

Volatile quarter led by uncertainty and deferment of shipments

Specialty Chemicals ▶ Result Update ▶ August 01, 2025

CMP (Rs): 407 | TP (Rs): 450

Aarti's Q1 EBITDA at Rs2.1bn (-31% YoY, -21% QoQ) was below street's expectations and our estimates, owing to a) a steep decline in prices of raw materials like benzene and aniline (15-20%), resulting in inventory loss of Rs300mn, b) logistics issues arising from the Middle East conflict leading to postponement of bulk shipments to July, from June, and c) impact on Kutch operations, led by MMA catalyst replacement/capacity expansion and the Indo-Pak conflict. In Q1, the environment remained challenging for the company; however, the management reiterated guidance of Rs18-22bn EBITDA by FY28, led by cost-optimization and capacity additions in Zone-4. We cut FY26/27/28 EBITDA by 19/12/8% to factor in weak near-term macro. Also, we are now baking in the lower-end of FY28 EBITDA guidance, to factor in uncertainty in the overall business environment created by MMA. We maintain BUY with a revised TP of Rs450 (25x Jun-27E EPS), from Rs525 earlier.

Macro uncertainty led to a volatile environment in Q1

Aarti posted Rs2.1bn EBITDA (-31% YoY/-21% QoQ) in Q1FY26. The decline in EBITDA was primarily due to pressure on pricing, led by 15-20% correction in benzene and aniline prices (Rs300mn inventory loss). Non-energy and energy businesses saw volume increases of 9% and 3% YoY, respectively. Unfavorable macro situations like a) the US tariff uncertainty led to lower utilization in MMA (US customers are concerned about affordability) and DCB (auto manufacturers turned cautious; competition from the EU); b) MMA operations being impacted by India-Pak/Israel-Iran conflicts led to postponement of bulk shipments to Jul-25 (net impact: Rs200mn; MMA exports in Jul-25: 20-22kt). The company expects RM prices to remain range-bound (flat over the last 1-1.5M) and FG prices to remain under pressure across product chains.

Capacity expansion to drive growth in a staggered manner

Aarti increased NT/ethylation capacities in Q4FY25. It debottlenecked its MMA capacity from 200ktpa to 260ktpa in Q1FY26 and may further expand with a limited capex. The ramp-up in these underutilized capacities is expected to add Rs3.5-5.5bn to EBITDA by FY28E. MPP and Zone-4 (calcium chloride) plants are expected to commercialize by Dec-25, along with utility blocks. The remaining 5 blocks in Zone-4 pertain to chlorotoluene and dichlorotoluene and are expected to be commissioned in a phased manner over Jan to May-26. MPP will be catering to 4-5 products in phase 1 (out of 10 products), with end-application segments of polymers, agro, and pharma. Aarti can manufacture 35-40 downstream products, with a combination of Zone-4 and MPP.

FY28 EBITDA guidance stays; we revise estimate to lower-end of guidance

The management reiterated its guidance of Rs18-22bn EBITDA by FY28, led by cost-optimization, ramp-up in existing capacities, and capex-led growth from MPP and Zone-4. While the management did not commit to any FY26 guidance, we bake in ~10% growth in EBITDA for FY26E, with back-ended commissioning of projects. Also, we bake in the lower-end of FY28 EBITDA guidance to factor in uncertainty in the overall business.

Target Price – 12M	Jun-26
Change in TP (%)	(14.3)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	10.6

Stock Data	ARTO IN
52-week High (Rs)	767
52-week Low (Rs)	344
Shares outstanding (mn)	362.6
Market-cap (Rs bn)	147
Market-cap (USD mn)	1,684
Net-debt, FY26E (Rs mn)	41,029.4
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	782.7
ADTV-3M (USD mn)	8.9
Free float (%)	57.8
Nifty-50	24,565.3
INR/USD	87.5

Shareholding, Jun-25

Promoters (%)	42.2
FPIs/MFs (%)	6.4/20.4

Price Performance

(%)	1M	3M	12M
Absolute	(16.1)	(3.5)	(45.2)
Rel. to Nifty	(12.7)	(4.4)	(44.2)

1-Year share price trend (Rs)**Aarti Industries: Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	63,720	72,710	84,137	100,454	119,606
EBITDA	9,760	10,010	10,888	15,158	18,427
Adj. PAT	4,160	3,290	3,296	6,022	8,307
Adj. EPS (Rs)	11.5	9.1	9.1	16.6	22.9
EBITDA margin (%)	15.3	13.8	12.9	15.1	15.4
EBITDA growth (%)	(10.4)	2.6	8.8	39.2	21.6
Adj. EPS growth (%)	(23.7)	(20.9)	0.2	82.7	37.9
RoE (%)	8.1	6.0	5.7	9.8	12.2
RoIC (%)	9.5	8.6	7.1	8.9	10.7
P/E (x)	35.4	45.0	28.6	20.5	16.4
EV/EBITDA (x)	18.2	17.7	16.3	11.7	9.6
P/B (x)	2.8	2.6	2.4	2.2	2.0
FCFF yield (%)	(0.4)	(0.8)	(1.7)	3.6	4.5

Source: Company, Emkay Research

Meet Vorameet.vora@emkayglobal.com
+91-22-66242474**Meet Gada**meet.gada@emkayglobal.com
+91-22-66121235

Exhibit 1: Results update

P&L (Rs mn)	Reported					Emkay Estimates		Full-year ended		
	Q1FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)	Q1FY26	vs Est (%)	FY25	FY24	YoY (%)
Net revenue	18,550	19,490	16,750	-10	-14	19,478	-14	72,720	63,730	14
Raw Material cost	(11,550)	(12,510)	(11,220)	-3	-10	(12,685)	-12	(46,530)	(38,790)	20
Gross Profit	7,000	6,980	5,530	-21	-21	6,793	-19	26,190	24,940	5
Gross margin (%)	37.7	35.8	33.0	-473 bps	-280 bps	34.9	-187 bps	36.0	39.1	-312 bps
Employee cost	(1,135)	(990)	(1,090)	-4	10	(1,013)	8	(4,225)	(4,030)	5
Other overheads	(2,815)	(3,310)	(2,330)	-17	-30	(3,214)	-27	(11,955)	(11,120)	8
Total expenses	(15,500)	(16,810)	(14,640)	-6	-13	(16,911)	(13)	(62,710)	(53,940)	16
EBITDA	3,050	2,680	2,110	-31	-21	2,566	-18	10,010	9,790	2
EBITDA margin (%)	16.4	13.8	12.6	-385 bps	-116 bps	13.2	-58 bps	13.8	15.4	-160 bps
Other income	60	(30)	40	-33	-233	-	-	130	80	62
Interest	(640)	(640)	(600)	-6	-6	(688)	-13	(2,750)	(2,110)	30
Depreciation	(1,020)	(1,130)	(1,140)	12	1	(1,164)	(2)	(4,340)	(3,780)	15
Exceptional Items	-	-	-	-	-	-	-	20	-	-
PBT	1,450	880	410	-72	-53	715	-43	3,070	3,980	-23
Tax	(80)	70	20	-125	-71	(36)	(156)	230	200	15
Share of Associates Profit	-	-	-	-	-	-	-	-	-	-
Adj PAT	1,370	950	430	-69	-55	679	-37	3,300	4,180	-21
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	1,370	950	430	-69	-55	679	-37	3,300	4,180	-21
EPS (Rs)	3.8	2.6	1.2	-69	-55	1.9	-37	9.0	11.5	-22
Costs as a % of sales										
Raw Material cost	62.3	64.2	67.0	472 bps	279 bps	65.1	186 bps	64.0	60.9	311 bps
Employee cost	6.1	5.1	6.5	38 bps	142 bps	5.2	130 bps	5.8	6.3	-52 bps
Other overheads	15.2	17.0	13.9	-127 bps	-308 bps	16.5	-259 bps	16.4	17.4	-101 bps
Income tax rate (%)	5.5	(8.0)	(4.9)	-1040 bps	307 bps	5.0	-988 bps	(7.5)	(5.0)	-247 bps

Source: Company, Emkay Research

Exhibit 2: Capacity and utilization trends show significant upside, leading to operating leverage

Product Groups	Capacity (KT; expanded period)	FY22	FY23	FY24	FY25	YoY	Q1FY25	Q4FY25	Q1FY26	YoY	QoQ	Q1FY26 utilization
NCB	108 (from Q3FY24)	76.6	77.8	73.5	85.3	16%	19.5	23.9	21.7	11%	-9%	80%
DCB	120	74.6	84.2	80.7	88.6	10%	24.1	20.4	19.3	-20%	-5%	64%
Hydrogenation	60	35.7	37.2	39.1	44.4	14%	10.3	11.6	12.3	19%	6%	82%
PDA	12	6.5	4.2	4.4	3.9	-11%	0.6	1.0	2.0	233%	100%	67%
NT	45 (from Q4FY25)	16	23.9	30.5	29.4	-4%	7.6	7.9	8.7	14%	10%	77%
Ethylation	25-30 (from Q4FY25)	7.2	11.9	10.5	14.5	38%	2.6	4.6	4.6	77%	0%	67%
MMA	260 (from Q1FY26)	23.1	37.8	89.3	123.0	38%	31.1	34.8	38.4	23%	10%	60%

Source: Company, Emkay Research

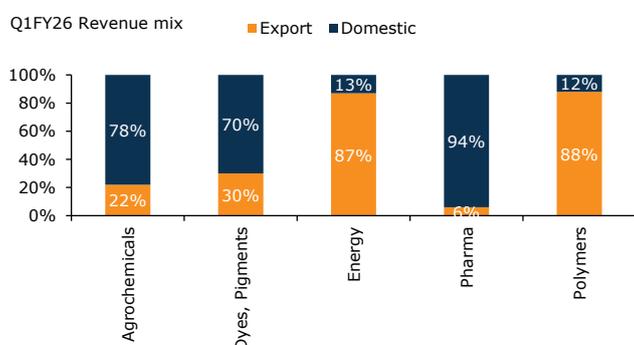
This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Exhibit 3: Application-wise revenue and highlights

Application-wise revenue and highlights (Rs mn)	Q1FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)	Market updates	Business highlights
Agrochemicals and Fertilizer	4,024	3,985	3,361	(16.5)	(15.7)	Volume recovery visible in certain products, though prices remain under pressure. SSP demand has strengthened because of disruptions in Fertilizer supplies from China.	Capacity utilization improving for chloro anilines and fluorination products. New capacity ramp up for ethylation products facing margin pressure from China. New products to be launched during FY26 post Zone IV - MPP unit commissioning.
Dyes, Pigments, and Printing Inks	2,817	2,657	2,801	(0.6)	5.4	Muted demand growth in downstream markets. Pricing pressure continues, driven by capacity overhang and isomer imbalances in select products.	Volume growth anticipated for select products, driven by key customer partnerships. Antidumping investigation initiated for PNT by the EU.
Energy and Additives	8,249	7,970	6,721	(18.5)	(15.7)	Gasoline-naphtha cracks are recovering marginally. Increase in competition to cause margin pressure.	MMA capacity expanded to 260ktpa. Pricing strategy adjustments are expected to drive an increase in export volumes. Efforts to strategically increase the customer base and geographic reach are currently underway.
Pharmaceuticals	1,610	2,214	2,240	39.2	1.2	India's domestic drug market continues to show growth. Aarti has an unfavorable cost position in fluoro products vs China; however, volume recovery seen across the product basket.	As two of our major customers expand/ramp up capacities, the domestic market is expected to improve.
Polymer and additives	1,610	3,904	2,614	62.4	(33.1)	Automotive manufacturers and consumers remain cautious amid macroeconomic uncertainty. Ambiguity on development of US tariffs on China continue to create export opportunities to the USA, from India.	Demand growth from key customers for certain polymer applications. Margin growth supported by cost optimization and operating leverage.
Others	1,811	1,409	934	(48.4)	(33.8)		
Total	20,120	22,140	18,670	(7.2)	(15.7)		

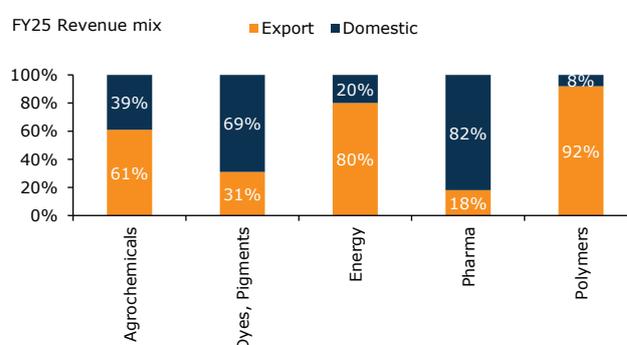
Source: Company, Emkay Research

Exhibit 4: Share of exports declined in Q1 due to lower pharma and polymer export volumes



Source: Company, Emkay Research

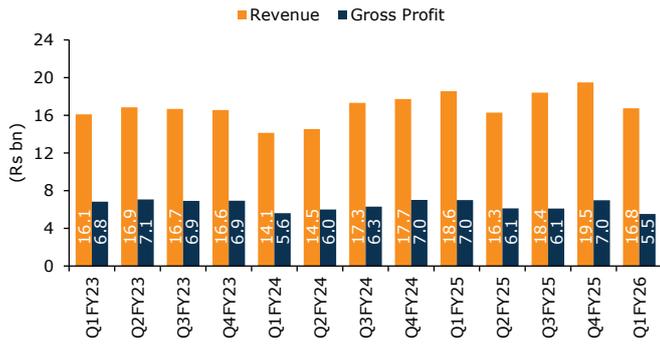
Exhibit 5: Aarti's revenue mix (47% domestic: 53% exports)



Source: Company, Emkay Research

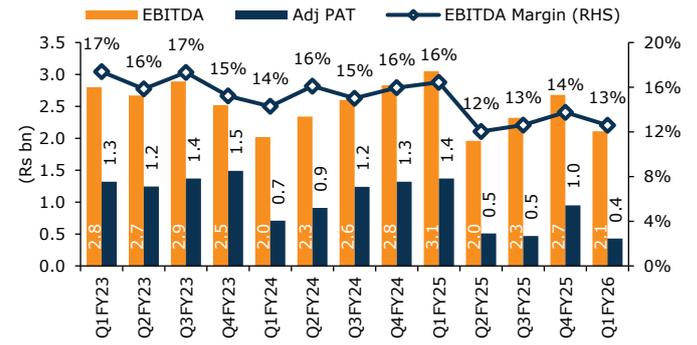
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Exhibit 6: Absolute gross profit fell on lower volumes



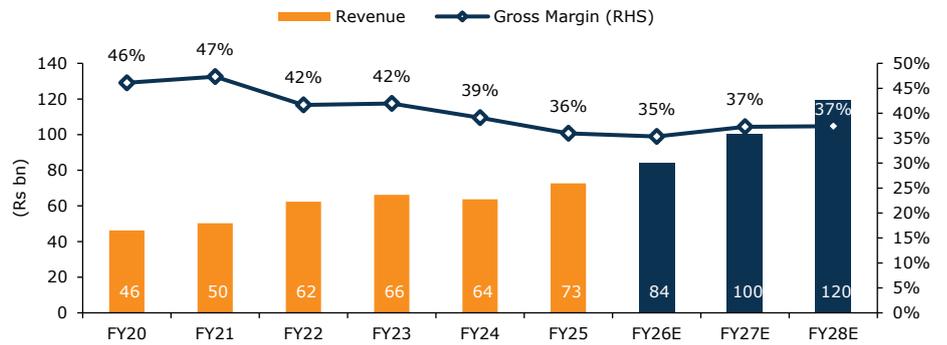
Source: Company, Emkay Research

Exhibit 7: EBITDA declined ~31% YoY



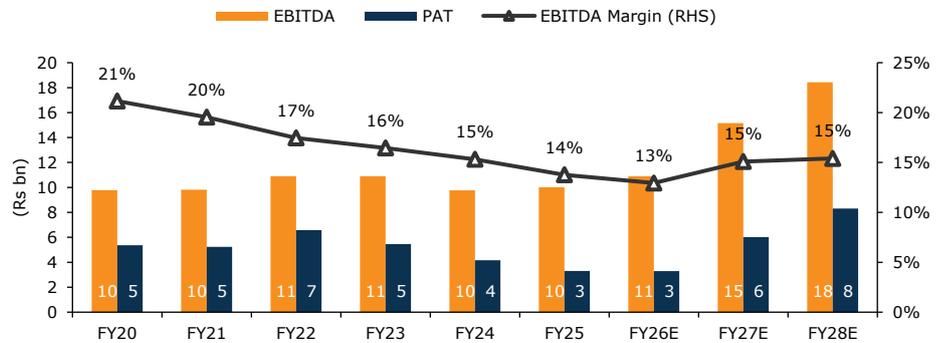
Source: Company, Emkay Research

Exhibit 8: Revenue CAGR to clock 18% over FY25-28E



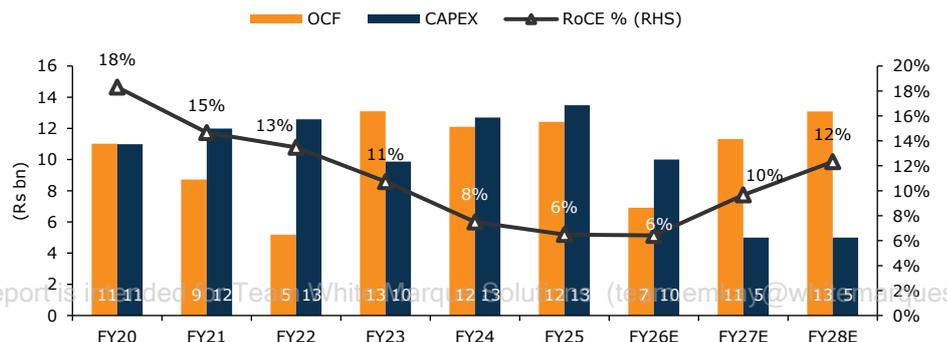
Source: Company, Emkay Research

Exhibit 9: Volume growth and cost-optimization to lead to EBITDA growth



Source: Company, Emkay Research

Exhibit 10: Conscious capex with stable cash flows to help improve RoCE over 3-4 years



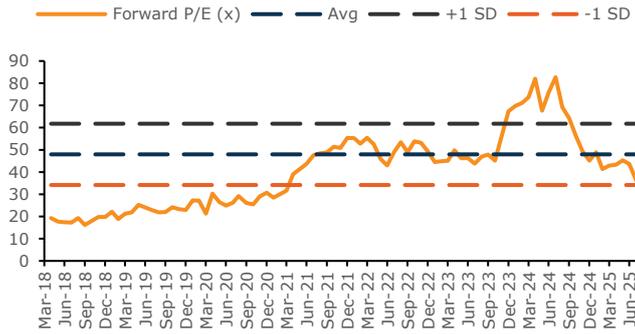
Source: Company, Emkay Research

Exhibit 11: We cut our FY26/27/28E EBITDA by 19/12/8% to factor in weak near-term macro

Particulars (Rs mn)	FY26E			FY27E			FY28E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	84,137	90,179	-7	1,00,454	1,05,976	-5	1,19,606	1,22,862	-3
EBITDA	10,888	13,511	-19	15,158	17,305	-12	18,427	19,931	-8
EBITDA margin (%)	12.9	15.0	-205 bps	15.1	16.3	-124 bps	15.4	16.2	-82 bps
PAT	3,296	5,140	-36	6,022	7,168	-16	8,307	8,961	-7
EPS (Rs)	9	14	-36	17	20	-16	23	25	-7

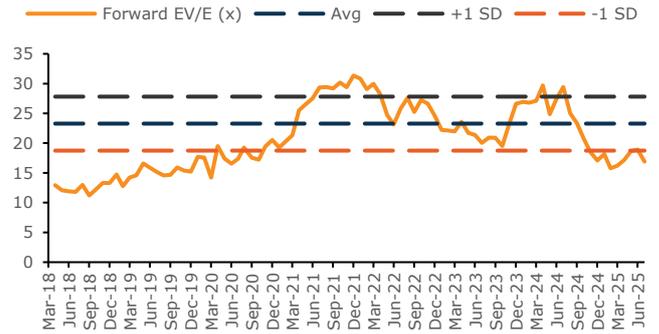
Source: Company, Emkay Research

Exhibit 12: One-year forward P/E



Source: Company, Emkay Research

Exhibit 13: One-year forward EV/EBITDA



Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Aarti Industries: Consolidated Financials and Valuations

Profit & Loss

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	63,720	72,710	84,137	100,454	119,606
Revenue growth (%)	(3.7)	14.1	15.7	19.4	19.1
EBITDA	9,760	10,010	10,888	15,158	18,427
EBITDA growth (%)	(10.4)	2.6	8.8	39.2	21.6
Depreciation & Amortization	3,780	4,340	4,745	5,358	5,608
EBIT	5,980	5,670	6,143	9,800	12,818
EBIT growth (%)	(23.2)	(5.2)	8.3	59.5	30.8
Other operating income	-	-	-	-	-
Other income	80	140	140	140	140
Financial expense	2,110	2,750	2,813	2,855	2,574
PBT	3,950	3,060	3,470	7,085	10,384
Extraordinary items	0	(20)	0	0	0
Taxes	(210)	(230)	173	1,063	2,077
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	4,160	3,270	3,296	6,022	8,307
PAT growth (%)	(23.7)	(21.4)	0.8	82.7	37.9
Adjusted PAT	4,160	3,290	3,296	6,022	8,307
Diluted EPS (Rs)	11.5	9.1	9.1	16.6	22.9
Diluted EPS growth (%)	(23.7)	(20.9)	0.2	82.7	37.9
DPS (Rs)	1.5	1.0	0.9	1.7	2.3
Dividend payout (%)	13.0	11.0	10.0	10.0	10.0
EBITDA margin (%)	15.3	13.8	12.9	15.1	15.4
EBIT margin (%)	9.4	7.8	7.3	9.8	10.7
Effective tax rate (%)	(5.3)	(7.5)	5.0	15.0	20.0
NOPLAT (pre-IndAS)	6,298	6,096	5,836	8,330	10,255
Shares outstanding (mn)	362	362	362	362	362

Source: Company, Emkay Research

Cash flows

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	3,870	2,920	3,330	6,945	10,244
Others (non-cash items)	3,780	4,340	4,745	5,358	5,608
Taxes paid	(850)	60	(173)	(1,063)	(2,077)
Change in NWC	1,828	2,160	(3,801)	(2,785)	(3,269)
Operating cash flow	12,100	12,420	6,914	11,311	13,081
Capital expenditure	(12,761)	(13,880)	(10,000)	(5,000)	(5,000)
Acquisition of business	(58)	(250)	0	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	(13,690)	(13,980)	(9,860)	(4,860)	(4,860)
Equity raised/(repaid)	(3)	0	0	0	0
Debt raised/(repaid)	6,900	2,250	4,605	(3,412)	(4,608)
Payment of lease liabilities	(227)	20	0	0	0
Interest paid	(2,110)	(2,750)	(2,813)	(2,855)	(2,574)
Dividend paid (incl tax)	(540)	(360)	(330)	(602)	(831)
Others	(47)	130	-	-	-
Financing cash flow	3,973	(710)	1,462	(6,870)	(8,013)
Net chg in Cash	2,383	(2,270)	(1,484)	(419)	208
OCF	12,100	12,420	6,914	11,311	13,081
Adj. OCF (w/o NWC chg.)	10,272	10,260	10,715	14,096	16,350
FCFF	(661)	(1,460)	(3,086)	6,311	8,081
FCFE	(2,771)	(4,210)	(5,900)	3,455	5,507
OCF/EBITDA (%)	124.0	124.1	63.5	74.6	71.0
FCFE/PAT (%)	(66.6)	(128.7)	(179.0)	57.4	66.3
FCFF/NOPLAT (%)	(10.5)	(23.9)	(52.9)	75.8	78.8

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,810	1,810	1,810	1,810	1,810
Reserves & Surplus	51,080	54,240	57,206	62,626	70,103
Net worth	52,890	56,050	59,016	64,436	71,913
Minority interests	10	0	0	0	0
Non-current liab. & prov.	(1,440)	(2,180)	(2,180)	(2,180)	(2,180)
Total debt	35,640	37,890	42,495	39,083	34,474
Total liabilities & equity	87,100	91,760	99,332	101,339	104,207
Net tangible fixed assets	55,875	62,765	77,560	77,202	76,593
Net intangible assets	85	485	485	485	485
Net ROU assets	530	510	510	510	510
Capital WIP	12,290	14,540	5,000	5,000	5,000
Goodwill	0	0	0	0	0
Investments [JV/Associates]	230	480	480	480	480
Cash & equivalents	5,160	2,950	1,466	1,046	1,254
Current & ex-cash	25,530	27,230	29,518	35,006	41,447
Current Liab. & Prov.	12,600	17,200	15,687	18,390	21,562
NWC (ex-cash)	12,930	10,030	13,831	16,616	19,885
Total assets	87,100	91,760	99,332	101,339	104,207
Net debt	30,480	34,940	41,029	38,036	33,220
Capital employed	87,100	91,760	99,332	101,339	104,207
Invested capital	68,890	73,280	91,876	94,302	96,963
BVPS (Rs)	146.1	154.8	163.0	178.0	198.7
Net Debt/Equity (x)	0.6	0.6	0.7	0.6	0.5
Net Debt/EBITDA (x)	3.1	3.5	3.8	2.5	1.8
Interest coverage (x)	2.9	2.1	2.2	3.5	5.0
RoCE (%)	7.3	6.4	6.4	9.7	12.3

Source: Company, Emkay Research

Valuations and key Ratios

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	35.4	45.0	28.6	20.5	16.4
EV/CE(x)	2.0	1.9	1.8	1.7	1.7
P/B (x)	2.8	2.6	2.4	2.2	2.0
EV/Sales (x)	2.8	2.4	2.1	1.8	1.5
EV/EBITDA (x)	18.2	17.7	16.3	11.7	9.6
EV/EBIT(x)	29.7	31.3	28.9	18.1	13.9
EV/IC (x)	2.6	2.4	1.9	1.9	1.8
FCFF yield (%)	(0.4)	(0.8)	(1.7)	3.6	4.5
FCFE yield (%)	(1.9)	(2.9)	(3.1)	3.7	5.0
Dividend yield (%)	0.4	0.2	0.3	0.5	0.6
DuPont-RoE split					
Net profit margin (%)	6.5	4.5	3.9	6.0	6.9
Total asset turnover (x)	0.8	0.8	0.9	1.0	1.2
Assets/Equity (x)	1.6	1.6	1.7	1.6	1.5
RoE (%)	8.1	6.0	5.7	9.8	12.2
DuPont-RoIC					
NOPLAT margin (%)	9.9	8.4	6.9	8.3	8.6
IC turnover (x)	1.0	1.0	1.0	1.1	1.3
RoIC (%)	9.5	8.6	7.1	8.9	10.7
Operating metrics					
Core NWC days	74.1	50.4	60.0	60.4	60.7
Total NWC days	74.1	50.4	60.0	60.4	60.7
Fixed asset turnover	0.9	0.9	0.9	0.9	1.1
Opex-to-revenue (%)	23.8	22.2	22.4	22.2	22.0

Source: Company, Emkay Research

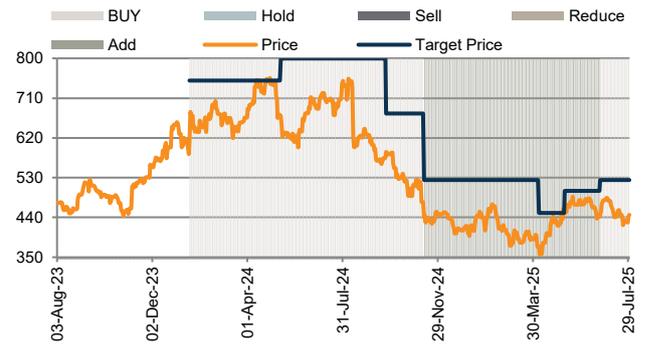
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-Jul-25	452	525	Buy	Meet Vora
23-Jun-25	445	525	Buy	Meet Vora
09-May-25	452	500	Add	Meet Vora
06-Apr-25	374	450	Add	Meet Vora
03-Feb-25	453	525	Add	Meet Vora
11-Nov-24	440	525	Add	Meet Vora
24-Sep-24	589	675	Buy	Meet Vora
27-Aug-24	640	800	Buy	Meet Vora
13-Aug-24	621	800	Buy	Meet Vora
14-Jul-24	706	800	Buy	Meet Vora
07-Jun-24	635	800	Buy	Meet Vora
13-May-24	669	800	Buy	Meet Vora
07-Apr-24	696	750	Buy	Meet Vora
26-Feb-24	672	750	Buy	Meet Vora
09-Feb-24	663	750 <td Buy	Meet Vora	
18-Jan-24	612	750	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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