

13th November 2020

CMP – ₹1083/-

View – Accumulate

Q2FY21 Performance

Aarti Industries Ltd reported ~19% YoY and ~25% QoQ increase in topline to ₹11,726mn on account of 24% YoY and 32% QoQ increase in specialty chemicals segment and ~21% YoY and 14% QoQ increase in pharmaceuticals.

EBITDA for the quarter stood at ₹2543mn showcasing growth of ~0.5% YoY and 39% QoQ. However, EBITDA margins dropped to 21.7% in Q2FY21 compared to 25.7% in Q2FY20 on account of gross margin contraction and higher operating expenses.

PAT grew on a QoQ basis to ₹1435mn from ₹832mn in Q1FY21 on the back of higher operating profitability, however degrew 5.5% YoY. PAT margins stood at 12.0% in the quarter compared to 14.9% in Q2FY20 and 8.7% in Q1FY21.

Management continued with guidance of flattish profitability for FY21E however, 15-20% PAT growth over medium term.

Company has plans of incurring capex of ₹10,000mn-₹12,000mn for FY21E and has spent ₹5,260mn in H1FY21.

Management guided it completed and commercialised phase 1 of chlorination project and expects to commercialise phase 2 project of the same in Q3FY21.

Important Statistics

M.Cap (₹ Cr)	₹18,257
52 Week H/L (₹)	1229.1/662.1
NSE Code	AARTIIND
BSE Code	524208

Shareholding pattern (%) Sep'20

Promoter Holding	47.6
FII	7.4
DII	16.0
Public	29.0

Key Concall Highlights

- Despite Covid-19 disruption, Aarti Industries reported 19% YoY and ~25% QoQ increase in topline growth to ₹11,726mn on account of healthy growth in both its segments. During the quarter, company's utilisation has reached 80-90% level driven by robust growth momentum.
- Company reported healthy growth in specialty chemicals segment on the back of higher sales volume driven by company's strategy to enter newer markets. However margins in specialty chemicals segment were impacted given company's preference for volumetric gains. Going forward management indicated as demand normalizes across domestic markets, margins are expected to improve progressively.
- Company's Pharma business margins have moved up to healthy level and it expects to retain margins above 25% going ahead. Company is targeting revenue growth of 15-20% in FY22 for the pharma segment.
- Company has acquired new land of 105 acres in Dahej, Gujarat for ₹500mn which will be used for pharmaceuticals and chemicals. In addition, company has 75 acres of land available for expansion which will be utilized over next three to four years
- China's revenue share increased to 20% versus 8% of Q2FY20 driven by company's strategy for liquidating inventory. Going ahead, the revenues from China can be 15-20%.
- Management continued with guidance of flattish profitability for FY21E however, 15-20% PAT growth over medium term.
- Company produced NCB volumes at 17,830 MT in Q2FY21 vs 13,945 MT in Q2FY20, Hydrogenation volumes at 3040MT in Q2FY21 vs 2340MT in Q2FY20, PDA volumes of 470 MT monthly and Nitrotoulene volumes of 4120MT this quarter.
- Management indicated it is planning to enter newer products such as Chlorotoulene range to diversify the products basket.

Financials

Particulars	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)	52.9	38.4	35.2
EV/EBITDA (x)	15.3	20.9	20.9

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

View

Despite Covid-19 disruption, company reported better numbers in Q2FY21 due to demand bounce back which improved company's overall performance. Company's specialty chemicals and pharmaceuticals segment posted robust numbers (high double digit growth) and is expected to continue the performance post FY21. We believe, the long term story remains intact and growth to be largely driven by import substitution, customer de-risking, two long term contracts, robust growth from pharmaceuticals etc. **At CMP of ₹1083, Aarti Industries Ltd trades at ~35.2x FY20 EPS and ~21x FY20 EV/EBITDA and is justified given its long term growth story thus we recommend investors to 'ACCUMULATE on Dips'.**

Consolidated Financial Highlights

Particulars	(₹ mn)				
	Q2FY21	Q1FY21	Q2FY20	YoY	QoQ
Net Sales	11,726	9,373	9881	18.7%	25.1%
Total Expenditure	9,184	7,553	7340	25.1%	21.6%
EBITDA	2,543	1,820	2,541	0.1%	39.7%
EBITDA Margin	21.7%	19.4%	25.7%	(403bps)	227bps
Depreciation	550	520	457	20.4%	5.8%
EBIT	1,993	1,300	2,084	-4.4%	53.3%
EBIT Margin	17.0%	13.9%	21.1%	(410bps)	312bps
Interest	222	253	311	-28.8%	-12.5%
Other income	0	2	56	-99.3%	-81.8%
PBT	1,772	1,049	1,829	-3.1%	68.9%
Tax	337	217	311	8.2%	55.1%
PAT	1435	832	1518	-5.5%	72.5%
Minority Interest	33.00	13.00	37.90	-21.8%	153.8%
Consol PAT	1402	819	1476	-5.0%	71.2%
PAT Margin	12.0%	8.7%	14.9%	(298 bps)	322bps
EPS (₹)	8.05	4.70	8.47	-5.0%	71.3%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Indian Aarti Industries Ltd. as on November 13th, 2020

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
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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