

16th May 2023

CMP – ₹502/-

View – Accumulate on Dip

Q4FY23 Result update

- During Q4FY23, the company reported revenue growth of 15% yoy & slightly declined by 1% qoq to ₹1655Cr v/s ₹1436Cr in Q4FY22, on account of higher volumes from expanded capacities for key products as well as higher contribution from value added products.
- EBITDA for the quarter stood at ₹251Cr declined by 3% yoy & 13% qoq and EBITDA margins declined by 300 bps yoy to 15% in Q4FY23. EBITDA was negatively impacted by maintenance shutdown at the acid unit in Kutch which resulted in volume impact due to lower operating days, the product off take linked to textile industry remains subdued, increased Key raw material prices and the supply of certain discretionary product to non-regular markets resulting in lower than normal margins. APAT remained flat YoY at ₹148Cr, owing to lower finance costs, MAT credit entitlement and prior period tax set-off that led to a tax income of ₹14Cr in Q4FY23.

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 Q4FY23. The same is expected to start recovering over next 2-3 quarters.
- The company has signed a binding term sheet with Deepak Fertilisers for 20 years Nitric Acid off take and supply arrangement valued at over ₹8,000Cr, this agreement will significantly benefit in backward integration for nitric acid in the long run.
- During FY23, the volume growth was at 15%, going ahead, the management indicated that volume growth expected to be ~25% for FY24 however, EBITDA margin will be lower as products are sold to non-regular markets and margin difference between regular and non-regular markets 10-15%.
- The management alluded challenges about discretionary market, witnessing demand slowdown due to Chinese producers in certain segment such as agrochemical.
- The company has witnessed slow ramp up for 1st long term contract (~20% capacity utilization currently). The management has guided utilization for contract 1, 2 and 3 at 70% and 60-70%.
- The company has guided for ₹1500Cr capex p.a. in FY24/25, which shall be used to add new chemistries and value-added products having an EBITDA margin of ~25-30%. These products will cater to agrochemical and pharmaceutical industries and drive growth from FY25.
- **Operational timeline for projects:**
 - 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 additional capex in new product line in Chlorotoluene and multipurpose plant and these plants would cater to demand from Agro and pharma segments.

Important Statistics

MCAP (₹ bn)	~₹184
52-Week H/L (₹)	924.40/482.40
NSE Code	AARTIIND
BSE Code	524208

Shareholding Pattern(%) Mar23

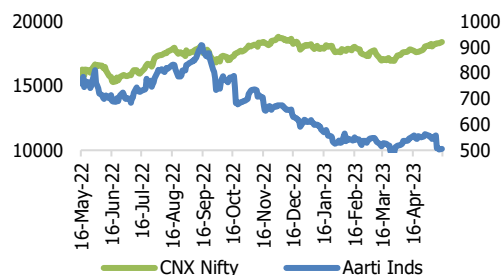
Promoter Holding	44.07
FII	12.32
DII	14.77
Public & Others	28.85

Financials

Particulars	(₹ cr)			
	FY22	FY23	FY24E	FY25E
Net Sales	5,455	6,618	7,742	8,600
EBITDA	1,089	1,088	1,268	1,487
EBITDA M%	20%	16%	16%	17%
Adjusted PAT	555	545	563	661
PATM%	10%	8%	7%	8%
Adjusted EPS (₹)	15.30	15.02	15.54	18.24
ROE (%)	25%	11%	10%	11%
ROCE (%)	15%	13%	13%	16%
EV/EBITDA (x)	19	19	17	15
P/E (x)	33	33	32	28

Source: Company, Way2wealth Research

Relative Performance



Source: Company, Way2wealth Research

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- 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 14%/17%/10% in Revenue/EBITDA/adjusted PAT over FY23-25E and sustain EBITDA/ PAT margins at 17%/8% respectively.
- **At CMP of ₹502 Aarti Industries LTD is trading at ~15x FY25E EV/EBITDA & 28x FY25E PE, Hence, we recommend Accumulate on dips rating on the stock.**

Consolidated Quarterly Performance

(₹ Cr)

Particulars	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %	FY23	FY22	YoY %
Net sales	1655	1436	15%	1668	-1%	6618	5455	21%
COGS	962	777	24%	976	-1%	3842	2854	35%
Employees cost	109	89	22%	93	18%	385	357	8%
other Expense	333	310	7%	311	7%	1302	1154	13%
Total Expenditure	1404	1176	19%	1379	2%	5530	4365	27%
EBITDA	251	260	-3%	289	-13%	1088	1089	0%
EBITDA margins %	15%	18%		17%		16%	20%	
Depreciation	84	63	33%	82	2%	311	246	26%
EBIT/ Operating Profit	167	197	-15%	207	-19%	777	843	-8%
Interest	33	26	27%	47	-30%	168	102	64%
PBT	134	171	-22%	160	-16%	610	741	-18%
Exceptional - Termination fees							631	
PBT termination fees)	134	171		160		610	1372	
Provision for current tax	-14	19	-174%	19	-174%	50	164	-70%
Provision for Deferred Tax		9	-100%	4	-100%	16	22	-29%
PAT	148	143	3%	137	8%	545	1186	-54%
reported PAT	148	143	3%	137	8%	545	1186	-54%
PAT margins %	9%	10%		8%		8%	22%	
Adjusted PAT (excl. termination fees)	148	143	3%	137	8%	545	555	-2%
Adjusted PAT margins %	9%	10%		8%	9%	8%	10%	-19%
EPS (Basic & diluted)	4.08	3.94		3.77		15.02	32.72	
Adjusted EPS (excl. termination fees)	4.08	2.60		3.77		15.02	15.30	

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

(₹ Cr)

Particulars	FY22	FY23	FY24E	FY25E
Net sales	5455	6618	7742	8600
COGS	2854	3462	3945	4304
Employees cost	357	385	423	470
other Expense	1154	1302	1409	1565
Total Expenditure	4365	5530	5777	6339
EBITDA	1089	1088	1268	1487
EBITDA margins % (excl. termination fees)	20%	16%	16%	17%
Depreciation	246	311	388	478
EBIT/ Operating Profit	843	777	881	1009
Interest	102	168	210	222
Other income	1	1	0	1
PBT	741	610	671	787
Exceptional - Termination fees	631	0	0	0
PBT termination fees)	1372	610	671	787
Provision for current tax	164	50	107	126
Provision for Deffered Tax	22	16	0	0
PAT	1186	545	563	661
PAT margins %	22%	8%	8%	8%
Adjusted PAT (excl. termination fees)	555	545	563	661
Adjusted PAT margins %	10%	8%	7%	8%
No. of Shares	36.25	36.25	36.25	36.25
EPS (Basic & dilluted)	32.72	15.02	15.54	18.24
Adjusted EPS (excl. termination fees)	15.30	15.02	15.54	18.24

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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Disclosure of Interest Statement Aarti Industries Ltd. as on May 16th, 2023

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
Broking relationship with company covered	NIL
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