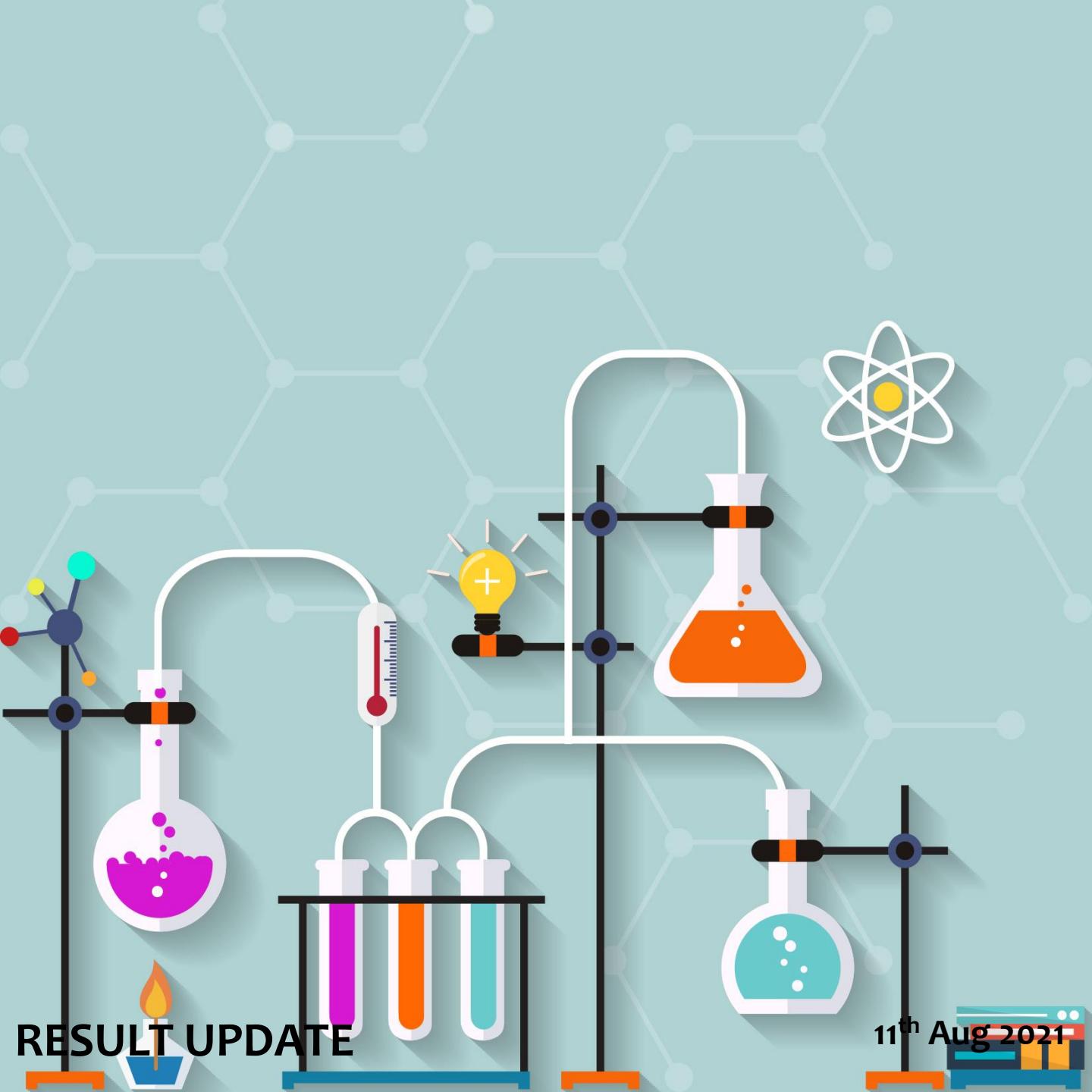


Aarti Industries Ltd.



RESULT UPDATE

11th 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 ACCUMULATE	Sector Specialty Chemicals
----------------	---------------------	---------------------------	--------------------------------	------------------------------	-------------------------------

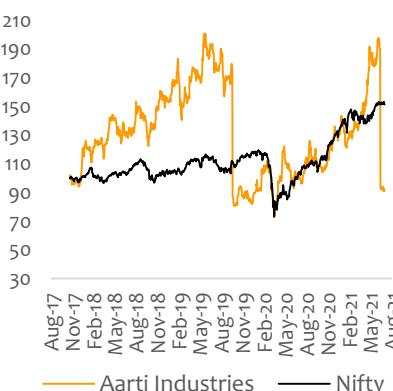
Result highlights of Q1FY22

- 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

SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	44.9	46.8	47.3
FII's	11.9	8.7	9.0
DII's	13.6	15.6	14.6
Others	29.6	28.9	29.1
Total	100	100	100

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 2nd and 3rd 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
Revenue from Operations	41,676	41,863	45,061	56,326	73,224
Cost of goods sold	21,566	20,563	21,286	27,037	35,148
Gross Profit	20,109	21,300	23,775	29,290	38,077
Gross Margin (%)	48.3%	50.9%	52.8%	52.0%	52.0%
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
EBITDA	9,651	9,773	9,815	12,673	16,842
EBITDA Margin (%)	23.2%	23.3%	21.8%	22.5%	23.0%
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
Profit after Tax (PAT)	5,042	5,468	5,352	6,822	9,459
Minority Interest	124	107	118	154	307
PAT after MI	4,917	5,361	5,235	6,669	9,152
PAT Margin (%)	11.8%	12.8%	11.6%	11.8%	12.5%
Diluted EPS (INR)	28.22	30.77	30.04	38.27	52.52

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
Total Equity	26,308	29,788	35,029	41,036	49,279
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
SOURCES OF FUNDS	58,580	63,325	76,417	89,062	1,06,003
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
APPLICATION OF FUNDS	58,580	63,325	76,417	89,062	1,06,003

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	Accumulate	5% – 15%
17-Mar-21	644	658	HOLD	Hold	0 – 5%
15-Dec-20	610	658	ACCUMULATE	Reduce	-5% – 0
12-Nov-20	542	636	BUY	Sell	Less than – 5%
17-Aug-20	508	597	BUY		
15-Jun-20	435	597	BUY		
27-May-20	493	597	BUY		
14-Feb-20	486	597	BUY		
18-Nov-19	403	489	BUY		

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities. KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.