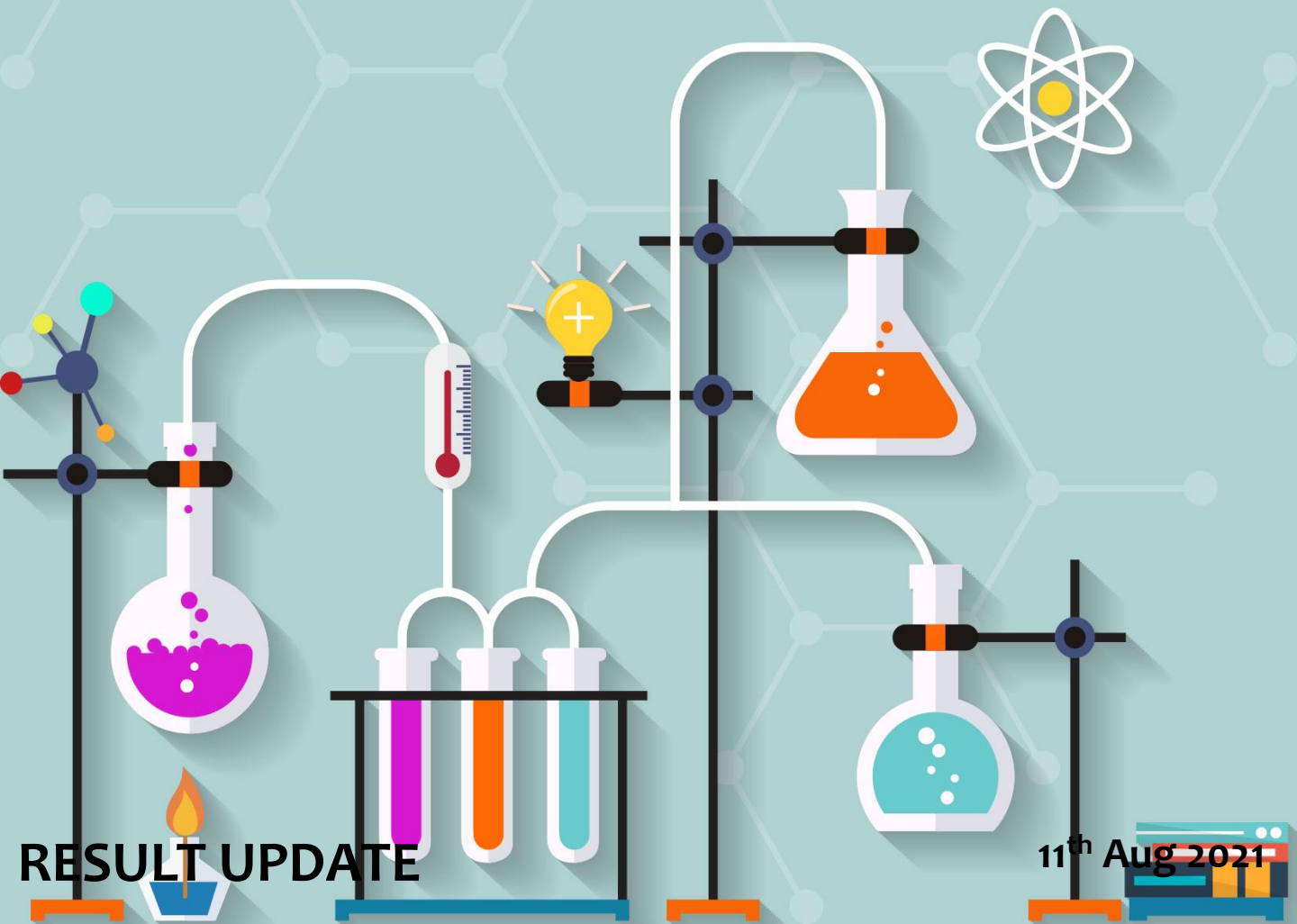


# Aarti Industries Ltd.



**RESULT UPDATE**

**11<sup>th</sup> Aug 2021**

# Aarti Industries Ltd.

Strong show, margin positively surprises

CMP INR 924	Target INR 1,050	Potential Upside 13.6%	Market Cap (INR mn) 334,950	Recommendation <b>ACCUMULATE</b>	Sector Specialty Chemicals
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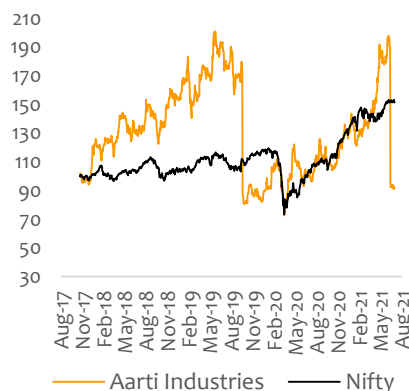
## Result highlights of Q1FY22

- Aarti Industries' consolidated revenue grew 40.5% YoY/8.9% QoQ to INR 13.2 bn. Specialty Chemical revenue grew 50.2% YoY/12.5% QoQ to INR 12.6 bn, while Pharma sales grew 23.7% YoY/7.3% QoQ to INR 2.4 bn.
- Gross Profit margin expanded 135 bps YoY to 53.7% in Q1FY22, mainly due to lower inventory. Though on QoQ basis, GPM remained mostly flat (14 bps decline).
- EBITDA grew 72.4% YoY/20.6% QoQ to INR 3.1 bn. EBITDA margin expanded 442 bps YoY/231 bps QoQ to 23.8% in Q1FY22. Margin expansion was on account of higher margin in specialty segment (18.8% margin for Q1FY22 against 15.4% margin for Q1FY21).
- PAT saw a growth of 101.4% YoY/21.1% QoQ to INR 1.6 bn, while NPM saw an expansion of 379 bps YoY/127 bps QoQ to 12.5%.

## MARKET DATA

Shares outs (mn)	362.5
Equity Cap (INR mn)	35,029
Mkt Cap (INR mn)	334,950
52 Wk H/L (INR)	987/470
Volume Avg (3m K)	327
Face Value (INR)	5
Bloomberg Code	ARTO IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	54,555
NIFTY	16,280

## Key Financials

Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	41,676	41,863	45,061	56,326	73,224
EBITDA	9,651	9,773	9,815	12,673	16,842
Adj. PAT	4,917	5,361	5,235	6,669	9,152
EPS Diluted (INR)	28.2	30.8	30.0	38.3	52.5
OPM (%)	23.2%	23.3%	21.8%	22.5%	23.0%
NPM (%)	11.8%	12.8%	11.6%	11.8%	12.5%

Source: Company, KRChoksey Research

## Robust growth in specialty chemical segment aided revenue for the quarter

During the quarter, Aarti Industries' specialty chemicals segment reported strong growth of 50.2% YoY/12.5% QoQ in revenues to INR 12.6 bn, which has helped the company to post robust 40.5% YoY/8.9% QoQ growth in consolidated revenue. The company was able to clock 9-10% QoQ volume growth in its specialty segment, driven by strong demand from established markets. Revenue for specialty chemical segment was also aided by income recognition of USD 4.5 mn towards the shortfall fees in respect of the first long term contract. EBIT margin for the segment also improved from 15.5% in Q1FY21 to 18.8% in Q1FY22, as higher input costs and logistics costs for the quarter were a pass-through.

## Pharma business continued to maintain growth momentum, though margin suffered

Pharma sales grew 23.7% YoY/7.3% QoQ to INR 2.4 bn during the quarter continuing its growth momentum. However, EBIT margin for the pharma segment contracted by 350 bps YoY to 19.8% in Q1FY22 from 23.3% in Q1FY21. Margin contraction was due to higher inventory of the final products, which could not be shipped due to logistics issue. Company management is upbeat on the business visibility of the pharma segment based on i) higher volume from regulated markets, ii) value added products, and iii) new introduction of intermediates. The company is putting up additional capacities for API's and intermediates, which are expected to be operational in H2FY22.

## Expansion projects and capital expenditure

During the quarter company incurred a capex of INR 2950 mn. For the full year FY22, the company is expected to incur a total capex of INR 15 bn, inclusive of the capex incurred in Q1FY22. USFDA capacities expansions are underway, namely API unit at Tarapur and Intermediates unit at Vapi. The company expects to complete the unit for 2<sup>nd</sup> long term contract at Dahej SEZ and unit for 3<sup>rd</sup> long term contract at Jhagadia by FY23E.

## SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	44.9	46.8	47.3
FIIIs	11.9	8.7	9.0
DIIIs	13.6	15.6	14.6
Others	29.6	28.9	29.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

27.5 %

Revenue CAGR over FY21 and FY23E

32.2%

PAT CAGR over FY21 and FY23E

# Aarti Industries Ltd.

## Q1FY22 Post Result Conference Call Highlights

- Company has maintained its guidance of 25-30% growth in topline and bottom line in FY22E.
- 9-10% volume growth was achieved on QoQ basis in Q1FY22 in specialty chemicals segment.
- The company had not won any significantly large contract other than the ongoing 2<sup>nd</sup> and 3<sup>rd</sup> large contract due to Covid related uncertainty, however the company is hopeful that going forward with robust demand environment they will be able to win large contracts in future.
- Raw material cost is a pass through for the company, so higher raw material costs if persist for the subsequent quarters also, will not materially impact margin for the company.
- Container availability is a concern due to logistics issue in light of Covid related uncertainty which has resulted in lag in dispatches and inventory built up in pharma division thereby impacting pharma segment margin for the quarter.
- Despite higher capex requirement, company is targeting INR 1,600-1,700 Cr of net debt level by March 2022.
- Capex requirement will be funded partly by internal accruals, partly by debt and partly by QIP proceeds.
- Company is in capex mode for next 3-4 years, so no free cash flow generation will happen at least for next 7 years.

## Outlook & Valuation

We continue to remain positive on Aarti Industries Ltd. in the light of greater tailwinds (robust demand environment both for specialty chemicals and pharma, capacity expansion) as against relatively few challenges (China raw material sourcing, COVID related disruption, which is almost over as demand reached pre-covid levels). The company's capex plans for both its specialty chemicals and pharma segments, well-established backward integration facilities, focus on rising share of high-value products shows strong earnings visibility over the next 2-3 years. Since our last update, the shares of Aarti Industries Ltd. has appreciated by ~7% and is currently trading at a P/E of 24.1x/17.6x FY22E/23E EPS. We apply P/E multiple of 20x (earlier 17.5x) on FY23E EPS of INR 52.2 per share to arrive at a revised target price of INR 1,050 per share (earlier INR 916 per share), implying an upside potential of 13.6% over the CMP. Accordingly, we reiterate our "ACCUMULATE" rating on the shares of Aarti Industries Ltd.

# Aarti Industries Ltd.

## Income Statement

Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue from Operations</b>	<b>41,676</b>	<b>41,863</b>	<b>45,061</b>	<b>56,326</b>	<b>73,224</b>
Cost of goods sold	21,566	20,563	21,286	27,037	35,148
<b>Gross Profit</b>	<b>20,109</b>	<b>21,300</b>	<b>23,775</b>	<b>29,290</b>	<b>38,077</b>
<b>Gross Margin (%)</b>	<b>48.3%</b>	<b>50.9%</b>	<b>52.8%</b>	<b>52.0%</b>	<b>52.0%</b>
Employee expense	2,428	3,052	3,714	4,506	5,858
Other expenses	8,030	8,474	10,246	12,110	15,377
Total Operating Expense	10,458	11,527	13,960	16,616	21,235
<b>EBITDA</b>	<b>9,651</b>	<b>9,773</b>	<b>9,815</b>	<b>12,673</b>	<b>16,842</b>
<b>EBITDA Margin (%)</b>	<b>23.2%</b>	<b>23.3%</b>	<b>21.8%</b>	<b>22.5%</b>	<b>23.0%</b>
Depreciation	1,627	1,852	2,313	2,971	3,629
EBIT	8,024	7,921	7,502	9,703	13,213
Finance Cost	1,825	1,248	864	1,231	1,462
Other Income	21	88	7	56	73
Profit before Tax (PBT)	6,220	6,762	6,646	8,528	11,824
Total Tax expense	1,178	1,294	1,293	1,706	2,365
<b>Profit after Tax (PAT)</b>	<b>5,042</b>	<b>5,468</b>	<b>5,352</b>	<b>6,822</b>	<b>9,459</b>
Minority Interest	124	107	118	154	307
<b>PAT after MI</b>	<b>4,917</b>	<b>5,361</b>	<b>5,235</b>	<b>6,669</b>	<b>9,152</b>
<b>PAT Margin (%)</b>	<b>11.8%</b>	<b>12.8%</b>	<b>11.6%</b>	<b>11.8%</b>	<b>12.5%</b>
<b>Diluted EPS (INR)</b>	<b>28.22</b>	<b>30.77</b>	<b>30.04</b>	<b>38.27</b>	<b>52.52</b>

Source: Company, KRChoksey Research

## Ratios

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	23.2%	23.3%	21.8%	22.5%	23.0%
Tax rate (%)	18.9%	19.1%	19.5%	20.0%	20.0%
Net Profit Margin (%)	12.1%	13.1%	11.9%	12.1%	12.9%
RoE (%)	18.1%	17.4%	14.9%	16.2%	18.5%
RoCE (%)	16.7%	16.4%	12.5%	14.1%	15.7%
Current Ratio (x)	1.3	1.0	1.0	0.9	0.9
EPS (INR)	28.2	30.8	30.0	38.3	52.5

Source: Company, KRChoksey Research

# Aarti Industries Ltd.

## Balance Sheet

Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Share Capital	433	871	871	871	871
Reserves and surplus/Others	25,872	28,917	34,158	40,165	48,408
<b>Total Equity</b>	<b>26,308</b>	<b>29,788</b>	<b>35,029</b>	<b>41,036</b>	<b>49,279</b>
Minority Interest	840	946	122	122	122
Long term borrowings	8,148	5,808	12,681	15,000	20,000
Other Financial liabilities	1,930	2,110	2,339	2,339	2,339
Other non-current liabilities	2,032	5,509	2,244	2,747	0
Total non-current liabilities	12,111	13,427	17,264	20,086	22,339
Short term borrowings	12,908	12,297	12,241	13,000	15,000
Financial Liabilities	2,793	3,452	5,763	7,320	9,517
Short term provisions	424	399	401	502	652
Other Current liabilities	3,196	3,016	5,596	6,995	9,094
Total current liabilities	19,322	19,164	24,001	27,817	34,262
<b>SOURCES OF FUNDS</b>	<b>58,580</b>	<b>63,325</b>	<b>76,417</b>	<b>89,062</b>	<b>1,06,003</b>
Net Block	21,463	24,681	35,926	47,955	59,326
Capital work-in-progress	7,946	14,176	12,979	12,979	12,979
Goodwill	4	4	0	0	0
Financial Assets	332	370	635	635	635
Other non-current assets	3,064	4,045	3,201	3,201	3,201
Total non-current assets	32,808	43,276	52,741	64,770	76,141
Inventories	7,718	8,357	9,357	9,629	11,555
Other Financial Assets	9,667	8,891	9,812	11,603	15,083
Cash and cash equivalents	8,042	2,473	4,123	2,580	2,599
Other current assets	344	328	384	480	624
Total current assets	25,771	20,049	23,676	24,292	29,862
<b>APPLICATION OF FUNDS</b>	<b>58,580</b>	<b>63,325</b>	<b>76,417</b>	<b>89,062</b>	<b>1,06,003</b>

Source: Company, KRChoksey Research

## Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Net Cash Generated From Operations	7,362	11,021	8,727	12,271	10,390
Net Cash Flow from/(used in) Investing Activities	(7,970)	(11,241)	(13,221)	(15,000)	(15,000)
Net Cash Flow from Financing Activities	8,329	(5,349)	6,145	1,186	4,629
Net Inc/Dec in cash equivalents	7,721	(5,569)	1,650	(1,543)	19
Opening Balance	321	8,042	2,473	4,123	2,580
Closing Balance Cash and Cash Equivalents	8,042	2,473	4,123	2,580	2,599

Source: Company, KRChoksey Research

# Aarti Industries Ltd.

Aarti Industries Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
11-Aug-21	924	1,050	ACCUMULATE	Buy	More than 15%
30-Jun-21	864	916	ACCUMULATE		
17-Mar-21	644	658	HOLD	Accumulate	5% – 15%
15-Dec-20	610	658	ACCUMULATE		
12-Nov-20	542	636	BUY	Hold	0 – 5%
17-Aug-20	508	597	BUY		
15-Jun-20	435	597	BUY	Reduce	-5% – 0
27-May-20	493	597	BUY		
14-Feb-20	486	597	BUY	Sell	Less than – 5%
18-Nov-19	403	489	BUY		

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