

Aarti's Q2 EBITDA at Rs2.9bn (+48% YoY, +38% QoQ) was above our estimate and the street's expectations, owing to a) a ramp-up in MMA (a key product) capacity utilization, with improved gasoline-naphtha cracks and geographical diversification, b) spillover of some MMA shipments from Q1 to Q2, and c) better fixed cost absorption, leading to operating leverage. The results have been resilient amid a challenging macro environment created out of US tariffs leading to first and second order impact across value chains. The management retained its Rs18-22bn EBITDA guidance by FY28, led by cost-optimization and capacity additions in Zone-4. We are building in the lower-end of FY28 EBITDA guidance, to factor in the volatile business environment created by MMA; thus, our estimates are unchanged. We retain BUY, with an unchanged TP of Rs450.

US tariff uncertainty prevailed in Q2; new geographies unlocked

Aarti posted EBITDA of Rs2.9bn (+48% YoY/+38% QoQ) in Q2FY26. The improvement in EBITDA was primarily because of better operating leverage, led by a) higher volumes in MMA and b) spillover of bulk MMA consignments from Q1 to Q2. Non-energy and energy businesses saw volume increases of 17% and 118% YoY, respectively. Agrochemical export volumes recovered in Q2, while margins remained under pressure. Downstream agrochemical customers deferred purchases on evolving US tariffs on India vs China. US tariffs impacted volumes for key end-applications for the dyes and polymers (PDA) business. Aarti is taking active efforts to mitigate the US tariff impact by moving into newer geographies, broadening its product base, and simultaneously maintaining relationships with US customers. The pharma business remains steady. During Q2, Aarti secured its long-term chlorine supply from DCM Shriram for its Zone-IV facility.

Zone-IV plant's commissioning to start from Q3; further MMA debottlenecking

Zone-IV will be commissioned in a staggered manner – a) calcium chloride plant in Q3, along with utility blocks, b) MPP in Q4; here, Aarti will map PEDAs (2-Phenyl Ethyl Diethyl Aniline) with a 4,000mtpa capacity, and c) 5 chloro toluene blocks with dedicated chemistries (photochlorination, hydrolysis, nitration) starting FY27. PEDAs is a downstream of the ethylation value chain and is used in Pretilachlor (ADD levied on China in Jun-25). While calcium chloride and MPP will see immediate ramp-up, specialty products in chloro toluene blocks will entail customer qualifications (we expect a gradual ramp-up). MMA will be further debottlenecked to 300ktpa, from 260ktpa, with a limited capex.

Firm on FY28 guidance; we keep our estimates unchanged

The management re-affirmed its FY28 EBITDA guidance of Rs18-22bn, led by cost-optimization measures (renewable power, yield improvement), ramp-up of existing capacities, and sequential commissioning of MPPs and various blocks at Zone-IV. Aarti spent ~Rs5.9bn on capex in H1 and expects Rs10bn of capex in the year. There will be no substantial capex in FY27-28. The company expects the debt/EBITDA ratio to improve, going forward. We bake in the lower-end of FY28 EBITDA guidance, to factor in volatility in the energy business. Accordingly, we have kept our estimates unchanged.

Target Price – 12M	Sep-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	14.8

Stock Data	ARTO IN
52-week High (Rs)	526
52-week Low (Rs)	344
Shares outstanding (mn)	362.6
Market-cap (Rs bn)	142
Market-cap (USD mn)	1,602
Net-debt, FY26E (Rs mn)	41,029.4
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	247.0
ADTV-3M (USD mn)	2.8
Free float (%)	57.8
Nifty-50	25,492.3
INR/USD	88.7

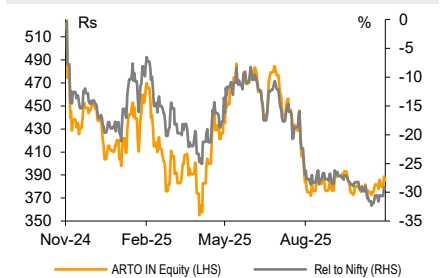
Shareholding, Sep-25

Promoters (%)	42.2
FPIs/MFs (%)	6.4/18.2

Price Performance

(%)	1M	3M	12M
Absolute	3.8	3.5	(23.9)
Rel. to Nifty	2.3	(0.1)	(27.8)

1-Year share price trend (Rs)



Aarti Industries: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	63,720	72,710	84,137	100,454	119,606
EBITDA	9,760	10,010	10,888	15,158	18,427
Adj. PAT	4,160	3,290	3,296	6,022	8,307
Adj. EPS (Rs)	11.5	9.1	9.1	16.6	22.9
EBITDA margin (%)	15.3	13.8	12.9	15.1	15.4
EBITDA growth (%)	(10.4)	2.6	8.8	39.2	21.6
Adj. EPS growth (%)	(23.7)	(20.9)	0.2	82.7	37.9
RoE (%)	8.1	6.0	5.7	9.8	12.2
RoIC (%)	9.5	8.6	7.1	8.9	10.7
P/E (x)	34.1	43.4	43.0	23.6	17.1
EV/EBITDA (x)	17.7	17.2	15.8	11.4	9.4
P/B (x)	2.7	2.5	2.4	2.2	2.0
FCFF yield (%)	(0.4)	(0.8)	(1.8)	3.7	4.7

Source: Company, Emkay Research

Meet Vora

meet.vora@emkayglobal.com
+91-22-66242474

Meet Gada

meet.gada@emkayglobal.com
+91-22-66121235

Exhibit 1: Aarti - Results update

P&L (Rs mn)	Reported					Emkay Estimates		Half-year ended		
	Q2FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)	Q2FY26	vs Est (%)	H1FY26	H1FY25	YoY (%)
Net revenue	16,280	16,750	21,000	29	25	20,350	3	37,750	34,830	8
Raw Material cost	(10,170)	(11,220)	(13,750)	35	23	(13,763)	0	(24,970)	(21,720)	15
Gross Profit	6,110	5,530	7,250	19	31	6,587	10	12,780	13,110	-3
Gross margin (%)	37.5	33.0	34.5	-301 bps	150 bps	32.4	215 bps	33.9	37.6	-379 bps
Employee cost	(1,050)	(1,090)	(1,050)	0	-4	(1,140)	-8	(2,140)	(2,185)	-2
Other overheads	(3,100)	(2,330)	(3,290)	6	41	(3,053)	8	(5,620)	(5,915)	-5
Total expenses	(14,320)	(14,640)	(18,090)	26	24	(17,955)	1	(32,730)	(29,820)	10
EBITDA	1,960	2,110	2,910	48	38	2,395	21	5,020	5,010	0
EBITDA margin (%)	12.0	12.6	13.9	181 bps	126 bps	11.8	208 bps	13.3	14.4	-109 bps
Other income	50	40	-	-100	-100	-	-	40	110	-64
Interest	(620)	(600)	(1,000)	61	67	(678)	48	(1,600)	(1,260)	27
Depreciation	(1,080)	(1,140)	(1,200)	11	5	(1,174)	2	(2,340)	(2,100)	11
Exceptional Items	20	-	220	1,000	-	-	-	220	20	1,000
PBT	330	410	930	182	127	543	71	1,340	1,780	-25
Tax	180	20	130	-28	550	(27)	(578)	150	100	50
Share of Associates Profit	-	-	-	-	-	-	-	-	-	-
Adj PAT	510	430	1,060	108	147	516	105	1,490	1,880	-21
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	510	430	1,060	108	147	516	105	1,490	1,880	-21
EPS (Rs)	1.4	1.2	2.9	108	147	1.4	105	4.1	5.2	-21
Costs as a % of sales										
Raw Material cost	62.5	67.0	65.5	300 bps	-151 bps	67.6	-216 bps	66.1	62.4	378 bps
Employee cost	6.4	6.5	5.0	-145 bps	-151 bps	5.6	-60 bps	5.7	6.3	-61 bps
Other overheads	19.0	13.9	15.7	-338 bps	175 bps	15.0	66 bps	14.9	17.0	-210 bps
Income tax rate (%)	(54.5)	(4.9)	(14.0)	4056 bps	-911 bps	5.0	-1898 bps	(11.2)	(5.6)	-558 bps

Source: Company, Emkay Research

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

Product Groups	Capacity (KT; expanded period)	FY22	FY23	FY24	FY25	YoY	Q2FY25	Q1FY26	Q2FY26	YoY	QoQ	Q2FY26 utilization
NCB	108 (from Q3FY24)	76.6	77.8	73.5	85.3	16%	19.0	21.7	21.5	13%	-1%	80%
DCB	120	74.6	84.2	80.7	88.6	10%	23.3	19.3	22.0	-6%	14%	73%
Hydrogenation	60	35.7	37.2	39.1	44.4	14%	11.2	12.3	11.3	1%	-8%	75%
PDA	12	6.5	4.2	4.4	3.9	-11%	1.0	2.0	1.8	80%	-10%	60%
NT	45 (from Q4FY25)	16	23.9	30.5	29.4	-4%	7.4	8.7	8.4	14%	-3%	75%
Ethylation	25-30 (from Q4FY25)	7.2	11.9	10.5	14.5	38%	3.2	4.6	3.8	19%	-17%	60%
MMA	260 (from Q1FY26)	23.1	37.8	89.3	123.0	38%	20.5	38.4	63.5	210%	65%	98%

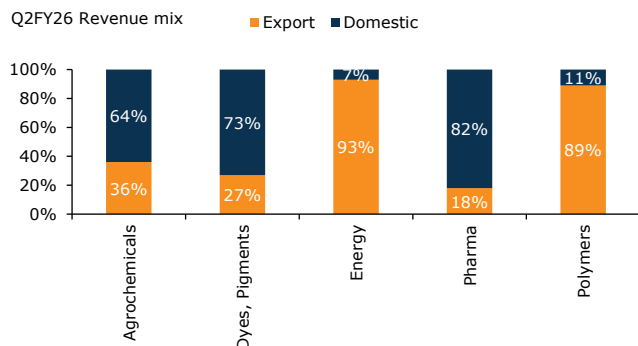
Source: Company, Emkay Research

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

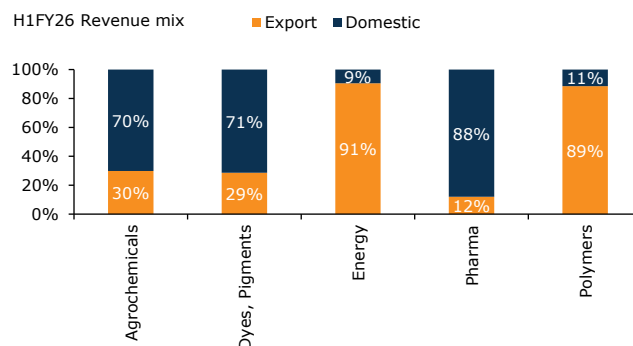
Exhibit 3: Application-wise revenue and highlights

Application-wise revenue and highlights (Rs mn)	Q2FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)	Market updates	Business highlights
Agrochemicals and Fertilizer	3,215	3,361	4,275	33.0	27.2	Volume recovery visible in certain products, though prices remain under pressure. Relative US tariff on India vs China has led to uncertainty for downstream customers.	New capacity ramp-up for ethylation products are facing margin pressure from China. PEDA capacity to come up by Q4FY26. Customer engagements have started for Zone IV products as capacities begin to be commissioned from Q4FY26.
Dyes, Pigments, and Printing Inks	1,786	2,801	2,475	38.6	(11.6)	Muted demand growth in downstream markets, with US tariffs impacting some applications. Pricing pressure continues.	Targeting a higher share in the domestic market, with export markets under pressure. Evaluating downstream integration options for select products.
Energy and Additives	5,715	6,721	9,675	69.3	43.9	Gasoline-naphtha cracks remained strong in Q2; compression expected in Q3 as winter season progresses. US tariffs impacted US volumes and margin; renegotiations are ongoing with customers to sustain volumes.	Increased customer base and geographical reach. Increased competition from Indian and Chinese players. Calcium chloride capacity expansion expected to be commissioned in Q3FY26.
Pharmaceuticals	1,965	2,240	2,250	14.5	0.4	India's domestic pharma market remains steady. Margin pressure from China persists, especially in fluoro products.	Domestic expansion by key strategic customers will support volume growth. Pursuing variable cost optimization projects in fluoro chain product.
Polymer and additives	3,215	2,614	2,700	(16.0)	3.3	Q2 volumes were impacted due to US tariffs. End-customers remain cautious amid macroeconomic uncertainty. India-US trade deal can help in recovering volumes.	Diversifying demand growth for PDCB across various markets, including China. Targeting margin growth via cost optimization and operating leverage.
Others	1,965	934	1,125	(42.7)	20.5		
Total	17,860	18,670	22,500	26.0	20.5		

Source: Company, Emkay Research

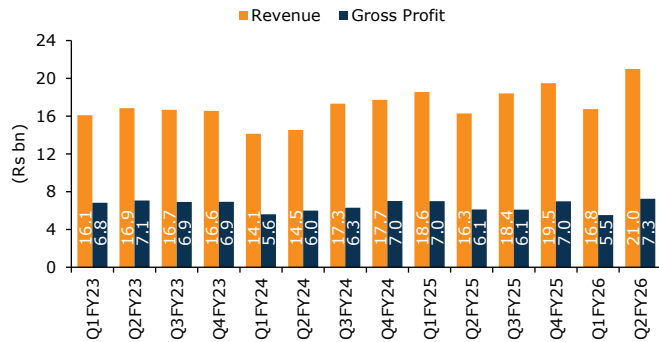
Exhibit 4: Share of exports substantially increased in Q2 due to growth in energy business volumes and agrochemicals

Source: Company, Emkay Research

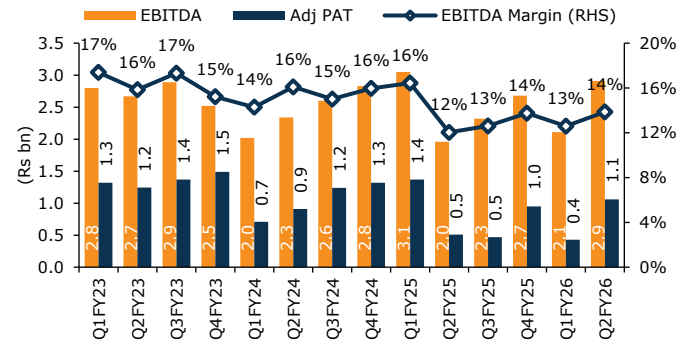
Exhibit 5: Aarti's revenue mix in H1FY26 (42% domestic: 58% exports)

Source: Company, Emkay Research

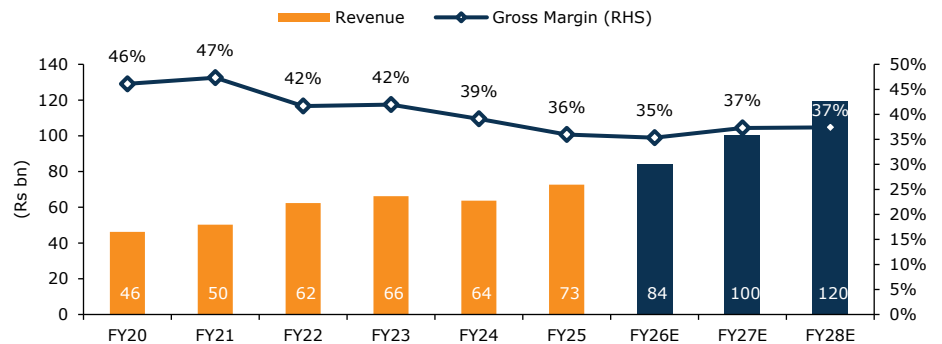
This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

Exhibit 6: Absolute gross profit is the highest in the last 3 years

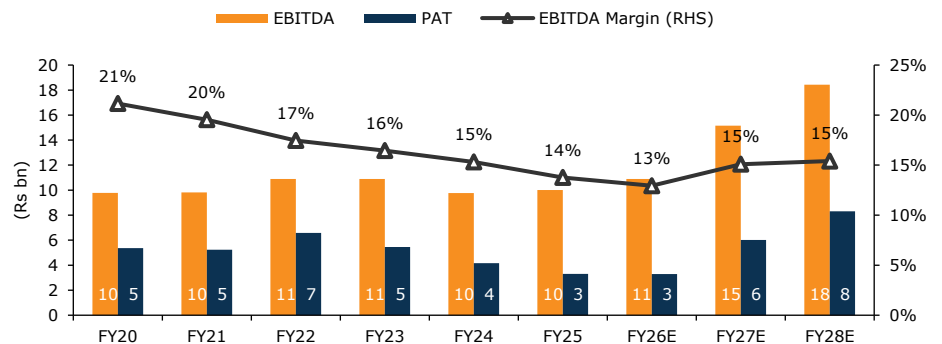
Source: Company, Emkay Research

Exhibit 7: EBITDA declined ~31% YoY

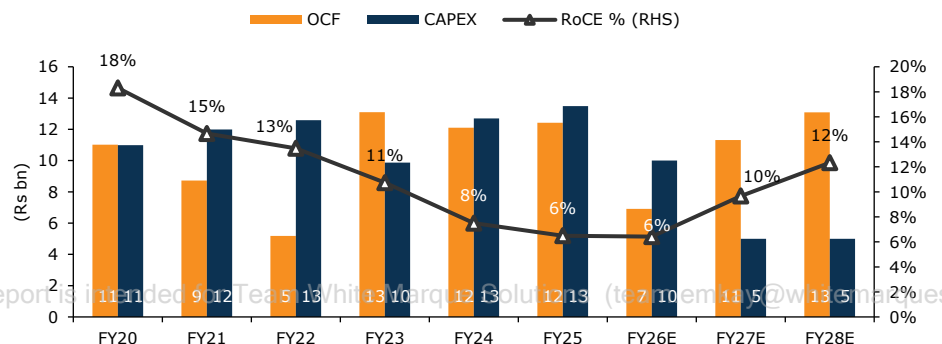
Source: Company, Emkay Research

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

Source: Company, Emkay Research

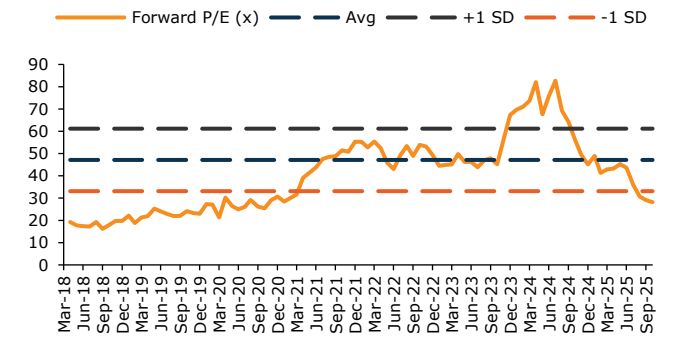
Exhibit 9: Volume growth and cost-optimization to lead to EBITDA growth

Source: Company, Emkay Research

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

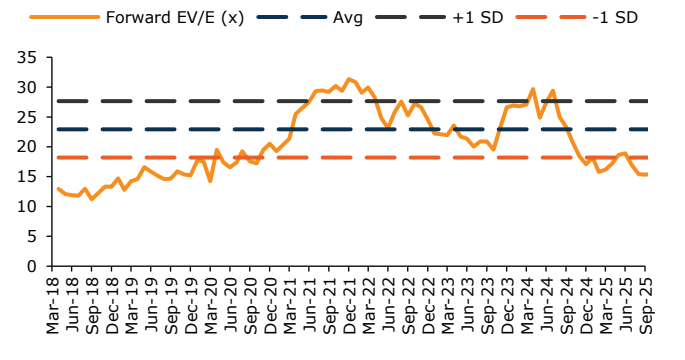
Source: Company, Emkay Research

Exhibit 11: One-year forward P/E



Source: Company, Emkay Research

Exhibit 12: One-year forward EV/EBITDA



Source: Company, Emkay Research

Aarti Industries: Consolidated Financials and Valuations

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

Source: Company, Emkay Research

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

Source: Company, Emkay Research

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

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	34.1	43.4	43.0	23.6	17.1
EV/CE(x)	1.9	1.8	1.7	1.7	1.6
P/B (x)	2.7	2.5	2.4	2.2	2.0
EV/Sales (x)	2.7	2.4	2.0	1.7	1.4
EV/EBITDA (x)	17.7	17.2	15.8	11.4	9.4
EV/EBIT(x)	28.8	30.4	28.0	17.6	13.4
EV/IC (x)	2.5	2.4	1.9	1.8	1.8
FCFF yield (%)	(0.4)	(0.8)	(1.8)	3.7	4.7
FCFE yield (%)	(2.0)	(3.0)	(4.2)	2.4	3.9
Dividend yield (%)	0.4	0.3	0.2	0.4	0.6
DuPont-RoE split					
Net profit margin (%)	6.5	4.5	3.9	6.0	6.9
Total asset turnover (x)	0.8	0.8	0.9	1.0	1.2
Assets/Equity (x)	1.6	1.6	1.7	1.6	1.5
RoE (%)	8.1	6.0	5.7	9.8	12.2
DuPont-RoIC					
NOPLAT margin (%)	9.9	8.4	6.9	8.3	8.6
IC turnover (x)	1.0	1.0	1.0	1.1	1.3
RoIC (%)	9.5	8.6	7.1	8.9	10.7
Operating metrics					
Core NWC days	74.1	50.4	60.0	60.4	60.7
Total NWC days	74.1	50.4	60.0	60.4	60.7
Fixed asset turnover	0.9	0.9	0.9	0.9	1.1
Opex-to-revenue (%)	23.8	22.2	22.4	22.2	22.0

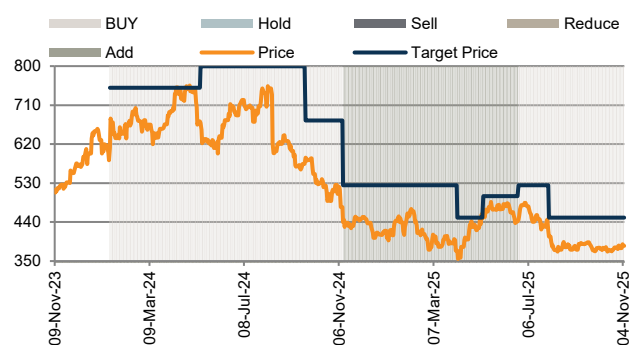
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
20-Sep-25	393	450	Buy	Meet Vora
01-Aug-25	406	450	Buy	Meet Vora
15-Jul-25	452	525	Buy	Meet Vora
23-Jun-25	445	525	Buy	Meet Vora
09-May-25	452	500	Add	Meet Vora
06-Apr-25	374	450	Add	Meet Vora
03-Feb-25	453	525	Add	Meet Vora
11-Nov-24	440	525	Add	Meet Vora
24-Sep-24	589	675	Buy	Meet Vora
27-Aug-24	640	800	Buy	Meet Vora
13-Aug-24	621	800	Buy	Meet Vora
14-Jul-24	706	800	Buy	Meet Vora
07-Jun-24	635	800	Buy	Meet Vora
13-May-24	669	800	Buy	Meet Vora
07-Apr-24	696	750	Buy	Meet Vora
26-Feb-24	672	750	Buy	Meet Vora
09-Feb-24	663	750	Buy	Meet Vora
18-Jan-24	612	750	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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

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

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

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

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

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