

December 23, 2025

Company Update

■ Change in Estimates | ■ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY27E	FY28E	FY27E	FY28E
Rating	ACCUMULATE		HOLD	
Target Price	403		403	
Sales (Rs. m)	91,858	1,01,688	91,858	1,01,688
% Chng.	-	-	-	-
EBITDA (Rs. m)	13,976	15,579	13,976	15,579
% Chng.	-	-	-	-
EPS (Rs.)	15.0	18.6	15.0	18.6
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY25	FY26E	FY27E	FY28E
Sales (Rs. m)	72,710	80,449	91,858	1,01,688
EBITDA (Rs. m)	10,010	11,057	13,976	15,579
Margin (%)	13.8	13.7	15.2	15.3
PAT (Rs. m)	3,290	3,265	5,428	6,743
EPS (Rs.)	9.1	9.0	15.0	18.6
Gr. (%)	(20.9)	(0.9)	66.2	24.2
DPS (Rs.)	0.5	0.5	0.7	0.9
Yield (%)	0.1	0.1	0.2	0.2
RoE (%)	6.0	5.7	8.8	10.0
RoCE (%)	6.2	6.2	8.0	8.9
EV/Sales (x)	2.3	2.2	1.9	1.7
EV/EBITDA (x)	17.1	16.1	12.6	11.1
PE (x)	41.3	41.6	25.0	20.2
P/BV (x)	2.4	2.3	2.1	1.9

Key Data ARTI.BO | ARTO IN

52-W High / Low	Rs.495 / Rs.344
Sensex / Nifty	85,567 / 26,172
Market Cap	Rs.136bn / \$ 1,516m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.391.93m

Shareholding Pattern (%)

Promoter's	42.19
Foreign	6.21
Domestic Institution	18.21
Public & Others	33.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	(15.0)	(7.2)
Relative	(2.9)	(18.2)	(15.3)

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Strategic partnerships to fuel growth in long term

Quick Pointers:

- Focus on strategic collaborations to drive the next leg of growth
- All Zone IV products have been completed at pilot scale

We upgrade Aarti Industries (ARTO) to 'Accumulate' rating due to sharp correction in the stock price. ARTO is undergoing a structural transition from a contract manufacturer of market established molecules to a partnership-driven, innovation-led platform, with strategic collaborations at the core of its growth strategy across agrochemicals, polymers, energy and advanced materials. The company aims to scale its quarterly EBITDA from ~Rs2.8bn to ~Rs4.5bn driven by Zone IV assets, rapid scale-up of capabilities, and deep R&D strength, cost savings initiatives and operating leverages, while consciously moderating balance-sheet risk through co-development, co-investment, and long-term customer partnerships. The shift also reflects a move away from China-exposed commoditized chains toward differentiated chemistries, application-led solutions, and multi-year earnings visibility. ARTO's transition toward becoming a long-term strategic manufacturing partner can emerge as a key structural strength over the long term. However, in the near term, the company is facing dumping pressure from Chinese players across its existing value chains like PDA, NCB and NT, which could result in margin pressure. We expect revenue/EBITDA/PAT to clock 12%/16%/27% CAGR over FY25–28E. We upgrade the stock to 'Accumulate' rating from 'HOLD' with TP of Rs403, valuing it at 24x Sep'27E EPS.

- **Strategic partnerships to fuel growth going ahead:** ARTO is prioritizing strategic partnerships, focusing on its top customers across agchem, polymers/adv materials and energy, fundamentally reshaping its business model. ARTO's focus is to jointly develop new technologies with customers, improving entry barriers, capital efficiency, and demand visibility. The customer conversations are increasingly chemistry-agnostic related to niche and advanced applications / end uses, rather than focusing on existing value chains.
- **Zone IV to fuel earnings growth till FY28:** Zone IV was initially planned to focus on chlorotoluene and downstreams, but the focus has now shifted to more downstream products in chlorotoluene along with a Multi purpose plant capable to adding newer products/chemistries to AIL's portfolio. All Zone IV chemistries have been completed at pilot scale, with customer approvals expected to come alongside the commercialisation of key facilities; commercial-scale validation will be much faster. Multiple assets, including calcium chloride, PEDAs and MPP, are expected to be commissioned over the next 3-4 months while the chlorotoluene and downstream blocks to commercialise in next couple of quarters, with Zone IV EBITDA contribution guided at ~Rs2.5bn by FY28. ARTO's ability to scale from pilot to commercial production within 9-12 months using existing assets will materially enhance the time to market and return metrics going ahead.

- **R&D depth enabling differentiation and accelerating product development:** ARTO's R&D ecosystem anchored by the Mahape R&D center with ~200 scientists and 16 granted patents, underpins its transition toward advanced chemistries such as vapor-phase processes, photochemistry, polymerization, nitration, hydrogenation and circularity linked solutions. The company is focusing on its strengths across 10–15 core chemistries, with a proven track record of rapid commercialization (PEDA scaled in 9–12 months). Engagement with global R&D heads of marquee customers and collaboration with early stage innovators positions ARTO well for emerging areas such as electronic chemicals, battery chemicals, sustainability solutions, and MOFs.
- **Portfolio optimization amid China pressure:** Despite near-term pressure persisting in NCB, NT and PDA chains due to aggressive Chinese pricing, however Aarti has structural competitiveness across most of the portfolio, aided by feedstock advantages in select downstream products. The company is consciously deprioritizing high China exposure commoditized expansions, selectively pursuing MMA within the existing value chain, and adopting a wait-and-watch approach for high-capex projects, until balance-sheet strength and market conditions improve.

Financials

Income Statement (Rs m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Net Revenues	72,710	80,449	91,858	1,01,688
YoY gr. (%)	14.1	10.6	14.2	10.7
Cost of Goods Sold	46,550	52,980	59,235	65,466
Gross Profit	26,160	27,469	32,623	36,222
Margin (%)	36.0	34.1	35.5	35.6
Employee Cost	4,220	4,344	4,868	5,389
Other Expenses	11,930	12,067	13,779	15,253
EBITDA	10,010	11,057	13,976	15,579
YoY gr. (%)	2.6	10.5	26.4	11.5
Margin (%)	13.8	13.7	15.2	15.3
Depreciation and Amortization	4,340	4,993	5,648	6,019
EBIT	5,670	6,065	8,328	9,560
Margin (%)	7.8	7.5	9.1	9.4
Net Interest	2,750	2,833	2,929	2,819
Other Income	140	100	140	140
Profit Before Tax	3,040	3,331	5,538	6,880
Margin (%)	4.2	4.1	6.0	6.8
Total Tax	(230)	67	111	138
Effective tax rate (%)	(7.6)	2.0	2.0	2.0
Profit after tax	3,270	3,265	5,428	6,743
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,290	3,265	5,428	6,743
YoY gr. (%)	(20.9)	(0.8)	66.2	24.2
Margin (%)	4.5	4.1	5.9	6.6
Extra Ord. Income / (Exp)	(20)	-	-	-
Reported PAT	3,270	3,265	5,428	6,743
YoY gr. (%)	(21.4)	(0.2)	66.2	24.2
Margin (%)	4.5	4.1	5.9	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,270	3,265	5,428	6,743
Equity Shares O/s (m)	362	363	363	363
EPS (Rs)	9.1	9.0	15.0	18.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Non-Current Assets				
Gross Block	85,614	1,03,074	1,10,074	1,17,074
Tangibles	85,595	1,03,055	1,10,055	1,17,055
Intangibles	19	19	19	19
Acc: Dep / Amortization	22,364	27,357	33,006	39,025
Tangibles	22,284	27,277	32,926	38,945
Intangibles	80	80	80	80
Net fixed assets	63,760	76,227	77,579	78,559
Tangibles	63,821	76,288	77,639	78,620
Intangibles	(61)	(61)	(61)	(61)
Capital Work In Progress	14,540	6,800	6,800	6,800
Goodwill	-	-	-	-
Non-Current Investments	480	480	480	480
Net Deferred tax assets	2,180	2,180	2,180	2,180
Other Non-Current Assets	1,220	1,220	1,220	1,220
Current Assets				
Investments	-	-	-	-
Inventories	14,540	13,224	15,100	16,716
Trade receivables	7,860	9,918	11,325	12,537
Cash & Bank Balance	2,950	1,064	175	2,937
Other Current Assets	3,530	5,315	6,069	6,719
Total Assets	1,11,120	1,16,530	1,21,043	1,28,275
Equity				
Equity Share Capital	1,810	1,813	1,813	1,813
Other Equity	54,240	57,342	62,498	68,904
Total Networth	56,050	59,154	64,310	70,716
Non-Current Liabilities				
Long Term borrowings	18,670	23,000	21,000	20,000
Provisions	150	150	150	150
Other non current liabilities	1,590	1,590	1,590	1,590
Current Liabilities				
ST Debt / Current of LT Debt	19,220	20,057	19,630	19,920
Trade payables	12,370	8,816	10,067	11,144
Other current liabilities	3,070	3,762	4,296	4,756
Total Equity & Liabilities	1,11,120	1,16,530	1,21,043	1,28,275

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
PBT	3,050	3,331	5,538	6,880
Add. Depreciation	4,340	4,993	5,648	6,019
Add. Interest	2,750	2,833	2,929	2,819
Less Financial Other Income	140	100	140	140
Add. Other	(90)	(100)	(140)	(140)
Op. profit before WC changes	10,050	11,057	13,976	15,579
Net Changes-WC	2,310	(5,611)	(2,315)	(1,994)
Direct tax	70	274	(62)	(96)
Net cash from Op. activities	12,430	5,720	11,599	13,489
Capital expenditures	(13,790)	(10,000)	(7,000)	(7,000)
Interest / Dividend Income	150	100	140	140
Others	(340)	-	-	-
Net Cash from Invst. activities	(13,980)	(9,900)	(6,860)	(6,860)
Issue of share cap. / premium	(100)	3	-	-
Debt changes	2,490	5,167	(2,427)	(710)
Dividend paid	(360)	(163)	(271)	(337)
Interest paid	(2,750)	(2,833)	(2,929)	(2,819)
Others	(20)	1,080	-	-
Net cash from Fin. activities	(740)	3,253	(5,628)	(3,867)
Net change in cash	(2,290)	(926)	(889)	2,762
Free Cash Flow	(1,430)	(4,280)	4,599	6,489

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY25	FY26E	FY27E	FY28E
Per Share(Rs)				
EPS	9.1	9.0	15.0	18.6
CEPS	21.1	22.8	30.6	35.2
BVPS	154.8	163.2	177.4	195.1
FCF	(4.0)	(11.8)	12.7	17.9
DPS	0.5	0.5	0.7	0.9
Return Ratio(%)				
RoCE	6.2	6.2	8.0	8.9
ROIC	7.0	6.2	7.9	8.8
RoE	6.0	5.7	8.8	10.0
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.6	0.5
Net Working Capital (Days)	50	65	65	65
Valuation(x)				
PER	41.3	41.6	25.0	20.2
P/B	2.4	2.3	2.1	1.9
P/CEPS	17.8	16.5	12.3	10.7
EV/EBITDA	17.1	16.1	12.6	11.1
EV/Sales	2.3	2.2	1.9	1.7
Dividend Yield (%)	0.1	0.1	0.2	0.2

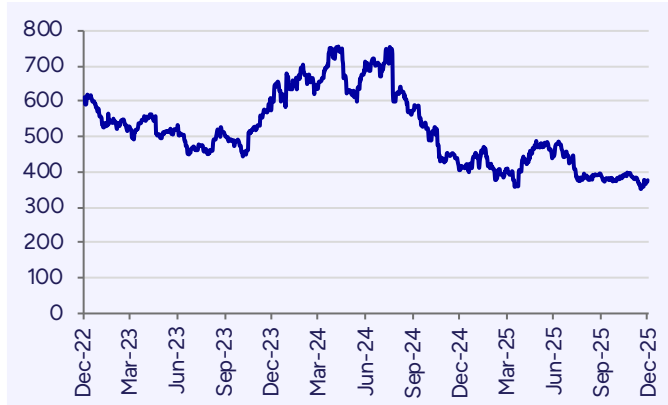
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Net Revenue	18,430	19,490	16,750	21,000
YoY gr. (%)	6.4	9.9	(9.7)	29.0
Raw Material Expenses	12,290	12,510	11,220	13,750
Gross Profit	6,140	6,980	5,530	7,250
Margin (%)	33.3	35.8	33.0	34.5
EBITDA	2,360	2,690	2,110	3,060
YoY gr. (%)	(9.2)	(4.9)	(31.0)	56.1
Margin (%)	12.8	13.8	12.6	14.6
Depreciation / Depletion	1,110	1,130	1,140	1,200
EBIT	1,250	1,560	970	1,860
Margin (%)	6.8	8.0	5.8	8.9
Net Interest	850	640	600	1,000
Other Income	10	30	40	-
Profit before Tax	410	950	410	1,080
Margin (%)	2.2	4.9	2.4	5.1
Total Tax	(60)	(70)	(20)	(130)
Effective tax rate (%)	(14.6)	(7.4)	(4.9)	(12.0)
Profit after Tax	470	1,020	430	1,210
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	470	1,020	430	1,210
YoY gr. (%)	(62.1)	(22.7)	(68.8)	137.3
Margin (%)	2.6	5.2	2.6	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	470	1,020	430	1,210
YoY gr. (%)	(62.1)	(22.7)	(68.8)	137.3
Margin (%)	2.6	5.2	2.6	5.8
Other Comprehensive Income	(80)	240	40	(120)
Total Comprehensive Income	390	1,260	470	1,090
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	1.3	2.8	1.2	3.3

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Nov-25	Hold	403	392
2	07-Oct-25	Hold	395	377
3	01-Aug-25	Hold	420	407
4	07-Jul-25	Reduce	420	477
5	02-Jul-25	Reduce	420	484
6	09-May-25	Reduce	394	449
7	08-Apr-25	Reduce	330	356
8	04-Feb-25	Reduce	411	453
9	08-Jan-25	Reduce	381	405

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	403	392
2	Bharat Petroleum Corporation	Hold	361	357
3	Bharti Airtel	Accumulate	2,259	2,113
4	Clean Science and Technology	Hold	1,002	981
5	Deepak Nitrite	Hold	1,768	1,741
6	Fine Organic Industries	BUY	5,386	4,346
7	GAIL (India)	BUY	211	180
8	Gujarat Fluorochemicals	Hold	3,637	3,480
9	Gujarat Gas	Hold	415	408
10	Gujarat State Petronet	Hold	311	301
11	Hindustan Petroleum Corporation	Hold	476	476
12	Indian Oil Corporation	Accumulate	166	155
13	Indraprastha Gas	Reduce	201	213
14	Jubilant Ingrevia	Hold	695	677
15	Laxmi Organic Industries	Reduce	192	198
16	Mahanagar Gas	BUY	1,531	1,271
17	Mangalore Refinery & Petrochemicals	Accumulate	159	142
18	Navin Fluorine International	Accumulate	6,441	6,025
19	NOCIL	Hold	185	181
20	Oil & Natural Gas Corporation	BUY	292	249
21	Oil India	BUY	532	436
22	Petronet LNG	Hold	290	275
23	Reliance Industries	BUY	1,668	1,417
24	SRF	Hold	3,123	3,028
25	Vinati Organics	BUY	1,915	1,662

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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