BUY Atul

Ripe for volume growth; cheap valuation, favorable risk-reward

Specialty Chemicals ▸ Initiating Coverage ▸ **April 23, 2025**

CMP (Rs): 6,031 | TP (Rs): 8,500

We initiate coverage on Atul with BUY and TP of Rs8,500 (30x Mar-27E EPS). Atul has invested ~Rs20bn over FY22-24 toward capacity expansion in existing products like Liquid Epoxy Resin (50ktpa) and Caustic Soda (300tpd), and in the backward integration of some key products (MCA for 2,4 D). These new capacities, along with ramp up in certain existing underutilized capacities, drive revenue potential of ~Rs25-30bn for the next 2-3 years, purely from the volume growth perspective. This would also lead to broad-based margin expansion led by backward integration and operating leverage. We expect Atul to log revenue/EBITDA/PAT CAGR of 15%/30%/37% over FY24-27E. Relatively inexpensive valuation of ~20x FY27E EPS and strong earnings growth forecast make us constructive on Atul's growth potential over the next couple of years.

Fairly diversified product portfolio

Atul has a diversified product portfolio with market leadership in most of its key products. Life Science chemicals like 2,4 D, indoxacarb, dapsone, etc have applications in discretionary end-uses such as agro and pharma. Performance chemicals like p-cresol, epoxy resins, and resorcinol have uses across construction, energy, flavors & fragrances, and various other industries. Atul has broad-based presence across key chemical segments, niche products, and unique chemistries. It most likely has the highest number of products manufactured by an India-based chemicals company. Its diversified portfolio has helped it create a legacy in the chemicals business and de-risked its overall business.

Capacity utilization likely to drive volume-led growth

Among peers, Atul has done the highest capex, of ~Rs20bn within 3 years (FY22-24). Our checks suggest that existing capacities of up to 20-40% across products are still underutilized. We expect Atul to register strong volume growth on the back of 1) ramp up in utilization of existing capacities of aromatics (p-cresol), polymers (retail), and bulk chemicals; 2) utilization of newer capex toward liquid epoxy resin and a caustic soda plant. Further capex spends into backward integration products like mono chloro acetic acid (MCA) for 2,4 D and caustic/chlorine used captively would aid margin improvement. This, along with operating leverage, will improve the company's overall margin profile.

Strong balance sheet here to stay, with improvement in return ratios

Atul has been a conservative company historically, logging relatively low capex even with a deleveraged balance sheet. It is only over the last three years that it has clocked capex of ~Rs20bn – the highest in the company's history. A large part of this capex is yet to be utilized which will drive healthy revenue growth and operating leverage in our view. We expect Atul to generate healthy OCF of ~Rs20bn over the next 3 years (current cash on books: ~Rs5bn). A large part of this cash is likely to be re-invested in growth capex (but a considerable part of the capex is yet to be decided). Over the next 2-3 years, we expect return ratios to improve significantly, purely on a lower base and strong volume growth.

Target Price – 12M	Mar-26
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	40.9

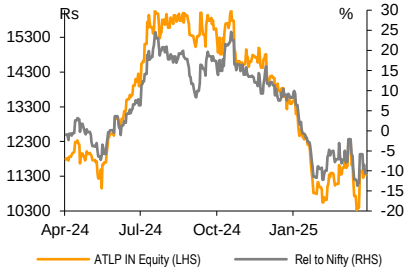
Stock Data	**ATLP IN**
52-week High (Rs)	8,180
52-week Low (Rs)	4,752
Shares outstanding (mn)	29.4
Market-cap (Rs bn)	178
Market-cap (USD mn)	2,084
Net-debt, FY25E (Rs mn)	(5,430.6)
ADTV-3M (mn shares)	0
ADTV-3M (Rs mn)	624.5
ADTV-3M (USD mn)	7.3
Free float (%)	54.8
Nifty-50	24,167.3
INR/USD	85.2

Shareholding, Mar-25	
Promoters (%)	45.2
FPIs/MFs (%)	9.8/23.6

Price Performance

(%)	1M	3M	12M
Absolute	4.4	(11.1)	2.4
Rel. to Nifty	0.9	(14.8)	(5.4)

1-Year share price trend (Rs)



Atul: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY24	FY25E	FY26E	FY27E	FY28E
Revenue	47,257	56,699	65,307	72,632	79,061
EBITDA	6,367	9,452	11,733	13,880	15,330
Adj. PAT	3,230	5,073	6,578	8,333	9,046
Adj. EPS (Rs)	109.7	172.3	223.4	283.0	307.3
EBITDA margin (%)	13.5	16.7	18.0	19.1	19.4
EBITDA growth (%)	(17.8)	48.5	24.1	18.3	10.5
Adj. EPS growth (%)	(37.0)	57.1	29.7	26.7	8.6
RoE (%)	6.6	9.5	11.3	12.8	12.5
RoIC (%)	8.4	11.2	14.2	17.3	17.8
P/E (x)	55.0	35.0	27.0	21.3	19.6
EV/EBITDA (x)	27.5	18.5	14.9	12.6	11.4
P/B (x)	3.5	3.2	2.9	2.6	2.3
FCFF yield (%)	0.9	1.6	3.1	2.4	0.3

Source: Company, Emkay Research

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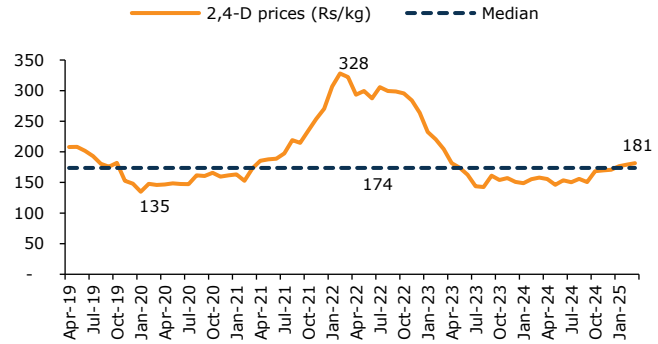
Table of Contents

Contents **Page No.**

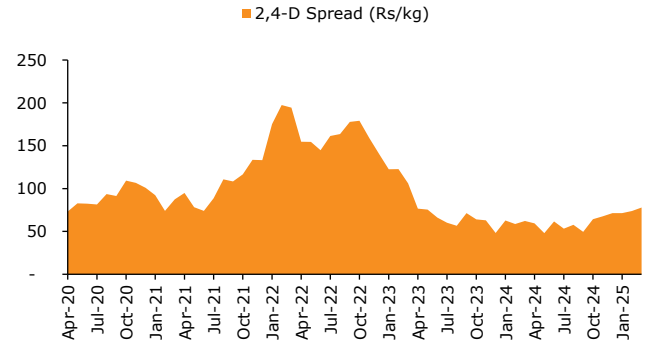
Story in charts

Exhibit 1: 2,4-D prices have a median of Rs174/kg over FY20-25, and have been firming upward over the last 6 months



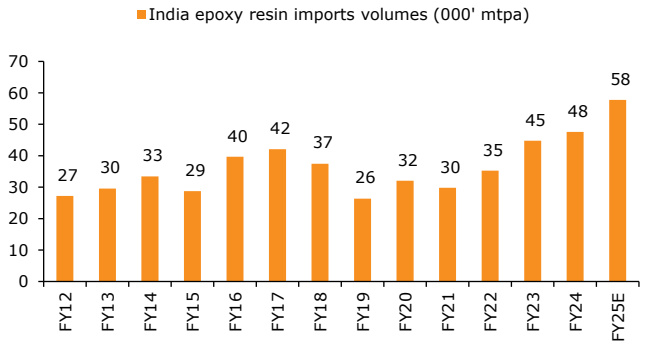
Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 2: 2,4-D spreads averaged at ~Rs98/kg during FY21-25, again improving over the last 6-months



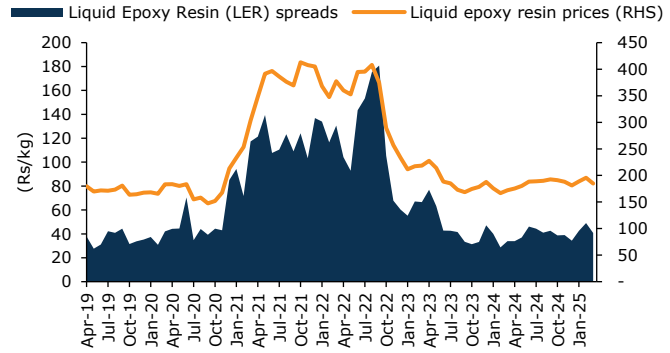
Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 3: Epoxy resin demand is seeing 7-8% CAGR, and remains a good import substitution opportunity



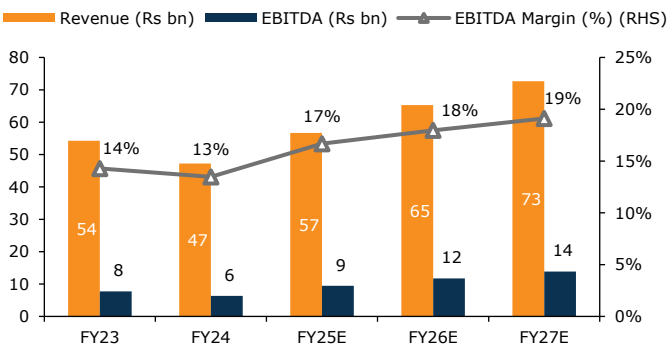
Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 4: Unmodified LER spreads bottoming out at ~Rs40/kg



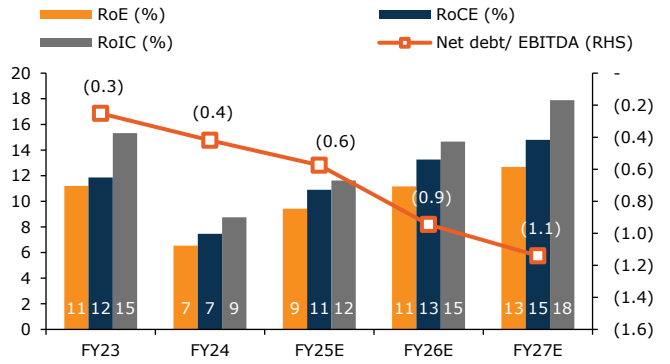
Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 5: EBITDA CAGR expected at ~21% over FY25-27E (FY24-27E CAGR: ~30%)



Source: Company, Emkay Research

Exhibit 6: Return ratios to considerably improve, with ramp-up in capacity utilization



Source: Company, Emkay Research

Investment thesis

Atul is among the most integrated and diversified chemicals companies with a strong legacy in the chemicals business and capabilities across chemistries and backward integration. Atul likely has the highest number of products manufactured within our coverage universe (presence in the manufacture and retailing of over 900 products). The company has strong focus on ESG, which is an in-built part of its culture. Over the years, Atul has gained a dominant market share globally in most of the large products it manufactures. Also, it has improved its footing via backward integration and capacity expansion; this has improved its overall positioning in the industry. Atul is among the key companies promoted by the Lalbhai Group in CY47, and the first private-sector player of Independent India.

The company has seen consistent earnings growth over the last decade and thereby delivered strong shareholder value. Revenue CAGR over FY10-25E stands at ~10%, and EBITDA/PAT has grown ~10x over a similar time frame, denoting strong bottom-line efficiencies delivered by the company over the years. Atul's biggest advantage is its backward integration capabilities which has resulted in a decline in fixed costs, thus aiding margin improvement (FY10 margin at 9%, and FY25E margin at 16-17%).

Atul has embarked on a large capex journey over FY21-24 (the highest in its history, gross block CAGR: 25%), investing close to around Rs20bn toward expanding capacity in key major products like caustic soda and epoxy resins. Also, over FY19-21, Atul has invested close to Rs8bn to increase capacity in the aromatics business (p-cresol) and backward integrate its key product 2,4 D in the crop protection business by entering into a JV with Nouryon to manufacture monochloro acetic acid (MCA), which is the key starting material.

The company is well-positioned for growth in coming years, supported by its low-cost manufacturing advantage and relationships with global customers. We expect higher growth from a) increase in utilization of p-cresol and debottlenecking some of its downstream capacities, b) optimal utilization of caustic-chlorine capacities at steady ECUs of around Rs32-33/kg, c) ramp up in newly-commissioned liquid epoxy resin (LER) capacities, along with growth in the retail segment of the polymers business (particularly adhesives), and d) debottlenecking of 2,4 D capacity in the crop protection business.

The management expects its total topline to reach close to Rs80bn on full ramp up of these capacities on current realization. We expect Atul to achieve such a topline by FY28E, on gradual ramp up in utilization of existing and newer capacities. This would largely be without any further major investments. We expect some new capacity additions/inorganic acquisition related announcements over the next couple of years, given that once capacities are utilized, Atul will either do new capex or inorganic acquisitions, and it has sufficient cash for such activities through internal accruals owing to its strong balance sheet.

Atul's revenue growth has lacked that of peers owing to relatively slower pace of capex. The company's focus has been to extract more out of its existing assets and products, while focus on new product launches has been relatively low. Case in point being the limited new product launches in agchem exports beyond 2,4-D and indoxacarb, which are old generation products. Leadership in p-cresols, resorcinol, and dapsone has been well milked but creation of the next set of such products is yet not visible. A large portion of the new investments covers capacity expansion/backward integration of the existing product portfolio.

Considering that a large part of the capex over the last 2-3 years is yet to be utilized, we expect Atul's revenue/EBITDA/PAT to register ~15%/30%/37% CAGR over FY24-27E (13%/21%/28% over FY25-27E). We expect margin improvement to the tune of 200-300bps led by operating leverage, once these capacities are utilized. We expect the company to generate a healthy OCF of ~Rs20bn over the next 3 years (current cash on books: ~Rs5bn). A large part of this cash is most likely to be re-invested in growth capex (but a large part of the capex plan is yet to be decided).

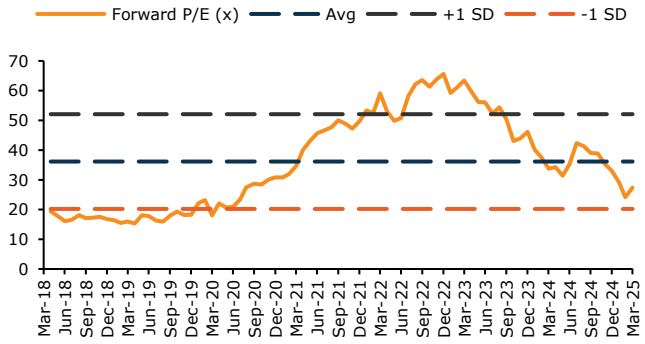
Over the next 2-3 years, we expect return ratios to improve significantly, purely on account of a lower base and strong volume growth. Our estimates suggest improvement in RoCE to ~15% by FY27 (vs 7.5% in FY24). Being net debt free, Atul's balance sheet will still be healthy. We initiate coverage on Atul with BUY and TP of Rs8,500, valuing the stock at 30x its Mar-27E EPS (5-year average P/E is 35x and current P/E is 20x), considering relatively better management quality among most peers and rebound in return ratios.

Exhibit 7: Specialty Chemicals companies – Peer valuations, a comparison

Peer (Domestic)	Rating	TP (Rs)	CMP (Rs)	P/E (x)			EV/E (x)			RoE (%)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SRF	BUY	3,250	3,015	70	42	31	35	25	19	11	16	18
PI Industries	REDUCE	3,650	3,700	34	31	27	24	22	19	15	14	13
Gujarat Fluorochemicals*	SELL	3,800	3,965	72	54	46	39	32	28	10	12	12
Deepak Nitrite	REDUCE	2,000	2,029	45	35	30	28	22	17	12	14	15
Navin Fluorine International	ADD	4,000	4,275	72	44	35	43	28	23	12	17	19
Atul	BUY	8,500	6,031	35	27	21	19	15	13	10	11	13
Aarti Industries	ADD	450	434	57	29	22	19	14	11	5	8	11
Epigral	BUY	2,300	1,950	24	20	16	13	12	10	22	20	21
Anupam Rasayan India*	ADD	800	803	129	55	29	37	25	16	3	6	10
GHCL	BUY	900	626	10	10	9	7	6	6	19	17	16
Vishnu Chemicals	BUY	600	427	24	17	13	14	10	9	15	17	18
Tata Chemicals	NR	NA	852	41	27	21	13	11	10	2	4	5
Vinati Organics	NR	NA	1,671	44	35	30	30	24	20	15	17	18
Deepak Fertilisers & Petrochem	NR	NA	1,276	18	15	11	10	9	7	16	16	18
Fine Organic Industries	NR	NA	4,260	30	28	25	23	21	18	21	19	17
Clean Science & Technology	NR	NA	1,205	47	37	29	32	26	20	21	22	24
Jubilant Ingrevia	NR	NA	696	42	33	26	22	18	14	9	11	12
Aether Industries	NR	NA	777	61	46	37	44	31	22	7	9	11
Archean Chemical Industries	NR	NA	636	35	20	15	22	13	10	12	19	21
Laxmi Organic Industries	NR	NA	181	38	27	21	16	12	10	7	9	11
Sudarshan Chemical Industries	NR	NA	1,080	39	28	28	23	16	13	13	18	17
Neogen Chemicals	NR	NA	1,645	87	59	34	34	24	15	7	9	14

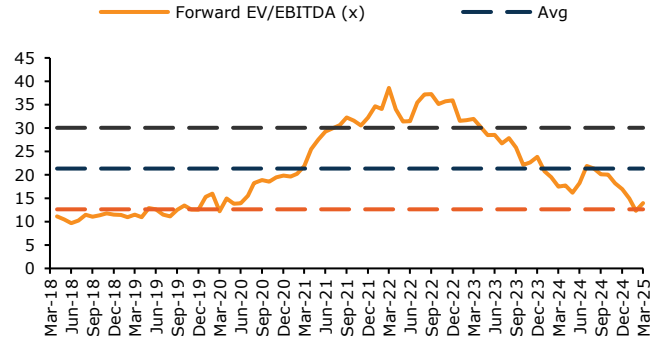
Source: Company, Emkay Research

Exhibit 8: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 9: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Key Risks

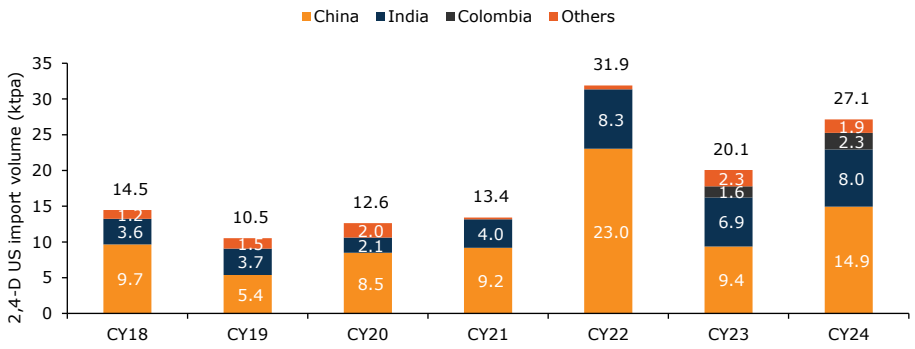
- **Lack of new entrants in product portfolio:** Atul's portfolio has not seen new entrants in any of its large business verticals over the last few years. The company seen earnings growth largely via capacity expansion of existing products and backward integration across key products in existing business verticals.
- **Slower ramp up in existing capacities:** A large part of our estimates has baked in decent utilization across capacities over the next 2-3 years. Prolonged demand slowdown or competitive pressures in key products can impact on some of this utilization and compel a change in our estimates.
- **Low visibility on the next leg of capex:** We have limited visibility on the next leg of growth capex, beyond FY26. The company has a decent cash balance and can generate strong OCF over the next few years. In case no new capex is announced, then our TP would reflect fair value at which one should exit the stock. Else, RoCE will again start falling due to high cash balances.

Life Science Chemicals

2,4-D puts crop protection segment in a sweet spot

After a super cycle in FY22/23, prices of 2,4-Dichlorophenoxyacetic Acid (2,4-D) have normalized over the last two years, to around USD2/kg. This is an almost decadal low price, and we expect some improvement over the next couple of quarters. The US has strong demand of ~70,000mtpa for 2,4 D and there is only one manufacturer – Corteva, with capacity which is nearly half that of demand. Such a supply shortfall is largely catered to by the Chinese and Indian manufacturers, who are the only players active in export trade.

Exhibit 10: Chinese 2,4-D exports (volume) to the US doubled in CY22



Source: Industry, Emkay Research

In Mar-24, Corteva had filed an anti-dumping duty (ADD) investigation against Chinese and Indian manufacturers, and the final affirmative determinations on this have been announced on 1-Apr-2025. The judgement has laid down a schedule for duties (Exhibit 11).

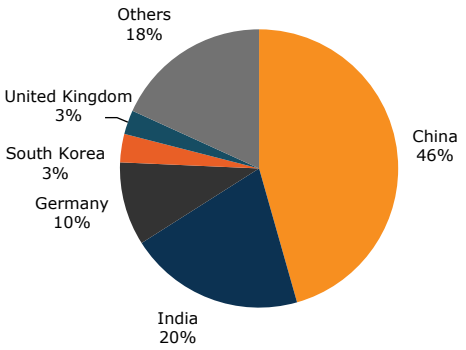
Exhibit 11: Preliminary dumping margins to the US

Exporter/Producer	Country	Dumping margin (%)
China-wide Entity	China	127.71
Atul	India	25.85
Meghmani Organics	India	6.10
Other India entity	India	15.98

Source: Industry, Emkay Research

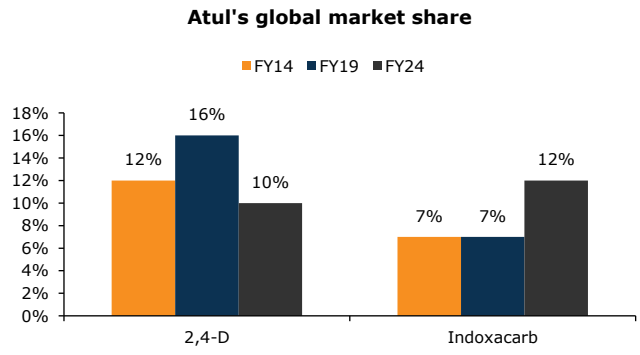
Chinese manufacturers are charged 5x the duty compared with Atul; hecne, we believe that Atul is in a sweet spot and can gain market share in the US even at a higher price. We expect USD0.8-1/kg uptick in pricing on a base of USD2/kg because of the differential duty. Atul will also need to compete with Corteva, but we expect trade flow to move more from India to the US, and from China to the LatAm market. We also expect Atul to debottleneck its existing 2,4-D capacities which will give them additional volume growth, of up to 8-10%.

Exhibit 12: Country-wise export share of 2,4-D in CY23



Source: Industry, Emkay Research

Exhibit 13: Atul's share declined due to over-supply in China



Source: Company, Emkay Research

Case study #2,4-D

2,4-D is an effective herbicide against various broadleaf weeds while leaving grass unaffected. It is widely applied in locations such as turf, lawns, roadways, parks, grasslands, and numerous agricultural fields, including fruit and vegetable crops. It was first introduced in the US during the 1940s.

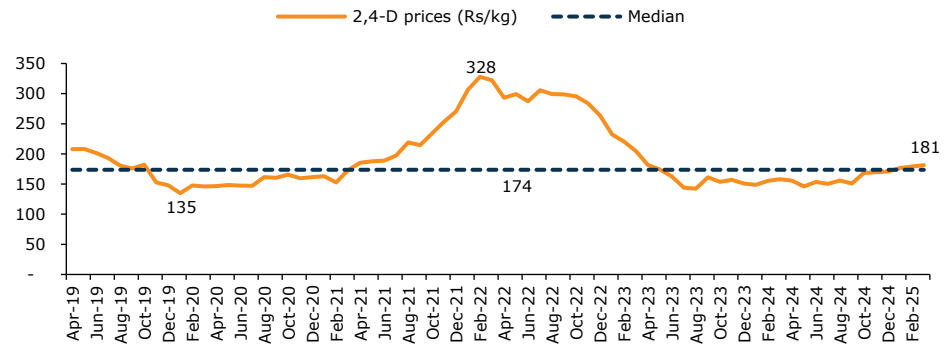
2,4-D must be formulated to readily disperse upon application and to suitably mix with water. For this reason, it is formulated into various derivative forms such as salts and esters, which are then combined with other active ingredients (AI), chemicals, or water, to manufacture the final product. In fact, over 1,500 herbicide formulations include 2,4-D as a key AI, and such products are available as liquids (either concentrated or ready-to-use), dust, or granules.

Atul manufactures 2,4-D acid, and 2,4-D ester and salts. All these products have separate end markets, with 2,4-D acid sold to formulators (firms that produce a 2,4-D based herbicide using 2,4-D ester or salt) and 2,4-D ester and salt sold to end users. 2,4-D acid is transformed into 2,4-D esters and salts, and such a process adds value and requires chemical reactions. There are 9 derivative forms of 2,4-D that are currently sold in the US, with dimethyl-amine salt (DMA) and 2-ethylhexyl ester (2-EH) accounting for ~90-95% of the global 2,4-D use.

Once 2,4-D is produced, it is most commonly converted into an amine salt or ester. Amine salts are made by reacting amines with strong acids. Esters are formed when the 2,4-D acid reacts with an alcohol. The salt or ester forms of 2,4-D are selected due to the desired end use application. Amine salts are generally less volatile than esters. Amine derivatives of 2,4-D are therefore typically used in landscape settings and scenarios when drift is a primary concern. Ester derivates, on the other hand, are typically more active on weeds in comparison with amine salts. Plants are more likely to quickly absorb esters versus salts, and this may be the desired property.

Globally, 2,4-D ranks among the top five herbicides by sales, with a market size of USD1-1.2bn. There only 10 players in total who produce 2,4-D globally (6 in Asia; 1 each in Australia, Europe, North America, and South America). Atul is one of the leading producers of 2,4-D worldwide, with 10% share (down from 16% in FY19 due to capacity expansion in China).

Exhibit 14: 2,4-D prices have a median of Rs174/kg over FY20-25, and have been firming upward over the last 6 months



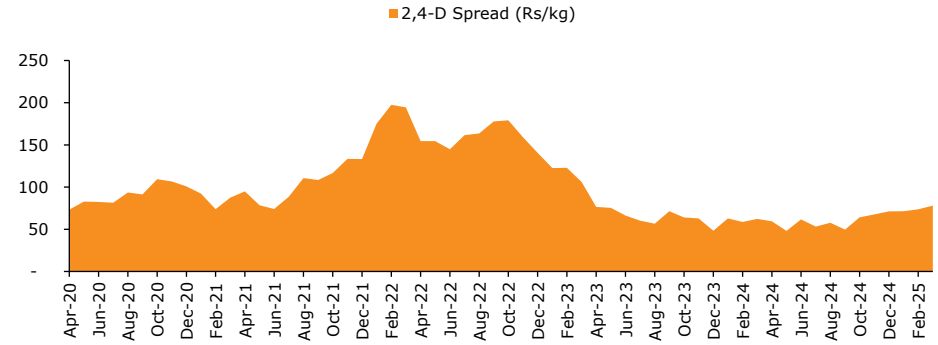
Source: Ministry of Commerce and Industry, Emkay Research

2,4-D median prices during FY20-25 were Rs174/kg, with the highest price being Rs328/kg in Q4FY22. However, the average price for 2,4-D during FY23 had jumped to the peak, triggered by a supply chain bottleneck, strong demand for agrochemicals, and lockdown in China. We understand that the shortage of MCA in China has added significantly to the surge in prices. Atul was comfortably placed with backward integration for MCA.

2,4-D prices in Mar-25 have been improving, and crossed the 5-year median of Rs174/kg; these are more sustainable prices, in our view, given the current tariff-war scenario. FY22-23 was a super-cycle for prices. It would be prudent to assume the period to be a one-off and not anticipate frequent repetitions, though we believe that prices can rise to Rs260-270/kg in the interim, based on tariff implication.

The benefit on spreads for 2,4-D are even more elevated given the current rise in price. Thus, every Re1 increase in price will improve the bottom-line by Re1. Our spreads are based on 2,4-D prices vs input prices of phenol, caustic soda, and MCA. Average 2,4-D spreads stood at Rs98/kg during FY20-25 (vs average realization of Rs195/kg). Currently, spreads stand at Rs78/kg and have improved over the last couple of months.

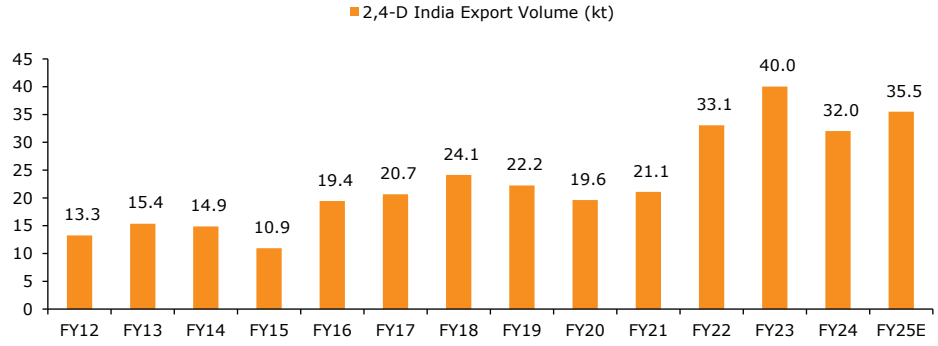
Exhibit 15: 2,4-D spreads averaged at ~Rs98/kg during FY21-25, improving over the last 6 months



Source: Ministry of Commerce and Industry, Emkay Research

Atul also benefited from a rise in volumes, driven by a sharp surge in demand for agrochemicals, shortage of MCA in China, and its reliance on its backward-integrated facility. India 2,4-D export volume CAGR improved by 8% to 35kt over FY12-25, but almost doubled in FY23 (vs FY21) to 40kt. China coming back in FY24 has led to a drop in 2,4-D volumes to 35kt in FY25E.

Exhibit 16: India exports volume CAGR of 2,4-D stands at 7.9% over FY12-25E



Source: Ministry of Commerce and Industry, Emkay Research

2,4-D backward integration

2,4-D is synthesized in two ways. The first method is chloroxidizing phenol with chlorine and then condensation with chloroacetic acid. The second method is condensation, which is then followed by the chlorination process. Corteva uses only the first method, and the manufacturers in China use both methods. Raw materials used in Atul's process to produce 1mt of 2,4-D include phenol (0.42mt), chlorine gas (0.69mt), caustic soda lye 48% (0.51mt), and monochloroacetic acid (MCA; 0.44mt).

Atul has an added advantage of backward integration to produce MCA. The company has a JV with Dutch company AkzoNobel (now, Nouryon) to produce MCA with capacity of 30ktpa, which it further plans to double to 60ktpa. The JV company will use the chlorine and hydrogen manufactured by Atul. We believe that both partners have an equal off-take agreement. Atul will use it captively for making 2,4-D. Nouryon will sell it in the domestic market. Currently, Atul purchases more MCA than Nouryon. MCA is widely used in agrochemicals, cosmetics, pharmaceuticals (ibuprofen, caffeine, vitamin B, glycine), dye (indigo) and plastic stabilizer industries. 1mt MCA requires 0.61mt of acetic acid, and 0.80mt of chlorine. India is self-sufficient in MCA but with a fragmented market.

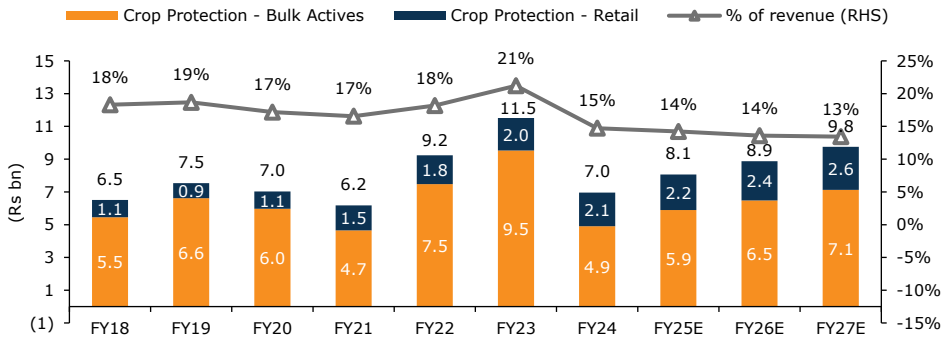
Crop protection – Bulk actives segment to see volume growth along with potential price uptick

Atul has charted out two sub-segments within its crop protection business, viz bulk actives and retail. The bulk actives sub-segment consists of 34 products and 43 formulations (key products: 2,4-D, indoxacarb, sulfonylurea). The retail sub-segment consists of 63 brands, viz Zura, Salix, Cyno, Rhymix, Amsac, Sindica, etc, covering 61 formulations (23 herbicides, 21 insecticides, 9 fungicides, 8 bio-stimulants and adjuvants).

The bulk actives business saw revenue CAGR of 4% during FY21-24, largely driven by export growth (majorly in FY22/23 and corrected in FY24). We estimate volume CAGR of 9-10% (balance price) over FY24-27E, leading to overall CAGR of 13%, led by:

- a debottlenecking project for 2,4-D, of ~1,000-2,000mt from the current ~26,000mt,
- launch of new products and formulations, and focus on value-added products,
- evaluation of investment opportunities in vertical integration (forward/backward),
- improving internal efficiencies and working capital management,
- expanding the regulatory approval footprint.

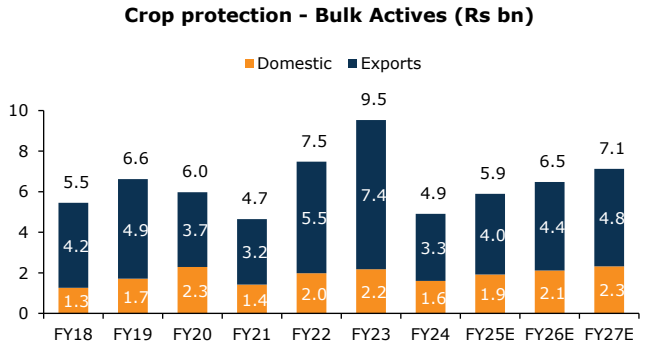
Exhibit 17: Crop protection segment to see 12% revenue CAGR over FY24-27E



Source: Company, Emkay Research

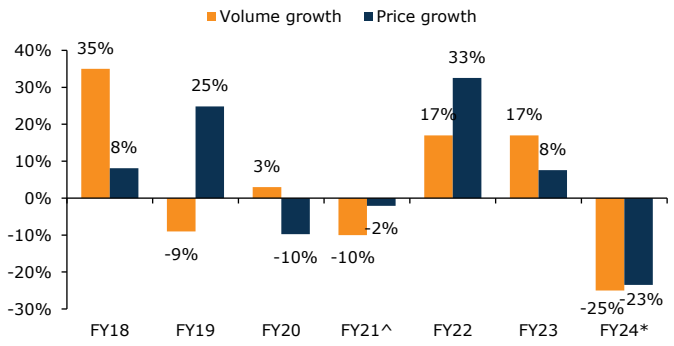
FY24 was a whitewash for this segment, given the slowdown caused by global destocking and supply-chain disruptions. Revenue declined 48% on both, the volume (-25%) and pricing (23%) fronts. We expect the bulk actives segment to see volume pick-up in FY25E, given better 2,4-D export volumes from India along with end of destocking from customers' end as well as from channel partners' end. We should expect good pricing growth during FY26-27E compared to volume growth, if ADD is applied by the US on China or there is escalation of the trade war. We do not see any risk to our assumptions for this segment owing to expectation of better rainfall in FY26, leading to better ramp-up of domestic revenue for this segment. The management has guided to Rs1bn of unrealized sales potential.

Exhibit 18: Crop protection – Bulk actives to see higher increase in share of exports



Source: Company, Emkay Research

Exhibit 19: Crop protection segment growth to be largely led by volume over FY26E/27E, after seeing a fall till FY24



*Source: Company, Emkay Research; ^Assumption; *FY24 denotes figures for Crop Protection – Bulk Actives sub-segment only*

Crop protection – Retail segment playing on optionality, while volume strength is visible

Crop protection – Retail reported revenue of Rs2.05bn in FY24 vs Rs1.98bn in FY23, growing ~4% YoY. This YoY growth was primarily led by 23% growth in volume as against 19% degrowth in prices; the growth can be attributed to a low base effect while we believe that only a few agrochemical chemicals have managed to report YoY value growth.

Atul launched a patented herbicide called 'Sindica', in Q4FY24. It is a formulation of 2,4-D, metribuzin and chlorimuron ethyl catering to sugarcane crop. The management has guided to sales potential of Rs1bn for this product. Besides Sindica, the company has developed 11 unique patentable formulations (4 patents granted; 7 patents published). The company is currently generating statutory data for 5 formulations for seeking regulatory approval.

The retail business saw revenue CAGR of 10% during FY21-24, largely driven by launch of newly formulated brands. We estimate moderate revenue CAGR of 9% over FY24-27E, owing to:

- pursuing organic growth of the existing portfolio through market development activities,
- widening the portfolio by way of enhanced cooperation,
- strengthening the distribution channel,
- continuing to develop patented novel formulations.

Exhibit 20: Atul's market leadership in certain products

Brand	Technical name	Domestic market share (FY24)	Competition
Zura	2,4-D Dimethyl amine salt	24%	Dhanuka, Meghmani, Adama
Salix	2,4-D Sodium salt 95% SP	28%	Dhanuka, Meghmani, Adama
Cyno	Chlorimuron ethyl 25% WP	34%	Corteva
Amsac	Indoxacarb 14.5% SC	18%	Gharda
Rhyzo	Isoprothiolane 40% EC	16%	Rallis, Parijat

Source: Company, Emkay Research

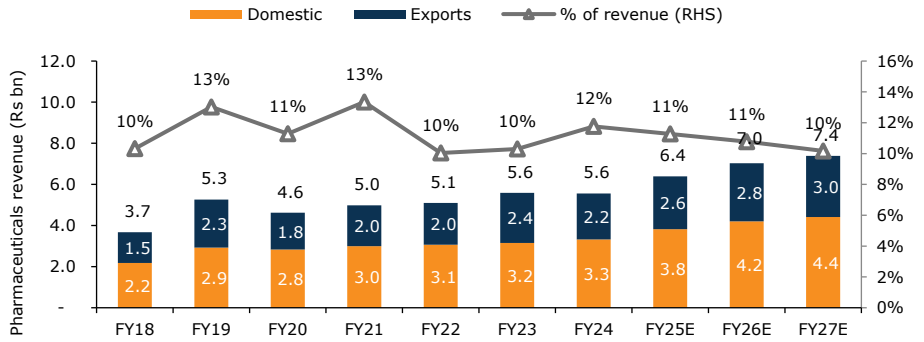
Pharmaceutical segment to deliver moderate growth

The pharmaceuticals segment has a portfolio of 90 products, categorized under 3 key categories: 1) amino acid derivatives, 2) API derivatives, and 3) Phosgene derivatives. Acyclovir (API, antiviral medication), Dapsone (antibiotic), Desvenlafaxine (antidepressant), Fluconazole (antifungal), Valacyclovir (antiviral), and Venlafaxine (antidepressant) are some of the APIs. The company is actively engaged in products for various other therapeutic areas.

Pharmaceutical revenues have largely been flat, taking into consideration Atul Biosciences and the export incentives over FY21-24. Core pharma business revenue CAGR stood at 4% over FY21-24. Revenue for FY24 at Rs5.6bn grew a tad, by 1% YoY. This was led by 13% volume growth (due to debottlenecking; volumes from the new PHIN-II plant for a few months which was not available in FY23 due to the fire accident that occurred in Apr-22) and 12% degrowth in pricing. The management has guided to an unrealized sales potential of Rs1bn from this segment. We expect the company to see moderate revenue CAGR of 10% over FY24-27E, led by:

- focus on attaining regulatory clearances for its API facilities (USFDA – EDQM audit) and filling 12 DMFs,
- increasing manufacturing efficiencies and sales of 12 APIs and 8 new intermediates,
- introducing and qualifying 7 new products,
- expediting customer approvals,
- increase its CMO business with strategic customers.

Exhibit 21: Pharmaceuticals segment revenue CAGR to be 10% over FY24-27E



Source: Company, Emkay Research

Atul holds 50% market share for Dapsone

Dapsone, also referred to as 4,4-diaminodiphenyl sulfone (4,4 DCDPS), is primarily utilized for treating leprosy and managing dermatological symptoms of Dermatitis Herpetiformis. Additionally, it has been occasionally used off-label to help prevent pneumonia in HIV patients. On a global scale, only a limited number of companies operate USFDA-approved facilities for Dapsone production, with one competitor based in Europe. It takes chlorobenzene, dimethyl sulfate, and sulfur trioxide as its raw material.

Atul Bioscience now to focus on core strategic areas

Atul Bioscience is a wholly-owned subsidiary of Atul. It has seen 16% decline in revenue, from Rs1.58bn to Rs1.31bn in FY24 vs FY23. Atul, in its FY24 annual report, highlighted that the management has taken a conscious decision to reduce certain non-strategic areas of the business. The company is engaged in manufacturing of API intermediates for various therapeutic areas.

Performance and other chemicals segment

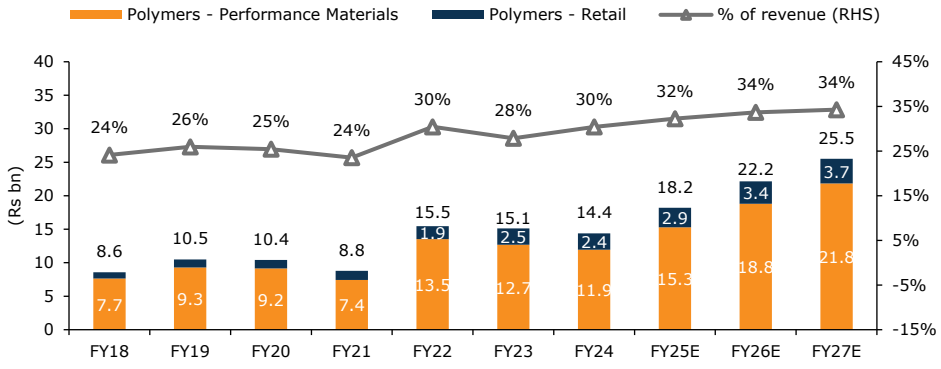
Polymers – Performance Materials segment to steer revenue growth

Atul recently commissioned its new liquid epoxy resin (LER) plant of 50ktpa, taking total LER capacity to 80ktpa. It will become the largest product, contributing to the overall revenue by FY27E. The capex approved for the project is Rs2bn (excluding Rs1.65bn working capital), funded through internal accruals. This capex was a part of the Rs5.6bn standalone capex, which included capacities in the aromatics and intermediate plant for agrochemicals. Along with the LER, the Polymer – Retail business is also a key focus for the management.

Atul's polymers segment was started in CY1999 when Cibatul merged with Atul. Originally, Atul and Ciba-Geigy formed a JV (Cibatul) in CY1960 specialized in producing epoxy systems. The segment now produces a variety of epoxy resins, curing agents, reactive diluents, accelerators and catalysts, and sulfones. Notably, Atul is the first in India to manufacture epoxy resins and curing agents. LERs, solid epoxy resins, solvent cut resins, cycloaliphatic resins, epoxy phenol novolac, multifunctional resins, aromatic amines and their adducts, 4,4'-Diaminodiphenyl sulfone (4,4-DADPS), 3,3'-Diaminodiphenyl sulfone and 4,4'-Dichlorodiphenyl sulfone (4,4-DCDPS) are some of the key products. These products are manufactured and marketed under trade name 'Lapox'.

This segment caters to >1,180 customers in 41 countries, with a portfolio of over 48 synthetic products, 236 retail products, and 272 formulations. These products are widely used across adhesive, composite, construction, aerospace, defence, marine, electrical and electronics, wind energy, sports and leisure, and paints and coatings industries.

Exhibit 22: Polymers segment CAGR to be 21% over FY24-27E



Source: Company, Emkay Research

The Polymer segment contributed to ~30% of the company's total revenue in FY24 and is likely to contribute 34% in FY27E with capacity expansion. The polymer segment's revenue at Rs14.4bn in FY24 is likely to report CAGR of 21% over FY24-27E, including both its sub-segments, viz performance materials and retail. Therefore, epoxy resin volume ramp-up is crucial for both, sustainability and growth of earnings in future years. The polymers segment has seen revenue CAGR of 18% over FY21-24, from Rs8.8bn to Rs14.4bn now.

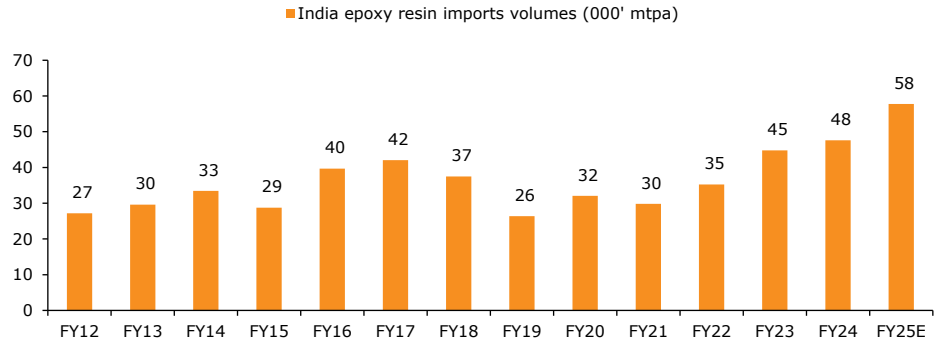
In its retail segment, synthetic rubber adhesives (brushable and sprayable), polyurethane adhesives, natural rubber adhesives, epoxy adhesives, cyanoacrylate adhesives, protective paints, etc are some key product groups. Such products are predominantly targeted at the domestic market. The products cater to customers belonging to the automobiles, construction chemicals, flooring, foam and furnishing, footwear, furniture, handicraft, HVAC, stone processing, and sports goods industries. We have built in revenue growth of 15% over FY24-27E due to company focus on growing this segment per its last AGM and analyst meet. Though, given the lower base, growth can be higher than our expectations. Two of Atul's key raw materials in this segment, viz chloroprene rubber and thermoplastic polyurethane, are imported. Thus, price sensitivity, fluctuating raw material prices, and new entrants in the market will keep the market competitive and may keep margins under pressure. We see limited imports of these products as of now.

Domestic outlook for epoxy resins

Domestic epoxy resin demand and volumes set to grow

India's epoxy resin market size in terms of volume is expected at ~185ktpa as of Mar-25. This domestic demand is a mix of Grasim (negligible share from the new capacity) and Atul's epoxy capacities operating at optimum utilization coupled with imports. Atul also has substantial share in the 23ktpa exports in FY25E. We see that India's epoxy resin imports grew 2x the GDP, ie ~13% pa over FY20-25E. A large part of this growth happened during FY22-24, largely led by demand from adhesives, construction, paints, and windmill blades manufacturing industries. We expect FY25 import volumes at ~58ktpa, basis the 9MFY25 trajectory. On a conservative basis, we believe that demand for epoxy resins is set to see ~7-8% CAGR over FY25-30E, a notch higher than the real GDP growth rate based on several industry reports that estimate volume demand increasing to ~280-300ktpa by FY30.

Exhibit 23: Epoxy resin demand CAGR at 7-8% remains a good import substitution opportunity



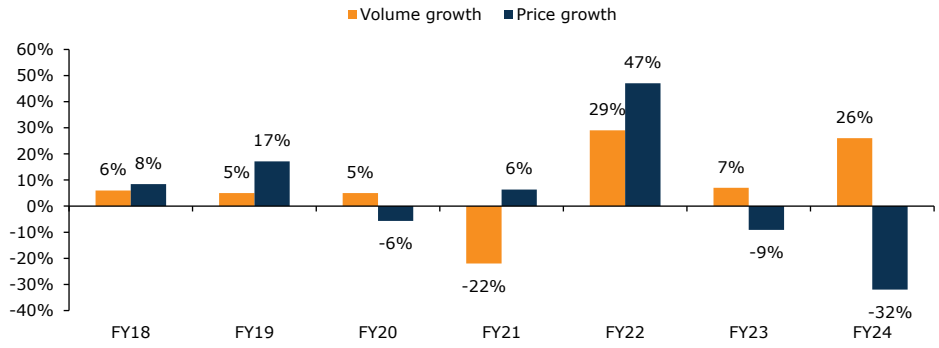
Source: Ministry of Commerce and Industry, Emkay Research

We can correlate the gradual volume growth in the polymer division volume with gradual rise in imports. Thus, we believe that domestic demand for epoxy resin is growing at a rate faster than the rate of import volume growth. This has led to multiple companies announcing expansion/addition of their epoxy resin capacities over the last couple of years.

In case of Atul, the existing LER plant of 30ktpa capacity was operating at 99% utilization which led to the decision of capacity expansion. Alongside Atul, Grasim expanded its epoxy resin capacity from 123ktpa to 246ktpa, to cater to demand from its newly launched paints business. DCM Shriram (~80ktpa under Board evaluation) and Kukdo Chemicals India (40-60ktpa) will be the new players entering the domestic epoxy market.

We build in revenue growth of 27% YoY for FY25E, primarily led by higher volume growth, while we expect 3-4% growth led by improvement in the pricing environment in H2FY25. We factor in incremental revenue of Rs11.2bn over FY24-27E, on the back of full ramp-up of the new 50ktpa epoxy resin plant @Rs200/kg. Further, value addition from unmodified LER to modified LER will provide optionality in polymer division revenues.

Exhibit 24: Polymer division volumes will continue to grow further in line with FY22-24



Source: Company, Emkay Research

Domestic epoxy resin volume growth led by growing application areas

The future of epoxy resin in India looks promising, buoyed by significant capacity additions and several other factors driving demand across various sectors.

- **Paints and coatings dominating with the largest share:** The paints and coatings sector contributes to greater than 50% of the total market volume. This significant market share is due to use of epoxy resin formulations into protective industrial coatings to decorative paints. The paints industry turnover is ~Rs500bn with top-5 players accounting for 65% share, and more than 75% paint comprises of decorative paints. Epoxy coatings are also widely used as primers to improve the adhesion of automotive and marine paints, especially on metal surfaces where corrosion (rusting) resistance is important. We believe that the sector is poised to see high single digit volume growth led by a favorable consumption-driven budget along with focus on infrastructure.
- **Composites – The second largest application area:** This is driven by increasing adoption of wind energy installations, and the aerospace and defence industries. Epoxies are also used in industrial tooling applications for producing moulds, master models, laminates, castings, fixtures, etc. It helps reduce cost and shorten time for industrial processes. They are more expensive than polyester resins and vinyl ester resins, but generally produce stronger and more temperature resistant composite parts.
- **Robust growth in use of adhesive led by India's construction story:** The government has implemented several transformative schemes to boost the construction sector including the Pradhan Mantri Awas Yojana (PMAY), Metro Rail and MRTS projects, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), and Smart cities mission, demonstrating strong support for housing construction activities. The surge in infrastructure spending budgets directly influences the demand for epoxy coatings, which plays a crucial role in construction by safeguarding cementitious materials, improving structural durability, and providing high-performance flooring solutions.
- **Electricals and electronics:** This segment is witnessing growing demand due to evolving electronics manufacturing ecosystem led by Digital India initiatives and PLI schemes. Also, due to the growing population in India, companies are likely to see better consumption trends. Epoxy formulations are important in the electronics industry and are used in motors, generators, transformers, switchgear, bushings, and insulators. These act as insulators protecting components from short circuiting, dust, and moisture. It also finds applications in making circuit boards (semiconductor).

Exhibit 25: Epoxy resin applications – Areas and share in mix

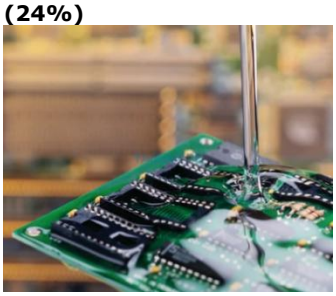
Adhesives (7%)

Composites (8%)

Construction (4%)

Wind Turbine Blades & others (12%)

Electrical & Electronics (24%)



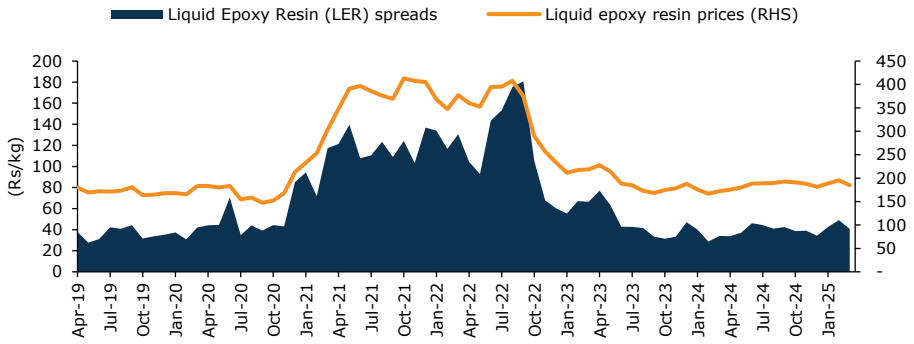
Paints and coatings (45%)

Source: Industry, Emkay Research

Epoxy prices have shown resilience over the last one year, along with muted raw material prices

The polymers division observed pricing growth FY18 onward till FY22, primarily due to Covid-19 led disruptions in the supply chain, followed by the Russia-Ukraine war (Exhibit 24). Post-FY22, prices have corrected back to pre-Covid levels. Unmodified liquid epoxy resin (basic grade) median prices over FY18-25 ranged at Rs180-200/kg but surged to as much as Rs350-400/kg during FY22-23 due to Covid-19 and geopolitical tensions. Prices have now settled at Rs180-190/kg in Mar-25.

Exhibit 26: Unmodified LER spreads bottoming out at ~Rs40/kg



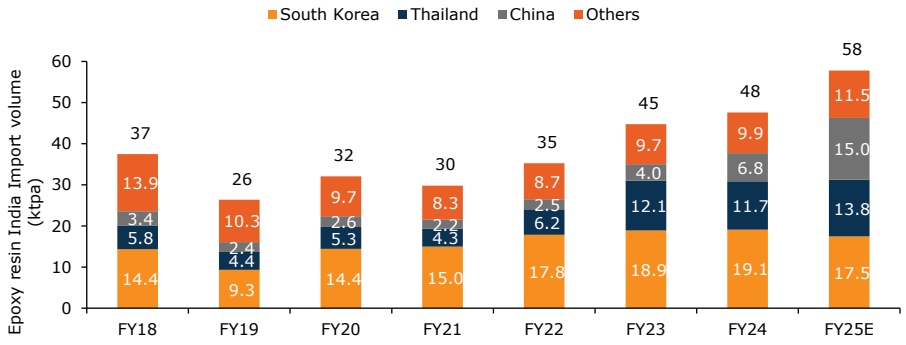
Source: Ministry of Commerce and Industry, Emkay Research

Basic raw materials for epoxy resin are epichlorohydrin (ECH), bisphenol-A (BPA), and caustic Lye. Raw materials, in their respective molecular weight/balance, give average differential spread of ~Rs40/kg over FY18-25 (LER – ECH/BPA/Caustic Lye). Such spreads went as high as Rs170-185/kg in mid-CY22.

We hence conclude that any non-integrated epoxy resin manufacturer (using external Phenol-BPA) would log 25-30% gross margin at best. Due to lower margins, manufacturers tend to go further downstream by adding value-added products based on customer/industry requirements. Atul has indicated its plan to expand its presence in specialty-grade, to find new application/demand areas that will further support margins.

Also, Atul has seen good exports volume of epoxy resin to the US earlier. The imposition of ADD by the US and EU will benefit Atul in terms of pricing due to higher ADD to be levied on Chinese manufacturers, aiding margin support due to import price parity. Prices of epoxy resin in India have been subdued due to cheaper imports due to the free trade agreement (FTA) with South Korea. Lately, China has also been dumping cheaper grades of epoxy resin.

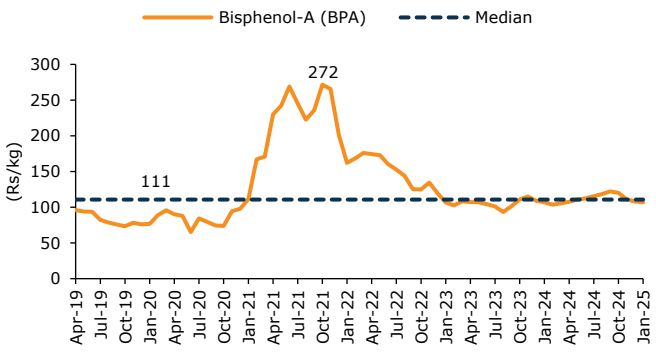
Exhibit 27: China is dumping epoxy resins in India at a cheaper price; ADD under evaluation



Source: Industry, Emkay Research

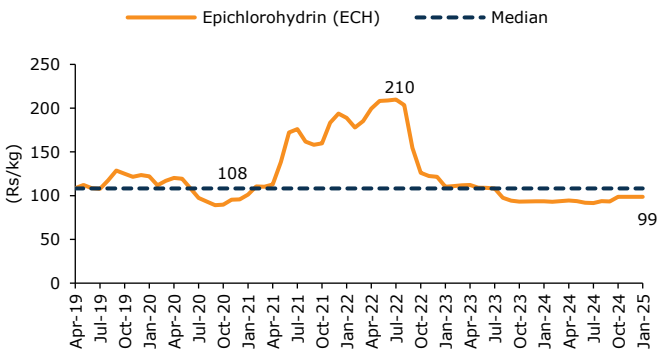
Demand for BPA is linked to the end-demand for epoxy resin and polycarbonate. Pricing for BPA is driven by pricing of phenol and its demand/supply dynamics globally. India imports 100% of its BPA requirement as there is no domestic manufacturer of BPA. Globally, BPA manufacturers are backward integrated from Phenol. Deepak Nitrite is evaluating setting-up BPA capacity in Dahej, but we believe that this will cater to its captive requirement of manufacturing polycarbonate; so, Atul will be compelled to rely on imports.

Exhibit 28: BPA prices are range bound



Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 29: ECH costing set to rise post FY25 for Atul



Source: Ministry of Commerce and Industry, Emkay Research

In case of ECH, 90% of the demand comes from epoxy resin manufacturers. Till FY22, India used to source 100% of its ECH requirement through imports due to nil domestic manufacturing. In FY22, Epigral commissioned its ECH capacity of 50ktpa as part of its import substitution strategy. It recently announced doubling its existing ECH capacity, from 50ktpa to 100ktpa. DCM Shriram will commission its 51ktpa ECH capacity in Q1FY26. Thus, the availability of ECH domestically will not be a concern for Atul amid the implementation of ADD in Nov-24 on ECH imports from China, Korea, and Thailand. ADD implementation has led to increase in domestic prices. Based on our channel checks, we understand that Atul has sufficiently hedged itself from the hike in ECH prices by importing a 5–6-month inventory of ECH prior to the ADD implementation. Thus, spreads for Atul are likely to improve till the end of FY25E, while it will need to pass on the high ECH sourcing cost to customers by hiking epoxy prices FY26 onward, for maintaining margins. Grasim is also setting up an ECH capacity of 50ktpa, largely for captive use.

Exhibit 30: Epoxy resin – Domestic industry snapshot

Particulars	Atul	DCM Shriram	Grasim	Kukdo Chemicals	Epigral
Capacity (ktpa)					
Epoxy Resin	30- to 80ktpa (LER)	80	123 to 246	60 (LER)	N/A
ECH		51	50		50
Capex (Rs bn)					
Epoxy Resin	2 (approved capex) +1.65 (working capital)	10	3.60		N/A
ECH		5-6	4.50		2.75
EBITDA Margin					
Epoxy Resin	15-20%	13-16%	15-17%		N/A
ECH		18-19%	captive use		20%
Asset Turnover					
Epoxy Resin		1.75-2x			N/A
ECH		0.7-0.8x			1.5x
Timeline					
Epoxy Resin	Sep-24	H2FY27	Dec'23	H2FY26	N/A
ECH		Q4FY25	Q2FY26		Operational
Integration		Will be integrated from glycerine onward	Completely forward-integrated till paints		Non-integrated and sell ECH in the open market
Comments		Epoxy project includes Chloromethane capacity of 32ktpa	Evaluating additional capacity expansion of 50ktpa	Capacity as per EC filing	

Source: Emkay Research

Based on the industry snapshot (Exhibit 30), India's epoxy market is likely to be hit by certain over-supply that will take a few years to absorb domestically as well as in the export market due to ongoing ADD investigations in the US and EU. This may also keep domestic prices of epoxy resins subdued in the near term, as demand for epoxy plays catches up.

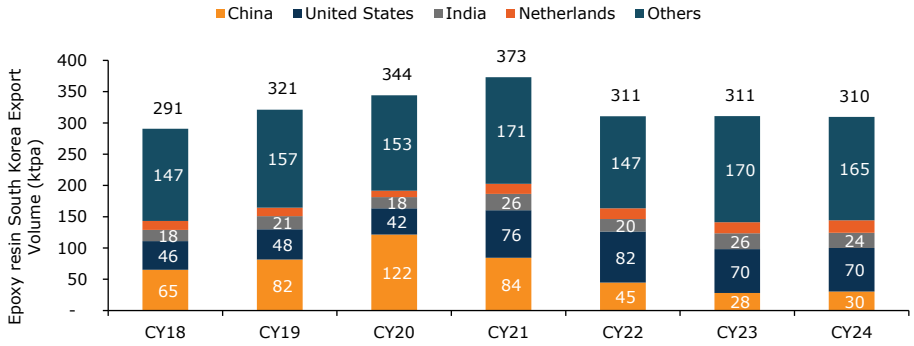
Global trade dynamics

The global epoxy resins and curing agents' market is valued at ~USD13bn (more than 3,800ktpa), and is growing at ~3-4% pa. In contrast, per industry reports, the Indian market is estimated at ~USD410mn (3.4% of the global market), growing at ~8% pa. The Asia-pacific region is the leading consumer market of epoxy resins, driven significantly by strong domestic demand from China and India. The growth in infrastructure and construction activities coupled with the rise in automotive production has spurred the need for paints, coatings, and adhesives.

Industrialized nations are by far the largest producers and consumers of epoxy resins. Major players in the production of epoxy resins in the global market are Olin Corporation (US), Nan Ya Plastics (Taiwan), Jiangsu Sanmu Group (China), Kukdo Chemical (South Korea), Kumho P&B Chemicals (South Korea), Westlake Corporation (Hexion, US), Huntsman Corporation (US), Aditya Birla Chemicals, Atul, etc.

Global trade for epoxy resins is led by South Korea. Nearly 8% of the global demand is served by South Korea in terms of exports. Per industry reports, South Korea clocks epoxy resin production of ~517ktpa as of CY23, taking the total share of South Korea in global demand to 13-14%. We observe that South Korea's export growth was trending upward till CY21, after which we see a decline in South Korea's export to China, as the Chinese added excessive phenol capacities along with downstream integration to BPA-Polycarbonate-Epoxy Resin. This led to reduced dependence on external epoxy resins. We see visible pressure on Korean manufacturers, to maintain its export share, while there is a decline in market share due to increase in exports from Chinese.

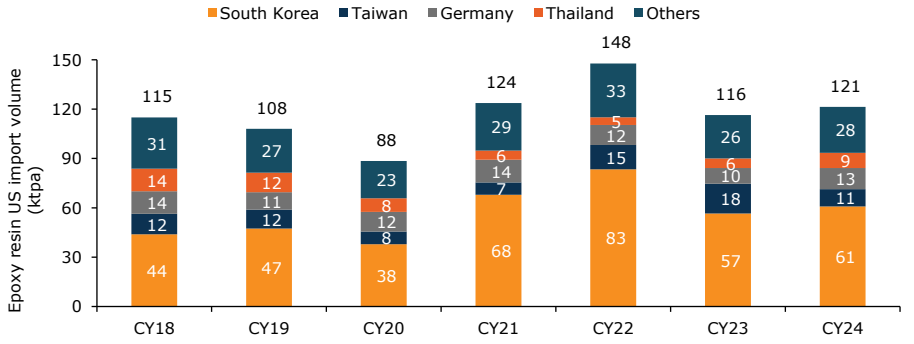
Exhibit 31: South Korea's exports flat over the last 3 years



Source: Industry, Emkay Research

Germany (along with other EU countries), China, and the US are the other big exporting nations of epoxy resins after South Korea. These nations are largely catering to demand across countries, ie the largest importers also being EU nations, China, USA, and Germany. Other big importing countries in CY23 were Mexico (72ktpa), Turkey (~65ktpa), Japan (~45ktpa), Brazil (~45ktpa) and India.

Exhibit 32: 50% of the US epoxy resin imports are from South Korea



Source: Industry, Emkay Research

We observe that US import demand has not improved over CY18-24. It has been hovering at 115-125ktpa, with CY20 an aberration. The shift in market for Korean manufacturers, from China to the US, is visible in the US import data of CY22, while import volumes from other countries have been steady over the years. This led to ADD and the concurrent countervailing duty (CVD) investigations by the US government.

On Nov-24, the US government announced its preliminary affirmative determinations in the ADD investigations of epoxy resins from China, India, Korea, Taiwan, and Thailand. It is conducting concurrent CVD investigations of epoxy resins from China, India, Korea, and Taiwan. The dumping margins are largely higher for Chinese manufacturers.

Exhibit 33: Preliminary dumping margins to US and Europe

Exporter/Producer	Country	Dumping margin (%) USA	Dumping margin (%) Europe
China-wide Entity	China	354.99	140-170
Atul	India	12.01	
Champion Advanced Materials	India	15.68	
Other India entity	India	12.01	
Kukdo Chemical	Korea	24.65	
Kumho P&B Chemicals	Korea	16.02	
Other Korea entity	Korea	21.56	10-40
Nan Ya Plastics	Taiwan	20.61	
Chang Chun Plastics	Taiwan	9.43	
Other Taiwan entity	Taiwan	14.81	20-40
Aditya Birla Chemicals (Thailand)	Thailand	5.59	
Other Thailand entity	Thailand	5.59	60-90

Source: Industry, Emkay Research

The EU proposed that ADD on epoxy resin imports from China, Taiwan, and Thailand could significantly impact the Asian BPA market. Key companies under scrutiny include Jiangsu Sanmu Group, Sinochem Group, Changchun Chemical (Jiangsu), and Aditya Birla Chemicals (Thailand), facing duties up to 40.8%. In Europe, ADD could impact ~70-100ktpa of imported epoxy resins from China, Taiwan, and Thailand (these were total volumes in CY24). EU producers are hoping to recapture this market share and, by doing so, will continue to push for price increases in a bid to improve margins, which have been close to or below production cost levels for almost 2-3 years following the onset of the Russia-Ukraine war.

Also, with ADD in both regions essentially closing the door on Chinese imports, Asian suppliers have been given the impetus to push for price increases. South Korean suppliers are also raising prices, now that Chinese competition is been eradicated from Europe.

With reduced epoxy resin exports to Europe due to ADD, BPA consumption in China, South Korea, and Taiwan may decline further, exacerbating oversupply issues. Looking ahead, BPA prices in Asia-pacific are likely to face renewed downward pressure as supply continues to outpace demand. New BPA projects set to come online in CY25, adding 720ktpa of capacity, will further intensify competition, exacerbating oversupply and making price recovery difficult amid excess market supply.

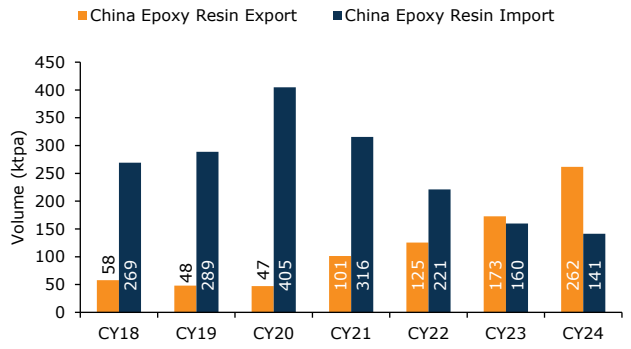
In the US, there is huge uncertainty—firstly from the ADD investigation during CY24, and then from the looming threat of tariffs on Mexican, Canadian, and Chinese imports. This has driven buyers back into their domestic markets. Manufacturers are succeeding in getting price hikes. We see that markets are expected to remain on an uptrend until at least H1CY25.

We believe that Atul should make extra effort in securing the Chinese market share before EU countries start benefitting from ADD. Atul is poised to gain market share in both, exports as well as the domestic market. India is facing ADD only from the US, and it is lower compared with the other epoxy resin producing countries which should also benefit. Also, there is a win-win for Atul on the margin front as well, due to no upside risk in BPA prices in the near term. Only, increasing ECH prices in the domestic market remains a challenge for the company (currently ECH prices are on an upward trend due to ADD).

The China factor

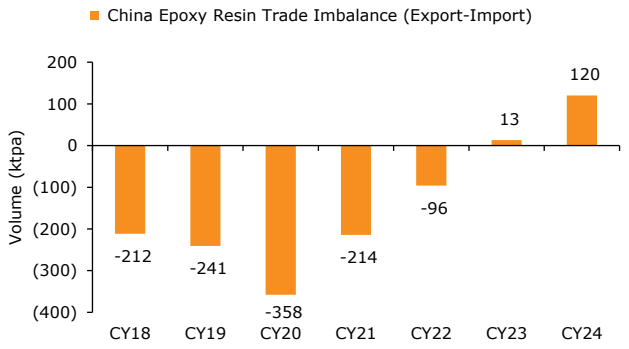
China's epoxy resin industry has reached a new turning point, focused on expanding exports to international markets for combating the current surplus due to persistent weakness in their domestic construction sector. This situation stems from the country's capacity expansion since CY20, to accelerate the slow development of epoxy resin.

Exhibit 34: China's import dependence rate decreased from CY20 onward...



Source: Industry, Emkay Research

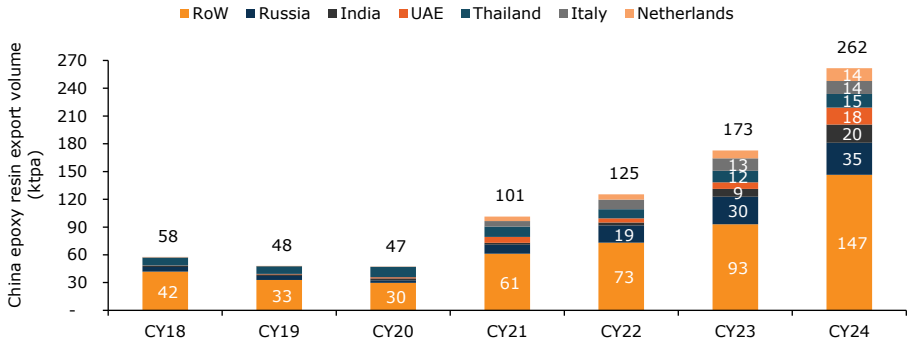
Exhibit 35: ...after substantial capacity additions; this led to China turning into a net exporter from CY23



Source: Industry, Emkay Research

From CY20, China's reliance on imports has fallen from 405ktpa to 141ktpa in CY24. Interestingly, exports have increased to 262ktpa from 47ktpa. China is seeing rising share of exports in global trade with a diverse mix of geographies. Russia is the largest export destination with 13% share, followed by India at 7.6%. We believe that this diversification may make China susceptible to any global uncertainties.

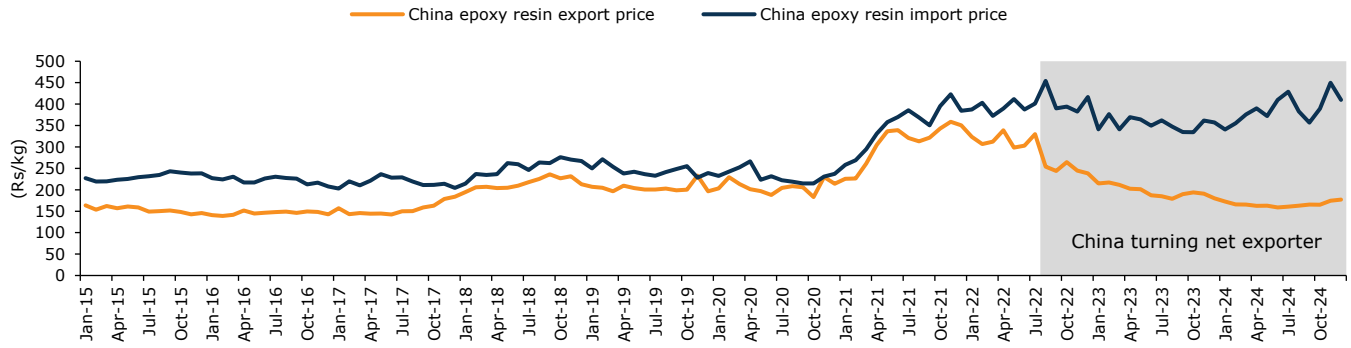
Exhibit 36: China's epoxy resin exports sprinkled across geographies



Source: Industry, Emkay Research

Also, China has been aggressively gaining export market share by dumping basic LER at lower realizations. We understand that China's customers are not sticky as they are buying base grades and can be replaced by offering value-added modified epoxies at competitive rates.

Exhibit 37: China is exporting more of LER and importing formulated resins

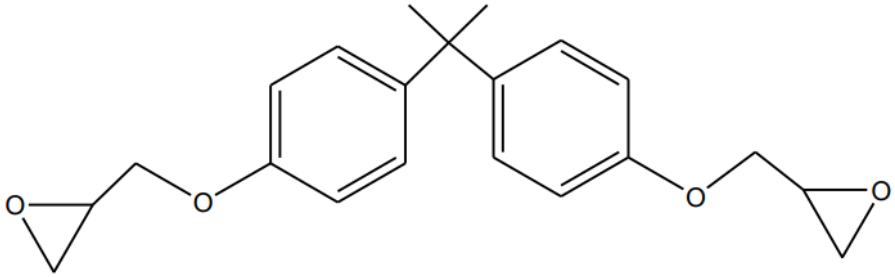


Source: Industry, Emkay Research

Manufacturing epoxy resins and its formulations

The most common epoxy resins are obtained by reacting ECH with a polyhydroxy compound such as BPA, in the presence of a catalyst. Epoxy resins produced in this manner are called diglycidyl ethers of bisphenol-A (DGEBA). DGEBA dominates the India epoxy resins market, accounting for ~65% of the total market volume. DGEBA resins have excellent mechanical properties, chemical resistance, and superior adhesion capabilities. By changing the ratio of ECH to BPA, resins ranging from low viscosity liquids to high melting solids can be produced. LERs can be further reacted with BPA by chain extension to form solid epoxy resins.

Exhibit 38: LER chemical structure – Diglycidyl Ethers of bisphenol-A (DGEBA)



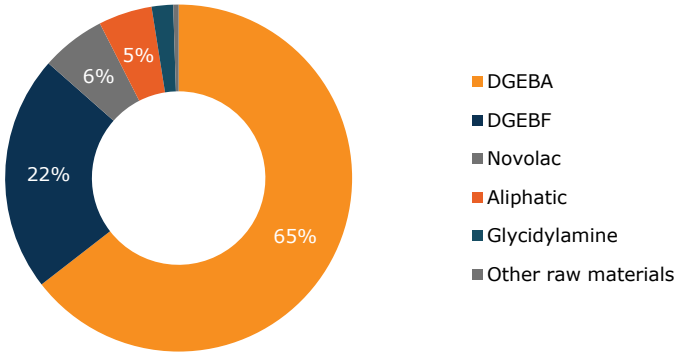
Source: Industry, Emkay Research

The commodity epoxy manufacturers typically do not sell epoxy resins in a form usable to smaller end-users, so certain companies that purchase epoxy raw materials from the major producers and then compounds (blends, modifies, or otherwise customizes) epoxy systems from these raw materials. These companies are known as formulators.

Many of the epoxy systems sold are produced by these formulators and they comprise over 60-65% of the value of the epoxy market. Presently, due to tight competition in the LER market globally, large manufacturers are looking to go downstream by developing value-added products. There are hundreds of ways that these formulators can modify epoxies by adding mineral fillers (eg talc, silica, alumina, etc), by adding flexibilizers, viscosity reducers, colorants, thickeners, accelerators, adhesion promoters, etc.

These modifications are made to reduce costs, improve performance, and enhance processing convenience. As a result, a typical formulator sells dozens or even thousands of formulations each tailored to the requirements of a particular application or market. Atul has a large portfolio of modified epoxy resins that are different in terms of their color, epoxy equivalent weight (EEW), viscosity, softening point, and content mixed. For example, LER is modified with glycidyl ether of alcohols, ortho cresol, butanol, para-tertiary butylphenol, etc.

Exhibit 39: BPA-based epoxy resins account for 65% of the market share



Source: Industry, Emkay Research

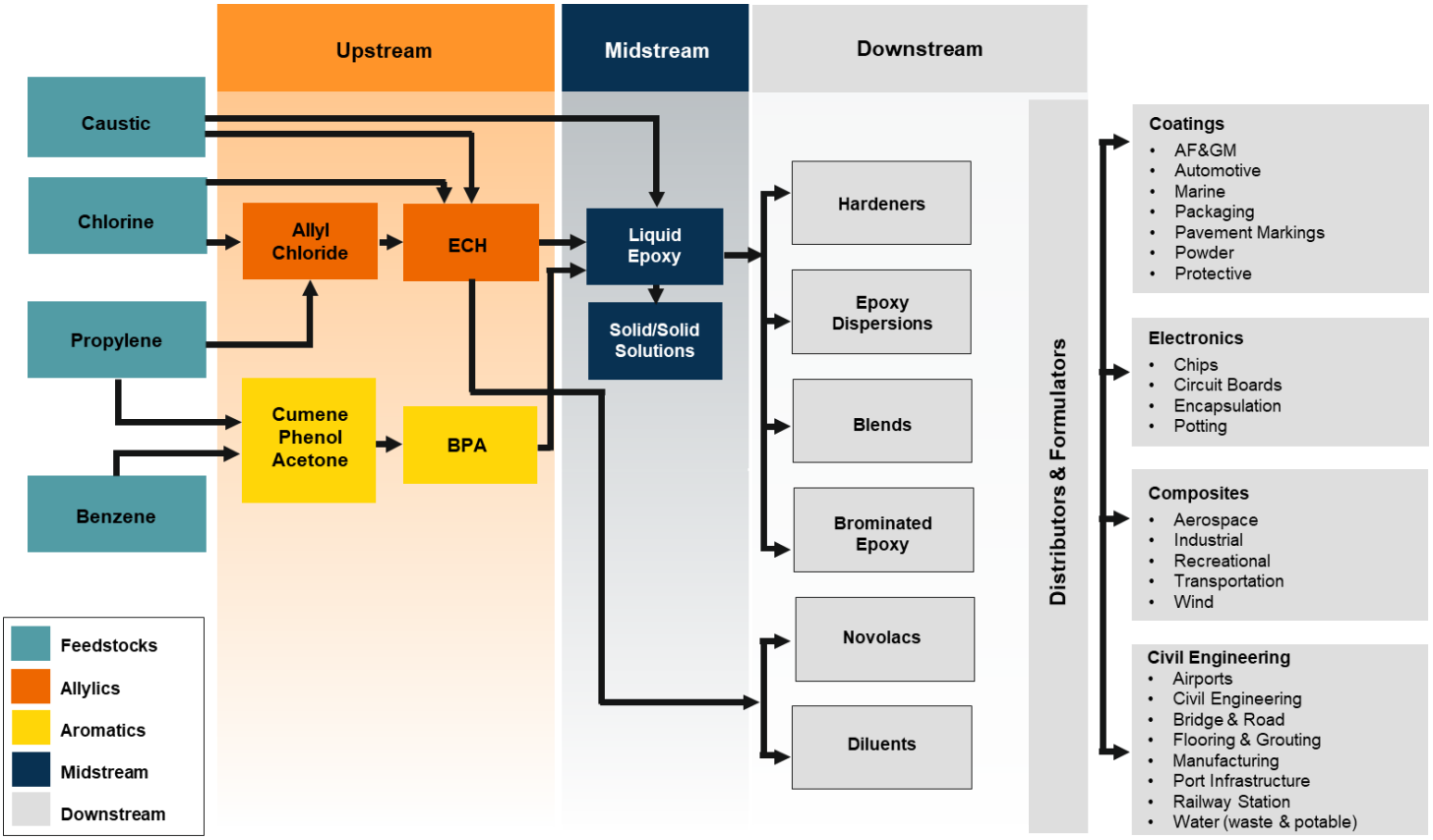
The other types of epoxy resins include DGEBF (Bisphenol F and ECH), novolac epoxy (formaldehyde and phenols), aliphatic (aliphatic alcohols), glycidylamine (aromatic amines and ECH), and other raw materials. The epoxide group will readily react with a variety of functional groups (eg amino, hydroxy, carboxy), thus allowing for use of a variety of curing agents that give the epoxy resins their great versatility.

Exhibit 40: Types of epoxy resin and its applications

Resin	Application
LER, DGEBA, Solid epoxy resins	Coatings, castings, tooling, flooring, adhesives, composites, Powder coating, epoxy esters for coatings; can, drum and maintenance coatings
Bisphenol A epoxies	Coatings
Multifunctional phenol epoxy novolac	Castings, coatings, laminates
Multifunctional cresol epoxy novolac	Electronics encapsulants, powder coatings, laminates,
Other multifunctional epoxies	Composites, adhesives, laminates, electronics
Cycloaliphatic epoxies	Electrical castings, coatings, electronics
Brominated epoxies	Printed wiring boards, composites
Epoxy vinyl esters	Composites

Source: Emkay Research

Exhibit 41: The Epoxy value chain



Source: Emkay Research

Curing agents work along with epoxy resins

Curing is a chemical process used in toughening or hardening of a polymer material by cross-linking of polymer chains. It is a part of polymer chemistry and process engineering. In the process, the monomers mixed with or without curing agents react to forming a 3D polymeric network. Curing can be induced by heat, radiation, electron beams, or chemical additives.

Epoxy resins are cured using additives called hardeners. Polyamines are used to ring-open the epoxide rings for cross linking. In case of rubber, the curing is induced by sulfur as it breaks down to form polysulfide cross-links (bridges) between sections of the polymer chains. The degree of crosslinking determines rigidity and durability.

Atul offers a wide range of curing agents with various applications in the form of aromatic amines, aliphatic amines, cycloaliphatic amines, polyamides, and phenalkamines.

Exhibit 42: Types of curing agents

Curing agent	Properties	Applications
Aromatic Amines	Available in liquid/solid forms used to cure resins at ambient conditions; offer higher thermal stability and chemical resistance, along with excellent mechanical properties	Composites and laminating, battery cases and terminal sealing, high chemical resistant industrial flooring, coatings, chemical resistant tank linings and flooring, manufacture prepregs for PCBs, powder coating and electronic molding compounds (EMC)
Aliphatic Amines	Good mechanical, adhesion and dielectric properties, along with excellent corrosion and chemical resistance, and high thermal stability	Protective coatings, fast-setting adhesives and mortars, construction and civil engineering, electrical and electronics, and composite applications
Cycloaliphatic Amines	Strong adhesion, good early water-spotting resistance, UV light resistance, low yellowing tendency, good color stability, and high gloss finish	Standard for civil engineering; coatings, self-leveling floorings, primers, top-coats, mortars, water-wipeable tile grouts, adhesive, and composite applications
Polyamides	Formulated into solvent-based systems, which mostly offer a long pot-life, non-critical mix ratios, strong adhesion to metal surfaces, high corrosion resistance, and high flexibility	Civil applications such as concrete primers, epoxy mortars, adhesives and concrete repair systems; natural fatty acids make it suitable for food-contact coatings; also used in floor coatings, ships and heavy-duty primers, anti-corrosive metal coatings, structural adhesives, putties, sealants, cable jointing, and electrical encapsulation
Polyamidoamines	Offer curing at low temperatures and underwater, with no need for induction. It has low viscosity, high water resistance, excellent adhesion to concrete, and broad reactivity	Used as concrete bonding and crack injection in environments like factories and laboratories; preferred choice for anti-corrosion coatings, high solid coatings concrete primer and adhesives, and for processes like electrical encapsulation and wet lay-up laminating
Phenalkamines	Reaction product of cardanol (derived from Cashew shell nut liquid) and polyamine; fully cured at considerably low temperatures even in moist conditions, and have excellent drying and hardening ability, outstanding adhesion, and excellent corrosion resistance	Marine and protective coating (pipes in industrial plants) and primer applications, especially in cold conditions; tank linings for potable water
Phenolic Curing Agents	Excellent chemical resistance, surface adhesion, and reduced water sensitivity, giving superior compatibility with solid epoxy resins; good service life at elevated temperatures	Formulations of fusion bonded epoxy and powder coatings; also used in decorative coatings

Source: Company, Emkay Research

Dapsone (4,4'-diaminodiphenylsulfone/4,4'-DDS) is one of Atul's top selling curing agents (hardener) for epoxy resins. It is a part of its aromatic amine curing agent's group. The use of 4,4'-DDS along with DGEBA produces flame retardant epoxy/clay nanocomposites due to its enhanced thermal and mechanical properties. Atul largely exports 4,4'-DDS to China, USA, and Europe (UK and Netherlands). It has diversified its customer share in the export market, while Atul has been making curing agents for Huntsman Corporation under brand 'Aradur'. The price for this product ranges at Rs750-850/kg depending on the purity levels. 4,4'-DDS is also used as a drug for the therapy of leprosy and dermatitis herpetiformis (antibacterial and anti-inflammatory properties).

4,4'-DDS is made by ammonolysis of 4,4'-Dichloro Diphenyl Sulphone (4,4'-DCDS) in the presence of carbon, methanol wash, and a catalyst. 4,4'-DCDS is an organic compound precursor to 4,4'-DDS and other polymers that are rigid and temperature resistant. The price for this product ranges at Rs300-350/kg. Atul sells this product mainly to Japan and South Korea. Mono chloro benzene and dimethyl sulphate are required to make 4,4'-DCDS.

We expect the world market for sulfones (curing agents) to see 6% revenue CAGR over coming years. The current market size for sulfones is ~USD420mn. We expect that the revival in demand in the export markets, particularly from Europe, will aid better margins.

Increasing reactive diluents capacity along with specialty resins

Reactive diluents are used to reduce the viscosity and surface tension of epoxy resins. They reduce stickiness without increasing volatility. A reactive diluent is mixed with epoxy resins to achieve the desired combination of properties. Atul offers a wide range of reactive diluents, including aromatic and aliphatic, which provide various functionalities. Reactive diluents are not common to all products and need to be guided for specific applications.

Exhibit 43: Types of reactive diluents

Reactive diluent	Properties	Based on	Applications
Aliphatic - monofunctional	Lowest viscosity; reduces cross-link density of the epoxy polymer; mechanical strength and temperature resistance is affected on higher usage	C_{12}-C_{14} alcohol; n-butanol	Epoxy flooring and coating applications
Aliphatic - difunctional	Little effect on cross-link density; good retention of mechanical properties even at elevated temperatures	1,4-butanediol; ,6-hexanediol; polypropylene glycol; neopentyl glycol; dipropylene glycol	Construction, coating and compositive formulations
Aliphatic – trifunctional	Higher viscosity than mono and difunctional, and better temperature and chemical resistance	Trimethylol propane; castor oil	Construction, coating and compositive formulations; thermal shock resistant potting
Aromatic - Monofunctional	High diluting power with dilution efficiency increasing with decreasing epoxy equivalent weight (EEW); high gloss and mechanical strength	o-Cresol; phenol; p-tertiary butyl phenol; cardanol	Construction, coatings, adhesives, flooring and electrical formulations
Aromatic - Difunctional	Excellent for reducing viscosity, usually with minimal effect on cross-link density, thereby maintaining mechanical properties, even at elevated temperatures	Aniline	High performance composite formulations
Cycloaliphatic – Difunctional	Good electrical insulation, UV, and weather resistance	1,4-cyclohexane dimethanol	

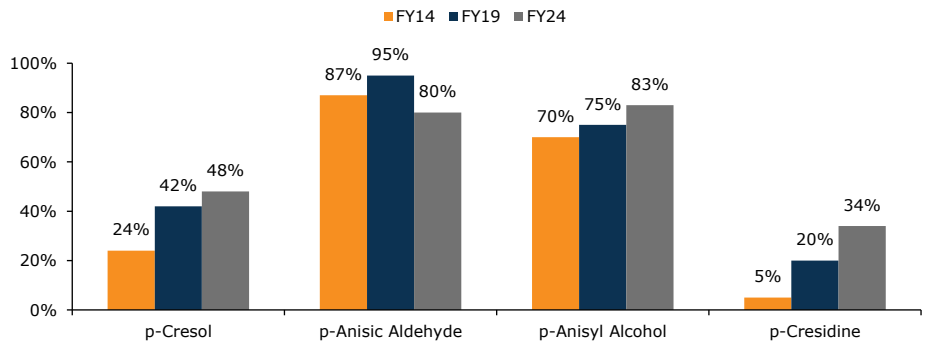
Source: Company, Emkay Research

Atul holds significant market share in India and is the only other manufacturer in India apart from Aditya Birla's Advanced Materials' business. Reactive diluents have application in multiple end-user industries, primarily into paints and coatings. The product cost varies over Rs200-300/kg. Atul's customers are concentrated in Europe, the Middle East, and the US. We believe that the reactive diluent's capacity for Atul is in the 3,000-4,000tpa range, and plants are operating at optimum utilization. As a result, the company is focused on debottlenecking existing capacities/adding new capacities.

Aromatics – Will witness increased utilization

Atul manufactures aromatic ingredients primarily for fragrance and personal care industry customers. The division has a portfolio of about 41 intermediates, of which para-Cresol contributes the highest to the total aromatics sales at ~40-45%, followed by its derivatives like p-Anisic Aldehyde, p-Anisic Alcohol, and p-Cresidine. The cumulative capacities of these products have grown over time, with increase in market demand, and resulting in higher global market share for the company. We expect growth in this segment to be largely driven by ramp up in utilization of p-creso capacity and debottlenecking some of its derivatives. Accordingly, we have built in incremental revenue of Rs2.6bn over FY24-27E in our estimates, considering the company's unrealized sales potential of Rs2.4bn on current pricing.

Exhibit 44: Atul's market share in key aromatic products

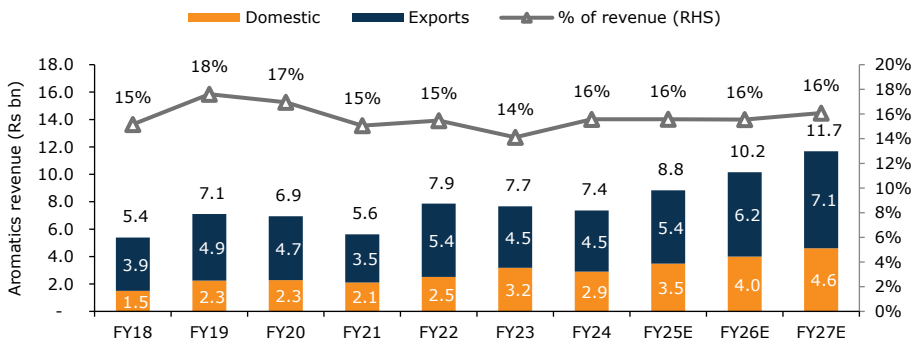


Source: Company, Emkay Research

This aromatics business exhibited revenue CAGR of 9% (volume CAGR: 6-7%) during FY21-24, largely driven by the strong volume recovery of p-Cresol. We forecast revenue CAGR of ~17% during FY24-27E, driven by:

- volume ramp-up of p-Cresol capacity over FY26-27 gaining share in exports;
- debottlenecking and ramp up in capacity utilization of downstream products, viz p-Anisic Aldehyde, p-Anisyl Alcohol, and p-Cresidine;
- introduction of new products (perfumery and cosmetic ingredients). We see that Atul has taken approvals from the related Ministry for several flavors and fragrance intermediate products. The company has commercialized 2 fragrance-related products in its kilo lab;
- growth in end-use industries:
  - personal care market size is USD30bn, seeing 5% CAGR globally, while penetration in India is lesser compared with global demand. Growing consumption of soaps, perfumes, and shampoos should boost demand in the Indian market,
  - higher demand for antioxidants in the food and flavor and cosmetics industries. The fragrance industry at USD14bn is seeing 3.8% CAGR while in India, growth is capped at 5% CAGR.

Exhibit 45: Aromatics division to see 17% revenue CAGR over FY24-27E

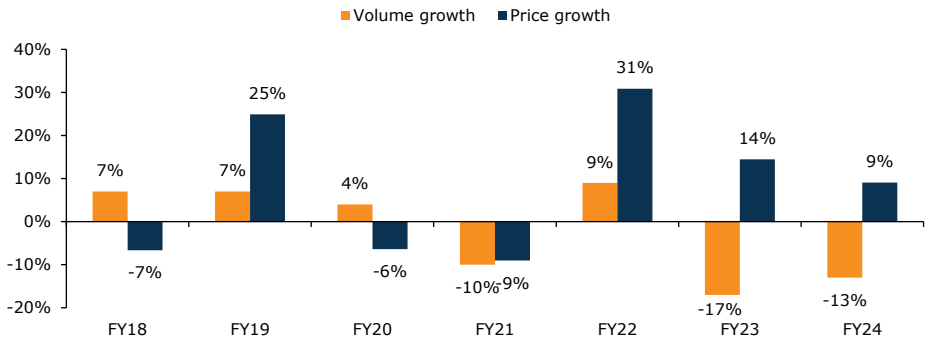


Source: Company, Emkay Research

Aromatics division revenue was largely stable over FY19-24, after taking into consideration the slower pace of growth in its key product p-cresol. Per the company, the world market for p-cresol is 70ktpa and seeing 2% CAGR. Though, earlier the product used to be manufactured in UK and US, now Germany, China, India, and South Africa are the major suppliers.

Over the last 2 years (FY23/24), Atul has seen slowdown in its para-cresol volume ramp-up, as the volume de-growth was 17% and 13%, respectively, while prices saw an increase, leading to a marginal de-growth in the overall topline. After expansion of Atul's para-cresol capacity from 28ktpa to 36ktpa in FY20, the company has not been able to re-gain market share in Europe. We believe there is a shift in the supply chain for para-cresol manufacturers and customers. European customers are purchasing from Lanxess in Germany, and the Chinese are buying from Atul. We should see sharp volume growth for Atul in FY25E, in p-cresol (~25-30%), with stable pricing.

Exhibit 46: After seeing a steep decline in volume in FY23-24, we believe the Aromatics segment would gain on volume front in FY25E



Source: Company, Emkay Research

Para-cresol, the key building block for Atul

Para-cresol (4-Methylphenol, C_7H_8O) is the building block used for making para-Anisic Aldehyde, para-Anisic Alcohol, and para-Cresidine. It is a derivative of toluene and is widely used as an intermediate in the production of various chemicals. There are three industrial methods to manufacture para-cresol. Atul follows the sulfonation of toluene method. Toluene is sulfonated with sulfuric acid to form paratoluenesulfonic acid, which is then hydrolyzed under alkaline conditions to yield para-Cresol. This is a green process and does not generate excess free acid and the by products are sold in the market.

Atul manufactures 1mt para-cresol using 0.93mt of Toluene, 0.90mt of sulphur trioxide, 0.60mt of sulphuric acid, and 1.80mt of caustic soda (mixed along with catalyst and water). The reactions generated para-cresol as well as sodium sulphite and sulphate.

Para-cresol finds diverse applications, which are:

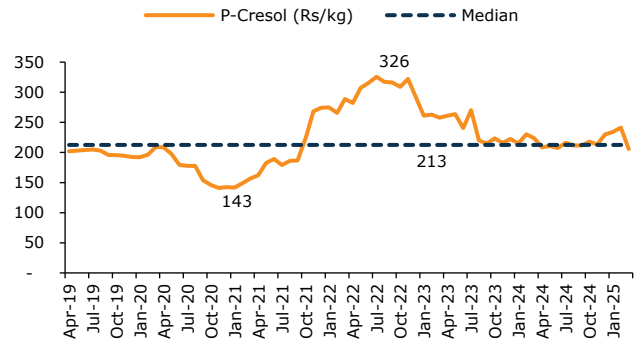
- **Chemical Intermediates**: Used in the synthesis of antioxidants, dyes, and fragrances.
- **Pharmaceuticals**: Play a role in the production of antiseptics and various pharmaceutical compounds.
- **Personal Care**: Incorporated into disinfectants and antiseptic products.
- **Polymers and Resins**: Serve as a precursor in the production of thermosetting resins.

Based on the aforementioned applications, demand drivers are robust. Rising demand for antioxidants in food, cosmetic, and industrial applications is the major contributor followed by use in pharmaceuticals, given its antiseptic and disinfectant properties. As a chemical intermediate, it is used in the synthesis of Butylated Hydroxytoluene (BHT), flavors and fragrances, pesticides, and resins.

Atul's current p-cresol capacity of 36ktpa is operating at 70% utilization (25ktpa). We believe there is significant room for improvement. Of the 25kt produced, India is expected to export 12-13ktpa of p-cresol based on government trade data as there is no other manufacturer of p-cresol in India. Also, there is a domestic market of 1.5-2ktpa. Thus, balance volumes of 8-9ktpa are used to produce downstream products.

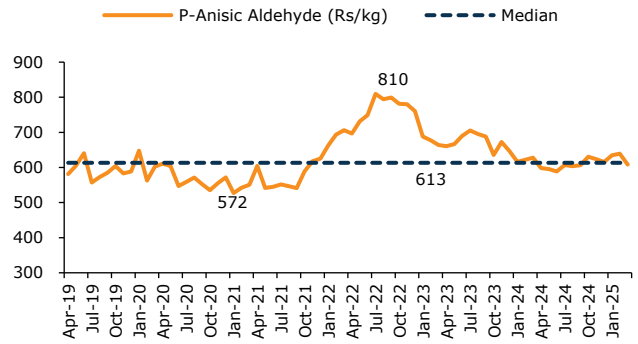
Prices of p-cresol have been largely stable from mid-CY23 till date. The fluctuation in pricing is largely led by steep volatility in the toluene and caustic soda prices, which have been lower post the Russia-Ukraine war.

Exhibit 47: P-cresol prices have been stable over the last 2 years, with a dip in Mar-25 amid tariff war uncertainty



Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 48: p-Anisic Aldehyde prices moving in tandem with those of p-cresol



Source: Ministry of Commerce and Industry, Emkay Research

p-Anisic Aldehyde (4-methoxybenzaldehyde) claims the second largest revenue share in the aromatics segment. Atul enjoys a monopoly in this product in FY19, at 95% market share then. Current market share of p-anisic aldehyde is 80% as of FY24. We can assume that one of Atul's p-cresol competitors forward integrated into p-anisic aldehyde. Based on global trade data, a European competitor has gained market share in the EU and US. Atul is the largest supplier to China. There are 2 other Indian manufacturers of this product, viz Nandolia Organic Chemicals and Ascent Finechem. We understand that Atul has 8.4ktpa of manufacturing capacity in this product, and is further debottlenecking capacity. This debottlenecking is likely to help Atul regain the market share lost to competitors.

p-Anisic Aldehyde is largely sold as a fragrance agent in perfumes used to create floral accords, those like lilac and mimosa notes. It is also used for pharma and sunscreen applications.

Atul manufactures 1mt p-anisic aldehyde using 1.05mt of p-cresol, 0.53mt of caustic soda, 0.83mt of dimethyl sulphate, 2.78mt of sulphuric acid, and 0.35mt of calcium carbonate (mixed along with manganese dioxide and water). The reactions generate p-anisic aldehyde as well as manganese sulphate and sodium sulphate, which can be sold in open market.

Atul's **p-Anisyl Alcohol** (4-Methoxybenzyl alcohol) capacity is likely to be 3,000mt as of now. p-anisic aldehyde is hydrogenated in the presence of nickel catalyst to generate this product. This product is used as an intermediate for perfumery products. It has a sweet, floral, and a mild anisic and balsamic odor. There is one other manufacturer of this product in India apart from Atul.

p-Cresidine market share for Atul has increased over the last 10 years along with the market size. This product is used as an intermediate in producing dyes, p-cresidine ortho sulphonic acid (PCOSA: precursor to red food color), and vinyl sulfones. Supreet Chemicals is the other manufacturer of this product in India, with two other competitors in China. The capacity for this product is ~600mt. Atul utilizes 0.9mt of p-cresol along with other inputs to prepare 1mt of p-cresidine.

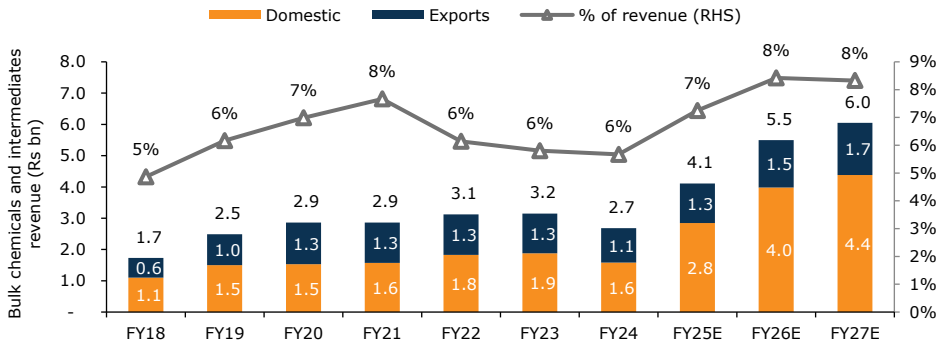
Focus on high-value cosmetic products within the aromatics segment

Atul is focusing on entering the cosmetics, flavor, and fragrances vertical within the aromatics segment, for reducing its dependency on P-cresol and its derivatives (aforementioned). The company already has capacities to produce anethole (13x sweeter than sugar), raspberry ketone, p-anisyl propanal, avobenzone, octacrylene, and octyl methoxy cinnamate. Atul has received necessary approvals to further expand its product portfolio in this segment.

Bulk chemicals and intermediates segment to drive margin expansion led by captive consumption

The products manufactured under this segment are mainly used for Atul's internal consumption. These products are generally used by customers belonging to the cosmetic, dyestuff, pharmaceuticals, and tyre industries. The segment comprises of 23 products, viz resorcinol, resorcinol-formaldehyde resins, 1,3-Cyclohexanedione (1,3-CHD), etc. In FY24, revenue from this segment fell 15% YoY, primarily led by a 25% decline in prices and offset by 10% volume growth.

Exhibit 49: Bulk chemicals and intermediates revenue to see 31% CAGR over FY24-27E



Source: Company, Emkay Research

The segment reported revenue CAGR of -2% during FY21-24, largely owing to the stable sales volume and pricing. The company has guided to unrealized sales potential of Rs600mn going forward. We have built in revenue CAGR of ~31% over FY24-27E, driven by:

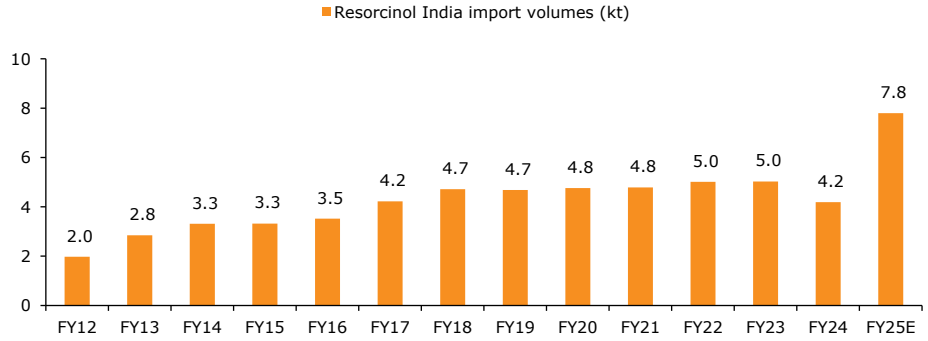
- volume ramp-up of the new caustic soda capacity over FY26,
- increase in share of RF resins with key customers,
- addition of chlorine, hydrogen, and sulfuric acid downstream value-added products.

Resorcinol is the largest product sold externally in this segment

Atul commenced resorcinol production in CY03, following upgradation of an old beta-naphthol plant. The company commenced manufacturing of RF resins in FY07 and subsequently extended its presence in the value chain through the development of 1,3-CHD. It currently has a capacity of 3,000tpa.

Production of resorcinol has been ~2,500mt for the last 4-5 years, with about 20% of production used for captive consumption (for making RF resins and for 1,3-CHD). Resorcinol exports are lumpy and have been ranging at 500-700mtpa. While imports were also steady at 4.7-5ktpa, FY25E is expected to see steep rise in imports for resorcinol led by dumping from Japan and China.

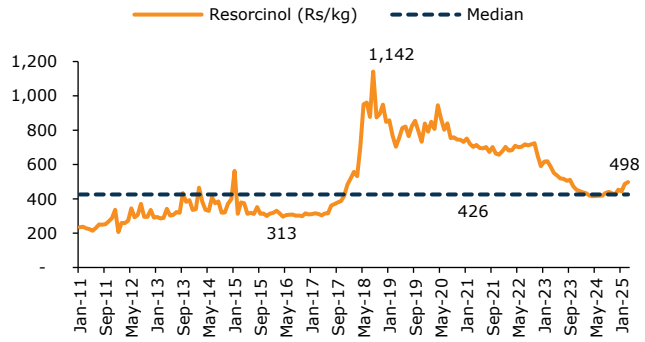
Exhibit 50: Resorcinol imports have increased ~55% in FY25E vs the last 6-year average



Source: Ministry of Commerce and Industry, Emkay Research

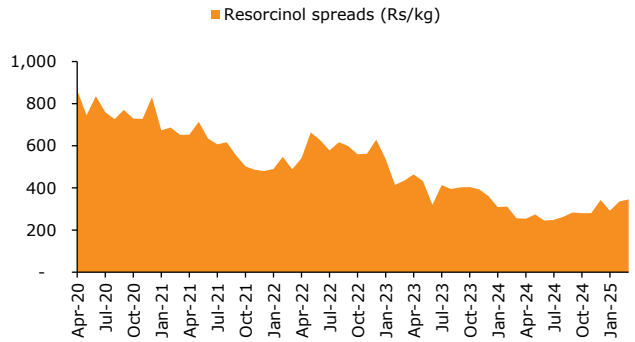
Atul has filed a complaint with the government of India for anti-dumping investigation of imports from Japan and China. This has led to a visible reduction in prices over the last 2 financial years. Resorcinol imports prices moved up sharply in FY18, to a peak of ~Rs1,142/kg, and have been correcting since then due to the oversupply situation of this product. The median price during FY12-25 was Rs426/kg due to steep volatility. Resorcinol prices have cooled down in FY24 and shown signs of recovery in Q4FY25. As a result, we may see some margin benefit for Atul from recovery in resorcinol spreads due to lower costs of caustic soda and sulfuric acid.

Exhibit 51: Resorcinol prices have stabilized and been improving after a long drawn-out price correction



Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 52: Resorcinol spreads likely to improve amid lower feed costs and rising demand



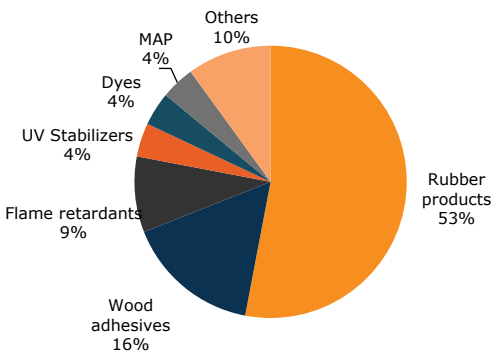
Source: Ministry of Commerce and Industry, Emkay Research

Resorcinol is a phenol derivative and widely used as a building block for making formulations with formaldehyde to produce wood adhesives, steel tyres, and synthesis of chemicals for use as UV blockers. Resorcinol being an important component of an adhesion system, together with formaldehyde and synthetic rubber latex, is used in the manufacture of all tyres. Atul also sells RF resins and will be focusing on increasing wallet share with customers.

Majority of these applications were related to the automotive and construction sectors, which were impacted during Covid-19 and in turn which led to resorcinol prices to fall. The global market for resorcinol is USD378mn (in volume terms: 65-70ktpa) and seeing CAGR of 3.9%. Globally, resorcinol is used for tyre/rubber applications, while in India it is largely used by tyre manufacturers. Use of resorcinol in flame retardants and UV stabilizers in India is expected to show higher growth for Atul in future.

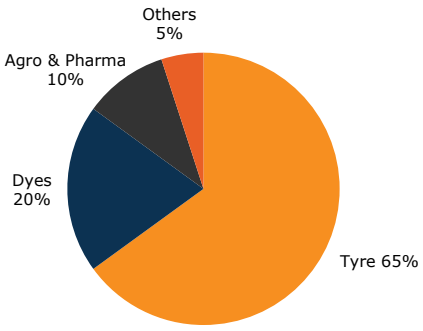
1,3-CHD is a derivative of resorcinol which is primarily used in the pharmaceutical and agrochemical industry. It is used to manufacture carvedilol API (to treat heart failure), mainly by the likes of Bayer and Syngenta.

Exhibit 53: Global demand for resorcinol is 65-70ktpa



Source: Industry, Emkay Research

Exhibit 54: Indian demand for resorcinol expected to grow beyond 10ktpa in FY25E



Source: Industry, Emkay Research

Sumitomo Chemical in Japan (32ktpa) and Amino-Chem in China (25ktpa) are the largest manufacturers of resorcinol globally. India will import close to 7,800mt of resorcinol in FY25E, taking the total domestic demand from 7,000mt to more than 10mt. Given the tight demand-supply gap in the domestic market and better margins, investment in resorcinol seems an attractive proposition.

Products for captive consumption to grow as the company expands

Atul invested ~Rs1bn in a 300tpd caustic soda plant and a 50MwH power plant through a combination of debt and share capital. The project was undertaken in Atul's wholly-owned subsidiary—Atul Products, while the plant location is within Atul's integrated complex in Gujarat. The company commenced its caustic soda operations from this project in Jan-24. The primary objective of the plant is to support captive requirement of caustic soda, chlorine, and hydrogen, reducing reliance of third-party vendors and mitigating pricing risk.

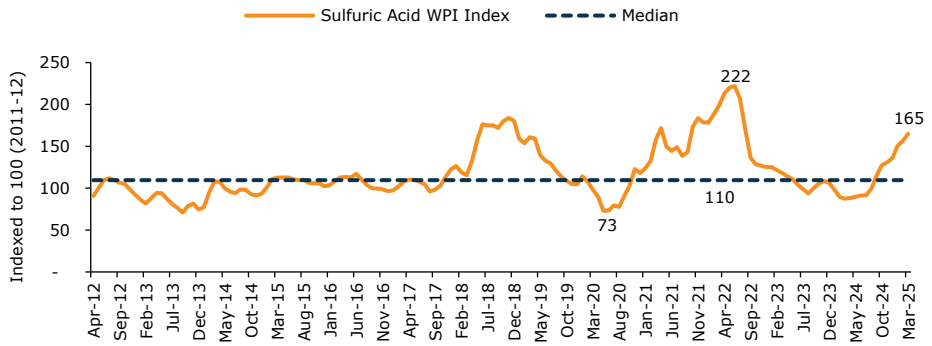
A caustic plant produces two by-products, viz chlorine and hydrogen. Globally, chlor-alkali plants are set-up for meeting chlorine requirement to manufacture PVC, while in India it trades negative due to lesser chlorine demand. Backward integration into caustic soda is beneficial if the caustic soda prices are higher. In the interim, caustic soda prices rallied in Q3FY25, wherein Atul would benefit from backward integration. But in a declining price scenario, it becomes a negative NPV scenario. Based on our calculations, at an ECU of Rs34,000/mt, and estimated EBITDA margin of 25%, the company has saved cash outflow of ~Rs800mnpa. This benefit is at the cost of lower RoCE of ~8% pa. In our view, the company will benefit further in terms of RoCE, once it utilizes 100% of its chlorine and hydrogen in-house. We believe that currently, chlorine is being sold to Anaven for manufacturing mono-chloro acetic acid.

Apart from caustic soda and its by-products, the company manufactures sodium sulfite (by-product generated during the manufacture of multiple products), sodium hypochlorite, sulfuric acid, oleum, gypsum, anisole, chlororesorcinol, chlorosulfonic acid, methylresorcinol, sulfur dioxide, and sulfur dioxide.

Amal Limited's product basket falls under the bulk chemicals and intermediates segment

Atul has a captive facility for sulfuric acid and other derivatives like oleum, sulfur dioxide, and sulfur dioxide in Amal Limited (subsidiary of Atul by virtue of significant control with a stake of 49.86%). The objective of this facility is to ensure regular supply of products and to safeguard Atul against the highly volatile market prices of these products and savings in freight cost as it is near Atul's aromatics segment plant in Ankleshwar, Gujarat. Amal has a production capacity of ~50ktpa and caters to the dyes, fertilizer, personal care, textile and pharma industries. 37% of Amal's total income comes from Atul (FY23: 41%). Going forward, sales to Atul are expected to increase, as per the agreement for committed off-take with Atul, leading to operational synergies and thereby improving revenue for Amal.

Exhibit 55: Sulfuric acid prices have been rising MoM since the last 12 months



Source: Industry, Emkay Research

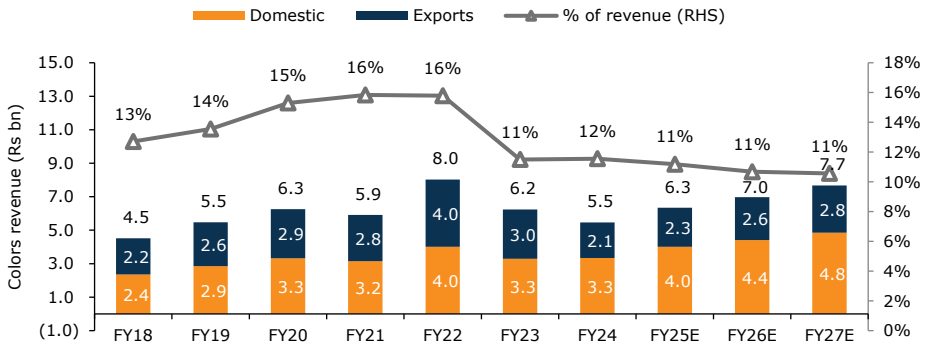
Colors segment growth largely from sulfur black dye

Atul is one of the largest among >15 manufacturers of vat dyes and sulfur black dyes in India, with a significant market share. China continues to dominate this industry followed by India. The segment's product groups are dyestuffs, pigments, dye intermediates, and textile chemicals. These product groups comprise of 488 products catering to 298 customers (belonging to textile, paints & coatings, paper industries) as of FY24. Vat Green 1, Sulphur Black 1, and Pigment Red 168 are some of the key products.

Revenue for this segment saw negative CAGR, of -3% over FY21-24, due to significant decline in volume following the upcycle in FY22. Volume grew 25%, from FY21 to FY22, and saw 26% volume degrowth in FY23. This decline in volume is attributed to the textile sector due to i) fluctuation in cotton prices affecting competitiveness of producers engaged in exports, ii) high inflation environment in importing countries, and iii) higher inventory levels across the value chain. The above-mentioned factors caused a slowdown in demand for textile dyes and chemicals, leading to an over-supply situation affecting margins. Also, lower demand for exterior paints in Europe led to loss of revenue in high-performance pigments (HPP). The domestic denim market improved in H2FY24 leading to better demand for sulfur black.

Going forward, we expect revenue CAGR to be steady at 12% over FY24-27E, from Rs5.5bn in FY24 to Rs7.7bn in FY27E. The management has guided to an unrealized sales potential of Rs4bn, and expects to increase capacity utilization (sulfur black expansion), expand product range in reactive and disperse dyes, develop newer applications for existing products, and broaden market reach in new geographies. We have built in a conservative growth for this segment over the next 3 years, taking into consideration the muted demand for dyes compared with the pigments industry. Thus, aligning with the consolidated growth for Atul, the revenue share of the colors segment is expected to be stable over FY24-27E.

Exhibit 56: Colors segment revenue CAGR expected at 31% over FY24-27E



Source: Company, Emkay Research

Sulfur black dye capacity expanded by 2.5x

Atul started its manufacturing operations as a dyes manufacturer back in Mar-1952. The first sulfur black plant was commissioned in 1952 with production capacity of 2,500mtpa. Production has steadily grown, catering to the textile, paper, and leather industries. It is widely utilized for coloring cotton, viscose, and jute, etc, with a rich black color. It is used widely in the denim sector because of its affordability and strong colorfastness.

Atul expanded its sulfur black capacity, from 9,800mtpa to 26,000mtpa in Mar-22. It is a state-of-the-art integrated plant that produces both, liquid and powder formulations, and is a zero liquid discharge (ZLD) facility. We believe that this capacity is still significantly underutilized due to slowdown in the textile sector. The ramp-up in sulfur black capacity should add an incremental Rs1bn to revenue at 10,000mt of volume sold at Rs100/kg.

China holds ~60-65% of the global sulfur black dye market, with around 60 manufacturers. However, due to increasing environmental regulations and compliance pressures, many Chinese producers have either shut down operations or relocated to Mongolia in recent years. A significant portion of production is expected to move to India, driven by cost advantages and China's withdrawal. We expect consolidation in the industry going forward.

Other dye products contributing to domestic sales

- **Vat dyes (*Indigo, Anthraquinone, Green, Orange, Red, Brown*):** Atul has ~1,000-1,200mt of production capacity for Vat dyes. Atul holds significant market share of these type of dyes in India as well as the world. These dyes are classified based on the method in which they are applied, and on which type of fibre. Vat dyes are applied soaking the fibre in bucket or vat (naturally insoluble in water but can be converted to a soluble form through the vatting process). These dyes are mainly used for dyeing cotton fibre. Atul largely competes with Chinese manufacturers in this space.
- **Reactive dyes (*Red, Yellow, Black, Orange*):** Atul boasts of a production capacity of ~1,500mt of reactive dyes. Based on environmental clearance, Atul may expand its existing reactive dye capacities by 7-8x. These dyes are soluble in water and react with the fiber forming chemical linkages that cannot be broken easily. Atul competes with Bodal, Kiri Industries, and Shree Pushkar in the domestic market. These types of dyes are used for applications on cotton, jute, rayon, etc.
- **Disperse dyes (*Red, Yellow, Orange, Blue, Violet*):** Atul has ~1,400mt of production capacity as per its latest EC certificate. Disperse dyes are a class of non-ionic, organic dyes that are insoluble in water but can be dispersed in water to dye synthetic fibers like polyester. The dyeing here is carried out at high temperatures. China is the largest competitor for Atul in these dyes. Kiri Industries is the next biggest competitor in India.
- **Specialty Azo and HPP pigments:** Atul has production capacity of ~6,000mt for Azo dyes. These are two categories of organic pigments used in various applications like paints, coatings, plastics, and inks. Azo pigments are a broad class, while HPPs represent a higher-quality, more specialized subset, offering improved properties. Sudarshan Chemicals and DIC are the largest competitors for these products.

Rudolf Atul Chemicals JV into textile chemicals

In 2011, Germany-based Rudolf GmbH and Atul established Rudolf Atul Chemicals (RACL) as a 50:50 JV with the aim of serving the domestic textile chemical industry. RACL specializes in manufacturing and marketing a comprehensive range of textile chemicals, including pre-treatment, dyeing, printing, and finishing solutions. With >168 products spanning 7 brands, the company primarily focuses on meeting the needs of domestic textile businesses. RACL saw revenue/PAT CAGR of 16%/12% to Rs1.4bn/Rs192mn, respectively, during FY21-24.

Other business aspects: Date cultivation and Hospital

Flora's division to grow slowly and steadily

The floras business was founded in CY08, with the objective to create wealth in India's desert area (by planting tissue culture date palms) and develop the downstream fruit processing industry. Atul Rajasthan Date Palms (ARDP) is engaged in the production and marketing of tissue culture that raises date palm plants. It is a 74:26 JV between Atul and Rajasthan Horticulture Development Society (Government of Rajasthan). The facility of the company in Jodhpur, Rajasthan is the first and largest of its kind in India.

Another entity, DPD Ltd (DPD) is also engaged in the production and marketing of tissue culture raised date palm plants. DPD is a leading producer of micro-propagated date palm plants. Among the three ways of date palm cultivation (seeding, offshoots, tissue culture), tissue culture (recently developed) is the most efficient technique.

Most date palms for Atul have started bearing fruit. It takes 4-6 years of gestation from lab to hardening, while the on-field plantation takes 3-4 years before fruiting. Post stabilization, every tree can produce 200-300kg of fruit annually for the next 80-100 years. We expect the revenue from this segment to grow at gradual pace. Over the last 3 years, the revenue has grown, from Rs410mn in FY21 to Rs520bn in FY24.

This business offers 1) tissue culture raised date palms, and 2) date fruit-derived food products such as date candies, crisps, crushes, jams, pickles, dried date fruit (tamar), and fresh date fruit (khalal). Its end-use industries/clients include the agriculture sector (farmers), B2C (ready to eat food), and B2B (food ingredients companies).

Hospital in Valsad, Gujarat commenced operations in Feb-25

Atul had acquired 50% stake in the Valsad Institute of Medical Sciences (VIMS) through wholly owned subsidiary Atul Healthcare, in Oct-22. The JV partner is a well-established group of medical professionals in South Gujarat, providing tertiary care.

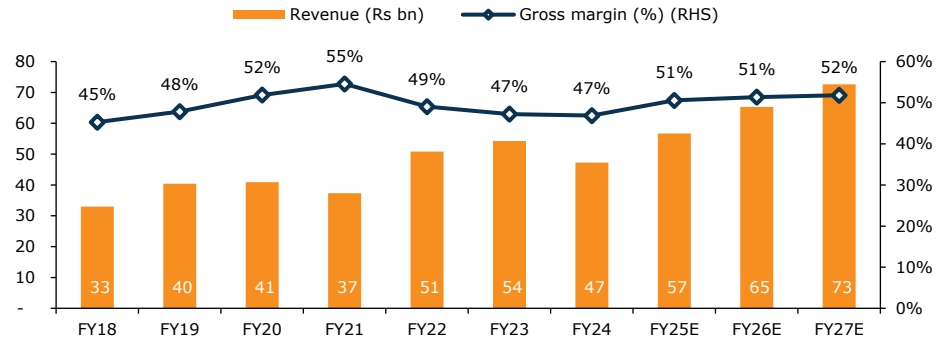
It is a 188-bed multi-super specialty hospital made to help Valsad District meet community demand, address industrial emergencies, and manage disasters, by providing high-end medical and healthcare infrastructure, a team of super specialist doctors, and a skilled nursing and paramedical staff. Additionally, the hospital may integrate an educational institute that provides academic courses for nursing and paramedical staff, imparting skilled manpower to the hospital and promoting community development.

The income from this hospital may not be material for Atul in the overall scheme of its business operations, though we believe that this venture may see huge growth if focused on by Atul.

Financial Analysis

Atul's historical revenue CAGR stood at 8% over FY21-24, led by stable volume growth across segments, except aromatics and crop protection. Going forward, we expect Atul's overall revenue CAGR at ~13% over FY25-27E (FY24-27E CAGR: 15%), on higher utilization of existing capacities (ramp-up of para-cresol, caustic soda, 2,4-D, etc) and ramp-up of the newly commissioned epoxy resin plant. We expect revenue to grow from ~Rs57bn in FY25 to Rs72.6bn in FY27E. We have not factored in the improvement in pricing on possible ADD imposition led by ongoing investigations on epoxy resins imported in the US and EU. We also expect an uptick of ~USD1/kg in 2,4-D prices (from the current USD 2/kg) for exports to the US, owing to 130% ADD duty on China and higher tariffs (again not factored in our estimates).

Exhibit 57: Revenue CAGR expected at 13% over FY25-27E (FY24-27E CAGR: 15%)



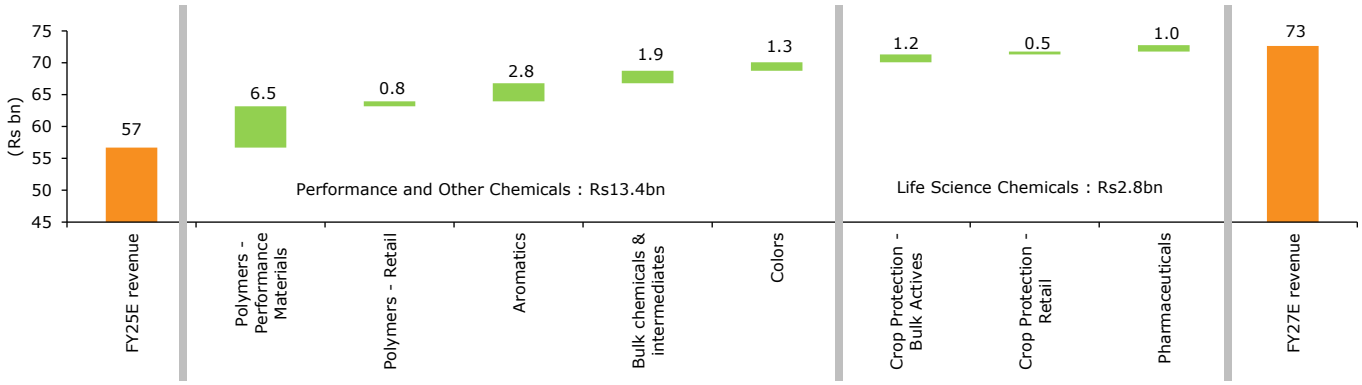
Source: Company, Emkay Research

We expect the performance and other chemicals segment to contribute a major portion of the incremental revenue going into FY27E. The largest contribution within this segment will be led by the growth in polymers – bulk business, which will see utilization of 50kt epoxy resin capacity over the next 2-3 years. This segment is likely to see 15% CAGR over FY25-27E. Atul's management is focused on growing the Polymers – Retail business as well; given the competition in this sector from the likes of Pidilite, Huntsman, etc, Atul will take time to solidify its position in the market and take relatively longer to scale up revenues.

Aromatics revenues were flat over FY22-24 owing to underutilized capacity of para-cresols. We expect a ramp-up in this capacity with ~25% growth in FY25 and further volume growth from debottlenecking of downstream capacities over FY26-27. The bulk chemicals and colors sub-segment is likely to grow at a low double-digit rate, in line with overall revenue growth.

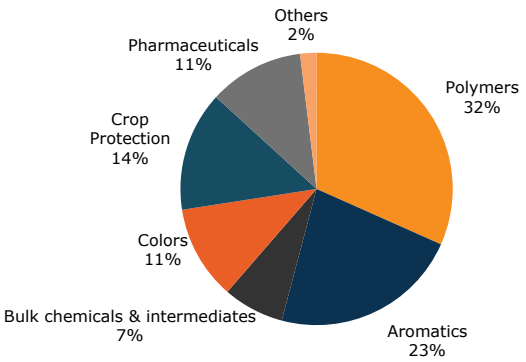
Life Science chemicals will see steady volume growth from debottlenecking of 2,4 D capacity. We expect this segment to add revenue of Rs3-4bn by FY27E, primarily on debottlenecking of 2,4-D and its ramp-up, focus on the crop protection retail sub-segment, and stable volume growth in the pharmaceutical sub-segment.

Exhibit 58: Roadmap for Atul's revenue growth over FY25-27E



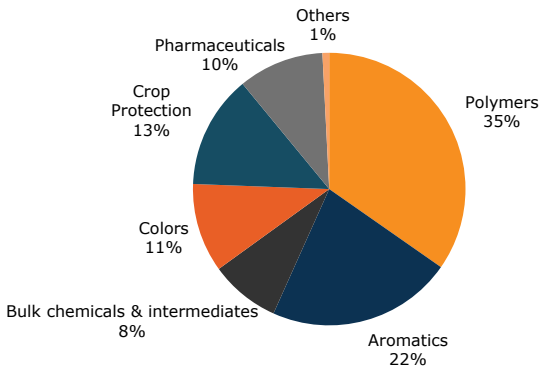
Source: Company, Emkay Research

Exhibit 59: FY25E – Revenue mix



Source: Company, Emkay Research

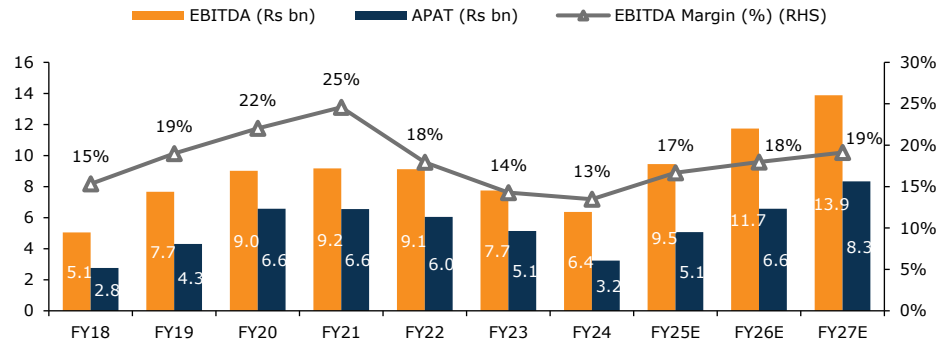
Exhibit 60: FY27E – Revenue mix



Source: Company, Emkay Research

We expect a ~200-250bps improvement in gross margin over FY25-27E, led by increased contribution from backward integration of caustic soda, MCA, and operating leverage. Also, within the polymers segment, shift from unmodified LERs to high-end specialized curing agents could improve margins further. Atul is likely to benefit from the supply security of sulfuric acid, which it purchases mainly from Amal Limited (prices of sulfuric acid have gone up recently).

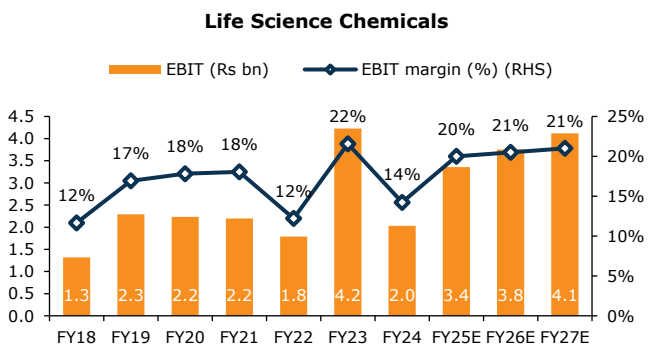
Exhibit 61: EBITDA CAGR expected at ~21% over FY25-27E (FY24-27E CAGR: ~30%)



Source: Company, Emkay Research

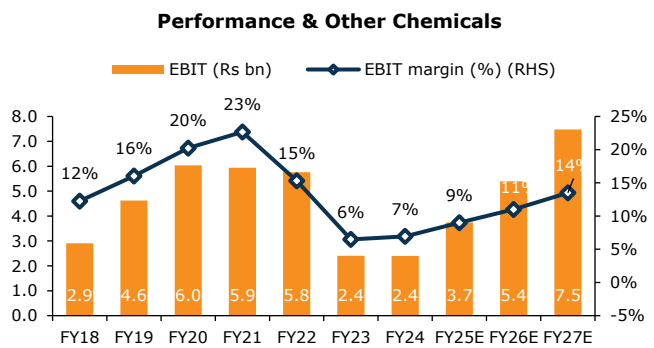
The company's EBITDA margin profile is likely to improve gradually over FY25-27E, to ~19-20%, on the back of ramp-up of existing and new capacities leading to operating leverage as well as margin improvement; this would be on the back of backward integration efforts in caustic soda and mono-chloro acetic acid. We expect EBITDA CAGR at >20% during FY25-27E (FY24-27E CAGR: ~30%) with addition of epoxy resin capacities, ramp-up of p-cresol capacity, and debottlenecking of capacities of various products. We expect PAT to register CAGR of ~28% over FY25-27E (FY24-27E CAGR: ~37%).

Exhibit 62: Life Science chemicals – EBIT margin likely to see stable growth of 50bps YoY



Source: Company, Emkay Research

Exhibit 63: Performance and other chemicals – EBIT margin to rebound, with better operating leverage



Source: Company, Emkay Research

Atul's working capital is expected to remain in shape with its historical average, at around 75 days. This is largely due to prudent management of inventory levels that can take further capital infusion. We build in a stable working capital requirement of 50 days of inventory, even when the company is backward integrating; this means funds will be invested for a higher time horizon as work in progress, considering the quality of management. We do not expect receivable days to go beyond 70 days of credit, considering it has higher share of US and Chinese exports, and products are largely commodity in nature. The company has been practicing effective vendor management by paying out in less than 45 days.

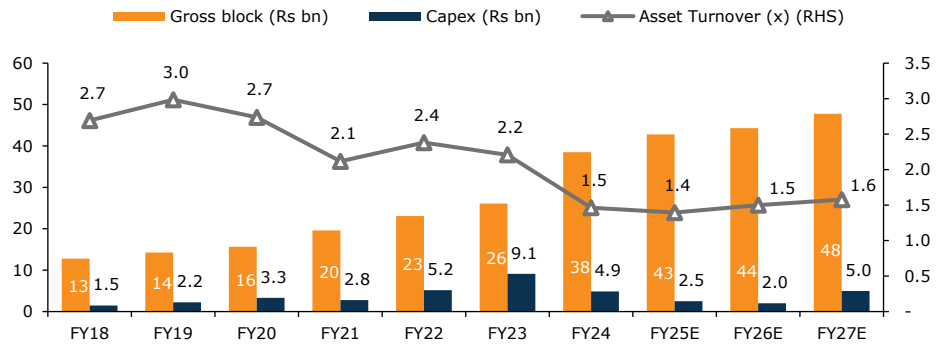
Exhibit 64: Working capital requirement was stable at 75 days, for 5 of the last 7 years

(no of)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Inventory days	46	46	45	58	62	53	48	50	50	50
Receivable days	80	63	64	72	71	57	72	70	70	70
Payable days	51	34	43	55	46	36	45	45	45	45
Core Working Capital days	**75**	**75**	**66**	**75**	**88**	**74**	**75**	**75**	**75**	**75**

Source: Company, Emkay Research

The company has incurred a cumulative capex of Rs20bn over the last 3 financial years, ie FY22-24, mainly toward adding a caustic soda plant along with a captive power plant, epoxy resin plant, debottlenecking of certain products, and some capital nature R&D expenses. On this capex, we expect revenue of Rs20bn at peak, considering the flat pricing environment, leading to an asset turnover of ~1-1.2x. We have considered small debottlenecking and R&D led capex as well as some maintenance capex over FY25E and FY26E. While we expect Atul as a company to focus on growth, we believe it will announce capex by FY27E. Note, Atul is in the process of converting 133acres of agricultural land for industrial purpose.

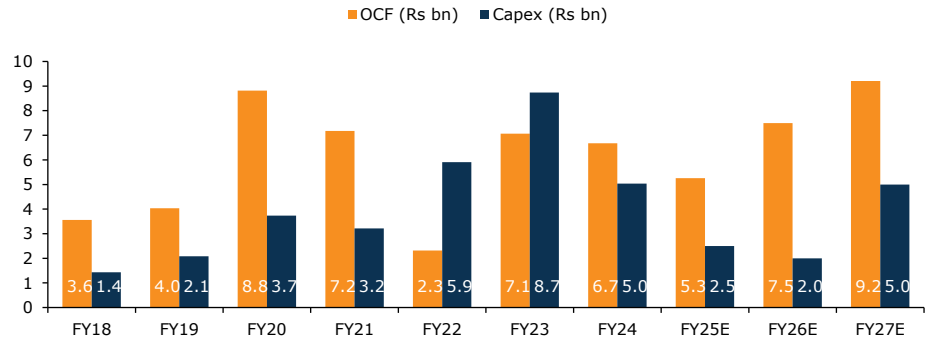
Exhibit 65: Asset turnover to improve on successful ramp-up of new capex



Source: Company, Emkay Research

We believe that a large part of the OCF was reinvested in the peak cycle for chemicals, which would reap benefits going forward. We expect Atul to generate operating cash of Rs10bn every year from FY27E. This should lead to a pile-up of cash investments, which can lead to the next leg of capex; or it may announce buyback if stock prices correct.

Exhibit 66: Substantial OCF generation to fund capex/return to shareholders



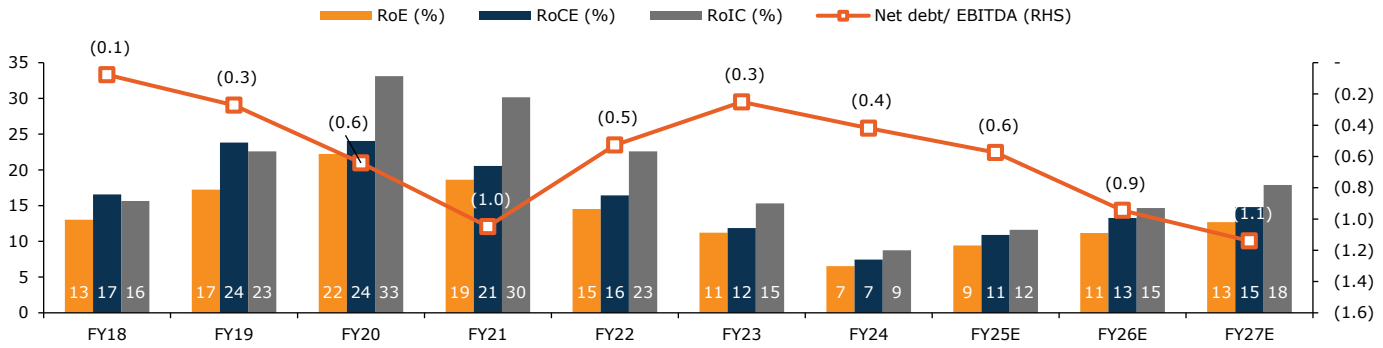
Source: Company, Emkay Research

Return ratios started falling immediately after the start of capitalization of new assets FY22 onward; this was further aggravated by a cyclical downturn in the chemical sector. We believe that this was primarily due to the addition of new assets at higher costs compared with older depreciated assets. RoCE slipped from the peak of 24% in FY19-20 to 7% in FY24, due to falling realizations and lumpy volumes for certain sub-segments. This fall can be largely assigned to capital allocation in the caustic soda plant; caustic soda is a relatively commoditized product and will be generating lower RoCE for the firm.

We believe that Atul was amid a capex cycle and had seen the worst of its return ratios in FY24. A sharp rebound is expected over the next couple of years, once utilization levels improve. The ramp-up in multiple projects and expansion of margins would lead to doubling of RoCE, from ~7% currently to ~15% in FY27E. This could be a potential lever for multiple re-rating, in our view. RoEs are still subdued, as reinvestment of cash-flows is being done at a slower pace; we have not built in any new capex in our numbers over the next 2-3years.

Also, notably, a large part of the backward integration is done, and the company is likely to now focus on only adding new products/chemistries or do further forward integration. With new capex, a large part of the cash lying on the balance sheet should be invested to earn better returns which could also improve the overall strength of the balance sheet, given the current negative net debt position.

Exhibit 67: Return ratios to considerably improve with ramp-up in volumes



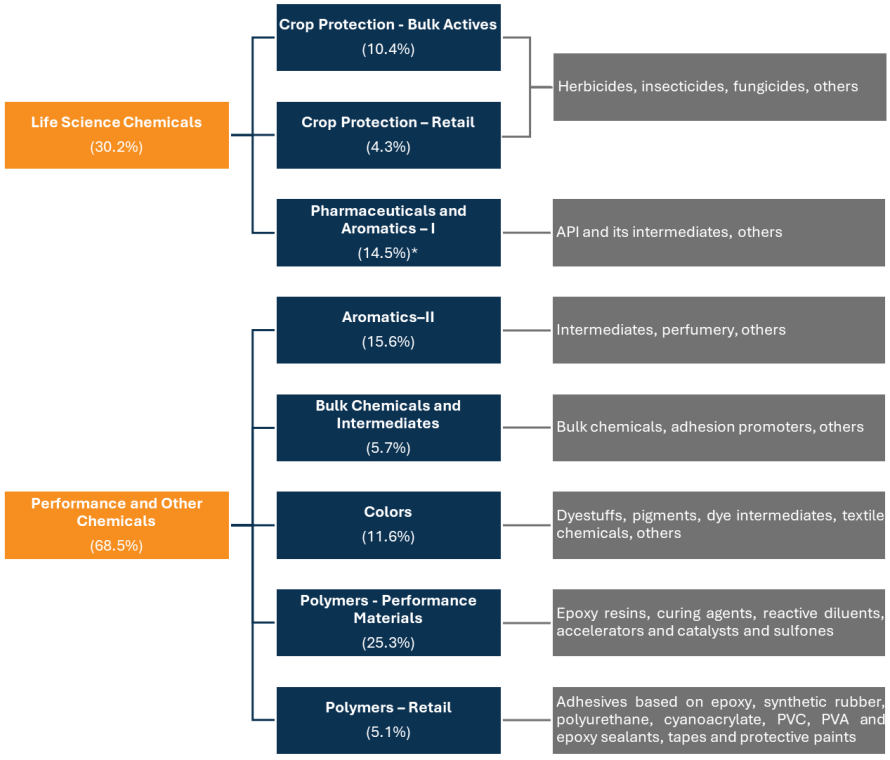
Source: Company, Emkay Research

Company Overview

Atul is a significant player in the Indian chemical industry and is one of the most integrated chemical companies in India. It is emerging as a formidable player in the various segments it operates in. A multi-product and multi-geography strategy has enabled it to sail through difficult times as well as to capitalize on opportunities prior to Covid-19; it is now well suited for the next leg of growth, with 3-year revenue/PAT CAGR of 16%/35%, respectively. Such growth is because of its large calibrated and responsible capex of Rs20bn spent over FY22-24. We believe Atul is one player that is best placed to capture the vacuum created by disruptions in China's chemical industry and to act as a large import substitution player.

Atul was founded in 1947 by Kastur Lalbhai. It was the first private sector company to be inaugurated by the first Prime Minister of India. Having now subsisted for over 75 years, Atul serves a base of over 4,000 customers across more than 30 various industries in more than 88 countries. It is an integrated manufacturer of 900 products and 450 formulations, from basic chemicals with 40 subsidiary companies (17 operational and 23 non-operational), 2 joint venture/joint operation entities, and 3 associate companies that operate from Brazil, China, UAE, UK, and USA. In the last 8 decades, the company has exhibited strong operational and financial performance even as it has built a niche market for its comprehensive product portfolio (pioneers for many of the products in India), strong clientele, backward integration, and focused management. The company classifies its products under 2 main categories, ie i) Life Science Chemicals and ii) Performance & Other Chemicals, which are further sub-divided into 8 segments (Exhibit 68).

Exhibit 68: Atul's limited segmental break-up and product groups



Source: Company, Emkay Research

Atul operates through multiple plants across 3 locations in Gujarat (Atul, Ankleshwar GIDC, and Kharod GIDC), and from Tarapur MIDC, Maharashtra. Of the four manufacturing locations, the plant located in Atul, Gujarat is the most diversified and backward integrated.

In terms of its R&D capabilities, the company has directed its efforts toward developing continuous processes with a smaller plant and a reduced environmental footprint, creating new products, producing value-added products from waste, and refining existing processes. The company boosted the yield of 15 products, reduced raw material usage in 17 products, made solvent usage in four products, recovered five value-added products from waste, and developed 48 new products. The company is believed to be investing in people and equipment to enhance its capabilities.

Exhibit 69: Atul's timeline

1947	• Incorporated by Kasturbhai Lalbhai as the frist private sector company of Independent India, and inaugurated by Prime Minister Jawahar Lal Nehru on 27-Mar-1952
1947	• Established a JV with American Cyanamid Company of the US called Cyanamid India, to produce crop protection chemicals and pharmaceuticals
1955	• Established a JV with Imperial Chemical Industries (ICI) plc of the UK called Atic Industries (Atic), to produce textile dyestuffs
1960	• Established a JV with Ciba-Geigy Ltd (Ciba-Geigy) of Switzerland, called Cibatul Ltd (Cibatul), to produce epoxy resins and curing agents
1967	• Started manufacturing phenoxy herbicides and, in subsequent years, added more products to the range • Commenced the manufacture of Phosgene for the first time in India
1972	• Commenced the manufacture of Carbamite and 2,4-D acid for the the first time in India • Constructed a central effluent treatment plant
1975	• Agreement with Mitsui, Honshu Chemical, and Mitsui Engineering for supply of technical know-how and basic engineering designs for the plant, to produce syntheic cresols by the sulphonation process
1978	• Set-up Atul Rural Development Fund to formalize programs undertaken since inception, related to serving society • Established Atul Vidyalaya (ICSE Board) for children residing in and around Atul, with English as the medium of instruction
1985	• Acquired controlling interest in Piramal Rasayan, engaged in the production of dye-intermediates and renamed 'Amal'
1988	• Acquired loss-making Gujarat Aromatics through a reverse merger, and acquired its second production site, in Ankleshwar
1996	• Merged Atic after exit of JV partner ICI PLC
1997	• Established wholly owned subsidiary Atul Bioscience, to produce active pharmaceutical ingredients (APIs) and their intermediates
1999	• Merged Cibatul after exit of JV partner Ciba-Geigy
2009	• Established a JV with the state government of Rajasthan, called Atul Rajasthan Date Palms, to produce tissue culture-raised date palms for the first time in India
2010	• Acquired Anchor Adhesives Pvt, which owned Polygrip—a leading Rubber- and Polyurethane-based adhesive brand in India
2011	• Acquired DPD Ltd in the UK, engaged in the production of tissue culture-raised date palms • Established a JV with Rudolf GmbH of Germany, called Rudolf Atul Chemicals, to produce textile chemicals
2013	• Expanded a para Cresol manufacturing facility - the world's largest • Established a 22,000sqft research facility, to build the business of APIs and API intermediates
2014	• Converted the Ankleshwar site into a 'zero liquid effluent discharge facility' • Developed 67 new products and formulations in R&D
2015	• USFDA approval received for the Dapsone manufacturing plant • Replaced the mercury-based caustic soda plant with a membrane-based plant
2017	• Established a JV with Nouryon of the Netherlands, called Anaven LLP, to produce MCA
2019	• Acquired a manufacturing facility of Polydrug Laboratories for Atul Bioscience at Ambernath, Maharashtra
2021	• Completed expansion of para cresol, para cresidine, sulphur black, and 2,4-D
2022	• Commenced operations of Amal Specialty Chemicals (a subsidiary of Amal)
2024	• Commissioned state-of-the-art pilot plants, a process engineering reseach lab, and Atul Products Ltd • Commissioned 50KTPA of additional liquid epoxy resin capacity

Source: Company, Emkay Research

Exhibit 70: Atul – Board of Directors

Name of Director	Designation	Qualification	Experience/Expertise
Sunil Lalbhai	CMD	Postgraduate in Chemistry, University of Massachusetts Postgraduate in Economic Policy and Planning, Northeastern University	• MD since 1984 and Chairman of the Board since 2007. • Chairman of Amal Ltd, and Atul Bioscience Ltd, and Vice Chairman of Atul Rajasthan Date Palms Ltd. • Directorships in Britannia Industries, Navin Fluorine International, Pfizer (India), and Bombay Dyeing and Manufacturing Company.
Samveg Lalbhai	MD	BCom, Gujarat University	• Director in the company since 2000 and MD since 2001. • Actively associated with multiple industry associations. • Directorships in Anup Engineering, and Bengal Tea and Fabrics
Bharathy Mohanan	WTD	Graduate in Engineering (Honors), University of Calicut	• 53 years of experience in various capacities, and is currently the President, Utilities and Services and the Occupier. • MD of Atul Biospace and Atul Rajasthan Date Palms.
Gopi Kannan Thirukonda	CFO and WTD	Science graduate, University of Madras PG Diploma in Management, IIM Ahmedabad CA, CMA, and CS	• 39 years of experience in various capacities. • Joined the company in 1993 and is WTD since 2014. • Directorships in various subsidiaries of Atul.
Vivek Gadre	WTD	Chemical Engineering, IIT Delhi PG Diploma in Management, IIM Calcutta	• ~40 years of experience in various capacities; currently President, Corporate Strategy. • Director of the company since Jan-25; joined Atul in Jun-1988.
Pradeep Banerjee	ID	Chemical Engineering, IIT Delhi	• 40 years of experience in various business profiles in the Unilever Group at India, Nepal, the Netherlands, and the UK. • Senior advisor to BCG and 4 tech startups in block chain, logistics, go-to-market platforms, and waste management. • Director of the company since 2022. • Directorships in BIBA, CHAMBAL, GABRIEL, JUBINGR, PARKSONS, VR Group, Whirlpool, Median Brands, North Delhi Metro Mall, etc.
Rangaswamy Iyer	ID	MCom and Masters in Financial Management, University of Mumbai	• 40 years of experience in the healthcare industry (animal health, biologicals, consumer healthcare, pharma, and M&A). • Erstwhile CFO and Finance Director of Cyanamid India. • Director of the company since 2023. • Directorships in Cybernoid Healthcare and Noveltech Feeds.
Sharadchandra Abhyankar	ID	BA (Economics and Commerce); LLb, Mumbai University.	• 35 years of experience in M&A, corporate law, corporate ethics, and governance. • Currently a Senior Partner at Khaitan & Co. • Director of the company since 2023. • Directorships in ABM Knowledgeware, Dreamfolks Services, Whiteoak Capital Trustee, Centaur Pharmaceuticals, Instasafe Tech.
Sujal Shah	ID	BCom, University of Mumbai CA	• 30 years of experience in finance, due diligence, M&A, restructuring, succession planning, and valuations. • Director of the company since 2023. • Directorships in Amrit Corp, DFPC, NFIL, NFASL, NOCIL, etc.
Praveen Kadle	ID	BCom, University of Mumbai CA, CMA, CS	• 30 years of experience in finance, management, legal, M&A, etc. • Erstwhile MD of Tata Capital and CFO of Tata Motors. • Currently, MD of Prachetas Capital, Digvi Torqtransfer, John Cockerill, Persistent Systems, Tata International, Tide Water Oil Co.
Padmaja Chunduru	ID	Postgraduate in Commerce, Andhra University	• 40 years of experience in banking and capital markets in India/US. • Director of the company since Jan-25. • Erstwhile Deputy MD of SBI, MD & CEO of NSDL/India, Director of LIC/NPCI. Currently, member of the advisory committee of IRDAI.

Source: Company, Emkay Research; Note: CMD = Chairman & Managing Director, ED = Executive Director, WTD = Whole Time Director, CFO = Chief Financial Officer, ID = Independent Director, MSc = Master of Science, CA = Chartered Accountant; CS = Company Secretary; CMA = Cost & Management Accountant

Atul: Consolidated Financials and Valuations

Profit & Loss

Y/E March (Rs mn)	FY24	FY25E	FY26E	FY27E	FY28E
Revenue	**47,257**	**56,699**	**65,307**	**72,632**	**79,061**
Revenue growth (%)	(12.9)	20.0	15.2	11.2	8.9
EBITDA	**6,367**	**9,452**	**11,733**	**13,880**	**15,330**
EBITDA growth (%)	(17.8)	48.5	24.1	18.3	10.5
Depreciation & Amortization	2,382	3,170	3,483	3,683	4,123
EBIT	**3,938**	**6,282**	**8,250**	**10,196**	**11,207**
EBIT growth (%)	(31.8)	59.5	31.3	23.6	9.9
Other operating income	-	-	-	-	-
Other income	582	948	1,026	1,526	1,526
Financial expense	111	205	131	109	109
PBT	**4,409**	**7,025**	**9,145**	**11,613**	**12,624**
Extraordinary items	0	0	0	0	0
Taxes	1,265	2,038	2,646	3,353	3,646
Minority interest	(11)	(40)	(60)	(80)	(100)
Income from JV/Associates	97	126	139	153	168
Reported PAT	**3,230**	**5,073**	**6,578**	**8,333**	**9,046**
PAT growth (%)	(37.2)	57.1	29.7	26.7	8.6
Adjusted PAT	**3,230**	**5,073**	**6,578**	**8,333**	**9,046**
Diluted EPS (Rs)	**109.7**	**172.3**	**223.4**	**283.0**	**307.3**
Diluted EPS growth (%)	(37.0)	57.1	29.7	26.7	8.6
DPS (Rs)	**25.1**	**25.0**	**25.0**	**30.0**	**50.0**
Dividend payout (%)	**22.8**	**14.5**	**11.2**	**10.6**	**16.3**
EBITDA margin (%)	13.5	16.7	18.0	19.1	19.4
EBIT margin (%)	8.3	11.1	12.6	14.0	14.2
Effective tax rate (%)	28.7	29.0	28.9	28.9	28.9
NOPLAT (pre-IndAS)	**2,808**	**4,460**	**5,863**	**7,252**	**7,971**
Shares outstanding (mn)	29	29	29	29	29

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY24	FY25E	FY26E	FY27E	FY28E
Share capital	295	295	295	294	294
Reserves & Surplus	50,849	55,186	61,028	68,477	76,052
Net worth	**51,143**	**55,481**	**61,323**	**68,772**	**76,346**
Minority interests	491	531	591	671	771
Non-current liab. & prov.	1,529	1,529	1,529	1,529	1,529
Total debt	**2,319**	**1,093**	**1,093**	**1,093**	**1,093**
Total liabilities & equity	**55,481**	**58,633**	**64,535**	**72,064**	**79,739**
Net tangible fixed assets	27,347	28,485	26,501	26,318	29,695
Net intangible assets	543	543	543	543	543
Net ROU assets	-	-	-	-	-
Capital WIP	2,808	1,000	1,500	3,000	5,500
Goodwill	291	291	291	291	291
Investments [JV/Associates]	9,689	9,689	9,689	9,689	9,689
Cash & equivalents	**4,987**	**6,524**	**12,179**	**16,919**	**17,425**
Current assets (ex-cash)	19,177	22,828	26,080	28,847	31,276
Current Liab. & Prov.	9,069	10,435	11,957	13,252	14,388
NWC (ex-cash)	**10,108**	**12,393**	**14,123**	**15,595**	**16,887**
Total assets	**55,481**	**58,633**	**64,535**	**72,065**	**79,739**
Net debt	(2,669)	(5,431)	(11,086)	(15,826)	(16,332)
Capital employed	55,481	58,633	64,535	72,064	79,739
Invested capital	**37,998**	**41,421**	**41,167**	**42,456**	**47,125**
BVPS (Rs)	1,737.2	1,884.5	2,083.0	2,336.0	2,593.3
Net Debt/Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt/EBITDA (x)	(0.4)	(0.6)	(0.9)	(1.1)	(1.1)
Interest coverage (x)	40.8	35.3	70.7	107.3	116.5
RoCE (%)	**8.9**	**13.0**	**15.4**	**17.6**	**17.1**

Source: Company, Emkay Research

Cash flows

Y/E March (Rs mn)	FY24	FY25E	FY26E	FY27E	FY28E
PBT (ex-other income)	3,924	6,204	8,257	10,240	11,266
Others (non-cash items)	2,132	2,427	2,588	2,266	2,706
Taxes paid	(1,073)	(2,038)	(2,646)	(3,353)	(3,646)
Change in NWC	1,730	(2,285)	(1,730)	(1,472)	(1,292)
Operating cash flow	**6,675**	**5,255**	**7,496**	**9,207**	**10,560**
Capital expenditure	(5,133)	(2,500)	(2,000)	(5,000)	(10,000)
Acquisition of business	(2,743)	0	0	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	**(6,832)**	**(2,552)**	**(5,974)**	**(8,474)**	**(8,474)**
Equity raised/(repaid)	(1)	0	0	-	0
Debt raised/(repaid)	1,849	(1,226)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(111)	(205)	(131)	(109)	(109)
Dividend paid (incl tax)	(738)	(736)	(736)	(883)	(1,472)
Others	(624)	0	0	-	0
Financing cash flow	**375**	**(2,166)**	**(867)**	**(993)**	**(1,581)**
Net chg in Cash	218	537	655	(259)	505
OCF	6,675	5,255	7,496	9,207	10,560
Adj. OCF (w/o NWC chg.)	4,945	7,540	9,226	10,679	11,852
FCFF	1,542	2,755	5,496	4,207	560
FCFE	1,431	2,551	5,365	4,097	451
OCF/EBITDA (%)	104.8	55.6	63.9	66.3	68.9
FCFE/PAT (%)	44.3	50.3	81.6	49.2	5.0
FCFF/NOPLAT (%)	**54.9**	**61.8**	**93.7**	**58.0**	**7.0**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E March	FY24	FY25E	FY26E	FY27E	FY28E
P/E (x)	55.0	35.0	27.0	21.3	19.6
P/CE(x)	31.4	21.5	17.6	14.8	13.5
P/B (x)	3.5	3.2	2.9	2.6	2.3
EV/Sales (x)	3.7	3.1	2.7	2.4	2.2
EV/EBITDA (x)	27.5	18.5	14.9	12.6	11.4
EV/EBIT(x)	44.4	27.8	21.2	17.2	15.6
EV/IC (x)	4.6	4.2	4.2	4.1	3.7
FCFF yield (%)	0.9	1.6	3.1	2.4	0.3
FCFE yield (%)	0.8	1.4	3.0	2.3	0.3
Dividend yield (%)	0.4	0.4	0.4	0.5	0.8
DuPont-RoE split					
Net profit margin (%)	6.8	8.9	10.1	11.5	11.4
Total asset turnover (x)	0.9	1.0	1.1	1.1	1.0
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.0
RoE (%)	**6.6**	**9.5**	**11.3**	**12.8**	**12.5**
DuPont-RoIC					
NOPLAT margin (%)	5.9	7.9	9.0	10.0	10.1
IC turnover (x)	1.4	1.4	1.6	1.7	1.8
RoIC (%)	**8.4**	**11.2**	**14.2**	**17.3**	**17.8**
Operating metrics					
Core NWC days	78.1	79.8	78.9	78.4	78.0
Total NWC days	**78.1**	**79.8**	**78.9**	**78.4**	**78.0**
Fixed asset turnover	1.4	1.4	1.5	1.6	1.5
Opex-to-revenue (%)	33.4	33.9	33.4	32.7	32.7

Source: Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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