

Retail Equity Research

Aarti Industries Ltd.

Speciality chemicals

BSE CODE : 524208

NSE CODE: AARTIIND

BLOOMBERG CODE: ARTO:IN

SENSEX : 81,786

Accumulate

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 641 TARGET Rs. 737 RETURN 15% ↑

(Closing: 28-08-2024)

KEY CHANGES:
TARGET ↑
RATING ↔
EARNINGS ↓

Earning beat...likely margin volatility prompts earnings cut

AARTI Industries Ltd. (ARTO) is a global leader in Benzene based derivative products. The company has a diversified product portfolio with end users in pharma, agrochemicals, specialty polymers, paints & pigments.

- Revenue grew by 31% YoY, although at a lower base, it was supported by high volume growth of 30% YoY.
- EBITDA grew by 52% YoY and margins expanded by 220bps, led by higher volumes and a fall in employee expenses & lower other expenses, which was better than expected.
- Considering heightened competition and dumping from China, management has hinted that margins are likely to remain under pressure. Given this scenario, management has suspended their earlier EBITDA guidance of Rs.1,450cr -Rs1,700cr for FY25E-26E.
- Although our estimates remained lower than consensus, we have cut our EPS estimates by 12.4% & 6.5% for FY25E-26E given the potential impact on earnings in the near term.
- However, we remain positive given the green shoots of recovery shown in Q1FY25, intact volume growth guidance of 20%-30%, and healthy offtake from the long-term contract. Further, any improvement in the pricing scenario in the near term will also boost earnings.
- Post-earnings downgrade, we anticipate PAT to grow by 31% CAGR (at a lower base) over FY24-26E. We value ARTO at a P/E of 36x in FY25E, and we reiterate our Accumulate rating on the stock with a target price of Rs.737.

Volume growth strong...

In Q1FY25, ARTO revenue saw a 31% YoY increase, although at a lower base. Revenue growth was supported by a 30% YoY increase in volume as the company witnessed demand recovery across several end-use industries, including polymers, pharma, dyes, & pigments. Supply of MMA long term contracts witnessed continued traction. However, overall realization is still lower than 3 years ago, which remains a concern. The company has maintained its volume growth guidance at 20-30% for FY25. While, given continued pricing pressure owing to dumping by Chinese suppliers' the overall realisation is likely to remain under pressure in the near term, as per management commentary. However, given healthy volume growth guidance, green shoots of recovery in discretionary portfolios, and offtake from long-term supply contracts, we remain optimistic about growth revival in H2FY24. We project a revenue growth of 19.2% CAGR from FY24 to FY26E.

EBITDA margins to improves...EBITDA guidance downgrades

In Q1FY25, EBITDA grew by 51%YoY, supported by improved volume growth and lower cost. EBITDA margins improved by 220bps YoY to 16.5%, driven by lower other expenses and employee costs. Reported Net profit doubled YoY to Rs.138cr. However, management has turned cautious on account of pricing and its likely impact on margin amid heightened competition from China. Given limited visibility in improvement in margin, management has suspended their earlier EBITDA guidance of Rs1,450-1,700cr over FY25-26. Though our earlier estimates were lower than consensus, we cut our EBITDA margin estimates by 50bps & 10bps for FY25E & FY26E. Due to a downgrade in our margin estimates and a change in depreciation & interest assumptions, the impact on our EPS estimates is 12.4% & 6.5% for FY25E & FY26E.

Valuations

The worst impact on earnings attributed to destocking, demand slowdown, and volatility in input prices are largely behind us. While the pressure on realization and margin volatility, amid aggressive dumping by China still remain a concern. However, we believe that these concerns are factored-in the stock prices, while strong volume recovery in Q1 and any pricing recovery in H2 will drive earnings. We value ARTO at a P/E of 36x on FY25E, and however, given premium valuation, we downgrade to Accumulate rating from BUY rating with a target price of Rs.737.

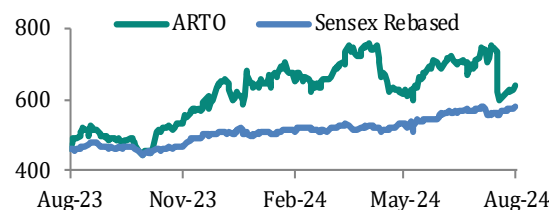
Company Data

Market Cap (cr)	Rs.23,227
Enterprise Value (cr)	Rs.26,580
Outstanding Shares (cr)	36.3
Free Float	56.8%
Dividend Yield	0.16%
52 week high	Rs.770
52 week low	Rs.438
6m average volume (cr)	0.01
Beta	1.06
Face value	Rs. 5

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	43.6	43.4	43.4
FII's	10.8	10.9	10.6
MFs/Institution	15.8	17.3	18.6
Public	29.8	28.4	27.4
Total	100.0	100.0	100.0

Price Performance*	3 Month	6 Month	1 Year
Absolute Return	4.5%	-5.2%	39.1%
Absolute Sensex	10.6%	10.8%	25.7%
Relative Return	-6.1%	-16.0%	13.4%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	6,372	7,780	9,059
Growth (%)	(3.7)	22.1	16.4
EBITDA	977	1,365	1,635
EBITDA margins (%)	15.3	17.6	18.1
PAT Adjusted	417	585	742
Growth (%)	(23.5)	40.4	26.9
Adjusted EPS	11.5	16.1	20.5
Growth (%)	(23.5)	40.4	26.9
P/E	55.8	39.7	31.3
P/B	4.4	4.0	3.6
EV/EBITDA	27.2	20.0	16.8
ROE (%)	8.2	10.5	12.0
D/E	0.6	0.7	0.7

ANIL R

Research Analyst

Consolidated Financials

Profit & Loss

Rs.cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Sales	1,855	1,414	31.2	1,773	4.6
EBITDA	306	202	51.5	283	8.1
EBITDA margin	16.5	14.3	221bps	16.0	53bps
Depreciation	102	89	14.6	98	4.1
EBIT	204	113	80.5	185	10.3
Interest	64	40	60.0	59	8.5
Other Income	-	-	-	-	-
Exceptional Items	-	-	-	-	-
PBT	146	73	100.0	126	15.9
Tax	8	3	166.7	-6	-233.3
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	138	70	97.1	132	4.5
Adjustments	-	-	-	-	-
Adjusted PAT	138	70	97.1	132	4.5
No. of Shares	36	36	-	36	-
EPS (Rs)	3.8	1.9	97.1	3.6	4.5

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	7,862	9,157	7,780	9,059	(1.0)	(1.1)
EBITDA	1,415	1,648	1,365	1,635	(3.5)	(0.8)
Margins (%)	18.0	18.0	17.6	18.1	(40bps)	+10bps
Adjusted PAT	668	794	585	742	(12.4)	(6.5)
EPS	18.4	21.9	16.1	20.5	(12.3)	(6.5)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	6,086	6,619	6,372	7,780	9,059
% change	35.1	8.8	-3.7	22.1	16.4
EBITDA	1,720	1,089	977	1,365	1,635
% change	75.2	-36.7	-10.3	39.8	19.7
Depreciation	246	310	378	434	485
EBIT	1,474	779	599	931	1,150
Interest	102	168	211	262	292
Other Income	1	0	8	15	20
PBT	1,372	611	396	684	878
% change	106.5	-55.5	-35.2	72.9	28.4
Tax	186	66	-21	99	136
Tax Rate (%)	13.6	10.8	-5.3	14.5	15.5
Reported PAT	1,186	545	417	585	742
Adj.*	0	0	0	0	0
Adj. PAT	1,186	545	417	585	742
% change	126.5	-54.0	-23.5	40.4	26.9
No. of shares (cr)	36.3	36.3	36.3	36.3	36.3
Adj EPS (Rs)	32.7	15.0	11.5	16.1	20.5
% change	126.5	-54.0	-23.5	40.4	26.9
DPS (Rs)	3.5	2.5	1.5	1.5	1.5
CEPS (Rs)	39.5	23.6	21.9	28.1	33.9

CASH FLOW

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	1474	855	795	1019	1227
Non-cash adj.	27	142	103	262	292
Changes in W.C	(1,186)	312	307	(154)	(318)
C.F. Operation	316	1,309	1,205	1,128	1,201
Capital exp.	(1,306)	(1,326)	(1,304)	(1,368)	(1,250)
Change in inv.	1	(3)	(6)	-	-
Other invest.CF	-	-	-	-	-
C.F - Investment	(1,305)	(1,330)	(1,310)	(1,368)	(1,250)
Issue of equity	-	-	-	-	-
Issue/repay debt	(381)	138	99	288	108
Dividends paid	(127)	(91)	(54)	(54)	(54)
Other finance.CF	-	-	-	-	-
C.F - Finance	679	47	36	234	54
Chg. in cash	(310)	27	(69)	(7)	5
Closing cash	94	167	43	35	40

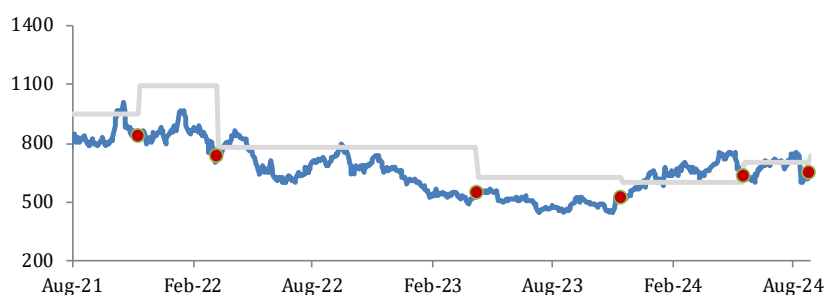
BALANCE SHEET

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	94	167	42	35	40
Accounts Receivable	1,092	940	826	1,002	1,166
Inventories	934	1,031	1,160	1,300	1,554
Other Cur. Assets	735	415	543	571	643
Investments	28	17	23	23	23
Gross Fixed Assets	5,046	6,304	7,283	9,103	10,303
Net Fixed Assets	3,595	4,859	5,641	7,027	7,742
CWIP	1,303	989	1,052	600	650
Intangible Assets	430	1,087	1,851	1,851	1,851
Def. Tax (Net)	28	53	144	144	144
Other Assets	-	-	-	-	-
Total Assets	7,851	8,581	9,616	10,887	12,147
Current Liabilities	492	506	867	1,056	1,225
Provisions	32	30	40	43	45
Debt Funds	2,811	3,124	3,418	3,968	4,368
Other Liabilities	1	1	1	1	1
Equity Capital	181	181	181	181	181
Reserves & Surplus	4,335	4,739	5,109	5,639	6,327
Shareholder's Fund	4,516	4,920	5,290	5,821	6,509
Total Liabilities	7,851	8,581	9,616	10,887	12,147
BVPS	125	136	146	161	180

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab & Return					
EBITDA margin (%)	28.3	16.5	15.3	17.6	18.1
EBIT margin (%)	24.2	11.8	9.4	12.0	12.7
Net profit mgn.(%)	19.5	8.2	6.5	7.5	8.2
ROE (%)	29.6	11.5	8.2	10.5	12.0
ROCE (%)	18.3	8.9	7.1	8.7	9.6
W.C & Liquidity					
Receivables (days)	56.5	56.0	50.6	42.9	43.7
Inventory (days)	119.5	93.4	103.0	95.5	95.5
Payables (days)	104.1	47.4	64.6	74.7	76.3
Current ratio (x)	5.5	4.8	2.8	2.6	2.7
Quick ratio (x)	2.4	2.2	1.0	0.9	1.0
Turnover & Leverage					
Gross asset T.O (x)	1.2	1.2	0.9	0.9	0.9
Total asset T.O (x)	0.8	0.8	0.7	0.8	0.8
Int. covge. ratio (x)	14.4	4.6	2.8	3.6	3.9
Adj. debt/equity (x)	0.6	0.6	0.6	0.7	0.7
Valuation					
EV/Sales (x)	4.3	3.9	4.2	3.5	3.0
EV/EBITDA (x)	15.0	24.0	27.2	19.9	16.8
P/E (x)	19.6	42.6	55.7	39.7	31.3
P/BV (x)	5.1	4.7	4.4	4.0	3.6

Recommendation summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
04-February-2021	Accumulate	667
21-May-2021	Accumulate	951
10-November-2021	Accumulate	1,091
10-March-2022	Buy	779
10-April-2023	Buy	624
15-November-2023	Buy	600
22-May-2024	Accumulate	701
29-August-2024	Accumulate	737

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/ Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

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