Aarti Industries Ltd — Feb 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat (Headline) / Inline (Core) **One-line:** Massive one-off termination fee (□631 Cr) masks core margin compression driven by input cost volatility and Nitric Acid supply disruptions, but provides a significant cash buffer for the aggressive □5,000 Cr capex cycle.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Re-iterated 25-35% FY22 growth; headline numbers inflated by termination income.	□
Earnings Quality	Low (One-off driven)	□611 Cr of Q3 EBIT (nearly 70% of segment total) is a non-recurring contract fee.	□
Guidance Confidence	Strong	Re-iterated FY22 growth and provided aggressive FY24/FY27 long-term targets.	□
Management Credibility	Strong	Consistent execution on capex capitalization; transparency on one-off adjustments.	□
Business Quality Signal	Stable	85% utilization across facilities; high share (71%) of value-added products.	□
Key Q&A Exchange	N/A — PPT_ONLY	Not applicable	□
The Street's Primary Anxiety	Margin Compression	EBIT margins (ex-termination) fell ~400-500 bps YoY across segments.	□
Capital Cycle Stage	Investment	Planned capex of □4,500-5,000 Cr for FY22-24.	□
Margin / Return Ratio Trajectory	Deteriorating	ROCE declined to 14% (FY21) from 20% (FY19) due to heavy CWIP and RM pressure.	□
Pricing Power	Stable	Substantial increase in input costs passed on, though EBIT % remains pressured.	□
FCF Conversion & Quality	Distorted	PAT significantly higher than typical CFO due to the termination fee booking.	□
Competitive Moat Signals	Stable	Integrated Benzene/Toluene chain; deep global customer engagement.	□
Balance Sheet Strength	Strong	Net Debt/EBITDA at 2.5x (FY21); termination fee will provide immediate deleveraging.	□
Working Capital Efficiency	Not in document	Detailed Q3 DSO/DIO/DPO not provided in PPT.	□
Mgmt Guidance Track Record	Reliable	Historically meets revenue targets through volume expansions.	□
Key Vulnerability / Red Flag	Raw Material Supply	Nitric Acid shortage impacted volumes of key Nitric-based products.	□
Management Tone	Optimistic	Focused on "Robust Growth" fueled by "Aggressive Capex Investment."	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The company received a ₹631 Cr termination fee for a long-term contract, which significantly de-risks the balance sheet during a heavy capex phase (₹5,000 Cr over 3 years). Volume growth remains robust with 85% utilization, and the long-term FY24/FY27 guidance implies a significant structural scale-up (3x-4x PAT growth by FY27). * **Negatives:** Core operational performance is under pressure; Speciality Chemical EBIT margins (ex-one-off) dropped from 21.0% to 17.1% YoY, and Pharma EBIT margins fell from 22.4% to 17.2%. External headwinds like the Nitric Acid shortage and RM volatility are currently masking the benefits of operating leverage. * **Forward-looking Watchpoint:** Monitor the commissioning of the new API unit at Tarapur and Intermediates unit at Vapi in Q4 FY22, as these are critical to sustaining the 25-35% growth trajectory into FY23.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: Concall not available — commentary absent.

Metric	Current Qtr (Q3FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol)	₹2,288 Cr*	↑ 115%	↑ 55%	↑	Includes ₹631 Cr termination income; ex-one-off growth driven by volume/pricing.
Revenue (Core)	₹1,657 Cr	↑ 56%	↑ 12%	↑	Growth backed by 85% utilization and higher realizations (RM pass-through).
Utilization (%)	~85%	→ Stable	→ Stable	→	High utilization across most operationalized facilities.
EBITDA Margin %	17.8% (Core)	↓ 390 bps	↑ 20 bps	↓	Pressure from input costs; Q3 FY21 was 21.7%.
EBIT (Specialty Chem)	₹894 Cr*	↑ 301%	↑ 363%	↑	Includes ₹611 Cr impact from contract termination.
EBIT Margin (Spec Chem)	17.1% (Core)	↓ 390 bps	↑ 80 bps	↓	Return of demand from established markets helping, but RM costs remain high.
EBIT Margin (Pharma)	17.2%	↓ 520 bps	↑ 250 bps	↓	Higher costs passed on to customers resulted in increased topline but lower %.
PAT	Not in document	First entry	First entry	→	Quarterly PAT figure not explicitly split from 9M total in charts.
ROCE (%)	14% (FY21)	↓ 300 bps	N/A	↓	Decline due to rear-ended capitalization and Covid impact.
Cash Flow (OCF)	Not in document	First entry	First entry	→	Q3 specific OCF not provided in PPT.
Net Debt / EBITDA	2.5x (FY21)	↑ 0.6x	N/A	↓	Debt increased to fund capex; expected to improve with termination cash.
Interest Coverage	Not in document	First entry	First entry	→	Historical FY21 interest coverage not explicitly updated for Q3.
R&D Spend	Not in document	First entry	First entry	→	Focus on 40+ Chem products and 50+ Pharma products.

**Headline figures include one-off termination fee.*

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (EBIT)	Trend	vs Co. Avg	Key Development
Speciality Chemicals	1,657*	55.9%	17.1%*	↓	In-line	Nitric Acid shortage impacted volumes; 71% value-added product share.
Pharmaceuticals	~266**	~30%	17.2%	↓	In-line	Trial runs at new Intermediate facility targeted for Q4 FY22 commissioning.

**Excluding termination income. **Calculated/Inferred from 9M charts.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue (FY22)	25% - 35% growth for FY22.	9M FY22 (ex-one off) is □4,359 Cr. Needs ~□1,900 Cr in Q4 to hit 35% vs □5,023 Cr base. Highly feasible.	On track to meet/ exceed via one-off and RM pass-thru.	Low
Guidance	Margins	EBITDA Margin ~25% - 30% (Long-term).	Current core margins are 17-18%. Requires significant operating leverage and RM cooling to reach 25%+.	Currently missing long-term target on core basis.	High
Guidance	Capex Plan	□4,500 - 5,000 Cr for FY22-24.	Requires ~□1,600 Cr annual spending. Termination fee of □631 Cr covers ~40% of one year's capex.	Consistent: □1,431 Cr capitalized in FY21.	Low
Guidance	Long-term (FY27)	PAT growth 3x - 4x over FY21 (□523 Cr).	Implies FY27 PAT of □1,569 Cr - □2,092 Cr. Requires ~25% CAGR from FY21 base.	First entry for this specific target.	Medium
Strategy	Project Completion	API unit (Tarapur) & Intermediates (Vapi) in FY22.	Commissioning targeted for Q4 FY22. Critical for FY23 growth momentum.	Historical delays in CWIP capitalization noted.	Medium
Macro	Input Costs	Substantial input cost increases passed to customers.	Mathematically, if revenue grows while EBIT margin % drops, RM is being passed through on absolute basis.	Successful pass-through but % margin contraction.	Medium

4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
N/A	N/A	N/A	N/A

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