

August 16, 2022

Q1FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	880		880	
Sales (Rs. m)	76,035	87,951	76,035	87,951
% Chng.	-	-	-	-
EBITDA (Rs. m)	15,645	19,172	15,645	19,172
% Chng.	-	-	-	-
EPS (Rs.)	24.0	29.7	24.0	29.7
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	45,061	70,000	76,035	87,951
EBITDA (Rs. m)	9,815	19,288	15,645	19,172
Margin (%)	21.8	27.6	20.6	21.8
PAT (Rs. m)	5,235	6,962	8,699	10,760
EPS (Rs.)	30.0	19.2	24.0	29.7
Gr. (%)	(2.4)	(36.1)	25.0	23.7
DPS (Rs.)	1.5	1.8	1.2	1.5
Yield (%)	0.2	0.2	0.1	0.2
RoE (%)	16.2	14.8	13.8	15.1
RoCE (%)	13.1	22.1	13.5	14.6
EV/Sales (x)	3.8	4.6	4.3	3.8
EV/EBITDA (x)	17.3	16.8	20.9	17.4
PE (x)	27.7	43.3	34.7	28.0
P/BV (x)	4.1	5.1	4.5	4.0

Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.1,168 / Rs.669
Sensex / Nifty	59,842 / 17,825
Market Cap	Rs.302bn/ \$ 3,800m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.658.07m

Shareholding Pattern (%)

Promoter's	44.19
Foreign	12.46
Domestic Institution	14.89
Public & Others	28.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.3	(15.4)	(11.2)
Relative	2.6	(17.8)	(17.7)

Nitesh Dhoot

niteshdhoot@plindia.com | 91-22-66322260

Capacity ramp-up to drive growth

Quick Pointers:

- Nitric acid based products volume impacted on continuing shortage of nitric acid (key RM) in Q1. Concentration capacity of 225-250 TPD being set up to mitigate supply shortfall; also evaluating a comprehensive nitric acid strategy.
- New block of US-FDA approved API plant at Tarapur commercialized in Q2. Other expansion projects on track (third long-term contract, NCB capacity expansion). Capex guidance for FY23-24 at ~Rs 30bn.

Q1FY23 Revenue/ EBITDA/ PAT growth of 50%/18%/15% YoY led by higher realizations (cost pass through) and volumes (+15-20% YoY). Ramp-up of recently commissioned plants, Jhagadia chlorination capacity and Dahej phase 2 unit to drive specialty chemicals revenue while pharma revenue to be driven by higher volumes from regulated markets, value-added products and new intermediate products. Upcoming projects to aid penetration in key therapies (anti-hypertension, cardio-vascular, oncology, corticosteroids).

We expect healthy revenue/ EBITDA/ PAT CAGR of 18%/21%/24% (adj for termination fees) over FY22-24E, on rising capacity utilization (high capex intensity of Rs 45-50 bn over FY22-24E focused on value added derivatives) import substitution, rising domestic demand and China +1 strategy. Maintain 'Accumulate' rating with TP of Rs 880 (19x FY24E EV/EBITDA).

- Healthy Q1FY23 performance, despite challenges:** Consolidated net revenue +50% YoY/ +12.3% QoQ to Rs 19.7 bn led by improvement in realizations (cost inflation pass through) and additional volume from newer capacities. Spec chem gross revenue was up 44% YoY/ 8% QoQ to Rs 17.7 bn on higher volumes and better product mix (value added products at 74% vs 70% QoQ) while Pharmaceutical gross revenue was up 48% YoY/ 5% QoQ to Rs 4.08 bn on higher demand from generic pharma and xanthine business. Gross margin - 940bps YoY/ -320bps QoQ at 44.3% on higher RM costs (benzene at Rs 94/lt (from Rs 77/lt QoQ) while sulphur at Rs 37/kg (vs Rs27kg QoQ). EBITDA +18% YoY/ +9% QoQ to Rs 3.7 bn (+31% YoY, adjusted for shortfall fee income for Q1FY22); EBITDA margin at 18.7% (-510 bps YoY / -60 bps QoQ). EBIT margin for pharma at 18.7% (-30bps YoY/ +150bps QoQ) while that for spec chem was 14.2% (-470bps YoY/ -90bps QoQ).
- Concall takeaways:** (1) Production of NCB was 20,515 mt in Q1FY23 (vs 19,550 mt QoQ), hydrogenated products was 3,295 tpm (vs 3,029 tpm QoQ), nitro toluene was 5,252 (5155 tons QoQ) (2) Inflationary trends led to slowdown in end user industries viz. textiles and FMCG (3) Both first and second long term contracts ramped up in Q1. For first contract, capacity utilization was ~25% in Q1, expect ~50% in H2FY23 and ~70-80% by FY24. (4) Nitric acid concentration plant expected to commercialize plant by FY24 end (outlay Rs 1.5-2 bn for this plant). (5) Two observations from USFDA audit of Dombivli API unit in Jun'22, which will be addressed soon to avail EIR (6) NCLT hearing for demerger of pharma business was concluded on 01st Aug'22 and management expects the order shortly.

Exhibit 1: Q1FY23 Result Overview (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.	FY22	FY21	YoY gr.
Net Revenue	19,720	13,168	49.8%	17,556	12.3%	70,000	45,061	55.3%
Material Cost	10,981	6,101	80.0%	9,218	19.1%	32,938	21,286	54.7%
Gross Profit	8,739	7,067	23.7%	8,338	4.8%	37,061	23,775	55.9%
<i>Gross Margin (%)</i>	<i>44.3%</i>	<i>53.7%</i>		<i>47.5%</i>		<i>52.9%</i>	<i>52.8%</i>	
Employee expenses	1,214	995	22.0%	1,201	1.1%	4,421	3,714	19.0%
Other operating expenses	3,832	2,934	30.6%	3,747	2.3%	13,353	10,246	30.3%
EBITDA	3,693	3,138	17.7%	3,391	8.9%	19,288	9,815	96.5%
<i>EBITDA margin (%)</i>	<i>18.7%</i>	<i>23.8%</i>		<i>19.3%</i>		<i>27.6%</i>	<i>21.8%</i>	
Depreciation	865	686	26.1%	772	12.0%	2,885	2,313	24.7%
EBIT	2,828	2,452	15.3%	2,619	8.0%	16,403	7,502	118.6%
Other income	4	1	660.0%	2	123.5%	8	7	14.3%
Interest cost	498	383	30.1%	306	62.7%	1,143	864	32.3%
PBT	2,334	2,070	12.8%	2,314	0.8%	15,268	6,646	129.7%
Tax	443	419	5.7%	377	17.6%	2,194	1,293	69.6%
Sh of ass. / Minority int	0	-2	-100.0%	0	-100.0%	-1	-118	-99.2%
PAT	1,891	1,649	14.7%	1,938	-2.4%	13,073	5,235	149.7%
Extra ordinary income/ (exp.)	0	0		0		6,110	0	
Adjusted PAT	1,891	1,649	14.7%	1,938	-2.4%	6,963	5,235	33.0%
<i>Adj. PAT margin (%)</i>	<i>9.6%</i>	<i>12.5%</i>		<i>11.0%</i>		<i>9.9%</i>	<i>11.6%</i>	
No. of shares (mn)	363	363	0.0%	363	0.0%	363	174	108.0%
Adj. EPS (Rs.)	5.2	4.5	14.7%	5.3	-2.4%	19.2	30.0	-36.1%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	45,061	70,000	76,035	87,951
YoY gr. (%)	7.6	55.3	8.6	15.7
Cost of Goods Sold	21,286	32,938	40,013	45,296
Gross Profit	23,775	37,061	36,022	42,655
Margin (%)	52.8	52.9	47.4	48.5
Employee Cost	3,714	4,421	5,170	5,893
Other Expenses	10,246	13,353	15,207	17,590
EBITDA	9,815	19,288	15,645	19,172
YoY gr. (%)	0.4	96.5	(18.9)	22.5
Margin (%)	21.8	27.6	20.6	21.8
Depreciation and Amortization	2,313	2,885	3,577	4,416
EBIT	7,502	16,403	12,067	14,755
Margin (%)	16.6	23.4	15.9	16.8
Net Interest	864	1,143	1,188	1,331
Other Income	7	8	8	8
Profit Before Tax	6,646	15,268	10,887	13,432
Margin (%)	14.7	21.8	14.3	15.3
Total Tax	1,293	2,194	2,069	2,552
Effective tax rate (%)	19.5	14.4	19.0	19.0
Profit after tax	5,352	13,074	8,819	10,880
Minority interest	118	2	120	120
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,235	6,962	8,699	10,760
YoY gr. (%)	(2.4)	33.0	24.9	23.7
Margin (%)	11.6	9.9	11.4	12.2
Extra Ord. Income / (Exp)	-	6,110	-	-
Reported PAT	5,235	13,072	8,699	10,760
YoY gr. (%)	(2.4)	149.7	(33.5)	23.7
Margin (%)	11.6	18.7	11.4	12.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,235	13,072	8,699	10,760
Equity Shares O/s (m)	174	363	362	362
EPS (Rs)	30.0	19.2	24.0	29.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	51,481	62,617	77,523	95,523
Tangibles	51,366	62,503	77,409	95,409
Intangibles	114	114	114	114
Acc: Dep / Amortization	15,555	18,440	22,017	26,434
Tangibles	15,441	18,326	21,903	26,320
Intangibles	114	114	114	114
Net fixed assets	35,926	44,177	55,506	69,089
Tangibles	35,926	44,177	55,506	69,089
Intangibles	-	-	-	-
Capital Work In Progress	12,979	14,904	15,000	15,000
Goodwill	-	-	-	-
Non-Current Investments	3,836	4,908	4,908	4,908
Net Deferred tax assets	(2,339)	(2,502)	(2,502)	(2,502)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	9,357	14,113	14,999	17,349
Trade receivables	7,937	13,905	14,165	15,903
Cash & Bank Balance	4,123	2,568	2,481	658
Other Current Assets	384	482	523	605
Total Assets	76,417	96,726	1,09,394	1,25,610
Equity				
Equity Share Capital	871	1,813	1,812	1,812
Other Equity	34,158	57,332	64,861	74,349
Total Networkth	35,029	59,145	66,674	76,162
Non-Current Liabilities				
Long Term borrowings	16,198	12,821	12,517	15,517
Provisions	-	-	-	-
Other non current liabilities	2,244	2,400	2,400	2,400
Current Liabilities				
ST Debt / Current of LT Debt	12,241	12,872	14,582	16,530
Trade payables	5,763	4,901	8,333	9,638
Other current liabilities	2,480	2,079	2,259	2,613
Total Equity & Liabilities	76,417	96,728	1,09,394	1,25,610

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	6,646	15,268	10,887	13,432
Add. Depreciation	2,313	2,885	3,577	4,416
Add. Interest	864	1,143	1,188	1,331
Less Financial Other Income	7	8	8	8
Add. Other	(57)	(61)	(8)	(8)
Op. profit before WC changes	9,766	19,235	15,645	19,172
Net Changes-WC	(72)	(11,858)	1,661	(2,970)
Direct tax	(966)	(2,670)	(1,449)	(2,377)
Net cash from Op. activities	8,727	4,708	15,856	13,825
Capital expenditures	(13,144)	(13,061)	(15,000)	(18,000)
Interest / Dividend Income	0	1	8	8
Others	(78)	5	-	-
Net Cash from Invt. activities	(13,221)	(13,055)	(14,992)	(17,992)
Issue of share cap. / premium	-	11,867	0	-
Debt changes	7,459	(2,663)	1,406	4,948
Dividend paid	(451)	(1,269)	(435)	(538)
Interest paid	(864)	(1,143)	(1,188)	(1,331)
Others	-	-	(734)	(734)
Net cash from Fin. activities	6,145	6,792	(951)	2,345
Net change in cash	1,650	(1,555)	(88)	(1,823)
Free Cash Flow	(4,421)	(8,358)	856	(4,175)

Source: Company Data, PL Research

Key Financial Metrics

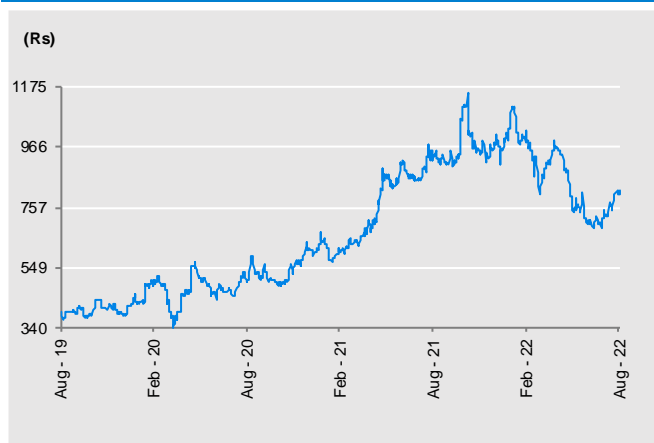
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	30.0	19.2	24.0	29.7
CEPS	43.3	27.2	33.9	41.9
BVPS	201.0	163.2	183.9	210.1
FCF	(25.4)	(23.1)	2.4	(11.5)
DPS	1.5	1.8	1.2	1.5
Return Ratio(%)				
RoCE	13.1	22.1	13.5	14.6
ROIC	11.2	19.8	11.3	12.0
RoE	16.2	14.8	13.8	15.1
Balance Sheet				
Net Debt : Equity (x)	0.7	0.4	0.4	0.4
Net Working Capital (Days)	93	121	100	98
Valuation(x)				
PER	27.7	43.3	34.7	28.0
P/B	4.1	5.1	4.5	4.0
P/CEPS	19.2	30.6	24.6	19.9
EV/EBITDA	17.3	16.8	20.9	17.4
EV/Sales	3.8	4.6	4.3	3.8
Dividend Yield (%)	0.2	0.2	0.1	0.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	15,516	23,760	17,556	19,720
YoY gr. (%)	32.3	100.2	45.2	49.8
Raw Material Expenses	8,220	9,400	9,218	10,981
Gross Profit	7,296	14,360	8,338	8,739
Margin (%)	47.0	60.4	47.5	44.3
EBITDA	3,098	9,661	3,391	3,693
YoY gr. (%)	21.8	239.0	30.3	17.7
Margin (%)	20.0	40.7	19.3	18.7
Depreciation / Depletion	711	716	772	865
EBIT	2,387	8,945	2,619	2,828
Margin (%)	15.4	37.6	14.9	14.3
Net Interest	185	269	306	498
Other Income	5	1	2	4
Profit before Tax	2,208	8,676	2,314	2,334
Margin (%)	14.2	36.5	13.2	11.8
Total Tax	447	951	377	443
Effective tax rate (%)	20.2	11.0	16.3	19.0
Profit after Tax	1,761	7,725	1,938	1,891
Minority interest	(1)	(1)	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,761	1,616	1,938	1,891
YoY gr. (%)	25.6	(2.2)	42.4	14.7
Margin (%)	11.4	6.8	11.0	9.6
Extra Ord. Income / (Exp)	-	6,110	-	-
Reported PAT	1,761	7,726	1,938	1,891
YoY gr. (%)	25.6	367.5	42.4	14.7
Margin (%)	11.4	32.5	11.0	9.6
Other Comprehensive Income	-	230	(4)	(208)
Total Comprehensive Income	1,761	7,956	1,934	1,683
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	4.9	4.5	5.3	5.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-22	Accumulate	880	685
2	04-Jun-22	Accumulate	880	721
3	08-Apr-22	Hold	1,040	970

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	880	685
2	Fine Organic Industries	Hold	6,200	6,515
3	NOCIL	Accumulate	300	273

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Nitesh Dhoot- B.Com (Hons), MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Nitesh Dhoot- B.Com (Hons), MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com