

Aarti Industries (ARTO IN)

Rating: ACCUMULATE | CMP: Rs1,010 | TP: Rs992

May 26, 2020

Q4FY20 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		BUY	
Target Price	992		988	
Sales (Rs. m)	34,984	52,219	33,814	50,749
% Chng.	3.5	2.9		
EBITDA (Rs. m)	8,747	12,646	8,785	12,676
% Chng.	(0.4)	(0.2)		
EPS (Rs.)	25.0	41.4	25.0	41.2
% Chng.	(0.2)	0.4		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	40,252	39,944	34,984	52,219
EBITDA (Rs. m)	9,167	9,296	8,747	12,646
Margin (%)	22.8	23.3	25.0	24.2
PAT (Rs. m)	4,813	5,232	4,328	7,169
EPS (Rs.)	27.8	30.2	25.0	41.4
Gr. (%)	42.5	8.7	(17.3)	65.6
DPS (Rs.)	3.5	1.0	1.0	4.1
Yield (%)	0.3	0.1	0.1	0.4
RoE (%)	22.9	17.8	12.7	18.2
RoCE (%)	18.7	14.6	11.7	16.0
EV/Sales (x)	4.7	4.8	5.4	3.6
EV/EBITDA (x)	20.5	20.4	21.5	15.0
PE (x)	36.4	33.5	40.4	24.4
P/BV (x)	6.5	5.5	4.9	4.1

Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.1,192 / Rs.662
Sensex / Nifty	30,609 / 9,029
Market Cap	Rs.176bn / \$ 2,325m
Shares Outstanding	174m
3M Avg. Daily Value	Rs.768.93m

Shareholding Pattern (%)

Promoter's	47.75
Foreign	8.28
Domestic Institution	16.56
Public & Others	27.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.0	26.5	13.6
Relative	11.5	69.0	46.4

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In-line performance in a challenging environment

Quick Pointers:

- For FY20 speciality chemicals EBIT remained flat YoY due to weak user demand, feedstock disruption and Covid-19 related restrictions. Q4 EBIT hit of Rs400m from RM disruption and Covid shutdown.
- Pharma segment (~20% of revenues) remains as a key growth driver with 22% EBIT growth in FY20.
- Next leg of Aarti's growth will ride on three long-term contracts worth Rs150bn, first of which has started from Q4FY20 and second from H2FY21E.

We leave the estimates largely unchanged for FY21/22E. AIL's near term growth trajectory will face headwinds from weakness in discretionary spend (textiles, autos, aerospace etc; ~40% of AIL's revenues) and weak global macro-economic situation. Increased competition from China due to export benefits is an added risk. AIL with a diversified product portfolio of 200 products remains well placed to capitalize on rising investment in domestic downstream industries, along with production shift from China. We remain structurally positive on AIL's growth prospects but will wait for better entry points given the macro challenges. Downgrade to ACCUMULATE from BUY with a PT of Rs992 (Rs 988 earlier) based on 24x FY22E.

- Results in-line with estimates:** Aarti Industries (AIL) reported in-line standalone results with EBITDA and PAT of Rs2.1bn (-11%YoY; PLe Rs2.05bn) and Rs1.07bn (-14%YoY; PLe Rs1.08bn). EBITDA margin for Q4 was at 20.7% (Q4FY19 19.6% and 20.6% in Q3) and revenues were at Rs10.2bn (-1%YoY, adjusted for divestment of home care business).

For FY20, EBITDA and PAT was at Rs9.3bn (+1%YoY) and Rs5.2 (+9%YoY).

- Specialty chemicals performance remain muted:** Specialty chemicals segment revenues were at Rs9.2bn (flat YoY) and EBIT was at Rs1.66bn (-17%YoY). There was revenue loss of Rs1bn due to covid-19 related early shutdown while the EBIT hit was Rs270-300m. For FY20, revenues were at Rs36.5bn (-4%YoY) due to drop in RM prices while EBIT was at Rs7.7bn (flat YoY). EBIT margins improved to 21.2% (+90bps YoY) due to low share of basic chemistry to 25% for FY20 vs 30% in FY19. AIL's next leg of growth is likely to ride on commencement of three large multi-year contracts worth Rs150bn, which have progressively started from Q4FY20. Feedstock availability about nitric acid also affected downstream products like Nitro Chloro Benzene (NCB) and nitro toluene volumes impacted segment EBIT by Rs120m for Q4.
- Pharma performance better:** Pharma segment revenues were at Rs2.06bn (-3%YoY) and EBIT was at Rs358m (+30%YoY) due to continued focus in off-patented generics business in regulated markets. For FY20, revenues were at Rs7.6bn (+4%YoY) while EBIT was at Rs1.4bn (+22%YoY). EBIT margins improved to 18.2% (+270bps YoY) as the company focused on off-patented generics in regulated markets.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Income From Operations	10,200	12,114	(15.8)	11,767	43,018	40,252	6.9
Total Expenditure	8,086	10,213	(20.8)	9,340	33,723	31,085	8.5
EBIDTA	2,114	2,369	(10.8)	2,427	9,295	9,167	1.4
<i>% of NS</i>	<i>20.7</i>	<i>19.6</i>		<i>20.6</i>	<i>21.6</i>	<i>22.8</i>	
Depreciation	462	425	8.7	439	1,726	1,510	14.3
EBIT	1,652	1,945	(15.0)	1,989	7,569	7,657	(1.1)
Interest	326	412	(20.9)	283	1,216	1,792	(32.2)
Other Income	4	7	(47.8)	3	105	45	132.0
Exceptional Items	-	-		-	-	-	
PBT	1,330	1,540	(13.6)	1,708	6,459	5,910	9.3
Current Tax	230	365	(37.0)	300	1,130	1,292	(12.5)
Deferred Tax	30	41	(26.8)	40	180	180	-
MAT Entitlement (Current Year)	-	(111)	NA	-	(85)	(374)	NA
MAT Entitlement (Previous Year)	-	-		-	-	-	
Tax	260	295	(11.9)	340	1,225	1,098	11.6
<i>Tax rate %</i>	<i>19.6</i>	<i>19.2</i>		<i>19.9</i>	<i>19.0</i>	<i>18.6</i>	
Profit After Tax	1,070	1,245	(14.0)	1,368	5,234	4,813	8.7
Extraordinary Items	-	-		-	-	-	
Net Profit (after Extraordinary Items)	1,070	1,245	(14.0)	1,368	5,234	4,813	8.7
Segment revenue							
Speciality Chemicals	9,200	9,202	(0.0)	10,006	36,525	38,220	(4.4)
Pharma	2,064	2,128	(3.0)	1,762	7,558	7,258	4.1
Home & Personal care	-	785	NA	-	-	3,099	NA
EBIT							
Speciality Chemicals	1,663	2,006	(17.1)	2,054	7,733	7,686	0.6
Pharma	358	276	29.9	360	1,375	1,127	22.0
Home & Personal care	-	2	NA	-	-	(359)	NA
Total	2,021	2,283	(11.5)	2,414	9,108	8,454	7.7

Source: Company, PL

Conference Call Highlights

- Textiles, autos, aerospace, petroleum additives, electronics are some of the segments which form part of discretionary spend and account for 40% of AIL's revenues. Return of discretionary spend will be a key monitor, given job losses and change in customer behavior.
- The agrochem LT contract was commissioned in Q4FY20 while the 2nd long term contract on polymers will be commissioned in 2HFY21.
- FY20 capex at Rs11bn and will be at Rs10-12bn for FY21E.
- FY21 remains a challenging year given multiple demand disruption and volatility in RM prices. Company targets 15-20% PAT CAGR over FY20-22E.
- Speciality chemicals utilization level was at 50% in April and has increased to 80% in May. Demand weakness in user segment remains a key concern.
- Pharma segment is likely to report 20-25% growth led by new capacity expansion.
- AIL will book inventory loss due to sharp drop in RM prices in Q1FY21.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	40,252	39,944	34,984	52,219
YoY gr. (%)	8.8	(0.8)	(12.4)	49.3
Cost of Goods Sold	21,115	19,673	16,091	24,429
Gross Profit	19,137	20,271	18,893	27,790
Margin (%)	47.5	50.7	54.0	53.2
Employee Cost	2,307	2,923	3,149	4,700
Other Expenses	-	-	-	-
EBITDA	9,167	9,296	8,747	12,646
YoY gr. (%)	39.6	1.4	(5.9)	44.6
Margin (%)	22.8	23.3	25.0	24.2
Depreciation and Amortization	1,510	1,726	1,920	2,277
EBIT	7,657	7,569	6,828	10,370
Margin (%)	19.0	18.9	19.5	19.9
Net Interest	1,792	1,216	1,600	1,646
Other Income	45	105	116	127
Profit Before Tax	5,910	6,459	5,344	8,851
Margin (%)	14.7	16.2	15.3	16.9
Total Tax	1,098	1,227	1,015	1,682
Effective tax rate (%)	18.6	19.0	19.0	19.0
Profit after tax	4,813	5,232	4,328	7,169
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,813	5,232	4,328	7,169
YoY gr. (%)	51.9	8.7	(17.3)	65.6
Margin (%)	12.0	13.1	12.4	13.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,813	5,232	4,328	7,169
YoY gr. (%)	51.9	8.7	(17.3)	65.6
Margin (%)	12.0	13.1	12.4	13.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,813	5,232	4,328	7,169
Equity Shares O/s (m)	173	173	173	173
EPS (Rs)	27.8	30.2	25.0	41.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	32,706	40,706	50,706	57,706
Tangibles	32,706	40,706	50,706	57,706
Intangibles	-	-	-	-
Acc: Dep / Amortization	11,571	13,298	15,217	17,494
Tangibles	11,571	13,298	15,217	17,494
Intangibles	-	-	-	-
Net fixed assets	21,135	27,408	35,489	40,212
Tangibles	21,135	27,408	35,489	40,212
Intangibles	-	-	-	-
Capital Work In Progress	7,990	10,000	7,000	7,000
Goodwill	9	-	-	-
Non-Current Investments	649	649	649	649
Net Deferred tax assets	(1,782)	(1,911)	(2,018)	(2,195)
Other Non-Current Assets	2,974	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	7,536	7,305	5,797	8,653
Trade receivables	8,366	8,109	6,436	9,606
Cash & Bank Balance	7,946	9,326	12,318	10,414
Other Current Assets	337	387	446	512
Total Assets	58,353	64,736	69,841	78,925
Equity				
Equity Share Capital	433	433	433	433
Other Equity	26,416	31,474	35,629	42,082
Total Network	26,849	31,908	36,062	42,515
Non-Current Liabilities				
Long Term borrowings	8,378	10,378	10,378	10,378
Provisions	-	-	-	-
Other non current liabilities	2,032	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	12,625	13,888	14,582	15,311
Trade payables	3,131	2,742	2,499	3,794
Other current liabilities	3,555	3,911	4,302	4,732
Total Equity & Liabilities	58,353	64,736	69,841	78,925

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	5,910	6,459	5,344	8,851
Add. Depreciation	1,510	1,726	1,920	2,277
Add. Interest	1,792	1,216	1,600	1,646
Less Financial Other Income	45	105	116	127
Add. Other	778	1,071	107	178
Op. profit before WC changes	9,990	10,472	8,970	12,951
Net Changes-WC	(459)	263	3,117	(4,539)
Direct tax	(1,098)	(1,227)	(1,015)	(1,682)
Net cash from Op. activities	8,433	9,508	11,072	6,731
Capital expenditures	(7,890)	(10,001)	(7,000)	(7,000)
Interest / Dividend Income	-	-	-	-
Others	(90)	-	-	-
Net Cash from Inv. activities	(7,980)	(10,001)	(7,000)	(7,000)
Issue of share cap. / premium	7,614	35	35	145
Debt changes	2,160	3,263	694	729
Dividend paid	(730)	(209)	(209)	(863)
Interest paid	(1,792)	(1,216)	(1,600)	(1,646)
Others	-	-	-	-
Net cash from Fin. activities	7,253	1,873	(1,079)	(1,634)
Net change in cash	7,706	1,380	2,993	(1,904)
Free Cash Flow	543	(493)	4,072	(269)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	27.8	30.2	25.0	41.4
CEPS	36.5	40.1	36.0	54.5
BVPS	154.9	184.1	208.1	245.3
FCF	3.1	(2.8)	23.5	(1.6)
DPS	3.5	1.0	1.0	4.1
Return Ratio(%)				
RoCE	18.7	14.6	11.7	16.0
ROIC	18.9	14.4	12.0	15.5
RoE	22.9	17.8	12.7	18.2
Balance Sheet				
Net Debt : Equity (x)	0.5	0.5	0.4	0.4
Net Working Capital (Days)	116	116	102	101
Valuation(x)				
PER	36.4	33.5	40.4	24.4
P/B	6.5	5.5	4.9	4.1
P/CEPS	27.7	25.2	28.0	18.5
EV/EBITDA	20.5	20.4	21.5	15.0
EV/Sales	4.7	4.8	5.4	3.6
Dividend Yield (%)	0.3	0.1	0.1	0.4

Source: Company Data, PL Research

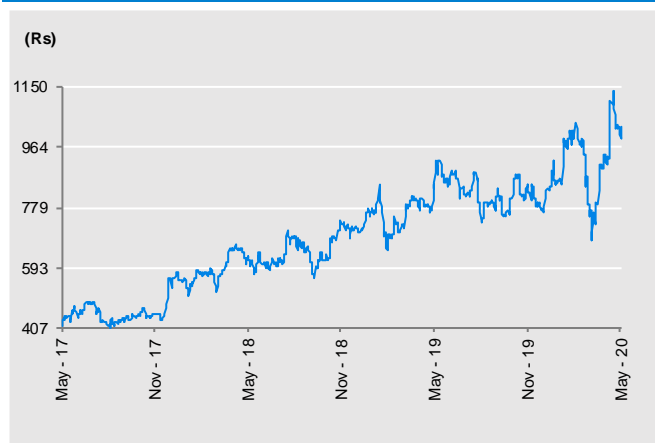
Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	10,861	10,190	11,767	10,200
YoY gr. (%)	0.7	(21.6)	(7.2)	(15.8)
Raw Material Expenses	5,817	5,209	6,472	5,250
Gross Profit	5,045	4,982	5,295	4,949
Margin (%)	46.4	48.9	45.0	48.5
EBITDA	2,369	2,385	2,427	2,114
YoY gr. (%)	26.1	(1.5)	(1.7)	(10.8)
Margin (%)	21.8	23.4	20.6	20.7
Depreciation / Depletion	401	425	439	462
EBIT	1,968	1,960	1,989	1,652
Margin (%)	18.1	19.2	16.9	16.2
Net Interest	303	304	283	326
Other Income	43	56	3	4
Profit before Tax	1,709	1,712	1,708	1,330
Margin (%)	15.7	16.8	14.5	13.0
Total Tax	335	290	340	260
Effective tax rate (%)	19.6	16.9	19.9	19.6
Profit after Tax	1,374	1,422	1,368	1,070
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,374	1,422	1,368	1,070
YoY gr. (%)	53.9	15.7	3.1	(14.0)
Margin (%)	12.6	14.0	11.6	10.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,374	1,422	1,368	1,070
YoY gr. (%)	53.9	15.7	3.1	(14.0)
Margin (%)	12.6	14.0	11.6	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,374	1,422	1,368	1,070
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-20	BUY	988	855
2	13-Feb-20	BUY	1,154	972
3	03-Jan-20	BUY	988	841
4	14-Nov-19	BUY	988	799
5	03-Oct-19	BUY	990	749
6	22-Aug-19	BUY	1,980	1,475

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	988	855
2	Bharat Petroleum Corporation	BUY	517	342
3	GAIL (India)	BUY	115	86
4	Hindustan Petroleum Corporation	BUY	280	200
5	Indian Oil Corporation	BUY	133	82
6	Indraprastha Gas	BUY	601	436
7	Mahanagar Gas	BUY	1,289	891
8	NOCIL	BUY	96	72
9	Oil & Natural Gas Corporation	BUY	115	74
10	Oil India	Accumulate	117	89
11	Petronet LNG	BUY	378	215
12	Reliance Industries	BUY	1,601	1,409

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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