

Margin pressure QoQ

26 January 2025

Atul (AUTL IN) stock has corrected 14% in the past three months. It is in line with most chemicals sector stocks that have underperformed the Nifty Midcap Index, which fell a mere 5%, due to continued oversupply from China and weak commentary from major global firms regarding demand recovery, already reflected via a weak margin environment. Global chemicals majors expect weak demand growth across most products and the challenging pricing environment at least until H1CY25. Therefore, we remain cautious on the chemicals sector. We reiterate **Accumulate** with a lower TP to INR 7,129 based on a DCF method.

Earnings decline QoQ due to weakness in performance & other chemicals margin: ATLP reported an EBITDA of INR 2.2bn and a PAT of INR 1.1bn in Q3FY25 vs our estimates of INR 1.6bn and INR 0.8bn, up 48% YoY & 53% YoY, respectively, due to the base effect of weakening in revenue and EBIT margin of the life sciences segment in Q3FY24. However, EBITDA fell 8% QoQ and PAT by 21% QoQ, due to the decline in EBIT margin of the performance & other chemical (POC) segment. Consequently, EBITDA margin improved to 15.8%, up 248bp YoY but down 161bp QoQ, vs our estimate of 13.1%.

Performance & other chemicals growth QoQ led by polymers: The POC segment comprising 71% of revenue and 43% of EBIT saw an EBIT margin of 7.2% in Q3FY25 from 7.8% in Q3FY24 and 9.7% in Q2FY25. Although segment-wise revenue was up 24% YoY and 2% QoQ, segment EBIT fell 24% QoQ and up 15% YoY. As per commentary of major chemicals firms globally, sulphones demand decreased in all regions except China, which has hit realization. Demand is set to be on a gradual recovery trend.

Life science chemicals margin expands: Revenue from the life science chemicals segment, comprising 28% of revenue and 55% of EBIT, grew 23% YoY & 2% QoQ. The segment's EBIT margin was 23.0% in Q3FY25 from 12.6% in Q3FY24 and 20.5% in Q2FY25. Improved segment-wise performance in 9MFY25 was on account of better demand from end-user industries, such as pharma & personal care and higher exports demand for crop protection. As per commentary of major global firms, there is lower channel inventory in both North America and the EU, and it expects normal buying behaviour; hence, H1CY25 for agrochemicals will be stronger than in H1CY24.

Reiterate Accumulate with a lower TP to INR 7,129: We reiterate **Accumulate** on expectations of gradual agrochemicals & aromatics demand recovery in FY26, but it remains cautious on price recovery due to China's oversupply based on commentary of major firms globally. We decrease our EPS by 5% each for FY26E and FY27E on lower EBIT margin on slower price recovery expectations. Consequently, we lower our DCF-based TP to INR 7,129 from INR 8,340, assuming a 5.0% (unchanged) terminal growth rate, a 10.8% (unchanged) cost of capital, an average EBITDA margin of 15.7% (from 17.0%) during FY25-47E with a revenue CAGR of 13.1% during FY24-47E.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	54,275	47,257	55,845	63,332	70,692
YoY (%)	6.8	(12.9)	18.2	13.4	11.6
EBITDA (INR mn)	7,749	6,367	9,081	10,297	11,078
EBITDA margin (%)	14.3	13.5	16.3	16.3	15.7
Adj PAT (INR mn)	5,141	3,230	4,896	5,842	6,552
YoY (%)	(14.9)	(37.2)	51.6	19.3	12.2
Fully DEPS (INR)	174.6	109.7	166.3	198.5	222.6
RoE (%)	11.2	6.5	9.1	10.1	10.4
RoCE (%)	8.8	5.4	7.6	8.5	8.8
P/E (x)	37.6	59.8	39.5	33.1	29.5
EV/EBITDA (x)	24.9	30.6	21.5	18.8	17.4

Note: Pricing as on 24 January 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**

Target Price: **INR 7,129**

Upside: **9%**

CMP: **INR 6,547**

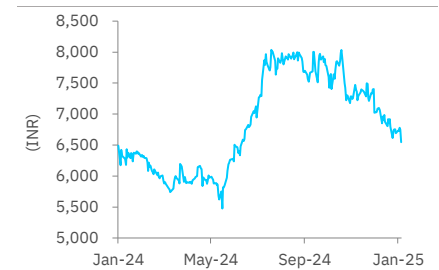
As on 24 January 2025

Key data

Bloomberg	AUTL IN
Reuters Code	ATULNS
Shares outstanding (mn)	29
Market cap (INR bn/USD mn)	193/2236
Enterprise Value (INR bn/USD mn)	190/2201
Avg daily volume 3M (INR mn/USD mn)	456/5
52 week high/low	8180/5175
Free float (%)	55

Note: as on 24 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	45.2	45.2	45.2	45.2
% Pledged	1.0	1.0	1.0	1.0
FII	8.5	8.6	9.7	11.2
DII	25.8	25.9	24.6	22.8
Others	20.5	20.3	20.5	20.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(5.4)	(5.4)	7.6
Atul	(14.4)	(10.4)	1.9
NSE Midcap	(5.5)	(6.3)	12.3
NSE Smallcap	(7.1)	(9.4)	10.6

Gagan Dixit

Aviation, Chemicals, Oil & Gas
+91 22 6164 8504
gagan.dixit@elaracapital.com



Associates
Amogh Deshpande
Kartik Bhandari

Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	54,275	47,257	55,845	63,332	70,692
EBITDA	7,749	6,367	9,081	10,297	11,078
Depreciation	1,978	2,429	3,202	3,279	3,229
EBIT	5,770	3,938	5,879	7,018	7,849
Interest cost	79	111	231	209	207
Other income	1,149	582	774	851	936
Share of net profit from JVs	38	97	131	157	189
PBT	6,878	4,506	6,553	7,818	8,767
Less: taxation	1,812	1,265	1,645	1,962	2,201
Effective tax rate (%)	26.3	28.1	25.1	25.1	25.1
Reported PAT	5,066	3,241	4,908	5,855	6,567
Non-controlling interest	75	(11)	(12)	(13)	(15)
Adj. PAT to Equity-holders	5,141	3,230	4,896	5,842	6,552
Balance sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity Capital	295	295	295	295	295
Minority Interest	480	491	503	516	531
Reserves	46,419	50,849	54,863	59,537	64,779
Total Borrowings	470	2,319	2,319	2,319	2,319
Deferred Taxes	1,174	1,529	1,529	1,529	1,529
Total Liabilities	48,838	55,481	59,508	64,195	69,451
Goodwill	291	291	291	291	291
Fixed Assets	28,047	30,759	33,099	35,363	37,677
Investments	8,809	13,921	13,921	13,921	13,921
Inventories	7,894	6,183	7,326	8,308	9,274
Debtors	8,446	9,270	10,985	12,458	13,906
Cash	520	723	622	1,511	2,945
Loans & Advances	331	328	328	328	328
Other Current Assets	3,177	3,075	3,075	3,075	3,075
Net Current Assets	11,690	10,510	12,196	14,620	17,562
Total Assets	48,838	55,481	59,508	64,195	69,451
Cashflow statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating cash flow	7,067	6,675	5,780	6,958	7,557
Less: Capex	(8,747)	(5,039)	(5,543)	(5,543)	(5,543)
Free cash flow to firm	(1,680)	1,636	238	1,415	2,014
Investing cash flow	(4,694)	(6,832)	(4,769)	(4,691)	(4,606)
Financing cash flow	(2,575)	375	(1,112)	(1,377)	(1,517)
Net change in cash	(201)	218	(101)	889	1,434
Ratio analysis	FY23	FY24	FY25E	FY26E	FY27E
Income statement ratios (%)					
Revenue growth	6.8	(12.9)	18.2	13.4	11.6
EBITDA growth	(15.0)	(17.8)	42.6	13.4	7.6
PAT growth	(14.9)	(37.2)	51.6	19.3	12.2
EBITDA margin	14.3	13.5	16.3	16.3	15.7
PAT margin	9.5	6.8	8.8	9.2	9.3
Return & liquidity ratios (%)					
Int/PBIT	0.0	0.0	0.0	0.0	0.0
Net debt/Equity (x)	(0.0)	0.0	0.0	0.0	(0.0)
ROA (%)	9.0	5.3	7.3	8.0	8.3
ROE	11.2	6.5	9.1	10.1	10.4
ROCE	8.8	5.4	7.6	8.5	8.8
Per share data & valuation ratios					
EPS (INR)	174.6	109.7	166.3	198.5	222.6
EPS growth (%)	(14.9)	(37.2)	51.6	19.3	12.2
BVS (INR)	1,603.2	1,754.0	1,890.8	2,050.1	2,228.6
DPS (INR)	25.0	20.0	29.9	39.7	44.5
P/E (x)	37.6	59.8	39.5	33.1	29.5
EV/EBITDA (x)	24.9	30.6	21.5	18.8	17.4
Price/Book (x)	4.1	3.7	3.5	3.2	2.9
Dividend Yield (%)	0.4	0.3	0.5	0.6	0.7

Revenue CAGR at 14% during FY24-27E on low base

EBITDA margin to trend at ~16% during FY25-27E

Note: Pricing as on 24 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

Consolidated (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Net operating income	14,168	11,378	24.5	13,928	1.7	12,418	14.1
EBITDA	2,241	1,517	47.7	2,427	(7.7)	1,622	38.2
Depreciation	810	612	32.3	775	4.4	791	2.4
Interest cost	43	21	102.4	89	(51.7)	89	(51.7)
Other income	158	150	5.1	315	(50.0)	315	(50.0)
Profit before exceptional items	1,578	1,055	49.7	1,910	(17.3)	1,089	45.0
PBT	1,578	1,055	49.7	1,910	(17.3)	1,089	45.0
Tax	407	334	22.0	514	(20.8)	274	48.7
Adj. PAT	1,087	709	53.3	1,368	(20.5)	787	38.1
Adj. EPS (INR)	36.9	24.0	53.3	46.4	(20.5)	26.7	38.1

Source: Company, Elara Securities Estimate

Exhibit 1: Segment-wise breakdown

(INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Segment revenue					
Life science chemicals	4,164	3,378	23.3	4,078	2.1
Performance and other chemicals	10,412	8,406	23.9	10,237	1.7
Others	187	109	71.6	186	0.6
Segment EBIT (INR mn)					
Life science chemicals	956.4	424.0	125.6	836.0	14.4
Performance and other chemicals	752.3	656.9	14.5	989.6	(24.0)
Others	33.9	(2.8)	NA	26.7	27.0

Source: Company, Elara Securities Research

Exhibit 2: Valuation summary

(INR)	
WACC (%)	10.8
Terminal growth rate (%)	5.0
Present value of FCF over FY27-47E (INR mn)	80,218
Present value of terminal value (INR mn)	117,492
Enterprise value (INR mn)	197,709
Less: Net debt/(cash) FY26E (INR mn)	927
Add: Non-current investment (INR mn)	9,161
Add: MCA JV investment (INR mn)	2,357
Add: FY25E and FY26E dividend payout (INR mn)	2,050
Equity value (INR mn)	210,349
Target price	7,129

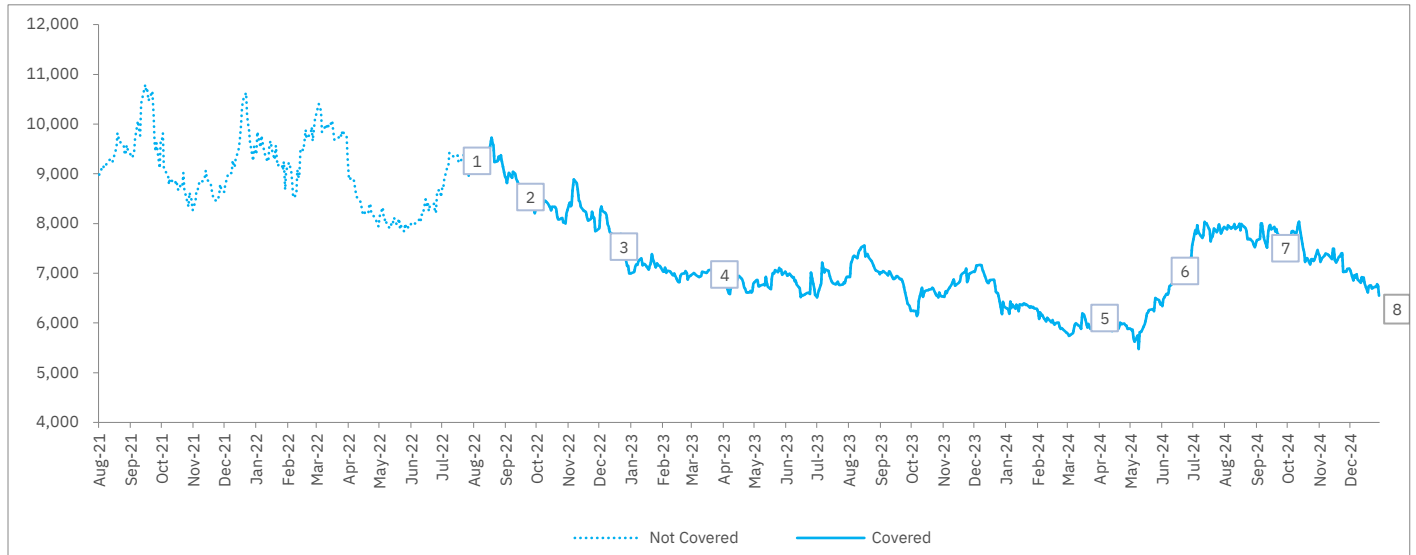
Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	55,976	63,479	70,856	55,845	63,332	70,692	(0.2)	(0.2)	(0.2)
EBITDA	9,508	11,121	12,007	9,081	10,297	11,078	(4.5)	(7.4)	(7.7)
EBITDA Margin (%)	17.0	17.5	16.9	16.3	16.3	15.7	(72)	(126)	(127)
Net Profit	4,946	6,143	6,884	4,896	5,842	6,552	(1.0)	(4.9)	(4.8)
EPS (INR)	168.0	208.7	233.9	166.3	198.5	222.6	(1.0)	(4.9)	(4.8)
Target price (INR)			8,340			7,129			(15)

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	30-Aug-2022	Accumulate	INR 10,614	INR 9,158
2	21-Oct-2022	Buy	INR 11,059	INR 8,435
2	20-Jan-2023	Buy	INR 10,251	INR 7,431
4	28-Apr-2023	Accumulate	INR 7,344	INR 6,872
5	2-May-2024	Accumulate	INR 7,018	INR 5,987
6	19-Jul-2024	Accumulate	INR 7,943	INR 6,948
7	25-Oct-2024	Accumulate	INR 8,340	INR 7,405
8	24-Jan-2025	Accumulate	INR 7,129	INR 6,547

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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India
Elara Securities (India) Private Limited
 One International Center, Tower 3,
 21st Floor, Senapati Bapat Marg,
 Elphinstone Road (West)
 Mumbai – 400 013, India
 Tel : +91 22 6164 8500

Europe
Elara Capital Plc.
 6th Floor, The Grove,
 248A Marylebone Road,
 London, NW1 6JZ,
 United Kingdom
 Tel : +44 20 7486 9733

USA
Elara Securities Inc.
 230 Park Avenue, Suite 2415,
 New York, NY 10169, USA
 Tel: +1 212 430 5870
 Fax: +1 212 208 2501

Asia / Pacific
Elara Capital (Asia) Pte.Ltd.
 One Marina Boulevard,
 Level 20,
 Singapore 018989
 Tel : +65 6978 4047



Managing Director

Harendra Kumar | harendra.kumar@elaracapital.com | +91 22 6164 8571



Head of Research

Dr Bino Pathiparampil | bino.pathiparampil@elaracapital.com | +91 22 6164 8572

Sales Team



India

Hitesh Danak - hitesh.danak@elaracapital.com - +91 22 6164 8543
Ashok Agarwal - ashok.agarwal@elaracapital.com - +91 22 6164 8558



India, APAC & Australia

Sudhanshu Rajpal - sudhanshu.rajpal@elaracapital.com - +91 22 6164 8508
Joshua Saldanha - joshua.saldanha@elaracapital.com - +91 22 6164 8541
Shraddha Shrikhande - shraddha.shrikhande@elaracapital.com - +91 22 6164 8567



India & UK

Prashin Lalvani - prashin.lalvani@elaracapital.com - +91 22 6164 8544



India & US

Karan Rathod - karan.rathod@elaracapital.com - +91 22 6164 8570



Corporate Access, Conference & Events

Anita Nazareth - anita.nazareth@elaracapital.com - +91 22 6164 8520
Tina D'souza - tina.dsouza@elaracapital.com - +91 22 6164 8595

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Elara Securities (India) Private Limited

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 Investor Grievance Email ID: investor.grievances@elaracapital.com - Tel. +91 22 6164 8509
 Compliance Officer: Mr. Anand Rao - Email ID: anand.rao@elaracapital.com - Tel. +91 22 6164 8509