

**Q3FY23 Result update**

- During Q3FY23, the company reported revenue growth (excluding termination fees) of 15% yoy & declined by 1% qoq to ₹1668Cr v/s ₹1445Cr in Q3FY22, the growth driven by higher mix of valued added products, higher contribution from legacy products targeting essential end user segment and incremental revenue from newly added capacities.
- EBITDA for the quarter stood at ₹289Cr up by 12% yoy & 8% qoq on account of increase in export revenue and product optimization, strong pricing mechanism has enabled the company to pass on the cost pressure linked to RM prices and other utilities to customers. It has also helped to maintain the absolute EBITDA. EBITDA margins declined to 17% v/s 18% and PAT margin also declined 8% v/s 7% in Q3FY22 due to higher finance costs owing to MTM impact and increase in depreciation in line with new capacities added.

**➤ Concall highlights:**

- The management has guided earlier in Q2FY23 concall about low product off take linked to Textile industries like Dyes and pigments, it remained subdued in Q3FY23. The same is expected to start recovering over next 2-3 quarters. Similar, Demand softness has witnessed in automotive sectors; hence, the management said that FY24 could also be a turbulent year for Textile and automotive sectors.
- The company has signed a binding term sheet with Deepak Fertilisers for 20 year Nitric Acid off take and supply arrangement valued at over ₹8,000Cr, this agreement will significant benefit in backward integration for nitric acid in the long run.
- On the project front, the 2<sup>nd</sup> long term contract is fully ramped and annual contribution is expected to be ~₹500Cr at margin level and not at revenue level. During Q3FY23, the company has commercialized Jhagadia facility to ramp up the 3<sup>rd</sup> contract which will start contributing from FY24 onwards. The management has lower its revenue potential guidance on 1<sup>st</sup> long term contract on account of lower utilization (20% in Q3FY23) and the product has limited use of upstream components. As there is no sign of improvement seen in Q4FY23 hence, the management suppress its earlier target of 30-40% utilization in FY23 & 70% utilization in FY24. Further, the company is evaluating downstream products and repurposing of product lines.
- On the capex & its operational timeline front, the company intend to invest ₹1200Cr in FY23 of which ₹840Cr invested in 9MFY23 and ₹3000Cr in the next 2 years (FY24-25) to develop new chemical value chain and introduce high value products. It also committed ₹200Cr investment in Ethylation project which will increase capacity by 3x at Dahej SEZ.
  - Brownfield expansion of NCB facility at Vapi along with few specialty chemical blocks is progressing well and it is expected to operational in 1HFY24 and start contributing by 2HFY24.
  - The de-bottlenecking project of Nitrotoluene capacity is likely to commission in 1HFY25.
  - Most of projects (except ethylation & NT blocks) will be commissioned during Q4FY23-1HFY24. The company will allocate

**Important Statistics**

MCAP (₹ bn)	~₹198
52-Week H/L (₹)	1,027/510
NSE Code	AARTIIND
BSE Code	524208

**Shareholding Pattern(%) Dec22**

Promoter Holding	44.16
FII	12.05
DII	14.57
Public & Others	29.24

**Financials**

Particulars	(₹ cr)		
	FY22	FY23E	FY24E
Net Sales	5,455	6,693	7,329
EBITDA	1,089	1,075	1,392
EBITDA M%	20%	16%	19%
Adjusted PAT	555	509	738
PATM%	10%	8%	10%
Adjusted EPS (₹)	15.30	14.04	20.35
ROE (%)	25%	10%	13%
ROCE (%)	15%	12%	14%
EV/EBITDA (x)	20	21	16
P/E (x)	35	38	26

Source: Company Filing, Way2wealth Research



9<sup>th</sup> February 2023

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additional capex in new product line in Chlorotoluene and multipurpose plant and these plants would cater to demand from Agro and pharma segments.

- 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. It is also expected to invest earmark capex of ₹2,500-3,000Cr for chemicals segment. The construction works initiated and expected to complete by FY24, This growth is expected to drive from FY25 onwards and expect EBITDA margins ~25-30%.
- Going ahead, the management estimate operating earnings CAGR over FY24-25 is expected at ~25% and EBITDA of ₹1700Cr in FY25. This growth will supported by brownfield NCB expansion, along with specialty chemical blocks at Vapi which will be commissioned by 1HFY24.

**View**

The company is well-positioned to capture the market in the specialty chemicals & pharmaceuticals segment through aggressive capex plans, adding new chemistries and value added products in pharma& specialty chemicals. We estimate CAGR of 16%/13%/15% in Revenue/EBITDA/adjusted PAT over FY22-24E and sustain EBITDA/ PAT margins at 19%/10% respectively. **At CMP of ₹534.95 Aarti Industries LTD is trading at ~16x FY22 EV/EBITDA & 26x FY22 PE, Hence, we recommend Accumulate on dips rating on the stock.**

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**Consolidated Quarterly Performance**

(₹ Cr)

Particulars	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %	9MFY23	9MFY22	YoY %
<b>Net sales</b>	1668	1445	15%	1685	-1%	4963	4018	24%
(Increase)/Decrease in stock in trade & WIP	-67	-2		136		58	-144	-140%
Consumption of raw material	916	731	25%	784	17%	2577	2039	26%
Purchase of Traded goods	127	76		58		245	183	34%
Employees cost	93	96	-3%	93	0%	276	268	3%
other Expense	311	285	9%	347	-10%	969	844	15%
<b>Total Expenditure</b>	1379	1186	16%	1418	-3%	4126	3190	29%
<b>EBITDA</b>	289	259	12%	267	8%	837	827	1%
<b>EBITDA margins %</b>	<b>17%</b>	<b>18%</b>		<b>16%</b>		<b>17%</b>	<b>21%</b>	
Depreciation	82	57	43%	73	13%	227	183	24%
<b>EBIT/ Operating Profit</b>	207	202	2%	194	6%	610	644	-5%
Interest	47	24	99%	44	7%	135	76	77%
Other income	0	0		0		1	1	6%
<b>PBT</b>	160	178	-10%	150	6%	476	569	-16%
Exceptional - Termination fees		631					631	
<b>PBT (include termination fees)</b>	160	809		150		476	1200	
Provision for current tax	19	78	-75%	22	-14%	64	145	-56%
Provision for Deferred Tax	4	6	-30%	4	10%	16	14	14%
<b>PAT</b>	137	725	-81%	124	10%	397	1040	-62%
Minority interest		0	-100%			0	0	-100%
<b>reported PAT</b>	137	725	-81%	124	10%	397	1040	-62%
<b>PAT margins %</b>	<b>8%</b>	<b>50%</b>		<b>7%</b>		<b>8%</b>	<b>26%</b>	
<b>Adjusted PAT (excl. termination fees)</b>	<b>137</b>	<b>94</b>		<b>124</b>	<b>10%</b>	<b>397</b>	<b>409</b>	<b>-3%</b>
<b>Adjusted PAT margins %</b>	<b>8%</b>	<b>7%</b>	<b>25%</b>	<b>7%</b>	<b>11%</b>	<b>8%</b>	<b>10%</b>	<b>-22%</b>
EPS (Basic & diluted)	3.77	20.01		3.43		10.94	28.69	
<b>Adjusted EPS (excl. termination fees)</b>	<b>3.77</b>	<b>2.60</b>		<b>3.43</b>		<b>10.94</b>	<b>11.29</b>	

Source: Company Filing, Way2wealth Research

Note: Since the termination fee is a one-time income, we have excluded it from operational revenue and have considered it as an exceptional item.

**Consolidated Financial Performance**

Particulars	(₹ Cr)		
	FY22	FY23E	FY24E
<b>Net sales</b>	<b>5455</b>	<b>6693</b>	<b>7329</b>
COGS	2854	3858	4031
Employees cost	357	388	440
other Expense	1154	1372	1466
<b>Total Expenditure</b>	<b>4365</b>	<b>5618</b>	<b>5936</b>
<b>EBITDA</b>	<b>1089</b>	<b>1075</b>	<b>1392</b>
<b>EBITDA margins % (excl. termination fees)</b>	20%	16%	19%
Depreciation	246	291	314
<b>EBIT/ Operating Profit</b>	<b>843</b>	<b>785</b>	<b>1078</b>
Interest	102	176	200
Other income	1	1	0
<b>PBT</b>	<b>741</b>	<b>609</b>	<b>878</b>
Exceptional - Termination fees	631	0	0
<b>PBT termination fees)</b>	<b>1372</b>	<b>609</b>	<b>878</b>
Provision for current tax	164	88	141
Provision for Deffered Tax	22	12	0
<b>PAT</b>	<b>1186</b>	<b>509</b>	<b>738</b>
<b>PAT margins %</b>	22%	8%	10%
Adjusted PAT (excl. termination fees)	555	509	738
Adjusted PAT margins %	10%	8%	10%
No. of Shares	36.25	36.25	36.25
<b>EPS (Basic &amp; dilluted)</b>	<b>32.72</b>	<b>14.04</b>	<b>20.35</b>
Adjusted EPS (excl. termination fees)	15.30	14.04	20.35

**Note:** Since the termination fee is a one-time income, we have excluded it from operational revenue and have considered it as an exceptional item.

**Source:** Company Filing, Way2wealth Research

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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
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