

03 February 2026

Aarti Industries

All round beat

RESULT UPDATE

Sector: Chemical Rating: BUY

CMP: Rs 430 Target Price: Rs 511

Stock Info

Sensex/ Nifty	83,855/ 25,765
Bloomberg	ARTO IN
Equity shares (mn)	363
52-wk High/Low	495/338
Face value	Rs 5
M-Cap	Rs 131bn/ USD 1.4bn

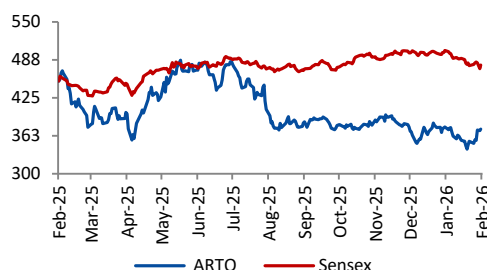
Financial Snapshot (Rs mn)

Y/E Mar	FY26E	FY27E	FY28E
Gross sales	84,084	100,900	110,990
EBITDA	11,353	15,675	18,330
PAT (adj.)	3,426	6,242	8,418
EPS (adj.) (Rs)	9.4	17.2	23.2
PE (x)	45.5	25.0	18.5
P/B (x)	2.7	2.5	2.2
EV/EBITDA (x)	17.2	12.3	10.0
RoE (%)	6.0	10.3	12.6
RoCE (%)	6.4	9.7	11.6
D/E (x)	0.71	0.63	0.51
OPM (%)	13.5	15.5	16.5
Dividend per share (Rs)	1.9	3.4	4.6
Dividend payout (%)	20	20	20

Shareholding pattern (%)

	Dec'25	Sep'25	Jun'25
Promoter	42.1	42.2	42.2
—Pledged	3.5	3.5	3.5
FII	6.7	6.4	6.4
DII	18.2	18.2	20.4
Others	32.9	33.2	30.9

Stock Performance (1-year)



Aarti Industries (ARTO IN) reported a strong 3QFY26, with a significant beat across all key metrics. Consolidated revenue at Rs 23.2bn rose 26%/10% YoY/QoQ (13% above our estimate of Rs 21bn), driven by robust volumes in MMA and a record export share of ~65%. EBITDA rose 36%/10% YoY/QoQ to Rs 3.2bn, with margins expanding 104bps YoY to 13.8% (est. 13.5%) on higher capacity utilization and favorable gasoline-naphtha deltas. APAT surged to Rs 1.3bn (+189% YoY) due to enhanced operating leverage. We have rolled forward our valuation to FY28E to reflect a structural inflection point in the company's earnings profile, characterized by the peaking of the Zone-4 capex cycle and significant export tailwinds from the India-US and India-EU trade deals. We upgrade rating to BUY (from HOLD earlier), and revise our target price to Rs 511 (from Rs 449). This is based on an unchanged 22x P/E multiple applied to FY28E EPS. We feel valuation are prudent given the projected 36.5% EPS CAGR over FY25-FY28E, the rationalization of global pricing following China's "anti-involution" shift, and the transition toward high-value advanced materials. We await further clarity on sustained tariff benefits and demand stability in discretionary segments before adopting a more constructive rating.

Key takeaways: 1) **Volume and growth:** 3Q revenue rose 26%/10% YoY/QoQ, led by a record export share of ~65% and robust MMA/PDCB volumes. Agrochemicals and pharma remained stable; PDCB saw an uptick from EV-led PPS growth, while the PDA chain remained muted due to US market dependency. 2) **Pricing and margins:** EBITDA increase was driven by operating leverage at higher utilization. Margins are poised for structural recovery as China's "anti-involution" policy and export rebate removals (e.g., NCB chain) rationalize global pricing. 3) **Strategic initiatives:** Pivoting toward high-value advanced materials and application-led solutions. Implementing AI/digital tools for manufacturing optimization to maintain a sharp global cost edge. Recently concluded India-US and India-EU trade deals provide significant export tailwinds. 4) **Capex and growth:** FY26 capex guidance was revised to ~Rs 11bn (vs. ~Rs 10bn) to fast-track MMA (scaling to 360 KT by 4QFY26) and DCB/PEDA projects. Zone-4 commissioning is on track for CY26; Superform JV begins in 1QFY27. 5) **Financial outlook:** Reaffirmed mid-term FY28 targets with FY27 capex expected to be significantly lower as major projects conclude.

Key risks: 1) Slower demand recovery in discretionary products, 2) lower value-added product (VAP) offtake, 3) volatility in the energy business, 4) competition and pricing pressure, and 5) execution risk related to capacity expansion and new product development.

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Key takeaways from the concall

Management's Strategic Commentary & Opening Remarks

- **Macro-Tailwinds:** Management highlighted three structural shifts favoring India: the India-EU Free Trade Agreement (FTA), the China "anti-involution" strategy aimed at curbing excess capacity/dumping, and the recently announced India-US trade deal.
- **Segment performance:** The energy business (MMA) remains the primary growth engine with robust volumes. Agrochemicals and pharmaceuticals saw stable volumes, though pricing remains pressured by Chinese imports.
- **Operational excellence:** The company is deploying AI and digital transformation tools across manufacturing plants to optimize process control and reduce energy consumption.
- **Expansion and capex:** Zone-4 is positioning as a "transformational growth platform," with phased commissioning expected in 2026 using in-house technology. Total FY26 Capex is estimated at Rs 11bn.
- **The impact of US tariffs and trade deals:** MMA faced full tariff applicability in 3Q yet recorded strong volumes. PDCB accounts for 15-20% of US exports, while MMA contributes 50-60%. The India-US trade deal, which reduces tariffs significantly (from 50%+ to ~18%+), is expected to drive better realizations and volume recovery for products like PDA.
- **MMA: Strategic growth and market leadership:** Management expects MMA to settle at 30-40% of the total portfolio over the next 2-3 years, a level they consider sustainable. The focus is now shifting toward value chain integration—both backward and forward—to stabilize margins rather than just chasing volume.
- **China's "Anti-Involution" Strategy:** The removal of export batch subsidies in China (notably in the NCB chain) led to an immediate 7-10% price increase in global markets. This transition serves as a catalyst for sustainable margin recovery for quality-focused players like ARTO.
- **Zone-4 and future capex discipline:** Total capex for Zone-4 is estimated at Rs 16–18bn, with the bulk deployed by the end of FY26. While some units like calcium chloride will ramp up quickly, specialty blocks requiring customer qualification will see meaningful utilization over a two-year window. FY27 capex is expected to be significantly lower.
- **New growth frontiers: JVs and FTAs:** The Superform JV (paints/coatings) and the RE JV are both on track for commissioning in early FY27. The EU FTA is viewed as a long-term positive that will facilitate strategic partnerships and asset-building in India to serve the European market.

Change in estimates

We have moderated our profitability expectations for FY26E and FY27E to account for near-term operational headwinds, resulting in an EPS cut of 4.3% and 11.8% respectively. While revenue forecasts remain unchanged, reflecting steady demand, we have tightened our EBITDA margin assumptions by 99bps for FY26E and 150bps for FY27E. This adjustment stems from a more conservative view on cost structures and execution timelines before an anticipated margin expansion to 17.8% in FY28E. Despite the downward revision in near-term earnings, we have raised our Target Price to Rs 511 (previously Rs 449). This 31% increase reflects the introduction of FY28E projections into our valuation framework. We maintain our cautious stance in the immediate term while acknowledging the long-term growth trajectory.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates			Change (%)		
	FY26E	FY27E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net sales	84,084	100,900	84,084	100,900	110,990	-	-	NA
EBITDA	12,189	17,184	11,353	15,675	18,330	(6.9)	(8.8)	NA
EBITDA margin (%)	14.5	17.0	13.5	15.5	16.5	(99)bps	(150)bps	NA
Adjusted PAT	3,579	7,074	3,426	6,242	8,418	(4.3)	(11.8)	NA
EPS (Rs)	9.9	19.5	9.4	17.2	23.2	(4.3)	(11.8)	NA
Target price		449			511			14

Source: Company, Systematix Research

Exhibit 2: Quarterly financial statement

(Rs mn)	3QFY26	3QFY25	YoY (%)	2QFY26	QoQ (%)	9MFY26	9MFY25	YoY (%)
Net sales	23,180	18,430	25.8	21,000	10.4	60,930	53,220	14.5
Raw material cost	15,310	12,290	24.6	13,750	11.3	40,280	34,030	18.4
Employee cost	1,060	1,050	1.0	1,050	1.0	3,200	3,300	(3.0)
Other expenses	3,600	2,730	31.9	3,290	9.4	9,220	8,510	8.3
Operating expenses	19,970	16,070	24.3	18,090	10.4	52,700	45,840	15.0
% of sales	86	87	(104)bps	86	1bps	86	86	36bps
EBITDA	3,210	2,360	36.0	2,910	10.3	8,230	7,380	11.5
EBITDA margins (%)	13.8	12.8	104bps	13.9	(1)bps	13.5	13.9	(36)bps
Other income	20	10	100.0	-	NA	60	120	(50.0)
Finance cost	690	850	(18.8)	1,000	(31.0)	2,290	2,110	8.5
Depreciation	1,210	1,110	9.0	1,200	0.8	3,550	3,210	10.6
PBT	1,330	410	224.4	710	87.3	2,450	2,180	12.4
Tax	(150)	(50)		(130)		(300)	(150)	
Effective tax rate (%)	(11)	(12)		(18)		(12)	(7)	
Reported PAT	1,330	460	189.1	1,060	25.5	2,820	2,350	20.0
NPM (%)	6	2	324bps	5	69bps	5	4	21bps
No. of equity shares	363	363		363		363	363	
Adj. EPS (Rs)	3.7	1.3	189.1	2.9	25.5	7.8	6.5	20.0

Source: Company, Systematix Research

Exhibit 3: Key ratios

(% of revenues)	3QFY26	3QFY25	YoY (%)	2QFY26	QoQ (%)	9MFY26	9MFY26	YoY (%)
Raw material cost	66	67	(64)bps	65	57bps	66	64	217bps
Staff costs	5	6	(112)bps	5	(43)bps	5	6	(95)bps
Other expenses	16	15	72bps	16	(14)bps	15	16	(86)bps
Effective tax rate	(11)	(12)	NA	(18)	NA	(12)	(7)	NA
Gross margin	34.0	33.3	64bps	34.5	(57)bps	33.9	36.1	(217)bps
OPM	13.8	12.8	104bps	13.9	(1)bps	13.5	13.9	(36)bps
NPM	5.7	2.5	324bps	5.0	69bps	4.6	4.4	21bps

Source: Company, Systematix Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY26E	FY27E	FY28E
Net revenues	63,720	72,710	84,084	100,900	110,990
Revenue growth (%)	(3.7)	14.1	15.6	20.0	10.0
- Op. expenses	53,960	62,700	72,731	85,226	92,660
EBITDA (Excl. OI)	9,760	10,010	11,353	15,675	18,330
EBITDA margins (%)	15.3	13.8	13.5	15.5	16.5
- Interest expenses	2,110	2,750	2,917	2,923	2,707
- Depreciation	3,780	4,340	5,258	5,917	6,381
+ Other income	80	140	84	101	111
- Tax	(210)	(250)	(163)	694	935
Effective tax rate (%)	(5)	(8)	(5)	10	10
Reported PAT	4,160	3,310	3,426	6,242	8,418
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	4,160	3,310	3,426	6,242	8,418
EPS (Rs/share)	11.5	9.1	9.4	17.2	23.2

Source: Company, Systematix Research

Balance Sheet

YE: Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,810	1,810	1,813	1,813	1,813
Reserves & Surplus	51,090	54,240	56,470	61,463	68,197
Networth	52,900	56,050	58,282	63,275	70,009
Minority interest	10	-	-	-	-
Total debt	36,810	38,766	41,434	39,772	35,425
Def. tax liab. (net)	-	-	-	-	-
Capital employed	89,720	94,816	99,716	103,047	105,434
Net fixed assets	68,790	78,300	81,250	81,333	75,952
Investments	130	480	480	480	480
Net working capital	15,640	13,086	15,843	19,011	20,913
Cash and bank balance	5,160	2,950	2,143	2,223	8,090
Capital deployed	89,720	94,816	99,716	103,047	105,434
Net debt	31,650	35,816	39,291	37,549	27,335
WC (days)	74	50	50	50	50
DE (x)	0.70	0.69	0.71	0.63	0.51

Source: Company, Systematix Research

Cash Flow

YE: Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PAT	4,160	3,310	3,426	6,242	8,418
+ Non cash items	3,780	4,340	5,258	5,917	6,381
Cash profit	7,940	7,650	8,683	12,159	14,799
- Incr/(Decr) in WC	(3,083)	(2,554)	2,757	3,169	1,901
Operating cash flow	11,023	10,204	5,926	8,990	12,897
- Capex	13,010	13,850	8,208	6,000	1,000
Free cash flow	(1,988)	(3,646)	(2,282)	2,990	11,897
- Dividend	540	662	685	1,248	1,684
+ Equity raised	(3)	-	3	-	-
+ Debt raised	5,570	1,956	2,668	(1,662)	(4,347)
- Investments	(40)	350	-	-	-
- Misc. items	(80)	(492)	511	-	-
Net cash flow	3,160	(2,210)	(807)	80	5,867
+ Opening cash	2,000	5,160	2,950	2,143	2,223
Closing cash	5,160	2,950	2,143	2,223	8,090

Source: Company, Systematix Research

Ratios

YE: Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	37.4	47.1	45.5	25.0	18.5
P/BV (x)	2.9	2.8	2.7	2.5	2.2
EV/EBITDA (x)	19.2	19.1	17.2	12.3	10.0
RoE (%)	8.1	6.1	6.0	10.3	12.6
RoCE (%)	7.1	6.3	6.4	9.7	11.6
Fixed asset turnover (x)	0.9	0.9	0.9	1.0	1.0
DPS (Rs)	1.5	1.8	1.9	3.4	4.6
Dividend (%)	30	37	38	69	93
Dividend yield (%)	0.3	0.4	0.4	0.8	1.1
Dividend payout (%)	13	20	20	20	20
Debtor days	49	39	39	39	39
Creditor days	41	62	62	62	62
Inventory days	66	73	73	73	73
Revenue growth (%)	(4)	14	16	20	10
EBITDA growth (%)	(10)	3	13	38	17
PAT growth (%)	(24)	(20)	3	82	35

Source: Company, Systematix Research

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