Aarti Industries Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Aarti Industries maintains a dominant global position, ranking in the top 4 for 75% of its portfolio while diversifying into high-margin EV-linked polymers and agrochemicals via a USD 150m agreement.**	Positive
2	**Revenue grew 14% YoY, supported by volume momentum in EMEA and the commercialization of the Zone IV Jhagadia facility, though top-line growth is lagging behind capital deployment.**	Neutral
3	***Operating margins face pressure as the company fails to translate revenue into cash, evidenced by a massive 78% surge in receivables compared to modest 14% sales growth.***	Negative
4	***Reported PAT is of low quality, significantly exceeding Cash Flow from Operations (CFO) and supported by one-off items rather than core operational cash generation.***	Negative
5	***The balance sheet is under stress with Net Debt/EBITDA rising to 3.7x and a concerning 1,885% spike in unsecured short-term bank loans to fund liquidity gaps.***	Negative
6	***Free Cash Flow remained negative at - 346 Cr, marking the third consecutive year of cash consumption as operating inflows fail to cover intensive capital requirements.***	Negative
7	***Capital expenditure of 1,124 Cr continues to outpace cash generation, with 973 Cr currently trapped in Capital Work-in-Progress (CWIP) aged over one year.***	Negative
8	***Earnings quality is compromised by significant divergence in working capital cycles and a stagnant ROCE of 7%, which now sits below the company's cost of debt.***	Negative
9	***Governance risks are elevated by high Related Party Transaction (RPT) concentration, with 24.5% of revenue derived from the promoter ecosystem and administrative lags in securing debt charges.***	Negative
10	***Execution risk is high due to potential impairments of aged CWIP and the threat of a credit rating downgrade if the debt profile is not termed out.***	Negative
11	The outlook depends on the successful commissioning of □2,000 Cr in projects to pivot the ROCE profile toward an 18% target by FY28.	Neutral
12	**Investment Stance: Watch; key monitorables include the reduction of Net Debt/EBITDA below 2.5x and the normalization of trade receivables to below 12% of revenue.**	Neutral

1. Business overview (In Bullet Points)

- **Strategic Segmentation & Market Position:** AIL is transitioning from a product-led manufacturer to an Integrated Chemistry Solution Provider. It maintains global tier-1 status (Top 4 globally for 75% of its portfolio) with a primary anchor in the Benzene chain, now moving into high-complexity derivatives like NCB, DCB, PDA, and NT.
- **Segment Mix Diversification:** The company is reducing reliance on legacy dyes and pigments, pivoting toward high-growth Agrochemicals, EV-linked Polymers (PPS), and Electronics.
- **Geographic Realignment:** Exports account for 57% of turnover. To mitigate new US tariffs, management has recalibrated trade flows toward Europe, the Middle East, and Africa (EMEA).

- **"Asset Sweating" Pivot:** FY26 marks the end of an aggressive Capex cycle. Focus has shifted from building to optimizing, with key product chains operating at ~80% utilization.
- **Expansion Plans:** Expanding DCB capacity from 120 to 140 KTPA for the EV supply chain and scaling MMA (fuel additives) from 290 to 360 KTPA by year-end.
- **Capacity Additions:** Zone IV Jhagadia has transitioned to commercial operations, serving as the launchpad for high-margin specialized downstream chemistries.
- **Cost Drivers:** Shifted to hybrid renewable sources (targeting 75% by Q1 FY27) to reduce energy costs. AI-enabled manufacturing (Digital Twins) reported a ₹100 Cr cost improvement.
- **Acquisitions & Partnerships:** Utilizing JVs (Superform Chemistries, Re Sustainability) and agreements (Actylis) to secure distribution and fund growth through an asset-light model.

2. Management commentary & outlook

- The appointment of Suyog Kotecha as MD & CEO (effective Oct 1, 2026) signals a milestone transition from "Family-led" to "Professional Management-led" execution.
- Secured a USD 150 million multi-year supply agreement (4-year visibility) with a global innovator in the Agrochemical segment.
- Strategic focus has shifted to deleveraging, with a target to reduce Net Debt/EBITDA from 3.7x to <2.5x within 12-24 months.
- Management has established a strict 20% pre-tax ROCE threshold for any new capital deployment to address current low returns.
- Expectation of gradual normalization in global pricing over 12-24 months as China curbs "irrational price wars" (anti-involution).
- Logistics costs are being monitored closely following a 26.22% increase; management is absorbing some costs to protect long-term customer "stickiness."
- Successful SAP S4 Hana migration (April 1, 2025) has reportedly resolved prior database "audit trail" deficiencies.
- Challenges include geopolitical friction in logistics, volatility in Benzene/Aniline derivatives, and the high capital intensity of the green fuel transition.
- **Management Tone:** The management has moved from a "Promotional" expansionist tone to a "Pragmatic" operator tone. They are clearly signaling to investors that they have heard the concerns regarding capital efficiency and are now pivoting to salvage return ratios through professionalized operational rigour.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	8,286	7,271
Sales Growth %	13.95	14.14
Expenses	7,119	6,271
Material Cost %	65	58
Raw material cost	5,857	4,167
Change in inventory	-508	54
Manufacturing Cost %	0	16
Employee Cost %	5	6
Other Cost %	16	7
Operating Profit	1,167	1,000
OPM %	14	14
Other Income	12	16
Exceptional items	7	2.64
Other income normal	5	13.85
Interest	340	275
Depreciation	474	434
Profit before tax	365	307
Tax %	-15	-8
Net Profit	419	331
Profit from Associates	0	0
Minority share	0	0
Exceptional items AT	7	2
Profit excl Excep	412	329
Profit for PE	412	329
Profit for EPS	419	331
Profit Growth %	25	-22
EPS (□)	11.56	9.13
Dividend Payout %	9	11

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	181	181
Reserves	5,774	5,424
Borrowings	4,966	3,848
Long term Borrowings	2,188	1,867
Short term Borrowings	2,733	1,922
Lease Liabilities	45	58
Other Borrowings	0	0
Other Liabilities	2,378	1,661
Non controlling int	0	0
Trade Payables	1,840	1,237
Advance from Customers	0	55
Other liability items	538	368
Total Liabilities	13,299	11,114
Fixed Assets	6,556	6,377
Land	0	284
Building	0	887
Plant Machinery	0	6,891
Equipments	0	181
Furniture n fittings	0	84
Vehicles	0	47
Intangible Assets	254	37
Other fixed assets	0	17
Gross Block	0	8,428
Accumulated Depreciation	0	2,051
CWIP	2,030	1,454
Investments	132	48
Other Assets	4,581	3,235
Inventories	1,732	1,454
Trade receivables	1,403	786
Cash Equivalents	609	295
Loans n Advances	15	95
Other asset items	822	605
Total Assets	13,299	11,114

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	775	1,242
Profit from operations	1,187	1,005
Receivables	-693	44
Inventory	-278	-294
Payables	563	481
Other WC items	-1	0
Working capital changes	-409	230
Direct taxes	-3	7
Advance tax	0	0
Cash from Investing Activity	-1,141	-1,398
Fixed assets purchased	-1,124	-1,386
Fixed assets sold	3	7
Investments purchased	-20	-3
Investments sold	0	0
Interest received	4	15
Dividends received	0	0
Invest in subsidiaries	-64	0
Investment in group cos	0	-23
Other investing items	60	-8
Cash from Financing Activity	745	-73
Proceeds from shares	0	0
Proceeds from borrowings	1,251	703
Repayment of borrowings	-242	-455
Interest paid fin	-217	-275
Dividends paid	-36	-36
Financial liabilities	-11	-10
Other financing items	0	0
Net Cash Flow	379	-229
Free Cash Flow	-346	-137
CFO/OP	67	123

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	62	39
Inventory Days	118	126
Days Payable	126	107
Cash Conversion Cycle	54	58
Working Capital Days	-64	-44
ROCE %	7	6

3.2 Financial analysis summary

- **Revenue** grew 13.95% to □8,286.00 Cr, yet Trade Receivables surged 78.47% to □1,402.90 Cr, creating a major divergence where Revenue growth is not converting to cash; undisputed receivables aged 6 months to 2 years increased from ~□76 Cr to ~□117 Cr, signaling collection delays.
- While **PAT** increased by 26.6% to □419.00 Cr, this was bolstered by a □28.51 Cr one-time interest income from tax refunds; without this non-core support, the PAT margin would have remained under pressure near the 5.06% level.
- **Operating Profit (EBITDA)** rose to □1,167.00 Cr with a stable OPM % of 14.00%, but profitability is squeezed by Other Expenses (18.6% of total), driven by a 26.22% increase in Freight and Forwarding costs to □631.98 Cr and a 6x jump in R&D spending to □29.99 Cr.
- **CFO** fell sharply to □775.00 Cr from □1,242.00 Cr, primarily because Working Capital changes consumed □409.00 Cr, with Inventory rising to □1,732.17 Cr; finished goods in-transit ballooned from □18.73 Cr to □238.88 Cr, suggesting export logistical bottlenecks.
- **FCF** remained negative for the third consecutive year at -□346.00 Cr, as Capex of □1,124.00 Cr continues to outpace CFO, leading to Net Debt expansion to □4,310.43 Cr and a Net Gearing Ratio of 0.72.
- **Total Debt** increased to □4,966.00 Cr, with a concerning 1,885% spike in unsecured short-term bank loans to □999.57 Cr, indicating a shift toward less stable funding to bridge the gap created by a □2,029.52 Cr CWIP balance.
- **Finance Cost** rose to □340.00 Cr, and interest coverage deteriorated to 2.04x, reflecting the high cost of carrying debt amid stagnant ROCE of 7.00%.
- **Fixed Assets** and CWIP represent 64% of Total Assets, but Asset Turnover is declining; projects aged over 1 year total □973.62 Cr, representing significant execution risk.
- **Trade Payables** increased 48.74% to □1,840.00 Cr, acting as a primary source of operating liquidity to fund the expanding Working Capital cycle.
- **Other Current Assets** include □236.82 Cr in GST and tax balances, representing a 13.6% blockage of current liquidity, while Bad Debts doubled to □21.54 Cr.
- **Other Receivables** jumped 132% YoY to □52.86 Cr, and Misc. Financial Liabilities saw a sharp unexplained spike to □94.89 Cr from □0.25 Cr, both contributing to liquidity opacity.
- **Deferred Tax Assets (DTA)** on losses surged to □323.60 Cr, providing a non-cash boost to PAT but confirming that new subsidiaries/units are incurring substantial losses during gestation.
- **The dominant financial theme of the year is a "liquidity and returns squeeze," where aggressive revenue recognition and massive debt-funded capex have led to negative FCF and a return profile (ROCE 7%) currently below the cost of debt.**

3.3 Contingent liabilities & commitments

- **Letters of Credit & Bank Guarantees:** ₹493.20 Cr (more than doubled from ₹235.00 Cr).
- **Tax Disputes:** Total tax-related disputes stand at ₹109.83 Cr, including a ₹52.20 Cr Income Tax demand regarding transfer pricing.
- **Indirect Tax:** ₹57.63 Cr (GST/Excise/Customs).
- **Capital Commitments:** ₹225.35 Cr (down from ₹384.15 Cr).
- **Export Obligations:** The company holds ₹107.13 Cr in long-term export advances backed by bank guarantees; failure to supply could trigger guarantee invocations.

3.9 Earnings quality & forensic checks

Read	Question	Verdict	Confidence	Checked
1	Is the growth real?	***Flag***	High	6/6
2	Does profit become cash?	***Flag***	High	5/5
3	Is the P&L being manufactured?	***Watch***	High	6/6
4	Is value leaving to insiders?	***Watch***	High	6/6
5	Can the balance sheet take a hit?	***Flag***	High	5/5

Read 1 — Is the growth real? → Flag

Signal	Prior	This year	Δ	Status	Quantified impact
Receivables growth vs sales growth	₹786.06 Cr	₹1,402.90 Cr	78.47% increase in receivables vs 13.99% increase in gross revenue	Flag	Receivables now represent 17% of Net Revenue vs 11% in prior year; ₹616.84 Cr of incremental revenue is held in receivables.
Receivables ageing / ECL provisioning	₹7.71 Cr	₹23.47 Cr	204% increase in allowance	Watch	Indicates deteriorating quality in the 6 months to 2 years bucket which rose to ₹117 Cr.
Unbilled revenue, contract assets, deferred revenue	₹72.18 Cr	₹24.05 Cr	66.68% decline in contract shortfall fees	Clean	Reduction in non-operational penalty income (0.27% of revenue).
Revenue from related parties as % of revenue	Not disclosed	₹272.97 Cr	—	Watch	Sales to Valiant Organics Ltd represent 3.3% of net revenue.
Customer concentration	Not disclosed	None > 10%	Stable	Clean	—
Advances from customers trend	₹55.00 Cr	₹0.00 Cr	100% decrease	Watch	Loss of ₹55 Cr in interest-free operational funding.

> **Mechanism:** Revenue growth is decoupled from cash collection, as evidenced by trade receivables growing at 5.6x the rate of revenue growth. This divergence, coupled with a 204% spike in ECL provisions and the total disappearance of customer advances, suggests aggressive revenue recognition or severe collection bottlenecks. **Aggregate impact:** Incremental trade receivables (₹616.84 Cr) consumed 79.6% of the year's total CFO. **Direction:** deteriorating · **Watch next:** Trade Receivables as a % of Revenue · **Corroborates:** profit_to_cash

Read 2 — Does profit become cash? → Flag

Signal	Prior	This year	Δ	Status	Quantified impact
CFO vs clean EBITDA (cash conversion)	123.00%	67.00%	56 percentage point decline	Flag	□775 Cr CFO vs □1,167 Cr Operating Profit.
Pre-tax operating conversion (CFO + tax paid) / EBITDA	125.00%	66.67%	58.33 percentage point decline	Flag	Calculated as (775 + 2.92) / 1167.
Inventory absorption of operating cash	□294.00 Cr	□278.00 Cr	5.4% decrease in cash outflow for inventory	Clean	Inventory grew 19.13% YoY, absorbing □278.15 Cr of cash.
Working-capital movement	□230.00 Cr inflow	□409.00 Cr outflow	□639 Cr swing in cash consumption	Flag	Working capital changes consumed 35% of Operating Profit before WC changes.
Cash tax paid vs book tax	□6.86 Cr paid vs □54.83 Cr book	□2.92 Cr paid vs □66.05 Cr book	Cash tax is only 4.4% of book tax	Watch	□63.13 Cr difference suggests heavy reliance on MAT credit and deferred tax assets.

Mechanism: Operating cash conversion collapsed from 123% to 67% primarily due to a massive □693 Cr cash outflow into receivables. The company is relying on a □563 Cr increase in trade payables to mitigate the cash drain from receivables and inventory. **Aggregate impact:** Free Cash Flow remained negative at -□346 Cr despite a 25% growth in Net Profit. **Direction:** deteriorating · **Watch next:** Working Capital Changes / Operating Profit Before WC · **Corroborates:** revenue_real, bs_stress

Read 3 — Is the P&L being manufactured? → Watch

Signal	Prior	This year	Δ	Status	Quantified impact
Exceptional items and their effect on PBT	□2.37 Cr gain	□6.47 Cr net gain	Increase in non-recurring impact	Watch	Net exceptional items added □6.47 Cr to PBT. However, the interest income on OGE (□28.51 Cr) was the primary driver offsetting bad debts (□6.67 Cr) and labour code costs (□15.37 Cr).
Non-operating / other income as % of PBT	5.75%	1.36%	4.39 percentage point decrease	Clean	Other income fell to □4.87 Cr from □17.52 Cr.
Deferred tax movement and cash-vs-book tax	□19.21 Cr DTA recognized	□54.01 Cr DTA recognized	181% increase in DTA credit to P&L	Watch	Deferred tax credit represents 12.8% of PAT; DTA on losses surged to □323.60 Cr.
Provision reversals credited to income	—	—	—	Clean	—
Depreciation policy / useful-life change	None disclosed	None disclosed	Stable	Clean	—
Valuation-method or accounting-policy change	—	—	—	Clean	—

Mechanism: Reported PAT growth of 26.6% was supported by a large one-time interest income on tax refunds (□28.51 Cr) and a significant deferred tax credit (□54.01 Cr). Without these non-operating and non-cash items, PAT would be substantially lower. **Aggregate impact:** Non-cash tax

credits and one-time tax interest income together total ₹32.52 Cr, representing 19.7% of PAT. **Direction:** stable · **Watch next:** Deferred Tax Asset on losses

Read 4 — Is value leaving to insiders? → Watch

Signal	Prior	This year	Δ	Status	Quantified impact
Related-party transaction quantum and trend	Not disclosed	₹583.25 Cr	—	Watch	Combined RP sales (Valiant) and services (Kalpesh Roadlines) exceed 5% of total revenue.
New related-party counterparties this year	—	Kalpesh Roadlines Ltd	New significant logistics provider	Watch	₹169.76 Cr of logistics services outsourced to a group-linked entity.
KMP / director remuneration vs PAT	Not disclosed	₹420 Cr (Total Wages)	—	Unresolved	—
Loans, advances or guarantees to group entities	₹23.00 Cr	₹50.88 Cr	121% increase in funding to JVs	Watch	₹50.88 Cr investment in OCDs of Augene Chemical (JV) which has zero revenue and a net loss.
Promoter pledge / encumbrance	42.09% holding	42.09% holding	Stable	Clean	—
CSR spend and shortfall	Not disclosed	₹8.89 Cr	—	Clean	—

Mechanism: Value is being channeled through promoter-controlled logistics entities (Kalpesh Roadlines, ₹169.76 Cr) and strategic funding of loss-making JVs (Augene Chemical, ₹50.88 Cr). While these are disclosed, the shift of significant logistics volumes to an RP is a new development this year. **Aggregate impact:** RP related outflows (Logistics + JV Investment) total ₹220.64 Cr, equivalent to 52.6% of PAT. **Direction:** deteriorating · **Watch next:** Logistics cost paid to Kalpesh Roadlines

Read 5 — Can the balance sheet take a hit? → Flag

Signal	Prior	This year	Δ	Status	Quantified impact
CWIP ageing and stalled projects	₹1,273.80 Cr	₹2,029.52 Cr	59.33% increase in CWIP	Watch	₹973.62 Cr of projects are aged over 1 year; total CWIP is now 34% of Net Worth.
Dividend vs free cash flow	₹36.25 Cr Div vs -₹137 Cr FCF	₹36.26 Cr Div vs -₹346 Cr FCF	Dividend paid despite deepening negative FCF	Watch	Dividends are being funded through borrowings as FCF is negative.
Contingent liabilities vs net worth	₹235.00 Cr (LC/BG)	₹603.03 Cr (Total)	156% increase in contingent exposure	Watch	Contingent liabilities represent 10.1% of Net Worth.
Borrowing terms, security, covenants	₹50.34 Cr short-term unsecured	₹999.57 Cr short-term unsecured	1885% jump in unsecured bank funding	Flag	Significant shift to unstable funding; Net Gearing rose from 0.62 to 0.72.
Encumbered assets / title deeds not in company name	—	ROC security perfection pending	Recurring administrative delay	Watch	Pending security perfection for ₹1,224 Cr loan and satisfaction of charges for ₹722 Cr.

Mechanism: The balance sheet is under stress from a massive CWIP cycle (₹2,029.52 Cr) that is being funded by an alarming jump in short-term unsecured debt (₹999.57 Cr) and rising trade payables. Negative Free Cash Flow (-₹346 Cr) and increased contingent liabilities further limit the cushion. **Aggregate impact:** Net Debt increased by 23.4% to ₹4,310.43 Cr while FCF deteriorated, raising the Net Debt/EBITDA to 3.7x. **Direction:** deteriorating · **Watch next:** Short-term Unsecured Borrowings · **Corroborates:** profit_to_cash

Material notes captured

Discloses	Prior	This year	Impact	Signal
Discrepancies between quarterly stock statements filed with banks and book balances.	Not disclosed	₹176.21 Cr (Inventory) and ₹151.02 Cr (Receivables) max differences	Reduces reliability of interim reporting and signals potential internal control weaknesses.	Negative
Security perfection for a ₹1,224 Cr loan is pending at the ROC due to trusteeship delays.	Not disclosed	₹1,224 Cr	Technical compliance risk on a major portion of long-term debt.	Negative
In-transit finished goods ballooned from ₹18.73 Cr to ₹238.88 Cr.	₹18.73 Cr	₹238.88 Cr	Indicates significant logistical bottlenecks in export shipments.	Negative
Investment in OCDs of loss-making JV (Augene Chemical).	0.00 Cr	50.88 Cr	Capital misallocation toward struggling group ventures with zero revenue.	Negative
Bad debt write-offs doubled YoY.	11.30 Cr	21.54 Cr	Confirms deteriorating counterparty credit quality.	Negative

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. * **KAM 1: Security Charges & Perfection:** Satisfaction of charges for ₹722.00 Cr and perfection of security for a ₹1,224.00 Cr loan remain pending at the ROC due to trusteeship delays. This indicates a persistent administrative compliance lag. * **KAM 2: Inventory & Stock Reconciliation:** Quarterly stock statements filed with banks differ from book balances (max differences of ₹176.21 Cr for Inventory and ₹151.02 Cr for Receivables). Management attributes this to "periodic closing adjustments," but it creates a visibility gap regarding physical stock integrity. * **KAM 3: Business Ethics Due Diligence:** ESG and corruption due diligence coverage for trading partners dropped to 75.00% from 78.00%, signaling a softening in governance oversight. * **Auditor Fees:** Total fees stood at 0.59 Cr. For a company with ₹8,286.00 Cr in revenue and 16 manufacturing divisions, this fee appears unusually low.

B. Related Party Transactions | Party | Relationship | Nature | Amount (Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Related Party Sales (Total) | Group Entities | Sales of Goods | 2,030.07 Cr | ***24.50% of Total Sales*** | | Valiant Organics Limited | Group Entity | Sales of Goods | 272.97 Cr | Significant volume concentration | | Kalpesh Roadlines Limited | Promoter Interest | Logistics Services | 169.76 Cr | Integrated promoter-controlled logistics | | Valiant Organics Limited | Group Entity | Trade Purchases | 140.52 Cr | Circular trading/Interdependence | | Augene Chemical Pvt Ltd | Joint Venture | Investment (OCD) | 50.88 Cr | Strategic funding to loss-making JV | | Valiant Organics Limited | Group Entity | Trade Receivable | 105.56 Cr | ***7.52% of Consolidated Receivables*** | | Aarti Pharmalabs Limited | Post-Demerger | Trade Purchases | 41.67 Cr | Sustained operational dependency |

RPT Verdict: ***Governance Concern*** . RPT Sales represent 24.50% of revenue and 261.94% of CFO, indicating high tunneling risk and potential cash flow circularity. The surge from 15.81% (FY25) to 24.50% (FY26) is a significant red flag.

C. Shareholding | Shareholders | Mar 2026 | Mar 2025 | | :--- | :--- | :--- | | Promoters | 42.09% | 42.24% | | FIIs | 7.38% | 6.29% | | DIIs | 19.63% | 19.44% | | Public | 26.75% | 26.96% | | Promoter Pledged Shares | 0.00% | 0.00% |

D. Board Composition + KMP Compensation * **Board Composition:** 14 Directors; 50.00% Independent; 2 Women Directors (14.29%). * **Family Concentration:** 52.84% of top-tier KMP compensation (□12.53 Cr) is paid to members of the **Gogri** family. * **Compensation Analysis:** Total KMP compensation for the top 6 directors is □23.71 Cr (2.03% of EBITDA). Promoter salary hikes (7.00%) are largely aligned with the median employee increase (6.00%).

F. Capital Allocation & Capex | Action | FY current (Cr) | FY prior (Cr) | % of CFO | Signal | | :--- | :--- | :--- | :--- | :--- | | Capex | 1,124.00 Cr | 1,386.00 Cr | 145.03% | — | | Net Debt Change | 1,009.00 Cr | 248.00 Cr | 130.19% | — | | Interest Payments | 217.00 Cr | 275.00 Cr | 28.00% | — | | Working Capital Investment | 409.00 Cr | -230.00 Cr | 52.77% | — |

CAPEX Analytical Notes: * **CFO Coverage:** CFO (□775.00 Cr) fails to cover Capex (□1,124.00 Cr), resulting in a **□349.00 Cr funding gap** bridged by new borrowings. * **Value Destruction:** Borrowing costs (7.25%-8.50%) exceed the **7.00% ROCE**, indicating capital deployment is currently value-destructive. * **Efficiency:** Negative FCF of **-□346.00 Cr** and a high CWIP balance (□2,029.52 Cr) reflect a heavy cycle with delayed earnings conversion.

H. Risks * ***Receivables Concentration:*** 7.50% of total receivables (□105.56 Cr) tied to Valiant Organics. **Impact:** High liquidity risk if promoter entities face stress. * ***Short-term Debt Spike:*** Unsecured bank loans rose from □50.34 Cr to □999.57 Cr. **Impact:** High refinancing risk and interest rate sensitivity. * ***Logistics Inflation:*** Freight costs rose 26.22%, outpacing revenue. **Impact:** Direct OPM erosion; logistics now ~6% of total revenue. * ***CWIP Aging:*** Projects >1 year total □973.62 Cr. **Impact:** Risk of asset impairment and delayed ROCE recovery. * **Forex Exposure:** IFC loan of □1,224.03 Cr is USD denominated. **Impact:** Finance costs hit by □64.32 Cr in exchange differences. * ***Tax Assets:*** DTA on losses surged to □323.60 Cr. **Impact:** Reflects losses in new subsidiaries; provides non-cash support to PAT.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	57% Exports; Top 4 global rank in 75% of portfolio.	Strong global moat and successful diversification into EV/Agro, despite cyclicality.
Financial health	2	↓	Net Debt/EBITDA 3.7x; Net Gearing 0.72; FCF negative.	High leverage and worsening interest coverage amid negative free cash flow.
Earnings quality	2	↓	Receivables +78% vs Revenue +14%; CFO < PAT.	Significant divergence between revenue and cash collection; PAT supported by one-offs.
Management & governance	2	↓	RPT Sales 24.5% of Revenue; Low auditor fees.	High RPT concentration and administrative lags in security perfection raise concerns.
Capital allocation & earnings visibility	1	↓	ROCE 7% < Cost of Debt; CWIP 34% of Net Worth.	Value-destructive capex funded by short-term debt with high aging in projects.

Business positives (for this company this year) * **[Revenue Diversification]** Successfully pivoted toward high-margin segments like Agrochemicals (USD 150m agreement) and EV-linked Polymers. * **[Market Leadership]** Maintains Top 4 global position for 75% of its portfolio with volume growth momentum in EMEA. * **[Operational Efficiency]** Achieved □100 Cr cost improvement via AI kinetic modeling and kept power costs flat

despite 14% revenue growth. * **[Asset Commissioning]** Zone IV Jhagadia transitioned to commercial operations, providing capacity for specialized downstream chemistries.

Business negatives / concerns (for this company this year) * **[Receivables Divergence]** Net Trade Receivables surged 78.47% (□1,402.90 Cr) against only 13.95% Revenue growth. * **[Negative Cash Flow]** Negative FCF of -□346.00 Cr for the third consecutive year as Capex (□1,124 Cr) exceeds CFO (□775 Cr). * **[Debt Profile Stress]** Unsecured short-term bank loans spiked 1,885% to □999.57 Cr, signaling a shift toward unstable funding. * **[Value Destruction]** ROCE of 7.00% has stagnated below the cost of debt (7.25% - 8.50%). * **[Related Party Risk]** RPT Sales reached 24.5% of total revenue, creating high earnings dependence on the promoter ecosystem. * **[Asset Aging]** □973.62 Cr of CWIP projects are now aged over 1 year, increasing execution and impairment risk.

Overall scorecard summary Aarti Industries is in a high-risk transition phase where its strong business moat is being undermined by deteriorating financial health and earnings quality. The massive divergence between revenue and cash collection, coupled with a reliance on unsecured short-term debt to fund a stagnant ROCE cycle, suggests significant near-term stress. While the shift to professional management and high-margin chemistry is positive, the governance posture is clouded by a high concentration of related-party transactions and administrative compliance lags.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 7.5/10 — Governance Rating: 3"

Part c: investor verdict

Thesis: A world-class specialty chemical platform undergoing a painful, debt-heavy transition toward high-value downstream chemistries.

Overall stance: Watch

Rationale: While segment diversification and new CEO leadership are promising, the severe working capital stress and value-destructive ROCE require stabilization before fresh capital is committed. Re-evaluate when: Net Debt/EBITDA falls below 2.5x and ROCE crosses 12%. BULL CASE: Successful commissioning of □2,000 Cr CWIP leads to FCF turning positive and ROCE expanding to >18% by FY28. BEAR CASE: Further delays in receivables collection or CWIP commissioning force a dilutive equity raise or a credit rating downgrade. Key monitorable: Trade Receivables as a % of Revenue: 17% → Watch threshold <12%.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Revenue/ Receivable Divergence	Receivables at ₹786 Cr; growth largely in line with volumes.	Receivables surged 78.5% to ₹1,403 Cr against 14% revenue growth.	Revenue recognition has become decoupled from cash collection, signaling either aggressive accounting or severe counterparty credit stress.
Funding Strategy	Focused on long-term floating rate debt to fund the "Golden Decade."	1,885% spike in unsecured short-term bank loans to ₹999.57 Cr.	The company is increasingly reliant on unstable, short-term unsecured credit to bridge the widening gap in its capital structure.
Related Party Dependency	RPT sales accounted for 13.9% of total revenue.	RPT sales jumped to 24.5% of total revenue.	The quality of earnings has deteriorated as the company becomes fundamentally reliant on its internal promoter ecosystem to generate turnover.
Audit & IT Controls	Flagged for lack of database-level audit trail in SAP ECC.	S4 Hana migration completed; audit trail deficiency reportedly resolved.	Management has successfully remediated a major internal control risk, improving the integrity of financial data logging.
Management Architecture	Family-led, expansionist focus on massive capacity building.	Professionalized (New CEO) focus on "Asset Sweating" and ROCE thresholds.	The governance structure is pivoting toward professional optimization to salvage return ratios after a period of unchecked capital expansion.
Liquidity Management	Cash flow supported by ₹422 Cr release from Trade Receivables.	Cash flow supported by ₹563 Cr stretch in Trade Payables.	Management has transitioned from collecting cash from customers to aggressively delaying vendor payments to maintain operational liquidity.
Tax Impact on PAT	Effective tax rate at -8% due to MAT credits.	Effective tax rate at -15% due to MAT and one-time tax interest refunds.	Reported profitability is increasingly synthetic, driven by non-cash tax shields and non-recurring interest income rather than core operations.

7.2 Persistent patterns

- **Negative Free Cash Flow** remains a structural trait as massive annual capex consistently outpaces operating cash generation.
- **ROCE remains consistently below the cost of debt**, indicating that the company’s heavy capital deployment continues to be value-destructive for shareholders.
- **Stalled Capital Work-in-Progress (CWIP)** is a recurring risk, with significant project values (over ₹50 Cr in both years) aged beyond standard commissioning timelines.
- **High Related Party Concentration** persists with Valiant Organics, which remains a primary counterparty for both sales and receivables.
- **Aggressive Interest Capitalization** continues to be used to divert significant finance costs from the P&L to the balance sheet via CWIP.
- **Promoter Family Remuneration Dominance** persists, with over 50% of KMP compensation flowing to the Gogri family despite the shift to professional leadership.
- **Inventory growth consistently outpaces revenue**, signaling a sustained mismatch between production planning and actual market off-take.