

Q2FY22 Performance

- During the quarter, Aarti Industries Ltd reported 32% Y-o-Y & 18% Q-o-Q topline growth on the back of strong growth in specialty chemicals segment up by 34% Y-o-Y & 17% Q-o-Q, pharmaceuticals up by 26% Y-o-Y & 16% Q-o-Q and higher contribution from value-added products.
- EBITDA at ₹3098mn, grew by ~22% Y-o-Y however EBITDA margins fell to 20% from ~22% on account of higher input prices (specially benzene prices).
- Profit after tax grew by ~23% Y-o-Y to ₹1761mn driven by growth in EBITDA, aided by reduction in finance cost (down 17% Y-o-Y).
- Capex in Q2FY22 stands at ₹3170mn; while 6M aggregate capex of ₹6200mn is in line with guidance of ₹12000-15000mn for FY22E.

Important Statistics

M.Cap (₹ Cr)	₹35204
52 Week H/L (₹)	1168/495
NSE Code	AARTI IND
BSE Code	524208

Shareholding pattern (%)	Sep'21
Promoter Holding	44.21
FII	4.4
DII	20.6
Public	37.6

Key Concall Highlights

- Company has reiterated revenue/PAT growth guidance of 25% for FY22.
- Specialty chemicals business segment revenues were up 34% Y-o-Y & 17% Q-o-Q to ₹14835mn, followed by pharmaceuticals revenue increased 26% Y-o-Y & 16% Q-o-Q largely led by realization growth. Margins in the pharma business were impacted owing to delay in the passing of input price inflation.
- Company's long-term projects got delayed due to Covid related challenges, however it targets to commercialize second contract by Q3FY22 and third contract by Q1FY23.
- Company would be launching new products like chlorotoluene and its downstream and value-added products in NCB towards FY24-end.
- Discontinuation of MEIS and non-inclusion of Chemical & Pharma products under RotDep Scheme impacts the sector negatively.
- The company has received income of around US\$7 million towards the shortfall fees in respect of the first long term contract.
- In pharmaceutical segment, the company has started working with innovators at various stages like R&D and design. Some of the construction is expected in FY22- end and others in FY23.
- Capex for FY22E-24E stands at ₹45000-50000mn and for existing products stands at ₹15000mn and new products it stands at ₹3000-3500mn.
- Production volumes Update: Nitro-Chloro-Benzene, volumes were up ~20,347MT vs. 17,830MT; Hydrogenated products: ~2,712MT vs. 3,038MT; Nitro-Toluene: ~3,772MT vs. 4,119MT; and PDA segment: 458tonnes vs. 470tonnes.

Financials

Particulars	(₹ mn)		
	FY19	FY20	FY21
Net Sales	41,676	41,863	45,061
EBITDA	9,651	9,773	9,815
EBITDAM%	23.2%	23.3%	21.8%
PAT	4,917	5,361	5,235
PATM%	11.8%	12.8%	11.9%
EPS (₹)	28.2	30.8	30.7
ROE (%)	18.1%	17.4%	15.2%
ROCE (%)	16.9%	16.5%	12.5%
P/E (x)	33.3	30.5	30.6
EV/EBITDA (x)	18.3	18.3	18.8

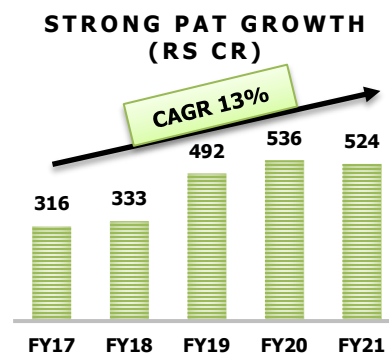
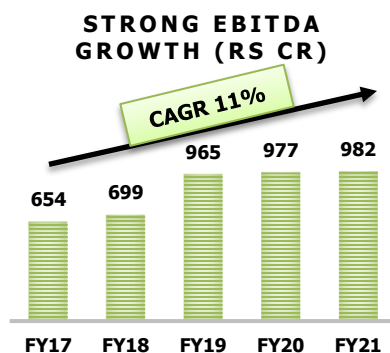
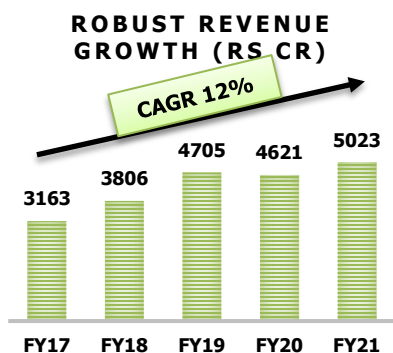
Source: Company Filing, Way2wealth Research

Key Risks

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

View

Company showcased good performance in Q2FY22 driven by both pharmaceuticals and specialty chemicals segment, higher contribution from value-added products and demand recovery in its markets. The management has maintained a revenue/PAT growth guidance of 25-35% for FY22, despite significant inflation in RM/logistics/fuel costs, given the strong demand from local customers. We are bullish on the growth prospects of the company driven by higher contribution from value added products, two long term contracts, strong growth outlook for the Indian specialty chemical sector supported by the China+1 strategy by global companies and robust growth from pharmaceuticals. Company's sustained leadership, superior return ratios, strong balance sheet further boosts our confidence. **At CMP of ₹939, Aarti Industries Ltd trades at ~30 FY21 EPS and ~19x FY21 EV/EBITDA but is justified given its long-term growth story thus we recommend investors to 'ACCUMULATE on Dips'.**



FY17-20 CAGR – 13%

FY17-20 CAGR – 14%

FY17-20 CAGR – 19%

Source: Company Filing, Way2wealth Research

Particulars	Q2FY22	Q1FY22	Q2FY21	Y-o-Y	Q-o-Q
Revenue	15,516	13,168	11,726	32.3%	17.8%
Cost of raw material consumed	8,220	6,101	5,781	42.2%	34.7%
Employee expense	989	995	935	5.8%	-0.6%
Other expense	3,209	2,934	2,467	30.1%	9.4%
Total expenditure	12,418	10,030	9,184	35.2%	23.8%
EBITDA	3,098	3,138	2,543	21.8%	-1.3%
EBITDA Margin	20.0%	21.5%	21.7%	(161 bps)	(71 bps)
Dep	711	686	550	29.2%	3.6%
EBIT	2,387	2,452	1,993	19.8%	-2.7%
EBIT Margin	15.4%	16.1%	17.0%	(161 bps)	(71 bps)
Interest	185	383	222	-16.6%	-51.7%
other income	5	1	0	NA	NA
EBT	2,208	2,070	1,772	24.6%	6.7%
tax	447	419	337	32.8%	6.7%
PAT	1,761	1,651	1,435	22.7%	6.6%
PAT Margin	11.3%	11.2%	11.6%	(26 bps)	15 bps
EPS (₹)	4.86	4.55	8.05	-39.7%	6.6%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Aarti Industries Ltd. as on November 12th, 2021

Aarti	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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