

Aarti Industries

Subdued demand in energy segment

We maintain our ADD recommendation on Aarti Industries (AIL), with a target price of INR 532/share. AIL's constant focus on Capex and R&D will enable it to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment. EBITDA/APAT were 40/65% below our estimates, due to lower -than-expected revenue and higher-than-expected other expenses.

- Financial performance:** Revenue changed by +12/-12% YoY/QoQ to INR 16.28bn. Revenue was impacted due to decrease in demand in the energy business. EBITDA decreased by -16/-36% YoY/QoQ to INR 1.96bn while EBITDA margin was impacted by -405/-451 bps YoY/QoQ to 12%. Energy business volume was down 36% QoQ, resulting in an impact on both revenue and margins.
- Con call takeaways:** (1) Overall capacity utilisation remain 50-60% (2) **Segmental: Agrochemical and Fertilizers (19% of the revenue):** Pricing pressure persists due to overcapacity from China while revenue was impacted due to adverse weather condition in US and Latin America. **Dyes and Pigments (12% of revenue):** Textile industry was impacted due to political unrest in Bangladesh while pigment industry is going through consolidation. **Energy and additives (37% of the venue):** The difference between Gasoline-Crude Oil and Naphtha-Crude oil cracks has fallen in Q2 which lowered the incentive to add octane booster like MMA in Naphtha. This led to lower sales volumes of MMA. **Pharma Intermediate (9% of the revenue):** PAP market witnessed slowdown due to pricing pressure. Pricing pressure persists due to overcapacity by China in fluorochemicals. **Polymer and additives (13% of the revenue):** Company is increasing its focus on new geographies as well as developing new markets for the plasticizer additives. (3) **Capacity Expansion:** - The company is on track to commission its expanded nitro-toluene and ethylation capacity by the end of 3QFY25. Additionally, the company will commission a pilot plant at site 4 to accelerate the commercialisation of new products. Zone 4 commercialisation will happen gradually over course of 18 months.
- Change in estimates:** The management has lowered its guidance due to existing market conditions. We change FY25/26 EPS estimates by 43.2/44.4% to INR 9.6 /15.
- DCF-based valuation:** Our target price is INR 532. The stock is currently trading at 49.4/31.5 FY25E/FY26E EPS.

Financial summary (consolidated)

INR mn	2Q FY25	1Q FY25	QoQ (%)	2Q FY24	YoY (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	16,280	18,490	(12.0)	14,540	12.0	60,855	66,186	63,723	67,110	77,599
EBITDA	1,960	3,060	(35.9)	2,340	(16.2)	17,201	10,890	9,766	10,708	13,493
APAT	478	1,380	(65.3)	920	(48.0)	11,857	5,452	4,165	3,480	5,450
AEPS (INR)	1.3	3.8	(65.3)	2.5	(48.0)	32.7	15.0	11.5	9.6	15.0
P/E (x)						14.5	31.5	41.3	49.4	31.5
EV/EBITDA(x)						11.4	18.2	20.7	19.3	15.6
RoE (%)						29.6	11.6	8.2	6.4	9.4

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	13,534	10,708	(20.9)	18,213	13,493	(25.9)
Adj. EPS (INR/sh)	16.9	9.6	(43.2)	27.0	15.0	(44.4)

Source: Company, HSIE Research

ADD

CMP (as on 8 Nov 2024)	INR 474
Target Price	INR 532
NIFTY	24,148

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 768	INR 532
EPS %	FY25E	FY26E
	-43.2%	-44.4%

KEY STOCK DATA

Bloomberg code	ARTO IN
No. of Shares (mn)	363
MCap (INR bn) / (\$ mn)	172/2,038
6m avg traded value (INR mn)	1,143
52 Week high / low	INR 770/472

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(36.6)	(32.8)	(7.9)
Relative (%)	(37.3)	(41.0)	(30.2)

SHAREHOLDING PATTERN (%)

	June-24	Sept-24
Promoters	43.43	43.43
FIs & Local MFs	18.56	18.13
FPIs	10.61	9.68
Public & Others	27.56	29.58
Pledged Shares	0.00	0.00

Source: BSE

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