Results Update
10th August 2023

Aarti Industries Ltd
Specialty Chemicals

HOLD
Target Price
470

Weak Demand Outlook in Near-term to Persist: Maintain Hold

Est. Vs. Actual for Q1FY24:Revenue – MISS; EBITDA– BEAT; PAT –BEAT

Revision in Estimates post Q1FY24

FY24E/FY25E:Revenue-4%/-6%;**EBITDA -3**%/-9%; **PAT**-10%/-19%

Recommendation Rationale

- **New Inventory Normal:**High inventory build with customers in the past due to logistic issue post covid has lead to significant inventory in the system, upto 9-10 months of Inventory in Agrochem value chain. This along with higher cost of holding as global interest rates have moved up has led to destocking across chanels. AIL expects inventory levels to normalise by Q4FY24
- **Prices were under pressure** as Benzene prices were also low Y-o-Y which leaded to lower realsiation, Chinese exports have been priced competitively especially in pharma segment. Demand stands to remain affected in both non-traditional low-yielding markets (i.e. Eastern Markets) &corehigh-yielding Western markets which has led moreever similar proportion of revenue from the two.
- **Pricing pass:**through mechanism has helped company marginally reduce impact of falling prices, we expect recovery from Q3FY24 onwards, also certain affected segments such as pigments are seeing green shots of revival.

Sector Outlook: Negative

Company Outlook & Guidance: We maintain**a wait-and-watch** approach on the stock as the company faces a demand slowdown due to a inventory normalisation and global reduction in discretionary spend leading to demand weak environment.We reduce the company's FY24/25E estimates to factor in gross margin dilution and negativeleverage.

Current Valuation: 30xFY25E

Current TP: **Rs 470** (Earlier **530**).

Recommendation With the stock witnessing significant correction already, we see a limited downside risk from here & therefore **maintain our HOLD rating on the stock with a revised target price of 470 implying a 1% upside .**

Financial Performance: Aarti Industries Q1FY24 numbers surprised on the PAT front with the company utilising its MAT Credit to negate tax outgo. Consolidated Revenue missed our estimate by 8% (down 12%/14% YoY/QoQ). EBITDA stood lower (down 28%/ 20% YoY/QoQ) on account of lower RM prices and high employee expenses but beat our estimates by 5.2% as we expected a lower gross margin.EBITDAmargin was lower at 14.3% down by 320 / 90 bps YoY/QoQ. The company's PAT stood at Rs 71 Cr, down 47%52% YoY/QoQ, with the overall performance.

Outlook: Aarti continues to invest prudently in developing its product pipeline (Nitro-Chloro Toulene) and has planned to invest 3,000 Cr over FY24 and FY25. This investment will make Aarti command 20% of the global capacity of the NCT chain & derivatives.This along with a ramp-up in existing projects will add to revenue from FY25 onwards.

Valuation: We reduce the company's FY24/25E estimates as we factor in tepid growth and contracting margins.**Consequently, werevise our TP to 470/share valuing the company at 30x FY25E implying a 1% potential upside from CMP and maintain our HOLD rating.**

Key Financials (Consolidated)

(Rs Cr)	Q1 FY24	Y-o-Y %	Q-o-Q%	Axis Est.	Var %
Net Sales	1,414.0	-15%	-12%	1,535.0	-8%
EBITDA	202.0	-20%	-28%	192.0	5%
EBITDA Margin	14.3%	-90 bps	-320 bps	12.5%	180 bps
Net Profit	71.0	-52%	-48%	57.4	24%
EPS (Rs)	1.9	-53%	-48%	1.6	22%

Source: Company, Axis Research

(CMP as of10th Aug 2023)

CMP (Rs)	465
Upside /Downside (%)	1%
High/Low (Rs)	839/445
Market cap (Cr)	17,154
Avg. daily vol. (12m)Shrs.	9,61,207
No. of shares (Cr)	36.2

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	44.2	44.1	44.1
FIIs	12.1	12.3	12.2
DIIs	14.5	14.7	14.8
Retail	29.3	28.9	29.3

Financial & Valuations

Y/E Mar	FY23	FY24E	FY25E
Net Sales	6,619	7,275	8,585
EBITDA	1,089	1,040	1,374
Net Profit	545	446	570
EPS (Rs)	15.0	12.3	15.7
PER (x)	36.1	41.8	32.8
P/BV (x)	4.0	3.4	3.1
EV/EBITDA (x)	20.6	21.2	16.6
ROE (%)	11%	8%	10%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-4%	-8%
EBITDA	-10%	-8%
PAT	-9%	-14%

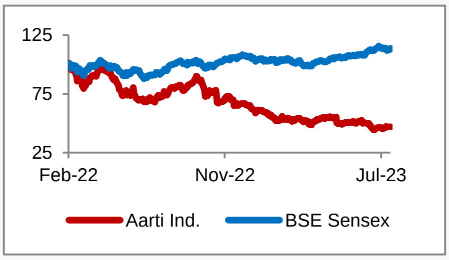
ESG disclosure Score**

Environmental Disclosure	72.
Social Disclosure Score	39
Governance Disclosure	82.3
Total ESG Disclosure Score	64.7
Sector Average	44.7

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Concall Highlights

- Company Net Debt Stood at 2,650 Cr. Company expects D/E ratio to be contained with 0.7x which will be dependent on Working capital reduction (due to lower business) and raw material price decline.
- Expect modest growth in Nitro-Toluene in Q2FY24 as AIL is seeing inventory destocking in Agrochem
- Tax Rate will be below 10% for FY24 as company will utilize MAT Credits

Production Volumes

	Q1FY23	Q4FY23	Q1FY24
NitroChloro Benzene (tonnes)	20,515	18,842	17,293
Hydogenation (tpm)	3,295	3,315	2,868
NitroToulene (tonnes)	5,252	6,130	9,327
PDA volumes (tpm)	370	348	135

Source: Company, Axis Securities

Key Risks to our Estimates and TP

- Any delay in capacity in expansion or existing projects may affect ROCE negatively
- The global slowdown may affect volumes and value growth
- Involvement in complex risky chemistries has significant operational risks

Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	7,275	8,585	7,570	9,289	-4%	-8%
EBITDA	1,040	1,374	1,158	1,486	-10%	-8%
PAT	446	570	490	662	-9%	-14%

Source: Company, Axis Securities

Q1FY24 Results Review

Particulars	Q1 FY23	Q4 FY23	Axis Sec Estm.	Q1 FY24	(YoY)	(QoQ)	Variance (%)
Sales	**1,610.3**	**1,656.0**	**1,535.0**	**1,414.0**	**-12.2%**	**-14.6%**	**-7.9%**
Expenditure							
COGS	926	962	902	853	**-7.9%**	**-11.3%**	**-5.4%**
Employee Expenses	91	109	114	101	**11.0%**	**-7.3%**	**-11.4%**
Other Exp	312	333	327	258	**-17.2%**	**-22.5%**	**-21.1%**
Total Expenditure	**1329**	**1404**	**1343**	**1212**	**-8.8%**	**-13.7%**	**-9.8%**
EBIDTA	**281.5**	**252.0**	**192**	**202.0**	**-28.2%**	**-19.8%**	**5.2%**
EBITDA Margin (%)	17.5%	15.2%	12.5%	14.3%	**-320 bps**	**-90 bps**	**180 bps**
Depreciation	71.8	84.0	89.0	89.0	**24.0%**	**6.0%**	**0.0%**
Other Income	0.4	0.0	0.4	0.0			
EBIT	210.1	168.0	103	113.0	**-46.2%**	**-32.7%**	**9.3%**
Interest	44.5	33.0	35.0	40.0	**-10.2%**	**21.2%**	**14.3%**
Exceptional Item							
PBT	**165.6**	**135.0**	**68**	**73.0**	**-55.9%**	**-45.9%**	**6.8%**
Tax	30.1	-13.0	11.00	2.0	**-93.3%**	**-115.4%**	**-81.8%**
PAT	**135.5**	**148.0**	**57.4**	**71.0**	**-47.6%**	**-52.0%**	**23.7%**
EPS (Rs.)	3.74	4.10	1.6	1.93	**-48.4%**	**-52.9%**	**22.0%**

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Net sales	**6,086**	**6,619**	**7,275**	**8,585**
Cost of goods sold	2,854	3,842	4,365	4,979
Contribution (%)	*53.1%*	*42.0%*	*40.0%*	*42.0%*
Employee Costs	357	385	437	515
Other Expenses	1,154	1,303	1,433	1,717
Operating Profit	**1,720**	**1,089**	**1,040**	**1,374**
EBITDA Growth %	1468.7%	-36.7%	-4.5%	32.0%
Other income	1	1	0	0
Depreciation	246	310	346	421
EBIT	**1,474**	**780**	**695**	**952**
Interest & Fin Chg.	102	168	215	257
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**1,372**	**612**	**480**	**695**
Tax provision	186	65	34	125
Reported PAT	**1,186**	**547**	**446**	**570**

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Equity + Liabilities				
Equity Capital	181	181	181	181
Reserves & Surplus	**4,335**	**4,739**	**5,229**	**5,891**
Non Controlling Interest	1	1	1	1
Total Equity	***4,517***	***4,921***	***5,410***	***6,072***
Long Term Borrowings	930	635	1,335	2,035
Lease Liabilities	15	25	25	25
Other Non Current Liabilities	**224**	**217**	**217**	**217**
Total Non Current Liabilities	***1,169***	***877***	***1,577***	***2,277***
Short Term Borrowings	**1,642**	**2,247**	2,247	2,247
Trade Payables	347	407	269	325
Provisions	32	30	30	30
Others	**145**	**99**	**99**	**99**
Total Current Liabilities	***2,166***	***2,783***	***2,645***	***2,701***
Total Liabilities	**3,335**	**3,660**	**4,222**	**4,978**
Total Equity + Liabilities	**7,852**	**8,581**	**9,632**	**11,050**
ASSETS				
Gross Block	5,528	6,928	7,678	8,428
Less: Depreciation	1,813	2,123	2,469	2,890
Property, Plant & Equipment	**3714.9**	**4,829**	**5,579**	**6,329**
Capital WIP	1,303	989	750	750
Right to Use Assets	17	30	30	30
Intangibles and Under Development	43	108	108	108
Investments- Others	28	17	17	17
Deferred Tax Assets	28	53	53	53
Other Non- Current Assets	155	94	94	94
Total Non Current Assets	5,289	6,122	6,631	7,381
Current Assets				
Inventories	934	1,031	771	886
Trade Receivables	1,092	940	1,099	1,349
Cash	94	167	166	141
Bank Balance	80	33		
Other Financial Assets	407	181	181	181
Current Tax Assets	55	55	55	55
Other Current Assets	37	51	51	51
Total Current Assets	**2,699**	**2,459**	**2,323**	**2,662**
Total Assets	**7,852**	**8,581**	**9,632**	**11,050**

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Profit Before Tax	**1,372**	**611**	**480**	**695**
Finance Cost	102	168	215	257
Depreciation	246	310	346	421
(Inc)/Dec in Working Capital	-956	312	17	-218
Tax Paid	(246.0)	(91.0)	(33.7)	(125.3)
Cash Flow from Operations	**519.0**	**1,310.0**	**1,024.0**	**1,030.0**
Change in Gross Block	-1,165	-1,326	-750	-750
(Inc)/Dec in Investments	0	0	0	0
Cash Flow from Investing	**-1,169**	**-1,330**	**-1,500**	**-1,500**
Inc/(Dec) in Loans	(595.0)	(301.0)	700.0	700.0
Finance Cost	(102.0)	(168.0)	(214.9)	(256.9)
Cash Flow from Financing	**412.0**	**47.0**	**485.1**	**443.1**
Net Inc/Dec in Cash	-238	27	9	-27
Opening Cash	412	174	167	176
Closing Cash	174	201	176	149

Source: Company, Axis Securities

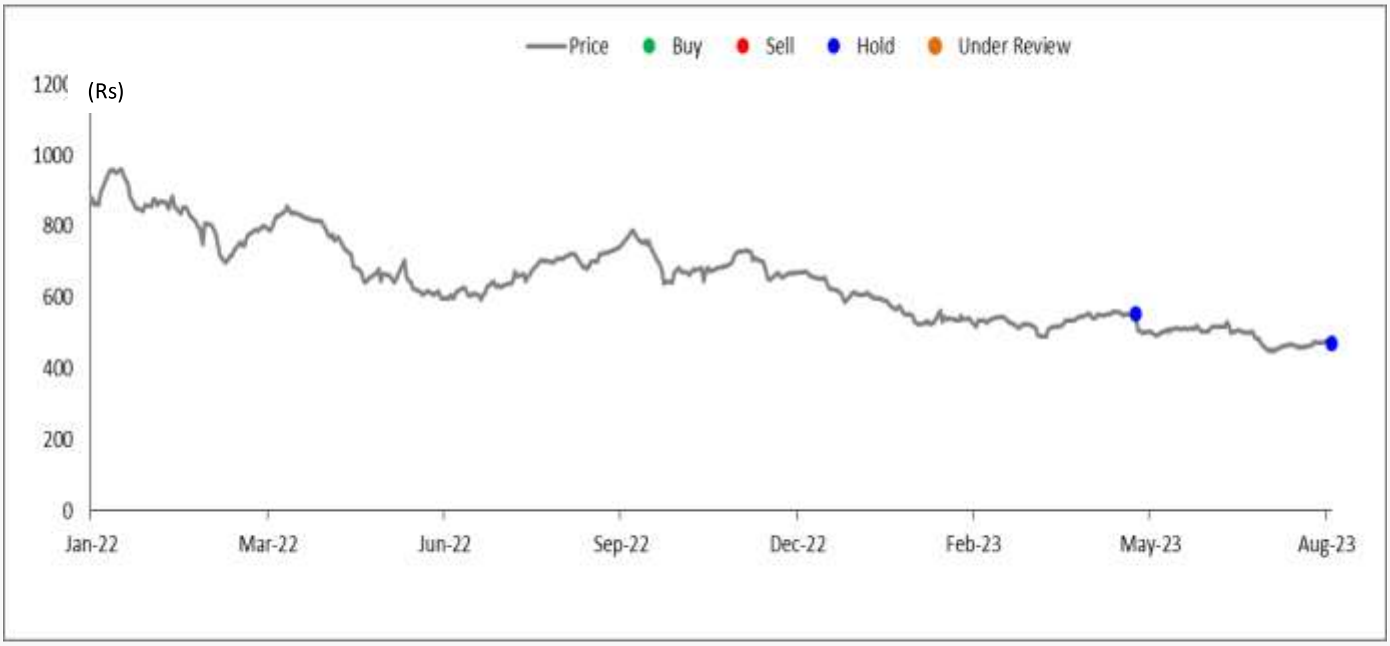
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24E	FY25E
Sales growth	**67.5**	**8.8**	**9.9**	**18.0**
OPM	**28.3**	**16.5**	**14.3**	**16.0**
Oper. profit growth	1,468.7	(36.7)	(4.5)	32.0
COGS / Net sales	46.9	58.0	60.0	58.0
Overheads/Net sales	5.9	5.8	6.0	6.0
Depreciation / G. block	4.5	4.5	4.5	5.0
RoCE	**21%**	**10%**	**8%**	**9%**
Debt / equity (x)	0.6	0.6	0.7	0.7
Effective tax rate	13.6	10.8	7.0	18.0
RoE	**26%**	**11%**	**8%**	**10%**
Payout ratio (Div/NP)	8.1	17.7	21.6	16.9
EPS (Rs.)	**32.7**	**15.0**	**12.3**	**15.7**
EPS Growth	(438.6)	(54.0)	(18.1)	27.7
CEPS (Rs.)	39.5	23.6	21.8	27.3
DPS (Rs.)	2.5	2.4	2.4	2.4
Valuation (x)				
P/E	28.6	36.1	41.8	32.8
P/BV	7.5	4.0	3.4	3.1
EV/EBITDA	21.1	20.6	21.2	16.6
Mcap/Sales	5.6	3.0	2.6	2.2

Source: Company, Axis Securities

Aarti Industries Price Chart and Recommendation History



Date	Reco	TP	Research
10-May-23	HOLD	550	Result Update
10-Aug-23	HOLD	470	Result Update

Source: Axis Securities

About the analyst

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