

Q3FY24 Result update

- In Q3FY24, Aarti Industries Ltd. posted resilient performance as higher raw material cost pressured gross profit margin, however, well control over other expenses somewhat offset this fall.
- Posting healthy top-line performance, consol. net revenues during the quarter were up+4% YoY/+19% QoQ to ₹1,732cr.
- While volumes improved sequentially for discretionary segment (Dyes, Pigments, Polymers and Specialty chemicals) owing to better demand visibility, non-discretionary portfolio volumes were still muted due to continued weak environment in agrochemicals and pharmaceuticals globally. On the pricing front, improving trends were witnessed, but, some level of weakness still prevailed.
- Led by higher raw material costs, gross profit fell -9% YoY/up +5% QoQ to ₹631cr. Gross margins were contracted by -505bps YoY/-483bps QoQ to 36.4%.
- Operating expenses remained under control with total expenses coming in at ₹371cr down -8% YoY/ flat sequentially.
- EBITDA stood at ₹260cr down -10% YoY/ up +11% QoQ. Higher volumes of with stable pricing along with some operating leverage gains capped the fall in EBITDA margins to-225bps YoY/-108bps QoQ to 15%.
- Capex to the tune of ₹285cr in 3QFY24 and ₹860cr in 9MFY24 was undertaken. Resultantly, depreciation stood high at ₹97cr up +18% YoY / +4% QoQ.
- Amid strong capex phase, finance cost too remained at elevated levels rising +15% YoY / -7% QoQ to ₹54cr.
- Resultantly, PAT for the quarter came in at ₹124cr, down - 9% YoY/ up +36% QoQ.
- Nitro Chloro Benzene and Hydrogenation volumes grew sequentially to 19,580 MT (+3% QoQ) and 3,644 MT (+16% QoQ) respectively while Nitro Toluene volumes dipped 8% QoQ to 6,951 tonnes.

Important Statistics

Nifty	21,616
Sensex	71,072
MCAP (₹ bn)	~₹240
52-Week H/L (₹)	702/438.00
NSE Code	AARTIIND
BSE Code	524208
Bloomberg Code	ARTO:IN

Shareholding Pattern(%) Dec'23

Promoter Holding	43.55
FII	10.83
DII	15.85
Public & Others	29.77

Financials

Particulars (₹ cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,086	6,619	6,215	7,769	9,012
EBITDA	1,720	1,089	945	1,344	1,613
EBITDA Mar%	17%	16%	15%	17%	18%
PAT	1,186	545	374	582	755
PAT Mar%	19%	8%	6%	7%	8%
EPS	33	15	10	16	21
RoE (%)	26%	12%	7%	10%	12%
RoCE (%)	21%	10%	7%	10%	11%
EV/EBITDA (x)	16	25	29	21	18
P/E (x)	21	45	65	42	32

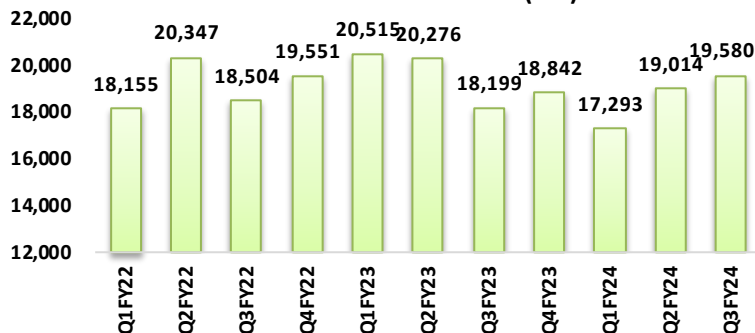
Source: Company, Way2wealth Research

Relative Performance

Return (%)	1Yr	3Yr	5Yr
AARTIIND	25%	25%	114%
Nifty 50	22%	43%	101%
Sensex	18%	39%	98%

Source: Company, Way2wealth Research

Nitro Chloro Benzene (MT)

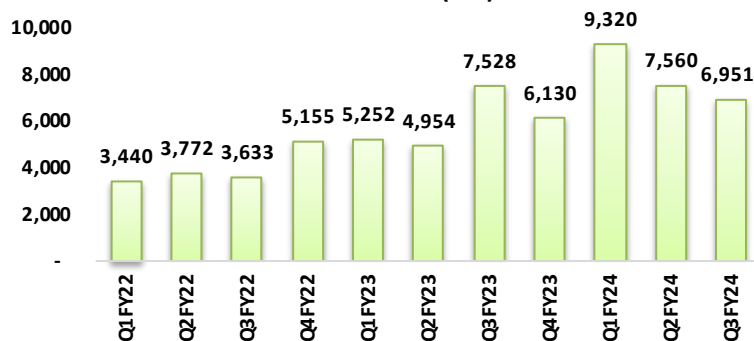


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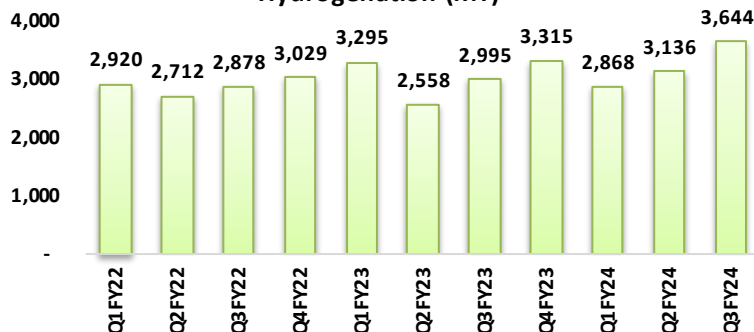
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Nitro Toluene (MT)



Hydrogenation (MT)



- **Agrochemical Intermediate Contract** – In December 2023, Aarti Industries Ltd. entered into a long term contract with one of the Global Agrochem player to manufacture niche AI which is a key input component for a widely used Herbicide.

Commencing from current financial year, the contract would be spread over a period of 9 years with an overall revenue potential of more than ₹3,000cr.

AIL has already supplied the product to the said customer in the past and existing CAPEX would suffice to meet the order requirement. Management expects EBITDA margins of around ~20% on stable raw material prices.

- **Niche Specialty Chemical** – In January 2024, AIL entered into a contract with a multinational conglomerate for the supply of niche specialty chemical.

This product is currently manufactured by the company and has already been supplying it to the said customer.

Contract execution will be done over CY24 to CY27 with a total revenue potential of ₹6,000cr and management expects to generate ~15-17% EBITDA margins at current input prices.

There is no requirement of any incremental capex as current capacities would fulfill the order requirement.

- **Strong capex pipeline** – Despite challenging external environment, Aarti Industries Ltd has maintained its strong capex guidance of ₹2,500-3,000cr for next two years. Capex investment worth ₹1,200-1,300cr for FY24 remains intact and are progressing well as per the plans. Additionally, as newly planned capacities over next couple of years are largely for higher value-added products, the asset-turn would likely be in the range of 1.2-1.3x.

13th February 2024

CMP – ₹674/-

View – **BUY****View**

- Continuing with the momentum of the previous quarter, Aarti Industries Ltd. posted resilient performance in Q3FY24 with robust growth in sales driven by volume growth and stable pricing trends. Sectoral headwinds persisted in agrochemical and pharmaceutical industries for this quarter as well which constitutes nearly half of the revenue mix, however it likely to bottom out by FY24 and recovery could be on the cards in 1HFY25. Volume recovery in discretionary sectors such as FMCG, dyes & pigments and polymer & additives led the growth in top-line and management has guided for a healthy demand visibility in this segment for near future.
- Although, elevated depreciation charges and finance costs remained a drag on the profitability on annual basis, improvement on sequential basis is visible driven by operating leverage gains. With rise in volumes, these gains are likely to strengthen further in upcoming quarters and would certainly drive margin expansion from current levels.
- At CMP of ₹674, Aarti Industries LTD is trading at ~32x FY26E PE multiple. **We believe new large contract wins by Aarti Industries Ltd. are key sentiment boosters and would be new growth engine drivers over existing growth anticipated on the back of current capex investments. Multiple levers are in place for AIL to be played out in FY25 and thus we recommend to BUY this stock.**

Consolidated Quarterly Performance

Particulars	(₹ Cr)								
	3QFY24	3QFY23	YoY % Chng	2QFY24	QoQ % Chng	9MFY24	9MFY23	YoY % Chng	
Revenue from operations	1,732	1,668	4%	1,454	19%	4,600	4,964	-7%	
Cost of materials consumed	1,101	976	13%	854	29%	2,808	2,881	-3%	
Gross Profit	631	692	-9%	600	5%	1,792	2,083	-14%	
Gross Profit Margin	36.4%	41.5%	-505 bps	41.3%	-483 bps	39.0%	42.0%	-301 bps	
Employee Costs	103	93	11%	99	4%	303	277	9%	
Other expenses	268	311	-14%	267	0%	793	970	-18%	
EBITDA	260	288	-10%	234	11%	696	836	-17%	
EBITDA Margin	15.0%	17.3%	-225 bps	16.1%	-108 bps	15.1%	16.8%	-171 bps	
Depreciation and Amortisation	97	82	18%	93	4%	279	227	23%	
EBIT	163	206	-21%	141	16%	417	609	-32%	
Finance Costs	54	47	15%	58	-7%	152	136	12%	
Other Income	8	-		-		8	-		
Profit Before Tax	117	159	-26%	82	43%	270	476	-43%	
Tax	-7	23	-130%	-9	-22%	-14	79	-118%	
Profit After Tax	124	136	-9%	91	36%	285	397	-28%	
PAT Margin	7.2%	8.2%	-99 bps	6.3%	90 bps	6.2%	8.0%	-180 bps	
EPS	3.4	3.8	-9%	2.5	37%	7.9	10.9	-28%	

Source: Company, Way2wealth Research

Financial Performance

Particulars	(₹ Cr)				
	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operations	6,086	6,619	6,215	7,769	9,012
Cost of materials consumed	2,855	3,842	3,773	4,584	5,272
Gross Profit	3,231	2,777	2,443	3,185	3,740
Gross Profit Margin	53.1%	42.0%	39.3%	41.0%	41.5%
Employee Costs	357	385	410	497	568
Other expenses	1,154	1,303	1,088	1,344	1,559
EBITDA	1,720	1,089	945	1,344	1,613
EBITDA Margin	16.8%	16.5%	15.2%	17.3%	17.9%
Depreciation and Amortisation	246	310	379	443	496
EBIT	1,474	779	566	901	1,118
Finance Costs	102	168	205	249	270
Other Income	1	1	1	1	1
Profit Before Tax	1,372	611	361	654	848
Tax	186	66	-13	72	93
Profit After Tax	1,186	545	374	582	755
PAT Margin	19.5%	8.2%	6.0%	7.5%	8.4%
EPS	32.7	15.0	10.3	16.0	20.8

Source: Company, Way2wealth Research

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Disclosure of Interest Statement: Aarti Industries Ltd. as on February 13th, 2024

Name of the Security	Aarti Industries Ltd.
Name of the analyst	Prasad Hase
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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