Aarti Industries Ltd — 11 Sep 2025 Credit Rating Summary

Section	Details
Agency	CRISIL Ratings
Rating Change	**CRISIL AA (Reaffirmed)**
Outlook (Current vs Previous)	**Negative** (Current) vs **Stable** (Previous)
Key Drivers of Change	1. **US Tariff Headwinds:** 50% tariffs on products contributing ~25% of revenue; expected to compress margins or hurt competitiveness. 2. **Elevated Leverage:** Gross Debt/EBITDA remains high at **~3.5x–3.8x** (FY25-26), delaying previously expected deleveraging. 3. **Margin Compression:** Q1FY25 Gross Margins fell **440 bps** YoY to 33.1% due to input price volatility (Benzene/Aniline). 4. **Subdued Q1FY25 Performance:** Revenue declined **9.5%** YoY to ₹1,675 Cr due to logistics disruptions and pricing pressure.
Rated Instruments	1. **Long-Term Bank Facilities:** ₹2,106 Cr
Key Observations	• **Market Dominance:** 25–40% global market share in NCB/DCB value chains. • **Diversification:** Revenue split across Agro (exempt from US tariffs), Pharma, and Energy additives. • **Integration:** High backward integration in Nitric Acid and Aniline supports cost efficiency. • **Capex Heavy:** Invested >₹5,500 Cr (FY19-24); further ₹2,500–3,000 Cr planned (FY25-27). • **RoCE Pressure:** Return on Capital Employed dropped from **17.2% (FY19) to ~9% (FY24)** due to long gestation periods. • **Working Capital:** Intensive operations with GCA of **150–180 days**. • **Input Risk:** Vulnerable to crude-derivative price swings (Benzene/Toluene).
Investor Impact	• **Margins:** Stuck in 14-15% range; immediate upside capped by tariff absorption. • **Growth:** Recovery pushed to late FY26/FY27 as new capacities (Chlorotoluene) ramp up. • **Leverage:** Debt levels to remain elevated; Interest Coverage sustained below earlier estimates of 4.5x. • **Dilution/Funding Risk:** High capex may require additional debt if internal accruals fall short of the ₹700–965 Cr range.
Agency / Cross Analysis	**Same Agency (CRISIL):** Sharp shift in stance within months. The revision to 'Negative' signals that the agency's prior "Stable" assumption on debt reduction failed to materialize. The primary disconnect is the unexpected impact of US trade policy combined with slower-than-envisaged ramp-up of new units. **Conclusion: Deterioration** of credit buffer; AIL is now on a "watchlist" for a potential notch downgrade to AA-.
Final Inference	**Risk Signal:** This is a classic "Capex Trap" scenario—heavy spending has diluted RoCE and spiked debt, while external shocks (US Tariffs) have hit the cash flow needed to service that debt. Equity upside is likely capped until Debt/EBITDA cools below 3.0x.