

Retail Equity Research (South India Focus)

# Aarti Industries Ltd

Specialty chemicals

BSE CODE : 524208

NSE CODE: AARTIIND

BLOOMBERG CODE: ARTO:IN

SENSEX : 54,647

**Buy**

12Months Investment Period

Rating as per Mid Cap

**CMP Rs.830 TARGET Rs.1,038 RETURN 25%** ↑

(Closing: 09-03-22)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

## Growth outlook intact...premium valuation to stay

AARTI Industries Ltd (ARTO) is a global leader in Benzene based derivative products. The company has a diversified product portfolio with end users in pharma, agrochemicals, specialty polymers, paints & pigments.

- 9MFY22 revenue grew by 40% YoY & PAT grew by 41% YoY, led by improved realization and volume off-take.
- 9M EBITDA margins fell by 60bps YoY to 21.2% on account higher input cost.
- Focus is on new products/import substitutes, by value addition through backward integration /forward integration.
- Going ahead, contribution from new projects starting from FY23, pass through of cost and improved performance in Pharma segment will drive earnings.
- Given expanding portfolio of value-added products, strong clientele and improving sector outlook, we continue to maintain our positive stance.
- The earnings outlook remains strong at 30% CAGR over FY21-24E and RoE of ~21% (5yr avg.). We value ARTO at P/E of 33x on FY24E and recommend to Buy, with a target price of Rs.1,038.

## Focus on value added products...

9MFY22 Revenue grew by 40% YoY, led by Specialty chemicals segment which grew by 45% & Pharma business 34% YoY. The overall revenue growth was aided by higher realization and better volumes from regulated market. While overall demand situation has improved driven by domestic demand. Capacity utilization in specialty chemicals remained at 85% across plants. While value added products share in specialty chemicals were at 71% of overall revenues. Going forward, over FY22-23, ARTO will spend Rs.1,500cr for expansion of capacities in NCB, Pharma and for two other long term projects. Supported by these expansions and strong growth in existing product portfolios, management has guided 1.7x-2.0x jump in turnover over period of FY21-FY24. Further, ARTO plans to spend Rs.3,500cr over period of FY24-27 with strategic focus on increasing value added products, downstream products, multi purpose plants for outsourcing and new range of API Pharma intermediaries, to exploit long term growth opportunities in the sector. We expect revenue to grow by 26% CAGR over FY21-24E.

## EBITDA to grow by 27% CAGR over FY21-24E...

9MFY22 EBITDA grew by 36% YoY led by improved realization and higher volumes. But margins fell by 60bps YoY to 21.2% on account of higher input cost. PAT grew by 41% YoY. Supply concerns and sharp rise in commodity prices are expected to remain elevated in the near term. But with increasing share of value added products in Specialty chemicals & Pharma and pass through of cost higher input cost, we expect gradual normalization in margins. We lower our EBITDA margin estimates by 30bps for FY22E. Consequently, to changes in estimates, our EPS estimates stand reduced by 0.4% & 2% for FY23E & FY24E. We expect PAT to grow by 30% CAGR over FY21-24E.

## Valuations

We expect commodity prices to remain elevated in the near term. However, we maintain positive stance on the stock given its focus on new products either through backward/forward integration, strong customer and improved sector outlook. We value ARTO at 33x on FY24E and recommend to Buy with target price of Rs.1,038.

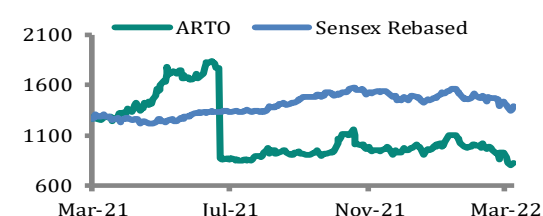
## Company Data

Market Cap (cr)	Rs.30,088
Enterprise Value (cr)	Rs.32,329
Outstanding Shares (cr)	36.3
Free Float	55.8%
Dividend Yield	0.27%
52 week high	Rs.1,168
52 week low	Rs.596
6m average volume (cr)	0.01
Beta	0.9
Face value	Rs. 5

Shareholding (%)	Q1FY22	Q2FY22	Q3FY22
Promoters	47.4	46.8	44.2
FII's	9.0	8.7	12.3
MFs/Institutions	14.6	15.6	14.5
Public	25.7	25.7	25.7
Others	3.3	3.1	3.3
Total	100.0	100.0	100.0
Promoter pledge	NIL	NIL	NIL

Price Performance	3 month	6 Month	1 Year
Absolute Return	-15.3%	-8.7%	-34.2%
Absolute Sensex	-7.1%	-6.3%	7.1%
Relative Return*	-8.2%	-2.4%	-41.3%

over or under performance to benchmark index\*



Consolidated (cr)	FY22E	FY23E	FY24E
Sales	6,343	7,727	9032
Growth (%)	41.0	22.0	17.0
EBITDA	1,309	1,661	1,996
EBITDA Margin(%)	20.6	21.5	22.1
PAT Adjusted	735	958	1,141
Growth (%)	40.4	30.3	19.1
Adjusted EPS	20.3	26.4	31.5
Growth (%)	40.4	30.3	19.1
P/E	40.9	31.4	26.4
P/B	7.0	5.8	4.8
EV/EBITDA	24.8	19.7	16.5
ROE (%)	18.9	20.2	19.8
D/E	0.6	0.5	0.4

## Quarterly Financials

### Profit & Loss

	Q3FY22	Q3FY21	YoY growth	9MFY22	9MFY21	YoY growth
<b>Sales</b>	<b>1,745</b>	<b>1,187</b>	<i>47.0</i>	<b>4,613</b>	<b>3,297</b>	<i>40.0</i>
<b>EBITDA</b>	<b>356</b>	<b>285</b>	<i>25.0</i>	<b>980</b>	<b>721</b>	<i>36.0</i>
EBITDA margins	<b>20.4</b>	<b>24.0</b>	<i>(360bps)</i>	<b>21.2</b>	<b>22.0</b>	<i>(60bps)</i>
Depreciation	72	59	22.1	211	166	27.5
<b>EBIT</b>	<b>284</b>	<b>226</b>	<i>26.0</i>	<b>768</b>	<b>556</b>	<i>38.3</i>
Interest	27	17	56.0	84	65	29.2
Other Income	1	-	-	1	1	-
Exceptional Items	-	-	-	-	-	-
<b>PBT</b>	<b>258</b>	<b>209</b>	<i>23.0</i>	<b>685</b>	<b>492</b>	<i>39.4</i>
Tax	52	40	29.2	139	96	45.0
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
<b>Reported PAT</b>	<b>206</b>	<b>165</b>	<i>24.3</i>	<b>546</b>	<b>387</b>	<i>41.1</i>
Adjustments	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>206</b>	<b>165</b>	<i>24.3</i>	<b>546</b>	<b>387</b>	<i>41.1</i>
No. of Shares	<b>8.7</b>	<b>8.7</b>	-	<b>8.7</b>	<b>8.7</b>	-
<b>EPS (Rs)</b>	<b>5.7</b>	<b>4.6</b>	<i>24.3</i>	<b>15.1</b>	<b>10.7</b>	<i>41.1</i>

### Change in Estimates

Year / Rs cr	Old estimates			New estimates			Change %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,105	7,707	8,939	6,343	7,727	9,032	3.9	0.3	1.0
EBITDA	1,276	1,657	1,976	1,309	1,661	1,996	2.6	0.3	1.0
Margins (%)	20.9	21.5	22.1	20.6	21.5	22.1	<i>(30bps)</i>	-	-
Adj. PAT	713	962	1,163	735	958	1,141	3.1	<i>(0.4)</i>	<i>(1.9)</i>
EPS	19.7	26.5	32.1	20.3	26.4	31.5	3.1	<i>(0.4)</i>	<i>(1.9)</i>

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales</b>	<b>4,267</b>	<b>4,506</b>	<b>6,343</b>	<b>7,727</b>	<b>9,032</b>
% change	2.4	5.6	40.8	21.8	16.9
<b>EBITDA</b>	<b>1,058</b>	<b>982</b>	<b>1,309</b>	<b>1,661</b>	<b>1,996</b>
% change	9.7	-7.3	33.3	26.9	20.1
Depreciation	185	231	286	339	423
EBIT	873	750	1,023	1,322	1,573
Interest	125	86	111	126	131
Other Income	9	1	1	1	2
<b>PBT</b>	<b>757</b>	<b>665</b>	<b>913</b>	<b>1,197</b>	<b>1,444</b>
% change	21.7	-12.2	37.4	31.2	20.6
Tax	129	129	178	239	303
Tax Rate (%)	17.1	19.5	19.5	20.0	21.0
<b>Reported PAT</b>	<b>560</b>	<b>523</b>	<b>735</b>	<b>958</b>	<b>1,141</b>
Adj.*	0	0	0	0	0
<b>Adj. PAT</b>	<b>560</b>	<b>523</b>	<b>735</b>	<b>958</b>	<b>1,141</b>
% change	13.8	-6.5	40.4	30.3	19.1
No. of shares (cr)	17.4	17.4	36.3	36.3	36.3
<b>Adj EPS (Rs)</b>	<b>15.4</b>	<b>14.4</b>	<b>20.3</b>	<b>26.4</b>	<b>31.5</b>
% change	13.8	-6.5	40.4	30.3	19.1
DPS (Rs)	6.1	2.6	1.2	1.2	1.2
CEPS (Rs)	42.8	43.3	28.2	35.8	43.1

### BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	247	412	318	(99)	(210)
Accounts Receivable	753	794	1,112	1,355	1,584
Inventories	836	936	1,401	1,719	1,983
Other Cur. Assets	573	546	695	720	841
Investments	37	64	64	64	64
Gross Fixed Assets	3,796	5,115	6,315	7,815	9,115
Net Fixed Assets	2,468	3,592	4,507	5,668	6,544
CWIP	1,418	1,298	730	600	500
Intangible Assets	9	1	1	1	1
Def. Tax (Net)	(211)	(234)	(234)	(234)	(234)
Other Assets	-	0	-	-	-
<b>Total Assets</b>	<b>6,121</b>	<b>7,408</b>	<b>8,593</b>	<b>9,793</b>	<b>11,072</b>
Current Liabilities	647	1,136	1,536	1,830	2,021
Provisions	40	40	61	74	87
Debt Funds	2,361	2,717	2,697	2,677	2,657
Other Liabilities	95	12	12	12	12
Equity Capital	87	87	181	181	181
Reserves & Surplus	2,892	3,416	4,106	5,018	6,114
Shareholder's Fund	2,979	3,503	4,287	5,200	6,295
<b>Total Liabilities</b>	<b>6,121</b>	<b>7,408</b>	<b>8,593</b>	<b>9,793</b>	<b>11,072</b>
BVPS	171	201	118	143	174

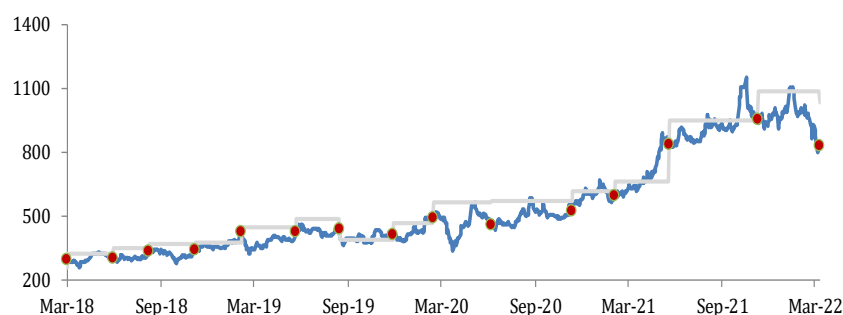
### CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	813	767	1021	1297	1564
Non-cash adj.	80	113	111	126	131
Changes in W.C	290	(7)	(512)	(279)	(410)
<b>C.F. Operation</b>	<b>1,183</b>	<b>873</b>	<b>620</b>	<b>1,145</b>	<b>1,284</b>
Capital exp.	(1,126)	(1,314)	(632)	(1,370)	(1,200)
Change in inv.	1	(8)	-	-	-
Other invest.CF	-	-	-	-	-
<b>C.F - Investment</b>	<b>(1,124)</b>	<b>(1,322)</b>	<b>(632)</b>	<b>(1,370)</b>	<b>(1,200)</b>
Issue of equity	-	-	941	-	-
Issue/repay debt	(428)	660	(131)	(146)	(151)
Dividends paid	(106)	(45)	(45)	(45)	(45)
Other finance.CF	-	-	-	-	-
<b>C.F - Finance</b>	<b>(535)</b>	<b>614</b>	<b>(82)</b>	<b>(191)</b>	<b>(196)</b>
Chg. in cash	(476)	165	(94)	(417)	(112)
Closing cash	328	493	318	(99)	(210)

### RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	24.8	21.8	20.6	21.5	22.1
EBIT margin (%)	20.5	16.6	16.1	17.1	17.4
Net profit mgn.(%)	13.1	11.6	11.6	12.4	12.6
ROE (%)	20.0	16.2	18.9	20.2	19.8
ROCE (%)	12.2	9.8	12.2	14.3	14.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	65.4	62.7	54.8	58.3	59.4
Inventory (days)	142.7	151.9	129.3	140.6	144.7
Payables (days)	110.6	152.9	147.8	151.7	150.5
Current ratio (x)	3.5	2.3	2.2	1.9	2.0
Quick ratio (x)	1.5	1.0	0.7	0.7	0.8
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.2	1.0	1.1	1.1	1.1
Total asset T.O (x)	0.7	0.7	0.8	0.8	0.9
Int. covge. ratio (x)	7.0	8.7	9.2	10.5	12.0
Adj. debt/equity (x)	0.9	0.9	0.6	0.5	0.4
<b>Valuation</b>					
EV/Sales (x)	7.5	7.2	5.1	4.2	3.6
EV/EBITDA (x)	30.4	32.9	24.8	19.7	16.5
P/E (x)	53.8	57.5	40.9	31.4	26.4
P/BV (x)	4.9	4.1	7.0	5.8	4.8

## Recommendation summary (3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
1-March-2018	Accumulate	656
30-May-2018	Buy	698
08-August-2018	Accumulate	747
06-November-2018	Accumulate	755
06-February-19	Hold	894
23-May-19	Buy	975
16-August-19	Reduce	786
28-November-2019	Accumulate	933
17-February-2020	Accumulate	1,133
08-June-2020	Buy	1,151
12-November-2020	Accumulate	1,232
04-February-2021	Accumulate	1,333
21-May-2021	Accumulate	1,902
10-November-2021	Accumulate	1,091
10-March-2022	Buy	1,038

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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