

4<sup>th</sup> February 2021

CMP – ₹1192/-

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**Q3FY21 Performance**

Aarti Industries Ltd reported ~9.5% Y-o-Y and ~1% Q-o-Q increase in topline to ₹11,868mn primarily on account of ~31.8% Y-o-Y and 4.8% Q-o-Q increase in pharmaceuticals business.

EBITDA for the quarter stood at ₹2,850mn showcasing growth of ~12% Y-o-Y and 12% Q-o-Q and EBITDA margins improved to ~24.0% in Q3FY21 from 23.5% in Q3FY20. Company recorded highest gross margin ~54.1% up 303 bps Y-o-Y and 339bps Q-o-Q due to greater proportion from pharmaceuticals segment.

PAT grew 18.2% Y-o-Y and 17.9% Q-o-Q to ₹1653mn from ₹1398mn in Q3FY20 on the back of higher operating profitability. PAT margins stood at 13.9% in the quarter compared to 12.0% in Q2FY21 and 12.9% in Q3FY20.

**Important Statistics**

<b>Mcap (₹ mn)</b>	₹2,05,980
<b>52 Week H/L (₹)</b>	1363.5/662.1
<b>NSE Code</b>	AARTIIND
<b>BSE Code</b>	524208

**Shareholding pattern (%) Dec'20**

Promoter Holding	47.3
FII	9.0
DII	14.6
Public	29.1

**Key Concall Highlights**

- Aarti Industries reported ~9.5% Y-o-Y and ~1.2% Q-o-Q topline growth to ₹11,868mn on account of healthy growth in its pharmaceutical segments.
- In Q3FY21, revenue of specialty chemicals segment was up just 3.5% Y-o-Y, to ₹10787mn while EBIT was up just 3.9% Y-o-Y, to ₹2235mn, supported by greater demand. EBIT margin was the same as a year ago, while improving 359bps Q-o-Q, following the rising share of value-added products, normalized business operations and return of demand in established market.
- Revenue of the pharmaceutical segment was up by 31.8% Y-o-Y and 4.8% Q-o-Q to ₹2322mn in Q3FY21. EBIT grew 53.7% Y-o-Y, but Q-o-Q were down by 2.2%, to ₹553mn. EBIT margin expanded 338bps Y-o-Y, though Q-o-Q was down 170bps, to 23.8%. Revenue and EBIT growth were driven by operating leverage from growing volumes and the focus on regulated markets and value-added products. Management expects 15-20% annual revenue growth and 25% EBIT growth in pharmaceuticals segment going ahead,
- Company produced NCB volumes at 16,830 MT in Q3FY21 vs 14,900 MT in Q3FY20, Hydrogenation volumes at 2,740MT a month in Q3FY21 vs 2,330MT a month in Q3FY20, PDA volumes of 520 MT monthly and Nitrotoulene volumes of 3600MT this quarter.
- Management guided demand at end-user industries (mainly engineering, textiles, pharmaceuticals, pigments and polymers) was very strong in Q3FY21. To make up for lower demand from regulated markets, the company entered new markets and identified new customers in China in Q2. Thus, its supply to China increased to 20% in Q2. In Q3, this declined to a normal ~11% due to strong demand recovery in the home market.
- The second long term contract is expected to commercialize in H1 FY22, however lower utilization would be seen in the first year of operation, then stabilize and improve in the second year. The third contract is expected to commercialize by H2 FY22.
- Management said the company will manufacture intermediates for Dicamba in FY21 and the plant for the same would be commissioned in Q4 FY21.

**Financials**

Particulars	₹ mn		
	FY18	FY19	FY20
Net Sales	38,061	41,676	41,863
EBITDA	6,991	9,651	9,773
EBITDAM%	18.4%	23.2%	23.3%
PAT	3,330	4,917	5,361
PATM%	8.7%	11.8%	12.8%
EPS (₹)	19.1	28.2	30.8
ROE (%)	20.1%	18.1%	17.4%
ROCE (%)	15.8%	16.9%	16.5%
P/E (x)	58.2	42.2	38.8
EV/EBITDA (x)	16.6	22.9	22.9

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**Key Risks**

Slower than expected demand recovery in its key markets and 2nd or 3rd wave of Covid-19.

Dealy in commercialisation of planned capex.

**View**

Company reported good numbers in Q3FY21 on the back of strong pharmaceuticals performance, focus on regulated markets and higher contribution from value-added products. We believe, the long growth term story remains intact and it is to be largely driven by addition of value added products, customer de-risking, two long term contracts and robust growth from pharmaceuticals. Company's leadership position, superior return ratios, healthy balance sheet further boosts our confidence. **At CMP of ₹1192, Aarti Industries Ltd trades at ~38.8x FY20 EPS and ~22.9x FY20 EV/EBITDA and is justified given its long term growth story thus we recommend investors to 'ACCUMULATE on Dips'.**

**Consolidated Financial Highlights**

	Q3FY21	Q2FY21	Q3FY20	Y-o-Y	Q-o-Q
	(₹ mn)				
Net Sales	11,868	11,726	10,836	9.5%	1.2%
Expenditure	9,018	9,184	8,294	8.7%	-1.8%
<b>EBITDA</b>	<b>2,850</b>	<b>2,543</b>	<b>2,542</b>	12.1%	12.1%
EBITDA Margin	24.0%	21.7%	23.5%	55bps	233bps
Depreciation	587	550	470	24.7%	6.6%
<b>EBIT</b>	<b>2,263</b>	<b>1,993</b>	<b>2,072</b>	9.2%	13.6%
EBIT Margin	19.1%	17.0%	19.1%	-5bps	207bps
Interest	173	222	287	-39.8%	-22.0%
Other income	4	0	4	16.2%	975.0%
<b>PBT</b>	<b>2,094</b>	<b>1,772</b>	<b>1,788</b>	17.1%	18.2%
Tax	403	337	361	11.5%	19.6%
<b>PAT</b>	<b>1,692</b>	<b>1,435</b>	<b>1,427</b>	18.5%	17.9%
Minority Interest	39.1	32.6	28.7	36.2%	19.9%
<b>Consol PAT</b>	<b>1,653</b>	<b>1,402</b>	<b>1,398</b>	18.2%	17.9%
PAT Margin	13.9%	12.0%	12.9%	102bps	197bps
EPS (₹)	9.49	8.05	8.03	18.2%	17.9%

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Indian Aarti Industries Ltd. as on February 4<sup>th</sup>, 2021**

Name of the Security	Aarti Industries Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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Broking relationship with company covered	NIL
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