

Retail Equity Research (South India Focus)

# Aarti Industries Ltd

Specialty chemicals

BSE CODE : 524208      NSE CODE: AARTIIND  
BLOOMBERG CODE: ARTO:IN      SENSEX : 39,110

**BUY**

12M Investment Period      Rating as per Mid Cap  
CMP Rs1,693    TARGET Rs1,949    RETURN 15% ↑  
(Closing: 22-05-19)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

### Earnings momentum to continue...

AARTI Industries Ltd (ARTO) is a global leader in Benzene based derivative products. The company has a diversified product portfolio with end users in pharma, agrochemicals, specialty polymers, paints & pigments.

- Q4FY19 Revenue & PAT grew by robust 18% & 47% YoY led by broad based growth across segments.
- EBITDA grew by 31% YoY, whereas EBITDA margin improved by 200bps YoY to 19.5% due to high margin product mix.
- To invest Rs1,200cr for capacity augmentation in FY20E given strong demand outlook in domestic & export market.
- Capacity addition, focus on high margin products and robust off-take from Specialty chemicals and Pharma segment, will continue to drive profitability.
- We expect PAT to grow by healthy 22% CAGR over FY19-21E.
- We value ARTO at P/E of 23x (21x earlier) given strong earnings outlook and ROE of above 26% and we upgrade to "Buy" from Hold with a target price of Rs1,949.

### Strong top-line growth...

Q4 Revenue grew by 18% YoY, led by broad based growth across segments. Revenue from Specialty chemical business grew by robust 17% YoY, regardless of lower than expected volume growth of 3% YoY, driven by better realization, and improvement in product mix towards value added products. Management plans to increase NCB capacity from 75000 to 108000 MTPA with an investment of Rs150cr. The expanded capacity will cater to increasing domestic demand and for downstream captive consumption. Capacity expansion will be in 2 phases and it will be fully operational in FY21E. The Pharma segment grew by 22% YoY, continued to witness strong growth momentum led by volume growth and scale benefits. While Home & personal care business grew by 16% YoY. ARTO will continue to benefit from backward integration, expansion of product portfolio and shift in volume due to Chinese shut down in the medium term. Going forward, we expect strong off-take from Specialty chemicals and Pharma segment to continue. Management has guided 15%-20% revenue growth. We factor revenue to grow by 17% CAGR over FY19- FY21E.

### EBITDA to grow at healthy 18% CAGR over FY19-21E...

Gross margin improved by 180bps YoY to 42.8% while EBITDA margin improved by 200bps YoY to 19.6%, on account of lower cost. PAT grew by 47% YoY to Rs124cr. Going ahead with strong volume offtake and value added products in the sales mix we expect EBITDA to grow by 17% CAGR over FY19-20E. Consequently, PAT is expected to grow by 22% CAGR over FY19-21E.

### Valuations

At CMP, ARTO is trading at 24x and 20x FY20E & FY21E EPS of Rs69.5 & Rs84.8 respectively. We remain optimistic on ARTO's long term growth story given capacity additions, launch of new products, and robust off-take from Specialty and Pharma segment. The earnings outlook continues to be robust at 26% CAGR over FY19E-21E. We value ARTO at 23x (21x earlier) and we upgrade to "Buy" from Hold with target price of Rs1,949.

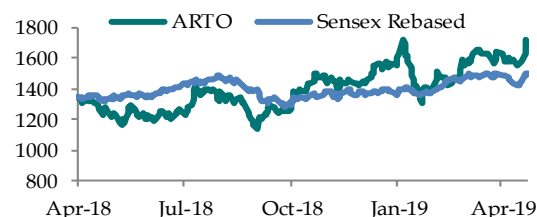
### Company Data

Market Cap (cr)	Rs.14,673
Enterprise Value (cr)	Rs. 16,143
Outstanding Shares (cr)	8.7
Free Float	47%
Dividend Yield	0.4%
52 week high	Rs. 1,791
52 week low	Rs. 1,090
6m average volume (cr)	0.01
Beta	0.9
Face value	Rs. 5

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	53.1	52.7	49.4
FII's	4.2	4.4	7.4
MFs/Institutions	13.9	14.4	15.9
Public	25.6	25.4	23.6
Others	3.2	3.1	3.7
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	22.8%	15.4%	34.2%
Absolute Sensex	8.9%	11.8%	12.9%
Relative Return*	13.8%	3.6%	21.3%

over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	5,014	5,874	6,829
Growth (%)	31.7	17.1	16.3
EBITDA	971	1,157	1,345
EBITDA Margin(%)	19.4	19.7	19.7
PAT Adjusted	495	602	735
Growth (%)	48.7	21.6	21.9
Adjusted EPS	57.1	69.5	84.8
Growth (%)	39.5	21.6	21.9
P/E	29.6	24.4	20.0
P/B	7.3	5.7	4.5
EV/EBITDA	16.6	13.9	11.6
ROE (%)	27.6	26.4	25.4
D/E	0.8	0.7	0.6

Anil R  
Research Analyst

## Quarterly Financials

### Profit & Loss

	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
<b>Sales</b>	<b>1,211</b>	<b>1,029</b>	17.7	<b>2,020</b>	<b>2,480</b>	22.8
<b>EBITDA</b>	<b>237</b>	<b>180</b>	31.4	<b>358</b>	<b>484</b>	35.1
EBITDA margins	<b>19.6</b>	<b>17.5</b>	+200bps	<b>17.7</b>	<b>19.5</b>	+180bps
Depreciation	42	37	15.1	71	83	16.9
<b>EBIT</b>	<b>194</b>	<b>143</b>	35.6	<b>287</b>	<b>401</b>	39.6
Interest	41	36	13.1	70	84	19.2
Other Income	1	1	-	2	1	-
Exceptional Items	-	-	-	-	-	-
<b>PBT</b>	<b>154</b>	<b>108</b>	42.4	<b>219</b>	<b>318</b>	45.4
Tax	30	23	26.0	44	61	38.9
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
<b>Reported PAT</b>	<b>124</b>	<b>85</b>	46.9	<b>175</b>	<b>257</b>	47.0
Adjustments	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>124</b>	<b>85</b>	46.9	<b>175</b>	<b>257</b>	47.0
No. of Shares	<b>8.1</b>	<b>8.1</b>		<b>8.1</b>	<b>8.1</b>	-
<b>EPS (Rs)</b>	<b>15.3</b>		46.9	<b>21.5</b>	<b>31.6</b>	47.0

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	5,706	6,654	5,874	6,829	2.9	2.6
EBITDA	1,113	1,297	1,157	1,345	4.0	3.7
Margins (%)	19.5	19.5	19.7	19.7	+20bps	+20bps
Adj. PAT	560	692	602	735	7.6	6.2
EPS	68.9	85.1	69.5	84.8	0.9	0.4

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Sales</b>	<b>3,163</b>	<b>3,806</b>	<b>5,014</b>	<b>5,874</b>	<b>6,829</b>
% change	5.2	20.3	31.7	17.1	16.3
<b>EBITDA</b>	<b>653</b>	<b>699</b>	<b>971</b>	<b>1,157</b>	<b>1,345</b>
% change	14.2	7.0	38.8	19.2	16.3
Depreciation	123	146	171	208	237
EBIT	531	553	799	949	1109
Interest	117	132	184	206	202
Other Income	2	8	2	10	12
<b>PBT</b>	<b>416</b>	<b>429</b>	<b>617</b>	<b>753</b>	<b>918</b>
% change	14.6	3.2	43.8	22.1	21.9
Tax	88	83	118	151	184
Tax Rate (%)	21.2	19.3	19.2	20.0	20.0
<b>Reported PAT</b>	<b>322</b>	<b>330</b>	<b>495</b>	<b>602</b>	<b>735</b>
Adj.*	(6)	3	-	-	-
<b>Adj. PAT</b>	<b>316</b>	<b>333</b>	<b>495</b>	<b>602</b>	<b>735</b>
% change	22.9	5.4	48.7	21.6	21.9
No. of shares (cr)	8.2	8.1	8.7	8.7	8.7
<b>Adj EPS (Rs)</b>	<b>38.8</b>	<b>41.0</b>	<b>57.1</b>	<b>69.5</b>	<b>84.8</b>
% change	22.9	5.4	39.5	21.6	21.9
DPS (Rs)	0.2	1.9	7.0	7.0	7.0
CEPS (Rs)	53.4	58.9	76.9	93.5	112.1

### CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	450	492	667	810	971
Non-cash adj.	107	106	207	206	202
Changes in W.C	(87)	(263)	(201)	(327)	(352)
<b>C.F. Operation</b>	<b>470</b>	<b>335</b>	<b>673</b>	<b>689</b>	<b>821</b>
Capital exp.	(530)	(614)	(814)	(401)	(100)
Change in inv.	1	4	(17)	(20)	(25)
Other invest.CF	-	-	-	-	-
<b>C.F - Investment</b>	<b>(529)</b>	<b>(610)</b>	<b>(832)</b>	<b>(421)</b>	<b>(125)</b>
Issue of equity	(96)	(98)	750	-	-
Issue/repay debt	155	388	234	(296)	(202)
Dividends paid	(1)	(10)	(61)	(61)	(61)
Other finance.CF	-	-	-	-	-
<b>C.F - Finance</b>	<b>58</b>	<b>279</b>	<b>923</b>	<b>(357)</b>	<b>(263)</b>
Chg. in cash	(0)	4	764	(89)	433
Closing cash	29	32	805	715	1,148

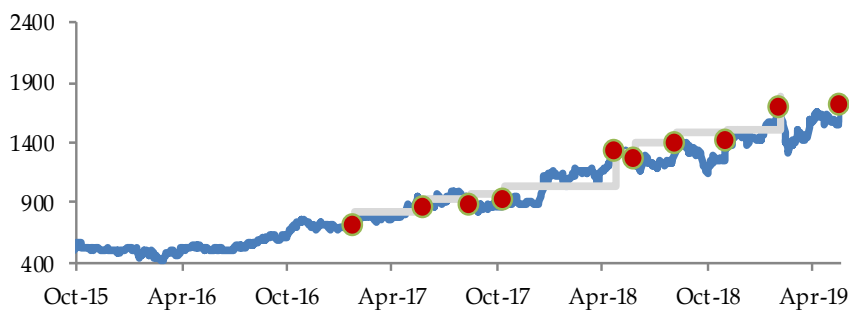
### BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	29	32	805	715	1148
Accounts Receivable	525	591	805	966	1123
Inventories	571	747	825	975	1188
Other Cur. Assets	361	476	488	603	702
Investments	47	47	65	85	110
Gross Fixed Assets	2,614	3,060	3,518	4,318	4,618
Net Fixed Assets	1,695	1,996	2,283	2,876	2,939
CWIP	270	436	799	400	200
Intangible Assets	21	17	13	21	21
Def. Tax (Net)	(155)	(177)	(200)	(200)	(200)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>3,344</b>	<b>4,150</b>	<b>5,871</b>	<b>6,421</b>	<b>7,210</b>
Current Liabilities	453	543	633	724	831
Provisions	28	31	44	51	60
Debt Funds	1,436	1,921	2,339	2,249	2,249
Other Liabilities	64	77	92	92	92
Equity Capital	41	41	43	43	43
Reserves & Surplus	1,321	1,538	1,972	2,513	3,187
Shareholder's Fund	1,362	1,578	2,763	3,304	3,978
<b>Total Liabilities</b>	<b>3,344</b>	<b>4,150</b>	<b>5,871</b>	<b>6,421</b>	<b>7,210</b>
BVPS	166	194	233	295	373

### RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	20.7	18.4	19.4	19.7	19.7
EBIT margin (%)	16.8	14.5	15.9	16.2	16.2
Net profit mgn.(%)	10.0	8.7	9.9	10.3	10.8
ROE (%)	25.3	22.6	27.6	26.4	25.4
ROCE (%)	15.3	13.3	14.6	14.4	15.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	60.5	53.5	50.8	55.0	55.8
Inventory (days)	111.7	110.3	97.2	96.9	100.2
Payables (days)	88.9	83.3	72.7	73.1	72.0
Current ratio (x)	3.1	3.2	4.3	4.2	4.7
Quick ratio (x)	1.2	1.1	1.3	1.3	1.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.4	1.3	1.5	1.5	1.5
Total asset T.O (x)	1.0	1.0	1.0	1.0	1.0
Int. covge. ratio (x)	4.5	4.2	4.3	4.6	5.5
Adj. debt/equity (x)	1.1	1.3	0.8	0.7	0.6
<b>Valuation</b>					
EV/Sales (x)	5.1	4.3	3.2	2.7	2.3
EV/EBITDA (x)	24.5	23.6	16.6	13.9	11.6
P/E (x)	43.6	41.3	29.6	24.4	20.0
P/BV (x)	10.2	8.7	7.3	5.7	4.5

## Recommendation summary



Dates	Rating	Target
25-January-2017	Buy	822
29-May-2017	Accumulate	921
17-August-2017	Accumulate	970
13-October-2017	Accumulate	1,027
1-March-2018	Accumulate	1,311
30-May-2018	Buy	1,396
08-August-2018	Accumulate	1,493
06-November-2018	Accumulate	1,509
06-February-19	Hold	1,787
23-May-19	Buy	1,949

Source: Bloomberg, Geojit Research.

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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