

July 2, 2025

Company Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	REDUCE		REDUCE	
Target Price	420		394	
Sales (Rs. m)	80,449	91,858	80,449	91,858
% Chng.	-	-	-	-
EBITDA (Rs. m)	12,211	15,074	12,071	14,934
% Chng.	1.2	0.9	1.2	0.9
EPS (Rs.)	12.3	16.8	11.9	16.4
% Chng.	3.1	2.3	3.1	2.3

Key Financials - Consolidated

Y/e Mar	FY24	FY25	FY26E	FY27E
Sales (Rs. m)	63,720	72,710	80,449	91,858
EBITDA (Rs. m)	9,760	10,010	12,211	15,074
Margin (%)	15.3	13.8	15.2	16.4
PAT (Rs. m)	4,160	3,290	4,459	6,086
EPS (Rs.)	11.5	9.1	12.3	16.8
Gr. (%)	(23.6)	(20.9)	35.3	36.5
DPS (Rs.)	0.6	0.5	0.6	0.8
Yield (%)	0.1	0.1	0.1	0.2
RoE (%)	8.1	6.0	7.7	9.6
RoCE (%)	7.2	6.2	6.9	8.1
EV/Sales (x)	3.2	2.9	2.8	2.5
EV/EBITDA (x)	21.1	21.0	18.3	15.0
PE (x)	42.2	53.3	39.4	28.9
P/BV (x)	3.3	3.1	2.9	2.7

Key Data

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52-W High / Low	Rs.767 / Rs.344
Sensex / Nifty	83,697 / 25,542
Market Cap	Rs.176bn / \$ 2,054m
Shares Outstanding	363m
3M Avg. Daily Value	Rs.861.95m

Shareholding Pattern (%)

Promoter's	42.24
Foreign	6.29
Domestic Institution	19.97
Public & Others	31.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.2	16.4	(31.3)
Relative	0.5	9.2	(34.7)

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Volume scaling gradually, but realization impacted

Quick Pointers:

- Targeting double-digit volume growth in FY26; margins to remain stable YoY
- JV with UPL to commercialize in FY27; gradual ramp-up expected

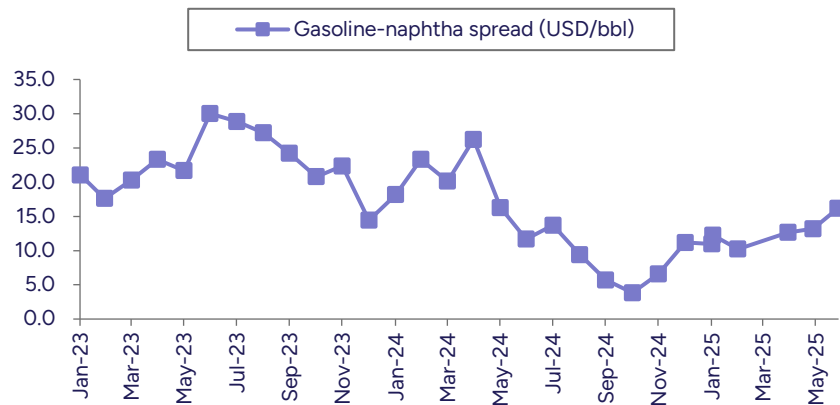
Aarti Industries demonstrated a volume growth of 17% in FY25, however realizations across key products remained subdued, resulting in lower margins. For FY26, the management has guided double-digit volume growth and expects margins to remain stable. The Energy segment, which contributed 36% to the company's topline in FY25 and is largely comprised of MMA, saw sequential improvement in export volumes, although pricing pressure persists due to volatility in the gasoline-naphtha spread. Over the past few years, the company has undertaken multiple growth initiatives, including capacity expansions in MMA, Nitro Toluene, and Ethylation, which are expected to ramp up gradually. The company is currently executing four long-term contracts, with volume ramp-up anticipated across most of them. However, there remains uncertainty around the achievability of the previously guided peak annual revenue potential from these contracts. Meanwhile, the ongoing capex for Chloro Toluene and its derivatives is slated to commercialize in FY26. These initiatives, along with efforts on cost optimization, are expected to help bridge the gap between the current EBITDA of Rs10bn and the management's target range of Rs18–22bn within three years. While volume growth remains visible, we believe that continued weakness in realizations will likely impact near-term performance. The stock trades at 29x FY27E P/E. We maintain a Reduce rating, valuing it at 25x FY27E EPS, and arrive at a target price of Rs420.

- Execution of ongoing long-term contracts:** Visible volume growth is expected across all ongoing long-term contracts. EBITDA for Contract 2, which involves the supply of a specialty chemical intermediate and is not linked to volumes, is largely protected. While the initial peak revenue guidance for this contract was Rs6.5bn annually, it may come down to Rs5bn. Contract 3 is expected to generate annual revenue of Rs800–1,000mn, with potential to scale up to Rs1,250mn at peak. For Contract 4, which involves the supply of an agrochemical intermediate, volumes are expected to reach 80–90% of the contracted value; however, topline may be impacted due to continued pressure on realizations. Contract 5, which includes supply of a niche specialty chemical, has an annual revenue potential of Rs15 bn, of which 70–80% is expected to be realized in FY26. Additionally, the commercial operations of the joint venture with UPL, focused on producing downstream derivatives of amines, are expected to commence in FY27, with a ramp-up phase spread over the following 2–3 years.
- Bridge from Rs10bn to Rs18–22bn EBITDA in 3 years:** The management expects a total EBITDA improvement of Rs8–12bn over the next 3 years, driven by multiple levers. Around Rs2–2.5bn is anticipated to come from cost optimization initiatives, for which the necessary capex has already been

completed. An additional Rs3–4bn is expected to be driven by volume growth and the ramp-up of existing projects. Furthermore, Rs3bn in incremental EBITDA is expected from its new product basket, particularly from Chloro Toluene and its downstream derivatives, which have diverse applications across agrochemicals, dyes, pharmaceuticals, and other specialty segments.

- **Capex Outlook:** For FY26, capex is guided to be around Rs10bn, primarily towards expanding capacity for Chloro Toluene and its downstream derivatives. From FY27 onwards, capex is expected to reduce and will mostly be for regular maintenance.

Exhibit 1: Gasoline-Naphtha at USD16.2/bbl in May'25



Source: Company, PL

Exhibit 2: : Maintain Reduce rating, valuing it at 25x FY27E EPS with TP of Rs420

Y/e March	FY26E	FY27E
EPS (Rs)	12	17
Target multiple		25
Target Price		420

Source: PL, Company

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25	FY26E	FY27E
Net Revenues	63,720	72,710	80,449	91,858
YoY gr. (%)	(3.7)	14.1	10.6	14.2
Cost of Goods Sold	38,800	46,550	49,735	55,657
Gross Profit	24,920	26,160	30,714	36,201
Margin (%)	39.1	36.0	38.2	39.4
Employee Cost	4,040	4,220	4,827	5,511
Other Expenses	11,120	11,930	13,676	15,616
EBITDA	9,760	10,010	12,211	15,074
YoY gr. (%)	(10.4)	2.6	22.0	23.4
Margin (%)	15.3	13.8	15.2	16.4
Depreciation and Amortization	3,780	4,340	5,134	5,890
EBIT	5,980	5,670	7,077	9,184
Margin (%)	9.4	7.8	8.8	10.0
Net Interest	2,110	2,750	2,620	3,049
Other Income	80	140	140	140
Profit Before Tax	3,950	3,040	4,597	6,275
Margin (%)	6.2	4.2	5.7	6.8
Total Tax	(210)	(230)	138	188
Effective tax rate (%)	(5.3)	(7.6)	3.0	3.0
Profit after tax	4,160	3,270	4,459	6,086
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,160	3,290	4,459	6,086
YoY gr. (%)	(23.7)	(20.9)	35.5	36.5
Margin (%)	6.5	4.5	5.5	6.6
Extra Ord. Income / (Exp)	-	(20)	-	-
Reported PAT	4,160	3,270	4,459	6,086
YoY gr. (%)	(23.7)	(21.4)	36.4	36.5
Margin (%)	6.5	4.5	5.5	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,160	3,270	4,459	6,086
Equity Shares O/s (m)	362	362	363	363
EPS (Rs)	11.5	9.1	12.3	16.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25	FY26E	FY27E
Non-Current Assets				
Gross Block	73,984	85,614	1,03,074	1,13,074
Tangibles	73,965	85,595	1,03,055	1,13,055
Intangibles	19	19	19	19
Acc: Dep / Amortization	18,024	22,364	27,498	33,388
Tangibles	17,944	22,284	27,418	33,308
Intangibles	80	80	80	80
Net fixed assets	56,490	63,760	76,086	80,197
Tangibles	56,551	63,821	76,147	80,257
Intangibles	(61)	(61)	(61)	(61)
Capital Work In Progress	12,300	14,540	6,800	6,800
Goodwill	-	-	-	-
Non-Current Investments	230	480	480	480
Net Deferred tax assets	1,430	2,180	2,180	2,180
Other Non-Current Assets	1,110	1,220	1,220	1,220
Current Assets				
Investments	-	-	-	-
Inventories	11,600	14,540	13,224	15,100
Trade receivables	8,540	7,860	13,224	15,100
Cash & Bank Balance	5,160	2,950	1,016	2,079
Other Current Assets	4,210	3,530	5,315	6,069
Total Assets	1,01,150	1,11,120	1,19,648	1,29,340
Equity				
Equity Share Capital	1,810	1,810	1,813	1,813
Other Equity	51,090	54,240	58,476	64,258
Total Network	52,900	56,050	60,288	66,071
Non-Current Liabilities				
Long Term borrowings	15,240	18,670	23,000	22,000
Provisions	630	150	150	150
Other non current liabilities	1,750	1,590	1,590	1,590
Current Liabilities				
ST Debt / Current of LT Debt	20,400	19,220	26,449	30,200
Trade payables	7,240	12,370	4,408	5,033
Other current liabilities	2,980	3,070	3,762	4,296
Total Equity & Liabilities	1,01,150	1,11,120	1,19,648	1,29,340

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25	FY26E	FY27E
PBT	3,950	3,050	4,597	6,275
Add. Depreciation	3,780	4,340	5,134	5,890
Add. Interest	2,110	2,750	2,620	3,049
Less Financial Other Income	80	140	140	140
Add. Other	(110)	(90)	(140)	(140)
Op. profit before WC changes	9,880	10,050	12,211	15,074
Net Changes-WC	3,220	2,310	(13,326)	(3,409)
Direct tax	(860)	70	203	(140)
Net cash from Op. activities	12,240	12,430	(912)	11,525
Capital expenditures	(13,060)	(13,790)	(10,000)	(10,000)
Interest / Dividend Income	71	150	140	140
Others	(710)	(340)	-	-
Net Cash from Invst. activities	(13,699)	(13,980)	(9,860)	(9,860)
Issue of share cap. / premium	-	(100)	3	-
Debt changes	6,950	2,490	11,559	2,751
Dividend paid	(540)	(360)	(223)	(304)
Interest paid	(2,110)	(2,750)	(2,620)	(3,049)
Others	(90)	(20)	1,080	-
Net cash from Fin. activities	4,210	(740)	9,798	(603)
Net change in cash	2,751	(2,290)	(974)	1,062
Free Cash Flow	(1,040)	(1,430)	(10,912)	1,525

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25	FY26E	FY27E
Per Share(Rs)				
EPS	11.5	9.1	12.3	16.8
CEPS	21.9	21.1	26.5	33.0
BVPS	146.1	154.8	166.3	182.3
FCF	(2.9)	(4.0)	(30.1)	4.2
DPS	0.6	0.5	0.6	0.8
Return Ratio(%)				
RoCE	7.2	6.2	6.9	8.1
ROIC	7.9	7.0	6.9	7.9
RoE	8.1	6.0	7.7	9.6
Balance Sheet				
Net Debt : Equity (x)	0.6	0.6	0.8	0.8
Net Working Capital (Days)	74	50	100	100
Valuation(x)				
PER	42.2	53.3	39.4	28.9
P/B	3.3	3.1	2.9	2.7
P/CEPS	22.1	23.0	18.3	14.7
EV/EBITDA	21.1	21.0	18.3	15.0
EV/Sales	3.2	2.9	2.8	2.5
Dividend Yield (%)	0.1	0.1	0.1	0.2

Source: Company Data, PL Research

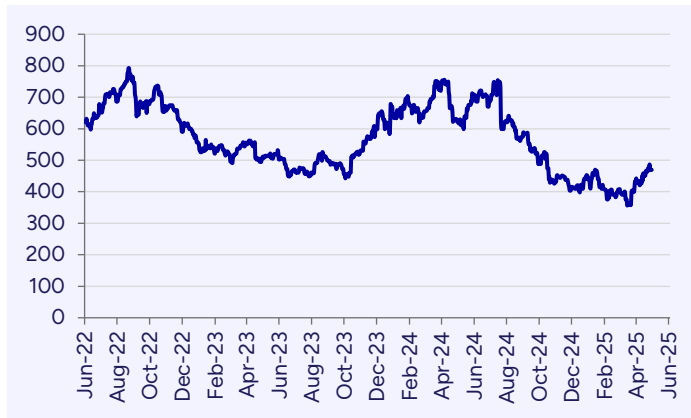
Quarterly Financials (Rs m)

Y/e Mar	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Net Revenue	18,550	16,280	18,430	19,490
YoY gr. (%)	31.2	12.0	6.4	9.9
Raw Material Expenses	11,550	10,170	12,290	12,510
Gross Profit	7,000	6,110	6,140	6,980
Margin (%)	37.7	37.5	33.3	35.8
EBITDA	3,060	1,960	2,360	2,680
YoY gr. (%)	51.5	(16.2)	(9.2)	(5.3)
Margin (%)	16.5	12.0	12.8	13.8
Depreciation / Depletion	1,020	1,080	1,110	1,130
EBIT	2,040	880	1,250	1,550
Margin (%)	11.0	5.4	6.8	8.0
Net Interest	640	620	850	640
Other Income	60	50	10	(30)
Profit before Tax	1,460	330	410	880
Margin (%)	7.9	2.0	2.2	4.5
Total Tax	70	(180)	(60)	(70)
Effective tax rate (%)	4.8	(54.5)	(14.6)	(8.0)
Profit after Tax	1,390	510	470	950
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,390	510	470	950
YoY gr. (%)	95.8	(44.6)	(62.1)	(28.0)
Margin (%)	7.5	3.1	2.6	4.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,390	510	470	950
YoY gr. (%)	95.8	(44.6)	(62.1)	(28.0)
Margin (%)	7.5	3.1	2.6	4.9
Other Comprehensive Income	10	(30)	(80)	240
Total Comprehensive Income	1,400	480	390	1,190
Avg. Shares O/s (m)	363	363	363	363
EPS (Rs)	3.8	1.4	1.3	2.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-May-25	Reduce	394	449
2	08-Apr-25	Reduce	330	356
3	04-Feb-25	Reduce	411	453
4	08-Jan-25	Reduce	381	405
5	09-Nov-24	Reduce	411	474
6	05-Oct-24	Reduce	512	551
7	13-Aug-24	Reduce	635	735
8	04-Jul-24	Reduce	634	718

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	394	449
2	Bharat Petroleum Corporation	Reduce	267	311
3	Bharti Airtel	Accumulate	1,988	1,834
4	Clean Science and Technology	Hold	1,354	1,329
5	Deepak Nitrite	Reduce	1,799	2,096
6	Fine Organic Industries	BUY	5,440	4,690
7	GAIL (India)	Hold	191	184
8	Gujarat Fluorochemicals	Reduce	3,541	3,988
9	Gujarat Gas	Sell	372	464
10	Gujarat State Petronet	Hold	348	339
11	Hindustan Petroleum Corporation	Sell	321	410
12	Indian Oil Corporation	Reduce	122	143
13	Indraprastha Gas	Sell	150	185
14	Jubilant Ingrevia	Hold	713	682
15	Laxmi Organic Industries	Reduce	172	190
16	Mahanagar Gas	Hold	1,410	1,410
17	Mangalore Refinery & Petrochemicals	Sell	109	129
18	Navin Fluorine International	Accumulate	5,161	4,595
19	NOCIL	Reduce	172	184
20	Oil & Natural Gas Corporation	Accumulate	276	242
21	Oil India	BUY	649	430
22	Petronet LNG	Reduce	292	321
23	Reliance Industries	Accumulate	1,482	1,300
24	SRF	Hold	3,069	2,928
25	Vinati Organics	Accumulate	1,882	1,765

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (IIR)	: Rating likely to change shortly

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