Institutional Equities

2019

ATUL Ltd.

Initiating Coverage

Target: INR 4,835

Institutional Equities

ATUL Ltd.

May 20, 2019

Initiating Coverage

BUY

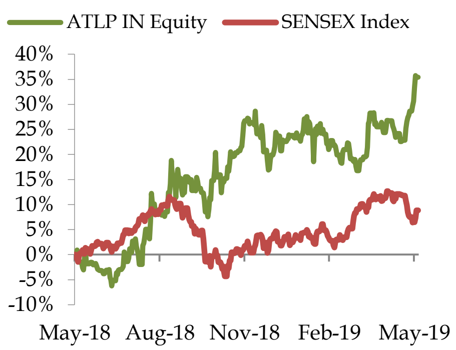
Sector- Chemicals	
CMP	3,763
Target Price	4,835
% Up Side	28%
Bloomberg Code	ATLP IN

Stock Info	
Face Value (INR)	10
Market Cap (INR Mn)	1,11,822
Beta	0.5
52 Week High/ Low	3,870 / 2,600
Average Daily Volume	17,559
Sensex	38,853
NIFTY	11,680

Shareholding Pattern (%)	
Promoters	44.7
DIIs	22.9
FIIs	6.2
Others	26.2

% Change	1 M	6M	1Yr
Absolute	7	7	35
Relative	10	0	27

Stock Chart



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ATUL Ltd one of the most integrated chemical companies in India is emerging as a formidable player in many of segments where it operates in. A multi product and multi geography strategy has enabled it in sailing through difficult times as well as capitalizing on opportunities which is visible from its stellar performance of 12%/26% CAGR growth in Revenue/PAT respectively over FY14-19. Calibrated & responsible capex plans will take the company to the next orbit and we believe it is one of the companies which is best placed to capture the vacuum created by disruptions in China's chemical industry.

Key Investment Arguments:

Multi segment, multi product and multi geography has placed Atul in a robust place : Atul Ltd classifies its business under two major heads; (A) Life Science Chemicals (32% of revenues), which covers (i) Crop Protection and (II) Pharma & Aromatic 1 and (B) Performance & other Chemicals(68% of revenue), which covers (I) Aromatics 2 (II) Bulk Chemicals (III) Colors (IV) Polymers. With 4 manufacturing facilities, the company caters to more than 6,000 clients and generates ~50% of revenue from exports.

Benefits of capex done should lead to 12.5% revenue CAGR between FY19-21E, on top 12% CAGR delivered between FY14-19: Both the business segment had fairly strong growth resulting in overall revenue CAGR of 12% over FY14-19. In a gradual and calibrated manner, Atul is expanding capacities in various segments and possess an unrealized revenue potential of INR 10,750 Mn, the investments for which has already been incurred. This along with fresh investments should result into 12.5% revenue CAGR over FY19-21E. In last one year the company achieved fairly higher realizations, but going ahead we expect realizations to stabilize and major growth to come on the back of higher in volumes.

Enough levers for EBITDA Margins to sustain at ~19% levels: ATUL's EBITDA margins have expanded 530 bps over the last five years standing at 19% as on FY19. Focus on higher margin products, efficiently off-setting the rising input cost and higher operational efficiencies coupled with strong pricing environment has helped the company in achieving stellar performance and resulted in an EBITDA CAGR of 20.6% over FY13-FY19. The cost of production in China has gone up, due to higher environmental compliance norms but price rise from here on is unlikely and hence we feel EBITDA margins to sustain at current level, but further expansions seems unlikely.

Balance sheet strength and strong cash flows make it an attractive investment opportunity in the Chemical space: A debt free balance sheet with strong FCF (INR 5,160 Mn over FY14-19) despite capex shows the management's judicious capital deployment. Strong 20% average ROCE over last five years, with average WC days of ~84 days speaks for the efficiency in all parameters. We have valued Atul Ltd on both EV/EBITDA (14x FY21x) and P/E valuation of 24x FY21E EPS and arrived at an average target price of **INR 4,835** and recommend **BUY** rating on the stock.

Key Financials:

Particulars (INR Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	**28,339**	**32,958**	**40,378**	**44,354**	**51,007**
EBITDA	**5,095**	**5,052**	**7,668**	**8,339**	**9,793**
PAT	**3,187**	**2,812**	**4,360**	**4,892**	**5,813**
EPS (Rs)	109	95	147	172	203
EBIDTA Margin(%)	18.0%	15.3%	19.0%	18.8%	19.2%
P/E (x)	27.6	34.4	22.6	22.0	18.6
EV/EBIDTA	22	22	15	13	11
ROE	20.7%	14.5%	18.3%	15.8%	15.8%

Source: SMC Global Institutional Equities

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Business overview

Founded by Mr. Kasturbhai Lalbhai in 1947, Atul Ltd is one of the most integrated chemical manufacturers. With over seven decades of business operations ATUL ltd caters its products to various industries (~6,000 customers) via its 4 manufacturing plants (3 in Gujarat and 1 in Maharashtra).

The company classifies its business operations into two segments:
(i) Life science chemicals- which is further divided into two sub-segments
(a) Crop Protection
(b) Pharma & Aroma-I

(ii) Performance and Other chemical- which is further divided into four sub-segments
(a) Aromatics-II
(b) Bulk chemicals and Intermediates
(c) Colors
(d) Polymers

Exhibit 1:

Segment	Sub-Segment	Products	Industry
(1) Life Science Chemicals (34 % total revenue)	a) Crop Protection (20% total revenue)	Herbicides Insecticides Fungicides	Agriculture Crop Protection
	b) Pharma & Aroma-I (11% total revenue)	API intermediates Active Pharmaceutical Ingredients	Pharmaceutical industry
(2) Performance and Other Chemicals (66 % total revenue)	a) Aromatics-II (16% total revenue)	Intermediates Perfumery	Fragrance Personal Care industries.
	b) Bulk Chemicals and Intermediates (5% total revenue)	Bulk chemicals Adhesion promoters	Cosmetic Dyestuff Tyre industries
	c) Colors (14% total revenue)	Textile dyes Pigments Paper dyes Inks Textile chemicals	Textile Paints Coating Paper
	d) Polymers (26% total revenue)	Epoxy Resins Curing agents Reactive diluents Sulfones, Protective paints Adhesives Synthetic rubber Polyurethane Cyanoacrylate PVC PVA	Aerospace Automobile Cosmetics Construction Defense Electrical and Electronics Footwear Paints & Coatings Paper Sport

Source: SMC Global Institutional Equities

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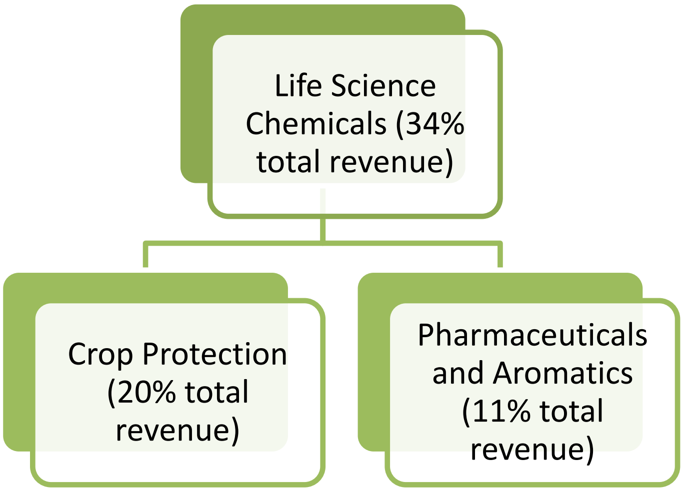
Life Science Chemicals:

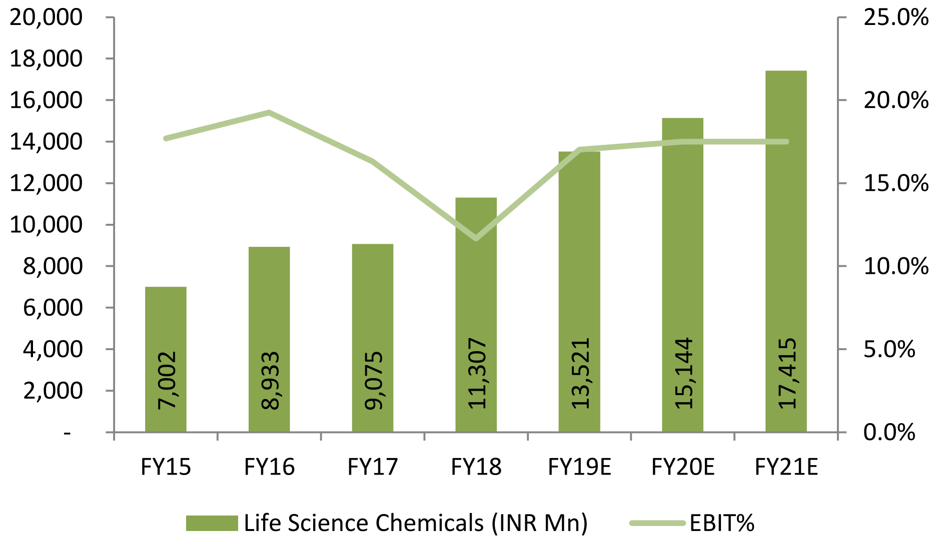
Life Science chemicals constitute ~34% of ATUL Ltd's total sales. This segment is further divided into two sub segments (1) Crop Protection (2) Pharmaceuticals and Aromatics-I.



Source: SMC Global Institutional Equities

This segment has reported an impressive growth of 18% over FY15-FY19 majorly driven by Crop protection segment which grew by ~26% over the same period. EBIT margins in this segment has remained range bound ~17%.

In coming years we believe Crop protection and Pharmaceuticals & Aromatics-I to report top-line growth of 14.4%/12% over FY19-FY21E respectively. Therefore overall Life science chemicals segment is estimated to grow at a CAGR of 13.5%.



Source: SMC Global Institutional Equities

1) Crop Protection:

Under this sub-segment, company manufacturers various herbicides, insecticides, fungicides and other chemicals.

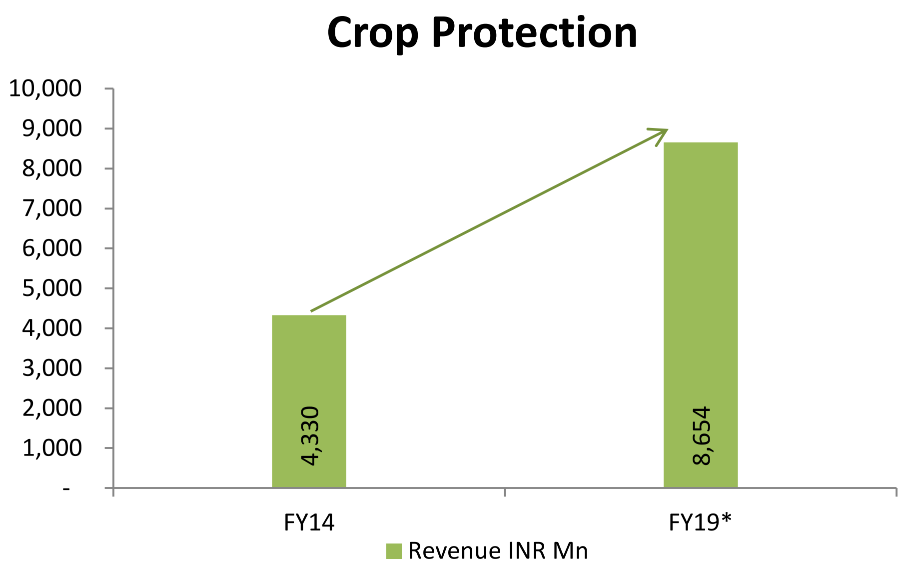
Product	Market share (As on FY18)
2,4-D and downstream products	16% (world)
Indoxacarb	7% (world)

Source: SMC Global Institutional Equities

These products find their application in crop protection chemicals, agriculture, lawns and garden industries.

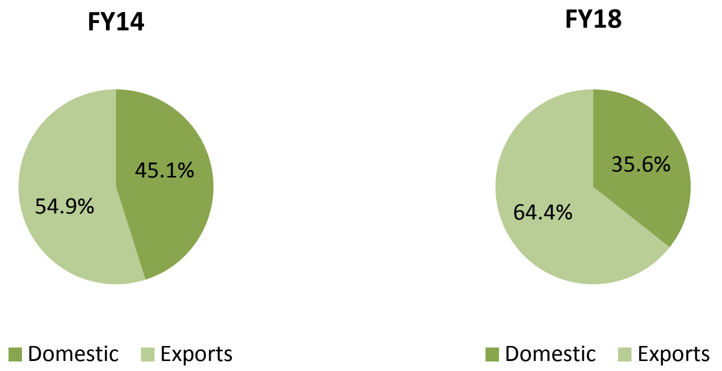
Crop Protection segment grew at a CAGR of 15% over FY14-FY18

Crop Protection constitutes ~20% of total sales and 63% of revenue from Life science segment. ATUL Ltd has reported a healthy revenue growth of 15% over FY14-FY18 in this sub-segment due to normal monsoons and increase in awareness of farmers to use insecticides and herbicides. Additionally robust demand for company's one of the key herbicide resulted into healthy growth in ATUL's crop protection business.



Source: SMC Global Institutional Equities

Over the years Atul ltd has enhanced its foot prints across the globe. Company's 64.4% of the sales of crop protection business comes from overseas markets which have gone up from 54.9% in FY14. Established presence across various geographies has helped the company to mitigate risk of being dependent on single region.

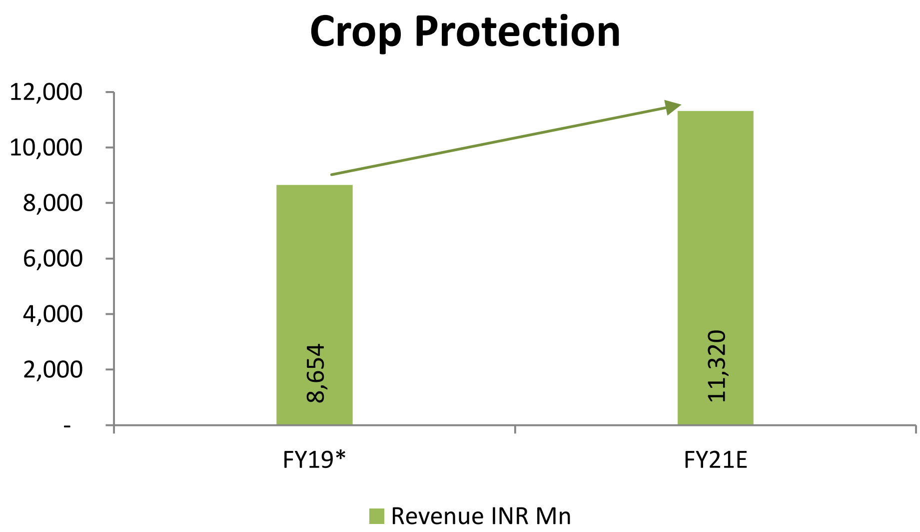


Source: SMC Global Institutional Equities

Going forward we believe consumption of major food grains will increase largely on the back of growing population. Global crop protection market is expected to grow to $56.5Bn by FY21E and Indian market is expected to grow to $2.5Bn by FY20E. In India the production of insecticides and pesticides has grown at a CAGR of 8.3% over FY13-FY17.

Backed by a near normal monsoons and enhanced awareness for crop protection and ATUL Ltd being the pioneer in production of 2,4-D, Sulfonylureas, Isoprothiolane, Clodinafop propargyl and Propoxur we expect the company's crop protection business to report healthy growth. Also company's plans to expand capacities for existing products expand their geographical reach and development of new products will enable them to grow their revenue from crop protection by 14.5% CAGR over FY19-FY21E. Atul ltd has an unrealized sales potential of INR 590Mn and a project under implementation for herbicides (estimated sales of INR 1,290 Mn).

Crop Protection segment is expected to grow at a CAGR of 14.5% over FY19-FY21e



Source: SMC Global Institutional Equities

2) **Pharmaceuticals and Aromatics – I**

Atul Ltd manufactures API Intermediates, APIs, such as Dapsone, Phosgene chemicals and other chemicals under this sub-segment.

Product	Market share (As on FY19)
APIs and API intermediates	Insignificant
Dapsone	50%
Phosgene chemicals	Insignificant

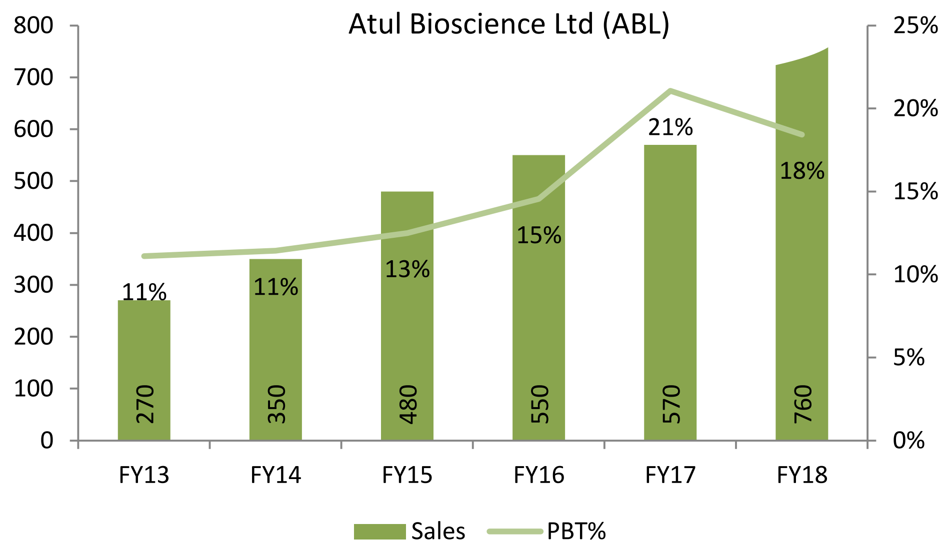
Source: SMC Global Institutional Equities

The customers belonging to pharmaceutical industry for various therapeutic categories, such as anti-depressant, anti-diabetic, anti-infective, anti-retroviral and cardiovascular use these products. Atul ltd supplies ~80 products to ~160 of their customers.

The Pharmaceuticals and Aromatic-I constitute ~11% of ATUL lts's revenue and 36% of the Life Science chemicals segment. Over FY14-FY19 company reported a decent revenue growth of 9.7% majorly on the back of timely commencement and implementation of new projects.

"Atul Bioscience Ltd (ABL)" is a 100% subsidiary of ATUL ltd which is focused on manufacturing of advanced API Intermediates. ABL reported a revenue growth of 23% over FY13-FY18 and PBT growth of 36% over the same period. The subsidiary company has expanded its PBT margin from 11% in FY13 to 18% in FY18 due to increase in share of high value products.

ABL a 100% subsidiary reported a revenue growth of 23% over FY13-FY18 and PBT growth of 36% over the same period.



Source: SMC Global Institutional Equities

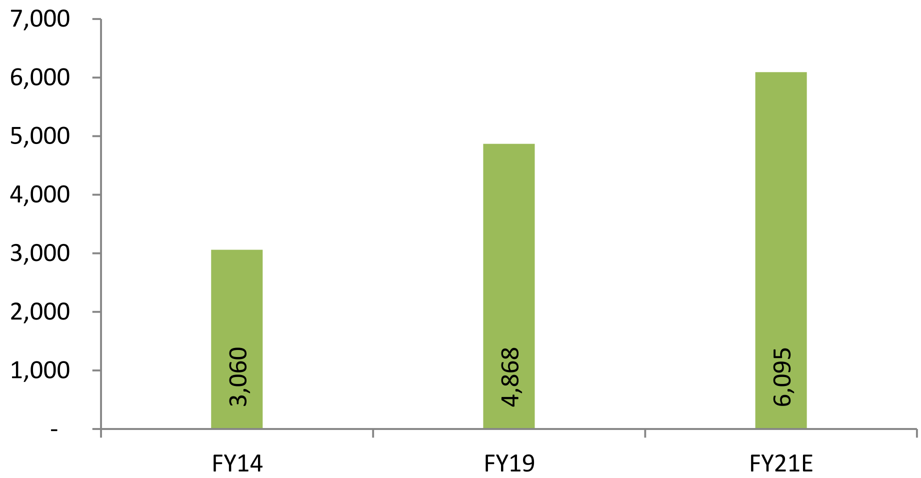
With world pharmaceuticals industry to grow to US$ 1.75tn and API industry to be at US $160 Bn we foresee a stellar growth opportunity in this segment. Also worldwide population is likely to cross 9.3Bn by 2050 and 21% of this population is expected to be aged 60 indicating that demand for pharmaceuticals should surge. In addition to above increase in access of pharmaceuticals of poor and middle class families will result into higher demand.

Atul ltd along with ABL will participate in the growth by (i) increasing its manufacturing facilities by establishing Ambernath production site and streamlining product capacities (ii) widening its geographical presence (iii) introducing new products (7 new quality products) (iv) Innovations in advanced biologics, nucleic acid therapeutics, cell therapies and bioelectronics.

Factoring the above growth opportunities and ATUL's strategic plans to taper the demand we expect company's Pharmaceuticals and Aromatics-I sub-section to grow at a CAGR of 12% over FY19-FY21E.

Pharmaceuticals and Aromatics-I's revenue grew by 9.7% over FY14-FY19. Going forward it is expected to grow at a CAGR of 12% over FY19-FY21E

Pharmaceuticals and Aromatics – I (INR Mn)



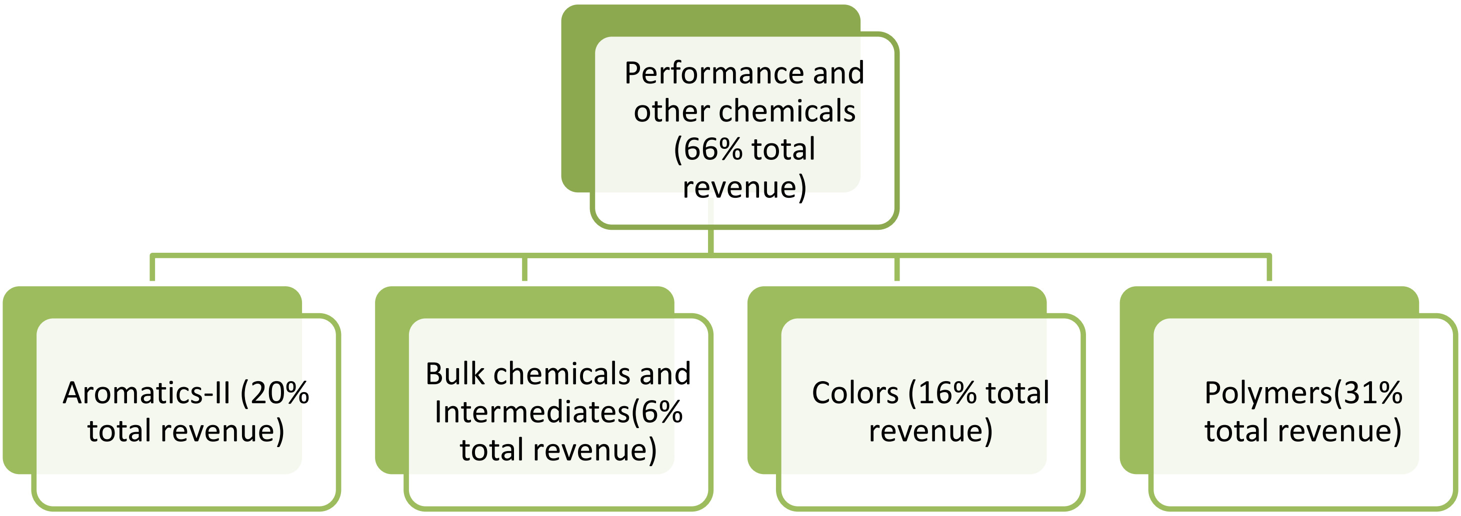
Source: SMC Global Institutional Equities

Performance and other Chemicals Segment:

Performance and other chemicals consist of 4 sub-segments:

1) Aromatics-II
2) Bulk chemicals and Intermediates
3) Colors
4) Polymers

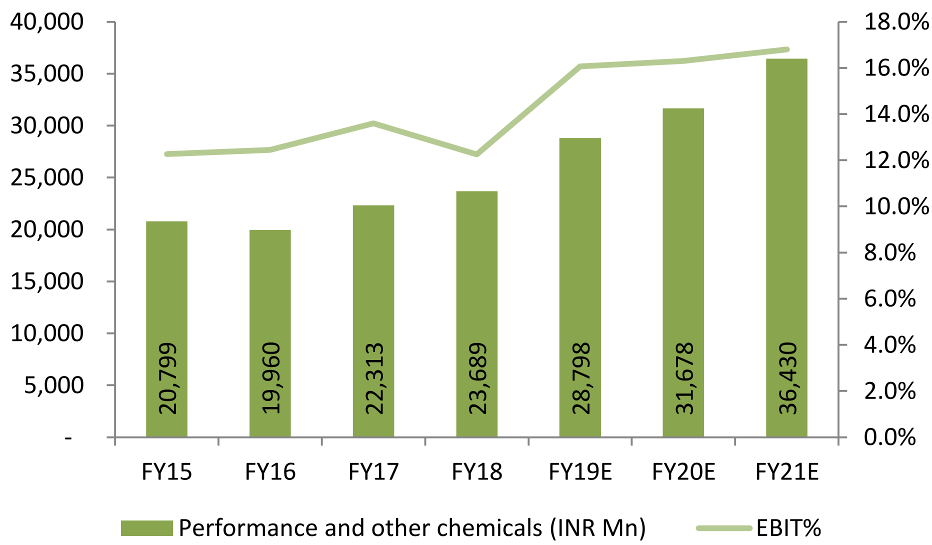
The segment contributes ~66% of company's total revenue.



Source: SMC Global Institutional Equities

This segment reported a top-line growth of 8.5% over FY15-FY19 which was majorly driven by Aromatics-II and Bulk & intermediate segment. The EBIT margins have significantly improved from 12.3% in FY15 to 16% in FY19 due to company's ability to pass on the cost and increase in share of high margins products.

Going forward, with growth opportunities by user industry in offering and ATUL ltd's efficient ability to taper the demand and few headwinds in form of near term slowdown in construction and automobile we expect Performance and other chemical segment to grow at a CAGR of 12.5% over FY19-FY21E.



Source: SMC Global Institutional Equities

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1) **Aromatics-II**

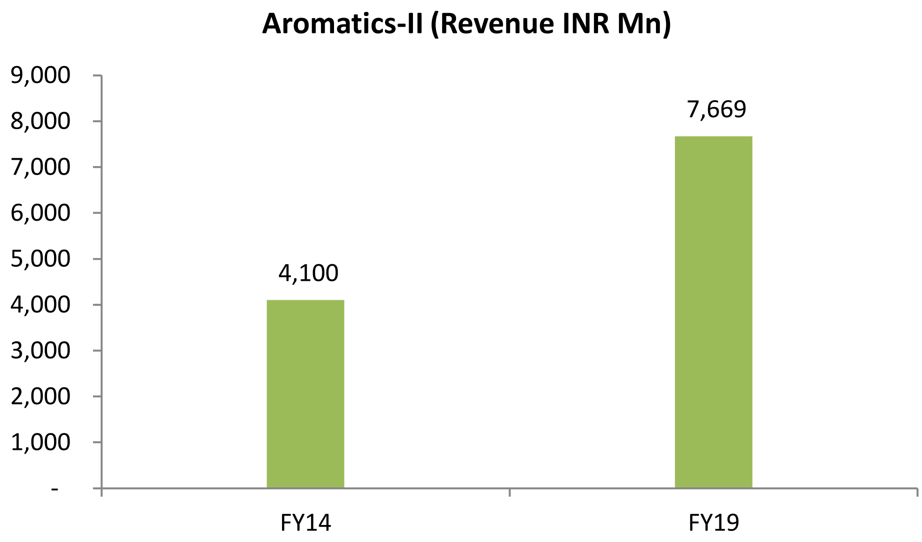
Atul ltd manufactures ~20 products in this segment. para Cresol, Sodium Sulphate and Sodium Sulphite are some of the key products manufactured by the company .The major user industry of these products are fragrance and personal care industries. Overall company manufacturers 38 products, which are catered to 367 customers.

Product	Market share (As on FY19)
p-Cresol (P&OC)	42%
p-Cd (P&OC)	20%
p-AA (LSC)	75%
p-AAl(LSC)	95%

Source: SMC Global Institutional Equities

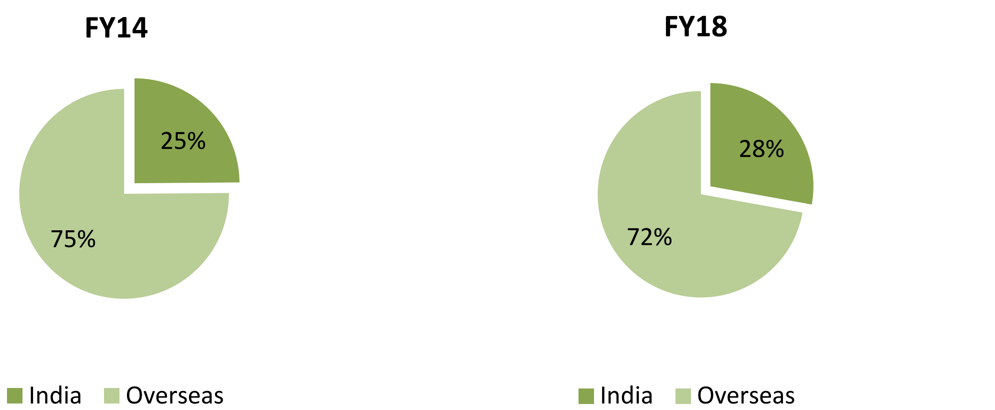
The Aromatics-II division grew by 13.3% CAGR over FY14-FY19 majorly on the back of stellar performance by its key product "p-cresol" and also penetration into newer geographies resulted into healthy top-line growth.

Aromatics-II revenue grew by 13.3% over FY14-FY19.



Source: SMC Global Institutional Equities

Atul ltd exports ~72% of Aromatics-II sales, however the overseas sales has grown by only 6% over FY14-FY18, sales in domestic markets have outperformed by reporting a 10% growth over same period.



Source: SMC Global Institutional Equities

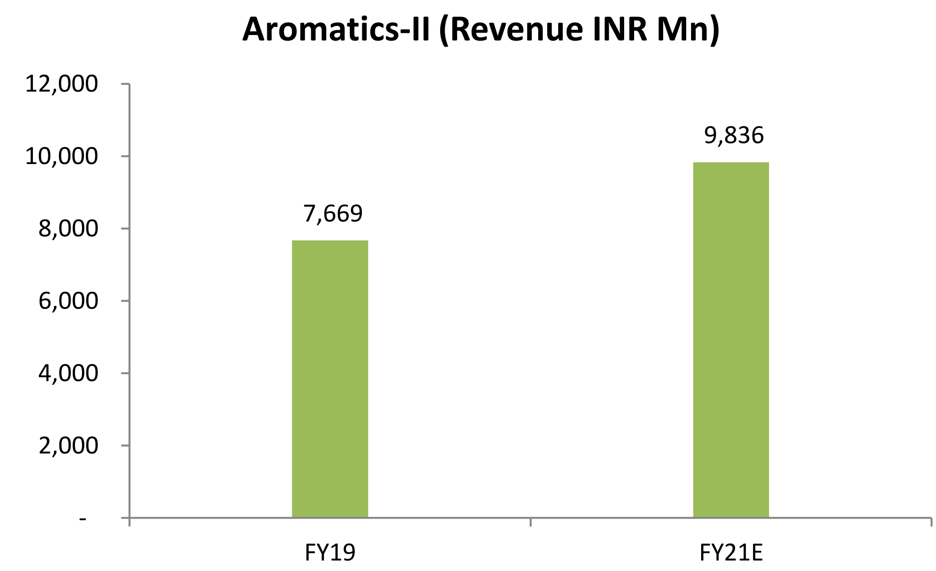
The size of world fragrance industry is ~US$ 12.5 Bn and is growing at ~4% every year and personal care ingredients segment is ~US $21 Bn which is also growing by 4%. The world market for "para Cresol" ATUL's key product, is expected to be at 64,000 MT and is estimated to grow at 2% annually.

To capitalize on the steady demand in coming years, ATUL ltd has planned to:

1) Develop a project for manufacturing fragrance intermediate
2) Commercialization of products developed in Kilo lab
3) Commercialize higher end products from p-MPAA
4) Develop capacities for cosmetic ingredients.

Hence we reckon company's revenue in this segment to grow at a CAGR of 13.2% over FY19-FY21E.

World market of Additives/Fragrance/Personal care is expected to grow at a CAGR of 2%/4%/4% respectively



Source: SMC Global Institutional Equities

2) Bulk Chemicals and Intermediates

Under this segment Atul Ltd manufactures ~24 products in bulk chemicals, adhesion promoters and intermediates. These products are supplied to ~197 customers belonging to cosmetic, chemical, dye-stuff, tyre, construction and paper industry. Resorcinol and Resorcinol formaldehyde resins are the key products under this sub-segment.

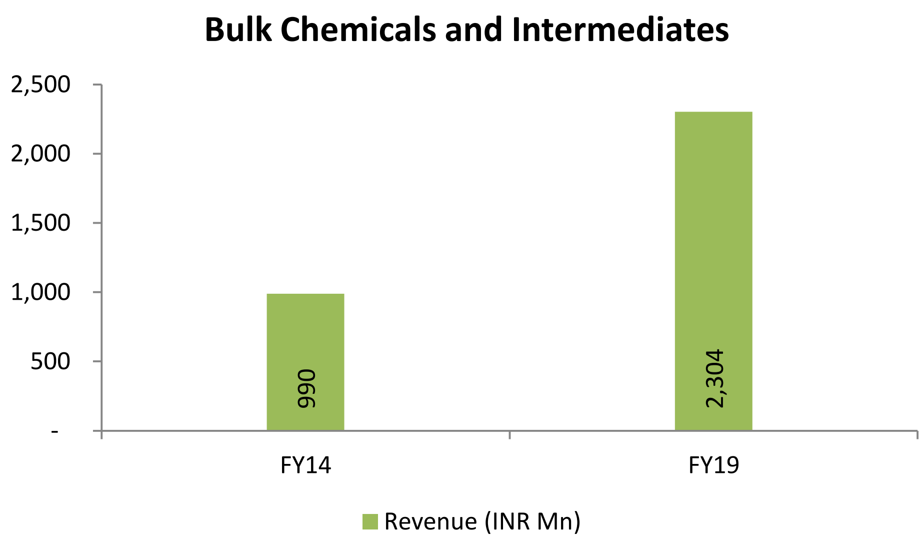
The company is India's only integrated manufacturer of Resorcinol and Resorcinol formaldehyde resin leading manufacturer of Anisole in India.

Product	Market share (As on FY19)
Resorcinol	Significant in India
Resorcinol Formaldehyde Resins	Insignificant
CSA	Significant in India

Source: SMC Global Institutional Equities

Bulk Chemicals and Intermediates reported robust revenue growth of 18.4% over FY14-FY19.

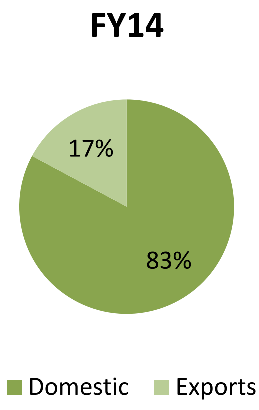
Bulk chemicals and intermediates reported a robust growth of 18.4% over FY14-FY19 on the back of stellar growth in automobile segment along with strong traction in cosmetic industry. Coupled with the above there was huge demand witnessed from construction and paper industry in the same period.

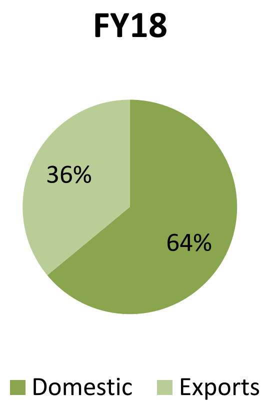


Source: SMC Global Institutional Equities

Atul Ltd's contribution from export in Bulk chemicals and intermediates expanded from 17% in FY14 to 36% in FY18. Revenue grew by 39% CAGR

Though major pie of revenue is contributed by domestic markets, ATUL ltd has successfully entered into overseas markets which is evident from the rise in share of export to revenue of this sub-segment. Exports stood at 17% of revenue in FY14 which expanded to 36% in FY18. Also revenues from overseas markets grew at a CAGR of ~39% over FY14-FY18.





Source: SMC Global Institutional Equities

World market for Resorcinol is estimated at US$ 426 mn and is growing at about 2.5% also Chlor-alkali industry is estimated at US$ 44 bn and is growing at about 3.2%.

Going forward the world market for Resorcinol is estimated at US$ 426 mn and is growing at about 2.5% also Chlor-alkali industry is estimated at US$ 44 bn and is growing at about 3.2%. The auto-industry is facing a dull phase currently, however we expect demand to pickup by H2FY20 leading to healthy demand for tyre companies. Also post peak sales in auto-sector in FY18 the replacement demand of tyres is also likely to kick-in, creating an additional tail wind for tyre manufacturers. The dye-stuff industry has been witnessing a rough patch for couple of years; however demand scenario in this industry is anticipated to remain sluggish.

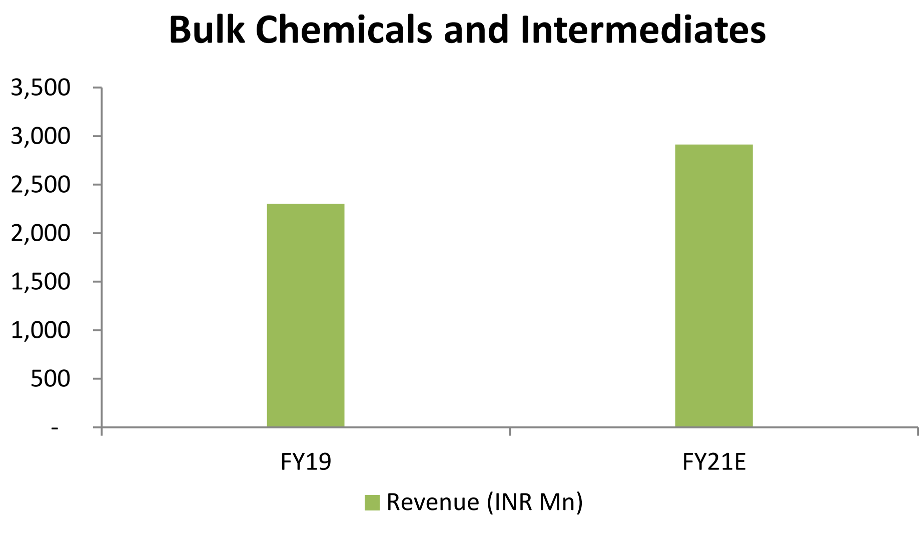
Atul Ltd on the other hand aims to grow by

(i) enhancing its market share in resins by increasing its penetration into overseas market,

(ii) expanding its capacities of intermediates and

(iii) Exploring newer products.

Owing to this we expect company's bulk and intermediate segment to grow at a CAGR of 12.5% over FY19-FY21E.



Source: SMC Global Institutional Equities

3) Colors:

In colors, company manufactures products such as Vat Green, Pigment Red and Sulphur Black etc and other chemicals under textile dyes and pigments. These products are used by various industries like textile, paint and coatings, paper, printing ink, food, leather etc. Atul ltd manufactures 552 products for ~298 customers. The company is globally one of the largest manufacturers of Vat dyes and largest manufacturer of Sulphar black dye in India.

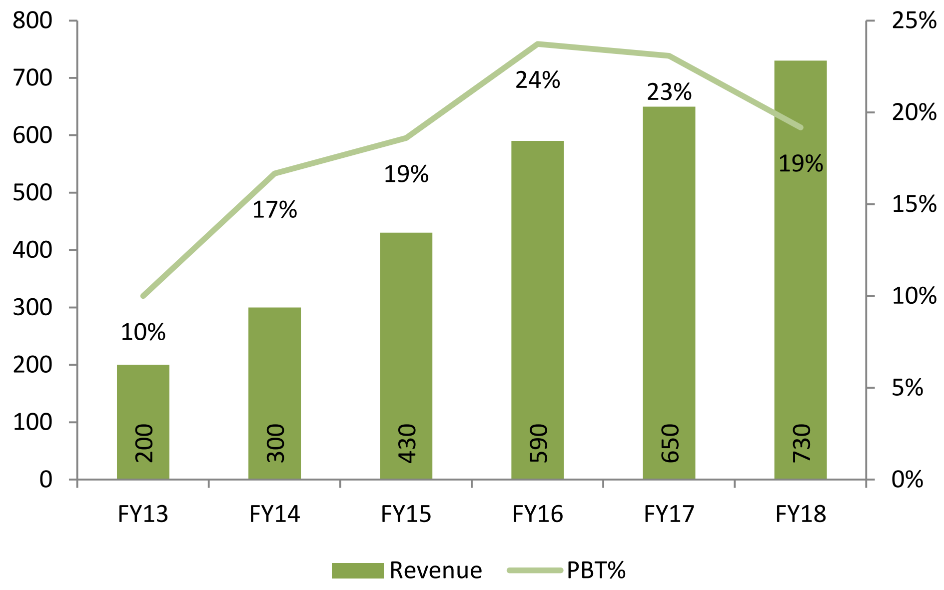
Product	Market share (As on FY19)
Textile Dyes	Significant in India/ Insignificant in World
HP Pigments	Insignificant in World

Source: SMC Global Institutional Equities

Company's revenue grew by 8.6% over FY14-FY19. The growth remained subdued due to sluggish demand from textile industry. Though even in challenging environment, ATUL Ltd managed to report respectable growth majorly on the back of sturdy performance of "Rudolf Atul Chemicals Ltd (RACL) a 50-50 Joint venture of Atul Ltd.

RACL (50-50 JV) reported REVENUE/EBT growth of 29.6%/47.6% over FY13-FY18

RACL was formed in 2011-2012. RACL provides a complete range of textile chemicals in Indian market. The JV has been reporting mammoth growth over the years. Sales increased by 29.6% CAGR over FY13-FY18 and PBT grew by 47.6% over same period. PBT margins also expanded from 10% in FY13 to 19% in FY18.



Source: SMC Global Institutional Equities

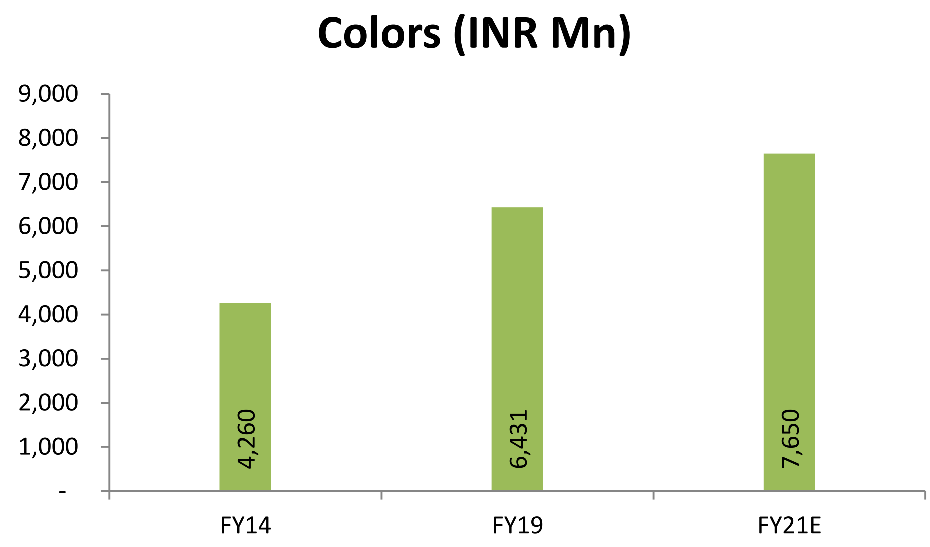
In coming years, the world industry of textile dyes, textile chemicals and other end user industry are expected to report a steady growth. The dye stuff industry is estimated at US$ 5.6 Bn and is growing at ~3.5% annually. Also the world market for high performance pigments is estimated at US$ 4.7 bn and is growing at about 3.8%. Atul Ltd is well poised to taper the demand as they aim to

(i) enhance their market share in dyes and pigments
(ii) commercialize new pigments
(iii) Expand their dye group and intermediates.

Also company looks to strengthen its JV with RACL by enhancing product portfolio of textile chemicals.

Factoring the steady demand in domestic in dye and dye stuff markets and ATUL's readiness to capitalize the foreseen demand we expect company's revenue to grow at a CAGR of 9% over FY19-FY21E.

Color's revenue grew by 8.6% over FY14-FY19 and is expected to grow by 9% over FY19-FY21E



Source: SMC Global Institutional Equities

4) Polymers

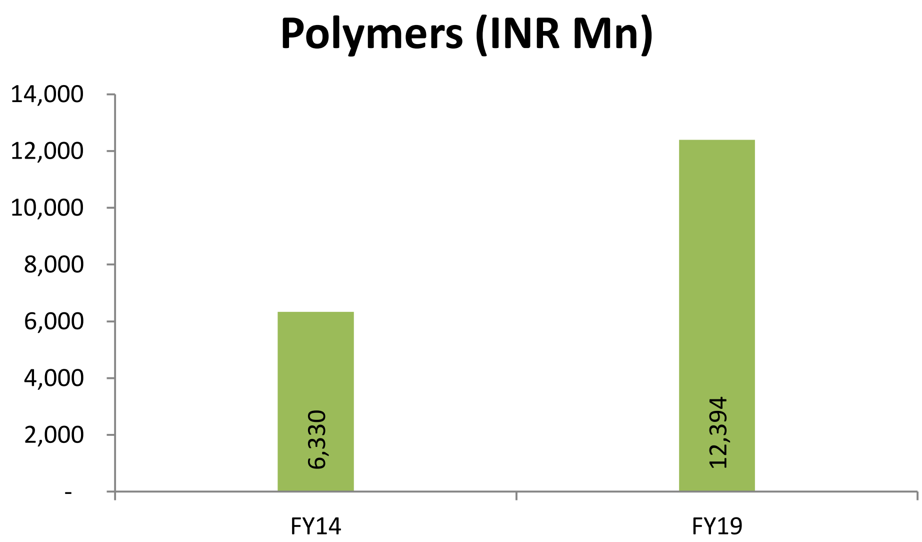
Atul ltd' manufactures varied chemicals like Epoxy Resins, Curing agents, Reactive diluents, Sulfones, Protective paints and Adhesives based on Epoxy, Synthetic rubber, Polyurethane, Cyanoacrylate. These products are supplied to Aerospace, Automobile, FRP Composites, Wind Energy, Electrical and Electronics, Paint and Coatings, Construction, Defense, Sport and Leisure and Paper industries. The key products under this category are epoxy resins, sulfones, epoxy formulations, Polyurethane formulations Rubber formulations. Atul ltd manufactures over 100 products with ~310 formulations to more than 600 customers.

Product	Market share (As on FY19)
Epoxy Resins | Curing agents	Significant (India)
Sulfones	Significant (World)
Epoxy, Polyurethane, Rubber formulations	Significant (India)

Source: SMC Global Institutional Equities

This sub-segment has reported a healthy growth of 14.4% over FY14-FY19 majorly on the back of higher volumes. The margins of this sub-segment have remained under pressure due to cheaper imports of epoxy resins and fluctuation in prices of 2 key raw materials Bisphenol-A and Epichlorohydrin. The contribution from exports has remained constant at ~33%. The revenue from overseas markets grew by 6% CAGR over FY14-FY18.

Polymers reported a healthy growth of 14.4% over FY14-FY19 majorly on the back of higher volumes.



Source: SMC Global Institutional Equities

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Company will participate and grow in tandem with industry growth rate.

In coming years the outlook for industry remains promising as

(I) The world market for epoxy resins and curing agents is estimated at US$ 6.8 bn and is growing at about 2%

(II) Indian market is estimated at US$ 260 mn and is growing at about 6%.

(III) The world market for sulfones is estimated at US$ 350 mn and is growing at about 5%.

(IV) Also Paints & coating industry/construction industry/adhesives are expected to grow by 10%/15%/6% by FY21E.

The Company will participate in this growth by

i) widening its market reach,

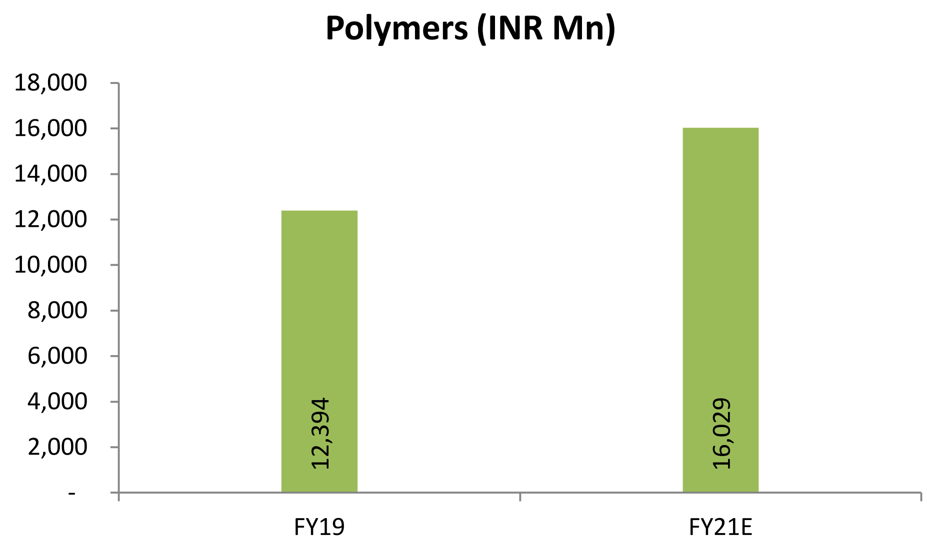
ii) increasing its manufacturing and working capital efficiencies,

iii) generating and adding new capacities of epoxy resins and curing agents

iv) Introducing new products and formulations.

v) Focus on specialty resins, multifunctional resin, BisF based resin, epoxy phenol novalacresin

Owing to growth opportunities mentioned above and company's ability to grow with the industry we expect Atul ltd should report a revenue growth of 14% over FY19-FY21E.



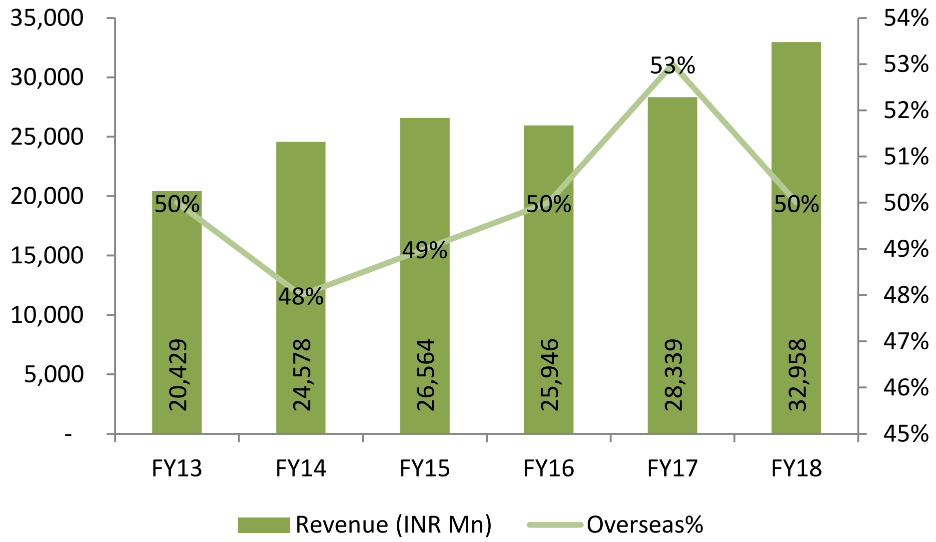
Source: SMC Global Institutional Equities

Atul will continue to report double digit revenue growth over FY19-FY21E

Revenue grew by 12% CAGR over FY13-FY19 with exports contributing ~50%.

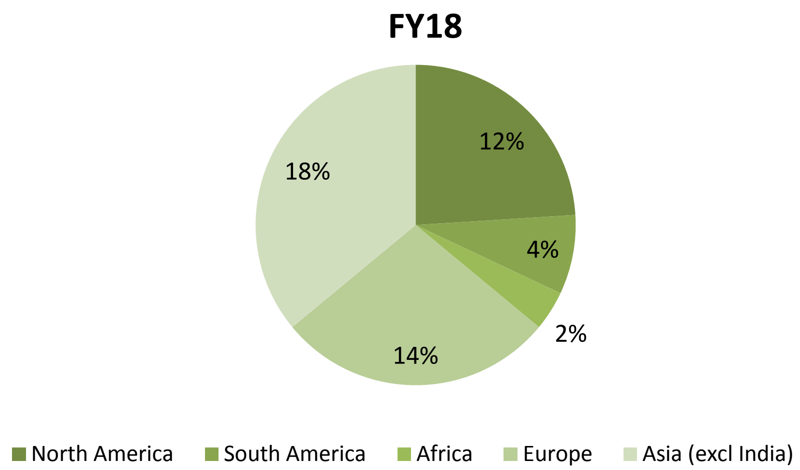
ATUL Ltd reported a healthy revenue growth of 12% over FY13-FY19 majorly on the back of decent performance in Life science chemicals segment which grew by 12% CAGR over FY13-FY19 and even better growth of 15% in performance and other chemicals segment over same period.

The company did witness a slowdown in FY13-FY16 due to rise in cheaper imports which weighed on company's volumes. Post the disruptions and improving scenario, ATUL ltd displayed 16% revenue growth over FY16-FY19 significantly on account of higher volumes as well as better pricing.



Source: SMC Global Institutional Equities

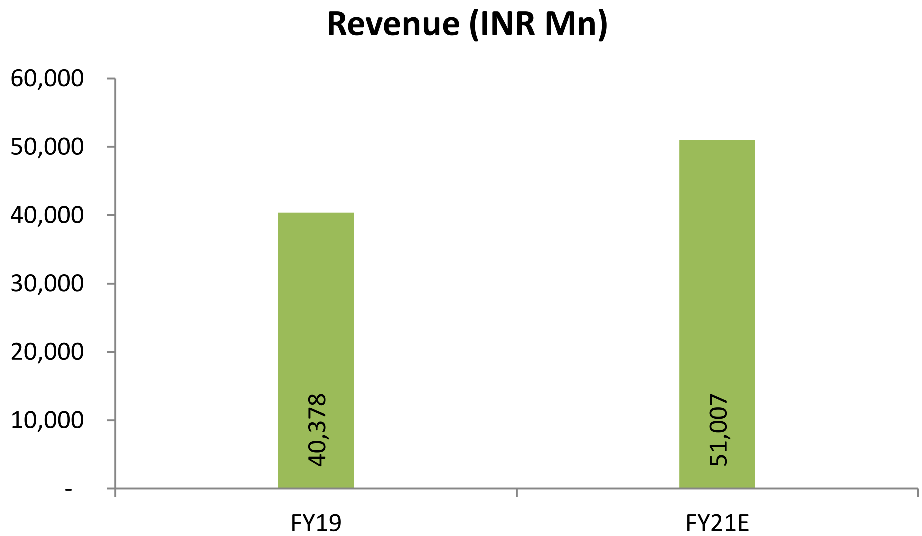
Also company's strategic diversification into newer geographies has played a key role in mitigating the risk of being dependent on a particular nation. ATUL Ltd's revenue from overseas markets are ~50%. The company supplies its products to varied geographies like Europe, North America, South America, Africa, Asia (excluding India).



Source: SMC Global Institutional Equities

Going forward with steady growth opportunities in user industry and ATUL ltd's preparedness to capitalize the demand, we reckon company's revenue to grow at a CAGR of 12.4% over FY19-FY21E to INR 51,007 Mn. The growth will be largely driven by higher volume growth as the prices are un-likely to spike from current levels. Additionally company's ability to penetrate into export markets, launching of new products, timely expansion of capacities, along with expectation of hardships being faced by Chinese chemical companies to continue should lead the company to achieve its target of INR 50,000 Mn turnover. Atul ltd with its expansion projects completed in past year possesses an unrealized sales potential of ~INR 5,440 Mn.

Revenue to grow by 12.4% over FY19-FY21E majorly backed by higher volume growth.



Source: SMC Global Institutional Equities

Projects unrealized and under implementation	Investments	Sales
Existing products (debottlenecking)	190	1,250
Existing products (expansion)	3,700	9,500
Safety	100	
Environment	1,700	
Total	**5,690**	**10,750**

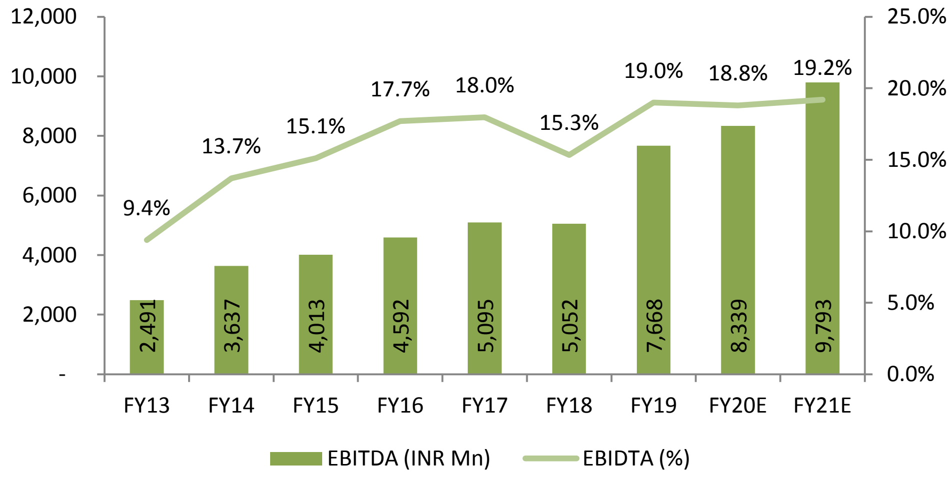
Source: SMC Global Institutional Equities

Margins are likely to remain range bound but more importantly are not expected to contract to earlier lows:

ATUL Ltd's operating margins have expanded robustly from 9.4% in FY13 to 19% in FY19. Company has been able to achieve this by focusing on higher margin products, efficiently off-setting the rising input cost and higher operational efficiencies. Also with reduction in cheaper imports ATUL Ltd has been able to increase their realizations resulting into higher margins (Chinese companies are facing higher compliance cost resulting into increase in cost of production which disables them to dump their products into Indian markets at cheaper rates).

Expansion in margins has resulted into stellar EBIDTA growth of 20.6% over FY13-FY19. Company's EBIDTA increased from INR 2,491 Mn in FY13 to INR 7,668 Mn in FY19.

EBIDTA Margins expanded robustly from 9.4% in FY13 to 19% in FY19

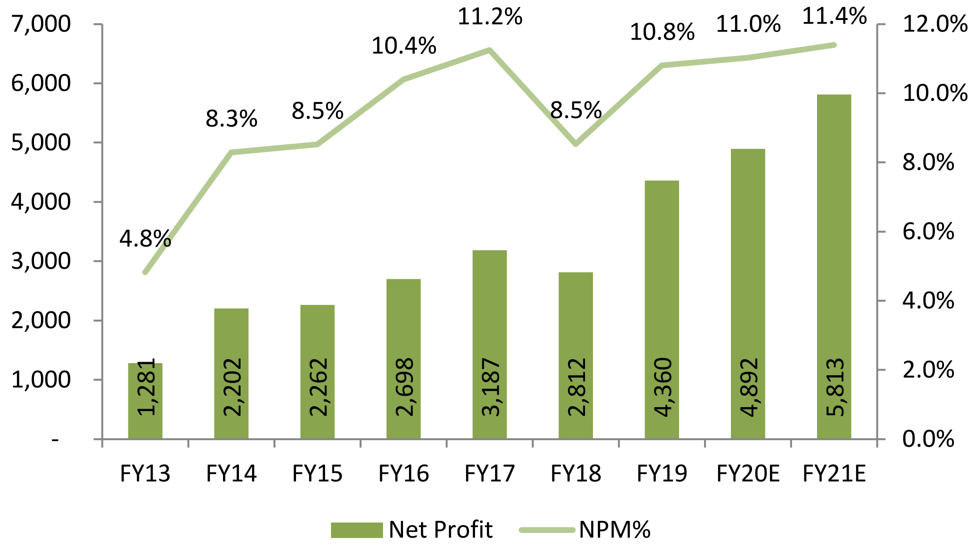


Source: SMC Global Institutional Equities

Over FY19-FY21E we expect margins to remain range bound. The margins are unlikely to expand as the scenario of prices escalating from these levels is not likely to happen. However we believe the prices to be moderate and the industry may witness volatility in prices considering the situation in China. But ATUL Ltd's efforts to achieve higher operational efficiency and pass on the higher input cost will enable them to maintain their EBIDTA margins, hence we reckon EBIDTA margins to come in at 18.8% / 19.2% in FY20E / FY21E.

Net profit margins expanded robustly from 4.8% in FY13 to 11% in FY19

Similarly on net profit front company reported a mammoth growth of 22.7% over FY13-FY19. The net profit margins (NPM) also expanded from lower single digit of 4.8% in FY13 to double digit at 11% in FY19. However going forward we believe, NPM to come in at 11.5%/11.8% in FY20E/FY21E and profits to surge by 15.5% over FY19-FY21E.

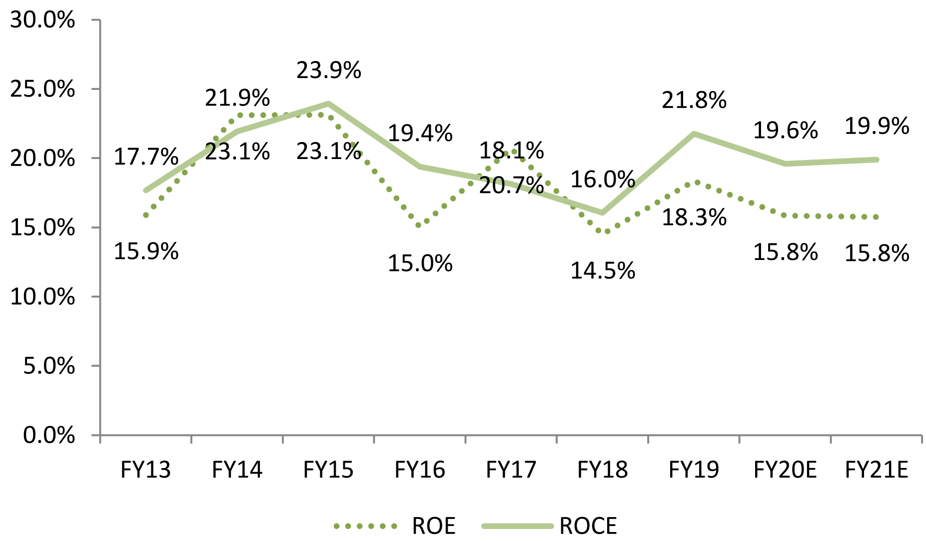


Source: SMC Global Institutional Equities

Sustainable superior return ratios and healthy balance sheet

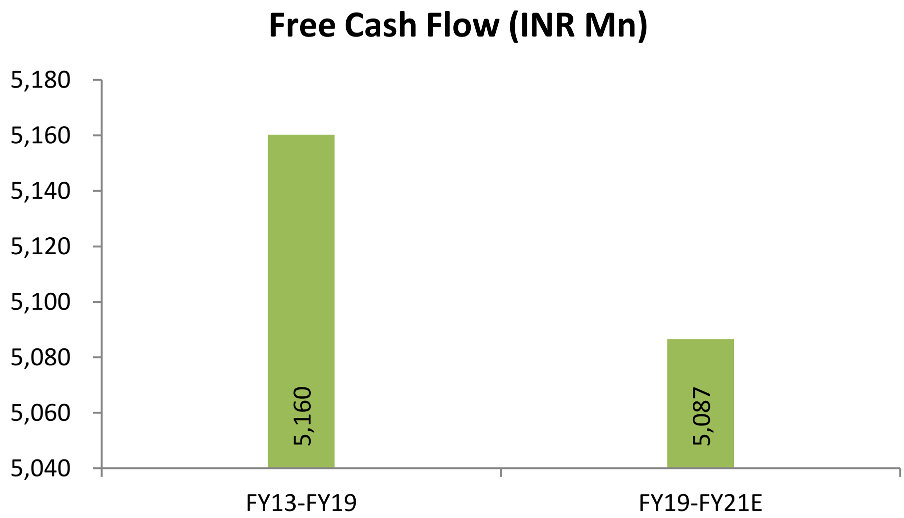
1) Superior return ratios
2) NIL Debt
3) Free cash flow generation

ATUL ltd has been delivering impressive return ratios over the years. Expansion in operational margins along with company's constant efforts in debt reduction enabled them to consistently report superior ratios. The company's ROE / ROCE improved from 15.9% / 17.7% in FY13 to 18.3% / 21.8% in FY19 respectively.
Going forward with stable operating margins we expect their return ratios to improve with ROE / ROCE to come in at 15.8% / 19.9% by FY21E.



Source: SMC Global Institutional Equities

Also over the same period they have been able to erase debt from their books which stood at INR 3,259 Mn in FY13 to INR 52.5 Mn in FY19 with debt to equity also improving from 0.4 in FY13 to 0.0 in FY19. Even with continuous capex over the years ATUL Ltd has generated healthy free cash flow of INR 5,160 Mn over FY13-FY19.
In coming years with almost NIL debt in company's books and even with company's on-going capex we reckon ATUL Ltd to generate free cash flow of INR 5,087 Mn.



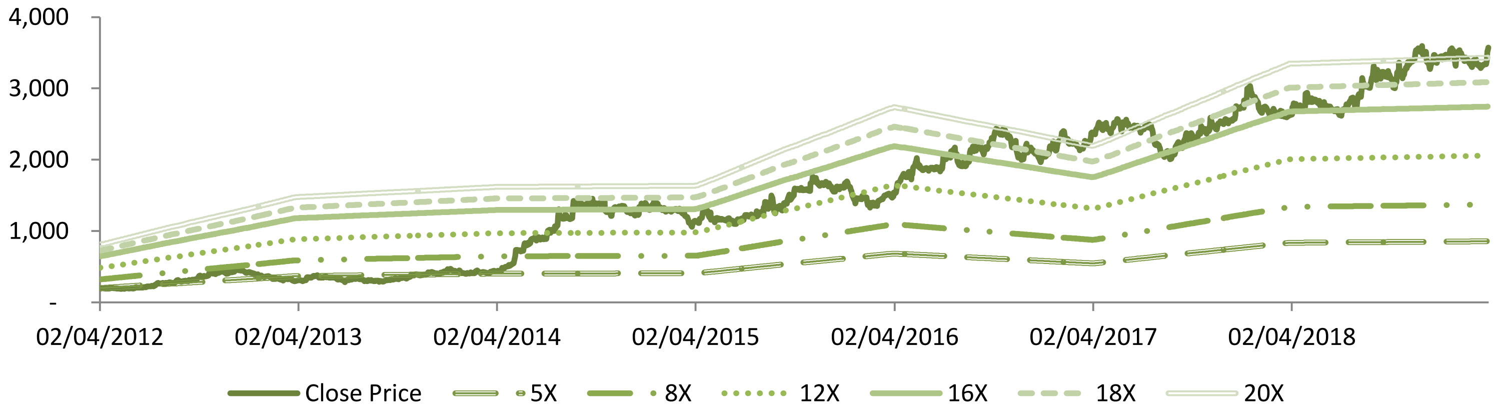
Source: SMC Global Institutional Equities

Institutional Equities

Valuations and Views

A debt free balance sheet with strong FCF (Rs 5.7 Bn over FY14-19) despite capex shows the management judicious capital deployment capability. Strong 20% average ROCE over last five years, with average WC days of ~84 days speaks for the efficiency in all parameters. We believe Atul Ltd will continue to get premium valuations, due to consistency and clear vision. **We have valued Atul Ltd on both EV/EBITDA (14x FY21x) and P/E valuation of 24x FY21E EPS and arrived at an average target price of INR 4,835 and recommend BUY rating on the stock**.

1 year forward P/E Chart



Source: SMC Global Institutional Equities

PEER Comparison

Company	PAT (FY19) (INR Mn)	Market Capital (INR Mn)*	P/E	ROCE%	EV (INR Mn)	EBIDTA (INR Mn)	EV/EBIDTA
Vinati Organics Ltd	2,825	93,250	33	28%	92,286	4,132	22
Aarti Industries Ltd**	4,300	1,36,650	32	16%	1,57,999	9,443	17
Atul Ltd	4,964	1,07,820	22	22%	1,11,665	7,668	15
Hikal Ltd	1,032	21,134	20	13%	26,759	2,980	9
Deepak Nitrate Ltd	1,708	38,190	22	12%	41,100	3,000	14
Fairchem Speciality Ltd	941	17,774	19	13%	24,020	2,130	11
UPL Ltd	14,470	4,94,390	34	21%	7,87,979	38,130	21

Source: SMC Global Institutional Equities

*based on closing price on 17th May, 2019
**Based on consensus estimates

Financials

Income Statement	FY17	FY18	FY19	FY20E	FY21E
Total Sales (INR Mn.)	**28,339**	**32,958**	**40,378**	**44,354**	**51,007**
COGS	14,355	18,035	21,061	23,375	27,034
GP	13,985	14,923	19,317	20,979	23,973
GP (%)	49.3%	45.3%	47.8%	47.3%	47.0%
Employee expenses	2,001	2,134	2,598	2,839	3,264
Other cost	6,889	7,737	9,051	9,802	10,916
EBITDA (INR Mn)	**5,095**	**5,052**	**7,668**	**8,339**	**9,793**
EBIDTA Margin(%)	18.0%	15.3%	19.0%	18.8%	19.2%
Depreciation	954	1,104	1,189	1,532	1,686
EBIT	4,140	3,948	6,479	6,806	8,108
Interest/Finance cost	252	127	74	56	70
EBT (without other income)	3,888	3,821	6,405	6,750	8,038
Other Income	526	259	349	444	510
Exceptional items	-	42	50	-	-
EBT	4,414	4,122	6,803	7,194	8,548
Tax Expenses	1,227	1,310	2,443	2,302	2,735
PAT	**3,187**	**2,812**	**4,360**	**4,892**	**5,813**
PAT%	11.2%	8.5%	10.8%	11.0%	11.4%
Other Income(Net of tax)	876	441	604	200	200
RPAT	**4,063**	**3,254**	**4,964**	**5,092**	**6,013**
RPAT Margin	14.3%	9.9%	12.3%	11.5%	11.8%
EPS	109.0	94.8	147.0	171.6	202.6

Source: SMC Global Institutional Equities

Balance Sheet (INR Mn)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	297	297	297	297	297
Reserves	19,363	22,142	26,760	31,852	37,865
Net worth	19,659	22,439	27,057	32,149	38,161
non controlling interest	153	200	238	238	238
Total loans	1,450	159	525	415	355
Deferred tax liability (Net)	1,041	1,296	1,395	1,395	1,395
Long Term Provisions	202	178	191	210	243
other non-current liab	337	335	355	350	350
Capital Employed	**22,841**	**24,608**	**29,761**	**34,757**	**40,742**
Gross Block	11,599	12,681	14,358	16,758	16,858
Depreciation	1,608	2,678	3,867	3,923	3,993
Net block	9,990	10,003	10,492	12,835	12,866
CWIP	590	962	1,723	1,341	1,349
Goodwill	238	237	323	323	323
Financial Assets	4,172	4,551	5,292	6,653	7,651
other non-current assets	785	573	470	665	612
Inventories	4,192	4,114	5,118	5,123	5,925
Sundry debtors	5,190	7,234	6,985	7,874	9,083
Cash and bank	283	494	545	2,028	5,949
Biological assets	118	112	90	150	150
Investments	29	57	2,088	2,088	2,088
Other Current Assets	1,459	1,544	1,795	1,996	2,397
Total Current assets	11,271	13,555	16,623	19,262	25,596
Total Current liabilities	4,430	5,528	5,679	6,779	8,110
Net Current assets	6,841	8,027	10,944	12,483	17,485
Capital Deployed	**22,841**	**24,607**	**29,761**	**34,757**	**40,742**

Source: SMC Global Institutional Equities

Cash Flows (INR Mn)	FY17	FY18	FY19	FY20E	FY21E
Profit before tax	**4,461**	**4,122**	**6,803**	**7,194**	**8,548**
Finance costs	252	127	74	56	70
before changes in Working capital					
Changes in WC					
Cash Flow from Operating	4,738	4,606	4,694	7,384	8,511
less: Net income tax paid	820	1,054	2,443	2,302	2,735
Cash From Operating Activities (A)	**3,917**	**3,552**	**2,251**	**5,082**	**5,775**
(Incr)/ Decr in Gross PP&E	-2,167	-1,430	-3,627	-3,489	-1,794
Proceeds from sale of fixed asset					
Purchase of non-current investment					
Proceeds | (Payments) from fixed deposits	-10	-17	-	-	-
Interest received	0	3	-	-	-
Dividend received	-22	139	-	-	-
Cash from Investing Activities (B)	**-1,732**	**-1,301**	**-3,976**	**-3,489**	**-1,794**
(Decr)/Incr in Debt	-1,431	-1,518	366	-110	-60
Payment of finance costs	-273	-129	-	-	-
Dividend	-355	-379	-	-	-
Cash From Financing Activities (C)	**-2,120**	**-2,074**	**366**	**-110**	**-60**
Incr/(Decr) in Balance Sheet Cash	67	182	972	1,483	3,921
Cash at the Start of the Year	181	234	427	545	2,028
Cash at the End of the Year	234	427	545	2,028	5,949

Source: SMC Global Institutional Equities

Ratios	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
Total Sales	9.2%	16.3%	22.5%	9.8%	15.0%
EBITDA	10.9%	-0.8%	51.8%	8.7%	17.4%
APAT	18.1%	(11.7%)	55.0%	12.2%	18.8%
Profitability (%)					
EBITDA Margin	18.0%	15.3%	19.0%	18.8%	19.2%
Net Profit Margin	14.3%	9.9%	12.3%	11.5%	11.8%
ROCE	18.1%	16.0%	21.8%	19.6%	19.9%
ROE	20.7%	14.5%	18.3%	15.8%	15.8%
Per Share Data (Rs.)					
EPS	136.9	109.6	167.3	171.6	202.6
BVPS	662	756	912	1,083	1,286
Valuations (x)					
PER (x)	27.6	34.4	22.6	22.0	18.6
P/BV (x)	5.7	5.0	4.1	3.5	2.9
EV/EBITDA (x)	22.2	22.1	14.6	13.2	10.9
Turnover days					
Debtor Days	61.8	68.8	64.3	64.8	65.0
Payable Days	83.0	80.6	72.7	73.0	73.0
Gearing Ratio					
D/E	0.1	0.0	0.0	0.0	0.0

Source: SMC Global Institutional Equities

Key to ratings

Ratings	Defination
Buy	ESR is greater than EMR + 15%
Accumulate/ Hold	ESR falls between EMR + 5% and EMR + 15%
Sell	ESR is lesser than EMR - 5%

Notes:
ESR = Expected Security Return
EMR = Expected Market Return, defined as 1 year domestic yield + 5% (as a proxy for market risk premium)

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