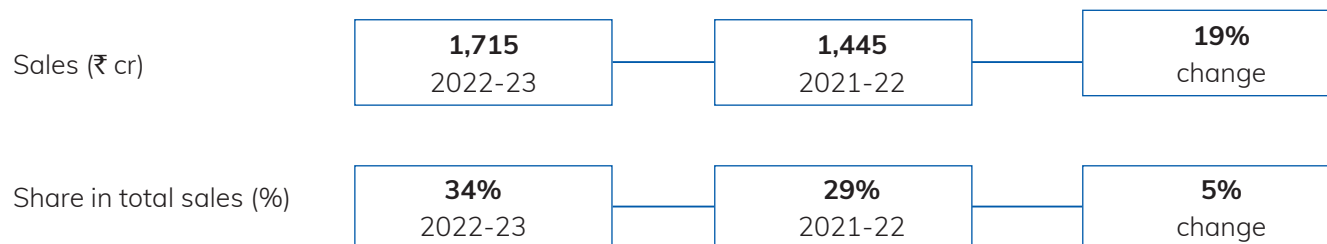


# Management Discussion and Analysis

Ratios	2022-23	2021-22	Increase   (Decrease)	Remark
Interest coverage ratio	447.50	317.67	41%	Negligible debt and interest cost; the Company is effectively operating at zero debt.
Debt-to-equity ratio	-	0.02	(100%)	
Return on net worth (%)	12.40%	15.15%	(18%)	-

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 2022-23, sales increased by 25% from ₹ 924 cr to ₹ 1,151 cr. Sales in India increased by 11% from ₹ 374 cr to ₹ 416 cr; bulk sales in India increased by 10% from ₹ 198 cr to ₹ 218 cr whereas retail sales, which is currently only in India, increased by 12% from ₹ 176 cr to ₹ 197 cr. Sales outside India increased by 34% from ₹ 550 cr to ₹ 735 cr and formed 64% of the total.

Growth on account of volume was 17%. The Company completed two projects and undertook one project for implementation.

The size of the world crop protection market is estimated to have increased from US\$ 65.2 bn in 2021 to

US\$ 69.3 bn in 2022. The main attributing factors for this are strong commodity prices, and high agrochemical prices resulting from disruption in the global supply chain. The world crop protection chemicals market is expected to



grow at a CAGR of 6% from 2023 to 2030, driven majorly by the rising consumption of food across the globe due to the increasing population.

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, geopolitical developments leading to supply chain disruptions and high cost of some of the main raw materials can impact the profitability of the business.

## Pharmaceuticals and Aromatics – I

### Product groups: active pharmaceutical ingredients and its intermediates, 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 90 products. Acyclovir, Dapsone, Desvenlafaxine, Fluconazole, Valacyclovir and Venlafaxine are some of the active pharmaceutical ingredients (APIs) while carbamoyl, carbonates, chloride derivatives and chloroformates are some of the key intermediates.

During 2022-23, sales increased by 10% from ₹ 510 cr to ₹ 559 cr. Sales in India increased by 3% from ₹ 307 cr to ₹ 315 cr. Sales outside India increased by 20% from ₹ 203 cr to ₹ 244 cr and formed 44% of the total sales. Degrowth on account of volume was 5%. Sales was partially impacted due to fire in one of the plants. The plant is fully insured, and the claim is gradually being realised. The Company completed one project at the Atul site. Sales of Atul Bioscience Ltd (ABL), a 100% subsidiary company, increased by 25% from ₹ 126 cr to ₹ 158 cr. However, due to price pressure and new product regulatory

filings, there was a contraction of operating margins. During 2022-23, one of the sites of ABL completed regulatory inspections from the United States Food and Drug Administration and Health Canada without any critical | major observations.

The size of the world Pharmaceutical industry is estimated at US\$ 1.5 tn during 2022 and is estimated to reach US\$ 1.7 tn by 2025, of which the conventional pharmaceutical segment is estimated to be US\$ 1.1 tn. The size of the world API industry is estimated to be US\$ 195 bn during 2022 and is estimated to reach US\$ 25 bn by 2026. Biologics are estimated to have contributed about 52% of sales of

the top 100 products during 2022, while oncology will remain the largest therapy area with sales growing at about 12.7% CAGR.

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)	3,287 2022-23	3,484 2021-22	(6%) % change
Share in total sales (%)	66% 2022-23	71% 2021-22	(5%) % 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 41 products. *para*-Cresol, *para*-Anisicaldehyde and *para*-Cresidine are some of the key products.

During 2022-23, sales decreased by 3% from ₹ 786 cr to ₹ 766 cr. Sales in India increased by 27% from ₹ 251 cr to ₹ 318 cr. Sales outside India decreased by 16% from ₹ 535 cr to ₹ 448 cr and formed 58% of the total sales. The decrease in sales on account of volume was 17%. The Company completed one project during the year.

The world market for *para*-Cresol (a key product) is estimated at 70,000 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\$ 16 bn and is growing at about 5%. The size of the world Personal Care industry is estimated at US\$ 490 bn, of which personal care ingredients segment is US\$ 28 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, debottlenecking and adding capacities, iii) introducing new products and iv) 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 2022-23, sales remained stagnant - ₹ 312 cr in 2021-22 and ₹ 315 cr in 2022-23. Sales in India increased from ₹ 183 cr to ₹ 188 cr while sales outside India decreased from ₹ 129 cr to ₹ 127 cr. Sales outside India formed 40% of the total. Growth on account of volume was 2%.

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\$ 267 bn and is growing at about 8%. The size of the world Chlor-alkali industry is estimated at US\$ 69 bn and is growing at about 4%.

The Tyre industry is projected to grow supported by the resurgence in Asia Pacific. The captive consumption of bulk chemicals is expected to grow as the Company expands the 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 450 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 2022-23, sales decreased by 22% from ₹ 802 cr to ₹ 624 cr. Sales in India decreased by 18% from ₹ 401 cr to ₹ 330 cr. Sales outside India decreased by 27% from ₹ 401 cr to ₹ 294 cr and formed 47% of the total. The decrease in sales on account of volume was 26%. Fluctuation in cotton prices affected the competitiveness of textile producers engaged in exports.

High inflation in textile importing countries and higher inventory levels across the textile value chain further impacted the demand of textile dyes and chemicals. This in turn affected the selling prices and margins of

dyes and chemicals. Denim producers were particularly affected leading to much lower capacity utilisation, which affected the sales of Sulphur black. Lower demand for exterior paints in Europe and other markets contributed



to a significant loss 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 the Indian market; its sales decreased by 8% from ₹ 121 cr to ₹ 111 cr, primarily because of volume. The size of the world Textile Dyestuff industry is estimated at US\$ 6.6 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\$ 5.9 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 be influenced by macro-economic and geo-political factors. The Company along with RACL is expected to grow by - i) improving capacity utilisation and managing cash flows ii) introducing new dyes and textile chemicals, iii) developing

newer applications for existing products and iv) broadening the market reach in new geographies.

Fluctuations in foreign exchange, high inflation in export markets, low demand and competition from China may impact sales realisations. Treatment costs are expected to remain high because of stricter regulatory norms and increasing demand for the implementation of green chemistry principles and ESG compliance.

## Polymers

**Product groups: epoxy resins, curing agents, reactive diluents, sulfones, protective paints, epoxy sealants, tapes 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 Adhesives, Aerospace and Defence, Automotive, Composites, Construction, Electrical and Electronics, Food and Beverage packaging, Footwear, Marine, Paint and Coatings, Paper, Sport and Leisure, Transport and Wind Energy industries. The product groups comprise 47 synthetic products and 268 formulations. Liquid epoxy resins, solid epoxy resins, solvent cut resins, cycloaliphatic resins, epoxy phenol novolac, multifunctional resins, aromatic amines and their adducts, 4,4'-Diaminodiphenyl sulfone and 4,4'-Dichlorodiphenyl sulfone are some of the key products.

During 2022-23, sales decreased by 2% from ₹ 1,546 cr to ₹ 1,513 cr. Sales in India decreased by 2% from ₹ 945 cr to ₹ 927 cr; bulk sales in India decreased by 7% from ₹ 751 cr to ₹ 700 cr, whereas retail sales increased by 17% from ₹ 194 cr to ₹ 227 cr. Sales outside India decreased by 3% from ₹ 601 cr to ₹ 586 cr and

formed 39% of the total. Growth on account of volume was 7%.

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%. Seven major companies 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, its size and the complexity of its operations. They provide reasonable assurance on the 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 and engineering disciplines and is also working with reputed audit firms specialising in internal audits. Together, they have the responsibility to identify areas requiring control enhancements, automation and implementation of leading practices for the Company, its subsidiary, joint venture and associate entities and also Atul Foundation and the entities overseen by it.

The annual internal audit plan is reviewed and approved by the Audit Committee to ensure adequate coverage. Progress of the internal audit plans, significant audit observations and the status of agreed actions are reviewed by the Management on a monthly basis and by the Audit Committee on a quarterly basis.

### 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 the 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 the identification and regular assessment of risks by respective businesses and cross-functional teams and a plan for mitigating such risks in a structured manner. This is complemented by a top-down approach where the Senior Management ensures comprehensiveness of framework, effectiveness of mitigation measures and assesses long-term and macro risks. Risks are consolidated under major risk themes to create focus areas and prioritise mitigation plans.

The Company has constituted an ERM council comprising Senior Management officials to ensure adoption of a comprehensive framework and effectiveness of mitigation measures. ERM is driven by the Board of Directors through the Risk Management Committee of the Board.



## Human Resources



The biggest asset of the Company are its people; it is promoting a culture that empowers its people

to be the best version of themselves essential to foster high engagement and consistent improvement in performance. It is creating a learning organisation and building end-to-end capabilities to be future-ready as its businesses further evolve and expand – it is committed to pervade technology in all its HR processes.

During 2022-23, the Company took four key people related initiatives: i) leveraging learnings through the period of COVID pandemic, it introduced flexi-time at Atul site, made four Saturdays per month off for locations other than its manufacturing sites and further liberalised medical reimbursement via medical insurance for its entire workforce, ii) it concluded a five-year settlement (instead of earlier three-year) with the union at Ambernath site of Atul Bioscience, iii) it commenced adding HR team members in businesses and functions so as to take the decision-making closer to where it is most required, iv) it digitalised recruitment process (that is from recruitment to selection);

digitalisation of recruitment process post-selection is under progress.

One of the key tests for the Company is to develop internal leadership pipeline and ensure that a much smaller number joins from outside in senior positions. This need is being addressed in five ways: i) preparing and executing development plan, ii) interactions with higher management, iii) participating in functional and cross-functional projects, iv) self-learning, v) attending courses (related to functional and people leadership). This will be further supported by an enhanced performance management system and improved promotion process. HR is also working with

internal functional and cross-functional teams to bring further clarity on the roles for better delivery of performance.

Employee relations at all locations remained cordial. The number of team members in the Company increased from 3,449 to 3,528 – the number comprises its own team members and those working for its retail businesses, information technology and finance via four subsidiary entities, namely Atul Crop Care, Atul Consumer Products, Atul Infotech and Atul Finserv. The number excludes team members in associate, joint venture and other subsidiary entities.

