Aarti Industries Ltd — May 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (EBITDA) / Miss (Volumes) **One-line:** The thesis remains a high-stakes "execution play" on FY25/26 capacity ramp-ups; while EBITDA met the FY24 floor of 1,000 Cr, declining QoQ production volumes across all key chains signal that the recovery is still heavily reliant on inventory clearing and price-pass-throughs rather than demand-side pull.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	FY24 EBITDA of 984 Cr met the "about 1,000 Cr" guidance; Q4 EBITDA (283 Cr) was 5.6% higher QoQ.	□
Earnings Quality	Moderate	EBITDA growth came despite lower production volumes, suggesting inventory drawdown and freight cost pass-through.	□
Guidance Confidence	High (FY25)	Management re-affirmed 1,450–1,700 Cr EBITDA for FY25 despite continued Agrochemical headwinds.	□
Management Credibility	Neutral	Successfully hit the "saved" FY24 target, but Nitric Acid supply issues (Deepak Fertilizers contract) are a bottleneck for FY25.	□
Business Quality Signal	Stable	Discretionary segment (Dyes/Pigments) is recovering, but Agrochemical exposure (NT chain) remains a significant drag.	→
Key Q&A Exchange	Q#5Feasibility	Analysts challenged the 20-30% volume growth target for FY25 given the weak Q4 volumes.	□
The Street's Primary Anxiety	FY25 Guidance Gap	Market is skeptical of the ~50-70% EBITDA growth required in FY25; Mgmt pointed to 600 Cr incremental contract revenue.	□
Capital Cycle Stage	Investment (Peak)	Capex guidance raised to 1,500–1,800 Cr for FY25; peak leverage expected this year.	□
Margin / Return Ratio Trajectory	Stabilizing	EBITDA margins held at 14.5%; target of 25-30% on newer Chloro Toluene products remains the long-term goal.	→
Pricing Power	Stable	Pass-through of increased Red Sea freight costs was visible in "Other Expenses" spike matched by Revenue.	□
FCF Conversion & Quality	Weak	Negative FCF persists as FY24 capex (1,280 Cr) significantly exceeded OCF.	□
Competitive Moat Signals	Stable	R&D focus on in-house Chloro Toluene value chain (photochemistry, etc.) to drive FY26 import substitution.	□
Balance Sheet Strength	Adequate	Net debt set to rise toward 3,500 Cr+; interest costs are trending upward (162 Cr in FY24 vs 150 Cr in FY23).	□
Working Capital Efficiency	Deteriorating	Inventory days remained high due to "shipped but not delivered" stock at year-end.	□
Mgmt Guidance Track Record	Reliable	Consistent on hitting sequential EBITDA floors, but optimistic on Agrochemical recovery timelines.	□
Key Vulnerability / Red Flag	Supply Bottleneck	Nitric acid shortage and Deepak Fertilizers' plant delay (to FY26) limits the NCB/NT ramp-up in FY25.	□
Management Tone	Confident	Focused on "operating leverage" and "second-half recovery" for Agrochemicals.	□

Sentiment: Neutral **Key Takeaways (Positives & Negatives):** * **Positives:** Management has successfully defended the FY24 EBITDA floor of ₹1,000 Cr, proving cost-control resilience. The discretionary portfolio (Dyes/Pigments) is showing genuine signs of life (65% of mix), offsetting the Agrochemical slump. Long-term contract visibility (Contract 1 and 2) provides a mathematical bridge for at least ₹250–300 Cr of incremental EBITDA in FY25. * **Negatives:** Production volumes in NCB, NT, and Hydrogenation all fell sequentially in Q4 (NCB -9.8% QoQ), indicating that revenue growth was driven by mix/pass-through rather than output. The Nitric Acid supply constraint is a structural bottleneck that persists until FY26, potentially capping the upside of the NT chain in the near term. * **Watchpoint:** The "Agro Recovery" in H2 FY25. If Agrochemical demand doesn't rebound by Q3, the lower end of the ₹1,450–1,700 Cr EBITDA guidance will be at risk, as the current run-rate only supports ~₹1,200 Cr.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary; Concall used for volume details and specific commentary.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (NCB - MT)	17,646	↓ 6.3%	↓ 9.8%	↓	Impacted by Nitric Acid supply issues and Agro/Pharma softness.
Volume (NT - MT)	6,675	↑ 8.8%	↓ 3.9%	↓	YoY recovery but QoQ pressure from Agrochemical destocking.
Volume (Hydro - TPM)	3,389	↑ 2.2%	↓ 7.0%	↓	Derived from 10,167 MT total for quarter.
Volume (PDA - TPM)	523	Not in doc	↑ 8.7%	↑	Recovery in discretionary applications (dyes/pigments).
Revenue (₹Cr)	1,955	↑ 7.1%	↑ 3.5%	↑	Volume-led in discretionary; RM/Freight pass-throughs.
Gross Margin (%)	43.6%	↑ 230 bps	↑ 350 bps	↑	Improved product mix and absolute gross profit growth.
EBITDA (₹Cr)	283	↑ 12.8%	↑ 5.6%	↑	Operating efficiency and favorable product mix.
EBITDA Margin %	14.5%	↑ 70 bps	↑ 30 bps	↑	Target remains 18-20% as operating leverage kicks in.
PAT (₹Cr)	132	↓ 11.4%	↑ 6.5%	↑	Impacted by higher interest (₹45 Cr) and depreciation (₹98 Cr).
ROCE (%)	Not in doc	↓	↓	↓	Impacted by high CWIP (Zone 4 site development).
Exports (₹Cr)	1,015	↑ 9.9%	↓ 7.7%	↓	US/Europe discretionary demand recovering; Agro soft.
R&D Spend (₹Cr)	Not in doc	→	→	→	Focused on Chloro Toluene and sunrise sectors (Battery).
Net Debt (₹Cr)	~₹2,900	↑	↑	↓	Capex of ₹1,280 Cr in FY24 driving leverage.
Working Capital Days	Not in doc	→	↑	↓	Inventory spike due to delayed March shipments (Red Sea).

2B. SEGMENT BREAKDOWN *Note: Aarti operates a unified Specialty Chemical business; end-user mix is the primary disclosure.*

Segment	Mix (%)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Discretionary	65%	↑	Higher	↑	Above	Dyes, Pigments, Specialty Polymers showing recovery.
Non-Discretionary	35%	↓	Lower	↓	Below	Agrochemicals/Pharma still under destocking pressure.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	EBITDA (FY25)	₹1,450–1,700 Cr	Needs 47%–73% growth. Feasible only with ₹600 Cr incremental top-line.	Reconfirmed from Q3 guidance.	Medium
Guidance	Volume Growth	20%–30% (FY25)	High bar given Q4 production volumes were down 4-9% QoQ.	Aggressive vs. historical recovery cycles.	High
Guidance	Capex (FY25)	₹1,500–1,800 Cr	Consistent with project pipeline (Zone 4, Ethylation, NT).	FY24 spend (₹1,280 Cr) was on track.	Low
Strategy	Chloro Toluene	FY26 Commissioning	Initial phase starting early FY26; 42,000 TPA capacity.	Site work at Jhagadia underway.	Medium
Strategy	Long-Term Contracts	₹1,500 Cr (MNC)	Already ramped up to regular levels.	Delivered as per Q3/ Q4 commentary.	Low
Macro	Nitric Acid Supply	Constraint mitigation	Relies on third-party capacity until Deepak's FY26 plant.	Supply issues impacted Q4 volumes.	High
Balance	Tax Rate (FY25/26)	12%–16%	Continued benefit of new tax regime/location benefits.	Track record is consistent.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Vivek Rajamani, MS	Recovery	Financials	"Firstly, if you could just give a little bit more color in terms of why the volume numbers were lower on a Q-on-Q basis?"	Management attributed the decline to Agrochemical pressure and Nitric Acid supply disruptions during the quarter. This highlights that revenue growth was mix-driven rather than volume-led, making the FY25 volume growth targets a high hurdles.	None	4.0	Directional
2	4.5	Vivek Rajamani, MS	Feasibility	Mgmt Outlook	"For FY'25 guidance... how confident are you of achieving something closer to the high end?"	Management indicated the range depends on volume growth and project stabilization, refusing to narrow the guidance until future quarters. Investors should assume a back-ended FY25 where H2 contributes 60% of EBITDA.	Narrowing the range	3.0	Hedged
3	3.5	Rohit Nagraj, Centrum	Capex	Capex	"After [FY25], the similar run rate [of capex] will continue?"	Management clarified that FY26 capex is not finalized but will be "upward of 1,000 crores" for new site expansion. This signals a continuation of the negative	FY26 specifics	3.0	Directional

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						FCF cycle for at least two more years.			
4	4.0	Abhijit Akella, Kotak	OpEx	Financials	"Could you please just help us understand what might be driving [the significant increase in other expenses]?"	Management explained the spike was primarily due to Red Sea freight cost increases passed through to customers. This confirms that margins are protected but revenue numbers are being "inflated" by freight surcharges.	None	5.0	Quantified
5	5.0	Rohan Gupta, Nuvama	Guidance	Mgmt Outlook	"You are confident about the volume growth overall... what gives you confidence on, let's say, up in the range from 20% to 30%?"	Management cited discretionary segment recovery and the commissioning of Ethylation/ Nitro Toluene expansions in Q2/Q3 FY25. The shift from 20-25% to 20-30% volume guidance suggests aggressive expectations for the second-half recovery.	None	4.0	Specific
6	4.0	Surya Patra, Phillip	Capacity	Business Overview	"Ethylation capacity... visibility from which segment?"	Management confirmed that new capacities coming online in Q2 FY25 are largely tied to	None	4.0	Strategic

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						Agrochemical contracts. This makes the H2 FY25 recovery thesis highly dependent on a specific end-user industry rebound.			
7	4.5	Siddharth Gadekar, Equirus	Contracts	Financials	"How much incremental revenue we are expecting in FY'25 [from the 6,000 Cr contract]?"	Management expects a 50-60% YoY increase in revenue from this contract, moving toward a 1,500 Cr annual run-rate. This provides the most solid floor to the FY25 earnings bridge.	None	5.0	Specific
8	3.0	Rohit Sinha, Sunidhi	Pricing	Financials	"How the price negotiation with our customers basically, how are the contracts aligned?"	Management noted that long-term contracts are raw-material-plus (structured), while short-term orders are negotiated quarterly. This protects the conversion margin (Gross Profit per kg) regardless of Benzene volatility.	None	4.0	Directional

PATTERN FLAGS & SENTIMENT Analyst anxiety was palpable regarding the **FY25 Guidance Bridge**. Every major brokerage questioned how the company could achieve ~60% EBITDA growth when Q4 production volumes were falling. Management's defense rested on three pillars: (1) Incremental 600 Cr from the MNC contract, (2) New project commissioning in Q2/Q3, and (3) A forecasted H2 Agrochemical recovery.

The theme of **Nitric Acid Bottlenecks** surfaced as a new risk. While previous quarters focused on demand, analysts are now worried about supply-side constraints impacting the NCB/NT chains until FY26. Management's tone was confident but disciplined, refusing to be pinned down on whether they would hit the "high end" of the guidance.

Analyst Sentiment Verdict: Skeptical on the volume "hockey-stick." While the Street respects the hit on FY24 guidance, the 20-30% volume growth target for FY25 is viewed as an outlier compared to peers. Management's credibility remains intact but is increasingly tied to the H2 FY25 Agrochemical cycle.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Volume Growth | 20-25% (Q3) | 20-30% (Q4) | Target raised despite a weak Q4 volume exit. | Guidance Miss if Agro H2 fails. | | Supply Chain | Long-term Nitric Acid visibility. | Current supply is constrained; Deepak expansion delayed to FY26. | Supply bottleneck is capping NT chain utilization in FY25. | Margin compression via higher sourcing costs. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY24)	This Quarter (Q4 FY24)	Direction
Production Volumes	Growing (NCB +3% QoQ)	Declining (NCB -9.8% QoQ)	↓
Volume Guidance	20% - 25%	20% - 30%	↑ (Aggressive)
Nitric Acid Outlook	Stable sourcing	Disrupted; reliance on 3rd party until FY26	↓
Capex (FY25)	1,200 - 1,500 Cr	1,500 - 1,800 Cr	↑ (Intensity)
Segment Mix	60% Discretionary	65% Discretionary	↑ (Resilience)
Contract Revenue	Ramping up	FY25 incremental visibility clear (600 Cr+)	↑
Interest Costs	Baseline	Increasing (aligned with capacity launch)	↓

STOP HERE.