

## Worst behind; upgrade to BUY

Specialty Chemicals ▶ Company Update ▶ June 23, 2025

CMP (Rs): 445 | TP (Rs): 525

**We upgrade Aarti to BUY from Add and revise up our TP by 5% to Rs525 from Rs500 (25x Jun-27E EPS, on rollover); the revision is owing to the recent stock price correction and steep rise in gasoline-naphtha cracks which should raise demand for octane boosters and aid volume growth for MMA (Energy business). Aarti would deliver a decent performance within 2-3Y, on i) steady ramp-up in existing, under-utilized capacities; ii) certain macro tailwinds favoring the overall product basket; iii) gradual YoY recovery in coming quarters; iv) staying on track to achieve FY28 EBITDA guidance of Rs18-22bn. Overall performance would be buoyed by cost optimization measures (~18%), volume and margin ramp-up of existing assets (especially MMA; ~45%), and capex-driven growth (~38%). We bake in the middle-end of the FY28 EBITDA guidance, of ~Rs20bn.**

**Decent ramp-up in capacities over the next few quarters**

Aarti has significant potential from higher asset utilization which is likely to add to 45% of incremental EBITDA, basis guidance range of Rs8-12bn. Aarti's focus is to ramp-up its existing assets of NCB, DCB, and Hydrogenation to 85% in the near term from current utilization of ~75%. Aarti would benefit from increased order enquiries for MPDA from its US-based customers which would aid better utilization levels for PDA capacities, in our view. It has recently expanded its nitro toluene (NT) value chain, ethylation, and MMA capacities (in H2FY25) which will be ramped up in FY26. Thus, we expect gradual ramp-up tied up with demand growth which will lead to better operating leverage.

**Macro tailwinds favoring the broader product basket**

We believe that the current geopolitical situation and the agrochemical restocking shall benefit the company in ramping up its existing assets. The company is seeing incremental volume growth for agchem intermediates and downstream technical, while pricing is steady given demand-supply imbalance led by Chinese overcapacities. The US tariff situation may create new market opportunities for Aarti across agrochemicals, pharmaceuticals (higher demand for paracetamol), polymers, and additives (PDA value chain). Energy business outlook is expected to improve, on favorable gasoline-naphtha spreads, and see sequential growth in volume from Q2FY26, on a lower base.

**On track to achieve FY28 EBITDA guidance of Rs18-22bn**

Aarti will see sequential recovery in EBITDA YoY owing to 1) cost optimization initiatives, which are partially complete; 2) ramp of existing capacities with focus on the energy business; and 3) meaningful contribution from MPP and Zone 4 commercialization. Zone 4 capex would see staggered commissioning from H2FY26, starting with MPP, calcium chloride, and then chlorotoluene. FY26 capex guidance stands at Rs10bn (Zone 4: Rs8bn; maintenance: Rs2bn). Post-FY26, focus will be on capacity ramp-up, slow down in capex, and improving balance sheet ratios. Aarti expects debt/EBITDA of under-2.5x and RoCE above 15%. We bake in the middle-end of the FY28 EBITDA guidance, of Rs20bn.

Target Price – 12M	Jun-26
<b>Change in TP (%)</b>	<b>5.0</b>
Current Reco.	BUY
Previous Reco.	ADD
Upside/(Downside) (%)	18.0

Stock Data	ARTO IN
52-week High (Rs)	767
52-week Low (Rs)	344
Shares outstanding (mn)	362.5
Market-cap (Rs bn)	161
Market-cap (USD mn)	1,860
Net-debt, FY26E (Rs mn)	39,833.9
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	839.5
ADTV-3M (USD mn)	9.7
Free float (%)	0.0
Nifty-50	24,971.9
INR/USD	86.8

**Shareholding, Mar-25**

Promoters (%)	42.2
FPIs/MFs (%)	6.3/20.0

**Price Performance**

(%)	1M	3M	12M
Absolute	(5.1)	9.3	(37.2)
Rel. to Nifty	(5.6)	2.2	(40.9)

**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	90,179	105,976	122,862
EBITDA	9,760	10,010	13,511	17,305	19,931
Adj. PAT	4,160	3,290	5,140	7,168	8,961
Adj. EPS (Rs)	11.5	9.1	14.2	19.8	24.8
EBITDA margin (%)	15.3	13.8	15.0	16.3	16.2
EBITDA growth (%)	(10.4)	2.6	35.0	28.1	15.2
Adj. EPS growth (%)	(23.7)	(20.9)	56.2	39.5	25.0
RoE (%)	8.1	6.0	8.8	11.2	12.6
RoIC (%)	9.5	8.6	9.4	10.2	11.4
P/E (x)	38.7	49.3	31.4	22.5	18.0
EV/EBITDA (x)	19.6	19.1	14.2	11.1	9.6
P/B (x)	3.0	2.9	2.7	2.4	2.1
FCFF yield (%)	(0.3)	(0.8)	(0.8)	4.4	5.1

Source: Company, Emkay Research

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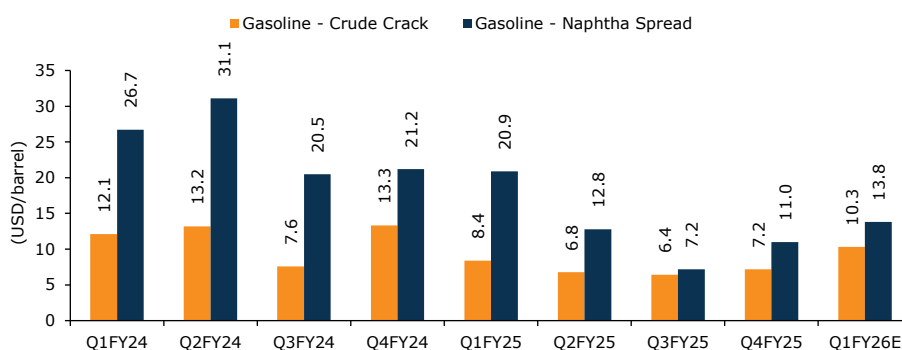
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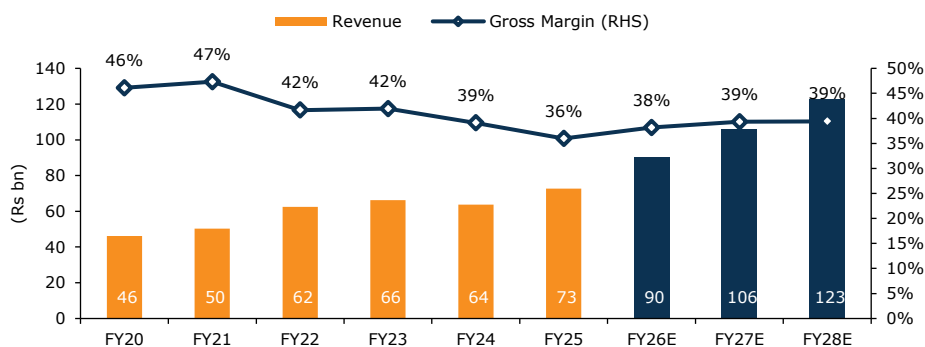
**Exhibit 1: Capacity and utilization trends show significant upside, leading to operating leverage**

Product groups	Capacity (KT; expanded period)	FY22	FY23	FY24	FY25	YoY	Q4FY24	Q3FY25	Q4FY25	YoY	QoQ	FY25 utilization
NCB	108 (from Q3FY24)	76.6	77.8	73.5	85.3	16%	18.8	22.9	23.9	27%	4%	79%
DCB	120	74.6	84.2	80.7	88.6	10%	24.4	20.8	20.4	-16%	-2%	74%
Hydrogenation	60	35.7	37.2	39.1	44.4	14%	10.5	11.3	11.6	10%	3%	74%
PDA	12	6.5	4.2	4.4	3.9	-11%	1.9	1.3	1.0	-47%	-23%	33%
NT	45 (from Q4FY25)	16	23.9	30.5	29.4	-4%	6.7	6.5	7.9	18%	22%	65%
Ethylation	25-30 (from Q4FY25)	7.2	11.9	10.5	14.5	38%	3.2	4.1	4.6	44%	12%	48%
MMA	200 (from Q3FY25)	23.1	37.8	89.3	123.0	38%	30.4	36.6	34.8	14%	-5%	62%

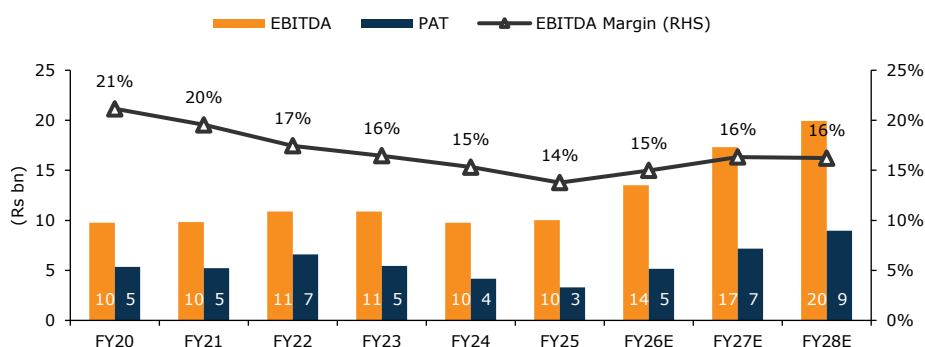
Source: Company, Emkay Research

**Exhibit 2: Gasoline-Naphtha spreads improving; favorable for MMA**

Source: Company, Bloomberg, Emkay Research

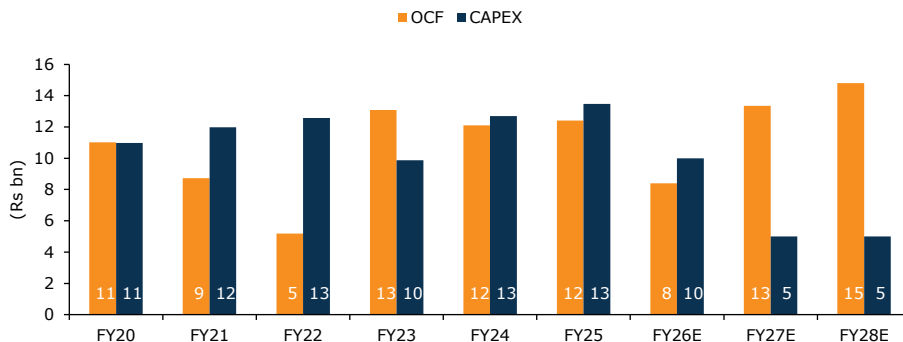
**Exhibit 3: Aarti to clock revenue CAGR of 19% over FY25-28E**

Source: Company, Emkay Research

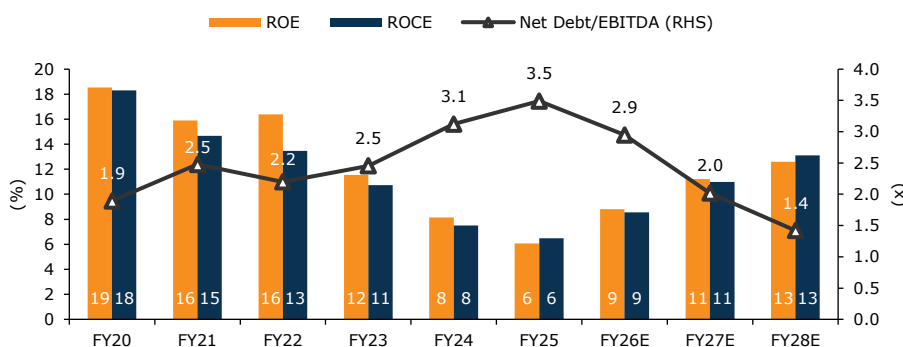
**Exhibit 4: Volume growth and cost optimization to lead to EBITDA growth**

Source: Company, Emkay Research

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**Exhibit 5: Mindful capex with stable cash flows for debt repayment**

Source: Company, Emkay Research

**Exhibit 6: Debt to remain under control with slowdown in capex and improving return ratios**

Source: Company, Emkay Research

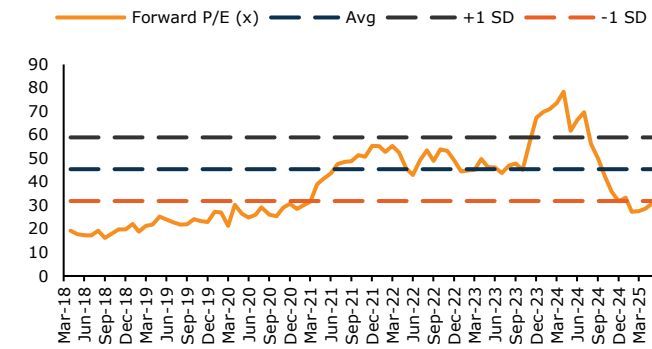
**Exhibit 7: Specialty Chemicals companies – Peer valuations, a comparison**

Peer (Domestic)	Rating	TP (Rs)	CMP (Rs)	P/E (x)		EV/E (x)		RoE (%)		
				FY26E	FY27E	FY26E	FY27E	FY25	FY26E	FY27E
SRF	ADD	3,250	3,033	43	32	25	20	10	16	18
PI Industries	REDUCE	3,650	4,152	37	32	26	23	18	16	16
Gujarat Fluorochemicals*	SELL	3,800	3,373	48	41	28	25	9	11	12
Deepak Nitrite	REDUCE	2,000	1,879	34	29	21	17	14	13	14
Navin Fluorine International	ADD	4,800	4,640	51	39	30	24	12	16	18
Atul	BUY	8,500	6,926	31	24	18	15	9	11	13
Aarti Industries	BUY	525	445	31	22	14	11	6	9	11
Epigral	BUY	2,450	1,738	18	14	11	9	23	20	21
Anupam Rasayan India*	ADD	900	1,143	80	41	34	22	3	6	10
GHCL	BUY	900	581	9	8	6	5	19	17	16
Vishnu Chemicals	BUY	600	536	23	18	14	11	16	15	17
Tata Chemicals	NR	NA	906	44	25	13	11	2	2	4
Vinati Organics	NR	NA	1,913	40	33	28	23	15	16	18
Deepak Fertilisers & Petrochem	NR	NA	1,548	18	14	10	8	16	16	18
Fine Organic Industries	NR	NA	4,718	33	31	25	22	20	18	16
Clean Science & Technology	NR	NA	1,434	46	36	32	25	21	21	22
Jubilant Ingrevia	NR	NA	724	37	29	20	16	9	10	12
Aether Industries	NR	NA	764	46	34	31	22	7	9	10
Archean Chemical Industries	NR	NA	620	21	16	14	11	12	17	20
Laxmi Organic Industries	NR	NA	192	31	24	14	11	7	8	10
Sudarshan Chemical Industries	NR	NA	1,245	31	34	18	16	12	19	17
Neogen Chemicals	NR	NA	1,598	68	36	28	16	7	7	12

Source: Company, Emkay Research

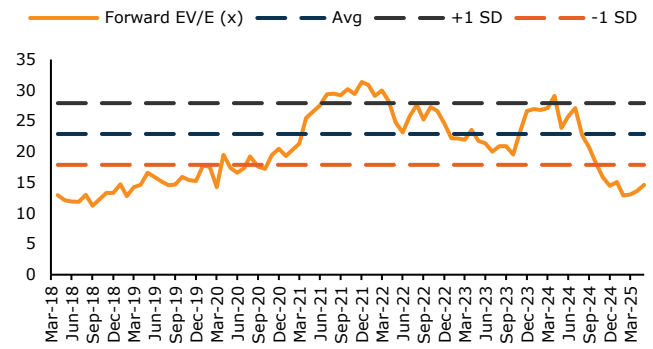
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Exhibit 8: One-year forward P/E



Source: Company, Emkay Research

Exhibit 9: 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	90,179	105,976	122,862
Revenue growth (%)	(3.7)	14.1	24.0	17.5	15.9
EBITDA	9,760	10,010	13,511	17,305	19,931
EBITDA growth (%)	(10.4)	2.6	35.0	28.1	15.2
Depreciation & Amortization	3,780	4,340	5,313	6,157	6,445
EBIT	5,980	5,670	8,198	11,148	13,487
EBIT growth (%)	(23.2)	(5.2)	44.6	36.0	21.0
Other operating income	-	-	-	-	-
Other income	80	140	140	140	140
Financial expense	2,110	2,750	2,928	2,855	2,426
PBT	3,950	3,060	5,410	8,433	11,201
Extraordinary items	0	(20)	0	0	0
Taxes	(210)	(230)	271	1,265	2,240
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	4,160	3,270	5,140	7,168	8,961
PAT growth (%)	(23.7)	(21.4)	57.2	39.5	25.0
Adjusted PAT	4,160	3,290	5,140	7,168	8,961
Diluted EPS (Rs)	11.5	9.1	14.2	19.8	24.8
Diluted EPS growth (%)	(23.7)	(20.9)	56.2	39.5	25.0
DPS (Rs)	1.5	1.0	1.4	2.0	2.5
Dividend payout (%)	13.0	11.0	10.0	10.0	10.0
EBITDA margin (%)	15.3	13.8	15.0	16.3	16.2
EBIT margin (%)	9.4	7.8	9.1	10.5	11.0
Effective tax rate (%)	(5.3)	(7.5)	5.0	15.0	20.0
NOPLAT (pre-IndAS)	6,298	6,096	7,788	9,476	10,789
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	58,866	65,317	73,381
Net worth	52,890	56,050	60,676	67,127	75,191
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	40,193	35,951	28,738
Total liabilities & equity	87,100	91,760	98,688	100,898	101,749
Net tangible fixed assets	55,875	62,765	76,992	75,835	74,391
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	359	1,029	443
Current assets (ex-cash)	25,530	27,230	31,550	36,863	42,542
Current Liab. & Prov.	12,600	17,200	16,688	19,305	22,102
NWC (ex-cash)	12,930	10,030	14,862	17,558	20,441
Total assets	87,100	91,760	98,688	100,898	101,749
Net debt	30,480	34,940	39,834	34,922	28,295
Capital employed	87,100	91,760	98,688	100,898	101,749
Invested capital	68,890	73,280	92,340	93,879	95,316
BVPS (Rs)	146.1	154.8	167.6	185.4	207.7
Net Debt/Equity (x)	0.6	0.6	0.7	0.5	0.4
Net Debt/EBITDA (x)	3.1	3.5	2.9	2.0	1.4
Interest coverage (x)	2.9	2.1	2.8	4.0	5.6
RoCE (%)	7.3	6.4	8.6	11.1	13.2

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	3,870	2,920	5,270	8,293	11,061
Others (non-cash items)	3,780	4,340	5,313	6,157	6,445
Taxes paid	(850)	60	(271)	(1,265)	(2,240)
Change in NWC	1,828	2,160	(4,832)	(2,696)	(2,882)
Operating cash flow	12,100	12,420	8,408	13,344	14,809
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	2,303	(4,241)	(7,214)
Payment of lease liabilities	(227)	20	0	0	0
Interest paid	(2,110)	(2,750)	(2,928)	(2,855)	(2,426)
Dividend paid (incl tax)	(540)	(360)	(514)	(717)	(896)
Others	(47)	130	-	0	-
Financing cash flow	3,973	(710)	(1,139)	(7,814)	(10,536)
Net chg in Cash	2,383	(2,270)	(2,591)	671	(587)
OCF	12,100	12,420	8,408	13,344	14,809
Adj. OCF (w/o NWC chg.)	10,272	10,260	13,240	16,040	17,691
FCFF	(661)	(1,460)	(1,592)	8,344	9,809
FCFE	(2,771)	(4,210)	(4,520)	5,489	7,383
OCF/EBITDA (%)	124.0	124.1	62.2	77.1	74.3
FCFE/PAT (%)	(66.6)	(128.7)	(87.9)	76.6	82.4
FCFF/NOPLAT (%)	(10.5)	(23.9)	(20.4)	88.1	90.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	38.7	49.3	31.4	22.5	18.0
EV/CE(x)	2.2	2.0	1.9	1.9	1.8
P/B (x)	3.0	2.9	2.7	2.4	2.1
EV/Sales (x)	3.0	2.6	2.1	1.8	1.6
EV/EBITDA (x)	19.6	19.1	14.2	11.1	9.6
EV/EBIT(x)	32.0	33.8	23.4	17.2	14.2
EV/IC (x)	2.8	2.6	2.1	2.0	2.0
FCFF yield (%)	(0.3)	(0.8)	(0.8)	4.4	5.1
FCFE yield (%)	(1.7)	(2.6)	(2.8)	3.4	4.6
Dividend yield (%)	0.3	0.2	0.3	0.4	0.6
DuPont-RoE split					
Net profit margin (%)	6.5	4.5	5.7	6.8	7.3
Total asset turnover (x)	0.8	0.8	1.0	1.1	1.2
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.4
RoE (%)	8.1	6.0	8.8	11.2	12.6
DuPont-RoIC					
NOPLAT margin (%)	9.9	8.4	8.6	8.9	8.8
IC turnover (x)	1.0	1.0	1.1	1.1	1.3
RoIC (%)	9.5	8.6	9.4	10.2	11.4
Operating metrics					
Core NWC days	74.1	50.4	60.2	60.5	60.7
Total NWC days	74.1	50.4	60.2	60.5	60.7
Fixed asset turnover	0.9	0.9	0.9	1.0	1.1
Opex-to-revenue (%)	23.8	22.2	23.2	23.0	23.2

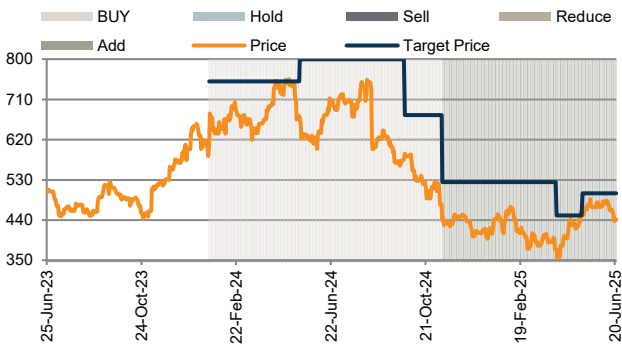
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

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

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<b>SELL</b>	<15% downside

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