

# Aarti Industries

## Challenging times

We maintain our BUY recommendation on Aarti Industries (AIL), with a target price of INR 619/share. AIL's constant focus on Capex and R&D will enable it to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment. EBITDA/APAT were 20/21% below our estimates, owing to a 10% fall in revenue and higher-than-expected raw material cost, offset by lower-than-expected other expenses, finance cost and tax outgo.

- **Financial performance:** Revenue fell 12% YoY to INR 14bn, on account of a decline in volumes, a decline in realisations owing to a reduction in prices of key raw materials and margin contraction due to excess supply from China. Commitments with reference to long-term contracts and demand for a few products with end-use in additives are continuing to gain traction. EBITDA fell 28% YoY to INR 2bn while EBITDA margin fell by 320bps YoY to 14% in Q1, owing to lower capacity utilisations across products and reduced realisations. APAT fell 48% YoY to INR 0.7bn.
- **Con call takeaways:** (1) Demand weakness is continued in products with end-use industries such as dyes and pigments, agrochemicals, auto, etc. With the impact being deep, the recovery is expected to gradually come from H2FY24. (2) The company commercialised the expanded NCB capacity. (3) The company commercialised a renewable power generation unit with a capacity of 13MW, in partnership with Renew Power. (4) It has guided for INR 30bn Capex over FY24-25.
- **Change in estimates:** We cut our FY24/25 EPS estimates by 52.5/20.3% to INR 8.4/19.6/sh, to factor in the slowdown in the end-user industries, reduced realisations owing to Chinese dumping of goods at aggressive prices, and management guidance in Q1FY24.
- **DCF-based valuation:** Our target price is INR 619 (WACC 11%, terminal growth 4%). The stock is currently trading at 24x FY25E EPS.

### Financial summary (consolidated)

INR mn	Q1 FY24	Q4 FY23	QoQ (%)	Q1 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	14,140	16,550	(14.6)	16,103	(12.2)	60,855	66,186	59,735	70,265	78,697
EBITDA	2,020	2,510	(19.5)	2,815	(28.2)	17,201	10,890	9,239	14,352	17,792
APAT	710	1,490	(52.3)	1,355	(47.6)	11,857	5,452	3,040	7,096	9,722
AEPS (INR)	2.0	4.1	(52.3)	3.7	(47.6)	32.7	15.0	8.4	19.6	26.8
P/E (x)						14.5	31.5	56.5	24.2	17.7
EV/EBITDA(x)						11.4	18.2	22.2	14.7	11.8
RoE (%)						29.6	11.6	6.0	13.0	15.8

Source: Company, HSIE Research

### Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	12,929	9,239	(28.5)	17,315	14,352	(17.1)
Adj. EPS (INR/sh)	17.7	8.4	(52.5)	24.6	19.6	(20.3)

Source: Company, HSIE Research

## BUY

CMP (as on 09 Aug 2023)	INR 474
Target Price	INR 619
NIFTY	19,633

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 726	INR 619
EPS %	FY24E	FY25E
	-52.5%	-20.3%

### KEY STOCK DATA

Bloomberg code	ARTO IN
No. of Shares (mn)	363
MCap (INR bn) / (\$ mn)	172/2,097
6m avg traded value (INR mn)	565
52 Week high / low	INR 807/445

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(15.1)	(12.5)	(32.5)
Relative (%)	(21.9)	(21.0)	(44.6)

### SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	44.07	43.65
FIs & Local MFs	14.77	14.86
FPIs	12.32	12.17
Public & Others	28.84	29.32
Pledged Shares	0.00	0.00

Source: BSE

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