

January 29, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		UNDER REVIEW	
Target Price	1,314		-	
Sales (Rs. m)	50,112	65,091	52,541	71,924
% Chng.	(4.6)	(9.5)		
EBITDA (Rs. m)	13,381	21,719	12,418	21,138
% Chng.	7.8	2.8		
EPS (Rs.)	45.8	81.9	42.5	80.9
% Chng.	7.7	1.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	39,944	43,166	50,112	65,091
EBITDA (Rs. m)	9,296	9,787	13,381	21,719
Margin (%)	23.3	22.7	26.7	33.4
PAT (Rs. m)	5,232	5,578	7,979	14,274
EPS (Rs.)	30.0	32.0	45.8	81.9
Gr. (%)	8.1	6.6	43.0	78.9
DPS (Rs.)	1.0	1.0	4.6	8.2
Yield (%)	0.1	0.1	0.4	0.7
RoE (%)	19.2	18.5	22.9	31.8
RoCE (%)	16.2	15.3	19.1	27.6
EV/Sales (x)	5.4	5.1	4.5	3.4
EV/EBITDA (x)	23.4	22.6	16.7	10.3
PE (x)	38.6	36.2	25.3	14.2
P/BV (x)	7.0	6.5	5.2	3.9

Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.1,366 / Rs.662
Sensex / Nifty	46,286 / 13,635
Market Cap	Rs.202bn/ \$ 2,769m
Shares Outstanding	174m
3M Avg. Daily Value	Rs.797.65m

Shareholding Pattern (%)

Promoter's	47.34
Foreign	9.00
Domestic Institution	14.61
Public & Others	29.06
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.6)	20.1	17.2
Relative	(2.8)	(1.2)	4.3

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Encouraging demand trend to drive growth

Quick Pointers:

- Speciality segment EBIT (incl contract cancellation of \$5mn) records first growth after five quarters.
- Pharma segment (~18% of revenues) remains a key growth driver with 54%YoY EBIT growth in Q3FY21.
- Next leg of Aarti's growth will ride on long-term contracts worth Rs110bn, which will start from H1FY22E.

We increase our FY21 estimates by 13% to factor in healthy 9M performance and FY22/23E by 8%/1%. AIL's growth trajectory is likely to improve with pickup in economic activities and recovery in discretionary spend (textiles, autos, aerospace etc; ~40% of AIL's revenues). AIL has been creating new capacities and 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 and upgrade the stock to BUY with a TP of Rs1,314 (PER of 25x FY23 core earnings vs 24x FY22 earlier).

- Results in-line with estimates:** Aarti Industries (AIL) reported healthy results with stand-alone EBIDTA and PAT of Rs2.7n (11%YoY; PLe Rs2.6bn) and Rs1.6bn (+18%YoY; PLe Rs1.5bn). EBIDTA margins for Q3 was at 23.6% (FY20 23.3%). Improving demand trend in domestic and export markets led to higher value added share to 76% vs 72% in Q2.
- Net revenues for Q3 were at Rs11.4bn (-3%YoY) which included USD5mn towards part payment of cancellation of the multi-year agro chemicals contract.
- Specialty chemicals performance improves:** Speciality chemicals segment revenues were at Rs10.3bn (+3%YoY) and EBIT was at Rs2.1bn (+2%YoY). During Q3, the speciality business operated at 90% across operationalized facilities and EBIT reported growth after five quarters.
- AIL's next leg of growth is likely to ride on start of two large multi-year contracts worth Rs110bn starting from Q1FY22E.
- Pharma performance remains the bright spot:** Pharma segment revenues were at Rs2.3bn (+32%YoY) and EBIT was at Rs553m (+54%YoY) due to continued focus in off-patented generics business in regulated markets. Major expansion of API and intermediate facilities are expected to progressively commercialize in the next 2-3 quarters to further aid growth and management expects EBIT growth of ~25% over next few years.

Exhibit 1: Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Income From Operations	11,426	11,767	(2.9)	11,261	31,736	32,819	(3.3)
Total Expenditure							
Cost of Material Consumed	4,701	5,559	(15.4)	4,847	13,786	15,969	(13.7)
Purchase of stock in trade	512	856	(40.2)	548	1,517	1,566	(3.1)
Change in inventory of FG, WIP and SIT	83	57	46.0	182	(102)	(37)	173.8
Employee Cost	875	800	9.4	905	2,648	2,179	21.5
Other Expense	2,562	2,068	23.9	2,373	7,029	5,961	17.9
Total Expenditure	8,733	9,340	(6.5)	8,854	24,877	25,637	(3.0)
EBIDTA	2,693	2,427	11.0	2,407	6,859	7,182	(4.5)
<i>% of NS</i>	23.6%	20.6%		21.4%	21.6%	21.9%	
Depreciation	554	439	26.3	518	1,560	1,265	23.3
EBIT	2,139	1,989	7.6	1,889	5,299	5,917	(10.4)
Interest	169	283	(40.2)	215	637	890	(28.4)
Other Income	18	3	603.8	0	19	102	(81.8)
PBT	1,988	1,708	16.4	1,674	4,681	5,129	(8.7)
Tax	370	340	8.8	310	885	965	(8.3)
<i>Tax rate %</i>	18.6%	19.9%		18.5%	18.9%	18.8%	
Profit After Tax	1,618	1,368	18.3	1,364	3,796	4,164	(8.8)
Extraordinary Items	-	-		-	-	-	
Net Profit (after Extraordinary Items)	1,618	1,368	18.3	1,364	3,796	2,795	35.8
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	(100.0)	-	-	3,099	(100.0)
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	(100.0)	-	-	(359)	(100.0)
Total	2,021	2,283	(11.5)	2,414	9,108	8,454	7.7

Source: Company, PL

Conference Call Highlights

- Q3 capex at Rs3.6bn and will be at ~Rs12bn by FY21E. Management expects capex runrate of Rs10-12bn over next 4-5 years.
- Over next 3 years company intends to expand capacity expansion of benzene chain, chloro toluene chain.
- Pharma segment is likely to report 18-20% sales growth and 25% EBIT growth led by new capacity expansion.
- Domestic discretionary demand back to pre-Covid levels, while for export markets it will return by Q4FY21 end.
- Exports in Q3 not impacted due to container disruption issues.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	39,944	43,166	50,112	65,091
YoY gr. (%)	(0.8)	8.1	16.1	29.9
Cost of Goods Sold	19,673	19,547	21,780	23,952
Gross Profit	20,271	23,619	28,331	41,139
Margin (%)	50.7	54.7	56.5	63.2
Employee Cost	2,923	3,339	3,876	5,035
Other Expenses	-	-	-	-
EBITDA	9,296	9,787	13,381	21,719
YoY gr. (%)	1.4	5.3	36.7	62.3
Margin (%)	23.3	22.7	26.7	33.4
Depreciation and Amortization	1,726	2,137	2,551	3,101
EBIT	7,569	7,650	10,830	18,618
Margin (%)	18.9	17.7	21.6	28.6
Net Interest	1,216	869	1,095	1,124
Other Income	105	105	116	127
Profit Before Tax	6,459	6,886	9,850	17,622
Margin (%)	16.2	16.0	19.7	27.1
Total Tax	1,227	1,308	1,872	3,348
Effective tax rate (%)	19.0	19.0	19.0	19.0
Profit after tax	5,232	5,578	7,979	14,274
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,232	5,578	7,979	14,274
YoY gr. (%)	8.7	6.6	43.0	78.9
Margin (%)	13.1	12.9	15.9	21.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,232	5,578	7,979	14,274
YoY gr. (%)	8.7	6.6	43.0	78.9
Margin (%)	13.1	12.9	15.9	21.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,232	5,578	7,979	14,274
Equity Shares O/s (m)	174	174	174	174
EPS (Rs)	30.0	32.0	45.8	81.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	36,309	41,384	51,384	61,384
Tangibles	36,309	41,384	51,384	61,384
Intangibles	-	-	-	-
Acc: Dep / Amortization	13,298	15,434	17,985	21,086
Tangibles	13,298	15,434	17,985	21,086
Intangibles	-	-	-	-
Net fixed assets	23,012	25,950	33,399	40,298
Tangibles	23,012	25,950	33,399	40,298
Intangibles	-	-	-	-
Capital Work In Progress	14,176	15,499	15,499	15,499
Goodwill	5	-	-	-
Non-Current Investments	372	356	356	356
Net Deferred tax assets	(1,890)	(2,010)	(2,207)	(2,559)
Other Non-Current Assets	3,920	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	7,815	8,196	9,816	12,751
Trade receivables	7,825	8,591	9,829	12,767
Cash & Bank Balance	2,334	2,525	110	1,721
Other Current Assets	318	329	378	435
Total Assets	60,892	62,571	70,624	85,186
Equity				
Equity Share Capital	871	871	871	871
Other Equity	28,147	30,423	37,604	50,450
Total Networkth	29,018	31,294	38,475	51,321
Non-Current Liabilities				
Long Term borrowings	5,776	10,408	10,408	10,408
Provisions	-	-	-	-
Other non current liabilities	5,509	4,211	-	-
Current Liabilities				
ST Debt / Current of LT Debt	12,114	11,212	11,772	12,361
Trade payables	3,242	3,547	3,383	3,720
Other current liabilities	3,343	3,981	4,379	4,817
Total Equity & Liabilities	60,892	66,662	70,624	85,186

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,459	6,886	9,850	17,622
Add. Depreciation	1,726	2,137	2,551	3,101
Add. Interest	1,216	869	1,095	1,124
Less Financial Other Income	105	105	116	127
Add. Other	2,707	(1,347)	75	353
Op. profit before WC changes	12,108	8,545	13,572	22,200
Net Changes-WC	547	(223)	(2,786)	(5,278)
Direct tax	(1,227)	(1,308)	(1,872)	(3,348)
Net cash from Op. activities	11,428	7,013	8,914	13,574
Capital expenditures	(11,179)	(6,395)	(9,997)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	(38)	16	-	-
Net Cash from Inv. activities	(11,217)	(6,379)	(9,997)	(10,000)
Issue of share cap. / premium	(1,608)	(3,128)	(1)	(1)
Debt changes	(2,813)	3,730	561	589
Dividend paid	(210)	(174)	(798)	(1,427)
Interest paid	(1,216)	(869)	(1,095)	(1,124)
Others	-	-	-	-
Net cash from Fin. activities	(5,846)	(442)	(1,333)	(1,963)
Net change in cash	(5,635)	192	(2,415)	1,611
Free Cash Flow	249	618	(1,083)	3,574

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	30.0	32.0	45.8	81.9
CEPS	39.9	44.3	60.4	99.7
BVPS	166.5	179.6	220.8	294.5
FCF	1.4	3.5	(6.2)	20.5
DPS	1.0	1.0	4.6	8.2
Return Ratio(%)				
RoCE	16.2	15.3	19.1	27.6
ROIC	13.8	13.1	15.5	23.0
RoE	19.2	18.5	22.9	31.8
Balance Sheet				
Net Debt : Equity (x)	0.5	0.6	0.6	0.4
Net Working Capital (Days)	113	112	118	122
Valuation(x)				
PER	38.6	36.2	25.3	14.2
P/B	7.0	6.5	5.2	3.9
P/CEPS	29.0	26.2	19.2	11.6
EV/EBITDA	23.4	22.6	16.7	10.3
EV/Sales	5.4	5.1	4.5	3.4
Dividend Yield (%)	0.1	0.1	0.4	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	10,200	9,048	11,261	11,426
YoY gr. (%)	(15.8)	(16.7)	10.5	(2.9)
Raw Material Expenses	5,250	4,328	5,577	5,296
Gross Profit	4,949	4,721	5,684	6,130
Margin (%)	48.5	52.2	50.5	53.7
EBITDA	2,114	1,759	2,407	2,693
YoY gr. (%)	(10.8)	(25.8)	0.9	11.0
Margin (%)	20.7	19.4	21.4	23.6
Depreciation / Depletion	462	488	518	554
EBIT	1,652	1,271	1,889	2,139
Margin (%)	16.2	14.1	16.8	18.7
Net Interest	326	252	215	169
Other Income	4	-	-	10
Profit before Tax	1,330	1,020	1,674	1,980
Margin (%)	13.0	11.3	14.9	17.3
Total Tax	260	205	310	370
Effective tax rate (%)	19.6	20.1	18.5	18.7
Profit after Tax	1,070	815	1,364	1,610
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,070	815	1,364	1,610
YoY gr. (%)	(14.0)	(40.7)	(4.1)	17.7
Margin (%)	10.5	9.0	12.1	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,070	815	1,364	1,610
YoY gr. (%)	(14.0)	(40.7)	(4.1)	17.7
Margin (%)	10.5	9.0	12.1	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,070	815	1,364	1,610
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-Jan-21	UR	-	1,282
2	11-Nov-20	Accumulate	1,020	1,048
3	07-Oct-20	Accumulate	1,024	1,007
4	13-Aug-20	Accumulate	1,024	1,000
5	07-Jul-20	Accumulate	1,024	930
6	15-Jun-20	Accumulate	1,024	869
7	26-May-20	Accumulate	992	1,010
8	08-Apr-20	BUY	988	855
9	13-Feb-20	BUY	1,154	972

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	UR	-	1,282
2	Bharat Petroleum Corporation	BUY	479	392
3	GAIL (India)	UR	-	133
4	Gujarat Gas	BUY	403	387
5	Hindustan Petroleum Corporation	BUY	280	223
6	Indian Oil Corporation	BUY	114	95
7	Indraprastha Gas	BUY	603	540
8	Mahanagar Gas	BUY	1,275	1,117
9	NOCIL	BUY	169	253
10	Oil & Natural Gas Corporation	BUY	114	98
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	399	260
13	Reliance Industries	BUY	2,232	2,050

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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