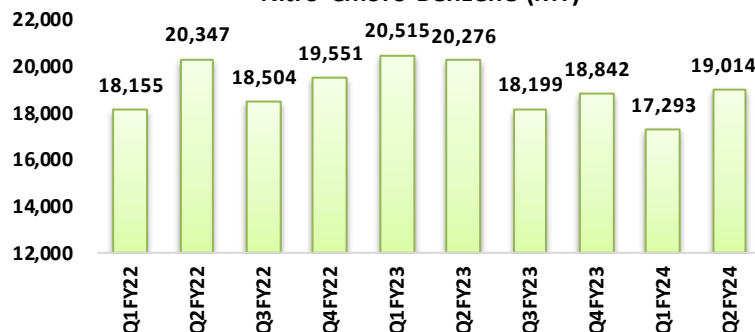


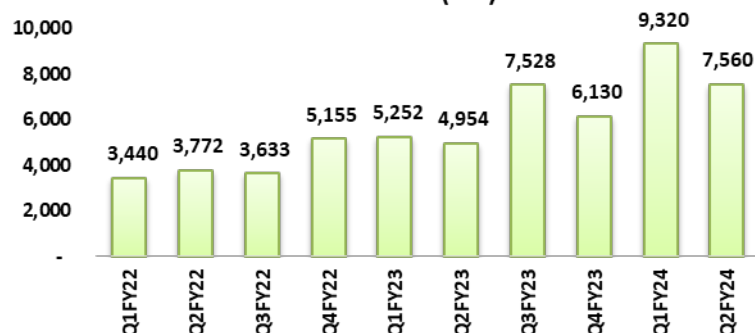
**Q2FY24 Result update**

- In Q2FY24, Aarti Industries Ltd. posted soft performance on YoY basis, however, improvement in business conditions was visible through sequential growth in earnings numbers.
- Consol. net revenues during the quarter were down -14% YoY/ up +3% QoQ to ₹1,454cr. The sequential growth was primarily on account of the increase in volumes.
- Gross profit fell -15% YoY/ rose +7% QoQ to ₹600crs. Better operating leverage during the quarter led gross margins expand +159bps QoQ (down -69bps YoY) to 41.3%.
- Operating expenses remained under control with total expenses coming in at ₹366cr down -17% YoY/ flat sequentially.
- EBITDA stood at ₹234crs down -12% YoY/+16% QoQ. Higher volumes of better margin products leading to favorable product mix largely drove operating margin expansion of +25bps YoY/+181bps QoQ to 16.1%.
- Higher interest cost on account of mark-to-market/revaluation loss of ~₹12crs w.r.t. unhedged long-term loans was offset by lower tax expense due to benefits of high tax depreciation and exemptions amounting to ₹9cr.
- Resultantly, PAT for the quarter came in at ₹91cr, down -27% YoY/ up +30% QoQ.
- Nitro Chloro Benzene and Hydrogenation volumes grew sequentially to 19,014 MT (+10% QoQ) and 3,136 MT (+9% QoQ) respectively while Nitro Toluene volumes dipped 19% QoQ to 7,560 tonnes.

**Nitro Chloro Benzene (MT)**



**Nitro Toluene (MT)**



**Important Statistics**

Nifty	19,732
Sensex	65,795
MCAP (₹ bn)	~₹191.08
52-Week H/L (₹)	681.90/438.00
NSE Code	AARTIIND
BSE Code	524208
Bloomberg Code	ARTO:IN

**Shareholding Pattern (%) Sep'23**

Promoter Holding	43.57
FII	10.58
DII	16.17
Public & Others	29.70

**Financials**

Particulars (₹ cr)	(₹ cr)				
	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,086	6,619	5,957	7,387	9,012
EBITDA	1,720	1,089	959	1,363	1,757
EBITDA Mar%	17%	16%	16%	18%	20%
PAT	1,186	545	392	656	919
PAT Mar%	19%	8%	7%	9%	10%
EPS	33	15	11	18	25
RoE (%)	26%	12%	8%	12%	14%
RoCE (%)	21%	10%	7%	10%	12%
EV/EBITDA (x)	13	20	23	16	13
P/E (x)	16	35	49	29	21

Source: Company, Way2wealth Research

**Relative Performance**

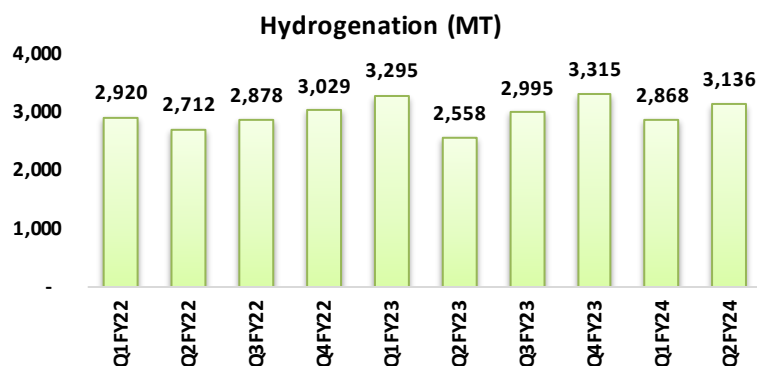
Return (%)	1Yr	3Yr	5Yr
<b>AARTIIND</b>	<b>-21%</b>	<b>3%</b>	<b>62%</b>
<b>Nifty 50</b>	8%	53%	85%
<b>Sensex</b>	7%	50%	85%

Source: Company, Way2Wealth Research

**Prasad Hase**

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- **Demand recovery visible in selective pockets** – From end-user industry perspective, discretionary segments such as dyes, pigments, polymers, etc. witnessed demand recovery while Agro-chemical industry has not shown notable signs of recovery.
- **Product basket seeing mixed price trends** – Aarti Industries Ltd. witnessing stable-to-better realization for some of the products specifically from discretionary industries, however, prices for products from Agro and pharma segments continues to create drag. Thus, ASP (Average Selling Price) trends for overall product basket remains mixed as the prices are improving for products which are seeing demand stabilization and remains under pressure for those witnessing subdued demand.
- **Capacity utilization remains soft** – Capacity utilization at the facility build for first long-term contract (which got cancelled) remains low due to demand side challenges while the products for the third contract are in stabilization phase and meaningful utilization would only take place from FY25 onwards. Capacity for second contract is largely utilization-agnostic.
- **Demand revival likely in H2FY24** – Currently the company is facing headwinds in-terms of demand slowdown from exports market, inventory destocking especially in Agrochemical Industry and geopolitical uncertainties. This also has resulted in overall increase in the Chinese competitive intensity, which will gradually subside with improving global demand likely in H2FY24.
- **EBITDA Guidance** – As per management guidance, H2FY24 EBITDA would be higher compared to H1FY24 and hence there is visibility to reach ~₹950-1,000cr at overall FY24 EBITDA level. Maximum impact on EBITDA guidance of ₹1,700cr provided earlier for FY25 could be in the range of 5-15%.
- **Borrowings likely to remain range-bound** – While borrowings have increased from ~₹2,900cr by end-FY23 to ~₹3,150cr by end-H1FY24, net debt likely to remain within ₹2,700-2,800cr range for current financial year.
- **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. In FY24, capex investment worth ₹1,200-1,300cr would be undertaken. 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.

**View**

- Aarti Industries Ltd. posting sequential improvement in its Q2FY24 earnings performance is indicative of the start of recovery in demand from selective end-user industries. Additionally, prices for selective products are also seeing the rise in tandem with the demand recovery supporting operating margin expansion.
- As the capex investment guidance remains strong and intact for next two years despite persistent sectoral headwinds, it underlines the confidence management has in business outlook and demand for its products.
- Significant rise in volumes is anticipated in FY25 primarily on account of ramp up in contract-3 capacity and NCB in addition to commissioning of Ethylation and Nitro Toluene capacities.
- At CMP of ₹527, Aarti Industries LTD is trading at ~27x FY25E PE. **We believe Aarti Industries Ltd. is on the path of recovery with demand and price improvement for selective products indicating improvement in the external environment and strong capex pipeline acts as strong growth lever for near term and thus continue to recommend to Accumulate this stock on dips.**

20<sup>th</sup> November 2023

CMP – ₹527/-

 View – **Accumulate on Dip**
**Consolidated Quarterly Performance**

Particulars	(₹ Cr)								
	2QFY24	2QFY23	YoY % Chng	1QFY24	QoQ % Chng	1HFY24	1HFY23	YoY % Chng	
Revenue from operations	1,454	1,685	-14%	1,414	3%	2,868	3,296	-13%	
Cost of materials consumed	854	978	-13%	853	0%	1,707	1,905	-10%	
<b>Gross Profit</b>	<b>600</b>	<b>707</b>	<b>-15%</b>	<b>561</b>	<b>7%</b>	<b>1,161</b>	<b>1,391</b>	<b>-17%</b>	
<i>Gross Profit Margin</i>	41.3%	42.0%	-69 bps	39.7%	159 bps	40.5%	42.2%	-172 bps	
Employee Costs	99	93	6%	101	-2%	201	184	9%	
Other expenses	267	347	-23%	258	3%	525	659	-20%	
<b>EBITDA</b>	<b>234</b>	<b>267</b>	<b>-12%</b>	<b>202</b>	<b>16%</b>	<b>435</b>	<b>548</b>	<b>-21%</b>	
<i>EBITDA Margin</i>	16.1%	15.8%	25 bps	14.3%	181 bps	15.2%	16.6%	-146 bps	
Depreciation and Amortisation	93	73	27%	89	4%	182	145	26%	
<b>EBIT</b>	<b>141</b>	<b>194</b>	<b>-27%</b>	<b>113</b>	<b>25%</b>	<b>253</b>	<b>403</b>	<b>-37%</b>	
Finance Costs	58	44	32%	40	45%	99	88	13%	
Other Income	-	-		-		-	-		
<b>Profit Before Tax</b>	<b>82</b>	<b>150</b>	<b>-45%</b>	<b>71</b>	<b>15%</b>	<b>154</b>	<b>316</b>	<b>-51%</b>	
Tax	-9	26	-135%	2	-550%	-7	56	-113%	
<b>Profit After Tax</b>	<b>91</b>	<b>124</b>	<b>-27%</b>	<b>70</b>	<b>30%</b>	<b>161</b>	<b>260</b>	<b>-38%</b>	
<i>PAT Margin</i>	6.3%	7.4%	-110 bps	5.0%	131 bps	5.6%	7.9%	-227 bps	
EPS	2.5	3.4	-27%	1.9	30%	4.4	7.2	-38%	

Source: Company, 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.

**Financial Performance**

Particulars	(₹ Cr)				
	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operations	6,086	6,619	5,957	7,387	9,012
Cost of materials consumed	2,855	3,842	3,467	4,181	5,047
<b>Gross Profit</b>	<b>3,231</b>	<b>2,777</b>	<b>2,490</b>	<b>3,206</b>	<b>3,965</b>
<i>Gross Profit Margin</i>	53.1%	42.0%	41.8%	43.4%	44.0%
Employee Costs	357	385	429	458	541
Other expenses	1,154	1,303	1,102	1,385	1,667
<b>EBITDA</b>	<b>1,720</b>	<b>1,089</b>	<b>959</b>	<b>1,363</b>	<b>1,757</b>
<i>EBITDA Margin</i>	16.6%	16.5%	16.1%	18.5%	19.5%
Depreciation and Amortisation	246	310	363	421	496
<b>EBIT</b>	<b>1,474</b>	<b>779</b>	<b>596</b>	<b>942</b>	<b>1,262</b>
Finance Costs	102	168	191	222	252
Other Income	1	1	1	1	1
<b>Profit Before Tax</b>	<b>1,372</b>	<b>611</b>	<b>406</b>	<b>721</b>	<b>1,010</b>
Tax	186	66	14	65	91
<b>Profit After Tax</b>	<b>1,186</b>	<b>545</b>	<b>392</b>	<b>656</b>	<b>919</b>
<i>PAT Margin</i>	19.5%	8.2%	6.6%	8.9%	10.2%
EPS	32.7	15.0	10.8	18.1	25.4

Source: Company, 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.

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**Disclosure of Interest Statement: Aarti Industries Ltd. as on November 17<sup>th</sup>, 2023**

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

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