

November 16, 2022

## Q2FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

Rating	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Target Price	775		880	
Sales (Rs. m)	75,388	87,727	88,035	1,00,863
% Chng.	(14.4)	(13.0)		
EBITDA (Rs. m)	13,723	17,104	19,188	22,683
% Chng.	(28.5)	(24.6)		
EPS (Rs.)	18.0	23.5	29.7	34.9
% Chng.	(39.6)	(32.8)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	70,000	64,787	75,388	87,727
EBITDA (Rs. m)	19,288	11,102	13,723	17,104
Margin (%)	27.6	17.1	18.2	19.5
PAT (Rs. m)	6,962	5,298	6,508	8,503
EPS (Rs.)	19.2	14.6	18.0	23.5
Gr. (%)	(36.1)	(23.9)	22.8	30.6
DPS (Rs.)	2.0	0.7	0.9	1.2
Yield (%)	0.3	0.1	0.1	0.2
RoE (%)	14.8	9.8	12.8	15.0
RoCE (%)	22.1	9.8	11.3	12.8
EV/Sales (x)	4.0	4.4	3.9	3.4
EV/EBITDA (x)	14.5	25.7	21.6	17.2
PE (x)	36.8	48.3	39.3	30.1
P/BV (x)	4.3	5.3	4.8	4.3

FY22 financials include pharma business, while FY23E-FY25E is adjusted for pharma business demerger

### Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.976 / Rs.584
Sensex / Nifty	61,873 / 18,403
Market Cap	Rs.256bn / \$ 3,155m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.693.74m

### Shareholding Pattern (%)

Promoter's	44.16
Foreign	12.11
Domestic Institution	15.04
Public & Others	28.68
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.6	7.6	(16.1)
Relative	(3.0)	(8.2)	(17.6)

### Nitesh Dhoot

niteshdhoot@plindia.com | 91-22-66322260

### Nitin Raheja

nitinraheja@plindia.com |

## Muted demand suppresses profitability

### Quick Pointers:

- Healthy demand from essentials (agro/ pharma), while that from dyes and pigments continued to be weak; maintenance shutdown undertaken during this lean period at Jhagadia unit (for ~3 weeks)
- Expansion projects on track (third long-term contract, NCB), to commence production in phases and full benefit to accrue from FY24. H1FY23 capex at Rs 5.8bn; capex guidance for FY23-24 at ~Rs 25-30bn (Rs11-12bn for FY23).
- No nitric acid shortage in Q2 given slower demand/ production. Concentration capacity of 225-250 TPD being set up (by Q4FY24); also evaluating a comprehensive nitric acid strategy.

**Q2FY23 Revenue/ EBITDA/ PAT growth of 34%/5%/-17% YoY largely led by higher realizations (cost pass through). Ramp-up of recently commissioned plants, Jhagadia chlorination capacity and Dahej phase 2 unit to drive specialty chemicals revenue. We expect healthy EBITDA & PAT CAGR of 24%/27% over FY23-25E (EBITDA for FY23E at Rs11bn, H1FY23 at Rs5.5bn), on rising capacity utilization (high capex intensity of Rs 25-30 bn over FY23-24E focused on value added derivatives, import substitution, rising domestic demand and China +1. Maintain 'Accumulate' rating with TP of Rs 775 (33x FY25E EPS, adjusted for demerger of pharma business).**

- Q2FY23 impacted by weak demand/ plant shutdown:** Consolidated net revenue at Rs16.9bn (+34% YoY/ +5% QoQ) led by improvement in realizations (cost inflation pass through). Gross margin at 42% (-531bps YoY/ -53bps) QoQ on higher RM costs. EBITDA at Rs2.7bn (+5% YoY/ -5% QoQ; +31% YoY adjusted for shortfall fee income of Rs520mn for Q2FY22); EBITDA margin at 15.8% (-445 bps YoY / -164 bps QoQ). Increase in export revenue coupled with better product mix (value added products at 78% vs 74% QoQ) helped maintain EBITDA. PAT at Rs1.24bn (-17%YoY/ -8%QoQ) was lower on increase in depreciation (+27% YoY/+2% QoQ) on new plant commissioning and increase in finance cost (+203% YoY/-2% QoQ). Net debt increased to Rs25.4bn vs Rs20.3bn (net Debt/ EBITDA at 2x vs 1.3x in FY22). Core working capital increased to 100days (vs 91days in FY22).
- Concall takeaways:** (1) Production of NCB was 20,276 mt in Q2 (vs 20,515mt QoQ), hydrogenated products was 2,558 tpm (vs 3,295 tpm QoQ), nitro toluene was 4,954mt (vs 5,252mt). Production levels lower due to maintenance shutdown (2) External environment continues to be challenging given elevated RM and utility costs, demand slowdown in discretionary end user industries, forex fluctuations etc. (3) Demand expected to start recovering from Q4, as indicated by customers (particularly dyestuffs), while costs are moderating (4) For first contract, capacity utilization was ~25% in Q1, expect ~70% by FY24. (5) Ethylation brownfield capex of Rs2bn to expand capacity to 3x (vs current ~8-10k tpa) (6) 50+ products in R&D pipeline at at various stages to help accelerate performance (7) Reduction in working capital seen given reduction in prices (8) Capex intensity will not slow down given long term visibility.

**Exhibit 1: Q2FY23 Result Overview (Rs mn)**

Y/e March	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.	H1FY23	H1FY22	YoY gr.
<b>Net Revenue</b>	<b>16,850</b>	<b>12,559</b>	<b>34.2%</b>	<b>16,103</b>	<b>4.6%</b>	<b>32,953</b>	<b>25,726</b>	<b>28.1%</b>
Material Cost	9,781	6,623	47.7%	9,262	5.6%	19,043	12,724	49.7%
<b>Gross Profit</b>	<b>7,069</b>	<b>5,935</b>	<b>19.1%</b>	<b>6,841</b>	<b>3.3%</b>	<b>13,910</b>	<b>13,002</b>	<b>7.0%</b>
<i>Gross Margin (%)</i>	<i>42.0%</i>	<i>47.3%</i>		<i>42.5%</i>		<i>42.2%</i>	<i>50.5%</i>	
Employee expenses	928	731	27.0%	910	2.0%	1,838	1,726	6.5%
Other operating expenses	3,471	2,656	30.7%	3,116	11.4%	6,586	5,590	17.8%
<b>EBITDA</b>	<b>2,670</b>	<b>2,549</b>	<b>4.8%</b>	<b>2,815</b>	<b>-5.1%</b>	<b>5,485</b>	<b>5,687</b>	<b>-3.5%</b>
<i>EBITDA margin (%)</i>	<i>15.8%</i>	<i>20.3%</i>		<i>17.5%</i>		<i>16.6%</i>	<i>22.1%</i>	
Depreciation	729	574	27.0%	718	1.6%	1,446	1,260	14.8%
<b>EBIT</b>	<b>1,941</b>	<b>1,975</b>	<b>-1.7%</b>	<b>2,098</b>	<b>-7.5%</b>	<b>4,039</b>	<b>4,427</b>	<b>-8.8%</b>
Other income	0	5	-96.1%	4	-94.7%	4	6	-28.6%
Interest cost	437	145	202.6%	445	-1.8%	883	527	67.3%
<b>PBT</b>	<b>1,504</b>	<b>1,835</b>	<b>-18.0%</b>	<b>1,656</b>	<b>-9.2%</b>	<b>3,160</b>	<b>3,905</b>	<b>-19.1%</b>
Tax	259	336	-22.8%	301	-13.8%	560	755	-25.8%
Sh of ass. / Minority int	0	1	-100.0%	0		0	-2	-100.0%
<b>PAT</b>	<b>1,245</b>	<b>1,500</b>	<b>-17.0%</b>	<b>1,355</b>	<b>-8.2%</b>	<b>2,600</b>	<b>3,149</b>	<b>-17.4%</b>
Extra ordinary income/ (exp.)	0	0		0		0	0	
<b>Adjusted PAT</b>	<b>1,245</b>	<b>1,500</b>	<b>-17.0%</b>	<b>1,355</b>	<b>-8.2%</b>	<b>2,600</b>	<b>3,149</b>	<b>-17.4%</b>
<i>Adj. PAT margin (%)</i>	<i>7.4%</i>	<i>11.9%</i>		<i>8.4%</i>		<i>7.9%</i>	<i>12.2%</i>	
No. of shares (mn)	363	363	0.0%	363	0.0%	363	363	0.0%
<b>Adj. EPS (Rs.)</b>	<b>3.4</b>	<b>4.1</b>	<b>-17.0%</b>	<b>3.7</b>	<b>-8.2%</b>	<b>7.2</b>	<b>8.7</b>	<b>-17.4%</b>

Source: Company, PL

H1 financials are not comparable as pharma business demerger is wef 1st July'21

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>70,000</b>	<b>64,787</b>	<b>75,388</b>	<b>87,727</b>
YoY gr. (%)	55.3	(7.4)	16.4	16.4
Cost of Goods Sold	32,938	36,646	42,139	47,814
Gross Profit	37,061	28,140	33,249	39,913
Margin (%)	52.9	43.4	44.1	45.5
Employee Cost	4,421	4,082	4,825	5,702
Other Expenses	13,353	12,957	14,701	17,107
<b>EBITDA</b>	<b>19,288</b>	<b>11,102</b>	<b>13,723</b>	<b>17,104</b>
YoY gr. (%)	96.5	(42.4)	23.6	24.6
Margin (%)	27.6	17.1	18.2	19.5
Depreciation and Amortization	2,885	2,972	3,692	4,292
<b>EBIT</b>	<b>16,403</b>	<b>8,129</b>	<b>10,031</b>	<b>12,811</b>
Margin (%)	23.4	12.5	13.3	14.6
Net Interest	1,143	1,597	1,904	2,191
Other Income	8	8	8	8
<b>Profit Before Tax</b>	<b>15,268</b>	<b>6,541</b>	<b>8,135</b>	<b>10,629</b>
Margin (%)	21.8	10.1	10.8	12.1
Total Tax	2,194	1,243	1,627	2,126
Effective tax rate (%)	14.4	19.0	20.0	20.0
<b>Profit after tax</b>	<b>13,074</b>	<b>5,298</b>	<b>6,508</b>	<b>8,503</b>
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>6,962</b>	<b>5,298</b>	<b>6,508</b>	<b>8,503</b>
YoY gr. (%)	33.0	(23.9)	22.8	30.6
Margin (%)	9.9	8.2	8.6	9.7
Extra Ord. Income / (Exp)	6,110	-	-	-
<b>Reported PAT</b>	<b>13,072</b>	<b>5,298</b>	<b>6,508</b>	<b>8,503</b>
YoY gr. (%)	149.7	(59.5)	22.8	30.6
Margin (%)	18.7	8.2	8.6	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,072	5,298	6,508	8,503
<b>Equity Shares O/s (m)</b>	<b>363</b>	<b>363</b>	<b>363</b>	<b>363</b>
<b>EPS (Rs)</b>	<b>19.2</b>	<b>14.6</b>	<b>18.0</b>	<b>23.5</b>

Source: Company Data, PL Research

FY22 financials include pharma business, while FY23E-FY25E is adjusted for pharma business demerger

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>62,645</b>	<b>62,086</b>	<b>77,086</b>	<b>91,086</b>
Tangibles	62,528	61,969	76,969	90,969
Intangibles	116	116	116	116
<b>Acc: Dep / Amortization</b>	<b>18,465</b>	<b>17,826</b>	<b>21,518</b>	<b>25,810</b>
Tangibles	18,351	17,712	21,404	25,696
Intangibles	114	114	114	114
<b>Net fixed assets</b>	<b>44,179</b>	<b>44,260</b>	<b>55,568</b>	<b>65,275</b>
Tangibles	44,177	44,258	55,566	65,274
Intangibles	2	2	2	2
Capital Work In Progress	14,904	13,000	14,000	5,000
Goodwill	-	-	-	-
Non-Current Investments	4,908	4,783	4,783	4,783
Net Deferred tax assets	(2,502)	(2,000)	(2,000)	(2,000)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	14,113	8,875	10,327	12,017
Trade receivables	13,905	11,537	13,425	15,623
Cash & Bank Balance	2,568	2,140	3,416	4,504
Other Current Assets	482	446	519	603
<b>Total Assets</b>	<b>96,728</b>	<b>89,478</b>	<b>1,07,201</b>	<b>1,13,814</b>
<b>Equity</b>				
Equity Share Capital	1,813	1,813	1,813	1,813
Other Equity	57,332	46,841	51,500	58,053
<b>Total Networkth</b>	<b>59,145</b>	<b>48,653</b>	<b>53,312</b>	<b>59,866</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	12,907	12,603	15,603	19,603
Provisions	-	-	-	-
Other non current liabilities	2,400	2,200	2,200	2,200
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	12,872	19,330	28,627	23,794
Trade payables	4,901	2,840	3,305	3,846
Other current liabilities	1,994	1,845	2,147	2,499
<b>Total Equity &amp; Liabilities</b>	<b>96,728</b>	<b>89,478</b>	<b>1,07,201</b>	<b>1,13,814</b>

Source: Company Data, PL Research

FY22 financials include pharma business, while FY23E-FY25E is adjusted for pharma business demerger

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	15,268	6,541	8,135	10,629
Add. Depreciation	2,885	2,972	3,692	4,292
Add. Interest	1,143	1,597	1,904	2,191
Less Financial Other Income	8	8	8	8
Add. Other	(61)	(8)	(8)	(8)
Op. profit before WC changes	19,235	11,102	13,723	17,104
Net Changes-WC	(11,858)	(1,310)	(3,528)	(4,107)
Direct tax	(2,670)	(926)	(1,471)	(1,944)
<b>Net cash from Op. activities</b>	<b>4,708</b>	<b>8,866</b>	<b>8,724</b>	<b>11,053</b>
Capital expenditures	(13,061)	(12,000)	(16,000)	(5,000)
Interest / Dividend Income	1	8	8	8
Others	5	114	-	-
<b>Net Cash from Invt. activities</b>	<b>(13,055)</b>	<b>(11,878)</b>	<b>(15,992)</b>	<b>(4,992)</b>
Issue of share cap. / premium	11,867	0	-	-
Debt changes	(2,663)	6,153	12,297	(832)
Dividend paid	(1,269)	(265)	(325)	(425)
Interest paid	(1,143)	(1,597)	(1,904)	(2,191)
Others	16	(1,724)	(1,524)	(1,524)
<b>Net cash from Fin. activities</b>	<b>6,808</b>	<b>2,567</b>	<b>8,544</b>	<b>(4,972)</b>
<b>Net change in cash</b>	<b>(1,539)</b>	<b>(445)</b>	<b>1,275</b>	<b>1,088</b>
Free Cash Flow	(8,358)	(3,134)	(7,276)	6,053

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>23,760</b>	<b>17,556</b>	<b>16,103</b>	<b>16,850</b>
YoY gr. (%)	100.2	45.2	22.3	34.2
Raw Material Expenses	9,400	9,218	9,262	9,781
Gross Profit	14,360	8,338	6,841	7,069
Margin (%)	60.4	47.5	42.5	42.0
<b>EBITDA</b>	<b>9,661</b>	<b>3,391</b>	<b>2,815</b>	<b>2,670</b>
YoY gr. (%)	239.0	30.3	(10.3)	4.8
Margin (%)	40.7	19.3	17.5	15.8
Depreciation / Depletion	716	772	718	729
<b>EBIT</b>	<b>8,945</b>	<b>2,619</b>	<b>2,098</b>	<b>1,941</b>
Margin (%)	37.6	14.9	13.0	11.5
Net Interest	269	306	445	437
Other Income	1	2	4	-
<b>Profit before Tax</b>	<b>8,676</b>	<b>2,314</b>	<b>1,656</b>	<b>1,504</b>
Margin (%)	36.5	13.2	10.3	8.9
Total Tax	951	377	301	259
Effective tax rate (%)	11.0	16.3	18.2	17.2
<b>Profit after Tax</b>	<b>7,725</b>	<b>1,938</b>	<b>1,355</b>	<b>1,245</b>
Minority interest	(1)	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,616</b>	<b>1,938</b>	<b>1,355</b>	<b>1,245</b>
YoY gr. (%)	(2.2)	42.4	(17.8)	(17.0)
Margin (%)	6.8	11.0	8.4	7.4
Extra Ord. Income / (Exp)	6,110	-	-	-
<b>Reported PAT</b>	<b>7,726</b>	<b>1,938</b>	<b>1,355</b>	<b>1,245</b>
YoY gr. (%)	367.5	42.4	(17.8)	(17.0)
Margin (%)	32.5	11.0	8.4	7.4
Other Comprehensive Income	230	(4)	(205)	(139)
<b>Total Comprehensive Income</b>	<b>7,956</b>	<b>1,934</b>	<b>1,150</b>	<b>1,106</b>
Avg. Shares O/s (m)	363	363	363	363
<b>EPS (Rs)</b>	<b>4.5</b>	<b>5.3</b>	<b>3.7</b>	<b>3.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	19.2	14.6	18.0	23.5
CEPS	27.2	22.8	28.1	35.3
BVPS	163.2	134.2	147.1	165.1
FCF	(23.1)	(8.6)	(20.1)	16.7
DPS	2.0	0.7	0.9	1.2
<b>Return Ratio(%)</b>				
RoCE	22.1	9.8	11.3	12.8
ROIC	19.8	8.2	9.3	10.6
RoE	14.8	9.8	12.8	15.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.6	0.8	0.6
Net Working Capital (Days)	121	99	99	99
<b>Valuation(x)</b>				
PER	36.8	48.3	39.3	30.1
P/B	4.3	5.3	4.8	4.3
P/CEPS	26.0	30.9	25.1	20.0
EV/EBITDA	14.5	25.7	21.6	17.2
EV/Sales	4.0	4.4	3.9	3.4
Dividend Yield (%)	0.3	0.1	0.1	0.2

Source: Company Data, PL Research

FY22 financials include pharma business, while FY23E-FY25E is adjusted for pharma business demerger

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Accumulate	880	774
2	17-Aug-22	Accumulate	880	832
3	06-Jul-22	Accumulate	880	685
4	04-Jun-22	Accumulate	880	721
5	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	774
2	Fine Organic Industries	Accumulate	7,000	6,200
3	Jubilant Ingrevia	BUY	860	534
4	Laxmi Organic Industries	Hold	335	299
5	NOCIL	Accumulate	275	232

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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