AXIS SECURITIES

Result Update
4th August, 2025

Aarti Industries Ltd
Specialty Chemicals

BUY
Target Price
525

A Weak Quarter Dampened by External Factors; Maintain BUY

Est. Vs. Actual for Q1FY26: Revenue: MISS; EBITDA: MISS; PAT: MISS

Changes in Estimates post Q1FY26

FY26E/FY27E: Revenue: -2%/-2%; **EBITDA:** -4%/-8%; **PAT**: -2%/-3%

Recommendation Rationale

- **Stable Volumes Amidst Challenging Environment:** Aarti Industries reported a 10% YoY decline in revenue, primarily attributable to the correction in key RM prices and deferment in export volumes. The quarter was marked by a highly volatile macro environment, characterised by sharp price corrections in major raw materials, ongoing geopolitical tensions, and persistent global trade disruptions. Despite these challenges, the company ensured operational continuity and maintained stable volumes. The non-energy segment posted a 9% YoY increase in volumes, while the energy segment registered a 3% YoY growth.
- **Deferred Export Volumes Expected to be Recouped in Q2:** EBITDA for the quarter was adversely affected by a sharp decline (15–20%) in Benzene and Aniline prices, leading to an inventory valuation loss of ~Rs 30 Cr. Additionally, geopolitical disruptions in the Middle East caused logistical delays, resulting in the deferment of bulk exports from Jun'25 to Jul'25. Management anticipates that around Rs 15–20 Cr in EBITDA, related to these deferred shipments, will be recouped in Q2FY26.
- **Continues to Make Progress on Capacity Enhancements:** The company incurred a capex of Rs 280 Cr during Q1FY26, primarily towards ongoing expansion projects. Execution of Zone IV projects is progressing as scheduled, with phased commissioning expected to commence from H2FY26. These projects mark its strategic entry into advanced chemistries. Moreover, the scale-up of MMA capacity to 260 KTPA is expected to support sustained volume growth in the upcoming quarters.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The company is actively working on expanding its product portfolio, with a strategic focus on the ethylation value chain, where recent capacity additions are aimed at improving product diversity and boosting capacity utilisation. In parallel, AIL is advancing backward integration into select downstream products to support margin expansion. Looking ahead, it plans to pursue its growth plans in a measured and disciplined manner, with a planned capital expenditure of less than Rs 1,000 Cr for FY26. Over the next three years, AIL is targeting an EBITDA range of Rs 1,800–2,200 Cr. To support this, the company will continue to drive operating leverage and implement cost efficiency initiatives. Management has guided for a Debt/EBITDA ratio of below 2.5x and aims to achieve a ROCE of over 15% by FY28.

Current Valuation: 25x FY27E (Unchanged)

Current TP: Rs 525/share (Earlier TP: Rs 540/share).

Recommendation: We **maintain our BUY rating on the stock** with a revised target price of Rs 525/share, implying a 29% upside from the CMP.

Financial Performance: AIL's performance was weaker than expected, mainly due to uncontrollable external factors. Revenue came in at Rs 1,675 Cr, down 10% YoY and 14% QoQ, missing our estimates. EBITDA stood at Rs 212 Cr, down 30% YoY and 21% QoQ, missing our estimates by 25%. EBITDA margin stood at 12.7%, compared to 16.4% in Q1FY25 and 13.7% in Q4FY25. The company's PAT was Rs 43 Cr, down 69% YoY and 55% QoQ, missing our estimates of Rs 97 Cr due to higher interest cost and depreciation, while the revenue declined.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	YoY (%)	QoQ (%)	Axis Est.	Var (%)
Net Sales	1,675	-10%	-14%	1,827	-8%
EBITDA	212	-30%	-21%	283	-25%
EBITDA Margin	12.7%	-379bps	-109bps	15.5%	-284bps
Net Profit	43	-69%	-55%	97	-56%
EPS (Rs)	1.2	-69%	-55%	2.7	-56%

Source: Company, Axis Securities Research

(CMP as of 1st August, 2025)

CMP (Rs)	406
Upside /Downside (%)	29%
High/Low (Rs)	767/344
Market cap (Cr)	14,705
Avg. daily vol. (1m) Shrs.	16,59,616
No. of shares (Cr)	36.3

Shareholding (%)

	Dec-24	Mar-25	June-25
Promoter	42.35	42.24	42.24
FIIs	7.25	6.29	6.44
DIIs	17.93	19.97	20.38
Other	32.47	31.50	30.93

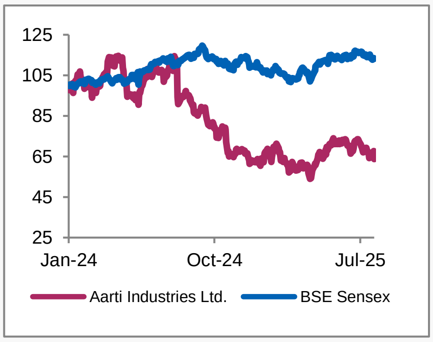
Financial & Valuations

Y/E Mar	FY25	FY26E	FY27E
Net Sales	7,271	8,362	9,867
EBITDA	1,001	1,271	1,569
Net Profit	345	526	770
EPS (Rs)	9.5	14.5	21.2
PER (x)	42.7	28.0	19.1
P/BV (x)	2.6	2.4	2.1
EV/EBITDA (x)	18.3	14.3	11.4
ROE (%)	6%	9%	11%

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-2%	-2%
EBITDA	-4%	-8%
PAT	-2%	-3%

Relative Performance



Source: Ace Equity, Axis Securities Research

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Outlook

AIL intends to make calibrated investments in expanding its product pipeline, with an eye on evolving market opportunities. While the growth during the quarter was impacted by external factors and one-off losses, the company is expected to recoup some of the growth in the coming quarters. As macro conditions stabilise, management expects capacity additions and entry into advanced chemistries to aid in restoring growth momentum and margin improvement. Additionally, it aims to diversify its energy vertical, which shall provide long-term business resilience.

Valuation

We have made minor downward revisions to our near-term estimates to reflect the prevailing macroeconomic pressures, trade headwinds—particularly with the US—and ongoing geopolitical risks. Nonetheless, our long-term thesis remains intact. **We continue to value the stock at 25x FY27E earnings, arriving at a revised target price of Rs 525/share (earlier Rs 540/share), indicating an upside potential of 29% from the CMP.**

Key Concall Highlights

Financial Performance

The company reported a 10% YoY decline in revenue during the quarter, primarily due to a steep correction in raw material (RM) prices and the deferment of several bulk export shipments from Jun'25 to Jul'25. Export revenue stood at ~Rs 950 Cr for the quarter. Broad-based pricing pressures across key product categories impacted gross margins. Additionally, a sharp decline (15–20%) in Benzene and Aniline prices led to an inventory valuation loss of around Rs 30 Cr. Geopolitical challenges, particularly in the Middle East, further disrupted logistics, contributing to shipment delays. Operations at the Kutch site were temporarily affected due to Indo-Pak tensions and maintenance shutdowns related to MMA catalyst replacement and capacity upgrades.

End-Use Segment Revenue Break-up (Q1FY26):

- Energy: 36%
- Agrochemicals: 18%
- Dyes & Pigments: 15%
- Pharma: 12%
- Polymers and Additives: 14%
- Others: 5%

Volumes

Volumes in the non-energy segment declined 4% QoQ, mainly due to subdued demand in NCBs and DCBs and shipment delays affecting ethylation products. The energy business, however, registered a 4% QoQ increase in volumes, supported by improved offtake, though margins remained under pressure. MMA volumes were adversely impacted due to operational constraints at the Kutch site.

- Agrochemical intermediates continued to face demand headwinds.
- Dyes, pigments, and pharma segments remained stable.
- Polymers and additives exhibited a mixed performance across sub-segments.
- PDA volumes grew due to tariff advantages over Chinese imports.
- DCB volumes declined, reflecting soft demand in downstream automotive applications.

Capex

The company incurred capex of ~Rs 280 Cr in Q1FY26 (compared to Rs 352 Cr in Q4FY25). For the full year, capex is expected to be around the lower end of the Rs 1,000 Cr range. The MMA capacity expansion to 260 KTPA has been completed, with scope for further expansion at marginal additional investment. Execution of Zone IV projects is on track, with phased commissioning expected from H2FY26 onwards.

Zone IV Project: The Zone IV initiative marks the company's foray into advanced chemistries spanning polymers, agrochemicals, speciality materials, and pharmaceuticals. Management expects over 20% EBITDA margins from these products.

Joint Ventures & Sustainability Initiatives:

- **Augene Chemicals (JV with Superform):** Construction and market development are progressing well, with commissioning expected in H1CY26.
- **Re Aarti (JV with ReSL):** Pilot project for plastic waste recycling in Hyderabad is on schedule; technology and vendor tie-ups are completed.
- **Green Energy Transition:** The company's first solar PPA-linked facility will commence power supply this year, with a second hybrid plant expected by early FY27.

Guidance and Outlook:

Management maintains a positive outlook for volume growth in the medium term, supported by recently added capacities. Beyond volume, EBITDA growth is expected to be driven by operating leverage and ongoing cost optimisation initiatives. The management also mentioned that there is very limited scope for further fall in raw material prices, and those may have bottomed out as reflected in the price recovery seen in some pockets. Approximately Rs 15–20 Cr of EBITDA, lost due to export shipment delays in Q1, is expected to be recovered in Jul'25, and the one-off expense of Rs 30 Cr reported in Q1 is not expected to recur in the coming quarters. The finance cost is expected to remain low due to lower prevailing interest rates. The company remains committed to achieving Rs 1,800–2,200 Cr of EBITDA by FY28, targeting a Debt/EBITDA ratio below 2.5x and a ROCE exceeding 15%.

Working Capital Update

Working capital requirements increased during the quarter due to shipment delays, which resulted in inventory being held at ports and plant locations. In addition, receivables from some customers were delayed by 7–10 days, further impacting the working capital cycle.

Key Business Highlights

- **MMA Business:** The gasoline-naphtha spread is showing signs of recovery, though rising competition may impact margins. Expanded capacity (260 KTPA) will support higher volumes, and strategic pricing adjustments and customer diversification efforts are underway.
- **Export Trends:** Export revenue for Q1FY26 stood at Rs 950 Cr, down from Rs 1,240 Cr in Q4FY25, largely due to shipment deferments and market softness.
- **US Trade Tariffs:** The recent announcement of a 25% tariff on Indian imports to the US has introduced fresh uncertainty. AIL is currently assessing the potential implications of these measures on its US-bound product portfolio. Certain products of the company, mainly the agrochemicals, are likely to be exempted from the tariffs (based on the exemptions given earlier), while the DCB business is likely to be impacted the most, where it competes with European players.

Key Risks to Our Estimates and TP

- Any delay in capacity expansion or existing projects may affect ROCE negatively.
- The global slowdown may affect volumes and value growth.
- Involvement in complex, risky chemistries has significant operational risks.

Change in Estimates

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	8,362	9,867	8,507	10,038	-2%	-2%
EBITDA	1,271	1,569	1,319	1,696	-4%	-8%
PAT	526	770	537	797	-2%	-3%

Source: Company, Axis Securities Research

Q1FY26 Results Review

Particulars	Q1FY25	Q4FY25	Axis Sec Estimate (Rs Cr)	Q1FY26	% Change (YoY)	% Change (QoQ)	Variance (%)
Sales	**1,855**	**1,949**	**1,827**	**1,675**	**-10%**	**-14%**	**-8%**
Expenditure							
COGS	1156	1251	1160	1122	**-3%**	**-10%**	**-3%**
Employee Expenses	113	99	100	109	**-4%**	**10%**	**8%**
Other Exp	281	331	283	232	**-17%**	**-30%**	**-18%**
Total Expenditure	**1550**	**1681**	**1544**	**1463**	**-6%**	**-13%**	**-5%**
EBIDTA	**305**	**268**	**283**	**212**	**-30%**	**-21%**	**-25%**
EBITDA Margin (%)	16.44%	13.75%	15.50%	12.66%	**-379bps**	**-109bps**	**-284bps**
Depreciation	102	113	119	114	**12%**	**1%**	**-4%**
Other Income	6	-3	3	4	**-33%**		
EBIT	209	152	167	102	**-51%**	**-33%**	**-39%**
Interest	64	64	65	60	**-6%**	**-6%**	**-8%**
Exceptional Item							
PBT	**145**	**88**	**102**	**42**	**-71%**	**-52%**	**-59%**
Tax	8	-8	5	-1	**-113%**	**-88%**	**-120%**
PAT	**137**	**96**	**97**	**43**	**-69%**	**-55%**	**-56%**
EPS (Rs)	3.8	2.6	2.7	1.2	**-69%**	**-55%**	**-56%**

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	**6,619**	**6,372**	**7,271**	**8,362**	**9,867**
Cost of goods sold	3,842	3,880	4,655	5,142	6,019
Contribution (%)	*42.0%*	*39.1%*	*36.0%*	*38.5%*	*39.0%*
Employee Costs	385	404	422	527	602
Other Expenses	1,303	1,112	1,193	1,421	1,677
EBITDA	**1,089**	**977**	**1,001**	**1,271**	**1,569**
EBITDA Growth %	-36.7%	-10.3%	2.5%	27.0%	23.4%
Other income	1	8	13	10	10
Depreciation	310	378	434	487	550
EBIT	**780**	**607**	**580**	**794**	**1,029**
Interest & Fin Chg.	168	211	275	216	184
E/o income / (Expense)	0	0	-2	0	0
Pre-tax profit	**611**	**395**	**307**	**578**	**845**
Tax provision	66	-21	-24	51	75
Reported PAT	**545**	**416**	**331**	**526**	**770**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Equity + Liabilities					
Equity Capital	181	181	181	181	181
Reserves & Surplus	**4,739**	**5,109**	**5,424**	**5,950**	**6,720**
Total Equity	***4,921***	***5,290***	**5,605**	**6,132**	**6,901**
Long-term Borrowings	635	1,525	1,867	1,767	1,617
Lease Liabilities	25	49	47	47	47
Other Non-Current Liabilities	217	175	127	127	127
Total Non-Current Liabilities	***877***	***1,749***	**2,042**	**1,942**	**1,792**
Short-Term Borrowings	**2,247**	**1,669**	**1,933**	**1,833**	**1,733**
Trade Payables	407	521	1,237	1,268	1,286
Provisions	30	40	16	16	16
Others	99	346	280	280	280
Total Current Liabilities	***2,783***	***2,576***	***3,466***	***3,397***	***3,315***
Total Liabilities	**3,660**	**4,325**	**5,508**	**5,339**	**5,107**
Total Equity + Liabilities	**8,581**	**9,615**	**11,114**	**11,471**	**12,008**
ASSETS					
Gross Block	6,928	7,453	8,293	9,193	9,993
Less: Depreciation	2,123	1,802	2,016	2,503	3,053
Property, Plant & Equipment	**4,829**	**5,588**	**6,277**	**6,690**	**6,941**
Capital WIP	989	1,052	1,274	1,059	1,059
Right to Use Assets	30	53	51	51	51
Other Non-Current Assets	94	101	122	122	122
Total Non-Current Assets	**``6,122**	**7,146**	**8,219**	**8,416**	**8,667**
Current Assets					
Inventories	1,031	1,160	1,454	1,489	1,622
Trade Receivables	940	826	786	916	1,027
Cash	167	42	199	194	237
Other Financial Assets	181	236	23	23	23
Current Tax Assets	55	77	14	14	14
Other Current Assets	51	40	323	323	323
Total Current Assets	**2,459**	**2,469**	**2,895**	**3,054**	**3,342**
Total Assets	**8,581**	**9,615**	**11,113**	**11,470**	**12,008**

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Profit Before Tax					
Finance Cost	**611**	**395**	**305**	**578**	**845**
Depreciation	168	211	275	216	184
(Inc)/Dec in Working Capital	310	378	434	487	550
Tax Paid	321	323	230	-135	-226
Cash Flow from Operations	(90.9)	(85.7)	6.9	(51.2)	(75.3)
	1,318.7	**1,209.6**	**1,241.9**	**1,095.0**	**1,277.9**
Change in Gross Block	-1,326	-1,328	-1,386	-900	-800
(Inc)/Dec in Investments	0	22	7	0	0
Cash Flow from Investing	**-1,330**	**-1,369**	**-1,398**	**-685**	**-800**
Inc/(Dec) in Loans	297.1	686.3	238.5	(200.0)	(250.0)
Finance Cost	(168.3)	(211.5)	(275.4)	(216.0)	(184.3)
Cash Flow from Financing	**38.2**	**420.5**	**(73.2)**	**(416.0)**	**(434.3)**
Net Inc/Dec in Cash	27	261	-229	-6	44
Opening Cash	174	167	428	199	194
Closing Cash	**201**	**428**	**199**	**194**	**237**

Source: Company, Axis Securities Research

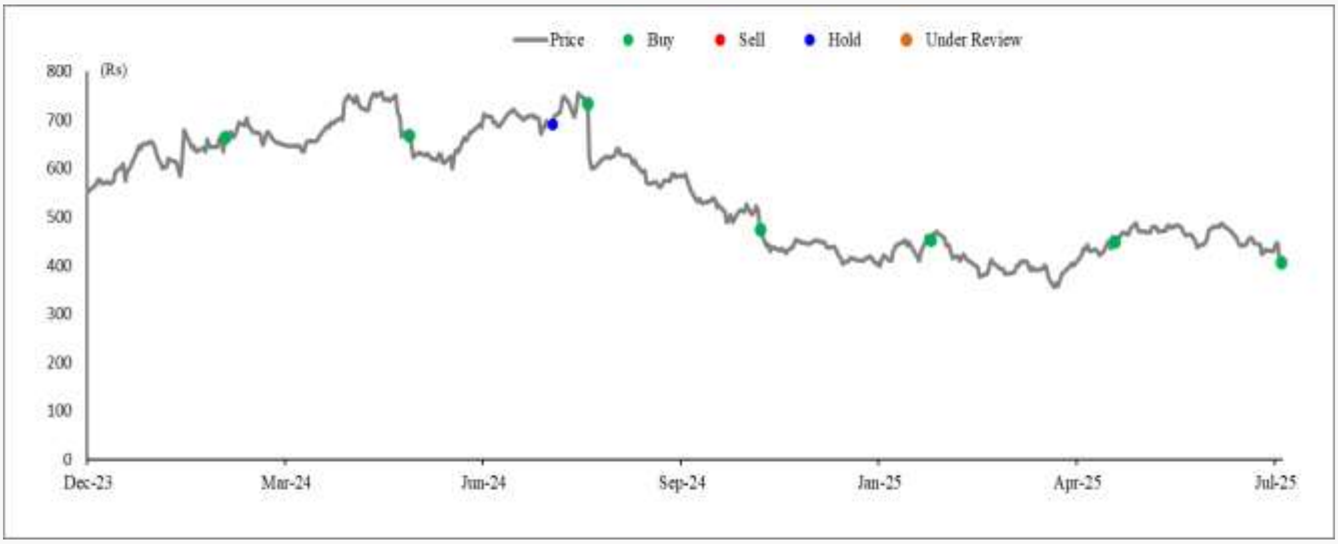
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Sales growth	**8.8**	**(3.7)**	**14.1**	**15.0**	**18.0**
OPM	**16.5**	**15.3**	**13.8**	**15.2**	**15.9**
Oper. profit growth	(36.7)	(10.3)	2.5	27.0	23.4
COGS / Net sales	58.0	60.9	64.0	61.5	61.0
Overheads/Net sales	5.8	6.3	5.8	6.3	6.1
Depreciation / G. block	5.0	5.3	5.2	5.3	5.5
RoCE	**10.0%**	**6.8%**	**6%**	**8%**	**10%**
Debt/equity (x)	0.6	0.7	0.7	0.6	0.5
Effective tax rate	10.8	(5.3)	(7.8)	8.9	8.9
RoE	**11%**	**7.9%**	**6%**	**9%**	**11%**
Payout ratio (Div/NP)	17.7	23.1	27.9	18.3	12.5
EPS (Rs)	**15.0**	**11.5**	**9.5**	**14.5**	**21.2**
EPS Growth	(54.0)	(23.6)	(17.2)	52.6	46.2
CEPS (Rs)	23.6	21.9	21.5	28.0	36.4
DPS (Rs)	2.4	2.4	2.4	2.4	2.4
Valuation (x)					
P/E	27.0	35.3	42.7	28.0	19.1
P/BV	3.0	2.8	2.6	2.4	2.1
EV/EBITDA	16.0	18.3	18.3	14.3	11.4
Mcap/Sales	2.2	2.3	2.0	1.8	1.5

Source: Company, Axis Securities Research

Aarti Industries Price Chart and Recommendation History



Date	Reco	TP	Research
12-Feb-24	BUY	735	Result Update
14-May-24	BUY	770	Result Update
1-Aug-24	HOLD	788	AAA
13-Aug-24	BUY	815	Result Update
11-Nov-24	BUY	540	Result Update
04-Feb-25	BUY	525	Result Update
09-May-25	BUY	540	Result Update
04-Aug-25	BUY	525	Result Update

Source: Axis Securities Research

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In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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