



Management Discussion and Analysis

Ratios	UoM*	2019-20	2018-19	Increase (Decrease)	Remark
Interest coverage	times	461.00	192.00	140%	nil debt
Net profit margin	%	16.74	11.16	50%	favourable input prices
Return on net worth	%	22.38	17.70	26%	increased net profit margin

*Unit of Measurement

Atul Ltd has identified two reporting segments, namely, Life Science Chemicals and Performance and Other Chemicals.

Life Science Chemicals segment

Sales (₹ cr)	1,174 2019-20	1,289 2018-19	(9) % change
Share in total sales (%)	31 2019-20	34 2018-19	(3) % change

Life Science Chemicals segment consists of three sub-segments, namely, Crop Protection, Pharmaceuticals and Intermediates and Aromatics - I.

CROP PROTECTION

Product groups: Herbicides, Insecticides, Fungicides, Others



The products falling under these product groups are used by customers belonging to Agriculture and Crop Protection Chemicals industries.

The product groups comprise about 20 products and 70 formulations. 2,4-D, Indoxacarb and Isoprothiolane are some of the key products.

During 2019-20, sales decreased by 7% from ₹ 754 cr to ₹ 703 cr. Sales in India increased by 27% from ₹ 263 cr to ₹ 335 cr; bulk sales in India increased by 34% from ₹ 171 cr to ₹ 229 cr whereas retail sales which are currently only in India increased by 15% from ₹ 92 cr to ₹ 106 cr. Sales outside India decreased by 25% from ₹ 491 cr to ₹ 368 cr and formed 52% of the total. Increase

on account of volume was 3%. The Company completed one project and undertook two projects for implementation.

The size of the world Crop Protection Chemicals industry is estimated at US\$ 59.5 bn and is growing at about 2.4%. The world Food and



Agribusiness is estimated at around US\$ 5 tn. If the current trend continues, caloric demand will increase by about 70% and crop demand for human consumption and animal feed will nearly double by 2050.

This necessitates increased use of Crop Protection chemicals. The Company

will participate in this growth by –
i) focusing on providing its customers with the best quality products,
ii) expanding the product portfolio,
iii) promoting its brand sales
iv) securing access through more registrations and v) improving internal efficiencies and working capital management.

Floods or famines may adversely affect the demand. Fluctuations in foreign exchange may impact sales realisations. Given that some of these chemicals can be hazardous, it is essential to take due care in their manufacture and use. Registration costs are high in certain countries.

PHARMACEUTICALS AND AROMATICS – I

Product groups: API intermediates, Active Pharmaceutical Ingredients, Others



The products falling under these product groups are used by customers belonging to Pharmaceutical industry for various therapeutic categories, such as anti-depressant, anti-diabetic, anti-infective, anti-fungal, anti-retroviral and cardiovascular. The product groups comprise about 76 products. Dapsone, fluconazole and metoprolol salts are some of the active pharmaceutical ingredients and carbonates, chloroformates and amino acid derivatives are some of the key intermediates.

During 2019-20, sales decreased by 12% from ₹ 526 cr to ₹ 462 cr. Sales in India decreased by 3% from ₹ 293 cr to ₹ 283 cr. Sales outside India decreased by 23% from ₹ 233 cr to ₹ 179 cr and formed 39% of the total. Degrowth on account of volume was (12)%. Sales of Atul Bioscience Ltd, a 100% subsidiary company, remained almost unchanged at ₹ 105 cr because of regulatory issues with a key customer and delay in statutory clearances for the newly acquired facility at Ambernath. The Company completed one project while one project is under implementation.

The size of the world Pharmaceutical industry is estimated at US\$ 1.75 tn, of which the conventional pharmaceutical segment is estimated to be US\$ 1.3 tn. Of this, the size of the world API industry is estimated to be US\$ 160 bn. Biologics is estimated to contribute about 52% of sales of top 100 products by 2022 while Oncology will remain the largest therapy area with sales growing at about 12.7% CAGR. Worldwide Pharmaceutical R&D spend is estimated to grow by 2.4% CAGR to about US\$ 181 bn in 2022.

There are about 20 major companies which dominate the world marketplace.

The main user industry, namely, Pharmaceutical, is doing well because of increasing awareness about diseases and health. The Company along with ABL will participate in this growth by
i) widening its market reach,
ii) increasing its manufacturing efficiencies,
iii) debottlenecking and adding capacities, iv) introducing new products and v) forming long-term strategic alliances with other companies.

The prices of some products may vary widely over the short-term. Fluctuations in foreign exchange may impact sales realisations.





Performance and Other Chemicals segment

Sales (₹ cr)	2,650 2019-20	2,556 2018-19	4 % change
Share in total sales (%)	69 2019-20	66 2018-19	3 % change

Performance and Other Chemicals segment consists of four sub-segments, namely, Aromatics - II, Bulk Chemicals and Intermediates, Colors and Polymers.

AROMATICS – II

Product groups: Intermediates, Perfumery, Others



The products falling under these product groups are mainly used by customers belonging to Fragrance and Personal Care industries. The product groups comprise about 31 products. *para* Cresol, *para* Anisic aldehyde and *para* Cresidine are some of the key products.

During 2019-20, sales decreased by 2% from ₹ 711 cr to ₹ 694 cr. Sales in India increased by 1% from ₹ 225 cr to ₹ 228 cr. Sales outside India decreased by 4% from ₹ 486 cr to ₹ 466 cr and formed 67% of the total. Growth on account of volume was 4%. The Company completed one project and undertook two projects for implementation.

The world market for *para* Cresol (a key product) is estimated at 66,300 mt and is growing at about 2%. Though earlier the product used to be manufactured in the UK and the USA, China and India

are now major suppliers of the product. The size of the world Fragrance industry is estimated at US\$ 13.5 bn and is growing at about 4%. The size of the world Personal Care industry is estimated at US\$ 431 bn of which personal care ingredients segment is US\$ 25 bn and is growing at about 4%.

The main user industries, namely, Fragrance and Personal Care, are growing

well due to an improved standard of living. The Company will participate in this growth by i) broadening its market reach, ii) increasing its manufacturing efficiencies, iii) debottlenecking and adding capacities and iv) introducing new products.

The prices of some products may come down in a short-term. Fluctuations in foreign exchange may impact sales realisations.



BULK CHEMICALS AND INTERMEDIATES

Product groups: Bulk chemicals, Adhesion promoters, Others



The products falling under these product groups are mainly used for internal consumption, while the products in the Intermediate product groups are used by customers belonging

to Cosmetic, Dyestuff, Pharmaceutical and Tyre industries. The product groups comprise about 23 products. Resorcinol, Resorcinol formaldehyde resin and 1,3-Cyclohexanedione are some of the key products.

During 2019-20, sales (external) increased by 15% from ₹ 249 cr to ₹ 286 cr. Sales in India increased by 2% from ₹ 150 cr to ₹ 153 cr. Sales outside India increased by 34% from ₹ 99 cr to ₹ 133 cr and formed 47% of the total.

The Company undertook two projects for implementation.

The world market for Resorcinol (a key product) is estimated at US\$ 564 mn and is growing at about 2.5%. The size of the world Tyre industry is estimated at US\$ 237 bn and is growing at about 3.7%. The size of the world Chlor-alkali industry is estimated at US\$ 46 bn and is growing at about 3.2%.

The Tyre industry is projected to grow backed by strong growth in the Asia Pacific market region. The captive consumption of bulk

chemicals is expected to grow as the Company expands manufacturing capacities of its various products. The Company will participate in this growth by i) widening its market reach, ii) increasing its manufacturing efficiencies, iii) debottlenecking and

adding capacities and iv) introducing downstream products.

The demand and price of bulk chemicals are cyclical in nature. Fluctuations in foreign exchange and slowdown in automobile industry may impact sales realisations.



COLORS

Product groups: Dyestuffs, Pigments, Dye-intermediates, Textile chemicals, Others



The product groups comprise about 620 products. The products are used by customers belonging to Textile, Paint and Coatings and Paper industries. Pigment Red 168, Sulphur Black 1 and Vat Green 1 are some of the key products.

During 2019-20, sales increased by 14% (of which volume increase was 3%) from ₹ 547 cr to ₹ 626 cr. Sales in India increased by 16% from ₹ 285 cr to ₹ 332 cr. Sales outside India increased by 12% from ₹ 262 cr to ₹ 294 cr and formed 47% of the total sales. Rudolf Atul Chemicals Ltd (RACL), a joint venture company formed in 2011-12, provides a complete range of textile chemicals in Indian market; its sales decreased by 2% from ₹ 83 cr to ₹ 81 cr, primarily because of volume.

The size of the world Dyestuff industry is estimated at US\$ 6.1 bn and is growing at about 2%. China continues to be the largest manufacturer of dyes followed

by India. The world market for high performance pigments is estimated at US\$ 5.0 bn (constitutes both organic and inorganic pigments) and is expected to grow at about 4% in the coming years.

The main user industries, namely, Textile, Paper, Paint and Coatings will continue to grow because of increasing demands from middle class population and increase in discretionary spending. The Company along with RACL will participate in this growth by i) broadening its market reach in new

geographies, ii) investing in newer capacities of existing and new products, iii) increasing its manufacturing and working capital efficiencies and iv) introducing new dyes, pigments, textile chemicals and products for non-textile applications.

Fluctuations in foreign exchange and availability of raw materials may impact sales realisations. Treatment costs are expected to remain high because of stricter regulatory norms and increasing demand for cleaner and greener products from user industries.





POLYMERS

Product groups: Epoxy resins, Curing agents, Reactive diluents, Sulfones, Protective paints and Adhesives based on Epoxy, Synthetic rubber, Polyurethane, Cyanoacrylate, PVC and PVA



The products falling under these product groups are used by customers belonging to Aerospace, Automobile, Composites, Construction, Defence, Electrical and Electronics, Footwear, Paint and Coatings, Paper, Sport and Leisure and Wind Energy industries. The product groups comprise about 96 synthetic products and 300 formulations. B11, P62 and P101 are some of the key products. Synthetic and formulated products are versatile and have significant applications in Aerospace, Automobile, FRP Composites, Wind Energy, Electrical and Electronics, Paint and Coatings, Construction, Defence, Sports and Leisure and Paper industries.

During 2019-20, sales decreased by 1% from ₹1,048 cr to ₹1,041 cr. Sales in India decreased by 10% from ₹ 711 cr to ₹ 642 cr; bulk sales in India decreased by 13% from ₹ 593 cr to ₹ 517 cr, whereas retail sales increased by 6% from ₹118 cr to ₹125 cr. Sales outside India increased by 18% from ₹337 cr to ₹399 cr and formed 38% of the total. Growth on account of volume was 5%.

The world market for epoxy resins and curing agents is estimated at US\$ 7.6 bn and is growing at about 2% and Indian market is estimated at US\$ 285 mn and is growing at about 6%. There are about seven major companies which dominate the world marketplace. The world market for sulfones (curing agents) is estimated at US\$ 393 mn and is growing at about 6%.

The user industries, Construction, Defence, Electrical and Electronics, Paint and Coatings are growing well particularly in India. The Company

will participate in this growth by i) widening its market reach, ii) increasing its manufacturing and working capital efficiencies, iii) debottlenecking and adding new capacities of epoxy resins and curing agents.

Cheaper imports and new entrants in the market will keep the market competitive and may keep margins under pressure. Since the two main raw materials, namely Bisphenol-A and Epichlorohydrin, are imported, fluctuations in foreign exchange may impact margins.



The uncertainties associated with the pandemic COVID-19 may have adverse impact on the demand and supply chain in the short-term in both the segments, and the Company is working to minimise the impact of such aberrations to sustain the operations and identify new opportunities to grow.

INTERNAL CONTROL SYSTEMS



The Company has implemented adequate internal control systems and risk management processes commensurate with the nature of its business and size and complexity of its operations. They provide reasonable assurance on effectiveness and

efficiency of its operations, reliability of financial reporting and compliance with applicable laws and regulations.

The internal control systems that deploy an amalgam of modern and traditional audit tools are routinely tested, certified and upgraded as required

by the Statutory Auditors as well as the Internal Auditors to ensure both relevance and comprehensiveness. Significant audit observations and follow-up actions and recommendations thereon are also reported to the Senior Management and the Audit Committee for their review.

The Company has an in-house Internal Audit department and is also working with reputed audit firms specialising in internal audit function. Together, they have the responsibility to bring excellence in the function and introduce best practices in all key areas of operations required to manage a growing business which now comprises subsidiary, associate and joint venture entities. They also cover Atul Foundation and entities overseen by it.

The Company is planning to further strengthen its Internal Audit department particularly in the areas of data analytics, procedures and technical audit.



HUMAN RESOURCES



The Company considers its people to be its biggest asset and credits its sustained improvements to their ethics, dedication and energy. It is its endeavour to offer a work environment and HR processes that promote creativity, teamwork, meritocracy, learning and leadership.

HR Unit is continuously upgrading its processes related to recruitment, training and development, performance management and succession planning in order to manage a dynamic and growing business. The objective is to have a diverse and inclusive group of people who are motivated and develop internal leaders who are able to prepare and build a Company that is future-fit and purpose-led.

The HR managers comprise those in the central team and those partnering with the different businesses | functions (including subsidiary, associate and joint venture entities).

In addition, the Company regularly works with external professionals and organisations for specific initiatives and cross-pollination of ideas.

During 2019-20, the number of people increased by 333 from 2,574 to 2,907. Wage settlement for Atul site is under negotiation. Employee relations at all locations remained cordial. To commemorate the occasion of 125th birth anniversary

of its enterprising and inspiring Founder, the Company appreciated the contribution of every member of Team Atul by sharing a small token of gratitude.

The Company is planning to further strengthen its HR processes particularly using 'technology' to empower and develop people, unlock the capacity for growth and build capabilities for the future.

