

Higher Volumes Support Revenue & EBITDA Growth; Maintain BUY
Est. Vs. Actual for Q3FY25: Revenue: BEAT; EBITDA: INLINE; PAT: MISS
Changes in Estimates post Q3FY25
FY25E/FY26E/FY27E: Revenue: 4%/2%/2%; EBITDA: -4%/-6%/-4%; PAT: -9%/-1%/-0.1%
Recommendation Rationale

- Volume growing despite pricing pressures:** While pricing headwinds impacted margins, AIL posted sequential revenue and EBITDA growth during the quarter. The company attributes this performance to its focus on execution and risk mitigation, which led to higher volumes, cost efficiencies, product diversification, and geographic expansion into the US, Europe, and Japan markets. Volumes in the non-energy business grew by 14% YoY and 8% QoQ, while the energy business recorded 10% QoQ growth. The management noted that growth in the energy business could have been higher, but a large-volume bulk shipment was delayed from late December to early January.
- Diversification in Energy business to counter demand variations:** During the quarter, the energy (MMA) business accounted for 36% of overall sales, while volumes experienced a 14% YoY decline. While the significant drop in gasoline-to-naphtha cracks during Q3 impacted the economics of octane boosting, the company expects it to improve in Q4 based on the price trends. Within the Energy business, MMA is a key product and AIL is looking to diversify solution offerings and expand its customer base to negate seasonal fluctuations.
- Rupee Depreciation Impacted PAT:** The company's PAT during the quarter was impacted by higher finance costs due to mark-to-market losses on its long-term ECB loan arising from rupee depreciation. However, AIL expects to benefit from currency depreciation going forward, as a significant portion of its business comes from exports.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The management has maintained its FY25 EBITDA guidance of Rs 1,000-1,050 Cr and is observing the normalization of inventory levels for agrochemicals across most end markets. The company is focusing on developing new products, particularly within the ethylation value chain, where it recently expanded capacity to diversify its product base and augment utilisation levels. Additionally, AIL is pursuing backward integration into select downstream products to enhance margins. While it reduced its FY25 capex budget last quarter, the company plans to continue expansion in a disciplined manner, targeting Rs 1,800-2,200 Cr EBITDA over the next three years.

Current Valuation: 25x FY27E (Unchanged)

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

Recommendation: We maintain our BUY rating on the stock with a revised target price of 525/share, implying a 16% upside from the CMP.

Financial Performance: Revenue came in at Rs 1,840 Cr, up 6% YoY and 13% QoQ, beating estimates by 5%. EBITDA stood at Rs 232 Cr, up 18% QoQ, driven by volume growth, operating leverage, and product mix improvements, which is in line with estimates. EBITDA margin stood at 12.6%, compared to 15% in Q3FY24 and 12% in Q2FY25. The company's PAT was Rs 46 Cr, down 63% YoY and 12% QoQ, missing estimates by 39%, primarily impacted by a mark-to-market loss of Rs 23 Cr on its long-term ECB loan due to rupee depreciation.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	YoY %	QoQ%	Axis Est.	Var %
Net Sales	1,840	6%	13%	1,755	5%
EBITDA	232	-11%	18%	237	-2%
EBITDA Margin	12.6%	-240bps	57bps	13.5%	-89bps
Net Profit	48	-61%	-4%	78	-38%
EPS (Rs)	1.3	-63%	-12%	2.1	-39%

Source: Company, Axis Securities Research

 (CMP as of 3rd February 2025)

CMP (Rs)	454
Upside /Downside (%)	16%
High/Low (Rs)	770/390
Market cap (Cr)	16,468
Avg. daily vol. (1m) Shrs.	34,23,379
No. of shares (Cr)	36.2

Shareholding (%)

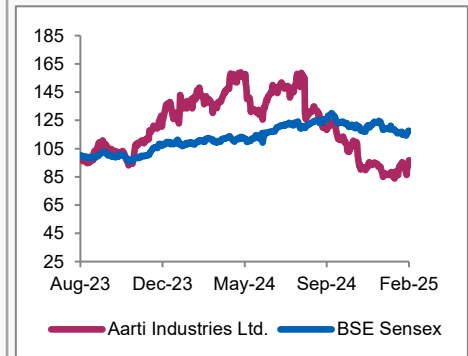
	Jun-24	Sep-24	Dec-24
Promoter	43.24	42.61	42.35
FIs	10.61	9.68	7.25
DIs	18.55	18.11	17.93
Other	27.61	29.59	32.47

Financial & Valuations

Y/E Mar	FY24	FY25E	FY26E
Net Sales	6,372	7,264	8,572
EBITDA	977	981	1,286
Net Profit	416	295	537
EPS (Rs)	11.5	8.1	14.8
PER (x)	39.5	55.7	30.6
P/BV (x)	3.1	2.9	2.7
EV/EBITDA (x)	20.1	20.9	15.5
ROE (%)	8%	5%	9%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	4%	2%	2%
EBITDA	-4%	-6%	-4%
PAT	-9%	-1%	-0.1%

Relative Performance


Source: Ace Equity, Axis Securities Research

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Outlook

Aarti plans to invest prudently in developing its product pipeline, notably the Nitro-Chloro Toluene (NCT). With an anticipated recovery in market conditions, AIL's capacity expansion and entry into new chemistries may position it well to recoup growth and achieve better margins. The company is also looking to diversify its energy business, which will be crucial for the stability of the business going forward.

Valuation

We have marginally revised our near-term estimates considering current market conditions and the outlook on the company's key offerings, as we expect continued pricing pressures, adverse macros, overcapacity by China, and demand-related challenges in the near term. **We continue to value the stock at 25x FY27E, which translates to a TP of Rs 525/share, implying a 16% upside from the CMP.**

Key Concall Highlights

Financial Performance

Revenue grew by 6% YoY, led by robust volume growth during the quarter. However, pricing pressure across various products resulted in lower gross profits. EBITDA growth was driven by volume uptick, operating leverage, and product mix improvements. Finance costs and PAT were impacted by a mark-to-market loss of Rs 23 Cr on the long-term ECB loan due to rupee depreciation. Exports witnessed sequential growth, while domestic volumes largely remained steady across most end-use applications.

End-Use Segment Revenue Break-up (Q3FY25):

- Energy: 34%
- Agrochemicals: 16%
- Dyes & Pigments: 13%
- Pharma: 12%
- Polymers and Additives: 17%
- Others: 8%

Volumes

The management said that a volume uptick was witnessed in Dyes, Pigments, and Polymer Additives end-use applications, whereas Agrochemicals continue to remain soft. Non-energy business volumes were up 14% YoY and 8% QoQ, while Energy business volumes were down by 14% YoY and up 10% QoQ. Growth in energy business could have been better but for a large volume bulk shipment spilled over from late December to early January.

Capex

During the quarter, the company spent around Rs 380 Cr on capex (Rs 1,020 Cr in 9MFY25). It plans to spend approximately Rs 1,300-1,500 Cr in FY25. Capex for FY26 is estimated to be slightly lower than the earlier guidance of around Rs 1,000 Cr.

Guidance

Management expects consistent volume growth in the medium term, driven by increased capacity. Additionally, EBITDA growth beyond volume growth is anticipated, driven by operating leverage and cost optimisation initiatives. The management has maintained its EBITDA guidance for FY25 at Rs 1,000-1,050 Cr. The company aims to achieve Rs 1,800-2,200 Cr of EBITDA in 3 years, i.e., by FY28, with a Debt/EBITDA ratio of <2.5x and ROCE of >15%.

Key Developments During the Quarter:

The Nitro-toluene expansion from 30 to 45 KTPA and ethylation capacity expansion from 8 to 10 KTPA to about 25 to 30 KTPA were successfully commissioned, with volume ramp-up expected to continue through Q4FY25. Moreover, various projects in Zone 4, the company's new greenfield site, will be executed in a phased manner, with commissioning expected to occur gradually through FY26.

Two renewable energy power purchase agreements signed with Cleanmax and Prozeal for solar and hybrid power were concluded. Aarti's renewable share in total power purchases is expected to exceed 75% by Q1FY27, leading to significant cost savings starting from Q1FY27.

'Re Sustainability and Recycling Pvt. Limited' and 'Aarti Circularity Limited,' a wholly-owned subsidiary of Aarti Industries Ltd, entered into a joint venture to drive the development of Plastic Materials Recycling Facilities (PMRFs) across India. This partnership is committed to achieving a resource recovery capacity of 500 TPD by 2030.

MMA Business

The company experienced significant volume growth for its primary product, MMA, in Q3, driven by adjustments in pricing strategy that led to an uptick in export volumes QoQ. However, the gasoline-naphtha crack remained weak, making octane-boosting economics challenging in the present market conditions. It is expected to improve in Q4.

Margin Compression

The company expects volume growth across segments and higher utilisation of new capacities. The management indicated that margin pressure is driven by Chinese competition due to domestic overcapacity and volatility in energy applications, which now form a significant part of the portfolio.

Exports

During Q3, export numbers were approximately Rs 1,009 Cr, compared to around Rs 900 Cr in Q2.

Tax

The tax rate for this year is expected to be marginally negative, close to zero.

Key Risks to Our Estimates and TP

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

Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	7,264	8,572	10,115	7,009	8,411	9,925	4%	2%	2%
EBITDA	981	1,286	1,639	1,016	1,363	1,707	-4%	-6%	-4%
PAT	295	537	781	325	542	782	-9%	-1%	-0.1%

Source: Company, Axis Securities Research

Q3FY25 Results Review

Particulars	Q3FY24	Q2FY25	Axis Sec Estm (Rs cr)	Q3FY25	% Change (YoY)	% Change (QoQ)	Variance (%)
Sales	1,732	1,628	1,755	1,840	6%	13%	5%
Expenditure							
COGS	1101	1017	1097	1230	12%	21%	12%
Employee Expenses	103	105	105	105	2%	0%	0%
Other Exp	268	310	316	273	2%	-12%	-14%
Total Expenditure	1472	1432	1518	1608	9%	12%	6%
EBIDTA	260	196	237	232	-11%	18%	-2%
EBITDA Margin (%)	15.01%	12.04%	13.50%	12.61%	-240bps	57bps	-89bps
Depreciation	97	108	105	111	14%	3%	6%
Other Income	8	6	7	4	-50%		
EBIT	171	94	138	125	-27%	33%	-10%
Interest	54	62	58	85	57%	37%	47%
Exceptional Item							
PBT	117	32	82	42	-64%	31%	-49%
Tax	-7	-18	5	-6	-14%	-67%	-224%
PAT	124	50	78	48	-61%	-4%	-38%
EPS (Rs)	3.4	1.4	2.1	1.3	-63%	-12%	-39%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net sales	6,619	6,372	7,264	8,572	10,115
Cost of goods sold	3,842	3,880	4,707	5,246	6,069
Contribution (%)	42.0%	39.1%	35.2%	38.8%	40.0%
Employee Costs	385	404	429	540	637
Other Expenses	1,303	1,112	1,148	1,500	1,770
EBITDA	1,089	976	981	1,286	1,639
EBITDA Growth %	-36.7%	-10.4%	0.4%	31.1%	27.4%
Other income	1	8	20	20	20
Depreciation	310	378	427	430	482
EBIT	780	606	573	876	1,176
Interest & Fin Chg.	168	211	275	247	228
E/o income / (Expense)	0	0	0	0	0
Pre-tax profit	612	395	298	629	948
Tax provision	65	-21	3	91	167
Reported PAT	547	416	295	537	781

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Equity + Liabilities					
Equity Capital	181	181	181	181	181
Reserves & Surplus	4,335	5,109	5,404	5,942	6,723
Total Equity	4,517	5,290	5,585	6,123	6,904
Long Term Borrowings	930	1,525	1,925	2,325	2,175
Lease Liabilities	15	49	49	49	49
Other Non-Current Liabilities	224	175	175	175	175
Total Non-Current Liabilities	1,169	1,749	2,149	2,549	2,399
Short Term Borrowings	1,642	1,669	2,169	2,169	1,969
Trade Payables	347	521	413	474	499
Provisions	32	40	40	40	40
Others	145	346	346	346	346
Total Current Liabilities	2,166	2,576	2,968	3,029	2,854
Total Liabilities	3,335	4,325	5,117	5,578	5,253
Total Equity + Liabilities	7,852	9,615	10,702	11,701	12,156
ASSETS					
Gross Block	5,528	7,453	8,549	8,599	9,099
Less: Depreciation	1,813	1,802	2,039	2,469	2,951
Property, Plant & Equipment	3714.9	5,588	6,510	6,131	6,148
Capital WIP	1,303	1,052	1,052	1,052	1,052
Right to Use Assets	17	53	53	53	53
Other Non-Current Assets	155	101	101	101	101
Total Non-Current Assets	5,289	7,146	8,068	7,689	7,706
Current Assets					
Inventories	934	1,160	1,353	1,526	1,663
Trade Receivables	1,092	826	796	1,057	1,386
Cash	94	42	43	988	961
Other Financial Assets	407	236	236	236	236
Current Tax Assets	55	77	77	77	77
Other Current Assets	37	40	40	40	40
Total Current Assets	2,699	2,469	2,634	4,012	4,450
Total Assets	7,852	9,615	10,702	11,701	12,156

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Profit Before Tax	611	395	298	629	948
Finance Cost	168	211	275	247	228
Depreciation	310	378	427	430	482
(Inc)/Dec in Working Capital	312	306	-272	-372	-440
Tax Paid	(91.0)	(91.0)	(2.8)	(91.4)	(167.3)
Cash Flow from Operations	1,310.0	1,202.0	726.2	842.0	1,051
Change in Gross Block	-1,326	-1,328	-1,350	-50	-500
(Inc)/Dec in Investments	0	0	0	0	0
Cash Flow from Investing	-1,330	-1,310	-1,350	-50	-500
Inc/(Dec) in Loans	(301.0)	301.0	900.0	400.0	(350.0)
Finance Cost	(168.0)	(211.0)	(275.0)	(247.2)	(227.9)
Cash Flow from Financing	47.0	36.0	625.0	152.8	(577.9)
Net Inc/Dec in Cash	27	-72	1	945	-27
Opening Cash	174	201	42	43	988
Closing Cash	201	129	43	988	961

Source: Company, Axis Securities Research

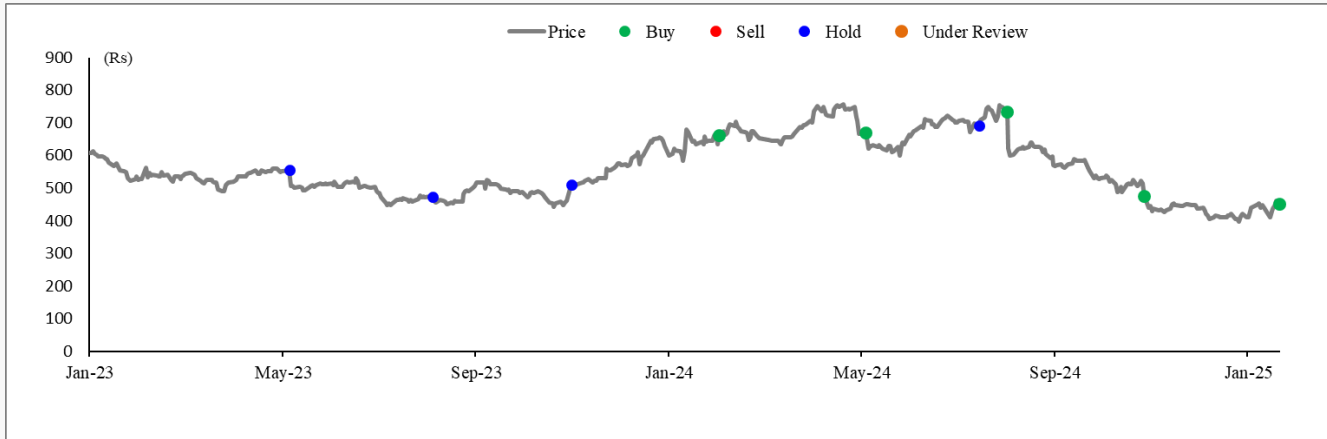
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Sales growth	8.8	(3.7)	14.0	18.0	18.0
OPM	16.5	15.3	13.5	15.0	16.2
Oper. profit growth	(36.7)	(10.3)	0.4	31.1	27.4
COGS / Net sales	58.0	60.9	64.8	61.2	60.0
Overheads/Net sales	5.8	6.3	5.9	6.3	6.3
Depreciation / G. block	5.0	5.3	5.0	5.0	5.3
RoCE	10.0%	7.2%	6%	8%	11%
Debt/equity (x)	0.6	0.6	0.7	0.7	0.6
Effective tax rate	10.8	(5.3)	0.9	14.5	17.6
RoE	11%	7.9%	5%	9%	11%
Payout ratio (Div/NP)	17.7	23.1	32.6	17.9	12.3
EPS (Rs)	15.0	11.5	8.1	14.8	21.5
EPS Growth	(54.0)	(23.6)	(29.1)	81.8	45.4
CEPS (Rs)	23.6	21.9	19.9	26.7	34.9
DPS (Rs)	2.4	2.4	2.4	2.4	2.4
Valuation (x)					
P/E	47	40	56	31	21
P/BV	5.2	3.1	2.9	2.7	2.4
EV/EBITDA	26	20	21	16	12
Mcap/Sales	3.8	2.6	2.3	1.9	1.6

Source: Company, Axis Securities Research

Aarti Industries Price Chart and Recommendation History



Date	Reco	TP	Research
10-May-23	HOLD	550	Result Update
10-Aug-23	HOLD	470	Result Update
07-Nov-23	HOLD	525	Result Update
12-Feb-24	BUY	735	Result Update
14-May-24	BUY	770	Result Update
1-Aug-24	HOLD	788	AAA
13-Aug-24	BUY	815	Result Update
11-Nov-24	BUY	540	Result Update
04-Feb-25	BUY	525	Result Update

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.