

## 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
EBIDTA	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/EBIDTA (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 31<sup>st</sup> 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
FIIIs	10.8	10.9	10.6
DIIIs	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%

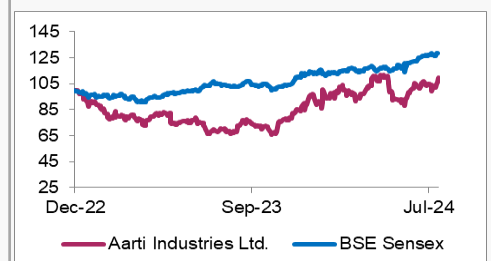
### ESG disclosure Score\*\*

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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