


17<sup>th</sup> August 2022

CMP – ₹832/-

View – **Accumulate on Dip**
**Q1FY23 Result Update**

- During Q1FY23, the company reported revenue growth of 50% yoy & 12% qoq to ₹1,972Cr v/s ₹1,317Cr in Q1FY22, this growth is steered by higher volume offtake for key products and better realization. It is also supported by incremental volumes coming from new capacities added in the recent past as well as both 1st & 2nd long term contract witnessed significant ramp up.
- EBITDA for the quarter stood at ₹369Cr up by 18% yoy & 9% qoq on account of robust pricing mechanism, which enable the company to pass on the cost pressure linked to RM prices and other utilities to customers. While EBITDA margins declined to 19% v/s 24% and PAT margin also declined 10% v/s 13% in Q1FY22 due to higher input cost, utility cost combined with logistics challenges and MTM impact on the ECBs on account of steep depreciation in currency rates.
- Specialty chemical segment Revenue/ EBIT grew by 44% yoy/ 8% yoy owing to higher volume and favorable product mix. However, EBIT margin declined to 14% v/s 19% due to higher input cost. The company witnessed scale up from 1st and 2nd long term contracts and value added products contributed 74% of revenue during Q1FY23.
- NitroChloro benzene/ Hydrogenerated product & NitroToloyne production grew by 13%, 13% & 53% yoy to 20,550 mt, 3,295 mt & 5,252 mt v/s 18,155 mt, 2,920 mt & 3,440 mt in Q1FY22.
- Pharma segment Revenue/ EBIT grew by 48%/ 46% yoy, the growth supported by higher demand trajectory for key products from generic pharma companies and Xanthine businesses. Despite elevated input and utility cost which was passed to customers, it lead to healthy realization as well as maintain EBIT margins at 19% in Q1FY23.

**Key highlights:**

- On the project front, the 1<sup>st</sup> & 2<sup>nd</sup> contract has started witnessing volume ramp up and utilization level expected to increase to 70% - 80% by the end of FY24.
- Recently, the company has commenced production at the new block of the USFDA approved API facility at Tarapur in early Q2FY23. It will strengthen pharma offerings and will lead positive contribution in pharma segment.
- The company has proposed to setup backward integration plant which will convert weak nitric acid to concentrated nitric acid, its capacity will be ~225-250 tpd. The management has estimated capex of ₹150-200Cr, this facility will help to meet partial requirement of nitric acid. Currently working on long term strategy to mitigate this situation.
- The third project is expected to come on stream on Q4FY23 and will ramp up in FY23-24. It will start contributing revenue & volume ramp up in FY24 which will lead to increase EBITDA. Substantial Fixed cost will be built in FY23 and no major expenses in FY24.
- 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

**Important Statistics**

MCAP (₹ bn)	~₹303.48
52-Week H/L (₹)	1,168/838.65
NSE Code	AARTIIND
BSE Code	524208

**Shareholding Pattern(%) June'22**

Promoter Holding	44.19
FII	11.82
DII	15.07
Public& Others	28.92

**Financials**

(₹ cr)				
Particulars	FY19	FY20	FY21	FY22
<b>Net Sales</b>	4,168	4,186	4,506	7,000
<b>EBITDA</b>	965	977	982	1,929
<b>EBITDA M%</b>	23.15%	23.34%	21.78%	27.55%
<b>PAT</b>	492	536	523	1,307
<b>PATM%</b>	11.80%	12.80%	11.62%	18.67%
<b>EPS (₹)</b>	13.57	14.79	14.44	36.06
<b>ROE (%)</b>	23.00%	19.00%	14.90%	22.10%
<b>ROCE (%)</b>	20.00%	17.00%	14.00%	27.00%
<b>P/E (x)</b>	60	55	57	23



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chemicals & 50+ products for pharma. It is also expected to invest earmark capex of ₹2,500-3,000Cr for chemicals & ₹350-500Cr for pharma segment. This growth is expected to drive from FY25 and beyond.

- The management has maintained company's revenue/ EBIT/ PAT growth guidance of 1.7x-2x for FY24 over FY21, also maintained long term growth guidance of 2.5x-3.5x in turnover and 3x-4x growth in EBIT/PAT for FY27 over FY21.
- The management has guided high single digit growth in EBITDA and higher growth in revenue for FY23.

## View

- The Company reported a CAGR of 16% in revenue, 29% in EBITDA and 41% PAT over FY18-FY22. During FY22, the Company has reported revenue growth of 55% YoY (excluding termination fees revenue growth of 41% to ₹6369Cr) to ₹7000Cr, this growth was driven by better realization & volume growth in both pharmaceuticals and specialty chemicals business. EBITDA margins stood at 28% v/s 22 % in FY21. PAT grew by 19% YoY to 1307 Cr v/s 523 Cr in FY21.
- 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. At CMP of ₹832 Ltd. is trading at ~17x FY22 EV/EBITDA & 23x FY22 PE, Hence, **we recommend Accumulate on dips rating on the stock.**


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### Consolidated Quarterly Performance

(₹ Cr)					
Particulars	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Net sales	1972	1317	50%	1756	12%
Cost of goods sold	1099	610	80%	922	19%
Employees cost	121	99	22%	120	1%
other Expense	383	293	31%	375	2%
Selling & Distribution expenses					
<b>Total Expenditure</b>	1603	1003	60%	1417	13%
<b>EBITDA</b>	369	314	18%	339	9%
<b>EBITDA margins %</b>	19%	24%		19%	
Depreciation	87	69	26%	77	12%
<b>EBIT/ Operating Profit</b>	283	245	15%	262	8%
Interest	50	38	30%	31	63%
Other income	0	0		0	124%
<b>PBT</b>	233	207	13%	231	1%
Provision for current tax	35	38	-6%	28	29%
Provision for Deffered Tax	9	4	113%	10	-13%
<b>PAT</b>	189	165	15%	194	-2%
Minority interest		0	-100%	0	
<b>reported PAT</b>	189	165	15%	194	-2%

Source: Company Filing, Way2wealth Research

### Segment Performance

(₹ Cr)					
Segment Revenue	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Specialty chemicals	1766	1228	44%	1629	8%
pharmaceuticals	407	276	48%	388	5%
<b>Total</b>	2173	1503	45%	2018	8%
Less: GST collected	201	187	8%	262	-23%
<b>Net sales</b>	1972	1317	50%	1756	12%
<b>Segment Results</b>					
Specialty chemicals	250	232	8%	246	2%
EBIT margins %	14%	19%		15%	
pharmaceuticals	76	52	46%	67	14%
EBIT margins %	19%	19%		17%	
<b>segment EBIT</b>	327	285	15%	312	5%
Less: Interest	50	38	30%	31	63%
Unallocated (inc/ exp (net))	44	40	10%	50	-14%
<b>total PBT</b>	233	207	13%	231	1%

Source: Company Filing, Way2wealth Research

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## Disclosure of Interest Statement Sudarshan Aarti Industries Ltd. as on August 17<sup>th</sup>, 2022

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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