

Axis Annual Report Analysis 2024



Aarti Industries Ltd

Adverse macro hits FY24 performance; Capex intact for long-term growth
Summary

Aarti Industries Ltd. displayed a resilient performance in FY24 despite the headwinds faced by the overall chemical industry. The company's business was impacted by factors such as reduced demand, economic slowdown in key global markets, inventory destocking, inflation, supply chain disruptions, etc. Moreover, geopolitical tensions, such as military conflicts in the Middle East, led to increased freight costs and extended transit times. Nevertheless, the company managed to achieve growth in certain end-user segments (Discretionary), partially offsetting the impact. The company concluded the year with revenue reaching Rs 7,012 Cr, an EBITDA of Rs 976 Cr, and PAT of Rs 416 Cr.

Throughout the year, the company achieved steady revenue growth QoQ, driven by increasing volumes, strategic ramp-up of long-term contracts, and a revival in the discretionary segment. The management attributes the growth in the discretionary segment to its strategic focus on reducing imbalances, such as softness in non-discretionary portfolios like agrochemicals and pharmaceuticals and encouraging demand recovery in discretionary applications like dyes, pigments, energy applications, specialty polymers, additives, etc. Additionally, the company maintained its strong presence in both local and international markets (48:52), building on its ability to supply across all geographies.

The annual report indicates that AIL plans to continue focusing on improving its product mix, expanding its product portfolio, especially in terms of CDMO offerings, and building new capacities through aggressive Capex and R&D spending. The company expects sustained recovery in discretionary segments and anticipates emerging signs of revival in the non-discretionary portfolio moving forward. The annual report also highlights AIL's efforts to build resilience through a strong, all-around focus on ESG (Environmental, Social & Governance) performance.

Key Highlights

- Business Expansion:** During the year, AIL commercialized its scale-up projects, such as NCB and acid phase I expansion. The remaining scale-up projects (NT expansion, ethylation expansion, and expansion of a few specialty chemicals) are expected to be completed by FY25.
- Secured Long-Term Contracts:** The company secured two long-term supply contracts during the year. The first, in Dec'23, was with a global agrochem major for a niche agro-intermediate, with a revenue potential of Rs 3,000 Cr over 9 years. The second contract, valued at Rs 6,000 Cr, was obtained in Jan'24 for the supply of a niche specialty chemical.
- Joint Venture with UPL:** In May'24, UPL and AIL formed a 50-50 joint venture to manufacture and market specialty chemicals. The JV will supply downstream derivatives of amines, used in various applications in the agrochemical and paint industries. The total investment for the project is Rs 300 Cr, with each partner contributing Rs 150 Cr over a two-year period.
- Renewable Energy:** During the year, the company channelled renewable energy (solar and wind) through its new 13.2 MW hybrid power plant.

Outlook & Recommendation

During the year, the company faced margin pressure due to increased peer capacities in China and demand contraction. However, we expect this to normalize steadily in the coming years. Aarti continues to invest prudently in developing its product pipeline, notably Nitro-Chloro Toulene (NCT), and plans to invest Rs 1,500-1,800 Cr in FY25. The company has a track record of strong and resilient performance in the Benzene value chain. This, coupled with a ramp-up in existing projects, will contribute to revenue from FY25 onwards. Additionally, support from MMA exports to Russia will enable the company to achieve its target EBITDA of ~Rs 1,500 Cr by FY25. Consequently, we revise our TP to 788/share valuing the company at 31x FY26E, implying a 5% upside from CMP.

Key Financials (Consolidated)

(Rs Cr)	FY23	FY24	FY25E	FY26E
Net Sales	6,619	6,372	7,321	8,785
EBITDA	1,089	976	1,420	1,924
Net Profit	547	417	628	912
EPS (Rs)	15.0	11.5	17.3	25.2
PE (x)	47	61	40	28
EV/EBITDA (x)	26	29	21	16
P/BV (x)	5.2	4.8	4.3	3.7
ROE (%)	11%	8%	11%	13%

Source: Company, Axis Research

(CMP as of 31st July, 2024)

CMP (Rs)	750
Upside /Downside (%)	5%
High/Low (Rs)	770/438
Market cap (Cr)	27,179
Avg. daily vol. (1m) Shrs.	10,45,445
No. of shares (Cr)	36.2

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	43.5	43.4	43.2
FII	10.8	10.9	10.6
DII	15.8	17.2	18.5
Others	29.8	28.4	27.6

Financial & Valuations

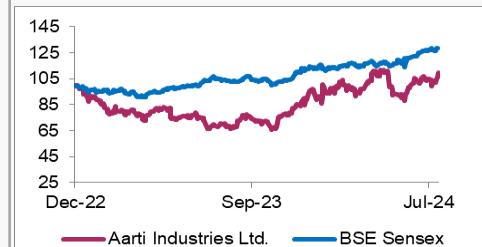
Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	6,372	7,321	8,785
EBITDA	976	1,420	1,924
Net Profit	416	628	912
EPS (Rs)	11.5	17.3	25.2
PER (x)	57.8	40.4	27.8
P/BV (x)	4.5	4.3	3.7
EV/EBITDA (x)	27.9	20.9	15.6
ROE (%)	8%	11%	13%

ESG disclosure Score**

Environmental Disclosure	72.
Social Disclosure Score	39
Governance Disclosure Score	82.3
Total ESG Disclosure Score	64.7
Sector Average	44.7

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 2022 disclosures.

Relative performance


Source: Ace Equity, Axis Securities

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Other Highlights

- **Growth Drivers:** a) Foray into expanding its portfolio of value-added products, establishing multipurpose plants; b) Capacity expansion, and c) Improving R&D and innovation capabilities along with exploring new chemical value chains and developing value-added products, d) Partnership with global companies
- **Key Competitive Strengths:** a) Integrated operations across the product chain of Benzene and Toluene; b) Co-products/Isomer balancing; c) Optimised product mix; d) Ability to meet stringent specifications; e) Focus on growth-oriented products; f) Diversified end uses; g) Supply chain not linked with China
- **Key Strategies moving forward:** a) Increasing range of products or value chains; b) Growing presence in the domestic as well as international markets, c) Broadening the scope of new and existing business opportunities, d) Exploring Sunrise Sector, f) Vertical Integration

Company Overview

Aarti Industries Limited (AIL) was established in 1984, pioneered by first-generation technocrats in India. It is a leading global specialty chemical company specializing in benzene-based derivatives. Key value chains include Nitro Chloro Benzenes, Di-Chlorobenzenes, Phenylenediamines, Nitro Toluene Value Chain, and Sulphuric Acid & downstream. Strategically located in western India with proximity to ports, the company has pioneered various product value chains and introduced new chemistries in India. AIL has effectively utilized co-products to generate value-added products due to its integrated operations across the product chains, offering over 100 products.

The company also exports its products to nearly 60 countries across North America, Europe, China, Japan, and other regions. Its specialty chemical intermediates are integral to various industries, including pharmaceuticals, agrochemicals, aromatics, dyes and pigments, energy, home and personal care (FMCG), polymers, printing inks, and rubber chemicals, among others.

AIL's strong and diversified product portfolio, along with its unparalleled expertise in advanced chemistries, provided a cushion against challenging conditions.

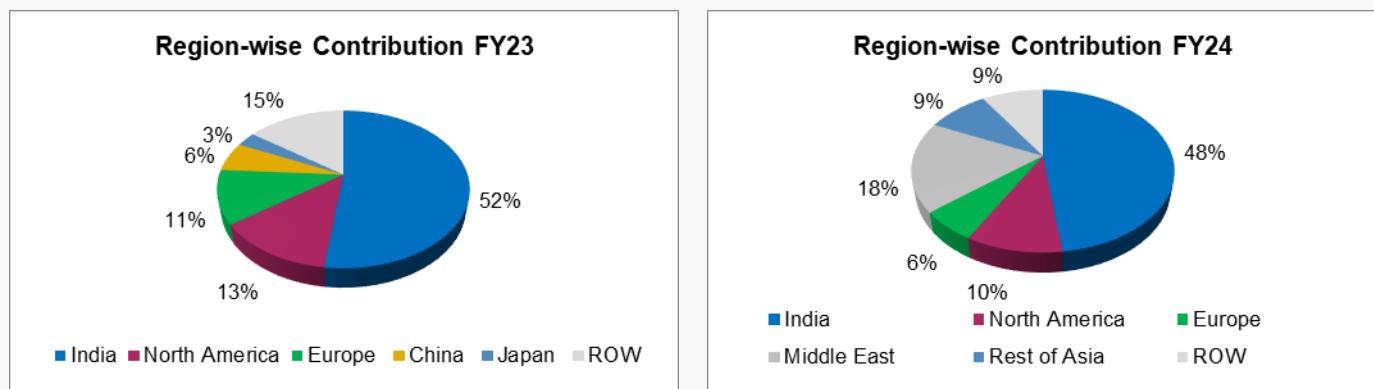
FY24 Performance Round-up

- **Revenue:** The Company's revenue declined by 4% YoY in FY24 to Rs 7,012 Cr, compared to Rs 7,282 Cr in the previous year. AIL's performance was impacted primarily due to sluggish global demand, various external factors, and a slowdown in its key markets.
- **EBITDA and EBITDA Margin:** The company reported an EBITDA of Rs 984 Cr for FY24, including other income, compared to Rs 1,089 Cr in FY23. EBITDA margins declined to 15.3%. However, the company's profitability during the year was partially supported by the contribution from value-added products, which exhibited high growth and better margins.
- **Profit After Tax:** In FY24, PAT was Rs 416 Cr, compared to Rs 545 Cr in FY23, marking a decline of 24% YoY. Earnings Per Share stood at Rs 11.49 in FY24, down from Rs 15.04 in FY23. Higher tax depreciation during the year resulted in lower tax liability and the accrual of deferred tax assets.
- **Depreciation and Interest Cost:** Depreciation increased by 22% in FY24, attributed to the capitalization of assets and the commencement of new capacities. Interest costs also rose due to mark-to-market/evaluation impacts on unhedged long-term loans and increasing interest rates.
- **Dividend:** The Company has declared a dividend of Rs 1/equity share of face value Rs 5 each, implying a cash outflow of Rs 36.2 Cr.
- **Capex:** The total Capex outgo stood at Rs 1,358 Cr for FY24 to finance expansion projects. The company plans to spend approximately Rs 1,500 Cr to 1,800 Cr in FY25. This Capex will primarily support the existing product line, expected to be fully commissioned in FY25. Additionally, expansions such as acid phase 2, escalation expansion, nitro toluene expansion, and a few specialty chemical debottlenecking projects are set to be commissioned during FY25. Major spending also includes the multipurpose plant and the entire chlorotoluenes and downstream product plants at the new site in Zagadia. These investments aim to expand manufacturing capabilities and explore new chemistry with high growth potential.
- **Debt:** Net debt increased to Rs 3,050 Cr in FY24 from Rs 2,669 Cr in FY23, primarily due to growth Capex. Debt is expected to remain higher than current levels to finance the Capex expansion. The debt-to-equity ratio remained healthy at 0.60x.

Segmental Performance

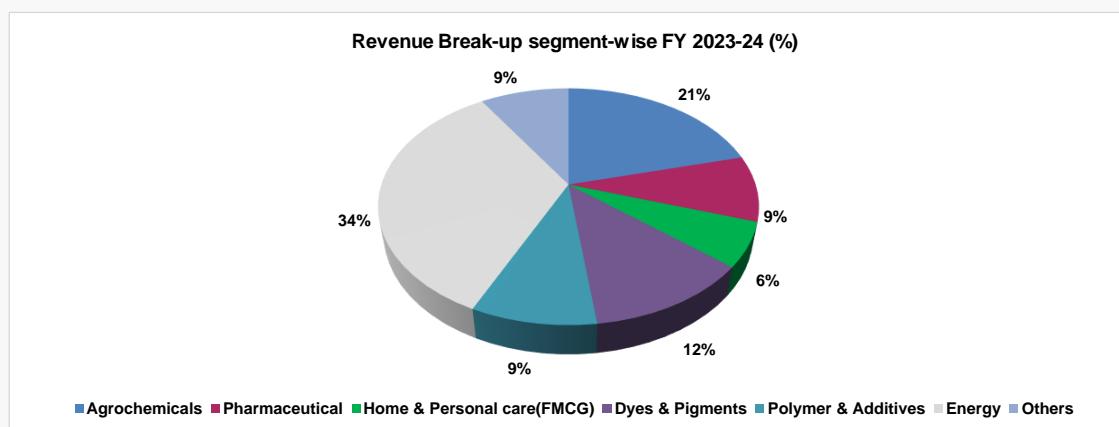
Aarti Industries Ltd. has a strong market position in the NCB-based specialty chemicals segment. Additionally, the company has a solid domestic and international presence, with domestic revenue contributing 48% and export revenue contributing 52% to the top line in FY24. During FY24, 36% of revenues came from essential/non-discretionary industry segments such as agro, pharma, and FMCG, while the remaining 64% came from discretionary segments such as dyes, pigments, printing inks, and polymer & fuel additives. Overall, the product portfolio is well-diversified, reducing dependence on individual products and enhancing the ability to withstand headwinds in specific product segments.

Exhibit 1: Region-wise Contribution



Source: Company, Axis Securities

Exhibit 2: Revenue Break-up segment-wise FY 2023-24 (%)



Source: Company, Axis Securities

Exhibit 3: Segmental Region-wise Contribution



Source: Company, Axis Securities

Key Operational Activities During the Year

AIL Secured Two-Long Term Supply Contracts

- AIL secured a contract with a global agrochem major in Dec'23 for a niche agro-intermediate, anticipating a revenue potential of Rs 3,000 Cr over 9 years starting from FY24. This intermediate is an essential component for a widely used herbicide with a sizable and steadily expanding global market. The product has been supplied to the customer for several years.
- The second contract, valued at Rs 6,000 Cr, is a 4-year agreement obtained in Jan'24 with a multinational conglomerate for the supply of a niche specialty chemical. This contract, covering CY24 to CY27, involves a product that has been supplied to the customer for several years, with consistent annual volume growth. Volumes are expected to double in CY24 compared to CY23, driven by strong demand from new applications that have emerged over the past 4-5 years. For both contracts, no additional Capex was required.

AIL has achieved sustained growth due to increased volumes, strategic expansion of long term contracts and a resurgence in discretionary portfolio volumes.

Capex Initiatives

- During the year, AIL successfully commercialized the NCB expansion and Phase 1 of the Acid Unit revamp at Vapi (Gujarat). Significant progress was also made in key projects, including the NT expansion at Jhagadia and the ethylation expansion at Dahej SEZ, with a capital expenditure of approximately Rs 200 Cr. Phase 2 of the Acid Unit expansion, as well as debottlenecking and enhancement of specialty chemical units, are currently in progress.
- The greenfield initiatives at Zone IV in Jhagadia (Gujarat), covering ~95 acres and including the MPP, pilot plant, and Chloro Toluene project, are progressing as scheduled. The Chloro Toluene project will commence in phases beginning in FY26. The Zone IV plant is designed primarily for agrochemical and pharmaceutical applications, producing niche, high-value-added products with strong EBITDA margins of 25-30%. These initiatives also create niche opportunities in custom manufacturing for the company.

Joint Venture with UPL

- In March'24, UPL Limited (UPL) and Aarti Industries Limited (AIL) formed a 50-50 joint venture to manufacture and market specialty chemicals. The JV will supply downstream derivatives of amines, which are used in various applications in the agrochemical and paint industries. Commercial supplies are anticipated to start by Q1FY27, with a peak revenue possibility of Rs 400-500 Cr expected in 2-3 years post-commercialization, (likely in FY30). The entire investment for the project is Rs 300 Cr, with each partner contributing Rs 150 Cr over a two-year period.

Key Strategies Moving Forward

Introduction of New products

AIL plans to introduce various value-added new products to carve a niche in specialized market segments. It is expanding its product portfolio with over 40 new chemistries and value-added products through an integrated value chain, including a 42,000 TPA Chloro Toluene base capacity. The company aims to rapidly commercialize products linked to the existing value chain, focusing on global demand for low-volume and high-value products across multiple segments, by leveraging its robust R&D capabilities and the forthcoming MPP assets.

AIL is expanding its existing value chain to enhance its product offerings and maintain a competitive advantage.

Expansion of Higher Margin Products

The company expects to generate an EBITDA margin of 25%-30% from the new chemistries, where it plans to invest Rs 2,500-3,000 Cr. It is anticipated that the company will achieve good returns with improving profitability from FY27 and beyond as the contribution from these high-margin products increases.

New Business Venture – Sunrise Sector

The company plans to enter new sunrise sectors such as green chemistry, battery chemicals, new-age materials, and high-end polymers. It also aims to strengthen its presence in its existing value chain of photochlorination and oxidation. Its customer-centric innovation will focus on producing products tailored to specific end-use applications, targeting high-growth potential markets such as electronic chemicals, niche energy chemicals, and specialty additives.

Strategic Value Chain and Vertical Integration

AIL aims to strategically select new value chains by rigorously evaluating multiple potential options and narrowing down the range for further preliminary analysis. The company is currently in the process of introducing a new value chain, namely chlorotoluene and its downstream products. Additionally, AIL is seeking vertical integration opportunities to enhance supply chain resilience, establish supply security, and ensure price stability by integrating key raw material streams.

Key Growth Drivers

Portfolio Expansion

AIL plans to expand its product portfolio of value-added products, by establishing multipurpose plant. It is focusing on increasing capacity for the NT and ethylation plant, expanding Acid Phase 2, and debottlenecking certain existing capacities. It also aims to strengthen its presence in its existing value chain of photochlorination and oxidation.

Improving R&D

Company is focusing on improving R&D and innovation capabilities along with exploring new chemical value chains and developing value-added products. Additionally, the company plans to foray into new sunrise sectors such as green chemistry, battery chemicals, new-age materials, and high-end polymers.

Partnership with global companies

AIL has established successful partnerships in manufacturing outsourcing, joint product development, feedstock assurance and supply, and technology sharing, leveraging its expertise to drive mutual growth and innovation in the global chemical industry.

Key R&D Highlights

Aarti Industries Limited has established a strong foundation through an integrated and well-diversified business model, emphasizing R&D and chemistry capabilities. Over the past two decades, the company has developed and commercialized various products and processes. AIL has gained expertise in a broad range of chemistries, including ammonolysis, chlorination, diazotization, Halex (fluorination), hydrogenation, and nitration, among others, at both plant and lab scales. It operates centers across Maharashtra and Gujarat and has a dedicated R&D team comprising over 250 engineers and scientists, including 19 PhDs. Currently, AIL has over 40 products in its R&D pipeline at various stages. The company is investing in R&D for products targeting various sunrise sectors, with a growing focus on sustainable and green solutions, battery chemicals, electronic chemicals, new-age materials, and high-end polymers.

AIL has strong focus on R&D and process innovation with 40+ products in R&D pipeline

Key Technology and R&D Focussed Initiatives in FY24

- A new pilot plant is set to be commissioned for the scale-up of upcoming new products. The company also has an engineering lab in Mumbai to generate scale-up data and facilitate faster commercialization.
- The company is developing new technologies to enhance its ability to serve various market segments, including pharmaceuticals, electronic chemicals, energy chemicals, and agrochemicals.
- Additionally, AIL is exploring new technologies such as pinch technology, carbon capture, and extractive distillation for implementation in new product development.

Exhibit 5: R&D Expenditure

Particulars	FY20	FY21	FY22	FY23	FY24
R&D Expenditure (Rs Cr)	65.4	86.7	73.7	96.5	85.2
R&D Expenditure as a % to net sales	1.4%	1.7%	1.1%	1.4%	1.3%

Sustainability Initiatives

The Annual Report also puts emphasis on the criticality of ESG parameters for AIL and its commitment to environmental sustainability, socially responsible business practices and prudent corporate governance policies. The company claims to have established clear and measurable objectives aligned with industry best practices and global sustainability frameworks such as GRI (Global Reporting Initiative), UNSDGs (United Nations Sustainable Development Goals, TCFD (Task Force for Climate-related Financial Disclosures.

Key Sustainability Initiatives/milestones Reached in FY24

- 11 sites with Zero Liquid Discharge ready facilities
- 92% of waste is recycled with 8% being disposed of responsibly
- 44% of total water recycled, 8200+ kl water harvested through rainwater
- 14.29% women at the board level
- Energy conservation initiatives, resulting in 6.3 Mn KWH of energy savings
- Carbon Reduction initiatives such as de-bottlenecking of waste heat boiler and utilising steam from the distillation condenser
- Employee training and coaching and other development initiatives
- Employee Engagement survey, recording improvement in employee engagement
- Employee wellness initiatives
- CSR spend of Rs 17.5 Cr

Risks & Mitigation

- 1) **Regulatory risks:** AIL's widespread geographical presence exposes it to various prevailing rules and regulations. Non-compliance with new policies or changes in existing policies could impact normal business operations.

Mitigation: The company adheres to the highest Environment, Health, and Safety (EHS) standards and has a dedicated team responsible for tracking compliance with all applicable laws and statutes. AIL has developed its own SOPs and compliance framework to ensure this adherence.

- 2) **Innovation risk:** R&D is a crucial element for sustainable growth in the specialty chemicals market. Major innovations within the company's value chain could cause significant disruptions across the industry. Therefore, the company must stay ahead of the competition through continuous innovation and focused R&D.

Mitigation: The company has two major R&D centers, supported by a strong team of PhDs and over 250 scientists to ensure a high level of innovation. AIL aims to enhance its technical skill set around niche applications with a strong customer connection, enabling the development of specialized products with unique features.

- 3) **Forex risk:** AIL earns the majority of its revenue from the export business due to its widespread operations in over 60 countries. Fluctuations in forex rates may thus impact earnings.

Mitigation: AIL has ~52% of its revenue from exports, with most earnings in USD. The company claims lower exposure to multiple currencies, which helps reduce cross-currency fluctuations. AIL enters hedging contracts with maturities ranging from three months to three years to mitigate the impact of unfavourable forex movements.

- 4) **Raw material risk:** This risk pertains to the potential negative impact on the company's business due to disruptions in the supply or significant price fluctuations of raw materials. All manufacturing organizations face the inherent risk of unavailability or limited availability of key raw materials. Additionally, fluctuations in costs may impact earnings.

Mitigation: AIL's long-standing vendor relationships enable it to maintain an uninterrupted flow of raw materials at competitive prices. Additionally, the company is fully integrated for key products, which limits the impact of raw material supply shortages. AIL also signs cost-plus pricing contracts for various specialty chemicals to shield itself from price fluctuations, helping to protect margins in scenarios of rising input costs.

Financial Statement Analysis

Profitability Analysis

Particulars (Rs Cr)	FY23	FY24	Change	Comments/Analysis
Net Sales	6,619	6,372	-3.7%	Revenue degrew due to the subdued demand environment and economic slowdown in key global markets.
COGS	3,842	3,880	1.0%	COGS was marginally higher YoY
Gross Profits	2,777	2,492	-10.3%	Gross Profit growth impacted by lower revenue
Operating Expenses	1,688	1,516	-10.2%	Operating Expenses degrew on account of a 15% decrease in Other Expenses.
EBIT	780	606	-22.3%	EBIT impacted due to lower sales during the year.
Interest	168	211	25.6%	Higher Interest costs due to the increase in debt levels.
PAT	547	416	-23.9%	PAT performance reflected the operational performance of the Company.
EPS	15.0	11.5	-23.3%	EPS fell on a YoY basis but was in line with PAT.

Source: Company; Axis Securities

Growth Indicators

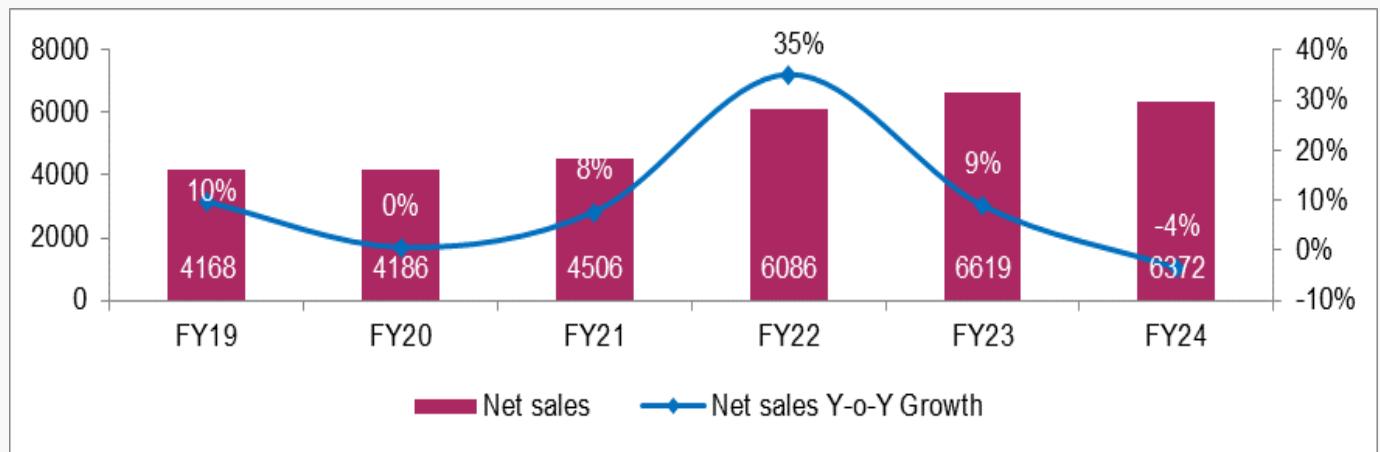
Particulars	FY23	FY24	Change	Comments/Analysis
Net Sales	6,619	6,372	-3.7%	Revenues decreased by 3.7% YoY. Exports contributed to nearly 52% of the total revenues at Rs 3,313 Cr, as against Rs 3,177 Cr in FY23.
EBITDA	1,089	976	-10.4%	EBITDA declined to Rs 976 Cr (excluding other income), in line with the guided EBITDA estimates of Rs 1,000 Cr.
PAT	547	416	-23.9%	PAT fell due to subdued operational performance during the year.
EPS	15.0	11.5	-23.3%	EPS de-growth was in line with PAT.

Source: Company; Axis Securities Research

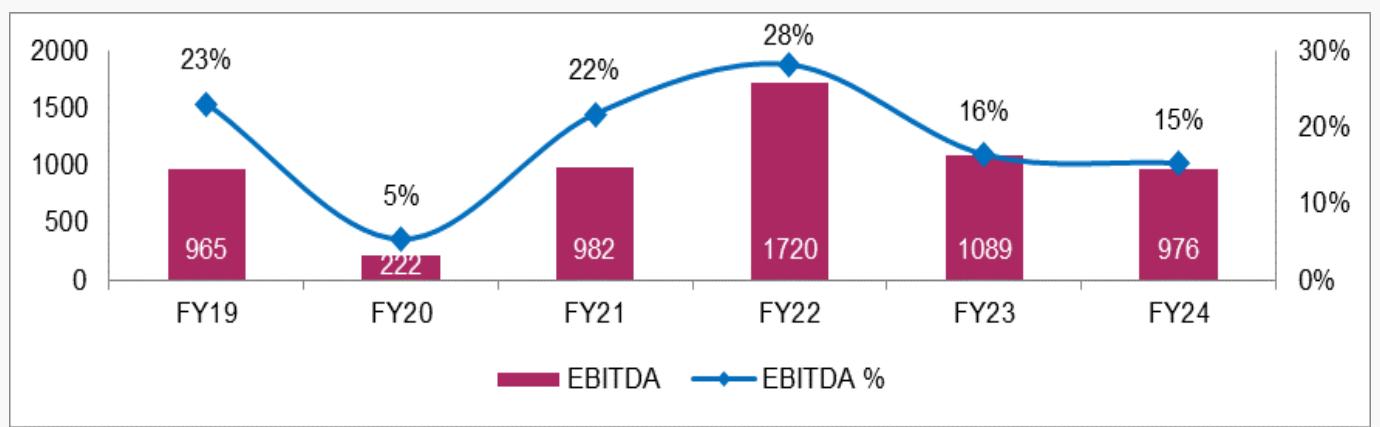
Profitability Margins

Particulars	FY23	FY24	Change	Comments/Analysis
GPM	41.9%	39.1%	-280 bps	GP Margins impacted by lower sales and similar COGS
EBITDAM	16.5%	15.3%	-120 bps	EBITDA Margins impacted by high operating expenses. (Rise in Employee expenses)
PATM	8.2%	6.5%	-170 bps	PAT Margin was lower due to weak operating performance during the year.

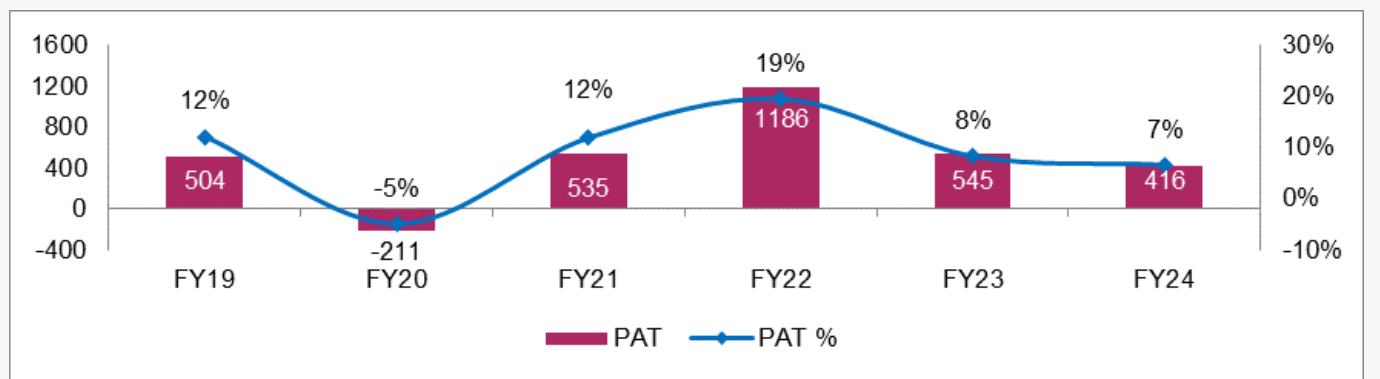
Source: Company; Axis Securities

Exhibit 6: Net Sales (Rs in Cr) and Net Sales Growth Trend


Source: Company, Axis Securities

Exhibit 7: EBITDA (Rs in Cr) and EBITDA Margin Trend


Source: Company, Axis Securities

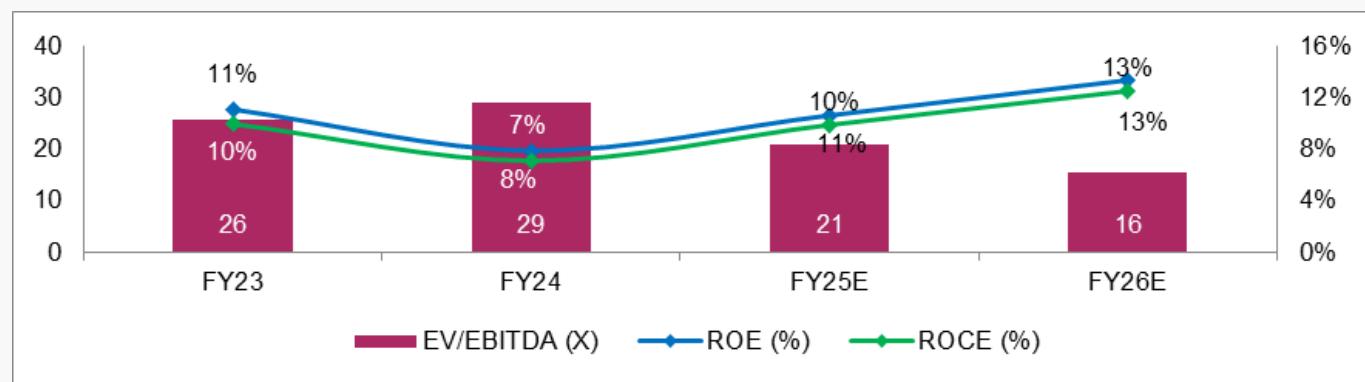
Exhibit 8: PAT (Rs in Cr) & PAT Margin Trend


Source: Company, Axis Securities

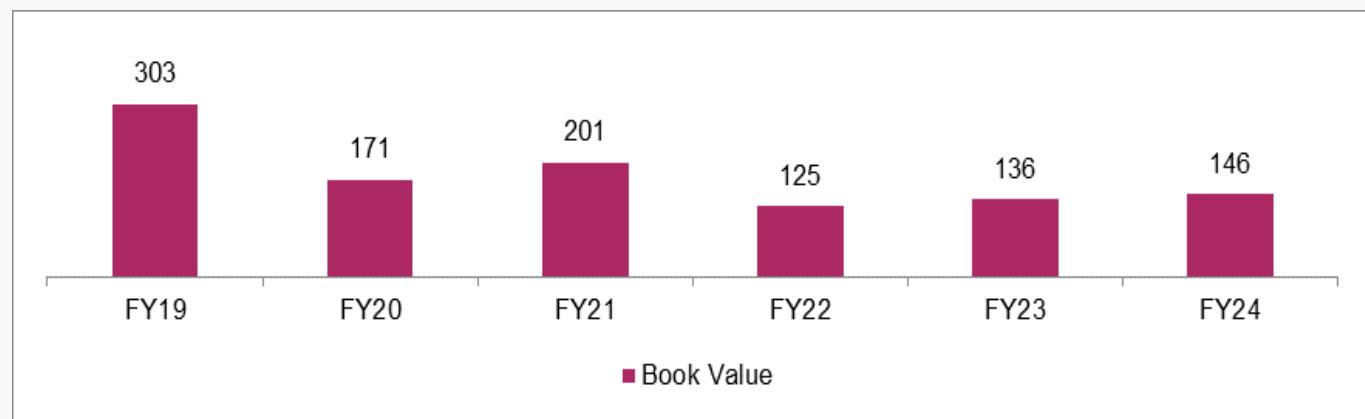
Financial Ratios

Particulars	FY23	FY24	Change	Comments/Analysis
ROE	11.1%	7.9%	-322bps	Lower owing to reduced profit during the year.
ROCE	10.0%	7.2%	-280bps	ROCE was lower due to weak EBIT performance.
Debt/Equity	0.58	0.60	0.02	Debt to Equity increased due to the increase in debt levels.
EV/EBITDA	21	29	9X	EV/EBITDA was higher due to an increase in EV and a reduction in EBITDA.

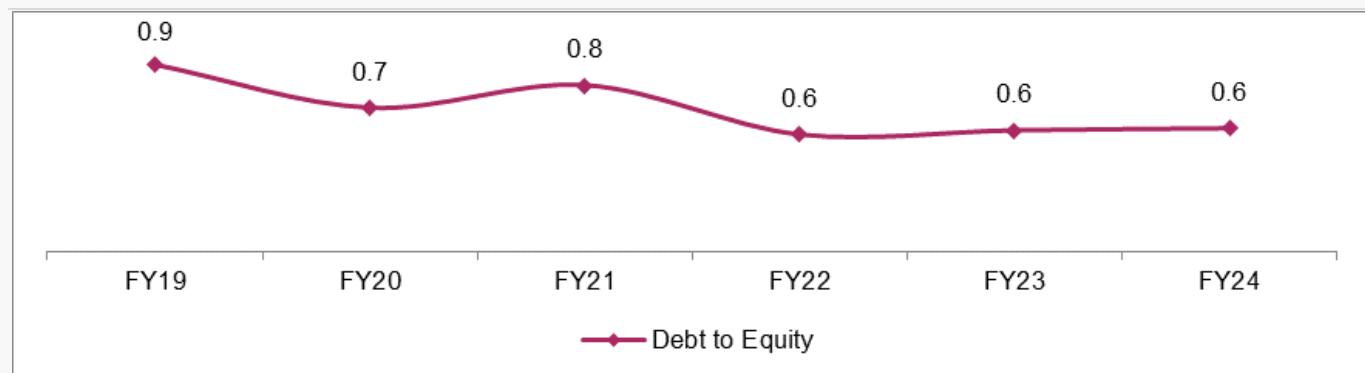
Source: Company; Axis Securities

Exhibit 9: EV/EBITDA, ROE & ROCE Trend


Source: Company, Axis Securities

Exhibit 10: Book Value


Source: Company, Axis Securities

Exhibit 11: Debt/Equity


Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

The cash conversion cycle improved to 90 days in FY24 from 106 days in FY23 on account of declining trade receivables days.

Cash Conversion Cycle

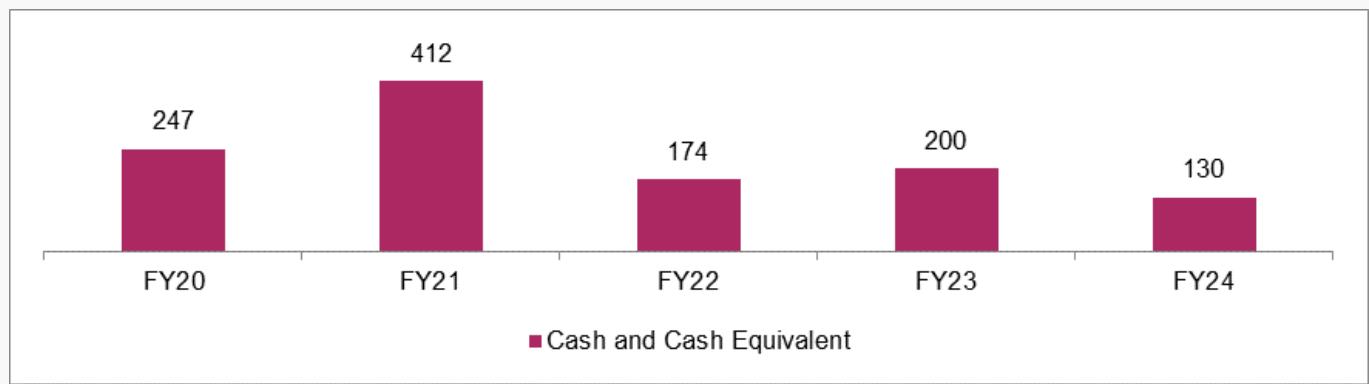
Particulars	FY23	FY24	Change	Comments/Analysis
Inventory Days	68	78	10	Inventory days increased as inventories rose to Rs 1,160 from FY23 to FY24
Trade Receivables	52	47	-5	Reduced due to faster received on payments.
Trade Payables	14	35	21	Higher owing to business conditions
Cash Conversion Cycle	106	90	-16	Overall CCC reduced by 16 days aided by improved terms with customers.

Source: Company; Axis Securities

Key Balance Sheet Takeaways (Contd.)

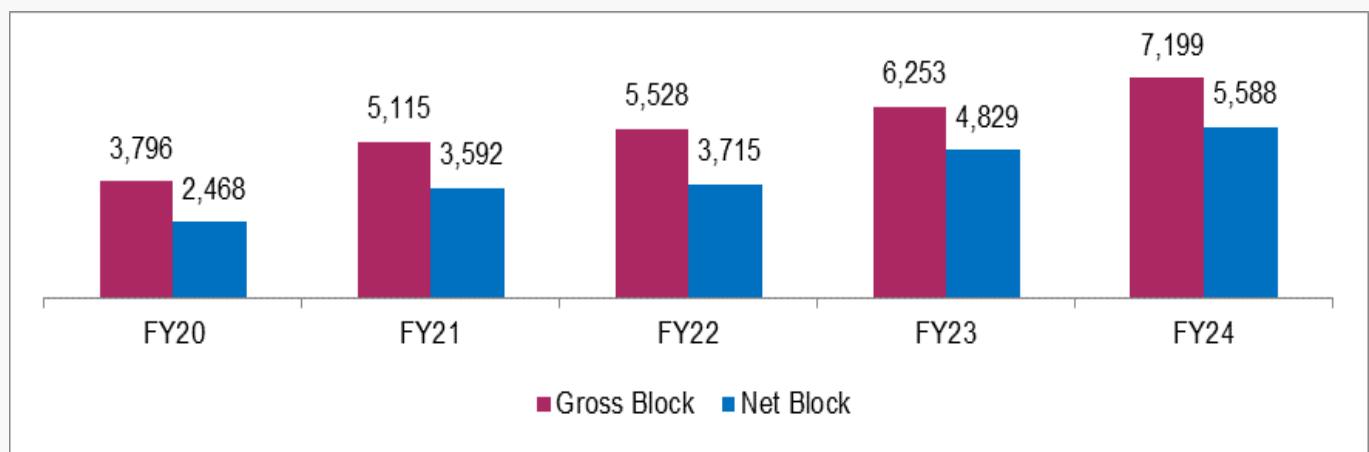
- **Borrowings Levels:** The Borrowings for the year stood at Rs 3,194 Cr vs Rs 2,882Cr in FY23, up 11% on a YoY basis.
- **Gross Block:** Gross Block rose by 15% from Rs 6,253 Cr in FY23 to Rs 7,199 Cr in FY24 due to additions of building, plant and equipment
- **Capex plans:** AIL has set robust capacity expansion plans for the next couple of years to seize emerging opportunities and address the evolving needs of its customers. The company's strategic investments will focus on developing new chemical value chains and high-potential products. Noteworthy projects in the pipeline for the existing business include the expansion of NCB capacity, Acid Revamp, NT & Ethylation expansion, and the establishment of downstream product plants. These initiatives are anticipated to commence and support volume growth in the coming years. AIL continues to invest prudently in its product pipeline, notably Nitro-Chloro Toluene and has planned to invest Rs 1,500 to 1,800 Cr over FY25.

Exhibit 13: Cash & Cash Equivalent



Source: Company, Axis Securities

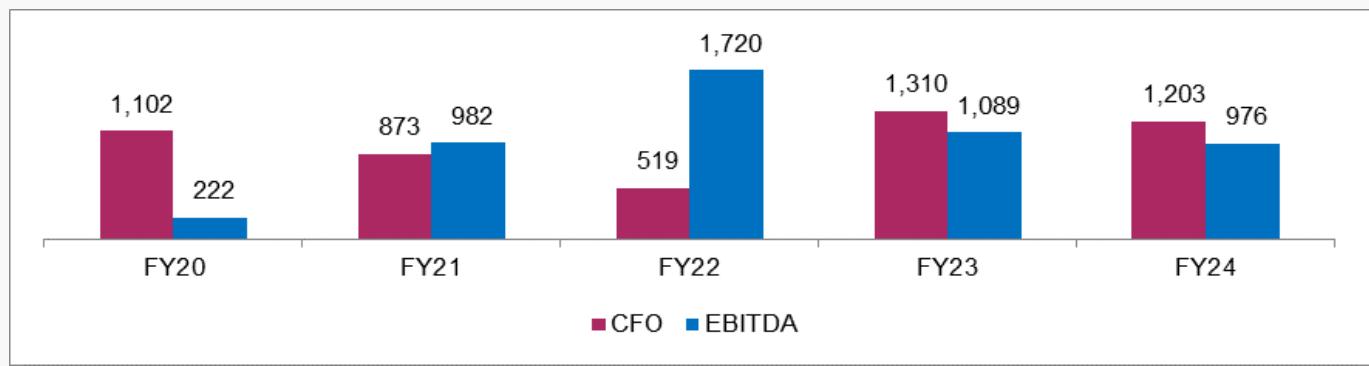
Exhibit 14: Gross & Net Block



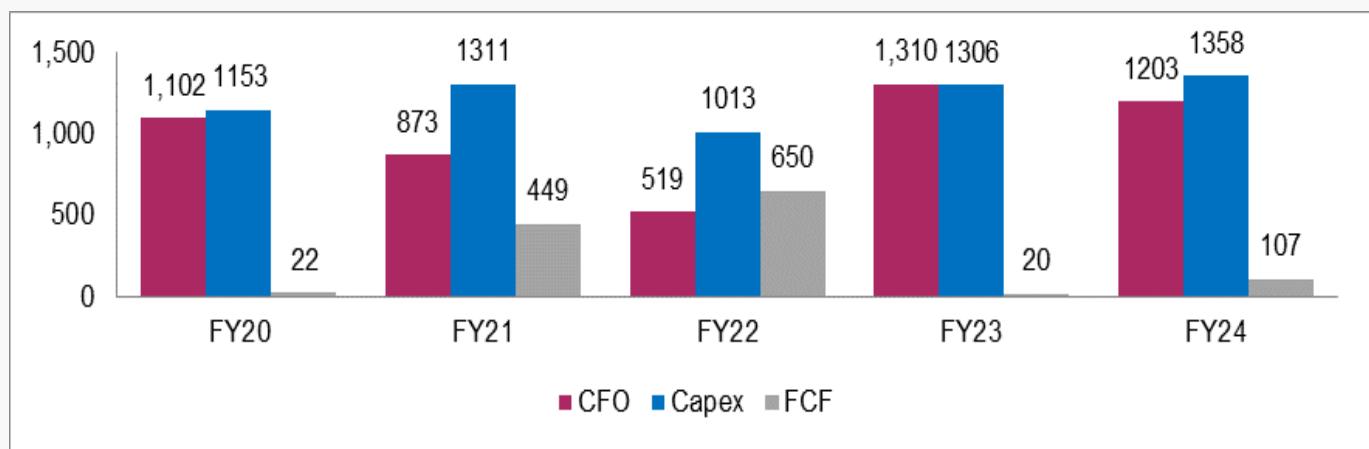
Source: Company, Axis Securities

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY23	FY24	Change	Comments/Analysis
PBT	612	395	-35.5%	PBT fell due to subdued operational performance during the year.
Non-cash expenses				
Depreciation	310	378	21.9%	Depreciation increased by 22% on account of the commissioning of ongoing projects.
Finance Cost	168	211	25.6%	Higher Interest costs due to the increase in debt levels.
Working Capital Adjustments	312	306	-1.9%	
CFO	1,310	1,203	-8.2%	Lower YoY due to less cash generated from operations.
CFI	-1330	-1310	-1.5%	Lower YoY owing to cash received from the sale of Fixed asset
CFF	47	35	-25.5%	Lower YoY due to lower proceeds from borrowings.
Capex	1,306	1,358	4.0%	Increased by 4% YoY Capex towards various expansion initiatives
Free Cash Flow Generation	20	107	435.0%	Higher YoY owing to higher operating cashflow/Profitability

Exhibit 15: CFO, Capex, FCF Trend


Source: Company, Axis Securities

Exhibit 16: CFO and EBITDA


Source: Company, Axis Securities

Forex Analysis

Particulars	FY23	FY24	Change	Comments/Analysis
Total foreign exchange earnings	3,406	3,501	3%	AIL derives 52% of its revenue from exports.
Total foreign exchange outgo	1,271	1,561	23%	N/A

Source: Company; Axis Securities

Contingent Liability Analysis

Particulars (RsCr)	FY23	FY24	Change	Comments/Analysis
a. Contingent Liabilities	461	512	11%	Claims against the company not acknowledged as debts and letters of credit, bank guarantees, and bills discounted.
b. Commitments	191	544	185%	Estimated amounts of contracts remaining to be executed on capital account and not provided for (net of capital advances).

Source: Company; Axis Securities,

Corporate Social Responsibility (CSR)

The company spent Rs 17.45 Cr in FY24 towards CSR against 17.66 Cr in FY23, largely similar on a YoY basis.

- **Education and Skill Development:** AIL spent Rs 6.79 Cr for education and skill development during the year through donations to various schools and institutes for setting up new infrastructure and improving existing infrastructure.
- **Healthcare:** AIL spent Rs 7.70 Cr in FY24 against 2.03 Cr in FY23 for healthcare during the year through donations to hospitals, arranging blood donation camps and dental mobile van.
- **Environment:** AIL spent Rs 1.81 Cr for Environment during the year.
- **Rural Development:** AIL spent Rs 1.02 Cr for Tribal welfare & Rural development and Rs 0.71 Cr. Rural development projects.

Related Party Transaction Analysis

All Related Party Transactions entered into during the financial year were in the ordinary course of the business and on an arm's length basis. The company has not entered into material contracts or arrangements or transactions with the related parties.

Particulars (Rs Cr)	FY23	FY24	Change
Sales of Finished Goods	902	611	-32%
Valiant Organics	364	248	-32%
Aarti Pharmalabs	133	96	-28%
Ganesh Polychem	132	75	-43%
Aarti USA Inc	222	156	-30%
Others	51	36	-29%
Purchases of RM/FG	258	149	-42%
Valiant Organics	147	38	-74%
AartiPharmalabs	72	38	-47%
Ganesh Polychem	16	18	13%
Others	22	56	155%

Source: Company; Axis Securities

Particulars (Rs Cr)	FY23	FY24	Change
a. Remuneration including perquisites	9	10	11%
b. Commission to Directors	18	12	-33%
c. Sitting Fees	0.3	1.4	367%
d. Rent Paid	1	1	-
e. Travelling Expenses	0.45	0.14	-69%
f. Telephone Expenses	0.03	0.06	100%

Source: Company; Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	6,619	6,372	7,321	8,785
Cost of goods sold	3,842	3,880	4,121	4,788
Contribution (%)	42.0%	39.1%	43.7%	45.5%
Employee Costs	385	404	461	553
Other Expenses	1,303	1,112	1,318	1,520
Operating Profit	1,089	976	1,420	1,924
EBITDA Growth %	-36.7%	-10.3%	45.4%	35.5%
Other income	1	8	0	0
Depreciation	310	378	404	487
EBIT	780	607	1,017	1,436
Interest & Fin Chg.	168	211	303	324
E/o income / (Expense)	0	0	0	0
Pre-tax profit	612	396	714	1,113
Tax provision	65	-21	86	200
Reported PAT	547	417	628	912

Source: company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24	FY25E	FY26E
Equity + Liabilities				
Equity Capital	181	181	181	181
Reserves & Surplus	4,739	5,109	5,109	5,109
Total Equity	4,921	5,290	5,908	6,837
Long Term Borrowings				
Lease Liabilities	25	49	49	49
Other Non-Current Liabilities	217	175	175	175
Total Non-Current Liabilities	877	1,749	2,448	2,748
Short Term Borrowings				
Trade Payables	407	521	339	394
Provisions	30	40	40	40
Others	99	346	346	787
Total Current Liabilities	2,783	2,576	2,825	3,320
Total Liabilities	3,660	4,325	5,273	6,068
Total Equity + Liabilities	8,581	9,615	11,181	12,905
ASSETS				
Gross Block	6,928	7,453	9,223	10,523
Less: Depreciation	2,123	1,802	2,217	2,717
Property, Plant & Equipment	4,829	5,588	6,810	8,547
Capital WIP	989	1,052	1,239	910
Right to Use Assets	30	53	53	53
Other Non-Current Assets	94	101	101	101
Total Non Current Assets	6,122	7,146	8,555	9,963
Current Assets				
Inventories	1,031	1,160	1,280	1,435
Trade Receivables	940	826	1,003	1,203
Cash	167	42	67	28
Other Financial Assets	181	236	236	236
Current Tax Assets	55	77	-	-
Other Current Assets	51	40	40	40
Total Current Assets	2,459	2,469	2,626	2,942
Total Assets	8,581	9,615	11,181	12,905

Source: company, Axis Securities

Cash Flow		(Rs Cr)		
Y/E Mar, Rs Cr		FY23	FY24	FY25E
Profit Before Tax		611	395	714
Finance Cost		168	211	303
Depreciation		310	378	404
(Inc)/Dec in Working Capital		312	306	-479
Tax Paid		(91.0)	(91.0)	(85.8)
Cash Flow from Operations		1,310.0	1,203.0	855.3
Change in Gross Block		-1,326	-1,328	-1,770
(Inc)/Dec in Investments		0	0	0
Cash Flow from Investing		-1,330	-1,310	-1,770
Inc/(Dec) in Loans		(301.0)	301.0	1,140.0
Finance Cost		(168.0)	(211.5)	(302.7)
Cash Flow from Financing		47.0	35.5	938.3
Cash Flow from Financing		(190.7)		
Net Inc/Dec in Cash		27	-71	24
Opening Cash		174	201	42
Closing Cash		201	130	66

Source: company, Axis Securities

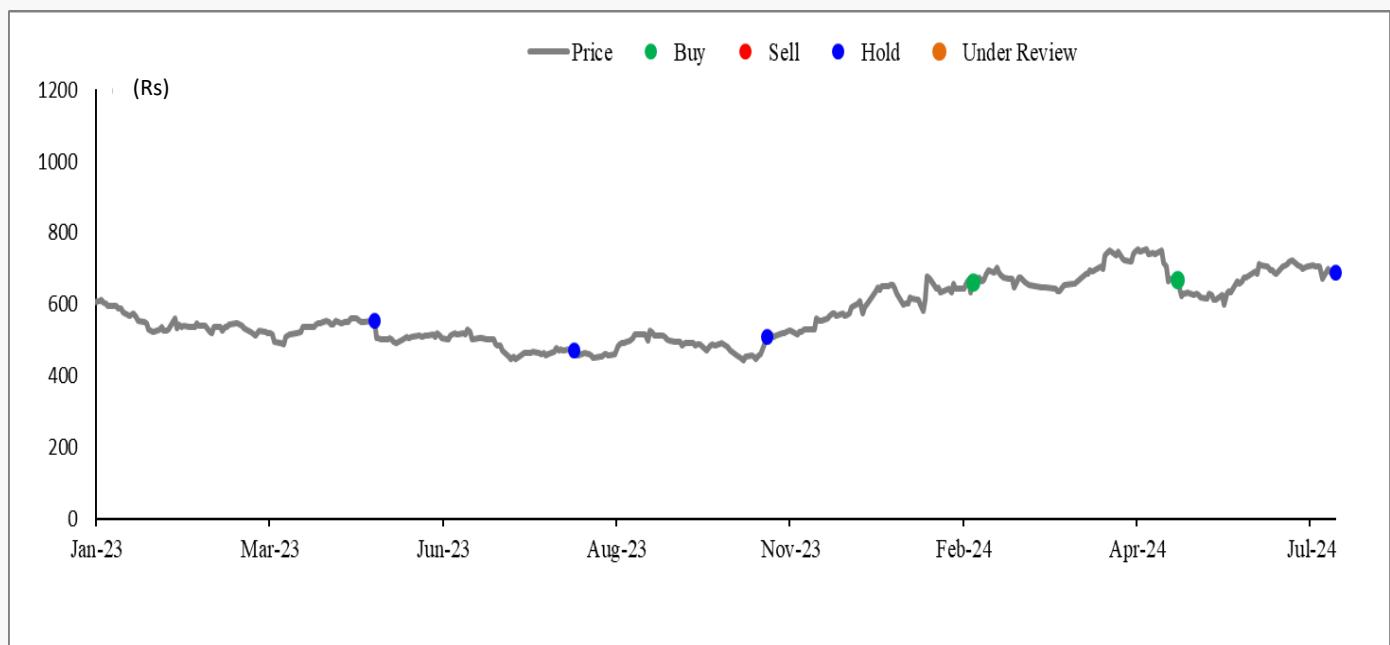
Ratio Analysis

 (%)

Y/E Mar, Rs Cr	FY23	FY24	FY25E	FY26E
Sales growth (%)	8.8	(3.7)	14.9	20.0
OPM	16.5	15.3	19.4	21.9
Oper. profit growth	(36.7)	(10.3)	45.4	35.5
COGS / Net sales	58.0	60.9	56.3	54.5
Overheads/Net sales	5.8	6.3	6.3	6.3
Depreciation / G. block	5.0	5.3	4.5	4.7
RoCE	10.0%	7.2%	10%	13%
Debt/equity (x)	0.6	0.6	0.7	0.7
Effective tax rate	10.8	(5.3)	12.0	18.0
RoE	11%	7.9%	11%	13%
Payout ratio (Div/NP)	17.7	23.1	15.3	10.5
EPS (Rs)	15.0	11.5	17.3	25.2
EPS Growth	(54.0)	(23.6)	50.8	45.2
CEPS (Rs)	23.6	21.9	28.5	38.6
DPS (Rs)	2.4	2.4	2.4	2.4
Valuation (x)				
P/E	46.6	60.9	40.4	27.8
P/BV	5.2	4.8	4.3	3.7
EV/EBITDA	25.8	29.2	20.9	15.6
Mcap/Sales	3.8	4.0	3.5	2.9

Source: company, Axis Securities

Aarti Industries Ltd. Price Chart and Recommendation History



Date	Reco	TP	Research
10-May-23	HOLD	550	Result Update
10-Aug-23	HOLD	470	Result Update
07-Nov-23	HOLD	525	Result Update
12-Feb-24	BUY	735	Result Update
14-May-24	BUY	770	Result Update
31-Jul-24	HOLD	788	AAA

Source: Axis Securities

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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