

August 9, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	495		550	
Sales (Rs. m)	72,562	81,113	75,728	86,683
% Chng.	(4.2)	(6.4)		
EBITDA (Rs. m)	12,269	14,958	12,500	15,667
% Chng.	(1.8)	(4.5)		
EPS (Rs.)	14.7	17.7	15.1	19.0
% Chng.	(2.7)	(7.1)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	60,855	66,186	72,562	81,113
EBITDA (Rs. m)	17,201	10,890	12,269	14,958
Margin (%)	28.3	16.5	16.9	18.4
PAT (Rs. m)	5,747	5,452	5,323	6,407
EPS (Rs.)	15.9	15.0	14.7	17.7
Gr. (%)	(47.2)	(5.1)	(2.4)	20.3
DPS (Rs.)	2.0	0.8	0.7	0.9
Yield (%)	0.4	0.2	0.2	0.2
RoE (%)	14.3	11.6	10.4	11.6
RoCE (%)	21.9	10.5	10.0	10.6
EV/Sales (x)	3.2	3.0	2.9	2.7
EV/EBITDA (x)	11.4	18.2	17.1	14.5
PE (x)	29.9	31.5	32.2	26.8
P/BV (x)	3.8	3.5	3.3	3.0

Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.807 / Rs.445
Sensex / Nifty	65,996 / 19,633
Market Cap	Rs.172bn/ \$ 2,071m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.725.85m

Shareholding Pattern (%)

Promoter's	43.65
Foreign	12.17
Domestic Institution	14.83
Public & Others	29.33
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.2	(12.5)	(32.5)
Relative	(0.9)	(19.3)	(39.8)

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Aarti Industries (ARTO IN)

Rating: HOLD | CMP: Rs473 | TP: Rs495

Headwinds persist, H2FY24 to see recovery

Quick Pointers:

- Subdued demand across user industries led to sluggish performance.
- Exports impacted at larger extent, expect recovery only in H2FY24

We revise our FY24/FY25 EPS estimates downwards by 3%/7% on account of muted outlook due to subdued demand, lower capacity utilization across business segments and higher cost pressures. Stretched balance sheet leads to cautious view in short term. We believe recovery to be seen post H2FY24, with higher capacity utilization of its products, increasing contribution from LT- contracts and volume growth from newer projects. The stock currently trades at ~37x TTM P/E, we value the stock at 28x P/E on FY25E EPS of Rs 17.7 and arrive at TP of Rs 495. Maintain Hold.

- Sluggish performance, led by challenges in key industries:** Consolidated net revenue dropped 12%/14.6% YoY & QoQ to Rs 14.1 bn led by drop in realizations. QoQ basis, exports impacted significantly (realization driven) while domestic sales were flat. Gross margin stood at 39.7% down -300bps YoY/ -200bps QoQ due to lag in full pass through of higher costs. EBITDA declined -28% YoY/ -19.5% QoQ to Rs 2.0 bn; while margins stood at 14.3% vs 17.5% in Q1FY23 led by lower utilization of key products, demand weakness in key user industries etc.
- Higher depreciation expenses dragged bottom-line:** PAT dropped 48%/52% YoY & QoQ to Rs 0.7bn while margins stood at 5% vs +8% each in Q1 & Q4FY23. The drop in bottom-line was led by lower operating profit coupled with higher depreciation YoY & QoQ.
- H2FY24 to see recovery:** As per management, recovery is expected only in H2FY24, while industries such as dyes, pigments and textiles to post strong growth post FY24E.
- Concall takeaways:** (1) Production volumes of NCB stood at 17,293 MT in Q1FY24 (vs 20,515 YoY), hydrogenated products were 2868 TPM (3295 TPM YoY), Nitro toluene at 9327 MT (vs 5252MT YoY) while PDA volumes were at 135 TPM vs (375 TPM YoY) (2) Volumes to grow at ~10% in FY24E, lower due to exports being majorly hit (3) 1st long-term contract – a Diacamba intermediate impacted significantly while second long-term project to grow with absolute EBITDA growth. (4). For the quarter, Rs 26 bn capex was spent, while capex of Rs 25-30bn to be spent over FY24-25E (5). Pigments as a sector seems to have bottomed out post Q1FY24 (6) Exports share to overall topline stands at 70%, with deemed/indirect exports at 20%. (7) Gross debt at Rs 34bn, while Net debt at Rs 26.5bn in the quarter (8) Company completed expansion of NCB in the quarter (9) QoQ basis, topline dropped on account of subdued exports (27% drop QoQ) (10) RM price pass through with a lag of month in domestic business, while, for export, pass through done in a quarter (11) Chlorotoluene facility of 42,000 MTPA to be commercialized in FY25E, capex invested – Rs 15bn (12) Despite heavy capex, Net Debt/Equity to be maintained at 0.6-0.7x.

Exhibit 1: Q1FY24 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.	FY23	FY22	YoY gr.
Net Revenue	14,140	16,103	-12.2%	16,550	-14.6%	66,186	60,855	8.8%
Material Cost	8,530	9,262	-7.9%	9,620	-11.3%	38,417	28,545	34.6%
Gross Profit	5,610	6,841	-18.0%	6,930	-19.0%	27,769	32,311	-14.1%
<i>Gross Margin (%)</i>	<i>39.7%</i>	<i>42.5%</i>		<i>41.9%</i>		<i>42.0%</i>	<i>53.1%</i>	
Employee expenses	1,010	910	11.0%	1,090	-7.3%	3,853	3,570	7.9%
Other operating expenses	2,580	3,116	-17.2%	3,330	-22.5%	13,026	11,540	12.9%
EBITDA	2,020	2,815	-28.2%	2,510	-19.5%	10,890	17,201	-36.7%
<i>EBITDA margin (%)</i>	<i>14.3%</i>	<i>17.5%</i>		<i>15.2%</i>		<i>16.5%</i>	<i>28.3%</i>	
Depreciation	890	718	24.0%	840	6.0%	3,105	2,464	26.0%
EBIT	1,130	2,098	-46.1%	1,670	-32.3%	7,786	14,737	-47.2%
Other income	0	4	-100.0%	0		8	8	5.2%
Interest cost	400	445	-10.2%	330	21.2%	1,683	1,023	64.4%
PBT	730	1,656	-55.9%	1,340	-45.5%	6,111	13,721	-55.5%
Tax	20	301	-93.3%	(140)	-114.3%	659	1,863	-64.6%
Sh of ass. / Minority int	0	0		0		0	(1)	-100.0%
<i>Share of Associate Profit</i>	<i>0</i>	<i>0</i>		<i>0</i>		<i>0</i>	<i>(1)</i>	<i>-100.0%</i>
<i>Minority interests</i>	<i>0</i>	<i>0</i>		<i>0</i>		<i>0</i>	<i>0</i>	
PAT	710	1,355	-47.6%	1,480	-52.0%	5,452	11,859	-54.0%
Extra ordinary income/ (exp.)	0	0		0		0	0	
Adjusted PAT	710	1,355	-47.6%	1,480	-52.0%	5,452	5,748	-5.1%
<i>Adj. PAT margin (%)</i>	<i>5.0%</i>	<i>8.4%</i>		<i>8.9%</i>		<i>8.2%</i>	<i>9.4%</i>	
No. of shares (mn)	363	363	0.0%	363	0.0%	363	363	0.0%
Adj. EPS (Rs.)	2.0	3.7	-47.6%	4.1	-52.0%	15.0	15.9	-5.1%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	60,855	66,186	72,562	81,113
YoY gr. (%)	35.1	8.8	9.6	11.8
Cost of Goods Sold	28,545	38,417	42,203	45,528
Gross Profit	32,311	27,769	30,359	35,584
Margin (%)	53.1	42.0	41.8	43.9
Employee Cost	3,570	3,853	4,426	5,272
Other Expenses	11,540	13,026	13,663	15,355
EBITDA	17,201	10,890	12,269	14,958
YoY gr. (%)	75.2	(36.7)	12.7	21.9
Margin (%)	28.3	16.5	16.9	18.4
Depreciation and Amortization	2,464	3,105	3,672	4,357
EBIT	14,737	7,786	8,597	10,600
Margin (%)	24.2	11.8	11.8	13.1
Net Interest	1,023	1,683	2,192	2,699
Other Income	8	8	8	8
Profit Before Tax	13,721	6,111	6,414	7,909
Margin (%)	22.5	9.2	8.8	9.8
Total Tax	1,863	659	1,090	1,503
Effective tax rate (%)	13.6	10.8	17.0	19.0
Profit after tax	11,859	5,452	5,323	6,407
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,747	5,452	5,323	6,407
YoY gr. (%)	9.8	(5.1)	(2.4)	20.3
Margin (%)	9.4	8.2	7.3	7.9
Extra Ord. Income / (Exp)	6,110	-	-	-
Reported PAT	11,857	5,452	5,323	6,407
YoY gr. (%)	126.5	(54.0)	(2.4)	20.3
Margin (%)	19.5	8.2	7.3	7.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,857	5,452	5,323	6,407
Equity Shares O/s (m)	363	363	363	363
EPS (Rs)	15.9	15.0	14.7	17.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	50,177	62,551	73,441	97,441
Tangibles	50,172	62,531	73,421	97,421
Intangibles	5	19	19	19
Acc: Dep / Amortization	13,970	14,244	17,916	22,274
Tangibles	13,966	14,240	17,911	22,269
Intangibles	5	5	5	5
Net fixed assets	35,947	48,609	55,828	75,470
Tangibles	35,947	48,595	55,813	75,456
Intangibles	-	15	15	15
Capital Work In Progress	13,460	10,962	15,072	6,072
Goodwill	-	-	-	-
Non-Current Investments	1,835	1,117	1,117	1,117
Net Deferred tax assets	277	528	528	528
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	9,341	10,311	11,304	11,111
Trade receivables	10,915	9,405	11,928	13,334
Cash & Bank Balance	1,736	2,008	3,698	2,724
Other Current Assets	923	1,061	1,163	1,300
Total Assets	78,507	85,809	1,02,620	1,13,873
Equity				
Equity Share Capital	1,813	1,813	1,813	1,813
Other Equity	43,347	47,388	50,922	55,484
Total Networth	45,160	49,201	52,734	57,296
Non-Current Liabilities				
Long Term borrowings	9,299	6,347	15,000	20,000
Provisions	-	-	-	-
Other non current liabilities	2,385	2,421	2,421	2,421
Current Liabilities				
ST Debt / Current of LT Debt	16,381	22,393	26,958	28,001
Trade payables	3,449	4,049	3,976	4,445
Other current liabilities	1,827	1,390	1,524	1,704
Total Equity & Liabilities	78,507	85,809	1,02,620	1,13,873

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	13,721	6,110	6,414	7,909
Add. Depreciation	2,464	3,105	3,672	4,357
Add. Interest	1,023	1,683	2,192	2,699
Less Financial Other Income	8	8	8	8
Add. Other	(9)	(8)	(8)	(8)
Op. profit before WC changes	17,200	10,889	12,269	14,958
Net Changes-WC	(9,554)	3,118	(3,761)	(974)
Direct tax	(2,458)	(909)	(1,062)	(1,464)
Net cash from Op. activities	5,188	13,098	7,447	12,519
Capital expenditures	(11,650)	(13,263)	(15,000)	(15,000)
Interest / Dividend Income	-	-	8	8
Others	(44)	(35)	-	-
Net Cash from Invt. activities	(11,694)	(13,298)	(14,992)	(14,992)
Issue of share cap. / premium	11,867	-	-	-
Debt changes	(5,455)	3,061	13,218	6,042
Dividend paid	(1,269)	(906)	(266)	(320)
Interest paid	(1,023)	(1,683)	(2,192)	(2,699)
Others	-	-	(1,524)	(1,524)
Net cash from Fin. activities	4,119	472	9,236	1,499
Net change in cash	(2,387)	271	1,691	(974)
Free Cash Flow	(6,467)	(165)	(7,553)	(2,481)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	15.9	15.0	14.7	17.7
CEPS	22.6	23.6	24.8	29.7
BVPS	124.6	135.7	145.5	158.1
FCF	(17.8)	(0.5)	(20.8)	(6.8)
DPS	2.0	0.8	0.7	0.9
Return Ratio(%)				
RoCE	21.9	10.5	10.0	10.6
ROIC	19.8	9.6	8.5	8.9
RoE	14.3	11.6	10.4	11.6
Balance Sheet				
Net Debt : Equity (x)	0.5	0.5	0.7	0.8
Net Working Capital (Days)	101	86	97	90
Valuation(x)				
PER	29.9	31.5	32.2	26.8
P/B	3.8	3.5	3.3	3.0
P/CEPS	20.9	20.0	19.1	15.9
EV/EBITDA	11.4	18.2	17.1	14.5
EV/Sales	3.2	3.0	2.9	2.7
Dividend Yield (%)	0.4	0.2	0.2	0.2

Source: Company Data, PL Research

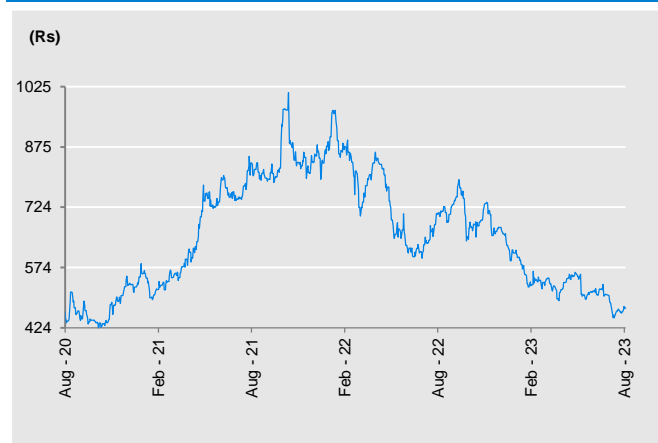
Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	16,850	16,677	16,550	14,140
YoY gr. (%)	34.2	(19.7)	15.3	(12.2)
Raw Material Expenses	9,781	9,757	9,620	8,530
Gross Profit	7,069	6,920	6,930	5,610
Margin (%)	42.0	41.5	41.9	39.7
EBITDA	2,670	2,887	2,510	2,020
YoY gr. (%)	4.8	(67.6)	(3.5)	(28.2)
Margin (%)	15.8	17.3	15.2	14.3
Depreciation / Depletion	729	821	840	890
EBIT	1,941	2,066	1,670	1,130
Margin (%)	11.5	12.4	10.1	8.0
Net Interest	437	470	330	400
Other Income	-	3	-	-
Profit before Tax	1,504	1,599	1,340	730
Margin (%)	8.9	9.6	8.1	5.2
Total Tax	259	234	(140)	20
Effective tax rate (%)	17.2	14.6	(10.4)	2.7
Profit after Tax	1,245	1,365	1,480	710
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,245	1,365	1,480	710
YoY gr. (%)	(17.0)	(81.2)	3.5	(47.6)
Margin (%)	7.4	8.2	8.9	5.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,245	1,365	1,480	710
YoY gr. (%)	(17.0)	(81.2)	3.5	(47.6)
Margin (%)	7.4	8.2	8.9	5.0
Other Comprehensive Income	(139)	(85)	(70)	(70)
Total Comprehensive Income	1,106	1,281	1,410	640
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	3.4	3.8	4.1	2.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-May-23	Hold	550	557
2	13-Apr-23	Accumulate	660	547
3	07-Feb-23	Accumulate	660	565
4	05-Jan-23	Accumulate	775	608
5	16-Nov-22	Accumulate	775	706
6	06-Oct-22	Accumulate	880	774
7	17-Aug-22	Accumulate	880	832

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharti Airtel	Accumulate	935	890
2	Clean Science and Technology	Hold	1,206	1,298
3	Deepak Nitrite	Reduce	1,803	2,092
4	Gujarat Gas	Accumulate	516	455
5	Gujarat State Petronet	BUY	327	276
6	Hindustan Petroleum Corporation	Hold	264	276
7	Mahanagar Gas	Hold	1,056	1,056
8	NOCIL	Hold	230	228

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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