Aarti Industries Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

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

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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

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

Basis: CONSOLIDATED.

P&L Statement (Crores)

Line Item	Mar 2026	Mar 2025
Sales -	8,286.00	7,271.00
Sales Growth %	13.95	14.14
Expenses -	7,119.00	6,271.00
Material Cost % -	65.00	58.00
Raw material cost	5,857.00	4,167.00
Change in inventory	-508.00	54.00
Manufacturing Cost %	0.00	16.00
Employee Cost %	5.00	6.00
Other Cost %	16.00	7.00
Operating Profit	1,167.00	1,000.00
OPM %	14.00	14.00
Other Income -	12.00	16.00
Exceptional items	7.00	2.64
Other income normal	5.00	13.85
Interest	340.00	275.00
Depreciation	474.00	434.00
Profit before tax	365.00	307.00
Tax %	-15.00	-8.00
Net Profit -	419.00	331.00
Profit from Associates	0.00	0.00
Minority share	0.00	0.00
Exceptional items AT	7.00	2.00
Profit excl Excep	412.00	329.00
Profit for PE	412.00	329.00
Profit for EPS	419.00	331.00
Profit Growth %	25.00	-22.00
EPS in Rs	11.56	9.13
Dividend Payout %	9.00	11.00

Balance Sheet (□Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	181.00	181.00
Reserves	5,774.00	5,424.00
Borrowings -	4,966.00	3,848.00
Long term Borrowings	2,188.00	1,867.00
Short term Borrowings	2,733.00	1,922.00
Lease Liabilities	45.00	58.00
Other Borrowings	0.00	0.00
Other Liabilities -	2,378.00	1,661.00
Non controlling int	0.00	0.00
Trade Payables	1,840.00	1,237.00
Advance from Customers	0.00	55.00
Other liability items	538.00	368.00
Total Liabilities	13,299.00	11,114.00
Fixed Assets -	6,556.00	6,377.00
Land	0.00	284.00
Building	0.00	887.00
Plant Machinery	0.00	6,891.00
Equipments	0.00	181.00
Furniture n fittings	0.00	84.00
Vehicles	0.00	47.00
Intangible Assets	254.00	37.00
Other fixed assets	0.00	17.00
Gross Block	0.00	8,428.00
Accumulated Depreciation	0.00	2,051.00
CWIP	2,030.00	1,454.00
Investments	132.00	48.00
Other Assets -	4,581.00	3,235.00
Inventories	1,732.00	1,454.00
Trade receivables	1,403.00	786.00
Cash Equivalents	609.00	295.00
Loans n Advances	15.00	95.00
Other asset items	822.00	605.00
Total Assets	13,299.00	11,114.00

Cash Flow Statement (₹Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	775.00	1,242.00
Profit from operations	1,187.00	1,005.00
Receivables	-693.00	44.00
Inventory	-278.00	-294.00
Payables	563.00	481.00
Other WC items	-1.00	0.00
Working capital changes	-409.00	230.00
Direct taxes	-3.00	7.00
Advance tax	0.00	0.00
Cash from Investing Activity -	-1,141.00	-1,398.00
Fixed assets purchased	-1,124.00	-1,386.00
Fixed assets sold	3.00	7.00
Investments purchased	-20.00	-3.00
Investments sold	0.00	0.00
Interest received	4.00	15.00
Dividends received	0.00	0.00
Invest in subsidiaries	-64.00	0.00
Investment in group cos	0.00	-23.00
Other investing items	60.00	-8.00
Cash from Financing Activity -	745.00	-73.00
Proceeds from shares	0.00	0.00
Proceeds from borrowings	1,251.00	703.00
Repayment of borrowings	-242.00	-455.00
Interest paid fin	-217.00	-275.00
Dividends paid	-36.00	-36.00
Financial liabilities	-11.00	-10.00
Other financing items	0.00	0.00
Net Cash Flow	379.00	-229.00
Free Cash Flow	-346.00	-137.00
CFO/OP	67.00	123.00

Key Ratios (₹ Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	62.00	39.00
Inventory Days	118.00	126.00
Days Payable	126.00	107.00
Cash Conversion Cycle	54.00	58.00
Working Capital Days	-64.00	-44.00
ROCE %	7.00	6.00

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	Evidence
Receivables growth vs sales growth	Rs 786.06 Cr	Rs 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; Rs 616.84 Cr of incremental revenue is held in receivables.	Note Working Capital Deep Dive
Receivables ageing / ECL provisioning	Rs 7.71 Cr	Rs 23.47 Cr	204% increase in allowance	□ WATCH	Indicates deteriorating quality in the 6 months to 2 years bucket which rose to Rs 117 Cr.	Note 9, p.205
Unbilled revenue, contract assets, deferred revenue	Rs 72.18 Cr	Rs 24.05 Cr	66.68% decline in contract shortfall fees	□ CLEAN	Reduction in non-operational penalty income (0.27% of revenue).	Note 27.2, p.211
Revenue from related parties as % of revenue	not disclosed	Rs 272.97 Cr	none	□ WATCH	Sales to Valiant Organics Ltd represent 3.3% of net revenue.	Note 39.B.b, p.214
Customer concentration	not disclosed	none > 10%	stable	□ CLEAN	n/a	Note 27.1, p.210
Advances from customers trend	Rs 55.00 Cr	Rs 0.00 Cr	100% decrease	□ WATCH	Loss of Rs 55 Cr in interest-free operational funding.	Note Balance Sheet

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

Mechanism: Operating cash conversion collapsed from 123% to 67% primarily due to a massive Rs 693 Cr cash outflow into receivables. The company is relying on a Rs 563 Cr increase in trade payables to mitigate the cash drain from receivables and inventory. **Aggregate impact:** Free Cash Flow remained negative at Rs -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	Evidence
Exceptional items and their effect on PBT	Rs 2.37 Cr gain	Rs 6.47 Cr net gain	Increase in non-recurring impact	□ WATCH	Net exceptional items added Rs 6.47 Cr to PBT. However, the interest income on OGE (Rs 28.51 Cr) was the primary driver offsetting bad debts (Rs 6.67 Cr) and labour code costs (Rs 15.37 Cr).	Note 35, p.212
Non-operating / other income as % of PBT	5.75%	1.36%	4.39 percentage point decrease	□ CLEAN	Other income fell to Rs 4.87 Cr from Rs 17.52 Cr.	Note Consolidated P&L, p.194
Deferred tax movement and cash-vs-book tax	Rs 19.21 Cr DTA recognized	Rs 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 Rs 323.60 Cr.	Note 6, p.204
Provision reversals credited to income	none	none	none	□ CLEAN	n/a	Note Consolidated P&L, p.194
Depreciation policy / useful-life change	none disclosed	none disclosed	stable	□ CLEAN	n/a	Note 3, p.199
Valuation-method or accounting-policy change	none	none	none	□ CLEAN	n/a	Note Material Accounting Policies, p.198

Mechanism: Reported PAT growth of 26.6% was supported by a large one-time interest income on tax refunds (Rs 28.51 Cr) and a significant deferred tax credit (Rs 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 Rs 82.52 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	Evidence
Related-party transaction quantum and trend	not disclosed	Rs 583.25 Cr	n/a	□WATCH	Combined RP sales (Valiant) and services (Kalpesh Roadlines) exceed 5% of total revenue.	Note 39.B.b, p.214
New related-party counterparties this year	none	Kalpesh Roadlines Ltd	New significant logistics provider	□WATCH	Rs 169.76 Cr of logistics services outsourced to a group-linked entity.	Note 39.B.b, p.214
KMP / director remuneration vs PAT	not disclosed	Rs 420 Cr (Total Wages)	n/a	□ UNRESOLVED	n/a	Note Human Capital, p.21
Loans, advances or guarantees to group entities	Rs 23.00 Cr	Rs 50.88 Cr	121% increase in funding to JVs	□WATCH	Rs 50.88 Cr investment in OCDs of Augene Chemical (JV) which has zero revenue and a net loss.	Note 39.B.a, p.214
Promoter pledge / encumbrance	42.09% holding	42.09% holding	stable	□CLEAN	n/a	Note Shareholding Overview, p.92
CSR spend and shortfall	not disclosed	Rs 8.89 Cr	n/a	□CLEAN	n/a	Note Social & Relationship Capital, p.21

Mechanism: Value is being channeled through promoter-controlled logistics entities (Kalpesh Roadlines, Rs 169.76 Cr) and strategic funding of loss-making JVs (Augene Chemical, Rs 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 Rs 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	Evidence
CWIP ageing and stalled projects	Rs 1,273.80 Cr	Rs 2,029.52 Cr	59.33% increase in CWIP	☐ WATCH	Rs 973.62 Cr of projects are aged over 1 year; total CWIP is now 34% of Net Worth.	Note 3.a, p.203
Dividend vs free cash flow	Rs 36.25 Cr Div vs Rs -137 Cr FCF	Rs 36.26 Cr Div vs Rs -346 Cr FCF	Dividend paid despite deepening negative FCF	☐ WATCH	Dividends are being funded through borrowings as FCF is negative.	Note Cash Flow Statement, p.195
Contingent liabilities vs net worth	Rs 235.00 Cr (LC/BG)	Rs 603.03 Cr (Total)	156% increase in contingent exposure	☐ WATCH	Contingent liabilities represent 10.1% of Net Worth.	Note 37, p.212
Borrowing terms, security, covenants	Rs 50.34 Cr short-term unsecured	Rs 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.	Note 22, p.209
Encumbered assets / title deeds not in company name	none	ROC security perfection pending	recurring administrative delay	☐ WATCH	Pending security perfection for Rs 1,224 Cr loan and satisfaction of charges for Rs 722 Cr.	Note 49.iii, p.221

Mechanism: The balance sheet is under stress from a massive CWIP cycle (Rs 2,029.52 Cr) that is being funded by an alarming jump in short-term unsecured debt (Rs 999.57 Cr) and rising trade payables. Negative Free Cash Flow (Rs -346 Cr) and increased contingent liabilities further limit the cushion. **Aggregate impact:** Net Debt increased by 23.4% to Rs 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

Note	Discloses	Prior	This year	Impact	Signal
22.ii (p.122)	***Discrepancies between quarterly stock statements filed with banks and book balances.***	not disclosed	Rs 176.21 Cr (Inventory) and Rs 151.02 Cr (Receivables) max differences	Reduces reliability of interim reporting and signals potential internal control weaknesses.	negative
18.c (p.208)	***Security perfection for a Rs 1,224 Cr loan is pending at the ROC due to trusteeship delays.***	not disclosed	Rs 1,224 Cr	Technical compliance risk on a major portion of long-term debt.	negative
8.1 (p.205)	***In-transit finished goods ballooned from Rs 18.73 Cr to Rs 238.88 Cr.***	Rs 18.73 Cr	Rs 238.88 Cr	Indicates significant logistical bottlenecks in export shipments.	negative
39.B.a (p.214)	***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
34 (p.212)	***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 (7/14); 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	Evidence
1	Audit opinion clean?	□	Unqualified opinion (p. 152).
2	Promoter pledge = 0?	□	Pledged shares = 0.00% (p. 124).
3	KMP pay < 5% of PAT?	□	Top 6 KMP pay (□23.71 Cr) is 5.6% of PAT (slightly high but within limits).
4	RPT quantum < 5% of revenue?	□	RPT Sales are 24.50% of revenue (p. 135).
5	Board > 50% independent?	□	50% (7/14) are independent (p. 115).
6	At least 1 woman director?	□	2 women directors (p. 115).
7	No statutory dues outstanding?	□	Disputed tax liabilities of □109.83 Cr (p. 212).
8	No fraud reported?	□	No fraud reported in CARO.
9	Audit trail enabled?	□	SAP S4 Hana migration resolved prior deficiency (p. 152).
10	Frequent Auditor change	□	No frequent changes noted.
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.

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