

**Sequential improvement in EBITDA to endure**

Specialty Chemicals ▶ Result Update ▶ May 13, 2024

**TARGET PRICE (Rs): 800**

**Aarti's Q4 EBITDA at Rs2.8bn (+9% QoQ; +12% YoY) was in line with our estimates. Management maintained FY25 EBITDA guidance at Rs14.5-17bn and increased volume guidance to 20-30% from 20-25% on better demand visibility. This is the third quarter of sequential improvement in EBITDA, driven by higher volume growth (pricing remains stable) and operating leverage. Aarti is seeing better demand recovery in discretionary spends, whereas agro and pharma are still muted due to weak macros. Management has raised its guidance on capex to Rs15-18bn for FY25 (vs. Rs12-15bn to be spent on several growth projects, including chlorotoluene) and on debt to Rs34-38bn. We tweak our FY25/26 estimates by 1-3%, on higher-interest outlay on incremental debt. We retain BUY on Aarti, and nudge up our TP to Rs800/sh (30x Mar-26E EPS).**

**Aarti Industries: Financial Snapshot (Consolidated)**

| Y/E Mar (Rs mn)     | FY22   | FY23   | FY24   | FY25E  | FY26E   |
|---------------------|--------|--------|--------|--------|---------|
| Revenue             | 62,401 | 66,186 | 63,720 | 88,628 | 107,552 |
| EBITDA              | 10,892 | 10,890 | 9,760  | 15,587 | 19,292  |
| Adj. PAT            | 5,550  | 5,453  | 4,160  | 7,380  | 9,650   |
| Adj. EPS (Rs)       | 18.2   | 15.1   | 11.5   | 20.4   | 26.7    |
| EBITDA margin (%)   | 17.5   | 16.5   | 15.3   | 17.6   | 17.9    |
| EBITDA growth (%)   | 11.0   | 0.0    | (10.4) | 59.7   | 23.8    |
| Adj. EPS growth (%) | 15.8   | (17.1) | (23.7) | 77.4   | 30.8    |
| RoE (%)             | 13.8   | 11.6   | 8.1    | 13.1   | 15.1    |
| RoIC (%)            | 12.2   | 11.6   | 9.4    | 12.3   | 13.4    |
| P/E (x)             | 43.6   | 44.4   | 58.2   | 32.8   | 25.1    |
| EV/EBITDA (x)       | 24.4   | 24.7   | 27.9   | 18.0   | 14.6    |
| P/B (x)             | 5.4    | 4.9    | 4.6    | 4.1    | 3.5     |
| FCFF yield (%)      | 0.8    | (0.1)  | (0.3)  | (1.5)  | 0.6     |

Source: Company, Emkay Research

**Strong revenue visibility from capex progression and long-term contracts**

Aarti has revised its volume guidance upwards, from 20-25% to 20-30% for FY25, on the back of project completion and stabilization, visibility from long-term contracts, and demand recovery in its core portfolio. There will be phased commissioning of nitro toluene (NT) & ethylation expansion, acid phase-2 expansion, MPP, chlorotoluene units starting Q2FY25 to FY26. These projects will add >40 products through the integrated value chain and chlorotoluene base capacity of 42KT, driving increase in volumes. Second long-term contract will start contributing nearly Rs2.5bn in FY25E, coupled with 100% revenue visibility from the fifth long-term contract. As demand recovers, share of non-regular markets will shift in favor of regular markets, which have contracted ~15% over FY23-24. We build in Rs15.5bn/19bn EBITDA for FY25E/26E, respectively.

**Demonstrating cost leadership in a differentiated product portfolio**

Aarti observed better demand recovery in a few applications of discretionary portfolio such as dyes, pigments, polymers, etc with continuous sequential improvement. However, non-discretionary sectors like agro and pharma remained soft, though expectations are for demand to normalize H2FY25 onwards. Aarti's revenue mix in the discretionary and non-discretionary portfolios stood at 65% and 35%, respectively (equally split in FY23). Aarti was able to adequately pass on the increased input prices (incl. freight cost), witnessing optimized cost structure and better operational efficiency.

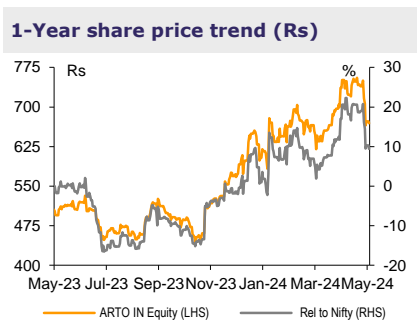
**Return ratios to improve with enhanced growth strategies**

Return ratios tapered ~3% in FY24, on high capex and relatively slow earnings growth (largely bottoming out), but are expected to improve from FY25. Though net debt/EBITDA has peaked in FY24 at 3.1x, we believe it would normalize by FY26E to less than 2x. This shift will be brought by 1) collaborating & building partnerships with global MNCs; 2) adding new value chains and chemistries, e.g. photochlorination, oxidation, etc; 3) focusing on biochemistry & circularity, and new-age sunrise sectors like battery chemicals, electronic chemicals, new aqe materials, high-end polymers, etc.

|                         |            |
|-------------------------|------------|
| Target Price – 12M      | Mar-25     |
| <b>Change in TP (%)</b> | <b>6.6</b> |
| Current Reco.           | BUY        |
| Previous Reco.          | BUY        |
| Upside/(Downside) (%)   | 19.6       |
| CMP (13-May-24) (Rs)    | 669.0      |

| Stock Data                  | Ticker    |
|-----------------------------|-----------|
| 52-week High (Rs)           | 770       |
| 52-week Low (Rs)            | 438       |
| Shares outstanding (mn)     | 362.5     |
| Market-cap (Rs bn)          | 242       |
| Market-cap (USD mn)         | 2,903     |
| Net-debt, FY25E (Rs mn)     | 37,872    |
| ADTV-3M (mn shares)         | 1         |
| ADTV-3M (Rs mn)             | 1,032.3   |
| ADTV-3M (USD mn)            | 12.4      |
| Free float (%)              | -         |
| Nifty-50                    | 22,104    |
| INR/USD                     | 83.5      |
| <b>Shareholding, Mar-24</b> |           |
| Promoters (%)               | 43.4      |
| FPIs/MFs (%)                | 10.9/17.3 |

| Price Performance |        |       |      |
|-------------------|--------|-------|------|
| (%)               | 1M     | 3M    | 12M  |
| Absolute          | (10.9) | 0.9   | 33.1 |
| Rel. to Nifty     | (9.2)  | (0.7) | 10.3 |



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## Other Highlights

### ■ Guidance

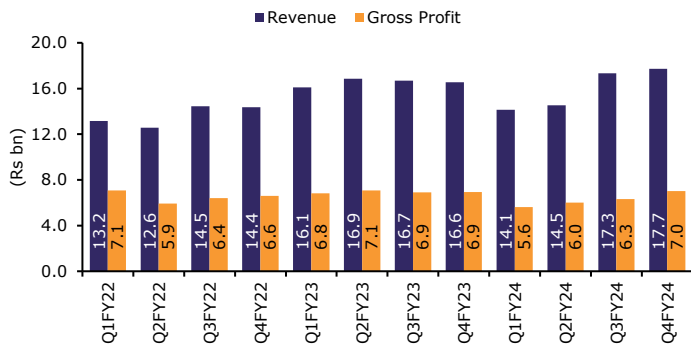
- **EBITDA** – FY25: between Rs14.5bn and Rs17bn.
  - **Tax rate** – Ended negative for FY24, on accrual of deferred tax assets; FY25: tax rate will be in the 12-15% range.
  - **Gross Debt** – Management guided to debt peaking at Rs34bn to Rs38bn in FY25, depending on working capital requirements (based on raw-material prices).
  - **Capex** – Annual capex for FY25 to be in the range of Rs15-18bn and capex for FY26 would be upward of Rs10bn (yet to be decided).
  - **Volume Growth** – 20-30% in FY25, over FY24.
- **Chlorotoluene Chain** – To be commissioned in FY26, with sizable EBITDA contribution in FY27 (EBITDA margin to be higher than that of current value chains, at ~25-30%). Total capex allocated is Rs15bn, with 1-1.2x asset turn. Total import substitution opportunity is Rs15bn. The products here will majorly cater to the agrochemical and pharma industries.
- **Production Volumes in Q4** – Nitro Chloro Benzene (NCB): 17,646MT; Hydrogenation: 10,167MT; Nitro Toluene (NT): 6,675MT; Phenylene Diamines (PDA): 1,569MT.
- **Nitric Acid availability** – Nitric acid pressure partially affected reduction in volumes for NCB in Q4; the same has now stabilized. Management believe there will be no disruption due to new capacities getting commissioned in FY25, and that the supplier is doubling its capacity by FY26. This shall help in ramping up capacities at any point in time.

Exhibit 1: Result update

| P&L (Rs mn)                  | Reported        |                 |                 |                 |                | Emkay Est.      |                | Full year       |                 |                 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|
|                              | Q4FY23          | Q3FY24          | Q4FY24          | YoY (%)         | QoQ (%)        | Q4FY24          | vs. Est. (%)   | FY24            | FY23            | YoY (%)         |
| <b>Net revenue</b>           | <b>16,560</b>   | <b>17,320</b>   | <b>17,730</b>   | <b>7</b>        | <b>2</b>       | <b>18,216</b>   | <b>-3</b>      | <b>63,730</b>   | <b>66,190</b>   | <b>-4</b>       |
| Material cost                | (9,620)         | (11,010)        | (10,710)        | 11              | -3             | (11,470)        | -7             | (38,790)        | (38,431)        | 1               |
| <b>Gross Profit</b>          | <b>6,940</b>    | <b>6,310</b>    | <b>7,020</b>    | <b>1</b>        | <b>11</b>      | <b>6,746</b>    | <b>4</b>       | <b>24,940</b>   | <b>27,759</b>   | <b>-10</b>      |
| <b>Gross margin (%)</b>      | <b>41.9</b>     | <b>36.4</b>     | <b>39.6</b>     | <b>-232 bps</b> | <b>316 bps</b> | <b>37.0</b>     | <b>256 bps</b> | <b>39.1</b>     | <b>41.9</b>     | <b>-281 bps</b> |
| Employee cost                | (1,090)         | (1,030)         | (1,000)         | -8              | -3             | (1,111)         | -10            | (4,030)         | (3,858)         | 4               |
| Other overheads              | (3,330)         | (2,680)         | (3,190)         | -4              | 19             | (2,823)         | 13             | (11,120)        | (13,021)        | -15             |
| <b>Total expenses</b>        | <b>(14,040)</b> | <b>(14,720)</b> | <b>(14,900)</b> | <b>6</b>        | <b>1</b>       | <b>(15,405)</b> | <b>(3)</b>     | <b>(53,940)</b> | <b>(55,310)</b> | <b>-2</b>       |
| <b>EBITDA</b>                | <b>2,520</b>    | <b>2,600</b>    | <b>2,830</b>    | <b>12</b>       | <b>9</b>       | <b>2,811</b>    | <b>1</b>       | <b>9,790</b>    | <b>10,880</b>   | <b>-10</b>      |
| <b>EBITDA margin (%)</b>     | <b>15.2</b>     | <b>15.0</b>     | <b>16.0</b>     | <b>74 bps</b>   | <b>95 bps</b>  | <b>15.4</b>     | <b>53 bps</b>  | <b>15.4</b>     | <b>16.4</b>     | <b>-108 bps</b> |
| Other income                 | -               | 80              | -               | -               | -100           | -               | -              | 80              | 0               | 40000           |
| Interest                     | (330)           | (540)           | (590)           | 79              | 9              | (523)           | 13             | (2,110)         | (1,687)         | 25              |
| Depreciation                 | (840)           | (970)           | (980)           | 17              | 1              | (989)           | (1)            | (3,780)         | (3,109)         | 22              |
| Exceptional Items            | -               | -               | -               | -               | -              | -               | -              | -               | -               | -               |
| <b>PBT</b>                   | <b>1,350</b>    | <b>1,170</b>    | <b>1,260</b>    | <b>-7</b>       | <b>8</b>       | <b>1,299</b>    | <b>-3</b>      | <b>3,980</b>    | <b>6,085</b>    | <b>-35</b>      |
| Tax                          | 140             | 70              | 60              | -57             | -14            | 65              | (8)            | 200             | (659)           | -130            |
| Share of Associates Profit   | -               | -               | -               | -               | -              | -               | -              | -               | -               | -               |
| <b>Adj. PAT</b>              | <b>1,490</b>    | <b>1,240</b>    | <b>1,320</b>    | <b>-11</b>      | <b>6</b>       | <b>1,364</b>    | <b>-3</b>      | <b>4,180</b>    | <b>5,426</b>    | <b>-23</b>      |
| EO Items                     | -               | -               | -               | -               | -              | -               | -              | -               | -               | -               |
| <b>Reported PAT</b>          | <b>1,490</b>    | <b>1,240</b>    | <b>1,320</b>    | <b>-11</b>      | <b>6</b>       | <b>1,364</b>    | <b>-3</b>      | <b>4,180</b>    | <b>5,426</b>    | <b>-23</b>      |
| <b>EPS (Rs)</b>              | <b>4.1</b>      | <b>3.4</b>      | <b>3.6</b>      | <b>-11</b>      | <b>6</b>       | <b>3.8</b>      | <b>-3</b>      | <b>11.5</b>     | <b>15.0</b>     | <b>-23</b>      |
| <b>Costs as a % of sales</b> |                 |                 |                 |                 |                |                 |                |                 |                 |                 |
| Material cost                | 58.1            | 63.6            | 60.4            | 231 bps         | -317 bps       | 63.0            | -257 bps       | 60.9            | 58.1            | 280 bps         |
| Employee cost                | 6.6             | 5.9             | 5.6             | -95 bps         | -31 bps        | 6.1             | -46 bps        | 6.3             | 5.8             | 49 bps          |
| Other overheads              | 20.1            | 15.5            | 18.0            | -212 bps        | 251 bps        | 15.5            | 249 bps        | 17.4            | 19.7            | -223 bps        |
| Income tax rate (%)          | (10.4)          | (6.0)           | (4.8)           | 560 bps         | 122 bps        | (5.0)           | 23 bps         | (5.0)           | 10.8            | -1586 bps       |

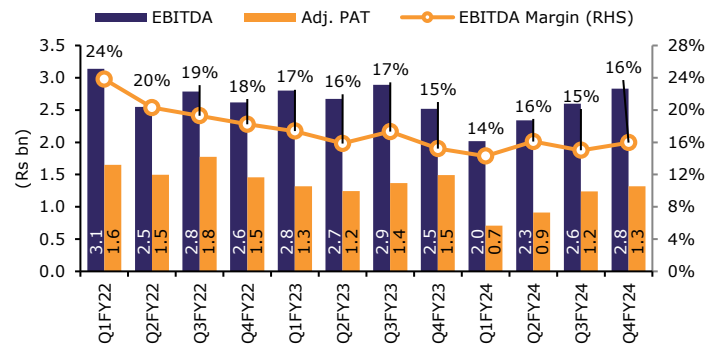
Source: Company, Emkay Research

**Exhibit 2: Revenue and gross profit improving sequentially**



Source: Company, Emkay Research

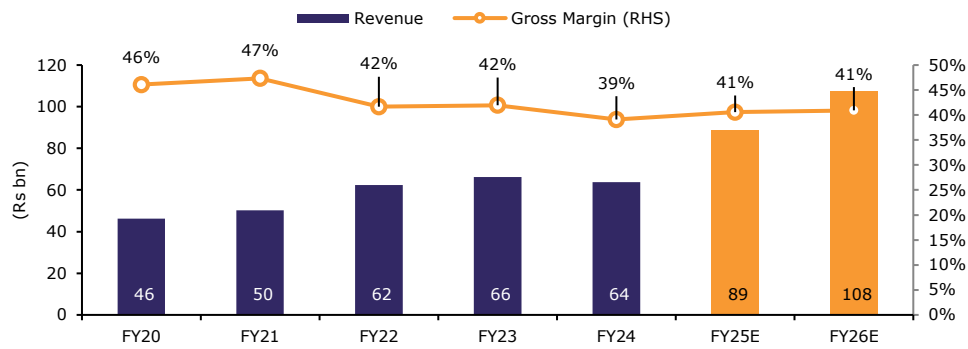
**Exhibit 3: Absolute EBITDA improvement showing signs of recovery**



Source: Company, Emkay Research

**Exhibit 4: Revenue CAGR to clock at 30% over FY24-26E**

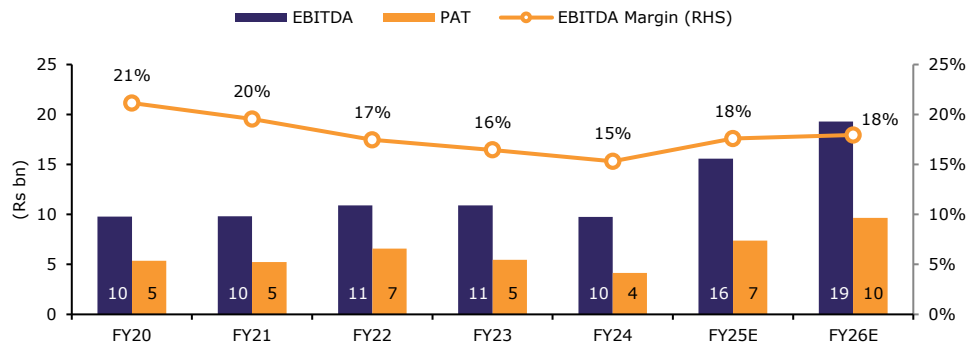
**Revenue growth will be driven by recovery in the core portfolio, nitrotoluene expansion, and contribution from long-term contracts**



Source: Company, Emkay Research

**Exhibit 5: Volume recovery, coupled with higher operating leverage, will lead to EBITDA growth**

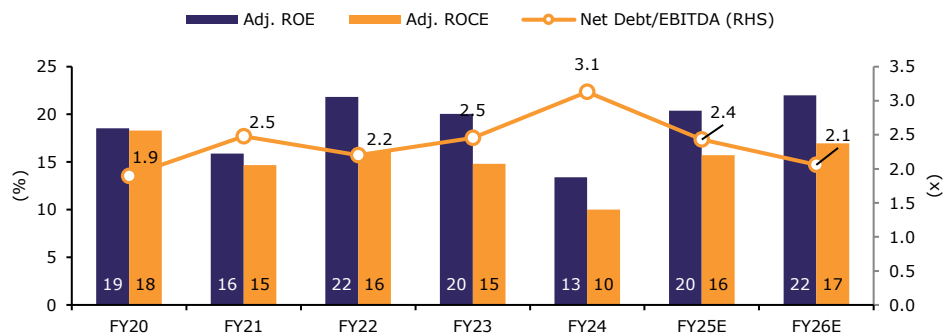
**We build-in higher margins, as operating leverage will kick-in once volumes see growth**



Source: Company, Emkay Research

**Exhibit 6: Adjusted return ratios to rebound (adjusted capital employed, and network for non-revenue generating assets and the 1<sup>st</sup> long-term contract, to the tune of Rs20bn)**

**Capex to be funded by a mix of debt and internal accruals; debt to peak by FY25/26**



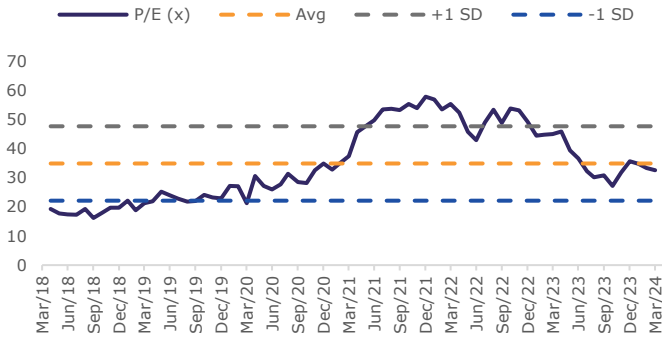
Source: Company, Emkay Research

**Exhibit 7: We tweak FY25E/26E estimates by 1-3% on higher interest outlay on incremental debt**

| Particulars (Rs mn) | FY25E   |         |          | FY26E   |         |          |
|---------------------|---------|---------|----------|---------|---------|----------|
|                     | Revised | Earlier | Chg (%)  | Revised | Earlier | Chg (%)  |
| Revenue             | 88,628  | 78,002  | 14       | 107,552 | 92,428  | 16       |
| EBITDA              | 15,587  | 15,487  | 1        | 19,292  | 18,792  | 3        |
| EBITDA margin (%)   | 17.6    | 19.9    | -227 bps | 17.9    | 20.3    | -240 bps |
| PAT                 | 7,380   | 7,640   | -3       | 9,650   | 9,727   | -1       |
| EPS (Rs)            | 20      | 21      | -3       | 27      | 27      | -1       |

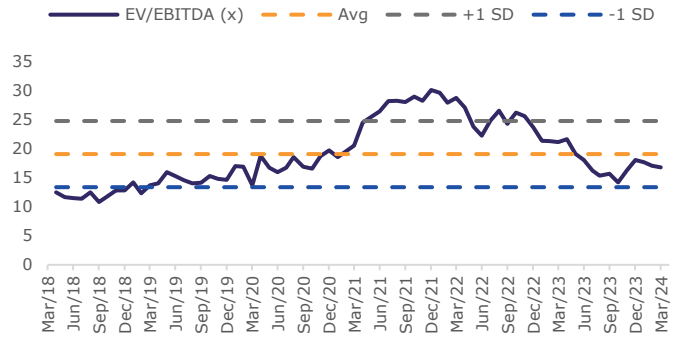
Source: Emkay Research

**Exhibit 8: One-year forward P/E**



Source: Bloomberg, Emkay Research

**Exhibit 9: One-year forward EV/EBITDA**



Source: Bloomberg, Emkay Research

## Aarti Industries: Consolidated Financials and Valuations

| Profit & Loss               |               |               |               |               |                |
|-----------------------------|---------------|---------------|---------------|---------------|----------------|
| Y/E Mar (Rs mn)             | FY22          | FY23          | FY24          | FY25E         | FY26E          |
| <b>Revenue</b>              | <b>62,401</b> | <b>66,186</b> | <b>63,720</b> | <b>88,628</b> | <b>107,552</b> |
| Revenue growth (%)          | 24.2          | 6.1           | (3.7)         | 39.1          | 21.4           |
| <b>EBITDA</b>               | <b>10,892</b> | <b>10,890</b> | <b>9,760</b>  | <b>15,587</b> | <b>19,292</b>  |
| EBITDA growth (%)           | 11.0          | 0.0           | (10.4)        | 59.7          | 23.8           |
| Depreciation & Amortization | 2,464         | 3,105         | 3,780         | 4,522         | 5,272          |
| <b>EBIT</b>                 | <b>8,428</b>  | <b>7,786</b>  | <b>5,980</b>  | <b>11,064</b> | <b>14,019</b>  |
| EBIT growth (%)             | 12.3          | (7.6)         | (23.2)        | 85.0          | 26.7           |
| Other operating income      | 0             | 0             | 0             | 0             | 0              |
| Other income                | 8             | 9             | 80            | 80            | 80             |
| Financial expense           | 1,023         | 1,683         | 2,110         | 2,462         | 2,746          |
| <b>PBT</b>                  | <b>7,413</b>  | <b>6,111</b>  | <b>3,950</b>  | <b>8,682</b>  | <b>11,353</b>  |
| Extraordinary items         | 0             | 0             | 0             | 0             | 0              |
| Taxes                       | 1,863         | 659           | (210)         | 1,302         | 1,703          |
| Minority interest           | 0             | 0             | 0             | 0             | 0              |
| Income from JV/Associates   | 0             | 0             | 0             | 0             | 0              |
| <b>Reported PAT</b>         | <b>6,579</b>  | <b>5,453</b>  | <b>4,160</b>  | <b>7,380</b>  | <b>9,650</b>   |
| PAT growth (%)              | 20.3          | (17.1)        | (23.7)        | 77.4          | 30.8           |
| <b>Adjusted PAT</b>         | <b>5,550</b>  | <b>5,453</b>  | <b>4,160</b>  | <b>7,380</b>  | <b>9,650</b>   |
| <b>Diluted EPS (Rs)</b>     | <b>18.2</b>   | <b>15.1</b>   | <b>11.5</b>   | <b>20.4</b>   | <b>26.7</b>    |
| Diluted EPS growth (%)      | 15.8          | (17.1)        | (23.7)        | 77.4          | 30.8           |
| <b>DPS (Rs)</b>             | <b>3.5</b>    | <b>2.5</b>    | <b>1.5</b>    | <b>2.0</b>    | <b>2.7</b>     |
| <b>Dividend payout (%)</b>  | <b>19.3</b>   | <b>16.6</b>   | <b>13.0</b>   | <b>10.0</b>   | <b>10.0</b>    |
| EBITDA margin (%)           | 17.5          | 16.5          | 15.3          | 17.6          | 17.9           |
| EBIT margin (%)             | 13.5          | 11.8          | 9.4           | 12.5          | 13.0           |
| Effective tax rate (%)      | 25.1          | 10.8          | (5.3)         | 15.0          | 15.0           |
| <b>NOPLAT (pre-IndAS)</b>   | <b>6,310</b>  | <b>6,946</b>  | <b>6,298</b>  | <b>9,405</b>  | <b>11,916</b>  |
| Shares outstanding (mn)     | 362.0         | 362.0         | 362.0         | 362.0         | 362.0          |

Source: Company, Emkay Research

| Cash flows                   |                 |                 |                 |                 |                 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E Mar (Rs mn)              | FY22            | FY23            | FY24            | FY25E           | FY26E           |
| PBT                          | 7,413           | 6,111           | 3,950           | 8,682           | 11,353          |
| Others (non-cash items)      | 2,464           | 3,105           | 3,780           | 4,522           | 5,272           |
| Taxes paid                   | (2,458)         | (909)           | (910)           | (1,302)         | (1,703)         |
| Change in NWC                | (9,495)         | 3,224           | 1,768           | (3,496)         | (3,780)         |
| <b>Operating cash flow</b>   | <b>5,186</b>    | <b>13,098</b>   | <b>12,040</b>   | <b>10,788</b>   | <b>13,808</b>   |
| Capital expenditure          | (2,973)         | (13,268)        | (12,988)        | (15,000)        | (12,000)        |
| Acquisition of business      | 354             | 109             | (58)            | 0               | 0               |
| Interest & dividend income   | 8               | 9               | 80              | 80              | 80              |
| <b>Investing cash flow</b>   | <b>(11,694)</b> | <b>(13,298)</b> | <b>(13,100)</b> | <b>(14,920)</b> | <b>(11,920)</b> |
| Equity raised/(repaid)       | (6,038)         | 3               | 0               | 0               | 0               |
| Debt raised/(repaid)         | (2,759)         | 3,061           | 3,100           | 7,010           | 1,143           |
| Payment of lease liabilities | 0               | 0               | 0               | 0               | 0               |
| Interest paid                | (1,023)         | (1,683)         | (2,110)         | (2,462)         | (2,746)         |
| Dividend paid (incl tax)     | (1,269)         | (906)           | (540)           | (738)           | (965)           |
| Others                       | 15,209          | (3)             | (100)           | 0               | 0               |
| <b>Financing cash flow</b>   | <b>4,120</b>    | <b>472</b>      | <b>350</b>      | <b>3,810</b>    | <b>(2,568)</b>  |
| Net chg in Cash              | (2,388)         | 272             | (710)           | (322)           | (680)           |
| OCF                          | 5,186           | 13,098          | 12,040          | 10,788          | 13,808          |
| Adj. OCF (w/o NWC chg.)      | (4,309)         | 16,322          | 13,808          | 7,293           | 10,028          |
| FCFF                         | 2,214           | (170)           | (948)           | (4,212)         | 1,808           |
| FCFE                         | 1,199           | (1,844)         | (2,978)         | (6,594)         | (858)           |
| OCF/EBITDA (%)               | 47.6            | 120.3           | 123.4           | 69.2            | 71.6            |
| FCFE/PAT (%)                 | 18.2            | (33.8)          | (71.6)          | (89.3)          | (8.9)           |
| <b>FCFF/NOPLAT (%)</b>       | <b>35.1</b>     | <b>(2.4)</b>    | <b>(15.1)</b>   | <b>(44.8)</b>   | <b>15.2</b>     |

Source: Company, Emkay Research

| Balance Sheet                         |               |               |               |               |                 |
|---------------------------------------|---------------|---------------|---------------|---------------|-----------------|
| Y/E Mar (Rs mn)                       | FY22          | FY23          | FY24          | FY25E         | FY26E           |
| Share capital                         | 1,810         | 1,813         | 1,813         | 1,813         | 1,813           |
| Reserves & Surplus                    | 43,350        | 47,388        | 51,080        | 57,722        | 66,407          |
| <b>Net worth</b>                      | <b>45,160</b> | <b>49,201</b> | <b>52,893</b> | <b>59,535</b> | <b>68,220</b>   |
| Minority interests                    | 7             | 7             | 7             | 7             | 7               |
| Deferred tax liability (net)          | (277)         | (528)         | (1,440)       | (1,440)       | (1,440)         |
| <b>Total debt</b>                     | <b>25,680</b> | <b>28,740</b> | <b>31,840</b> | <b>38,850</b> | <b>39,993</b>   |
| <b>Total liabilities &amp; equity</b> | <b>70,570</b> | <b>77,421</b> | <b>83,300</b> | <b>96,952</b> | <b>1,06,780</b> |
| Net tangible fixed assets             | 35,381        | 48,287        | 55,875        | 66,353        | 73,081          |
| Net intangible assets                 | 568           | 322           | 615           | 615           | 615             |
| Net ROU assets                        | 170           | 303           | 530           | 530           | 530             |
| Capital WIP                           | 13,460        | 10,962        | 12,290        | 12,290        | 12,290          |
| Goodwill                              | 0             | 0             | 0             | 0             | 0               |
| Investments [JV/Associates]           | 281           | 172           | 230           | 230           | 230             |
| <b>Cash &amp; equivalents</b>         | <b>1,736</b>  | <b>2,007</b>  | <b>1,300</b>  | <b>978</b>    | <b>298</b>      |
| Current assets (ex-cash)              | 26,805        | 23,531        | 24,410        | 31,396        | 37,881          |
| Current Liab. & Prov.                 | 7,660         | 7,861         | 11,420        | 14,910        | 17,615          |
| <b>NWC (ex-cash)</b>                  | <b>19,144</b> | <b>15,670</b> | <b>12,990</b> | <b>16,486</b> | <b>20,266</b>   |
| <b>Total assets</b>                   | <b>70,570</b> | <b>77,421</b> | <b>83,300</b> | <b>96,952</b> | <b>1,06,780</b> |
| Net debt                              | 23,944        | 26,733        | 30,540        | 37,872        | 39,695          |
| Capital employed                      | 70,570        | 77,421        | 83,300        | 96,952        | 1,06,780        |
| <b>Invested capital</b>               | <b>55,093</b> | <b>64,279</b> | <b>69,480</b> | <b>83,454</b> | <b>93,962</b>   |
| BVPS (Rs)                             | 124.8         | 135.9         | 146.1         | 164.5         | 188.5           |
| Net Debt/Equity (x)                   | 0.5           | 0.5           | 0.6           | 0.6           | 0.6             |
| Net Debt/EBITDA (x)                   | 2.2           | 2.5           | 3.1           | 2.4           | 2.1             |
| Interest coverage (x)                 | 0.1           | 0.2           | 0.3           | 0.2           | 0.2             |
| <b>RoCE (%)</b>                       | <b>12.4</b>   | <b>10.5</b>   | <b>7.5</b>    | <b>12.4</b>   | <b>13.8</b>     |

Source: Company, Emkay Research

| Valuations and key Ratios |              |             |             |             |             |
|---------------------------|--------------|-------------|-------------|-------------|-------------|
| Y/E Mar                   | FY22         | FY23        | FY24        | FY25E       | FY26E       |
| P/E (x)                   | 43.6         | 44.4        | 58.2        | 32.8        | 25.1        |
| P/CE(x)                   | 30.2         | 28.3        | 30.5        | 20.3        | 16.2        |
| P/B (x)                   | 5.4          | 4.9         | 4.6         | 4.1         | 3.5         |
| EV/Sales (x)              | 4.3          | 4.1         | 4.3         | 3.2         | 2.6         |
| EV/EBITDA (x)             | 24.4         | 24.7        | 27.9        | 18.0        | 14.6        |
| EV/EBIT(x)                | 31.6         | 34.5        | 45.6        | 25.3        | 20.1        |
| EV/IC (x)                 | 4.8          | 4.2         | 3.9         | 3.4         | 3.0         |
| FCFF yield (%)            | 0.8          | (0.1)       | (0.3)       | (1.5)       | 0.6         |
| FCFE yield (%)            | 0.5          | (0.8)       | (1.2)       | (2.7)       | (0.4)       |
| Dividend yield (%)        | 0.5          | 0.4         | 0.2         | 0.3         | 0.4         |
| <b>DuPont-RoE split</b>   |              |             |             |             |             |
| Net profit margin (%)     | 8.9          | 8.2         | 6.5         | 8.3         | 9.0         |
| Total asset turnover (x)  | 0.9          | 0.9         | 0.8         | 1.0         | 1.1         |
| Assets/Equity (x)         | 1.7          | 1.6         | 1.6         | 1.6         | 1.6         |
| <b>RoE (%)</b>            | <b>13.8</b>  | <b>11.6</b> | <b>8.1</b>  | <b>13.1</b> | <b>15.1</b> |
| <b>DuPont-RoIC</b>        |              |             |             |             |             |
| NOPLAT margin (%)         | 10.1         | 10.5        | 9.9         | 10.6        | 11.1        |
| IC turnover (x)           | 1.2          | 1.1         | 1.0         | 1.2         | 1.2         |
| <b>RoIC (%)</b>           | <b>12.2</b>  | <b>11.6</b> | <b>9.4</b>  | <b>12.3</b> | <b>13.4</b> |
| <b>Operating metrics</b>  |              |             |             |             |             |
| Core NWC days             | 112.0        | 86.4        | 74.4        | 67.9        | 68.8        |
| <b>Total NWC days</b>     | <b>112.0</b> | <b>86.4</b> | <b>74.4</b> | <b>67.9</b> | <b>68.8</b> |
| Fixed asset turnover      | 1.2          | 1.2         | 0.9         | 1.1         | 1.1         |
| Opex-to-revenue (%)       | 24.2         | 25.5        | 23.8        | 23.0        | 23.0        |

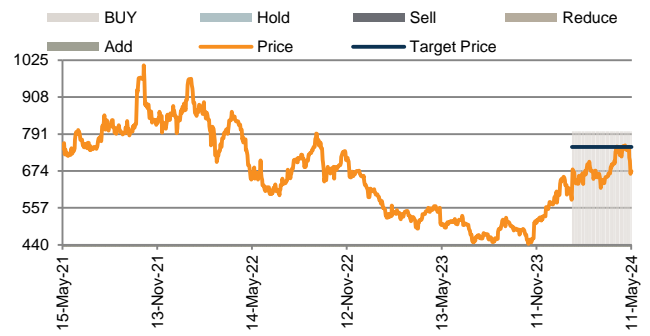
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

| Date      | Closing Price (INR) | TP (INR) | Rating | Analyst   |
|-----------|---------------------|----------|--------|-----------|
| 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

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