

Aarti Industries

Decent performance

We maintain a BUY recommendation on Aarti Industries (AIL) with a target price of INR 1,285/share. We expect AIL's PAT to grow at a 22% CAGR over FY21-23E, led by a 14% CAGR in revenue. AIL's constant focus on R&D will enable the company to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment. 2Q EBITDA was 26% above our estimates, mainly attributable to a higher-than-anticipated revenue, offset by higher-than-anticipated operating expenditure. APAT was 53% above our estimates owing to a lower-than-expected interest cost.

- **Financial performance:** Revenue grew 25/9% QoQ/YoY to INR 11.7bn, owing to a strong performance in both the segments. EBITDA was up 40% QoQ, owing to an outstanding performance in the Speciality chemicals segment. Sequentially, interest cost has fallen by 13% QoQ to INR 222mn. This has resulted in a 71% QoQ jump in APAT to INR 1.4bn. The company has announced an interim dividend of INR 1.5/share in the quarter.
- **Speciality Chemicals segment:** Revenue/EBIT jumped 32/47% QoQ to INR 11.1/1.9bn on the back of higher volumes. EBIT margin for the segment improved by 171bps QoQ to 17%.
- **Pharma segment:** Revenue/EBIT jumped 14/25% QoQ to INR 2.2/0.6bn. EBIT margins for the segment jumped up 218bps QoQ to 25.5%. Growth in the segment was driven by increasing contribution from regulated markets and value-added products.
- **Takeaways from earnings call:** (1) Capex spent in 2Q/1H FY21 was INR 3/5bn. Capex target for FY21 is of INR 10-12bn. (2) Capacity utilisation of the Speciality Chemicals segment in 2Q was around 80-90% as the segment is gaining traction. (3) Part commercialisation of the new chlorination unit in Jhagadia was done in 2Q. (4) AIL acquired land in Dahej, Gujarat, at the cost of INR 0.5bn for further expansion of the business. (5) Flat guidance provided for the bottom-line in FY21 by the management.
- **Change in estimates:** We raised our FY21/22 EPS estimates by 12.7/2.6% to INR 24.9/28.3 on account of a better-than-anticipated performance in 2Q.
- **DCF-based valuation:** Our target price is INR 1,285 (WACC 10%, terminal growth 3%). The stock is currently trading at 37.1x FY22E EPS.

Financial Summary (Consolidated)

INR mn	2Q FY21	1Q FY21	QoQ (%)	2Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	11,726	9,373	25.1	10,768	8.9	41,676	41,863	44,094	48,597	57,090
EBITDA	2,543	1,820	39.7	2,541	0.1	9,651	9,773	8,835	10,297	12,462
APAT	1,402	819	71.3	1,461	(4.0)	5,042	5,468	4,446	5,046	6,524
AEPS (INR)	8.0	4.7	71.3	8.4	(4.0)	28.2	30.8	24.9	28.3	36.8
P/E (x)						37.3	34.2	42.2	37.1	28.6
EV/EBITDA(x)						20.6	20.6	23.4	20.0	16.4
RoE (%)						23.4	19.1	13.7	13.7	15.6

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	8,344	8,835	5.9	10,076	10,297	2.2	12,187	12,462	2.3
AEPS (INR/sh)	22.1	24.9	12.7	27.6	28.3	2.6	36.6	36.8	0.7

Source: Company, HSIE Research

BUY

CMP (as on 11 Nov 2020)	INR 1,052
Target Price	INR 1,285
NIFTY	12,749

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,260	INR 1,285
EPS %	FY21E +12.7%	FY22E +2.6%

KEY STOCK DATA

Bloomberg code	ARTO IN
No. of Shares (mn)	174
MCap (Rs bn) / (\$ mn)	183/2,455
6m avg traded value (Rs mn)	492
52 Week high / low	Rs 1,229/662

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.3	1.2	28.4
Relative (%)	(10.2)	(36.9)	20.4

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	47.45	47.55
FIs & Local MFs	16.23	15.78
FPIs	7.37	7.52
Public & Others	28.95	29.15
Pledged Shares	0.00	0.00

Source : BSE

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Disclosure:

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