

Retail Equity Research (South India Focus)

Aarti Industries Ltd

Specialty chemicals

BSE CODE : 524208

NSE CODE: AARTIIND

BLOOMBERG CODE: ARTO:IN

SENSEX : 37,311

Reduce

12M Investment Period

Rating as per Mid Cap

CMP Rs1,736 TARGET Rs1,572 RETURN -9 % ↓

(Closing: 14-08-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Earnings momentum to moderate...

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.

- Q1FY20 Revenue was flat, whereas PAT grew by robust 54% YoY led by better product mix and lower cost.
- EBITDA grew by 26% YoY, whereas EBITDA margin improved by 440bps YoY to 21.8%.
- Given strong demand outlook in domestic & export market in the long term, the capacity augmentation is on track.
- We believe that capacity addition, focus on high margin products and robust off-take from Specialty chemicals and Pharma segment, will continue to drive profitability.
- However, given weak macro economic situation and slowdown in agrochemicals we lower our EPS estimates by 9% & 6% for FY20E & FY21E.
- We expect PAT to grow by 17% CAGR over FY19-21E.
- Given downgrade in the earnings and premium valuation, we value ARTO at P/E of 20x (23x earlier) and we downgrade to "Reduce" from BUY with a target price of Rs1,572.

Top-line growth flat...

Q1FY20 Revenue growth was flat, with Specialty chemicals grew by 6% YoY and Pharma business grew by 28% YoY. While adjusted revenue (on account of demerger of HPC business) grew by 9% YoY. The Pharma segment continued to witness strong growth momentum led by volume growth and scale benefits. The capacity augmentation is on track with an investment of Rs1,200cr, NCB capacity to increase from 75000 to 108000 MTPA. The expanded capacity will cater to increasing domestic demand and for downstream captive consumption. 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. However, the management lowered its revenue guidance to 10% from earlier guided for ~15-20% due to macro-economic slowdown with Auto and Agrochemicals industries. Considering the slowdown and demerger of HPC business, we lower our revenue estimates by 7.4% & 6% for FY20E & FY21E. We factor revenue to grow by 13.2% CAGR over FY19- FY21E.

EBITDA & Profitability grew by 26% & 54% YoY...

Gross margin improved by 760bps YoY to 46.4% led by lower cost and better product due to demerger of HPC business. Improvement in EBITDA margin was limited to 440bps YoY to 21.8%, on account of higher cost. PAT grew by 53% YoY to Rs137cr. Going ahead, with general slowdown and weak offtake in agrochemicals, we lower our EPS estimates by 9.4% & 7.3% for FY20E & 21E. Despite this, we expect PAT to grow by 17% CAGR over FY19-21E.

Valuations

Though we remain optimistic on ARTO's long term growth story, potential slowdown in agrochemicals and weak economic scenario might impact its earning growth momentum in near term. At CMP, ARTO is trading at 1 Year FWD P/E of 26x, which is 23% premium to 3 year historical average of 21x. We value ARTO at 20x (23x earlier) and we downgrade to "Reduce" from BUY with target price of Rs1,572.

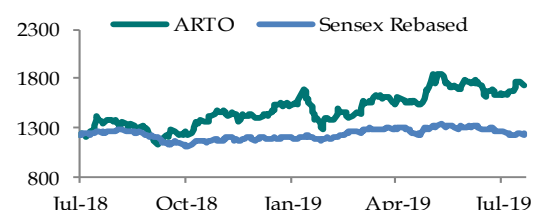
Company Data

Market Cap (cr)	Rs.15,044
Enterprise Value (cr)	Rs. 16,490
Outstanding Shares (cr)	8.7
Free Float	51.3%
Dividend Yield	0.2%
52 week high	Rs. 1,861
52 week low	Rs. 1,084
6m average volume (cr)	0.01
Beta	0.9
Face value	Rs. 5

Shareholding (%)	Q3FY19	Q4FY19	Q1FY20
Promoters	52.7	49.4	48.7
FII's	4.4	7.4	7.7
MFs/Institutions	14.4	15.9	15.8
Public	25.4	23.6	24.3
Others	3.1	3.7	3.5
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	12.7%	23.3%	30.2%
Absolute Sensex	-0.2%	4.2%	-1.4%
Relative Return*	12.9%	19.1%	31.6%

over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	5,014	5,439	6,425
Growth (%)	31.7	8.5	18.1
EBITDA	971	1,077	1,272
EBITDA Margin(%)	19.4	19.8	19.8
PAT Adjusted	495	546	681
Growth (%)	48.7	10.3	24.7
Adjusted EPS	57.1	63.0	78.6
Growth (%)	39.5	10.3	24.7
P/E	30.4	27.5	22.1
P/B	7.4	5.9	4.7
EV/EBITDA	17.0	15.1	12.7
ROE (%)	27.4	23.8	23.8
D/E	0.8	0.7	0.6

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	YoY Growth %
Sales	1,086	1,078	<i>0.7</i>	1,211	<i>(10.3)</i>
EBITDA	237	188	<i>26.1</i>	237	-
EBITDA margins	21.8	17.4	<i>+440bps</i>	19.6	<i>+230bps</i>
Depreciation	40	38	<i>6.3</i>	42	<i>(5.6)</i>
EBIT	197	150	<i>31.1</i>	194	<i>1.2</i>
Interest	30	46	<i>(34.3)</i>	41	<i>(26.5)</i>
Other Income	4	3	<i>27.4</i>	1	-
Exceptional Items	-	-	-	-	-
PBT	171	107	<i>59.0</i>	154	<i>11.0</i>
Tax	34	18	<i>84.1</i>	30	<i>13.6</i>
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	137	75	<i>53.9</i>	124	<i>10.4</i>
Adjustments	-	-	-	-	-
Adjusted PAT	137	89	<i>53.9</i>	124	<i>10.4</i>
No. of Shares	8.7	8.7	-	8.7	-
EPS (Rs)	16.9	11.0	<i>53.9</i>	15.3	<i>10.4</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	5,874	6,829	5,439	6,425	<i>(7.4)</i>	<i>(5.9)</i>
EBITDA	1,157	1,345	1,077	1,272	<i>(6.9)</i>	<i>(5.4)</i>
Margins (%)	19.7	19.7	19.8	19.8	<i>+10bps</i>	<i>+10bps</i>
Adj. PAT	602	735	546	681	<i>(9.4)</i>	<i>(7.3)</i>
EPS	69.5	84.8	63.0	78.6	<i>(9.4)</i>	<i>(7.3)</i>

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	3,163	3,806	5,014	5,439	6,425
% change	5.2	20.3	31.7	8.5	18.1
EBITDA	653	699	971	1,077	1,272
% change	14.2	7.0	38.8	10.9	18.1
Depreciation	123	146	171	202	231
EBIT	531	553	799	874	1,041
Interest	117	132	184	202	202
Other Income	2	8	2	10	13
PBT	416	429	617	683	852
% change	14.6	3.2	43.8	10.6	24.7
Tax	88	83	118	137	170
Tax Rate (%)	21.2	19.3	19.2	20.0	20.0
Reported PAT	322	330	495	546	681
Adj.*	(6)	3	-	-	-
Adj. PAT	316	333	495	546	681
% change	22.9	5.4	48.7	10.3	24.7
No. of shares (cr)	8.2	8.1	8.7	8.7	8.7
Adj EPS (Rs)	38.8	41.0	57.1	63.0	78.6
% change	22.9	5.4	39.5	10.3	24.7
DPS (Rs)	0.2	1.9	4.4	4.4	4.4
CEPS (Rs)	53.4	58.9	76.9	86.4	105.3

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	450	492	667	748	912
Non-cash adj.	107	106	207	202	202
Changes in W.C	(87)	(263)	(201)	(181)	(305)
C.F. Operation	470	335	673	769	810
Capital exp.	(530)	(614)	(814)	(301)	(500)
Change in inv.	1	4	(17)	(20)	(25)
Other invest.CF	-	-	-	-	-
C.F - Investment	(529)	(610)	(832)	(321)	(525)
Issue of equity	(96)	(98)	750	-	-
Issue/repay debt	155	388	234	(292)	(202)
Dividends paid	(1)	(10)	(38)	(38)	(38)
Other finance.CF	-	-	-	-	-
C.F - Finance	58	279	946	(330)	(240)
Chg. in cash	(0)	4	787	119	45
Closing cash	29	32	828	946	991

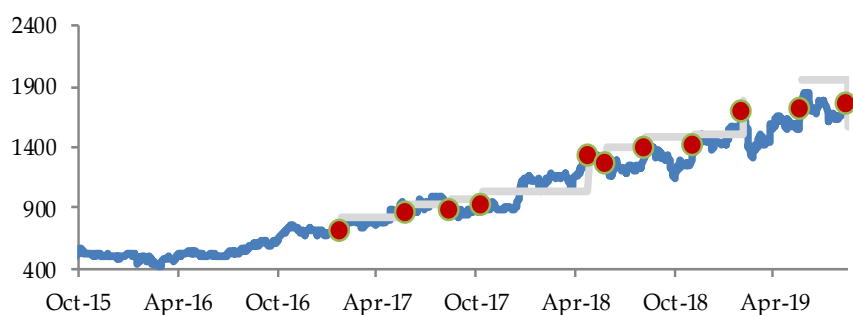
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	29	32	828	946	991
Accounts Receivable	525	591	805	879	1,039
Inventories	571	747	825	901	1,066
Other Cur. Assets	361	476	488	559	660
Investments	47	47	65	85	110
Gross Fixed Assets	2,614	3,060	3,518	4,418	5,018
Net Fixed Assets	1,695	1,996	2,283	2,981	3,350
CWIP	270	436	799	200	200
Intangible Assets	21	17	13	21	21
Def. Tax (Net)	(155)	(177)	(200)	(200)	(200)
Other Assets	-	-	-	-	-
Total Assets	3,344	4,150	5,894	6,352	7,117
Current Liabilities	453	543	633	669	782
Provisions	28	31	44	48	56
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	1,995	2,503	3,147
Shareholder's Fund	1,362	1,578	2,786	3,294	3,937
Total Liabilities	3,344	4,150	5,894	6,352	7,117
BVPS	166	194	235	294	368

RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
Profitab & Return					
EBITDA margin (%)	20.7	18.4	19.4	19.8	19.8
EBIT margin (%)	16.8	14.5	15.9	16.1	16.2
Net profit mgn.(%)	10.0	8.7	9.9	10.0	10.6
ROE (%)	25.3	22.6	27.4	23.8	23.8
ROCE (%)	15.3	13.3	14.5	13.3	14.4
W.C & Liquidity					
Receivables (days)	60.5	53.5	50.8	56.5	54.5
Inventory (days)	111.7	110.3	97.2	100.6	96.9
Payables (days)	88.9	83.3	72.7	75.9	71.5
Current ratio (x)	3.1	3.2	4.4	4.6	4.5
Quick ratio (x)	1.2	1.1	1.3	1.3	1.3
Turnover & Leverage					
Gross asset T.O (x)	1.4	1.3	1.5	1.4	1.4
Total asset T.O (x)	1.0	1.0	1.0	0.9	1.0
Int. covge. ratio (x)	4.5	4.2	4.3	4.6	5.1
Adj. debt/equity (x)	1.1	1.3	0.8	0.7	0.6
Valuation					
EV/Sales (x)	5.2	4.4	3.3	3.0	2.5
EV/EBITDA (x)	25.1	24.2	17.0	15.1	12.7
P/E (x)	44.7	42.4	30.4	27.5	22.1
P/BV (x)	10.5	8.9	7.4	5.9	4.7

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
16-August-19	Reduce	1,572

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.

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

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