

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Beat **One-line:** The investment thesis has evolved from "resilient defense" to "structural recovery" as the trifecta of US-India trade relief, India-EU FTA, and China's anti-involution policy creates a perfect macro tailwind for Aarti's newly expanded capacities.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA of ₹323 Cr puts 9M FY26 performance well ahead of the pace required for FY25 guidance.	☐
Earnings Quality	High (Core driven)	Growth driven by 11% QoQ volume surge in MMA/NT/DCB; stripped of ₹15 Cr one-off labor provision.	☐
Guidance Confidence	Strong	Reiteration of ₹1,800-2,200 Cr FY28 EBITDA with clear project commissioning dates in CY26.	☐
Management Credibility	Strong	Delivered on rerouting US volumes and successfully executing indigenous technology in Zone 4.	☐
Business Quality Signal	Improving	Record 65% export share proves global cost competitiveness; moving from "bulk" to "advanced materials."	☐
Key Q&A Exchange	Q#4: China Anti-involution	VAT removal in China led to immediate 7-10% price hikes in NCB chain, proving margin recovery potential.	☐
The Street's Primary Anxiety	US Tariff Overhang	Mgmt confirmed US-India trade deal provides significant relief; tariffs falling from 50%+ to 18% range.	☐
Capital Cycle Stage	Peak Investment transitioning to Harvesting	FY26 Capex raised to ₹1,100 Cr for high-ROCE debottlenecking; FY27 guided to be "significantly lower."	☐
Margin / Return Ratio Trajectory	Improving	Operating leverage kicking in at higher utilizations; MMA to settle at 30-40% of mix, aiding blended margins.	↑
Pricing Power	Expanding	China's policy shift and VAT removal are finally floor-pricing the specialty intermediate basket.	☐
FCF Conversion & Quality	Moderate	9M OCF of ₹500-600 Cr vs annualized PAT; working capital up due to record export share.	☐
Competitive Moat Signals	Widening	Indigenous technology allows "lowest-cost producer" status; integration into Advanced Materials/EVs.	☐
Balance Sheet Strength	Adequate	Management targeting Debt/EBITDA <2.5x; debt rising temporarily due to peak capex/working capital.	☐
Working Capital Efficiency	Deteriorating (Transitional)	Higher export share (65%) is elongating receivables cycle and increasing interest costs.	☐
Mgmt Guidance Track Record	Reliable	Project timelines for Zone 4 and JV commissioning remain on schedule.	☐
Key Vulnerability / Red Flag	Working Capital Bloat	Export-led growth is consuming more cash than domestic sales; net debt remains a key monitorable.	☐
Management Tone	Confident and Opportunistic	Focused on closing growth partnerships now that macro uncertainty has cleared.	☐

Sentiment: ☐Positive

Key Takeaways (Positives & Negatives): * **Positives:** The operational performance has hit an inflection point, with EBITDA growing 11% QoQ to ₹323 Cr, driven by record MMA volumes and recovering US demand. The macro environment has flipped from a headwind to a tailwind: China is removing export VAT rebates (helping NCB chain margins by 7-10%), and the US-India trade deal has slashed tariffs from prohibitive 50% levels to ~18%. Furthermore, Zone 4 is nearing completion (CY26), providing a massive runway for high-margin specialty products. * **Negatives:** The success in exports (reaching 65% of revenue) is a double-edged sword; it has necessitated higher working capital and pushed debt levels higher, leading to increased finance costs. Pricing in some Fluoro products remains subdued despite the overall improvement in the China stance. * **Forward**

Watchpoint: The commissioning of the DCA downstream JV and the RESL JV in H1 FY27. These projects represent the shift toward higher-value "Advanced Materials" and will be critical for hitting the FY28 EBITDA target.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT primary source; Concall used for commentary and unlisted metrics.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	2,492	Not in doc	11%	↑	Driven by volume growth in MMA, NT, and DCB; resumption of US volumes.
Volume (MT)	Not in doc	Not in doc	Positive	↑	Volume growth across key product chains; MMA at record levels.
Utilization (%)	Not in doc	Not in doc	Improving	↑	Higher capacity utilization leading to better operating leverage.
Gross Margin (%)	Not in doc	Not in doc	Stable	→	Pressure from China dumping offset by volume-led operating leverage.
EBITDA (₹Cr)	323	Not in doc	11%	↑	Surge driven by operational excellence and volume ramp-up.
EBITDA Margin %	13%	Not in doc	0 bps	→	Margin stable QoQ; core gains offset by higher export logistics/WC costs.
PAT (₹Cr)	133	Not in doc	25%	↑	Outpaced EBITDA growth due to robust operational performance.
ROCE (%)	>15% (Target)	Not in doc	Not in doc	→	Long-term target maintained; new capex projects have attractive paybacks.
Cash Flow (OCF 9M)	550 (midpt)	Not in doc	Not in doc	↓	9M OCF at ₹500-600 Cr; impacted by higher receivables in exports.
Net Debt / EBITDA	<2.5x (Tgt)	Not in doc	Rising	↓	Marginally up due to WC needs; mgmt expects peak to pass after FY26.
Interest Coverage	Not in doc	Not in doc	Decreasing	↓	Finance costs increased marginally due to higher debt for WC.
Working Capital	Rising	Not in doc	Deteriorating	↓	65% export share has significantly increased receivables/interest costs.
R&D Spend (₹ Cr)	Not in doc	Not in doc	Not in doc	→	Focus on Advanced Materials and indigenous technology.
Capex (FY26 Est)	1,100	Not in doc	10% (vs prev)	↑	Increased from ₹1,000 Cr to fund MMA/DCB/PEDA debottlenecking.

2B. SEGMENT BREAKDOWN

Segment	Revenue Share	QoQ Growth	Margin	Trend	vs Company Avg	Key Development
Energy & Additives (MMA)	43% (H1 avg)	Strong	Volatile	↑	Outperforming	Capacity expanding to 360 KT by Q4FY26; expanding into Europe.
Polymers & Additives	14%	Improving	Recovering	↑	In line	PDCB driving growth via EV/PPS application; DCB expansion to 140 KTPA.
Agro / Pharma Intermediates	20% (approx)	Muted	Pressured	→	Underperforming	Volumes stable; pricing subdued due to China; Anti-involution to help.
Dyes & Pigments	11%	Muted	Low	→	Underperforming	Targeted domestic market share to offset US tariff impacts.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	FY28 EBITDA	₹1,800 - 2,200 Cr	Requires ~₹450-550 Cr incremental EBITDA from new projects.	First entry	Medium (Execution)
Guidance	FY26 Capex	₹1,100 Cr	On track; bulk of Zone 4 spend will be done by Mar-26.	Revised (Up)	Low
Guidance	FY27 Capex	"Significantly Lower"	Dependent on no new large project approvals.	New guidance	Low
Guidance	Leverage (Debt/ EBITDA)	< 2.5x	Requires EBITDA growth to outpace WC debt.	On track	Medium
Strategy	Zone 4 MPP	Q4 FY26 / CY26 Comm.	Phased commissioning throughout CY26.	On track	Low
Strategy	MMA Expansion	360 KT by Q4 FY26	Debottlenecking near completion.	Delivered	Low
Strategy	China Strategy	Anti-involution Benefit	NCB chain already seeing 7-10% price hikes.	New signal	Low
Strategy	JV Commissioning	H1 FY27 (SCL & RESL)	Construction on track for both projects.	On track	Low

4. ANALYST Q&A

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
1	5.0	Nitesh Dhoot / Anand Rathi	Tariffs	Financials	Was there any tariff applying to MMA, and what is the contribution of PDCB and MMA to US exports?	Management confirmed MMA had full tariff applicability last quarter and constitutes 50-60% of US exports, while PDCB is 15-25%. This implies the recent US-India trade deal will have a massive direct impact on the profitability of half of their US export basket.	None	5.0	Clear and quantified
2	4.5	Vivek Rajamani / Morgan Stanley	China Policy	Business Overview	Could you touch upon which capacities are being targeted in China and which could benefit Aarti?	Management noted the removal of VAT export subsidies in China has already raised NCB chain pricing by 7-10%. This validates the "anti-involution" tailwind as a tangible driver of margin recovery rather than just rhetoric.	None	4.0	Directional with evidence
3	4.0	Vivek Rajamani / Morgan Stanley	MMA Strategy	Strategy	Are you comfortable with MMA becoming an even more significant part of the	Management expects MMA to settle at 30-40% of the portfolio in the medium term as Zone 4	None	4.5	Specific range given

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					portfolio at 360kT?	ramps up. This reassures investors that the current bulk-heavy mix is temporary and will diversify into specialty applications.			
4	4.5	Arun Prasath / Avendus Spark	Margins	Financials	What kind of margin uptick can we see on MMA and US exports following the tariff reduction?	Management stated that while existing contracts will be honored, new negotiations will reflect the tariff reduction from 50%+ to 18%+. This suggests a significant realization upside for the US portfolio starting H1 FY27.	Exact margin %	3.5	Vague on quantum
5	4.0	Arun Prasath / Avendus Spark	Europe FTA	Strategy	What is the risk associated with imports into India from European competitors under the FTA?	Management downplayed the risk, stating they can compete with European volumes if they already compete with Chinese dumping. This signals confidence in their "lowest-cost" indigenous technology moat.	None	4.0	Directional with evidence
6	4.5			Capex			None	5.0	

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
		Nitin Agarwal / DAM Capital	Zone 4 Capex		What would be the total CAPEX on Zone 4 by the time we end this year?	Management disclosed Zone 4 total capex will be ₹1,600-1,800 Cr, with bulk deployed this year and only ₹300-400 Cr left for FY27. This provides high visibility on the upcoming "harvesting" phase of the capital cycle.			Specific timeline given
7	4.0	Nitin Agarwal / DAM Capital	Growth	Strategy	What kind of other incremental partnering conversations are you having?	Management expects several growth partnership conversations to close now that trade realignment uncertainty has cleared. This points to CDMO and JV-led growth being the next catalyst post-FY26.	Specific partner names	3.0	Vague but consistent
8	4.5	Surya Patra / PhillipCapital	MMA Moat	Strategy	Is it fair to believe the ROIC in MMA is superior given the quick capacity tripling?	Management clarified that while capacity increased quickly, the groundwork in infrastructure was done over years, leading to operating leverage now. This suggests the MMA business has	Product-specific ROIC	3.0	Deflected specific number

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						high incremental returns on marginal capital.			
9	4.0	Aditya Khetan / SMIFS	PDCB Demand	Business Overview	What is supporting the volume momentum in PDCB compared to NCB?	Management linked PDCB growth to PPS polymer consumption in Electric Vehicles, which has increased dramatically. This tethers Aarti's polymer chain to a structural, high-growth global megatrend.	None	4.5	Clear rationale
10	3.5	Ranjit Cirumalla / IIFL	Terminated Contract	Business Overview	How do we see the ramp-up of the capacity from the terminated contract following the tariff change?	Management expects utilization of that asset to improve as customers in India (who export to the US) see their own demand recover. This indicates the previously "dead" asset is likely to become a contributor again in FY27.	None	3.5	Vague but consistent

PATTERN FLAGS & SENTIMENT

Analysts were laser-focused on the quantification of "macro relief." The primary anxiety regarding US tariffs has shifted to optimism about how much margin can be clawed back following the trade deal. There was also a notable recurring interest in the "China Anti-involution" policy, with analysts pushing for proof of impact—which management provided via the NCB price hike example.

Analyst Sentiment Verdict: The tone was decidedly more bullish than the previous quarter. Management's ability to provide concrete examples of pricing improvements (NCB chain) and clear timelines for Zone 4 (₹1,800

Cr total spend) significantly boosted credibility. Friction points were minimal, limited mostly to the rising working capital debt, but this was largely excused by the record export performance. The consensus seems to be that the "worst is over" and the execution of the FY28 target is now the primary focus.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
US Export Outlook	"Managing headwinds" via rerouting.	"Sigh of relief" due to US-India trade deal.	↑
China Competitiveness	Heavy dumping/pricing pressure.	"Anti-involution" policy; VAT removal.	↑
Export Share	~60% of revenue.	Record 65% of revenue.	↑
NCB Pricing	Subdued/Under pressure.	Immediate 7-10% pricing recovery.	↑
Capex Guidance	FY26 Estimate: ₹1,000 Cr.	FY26 Estimate: ₹1,100 Cr.	↓ (Cash)
MMA Capacity Target	290+ KT.	360 KT by Q4FY26.	↑
Asset Utilization	Ramping up.	Resumption of US volumes; operating leverage.	↑
One-off Items	None material.	₹15 Cr provision for New Labour Code.	↓ (Quality)
Growth Partnerships	"Decision-making stuck."	"Expect many conversations to close."	↑

STOP HERE.