

Retail Equity Research (South India Focus)

# Aarti Industries Ltd

Specialty chemicals

BSE CODE : 524208

NSE CODE: AARTIIND

BLOOMBERG CODE: ARTO:IN

SENSEX : 49,565

## Accumulate

12Months Investment Period

Rating as per Mid Cap

**CMP Rs.1,701 TARGET Rs.1,902 RETURN 12%** ↑

(Closing: 20-05-21)

**KEY CHANGES:**
**TARGET** ↑

**RATING** ↑

**EARNINGS** ↑

### Demand recovery in sight...eyeing new opportunities

AARTI Industries Ltd (ARTO) is a global leader in Benzene based derivative products. The company has a diversified product portfolio with end users in pharma, agrochemicals, specialty polymers, paints & pigments.

- Q4FY21 revenue grew by 12% YoY, led by revival in specialty chemicals & stable growth in Pharma segment.
- EBITDA margins improved by 120bps YoY to 21.5% led by better volume & value added products. PAT grew by 23% YoY.
- Revival in discretionary portfolio ~40% of specialty chemicals (Auto, industrial, dyes/pigments) to pre-Covid levels is positive.
- Focus is on new products/import substitutes, by value addition through backward integration /forward integration.
- CAPEX plans for FY22-23 is Rs.1,500cr. To exploit long term opportunities, management guided Rs.3,500cr over FY24-27.
- Given niche execution capabilities, expanding value-added products in specialty chemicals & Pharma segments, strong clientele and improved outlook on account China issues, we maintain our positive outlook.
- Given positive trends in the chemical sector, strong earnings outlook and RoE of ~21% (5yr avg.), we value ARTO at P/E of 33x on FY23E and maintain to Accumulate, with a target price of Rs.1,902.

### Growth picks-up...focus is on to add more products

Q4FY21 Revenue grew by 12% YoY, as revenue from Specialty chemicals grew by 14% & Pharma business grew by 9% YoY. The overall revenue growth was aided by better volumes from regulated market. During the quarter, shut down of its Acid plant in Vapi and Jhagadia for annual maintenance led to loss of Rs.12cr in revenues. Though revenue growth from Pharma segment was stable in Q4FY21, the volumes were partly impacted by maintenance shutdowns. Over FY22-23, ARTO to spend Rs.1,500cr for expansion of capacities in NCB, Pharma and for two other long term projects. Supported by these expansions and strong growth in existing product portfolios, management has guided 1.7x-2.0x jump in turnover over period of FY21-FY24. Further, ARTO plans to spend Rs.3,500cr over period of FY24-27 with strategic focus on increasing value added products, downstream products, multi purpose plants for outsourcing and new range of API Pharma intermediaries, to exploit long growth opportunities in the sector. ARTO will continue to benefit from higher volumes due to China plus one strategy adopted by global chemical players to de-risk their supply chains. We expect revenue to grow by 25% CAGR over FY21-23E.

### Earnings momentum to pick-up...

EBITDA grew by 19% YoY and margins improved 120bps YoY to 21.5%. Specialty chemicals & Pharma, EBIT margins improved by 120bps & 380bps YoY respectively. Margins expansion was supported by revival in regulated markets and higher share of value added products. Consequently, PAT grew by 23% YoY. We expect Specialty chemical margins to improve going ahead led by better improved off-take from its discretionary product portfolio and new products. We upgrade our EPS estimates by 1.7% & 8.1% for FY22 & FY23. We expect PAT to grow by 38% CAGR over FY21-23E.

### Valuations

Focus on new products either through backward/forward integration, strong customer and opportunities on account China issues, will benefit the company in the medium term. Considering positive momentum in the chemical sector and strong earnings outlook, we value ARTO at 33x on FY23 and maintain to Accumulate with target price of Rs1,902.

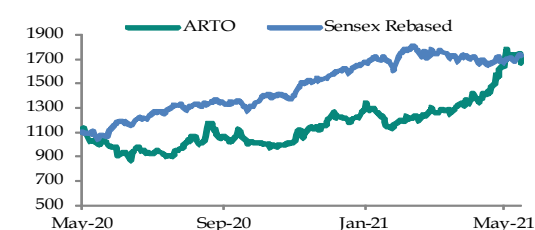
### Company Data

Market Cap (cr)	Rs.14,742
Enterprise Value (cr)	Rs.16,983
Outstanding Shares (cr)	8.7
Free Float	52.4%
Dividend Yield	0.21%
52 week high	Rs.1,815
52 week low	Rs.851
6m average volume (cr)	0.01
Beta	0.9
Face value	Rs. 5

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	47.6	47.4	46.8
FII's	7.5	9.0	8.7
MFs/Institutions	15.8	14.6	15.6
Public	25.8	25.7	25.7
Others	3.3	3.3	3.1
Total	100.0	100.0	100.0
Promoter pledge	NIL	NIL	NIL

Price Performance	3 month	6 Month	1 Year
Absolute Return	35.5%	48.5%	67.6%
Absolute Sensex	-2.8%	13.7%	65.3
Relative Return*	38.3%	34.8%	2.3%

over or under performance to benchmark index\*



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	4,506	5,805	7,034
Growth (%)	7.6	28.8	21.2
EBITDA	982	1,347	1,688
EBITDA Margin(%)	21.8	23.2	24.0
PAT Adjusted	523	771	1,004
Growth (%)	9.4	47.3	30.2
Adjusted EPS	30.0	44.3	57.6
Growth (%)	9.4	47.3	30.2
P/E	56.6	38.4	29.5
P/B	8.5	7.0	5.7
EV/EBITDA	17.3	12.4	9.9
ROE (%)	16.2	19.9	21.3
D/E	0.8	0.6	0.5

## Quarterly Financials

### Profit & Loss

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
<b>Sales</b>	<b>1,209</b>	<b>1076</b>	12.4	<b>1,187</b>	2.0
<b>EBITDA</b>	<b>260</b>	<b>219</b>	19.0	<b>285</b>	(8.7)
EBITDA margins	<b>21.5</b>	<b>20.3</b>	+120bps	<b>24.0</b>	(250bps)
Depreciation	66	49	33.2	59	12.0
<b>EBIT</b>	<b>195</b>	<b>170</b>	15.0	<b>226</b>	(14.0)
Interest	22	34	(36.4)	17	25.1
Other Income	-	-	-	-	-
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>173</b>	<b>136</b>	27.2	<b>209</b>	(17.4)
Tax	34	26	31.0	165	(16.3)
Share of profit from Associate	-	-	-	-	-
Minority Interest	3	-	-	4	(17.1)
<b>Reported PAT</b>	<b>136</b>	<b>110</b>	23.3	<b>165</b>	(17.6)
Adjustments	-	-	-	-	-
<b>Adjusted PAT</b>	<b>136</b>	<b>110</b>	23.3	<b>165</b>	(17.6)
No. of Shares	<b>8.7</b>	<b>8.7</b>	-	<b>8.7</b>	-
<b>EPS (Rs)</b>	<b>7.8</b>	<b>6.3</b>	23.3	<b>9.5</b>	(17.6)

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	5,557	6,419	5,805	7,034	4.5	9.6
EBITDA	1,289	1,528	1,347	1,688	4.5	10.5
Margins (%)	23.2	23.8	23.2	24.0	-	+20bps
Adj. PAT	758	929	771	1,004	1.7	8.1
EPS	43.5	53.3	44.3	57.6	1.7	8.1

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Sales</b>	<b>4,168</b>	<b>4,186</b>	<b>4,506</b>	<b>5,805</b>	<b>7,034</b>
% change	9.5	0.4	7.6	28.8	21.2
<b>EBITDA</b>	<b>965</b>	<b>977</b>	<b>982</b>	<b>1,347</b>	<b>1,688</b>
% change	38.0	1.3	0.4	37.2	25.4
Depreciation	163	185	231	286	330
EBIT	802	792	750	1,061	1,358
Interest	183	125	86	106	113
Other Income	2	9	1	9	10
<b>PBT</b>	<b>622</b>	<b>676</b>	<b>665</b>	<b>964</b>	<b>1,255</b>
% change	45.0	8.7	(1.7)	45.1	30.2
Tax	118	129	129	193	251
Tax Rate (%)	18.9	19.1	19.5	20.0	20.0
<b>Reported PAT</b>	<b>497</b>	<b>479</b>	<b>523</b>	<b>771</b>	<b>1,004</b>
Adj.*	5	0	0	0	0
<b>Adj. PAT</b>	<b>492</b>	<b>479</b>	<b>523</b>	<b>771</b>	<b>1,004</b>
% change	47.7	(2.7)	9.4	47.3	30.2
No. of shares (cr)	8.7	17.4	17.4	17.4	17.4
<b>Adj EPS (Rs)</b>	<b>28.2</b>	<b>27.5</b>	<b>30.0</b>	<b>44.3</b>	<b>57.6</b>
% change	47.7	(2.7)	9.4	47.3	30.2
DPS (Rs)	5.1	6.1	2.5	2.5	2.5
CEPS (Rs)	75.5	38.1	43.3	60.7	76.6

### BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	804	247	412	681	501
Accounts Receivable	776	753	794	1,081	1,310
Inventories	772	836	936	1,118	1,303
Other Cur. Assets	532	573	546	700	848
Investments	33	37	64	114	174
Gross Fixed Assets	3,321	3,796	5,152	5,852	6,852
Net Fixed Assets	2,145	2,468	3,592	4,006	4,676
CWIP	795	1,418	1,298	300	300
Intangible Assets	13	9	1	1	1
Def. Tax (Net)	(193)	(211)	(234)	(234)	(234)
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>5,665</b>	<b>6,121</b>	<b>7,408</b>	<b>7,766</b>	<b>8,878</b>
Current Liabilities	599	647	1,136	771	931
Provisions	42	40	40	56	67
Debt Funds	2,309	2,361	2,717	2,697	2,677
Other Liabilities	84	95	12	12	12
Equity Capital	43	87	87	87	87
Reserves & Surplus	2,587	2,892	3,416	4,143	5,104
Shareholder's Fund	2,631	2,979	3,503	4,231	5,191
<b>Total Liabilities</b>	<b>5,665</b>	<b>6,121</b>	<b>7,408</b>	<b>7,766</b>	<b>8,878</b>
BVPS	304	171	201	243	298

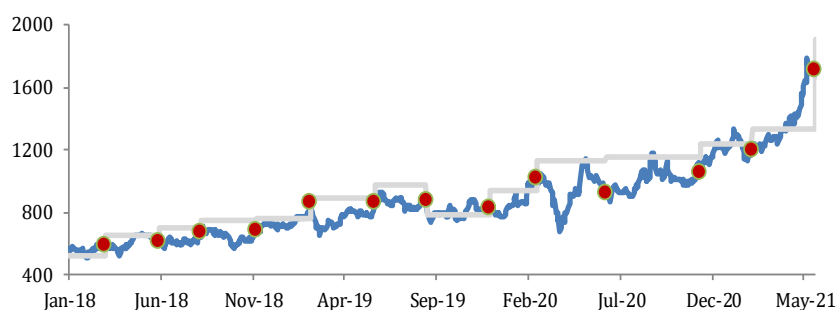
### CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	667	732	767	1057	1,334
Non-cash adj.	169	80	113	106	113
Changes in W.C	(99)	290	(7)	(973)	(391)
<b>C.F. Operation</b>	<b>736</b>	<b>1,102</b>	<b>873</b>	<b>190</b>	<b>1,056</b>
Capital exp.	(791)	(1,126)	(1,314)	298	(1,000)
Change in inv.	(6)	1	(8)	(50)	(60)
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>(797)</b>	<b>(1,124)</b>	<b>1,322</b>	<b>248</b>	<b>(1,060)</b>
Issue of equity	741	0	0	0	0
Issue/repay debt	136	(428)	660	(126)	(133)
Dividends paid	(44)	(106)	(45)	(44)	(44)
Other finance.CF	0	0	0	0	0
<b>C.F - Finance</b>	<b>833</b>	<b>(535)</b>	<b>614</b>	<b>(169)</b>	<b>(176)</b>
Chg. in cash	772	(557)	165	268	(180)
Closing cash	804	247	412	681	501

### RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	23.2	23.3	21.8	23.2	24.0
EBIT margin (%)	19.3	18.9	16.6	18.3	19.3
Net profit mgn.(%)	11.8	11.4	11.6	13.3	14.3
ROE (%)	17.1	16.2	19.9	21.3	0.0
ROCE (%)	14.3	10.7	10.0	13.0	14.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	59.9	66.7	62.7	59.0	62.1
Inventory (days)	128.5	142.7	151.9	133.2	130.1
Payables (days)	96.6	110.6	152.8	123.6	91.4
Current ratio (x)	4.5	3.5	2.3	4.3	4.0
Quick ratio (x)	2.3	1.5	1.0	1.4	1.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.3	1.2	1.0	1.1	1.1
Total asset T.O (x)	0.8	0.7	0.7	0.8	0.8
Int. covge. ratio (x)	4.4	6.3	8.7	10.0	12.0
Adj. debt/equity (x)	1.0	0.9	0.8	0.6	0.5
<b>Valuation</b>					
EV/Sales (x)	3.9	4.0	3.8	2.9	2.4
EV/EBITDA (x)	16.8	17.2	17.3	12.4	9.9
P/E (x)	60.3	61.9	56.6	38.4	29.5
P/BV (x)	5.6	9.9	8.5	7.0	5.7

## Recommendation summary (Last 3 years)



Dates	Rating	Target
1-March-2018	Accumulate	656
30-May-2018	Buy	698
08-August-2018	Accumulate	747
06-November-2018	Accumulate	755
06-February-19	Hold	894
23-May-19	Buy	975
16-August-19	Reduce	786
28-November-2019	Accumulate	933
17-February-2020	Accumulate	1,133
08-June-2020	Buy	1,151
12-November-2020	Accumulate	1,232
04-February-2021	Accumulate	1,333
21-May-2021	Accumulate	1,902

Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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