

## Aarti Industries

### Controlling the controllables amid so many 'ifs and buts'

Aarti Industries' (ARTO) 4QFY25 EBITDA came in a tad better than our and consensus estimates led by volume led performance (17% YoY) across key verticals. Pricing pressure across the key value chains continued. The management commentary on volume trajectory across energy as well as non-energy end-user verticals was encouraging. While the management has maintained its 3-yr guidance (Rs18bn-Rs22bn by FY28), it did not share expectations for FY26 amid global uncertainty and too many moving variables. We believe that an improved volume momentum (led by restocking and a favourable base) should enable ARTO to report ~21% YoY EBITDA growth in FY26. Operating leverage gains should offset the impact of negative pricing incrementally, in our view. ARTO's EBITDA over the last seven years (FY19-25) has been hovering around Rs~10bn, despite incurring a cumulative capex of Rs~85bn. While the multiple 'ifs and buts' still remain, ARTO is finally focusing on the controllables such as cutting capex, prudent capital allocation and implementing cost rationalization measures. We resume coverage on ARTO with ADD rating by valuing it at 25x PE on FY27E EPS. While we don't expect the return ratio and margin profile to revert to old normal in the near term, trajectory should improve going ahead. Continued volume-led growth coupled with better quality of earnings are the key re-rating triggers for the stock, in our view.

#### Operating performance update

ARTO's ~10% YoY consolidated revenue growth was led by a combination of ~17% YoY volume growth and negative pricing of ~7% YoY. On QoQ basis, Energy/Non-Energy volume grew by 21%/14%. While margin came in lower on YoY basis amid pricing pressure, ARTO delivered improvement on a sequential basis (Gross margin/EBITDA margin were up 266bps/114bps). On full-year basis, EBITDA came in almost flat. Working capital cycle improved mainly due to stretched payables pertaining to Aniline (WC days down at 62 days of sales vs 87 days in FY24). Capex and net debt for FY25 stood at Rs~14bn and Rs~35bn, respectively. The management has guided for Rs10bn capex for FY26. ETR for FY26 should remain in mid-single digits.

#### Ramping up of existing capacities across value chains

The management indicated that barring Agchem, all other end-user industries are showing signs of improvement, wherein volume momentum is expected to continue. Agchem inventory has also stabilised now; however, Chinese overcapacity still remains a challenge, mainly impacting price. We believe that the Agchem vertical should recover after two consecutive years of revenue decline, mainly led by volume. In MMA, ARTO expects full ramp-up of existing capacity in the next two years (62% utilisation in FY25), led by market development activities across regions. PDA chain is showing improvement on the back of base effect and USA tariffs on China. NT and Ethylation were underutilized owing to their major salience in Agchem. Overall, we are building in Revenue/EBITDA/APAT CAGR of 22%/28%/48% over FY25-FY27E.

**Risks:** Adverse impact of tariff, continued dumping and demand weakness etc.

#### Financial and valuation summary

YE Mar (Rs mn)	4QFY25A	4QFY24A	YoY (%)	3QFY25A	QoQ (%)	FY25A	FY26E	FY27E
Revenues	19,490	17,730	9.9	18,400	5.9	72,710	86,749	1,07,470
EBITDA	2,680	2,830	(5.3)	2,320	15.5	10,010	12,085	16,488
EBITDA margin (%)	13.8	16.0	(13.9)	12.6	9.1	13.8	13.9	15.3
Adj. Net profit	950	1,320	(28.0)	463	105.2	3,280	4,858	7,222
Adj. EPS (Rs)	2.6	3.6	(28.0)	1.3	105.2	9.1	13.4	19.9
EPS growth (%)						(20.7)	47.2	48.7
PE (x)						50.3	34.2	23.0
EV/EBITDA (x)						20.1	16.9	12.3
PBV (x)						3.0	2.8	2.6
RoE (%)						6.1	8.4	11.8
RoCE (%)						6.0	7.8	9.6

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

#### Result Update

India I Chemicals

08 May, 2025

#### ADD

Price: Rs449

Target Price: Rs500

Forecast return: 11%

Institutional Research

#### Market Data

Bloomberg:	ARTO IN
52 week H/L:	767/344
Market cap:	Rs162.6bn
Shares Outstanding:	362.5mn
Free float:	50.8%
Avg. daily vol. 3mth:	16,20,933

Source: Bloomberg

#### Changes in the report

Rating:	-
Target price:	-
EPS:	-

Source: Centrum Broking

#### Shareholding pattern

	Mar-25	Dec-24	Sep-24	Jun-24
Promoter	42.2	42.4	42.6	43.2
FII	6.3	7.3	9.7	10.6
DII	20.0	17.9	18.1	18.6
Public/other	31.5	32.4	29.6	27.6

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum 4QFY25e	Actual 4QFY25	Variance
Revenue	18,794	19,490	3.7
EBITDA	2,481	2,680	8.0
EBITDA margin	13.2%	13.8%	55bps
Adj. PAT	581	950	63.5

Source: Bloomberg, Centrum Broking



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Chemicals

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY26E New	FY26E Old	% chg	FY27E New	FY27E Old	% chg
Revenue	86,749	86,749	-	1,07,470	1,07,470	-
EBITDA	12,085	12,085	-	16,488	16,488	-
EBITDA margin	13.9%	13.9%	-	15.3%	15.3%	-
Adj. PAT	4,858	4,858	-	7,222	7,222	-

Source: Centrum Broking

### Company versus NIFTY Mid Cap 100

	1m	6m	1 year
arto in equity	23.2	(5.4)	(36.5)
NIFTY Mid Cap 100	7.4	(5.5)	8.4

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY26E	FY27E
Revenue growth	19.3%	23.9%
EBITDA growth	20.7%	36.4%
EBITDA margin	13.9%	15.3%
APAT Growth	47.1%	48.7%

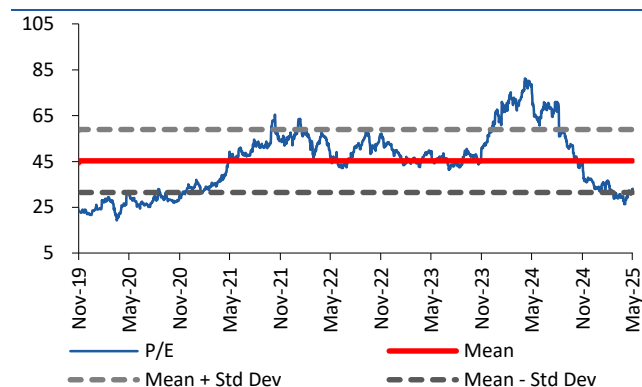
Source: Centrum Broking

### Valuation

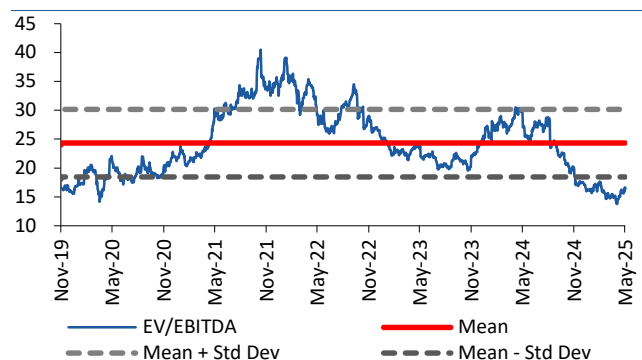
ARTO has underperformed peers over the last 3-4 years, wherein EBITDA growth has been muted despite consistent increase in capex. While the 'ifs and buts' still remain, ARTO is finally focusing on the controllables such as cutting capex, prudent capital allocation and implementing cost rationalization measures etc. We resume coverage on ARTO with ADD rating by valuing it at 25x PE on FY27E EPS. Continued volume-led growth coupled with better quality of earnings could be the key re-rating triggers for the stock, in our view.

Valuation	Rs/share
FY27E EPS	20
Target PE	25
<b>Target price</b>	<b>500</b>
CMP	458
<b>Upside</b>	<b>9%</b>

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

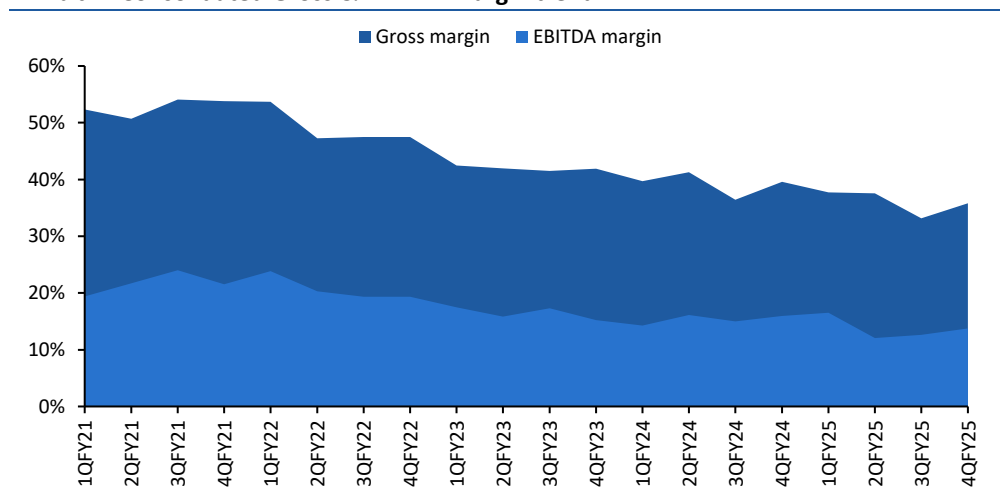
**Exhibit 1: 4QFY25 Consolidated quarterly performance**

Particulars (Rs mn)	4QFY24	3QFY25	4QFY25	YoY%	QoQ%	FY24	FY25	YoY%
<b>Net Sales</b>	<b>17,730</b>	<b>18,400</b>	<b>19,490</b>	<b>9.9%</b>	<b>5.9%</b>	<b>63,730</b>	<b>72,720</b>	<b>14.1%</b>
COGS	10,710	12,300	12,510	16.8%	1.7%	38,790	46,530	20.0%
<b>Gross Profit</b>	<b>7,020</b>	<b>6,100</b>	<b>6,980</b>	<b>-0.6%</b>	<b>14.4%</b>	<b>24,940</b>	<b>26,190</b>	<b>5.0%</b>
Staff costs	1,000	1,050	990	-1.0%	-5.7%	4,030	4,220	4.7%
Other expenses	3,190	2,730	3,310	3.8%	21.2%	11,120	11,950	7.5%
Total expenses	14,900	16,080	16,810	12.8%	4.5%	53,940	62,700	16.2%
<b>EBITDA</b>	<b>2,830</b>	<b>2,320</b>	<b>2,680</b>	<b>-5.3%</b>	<b>15.5%</b>	<b>9,790</b>	<b>10,020</b>	<b>2.3%</b>
Depreciation	980	1,110	1,130	15.3%	1.8%	3,770	4,340	15.1%
EBIT	1,850	1,210	1,550	-16.2%	28.1%	6,020	5,680	-5.6%
Interest	590	850	640	8.5%	-24.7%	2,110	2,750	30.3%
Other income	-	46	-30	-	-165.2%	80	126	57.5%
Exceptional items	-	-	-	-	-	-	20	-
PBT (bei)	1,260	406	880	-30.2%	116.7%	3,990	3,056	-23.4%
PBT	1,260	406	880	-30.2%	116.7%	3,990	3,076	-22.9%
Tax	-60	-57	-70	16.7%	22.8%	-200	-227	13.5%
PAT	1,320	463	950	-28.0%	105.2%	4,190	3,303	-21.2%
<b>Adj. PAT</b>	<b>1,320</b>	<b>463</b>	<b>950</b>	<b>-28.0%</b>	<b>105.2%</b>	<b>4,190</b>	<b>3,303</b>	<b>-21.2%</b>
EPS	3.6	1.3	2.6	-28.0%	105.2%	11.6	9.1	-21.2%

Margins (%)	4QFY24	3QFY25	4QFY25	YoY%	QoQ%	FY24	FY25	YoY%
Gross margin	39.6%	33.2%	35.8%	-378bps	266bps	39.1%	36.0%	-312bps
EBITDA margin	16.0%	12.6%	13.8%	-221bps	114bps	15.4%	13.8%	-158bps
EBIT margin	10.4%	6.6%	8.0%	-248bps	138bps	9.4%	7.8%	-164bps
PBT margin	7.1%	2.2%	4.5%	-258bps	232bps	6.3%	4.2%	-203bps
PAT margin	7.4%	2.5%	4.9%	-256bps	237bps	6.6%	4.5%	-203bps

Common Size	4QFY24	3QFY25	4QFY25	YoY%	QoQ%	FY24	FY25	YoY%
COGS	60.4%	66.8%	64.2%	378bps	-266bps	60.9%	64.0%	312bps
Staff costs	5.6%	5.7%	5.1%	-56bps	-63bps	6.3%	5.8%	-52bps
Other expenses	18.0%	14.8%	17.0%	-101bps	215bps	17.4%	16.4%	-102bps
Depreciation	5.5%	6.0%	5.8%	27bps	-23bps	5.9%	6.0%	5bps
Interest	3.3%	4.6%	3.3%	-4bps	-134bps	3.3%	3.8%	47bps
Other income	0.0%	0.3%	-0.2%	-15bps	-40bps	0.1%	0.2%	5bps
ETR	11.1%	17.2%	17.0%	593bps	-20bps	-5.0%	-7.4%	-237bps

Source: Company Data, Centrum Broking

**Exhibit 2: Consolidated Gross & EBITDA margin trend**

Source: Company Data, Centrum Broking

**Exhibit 3: Annual end-user industry wide growth trend**

Revenue by end-use	FY22	FY23	FY24	FY25
Agchem & Fertilisers	23%	30%	21%	18%
Dyes, Pigments & Printing	13%	12%	12%	12%
Energy	15%	15%	34%	36%
Pharma	19%	18%	9%	10%
Polymer & Additives	17%	12%	9%	15%
Others	13%	13%	15%	9%

Revenue by end-use (Rsmn)	FY22	FY23	FY24	FY25
Agchem & Fertilisers	12,591	19,857	13,381	13,088
Dyes, Pigments & Printing	7,117	7,943	7,646	8,725
Energy	8,212	9,928	21,665	26,176
Pharma	10,402	11,914	5,735	7,271
Polymer & Additives	9,307	7,943	5,735	10,907
Others	7,117	8,605	9,558	6,544

Growth YoY	FY22	FY23	FY24	FY25
Agchem & Fertilisers		58%	-33%	-2%
Dyes, Pigments & Printing		12%	-4%	14%
Energy		21%	118%	21%
Pharma		15%	-52%	27%
Polymer & Additives		-15%	-28%	14%
Others		21%	11%	14%

Source: Company Data, Centrum Broking

**Exhibit 4: Quarterly end-user industry wide growth trend**

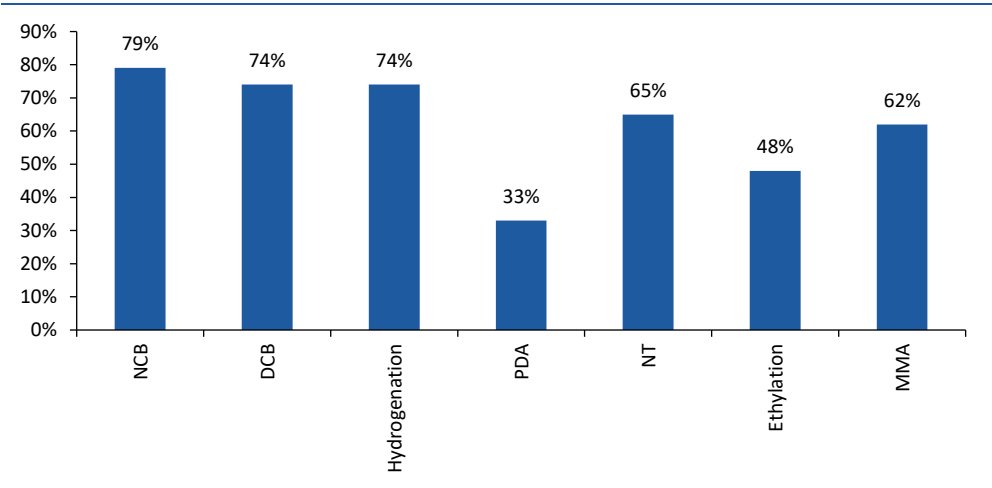
Revenue by end-use	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Agchem & Fertilisers	20%	18%	16%	19%
Dyes, Pigments & Printing	14%	10%	13%	12%
Energy	41%	32%	34%	35%
Pharma	8%	11%	12%	11%
Polymer & Additives	8%	18%	17%	15%
Others	9%	11%	8%	7%

Revenue by end-use (Rsmn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Agchem & Fertilisers	3,710	2,930	2,944	3,703
Dyes, Pigments & Printing	2,597	1,628	2,392	2,339
Energy	7,606	5,210	6,256	6,822
Pharma	1,484	1,791	2,208	2,144
Polymer & Additives	1,484	2,930	3,128	2,924
Others	1,670	1,791	1,472	1,364

QoQ growth	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Agchem & Fertilisers		-21%	0%	26%
Dyes, Pigments & Printing		-37%	47%	-2%
Energy		-32%	20%	9%
Pharma		21%	23%	-3%
Polymer & Additives		97%	7%	-7%
Others		7%	-18%	-7%

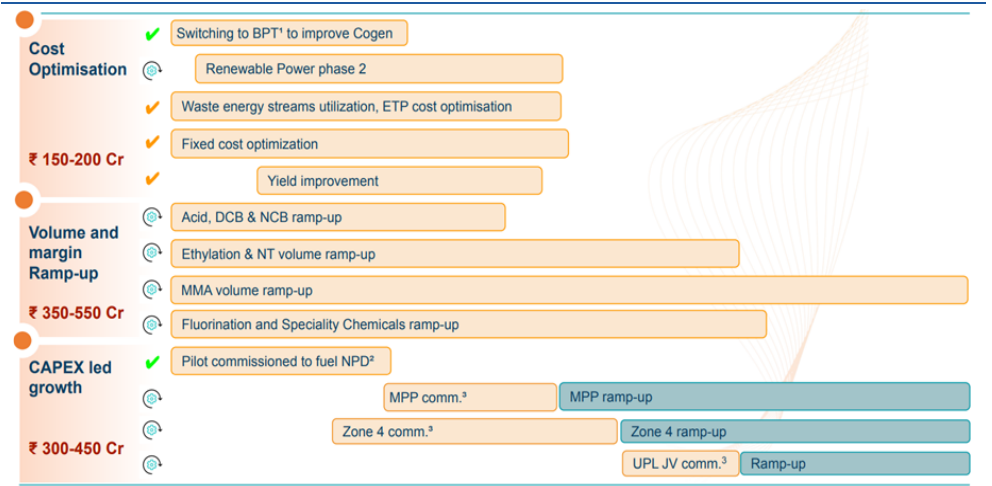
Source: Company Data, Centrum Broking

Exhibit 5: Key value chain wise capacity utilisation for FY25



Source: Company Data, Centrum Broking

Exhibit 6: EBITDA growth drivers over the period FY26-28



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Revenues</b>	<b>66,190</b>	<b>63,720</b>	<b>72,710</b>	<b>86,749</b>	<b>1,07,470</b>
Operating Expense	38,417	38,800	46,550	55,432	67,802
Employee cost	3,853	4,040	4,220	5,025	6,010
Others	13,030	11,120	11,930	14,207	17,171
<b>EBITDA</b>	<b>10,890</b>	<b>9,760</b>	<b>10,010</b>	<b>12,085</b>	<b>16,488</b>
Depreciation & Amortisation	3,105	3,780	4,340	4,539	5,090
<b>EBIT</b>	<b>7,785</b>	<b>5,980</b>	<b>5,670</b>	<b>7,546</b>	<b>11,397</b>
Interest expenses	1,683	2,110	2,750	2,752	2,847
Other income	9	80	140	298	251
<b>PBT</b>	<b>6,111</b>	<b>3,950</b>	<b>3,060</b>	<b>5,093</b>	<b>8,801</b>
Taxes	659	(210)	(240)	235	1,579
Effective tax rate (%)	10.8	5.3	7.8	4.6	17.9
<b>PAT</b>	<b>5,452</b>	<b>4,160</b>	<b>3,300</b>	<b>4,858</b>	<b>7,222</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>5,452</b>	<b>4,160</b>	<b>3,300</b>	<b>4,858</b>	<b>7,222</b>
Extraordinary items	0	0	(20)	0	0
<b>Reported PAT</b>	<b>5,452</b>	<b>4,160</b>	<b>3,280</b>	<b>4,858</b>	<b>7,222</b>
Ratios					
YE Mar	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Growth (%)</b>					
Revenue	20.9	(3.7)	14.1	19.3	23.9
EBITDA	(1.8)	(10.4)	2.6	20.7	36.4
Adj. EPS	(5.1)	(23.7)	(20.7)	47.2	48.7
<b>Margins (%)</b>					
Gross	42.0	39.1	36.0	36.1	36.9
EBITDA	16.5	15.3	13.8	13.9	15.3
EBIT	11.8	9.4	7.8	8.7	10.6
Adjusted PAT	8.2	6.5	4.5	5.6	6.7
<b>Returns (%)</b>					
ROE	11.6	8.1	6.1	8.4	11.8
ROCE	9.3	7.1	6.0	7.8	9.6
ROIC	8.9	6.6	5.6	7.2	9.0
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.1	0.9	0.9	0.9	1.0
Debtors	56	51	40	39	41
Inventory	93	103	102	99	94
Creditors	36	44	69	66	45
Net working capital	106	89	68	67	69
<b>Solvency (x)</b>					
Net debt-equity	0.5	0.6	0.6	0.7	0.6
Interest coverage ratio	6.5	4.6	3.6	4.4	5.8
Net debt/EBITDA	2.5	3.1	3.5	3.2	2.3
<b>Per share (Rs)</b>					
Adjusted EPS	15.0	11.5	9.1	13.4	19.9
BVPS	135.7	145.9	154.6	162.6	174.4
CEPS	23.6	21.9	21.1	25.9	34.0
DPS	2.5	1.5	1.0	5.5	8.1
Dividend payout (%)	16.6	13.0	11.0	40.7	40.6
<b>Valuation (x)</b>					
P/E	30.5	39.9	50.3	34.2	23.0
P/BV	3.4	3.1	3.0	2.8	2.6
EV/EBITDA	17.7	20.1	20.1	16.9	12.3
Dividend yield (%)	0.5	0.3	0.2	1.2	1.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Equity share capital	1,810	1,810	1,810	1,810	1,810
Reserves & surplus	47,390	51,090	54,240	57,118	61,410
Shareholders fund	49,200	52,900	56,050	58,928	63,220
Minority Interest	7	10	0	0	0
Total debt	28,740	31,840	37,890	38,824	38,824
Non Current Liabilities	2,420	2,240	1,740	3,132	3,289
Def tax liab. (net)	0	0	0	0	0
<b>Total liabilities</b>	<b>80,367</b>	<b>86,990</b>	<b>95,680</b>	<b>1,00,884</b>	<b>1,05,332</b>
Gross block	62,530	74,510	85,130	97,130	1,07,130
Less: acc. Depreciation	(14,240)	(18,020)	(22,360)	(26,899)	(31,989)
Net block	48,290	56,490	62,770	70,231	75,141
Capital WIP	9,890	10,520	12,740	10,910	7,637
Net fixed assets	58,180	67,010	75,510	81,141	82,778
Non Current Assets	2,871	4,230	6,190	3,714	2,228
Investments	170	230	480	0	0
Inventories	10,310	11,600	14,540	15,593	19,318
Sundry debtors	9,400	8,260	7,860	10,695	13,250
Cash & Cash Equivalents	2,008	1,300	2,950	451	1,684
Loans & advances	0	0	0	0	0
Other current assets	2,870	3,530	3,590	1,795	1,257
Trade payables	4,050	5,210	12,370	7,593	9,288
Other current liab.	1,392	3,960	3,070	4,912	5,894
Provisions	0	0	0	0	0
Net current assets	19,146	15,520	13,500	16,029	20,326
<b>Total assets</b>	<b>80,367</b>	<b>86,990</b>	<b>95,680</b>	<b>1,00,884</b>	<b>1,05,332</b>

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Profit Before Tax	6,111	3,950	3,050	5,093	8,801
Depreciation & Amortisation	3,105	3,780	4,340	4,539	5,090
Net Interest	1,683	2,110	2,750	2,752	2,847
Net Change – WC	3,211	3,060	2,310	(5,028)	(3,064)
Direct taxes	(909)	(900)	70	(235)	(1,579)
<b>Net cash from operations</b>	<b>13,192</b>	<b>12,040</b>	<b>12,430</b>	<b>6,822</b>	<b>11,845</b>
Capital expenditure	(13,263)	(13,280)	(13,860)	(10,170)	(6,727)
Acquisitions, net	0	0	0	0	0
Investments	(40)	(60)	0	480	0
Others	0	240	(120)	2,774	1,737
<b>Net cash from investing</b>	<b>(13,303)</b>	<b>(13,100)</b>	<b>(13,980)</b>	<b>(6,916)</b>	<b>(4,990)</b>
<b>FCF</b>	<b>(111)</b>	<b>(1,060)</b>	<b>(1,550)</b>	<b>(94)</b>	<b>6,854</b>
Issue of share capital	0	0	(100)	0	0
Increase/(decrease) in debt	3,060	3,100	2,490	934	0
Dividend paid	(906)	(540)	(360)	(1,979)	(2,930)
Interest paid	(1,683)	(2,110)	(2,770)	(2,752)	(2,847)
Others	(90)	(95)	0	1,392	157
<b>Net cash from financing</b>	<b>381</b>	<b>355</b>	<b>(740)</b>	<b>(2,405)</b>	<b>(5,621)</b>
Net change in Cash	270	(705)	(2,290)	(2,499)	1,233

Source: Company, Centrum Broking

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#### Aarti Industries



Source: Bloomberg



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