Aarti Industries Ltd — Nov 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline (Adjusted) **One-line:** A "cleansing" quarter where management utilized global demand softness to conduct maintenance shutdowns, while reinforcing a bold 25% EBITDA CAGR target for FY24–25 backed by long-term contract ramp-ups.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	EBITDA at □267 Cr is consistent with the revised □1,100 Cr annual guidance.	□
Earnings Quality	Moderate	Impacted by □20 Cr MTM FX loss and volume loss from a 3-week maintenance shutdown.	□
Guidance Confidence	High	Management provided specific EBITDA targets for FY25 (□1,700 Cr).	□
Management Credibility	Strong	Transparent regarding demand slowdown in dyes/ pigments; corrected utilization data mid-call.	□
Business Quality Signal	Stable	Value-added share remains high at 78%; long-term contracts provide a structural floor.	□
Key Q&A Exchange	Q#7 - FY25 EBITDA Target	Management explicitly guided to □1,700 Cr EBITDA by FY25, implying a 25% CAGR.	□
The Street's Primary Anxiety	Demand Slump in Dyes/Pigments	Mgmt expects recovery from Q4; utilization loss was proactive via shutdown.	□
Capital Cycle Stage	High Investment	□3,000 Cr capex planned for FY24–25; debt expected to increase.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	EBITDA margin compressed to 14.5% (recasted) vs 17.7% YoY.	□
Pricing Power	Stable	Pass-through mechanism functional with 1–3 month lag; protecting absolute EBITDA.	□
FCF Conversion & Quality	Weak	High capex (□577 Cr in H1) and working capital pressure from RM prices.	□
Competitive Moat Signals	Widening	Tripling Ethylation capacity; entry into Chloro Toluene value chain (FY25).	□
Balance Sheet Strength	Adequate	Debt will rise to fund □3,000 Cr capex; interest coverage under pressure.	□
Working Capital Efficiency	Deteriorating	Value of working capital up due to RM prices, though days remain stable.	□
Mgmt Guidance Track Record	Reliable	Historically conservative; clear roadmap for contract ramp-ups provided.	□
Key Vulnerability / Red Flag	Global Recession / Textile Slump	High exposure to Dyes/Pigments (textile/auto) causing near-term volume drag.	□
Management Tone	Resilient and Forward-looking	Focused on FY24/25 "Gross Profit to EBITDA" conversion.	□

Key Takeaways (Positives & Negatives): * **Positives:** The 2nd long-term contract is ramping up (25% utilization); 3rd long-term contract commissions in Q3 FY23; Ethylation capacity tripling to 30,000+ TPA by FY25; Pharma demerger creates two focused entities with listing expected in Dec 2022. * **Negatives:** Severe demand slowdown in Dyes/Pigments (linked to textiles/printing inks); 3-week maintenance shutdown at Jhagadia cost ~□15 Cr in EBITDA; RM/Utility costs remain elevated; Interest costs spiked 300% YoY due to FX volatility. * **The Street's Focus:** Analysts are fixated on the "earnings bridge" to FY25. Management’s response—that fixed costs will stay stable while new volumes flow in—implies massive operating leverage. * **Forward Watchpoint:** Monitoring the recovery of Dyes/Pigments demand in Q4 FY23 and the successful commissioning of the 3rd long-term contract this quarter.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

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

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	1,847	↑ 28.6%	↑ 5.2%	↑	Growth driven by RM pass-through and export share expansion.
Volume: NCB (MT)	20,276	Not in doc	Not in doc	→	Stable despite maintenance; benchmark was not provided for YoY.
Volume: Nitro Tol (MT)	4,954	Not in doc	Not in doc	↓	Impacted by 3-week maintenance shutdown at Jhagadia.
Volume: PDA (TPM)	242	Not in doc	Not in doc	↓	Significant drop due to demand slowdown in dyes.
Volume: Hydrog. (TPM)	2,558	Not in doc	Not in doc	→	Steady performance in hydrogenated products.
Gross Margin (%)	46.2%	↓ 1,220 bps	↓ 750 bps	↓	Calculated from recasted base; impacted by RM price lags.
EBITDA (□Cr)	267	↑ 4.7%	↓ 3.7%	→	Adj. for □52 Cr shortfall fee in Q2FY22, EBITDA growth is >30%.
EBITDA Margin %	14.5%	↓ 320 bps	↓ 70 bps	↓	Compression due to higher utility costs and fixed cost absorption.
PAT (□Cr)	124	↓ 17.3%	↓ 17.5%	↓	Impacted by □20 Cr MTM FX loss and higher depreciation.
Exports (□Cr)	929	↑ 61.5%	↑ 19.2%	↑	Export share increased to 50.3% of total income.
Capex (□Cr)	577 (H1)	Not in doc	Not in doc	↑	On track for □1,100–1,200 Cr annual target.
Net Debt / Equity	0.7-0.9x	Not in doc	Not in doc	↑	Target range maintained; debt rising to fund expansion.

2B. SEGMENT BREAKDOWN *Note: Post-demerger recast reflects Specialty Chemicals as the continuing business.*

Segment	Revenue (₹ Cr)	YoY Growth	Margin (EBIT)	Trend	vs Co. Avg	Key Development
Specialty Chemicals	1,847	28.6%	10.5%	↓	In-line	78% Value-added products; 3rd contract commissioning in Q3.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	EBITDA (FY23)	₹1,100 Cr	Needs ₹556 Cr in H2 (H1 is ₹544 Cr). Achievable if demand returns in Q4.	On Track	Low
Guidance	EBITDA (FY25)	₹1,700 Cr	Requires 25% CAGR from FY23 base. High hurdle, depends on contract ramp-ups.	New Target	Medium
Guidance	Volume / Capacity	2nd Contract @ 70% FY24	Jump from current 25% to 70% in 12 months.	Ramping Up	Medium
Guidance	Capex Plan	₹3,000 Cr (FY24-25)	₹375 Cr per quarter. Massive investment phase.	On Track	Medium
Strategy	Capital Allocation	Ethylation Tripling	Tripling to 30,000 TPA by H1 FY25 (₹200 Cr).	New Project	Low
Macro	Industry Headwinds	Dyes/Pigment Recovery	Expected in Q4 FY23. Subject to global textile cycle.	Persistent	High
Macro	Nitric Acid Supply	No significant impact	Supply has eased; backward integration planned for FY24.	Improved	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Aditya Khetan, SMIFS	Maintenance Impact	Financials	"What was the one-off impact in this quarter and how much in volumes has been impacted?"	Management quantified the EBITDA impact of the Jhagadia shutdown at ~₹15 Cr. Investors should view Q2 as an artificially low base for volume recovery in H2.	None	5.0	Specific and verified
2	4.5	Aditya Khetan, SMIFS	Capacity Expansion	Capex and Allocation	"How much we are planning to expand on the base capacity [Nitro Toluene]?"	Capacity is being debottlenecked from 30k to 45k tons to cater to high-growth agrochemical applications. This ensures the Toluene chain remains a primary growth engine alongside Benzene.	None	4.0	Directional
3	3.5	Vivek Rajamani, Morgan Stanley	Nitric Acid	Business Overview	"If you can just provide an update in terms of how the [nitric acid] situation was in this quarter?"	Management noted no significant impact in Q2 and expects supply to remain stable as market demand is subdued. This removes the primary supply-side overhang that plagued previous quarters.	None	4.0	Directional
4	4.0	Abhijit Akella, Kotak	Demand Recovery	Outlook	"What exactly are the factors that lead us	Recovery is expected as customers signal the end	None	3.5	Qualitative

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					to expect a recovery in demand in Q4?"	of destocking, particularly in the dye stuff segment. This places a clear "recovery timestamp" for investors to watch in Feb/ March 2023.			
5	5.0	Rohan Gupta, Nuvama	Guidance Feasibility	Outlook	"You're clearly indicating that in second half there won't be any growth... what is the reason?"	Management acknowledged that weakness in dyes/ pigments will cap H2 growth, but emphasized that volume ramp-ups in new blocks will offset this. This confirms a flat but stable near-term earnings profile.	None	4.0	Conservative
6	4.5	Rohan Gupta, Nuvama	Contract Utilization	Business Overview	"If you can give some sense that how has been the utilization for the current quarter on Dicamba intermediate [2nd Contract]?"	Management corrected an initial 10% figure to ~25% (720 tons vs 2400 tons quarterly capacity). This higher-than-expected ramp-up is critical for reaching the 70% utilization target by FY24.	None	5.0	Corrected/ Specific
7	5.0	Mihir Damania, Ambit	Long-term Guidance	Management Outlook	"Do you have a potential range of numbers you are targeting either on	Management explicitly targeted ~□1,700 Cr EBITDA by FY25, up from the current ~□1,100 Cr.	None	5.0	Clear and quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					EBITDA, profitability for [FY24-25]?"	This 55% absolute growth target provides a strong valuation anchor for long-term investors.			

PATTERN FLAGS & SENTIMENT Analyst anxiety has shifted from supply-side bottlenecks (Nitric Acid) to demand-side headwinds (Global recession/Textile slump). Management's defensive posture—taking maintenance shutdowns now to be ready for the Q4 recovery—was well-received as a pragmatic operational choice. The transition to recasted financials caused some friction, but management's willingness to provide a multi-year EBITDA bridge (□1,700 Cr by FY25) restored confidence.

Analyst Sentiment Verdict: Skeptical on the near-term (H2 FY23) but highly constructive on the mid-term (FY25). The 25% CAGR guidance was the focal point of the call, acting as a "north star" that outweighed the Q2 margin miss. Management credibility remains high due to their transparency on the maintenance shutdown impact and the detailed project pipeline.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|----------------------------|-------------------|-----------------|----------------| | Dicamba Utilization | Implied steady ramp-up. | Only at 25% utilization; currently not at breakeven. | The 2nd contract is currently a drag on profitability due to low utilization. | Utilization ramp-up delays. | | Volume Growth | Growth is "resilient." | Volumes were actually flat QoQ. | Shutdown and demand slump neutralized new capacity additions. | Delayed operating leverage. |

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
Nitric Acid Risk	Major bottleneck; impacting utilization.	"No significant impact"; situation eased.	↑ Improving
Pharma Status	Recast/Demerger pending.	Demerger approved; recast complete.	↑ Improving
EBITDA Guidance	"Single-digit growth."	Specific target: □1,100 Cr (FY23).	↑ Specificity
Demand Outlook	Cautiously optimistic.	Severe slowdown in Dyes/Pigments.	↓ Deteriorating
Maintenance	Normal operations.	3-week shutdown at Jhagadia.	↓ Short-term Drag
Capex Visibility	□3,000 Cr (FY23-24).	□3,000 Cr (FY24-25) + □1,700 Cr EBITDA Target.	↑ Long-term Upside
Finance Costs	Rising interest rates.	□20 Cr MTM FX loss; interest up 300%.	↓ Deteriorating

STOP HERE.