

May 10, 2023

Q4FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		ACCUMULATE	
Target Price	550		660	
Sales (Rs. m)	75,728	86,683	73,797	85,645
% Chng.	2.6	1.2		
EBITDA (Rs. m)	12,500	15,667	13,168	16,178
% Chng.	(5.1)	(3.2)		
EPS (Rs.)	15.1	19.0	16.4	21.2
% Chng.	(8.1)	(10.2)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	60,850	66,190	75,728	86,683
EBITDA (Rs. m)	17,190	10,890	12,500	15,667
Margin (%)	28.2	16.5	16.5	18.1
PAT (Rs. m)	5,748	5,470	5,472	6,895
EPS (Rs.)	15.9	15.1	15.1	19.0
Gr. (%)	(47.2)	(4.8)	(0.1)	26.0
DPS (Rs.)	2.0	0.8	0.8	1.0
Yield (%)	0.4	0.1	0.1	0.2
RoE (%)	14.3	11.6	10.7	12.4
RoCE (%)	21.9	10.5	10.2	11.1
EV/Sales (x)	3.7	3.5	3.2	2.9
EV/EBITDA (x)	13.1	21.0	19.4	16.1
PE (x)	35.1	36.9	36.9	29.3
P/BV (x)	4.5	4.1	3.8	3.5

Key Data

ARTI.BO | ARTO IN

52-W High / Low	Rs.807 / Rs.482
Sensex / Nifty	61,761 / 18,266
Market Cap	Rs.202bn/ \$ 2,462m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.386.13m

Shareholding Pattern (%)

Promoter's	44.07
Foreign	12.32
Domestic Institution	14.76
Public & Others	28.84
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	(24.0)	(18.1)
Relative	0.6	(24.9)	(27.8)

Nitesh Dhoot

niteshdhoot@plindia.com | 91-22-66322260

Aarti Industries (ARTO IN)

Rating: HOLD | CMP: Rs557 | TP: Rs550

Muted show; headwinds persist

Quick Pointers:

- EBITDA miss (Rs2.5bn vs PLe Rs2.9bn) on plant shutdowns, elevated costs and weak geographic mix; tax refund aids PAT (Rs1.5bn vs PLe Rs1.3bn).
- Slow ramp-up for first long term contract (~20% capacity utilization currently); FY25 utilization of contract 1,2 and 3 guided at ~70%, optimal, and ~60-70%.

We revise downward our FY24/25 EPS estimates by 8%/10% on muted FY24 outlook along with stretched balance sheet and downgrade to 'Hold' due to 1) persisting demand weakness in key end-use segments 2) slower than expected ramp-up in capacities meant for long term projects 3) elevated cost pressures on lower absorption of expansion led costs. Aarti Industries (ARTO)'s muted performance in Q4FY23 was led by restricted volumes on lower operating days, elevated operating expenses and weaker geographic mix. We expect EBITDA & PAT CAGR of 20% & 12% over FY23-25E, on rising capacity utilization of recently commissioned plants (two specialty chemical process blocks and 3rd long term contract and chlorination facility at Jhagadia, and Dahej phase-2). Downgrade to 'Hold' at revised TP to Rs 550 (Rs660 earlier) valuing at 29x FY25E EPS (31x earlier).

- Revenue at Rs 16.6 bn (+15% YoY/ -1% QoQ; PLe Rs16.6bn)**, on higher volume from expanded capacities YoY and higher value products contribution. However, Q4FY23 volumes were restricted due to maintenance shutdowns and weak volumes linked to textile industry (dyes and pigments).
- EBITDA at Rs2.5bn (-4%YoY/ -13%QoQ; PLe Rs2.9bn)** on elevated employee cost (+18% QoQ) and other expenses (+7% QoQ). **EBITDA margin at 15.2% (-294bps YoY / -214bps QoQ)**, also impacted by lower than normal margins from supplying discretionary products to non-regular markets.
- PBT at Rs1.34bn (-22%YoY/ -16%QoQ)** on higher depreciation (+33%YoY) on newer capacities added and higher finance cost (+27%YoY) while one-time impact of write back of previous periods tax provision resulted in better than expected **PAT at Rs1.5bn (+4% YoY/+8% QoQ; PLe Rs1.3bn)**.
- Concall takeaways:** (1) Production of NCB at 18,842 mt in Q4 (vs 18,199 mt QoQ), hydrogenated products at 3,315 tpm (vs 2,995 tpm QoQ) & nitro toluene at 6,130 mt (vs 7,528 mt QoQ) and PDA at 348 tpm (2) FY23 exports at ~48% vs 51% YoY (3) FY23 volume growth at 15%; management indicated 25% volume growth for FY24; however EBITDA margins could be lower as products are sold to non-regular markets; margin difference between regular and non-regular markets ~10%-15% (4) Discretionary market is witnessing demand slowdown while competition from Chinese producers visible in certain segments such as agrochemicals, to be an additional challenge (5) FY23 capex at Rs13bn while target capex for FY24 & FY25 is Rs15bn each (6) Investment outlay for two specialty chemical process block was ~Rs3bn having an EBITDA margin potential of 25%-30% (7) Chloro toluene plant to be ~20% of the global capacity (8) NCB plant to be commissioned in Q1FY24 (9) Effective tax rate for FY24 indicated between 15%-17%

Exhibit 1: Q4FY23 Result Overview (Rs mn)

Y/e March	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.	FY23	FY22	YoY gr.
Net Revenue	16,550	14,360	15.3%	16,677	-0.8%	66,180	60,848	8.8%
Material Cost	9,620	7,770	23.8%	9,757	-1.4%	38,420	28,551	34.6%
Gross Profit	6,930	6,590	5.2%	6,920	0.1%	27,759	32,297	-14.0%
<i>Gross Margin (%)</i>	<i>41.9%</i>	<i>45.9%</i>		<i>41.5%</i>		<i>41.9%</i>	<i>53.1%</i>	
Employee expenses	1,090	890	22.5%	927	17.6%	3,855	3,571	7.9%
Other operating expenses	3,330	3,100	7.4%	3,107	7.2%	13,023	11,541	12.8%
EBITDA	2,510	2,600	-3.5%	2,887	-13.1%	10,882	17,185	-36.7%
<i>EBITDA margin (%)</i>	<i>15.2%</i>	<i>18.1%</i>		<i>17.3%</i>		<i>16.4%</i>	<i>28.2%</i>	
Depreciation	840	630	33.3%	821	2.3%	3,107	2,462	26.2%
EBIT	1,670	1,970	-15.2%	2,066	-19.2%	7,775	14,722	-47.2%
Other income	0	0		3	-100.0%	7	6	6.3%
Interest cost	330	260	26.9%	470	-29.7%	1,682	1,023	64.4%
PBT	1,340	1,710	-21.6%	1,599	-16.2%	6,099	13,706	-55.5%
Tax	(140)	280	-150.0%	234	-159.9%	654	1,872	-65.1%
Sh of ass. / Minority int	0	0	-100.0%	0		0	(1)	-100.0%
PAT	1,480	1,430	3.5%	1,365	8.4%	5,446	11,833	-54.0%
Extra ordinary income/ (exp.)	0	0		0		0	0	
Adjusted PAT	1,480	1,430	3.5%	1,365	8.4%	5,446	11,833	-54.0%
<i>Adj. PAT margin (%)</i>	<i>8.9%</i>	<i>10.0%</i>		<i>8.2%</i>		<i>8.2%</i>	<i>19.4%</i>	
No. of shares (mn)	363	363	0.0%	363	0.0%	363	363	0.0%
Adj. EPS (Rs.)	4.1	3.9	3.5%	3.8	8.4%	15.0	32.6	-54.0%

Source: Company, PL

P.S. FY22 financials are not comparable – includes pharma nos in Q1FY22 and also termination and shortfall fees.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	60,850	66,190	75,728	86,683
YoY gr. (%)	35.0	8.8	14.4	14.5
Cost of Goods Sold	28,550	38,420	43,691	48,738
Gross Profit	32,300	27,770	32,038	37,944
Margin (%)	53.1	42.0	42.3	43.8
Employee Cost	3,570	3,850	4,847	5,634
Other Expenses	11,540	13,030	14,691	16,643
EBITDA	17,190	10,890	12,500	15,667
YoY gr. (%)	75.1	(36.6)	14.8	25.3
Margin (%)	28.2	16.5	16.5	18.1
Depreciation and Amortization	2,460	3,100	3,751	4,432
EBIT	14,730	7,790	8,749	11,235
Margin (%)	24.2	11.8	11.6	13.0
Net Interest	1,020	1,680	2,166	2,732
Other Income	10	10	10	10
Profit Before Tax	13,720	6,120	6,593	8,513
Margin (%)	22.5	9.2	8.7	9.8
Total Tax	1,860	650	1,121	1,617
Effective tax rate (%)	13.6	10.6	17.0	19.0
Profit after tax	11,860	5,470	5,472	6,895
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,748	5,470	5,472	6,895
YoY gr. (%)	9.8	(4.8)	0.0	26.0
Margin (%)	9.4	8.3	7.2	8.0
Extra Ord. Income / (Exp)	6,110	-	-	-
Reported PAT	11,858	5,470	5,472	6,895
YoY gr. (%)	126.5	(53.9)	0.0	26.0
Margin (%)	19.5	8.3	7.2	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,858	5,470	5,472	6,895
Equity Shares O/s (m)	362	362	363	363
EPS (Rs)	15.9	15.1	15.1	19.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	47,624	64,014	74,904	98,904
Tangibles	46,910	62,520	73,410	97,410
Intangibles	714	1,494	1,494	1,494
Acc: Dep / Amortization	11,244	14,344	18,095	22,527
Tangibles	11,130	14,230	17,981	22,413
Intangibles	114	114	114	114
Net fixed assets	36,380	49,670	56,809	76,377
Tangibles	35,780	48,290	55,429	74,997
Intangibles	600	1,380	1,380	1,380
Capital Work In Progress	13,030	9,890	14,000	5,000
Goodwill	-	-	-	-
Non-Current Investments	1,830	1,110	4,670	4,670
Net Deferred tax assets	280	530	530	530
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	9,340	10,310	10,374	11,874
Trade receivables	10,920	9,400	12,449	14,249
Cash & Bank Balance	1,740	2,000	39	328
Other Current Assets	920	1,090	1,247	1,427
Total Assets	78,510	85,810	1,02,188	1,16,827
Equity				
Equity Share Capital	1,810	1,810	1,813	1,813
Other Equity	43,350	47,390	51,064	56,091
Total Networth	45,160	49,200	52,877	57,903
Non-Current Liabilities				
Long Term borrowings	9,300	6,350	15,000	20,000
Provisions	-	-	-	-
Other non current liabilities	2,390	2,420	2,420	2,420
Current Liabilities				
ST Debt / Current of LT Debt	16,380	22,390	26,142	29,923
Trade payables	3,450	4,050	4,150	4,750
Other current liabilities	1,820	1,390	1,590	1,820
Total Equity & Liabilities	78,510	85,810	1,02,188	1,16,827

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	13,720	6,110	6,593	8,513
Add. Depreciation	2,460	3,100	3,751	4,432
Add. Interest	1,020	1,680	2,166	2,732
Less Financial Other Income	10	10	10	10
Add. Other	(10)	(10)	(10)	(10)
Op. profit before WC changes	17,190	10,880	12,500	15,667
Net Changes-WC	(9,560)	3,120	(3,274)	(3,001)
Direct tax	(2,460)	(910)	(1,078)	(1,568)
Net cash from Op. activities	5,170	13,090	8,149	11,099
Capital expenditures	(11,650)	(13,260)	(15,000)	(15,000)
Interest / Dividend Income	10	-	10	10
Others	(50)	(40)	(3,560)	-
Net Cash from Invt. activities	(11,690)	(13,300)	(18,550)	(14,990)
Issue of share cap. / premium	11,870	-	3	-
Debt changes	(5,460)	3,060	12,402	8,781
Dividend paid	(1,270)	(910)	(274)	(345)
Interest paid	(1,020)	(1,680)	(2,166)	(2,732)
Others	-	-	(1,524)	(1,524)
Net cash from Fin. activities	4,120	470	8,440	4,181
Net change in cash	(2,400)	260	(1,961)	289
Free Cash Flow	(6,480)	(170)	(6,851)	(3,901)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	15.9	15.1	15.1	19.0
CEPS	22.7	23.7	25.4	31.2
BVPS	124.8	135.9	145.9	159.7
FCF	(17.9)	(0.5)	(18.9)	(10.8)
DPS	2.0	0.8	0.8	1.0
Return Ratio(%)				
RoCE	21.9	10.5	10.2	11.1
ROIC	19.8	9.6	8.5	9.0
RoE	14.3	11.6	10.7	12.4
Balance Sheet				
Net Debt : Equity (x)	0.5	0.5	0.8	0.9
Net Working Capital (Days)	101	86	90	90
Valuation(x)				
PER	35.1	36.9	36.9	29.3
P/B	4.5	4.1	3.8	3.5
P/CEPS	24.6	23.5	21.9	17.8
EV/EBITDA	13.1	21.0	19.4	16.1
EV/Sales	3.7	3.5	3.2	2.9
Dividend Yield (%)	0.4	0.1	0.1	0.2

Source: Company Data, PL Research

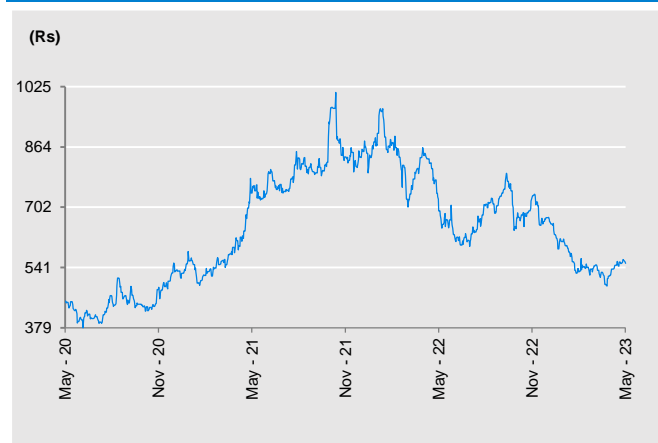
Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	16,103	16,850	16,677	16,550
YoY gr. (%)	22.3	34.2	(19.7)	15.3
Raw Material Expenses	9,262	9,781	9,757	9,620
Gross Profit	6,841	7,069	6,920	6,930
Margin (%)	42.5	42.0	41.5	41.9
EBITDA	2,815	2,670	2,887	2,510
YoY gr. (%)	(10.3)	4.8	(67.6)	(3.5)
Margin (%)	17.5	15.8	17.3	15.2
Depreciation / Depletion	718	729	821	840
EBIT	2,098	1,941	2,066	1,670
Margin (%)	13.0	11.5	12.4	10.1
Net Interest	445	437	470	330
Other Income	4	-	3	-
Profit before Tax	1,656	1,504	1,599	1,340
Margin (%)	10.3	8.9	9.6	8.1
Total Tax	301	259	234	(140)
Effective tax rate (%)	18.2	17.2	14.6	(10.4)
Profit after Tax	1,355	1,245	1,365	1,480
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,355	1,245	1,365	1,480
YoY gr. (%)	(17.8)	(17.0)	(81.2)	3.5
Margin (%)	8.4	7.4	8.2	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,355	1,245	1,365	1,480
YoY gr. (%)	(17.8)	(17.0)	(81.2)	3.5
Margin (%)	8.4	7.4	8.2	8.9
Other Comprehensive Income	(205)	(139)	(85)	(70)
Total Comprehensive Income	1,150	1,106	1,281	1,410
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	3.7	3.4	3.8	4.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-23	Accumulate	660	547
2	07-Feb-23	Accumulate	660	565
3	05-Jan-23	Accumulate	775	608
4	16-Nov-22	Accumulate	775	706
5	06-Oct-22	Accumulate	880	774
6	17-Aug-22	Accumulate	880	832
7	06-Jul-22	Accumulate	880	685
8	04-Jun-22	Accumulate	880	721

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	660	547
2	Fine Organic Industries	BUY	6,000	4,481
3	Jubilant Ingrevia	BUY	810	398
4	Laxmi Organic Industries	Hold	290	267
5	NOCIL	Accumulate	240	220

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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