MIRAE ASSET Sharekhan

Stock Update

Result Update

Aarti Industries Ltd

Volume led growth; EBITDA guidance intact

Specaility Chem		Sharekhan code: AARTIIND	
Reco/View: **Buy**	⇔	CMP: **Rs. 477**	Price Target: **Rs. 550** ↓

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

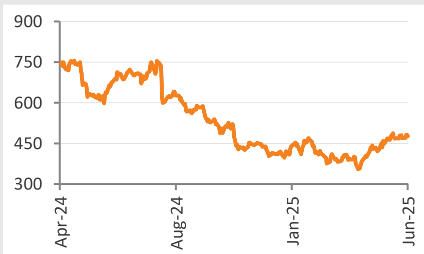
Company details

Market cap:	Rs. 17,275 cr
52-week high/low:	Rs. 767 / 347
NSE volume: (No of shares)	18.6 lakh
BSE code:	524208
NSE code:	AARTIIND
Free float: (No of shares)	20.6 cr

Shareholding (%)

Promoters	43
FII	6
DII	20
Others	31

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	3.9	17.3	6.1	-25.3
Relative to Sensex	4.6	7.7	6.5	-31.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Q4FY2025 results were good, with a rise of 6%/14%/102% q-o-q in consolidated revenues/ operating profit/PAT to Rs. 1,949/ 268/ 95 crore respectively.
- The energy business volume was up 21% q-o-q and the non-energy business volumes grew 14% q-o-q
- Company expects growth in FY26 to be volume led and has maintained the EBITDA guidance of Rs. 1,800-2,200 crore for FY28.
- With the company executing well on its guidance, we maintain a Buy on Aarti Industries, assigning a 28x multiple on its FY27 EPS and arrive at a TP of Rs. 550. The company is trading at a valuation of 31x/24x its FY26/27 earnings estimates.

Aarti Industries' clocked revenue of Rs. 1,949 crore, marking a 6% q-o-q growth, largely driven by volume recovery across all end applications. EBITDA for the quarter came in at Rs. 268 crore, reflecting a 14% sequential improvement. Likewise, PAT increased to Rs. 95 crore (up 102% q-o-q), driven by better cost efficiencies achieved through higher volumes. Speaking of specific applications, volumes for Energy applications grew 21% q-o-q driven by the strategy to diversify and widen the customer base and geographical spread. On the other hand, the non-energy business volumes grew 14% q-o-q. It clocked good volume recovery in chains such as Nitro Toluene, NCB, and Ethylation-based products, driven by new capacity additions and improving demand landscape.

Management Commentary

- Capex in FY25 was of Rs. 1,372 crore. In FY26, capex is expected to be Rs. 950-1,000 crore. Most of it would be for Zone-4 and it would commence operations in FY26. Net debt is currently Rs. 3,500 crore and company expects it to reduce by Rs. 200-300 crore in FY26. The tax rate is expected to be mid-single digit in FY26 because of the higher capex and depreciation.
- The management expects growth to be volume led in FY26 as well with not much improvement in pricing.
- MMA sales are more concentrated towards Middle East. The company is trying to diversify it and increase sales in US, Europe and India.
- On tariffs, the products which are not exempted see a direct benefit in comparison to the same product from China. If it is a non-exempt product, sometimes there is a tendency from the market to see if they can source better volumes from India. But in other cases, like a non-exempt product like MMA, where the company has to develop the market, tariffs can have a negative impact.
- The company has maintained it EBITDA guidance of Rs. 1,800-2,200 crore by FY28 (from Rs. ~1,000 crore currently). It will be driven by cost optimization initiatives, volume and margin ramp up in existing facilities and capex led growth. The cost optimization bit will be completed in FY26 and majority of its benefits will start accruing in FY27.
- Product wise in FY26, PDA capacity utilization should improve. In NCB two large customers are increasing their capacity, so its capacity utilization will also go up. Nitrotoluene and ethylation also, the volumes will increase while they would remain flat in DCB.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 550: The company has been executing well on its strategy and achieved its guided EBITDA range for FY25. It has a well laid out strategy to increase its EBITDA to Rs. 1,800-2,200 crore in FY28 (from Rs. ~1,000 crore currently). Hence, we maintain a Buy on the company with a TP of Rs. 550, assigning a 28x multiple on its FY27 EPS. The stock is currently trading at 31x/24x its FY26/27 earnings estimates.

Key Risks

1) Slowdown in demand of the end user industries 2) Delay in commissioning of facilities for multi-year contracts 3) Adverse commodity prices.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25	FY26E	FY27E
Net Sales	6,372	7,271	8,507	9,698
EBITDA	976	1,001	1,339	1,657
OPM (%)	15.4	14.0	15.9	17.2
Adjusted PAT	416	306	562	715
y-o-y growth (%)	(23.9)	(26.4)	83.8	27.1
Adjusted EPS (Rs.)	11.5	8.4	15.5	19.7
P/E (x)	41.6	56.5	30.8	24.2
P/BV (x)	3.3	3.1	2.9	2.7
EV/EBITDA (x)	20.8	20.8	15.7	12.9
RoCE (%)	7.2	6.4	8.6	10.9
RoE (%)	8.1	5.6	9.7	11.5

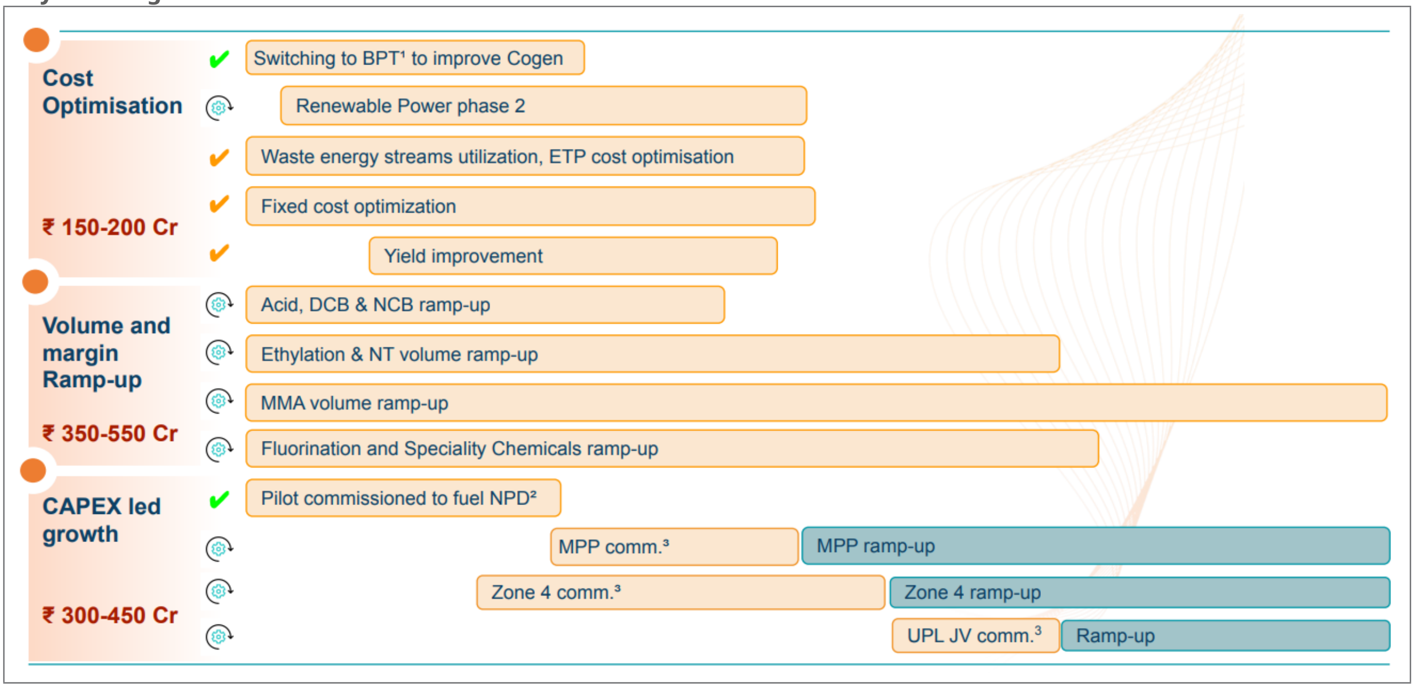
Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated) Rs cr

Particulars	Q4FY25	Q4FY24	Y-o-Y (%)	Q3FY25	Q-o-Q (%)
Revenue	**1,949**	**1,773**	**9.9**	**1,843**	**5.8**
Total expenditure	1,681	1,490	12.8	1,607	4.6
Operating profit	**268**	**283**	**(5.3)**	**236**	**13.6**
Other Income	(3.0)	-	-	1.0	(400.0)
Depreciation	113	98	15.3	111	1.8
Interest	64	59	8.5	85	(24.7)
PBT	**88**	**126**	**(30.2)**	**41**	**114.6**
Tax	(7)	(6)	16.7	(6)	16.7
Reported PAT	**95**	**132**	**(28.0)**	**47**	**102.1**
Reported EPS (Rs)	2.6	3.6	(28.0)	1.3	102.1
			YoY (BPS)		**QoQ (BPS)**
Gross Margin	35.8	39.6	(378)	33.3	250
EBITDA margin	13.8	16.0	(221)	12.8	95
Net Profit	4.9	7.4	(257)	2.6	232
Tax Rate	(8.0)	(4.8)	(319)	-14.6	668

Source: Company; Mirae Asset Sharekhan Research

Key EBITDA growth drivers



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ **Sector View - Structural growth drivers to drive sustained growth for specialty chemicals in medium to long term**

We remain bullish on the medium to long-term growth prospects of the specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution, a potential increase in exports given the China Plus One strategy by global customers, and favourable government policies (such as tax incentives and production-linked incentive scheme). In our view, conducive government policies, product innovation, a massive export opportunity and low input prices would help the sector witness a sustained high double-digit earnings growth trajectory for the next few years.

■ **Company Outlook – Demand recovery; capex to drive long-term growth:**

The company has turned a corner and has witnessed good volume growth. The new CEO has put up a strategy for its EBITDA to reach Rs. 1,800-2,200 crore in FY8 led by cost optimization initiatives, volume and margin ramp up in existing facilities and capex led growth. The company has been executing well till now and expects good volume growth in FY26 as well and the cost optimization initiatives to be completed. The energy business (MMA) of the company has been growing well.

■ **Valuation – Maintain Buy with a revised PT of Rs. 550**

The company has been executing well on its strategy and achieved its guided EBITDA range for FY25. It has a well laid out strategy to increase its EBITDA to Rs. 1,800-2,200 crore in FY28 (from Rs. ~1,000 crore currently). Hence, we maintain a Buy on the company with a TP of Rs. 550, assigning a 28x multiple on its FY27 EPS. The stock is currently trading at 31x/24x its FY26/27 earnings estimates.

About company

Aarti Industries Limited (AIL), founded in 1984 and headquartered in Mumbai, is a leading Indian manufacturer of specialty chemicals and pharmaceuticals with a global footprint. Specializing in benzene-based derivatives, AIL, serving over 400 global and 700 domestic customers across 60+ countries. Its product range includes chemicals for agrochemicals, pharmaceuticals, polymers, dyes, and more, with integrated operations across 16 manufacturing sites and 2 R&D centres in Gujarat and Maharashtra. AIL emphasizes sustainability, with SBTi-validated emission reduction targets and a focus on R&D through four centers.

Investment theme

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Key Risks

- Slowdown in demand of the end user industries
- Delay in commissioning of facilities for multi-year contracts
- Adverse commodity prices

Additional Data

Key management personnel

Name	Designation
Rajendra Vallabhaji Gogri	Chairman cum Managing Director
Rashesh Chandrakant Gogri	Vice Chairman cum Managing Director
Suyog Kotecha	CEO
Chetan Gandhi	CFO
Raj Sarraf	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.8
2	ICICI Prudential Asset Management	3.38
3	HDFC Asset Management Co Ltd	2.65
4	Vanguard Group Inc/The	2.19
5	Nippon Life India Asset Management	1.43
6	Alchemie Financial Services Ltd	1.03
8	Blackrock Inc	0.98
9	UTI Asset Management Co Ltd	0.81
10	Axis Asset Management Co Ltd/India	0.66
10	Edelweiss Asset Management Ltd	0.64

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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