

Atul Foundation touched
the lives of ~ 1,25,000 people in seven states of India.



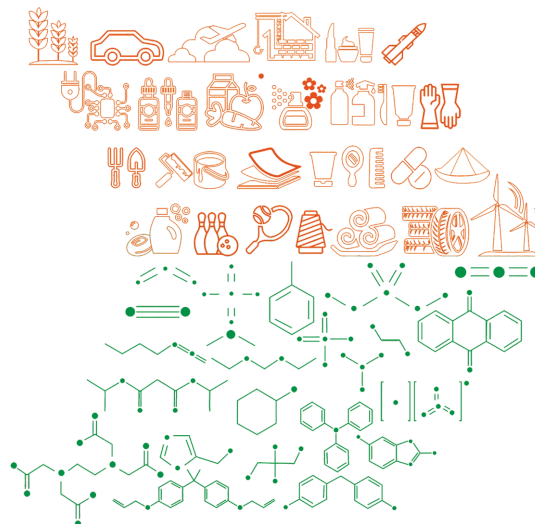
Reached out to 8,410 students through 103 Atul Adhyapikas in
86 rural villages with quality education



Conducted 34 anaemia camps reaching out to 3,755 adolescent
girls | women and provided IFA tablets to 1,146 anaemic women



Benefited 23,746 individuals with
waste management project in eight villages



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Annual General Meeting
2023

Atul Ltd
Atul 396 020, Gujarat
India
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Lalbhai Group

**Speech
of
(Sunil Siddharth Lalbhai)
Chairman and Managing Director**

July 28, 2023
Deemed venue of the meeting:
Ahmedabad 380 014, Gujarat
India

Fellow shareholders, ladies and gentlemen,

On behalf of the Board of Directors and team Atul, I welcome you to 'in a way the 75th AGM of our Company. I have the privilege to engage with you today. I will like to share the state of our Company and also the endeavour of team Atul to overcome the sluggishness in its performance – the test is to do better even in an environment known by acronyms like VUCA¹ and BANI². Today is also an occasion when the Non-executive Directors, my colleagues and I get an opportunity to listen to you, and I thank you for your time. I do hope that you will find our interaction meaningful and value adding.

I have covered four main areas in my talk – operations, growth, systems and people – in a way that you get some answers to the many questions already received in advance. PBT in 2021-22 and 2022-23 do reflect stagnation and also deterioration if compared with the past trend – I want you to know that team Atul is enduring the current state, but is not accepting it – every member of the team understands the clarion call of our times: become internally stronger; this means, think deeply, interpret changes clearly, work creatively, act cohesively, relearn quickly and serve earnestly.

Just to recap, in 2022-23, standalone sales at ₹ 5,002 cr increased negligibly by 1% – price increase was 2% and volume decrease was 1%. Standalone PBT at ₹ 730 cr decreased by 9%. EBITDA at 18% and RoCE at 19% were lower by nine and 15 percentage points compared to the earlier best in 2020-21 and 2019-20 respectively. Consolidated sales at ₹ 5,366 cr increased by 7% – price increase was 1% and volume increase was 6%. Consolidated PBT at ₹ 688 cr decreased by 15%. If we approve the dividend of 250%, along with the 75% interim, it will be the highest paid so far by our Company.

The main reasons for the almost stagnant sales and decrease in PBT were i) lower demand for key products in international markets resulting in lower sales in such markets – decrease in capacity utilisation and increase in variable costs, ii) decrease in selling prices, iii) increase in purchase prices of coal and salt and iv) fire in one of the plants on April 20, 2022. I mention this not to defend the decline in performance, but only to share the four adverse conditions faced by our Company at the same time. The plant – insured at reinstatement value – is almost ready and will be commissioned in this quarter.

Our Company completed one debottlenecking project in 2022-23 – with the existing assets, at 90% capacity utilisation, at current lower prices, its sales potential now is ₹ 6,350 cr; this potential will rise by ₹ 1,150 cr when three projects in 2023-24 and one in 2024-25 already under implementation are commissioned. So our Company will have total sales potential of ₹ 7,500 cr without considering debottlenecking of capacities that happens normally. There are no structural changes in the demand of the products, and team Atul is strengthening itself to realise this step-change in sales.

Sales of the two B to C³ businesses, namely, CPR⁴ and POR⁵, at ₹ 197 cr and ₹ 245 cr increased by 12% and 16%. Both the businesses have the potential to individually grow much bigger than the current B to B⁶ businesses of our Company. The five key mandates to realise this long-term aspiration are i) enlarge retail base, ii) expand geography, iii) extend product portfolio, iv) fortify processes and lastly, but the most important, v) strengthen team Atul. Our Company bought a new office in Mumbai to house additional people who will be required in the years ahead.

In 2022-23, combined sales of subsidiary, JV and associate production entities – and this will not tally with the reported consolidated sales – at ₹ 578 cr increased by 12%, but PBT at ₹ 10 cr decreased by 79%. The main reasons for the sub-optimal performance were i) lower sales from Ambernath site of Atul Bioscience, ii) delayed stabilisation of the facilities of Atul Rajasthan Date Palms, iii) pressure on selling prices in Anaven and iv) start-up problems in Amal Speciality Chemicals, a 100% subsidiary of Amal. Team Atul is gradually overcoming every such test.

Atul Products, a 100% subsidiary entity, will commission a 300 MT per day caustic chlorine plant (with a 50 MW power plant) in this quarter with an investment of ₹ 822 cr. This is the single largest investment made by our Company or its subsidiary. Sales are expected to be ₹ 500 cr (at current price of ₹ 37 per ECU⁷ which has come down from ₹ 55 per ECU in 2022-23). At this time, there is no manufacturer of these products – where transport cost is critical – in and in the vicinity of Valsad district. The plan is also to introduce more value added products based on H₂ and Cl₂ going forward.

Atul Bioscience, a 100% subsidiary, DPD, a 98% subsidiary, Atul Rajasthan Date Palms, a 75% subsidiary, Amal, a 50% associate, Rudolf Atul Chemicals, a 50% partnership (with Rudolf, Germany) and Anaven, a 50% partnership (with Nouryon, the Netherlands) are entities wherein our Company has invested in all ₹ 270 cr through the years. The operating problems which arose in some of these entities are getting resolved. Combined sales of the above subsidiary, JV and associate entities, along with those of Atul Products, are expected to reach (from ₹ 578 cr in 2022-23) ₹ 1,100 cr in 2024-25.

Our Company achieved sales of ₹ 1,018 cr against ₹ 1,409 cr and PBT of ₹ 131 cr against ₹ 248 cr, which was also the previous highest (without adjusting for loss because of fire in a plant) in the first quarter of 2023-24. The economic environment and geopolitical uncertainty continue to test us – this will only bring out the best in us in terms of seeking continuous improvement at the workplace and in the marketplace. So there are two ways to look at these numbers – one is 'a significant downward trend in profit' and the other is 'a significant improvement opportunity'; I surely believe in the second.

Team Atul is pervading technology across functions to further strengthen the existing processes. For example, the team is implementing upgraded versions of technology solutions to enhance supply chain planning, sales forecasting and customer relationship. So far, our Company was using Oracle as ERP⁸, its Indian subsidiary, JV and associate entities Microsoft as ERP and its entities outside of India Sage as ERP – from 2023-24, all entities will use Oracle as ERP. The team is also implementing technology solutions to further strengthen processes in HR and other functions (travel, etc).

Our Company manufactures all its products on the foundation of science and technology. Team Atul is focusing on digitisation, but more importantly digitalisation in R&D and manufacturing, all in a secured environment – some examples in R&D are design of experiments studies, data acquisition and real time analysis of processes, digital storage and transfer of data. And some examples in manufacturing are RFID⁹ for tracking movement of selected assets and 'intelligent plant framework' to achieve operational excellence (initiated for one plant).

Our Company recruited 106 executive trainees and management trainees in 2022-23 and 108 joined in the current fiscal so as to develop team members from within for higher responsibilities. 30% team members were elevated to middle and senior management in the last two cycles of promotions. The above number, although gradually improving, is lower if compared with other forward-looking companies. Team HR and corporate office, with external inputs where required, are working on further enhancing and transforming key HR processes.

The current organisation of our Company has developed since 1995 when it adopted business-wise and function-wise structure – at that time, gross block was ₹ 231 cr, sales were ₹ 235 cr, number of operating entities were two and number of foreign entity was one. Given the current dimensions, plans ahead and external environment, it is essential to have i) domain knowledge (for each business) of a higher order, ii) equity funds for future investment and iii) career paths for competent team members. Our Company is therefore in the process of evolving a structure that is future-fit.

Our Company continued with blessed legacy of our legendary Founder, Kasturbhai Lalbhai, of conducting business with a social intent, a journey that began since its inception in 1947, long before it was made mandatory in 2015. Atul Foundation took up 40 projects under six programs of national priority, namely, conservation, education, empowerment, health, infrastructure and relief and touched 1,25,000 people in seven states; the spending by the Foundation was ₹ 16 cr and the total spending was ₹ 40 cr. The resolve of team Atul to serve even in times of difficulty has only increased.

Bansi Mehta retired on May 31, 2023 and Rajendra Shah will retire today after 31 years and 41 years of distinguished association as Non-executive Directors of our Company. The Board recognises their immense contribution, and I am indebted to them personally and professionally for their guidance. The Board has appointed, subject to approval by the shareholders, Mr Rangaswamy Iyer as an Independent Director who has a very good understanding of pharmaceutical industry and finance. The Board will appoint additional Independent Directors to maintain continuity.

Although not mandated by law, our Company has appointed distinguished Non-executive Directors (from outside) on the Boards of its subsidiary and joint venture entities (like Atul Bioscience, Atul Rajasthan Date Palms and Rudolf Atul Chemicals) to bring the best of outside in and make the meetings more enriching and meaningful. This arrangement is also providing an opportunity to have dispassionate deliberations. Our Company is similarly also planning to appoint Non-executive Directors on the Boards of Atul Products and Valsad Institute of Medical Sciences.

The world in 2022-23 looked nothing like the world in 2019-20 – I value every member of team Atul who has remained committed, dedicated, energised and focused on the tasks on hand so as to consistently renew our Company. I thank the customers for pushing team Atul to offer compelling value – this helps in continuous learning and improvement. I recognise the contribution of the Independent Directors for their constructive approach, direction and guidance and even dissent. Finally, I am grateful to you for your trust in the Management - this means more than anything else.

In the closing, I will like to urge you not to view investment being made by our Company merely as expansion of assets, sales or profit, but really as an expression of our dreams, determination and dedication. It is a journey of incessant hard work for and relentless pursuit of grasping opportunities of our times and thus realising the evolving potential of our Company in a responsible way – environmentally, financially and socially – and thus creating long-term value for the shareholders. So please be sure that team Atul will not settle for what it is, but what it ought to be.

¹volatile, uncertain, complex and ambiguous

²brittle, anxious, nonlinear and incomprehensible

³business-to-consumer

⁴Crop Protection – Retail

⁵Polymers – Retail

⁶business-to-business

⁷electrochemical unit

⁸enterprise resource planning

⁹radio-frequency identification