

CMP: ₹ 440

Target: ₹ 515 (17%)

Target Period: 12 months

BUY

February 6, 2024

Macroeconomic and capex led tailwinds ahead...

About the stock: Established in 1984 by first generation technocrat Mr Rajendra Gogri, Aarti Industries is a leading speciality chemicals company.

- The company operates in key value chains such as Nitro Chloro Benzene, Dichloro Benzene, Phenylenediamines, Nitro Toluene among others. The company caters to end use industries such as Energy (octane booster), Agrochem, Dyes, Pharma, Polymers among others. x
- The company has incurred a significant capex (~₹ 8000 crore) over the last 6-7 years to expand product offerings and derisking. Its aspirational EBITDA range is ₹1,800–2,200 crore by FY28 EBITDA.

Result Performance & Investment Rationale

- Q3FY26- Strong revenues growth boosted by Energy Business-** Revenues stood at ₹2,318 crore, up 26% YoY on the back of Energy business (51% of the revenues) which reported a growth of 83% YoY, while the rest of the segments such as Agrochem, Dyes, Pharma and Polymer reported a muted growth. GPM for the quarter stood at 32%, up ~200 bps YoY. EBITDA for the quarter came at ₹326 crore, up 39% YoY, translating to EBITDA Margins of 13%, up ~160 bps YoY.
- Capex to boost growth ahead; FY28 Guidance maintained-** The management has reaffirmed its FY28 EBITDA Guidance of ₹1,800–₹2200 supported by Debt/EBITDA of <2.5x and ROCE of >15%, driven by ongoing cost optimization, ramp up of existing capacities and phased commissioning of multipurpose plants and downstream blocks in Zone-IV. The company has revised its FY26 capex upward to ~₹1,100 crore (from initial ₹1,000 crore) primarily to fund Zone-IV development, MMA capacity expansion to 360 KT, and PDCB debottlenecking, with the bulk of investments completing this year—leading to significantly lower capex in FY27. The newly commissioned Zone IV facility has five blocks- one for calcium chloride another is multipurpose plant (MPP) and the remaining three are earmarked for different chemistries. The management has put significant impetus on zone IV for a transformational growth.
- Macroeconomic tailwinds accelerating recovery-** The management expects three significant global tailwinds for growth- 1) US trade deal, wherein the tariffs are reduced from the highs of 50% to ~18% now. 2) EU-India FTA. 3) China's anti-involution drive. The US trade deal is expected to increase volumes in MMA and PDCB, along with margin improvement. EU FTA is likely to help the company to expand in Europe. China anti-involution drive is expected to improve pharmaceutical/agrochemicals' margins, which are witnessing pressure from Chinese dumping.

Rating and Target Price

- Our Target is ₹515 based on 12x FY28 EBITDA of ₹1,806 crore. We believe the risk-reward scenario is favourable given the improving macros and growth capex.

Key Financial Summary

₹ Crore	FY21	FY22	FY23	FY25	CAGR FY21-26E (%)	FY26E	FY27E	FY28E	CAGR FY26E-28E (%)
Revenues	4506.1	5454.8	6619.0	7275.0	17.2	8504.6	9369.8	10067.4	8.8
EBITDA	981.5	1110.7	1089.2	1005.0	4.1	1150.8	1569.7	1806.2	25.3
EBITDA Margins (%)	21.8	20.4	16.5	13.8		13.5	16.8	17.9	
Adj. Net Profit	525.8	658.5	545.5	328.9	-7.2	389.4	603.6	737.0	37.6
EPS (Adjusted)	14.5	18.2	15.1	9.1		10.8	16.7	20.4	
PE (x)	30.3	13.5	29.2	48.1		40.2	26.4	21.6	
EV to EBITDA (x)	18.9	16.5	17.1	19.4		17.1	12.1	10.1	
RoCE (%)	11.1	11.8	9.7	6.1		6.9	9.5	11.1	
RoE (%)	15.0	14.6	11.1	5.9		6.5	9.3	10.3	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation	₹ 16059 crore
Debt (FY25)	₹ 3789 crore
Cash (FY25)	₹ 199 crore
EV	₹ 19649 crore
52 week H/L	495 /338
Equity capital	₹ 181 crore
Face value	₹ 5

Shareholding pattern

in %	Mar-25	Jun-25	Sept-25	Dec-25
Promoter	42.2	42.2	50.3	42.1
DII	20.0	20.4	19.5	18.2
FII	6.3	6.4	18.0	6.7
Others	31.5	30.9	12.2	32.9

Price Chart



Key risks

- Execution risk related to capacity expansion and new product development
- Volatility in the energy business

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Exhibit 1: Quarterly Performance

(₹ crore)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Total Operating Income	1610.3	1685.0	1667.7	1656.0	1414.0	1454.0	1732.0	1773.0	1855.0	1628.0	1843.0	1949.0	1675.0	2100.0	2318.0	25.8	10.4
Raw Material Expenses	926.2	978.1	975.7	962.0	853.0	854.0	1101.0	1071.0	1155.0	1017.0	1230.0	1251.0	1122.0	1375.0	1531.0	24.5	11.3
% of Revenue	57.5	58.0	58.5	58.1	60.3	58.7	63.6	60.4	62.3	62.5	66.7	64.2	67.0	65.5	66.0	-1.0	0.9
Gross Profit	684.1	706.9	692.0	694.0	561.0	600.0	631.0	702.0	700.0	611.0	613.0	698.0	553.0	725.0	787.0	28.4	8.6
Gross Profit Margin (%)	42.5	42.0	41.5	41.9	39.7	41.3	36.4	39.6	37.7	37.5	33.3	35.8	33.0	34.5	34.0	2.1	-1.7
Employee Expenses	91.0	92.8	92.7	109.0	101.0	99.0	103.0	100.0	113.0	105.0	105.0	99.0	109.0	105.0	106.0	1.0	1.0
% of Revenue	5.6	5.5	5.6	6.6	7.1	6.8	5.9	5.6	6.1	6.4	5.7	5.1	6.5	5.0	4.6	-19.7	-8.5
Other Expenditure	311.6	347.1	310.7	333.0	258.0	267.0	268.0	319.0	281.0	310.0	273.0	331.0	249.0	314.0	355.0	30.0	13.1
% of Revenue	19.4	20.6	18.6	20.1	18.2	18.4	15.5	18.0	15.1	19.0	14.8	17.0	14.9	15.0	15.3	3.4	2.4
Total Expenditure	1328.8	1418.0	1379.0	1404.0	1212.0	1220.0	1472.0	1490.0	1549.0	1432.0	1608.0	1681.0	1480.0	1794.0	1992.0	23.9	11.0
% of Revenue	82.5	84.2	82.7	84.8	85.7	83.9	85.0	84.0	83.5	88.0	87.2	86.2	88.4	85.4	85.9	-1.5	0.6
EBITDA	281.5	267.0	288.7	252.0	202.0	234.0	260.0	283.0	306.0	196.0	235.0	268.0	195.0	306.0	326.0	38.7	6.5
EBITDA Margin (%)	17.5	15.8	17.3	15.2	14.3	16.1	15.0	16.0	16.5	12.0	12.8	13.8	11.6	14.6	14.1	10.3	-3.5
Depreciation	71.8	72.9	82.1	84.0	89.0	93.0	97.0	98.0	102.0	108.0	111.0	113.0	114.0	120.0	121.0	9.0	0.8
Interest	44.5	43.7	47.0	33.0	40.0	58.0	54.0	59.0	64.0	62.0	85.0	64.0	60.0	100.0	69.0	-18.8	-31.0
PBT	165.6	150.4	159.9	135.0	73.0	83.0	117.0	126.0	145.0	34.0	40.0	88.0	25.0	108.0	123.0	207.5	13.9
Total Tax	30.1	25.9	23.4	-14.0	2.0	-9.0	-7.0	-6.0	8.0	-18.0	-6.0	-8.0	-2.0	-13.0	-15.0	150.0	15.4
Tax rate (%)	18.2	17.2	14.6	-10.4	2.7	-10.8	-6.0	-4.8	5.5	-52.9	-15.0	-9.1	-8.0	-12.0	-12.2	-18.7	1.3
PAT before MI	135.5	124.5	136.5	149.0	71.0	92.0	124.0	132.0	137.0	52.0	46.0	96.0	27.0	121.0	138.0	200.0	14.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT	135.5	124.5	136.5	149.0	71.0	92.0	124.0	132.0	137.0	52.0	46.0	96.0	43.0	106.0	133.0	189.2	25.5
PAT Margin (%)	8.4	7.4	8.2	9.0	5.0	6.3	7.2	7.4	7.4	3.2	2.5	4.9	2.6	5.0	5.7	129.9	13.7
EPS (₹)	3.7	3.4	3.8	4.1	2.0	2.5	3.4	3.6	3.8	1.4	1.3	2.7	1.2	2.9	3.7		

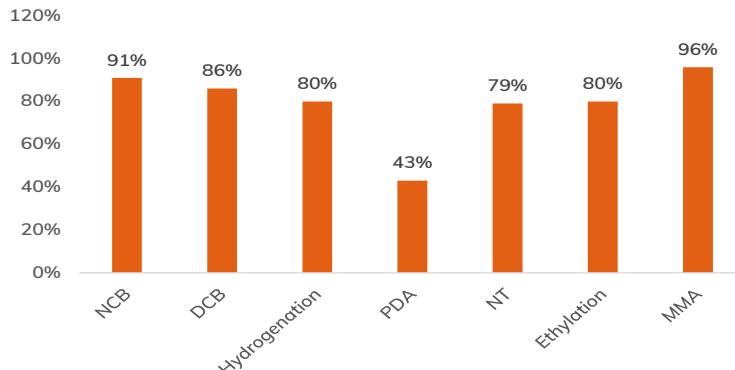
Source: Company, ICICI Direct Research

Exhibit 2: Revenues by End use case

Revenue by end- use	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Agchem & Fertilisers		16%	19%	18%	19%
Dyes, Pigments & Printing		13%	12%	15%	11%
Energy		34%	35%	36%	43%
Pharma		12%	11%	12%	10%
Polymer & Additives		17%	15%	14%	12%
Others		-17%	9%	-47%	-84%
					-20%

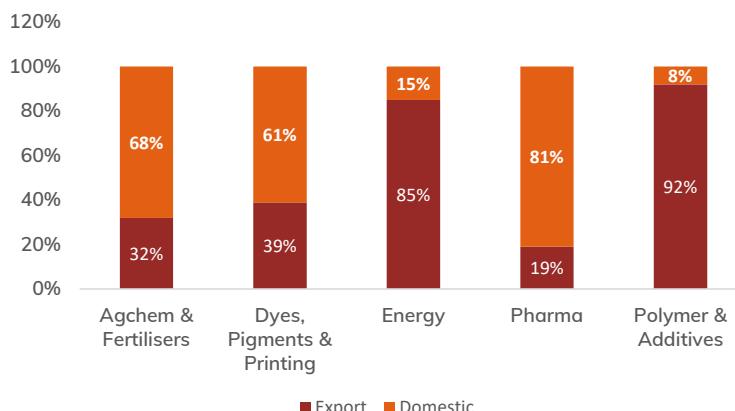
Source: Company, ICICI Direct Research

Exhibit 3: Key Value Chain Wise Capacity Utilisation for Q3FY26



Source: Company, ICICI Direct Research

Exhibit 4: End User Industry Wise Export: Domestic Split for Q3FY26



Source: Company, ICICI Direct Research

Q3FY26 Earnings Release / Conference call highlights

Key Highlights

- The energy business (MMA) remains the primary growth engine with robust volumes. On the other hand, Agrochemicals and pharmaceuticals saw pricing pressure.
- MMA experienced full tariff applicability in Q3FY26, where the US exports accounts for 50-60%. PDCB accounts for 15-20% of the US exports. Accordingly, the India-US trade deal which reduces the tariffs from (50%+ to ~18%) is expected to drive better realisations and volume recovery for products like PDA, MMA, PDCB and NCB.
- The management highlighted that MMA is likely to settle at 30-40% of the total portfolio over the next 2-3 years
- The company diversified its export mix towards the US, Europe, Middle East, Africa, and other select countries, which helped sustain and grow volumes while managing risk.
- The company provided for a one-time impact of ₹15 crore due to the implementation of a new labour code, recorded as an exceptional expense for the period.
- The upcoming Zone 4 capacity will see the commissioning of upcoming MPP, chlorotoluene, and calcium chloride blocks in a phased manner during the current calendar year, utilizing in-house technology.
- Exports share stood at 65%.

M&A

- Company's two joint ventures with the Superform JV (focused on paints and coatings) expected to commission in Q1 FY'27, and the RESL JV's first manufacturing unit anticipated for commissioning in H1 FY'27.
- The JV with an investment of ₹150 crore from each party has a revenue potential of ₹ 300 crore.

In Q2FY26, the company has also signed long term supply agreement with DCM Chloro- Alkali to procure consistent supply of, Chlorine, its key raw material.

Capex Plans:

- The estimated CapEx for FY '26 is approximately ₹1,100 crore, a slight increase from the previously guided ₹1,000 crore, driven by fast-track expansion initiatives for Zone IV.
- CapEx for FY '27 is projected to be significantly lower, as the Zone-4 project is scheduled for commercialization in calendar year '26, with no other large projects currently in the pipeline.
- The total CapEx for Zone IV is estimated between ₹ 1,600 crore and ₹ 1,800 crore, with the majority deployed by the end of the current fiscal year, leaving only ₹ 300 crore to ₹ 400 crore for the next year.

Guidance:

- The company has provided medium term EBITDA guidance of achieving ₹1,800-₹2,200 crore by FY28 from the FY25 levels of ₹1,016 crore. With a Debt/ EBITDA of <2.5x and ROCE of >15%.
- Management believes the 14%-15% EBITDA margin range is sustainable for non-energy applications, with an expectation for improvement going forward due to the three macro factors discussed.

Exhibit 5: Valuation Summary

Particular	FY28	Multiple	EV
EBITDA-FY28	1,806	12	21674
Net Debt			3,098
Targeted Mcap			18,576
No of Shares			36.2
Implied value			515
CMP			440
Upside %			17%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				₹ crore	Exhibit 7: Cash flow statement				₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E	(Year-end March)	FY25	FY26E	FY27E	FY28E
Total Operating Income	7,275.0	8,504.6	9,369.8	10,067.4	Profit/(Loss) after taxation	312.0	396.4	603.6	737.0
Growth (%)	14.2	16.9	10.2	7.4	Add: Depreciation & Amortization	434.0	478.3	605.7	629.1
Raw Material Expenses	4,653.0	5,595.5	5,920.6	6,141.1	Net Increase in Current Assets	-250.0	53.8	-230.8	-188.0
Gross Profit	2,622.0	2,909.0	3,449.2	3,926.3	Net Increase in Current Liabilities	481.0	50.7	136.6	111.5
Gross Profit Margins (%)	36.0	34.2	36.8	39.0	Others	265.0	298.0	209.3	194.3
Employee Expenses	422.0	430.3	474.1	509.3	CF from Operating activities	1,242.0	1,277.2	1,324.6	1,483.9
Other Expenditure	1,195.0	1,328.0	1,405.5	1,610.8	Investments	-3.0	0.0	0.0	0.0
Total Operating Expenditure	6,270.0	7,353.8	7,800.2	8,261.2	(Purchase)/Sale of Fixed Assets	-1,386.0	-1,046.0	-450.0	-400.0
EBITDA	1,005.0	1,150.8	1,569.7	1,806.2	Others	-9.0	-3.3	-3.4	-3.5
Growth (%)	2.7	14.5	36.4	15.1	CF from Investing activities	-1,398.0	-1,049.3	-453.4	-403.5
Interest	275.0	298.0	209.3	194.3	(inc)/Dec in Loan	239.0	-50.0	-250.0	-250.0
Depreciation	434.0	478.3	605.7	629.1	Dividend & Dividend tax	-36.0	-39.6	-60.4	-73.7
Other Income	9.0	6.0	0.0	0.0	Other	-276.0	-298.0	-209.3	-194.3
PBT before Exceptional Item	305.0	380.5	754.6	982.7	CF from Financing activities	-73.0	-387.6	-519.7	-518.0
Less: Exceptional Items	-2.0	-7.0	0.0	0.0	Net Cash Flow	-229.0	-159.8	351.5	562.4
PBT after Exceptional Items	307.0	387.5	754.6	982.7	Cash and Cash Equivalent	428.0	199.0	39.2	390.7
Total Tax	-24.0	-9.0	150.9	245.7	Cash	199.0	39.2	390.7	953.0
PAT after MI	330.9	396.4	603.6	737.0	Free Cash Flow	-144.0	231.2	874.6	1,083.9
Adjusted PAT	328.9	389.4	603.6	737.0	Source: Company, ICICI Direct Research				
Growth (%)	-21.5	18.4	55.0	22.1					
EPS (Adjusted)	9.1	10.8	16.7	20.4					

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				₹ crore	Exhibit 9: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E	(Year-end March)	FY25	FY26E	FY27E	FY28E
Equity Capital	181.0	181.0	181.0	181.0	Per share data (₹)				
Reserve and Surplus	5,424.0	5,780.8	6,324.0	6,987.3	Reported EPS	9.1	11.0	16.7	20.4
Total Shareholders funds	5,605.0	5,961.8	6,505.0	7,168.3	Cash EPS	8.2	9.7	15.0	18.3
Total Debt	3,789.0	3,739.0	3,489.0	3,239.0	BV per share	154.8	164.7	179.7	198.0
Deferred Tax Liability	0.0	0.0	0.0	0.0	Cash per Share	5.5	1.1	10.8	26.3
Minority Interest	0.0	0.0	0.0	0.0	Dividend per share	0.9	1.1	1.7	2.0
Other Non Current Liabilities	174.0	177.5	181.0	184.7	Operating Ratios (%)				
Source of Funds	9,568.0	9,878.2	10,175.1	10,592.0	Gross Profit Margins	36.0	34.2	36.8	39.0
Gross Block - Fixed Assets	8,912.9	10,812.9	11,212.9	11,662.9	EBITDA margins	13.8	13.5	16.8	17.9
Accumulated Depreciation	2,536.9	3,015.1	3,620.9	4,249.9	Adjusted PAT Margins	4.5	4.6	6.4	7.3
Net Block	6,376.0	7,797.7	7,592.0	7,412.9	Cash Conversion Cycle	50.3	38.4	38.4	38.4
Capital WIP	1,454.0	600.0	650.0	600.0	Asset Turnover	0.82	0.79	0.84	0.86
Fixed Assets	7,830.0	8,397.7	8,242.0	8,012.9	EBITDA conversion Rate	123.6	111.0	84.4	82.2
Investments	48.0	48.0	48.0	48.0	Return Ratios (%)				
Deferred Tax Assets	218.0	222.4	226.8	231.3	RoE	5.9	6.5	9.3	10.3
Other non-Current Assets	122.0	124.4	126.9	129.5	RoCE	6.1	6.9	9.5	11.1
Inventory	1,454.0	1,258.2	1,386.2	1,489.4	RoIC	7.2	7.3	10.6	13.0
Debtors	786.0	918.8	1,012.3	1,087.7	Valuation Ratios (x)				
Other Current Assets	455.0	464.1	473.4	482.8	P/E	48.1	40.2	26.4	21.6
Cash	199.0	39.2	390.7	953.0	EV / EBITDA	19.4	17.1	12.1	10.1
Total Current Assets	2,894.0	2,680.4	3,262.6	4,013.0	EV / Net Sales	2.7	2.3	2.0	1.8
Creditors	1,237.0	1,281.5	1,411.9	1,517.0	Market Cap / Sales	2.2	1.9	1.7	1.6
Provisions	16.0	16.3	16.6	17.0	Price to Book Value	2.8	2.7	2.4	2.2
Other Current Liabilities	291.0	296.8	302.8	308.8	Solvency Ratios				
Total Current Liabilities	1,544.0	1,594.7	1,731.3	1,842.8	Debt / EBITDA	3.8	3.2	2.2	1.8
Net Current Assets	1,350.0	1,085.7	1,531.3	2,170.2	Debt / Equity	0.7	0.6	0.5	0.5
Application of Funds	9,568.0	9,878.2	10,175.1	10,592.0	Current Ratio	1.7	1.7	1.7	1.7

Source: Company, ICICI Direct Research

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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