

Q2FY23 Result update

- During Q2FY23, the company reported revenue growth of 34% yoy & 5% qoq to ₹1685Cr v/s ₹1256 Cr in Q2FY22, the growth supported by stable demand trajectory for the products under the essential end usages and product optimization.
- EBITDA for the quarter stood at ₹267Cr up by 5% yoy & declined by 5% qoq on account of increased in export revenue and product optimization, strong pricing mechanism which enable the company to pass on the cost pressure linked to RM prices and other utilities to customers and it has helped to maintain absolute EBITDA. While EBITDA margins declined to 16% v/s 20% and PAT margin also declined 7% v/s 12% in Q2FY22 due to higher finance costs owing to MTM impact and increase in depreciation in line with new capacities added.

Key highlights:

- The company has witnessed lower demand for few products linked to end user industry of Dyes and pigments and the demand expected to recover from Q4FY23.
- The company undertook its maintenance shutdown for Jhagadia unit in Q2FY23.
- During Q2FY23, the RM & utility costs remained at elevated level however, the company was able to pass on the inflationary cost to customer due to strong pricing mechanisms. The management said that RM & utility cost is expected to decline in Q3FY23 and will see improvement in margins.
- On the project front, the 1st & 2nd contract has started ramping up and utilization level of 1st contract expected to reach 70% by the end of FY24. Expansion plan related to the 3rd long term contract, the NCB capacity and several other projects are underway and will commence production in Q3FY23. The management expects that expansion program to unfold in FY24 & FY25 and also anticipate demand recovery from Q4FY23. Further, the new capacities volume ramp up is expected in FY24 & FY25 which will lead to margin improvement in FY24 & beyond.
- 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 is expected to commission by Q4FY24 and will help to meet partial requirement of nitric acid
- 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. This growth is expected to drive from FY25 and beyond.
- The company has proposed demerger for Pharma business into a separate entity – Aarti Pharamalabs Limited, this undertaking was approved by NCLT and thus the historic financials from the appointed date i.e., 1st July 2021 were re-casted to consider the effect of the scheme. Aarti pharamalabs will be listed on stock exchange in Dec 2022.

Important Statistics

MCAP (₹ bn)	~₹237.82
52-Week H/L (₹)	1,168/838.65
NSE Code	AARTIIND
BSE Code	524208

Shareholding Pattern(%) Sep'22

Promoter Holding	44.16
FII	12.11
DII	15.05
Public & Others	28.68

Financials

Particulars	(₹ cr)		
	FY22	FY23E	FY24E
Net Sales	5,455	6,693	7,329
EBITDA	1,089	1,075	1,392
EBITDA M%	20%	16%	19%
Adjusted PAT	555	509	738
PATM%	10%	8%	10%
Adjusted EPS (₹)	15.30	14.04	20.35
ROE (%)	25%	10%	13%
ROCE (%)	15%	12%	14%
EV/EBITDA (x)	24	25	19
P/E (x)	43	47	32

Source: Company Filing, Way2wealth Research



18th November 2022

CMP – ₹655.60/-

View – **Accumulate on Dip**

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 16%/13%/15% in Revenue/EBITDA & adjusted PAT over FY22-24E and sustain EBITDA/ PAT margins at 19%/10% respectively. At CMP of ₹655.60 Aarti Industries Ltd. is trading at ~19x FY24E EV/EBITDA & 32x FY24E PE, Hence, **we recommend Accumulate on dips rating on the stock.**

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Consolidated Quarterly Performance

(₹ Cr)

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
Net sales	1685	1256	34%	1610	5%	3295	2573	28%
(Increase)/Decrease in stock in trade & WIP	136	-30		-11		124	-143	-187%
Consumption of raw material	784	643	22%	877	-11%	1661	1308	27%
Purchase of Traded goods	58	49		61		119	107	11%
Employees cost	93	73	27%	91	2%	184	173	7%
other Expense	347	266	31%	312	11%	659	559	18%
Total Expenditure	1418	1001	42%	1329	7%	2747	2004	37%
EBITDA	267	255	5%	282	-5%	549	569	-4%
EBITDA margins %	16%	20%		17%		17%	22%	
Depreciation	73	57	27%	72	2%	145	126	15%
EBIT/ Operating Profit	194	197	-2%	210	-7%	404	443	-9%
Interest	44	14	203%	45	-2%	88	53	67%
Other income	0	1		0	-95%	0	1	-29%
PBT	150	184	-18%	166	-9%	316	391	-19%
Provision for current tax	22	30	-27%	23	-2%	45	68	-34%
Provision for Deferred Tax	4	4	11%	8	-47%	12	8	49%
PAT	124	150	-17%	136	-8%	260	315	-17%
reported PAT	124	150	-17%	136	-8%	260	315	-17%
PAT margins %	7%	12%		8%		8%	12%	
EPS (Basic & dilluted)	3.43	4.13	-17%	3.74	-8%	7.17	8.69	-17%

Source: Company Filing, Way2wealth Research

Production MT	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
NitroChloro Benzyne	20276	20347	0%	20550	-1%	40826	38502	6%
Hydrogenerated products	2558	2712	-6%	3295	-22%	5853	5632	4%
NitroToloyne	4954	3772	31%	5252	-6%	10206	7212	42%
total production MT	27788	26831	4%	29097	-4%	56885	51346	11%

Source: Company Filing, Way2wealth Research

Consolidated Financial Performance

Particulars	(₹ Cr)		
	FY22	FY23E	FY24E
Net sales	5455	6693	7329
COGS	2854	3858	4031
Employees cost	357	388	440
other Expense	1154	1372	1466
Total Expenditure	4365	5618	5936
EBITDA	1089	1075	1392
EBITDA margins %	20%	16%	19%
Depreciation	246	291	314
EBIT/ Operating Profit	843	785	1078
Interest	102	176	200
Other income	1	1	0
PBT	741	609	878
Exceptional - Termination fees*	631	0	0
PBT(incl termination fees)	1372	609	878
Provision for current tax	164	88	141
Provision for Deferred Tax	22	12	0
PAT	1186	509	738
PAT margins %	22%	8%	10%
Adjusted PAT (excl. termination fees)	555	509	738
Adjusted PAT margins %	10%	8%	10%
No. of Shares	36.25	36.25	36.25
EPS (Basic & diluted)	32.72	14.04	20.35
Adjusted EPS (excl. termination fees)	15.30	14.04	20.35

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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 View – **Accumulate on Dip**
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Disclosure of Interest Statement Aarti Industries Ltd. as on November 18th, 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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