November 2026

Initiating coverage | Sector: Specialty chemicals

Aarti Industries

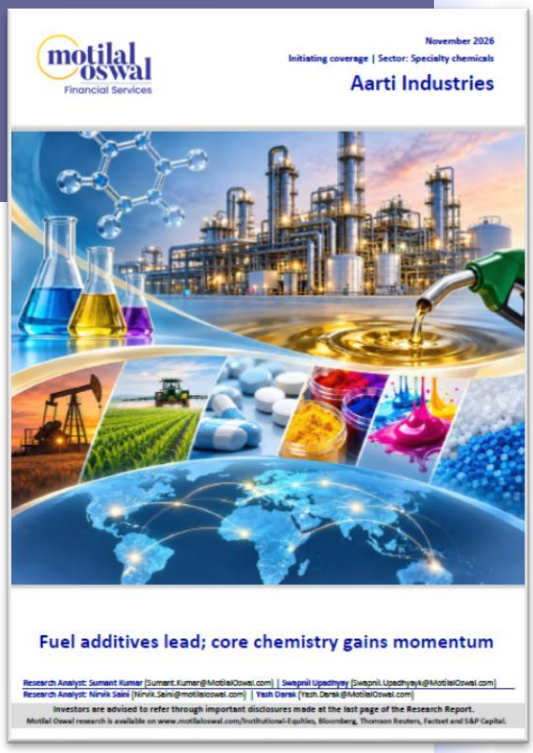


Fuel additives lead; core chemistry gains momentum

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Fuel additives lead; core chemistry gains momentum

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Financials and valuations

Aarti Industries

BSE Sensex	S&P CNX
81,107	25,045

Bloomberg	ARTO IN
Equity Shares (m)	363
M.Cap.(INRb)/(USDb)	166.5 / 1.8
52-Week Range (INR)	552 / 338
1, 6, 12 Rel. Per (%)	-11/-9/19
12M Avg Val (INR M)	538

Financials & Valuations (INR b)

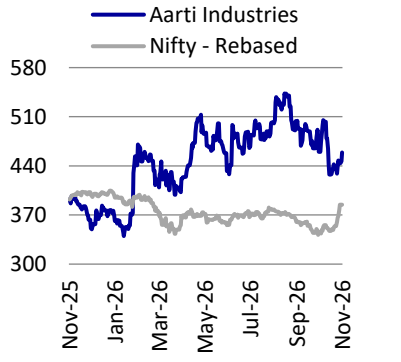
Y/E March	FY27E	FY28E	FY29E
Sales	117.6	117.3	131.0
EBITDA	15.6	18.1	21.5
PAT	5.9	7.2	10.2
EBITDA %	13.3	15.4	16.4
EPS (INR)	16.2	19.7	28.2
EPS Gr. (%)	42.2	22.2	42.9
BV/Sh.(INR)	177.9	197.7	225.9
Ratios			
Net D:E	0.7	0.6	0.4
RoE (%)	9.4	10.5	13.3
RoCE (%)	8.0	8.6	10.7
Valuations			
P/E (x)	28.5	23.3	16.3
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	13.7	11.5	9.2
FCF per share	0.5	31.4	33.9

Shareholding Pattern (%)

As of	Sep-26	Jun-26	Sep-25
Promoter	41.8	41.8	42.2
DII	20.9	21.1	18.2
FII	7.0	7.0	6.4
Others	30.3	30.1	33.2

FII includes depository receipts

Stock's performance (one-year)



CMP: INR459 **TP: INR600 (+31%)** **Buy**

Fuel additives lead; core chemistry gains momentum

Aarti Industries (ARTO) is an integrated specialty-chemical intermediate manufacturer catering to energy, agrochemicals, pharmaceuticals, dyes and pigments, printing inks, and polymers. Its capabilities span nitration, chlorination, hydrogenation, and ethylation processes.

- MMA's (Mono Methyl Aniline - a gasoline octane enhancement additive) competitive octane-enhancement economics (~50% cheaper than MTBE), restrictions on additives such as MTBE due to groundwater contamination concerns, and limits on oxygen content in gasoline support its adoption. ARTO expanded its energy segment capacity by ~24% to 360ktpa in Jul'26, creating headroom for deeper penetration across the US, Europe, and Africa. **Further, 3-5 products under development could broaden the portfolio beyond MMA and support energy segment's growth.**
- Three key drivers are expected to drive growth across ARTO's core chemistry platforms: **1) DCB capacity expansion** from 120ktpa to 140ktpa would **increase exposure to polyphenylene sulphide (PPS) demand** from EVs and electronics; **2) NCB spread recovery** is supported by China's export-rebate withdrawal, aiding price growth; and **3) NT isomer imbalance is being addressed** through downstream ethylation capacity expansion (from 10kt to 30kt), with long-term contracts in agrochemical and the commissioned 4ktpa PEDA facility further enhancing DEA value addition.
- **INR18b capex for Zone IV (multipurpose plant) provides the next leg of growth** through phased product launches. Its flexible chemistry platform can support 35–40 products, with launches planned to reach 5-10 in FY27 and 25-30 by FY28. **We estimate Zone IV EBITDA of INR1.5b/INR2.9b in FY28/FY29, with full potential expected by FY30.**
- **We expect ARTO to deliver revenue/EBITDA/PAT CAGR of 16%/23%/35% over FY26-29, driven by fuel additive growth, higher utilization, and the Zone IV ramp-up. We value it at 30x FY28E EPS with a TP of INR600 and initiate coverage with a BUY rating.**

Fuel additives: Capacity expansion and rising MMA adoption to drive growth

- **ARTO's MMA business benefits from refiners and gasoline blenders seeking economical ways to meet octane requirements.** Wider gasoline–naphtha spreads (USD10+) make lower-octane naphtha more attractive for gasoline production, thereby increasing demand for octane-enhancement additives.
- **ARTO's geographic diversification supports capacity absorption while reducing dependence on individual markets** (largest destination market shifted from the UAE at ~80% in FY23 to US at ~33% in FY26). It is expanding its customer base across the US, Europe, and Africa, while Southeast Asia remains relatively untapped.

- Further, **the company has a pipeline of 3-5 products with applications beyond octane boosting**, which could broaden its participation in customer formulations.

Integrated core chemistry platform is entering a phase of growth

- Three key drivers underpin growth across ARTO's core chemistry platforms:
- **1) The proposed DCB expansion from 120ktpa to 140ktpa supports higher Para-dichlorobenzene (PDCB) supply to the PPS engineering-polymer market**, benefiting from rising EV and electronics demand.
- **2) China's export-rebate withdrawal supports NCB pricing and margin recovery.** PNCB/ONCB prices rose ~76%/51% YoY in 1HCY26, while proposed tighter safety rules for Chinese nitration plants could further constrain supply.
- **3) The company has expanded ethylation capacity (from 10kt to 30kt) to address NT isomer imbalance through a downstream ethylation integration (ONT → ethylation derivatives).** Long-term contracts in agrochemical and the commissioned 4ktpa PEDA facility further enhance DEA value addition.

New capacity and partnerships widen ARTO's growth runway

- ARTO is investing INR18b to expand greenfield Zone IV multi-purpose plant capacity at Jhagadiya, Gujarat, which will support 35-40 products across agrochemicals, pharma, and advanced polymers. Product launches are planned to reach 5-10 in FY27 and 25-30 by FY28. **We estimate EBITDA of INR1.5b/INR2.9b in FY28/FY29 on 0.55x/0.8x asset turn, with full potential expected by FY30.**
- The 50:50 Augene JV expands ARTO's value chain from 3,4-DCA → 3,4-DCPI → Diuron technical (herbicide, algicide and biocide), supporting import substitution, with targeted steady-state revenue of INR3–4b after a one-to-two-year ramp-up.
- Re–Aarti, the chemical recycling JV with Re Sustainability (49%-owned by ARTO), targets 500TPD capacity by CY30 and annual revenue of INR5b within five years, starting with a 100TPD plastic-waste-to-pyrolysis-oil facility in Hyderabad.

We expect the company to post a CAGR of 16%/23%/35% in revenue/EBITDA/adj. PAT over FY26-29. It currently trades at 28x/23x/16x FY27E/FY28E/FY29E EPS with a RoE/RoCE of 13.3%/10.7% in FY29E.

Valuation and view: Initiate coverage with BUY and a TP of INR600

- 1) MMA's capacity expansion to 360ktpa from 290ktpa, competitive blending economics, and geographical diversification should support fuel additives growth. 2) Improving NCB spreads, ethylation and downstream integration (such as PEDA) to address isomer imbalances, and DCB expansion to meet growing PPS demand should drive core chemistry growth. 3) Zone IV (MPP) adds multi-year growth through new products, while Augene and Re–Aarti JVs extend ARTO's presence into higher-value derivatives and chemical recycling.
- We expect revenue/EBITDA/PAT CAGR of 16%/23%/35% over FY26-29. The stock currently trades at 28x/23x/16x FY27E/FY28E/FY29E EPS, with FY29E RoE/RoCE of 13.3%/10.7%. We value ARTO at 30x FY28E EPS (12% discount to 10-year average), arriving at a **TP of INR600, and initiate coverage with a BUY rating.**

Key risks

- 1) Fuel additives concentration, 2) delayed project ramp-up, 3) raw-material and pricing volatility, and 4) operational and environmental risks.

STORY IN CHARTS

Key product portfolio of ARTO

Product/platform	Starting raw material	What ARTO does	Main downstream use
NCB (Nitro Chloro Benzene)	Benzene + Cl_2 + HNO_3 (nitric acid)	Chlorination + nitration	Pharma, agrochemicals, dyes/pigments
DCB (Di Chloro Benzene)	Benzene + Cl_2	Chlorination	PPS, polymers, dyes, pharma/agro
Hydrogenation	Nitro-aromatics	H_2 reduction of NO_2 → NH_2	Anilines for pharma/agro/dyes; PDA
PDA (Phenylenediamines)	Dinitrobenzene	Hydrogenation	Dyes, engineering polymers, specialty chemicals
NT (Nitro Toluene)	Toluene + HNO_3	Nitration	Dyes, pigments, agrochemicals, downstream anilines
Ethylation	Aniline + ethylene	Ethylation	MEA/DEA → agrochemical intermediates
MMA/Fuel Additives (Mono-Methyl Aniline/N-Methylaniline)	Aniline + methanol	N-methylation	Gasoline octane enhancement

Source: Company

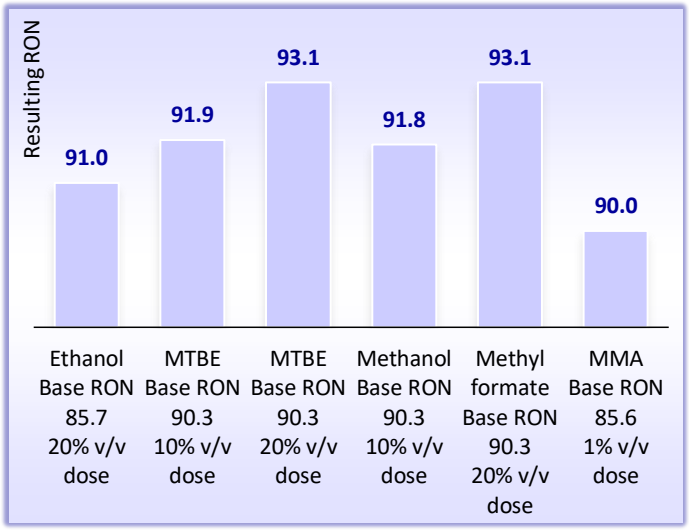
Some marquee customers out of total 1,100+ customers

End user industry	Customers
Agrochemicals	Bayer, Syngenta, FMC, Sumitomo Chemical, UPL, Gharda Chemicals
Diversified chemicals, polymers and advanced materials	BASF, SABIC, DuPont, Solvay, Celanese, Toray, Teijin, Eastman
Specialty chemicals and ingredients	Clariant, Nouryon, Atul
Dyes, pigments and textile chemicals	Colourtex, Sudarshan Chemical, Archroma
Pharmaceuticals and life sciences	Lonza
Oil refining / Energy	IndianOil, Bharat Petroleum, Hindustan Petroleum, Numaligarh Refinery (NRL)
Trading and distribution	Sojitz



Source: Company, MOFSL

MMA can deliver large RON gains with low dosage



Source: ACS Energy, industry, MOFSL

Cost of blending for increasing octane by 5 RON

Calculation per 1,000 litres	MMA	MTBE
Target RON improvement	5	5
Estimated dosage	1.175% w/v	15.67% v/v
Additive volume (L)	11.9	156.7
Additive weight (kg)	11.75	116
Price per USD/kg	1.85	1.18
Gross additive cost (USD)	21.7	136.9
Base gasoline displaced (L)	11.9	156.7
Base gasoline value (USD0.7/L)	8.3	109.7
Cost of Blending (USD/L)	**13.4**	**27.2**

Source: Industry, MOFSL

Key growth drivers across the core chemistry

DCB CAPACITY EXPANSION from 120 ktpa to 140 ktpa would increase exposure to polyphenylene sulphide (PPS) demand from EVs and electronics.

NCB SPREAD RECOVERY is supported by China's export-rebate withdrawal, aiding price growth.

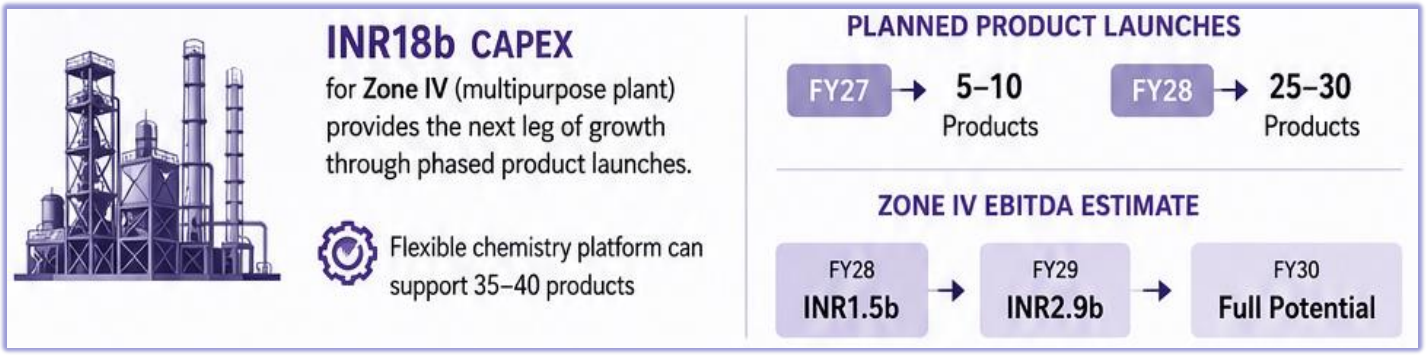
NT ISOMER IMBALANCE BEING ADDRESSED through downstream ethylation capacity expansion (from 10 kt to 30 kt), with long-term contracts in agrochemical and the commissioned 4 ktpa PEDA facility further enhances DEA value addition.

Long-term manufacturing contracts strengthen revenue visibility

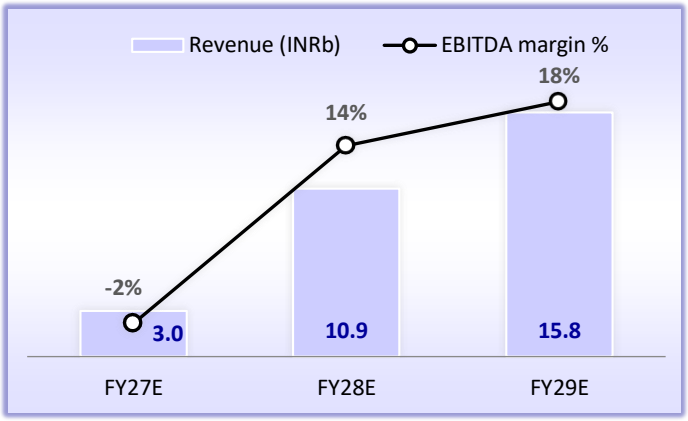
Contract announcement date	Manufacturing/ supply contract	Total contract value	Tenure	Execution/ commencement
29-Dec'17	Exclusive supply of a high-value specialty chemical intermediate to a global chemical conglomerate	**INR100b**	20 years	Dedicated facility commercialized in CY22.
20-Feb'19	Supply of a new specialty chemical intermediate to a global chemical conglomerate	**USD125m (~INR12b)**	10 years	Jointly developed process; facility commercialized in CY23.
27-Dec'23	Supply of a niche herbicide intermediate to a global agrochemical major	**INR30b+**	9 years, starting FY24	Existing integrated product portfolio; covered by existing capex program.
18-Jan'24	Supply of a niche specialty chemical to a multinational conglomerate	**INR60b+**	4 years	Existing customer relationship; no additional contract-specific capex envisaged.
12-Mar'26	Supply of a crop-protection intermediate to a global agrochemical innovator	**~USD150m (INR14.3b)**	Through 31st Mar'30	Higher volumes under an existing relationship; no significant incremental capex.
13-Oct'26	Dedicated manufacturing of a high-performance specialty chemical for a new global customer	**~USD150m (~INR15b)**	10+ years	Commercial operations expected in **FY29**; capex below USD25m.

Source: Company, MOFSL

Multipurpose plant to unlock the next leg of growth

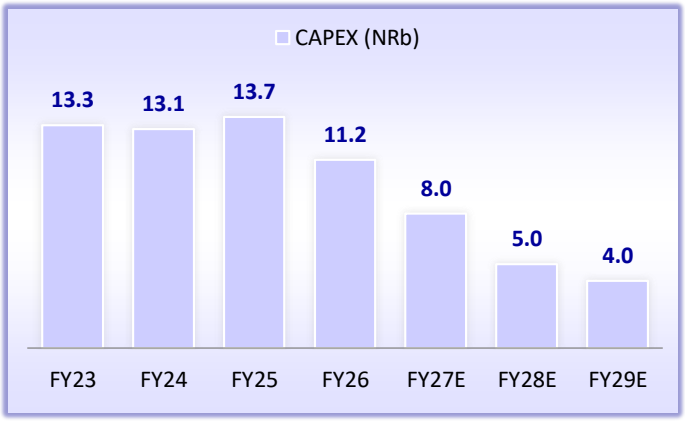


Zone IV – revenue and EBITDA margin estimate



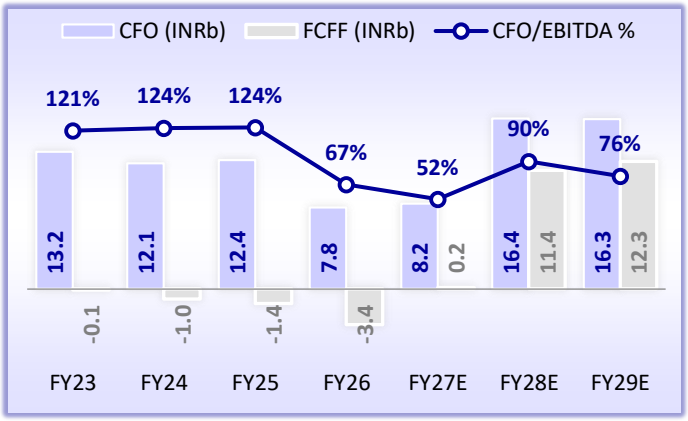
Source: MOFSL

Capex cycle shifts toward asset monetization



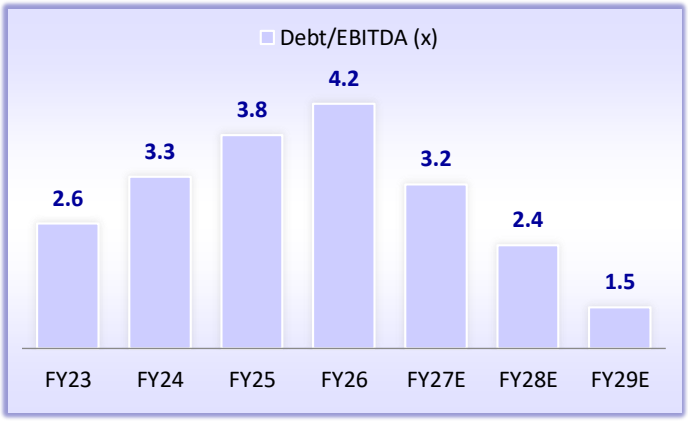
Source: MOFSL

Easing capex intensity to unlock free cash flow…



Source: MOFSL

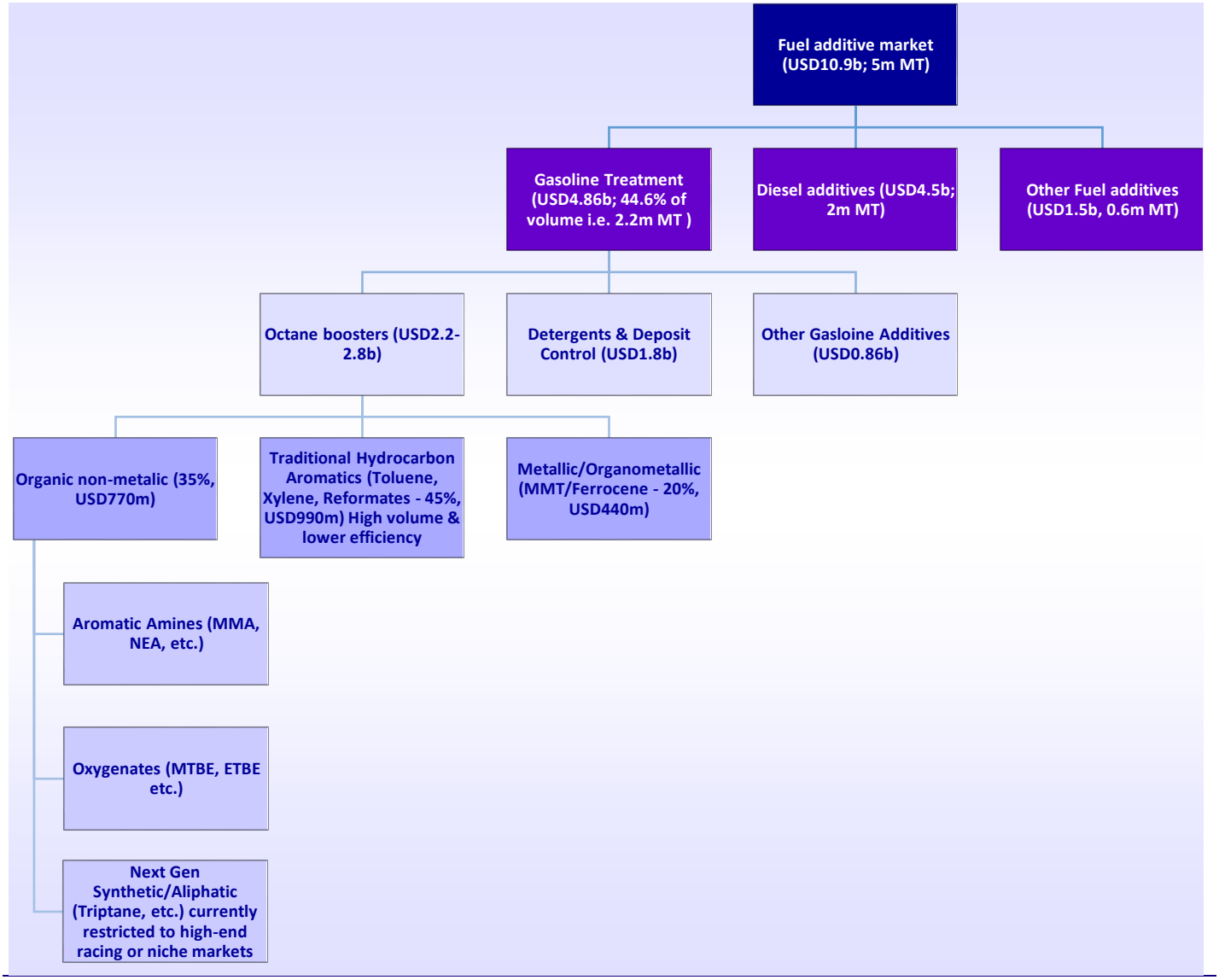
…which is expected to drive lower debt/EBITDA



Source: MOFSL

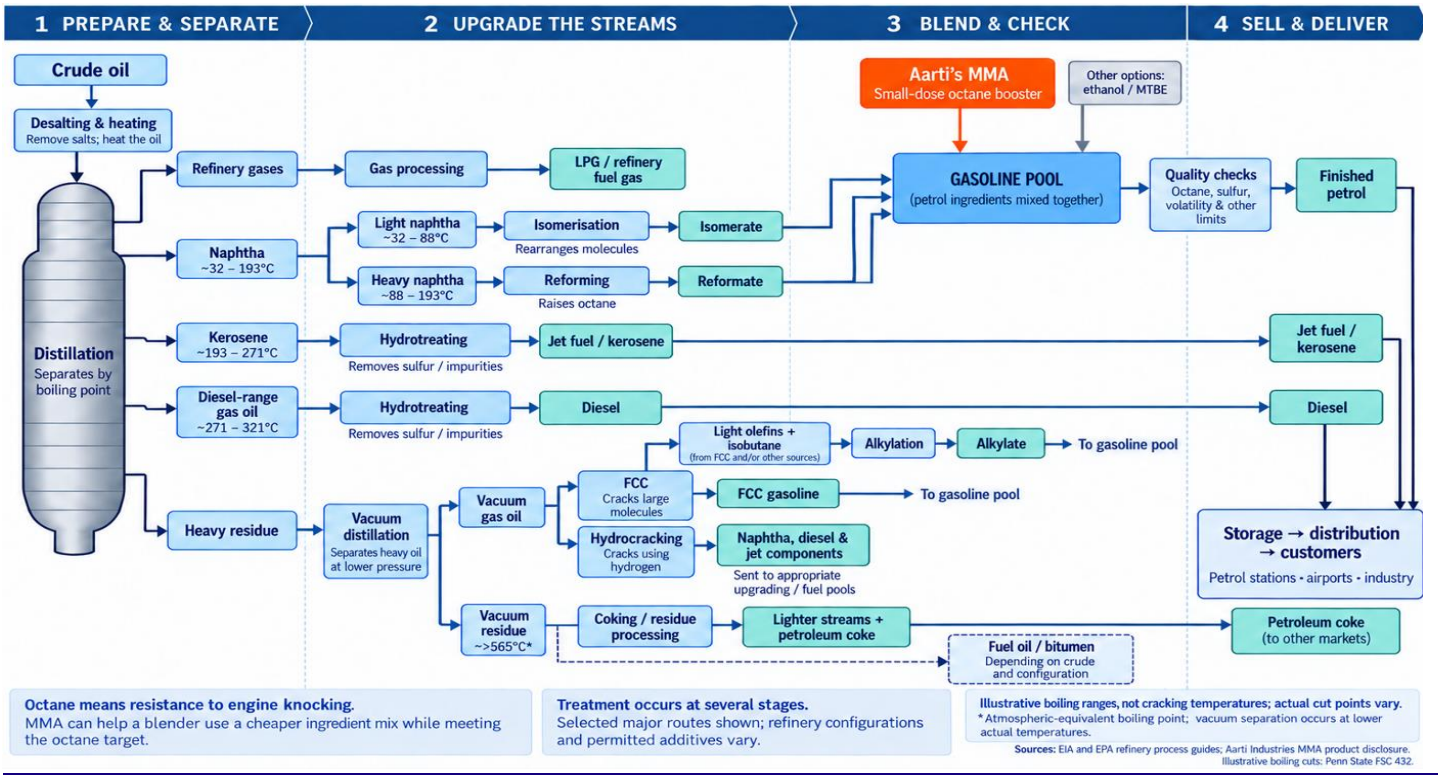
Fuel additives: Capacity expansion and rising MMA adoption to drive growth

Exhibit 1: Fuel additive market in a nutshell



Source: Industry, MOFSL

Exhibit 2: From crude oil to refinery streams in gasoline pool

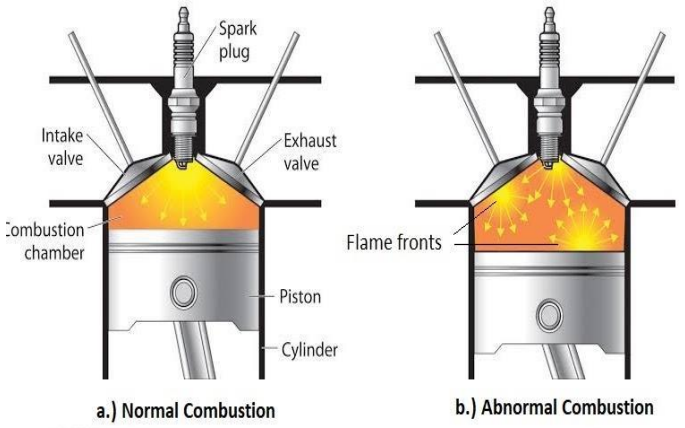


Source: EIA and EPA refinery process guides

Why Octane boosting is required in gasoline engine

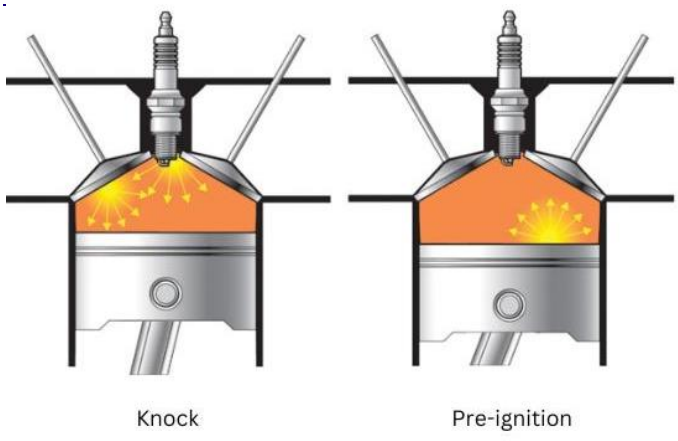
- **Gasoline engines require high-octane fuel to prevent premature combustion and engine knocking.** In gasoline engines, the air-fuel mixture is compressed before a spark plug ignites it. If the fuel ignites on its own before the intended combustion process is completed, it can cause knocking, reduce engine efficiency, and potentially damage engine components. Higher-octane fuel resists such unwanted ignition, enabling smoother combustion and better performance in compatible engines.
- Diesel engines work on the opposite principle, making octane boosters unnecessary. Unlike gasoline engines, diesel engines compress air to a high temperature and then inject fuel, which ignites automatically without a spark plug. Hence, diesel requires a higher cetane number, which helps the fuel ignite quickly, whereas gasoline requires a higher-octane rating to resist unwanted ignition. This makes ARTO's MMA fuel additives relevant to gasoline blending rather than conventional diesel applications.

Exhibit 3: Normal combustion: Controlled flame propagation



Source: Industry, MOFSL

Exhibit 4: Knocking combustion: Uncontrolled end-gas autoignition



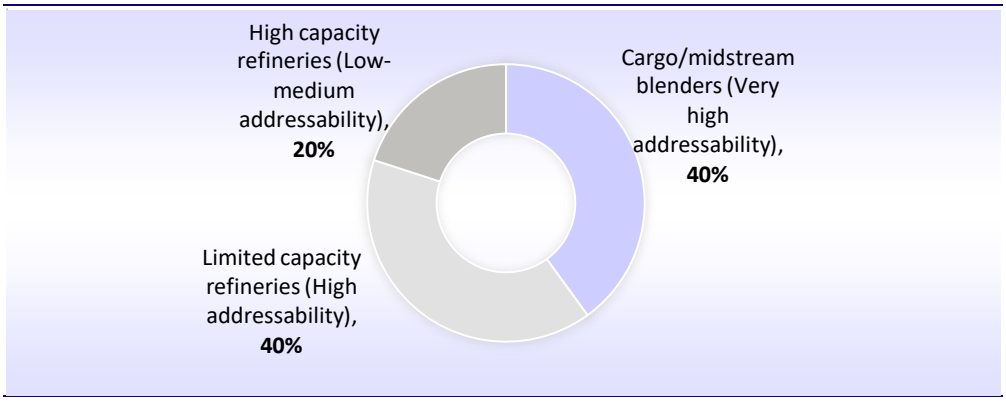
Source: Industry, MOFSL

VTTI is a global energy infrastructure and terminal operating company that provides storage, blending, and handling services for crude oil, petroleum products, chemicals, and transitional/sustainable energies.

Refinery and cargo-blending demand creates scope for wider MMA adoption

- MMA addresses the octane gap that arises when a gasoline blend falls below the required specification. Gasoline comprises multiple refinery streams with different octane characteristics. Increasing the proportion of suitable low-octane components can reduce the finished blend's resistance to engine knock. MMA, also called N-methylaniline, provides additional octane, enabling refiners and blenders to optimize their feedstock mix while meeting fuel specifications. **Demand, therefore, depends on the composition of the gasoline pool and the cost of achieving the required octane.**
- **Cargo blending (which refers to the intentional process of mixing different grades or specifications) enables ARTO access to gasoline markets beyond direct refinery customers.** Traders and terminal operators combine purchased blendstocks to manufacture gasoline grades suited to different destinations. Unlike refineries, standalone blending terminals cannot produce additional reformate or alkylate internally (alternative RON boosters), making access to purchased octane components and additives commercially important. VTTI identifies Amsterdam as a hub for complex gasoline blending, while its Rotterdam terminal handles both gasoline and naphtha. These networks provide a route through which additive suppliers (such as ARTO) can serve multiple downstream markets (blending hubs such as VTTI in Amsterdam or Rotterdam).
- **Refineries with limited octane-producing capacity provide an additional customer opportunity.** Reforming converts low-octane naphtha into higher-octane blendstocks, while isomerisation and alkylation provide other routes to improve the gasoline pool. Where these units are unavailable, constrained, or expensive to operate, a qualified additive can supplement existing production capabilities. For ARTO, the commercial opportunity is to supply an economical means of closing the residual octane gap, with the customer comparing additive costs against alternative blendstocks and available refinery operating options.

Exhibit 5: Global octane additives addressable market mix for ARTO



Source: Industry, MOFSL

Exhibit 6: Major global blending hubs utilizing MMA, along with their estimated roles and annual throughput dynamics

Blending Hub/Region	Key Blending Dynamics & Role	~Annual Fuel Blending Volume Influenced by Additives (mMT)
Singapore Hub (Jurong Island/Straits)	It is Asia Pacific's main fuel-blending hub that upgrades sub-octane streams for export to markets across Southeast Asia and Australia.	50–60
ARA Hub (Amsterdam–Rotterdam–Antwerp)	It is Europe's leading refining and trading hub. Blenders use octane enhancers to meet fuel specifications and prepare components for export to West Africa and across the Atlantic.	40–45
US Gulf Coast Hub (Houston/Corpus Christi)	It is a major Americas blending market. Domestic streams are blended with octane components for US consumption and exports to Latin America.	55–65
Fujairah Hub (Middle East)	It is a bunkering and clean-products blending center that combines Gulf refinery components for markets in East Africa and South Asia.	20–25
West Africa Trading Hub (offshore Lagos/Lomé)	It is a destination for offshore blending, where merchant blenders combine naphtha or lower-grade gasoline streams with additives to meet regional fuel requirements.	15–20

Source: Industry, MOFSL

- Numaligarh's procurement specifications provide direct evidence of commercial refinery demand and performance-based purchasing. Its May'21 tender sought 8k MT of non-metallic octane booster containing at least 90% N-methylaniline. Suppliers were tested at a 1.5% volume dosage in a reference gasoline of approximately 85 RON, and quoted prices were adjusted for measured octane improvement before landed-cost evaluation. **This tender demonstrates that customers purchase effective octane enhancement rather than simply the cheapest chemical**, creating scope for suppliers offering consistent performance and competitive delivered costs.

Exhibit 7: MMA competes with several sources of octane, but these are not interchangeable on a liter-for-liter basis

Component	What it does in gasoline	Main advantage versus alternatives
MMA	❖ An aromatic amine used to increase resistance to engine knocking. Its octane contribution depends on the base gasoline and concentration; a fixed dosage cannot be assumed to deliver a universal octane uplift.	❖ It provides an additional route to raise octane **without adding oxygen**, potentially useful when further oxygenate blending is constrained.
Ethanol — Ethyl alcohol	❖ Supplies octane and oxygen while replacing part of the hydrocarbon gasoline. Its reported **blending research octane number is approximately 120–135**, varying with blend composition.	❖ It provides a strong octane contribution while also helping fulfill renewable-fuel requirements. As it contains no aromatics, it can dilute the blend's overall aromatic content.
MTBE — Methyl tertiary-butyl ether	❖ An oxygen-containing component that increases both research and motor octane numbers.	❖ It supplies octane without adding aromatics. Its volatility behavior in gasoline is more predictable than ethanol's, making blend formulation easier.
ETBE — Ethyl tertiary-butyl ether	❖ An ethanol-derived ether that provides octane and oxygen.	❖ It combines strong octane performance with more predictable volatility behavior than directly blending ethanol. It can provide a route to incorporate renewable content, depending on feedstock and local rules.
Reformate — High-octane stream produced by catalytic reforming of heavy naphtha	❖ Converts lower-octane naphtha into a higher-octane gasoline component rich in aromatic hydrocarbons, including benzene, toluene, and xylenes.	❖ It supplies **both gasoline volume and octane** through established refinery infrastructure. Reforming also produces hydrogen, which has value elsewhere in the refinery.
Alkylate — High-octane stream produced from isobutane and light olefins	❖ Produces branched hydrocarbons that supply octane and gasoline volume.	❖ **It combines high octane with low volatility**, making it particularly valuable when the blender must meet tight vapor-pressure specifications.

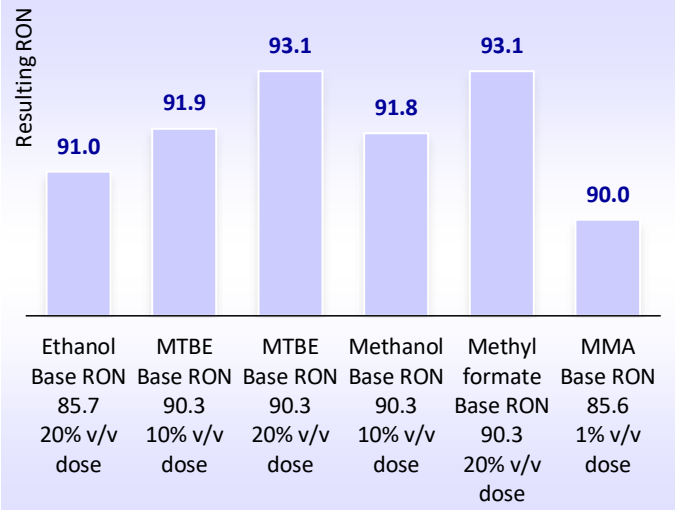
Source: Industry, MOFSL

MMA Adoption Gains Momentum

- **Restrictions on metallic additives in some geographies create an opening for alternatives (EU Fuel Quality Directive, etc.).** Methylcyclopentadienyl Manganese Tricarbonyl (MMT) forms manganese particles during combustion, and concerns about emissions-control systems and public health have led to restrictions in some markets. Since rules differ by jurisdiction, the opportunity for MMA comes from specific fuel pools where blenders need a permitted non-metallic octane enhancer.
- MMA may offer a cargo-volume advantage over bulk hydrocarbon blending components. Toluene, xylene and reformate can raise octane but must be blended in amounts suited to the base fuel and target specification. **At the cited 1.0-1.3% volume treat rate, MMA could preserve more cargo capacity** if it delivers the required uplift in that blend; the actual dosage and octane gain are formulation-specific.
- **Further, MTBE's groundwater contamination concerns led 23 states to introduce partial or complete bans.** US refiners largely shifted to ethanol, and the use of domestic MTBE declined.
- **Ethanol became the principal US replacement for MTBE, but ethanol and MTBE also provide oxygenation (and there are restrictions on Oxygen limits)**. MMA is an octane booster, so it competes for the octane function rather than replacing every role MTBE performed. The commercial opening for MMA is strongest, when a blender needs additional octane beyond what its base blend and other components provide.

- The European Union has fuel-quality requirements, but it has not imposed a general MTBE ban; MTBE and other ethers remain permitted within applicable fuel specifications. Mexico's fuel standard also permits MTBE, ETBE and TAME as gasoline oxygenates up to the specified oxygen limit.
- **ARTO can benefit where MMA delivers the required octane uplift at a competitive delivered cost and meets the destination market's fuel specifications.**

Exhibit 8: MMA can deliver large RON gains with low dosage



Source: ACS Energy, industry, MOFSL

Exhibit 9: Cost of blending for increasing octane by 5 RON

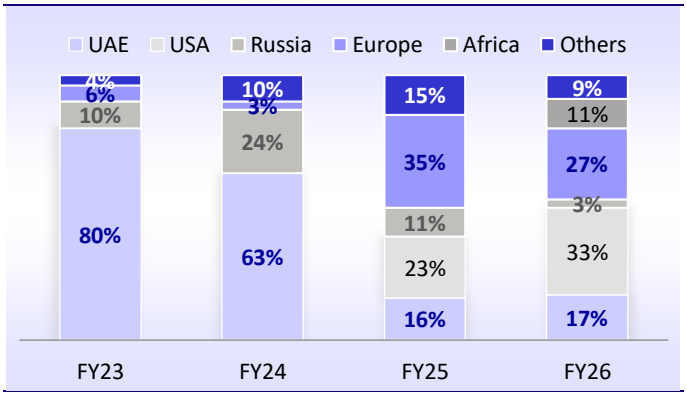
Calculation per 1,000 litres	MMA	MTBE
Target RON improvement	5	5
Estimated dosage	1.175% w/v	15.67% v/v
Additive volume (L)	11.9	156.7
Additive weight (kg)	11.75	116
Price per USD/kg	1.85	1.18
Gross additive cost (USD)	21.7	136.9
Base gasoline displaced (L)	11.9	156.7
Base gasoline value (USD0.7/L)	8.3	109.7
Cost of Blending (USD/L)	**13.4**	**27.2**

Source: Industry, MOFSL

Capacity expansion, geographical diversification and new products

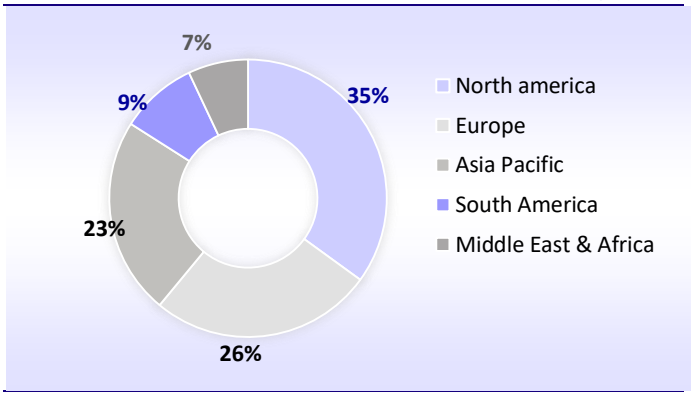
- ARTO's fuel-additives business output rose from 89.3 kt in FY24 to 123 kt in FY25 and 237.6 kt in FY26, implying a ~63% CAGR over FY24-26. Capacity utilization reached ~82% toward FY26-end, while Energy contributed 43% of revenue, demonstrating the scale of demand already developed.
- **The Jul'26 capacity expansion creates room to sustain that growth.** ARTO increased fuel-additives capacity by ~24%, from 290 KTPA to 360 KTPA, giving the business additional headroom to serve existing customers and enter new markets.
- **Geographical expansion is widening the customer base available to absorb the added capacity**. ARTO is developing demand in the US, Europe and Africa, with Europe being an expanding opportunity and Southeast Asia relatively untapped. Energy volumes grew 57% YoY in 1QFY27, despite declining 17% QoQ as West Asia disruptions affected shipments. Redirecting volumes to alternative markets demonstrated the business's ability to respond to changing trade flows.

Exhibit 10: MMA geography-wise sales mix of ARTO



Source: Industry, Company

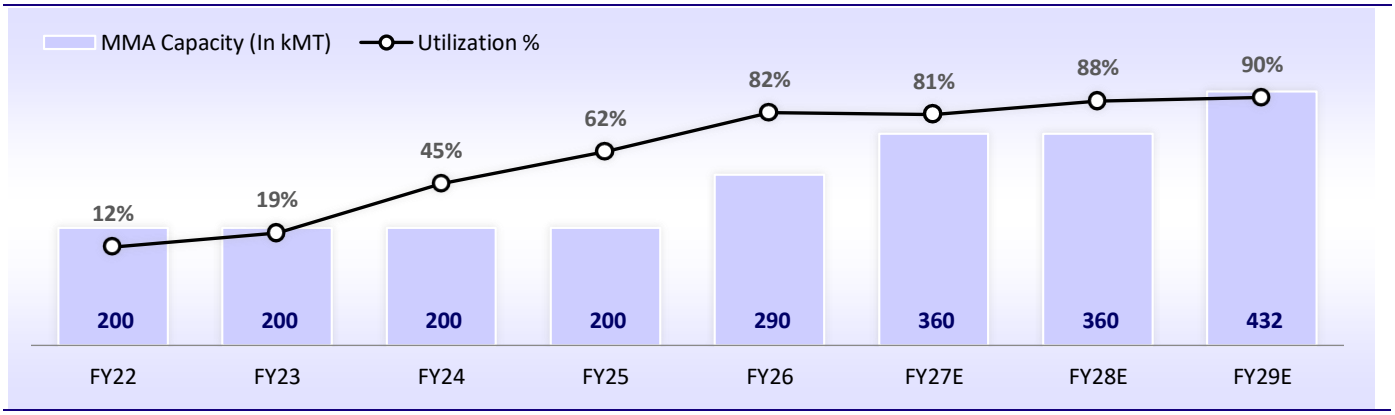
Exhibit 11: Global Octane booster market share by region



Source: Congruence, Company

- **A recovery in West Asia could add to demand developed in other markets.** The company aims to raise overall utilization as disrupted markets reopen. Retaining customers won in alternative destinations while restoring affected shipments would allow ARTO to serve a broader aggregate demand base through its expanded capacity.
- **A pipeline of 3-5 new fuel-additive products could extend growth beyond the existing MMA franchise.** Management has clarified that these products are not necessarily all octane boosters. Commercialization would broaden ARTO's product basket and create opportunities to participate in a wider range of customer formulations.

Exhibit 12: MMA/Fuel Additives capacity and utilization trend



Source: Company, MOFSL

Stronger gasoline-blending economics can lift demand for octane boosters

- **A widening gasoline-naphtha spread improves the incentive to route suitable naphtha streams into gasoline rather than petrochemicals.** When the spread moves above USD10/bbl, gasoline blending can become more attractive; the exact threshold varies with refinery configuration and the relative economics of downstream products.
- **Using more low-octane naphtha in the gasoline pool can increase the need for octane uplift.** Refineries can raise pool octane through reformate, isomerate and alkylate, but the availability and economics of these streams depend on installed processing capacity and operating rates. Where these components cannot economically close the octane gap, additives such as MMA can support the required gasoline grade. **The demand opportunity, therefore, depends on both the gasoline-naphtha spread and the refinery's ability to produce other high-octane blendstocks.**

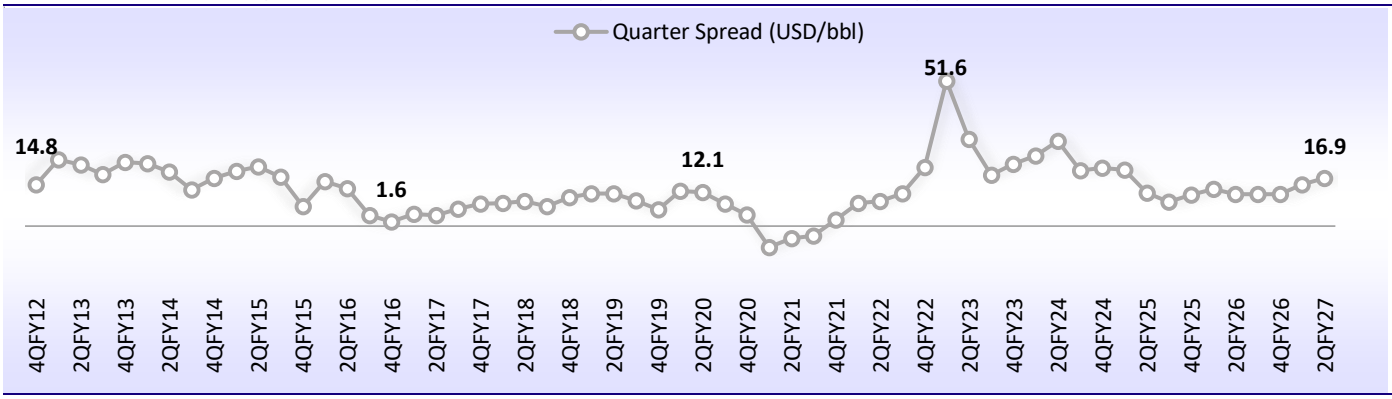
Exhibit 13: Variables affecting the gasoline-naphtha spread

Variable	Change	Impact on spread
Driving demand	Higher travel and gasoline consumption	↑ Widens
Gasoline supply	Refinery outages, closures or export restrictions	↑ Widens
Gasoline inventories	Lower stocks increase gasoline scarcity	↑ Widens
Petrochemical demand	Stronger demand increases naphtha consumption	↓ Narrows
LPG competitiveness	Cheaper LPG replaces naphtha in flexible crackers	↑ Widens
Naphtha supply	Higher refinery/condensate output increases availability	↑ Widens
Naphtha supply disruptions	Export or shipping constraints raise naphtha prices	↓ Narrows
Gasoline capacity additions	New capacity or restarts improve gasoline supply	↓ Narrows
EVs and fuel efficiency	Reduce gasoline demand relative to otherwise	↓ Narrows
Crude prices and geopolitics	Affect both products' costs and availability	Depends on which product is affected more

Source: Industry, MOFSL

- **Going ahead, we believe gasoline-naphtha spreads should remain volatile in the near term**, as fuel-supply constraints keep gasoline premiums intact while uneven petrochemical demand limits naphtha buying. Greater naphtha availability in CY27 could preserve attractive blending economics, although geopolitical disruptions to naphtha supplies remain a risk to the spread.
- **In the medium term, we expect exceptional spreads to moderate (USD12/bbl, i.e., LPA)** as refinery output recovers, while EV adoption and improving vehicle efficiency constrain gasoline demand growth. However, the extent of compression will depend on naphtha availability and petrochemical demand.

Exhibit 14: Gasoline-Naphtha Crack Spread is currently most attractive in last two years



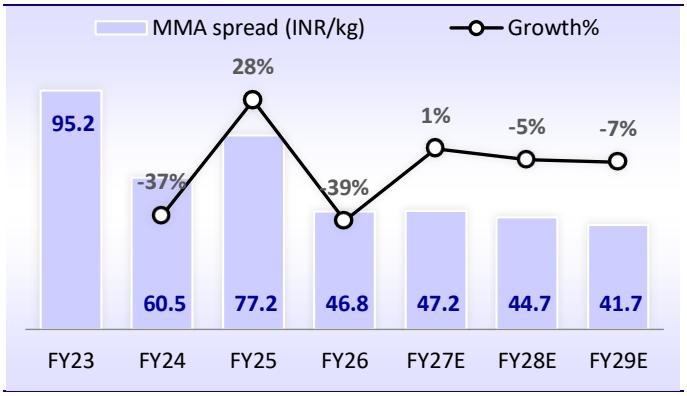
Source: BBG, MOFSL

Exhibit 15: Explanation of two anomalies sited in Exhibit 16

Particulars	1QFY21 | Apr-Jun'20	1QFY23 | Apr-Jun'22
Reason	**Lockdowns erased gasoline's premium**	**Gasoline tightness met weak naphtha demand**
Driver 1	Gasoline demand collapsed. **Restrictions on commuting and travel** sharply reduced petrol consumption, leaving refiners with excess supply.	Gasoline demand recovered. Reopening and summer driving increased consumption, while refinery closures and Russia-related trade disruptions constrained fuel availability.
Driver 2	Supply adjusted with a lag. **Buyers deferred cargoes while unwanted gasoline entered export markets**, putting further pressure on prices.	Petrochemical demand weakened. China's lockdowns and poor downstream margins reduced naphtha buying. Some crackers cut production or switched to cheaper LPG.
Driver 3	Naphtha retained another demand outlet. **Petrochemical use provided some** support even as naphtha prices weakened. Gasoline fell sufficiently relative to naphtha to erase its usual premium.	The two prices diverged. Tight gasoline supply raised its value relative to naphtha, while weak petrochemical demand held back naphtha. Scarce octane components limited the blending response.

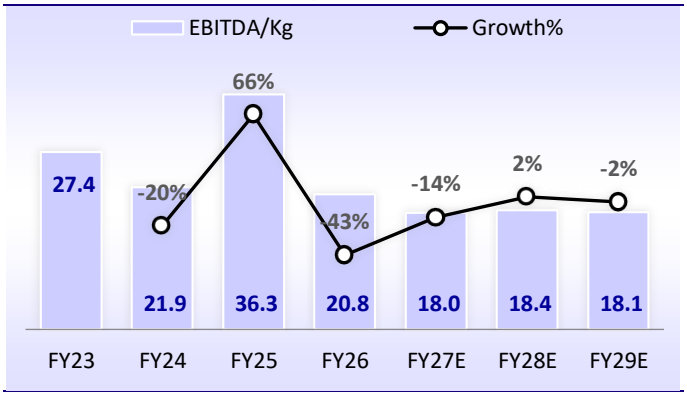
Source: Industry, MOFSL

Exhibit 16: MMA Spread trend



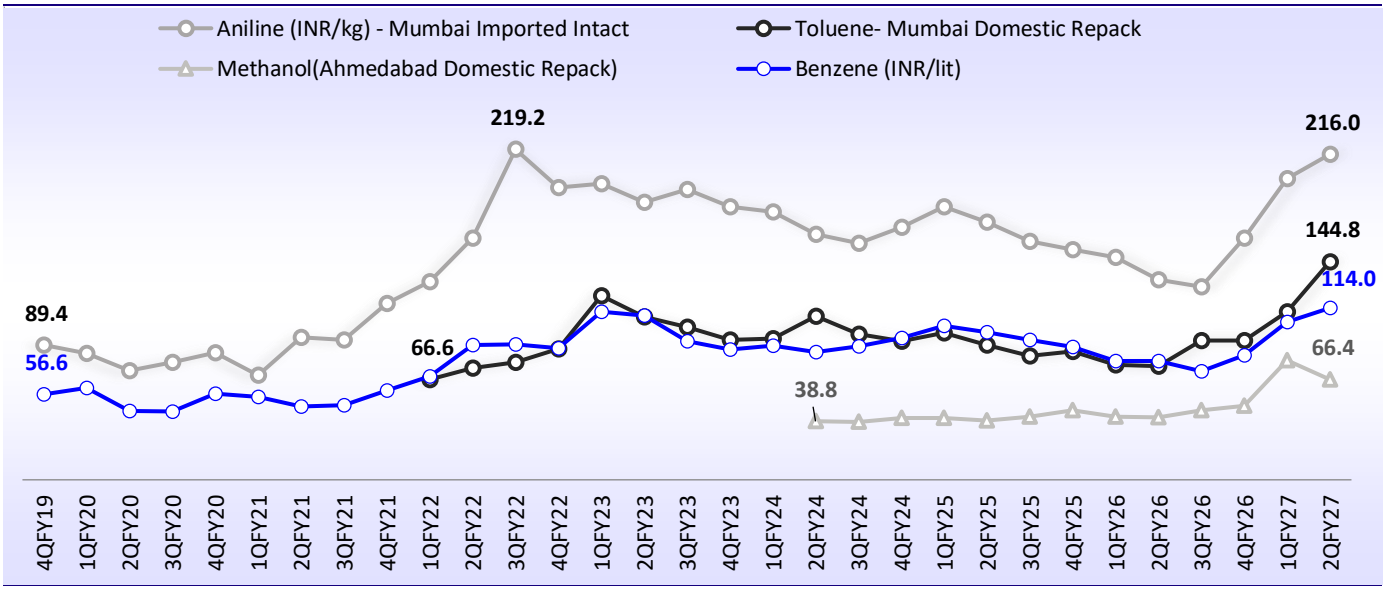
Source: MOFSL Estimate

Exhibit 17: MMA EBITDA/Kg trend



Source: MOFSL Estimate

Exhibit 18: All major feedstock prices trend



Source: HindPetro, MOFSL

Integrated core chemistry platform enters growth phase

DCB provides a specific route into growing demand for engineering polymers

- **ARTO's dichlorobenzene (DCB) capacity expansion from 120kMT to 140kMT supports higher PDCB production, which is a key monomer used to manufacture PPS, linking the expansion to the high-growth PPS market.**
- PPS is used in high-demand applications because it combines heat resistance, chemical resistance, dimensional stability and electrical insulation. Toray (Japan, 18% global PPS capacity share) identifies PPS applications in EV power modules, busbars, terminal blocks, connectors and motor insulators.

Exhibit 19: Some visuals of where PPS is being used



Source: Industry, MOFSL

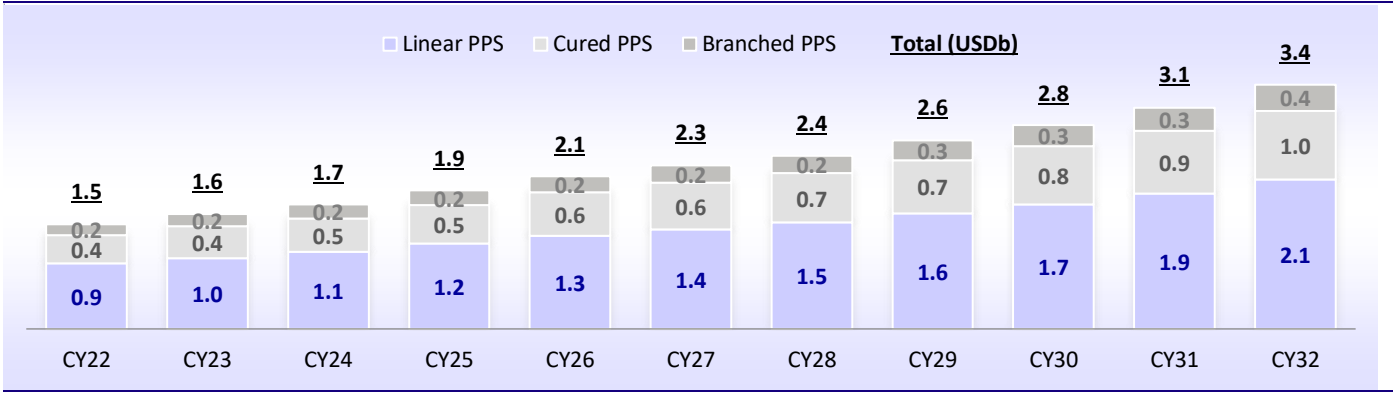
- Vehicle electrification increases the importance of these components. Higher voltage and current in electric powertrains increase the need for durable insulation materials in compact electrical systems.
- The end-market is scaling up rapidly: the IEA projects 23m electric-car sales in CY26, equivalent to 28% of global car sales. This expands the potential application base for PPS in vehicle electrical systems.
- PPS is a premium, application-led polymer rather than a bulk material. Its cost favors use in critical components where thermal and electrical performance justify the material choice, supporting demand from high-value applications rather than broad substitution across a vehicle.
- **The polymerization reaction theoretically requires about 1.36 MT of PDCB for each MT of PPS resin produced. Thus, every 10 KTPA increase in PPS output represents roughly 13.6 KTPA of theoretical PDCB demand.**

Exhibit 20: Global PPS compounds market by application (CY25)

Application	CY25 market value (USD m)	End-user mix
Automotive & transportation	847.53	44.74%
Electrical & electronics	522.8	27.60%
Industrial & filter media	326.56	17.24%
Aerospace & defense	113.06	5.97%
Other	84.41	4.46%
Total	**1,894.36**	**100.0%**

Source: Industry, Prismane, MOFSL

Exhibit 21: PPS market to clock 10% CAGR over CY25-32



Source: Grand view research

- This capacity base gives ARTO a visible customer universe, while new regional investment points to further supply-chain development. **Toray has announced a ~3 KTPA PPS facility in India, scheduled to begin operations in early CY27.**

Exhibit 22: PPS polymer capacity by company and country

Company / production network	Disclosed PPS capacity (KTPA)	Manufacturing locations (KTPA)
Toray (Japan)	32.8	❖ Japan: 19.0; South Korea (TAK Gunsan): 13.8
Kureha (Japan) / Fortron (US)	32.7	❖ Japan: 15.7; USA: 17.0 *(Joint network line)*
DIC Corporation (Japan)	23	❖ Japan: 23.0 *(Excludes global compounding hubs)*
Syensqo — *Ryton PPS, formerly Solvay* (Belgium)	20	❖ Borger, Texas, USA: 20.0
Zhejiang NHU (China)	15	❖ China (Shangyu, Zhejiang): 15.0
SK Chemicals / *Initz Joint Venture* (South Korea)	12	❖ South Korea (Ulsan): 12.0
Sino Polymer / Emerging Chinese Lines (China)	~25.0	❖ Mainland China (Sichuan, Chongqing, etc.)
Other Regional Tier-2 Producers *(Tosoh, Lion Idemitsu)*	~15.0	❖ Japan / Rest of Asia-Pacific

Source: Industry, MOFSL

NCB offers spread recovery across an established asset base

- Baichuan price assessments indicate that PNCB averaged ~RMB10,500/MT in 1HCY26, up ~76% YoY, while ONCB averaged ~RMB9,800/MT, up ~51% YoY. For ARTO, the opportunity is to capture an improved international pricing environment through customer repricing and better contribution across the NCB chain.
- **Export-rebate withdrawal changes the economics of competing Chinese supply in overseas markets**, including India. China's Ministry of Finance and State Taxation Administration issued Announcement No. 2 of 2026, effective 1st Apr'26; its cancellation list covering specified nitrated and related hydrocarbon derivatives. With less tax support available to competing exporters, Chinese suppliers must recover the lost benefit through higher prices, lower producer margins or cost reductions.

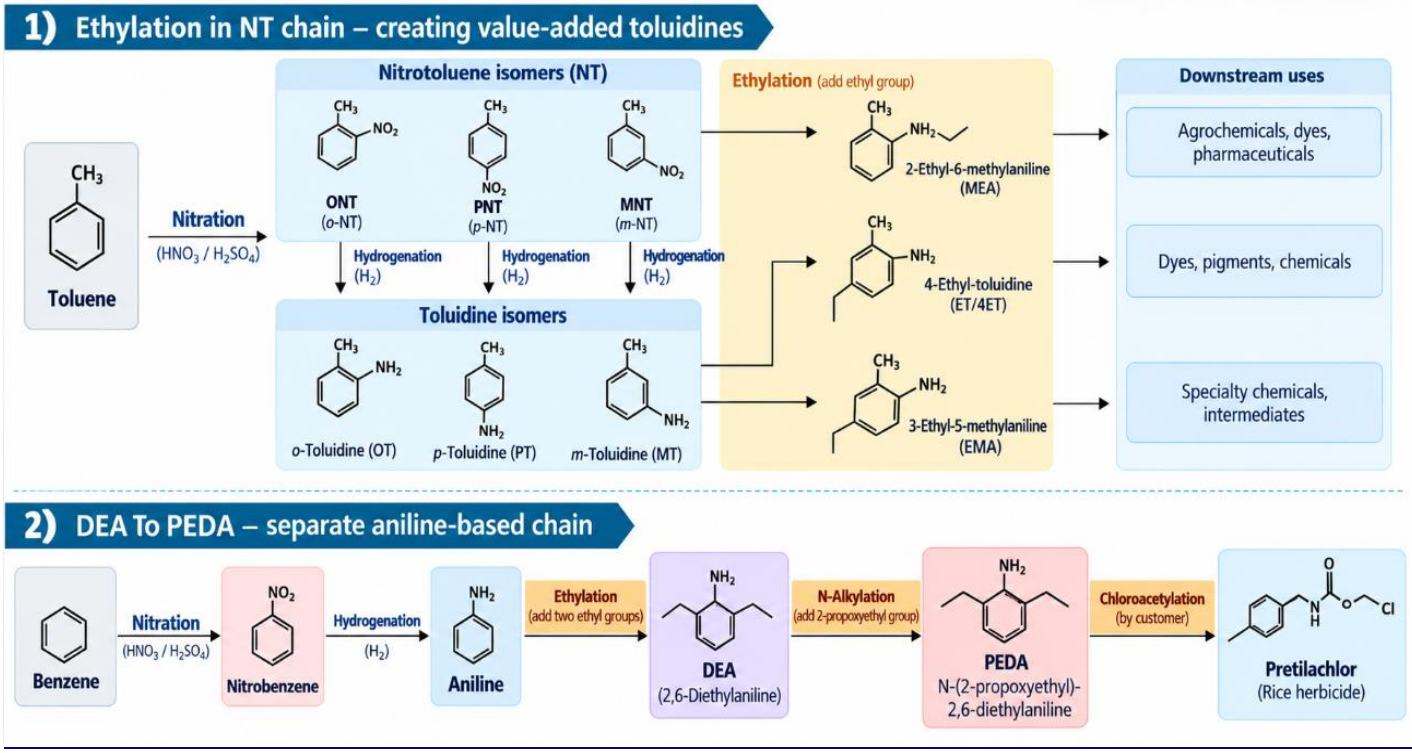
- **Guangxin, which has 200 KTPA of combined PNCB/ONCB capacity, stated in its 1HCY26 report that improving NCB prices and profitability helped offset pressure in agrochemicals**. Calculated from its reported financial statements, consolidated gross margin increased from 30.7% to 41.2%, while gross profit rose ~15% despite revenue declining 14.4%. Nevertheless, the combination of stronger market prices and improved profitability at a major competing producer corroborates ARTO's NCB margin recovery trend.
- **China's tightening oversight of nitration facilities provides an additional potential support to supply discipline.** On 11th Sep'26, China's Ministry of Emergency Management published a draft notification proposing stricter classification and rectification of nitration enterprises, with consultation open until 12th Oct'26. This follows its earlier program for full-process automation and safety inspections. Our inference is that higher compliance requirements could increase investment needs for weak producers and constrain the availability of aggressively priced supply. This makes regulatory implementation an additional catalyst to monitor alongside rebate withdrawal.
- **This creates room for ARTO to improve domestic and export realizations, but the benefit depends on how much competing suppliers pass through.**

Customer-backed agrochemical offtake and downstream integration to drive ethylation utilization

An **isomer** (co-products or chemical siblings) is a molecule or polyatomic ion that shares the exact same molecular formula as another molecule (the same number and types of atoms) but has a different arrangement or orientation of those atoms

- **Addressing structural isomer imbalance through downstream integration:** ARTO's nitrotoluene (NT) chain has faced margin pressure due to mismatches between the production and demand of ortho, para and meta isomers. Converting ONT into ortho-toluidine and further into value-added ethylation products such as MEA creates additional demand for the upstream chain, reducing dependence on direct isomer sales.
- Expanding downstream product portfolio to support margin recovery: ARTO is developing additional specialty ethylation and propylation products to diversify its product mix and improve captive consumption of upstream intermediates. Higher downstream volumes, improved isomer offtake and better fixed-cost absorption could support margin recovery, although demand for individual NT isomers remains important.

Exhibit 23: What exactly does the ethylation plant do

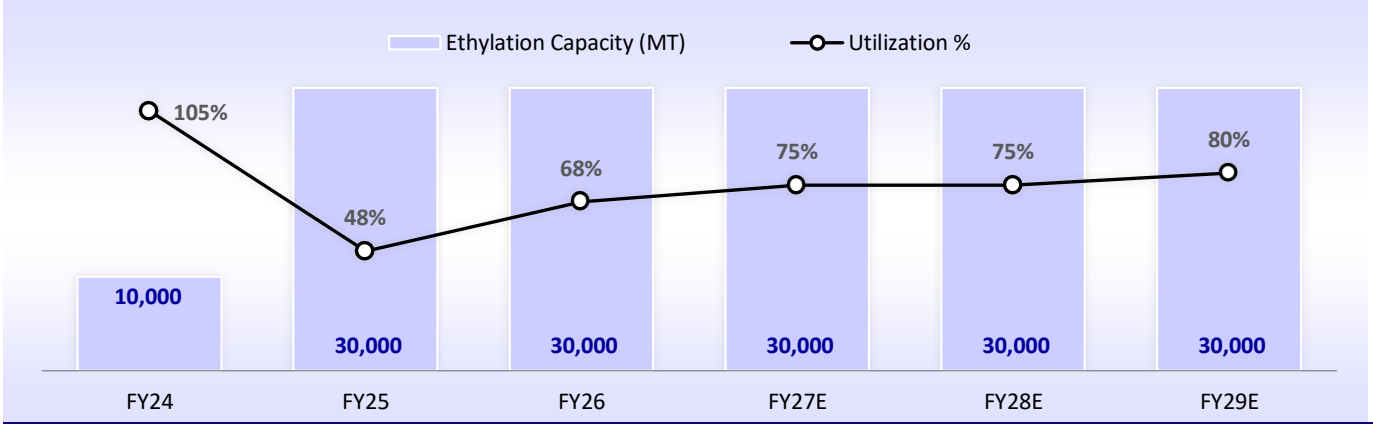


Source: Industry, MOFSL

PEDA is the critical raw material intermediate used to manufacture Pretilachlor, a massive-volume pre-emergence herbicide used extensively in rice cultivation across India and Southeast Asia.

- The recent USD150m agrochemical agreement provides higher customer-backed offtake without incremental capex. Announced in Mar'26 and extending through Mar'30, it expands an existing relationship, with volume growth expected progressively from FY27. **At INR95/USD, the contract averages INR3.6b annually (~24% of FY26 agrochemicals-and-fertilizer segment's revenue).** However, incremental revenue depends on the undisclosed previous purchase baseline and delivery schedule.
- **This contract and PEDA (2-Phenyl Ethyl Diethyl Aniline) provide complementary routes to raise ethylation utilization** and improve fixed-cost absorption. FY26 ethylation volumes rose 41% YoY to 20.5kt from 14.5kt, taking utilization to 68%. The contract supports external offtake, while PEDA consumes ARTO's existing 2,6-diethyl aniline (DEA), adding downstream conversion contribution within the pretilachlor chain.
- ARTO's 4K TPA PEDA capacity extends its existing DEA business to the pretilachlor intermediate chain, creating scope to capture additional conversion contribution and improve upstream utilization. ARTO announced PEDA commissioning within Zone IV Phase I at Jhagadia in Sep'26.
- ARTO can target imported intermediate purchases and additional demand as Indian manufacturers substitute imported pretilachlor with local production.
- Anti-dumping duties strengthen domestic sourcing economics by increasing the landed cost of Chinese supplies. Duties covering pretilachlor and PEDA took effect on 19th Jun'25, with producer-specific rates ranging from USD1,246.9/MT to USD2,017.9/MT. This improves the competitive backdrop for Indian manufacturers.

Exhibit 24: Ethylation utilization is expected to improve



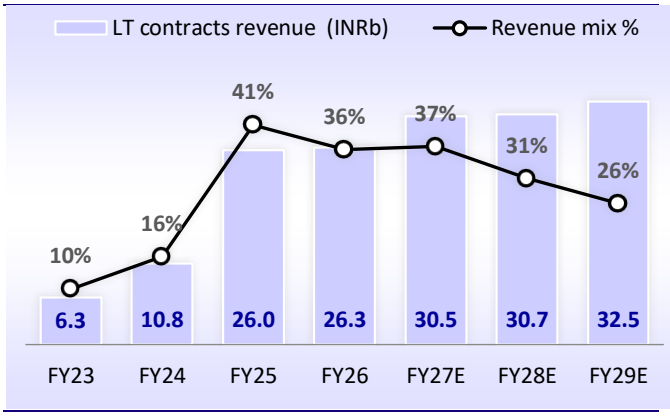
Source: Company, MOFSL

Exhibit 25: Long-term manufacturing contracts strengthen revenue visibility

Contract announcement date	Manufacturing/supply contract	Total contract value	Tenure	Execution/ commencement
29-Dec'17	Exclusive supply of a high-value specialty chemical intermediate to a global chemical conglomerate	**INR100b**	20 years	Dedicated facility commercialized in CY22.
20-Feb'19	Supply of a new specialty chemical intermediate to a global chemical conglomerate	**USD125m (~INR12b)**	10 years	Jointly developed process; facility commercialized in CY23.
27-Dec'23	Supply of a niche herbicide intermediate to a global agrochemical major	**INR30b+**	9 years, starting FY24	Existing integrated product portfolio; covered by existing capex program.
18-Jan'24	Supply of a niche specialty chemical to a multinational conglomerate	**INR60b+**	4 years	Existing customer relationship; no additional contract-specific capex envisaged.
12-Mar'26	Supply of a crop-protection intermediate to a global agrochemical innovator	**~USD150m (INR14.3b)**	Through 31st Mar'30	Higher volumes under an existing relationship; no significant incremental capex.
13-Oct'26	Dedicated manufacturing of a high-performance specialty chemical for a new global customer	**~USD150m (~INR15b)**	10+ years	Commercial operations expected in **FY29**; capex below USD25m.

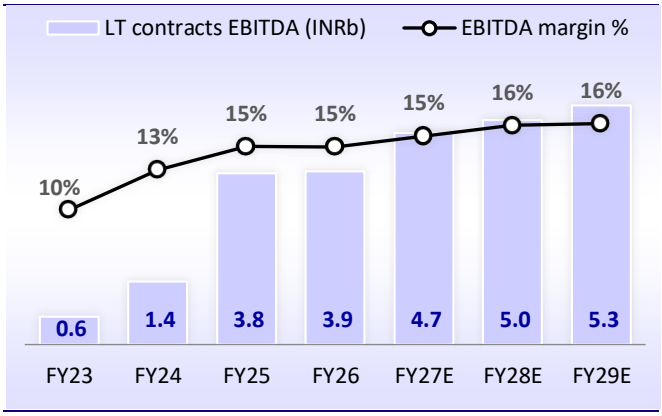
Source: Company, MOFSL

Exhibit 26: LT contract revenue trend



Source: MOFSL Estimates

Exhibit 27: LT contract EBITDA and margin trend



Source: MOFSL Estimates

New capacity & partnerships widen ARTO's growth runway

Zone IV's flexible manufacturing platform can drive a phased earnings growth through FY30E

- **The project's design changed to address the risk of a narrow product chain.** Zone IV was initially planned around a 42-KTPA chlorotoluene complex, with ~90% of capacity intended for downstream derivatives because domestic demand for the base molecule was limited. After post-Covid volatility and pressure in some chlorotoluene chains, ARTO shifted toward a more flexible, multi-molecule facility. The ~95-acre project represents INR18b of capex.
- **That flexibility allows ARTO to direct capacity toward stronger product economics.** Five chemistry blocks—chlorination, photochlorination, hydrolysis, AHF fluorination, and nitration —combined with MPP can support a portfolio of 35–40 products across agrochemicals, pharma and advanced polymers. The opportunity is to improve contribution from the assets by choosing products based on demand, yields, and processing time.
- **The multi-purpose-plant (MPP) provides the route to identify and scale those products.** ARTO can evaluate various products, prioritize four to five for production, and refresh the mix every six months. Products with proven demand can remain in MPP or move to dedicated facilities. This lets ARTO test commercial potential before committing further capital.

Exhibit 28: Zone IV's MPP – manufacturing flexibility through modular equipment and shared infrastructure

What makes it an MPP	How it works	What flexibility it gives to ARTO
Modular reactor trains	Production uses combinations of reactors rather than equipment configured solely around one molecule.	Compatible products can use the available equipment in different processing sequences.
Wide temperature and pressure range	ARTO discloses an operating envelope of **–20°C to +200°C and up to 25 bar**.	Supports products requiring different reaction conditions, within equipment limits.
Different equipment materials	Equipment includes **stainless steel, glass-lined mild steel, Hastelloy, and PFA fluoropolymer** materials.	Allows selection of equipment compatible with different reagents and corrosive environments.
Campaign-based manufacturing	Equipment is used to manufacture one product for a production campaign, followed by the required cleaning and changeover before another product.	Capacity can shift between compatible products as orders and economics change.
Automated process controls	Product-specific operating conditions can be controlled and reproduced across batches.	Supports reliable manufacture of multiple validated processes.
Shared utilities and supporting infrastructure	Products draw on common utilities, solvent recovery, and quality-testing facilities.	New compatible products can use existing infrastructure, reducing the need for a separate complete plant.
Pilot-to-commercial process transfer	Processes undergo optimisation, safety assessment and analytical validation before transfer to commercial equipment.	Enables new molecules to enter the manufacturing portfolio after successful development and qualification.

Source: Company, MOFSL

Exhibit 29: The main chemistries planned for Zone IV

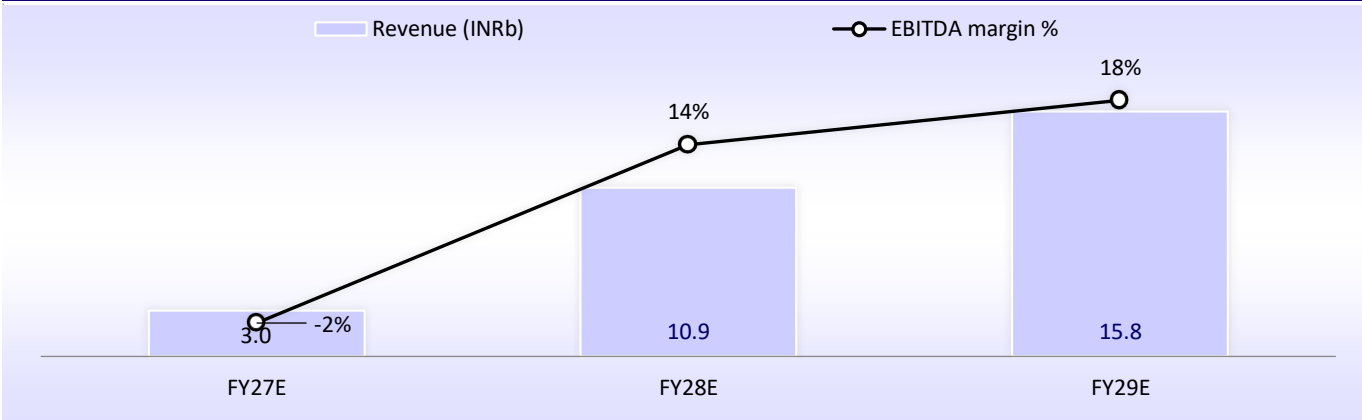
Chemistry	What the process does	Product families it enables*
Chlorination	Introduces chlorine onto the aromatic ring of toluene.	Chlorotoluene and more highly chlorinated toluene derivatives.
Photochlorination	Uses light to introduce chlorine into the methyl side chain.	Benzyl chloride-, benzal chloride- and benzotrichloride-type derivatives.
Hydrolysis	Uses water to convert suitable chlorinated intermediates into oxygen-containing compounds.	Benzaldehyde- and benzoic-acid-type derivatives.
AHF fluorination	Uses anhydrous hydrogen fluoride to replace chlorine with fluorine in suitable intermediates, particularly in the side chain.	Benzotrifluoride-type derivatives.
Nitrilation	Converts suitable intermediates into compounds containing a –CN (nitrile) group.	Benzonitrile-type derivatives.
Nitration	Introduces a $–NO_2$ (nitro) group onto the aromatic ring.	Nitro-chlorotoluene derivatives for further downstream processing.
Halex—halogen exchange	Replaces chlorine on a suitably activated aromatic ring with fluorine, typically using fluoride salts.	Ring-fluorinated aromatic intermediates, including suitable nitro-fluoro derivatives.

*Product families gives example of what each chemistry enables

Source: Company, MOFSL

- **A dedicated DCM Shriram pipeline is expected to supply an additional 200MT/day of chlorine at steady state, in addition to the existing 150MT/day, supporting Zone IV's chlorination-based product chains.** Direct pipeline supply should improve feedstock availability, reduce reliance on road transportation and associated handling costs, and support reliable operations as the new manufacturing blocks ramp up.
- Commissioning starts the commercialization phase; customer approvals and utilization will determine the ramp. Phase I—comprising calcium chloride, PEDA, and part of MPP was commissioned in Sep'26. ARTO plans to commercialize the remaining blocks in phases during FY27, introduce 5-10 products that year and scale to 25-30 by FY28. Calcium chloride, PEDA, and MPP are expected to ramp sooner; the chemistry blocks may take around two years to reach healthy utilization.
- Our estimates reflect this staged ramp-up: We estimate a Zone IV EBITDA contribution of INR1.5b in FY28E and INR2.9b in FY29E, with full potential by FY30E. The progression assumes that product qualification leads to repeat orders, a broader product mix, and higher utilization.

Exhibit 30: Zone IV – revenue and EBITDA margin estimate

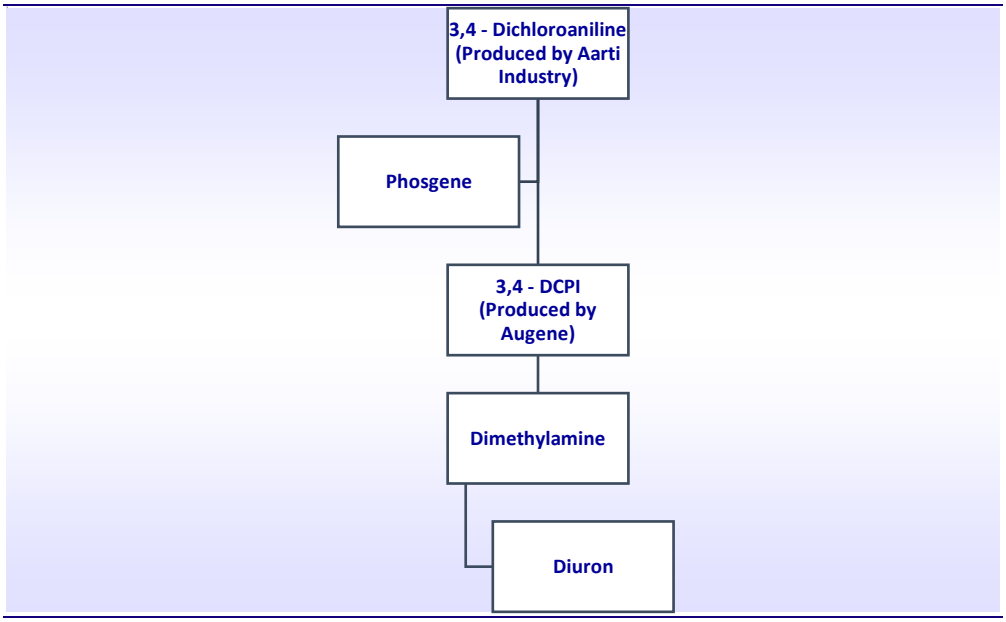


Source: MOFSL

Partnerships can close the gap between manufacturing capability and market access

- Augene is intended to turn ARTO's upstream chemistry into downstream amine derivatives through a 50:50 partnership with Superform Chemistries (UPL). ARTO contributes chemical manufacturing and raw-material integration, while Superform adds application and customer-market knowledge.
- **The steady-state JV revenue is expected to be INR3–4b** with a one-to-two-year ramp to decent utilization expected. The first raw-material sale to the JV has taken place.
- **Diuron (a product of Superform/UPL) is a highly effective phenylurea herbicide and algicide** primarily used for agricultural weed control **and as a long-lasting, weather-resistant biocide** to prevent algae and mold growth in exterior paints and marine antifouling coatings.
- ARTO already sells 3,4-dichloroaniline (3,4-DCA), an intermediate used in herbicides including Diuron. Augene is likely to manufacture 3,4-dichlorophenyl isocyanate (3,4-DCPI) from 3,4-DCA and phosgene; Superform identifies Diuron Technical as a product for paints and agro applications. **The value chain is therefore ARTO's 3,4-DCA → Augene's 3,4-DCPI → Superform's Diuron Technical. ARTO can benefit from additional DCA supply and its 50% share of Augene's profit**.
- **Import substitution gives the DCPI project a route to compete for existing demand**, beyond growth in Diuron end markets. As of FY25, Indian demand for 3,4-DCPI was fully met through imports from China. Local production could displace imports and create a domestic outlet for ARTO's 3,4-DCA. This creates an import-substitution opportunity, along with potential expansion in the paint and agricultural markets.

Exhibit 31: Diuron – product value chain



Source: Industry, MOFSL

- Further, Re–Aarti gives ARTO a route into waste recovery and chemical recycling through a 49%-owned JV. Re Sustainability and Recycling Private Limited (ReSRL), part of Re Sustainability, brings waste collection and recovery capabilities; ARTO Circularity, ARTO Industries' wholly owned subsidiary, brings chemical-process expertise.
- The Hyderabad facility is the first step in building a larger circular-materials business. The initial INR1b facility at Shadnagar will combine waste sorting with continuous pyrolysis, and will have the capacity to process 100 MT of plastic waste daily and produce about 50 MT of recovered material, including pyrolysis oil.

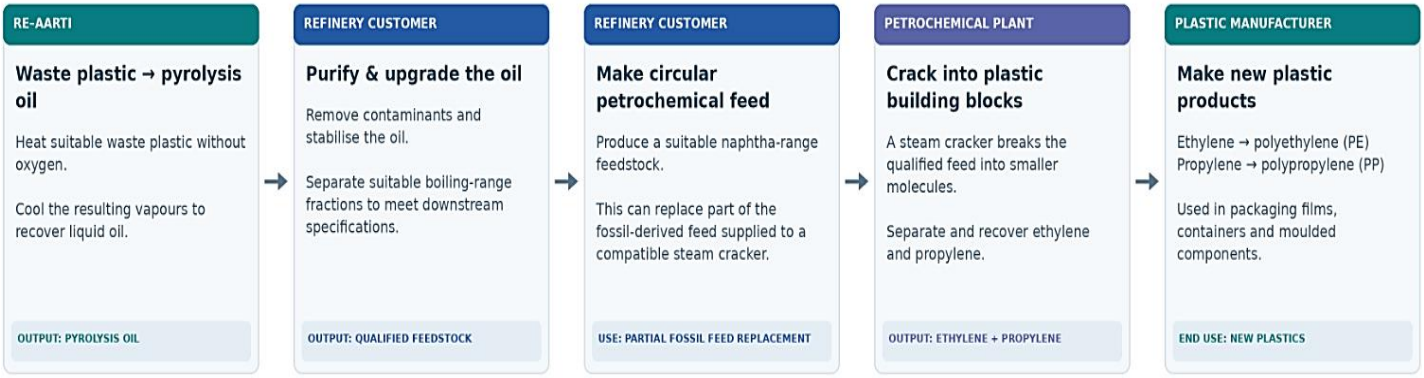
Exhibit 32: Strategic roadmap to achieving 500 TPD by CY30



Source: Company, MOFSL

- The opportunity extends to supplying circular feedstock for new-plastic production. Refineries can upgrade pyrolysis oil into petrochemical feedstock, replacing part of their fossil-derived inputs. The JV is in discussions with Indian and overseas refineries for domestic supply and exports. Planned ISCC PLUS certification and laboratory investments will support traceability and product qualification.
- Hyderabad provides the starting point for expansion across other major waste-generating centers. The JV has shortlisted Delhi, Bengaluru, Chennai, and Mumbai as potential locations and targets approximately 500 MT/day of resource-recovery capacity by CY30. Locating plants near waste catchments could help contain inbound logistics costs, while recovered oil can be transported to industrial customers.
- The JV envisages INR5b revenue within five years as this network scales. Hyderabad's ramp-up and refinery qualification will therefore be important milestones: establishing consistent product quality and repeat offtake can provide the basis for expanding the business across locations.

Exhibit 33: Value chain of Re–ARTO's Pyrolysis oil

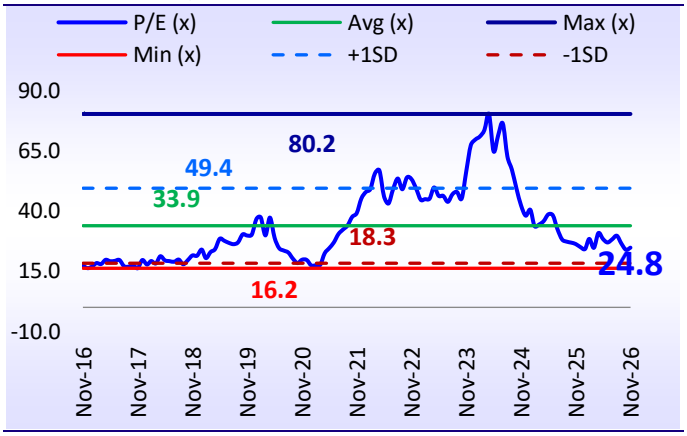


Source: Industry, MOFSL

Valuation and view

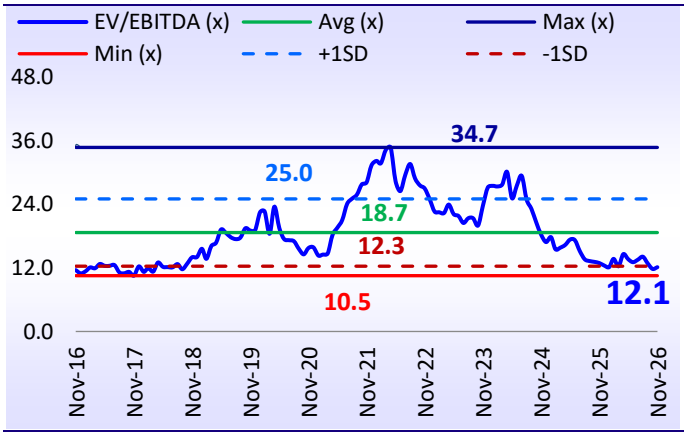
- ARTO's earnings growth should strengthen as fuel-additives volumes scale, margins recover across the core portfolio, and Zone IV starts contributing. Higher utilization and downstream value addition should improve profitability, while the ramp-up of recent investments supports better capital efficiency.
- MMA remains the near-term growth driver, supported by competitive blending economics, capacity expansion to 360ktpa and customer development across the US, Europe, and Africa. A diversified geographical presence should support capacity absorption, while 3–5 new additive products under development create opportunities beyond MMA.
- The core chemistry portfolio offers scope for higher earnings through pricing recovery and better utilization. China's export-rebate withdrawal supports firmer NCB prices, while the USD150m agrochemical long-term agreement provides higher ethylation offtake without incremental capex. PEDA adds downstream value to DEA, and the proposed DCB expansion strengthens exposure to PPS demand from EVs and electronics.
- Zone IV provides the next leg of growth as phased product launches increase throughput and improve fixed-cost absorption. We estimate an EBITDA of INR149m/INR1.5b/INR2.9b in FY27/FY28/FY29, with full potential by FY30E. Augene and Re–Aarti extend the longer-term opportunity into higher-value amine derivatives and chemical recycling. Customer qualification and utilization ramp-up remain key to earnings delivery.
- Over FY23-26, revenue growth of 8% CAGR translated into just 2% EBITDA CAGR, while adjusted PAT clocked at a 9% compounded decline. Average RoE/RoCE/RoIC remained modest at 8.2%/8.0%/9.8% over FY23–26. Cash conversion was healthy (with an average CFO/EBITDA ratio of 107%), although capex outflows resulted in cumulative negative FCFF of INR5.8b.
- With the capex cycle peaking, healthy operating cash generation and lower capex requirements should drive stronger FCFF and improve return ratios. The resulting cash flows should support repayment of term debt raised to fund growth capex (refer to Exhibits 40–43).
- **We assign ARTO a valuation of 30x FY28E EPS, representing a 12% discount to its 10-year average P/E**. This reflects the expected earnings acceleration from fuel additives and Zone IV, balanced against chemical-spread volatility and execution risks.
- **We expect a revenue/EBITDA/adjusted PAT CAGR of 16%/23%/35% over FY26–29. ARTO currently trades at 28x/23x/16x FY27E/FY28E/FY29E EPS, with FY29E RoE/RoCE of 13.3%/10.7%. We value ARTO at 30x FY28E EPS to arrive at a TP of INR600. We initiate coverage on the stock with a BUY rating.**

Exhibit 34: One-year forward P/E



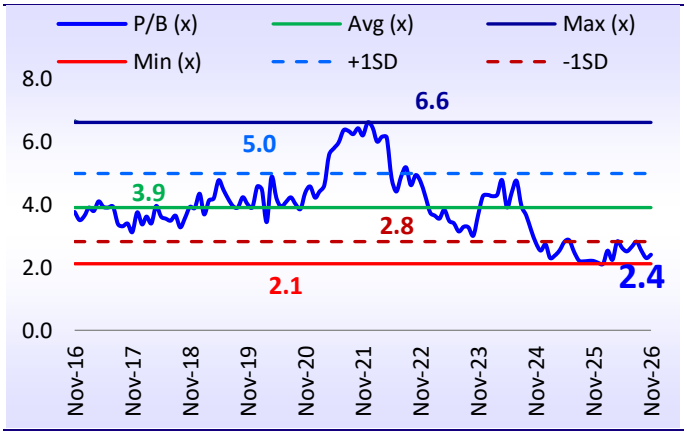
Source: MOFSL

Exhibit 35: One-year forward EV/EBITDA



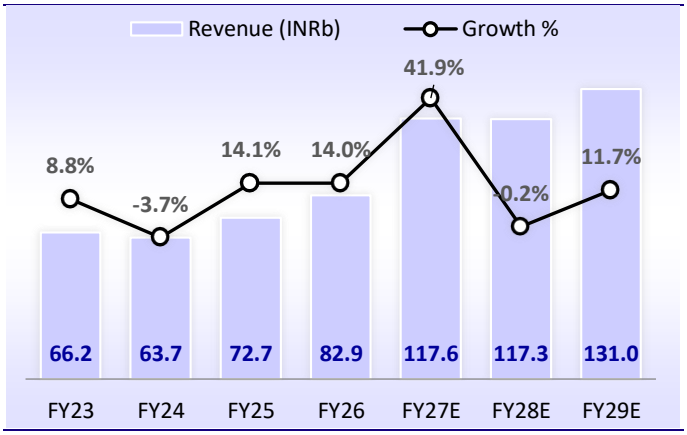
Source: MOFSL

Exhibit 36: One-year forward P/B



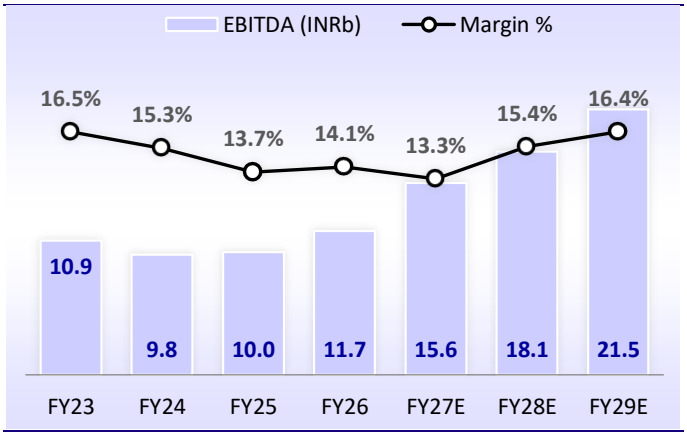
Source: MOFSL

Exhibit 37: Expect revenue CAGR of 16% over FY26-29



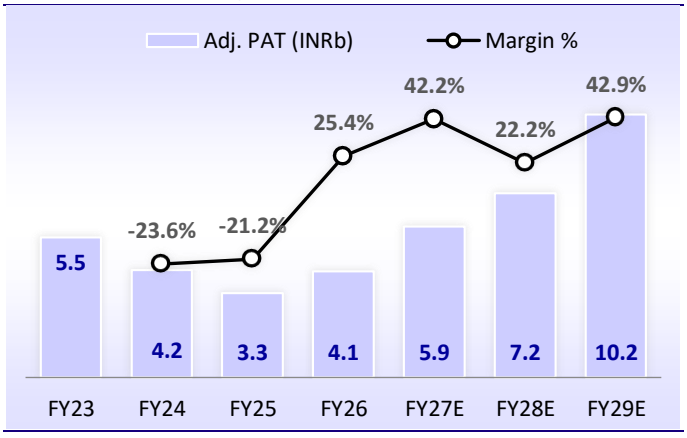
Source: MOFSL

Exhibit 38: EBITDA to clock a CAGR of 23% over FY26-29E



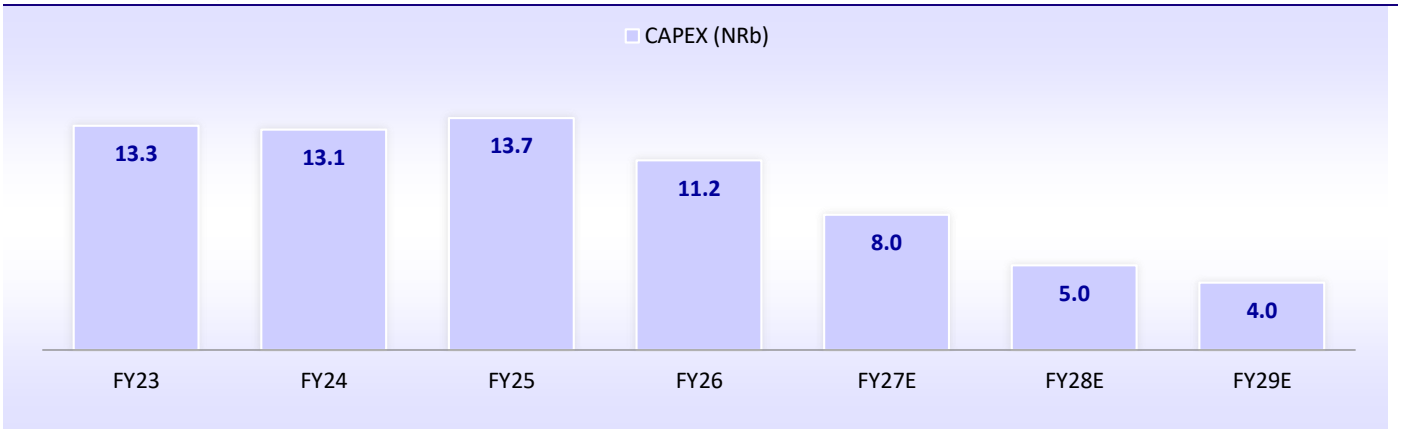
Source: MOFSL

Exhibit 39: PAT to expand at a 35% CAGR over FY26-29E



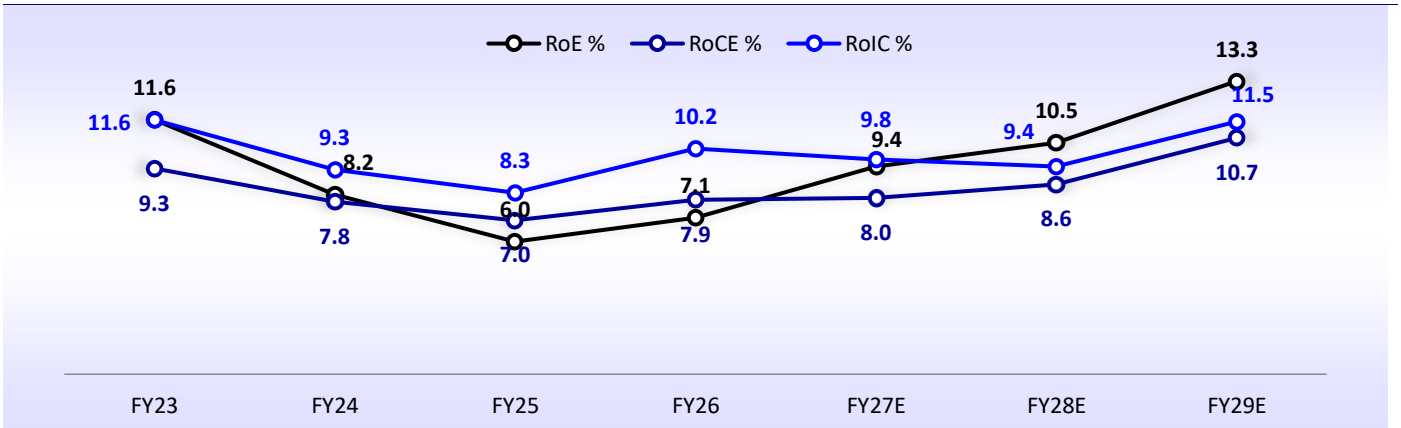
Source: MOFSL

Exhibit 40: Capex cycle shifts toward asset monetization



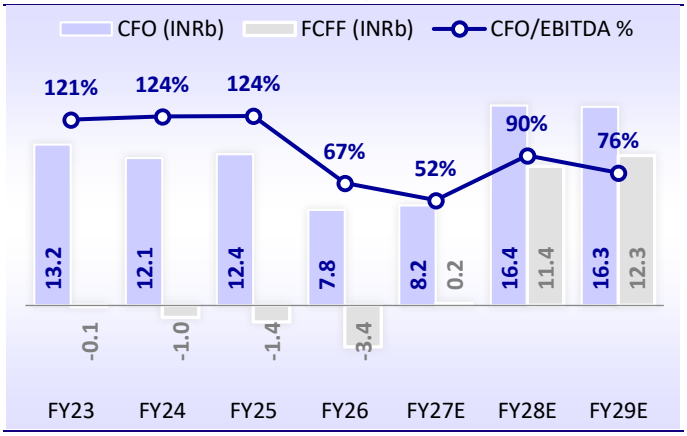
Source: MOFSL

Exhibit 41: Return ratios set to improve as capex bears fruit



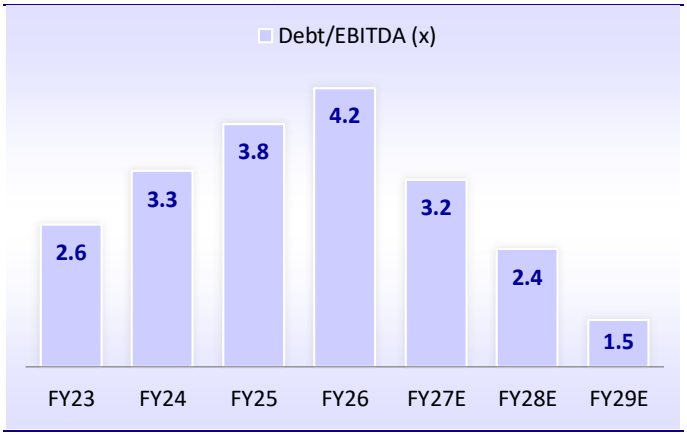
Source: MOFSL

Exhibit 42: Easing capex intensity to unlock free cash flow…



Source: MOFSL

Exhibit 43: …which is expected to drive lower debt/EBITDA

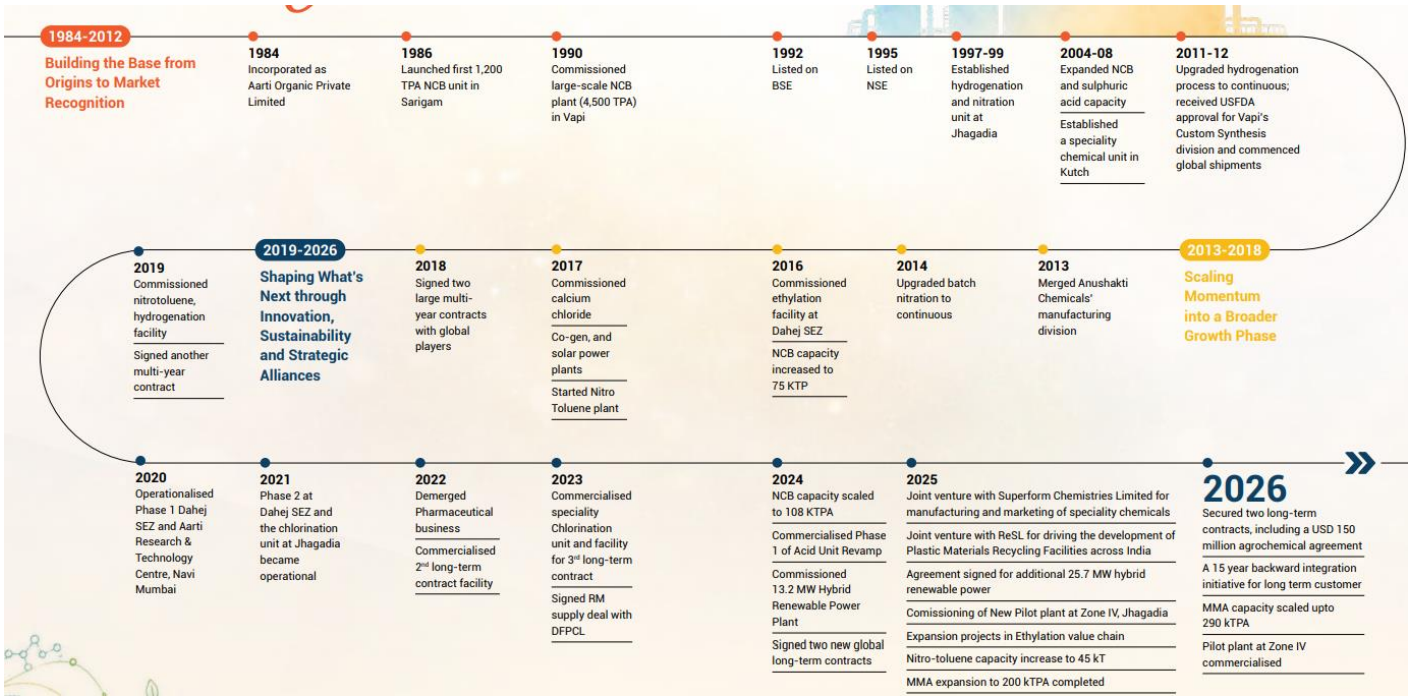


Source: MOFSL

Company overview

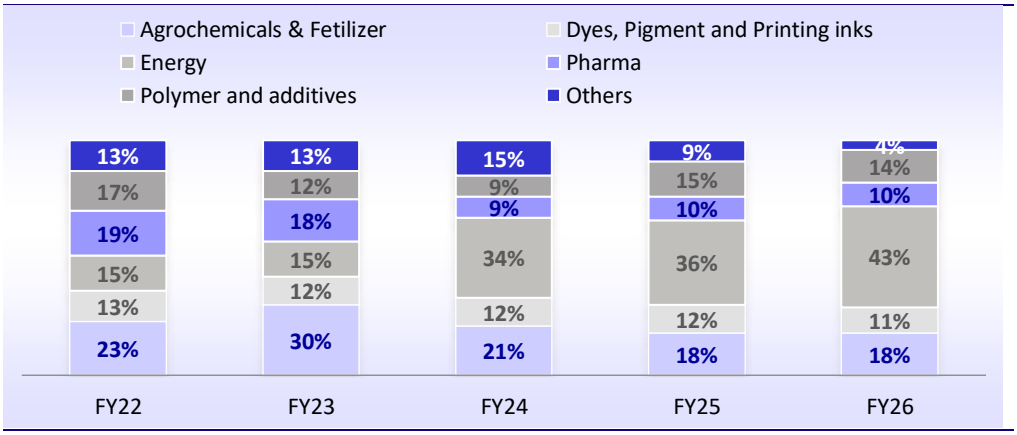
- ARTO was incorporated on 28th September, 1984 as *Aarti Organics* by four first-generation technocrats — Chandrakant V. Gogri, Rajendra V. Gogri, Parimal H. Desai, and Shantilal T. Shah. The company commenced operations in 1986 with a 1,200 TPA NCB plant at Sarigam, Gujarat.
- Over the last four decades, ARTO has evolved from an NCB manufacturer into one of India's largest integrated specialty chemical companies and the country's largest producer of benzene-based derivatives.
- ARTO is primarily a benzene- and toluene-derivatives company, converting these feedstocks into specialty intermediates used across agrochemicals, pharmaceuticals, polymers, pigments, dyes, and other industrial applications.
- **ARTO ranks #1 globally in DCB, among the top three globally in NCB, among the top two in hydrogenation, and among the top three in chlorination and nitration. In India, the company is a leading manufacturer of nitro fluoro aromatics produced through Halex chemistry and PDA. In addition, it ranks fourth globally across approximately 75% of its product portfolio.**
- ARTO's scale combines manufacturing, R&D, and a broad customer base. It operates 16 manufacturing plants, has 100+ products, and serves 1,100+ customers across 60+ countries. Its R&D network comprises four centers, including two pilot plants, supported by 250+ scientists. ARTO's Jhagadia multipurpose plant can handle more than 34 chemistries, and the company was the first in India to industrialize ethylation.
- The company has built integrated value chains across nitration, chlorination, hydrogenation, amination, and ethylation, spanning NCB, DCB, PDA, Nitro Toluene, and other downstream intermediates.
- From 1986-2012, ARTO expanded from NCB into downstream aromatic chemistries, establishing manufacturing facilities across Sarigam, Vapi, and Jhagadia and building long-term relationships with global customers.
- During 2012-2020, ARTO scaled up specialty chemicals and Custom Synthesis and Manufacturing (CSM), supported by large capex, global customer partnerships, exports, and the establishment of its Navi Mumbai R&D center.
- **ARTO currently operates 16 plants, including 11 ZLD facilities, four R&D centers, and five co-generation plants, with 100+ products, 1,100+ customers, and exports to 60+ countries.**
- Going forward, the company will shift its focus on higher-value specialty chemicals and CSM, leveraging its integrated benzene/toluene chemistry and process capabilities to drive growth.

Exhibit 44: Brief timeline of the company



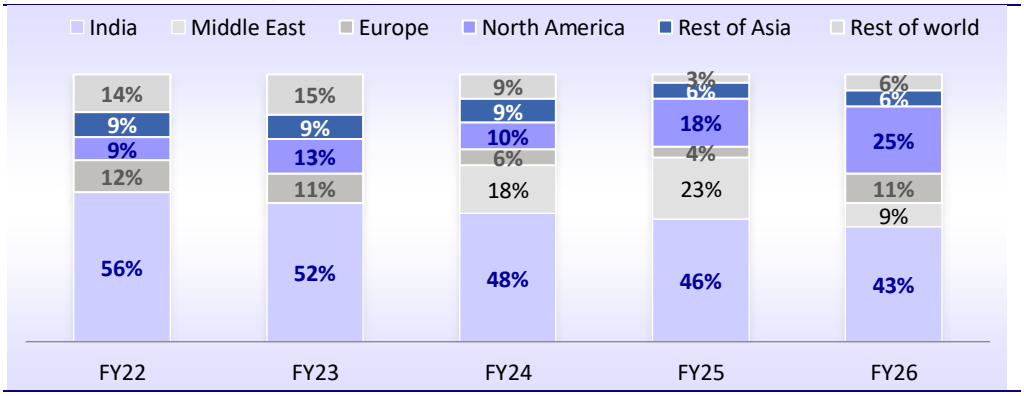
Source: Company

Exhibit 45: End-user industry sales mix



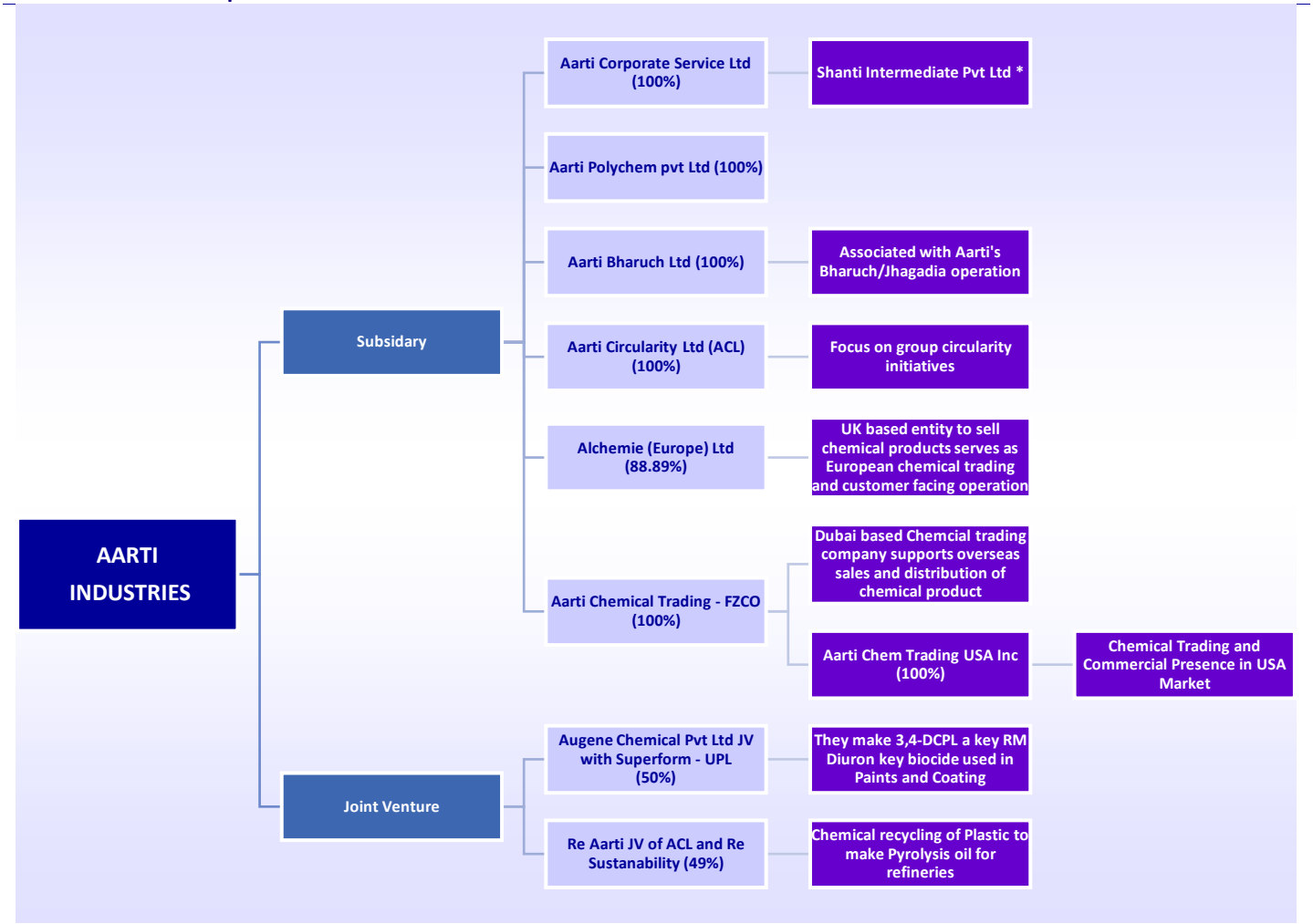
Source: Company

Exhibit 46: Revenue by geography



Source: Company

Exhibit 47: ARTO's corporate structure



*Divested the entire stake on 23rd Jun'26

Source: Company, MOFSL

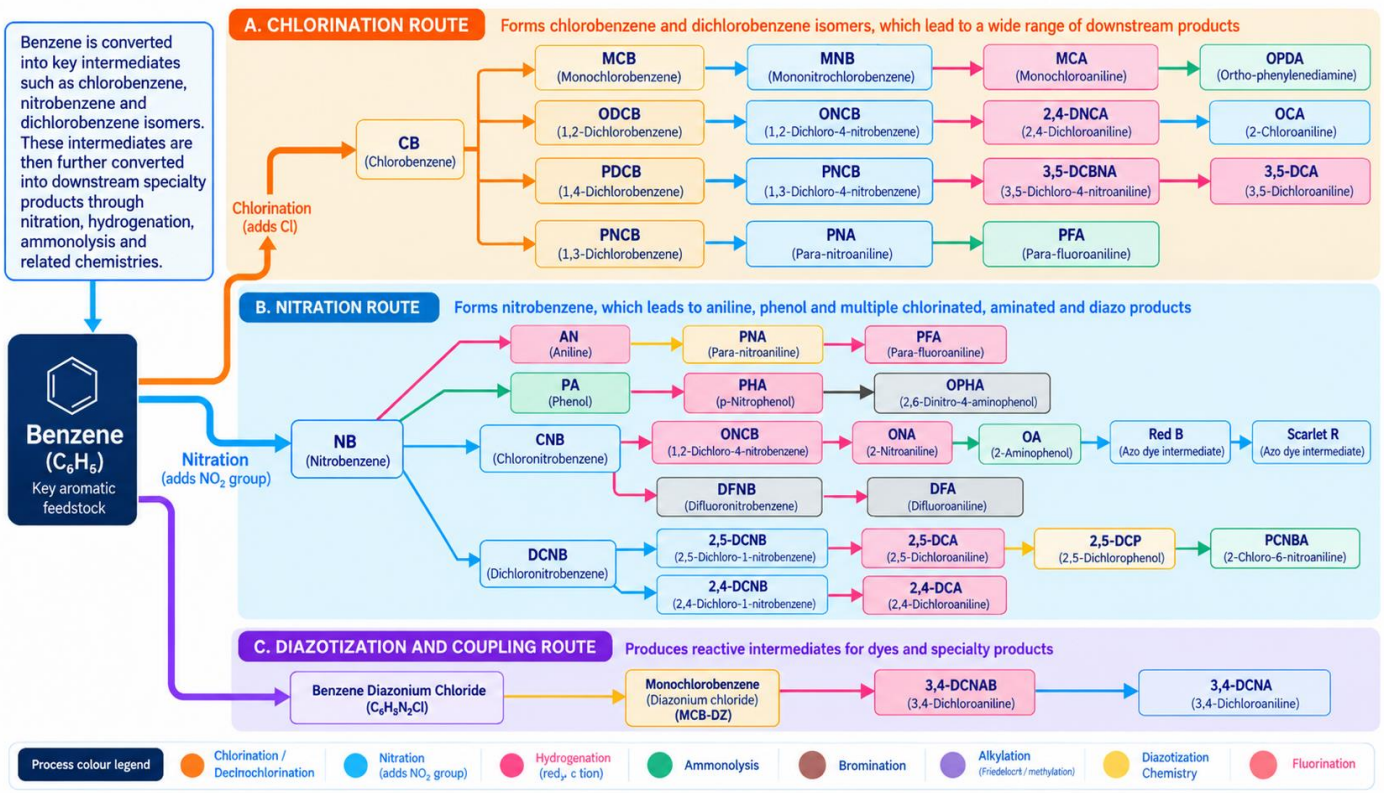
Exhibit 48: ARTO's capex history

Year	Capex (INR b)	Major investment purposes
FY17	5.30	PDA capacity expansion; nitrotoluene complex at Jhagadia; co-gen, solar and calcium chloride facilities.
FY18	6.13	Nitrotoluene plant commissioning; speciality-chemical infrastructure; INR0.55b for land and proposed R&D centre.
FY19	7.94	Chlorobenzene capacity: 110 → 175 KTPA; Dahej contract facility; new R&D centre; NCB expansion initiated.
FY20	11.53	Dahej dedicated manufacturing units; Jhagadia chlorination complex; contract facilities; Navi Mumbai R&D centre.
FY21	13.14	Jhagadia chlorination expansion; Dahej Phase II; second/third contract plants; NCB, acid and pharma expansions.
FY22*	13.15	Second contract plant commissioned; third contract plant construction; NCB and acid expansion; asset upgrades.
FY23	13.06	Third contract plant and speciality-chemical blocks; NCB, acid, nitrotoluene and ethylation expansion; Zone IV initiated.
FY24	13.58	NCB capacity to 108 KTPA; Phase I acid revamp; Zone IV construction; ethylation, nitrotoluene and ETP investments.
FY25	13.72	Zone IV and chlorotoluene downstream platform; ethylation capacity to 25–30 KTPA; nitrotoluene and utilities.
FY26	11.25	Zone IV: calcium chloride, multipurpose plant and 4,000 TPA PEDA; selective MMA/fuel-additive and DCB additions.

*FY22 originally reported including pharma; subsequently restated to INR10.13b after demerger. Earlier periods include pharma and are not directly comparable.

Source: Company, MOFSL

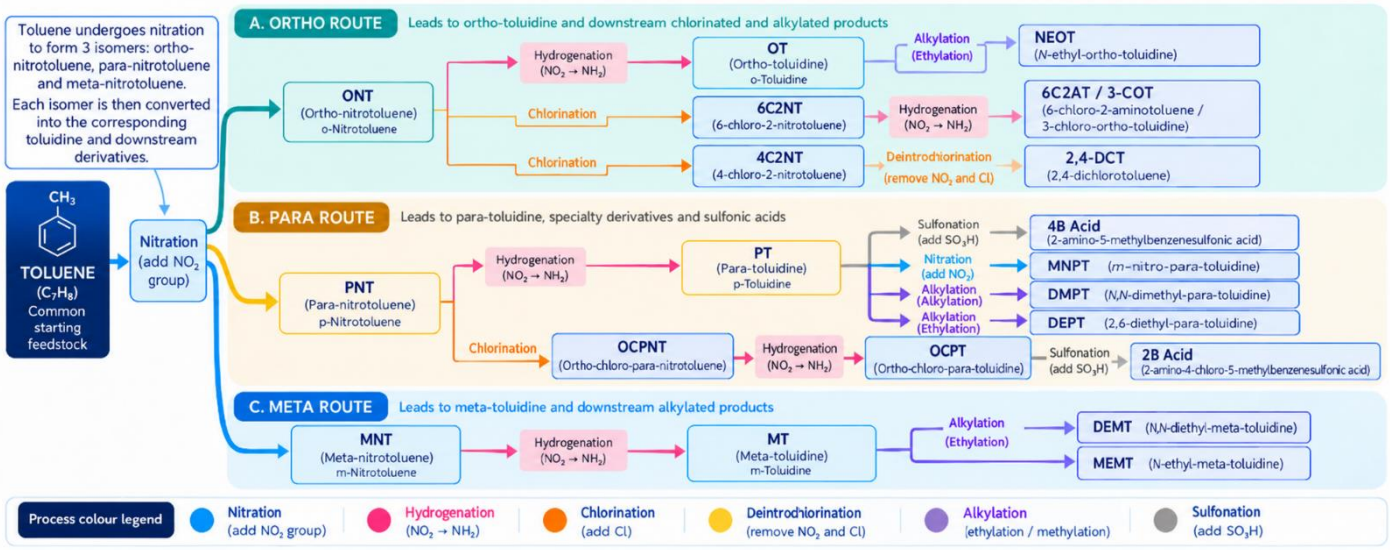
Exhibit 49: Integrated operations across the product chain of benzene



*Aromatic feedstocks refer to hydrocarbon RMs containing one or more benzene rings, characterized by their high stability and specific ring structure.

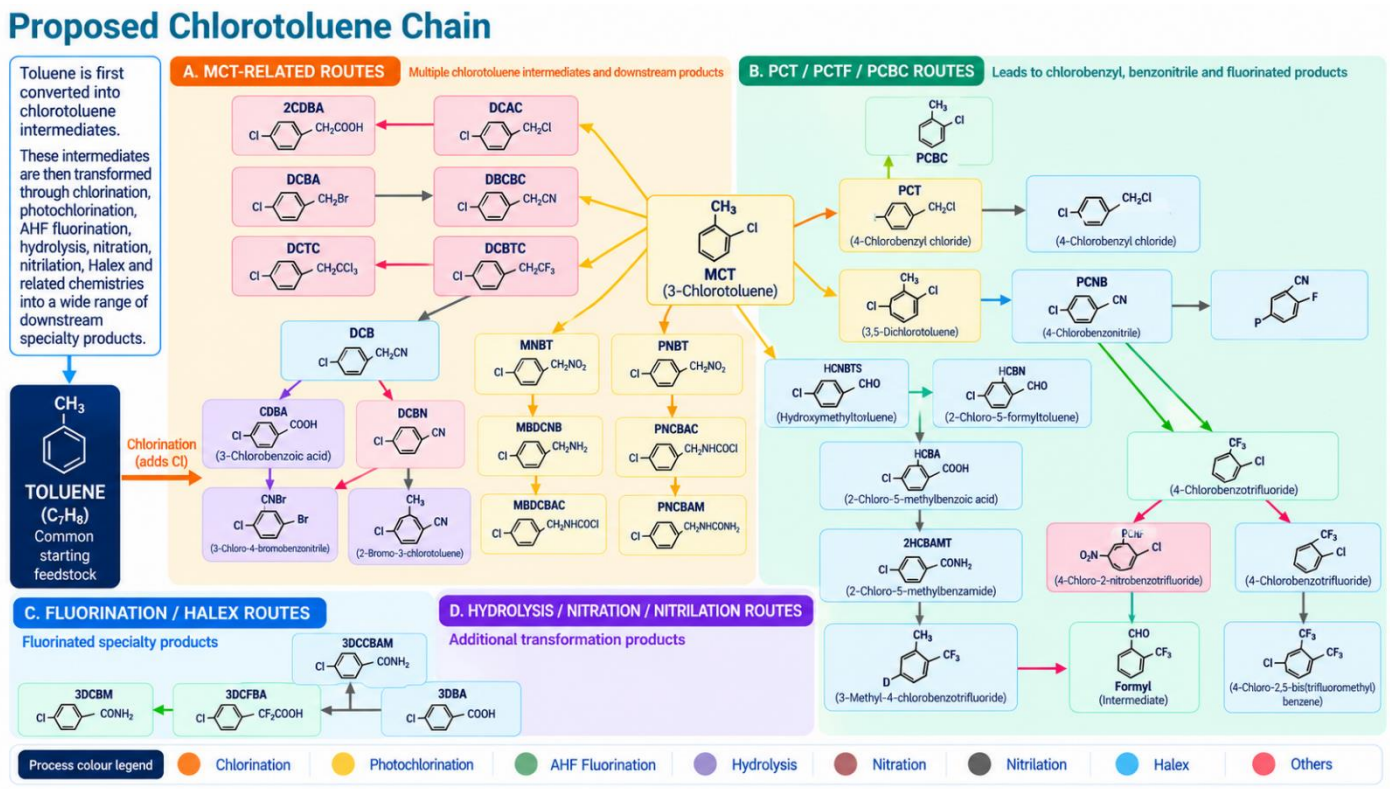
Source: Company, MOFSL

Exhibit 50: Integrated operations across the Nitro Toluene product chain



Source: Company, MOFSL

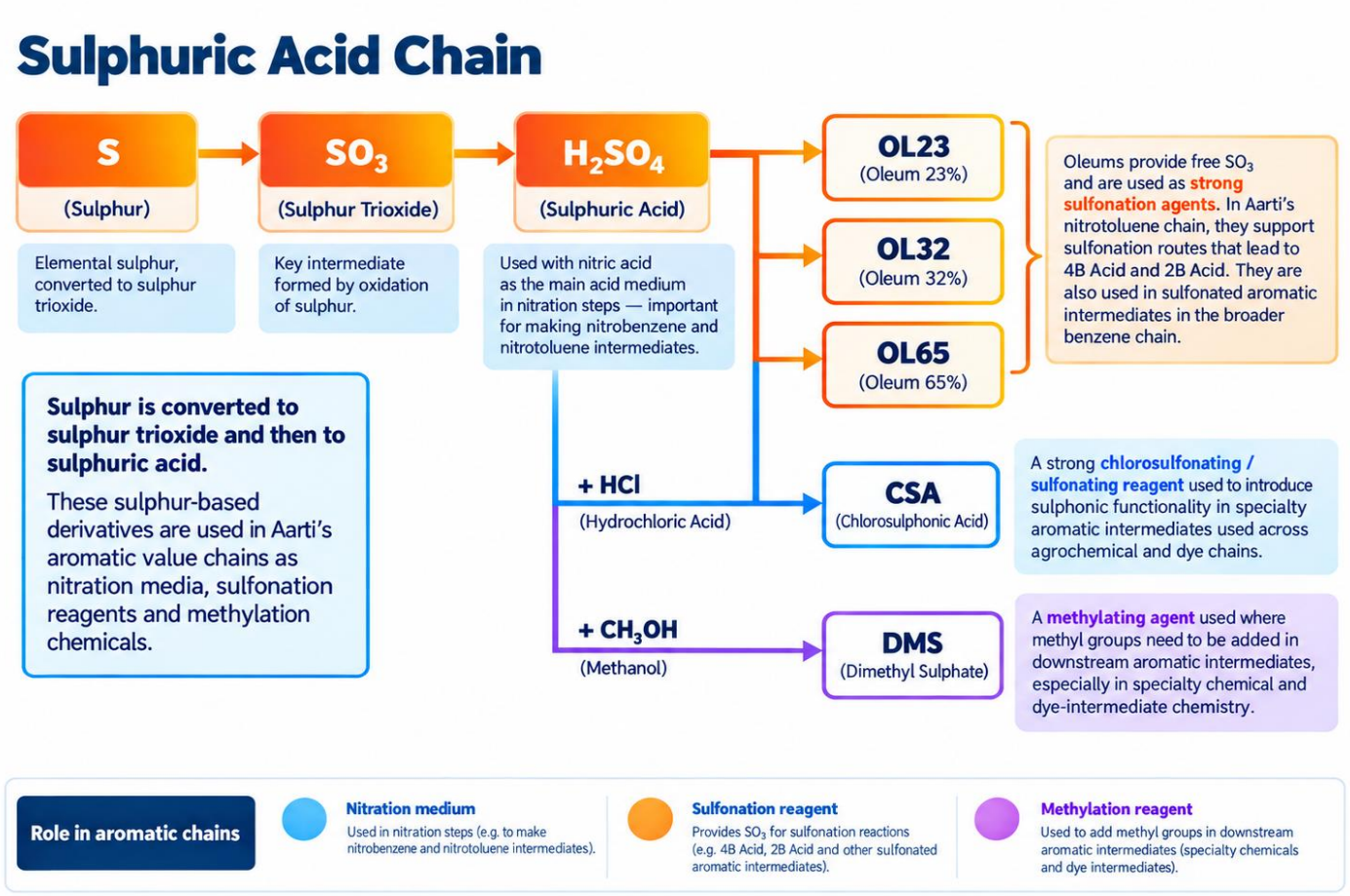
Exhibit 51: Proposed multi-phased chlorotoluene chain (at greenfield site in Zone IV, Jhagadia, Gujarat)



MCT = Meta-Chlorotoluene (3-Chlorotoluene), TCT = Trichlorotoluene, PCTF = Para-Chlorobenzotrifluoride, PCBC = Para-Chlorobenzyl Chloride

Source: Company, MOFSL

Exhibit 52: Sulphuric acid integration secures key inputs and improves energy efficiency



Source: Company, MOFSL

Exhibit 53: Key product portfolio of ARTO

Product/platform	Starting raw material	What ARTO does	Main downstream use
NCB (Nitro Chloro Benzene)	Benzene + Cl_2 + HNO_3 (nitric acid)	Chlorination + nitration	Pharma, agrochemicals, dyes/pigments
DCB (Di Chloro Benzene)	Benzene + Cl_2	Chlorination	PPS, polymers, dyes, pharma/agro
Hydrogenation	Nitro-aromatics	H_2 reduction of NO_2 → NH_2	Anilines for pharma/agro/dyes; PDA
PDA (Phenylenediamines)	Dinitrobenzene	Hydrogenation	Dyes, engineering polymers, specialty chemicals
NT (Nitro Toluene)	Toluene + HNO_3	Nitration	Dyes, pigments, agrochemicals, downstream anilines
Ethylation	Aniline + ethylene	Ethylation	MEA/DEA → agrochemical intermediates
MMA/Fuel Additives (Mono-Methyl Aniline/N-Methylaniline)	Aniline + methanol	N-methylation	Gasoline octane enhancement

Source: Company

Exhibit 54: Some marquee customers out of total 1,100+ customers

End user industry	Customers
Agrochemicals	Bayer, Syngenta, FMC, Sumitomo Chemical, UPL, Gharda Chemicals
Diversified chemicals, polymers and advanced materials	BASF, SABIC, DuPont, Solvay, Celanese, Toray, Teijin, Eastman
Specialty chemicals and ingredients	Clariant, Nouryon, Atul
Dyes, pigments and textile chemicals	Colourtex, Sudarshan Chemical, Archroma
Pharmaceuticals and life sciences	Lonza
Oil refining / Energy	IndianOil, Bharat Petroleum, Hindustan Petroleum, Numaligarh Refinery (NRL)
Trading and distribution	Sojitz



Source: Company, MOFSL

Key risks

- **Fuel-additives concentration:** With Energy contributing 43% of FY26 revenue, ARTO is increasingly exposed to MMA demand and blending economics. Lower gasoline–naphtha spreads, competing octane boosters, or tighter destination-market fuel specifications could affect volumes, pricing and capacity utilization.
- **Project ramp-up and returns:** Delays in commissioning, customer qualification, or product approvals at Zone IV and new ventures could defer revenue and earnings. Slower utilization would weaken fixed-cost absorption, while depreciation and interest costs could weigh on profitability and returns.
- **Raw material and pricing volatility:** ARTO depends on raw materials/ feedstocks such as benzene, aniline, methanol, and chlorine. Supply disruptions or sharp cost increases could affect production and compress margins, particularly where selling-price adjustments lag input costs. Aggressive Chinese pricing could further constrain spread recovery.
- **Operational and environmental risks:** Chemical manufacturing involves hazardous materials and complex processes. Accidents, equipment failures, or environmental non-compliance could lead to plant shutdowns, remediation costs, and lost sales, while tighter regulations could increase operating and capital expenditure.

ESG initiatives



Environmental initiatives

- ARTO has SBTi-approved targets: it commits to reducing absolute Scope 1 and 2 GHG emissions by 54.6% and absolute Scope 3 emissions by 32.5% by FY33, from the FY23 base year. Key levers include efficiency improvements, greater renewable energy adoption, advanced technologies, and Renewable Energy Certificates (RECs).
- Energy conservation measures in FY26 included VFDs on high-load equipment, performance improvement and replacement of water chillers, pump upgrades across cooling and chilled water systems, and recovery of steam from distillation condensers. Biomass is gradually replacing coal.
- ARTO commissioned a 13.2 MW group captive hybrid renewable energy plant in FY24. Of the 25.7 MW Phase-II expansion, 7.9 MW has been commissioned and the remaining 17.8 MW is expected in FY27. Once all phases are commissioned, ARTO expects to meet more than 68% of its electricity requirement from renewable sources.

Social/CSR initiatives

- ARTO's CSR initiatives cover education and skill development, healthcare, women's empowerment, and tribal and rural development. They are undertaken through its CSR arms, Aarti Foundation and Dhanvallabh Charitable Trust, and through implementation partners; CSR spending in FY26 stood at INR88.9m.
- A defining milestone of FY26 was the operationalization of the 300-bed multi-specialty Tirthankar Mahavir Jain Hospital in Nalanda, Bihar. It expands access to quality secondary and tertiary healthcare for underserved communities.

Governance initiatives

- ARTO operates under a single-tier Board structure with a balanced mix of Executive and Non-Executive Directors, bringing diverse perspectives across areas of expertise, gender, experience, and thought. The average Board tenure is 11 years.
- As of Mar'26, the Board comprised six Executive, one Non-Executive, and seven Independent Directors (50% of the Board), including a woman Independent Director. Effective 1st Oct'26, the Board comprises three Executive, four Non-Executive, and seven Independent Directors.

Bull and Bear cases



Bull Case

- ☑ MMA spreads expand as adoption outpaces industry capacity additions, while gasoline–naphtha spreads sustain above USD16/bbl.
- ☑ Faster pass-through of China's export rebate withdrawal drives a sharp recovery in core chemical spreads.
- ☑ Faster Zone IV ramp-up and elevated chemical prices improve asset turns, supporting stronger near-term revenue and earnings growth.
- ☑ Higher capacity utilization and an improving product mix drive operating leverage and margin expansion.
- ☑ Valuation re-rating is supported by stronger FCFF generation, improving return ratios and debt reduction.



Bear Case

- ☑ Rising EV adoption weakens gasoline demand, pushing gasoline–naphtha spreads below USD10/bbl and weighing on MMA spreads.
- ☑ Slower pass-through of China's export rebate withdrawal delays the recovery in core chemical spreads.
- ☑ Slower Zone IV ramp-up and weaker chemical prices constrain asset turns, weighing on revenue and earnings growth.
- ☑ Valuation de-rating is driven by earnings downgrades, subdued return ratios, and weak free cash flow.

Exhibit 55: Bull and Bear cases

		FY27E	FY28E	FY29E	CAGR % (FY26-29E)	Reasoning
Bear case INR315	Revenue (INR m)	1,16,973	1,08,521	1,16,208	12	❖ Assigning a 20% discount to the 10-year average P/E of 34x, reflecting modest improvement in MMA utilization, slower Zone IV ramp-up, contraction in MMA spreads, and muted recovery in NCB spreads.
	EBITDA (INR m)	15,547	14,382	13,518	5	
	EPS (INR)	16.0	11.3	9.5	-6	
Base case INR600	Revenue (INR m)	1,17,567	1,17,303	1,31,007	16	❖ Assigning 12% discount to 10-year average P/E, reflecting gradual increase in MMA utilisation, gradual recovery in core chemical spreads, and steady Zone IV ramp-up support revenue growth and modest margin expansion, driving EBITDA and PAT growth.
	EBITDA (INR m)	15,601	18,113	21,548	23	
	EPS (INR)	16.2	19.7	28.2	35	
Bull case INR950	Revenue (INR m)	1,17,567	1,29,168	1,52,283	22	❖ Assigning the 10-year average P/E of 34x, supported by faster Zone IV ramp-up and MMA spread expansion driven by increased adoption.
	EBITDA (INR m)	15,601	21,630	29,947	37	
	EPS (INR)	16.2	27.6	47.0	61	

Source: MOFSL

SWOT analysis

S – STRENGTH

- ☑ ARTO ranks fourth globally for approximately 75% of its product portfolio and is a leader in chlorination, nitration, and hydrogenation chemistries. It serves 1,100+ customers in 60+ countries across 20+ industries.
- ☑ It has integrated operations across the benzene and toluene value chains, with established backward and forward integration, process chemistry scale-up expertise, and a network of R&D and pilot plants.

W – WEAKNESS

- ☑ Fluctuations in crude oil and natural gas prices and in refinery output affect the cost and availability of key raw materials such as benzene, toluene, methanol, and sulphur.
- ☑ Over-reliance on the energy segment (driven by Mono Methyl Aniline) exposes earnings to volatility, tariff barriers, and regional off-take shifts.
- ☑ Net debt-to-EBITDA ratio stood at 3.7x and RoCE at about 8%.

O – OPPORTUNITY

- ☑ Global customers are increasingly diversifying sourcing beyond China, which is likely to benefit integrated players like ARTO that offer long-term partnerships and supply chain reliability.
- ☑ The India-EU FTA and the US-India trade deal are expected to boost exports, while EVs, renewable energy, and chemical recycling offer growth opportunities as ARTO expands into advanced materials, electronic chemicals, and clean energy value chains.

T – THREATS

- ☑ Intense pricing pressure from China, particularly in agrochemicals, pharmaceuticals, and fluoro products, along with excess global capacity, continues to affect pricing and profitability.
- ☑ US tariffs and persistent geopolitical tensions remain a key overhangs. Raw material price volatility (benzene, aniline) can lead to inventory losses, and currency fluctuations can affect profitability.



Management team and Promoters



Mr. Suyog K. Kotecha, Managing Director & CEO

- Chemical Engineer from UDCT, Mumbai, with a Master's in Chemical Engineering from the University of Twente, Netherlands, and an MBA from the Indian School of Business, Hyderabad (Dean's List).
- Previously led Growth & Strategy for the Petrochemicals division at Reliance Industries and was a Partner at McKinsey & Company, where he co-led its Chemicals & Agriculture Practice in India; he earlier worked with Shell Global Solutions (Netherlands) and Sulzer Chemtech (Singapore).
- Over 22 years of experience across the chemical and energy sectors; joined the Board as Executive Director in June 2024 and assumed the role of Managing Director & CEO on 1st Oct'26 for a five-year term.



Mr. Rajendra V. Gogri, Non-Executive Chairman

- A founding member of Aarti Industries; after serving nearly two decades as Managing Director, he became Chairman and Managing Director in 2012 and, effective 1st Oct'26, transitioned to Non-Executive Chairman, providing strategic guidance and Board-level stewardship.
- A UDCT rank holder with a Master's in Chemical Engineering from the US, he brings deep technical expertise alongside strong financial and commercial acumen.
- Awards include UDCT's Distinguished Alumnus Award (1995), ICC's Lala Shriram National Award (2019) and Hurun Most Respected Entrepreneur of the Year India (2019).



Mr. Rashesh C. Gogri, Non-Executive Vice Chairman

- A second-generation entrepreneur, he joined the Board in 1997 and served as Vice Chairman and Managing Director from 2012, transitioning to Non-Executive Vice Chairman effective 1st Oct'26.
- A production engineering graduate from the University of Bombay with over 29 years of experience; led Aarti's business strategy, sales and procurement, driving the Company's expansion and project execution across global markets.



Mr. Renil R. Gogri, Non-Executive Vice Chairman

- Joined Aarti Industries in 2009 and became Executive Director in 2012, playing an important role in strengthening the Company's manufacturing capabilities, technology adoption, project execution, sustainability and safety practices.
- An IIT Bombay alumnus, he oversees information security governance across the organization; transitioned to Non-Executive Vice Chairman effective 1st Oct'26.



Mr. Ajay Kumar Gupta, Executive Director & Chief Manufacturing Officer

- A Chemical Engineering graduate from Harcourt Butler Technical University, Kanpur, with over three and a half decades of experience in chemical, petrochemical and specialty chemicals; held senior leadership roles at IPCL, Reliance Industries, Grasim Industries and Jubilant Life Sciences.

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Total Income from Operations	**66,186**	**63,730**	**72,694**	**82,861**	**1,17,567**	**1,17,303**	**1,31,007**
Change (%)	8.8	-3.7	14.1	14.0	41.9	-0.2	11.7
Raw Materials	38,417	38,790	46,551	53,491	79,004	75,778	84,631
Employees Cost	3,853	4,030	4,471	4,221	4,980	5,982	6,550
Other Expenses	13,026	11,132	11,701	13,473	17,982	17,430	18,278
Total Expenditure	**55,296**	**53,952**	**62,723**	**71,185**	**1,01,966**	**99,190**	**1,09,459**
% of Sales	83.5	84.7	86.3	85.9	86.7	84.6	83.6
EBITDA	**10,890**	**9,778**	**9,971**	**11,676**	**15,601**	**18,113**	**21,548**
Margin (%)	16.5	15.3	13.7	14.1	13.3	15.4	16.4
Depreciation	3,105	3,780	4,343	4,741	5,240	6,105	6,489
EBIT	**7,785**	**5,998**	**5,628**	**6,934**	**10,361**	**12,008**	**15,059**
Int. and Finance Charges	1,683	2,110	2,754	3,399	3,610	3,372	2,785
Other Income	9	80	175	49	140	140	156
PBT bef. EO Exp.	**6,111**	**3,968**	**3,049**	**3,584**	**6,891**	**8,776**	**12,430**
EO Items	0	0	24	65	20	0	0
PBT after EO Exp.	**6,111**	**3,968**	**3,073**	**3,649**	**6,911**	**8,776**	**12,430**
Total Tax	659	-200	-236	-543	1,037	1,667	2,362
Tax Rate (%)	10.8	-5.0	-7.7	-14.9	15.0	19.0	19.0
Share of (Profit)/Loss of associates	0	0	0	0	0	50	160
Minority Interest	0	0	0	0	0	0	0
Reported PAT	**5,452**	**4,168**	**3,309**	**4,192**	**5,874**	**7,159**	**10,229**
Adjusted PAT	**5,452**	**4,168**	**3,284**	**4,118**	**5,857**	**7,159**	**10,229**
Change (%)	-54.0	-23.6	-21.2	25.4	42.2	22.2	42.9
Margin (%)	8.2	6.5	4.5	5.0	5.0	6.1	7.8

Consolidated - Balance Sheet

(INRm)

Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Equity Share Capital	1,813	1,813	1,813	1,813	1,813	1,813	1,813
Total Reserves	47,388	51,090	54,239	57,739	62,706	69,865	80,094
Net Worth	**49,201**	**52,903**	**56,051**	**59,552**	**64,519**	**71,678**	**81,907**
Minority Interest	7	7	1	1	1	1	1
Total Loans	28,740	31,840	37,896	49,210	49,210	42,710	33,210
Deferred Tax Liabilities	0	0	0	0	0	0	0
Capital Employed	**77,948**	**84,750**	**93,948**	**1,08,763**	**1,13,730**	**1,14,389**	**1,15,118**
Gross Block	70,667	82,101	94,251	99,216	1,19,512	1,29,671	1,35,203
Less: Accum. Deprn.	22,361	26,141	30,484	35,225	40,465	46,570	53,059
Net Fixed Assets	**48,307**	**55,960**	**63,768**	**63,991**	**79,047**	**83,101**	**82,144**
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	10,962	12,290	14,542	21,870	9,574	4,415	2,883
Total Investments	**172**	**230**	**476**	**1,323**	**1,323**	**2,823**	**2,823**
Curr. Assets, Loans&Adv.	**26,369**	**27,670**	**32,349**	**45,818**	**55,971**	**56,819**	**63,746**
Inventory	10,311	11,600	14,540	17,322	24,802	24,103	26,919
Account Receivables	9,405	8,260	7,861	14,029	19,648	19,604	21,894
Cash and Bank Balance	2,007	1,300	2,950	6,085	1,881	2,025	2,183
Loans and Advances	4,646	6,510	6,998	8,383	9,640	11,086	12,749
Curr. Liability & Prov.	**7,861**	**11,400**	**17,188**	**24,240**	**32,185**	**32,769**	**36,478**
Account Payables	4,049	5,210	12,375	18,406	25,768	25,710	28,714
Other Current Liabilities	3,513	5,790	4,502	5,545	6,099	6,709	7,380
Provisions	299	400	311	289	317	349	384
Net Current Assets	**18,508**	**16,270**	**15,161**	**21,579**	**23,786**	**24,050**	**27,268**
Appl. of Funds	**77,948**	**84,750**	**93,948**	**1,08,763**	**1,13,730**	**1,14,389**	**1,15,118**

Financials and valuations

Ratios

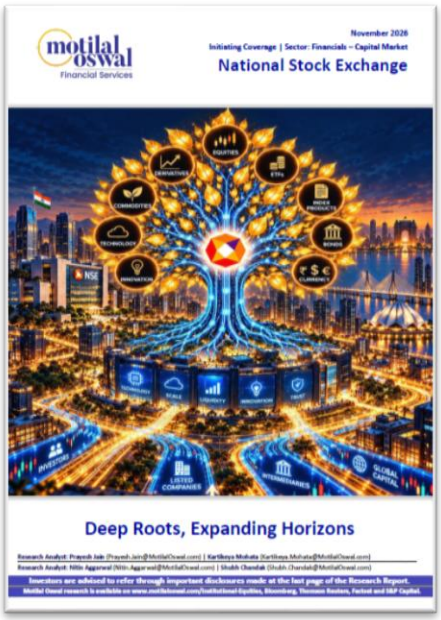
Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Basic (INR)							
EPS	**15.0**	**11.5**	**9.1**	**11.4**	**16.2**	**19.7**	**28.2**
Cash EPS	23.6	21.9	21.0	24.4	30.6	36.6	46.1
BV/Share	135.7	145.9	154.6	164.2	177.9	197.7	225.9
DPS	3.5	1.0	1.0	1.0	2.5	0.0	0.0
Payout (%)	23.3	8.7	11.0	8.7	15.4	0.0	0.0
Valuation (x)							
P/E	30.6	40.0	50.8	40.5	28.5	23.3	16.3
Cash P/E	19.5	21.0	21.9	18.8	15.0	12.6	10.0
P/BV	3.4	3.2	3.0	2.8	2.6	2.3	2.0
EV/Sales	2.9	3.1	2.8	2.5	1.8	1.8	1.5
EV/EBITDA	17.8	20.2	20.2	18.0	13.7	11.5	9.2
Dividend Yield (%)	0.8	0.2	0.2	0.2	0.5	0.0	0.0
FCF per share	-0.2	-2.7	-3.8	-9.4	0.5	31.4	33.9
Return Ratios (%)							
RoE	11.6	8.2	6.0	7.1	9.4	10.5	13.3
RoCE	9.3	7.8	7.0	7.9	8.0	8.6	10.7
RoIC	11.6	9.3	8.3	10.2	9.8	9.4	11.5
Working Capital Ratios							
Fixed Asset Turnover (x)	0.9	0.8	0.8	0.8	1.0	0.9	1.0
Asset Turnover (x)	0.8	0.8	0.8	0.8	1.0	1.0	1.1
Inventory (Days)	57	66	73	76	77	75	75
Debtor (Days)	52	47	39	62	61	61	61
Creditor (Days)	22	30	62	81	80	80	80
Leverage Ratio (x)							
Current Ratio	3.4	2.4	1.9	1.9	1.7	1.7	1.7
Interest Cover Ratio	4.6	2.8	2.0	2.0	2.9	3.6	5.4
Net Debt/Equity	0.5	0.6	0.6	0.7	0.7	0.5	0.3

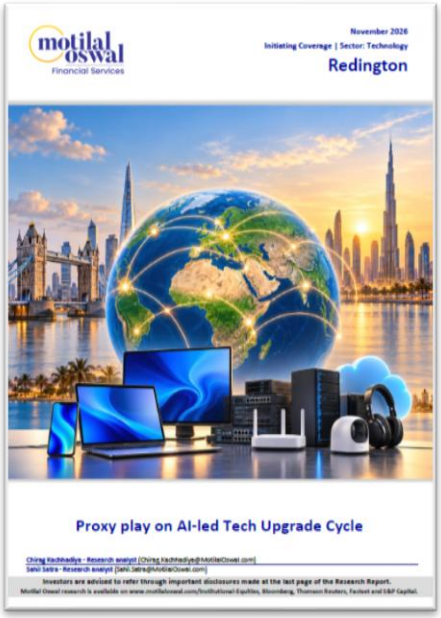
Consolidated - Cash Flow Statement (INRm)

Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
OP/(Loss) before Tax	6,111	3,954	3,049	3,584	6,891	8,826	12,590
Depreciation	3,105	3,781	4,343	4,741	5,240	6,105	6,489
Interest & Finance Charges	1,683	2,044	2,605	3,361	3,470	3,232	2,629
Direct Taxes Paid	-909	-857	69	29	-1,037	-1,667	-2,362
(Inc)/Dec in WC	3,207	3,225	2,075	-4,089	-6,412	-120	-3,060
CF from Operations	**13,196**	**12,148**	**12,139**	**7,626**	**8,153**	**16,376**	**16,287**
Others	-9	-52	237	182	20	0	0
CF from Operating incl EO	**13,187**	**12,096**	**12,376**	**7,808**	**8,173**	**16,376**	**16,287**
(Inc)/Dec in FA	-13,263	-13,061	-13,748	-11,212	-8,000	-5,000	-4,000
Free Cash Flow	**-76**	**-965**	**-1,372**	**-3,404**	**173**	**11,376**	**12,287**
(Pur)/Sale of Investments	-35	-156	-27	-203	0	-1,500	0
Others	1	-475	-158	-6	140	140	156
CF from Investments	**-13,298**	**-13,692**	**-13,934**	**-11,421**	**-7,860**	**-6,360**	**-3,844**
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	3,061	6,955	2,485	10,088	0	-6,500	-9,500
Interest Paid	-1,683	-2,115	-2,754	-2,173	-3,610	-3,372	-2,785
Dividend Paid	-906	-544	-363	-363	-907	0	0
Others	-89	-92	-100	-107	0	0	0
CF from Fin. Activity	**382**	**4,205**	**-732**	**7,446**	**-4,517**	**-9,872**	**-12,285**
Inc/Dec of Cash	**272**	**2,608**	**-2,289**	**3,833**	**-4,204**	**144**	**158**
Opening Balance	1,736	1,675	4,283	1,994	6,085	1,881	2,025
Adjustments	0	-2,983	956	257	0	0	0
Closing Balance	**2,007**	**1,300**	**2,950**	**6,085**	**1,881**	**2,025**	**2,183**

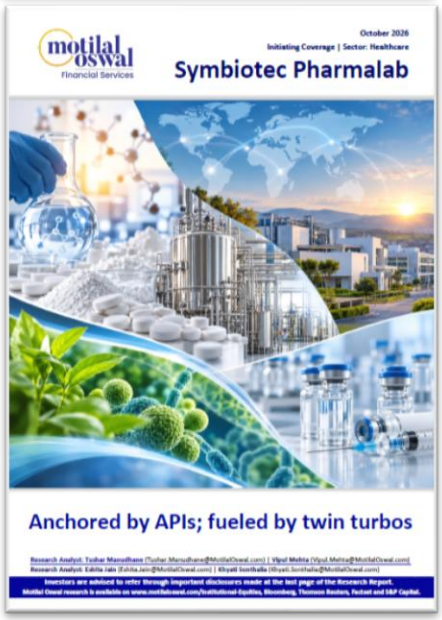
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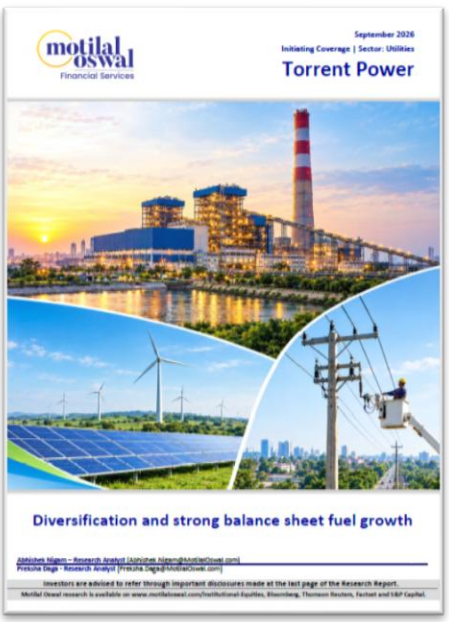


















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NEUTRAL	< - 10 % to 15%
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