464**	**-1,676**	**-4,694**	**-6,832**	**-7,000**	**-5,000**	**-5,000**
Inc./(Dec.) in Debt	537	182	117	-914	1,849	2,319	-1,159	-869
Interest Paid	-94	-87	-99	-79	-116	-139	-142	-145
Dividend Paid	-1,515	-617	-590	-1,828	-1,356	-896	-1,183	-1,480
Others	-33	0	-3	246	-1	97	97	97
CF from Fin. Activity	**-1,106**	**-522**	**-575**	**-2,575**	**375**	**1,380**	**-2,388**	**-2,397**
Inc./Dec. in Cash	**-120**	**194**	**63**	**-202**	**219**	**1,053**	**701**	**2,369**
Opening Balance	377	261	469	577	380	603	1,656	2,357
Closing Balance	**261**	**469**	**577**	**380**	**603**	**1,656**	**2,357**	**4,726**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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