

API Prices Bottomed Out

Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA Abs. – **BEAT** PAT – **BEAT**

Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue: -0.7%/0.8%; EBITDA Abs: -0.7%/0.8%; PAT: -1.0%/1.0%

Recommendation Rationale:

Aarti Drugs reported Q4FY24 results that exceeded our expectations. Revenue/EBITDA/PAT grew by 2.3%/22.3%/34.4% respectively QoQ.

On a sequential basis, the company's gross margins improved by 282bps due to a better product mix and a decline in input costs. Additionally, its EBITDA margins improved by 227 bps sequentially, driven by operating leverage resulting from improved capacity utilization.

The company has incurred a Capex of Rs 226 Cr in FY24. Recently, a Greenfield project at the Tarapur facility for dermatology products has been commenced and the ramp is planned through the H1FY25.

Sector Outlook: Positive

Company Outlook & Guidance: In the API sector, a positive shift in the export landscape is anticipated in the near future, supported by interest rate reductions, low stock levels, and an upswing in demand.

Current Valuation: PE 20x for FY26E earnings (**Earlier Valuation:** PE 20x)

Current TP: Rs 570/share (Earlier TP: Rs 570/share)

Recommendation: BUY

Financial Performance

Aarti Drugs reported Q4FY24 results that exceeded our expectations. Revenue, EBITDA, and PAT grew by 2.3%, 22.3%, and 34.4% QoQ, respectively. Gross margins improved by 282bps sequentially due to a better product mix and a decline in input costs. Additionally, EBITDA margins improved by 227bps sequentially, driven by operating leverage from enhanced capacity utilization. In the Formula Business segment, there was a notable growth of 19% YoY. However, the specialty chemicals segment witnessed subdued numbers due to lower demand in the export segment.

In FY24, the company exhibited resilient performance despite challenges. The top line witnessed a decline of 7% YoY, primarily due to lower realizations resulting from negative rate variance and subdued demand in the export market for the APIs business. However, there was a notable improvement in gross margins, attributed to the stabilization of input costs in the latter half of FY24 and operational efficiencies across most product lines.

In FY24, the company invested a total of Rs 226 Cr in capital expenditures. Recently, a Greenfield project for dermatology products at the Tarapur facility has been initiated, with plans for ramping up operations through the first half of FY25. Additionally, the Greenfield project for specialty chemicals in Gujarat remains on track, with the company intending to commence operations by Q1FY25.

Outlook: Amidst challenges such as heightened interest rates, dollar shortages, destocking, supply chain hurdles, and conservative ordering, export demand faced difficulties in select regions during FY24. However, there is an anticipation of a positive shift in the export landscape in the near future. This optimism is driven by expectations of interest rate reductions, low stock levels, and an upswing in demand.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	620	2.3	-16.5	680	-8.8
EBITDA	86	22.3	-8.2	80	7.3
EBITDA Margin	13.9%	227	125	11.8%	-
Net Profit	49	34.4	-12.1	44	12.2
EPS (Rs)	5.3	34.4	-12.1	4.8	12.2

Source: Company, Axis Research

(CMP as of 6 May 2024)

CMP (Rs)	492
Upside /Downside (%)	15.8%
High/Low (Rs)	645/429
Market cap (Cr)	4,520
Avg. daily vol. (6m)Shrs.	15,000
No. of shares (Cr)	9.52

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	58.6	57.5	57.1
FIIIs	2.3	2.1	2.6
MFs/UTI	5.2	5.2	5.1
Banks/FIs	0.0	0.0	0.0
Others	33.9	35.3	35.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	2,599	2,950	3,288
EBITDA	325	392	450
Net Profit	175	223	268
EPS (Rs)	19	24	29
PER (x)	26.0	20.5	17.0
P/BV (x)	15.6	12.9	10.9
EV/EBITDA (x)	3.4	2.9	2.5
ROE (%)	12.9	14.2	14.6

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-0.7%	0.8%
EBITDA	-0.7%	0.8%
PAT	-1.1%	1.0%

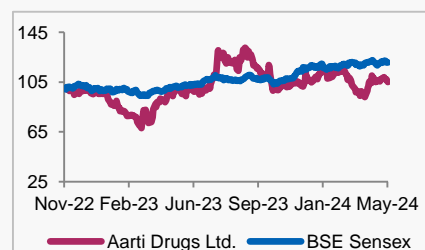
ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.
Sector Average	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Anti-diabetic in the API and Specialty Chemicals to support growth

Within the API business, the antibiotic therapeutic category made up ~45% of the total sales, while anti-diabetic products contributed around 15%. Additionally, anti-protozoal products accounted for ~17%, anti-inflammatory products for about 11%, and antifungal products for roughly 9% of the total API sales for Q4FY24. The remaining 3% was attributed to other categories.

Capex:

In FY24, the company invested Rs 226 Cr in capital expenditures. Recently, it initiated a Greenfield project at the Tarapur facility for dermatology products, with plans to ramp up operations through H1FY25. Additionally, the Greenfield project in Gujarat for Specialty Chemicals remains on track, with plans for commencement in Q1FY25. With these initiatives, the average operating leverage is expected to come into play in H2FY25, driven by improved capacity utilization.

Key Risks to our Estimates and TP

- Global Economic slowdown may lead to low demand for APIs.
- A fall in realization may impact the profitability of the company.
- An increase in debt levels may impact the profitability of the company.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,950	3,288	2,971	3,263	-0.7%	0.8%
EBITDA	392	450	395	447	-0.7%	0.8%
PAT	223	268	225	265	-1.1%	1.0%

Source: Company, Axis Securities

Q4FY24 Results Review: Aarti Drugs Ltd

Particulars (INR Cr)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Net Sales	742	661	642	606	620	-16.5	2.3
Growth (%)	6.9%	6.3%	-6.7%	-8.7%	-16.5%		
Total Expenditure	649	577	565	536	534	-17.7	-0.3
Raw Material Consumed	446	409	396	401	367	-17.9	-8.6
Purchase of stock in trade	22	39	42	-22	20		
Stock Adjustment	47	-2	-9	26	10		
% of sales	69.4%	67.5%	66.9%	66.9%	64.0%		
Gross margins (%)	30.6%	32.5%	33.1%	33.1%	36.0%	539	282
Employee Expenses	25	25	25	26	26	1.3	1.0
% of sales	3.4%	3.8%	4.0%	4.2%	4.2%		
Other Expenses	108	105	111	105	111	3.1	5.9
% of sales	14.5%	15.9%	17.2%	17.3%	17.9%		
EBITDA	94	84	76	70	86	-8.2	22.3
EBITDAM (%)	12.6%	12.7%	11.9%	11.6%	13.9%	125	227
Interest	9	9	8	8	9		
Depreciation	13	13	13	13	14	8.6	7.3
Other Income	1	1	1	2	1		
Exceptional Items	0	0	0	0	0		
PBT	73	64	56	52	64	-12.4	24.5
Tax	17	16	17	15	15		
Tax (%)	23.3%	24.5%	29.6%	28.8%	23.1%		
Reported PAT	56.2	48.1	39.6	36.7	49.4	-12.1	34.4

Source: Company, Axis Securities

Revenue Breakup

Particulars (Rs Cr)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
APIs	631	525	509	485	501	-20.6	3.3
Formulations	57	90	87	79	68	19.0	-14.8

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Sales	2,716	2,599	2,950	3,288
Growth (%)	9.1%	-4.3%	13.5%	11.4%
Total Expenditure	2,410	2,274	2,558	2,837
Raw Material Consumed	1,888	1,754	1,971	2,196
Gross margins	30.5%	32.5%	33.2%	33.2%
Employee Expenses	92	88	103	115
% of sales	3.4%	3.4%	3.5%	3.5%
Other Expenses	430	431	484	526
% of sales	15.8%	16.6%	16.4%	16.0%
EBIDTA	306	325	392	450
EBITDAM (%)	11.3%	12.5%	13.3%	13.7%
Depreciation	50	63	69	71
EBIT	255	261	323	379
EBITM (%)	9.4%	10.1%	11.0%	11.5%
Interest	33	39	36	36
Other Income	2	8	6	9
PBT	224	230	293	352
Tax Rate (%)	24.0%	24.0%	24.0%	24.0%
Tax	58	55	70	85
Reported PAT	167	175	223	268

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Share Capital	92.6	92.6	92.6	92.6
Reserves & Surplus	1,100	1,266	1,479	1,737
Shareholders Fund	1,193	1,358	1,571	1,830
Total Debt	609	655	605	605
- Deferred Tax (Net)	71	71	71	71
- Trade Payables	480	463	525	585
Provisions	12	10	10	10
Others	57	90	101	111
Total Liabilities	2421	2647	2883	3212
Gross Block	1,219	1,669	1,819	1,869
Depreciation	546	609	679	750
% of GB	44.8%	36.5%	37.3%	40.1%
Net Block	673	1,060	1,141	1,120
CWIP	210	10	10	10
- Fixed Assets	887	1,074	1,155	1,134
Investment	19	19	19	19
- Deferred Tax (Net)	0	0	0	0
Loans & Advances	12	13	13	13
Others	114	85	95	106
- Inventories	516	498	566	631
- Trade Receivables	865	826	938	1,045
- Cash	9	133	99	266
Total Assets	2,421	2,648	2,885	3,213

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
PBT	224	230	293	352
Add: Depreciation	50	63	69	71
Add: Interest	33	39	36	36
Cash flow from operations	308	333	398	459
Change in working capital	119	(99)	116	112
Taxes	58	55	70	85
Miscellaneous expenses	0	0	0	0
Net cash from operations	131	377	212	263
Capital expenditure	(172)	(250)	(150)	(50)
Change in Investments	1	(1)	0	0
Net cash from investing	(171)	(250)	(150)	(50)
Increase/Decrease in debt	71	46	(50)	0
Dividends	(9)	(9)	(9)	(9)
Proceedings from equity	0	0	0	0
Interest	(33)	(39)	(36)	(36)
Others	(0)	0	0	(0)
Net cash from financing	27	(3)	(96)	(46)
Net Inc./(Dec.) in Cash	(13)	124	(34)	167
Opening cash balance	22	9	133	99
Closing cash balance	9	133	99	266

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth	9.1	(4.3)	13.5	11.4
OPM	11.3	12.5	13.3	13.7
Oper. profit growth	(7.2)	6.2	20.8	14.8
COGS / Net sales	69.5	67.5	66.8	66.8
Overheads/Net sales	19.2	20.0	19.9	19.5
Depreciation / G. block	4.1	3.8	3.8	3.8
Effective interest rate	24.0	24.0	24.0	24.0
Net wkg.cap / Net sales	0.4	0.3	0.3	0.3
Net sales / Gr block (x)	2.2	1.6	1.6	1.8
RoCE	14.2	13.0	14.9	15.6
Debt / equity (x)	0.5	0.5	0.4	0.3
Effective tax rate	24.0	24.0	24.0	24.0
RoE	14.0	12.9	14.2	14.6
Payout ratio (Div/NP)	10.2	10.2	10.2	10.2
EPS (Rs.)	18.0	18.9	24.0	28.9
EPS Growth	(18.8)	5.0	27.3	20.2
CEPS (Rs.)	23.4	25.7	31.5	36.6
DPS (Rs.)	1.0	1.0	1.0	1.0

Source: Company, Axis Securities

Aarti Drugs PriceChart and Recommendation History



Date	Reco	TP	Research
01-Feb-22	HOLD	540	Result Update
11-May-22	HOLD	450	Result Update
28-Jul-22	HOLD	435	Result Update
21-Oct-22	BUY	550	Result Update
31-Jan-23	BUY	490	Result Update
02-May-23	BUY	600	Top Picks
01-Jun-23	BUY	600	Top Picks
01-Jul-23	BUY	600	Top Picks
25-Jul-23	BUY	665	Result Update
20-Oct-23	BUY	610	Result Update
29-Jan-24	BUY	570	Result Update
07-May-24	BUY	570	Result Update

Source: Axis Securities

About the analyst



Analyst: Ankush Mahajan

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Sector: Midcaps/ Pharma Sector

Analyst Bio: Ankush Mahajan is MBA (Finance) from SMVDU with over 12 years of research experience in the Midcaps/ Pharma Sector

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HOLD	Between 10% and -10%
SELL	Less than -10%
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NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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