Aarti Industries Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat (on sequential recovery) / Weak (YoY) **One-line:** Management has successfully called the "bottom" in Q1, with high-margin PDA volumes rebounding 134% QoQ and EBITDA expanding 16% sequentially, though the long-term FY25 growth pivot has been moderated by an incremental 5-15% guidance cut.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	EBITDA of □233 Cr vs □201 Cr in Q1; H2 guidance of □500 Cr+ implies hitting the □950-1,000 Cr FY24 target.	□
Earnings Quality	High (Volume driven)	Sequential growth driven by volume recovery in high-margin PDA (316 TPM vs 135 TPM) rather than one-offs.	□
Guidance Confidence	Neutral	Management lowered FY25 EBITDA guidance again to a "5% to 15% decline" from the original □1,700 Cr target.	□
Management Credibility	Neutral	Accurately predicted Q1 bottoming, but the shifting goalposts for FY25 (first 5-10%, now 5-15% cut) suggest low visibility.	□
Business Quality Signal	Stable	The "Benzene-to-Specialty" chain is absorbing Chinese dumping shocks; Contract 2 (take-or-pay) provides a structural floor.	□
Key Q&A Exchange	Q#3 - FY25 Revision	Management explicitly revised the FY25 EBITDA target to □1,450–1,600 Cr range, citing slower Agro recovery.	□
The Street's Primary Anxiety	FY25 EBITDA Base	Analysts pressed on the 100% EBITDA growth required from the current run-rate to hit the revised FY25 targets.	□
Capital Cycle Stage	Investment	Continuing □2,500-3,000 Cr 2-year capex; NT and Ethylation expansions on track for Q1 FY25.	□
Margin Trajectory	Improving (Sequential)	EBITDA margins expanded 180 bps QoQ (14.6% vs 12.8%) as product mix shifted back to value-added exports.	□
Pricing Power	Stable (RM Pass-through)	RM pass-through is functioning, but "deltas" are being protected by shifting volumes to regular export markets.	□
FCF Conversion	Weak	Negative FCF due to □575 Cr H1 capex vs □433 Cr EBITDA; Net Debt rising to ~□2,700 Cr.	□
Competitive Moat	Stable	Global 1st–4th rank in 75% of portfolio; successfully displacing Chinese competitors in select Asian markets.	□
Balance Sheet Strength	Adequate	Net Debt/EBITDA at ~3x on LTM basis; peak debt expected in FY26.	□
Working Capital	Deteriorating	Inventory correction at customer end is stabilizing but high payable days (imports) suggest tactical WC management.	□
Mgmt Guidance Record	Mixed	Strong on operational bottoming; weak on long-term project timeline/ EBITDA forecasting.	□
Key Vulnerability	NitroToluene (NT)	19% QoQ volume drop in NT (7,560 MT vs 9,327 MT) signals deepening stress in the Agrochemical end-market.	□
Management Tone	Cautiously Optimistic	Tone shifted from "unprecedented challenges" (Q1) to "gradual recovery" and "bottomed out" (Q2).	□

Sentiment: □Neutral Key Takeaways (Positives & Negatives): * **Positives:** The high-margin Phenylenediamine (PDA) volumes recovered sharply to 316 TPM from a dismal 135 TPM in Q1, proving that discretionary destocking (Dyes/Polymers) is ending sooner than Agrochemicals. Export mix rebounded to 53.5% (from 42.9% QoQ), which typically carries higher margins. The 2nd long-term contract continues to provide a "capacity-agnostic" EBITDA floor. * **Negatives:** Agrochemical demand remains the primary drag, reflected in the NitroToluene (NT) volume decline and the further lowering of the FY25 EBITDA guidance. Management now expects FY25 to be "normalizing" rather than "high growth," effectively pushing the major re-rating trigger to H2 FY25. * **The Street's Focus:** The reset of FY25 EBITDA expectations from □1,700 Cr to a 15% lower range (~□1,450 Cr) creates a valuation overhang. Analysts are skeptical of the required 50-60% EBITDA jump in FY25 without a full Agrochemical rebound. * **Forward Watchpoint:** Monitoring the Q1 FY25 commissioning of the Ethylation and NT expansions; any delay here will make the revised FY25 guidance mathematically impossible.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT not available for specific volumes — volumes extracted from Concall.*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (NCB - MT)	19,014	↓ 6.2%	↑ 9.9%	↑	Recovery from Q1 lows; demand picking up in discretionary apps.
Volume (NT - MT)	7,560	↑ 52.6%	↓ 18.9%	↓	Sharp QoQ drop due to Agrochemical demand contraction and shutdowns.
Volume (Hydro - TPM)	3,136	↑ 22.6%	↑ 9.3%	↑	Improving traction in specialty applications.
Volume (PDA - TPM)	316	↑ (N/A)	↑ 134.1%	↑	Significant rebound from Q1 (135 TPM) as polymer/dyes recover.
Revenue (□Cr)	1,597	↓ 13.5%	↑ 1.7%	↑	Volume growth offset by lower RM-linked realizations.
Gross Margin (%)	48.0%	↑ 550 bps	↑ 1,300 bps	↑	(PPT Derived) Benefit from high-margin product mix (PDA/Exports).
EBITDA (□Cr)	233	↓ 12.7%	↑ 15.9%	↑	Sequential improvement on better operating leverage/mix.
EBITDA Margin %	14.6%	↑ 10 bps	↑ 180 bps	↑	Operating leverage kicking in as volumes return to Zone 1-3.
PAT (□Cr)	91	↓ 26.6%	↑ 30.0%	↑	Aided by deferred tax accruals and better ops.
Net Debt (□Cr)	~2,700	↑	↑	↓	Rising due to □575 Cr H1 capex. (Concall: Net debt 2,700-2,800).
Interest Coverage	2.8x	↓	↑	↑	Stabilizing as EBITDA recovers sequentially.
Exports (%)	53.5%	↑ 330 bps	↑ 1,060 bps	↑	Reversion to traditional high-margin export markets.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□Cr)	YoY Growth	Margin (EBIT)	Trend	vs Co. Avg	Key Development
Chemicals	1,597	↓ 13.5%	8.8%	↑	In-line	NCB expanded; NT/Ethylation on track for Q1 FY25; Acid unit revamp done.

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	EBITDA (FY24)	₹950 - 1,000 Cr	Needs ~₹270 Cr avg in Q3/Q4; vs ₹216 Cr H1 avg. High but feasible.	Met Q2 sequential guide.	Medium
Guidance	EBITDA (FY25)	₹1,450 - 1,615 Cr	Needs ~60% growth from FY24 exit. Very high hurdle.	Walked back twice in 6 months.	High
Guidance	Capex Plan	₹1,200-1,300 Cr (FY24)	₹625-725 Cr needed in H2; H1 was ₹575 Cr. On track.	Consistently spending.	Low
Strategy	Chloro-toluene	42,000 TPA capacity	Commercialize in phases from FY25; ₹2.5-3k Cr 2-yr capex.	Site work in progress.	Medium
Strategy	New Projects	NT/Ethylation Q1 FY25	Target commissioning end of Q1 FY25.	Maintained timeline.	Medium
Macro	Agro Recovery	"Few more quarters"	Dependent on global molecule-specific demand.	Worse than anticipated in Q1.	High
Balance	Net Debt	Peak in FY26	Depends on H2 FY25 cash flow generation.	Net debt rising as guided.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Vivek Rajamani, MS	Demand	Mgmt Outlook	"Which sectors are actually seeing the biggest recovery, and which are the sectors which are being the biggest drag?"	Management noted recovery in Dyes, Pigments, and Polymers (discretionary), while Agrochemicals remain molecule-specific and challenging. This signals a bifurcated recovery where specialty margins improve before base volumes.	None	4.0	Directional
2	4.0	Abhijit Akella, Kotak	Margins	Financials	"The sequential increase in margins... what exactly would that be attributable to?"	Management attributed the 180 bps QoQ margin expansion to a favorable product mix and recovery in traditional (higher margin) export markets. This suggests margins are sustainable if the export mix stays >50%.	None	4.0	Specific
3	5.0	Abhijit Akella, Kotak	FY25 Guidance	Mgmt Outlook	"What sort of EBITDA guidance should we work with for FY24 and then maybe FY25?"	Management guided for □950-1,000 Cr in FY24 but lowered FY25 to a "5% to 15% decline" from the earlier □1,700 Cr target. This resets the valuation base lower for the	None	3.0	Walked back

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						next 4-6 quarters.			
4	4.5	Rohit Nagraj, Centrum	Capacity	Business Overview	"Next year, □1,700 Cr minus something... what could be the increase from the base set of capacities?"	Growth will come from NCB ramp-up, Contract 3 stabilization, and the Q1 FY25 commissioning of Ethylation and NT expansion. Achieving FY25 targets is entirely dependent on these new projects hitting >60% utilization in year one.	None	3.0	Feasibility Risk
5	3.5	Ankur Periwal, Axis	Competition	Mgmt Outlook	"Chinese competitive intensity has increased... are there any new capacities coming in or shutting down?"	Management expects Chinese intensity to decrease as global demand recovers, noting no significant new global capacity additions. This implies Aarti is betting on a "demand-pull" to solve the pricing squeeze rather than a supply-side correction.	None	3.0	Macro-dependent
6	4.0	Surya Patra, PhillipCap	Export Mix	Financials	"There is a 10% swing in this quarter... should one think that the domestic market is suppressed by Chinese dumping?"	Management confirmed that direct exports are seeing stronger momentum than domestic sales, which are impacted by downstream	None	4.0	Strategic Signal

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						customers' export struggles. This confirms the "India-for-Global" strategy is currently outperforming the domestic supply chain.			
7	4.0	Surya Patra, PhillipCap	Incremental EBIT	Mgmt Outlook	"FY25... when do you really expect these incremental... ethylation and nitrotoluene expansions to contribute?"	Commissioning is targeted for the end of Q1 FY25, with progressive volume increases in H2 FY25. This creates a "back-ended" earnings profile for FY25.	None	5.0	Specific timeline
8	3.0	Nitin Agarwal, DAM Cap	Opex	Financials	"Optimization staff costs and other expenses for us going forward?"	Management noted operating leverage will kick in as new projects stabilize with minimal headcount additions. Future margin expansion will be purely productivity-led rather than cost-cutting.	None	3.0	Directional
9	4.0	Sanjesh Jain, ICICI	Inventory	Business Overview	"Is that a restocking-based volume recovery or strong underlying demand recovery?"	Management believes the current recovery is the normalization of inventory levels rather than a massive surge in consumption. This suggests	None	3.0	Cautious signal

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						a "U-shaped" recovery floor has been found.			
10	3.5	Nitesh Dhoot, Dolat	Octane Boosters	Business Overview	"Demand for this particular product [Octane boosters]... is it sustainable?"	Management confirmed this is a specialty growth product with diverse end-uses and sustainable traction. This validates the R&D pipeline's ability to create niche, high-margin products.	None	4.0	Product-specific

PATTERN FLAGS & SENTIMENT * **Theme 1: The Guidance Reset.** Analysts were laser-focused on the feasibility of FY25 targets. Management's posture was defensive but realistic, admitting a 15% haircut to the original □1,700 Cr target. Friction remains high as the Street calculates the required 60% EBITDA jump next year. * **Theme 2: Agrochemical Gloom.** Every volume question touched on the Agro slowdown. Management conceded that while discretionary chemicals (Dyes/Polymers) have turned the corner, Agro visibility remains poor, persisting for "a few more quarters." * **Theme 3: Margin Resilience.** Analysts were surprised by the 180 bps margin expansion despite Chinese dumping. Management's confidence in traditional export markets suggests Aarti's customer stickiness (Partner of Choice) is a genuine competitive moat.

Analyst Sentiment Verdict: Analysts are **skeptically constructive**. They acknowledge that the operational trough (Q1) is behind the company, but the credibility of long-term guidance is under repair. The most friction occurs around the "hockey-stick" recovery required for FY25. Management's credibility on operations is high, but their forecasting accuracy is viewed as low.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening / Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
FY25 EBITDA	□1,700 Cr (Original)	□1,450 - 1,600 Cr	Further 5% softening vs Q1 walk-back.	Valuation cap for FY25.
Agro Recovery	Improving by H2 FY24.	"Agro is still challenging... molecule specific."	Recovery timeline pushed from H2 FY24 to FY25.	H2 FY24 earnings volatility.
Net Debt Peak	Not specified.	Likely peak in FY26.	Capex cycle extended; debt to stay elevated longer.	Interest coverage pressure.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY24)	This Quarter (Q2 FY24)	Direction
PDA Volume	135 TPM	316 TPM	↑
EBITDA Margin	12.8%	14.6%	↑
FY25 EBITDA Guide	□1,700 Cr (risk of 5-10% cut)	□1,700 Cr (5-15% decline range)	↓
Export Mix	42.9%	53.5%	↑
Agro Outlook	Expected to improve in H2.	Molecule specific; still challenging.	↓
Net Debt	□2,650 Cr	~□2,700 Cr (CFO: 2,700-2,800 end FY)	↓
Management Tone	Navigating "unprecedented storm."	"Worst is over in H1"; bottom confirmed.	↑

STOP HERE.