27 October 2024

2QFY25 Results Update | Sector: Specialty Chemicals

Atul

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	ATLP IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	218 / 2.6
52-Week Range (INR)	8180 / 5175
1, 6, 12 Rel. Per (%)	6/19/-10
12M Avg Val (INR m)	456
Free float (%)	54.8

Financials and Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	54.3	61.6	68.5
EBITDA	9.6	11.4	13.5
PAT	5.0	6.6	8.1
EPS (INR)	170.7	224.4	275.4
EPS Gr. (%)	65.1	31.4	22.7
BV/Sh.(INR)	1,881.1	2,070.1	2,300.9
Ratios			
Net D:E	0.0	0.0	-0.0
RoE (%)	9.4	11.4	12.6
RoCE (%)	9.1	10.6	11.9
Payout (%)	18.2	18.2	18.2
Valuations			
P/E (x)	43.3	33.0	26.9
P/BV (x)	3.9	3.6	3.2
EV/EBITDA (x)	22.9	19.1	16.0
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	0.0	1.6	2.3

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	45.2	45.2	45.1
DII	24.5	25.8	26.5
FII	9.7	8.6	7.7
Others	20.6	20.4	20.7

FII Includes depository receipts

CMP: INR7,405 TP: INR9,995 (+35%) Buy

Impressive show continues in both the business segments

- Atul (ATLP) reported in-line revenue in 2QFY25. Revenue in the Life Science Chemicals segment increased 13% YoY, while it rose 18% YoY in the Performance & Other Chemicals segment. **Gross margin came in at 53.1% (+900bp YoY), while EBITDAM expanded 440bp YoY to 17.4%.** PAT increased 53% YoY to INR1.4b in 2QFY25.
- The Life Science segment performance was fueled by an increased demand for intermediates used in the pharma and personal care industries, with high demand for crop protection chemicals in the international market. Performance Chemicals' sales and profitability were aided by an improvement in demand for epoxy and sulphones product groups, along with an improved performance of the subsidiaries.
- The Life Science Chemicals' contribution to EBIT increased to 45% from 35% in 2QFY24, whereas the contribution of Performance & Other Chemicals to overall EBIT declined to 53% from 61% in 2QFY24. Lower realization was offset by higher volumes across all sub-segments in both the domestic and international markets and lower input costs for the company. Operations at Atul Products also stabilized during the quarter.
- We broadly maintain our estimates as of now. We estimate a revenue/ EBITDA/PAT CAGR of 13%/28%/39% during FY24-27. EBITDAM is estimated to improve by 620bp in FY27 vs. FY24 level. We recently upgraded the stock as we believe that ATLP is ready to make a comeback in the next 2-3 years, and our view has already been supported by a strong show in 1HFY25.
- Investments are set to be supported by a gradual recovery in ATLP's sub-segments and management's efforts to expand its capacities for key products and for debottlenecking the existing ones. The stock is trading at ~33x FY26E EPS of INR224 and ~19x FY26E EV/EBITDA. We value the stock at 40x Sep'26E EPS (discount of 9% to five-year average of 45x) to arrive at our TP of INR9,995. **We reiterate our BUY rating on the stock.**

EBITDA in line; PAT beat led by higher-than-expected other income

- Revenue stood at INR13.9b (+17% YoY). Life Science Chemicals' revenue was INR4.1b (+13% YoY). Performance chemicals revenue was at INR10.2b (+18% YoY). Gross margin was at 53.1% (+900bp YoY) and EBITDA margin was at 17.4% (+440bp YoY).
- EBIT margin expanded YoY for both segments. Life Science Chemicals' margin stood at 20.5% (+900bp YoY); EBIT came in at INR836m. Performance Chemicals' margin was at 9.7% (+140bp YoY); EBIT stood at IN990m in 2QFY25.
- **EBITDA came in at INR2.4b (est. of INR2.4b, +56% YoY).** PAT stood at INR1.4b (est. of INR1.3b, +53% YoY), **resulting in EPS of INR47.4. Contribution from the subsidiaries/JVs was positive** (profit at INR29m in 1QFY25, v/s loss of INR121m in 2QFY25 and net loss of INR121m in 2QFY24).
- **For 1HFY25**, revenue was at INR27.1b (+14% YoY), EBITDA was at INR4.7b (+38% YoY), with PAT at INR2.5b (+30% YoY). EBITDAM for 1HFY25 stood at 17.2% (+300bp YoY).

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Valuation and view

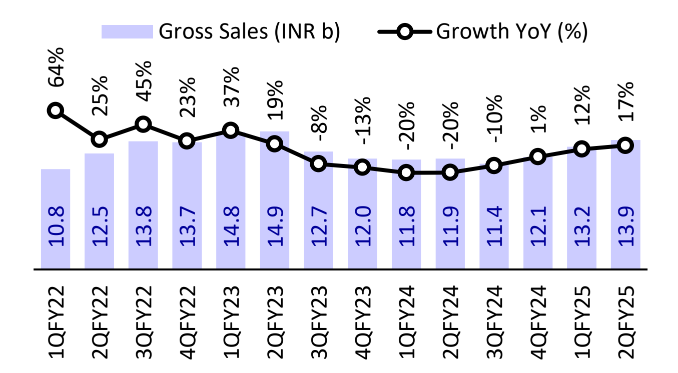
- The end-user market demand has picked up, and we believe that overall demand will also accelerate in 2HFY25. The company is undertaking various projects and initiatives aimed at improving plant efficiencies, expanding its capacities for key products, debottlenecking its existing capacities, capturing 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 1HFY25. Anaven (monochloro acetic acid) is also likely to ramp up its plant for optimum utilization due to better offtake in FY25.
- The stock is trading at ~33x FY26E EPS of INR224 and ~19x FY26E EV/EBITDA. We value the stock at 40x Sep'26E EPS (discount of 9% to five-year average of 45x) to arrive at our TP of INR9,995. **We reiterate our BUY rating**. 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.

Consolidated - Quarterly snapshot (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Gross Sales	**11,820**	**11,937**	**11,378**	**12,122**	**13,221**	**13,928**	**13,640**	**13,500**	**47,257**	**54,289**	**13,708**	**2%**
YoY Change (%)	*-20.0*	*-19.7*	*-10.3*	*1.4*	*11.8*	*16.7*	*19.9*	*11.4*	*-12.9*	*14.9*	*14.8*	
Gross Margin (%)	*46.5%*	*44.1%*	*47.1%*	*49.7%*	*50.0%*	*53.1%*	*49.8%*	*45.0%*	*46.9%*	*49.5%*	*50.5%*	*2.6%*
EBITDA	**1,823**	**1,552**	**1,517**	**1,476**	**2,232**	**2,427**	**2,456**	**2,502**	**6,367**	**9,618**	**2,381**	**2%**
Margin (%)	*15.4*	*13.0*	*13.3*	*12.2*	*16.9*	*17.4*	*18.0*	*18.5*	*13.5*	*17.7*	*17.4*	*0.1*
Depreciation	519	540	612	758	766	775	789	810	2,429	3,140	785	
Interest	20	19	21	51	54	89	91	114	111	348	35	
Other Income	82	221	150	129	130	315	204	165	582	814	161	
PBT before EO expense	**1,365**	**1,215**	**1,034**	**796**	**1,543**	**1,878**	**1,779**	**1,744**	**4,409**	**6,944**	**1,723**	**9%**
PBT	**1,365**	**1,215**	**1,034**	**796**	**1,543**	**1,878**	**1,779**	**1,744**	**4,409**	**6,944**	**1,723**	**9%**
Tax	364	325	334	242	455	514	448	400	1,265	1,817	434	
Rate (%)	*26.7*	*26.7*	*32.3*	*30.4*	*29.5*	*27.4*	*25.2*	*22.9*	*28.7*	*26.2*	*25.2*	
Minority Interest and Profit/Loss of Asso. Cos.	20	22	21	34	33	31	24	9	97	97	24	
Reported PAT	**1,021**	**912**	**721**	**588**	**1,121**	**1,395**	**1,356**	**1,352**	**3,241**	**5,224**	**1,313**	**6%**
Adj PAT	**1,021**	**912**	**721**	**588**	**1,121**	**1,395**	**1,356**	**1,352**	**3,047**	**5,030**	**1,313**	**6%**
YoY change (%)	*-37.6*	*-38.4*	*-30.0*	*-36.2*	*9.8*	*52.9*	*88.2*	*130.0*	*-38.9*	*65.1*	*43.9*	
Margin (%)	*8.6*	*7.6*	*6.3*	*4.9*	*8.5*	*10.0*	*9.9*	*10.0*	*6.4*	*9.3*	*9.6*	*0.4*
Segmental Revenue (INR mn)												
Life Science Chemicals	3,502	3,620	3,378	3,767	4,236	4,078	4,593	5,104	14,267	15,001	4,570	-11%
Performance & Other chemicals	8,745	8,684	8,406	8,696	9,386	10,237	9,605	9,244	34,531	35,173	9,658	6%
Others	117	165	109	241	194	186	157	127	633	710	158	18%
Segmental EBIT (INR mn)												
Life Science Chemicals	522	417	424	667	710	836			2,031	2,218		
Performance & Other chemicals	890	722	657	129	852	990			2,398	2,359		
Others	18	41	-3	0	50	27			57	89		
Segmental EBIT Margin (%)												
Life Science Chemicals	*14.9%*	*11.5%*	*12.6%*	*17.7%*	*16.8%*	*20.5%*			*14.2%*	*14.8%*		
Performance & Other chemicals	*10.2%*	*8.3%*	*7.8%*	*1.5%*	*9.1%*	*9.7%*			*6.9%*	*6.7%*		
Others	*15.5%*	*25.0%*	*-2.6%*	*0.0%*	*25.9%*	*14.3%*			*9.0%*	*12.5%*		

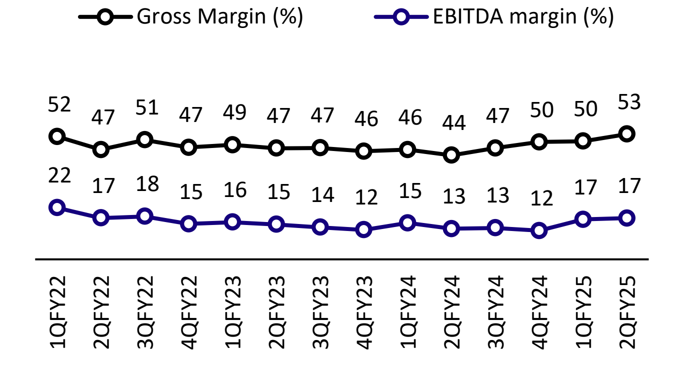
ATLP's 2QFY25 in charts

Exhibit 1: Sales increased 17% YoY



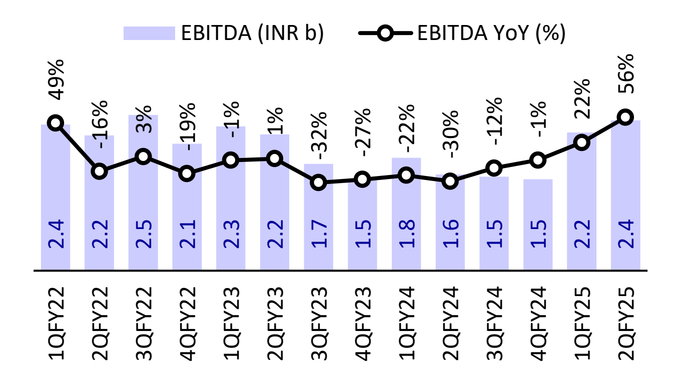
Source: Company, MOFSL

Exhibit 2: Margins expanded YoY



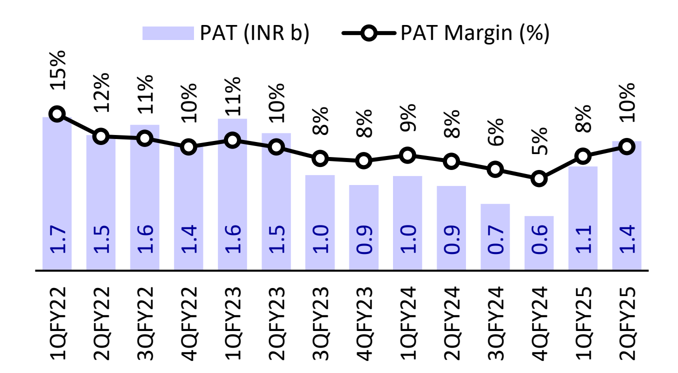
Source: Company, MOFSL

Exhibit 3: EBITDA increased 56% YoY…



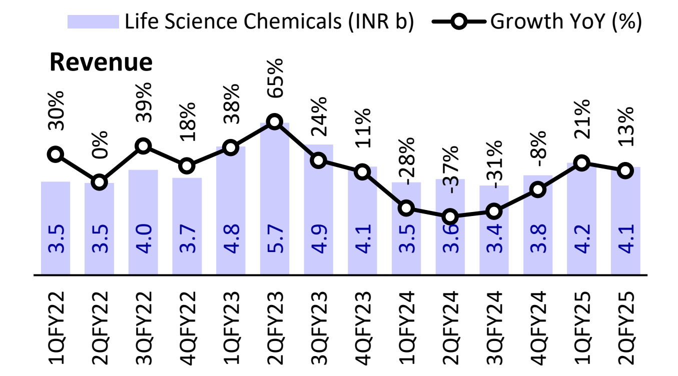
Source: Company, MOFSL

Exhibit 4: …and PAT was up 53% YoY



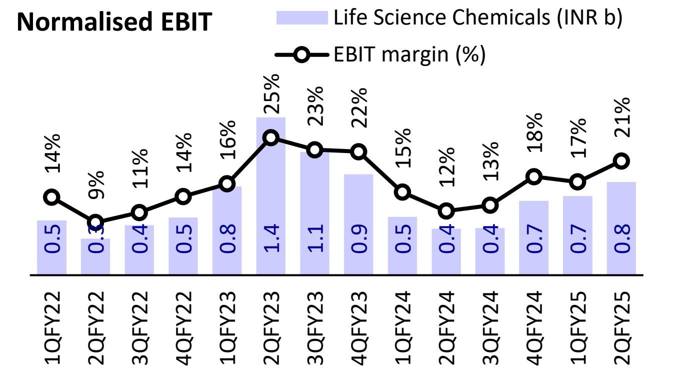
Source: Company, MOFSL

Exhibit 5: Life Science's revenue increased 13% YoY…



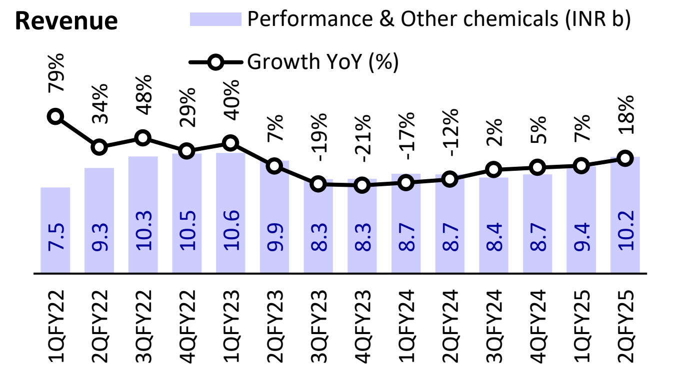
Source: Company, MOFSL

Exhibit 6: …and EBIT margin expanded 900bp YoY



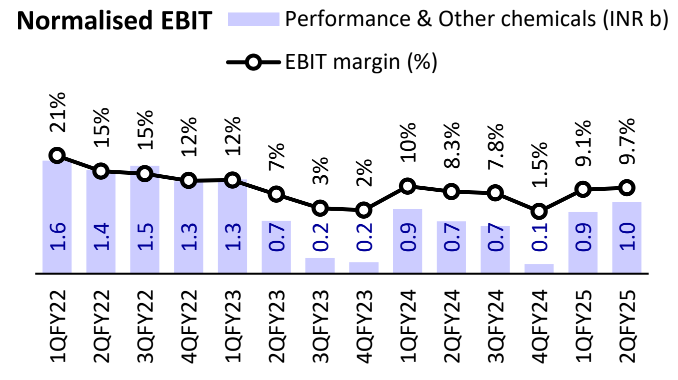
Source: Company, MOFSL

Exhibit 7: Performance segment's revenue rose 18% YoY…



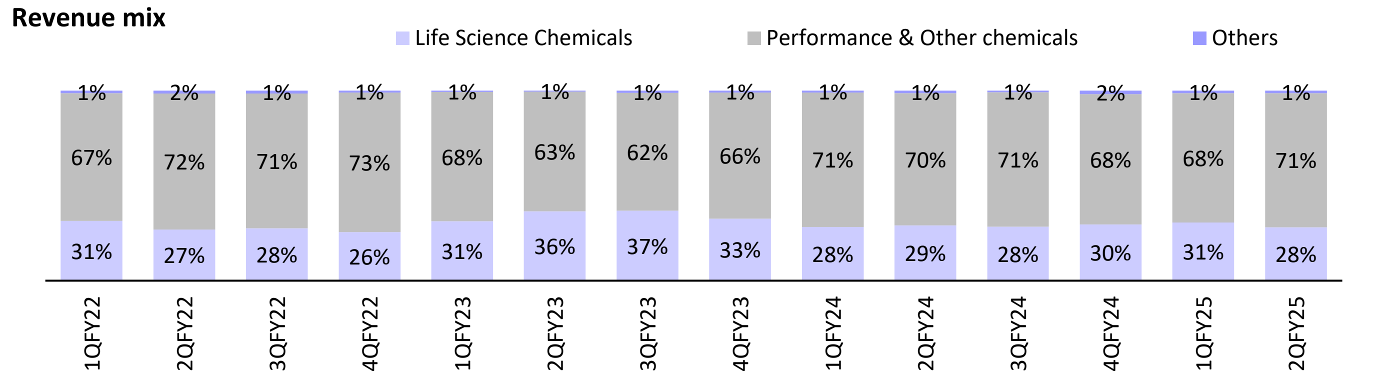
Source: Company, MOFSL

Exhibit 8: …and EBIT margin expanded 140bp YoY



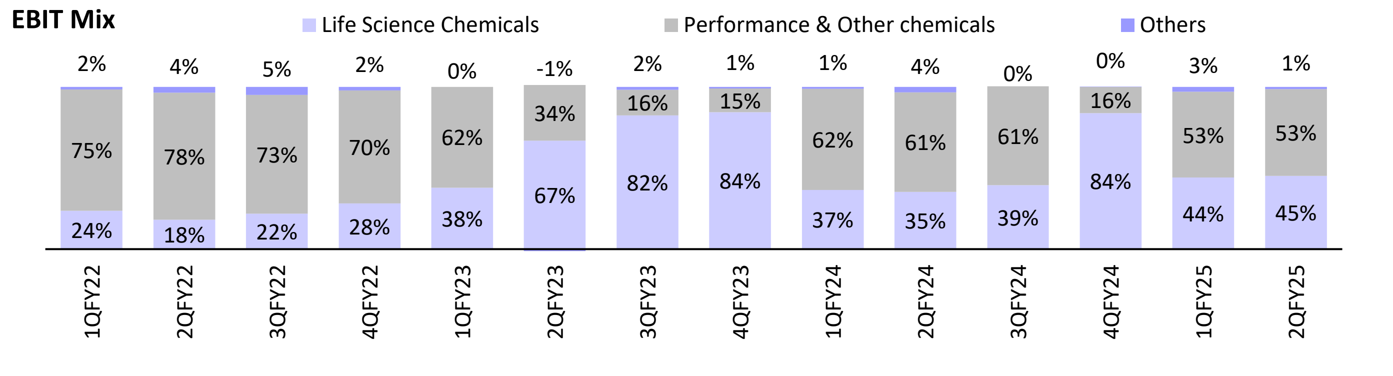
Source: Company, MOFSL

Exhibit 9: Performance and Other Chemicals' contribution to overall revenue mix stood at 71%, while it was 28% for the Life Science segment



Source: Company, MOFSL

Exhibit 10: EBIT mix for the Performance & Other Chemicals segment stood at 53%, while the same stood at 45% for the Life Science Chemicals segment



Source: Company, MOFSL

Financial story in charts

Exhibit 11: Expect ~13% revenue CAGR over FY24-27...

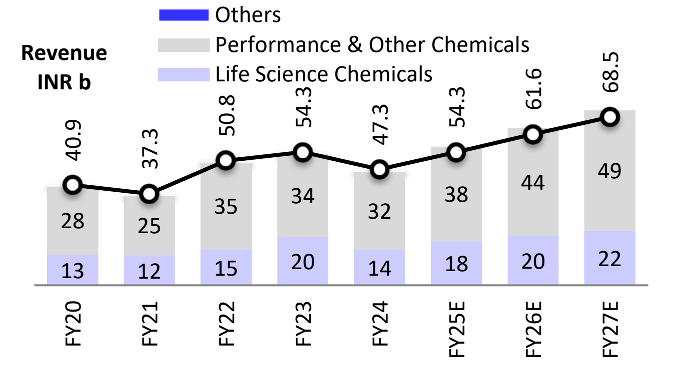


Exhibit 12: ...with exports increasing to ~48%

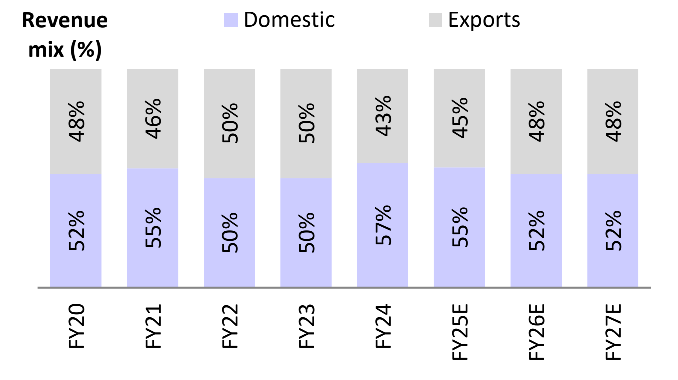


Exhibit 13: Expect EBITDAM to recover to 19.6% in FY27...

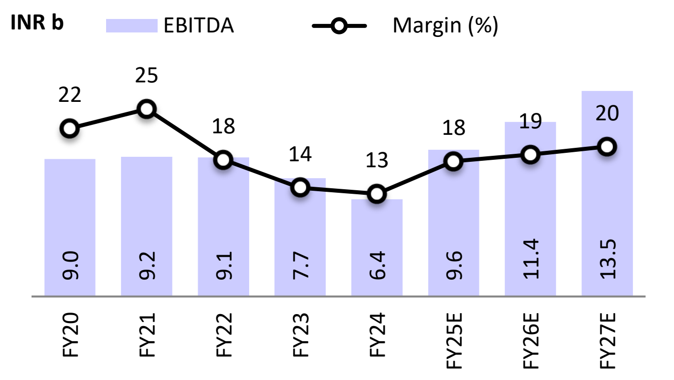


Exhibit 14: ...with PAT margin improving to 12%

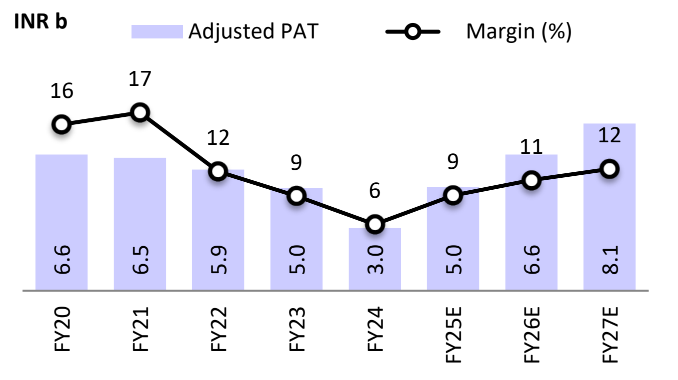


Exhibit 15: One-year forward P/E trades at 46.2x...

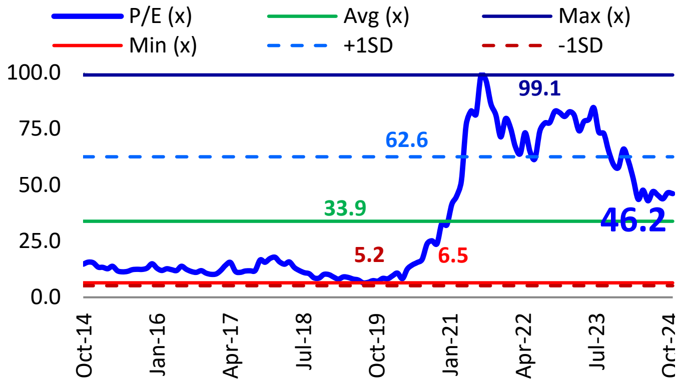


Exhibit 16: ...with return ratios at 12-13%

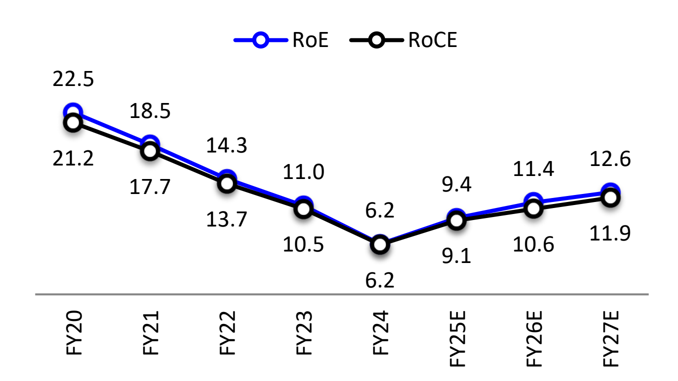


Exhibit 17: Capex for FY25-27E at ~INR17b

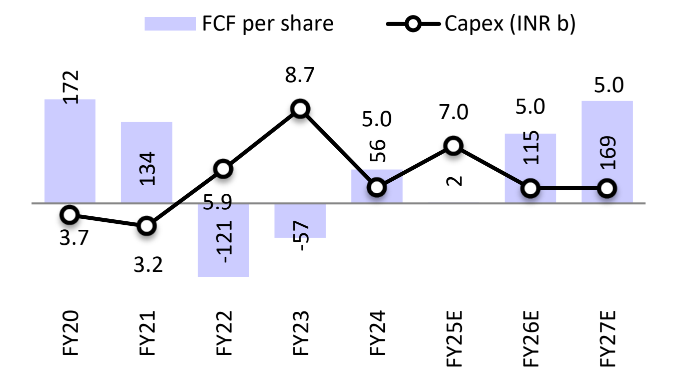
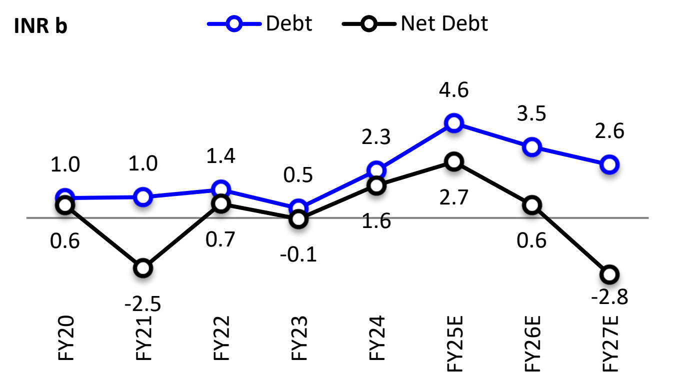


Exhibit 18: Debt profile of ATLP



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**	**54,289**	**61,552**	**68,549**
Change (%)	*1.4*	*-8.8*	*36.2*	*6.8*	*-12.9*	*14.9*	*13.4*	*11.4*
Gross Margin (%)	*51.9*	*54.6*	*49.1*	*47.2*	*46.9*	*49.5*	*49.3*	*49.8*
EBITDA	**9,020**	**9,171**	**9,114**	**7,749**	**6,367**	**9,618**	**11,449**	**13,475**
Margin (%)	*22.0*	*24.6*	*17.9*	*14.3*	*13.5*	*17.7*	*18.6*	*19.7*
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**	**6,478**	**8,289**	**10,294**
Int. and Finance Charges	94	94	92	79	111	348	142	145
Other Income	780	1,030	760	1,149	582	814	819	823
PBT bef. EO Exp.	**8,404**	**8,744**	**8,016**	**6,840**	**4,409**	**6,944**	**8,966**	**10,972**
PBT after EO Exp.	**8,404**	**8,744**	**8,016**	**6,840**	**4,409**	**6,944**	**8,966**	**10,972**
Total Tax	1,745	2,217	2,050	1,812	1,265	1,817	2,257	2,762
Tax Rate (%)	*20.8*	*25.3*	*25.6*	*26.5*	*28.7*	*26.2*	*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**	**5,224**	**6,806**	**8,307**
Adjusted PAT	**6,610**	**6,455**	**5,884**	**4,990**	**3,047**	**5,030**	**6,612**	**8,113**
Change (%)	*55.2*	*-2.3*	*-8.8*	*-15.2*	*-38.9*	*65.1*	*31.4*	*22.7*
Margin (%)	*16.1*	*17.3*	*11.6*	*9.2*	*6.4*	*9.3*	*10.7*	*11.8*

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	55,123	60,692	67,489
Net Worth	**31,549**	**38,265**	**44,290**	**46,714**	**51,143**	**55,418**	**60,987**	**67,784**
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**	**62,287**	**66,696**	**72,624**
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**	**24,405**	**28,368**	**33,819**
Inventory	5,165	5,941	8,641	7,894	6,183	7,103	8,053	8,968
Account Receivables	7,197	7,332	9,890	8,446	9,270	10,650	12,075	13,447
Cash and Bank Balance	354	3,482	689	520	723	1,889	2,840	5,389
Cash	262	469	577	381	603	1,769	2,719	5,269
Bank Balance	92	3,013	112	140	120	120	120	120
Loans and Advances	520	2,619	4,169	4,185	4,146	4,763	5,400	6,014
Curr. Liability and Prov.	**7,838**	**8,432**	**9,645**	**8,678**	**9,069**	**10,418**	**11,812**	**13,154**
Account Payables	4,776	5,631	6,347	5,385	5,793	6,655	7,546	8,403
Other Current Liabilities	2,485	2,170	2,538	2,760	2,754	3,164	3,587	3,995
Provisions	577	631	760	533	522	599	679	757
Net Current Assets	**5,398**	**10,943**	**13,744**	**12,367**	**11,254**	**13,987**	**16,556**	**20,664**
Appl. of Funds	**33,666**	**40,939**	**47,419**	**49,002**	**55,694**	**62,287**	**66,696**	**72,624**

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**	**170.7**	**224.4**	**275.4**
EPS Growth (%)	**55.2**	**-2.3**	**-8.8**	**-15.0**	**-38.8**	**65.1**	**31.4**	**22.7**
Cash EPS	267.2	264.0	258.4	236.0	185.9	277.3	331.7	383.4
BV/Share	1,065	1,292	1,496	1,582	1,736	1,881	2,070	2,301
DPS	37.8	19.9	24.9	24.9	20.0	32.2	42.0	51.3
Payout (%)	16.7	8.9	12.2	14.5	18.2	18.2	18.2	18.2
Valuation (x)								
P/E	33.1	33.9	37.2	43.8	71.5	43.3	33.0	26.9
Cash P/E	27.7	28.0	28.6	31.3	39.8	26.7	22.3	19.3
P/BV	6.9	5.7	4.9	4.7	4.3	3.9	3.6	3.2
EV/Sales	5.4	5.8	4.3	4.0	4.6	4.1	3.6	3.1
EV/EBITDA	24.4	23.6	24.1	28.2	34.5	22.9	19.1	16.0
Dividend Yield (%)	0.5	0.3	0.3	0.3	0.3	0.4	0.6	0.7
FCF per share	171.6	133.9	-121.3	-56.6	55.7	1.6	115.1	168.9
Return Ratios (%)								
RoE	22.5	18.5	14.3	11.0	6.2	9.4	11.4	12.6
RoCE	21.2	17.7	13.7	10.5	6.2	9.1	10.6	11.9
RoIC	31.9	29.5	21.7	14.5	8.3	11.7	13.7	15.8
Working Capital Ratios								
Fixed Asset Turnover (x)	3.5	2.8	3.5	3.3	2.1	1.9	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	2.6
Net Debt/Equity ratio	0.0	-0.1	0.0	0.0	0.0	0.0	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	6,944	8,966	10,972
Depreciation	1,302	1,363	1,767	1,978	2,429	3,140	3,160	3,181
Interest Expenses	94	94	92	79	111	348	142	145
Others	-536	-826	-580	-206	-408	0	0	0
Direct Taxes Paid	-2,168	-2,023	-2,017	-1,934	-1,073	-1,817	-2,257	-2,762
(Inc.)/Dec. in WC	1,667	-245	-5,046	271	1,110	-1,567	-1,618	-1,559
CF from Operations	**8,813**	**7,180**	**2,314**	**7,067**	**6,675**	**7,048**	**8,392**	**9,976**
(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**	**48**	**3,392**	**4,976**
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	-348	-142	-145
Dividend Paid	-1,515	-617	-590	-1,828	-1,356	-950	-1,237	-1,510
Others	-33	0	-3	246	-1	97	97	97
CF from Fin. Activity	**-1,106**	**-522**	**-575**	**-2,575**	**375**	**1,118**	**-2,441**	**-2,427**
Inc./Dec. in Cash	**-120**	**194**	**63**	**-202**	**219**	**1,166**	**951**	**2,549**
Opening Balance	377	261	469	577	380	603	1,769	2,720
Closing Balance	**261**	**469**	**577**	**380**	**603**	**1,769**	**2,720**	**5,269**

NOTES

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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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