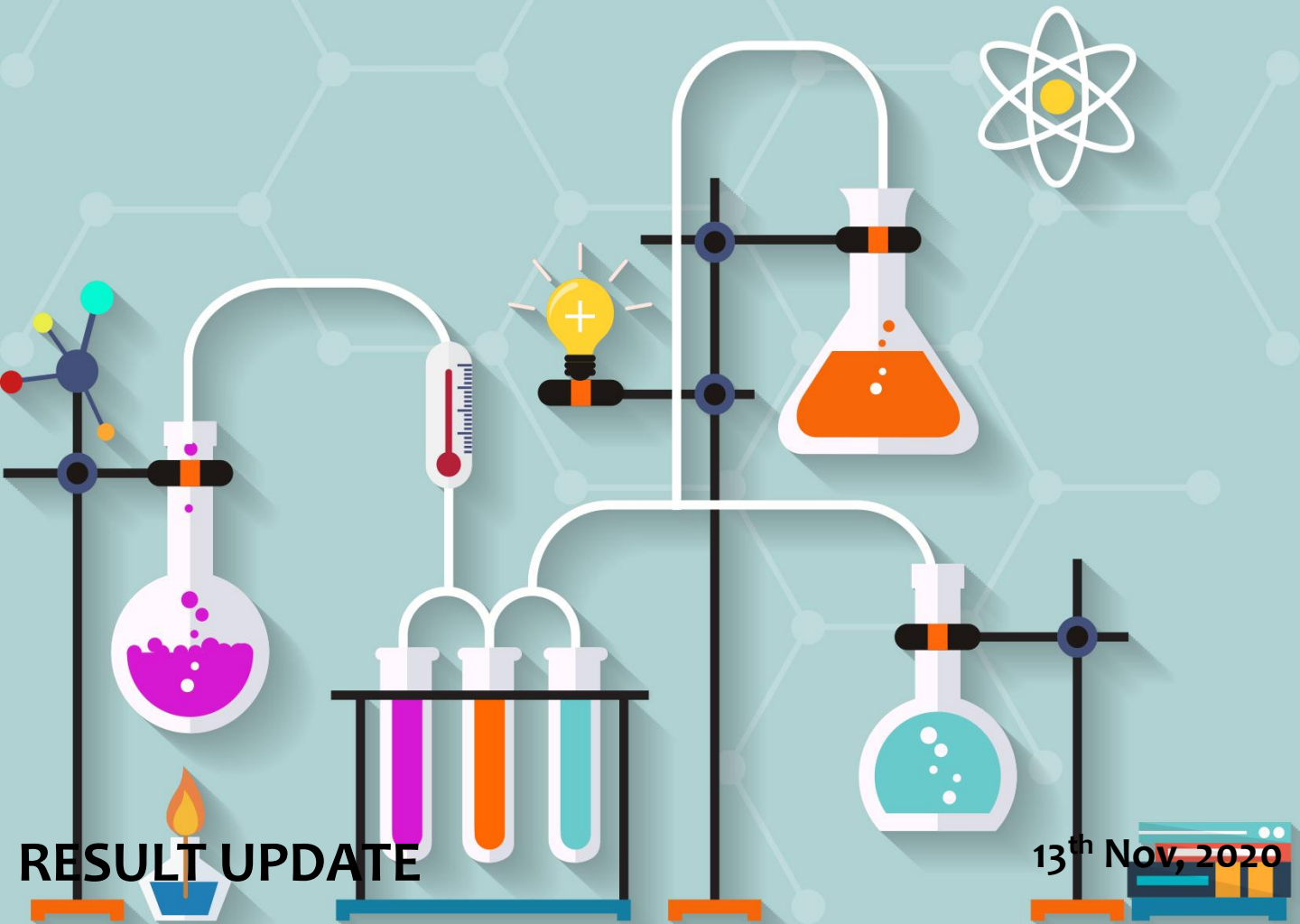


Aarti Industries Ltd.



RESULT UPDATE

13th Nov, 2020

Aarti Industries Ltd.

Strong revenue recovery in both the segment

CMP INR 1,084	Target INR 1,271	Potential Upside 17.2%	Market Cap (INR mn) 188,835	Recommendation BUY	Sector Specialty Chemicals
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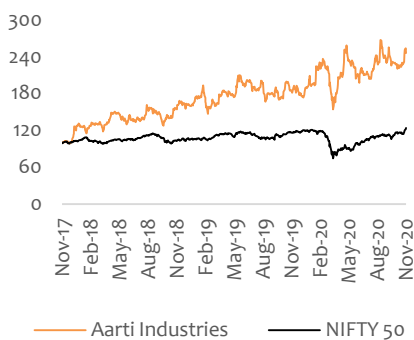
Result highlights

- Aarti Industries Limited (AIL) Q2FY21 consolidated revenue grew 18.7% YoY / 25.1% QoQ to INR 11.7 bn.
- Specialty Chemical which accounts for major portion of total revenue grew 23.9% YoY / 31.9% QoQ to INR 11.1 bn. Pharmaceutical sales grew 21.7% YoY / 14.1% QoQ to INR 2.2 bn.
- EBITDA was flat YoY (up 39.7% QoQ) at INR 2.5 bn. EBITDA margin contracted 403 bps YoY (up 227 bps) to 21.7%, led by lower gross profit margin, higher employee and other expenses.
- Net profit decline by 5.0% YoY (up 71.3% QoQ) to INR 1.4 bn. Net Profit margin declined 297 bps YoY / (up 323 bps) to 12.0% in Q2FY21.

MARKET DATA

Shares outs (mn)	174
Equity Cap (INR mn)	33,096
Mkt Cap (INR mn)	188,835
52 Wk H/L (INR)	1,229/668
Volume Avg (3m K)	347
Face Value (INR)	5
Bloomberg Code	ARTO IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	43,357
NIFTY	12,691

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	June-20	Mar-20
Promoters	47.6	47.5	47.8
FIIIs	7.5	7.4	8.3
DIIIs	15.8	16.1	16.6
Others	29.2	29.0	27.4
Total	100	100	100

Key Financials

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	38,061	41,676	41,863	49,971	60,707
EBITDA	6,991	9,651	9,773	10,889	15,140
Adj. PAT	3,330	4,917	5,361	5,134	7,907
EPS Diluted (INR)	19.1	28.2	30.8	29.5	45.4
OPM (%)	18.4%	23.2%	23.3%	21.8%	24.9%
NPM (%)	8.7%	11.8%	12.8%	10.3%	13.0%

Source: Company, KRChoksey Research

Key Highlights:

Increased volume in Specialty chemical segment:

Aarti Industry's specialty chemicals volume growth was driven by sales push in non-regular market for its discretionary products. Pharma segment continues to grow its volume with demand being intact resulting in better operating leverage for the company. Overall revenue increased on account of increasing volume and greater traction from customer, based on scale-up of value-added products. Specialty chemical segment EBIT margin contracted 676 bps YoY / (up 172 bps QoQ) to 17.1% due to one-time effort to push higher volume at lower margin, while that of Pharma segment expanded 700 bps / 219 bps QoQ to 25.5%, resulting in overall EBIT margin contraction by 445 bps YoY (up 163 bps QoQ).

Operational performance impacted due to part commissioning of new unit and sales push in non-regular market:

Part Commissioning of new chlorination unit in Jhagadia resulted in higher fixed cost and sales push for discretionary segment in non-regular market at lower margin to liquidate the inventory affected the overall margin in Q2FY21. Gross profit margin contracted by 247 bps YoY / 161 bps QoQ. EBITDA was flat in Q2FY21 despite strong revenue growth, while margin contracted 403 bps YoY (up 227 bps QoQ) to 21.7%. Though interest cost declined 28.8% YoY, lower EBITDA, higher depreciation cost, higher tax rate and lower other income resulted in net profit decline of 5.0% YoY / (up 71.3% QoQ). NPM contracted 297 bps YoY / 323 bps QoQ to 12.0%.

Expansion projects and capital expenditure:

During the quarter company incurred a capex of INR 3.0 bn. Capex guidance for FY21 remains at INR 10.0-12.0 bn and is expected to be in same range for next couple of years. It has commercialized a part of the new chlorination unit at Jhagadia during the quarter and expects the other ongoing expansion projects to be commissioned progressively in H2FY21. Part commercialization has increased the fixed cost base, going forward with volume scale up it is expected to gain on operating leverage.

9.8%

Revenue CAGR over FY20 and FY22E

24.5%

EBITDA CAGR over FY20 and FY22E

Aarti Industries Ltd.

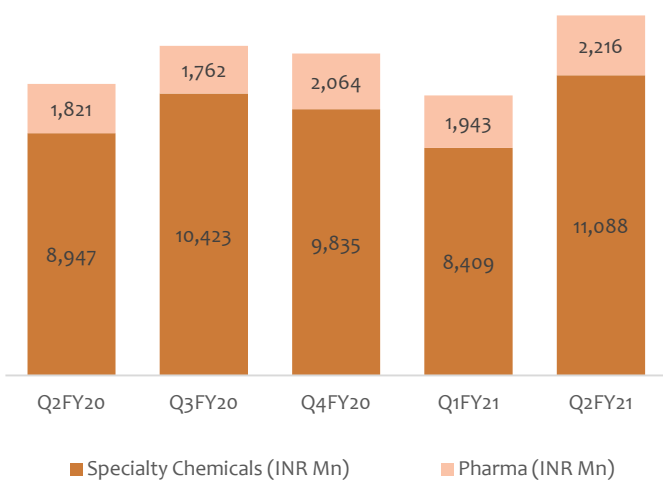
2QFY21 Concall Highlights:

(i) Production volume for NCB in 2QFY21 stood at 17,830 MT against 13,943 MT in 2QFY20, Hydrogenation was 3,040 MT/month (vs 2,003 MT/month in 2QFY20), Nitro-toluene was 4,120 MT/month while PDA was 470 TPM/Quarter. (ii) Land purchased in Gujarat (105 acres) will be utilised for both Pharma (75% of land) and Chemical(25% of land) expansion. Company has enough land bank to carry out its capex for next couple of years. (iii) Export contribution to China in Q2FY21 was at 20% in speciality chemical compared to 8% as company supplied it to non-regular market over there. (iv) Share of discretionary product in specialty chemical which was 60% in FY21 has come down a bit in H1FY21. (v) Specialty chemical are running at 80-90% of utilization level (vi) There has been structural change in Pharma margin on account of improving utilization level and better realization.

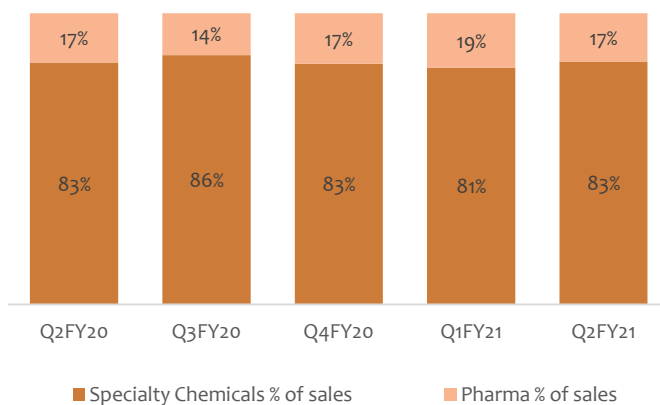
Outlook & Valuation:

We continue to remain positive on AIL in the light of greater tailwinds as against relatively few challenges (China raw material sourcing, COVID related disruption etc). The company's capex plans for both its segments, well-established backward integration facilities, focus on rising share of high-value products shows strong earnings visibility over the next 2-3 years. We have revised downwards FY21 revenue by 5.7% while revised it upwards for FY22 by 1.7%, while given the constraint of lower margin on account of newly commissioned unit we downgrade our FY21E PAT by 19.8% and upgrade FY22E PAT by 2.4% We estimate AIL to clock revenues at a CAGR of 9.8% over FY20-22E. At CMP, the shares of AIL are currently trading at 23.9x on its FY22E EPS. **We apply P/E multiple of 28.0x (earlier PE was 27.0x) on FY22E EPS of INR 45.4/share to arrive at target price of INR 1,271 per share (previous target price of INR 1,194 per share); indicating an upside of 17.2%. Accordingly, we reiterate a "BUY" rating on the shares of AIL.**

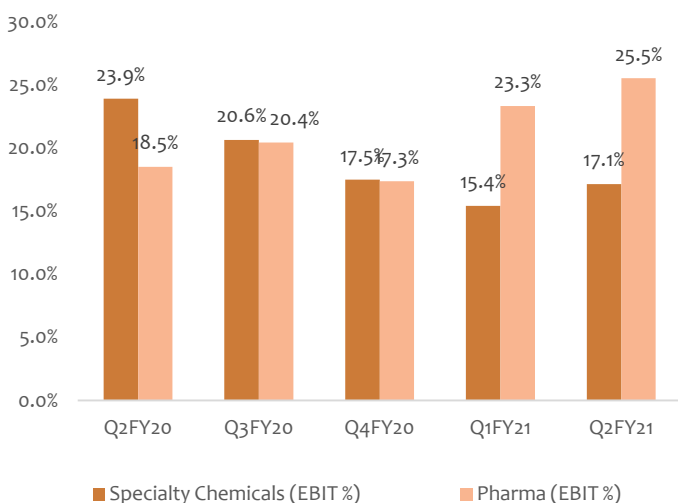
Revenue grew across both segment



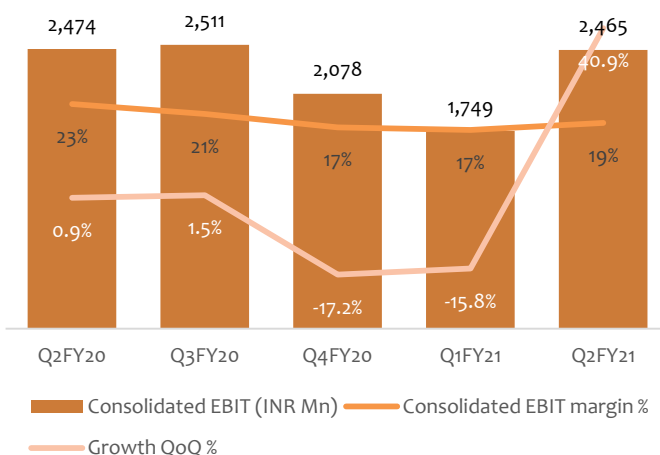
Speciality Chemical revenue contribution improved on QoQ basis



YoY improvement in Pharma margin



Consolidated EBIT grew QoQ



Source: Company, KRChoksey Research

Aarti Industries Ltd.

Income Statement

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operations	38,061	41,676	41,863	49,971	60,707
Cost of goods sold	21,815	21,566	20,563	24,341	30,087
Gross Profit	16,245	20,109	21,300	25,630	30,620
Gross Margin (%)	42.7%	48.3%	50.9%	51.3%	50.4%
Employee expense	1,901	2,428	3,052	3,748	3,946
Other expenses	7,353	8,030	8,474	10,994	11,534
Total Operating Expense	9,254	10,458	11,527	14,741	15,480
EBITDA	6,991	9,651	9,773	10,889	15,140
EBITDA Margin (%)	18.4%	23.2%	23.3%	21.8%	24.9%
Depreciation	1,462	1,627	1,852	2,517	2,877
EBIT	5,529	8,024	7,921	8,372	12,263
Finance Cost	1,317	1,825	1,248	1,831	2,212
Other Income	78	21	88	25	61
Profit before Tax (PBT)	4,290	6,220	6,762	6,619	10,111
Total Tax expense	829	1,178	1,294	1,324	2,022
Profit after Tax (PAT)	3,461	5,042	5,468	5,295	8,089
Minority Interest	132	124	107	118	182
Adj. PAT	3,330	4,917	5,361	5,134	7,907
Adj. PAT Margin (%)	8.7%	11.8%	12.8%	10.3%	13.0%
EPS Basic (INR)	19.11	28.22	30.77	29.47	45.38

Source: Company, KRChoksey Research

Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	18.4%	23.2%	23.3%	21.8%	24.9%
Tax rate (%)	19.3%	18.9%	18.5%	20.0%	20.0%
Net Profit Margin (%)	9.1%	12.1%	13.1%	10.5%	13.3%
RoE (%)	20.1%	18.1%	17.4%	14.5%	18.6%
RoCE (%)	15.7%	16.7%	16.4%	13.3%	17.5%
Current Ratio (x)	1.0	1.3	1.0	0.9	1.0
EPS (INR)	19.1	28.2	30.8	29.5	45.4

Source: Company, KRChoksey Research

Aarti Industries Ltd.

Balance Sheet

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Share Capital	407	433	871	871	871
Reserves and surplus/Others	15,378	25,872	28,917	33,541	40,663
Total Equity	15,784	26,308	29,788	34,412	41,534
Minority Interest	770	840	946	946	946
Long term borrowings	9,083	8,148	5,808	15,000	15,000
Other Financial liabilities	1,774	1,930	2,110	2,110	2,110
Other non-current liabilities	0	2,032	5,509	2,437	2,960
Total non-current liabilities	10,857	12,111	13,427	19,547	20,071
Short term borrowings	10,125	12,908	12,297	13,000	13,000
Financial Liabilities	3,575	2,793	3,452	4,335	5,358
Short term provisions	310	424	399	476	579
Other Current liabilities	1,853	3,196	3,016	3,600	4,374
Total current liabilities	15,863	19,322	19,164	21,411	23,311
SOURCES OF FUNDS	43,275	58,580	63,325	76,317	85,862
Net Block	19,975	21,463	24,681	38,915	44,037
Capital work-in-progress	4,362	7,946	14,176	14,176	14,176
Goodwill	4	4	4	4	4
Financial Assets	472	332	370	370	370
Other non-current assets	2,252	3,064	4,045	4,045	4,045
Total non-current assets	27,065	32,808	43,276	57,510	62,633
Inventories	7,473	7,718	8,357	8,002	9,892
Other Financial Assets	8,156	9,667	8,891	9,149	11,115
Cash and cash equivalents	321	8,042	2,473	1,264	1,747
Other current assets	260	344	328	392	476
Total current assets	16,209	25,771	20,049	18,807	23,229
APPLICATION OF FUNDS	43,275	58,580	63,325	76,317	85,862

Source: Company, KRChoksey Research

Cash Flow Statement

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	3,349	7,362	11,021	7,988	11,480
Net Cash Flow from/(used in) Investing Activities	(6,104)	(7,970)	(11,241)	(16,751)	(8,000)
Net Cash Flow from Financing Activities	2,791	8,329	(5,349)	7,554	(2,997)
Net Inc/Dec in cash equivalents	36	7,721	(5,569)	(1,209)	483
Opening Balance	285	321	8,042	2,473	1,264
Closing Balance Cash and Cash Equivalents	321	8,042	2,473	1,264	1,747

Source: Company, KRChoksey Research

Aarti Industries Ltd.

Aarti Industries Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
12-Nov-20	1,084	1,271	BUY	Buy	More than 15%
17-Aug-20	1,015	1,194	BUY	Accumulate	5% – 15%
15-Jun-20	869	1194	BUY	Hold	0 – 5%
27-May-20	986	1,194	BUY	Reduce	-5% – 0
14-Feb-20	972	1,194	BUY	Sell	Less than – 5%
18-Nov-19	806	977	BUY		

ANALYST CERTIFICATION:

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