Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

November 7, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		HOLD	
Target Price	584		472	
Sales (Rs.m)	70,008	76,819	70,008	78,147
% Chng.	-	*(1.7)*		
EBITDA (Rs.m)	11,941	14,220	12,023	14,877
% Chng.	*(0.7)*	*(4.4)*		
EPS (Rs.)	15.5	18.4	15.2	16.9
% Chng.	*1.9*	*9.1*		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	66,186	70,008	76,819	84,072
EBITDA (Rs. m)	10,890	11,941	14,220	16,191
Margin (%)	*16.5*	*17.1*	*18.5*	*19.3*
PAT (Rs. m)	5,452	5,620	6,672	7,557
EPS (Rs.)	15.0	15.5	18.4	20.8
Gr. (%)	*(5.1)*	*3.1*	*18.7*	*13.3*
DPS (Rs.)	0.8	0.8	0.9	1.0
Yield (%)	*0.1*	*0.2*	*0.2*	*0.2*
RoE (%)	*11.6*	*11.0*	*12.0*	*12.5*
RoCE (%)	*10.5*	*9.8*	*10.3*	*10.6*
EV/Sales (x)	3.2	3.1	2.9	2.7
EV/EBITDA (x)	19.4	18.4	15.7	13.9
PE (x)	33.9	32.9	27.7	24.5
P/BV (x)	3.8	3.5	3.2	2.9

Key Data	ARTI.BO | ARTO IN
52-W High / Low	Rs.745 / Rs.438
Sensex / Nifty	64,959 / 19,412
Market Cap	Rs.185bn/ $ 2,222m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.698.34m

Shareholding Pattern (%)

Promoter's	43.65
Foreign	10.58
Domestic Institution	16.14
Public & Others	29.73
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.4	(6.3)	(30.5)
Relative	6.0	(12.0)	(34.8)

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Aarti Industries (ARTO IN)

Rating: ACCUMULATE | CMP: Rs510 | TP: Rs584

Sequential growth to continue

Quick Pointers:

- QoQ recovery seen due to growth in exports.
- CY25 to see volume bounce back across core segments.

We upward revise our FY24/FY25E EPS estimates by 2%/9%, post factoring in growth from discretionary segments. Aarti Industries (ARTO) consolidated net topline dropped 14% YoY to Rs 14.5 bn led by drop in realizations. Topline improved 3% QoQ driven by higher exports (27% YoY). Domestic sales impacted significantly (realization driven), while export revenues dropped 8% YoY in Q2FY24. Gross margin stood at 41.3% down ~100bps YoY due to lag in full pass through of higher costs, however sequentially improved by 250bps. For FY24E, management maintained muted outlook on account of subdued demand and lower capacity utilization across business segments.

We expect recovery to be seen post H2FY24 with 1) higher capacity utilization of its products, 2) increasing contribution from LT- contracts and 3) volume growth from newer projects. The stock currently trades at ~35x TTM P/E, we value the stock at 28x P/E on FY26E EPS of Rs 20.8 and arrive at TP of Rs 584 (earlier Rs 472). Upgrade to 'ACCUMULATE'.

- **Sluggish performance YoY**: EBITDA dropped -12% YoY; however, was up 16% QoQ to Rs 2.3bn in Q2FY24. EBITDA margins stood at 16.1% vs 15.8% in Q2FY23 led by lower operating expenses.
- PAT dropped 26% YoY, but was up 30% QoQ to Rs 920mn in the quarter. QQ performance was on account of better operational performance, further aided by lower tax provisions and accrual of deferred tax assets. PAT margins stood at 6.3% vs 7.4%/5.0% in Q2FY23/Q1FY24. Drop in bottom-line YoY was led by higher depreciation costs & interest costs.
- Interest costs for Q2FY24 stood higher on account of revaluation loss of about Rs 120mn wrt upheld long term loans.
- **For H1FY24, topline dropped 13% YoY to Rs 28.7 bn,** while EBITDA dropped to Rs 4.36bn and EBITDA margins to 15.2%. PAT stood at Rs 1.63bn and margins were at 5.7% vs 7.9% in the same period.
- **H2FY24 to see recovery**: As per management, recovery is expected only in H2FY24 with industries such as dyes, pigments and textiles recovering sequentially.
- **Concall takeaways: (1)** Production volumes of NCB stood at 19,014 MT vs 17,293 MT in Q1FY24 (vs 20,276 YoY), hydrogenated products were 1036/2868 TPM in Q2FY24/Q1FY24 vs (2558 TPM YoY), Nitro toluene at 7560/9320 MT in Q2/Q1FY24 (vs 4954 MT YoY) while PDA volumes were at 316 TPM vs (375 TPM YoY) **(2)** Exports witnessed recovery, management expects growth to be sustained going ahead **(3)** Other expenses higher YoY led by power & freight costs in the quarter. **(4**). For H1FY24, Rs 5.8 bn capex was spent, while capex of Rs 12-13bn to be spent in FY24E (**5).** Dyes,

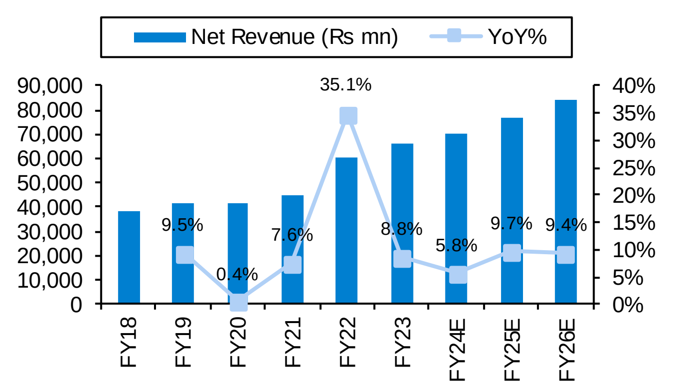
pigments, polymers saw sequential recovery in Q2FY24, agrochemicals to witness slow recovery **(6)** Management is confident of achieving volume growth in CY25 led by inventory correction **(7)** Net debt to stand at Rs 27bn, while cash and equivalents stood at Rs 4 bn in the quarter **(8)** **(9)** QoQ basis, topline improved primarily on account of higher exports (up 27% QoQ) **(10)** Despite heavy capex, Net Debt/Equity to be maintained at 0.6-0.7x. **(11)** Ethylation & Nitrotoluene facility to be commissioned in Q1FY25. **(12)** Company commissioned phase-1 of scale-up of acid unit revamp. **(13)** company's 25-35% of product portfolio is impacted by Chinese competition in Q2FY24 **(14)** export share to topline to be 40-50% going ahead (15) Management expects Rs 14-16 bn EBITDA for FY25E

Exhibit 1: Q2FY24 Result Overview - Consolidated (Rs mn)

Y/e March	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
Net Revenue	**14,540**	**16,850**	***-13.7%***	**14,140**	***2.8%***	**28,680**	**32,953**	***-13.0%***
Material Cost	8,540	9,781	*-12.7%*	8,530	*0.1%*	17,070	19,043	*-10.4%*
Gross Profit	6,000	7,069	*-15.1%*	5,610	*7.0%*	11,610	13,910	*-16.5%*
Gross Margin (%)	*41.3%*	*42.0%*		*39.7%*		*40.5%*	*42.2%*	
Employee expenses	990	928	*6.6%*	1,010	*-2.0%*	2,000	1,838	*8.8%*
Other operating expenses	2,670	3,471	*-23.1%*	2,580	*3.5%*	5,250	6,586	*-20.3%*
EBITDA	**2,340**	**2,670**	***-12.4%***	**2,020**	***15.8%***	**4,360**	**5,485**	***-20.5%***
EBITDA margin (%)	*16.1%*	*15.8%*		*14.3%*		*15.2%*	*16.6%*	
Depreciation	930	729	*27.6%*	890	*4.5%*	1,820	1,446	*25.8%*
EBIT	**1,410**	**1,941**	***-27.4%***	**1,130**	***24.8%***	**2,540**	**4,039**	***-37.1%***
Other income	0	0	*-100.0%*	0		0	4	*-100.0%*
Interest cost	580	437	*32.6%*	400	*45.0%*	980	883	*11.0%*
PBT	**830**	**1,504**	***-44.8%***	**730**	***13.7%***	**1,560**	**3,160**	***-50.6%***
Tax	(90)	259	*-134.7%*	20	*-550.0%*	(70)	560	*-112.5%*
Sh of ass. / Minority int	0	0		0		0	(1)	*-100.0%*
PAT	**920**	**1,245**	***-26.1%***	**710**	***29.6%***	**1,630**	**2,600**	***-37.3%***
Extra ordinary income/ (exp.)	0	0		0		0	0	
Adjusted PAT	**920**	**1,245**	***-26.1%***	**710**	***29.6%***	**1,630**	**2,600**	***-37.3%***
Adj. PAT margin (%)	*6.3%*	*7.4%*		*5.0%*		*5.7%*	*7.9%*	
No. of shares (mn)	363	363		363		363	363	
Adj. EPS (Rs.)	**2.5**	**3.4**	***-26.1%***	**2.0**	***29.6%***	**4.5**	**7.2**	***-37.3%***

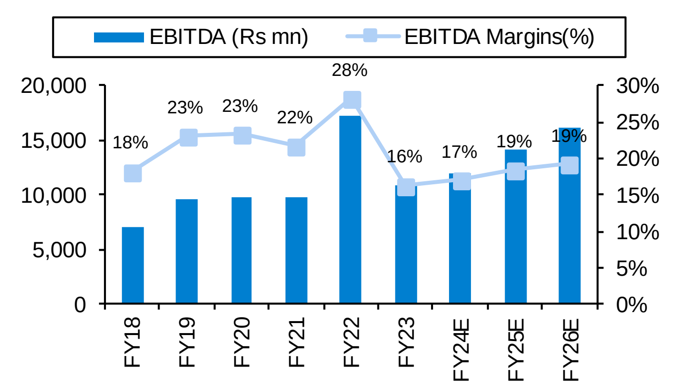
Source: Company, PL

Exhibit 2: Revenue to grow at CAGR of 8% over FY23-FY26



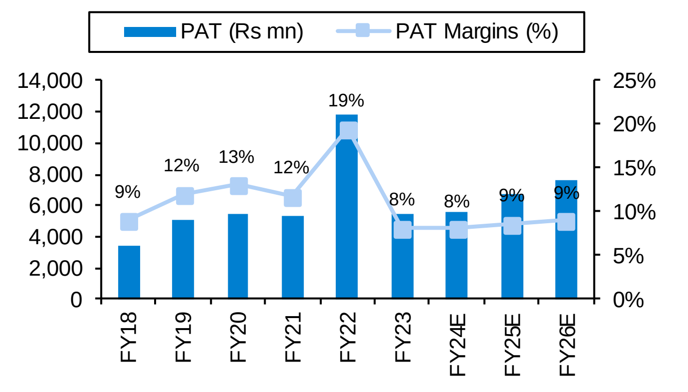
Source: Company, PL

Exhibit 3: EBITDA margins to hover below 20%



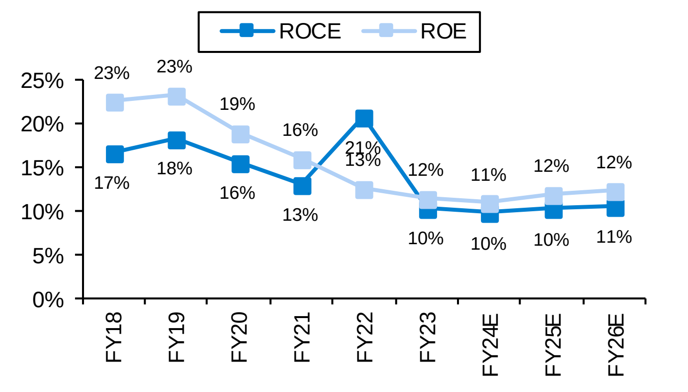
Source: Company, PL

Exhibit 4: PAT to grow at CAGR of 11%



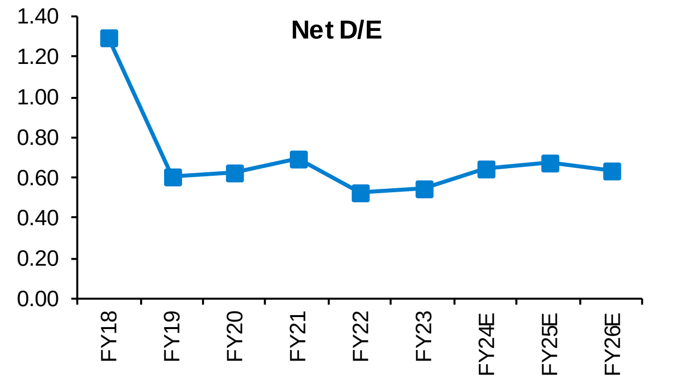
Source: Company, PL

Exhibit 5: Return ratios at 10-12%



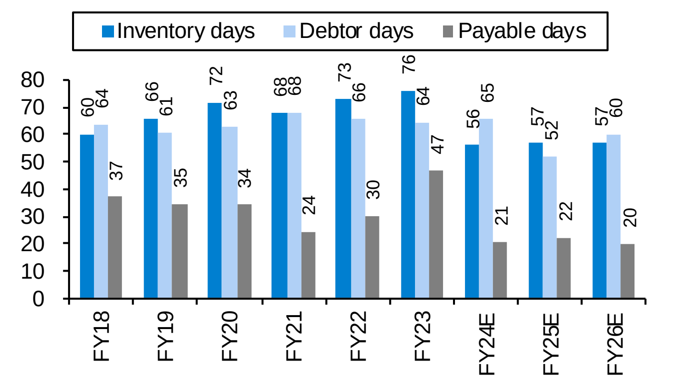
Source: Company, PL

Exhibit 6: Net D/E to be at 0.6x



Source: Company, PL

Exhibit 7: Working Capital days at 95 days



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**66,186**	**70,008**	**76,819**	**84,072**
YoY gr. (%)	*8.8*	*5.8*	*9.7*	*9.4*
Cost of Goods Sold	38,417	40,194	42,242	45,601
Gross Profit	27,769	29,814	34,577	38,470
Margin (%)	*42.0*	*42.6*	*45.0*	*45.8*
Employee Cost	3,853	4,270	4,993	5,465
Other Expenses	13,026	13,602	15,364	16,814
EBITDA	**10,890**	**11,941**	**14,220**	**16,191**
YoY gr. (%)	*(36.7)*	*9.6*	*19.1*	*13.9*
Margin (%)	*16.5*	*17.1*	*18.5*	*19.3*
Depreciation and Amortization	3,105	3,657	4,452	5,304
EBIT	**7,786**	**8,283**	**9,769**	**10,887**
Margin (%)	*11.8*	*11.8*	*12.7*	*12.9*
Net Interest	1,683	2,047	2,364	2,498
Other Income	8	8	8	8
Profit Before Tax	**6,111**	**6,244**	**7,413**	**8,397**
Margin (%)	*9.2*	*8.9*	*9.6*	*10.0*
Total Tax	659	624	741	840
Effective tax rate (%)	*10.8*	*10.0*	*10.0*	*10.0*
Profit after tax	**5,452**	**5,620**	**6,672**	**7,557**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**5,452**	**5,620**	**6,672**	**7,557**
YoY gr. (%)	*(5.1)*	*3.1*	*18.7*	*13.3*
Margin (%)	*8.2*	*8.0*	*8.7*	*9.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**5,452**	**5,620**	**6,672**	**7,557**
YoY gr. (%)	*(54.0)*	*3.1*	*18.7*	*13.3*
Margin (%)	*8.2*	*8.0*	*8.7*	*9.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,452	5,620	6,672	7,557
Equity Shares O/s (m)	**363**	**363**	**363**	**363**
EPS (Rs)	**15.0**	**15.5**	**18.4**	**20.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**62,551**	**70,441**	**91,441**	**1,01,441**
Tangibles	62,531	70,421	91,421	1,01,421
Intangibles	19	19	19	19
Acc: Dep / Amortization	**14,244**	**17,902**	**22,353**	**27,658**
Tangibles	14,240	17,897	22,349	27,653
Intangibles	5	5	5	5
Net fixed assets	**48,609**	**52,842**	**69,390**	**74,086**
Tangibles	48,595	52,828	69,376	74,072
Intangibles	15	15	15	15
Capital Work In Progress	10,962	15,072	6,072	6,072
Goodwill	-	-	-	-
Non-Current Investments	1,117	1,117	1,117	1,117
Net Deferred tax assets	528	528	528	528
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	10,311	10,906	11,967	13,097
Trade receivables	9,405	11,508	12,628	13,820
Cash & Bank Balance	2,008	3,035	2,548	1,692
Other Current Assets	1,061	1,122	1,231	1,348
Total Assets	**85,809**	**98,044**	**1,07,582**	**1,14,058**
Equity				
Equity Share Capital	1,813	1,813	1,813	1,813
Other Equity	47,388	51,203	56,017	61,672
Total Networth	**49,201**	**53,016**	**57,830**	**63,485**
Non-Current Liabilities				
Long Term borrowings	6,347	15,000	15,000	15,000
Provisions	-	-	-	-
Other non current liabilities	2,421	2,421	2,421	2,421
Current Liabilities				
ST Debt / Current of LT Debt	22,393	22,294	26,501	26,772
Trade payables	4,049	3,836	4,209	4,607
Other current liabilities	1,390	1,471	1,614	1,766
Total Equity & Liabilities	**85,809**	**98,044**	**1,07,582**	**1,14,058**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	6,110	6,244	7,413	8,397
Add. Depreciation	3,105	3,657	4,452	5,304
Add. Interest	1,683	2,047	2,364	2,498
Less Financial Other Income	8	8	8	8
Add. Other	(8)	(8)	(8)	(8)
Op. profit before WC changes	10,889	11,941	14,220	16,191
Net Changes-WC	3,118	(3,015)	(1,991)	(2,120)
Direct tax	(909)	(607)	(711)	(807)
Net cash from Op. activities	**13,098**	**8,319**	**11,519**	**13,265**
Capital expenditures	(13,263)	(12,000)	(12,000)	(10,000)
Interest / Dividend Income	-	8	8	8
Others	(35)	-	-	-
Net Cash from Invt. activities	**(13,298)**	**(11,992)**	**(11,992)**	**(9,992)**
Issue of share cap. / premium	-	-	-	-
Debt changes	3,061	8,553	4,208	271
Dividend paid	(906)	(281)	(334)	(378)
Interest paid	(1,683)	(2,047)	(2,364)	(2,498)
Others	-	(1,524)	(1,524)	(1,524)
Net cash from Fin. activities	**472**	**4,701**	**(14)**	**(4,129)**
Net change in cash	**271**	**1,028**	**(487)**	**(856)**
Free Cash Flow	(165)	(3,681)	(481)	3,265

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	**16,677**	**16,550**	**14,140**	**14,540**
YoY gr. (%)	*(19.7)*	*15.3*	*(12.2)*	*(13.7)*
Raw Material Expenses	9,757	9,620	8,530	8,540
Gross Profit	6,920	6,930	5,610	6,000
Margin (%)	*41.5*	*41.9*	*39.7*	*41.3*
EBITDA	**2,887**	**2,510**	**2,020**	**2,340**
YoY gr. (%)	*(67.6)*	*(3.5)*	*(28.2)*	*(12.4)*
Margin (%)	*17.3*	*15.2*	*14.3*	*16.1*
Depreciation / Depletion	821	840	890	930
EBIT	**2,066**	**1,670**	**1,130**	**1,410**
Margin (%)	*12.4*	*10.1*	*8.0*	*9.7*
Net Interest	470	330	400	580
Other Income	3	-	-	-
Profit before Tax	**1,599**	**1,340**	**730**	**830**
Margin (%)	*9.6*	*8.1*	*5.2*	*5.7*
Total Tax	234	(140)	20	(90)
Effective tax rate (%)	*14.6*	*(10.4)*	*2.7*	*(10.8)*
Profit after Tax	**1,365**	**1,480**	**710**	**920**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,365**	**1,480**	**710**	**920**
YoY gr. (%)	*(81.2)*	*3.5*	*(47.6)*	*(26.1)*
Margin (%)	*8.2*	*8.9*	*5.0*	*6.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,365**	**1,480**	**710**	**920**
YoY gr. (%)	*(81.2)*	*3.5*	*(47.6)*	*(26.1)*
Margin (%)	*8.2*	*8.9*	*5.0*	*6.3*
Other Comprehensive Income	(85)	(70)	60	(30)
Total Comprehensive Income	**1,281**	**1,410**	**770**	**890**
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	**3.8**	**4.1**	**2.0**	**2.5**

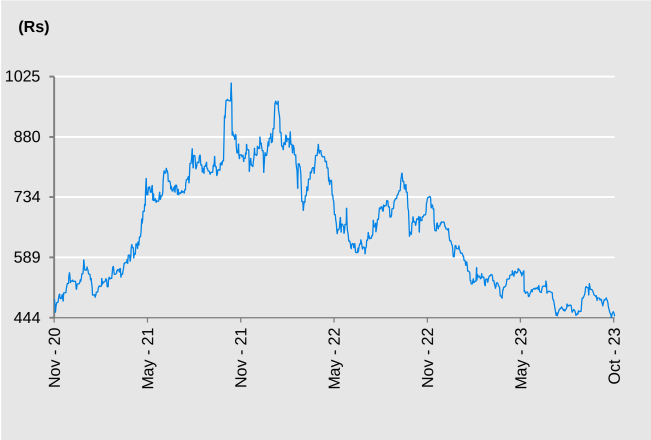
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	15.0	15.5	18.4	20.8
CEPS	23.6	25.6	30.7	35.5
BVPS	135.7	146.2	159.5	175.1
FCF	(0.5)	(10.2)	(1.3)	9.0
DPS	0.8	0.8	0.9	1.0
Return Ratio(%)				
RoCE	10.5	9.8	10.3	10.6
ROIC	9.6	9.1	9.6	9.8
RoE	11.6	11.0	12.0	12.5
Balance Sheet				
Net Debt : Equity (x)	0.5	0.6	0.7	0.6
Net Working Capital (Days)	86	97	97	97
Valuation(x)				
PER	33.9	32.9	27.7	24.5
P/B	3.8	3.5	3.2	2.9
P/CEPS	21.6	19.9	16.6	14.4
EV/EBITDA	19.4	18.4	15.7	13.9
EV/Sales	3.2	3.1	2.9	2.7
Dividend Yield (%)	0.1	0.2	0.2	0.2

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Hold	472	489
2	09-Aug-23	Hold	495	473
3	10-May-23	Hold	550	557
4	13-Apr-23	Accumulate	660	547
5	07-Feb-23	Accumulate	660	565
6	05-Jan-23	Accumulate	775	608
7	16-Nov-22	Accumulate	775	706

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	472	489
2	Bayer Cropscience	Accumulate	5,920	5,193
3	Bharat Petroleum Corporation	Hold	365	347
4	Bharti Airtel	Accumulate	993	924
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,854	2,125
7	Dhanuka Agritech	BUY	950	854
8	Fine Organic Industries	Hold	4,252	4,303
9	GAIL (India)	BUY	139	120
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Reduce	2,413	2,780
12	Gujarat Gas	Accumulate	477	419
13	Gujarat State Petronet	BUY	328	273
14	Hindustan Petroleum Corporation	Hold	263	258
15	Indian Oil Corporation	Hold	94	92
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	600	519
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Hold	226	216
24	Oil & Natural Gas Corporation	BUY	202	181
25	Oil India	BUY	341	296
26	P.I. Industries	BUY	4,850	3,421
27	Petronet LNG	Hold	208	196
28	Rallis India	Reduce	190	217
29	Reliance Industries	BUY	2,618	2,266

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)

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