

## Chemicals | Q2FY24 Result Update

## No green shoots visible; Maintain Sell

- EBITDA decline of 30% YoY/ 15%QoQ to Rs1.55bn was ~4% below estimates while PAT down by 39%YoY/ 13%QoQ to Rs 903mn was in-line but aided by higher other income (+170% QoQ).
- Persisting macro-headwinds will result in delayed ramp-up of newly commissioned and upcoming projects (Rs17.6bn over FY23-25E) and will keep profitability under check.
- We cut our FY24/ FY25 earnings by 18%/14% to factor slower volume recovery coupled with continuing price erosion and retain 'Sell' rating with revised TP of Rs5700 (26x Sep'25E EPS) from Rs6000 earlier.

## Weak performance across segments

Revenue/ EBITDA/ PAT was -20%/ -30%/ -39% YoY and +1%/-15%/-13% QoQ on persisting global demand and pricing/ spread headwinds. Life Science Chemicals (LSC) segment EBIT was down 71% YoY and 20% QoQ (margin down to 11.5% vs 24.7% YoY) impacted by lower realizations and volume (in key products like 2,4-D). Performance Chemicals (POC) segment EBIT was -1% YoY but down 19% QoQ (margin at 8.3%, -186bps QoQ) impacted by higher inventory.

## Balance sheet remains healthy

Core working capital intensity remained stable at 74 days (vs 74 days in FY23 and 82 days in H1FY23), but released Rs1.2bn in last 6 months due to lower revenue run rate vs FY23. Long term debt increased by Rs1.1bn, though ATLP remains a net cash company (Rs2.1bn) given Rs2.9bn in current investments.

## Outlook and Valuation

We believe persisting demand weakness across its key sub-segments will restrict realizing full sales potential of its newly commissioned plants. This in-turn will keep return ratios muted in the medium term. We cut our FY24 and FY25 earnings by 18%/14% to factor slower recovery and retain 'Sell' rating with revised TP at Rs5700 (26x Sep'25E EPS). Faster than expected demand revival in ATLP's key products remains a key risk to our rating/ TP.

## Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	11,937	14,873	(19.7)	11,820	1.0
Total Expense	10,385	12,670	(18.0)	9,998	3.9
EBITDA	1,552	2,203	(29.5)	1,823	(14.9)
Depreciation	540	491	10.0	519	4.0
EBIT	1,012	1,712	(40.9)	1,303	(22.4)
Other Income	221	319	(30.5)	82	169.9
Interest	19	19	(4.1)	20	(8.4)
EBT	1,215	2,011	(39.6)	1,365	(11.0)
Tax	325	544	(40.3)	364	(10.8)
RPAT	903	1,481	(39.0)	1,034	(12.6)
APAT	903	1,481	(39.0)	1,034	(12.6)
			(bps)		(bps)
Gross Margin (%)	44.1	47.1	(304)	46.5	(242)
EBITDA Margin (%)	13.0	14.8	(181)	15.4	(242)
NPM (%)	7.6	10.0	(239)	8.7	(118)
Tax Rate (%)	26.7	27.0	(31)	26.7	6
EBIT Margin (%)	8.5	11.5	(303)	11.0	(255)

\*Change in lead analyst

CMP	Rs 6,677
Target / Downside	Rs 5,700 / 15%
NIFTY	19,543

## Scrip Details

Equity / FV	Rs 295mn / Rs 10
Market Cap	Rs 197bn
	USD 2.4bn
52-week High/Low	Rs 8,948/ 6,467
Avg. Volume (no)	57,453
Bloom Code	ATLP IN

Price Performance	1M	3M	12M
Absolute (%)	(5)	(5)	(21)
Rel to NIFTY (%)	(6)	(4)	(33)

## Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	45.1	45.1	45.1
MF/Banks/FIs	25.2	26.2	26.5
FIs	8.2	7.6	7.7
Public / Others	21.6	21.2	20.7

## Valuation (x)

	FY23A	FY24E	FY25E
P/E	38.3	45.1	33.7
EV/EBITDA	25.2	26.1	19.9
ROE (%)	11.3	9.0	11.1
RoACE (%)	10.5	8.4	10.4

## Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	54.3	49.8	55.8
EBITDA	7.7	7.5	9.7
PAT	5.1	4.4	5.8
EPS (Rs.)	174.2	148.1	198.1

VP Research: Nitesh Dhoot

Tel: +9122 40969763

E-mail: niteshd@dolatcapital.com

Associate: Ajinkya Jadhav

Tel: +9122 40969700

E-mail: ajinkyaj@dolatcapital.com

### Exhibit 1: Change in estimates

Particulars (Rs mn)	FY22	FY23	FY24E			FY25E		
	Actual	Actual	Old	New	Change (%)	Old	New	Change (%)
Revenue	50,809	54,275	56,439	49,831	(11.7)	63,162	55,761	(11.7)
Change (%)	36.2	6.8	4.0	(8.2)		11.9	11.9	
EBITDA	9,114	7,749	8,688	7,494	(13.7)	11,050	9,730	(11.9)
Change (%)	(0.6)	(15.0)	12.1	(3.3)		27.2	29.8	
EBIT	7,347	5,770	6,371	5,177	(18.7)	8,181	6,861	(16.1)
Change (%)	(5.9)	(21.5)	10.4	(10.3)		28.4	32.5	
Adj. PAT	6,043	5,141	5,352	4,371	(18.3)	6,788	5,848	(13.8)
Change (%)	(7.9)	(14.9)	4.1	(15.0)		26.8	33.8	
EPS (Rs)	204.7	174.2	181.3	148.1	(18.3)	230.0	198.1	(13.8)

Source: Company, DART

### Quarterly performance trends

### Exhibit 2: Revenue impacted by lower volumes and realizations amidst a challenging demand environment

Segment Revenue	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue (Rs mn)													
Life Science Chemicals	3,475	2,861	3,119	3,525	3,477	3,976	3,673	4,847	5,742	4,917	4,086	3,502	3,620
Performance Chemicals	6,896	6,946	8,172	7,535	9,267	10,264	10,526	10,570	9,913	8,280	8,299	8,745	8,684
Others	108	141	149	147	197	209	146	113	94	159	130	117	165
<b>Total</b>	<b>10,021</b>	<b>9,529</b>	<b>11,159</b>	<b>10,802</b>	<b>12,500</b>	<b>13,803</b>	<b>13,704</b>	<b>14,769</b>	<b>14,873</b>	<b>12,683</b>	<b>11,952</b>	<b>11,820</b>	<b>11,937</b>
Change (YoY %)													
Life Science Chemicals	5.3	(9.9)	22.6	30.1	0.0	39.0	17.8	37.5	65.1	23.7	11.2	(27.7)	(37.0)
Performance Chemicals	(7.7)	(8.6)	9.7	79.2	34.4	47.8	28.8	40.3	7.0	(19.3)	(21.2)	(17.3)	(12.4)
Others	(16.6)	52.8	63.0	68.8	83.0	48.9	(2.1)	(23.4)	(52.2)	(23.9)	(11.0)	4.0	75.2
<b>Total</b>	<b>(4.2)</b>	<b>(8.5)</b>	<b>15.6</b>	<b>63.5</b>	<b>24.7</b>	<b>44.9</b>	<b>22.8</b>	<b>36.7</b>	<b>19.0</b>	<b>(8.1)</b>	<b>(12.8)</b>	<b>(20.0)</b>	<b>(19.7)</b>

Source: Company, DART

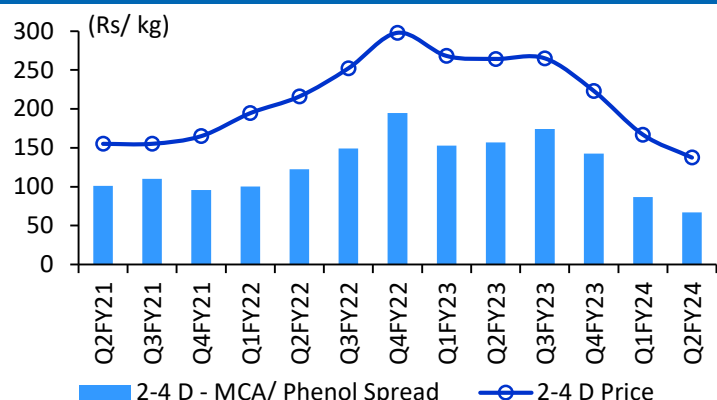
### Exhibit 3: Margin pressure intensifies across Life Science and Performance Chemicals

Segment EBIT	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
EBIT (Rs mn)													
Life Science Chemicals	671	508	506	493	329	448	519	795	1,418	1,107	906	522	417
Performance Chemicals	1,594	1,660	1,832	1,563	1,429	1,491	1,276	1,302	730	213	157	890	722
Others	48	25	45	35	66	103	41	(0)	(24)	26	11	18	41
<b>Total</b>	<b>2,313</b>	<b>2,193</b>	<b>2,384</b>	<b>2,091</b>	<b>1,823</b>	<b>2,042</b>	<b>1,836</b>	<b>2,097</b>	<b>2,124</b>	<b>1,346</b>	<b>1,074</b>	<b>1,431</b>	<b>1,181</b>
Change (YoY %)													
Life Science Chemicals	7.7	(10.6)	49.3	(3.4)	(51.0)	(11.7)	2.5	61.4	331.1	147.1	74.6	(34.3)	(70.6)
Performance Chemicals	12.2	(1.1)	24.4	82.7	(10.4)	(10.2)	(30.3)	(16.7)	(48.9)	(85.7)	(87.7)	(31.6)	(1.1)
<b>Total</b>	<b>10.5</b>	<b>(4.0)</b>	<b>30.6</b>	<b>53.7</b>	<b>(21.2)</b>	<b>(6.9)</b>	<b>(23.0)</b>	<b>0.3</b>	<b>16.5</b>	<b>(34.1)</b>	<b>(41.5)</b>	<b>(31.8)</b>	<b>(44.4)</b>
EBIT Margin (%)													
Life Science Chemicals	19.3	17.7	16.2	14.0	9.5	11.3	14.1	16.4	24.7	22.5	22.2	14.9	11.5
Performance Chemicals	23.1	23.9	22.4	20.7	15.4	14.5	12.1	12.3	7.4	2.6	1.9	10.2	8.3
Others	44.7	17.6	30.3	23.9	33.2	49.1	27.9	(0.3)	(25.7)	16.0	8.2	15.5	25.0
<b>Total</b>	<b>23.1</b>	<b>23.0</b>	<b>21.4</b>	<b>19.4</b>	<b>14.6</b>	<b>14.8</b>	<b>13.4</b>	<b>14.2</b>	<b>14.3</b>	<b>10.6</b>	<b>9.0</b>	<b>12.1</b>	<b>9.9</b>

Source: Company, DART

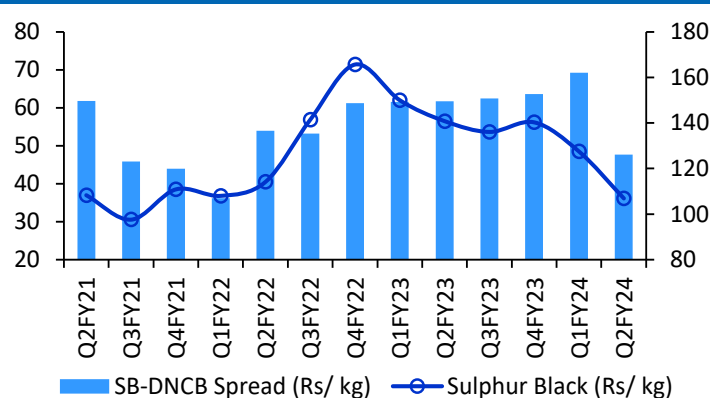
## Trend in prices and spreads of some of ATLP's key products

**Exhibit 4: 2,4 D price and spreads have fallen sharply**



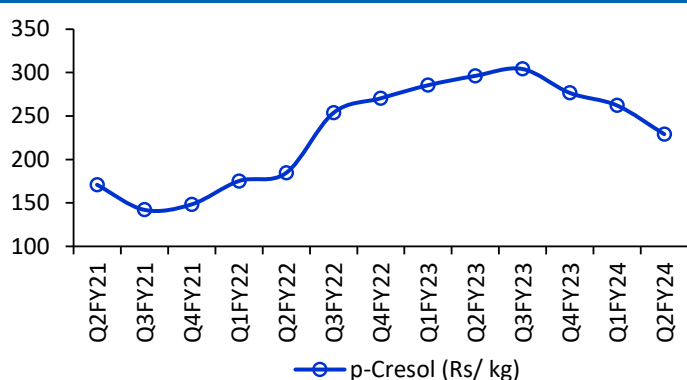
Source: Industry, DART

**Exhibit 5: Sulphur Black price and spreads decline sharply**



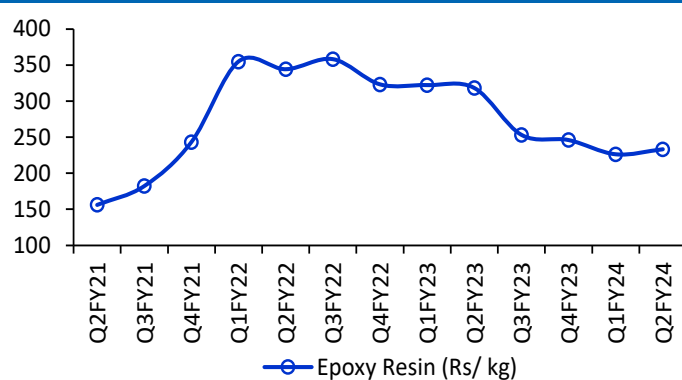
Source: Industry, DART

**Exhibit 6: Para cresol prices witnessed steep fall**



Source: Industry, DART

**Exhibit 7: Epoxy Resin prices significantly lower YoY**



Source: Industry, DART

\*Q2FY24 prices are for Jul-Aug'23

**Exhibit 8: Unrealized sales potential of projects already commissioned**

Segment/ sub-segment	Revenue (Rs mn)	Project
Aromatics	2,560	Cresols and cresidines expansion
Bulk Chemicals and Intermediates	750	Intermediate
Colors	3,800	Sulphur black capacity expansion
Pharmaceuticals	1,500	Atul Bioscience investment
Polymers - Performance Materials	1,500	
<b>Total (Rs mn)</b>	<b>10,110</b>	

Source: Company, DART

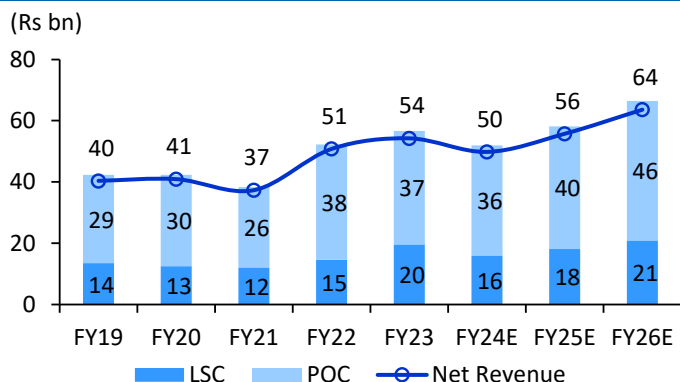
**Exhibit 9: Projects worth Rs14.2bn are under implementation across ATLP**

Entity	Capitalized in FY23	Under implementation	Total (Rs mn)
<b>Atul (standalone)</b>	<b>2,680</b>	<b>5,610</b>	<b>8,290</b>
<b>Group</b>	<b>760</b>	<b>8,590</b>	<b>9,350</b>
Atul Products	-	8,170	8,170
Amal Specialty	760	-	760
Atul Finserv	-	270	270
DPD Quarantine Laboratory	-	150	150
<b>Total (Rs mn)</b>	<b>3,440</b>	<b>14,200</b>	<b>17,640</b>

Source: Company, DART

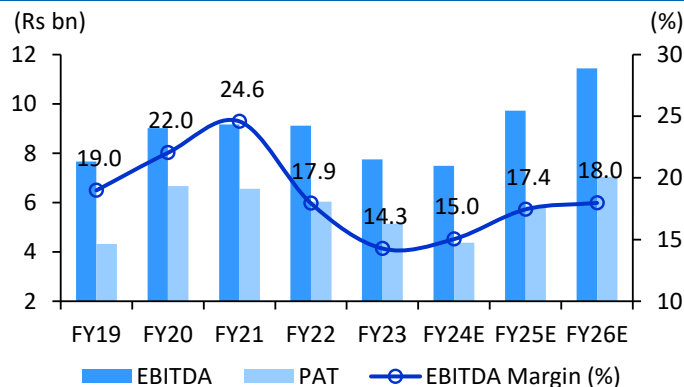
## Story in charts

**Exhibit 10: Revenue growth expected at 9% CAGR**



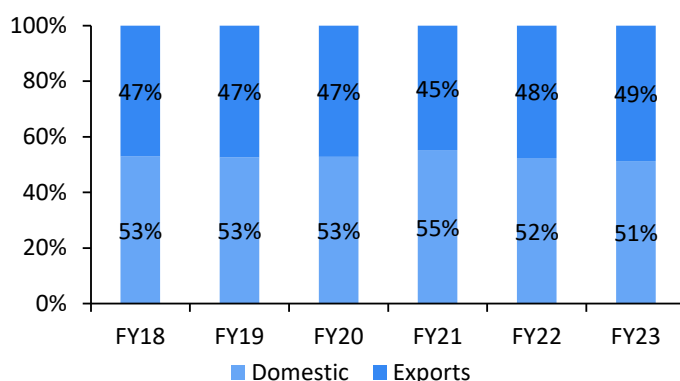
Source: Company, DART ^LSC – Life Science Chemicals, POC – Performance and Other Chemicals; Net Revenue is ex-inter-segment revenue

**Exhibit 11: Gradual earnings recovery aided by op leverage**



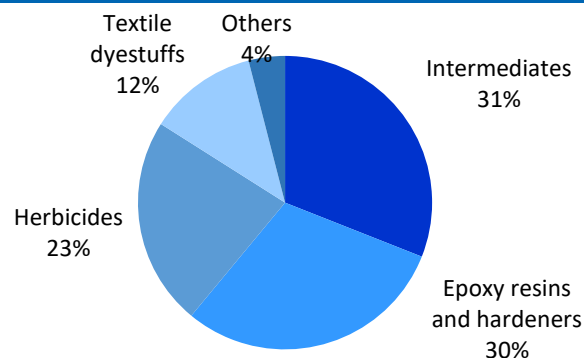
Source: Company, DART

**Exhibit 12: Exports to pick up as macro challenges subside**



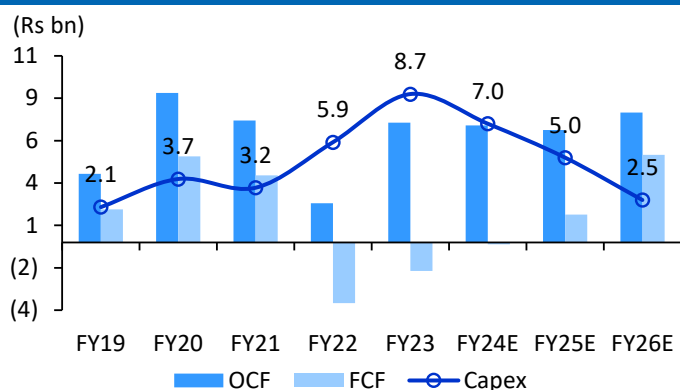
Source: Company, DART

**Exhibit 13: Healthy product diversification**



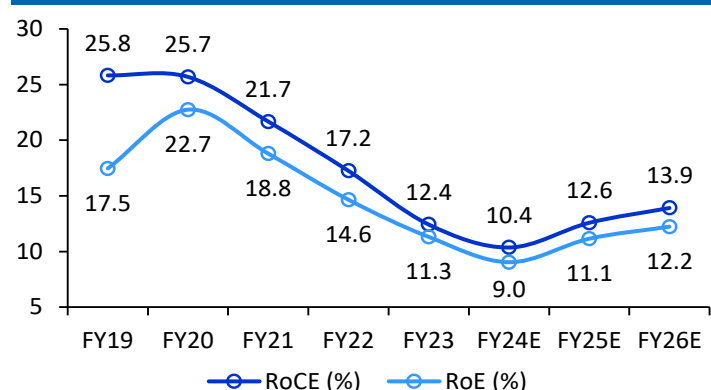
Source: Company, DART

**Exhibit 14: Growth capex elevated, but largely self-funded**



Source: Company, DART

**Exhibit 15: Return ratios suppressed on slow ramp-up**



Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>50,809</b>	<b>54,275</b>	<b>49,831</b>	<b>55,761</b>
<b>Total Expense</b>	<b>41,695</b>	<b>46,527</b>	<b>42,336</b>	<b>46,031</b>
COGS	25,886	28,640	26,490	28,651
Employees Cost	3,426	3,702	3,887	4,276
Other expenses	12,383	14,185	11,959	13,104
<b>EBIDTA</b>	<b>9,114</b>	<b>7,749</b>	<b>7,494</b>	<b>9,730</b>
Depreciation	1,767	1,978	2,317	2,869
<b>EBIT</b>	<b>7,347</b>	<b>5,770</b>	<b>5,177</b>	<b>6,861</b>
Interest	92	79	134	181
Other Income	760	1,149	632	948
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>8,016</b>	<b>6,840</b>	<b>5,675</b>	<b>7,628</b>
Tax	2,050	1,812	1,428	1,920
RPAT	6,042	5,141	4,371	5,848
Minority Interest	5	(75)	(75)	(90)
<b>Profit/Loss share of associates</b>	<b>82</b>	<b>38</b>	<b>50</b>	<b>50</b>
<b>APAT</b>	<b>6,042</b>	<b>5,141</b>	<b>4,371</b>	<b>5,848</b>

### Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	296	295	295	295
Minority Interest	309	480	555	645
Reserves & Surplus	43,994	46,419	49,877	54,539
<b>Net Worth</b>	<b>44,290</b>	<b>46,714</b>	<b>50,173</b>	<b>54,834</b>
Total Debt	1,384	470	2,511	1,500
Net Deferred Tax Liability	1,704	1,632	1,632	1,632
<b>Total Capital Employed</b>	<b>47,686</b>	<b>49,296</b>	<b>54,871</b>	<b>58,611</b>

### Applications of Funds

Net Block	16,165	17,497	22,509	26,640
CWIP	4,205	10,329	10,000	8,000
Investments	7,886	6,914	6,914	6,914
<b>Current Assets, Loans &amp; Advances</b>	<b>28,643</b>	<b>22,776</b>	<b>24,459</b>	<b>27,140</b>
Inventories	8,641	7,894	8,066	9,125
Receivables	9,890	8,446	8,191	9,166
Cash and Bank Balances	689	520	2,189	2,568
Loans and Advances	1,916	2,106	2,087	2,113
Other Current Assets	2,005	1,914	2,030	2,272
<b>Less: Current Liabilities &amp; Provisions</b>	<b>9,212</b>	<b>8,220</b>	<b>9,010</b>	<b>10,083</b>
Payables	6,347	5,385	6,143	6,875
Other Current Liabilities	2,865	2,835	2,867	3,208
<i>sub total</i>				
Net Current Assets	19,431	14,557	15,449	17,057
<b>Total Assets</b>	<b>47,687</b>	<b>49,296</b>	<b>54,871</b>	<b>58,611</b>

E – Estimates

### Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
<b>(A) Margins (%)</b>				
Gross Profit Margin	49.1	47.2	46.8	48.6
EBIDTA Margin	17.9	14.3	15.0	17.4
EBIT Margin	14.5	10.6	10.4	12.3
Tax rate	25.6	26.5	25.2	25.2
Net Profit Margin	11.9	9.5	8.8	10.5
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	50.9	52.8	53.2	51.4
Employee	6.7	6.8	7.8	7.7
Other	24.4	26.1	24.0	23.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.1	0.0
Interest Coverage	80.1	73.0	38.6	38.0
Inventory days	62	53	59	60
Debtors days	71	57	60	60
Average Cost of Debt	6.9	8.5	9.0	9.0
Payable days	46	36	45	45
Working Capital days	140	98	113	112
FA T/O	3.1	3.1	2.2	2.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	204.7	174.2	148.1	198.1
CEPS (Rs)	264.6	241.2	226.6	295.3
DPS (Rs)	20.0	32.6	26.6	35.9
Dividend Payout (%)	9.8	18.7	18.0	18.1
BVPS (Rs)	1500.6	1582.8	1700.0	1857.9
RoANW (%)	14.6	11.3	9.0	11.1
RoACE (%)	13.6	10.5	8.4	10.4
RoAIC (%)	17.3	12.1	10.2	12.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	6677	6677	6677	6677
P/E	32.6	38.3	45.1	33.7
Mcap (Rs Mn)	197,054	197,054	197,054	197,054
MCap/ Sales	3.9	3.6	4.0	3.5
EV	192,248	195,108	195,482	194,091
EV/Sales	3.8	3.6	3.9	3.5
EV/EBITDA	21.1	25.2	26.1	19.9
P/BV	4.4	4.2	3.9	3.6
Dividend Yield (%)	0.3	0.5	0.4	0.5
<b>(F) Growth Rate (%)</b>				
Revenue	36.2	6.8	(8.2)	11.9
EBITDA	(0.6)	(15.0)	(3.3)	29.8
EBIT	(5.9)	(21.5)	(10.3)	32.5
PBT	(8.3)	(14.7)	(17.0)	34.4
APAT	(7.9)	(14.9)	(15.0)	33.8
EPS	(7.9)	(14.9)	(15.0)	33.8

E – Estimates

## Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
<b>Profit before tax</b>	<b>8,097</b>	<b>6,878</b>	<b>5,725</b>	<b>7,678</b>
Depreciation & w.o.	1,767	1,978	2,317	2,869
Net Interest Exp	(67)	(97)	(498)	(767)
Direct taxes paid	(2,017)	(1,934)	(1,227)	(1,871)
Change in Working Capital	(5,046)	271	575	(1,278)
Non Cash	(420)	(29)	0	0
<b>(A) CF from Operating Activities</b>	<b>2,315</b>	<b>7,067</b>	<b>6,892</b>	<b>6,631</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(5,905)	(8,739)	(7,000)	(5,000)
<b>Free Cash Flow</b>	<b>(3,591)</b>	<b>(1,672)</b>	<b>(108)</b>	<b>1,631</b>
(Inc.)/ Dec. in Investments	4,136	3,572	0	0
Other	92	474	632	948
<b>(B) CF from Investing Activities</b>	<b>(1,677)</b>	<b>(4,694)</b>	<b>(6,368)</b>	<b>(4,052)</b>
Issue of Equity/ Preference	0	(867)	0	0
Inc./(Dec.) in Debt	117	(914)	2,042	(1,011)
Interest exp net	(99)	(79)	(134)	(181)
Dividend Paid (Incl. Tax)	(590)	(961)	(785)	(1,059)
Other	41	252	22	52
<b>(C) CF from Financing</b>	<b>(530)</b>	<b>(2,570)</b>	<b>1,144</b>	<b>(2,199)</b>
Net Change in Cash	108	(196)	1,668	379
<b>Opening Cash balances</b>	<b>469</b>	<b>577</b>	<b>380</b>	<b>2,049</b>
<b>Closing Cash balances</b>	<b>577</b>	<b>380</b>	<b>2,049</b>	<b>2,428</b>

E – Estimates

## Notes



**DART RATING MATRIX**

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

**DART Team**

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

**CONTACT DETAILS**

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013



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Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)