Aarti Industries Ltd — 07 Mar 2025 Credit Rating Summary

Section	Details
Agency	CRISIL Ratings
Rating Change	Reaffirmed at **CRISIL AA / CRISIL A1+** (0 notches moved)
Outlook (Current vs Previous)	**Stable** vs **Stable**
Key Drivers of Change	1. **Volume Growth vs. Pricing Pressure:** Double-digit volume growth in 9M-FY25 was offset by Chinese overcapacity, keeping operating profits flat. 2. **Energy Additives Pivot:** Significant shift in revenue mix; Energy Additives rose to 34% of revenue in FY24 (from 15% in FY23), de-risking the Pharma/Agro slump. 3. **Heavy Capex Cycle:** ₹2,800 Cr planned for FY25-27, primarily for Chlorotoluene and 'Zone 4' Jhagadia expansion. 4. **Margin Compression:** Operating margins fell to ~13% in Q2/Q3 FY25 (vs 15-16% YoY) due to global destocking and supply gluts.
Rated Instruments	• **Fund-Based Facilities:** ₹2,106 Cr
Key Observations	**Strengths:** • Market leader in Benzene derivatives; highly integrated (NCB, DCB value chains). • Diversified base: 1,100+ products; domestic/export mix is a balanced 50:50. • Strong supplier ties (BPCL for Nitric Acid) reduces backward integration capex. **Concerns:** • **Low RoCE:** Currently at 7-8%; needs double-digit recovery for equity re-rating. • **Leverage Peak:** Gross Debt/EBITDA expected to peak at ~3.5x in FY25. • **Working Capital:** High inventory needs (120-170 days) due to product complexity.
Investor Impact	**Growth:** Volume-led recovery is visible, but EPS growth is capped by interest costs. **Margins:** Recovery to 15-16% depends on 'Zone 4' ramp-up in FY26. **Leverage:** Debt-funded capex limits immediate FCF; Gearing at 0.67x is manageable. **Dilution Risk:** Low, given strong accruals (₹700-950 Cr) and existing banking headroom.
Agency / Cross Analysis	**Same Agency (CRISIL):** Reaffirmed despite margin pressure. **What changed:** Agency is looking past temporary pricing headwinds due to "double-digit volume growth" and strategic entry into Energy Additives. However, they tightened the "Downward Factor" threshold to Gross Debt/EBITDA > 3.5x-3.7x, signaling limited room for further underperformance. **Conclusion:** Maintenance of rating reflects confidence in the business moat despite a "bottoming out" financial cycle.
Final Inference	**Real Improvement in Volumes / Risk Signal in Margins.** The business is capturing market share (volumes up), but "China dumping" is hurting the bottom line. The stock remains a "Capex execution" play; equity upside is tied to RoCE moving from 7% back to >12% by FY27.