

November 9, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	REDUCE		REDUCE	
Target Price	411		512	
Sales (Rs. m)	77,852	89,001	79,619	92,306
% Chng.	(2.2)	(3.6)		
EBITDA (Rs. m)	12,481	15,130	14,062	17,013
% Chng.	(11.2)	(11.1)		
EPS (Rs.)	12.1	17.2	18.3	24.4
% Chng.	(33.7)	(29.4)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	63,720	69,455	77,852	89,001
EBITDA (Rs. m)	9,760	10,036	12,481	15,130
Margin (%)	15.3	14.4	16.0	17.0
PAT (Rs. m)	4,160	3,355	4,397	6,236
EPS (Rs.)	11.5	9.3	12.1	17.2
Gr. (%)	(23.6)	(19.5)	31.1	41.8
DPS (Rs.)	0.6	0.5	0.6	0.9
Yield (%)	0.1	0.1	0.1	0.2
RoE (%)	8.1	6.2	7.6	9.9
RoCE (%)	7.4	6.2	7.2	8.7
EV/Sales (x)	3.2	3.1	2.8	2.5
EV/EBITDA (x)	20.7	21.4	17.4	14.5
PE (x)	41.3	51.3	39.1	27.6
P/BV (x)	3.2	3.1	2.9	2.6

Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.770 / Rs.472
Sensex / Nifty	79,486 / 24,148
Market Cap	Rs.172bn/ \$ 2,038m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.1297.87m

Shareholding Pattern (%)

Promoter's	42.61
Foreign	9.68
Domestic Institution	18.13
Public & Others	29.58
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.8)	(32.8)	(7.9)
Relative	(9.4)	(37.9)	(24.7)

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Ongoing pressure on margins to continue

Quick Pointers:

- MMA volumes decline to 20.5kt in Q2FY25 from 31.1kt in Q1FY25
- FY28 EBITDA guidance of Rs18-22bn; debt/EBITDA < 2.5x and ROCE > 15%

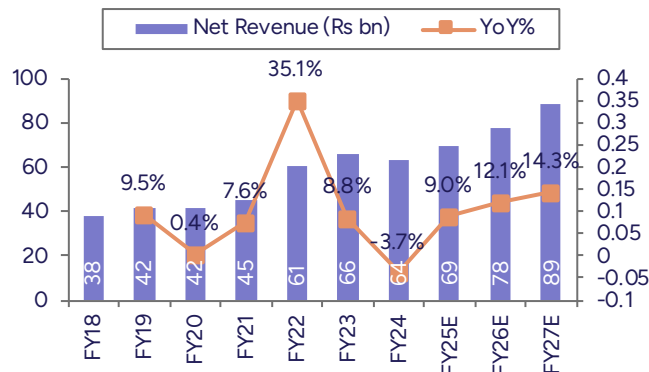
ARTO reported a topline of Rs16.2bn, marking a sequential decline of 12%, driven by a significant drop in energy business volumes. This segment saw a 36% sequential decline, particularly in MMA, where the gasoline-naphtha delta collapsed. MMA volumes are expected to remain subdued in Q3FY25 as well. In contrast, an uptick in volume was observed across products used in dyes, pigments, and polymer additives, while the agrochemical segment remained soft. Margins are likely to remain under pressure throughout CY25 due to ongoing dumping from China. The management anticipates EBITDA to grow to Rs18-22bn by FY28, though it has revised FY25 EBITDA guidance down to Rs10bn. While we expect some volume-driven growth in products catering to dyes, pigments and polymers, challenges in the agrochemical to persist in near term. As per our understanding, use of MMA for octane boosting is banned in several countries (Link). However, the company maintains that it sells to the very countries where ban is in place. We forecast an EPS CAGR of 14% during FY24-27E. The stock is currently trading at approximately 28x FY27 P/E. We value the stock at 28x FY26E/FY27E EPS and maintain "Reduce" rating with a target price of Rs411.

- **Revenue declined by 12% sequentially:** Consolidated net revenue stood at Rs16.2bn, +12% YoY/ -12.2% QoQ (PLe: Rs17.4bn, Consensus: Rs16.5bn), Revenue declined sequentially due to volume decrease in energy business products. H1FY25 revenue increased by 21% YoY. Gross margin decreased by 380bps YoY to 37.5% (vs 41.3% in Q2FY24 and 37.7% in Q1FY25).
- **EBITDAM declined 450bps YoY:** EBITDA decreased 16% YoY and 36% QoQ to Rs1.9bn (PLe: Rs2.7bn, Consensus: Rs2.4bn). EBITDAM stood at 12% (PLe: 15.6%) as against 16.1% in Q2FY24 and 16.5% in Q1FY25, down by 450bps due to higher other expenses. Capitalization of new projects led to higher depreciation. Tax rate remained negative as the company's tax liability is declining and corresponding deferred tax assets are accrued.
- **Key concall takeaways: (1)** Going forward plans to enter sunrise sectors such as battery chemicals and circular economy. **(2)** Non-energy business: 22% YoY and 11% QoQ volume growth. **(3)** Energy business: -1% YoY and -36% QoQ volume growth. **(4)** Some competitors announced MMA manufacturing, but their capacity is lower as compared to Aarti. **(5)** ADD on sulfur black announced; Aarti supplies a key intermediate for this product. **(6)** PAP, an intermediate for paracetamol, witnessed low growth due to pricing pressure (~50% drop in 1 year). **(7)** Ethylation and NT ramp-up planned over 2 years, no further capex required. **(8)** Pilot plant commissioned, to fuel new product development. **(9)** MPP plant to be commissioned by mid-CY25. **(10)** Long-term contract 2: Plant operating at full capacity. **(11)** Long term contract 4: Volumes to peak up in FY26.

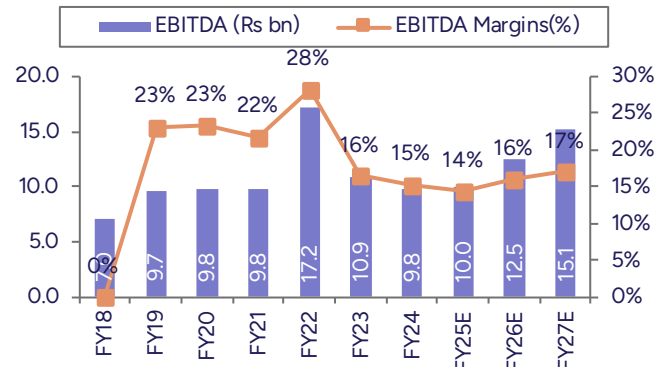
Q2FY25 Result Overview - Consolidated (Rs mn)

Y/e March	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	% Var.	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Sales	16,280	14,540	12.0	17,456	-6.7	18,550	-12.2	34,830	28,680	21.4
Gross Profit	6,110	6,000	1.8	6,572	-7.0	7,000	-12.7	13,110	11,610	12.9
Margin (%)	37.5	41.3		37.6		37.7		37.6	40.5	
EBITDA	1,960	2,340	-16.2	2,732	-28.3	3,060	-35.9	5,020	4,360	15.1
Margin (%)	12.0	16.1		15.6		16.5		14.4	15.2	
Other Income	50	0		25		60		110	0	#DIV/O!
Depreciation	1,080	930	16.1	1,053	2.6	1,020	5.9	2,100	1,820	15.4
EBIT	930	1,410	-34.0	1,704	-45.4	2,100	-55.7	3,030	2,540	19.3
Interest	620	580	6.9	583	6.4	640	-3.1	1,260	980	28.6
PBT before exp	310	830	-62.7	1,121	-72.3	1,460	-78.8	1,770	1,560	13.5
Total Tax	-180	-90		123		80		-100	-70	
ETR (%)	-58.1	-10.8		11.0		5.5		-5.6	-4.5	
Adj. PAT	490	920	-46.7	998	-50.9	1,380	-64.5	1,870	1,630	14.7
Exceptional Items	-20	0		0		0		-20	0	
PAT	510	920	-44.6	998	-48.9	1,380	-63.0	1,890	1,630	16.0

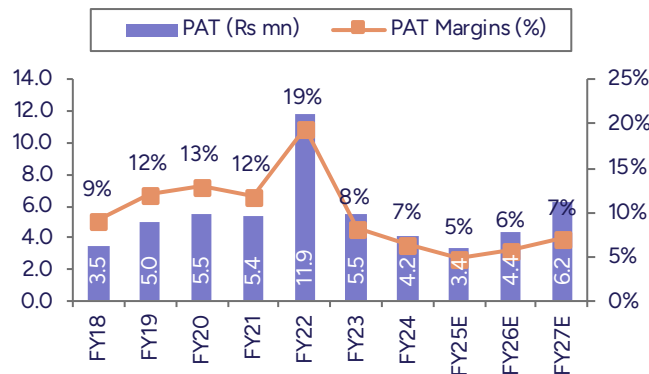
Source: Company, PL

Exhibit 1: Revenue to grow at CAGR of 12% over FY24-27E


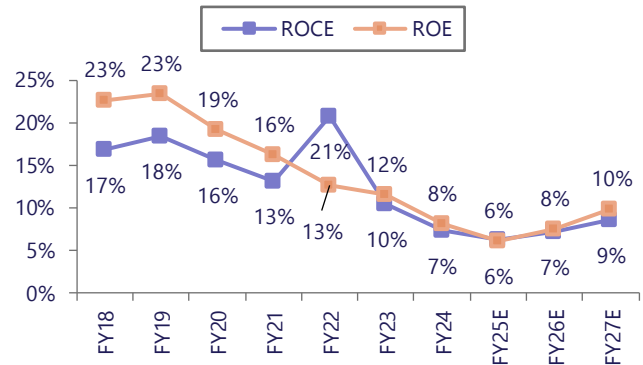
Source: Company, PL

Exhibit 2: EBITDA margin to reach 17% in FY27


Source: Company, PL

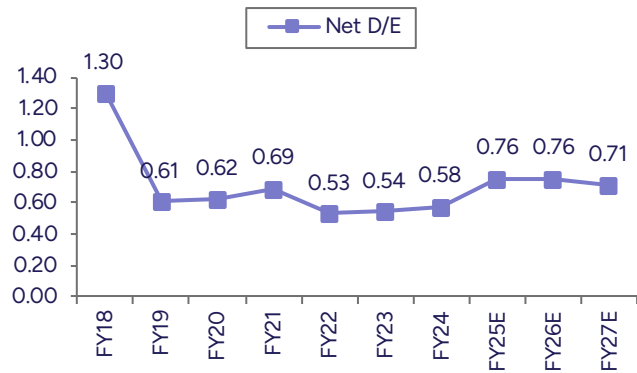
Exhibit 3: PAT margin to reach 7% in FY27


Source: Company, PL

Exhibit 4: Return ratios to hover at 9-10%


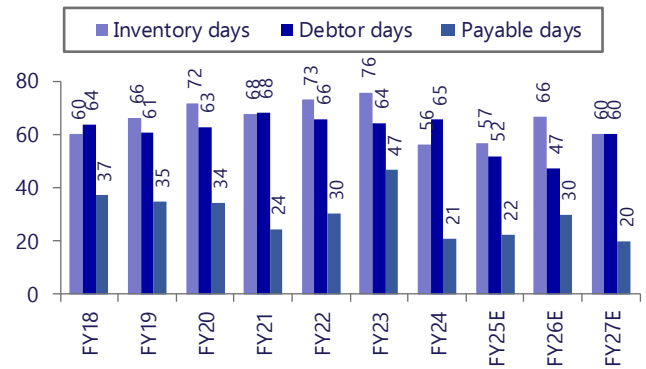
Source: Company, PL

Exhibit 5: Net D/E to be at 0.7



Source: Company, PL

Exhibit 6: Working capital days at 90-100 days



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	63,720	69,455	77,852	89,001
YoY gr. (%)	(3.7)	9.0	12.1	14.3
Cost of Goods Sold	38,800	43,583	48,244	54,291
Gross Profit	24,920	25,871	29,608	34,710
Margin (%)	39.1	37.2	38.0	39.0
Employee Cost	4,040	4,376	4,671	5,340
Other Expenses	11,120	11,460	12,456	14,240
EBITDA	9,760	10,036	12,481	15,130
YoY gr. (%)	(10.4)	2.8	24.4	21.2
Margin (%)	15.3	14.4	16.0	17.0
Depreciation and Amortization	3,780	4,212	4,975	5,475
EBIT	5,980	5,824	7,506	9,655
Margin (%)	9.4	8.4	9.6	10.8
Net Interest	2,110	2,327	2,770	2,876
Other Income	80	150	150	150
Profit Before Tax	3,950	3,646	4,886	6,929
Margin (%)	6.2	5.2	6.3	7.8
Total Tax	(210)	292	489	693
Effective tax rate (%)	(5.3)	8.0	10.0	10.0
Profit after tax	4,160	3,355	4,397	6,236
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,160	3,355	4,397	6,236
YoY gr. (%)	(23.7)	(19.4)	31.1	41.8
Margin (%)	6.5	4.8	5.6	7.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,160	3,355	4,397	6,236
YoY gr. (%)	(23.7)	(19.4)	31.1	41.8
Margin (%)	6.5	4.8	5.6	7.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,160	3,355	4,397	6,236
Equity Shares O/s (m)	362	363	363	363
EPS (Rs)	11.5	9.3	12.1	17.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	73,984	94,504	1,04,504	1,14,504
Tangibles	73,965	94,485	1,04,485	1,14,485
Intangibles	19	19	19	19
Acc: Dep / Amortization	18,024	22,237	27,212	32,687
Tangibles	17,944	22,157	27,132	32,607
Intangibles	80	80	80	80
Net fixed assets	56,490	72,798	77,823	82,347
Tangibles	56,551	72,858	77,883	82,408
Intangibles	(61)	(61)	(61)	(61)
Capital Work In Progress	12,290	6,770	6,770	6,770
Goodwill	-	-	-	-
Non-Current Investments	1,240	1,175	1,175	1,175
Net Deferred tax assets	1,440	1,440	1,440	1,440
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	11,600	11,417	12,798	14,630
Trade receivables	8,260	11,417	12,798	14,630
Cash & Bank Balance	1,300	3,323	1,088	2,172
Other Current Assets	2,680	2,921	3,274	3,743
Total Assets	96,150	1,12,188	1,18,204	1,28,096
Equity				
Equity Share Capital	1,810	1,813	1,813	1,813
Other Equity	51,090	54,277	58,454	64,378
Total Networth	52,900	56,089	60,267	66,191
Non-Current Liabilities				
Long Term borrowings	15,240	21,000	21,000	20,000
Provisions	-	-	-	-
Other non current liabilities	2,240	2,240	2,240	2,240
Current Liabilities				
ST Debt / Current of LT Debt	16,600	24,737	25,595	29,261
Trade payables	5,210	3,806	4,266	4,877
Other current liabilities	3,950	4,305	4,826	5,517
Total Equity & Liabilities	96,150	1,12,188	1,18,204	1,28,096

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	3,950	3,646	4,886	6,929
Add. Depreciation	3,780	4,212	4,975	5,475
Add. Interest	2,110	2,327	2,770	2,876
Less Financial Other Income	80	150	150	150
Add. Other	30	(150)	(150)	(150)
Op. profit before WC changes	9,880	10,036	12,481	15,130
Net Changes-WC	3,063	(4,377)	(2,298)	(3,051)
Direct tax	(910)	(256)	(436)	(623)
Net cash from Op. activities	12,033	5,403	9,747	11,456
Capital expenditures	(13,040)	(15,000)	(10,000)	(10,000)
Interest / Dividend Income	-	150	150	150
Others	(60)	65	-	-
Net Cash from Invst. activities	(13,100)	(14,785)	(9,850)	(9,850)
Issue of share cap. / premium	-	3	-	-
Debt changes	3,100	13,897	858	2,666
Dividend paid	(540)	(168)	(220)	(312)
Interest paid	(2,110)	(2,327)	(2,770)	(2,876)
Others	(90)	-	-	-
Net cash from Fin. activities	360	11,405	(2,132)	(522)
Net change in cash	(707)	2,023	(2,235)	1,084
Free Cash Flow	(1,247)	(9,597)	(253)	1,456

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	11.5	9.3	12.1	17.2
CEPS	21.9	20.9	25.9	32.3
BVPS	146.1	154.7	166.3	182.6
FCF	(3.4)	(26.5)	(0.7)	4.0
DPS	0.6	0.5	0.6	0.9
Return Ratio(%)				
RoCE	7.4	6.2	7.2	8.7
ROIC	7.9	5.9	6.6	7.9
RoE	8.1	6.2	7.6	9.9
Balance Sheet				
Net Debt : Equity (x)	0.6	0.8	0.8	0.7
Net Working Capital (Days)	84	100	100	100
Valuation(x)				
PER	41.3	51.3	39.1	27.6
P/B	3.2	3.1	2.9	2.6
P/CEPS	21.6	22.7	18.3	14.7
EV/EBITDA	20.7	21.4	17.4	14.5
EV/Sales	3.2	3.1	2.8	2.5
Dividend Yield (%)	0.1	0.1	0.1	0.2

Source: Company Data, PL Research

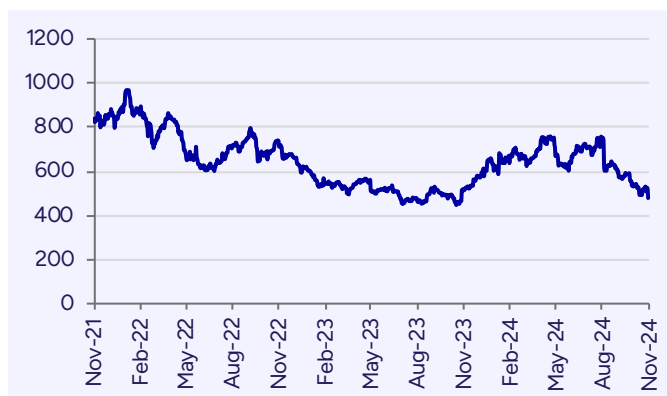
Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	17,320	17,730	18,550	16,280
YoY gr. (%)	3.9	7.1	31.2	12.0
Raw Material Expenses	11,010	10,710	11,550	10,170
Gross Profit	6,310	7,020	7,000	6,110
Margin (%)	36.4	39.6	37.7	37.5
EBITDA	2,600	2,830	3,060	1,960
YoY gr. (%)	(9.9)	12.7	51.5	(16.2)
Margin (%)	15.0	16.0	16.5	12.0
Depreciation / Depletion	970	980	1,020	1,080
EBIT	1,630	1,850	2,040	880
Margin (%)	9.4	10.4	11.0	5.4
Net Interest	540	590	640	620
Other Income	80	-	60	50
Profit before Tax	1,170	1,260	1,460	330
Margin (%)	6.8	7.1	7.9	2.0
Total Tax	(70)	(60)	80	(180)
Effective tax rate (%)	(6.0)	(4.8)	5.5	(54.5)
Profit after Tax	1,240	1,320	1,380	510
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,240	1,320	1,380	510
YoY gr. (%)	(9.2)	(10.8)	94.4	(44.6)
Margin (%)	7.2	7.4	7.4	3.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,240	1,320	1,380	510
YoY gr. (%)	(9.2)	(10.8)	94.4	(44.6)
Margin (%)	7.2	7.4	7.4	3.1
Other Comprehensive Income	(70)	(70)	10	(30)
Total Comprehensive Income	1,170	1,250	1,390	480
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	3.4	3.6	3.8	1.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-24	Reduce	512	551
2	13-Aug-24	Reduce	635	735
3	04-Jul-24	Reduce	634	718
4	13-May-24	Reduce	595	669
5	09-Apr-24	Reduce	599	705
6	11-Feb-24	Reduce	599	663
7	08-Jan-24	Reduce	584	629

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	512	551
2	Ashok Leyland	Accumulate	257	222
3	Bajaj Auto	Hold	11,859	11,617
4	Bharat Forge	Accumulate	1,369	1,437
5	Bharat Petroleum Corporation	Hold	316	310
6	Bharti Airtel	Accumulate	1,782	1,637
7	CEAT	Hold	3,063	2,973
8	Clean Science and Technology	Hold	1,526	1,484
9	Deepak Nitrite	Reduce	2,582	3,000
10	Divgi Torqtransfer Systems	Hold	633	591
11	Eicher Motors	BUY	5,416	4,668
12	Endurance Technologies	BUY	2,835	2,437
13	Exide Industries	Hold	520	481
14	Fine Organic Industries	Accumulate	5,568	5,142
15	GAIL (India)	Hold	204	209
16	Gujarat Fluorochemicals	Reduce	3,770	4,158
17	Gujarat Gas	Hold	565	541
18	Gujarat State Petronet	Hold	380	390
19	Hero Motocorp	Accumulate	5,906	5,495
20	Hindustan Petroleum Corporation	Accumulate	412	372
21	Indian Oil Corporation	Hold	156	147
22	Indraprastha Gas	Hold	402	417
23	Jubilant Ingrevia	Hold	695	682
24	Laxmi Organic Industries	Reduce	240	270
25	Mahanagar Gas	Accumulate	1,627	1,497
26	Mahindra & Mahindra	BUY	3,458	3,060
27	Mangalore Refinery & Petrochemicals	Sell	128	173
28	Maruti Suzuki	BUY	14,586	11,046
29	Navin Fluorine International	Accumulate	3,523	3,307

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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