

6th June 2022

CMP – ₹720.50/-

View – Accumulate on Dip

Q4FY22 Result Update

- During Q4FY22, the company reported revenue growth 45% YoY and declined by 26% QoQ to ₹1756Cr, this growth is supported by better realization and 10-12% volume growth which was led by strong demand trajectory for product in the key end user industries. EBITDA for the quarter stood at ₹339Cr up by 30% YoY on account of high utilization across plant, however declined by 65% QoQ, while EBITDA margin decline at 19% v/s 22% in Q4FY22 on account of higher input costs. PAT at ₹194Cr up by 42%, PAT margins stood at 11% in Q4FY22.
 - Specialty chemical segment Revenue/EBIT grew by 49%/19% YoY owing to better realization, however, decline by 29%/73% QoQ to ₹1629Cr/₹246Cr on account of supply shortage of key RM –Nitric acid which impacted production of various products. Value added products contributed ~70% to the revenue in Q4. EBIT margin declined by 380bps YoY to 15% v/s 19% in Q4FY21, on account of higher input cost. The company has commercialized its units for second long term contract in Q4 which resulted in increase in fixed cost and depreciation.
 - NitroChloro benzene/ Hydrogenerated product & NitroToloyne production grew by 4%, 57% & 76% yoy to 19,951 mt, 3,029 mt & 5,155 mt v/s 19,100 mt, 1,935 mt & 2,935 mt.
 - Pharmaceutical segment revenue/EBIT grew 52%/30% YoY to ₹388Cr/ ₹67Cr, owing to robust demand for key products, while EBIT margins decline at 17% v/s 20% in Q4FY21. Margins were impacted due to delay in passing on input costs inflation.
- During FY22, the company reported revenue growth of 55% yoy to ₹7000Cr, excluding long term contract termination fees revenue grew by 41% yoy to ₹6369Cr, this growth was supported by better realization, volume growth in both pharmaceuticals and specialty chemicals business. EBITDA margins stood at 28% v/s 22% in FY21, adjusted EBITDA margins at 21% in FY22 & PAT grew by 19% YoY to 1307 Cr v/s 523 Cr in FY21.
 - Specialty chemical segment revenue/ EBIT grew by 63%/116% to ₹6619/ ₹1614Cr owing to better realization, FY22 revenue/EBIT include long term contract termination fees of ₹631Cr/₹610Cr, excluding termination fees revenue/EBIT stood at ₹5998Cr/ ₹1004Cr in FY22. Adjusted EBIT margin stood at 16% v/s 18% in FY21.
 - Pharmaceutical segment revenue/EBIT grew 37%/44% YoY to ₹952Cr/ ₹211Cr, owing to robust demand for key products, while EBIT margins decline at 17% v/s 22% in Q4FY21. The expansion of capacity for the USFDA approved API facility is in the final stages and will commercialize in Q1FY23
- **Key highlights:**
 - The company has proposed to setup backward integration plant which will convert weak nitric acid to concentrated nitric acid, its capacity will be ~225-250 tpd. The management has estimated capex of ₹150-200Cr, this facility will help to meet partial requirement of nitric acid.
 - On the projects front, the company is targeting ~70-80% utilization level for first long term project in FY24. The second project has commercialized manufacturing in Q4FY22 and incremental revenue will

Important Statistics

MCAP (₹ bn)	~₹260
52 Week H/L (₹)	1168.00/715.60
NSE Code	AARTIIND
BSE Code	524208

Shareholding pattern (%)	Mar'22
Promoter Holding	44.19
FII	12.46
DII	14.90
Public& Others	28.45

Financials

	(₹ Cr)			
Particulars	FY19	FY20	FY21	FY22
Net Sales	4,168	4,186	4,506	7,000
EBITDA	965	977	982	1,929
EBITDA M%	23.15%	23.34%	21.78%	27.55%
PAT	492	536	523	1,307
PATM%	11.80%	12.80%	11.62%	18.67%
EPS (₹)	13.57	14.79	14.44	36.06
ROE (%)	23.0%	19.0%	14.9%	22.1%
ROCE (%)	20.0%	17.0%	14.0%	27.0%
P/E (x)	55	50	51	21
EV/EBITDA (x)	28	27	27	15

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add ₹500Cr in FY23. The third project is expected to come on stream on FY23 and will ramp up in FY23-24.

- On the future growth projects for FY23-24, the management said that the company will be adding new chemistries and value added products in pharma & specialty chemicals, will be introducing ChloroToulenes range of products. The company intends to add 40+ products for chemicals & 50+ products for pharma. It is also expected to invest earmark capex of ₹2500-3000Cr for chemicals & ₹350-500Cr for pharma segment. This growth is expected to drive from FY25 and beyond.
- The company has acquired ~120 acres land at Atali Gujarat and site development work to commence on 100 acre land at Jhagadia.
- The management has maintained company's revenue/ EBIT/ PAT growth guidance of 1.7x-2x for FY24 over FY21, also maintained long term growth guidance of 2.5x-3.5x in turnover and 3x-4x growth in EBIT/PAT for FY27 over FY21.
- The company is in process for demerger of Aarti Industries's pharma business into Aarti Pharmed Limited. An appraisal has been raised in NCLAT Ahmedabad, hearing of which is on June 2022. Post this company will take around two to three months to complete the demerger procedure.
- The management has guided high single digit growth in EBITDA and higher growth in revenue for FY23.
- Net Debt stood at ₹1961Cr v/s ₹2080Cr in FY21, Net debt/Equity and Net debt/EBITDA at 0.33x & 1.02x in FY22. ROE/ROCE improved to 22%/27% in FY22.

Outlook

- The Company reported CAGR of 16% in revenue, 29% in EBITDA and 41% PAT over FY18-FY22. During FY22, the Company reported revenue growth of 55% YoY (excluding termination fees revenue growth of 41% to ₹6369Cr) to ₹7000Cr, this growth driven by better realization & volume growth in both pharmaceuticals and specialty chemicals business. EBITDA margins stood at 28% v/s 22 % in FY21. PAT grew by 19% YoY to 1307 Cr v/s 523 Cr in FY21.
- The company is well positioned to capture the market in specialty chemicals & pharmaceuticals segment through aggressive capex plans, adding new chemistries and value added products in pharma & specialty chemicals. **At CMP of ₹720.50 Ltd. is trading at ~15x FY22 EV/EBITDA & 21x FY22 PE, Hence, we recommend Accumulate on dip rating on stock.**

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Consolidated Quarterly Performance

	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %	FY22	FY21	YoY %
Net sales	1756	1209	45%	2376	-26%	7000	4506	55%
(Increase)/Decrease in stock in trade & WIP	-76	-46	66%	-22	251%	-261	-53	391%
Consump of raw material	903	553	63%	881	2%	3269	1938	69%
Purchase of Traded goods	95	51	86%	80	18%	287	244	17%
Employees cost	120	98	23%	124	-3%	442	371	19%
other Expense	375	293	28%	346	8%	1335	1025	30%
Total Expenditure	1417	949	49%	1410	0%	5071	3525	44%
EBITDA	339	260	30%	966	-65%	1929	982	97%
EBITDA margins %	19%	22%	(221 bps)	41%	(2135 bps)	28%	22%	577bps
Depreciation	77	66	18%	72	8%	289	231	25%
EBIT/ Operating Profit	262	195	35%	894	-71%	1640	750	119%
Interest	31	22	42%	27	14%	114	86	32%
Other income	0	0		0	183%	1	1	14%
PBT	231	173	34%	868	-73%	1527	665	130%
Provision for current tax	28	31	-10%	87	-68%	192	106	81%
Provision for Deffered Tax	10	3	235%	8	31%	27	23	17%
PAT	194	139	39%	773	-75%	1307	535	144%
Minority interest	0	-3	-99%			0	-12	-98%
reported PAT	194	136	42%	773	-75%	1307	523	150%
PAT margins %	11%	11%	(22 bps)	33%	(2148 bps)	19%	12%	706bps
No. of Shares	36	36		36	0%	36.25	36.25	0%
EPS (Basic & dilluted)	5.34	3.75	42%	21.31	-75%	36.06	14.44	150%

Source: Company Filing, Way2wealth Research

	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %	FY22	FY21	YoY %
Segment Revenue								
Speciality chemicals	1629	1091	49%	2288	-29%	6619	4071	63%
pharmaceuticals	388	256	52%	348	12%	1300	952	37%
Total	2018	1347	50%	2636	-23%	7919	5023	58%
Less: GST collected	262	137	91%	260	1%	919	517	78%
Net sales	1756	1209	45%	2376	-26%	7000	4506	55%

Segment Results

Speciality chemicals	246	206	19%	894	-73%	1614	746	116%
EBIT margins %	15%	19%	(380bps)	39%	(2399 bps)	24%	18%	605bps
pharmaceuticals	67	51	30%	60	11%	220	211	4%
EBIT margins %	17%	20%	(284bps)	17%	(7bps)	17%	22%	(520 bps)
total segment revenue	312	257	21%	954	-67%	1834	957	92%
Less: Interest	31	22	42%	27	14%	114	86	32%
Unallocated (inc/ exp (net))	50	62	-19%	59	-15%	193	206	-6%
total PBT	231	173	34%	868	-73%	1527	665	130%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Indian Aarti Industries Ltd.as on June 6th, 2022

Name of the Security	Aarti Industries Ltd.
Name of the analyst	Ashwini Sonawane
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
Way2Wealth ownership of any stock related to the information contained	NIL
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