

Atul Limited

Atul Ltd, member of the Lalbhai group has put up a good performance in Q3 FY2009. Net Sales declined marginally by 2.1% to Rs.279.73 crore (Rs.285.79 crore) due to decline in sales of Colors business, Specialty and other chemicals registered a rise in sales of 10% to Rs.248.4 crore. However, OPM% improved significantly to 14% (6.3%) due to decline in raw material costs as well as operational efficiencies. PBIT% of Specialty and Chemicals business enhanced to 16.4% (8.5%). Colors business also reported PBIT% of 2% (Loss before interest and Tax of 1.3%) Consequently, PBT (before extraordinary items and exchange gain/loss) sputred by 427% to Rs.26.56 crore (Rs.5.04 crore). An exchange loss of Rs.8.81 crore (exchange gain of Rs.3.27 crore) restricted growth in PBT (before extraordinary items) at 113.6% to Rs.17.75 crore. In absence of extraordinary expense (Rs.1.32 crore), PBT was up to Rs.17.75 crore (Rs.6.99 crore) and PAT rose by 122.3% to Rs.15.72 crore (Rs.7.07 crore).

During 9 months FY2009, Net Sales grew by 24% to Rs.919.12 crore (Rs.740.98 crore). OPM% improved to 11.1% (5.4%). Higher sales coupled with improved margins and higher other income led to zooming of PBT (before extraordinary items and exchange gain/loss) to Rs.73.77 crore (Rs.11.18 crore). An exchange loss of Rs.33.60 crore (Exchange gain of Rs.11.38 crore) restricted growth in PBT ((before extraordinary items) at 78.1% to Rs.40.17 crore (Rs.22.56 crore). After providing for extraordinary expense of Rs.87 lakh (Rs.3.74 crore), PAT was up by 80.8% to Rs.33.79 crore.

Atul, a diversified Indian Chemical Company, has operations spread across six divisions – Agrochemicals, Bulk Chemicals, Intermediates, Colors, Pharmaceuticals and Intermediates and Polymers. Atul has begun introducing value added adown stream products used by companies in Flavours & Fragrances, FMCGs and Pharma industries.

In agrochem business, company has been expanding its product range for crops of mangoes, soyabean and tomatoes. This division has 6 products in the pipeline waiting to be launched over the coming years. Company has been growing its branded business successfully.

Bulk Chemicals are used in Chemical, paper and textile industries. Chemicals such as Resorcinol are used by rubber and tyre industry. Company has undertaken capacity expansion of Resorcinol and has commercialized manufacture of Resorcinol formaldehyde resins. It has also commenced Hydrogen bottling project from April 2008. Above initiatives will enhance sales and profits going forward.

In Colors business, company has introduced new range in Vat and reactive dyes, new business segments such as high performance colorants. Moreover, its tie up for auxiliary chemicals and cost reduction measures will eable this business to improve its performance going forward.

Pharma and Intermediates business is expected to grow following demand in Sulfoenes and a widening market for Phosgene-based intermediates and chemicals.

Polymers business caters to basis building blocks of infrastructure and with renewed thrust on infrastructure, this business is expected to do well. This division expanded its capacity 3-fold to 23,000 tpa in FY08 and introduced new products for paints, coatings, composites and marine-coating applications which widened its customer base. Company has commenced branded sales in this business.

World economic slowdown will adversely affect its bulk chemicals and colour business. However, company will balance it out by better agrochemicals product basket and value added downstream products in pharma and chemicals for infrastructure building. Value unlocking prospects of its investments, more so in Wyeth, present a positive surprise. At Rs.41.75, the share is trading at 2.3 times FY 2009 expected EPS of Rs.18 and 1.9 times FY 2010 expected EPS of Rs.21.5 We recommend “BUY” on the share at CMP.

Disclosures:

The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment and information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.

January 21, 2009