

Aarti Industries Ltd — 28 Mar 2024 Credit Rating Summary

Section	Details
Agency	CRISIL Ratings (Report Date: March 28, 2024)
Rating Change	Reaffirmed at CRISIL AA / CRISIL A1+ (0 notches moved)
Outlook (Current vs Previous)	Stable vs Stable
Key Drivers of Change	<ul style="list-style-type: none"> • Global Destocking: 9M-FY24 revenue dropped 7% (₹4,410 Cr) due to agrochemical slowdown & Chinese oversupply hitting realizations. • Margin Compression: Operating margins contracted 180 bps to 15.1% (9M-FY24) on negative operating leverage and low capacity utilization. • Capex Intensity: Large scale expansion (₹2,500–3,000 Cr planned for FY24-26) for Chlorotoluene and downstream projects. • Earnings Recovery: Q3-FY24 saw a 4% sequential revenue uptick, signaling the start of demand normalization.
Rated Instruments	• Fund Based Facilities: ₹1,106 Cr
Key Observations	<p>Strengths:</p> <ol style="list-style-type: none"> 1. Largest Indian producer of Benzene derivatives (NCB/DCB) with high integration. 2. Nil dependence on China for key raw materials; long-term nitric acid sourcing secured. 3. Diversified end-user base (Agro, Pharma, Polymers) provides downside protection. <p>Concerns:</p> <ol style="list-style-type: none"> 4. RoCE Moderation: Impacted by heavy capex (₹4,500 Cr in FY19-23) and contract terminations. 5. Working Capital: High GCA days (170-200 days) due to 2-month raw material inventory needs. 6. Input Volatility: Direct exposure to crude-linked Benzene prices.
Investor Impact	<ul style="list-style-type: none"> • Growth: Mid-double-digit growth expected in FY25-26 as global inventory levels stabilize. • Margins: Temporary dip; expected to normalize as new capacities ramp up. • Leverage: Debt-to-Equity (Gearing) to remain stable between 0.6x–0.8x despite heavy capex. • Dilution Risk: Low; expansion is primarily funded via internal accruals (₹600-750 Cr/year) and debt.
Agency / Cross Analysis	<p>Same Agency: Rating maintained despite significant drop in Interest Coverage (16.81x in FY22 → 6.48x in FY23). CRISIL is looking through the cyclical trough, betting on the company's "Dominant Market Position" and strong liquidity (₹433 Cr cash) to bridge the capex cycle.</p> <p>Conclusion: Inconsistency between deteriorating short-term financials (PAT/Margins) and a "Stable" rating—this indicates the agency views the current stress as purely cyclical rather than structural.</p>
Final Inference	Real improvement masked by industry downturn. While FY24 is a "lost year" for earnings, the massive ₹3,000 Cr capex hitting commercialization in FY27 makes this a high-conviction recovery play for equity holders once the agrochem cycle turns.