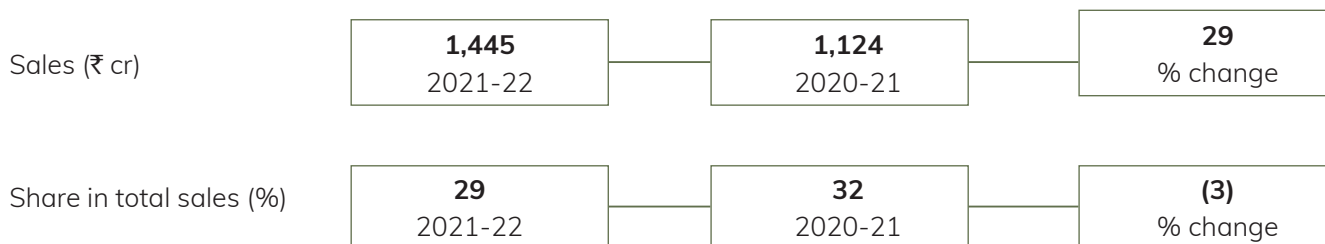


# Management Discussion and Analysis

Ratios	2021-22	2020-21	Increase   (Decrease)	Remark
Operating profit margin (%)	19.33	27.46	(30%)	Higher input and freight costs have reduced the margins
Net profit margin (%)	12.33	18.23	(32%)	

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

## Life Science Chemicals segment



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 the Agriculture and Crop Protection Chemicals industries. The product groups comprise 34 products and 70 formulations. 2, 4-D, Indoxacarb, Isoprothiolane and Sulfonylurea herbicides are some of the key products.

During 2021-22, sales increased by 50% from ₹ 618 cr to ₹ 924 cr. Sales in India increased by 27% from ₹ 295 cr to ₹ 374 cr; bulk sales in India increased by 39% from ₹ 142 cr to ₹ 198 cr, whereas retail sales, which are currently only in India, increased by 15% from ₹ 153 cr to ₹ 176 cr. Sales outside India increased by 70% from ₹ 323 cr to ₹ 550 cr and formed

60% of the total. Growth on account of volume was 17%. The Company completed three projects and undertook two projects for implementation.

The size of the world Crop Protection Chemicals industry is estimated at

US\$ 65 bn and projected to reach value of US\$ 73.8 bn by 2026, growing at about 2.5%. The growth of this market is attributed to the increasing need for food security of growing population. The world Food and Agribusiness estimated at around



US\$ 5 tn fell to US\$ 3.5 tn in 2020-21 due to the COVID-19 pandemic. This is seen as a temporary dip, as the caloric demand will continue to rise and the crop demand for human consumption and animal feed is expected to double by 2050.

The Company will participate in this growth by - i) improving internal

efficiencies and working capital management, ii) promoting retail sales, iii) expanding the product portfolio and securing more registrations and iv) evaluating investment opportunities in vertical integration.

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. Also, high cost of some of the main raw materials can impact the profitability of the business.

## 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 the Pharmaceutical industry for various therapeutic categories such as antidepressant, antidiabetic, anti-infective, antifungal, antiretroviral and cardiovascular. The product groups comprise 85 products. Dapsone and acyclovir are some of the active pharmaceutical ingredients (APIs) while carbonates, chloroformates and carbamoyl chloride derivatives are some of the key intermediates.

During 2021-22, sales increased by 2% from ₹ 498 cr to ₹ 509 cr. Sales in India increased by 2% from ₹ 300 cr to ₹ 307 cr. Sales outside India increased by 2% from ₹ 198 cr to ₹ 203 cr and formed 40% of the total. Sales of Atul Bioscience Ltd (ABL), a 100% subsidiary company, decreased from ₹ 143 cr to ₹ 126 cr. The Company completed one project at the Atul site.

The size of the world Pharmaceutical industry is estimated at US\$ 1.45 tn, of which the conventional pharmaceutical segment is estimated to be US\$ 1.1 tn. Of this, the size of the world API industry is estimated to be US\$ 160 bn. Biologics

are 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 US\$ 181 bn in 2022.

There are 20 major companies that dominate the world marketplace. The main user industry, namely, Pharmaceutical is doing well, especially the vertically integrated pharma companies, and meeting the expectations of mankind. The

Company along with ABL will participate in this growth by – i) increasing manufacturing efficiencies, ii) debottlenecking and adding capacities, iii) introducing new products and iv) forming long-term strategic alliances with other companies.

The price and demand of some products have seen inconsistency and are likely to vary widely over the short-term. Fluctuations in foreign exchange may impact sales.





## Performance and Other Chemicals segment

Sales (₹ cr)	3,484 2021-22	2,336 2020-21	49 % change
Share in total sales (%)	71 2021-22	68 2020-21	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 37 products. *para-Cresol*, *para-Anisicaldehyde* and *para-Cresidine* are some of the key products.

During 2021-22, sales increased by 40% from ₹ 562 cr to ₹ 786 cr. Sales in India increased by 19% from ₹ 211 cr to ₹ 251 cr. Sales outside India increased by 52% from ₹ 351 cr to ₹ 535 cr and formed 68% of the total. Growth on account of volume was 9%. The Company completed one project during the year.

The world market for *para-Cresol* (a key product) is estimated at 69,000 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\$ 15 bn and is growing at about 5%. The size of

the world Personal Care industry is estimated at US\$ 467 bn, of which personal care ingredients segment is US\$ 27 bn and is growing at about 5%.

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,  
iv) introducing new products and  
v) evaluating inorganic growth opportunities.

Fluctuations in foreign exchange may impact sales realisations.



## BULK CHEMICALS AND INTERMEDIATES

**Product groups: Bulk chemicals, Adhesion promoters, Others**



The products falling under the bulk chemicals product groups are mainly used for internal consumption, while the products in the intermediate product groups are used by customers belonging to the Cosmetic, Dyestuff, Pharmaceutical and Tyre industries. The product groups comprise 23 products. Resorcinol, Resorcinol-formaldehyde resin and 1, 3-Cyclohexanedione are some of the key products.

During 2021-22, sales increased by 9% from ₹ 286 cr to ₹ 312 cr, despite the disruption in production due to the COVID-19 pandemic. Sales in India increased by 17% from ₹ 157 cr to ₹ 183 cr. Sales outside India remained at ₹ 129 cr and formed 41% of the total. Growth on account of volume was 9%.

The world market for Resorcinol (a key product) is estimated at US\$ 578 mn and is growing at about 2.5%. The size of the world Tyre industry is estimated at US\$

246 bn and is growing at about 2.7%. The size of the world Chlor-alkali industry is estimated at US\$ 53 bn and is growing at about 2.90%.

The Tyre industry is projected to grow supported by resurgence in the Asia Pacific market region. The captive consumption of bulk chemicals is expected to grow as the Company expands manufacturing capacities of various products. The

Company will participate in this growth by - i) increasing its manufacturing efficiencies, ii) debottlenecking and adding capacities, iii) introducing downstream products and iv) widening its market reach.

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



## COLORS

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



The product groups comprise 430 products. The products are used by customers belonging to the Textile, Paint and Coatings and Paper industries. Vat Green 1, Sulphur Black 1 and Pigment Red 168 are some of the key products.

During 2021-22, sales increased by 36% from ₹ 591 cr to ₹ 802 cr. Sales in India increased by 27% from ₹ 315 cr to ₹ 401 cr. Sales outside India increased by 45% from ₹ 276 cr to ₹ 401 cr and formed 50% of the total sales. Growth on account of volume was 25%. The increased demand in both workwear





and denim segment contributed to the growth in sales of Vat and Sulphur Black products and demand for exterior paints in Europe and Asia contributed to the growth in sales of high performance pigments. 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 increased by 36% from ₹ 89 cr to ₹ 121 cr, primarily because of volume.

The size of the world Textile Dyestuff industry is estimated at US\$ 6.2 bn and is expected to grow at about 3% in the

coming years. China continues to be the largest manufacturer of dyes followed by India. The world market for high performance pigments is estimated at US\$ 5.4 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 all markets recovering from two years of pandemic. The Company along with RACL will participate in this growth by - i) increasing manufacturing and

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

Fluctuations in foreign exchange, price 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 sustainable 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 the Aerospace, Automobile, Composites, Construction, Defence, Electrical and Electronics, Footwear, Paint and Coatings, Paper, Sport and Leisure, and Wind Energy industries. The product groups comprise 82 synthetic products and 500 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 2021-22, sales increased by 76% from ₹ 878 cr to ₹ 1,546 cr. Sales in India increased by 59% from ₹ 596 cr to ₹ 945 cr; bulk sales in India increased by 63% from ₹ 460 cr to ₹ 751 cr, whereas retail sales increased by 43% from ₹ 136 cr to ₹ 194 cr. Sales outside India increased by 113% from ₹ 282 cr to ₹ 601 cr and formed 39% of the total. Growth on account of volume was 29%.

The world market for epoxy resins and curing agents is estimated at US\$ 12 bn and is growing at about 3%, while the Indian market is estimated at US\$ 380 mn and is growing at about 6%. There are seven major companies that 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) improving manufacturing and working capital efficiencies, ii) debottlenecking and adding capacities, iii) introducing new products and iv) widening market reach in new geographies.

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



## INTERNAL CONTROL SYSTEMS



The Company has comprehensive internal control systems commensurate with the nature of its business, size and complexity of its operations. They provide reasonable assurance on effectiveness and efficiency of its operations, reliability of financial reporting and compliance with the applicable laws and regulations.

The internal control systems that deploy an amalgam of modern and traditional processes are routinely tested and upgraded for both design and operational effectiveness by the Management and the same is audited by the Statutory Auditors. Significant audit observations and follow-up actions and recommendations thereon are also reported to the Senior Management and the Audit Committee for their review.

### Internal Audit

The Company has an in-house Internal Audit department which includes professionals from finance, data analytics and engineering disciplines and is also working with reputed audit firms specialising in internal audits and assurance domain. Together, they have the responsibility to bring in excellence in the function, continuously identify areas of operations requiring strengthening and introduce best processes and practices to manage a growing business which comprises subsidiary, joint venture and associate entities (including Atul Foundation and entities overseen by it).

The annual internal audit plan is reviewed and approved by the Audit Committee in beginning of the financial year to ensure adequate coverage. Progress of internal audit plan, significant observations noted during internal audits and status of identified actions are reviewed by the Management periodically and by the Audit Committee on quarterly basis.

The Company has further strengthened its Internal Audit department for improved focus on retail processes, data analytics and technical audit.

### Enterprise Risk Management

The Company believes that risks are inevitable in any business and its approach is to identify, track and mitigate instead of avoiding them. Enterprise risk management (ERM) is an integral part of a business and its framework includes

identification, classification, assessment, prioritisation, mitigation, monitoring and reporting of key risks.

The Company has adopted a bottom-up and top-down approach to drive ERM. The bottom-up approach includes identification and regular assessment of risks by respective businesses and cross-functional teams and plan for mitigating such risks in a structured manner. This is complemented by a top-down approach where the senior management identifies and assesses long-term and macro risks. Risks are consolidated under major risk themes to create focus areas and prioritise mitigation plans.

ERM is driven by the Board of Directors through the Risk Management Committee of the Board.





## HUMAN RESOURCES



2021-22 witnessed the second and third waves of the COVID-19 pandemic.

HR remained engaged with the workforce to ensure safe and uninterrupted operations.

People and culture are the cornerstones for building a company and for it to face the test of time. The Company took further initiatives to enhance i) its HR processes (particularly using technology) related to recruitment, performance management, learning and development, manpower planning and employee care and ii) work environment related to culture and code of conduct to manage a growing business (which comprises subsidiary, joint venture and associate entities).

In addition to the above, the Company also made improvements in the area of HR digitalisation, particularly in employee care, recruitment, learning and development and performance management, with an objective

to enrich employee and candidate experience.

15 COVID-19 vaccination camps were organised for ensuring safety and well-being of the employees and contractual workmen. Special benefits were introduced for the families of employees who lost their lives due to the COVID-19 pandemic.

Employee relations at all locations remained cordial.

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 experts for specific initiatives.

During the fiscal, the number of team members increased by 98 from 2,991 to 3,089.

