Aarti Industries Ltd — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Strong Beat **One-line:** The structural recovery thesis remains intact but enters a "patience phase" as the West Asia crisis creates a temporary volume air pocket in the energy segment and delays Zone 4 commissioning by 3–4 months.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA of □342 Cr vs □323 Cr in the prior quarter; full-year EBITDA hit □1,172 Cr.	□
Earnings Quality	Moderate (Working Capital Drag)	PAT grew 43% YoY, but □39 Cr FX revaluation loss on debt and bloated inventory from transit delays impacted quality.	□
Guidance Confidence	Neutral (Timeline Shift)	FY28 EBITDA target of □1,800-2,200 Cr maintained, but Zone 4 delay pushes the "harvesting" peak by ~1 quarter.	□
Management Credibility	Neutral	Successfully signed a $150M contract and a backward integration deal, but blamed "commercial LPG issues" for capex delays.	□
Business Quality Signal	Stable	High utilization (80%+) proves volume-led recovery; however, pricing power in Fluoro remains weak due to China.	→
Key Q&A Exchange	Q#2: Utilization vs Pricing	Mgmt admitted pushing volumes at the "expense of a slight compromise on margins" to gain share.	□
The Street's Primary Anxiety	West Asia Disruption	Analysts feared revenue loss; Mgmt confirmed 9-10% revenue exposure to Middle East with 6-8 weeks of halted flow.	□
Capital Cycle Stage	Transitioning to Harvesting	FY27 Capex guided lower (□700-800 Cr) as Zone 4 enters the final completion phase.	□
Margin / Return Ratio Trajectory	Stable	EBITDA margins steady at 14.1%; ROCE target of >15% remains a forward-looking goal post-commissioning.	→
Pricing Power	Eroding in Pockets	Pass-through of 60% RM hikes is happening with a lag; Fluoro products still face Chinese dumping.	□
FCF Conversion & Quality	Distorted	CFO-to-PAT ratio pressured by □409 Cr inventory buildup (transit) and higher export receivables.	□
Competitive Moat Signals	Stable	Multi-year $150M contract with a global innovator reinforces "partner of choice" status in Agrochemicals.	□
Balance Sheet Strength	Adequate but Stretched	Net Debt at □4,300 Cr; Net Debt/EBITDA at 3.6x (Targeting <2.5x).	□
Working Capital Efficiency	Deteriorating	Freight costs and transit times (especially to US) have significantly elongated the cash conversion cycle.	□
Mgmt Guidance Track Record	Mixed	Delivered on volume growth; missed on Zone 4 timelines (now 3-4 months behind).	□
Key Vulnerability / Red Flag	Middle East Volume Air Pocket	The full impact of the West Asia disruption will only be visible in Q1 FY27 results.	□
Management Tone	Cautiously Optimistic	Focused on "dynamic allocation" of volumes to circumvent war-related blockages.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** Aarti has successfully transitioned to a volume-driven growth model, with utilization levels exceeding 80% across major chains (NCB/DCB). The signing of two significant long-term deals ($150M supply and □200-250 Cr backward integration) provides high earnings visibility through 2030. The "China Anti-involution" tailwind is finally materializing, with pricing benefits expected to hit the P&L from Q1 FY27. * **Negatives:** The West Asia crisis is a dual headwind: it halts high-margin energy exports to the Middle East (9-10% of revenue) and spikes freight costs simultaneously. Zone 4 commissioning is now delayed by 3–4 months due to labor constraints and logistics. Leverage remains high (3.6x Net Debt/

EBITDA), and the working capital cycle is being stretched by a higher export mix and longer voyage times to the US. * **Forward Watchpoint:** The Q1 FY27 volume print for the Energy segment (MMA). This will reveal the true extent of the Middle East disruption and whether "redirecting volumes to other geographies" was enough to offset the loss of the Dubai/Oman markets.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (MT)	Not in document	Not in doc	Improving	↑	Growth driven by PDCB (EV/PPS polymers) and NCB chain.
Realization/MT (□)	Not in document	Not in doc	Not in doc	→	Pricing increases seen in March, but primarily passing through 60% RM hikes.
Utilization (%)	~80-85%	Not in doc	Improving	↑	Improving utilization is a deliberate strategy to gain share, sometimes at margin expense.
Gross Margin (%)	Not in document	Not in doc	Stable	→	Pass-through of benzene/toluene hikes happening with a lag.
EBITDA (□Cr)	342	+29.0%	+5.9%	↑	Volume ramp-up and operational leverage offset higher freight costs.
EBITDA Margin %	14.1%	Not in doc	+110 bps	↑	Expansion vs prior Q (13.0%) despite freight/logistics headwinds.
Revenue (□ Cr)	2,422	+9.0%	-2.8%	↓	QoQ decline due to Middle East shipments halting in the last 6-8 weeks.
PAT (□Cr)	137	+43.0%	+3.0%	↑	Growth moderated by □39 Cr FX loss and higher interest costs.
ROCE (%)	>15% (Target)	Not in doc	Not in doc	→	Target maintained for FY28 post-commissioning of Zone 4.
Cash Flow (OCF)	Not in document	Not in doc	Not in doc	↓	Bloated by □409 Cr inventory increase (transit inventory).
Net Debt / (Cash)	4,300	Not in doc	+0.0%	→	Net debt stable vs prior Q; Gross debt higher at □4,900 Cr due to cash in transit.
Interest Coverage	Not in document	Not in doc	Decreasing	↓	Impacted by higher working capital debt and 3.6x Net Debt/EBITDA.
Working Capital	55–60 days (Tgt)	Not in doc	Deteriorating	↓	Significant elevation due to RM prices and 2-3 month voyage times to US.
Exports (□Cr)	1,380	Not in doc	-14.8%	↓	Export share fell to 57% (vs 65% in prior Q) due to Middle East disruption.
R&D Spend (□ Cr)	Not in document	Not in doc	Not in doc	→	Focus remains on chemical recycling and agro intermediates.

2B. SEGMENT BREAKDOWN

Segment	Revenue Share	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Energy & Additives	40%	Not in doc	Volatile	↓	Underperforming	Volumes down 4% QoQ; Middle East shipments halted due to war.
Agrochemicals	~20-25%	Not in doc	Pressured	→	In line	$150M contract signed; volumes steady but China dumping persists.
Polymers	Not in doc	Not in doc	Improving	↑	Outperforming	Strong growth in PDCB driven by EV and PPS applications.
Dyes & Pigments	10-11%	Not in doc	Low	→	Underperforming	Domestic growth offsetting global slowdown; 3:3DCBH demand weak.
Pharma	Not in doc	Not in doc	Stable	→	In line	Indian domestic market remains steady; niche focus maintained.

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 ~25% CAGR; feasible if Zone 4 ramps up to 80% by FY28.	First entry	Medium
Guidance	Debt/ EBITDA	< 2.5x	Needs EBITDA to hit ~□1,800 Cr to normalize current □4,300 Cr net debt.	On track	High
Guidance	FY27 Capex	□700 - 800 Cr	Significant reduction from FY26 (□1,125 Cr); matches "harvesting" phase.	New Target	Low
Strategy	Zone 4 Comm.	Phased FY27	Delayed by 3-4 months vs prior "CY26" target; impacts Q1/Q2 revenue.	Missed	Medium
Strategy	MMA Capacity	360 KTPA	Expansion on track; commissioning imminent to meet global demand.	On track	Low
Strategy	$150M Contract	Supply by 2030	No incremental capex; utilizes existing idle/ under-utilized assets.	Delivered	Low
Macro	West Asia	Near-term risk	9-10% revenue at risk; full impact expected in Q1 FY27.	New Risk	High
Macro	China Policy	Recovery from Q1FY27	Anti-involution benefits already visible in NCB pricing (7-10% hike).	On track	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Archit Joshi / Nuvama	Inventory Gains	Financials	"Would there be an element of an inventory gain that we might have booked especially during the month of March?"	Management clarified that inventory gains were not significant because raw material costs rose simultaneously with product prices. This confirms that the Q4 margin beat was driven by core volume and efficiency rather than accounting windfalls.	None	4.5	Clear and quantified
2	5.0	Arun Prasath / Avendus Spark	Utilization	Business Overview	"If I look at the Q4 volumes and annualize it, it is close to 100 percentage. So, is this an industry-wide phenomenon?"	Management stated that 80-85% utilization is a deliberate strategy to gain share, even at the cost of some margin. This implies Aarti is prioritizing wallet share over pricing power in a crowded market to keep the operating leverage high.	Industry-wide context	4.0	Directional with evidence
3	4.5	Aditya Khetan / SMIFS	Debt	Financials	"What is the need for so much debt ticking down [at □49 billion]?"	Management explained that Net Debt is □4,300 Cr and the Gross Debt spike was due to a term loan disbursement sitting in cash over a holiday weekend. This reassures that	Specific debt repayment date	5.0	Specific number given

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						the balance sheet isn't as stressed as the gross number suggests, though 3.6x Net Debt/ EBITDA remains high.			
4	4.0	Nitesh Dhoot / Anand Rathi	Capex Delay	Capex and Allocation	"3 to 4 months delay is on account of labour shortages suddenly, I mean at least in last quarter, this was not spoken about."	Management attributed the delay to a 35% reduction in contract labor due to LPG-related issues and election migration. This signals a minor execution hiccup that pushes back the high-margin revenue accrual from Zone 4 by one quarter.	Why LPG affects labor	3.0	Vague but consistent
5	5.0	Sanjesh Jain / ICICI Sec	MMA Economics	Business Overview	"Considering gasoline and naphtha spread in between, in fact, went to negative... how should we think about it for next 2 to 3 quarters?"	Management admitted the gasoline-naphtha spread is volatile and currently impacted by the West Asia crisis. This highlights the "Energy" segment's sensitivity to refinery dynamics, suggesting potential EBITDA volatility if Middle East	Specific crack spread tgr	2.5	Deflected / Hedged

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						flows don't resume soon.			
6	4.5	Dhruv Muchhal / HDFC AMC	China Policy	Management Outlook	"The nitration-related incidents in China... will they also see a tightness or this will not have any implication on them?"	Management noted that while the incidents aren't in their specific products, the overall rise in safety standards in China is forcing inefficient players out. This validates the structural thesis that AIL's continuous nitration technology is a long-term competitive moat.	None	4.0	Directional with evidence
7	4.0	Nitin Agarwal / DAM Capital	Partnership Momentum	Management Outlook	"Has there been a loss of momentum in some of those conversations or they are going on as they were even prior to the conflict?"	Management confirmed that momentum for growth partnerships has actually increased as customers seek secure supply chains outside volatile regions. This points to future JVs and CDMO deals as the primary catalysts for FY27/28.	None	3.5	Vague but consistent

PATTERN FLAGS & SENTIMENT Analyst concern focused heavily on **operating leverage vs. macro fragility**. There was a persistent effort to reconcile the record utilization rates (80%+) with the ongoing margin pressure in Agrochemicals and the new threat in the Middle East. Management remained firm on their volume-first strategy, appearing confident that market share gains now will translate into outsized profits once China's anti-involution policy fully resets the floor price.

Analyst Sentiment Verdict: Analysts were **cautiously skeptical regarding the debt and capex timelines**. While the volume growth was applauded, the sudden 3–4 month delay in Zone 4 due to "labor and LPG" issues created friction. The credibility of the FY28 EBITDA target was not openly questioned, but the rising interest costs and Net Debt/EBITDA of 3.6x remain a major overhang that will likely dominate discussions until Zone 4 actually starts generating cash in Q2 FY27.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Zone 4 Timeline | Commissioning in CY26. | Delayed by 3-4 months. | Timeline walk-back to phased FY27. | Delayed revenue harvesting. | | Net Debt | Tapering off in FY26. | Remained high at ₹4,300 Cr net. | Working capital prevented debt reduction. | Higher finance cost drag. | | Energy Volatility | Stable growth via MMA. | Volumes down 4% QoQ; ME shut. | Exposure to West Asia war risks. | Near-term EBITDA volatility. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
EBITDA Run-rate	₹323 Cr	₹342 Cr	↑
Export Share	65%	57%	↓
West Asia Risk	Not a material factor.	9-10% Revenue exposure; shipments halted.	↓
Zone 4 Timeline	CY26 Completion.	Phased FY27 (3-4 month delay).	↓
FY27 Capex	"Significantly lower" (unquantified).	Guided at ₹700 - 800 Cr.	↑ (Clarity)
New Order Book	CDMO focus.	$150M contract + ₹250 Cr integration deal.	↑
Net Debt/EBITDA	Improving.	3.6x (Above 2.5x target).	↓
Freight Costs	Moderate.	"Significantly increased" due to Red Sea/War.	↓
FX Impact	Not material.	₹39 Cr revaluation loss on long-term debt.	↓

Investor Notes: * **The Working Capital Divergence:** CFO/PAT is being heavily distorted by "transit inventory" (₹409 Cr adjustment). This is a byproduct of the strategic shift to US exports (3-month voyage times) vs. Middle East (10-day voyage). * **The Debt Floor:** Management's claim that debt will decline in FY27 depends entirely on RM price stability. If Benzene/Toluene continue to rise >60%, the working capital bloat will negate the reduction in capex intensity.