Aarti Industries Ltd — Nov 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline **One-line:** Management is successfully using the low-margin "Energy" segment (MMA) as a high-utilization bridge to generate cash while waiting for higher-margin "Zone 4" (Agro/Pharma) projects to commission in late FY26.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Q2 EBITDA of □292 Cr puts them on track for the □1,000–1,050 Cr FY25 guidance.	□
Earnings Quality	High (Core driven)	Growth driven by volume-led operating leverage; FX impacts were largely non-cash M2M.	□
Guidance Confidence	Neutral	Reiteration of FY28 EBITDA (□1,800-2,200 Cr) requires aggressive ramp-up of new plants.	□
Management Credibility	Improving	Proactive response to US tariffs by rerouting volumes to EMEA and GCC markets.	□
Business Quality Signal	Stable	Integrated value chains (Aniline to Ethylene) providing a cost moat against imports.	□
Key Q&A Exchange	Q#4: US Tariff strategy	Mgmt admits limited control but is using "re-export" levers and rerouting.	□
The Street's Primary Anxiety	US Tariffs and MMA Margins	Fear of structural margin compression in US exports; Mgmt is rerouting to EMEA.	□
Capital Cycle Stage	Peak Investment	FY26 Capex at □1,000 Cr; FY27 guided to be "substantially lower."	□
Margin / Return Ratio Trajectory	Stable	Operating leverage is offsetting the adverse mix of higher Energy segment sales.	→
Pricing Power	Eroding (Specific Chains)	Margin pressure in Fluoro-chemicals from aggressive Chinese pricing.	□
FCF Conversion & Quality	Weak	High capex and rising receivables (export-led) keep FCF suppressed.	□
Competitive Moat Signals	Widening	Sequential commissioning of chemistry blocks in Zone 4 (Photochlorination, etc).	□
Balance Sheet Strength	Adequate	Management believes Debt/EBITDA has peaked; targeting <2.5x by FY28.	□
Working Capital Efficiency	Stable	Cycle at 45-50 days; inventory reduction offset by higher export receivables.	→
Mgmt Guidance Track Record	Reliable	Consistent on project timelines and FY25 EBITDA floor.	□
Key Vulnerability / Red Flag	Geopolitical Concentration	US Tariffs are a significant near-term headwind for the Polymer/DCB business.	□
Management Tone	Disciplined and Execution-focused	Focused on cost-optimization "actions" being completed.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The business has reached a critical "Operating Leverage" inflection point where volume growth is now flowing to the bottom line despite market volatility. The MMA (Energy) segment is operating at peak utilization, providing a stable EBITDA base. Management has already "completed" actions for ₹150–200 Cr of cost savings, with 40-50% yet to hit the P&L (pending renewable power in April 2026). * **Negatives:** US tariffs are a material headwind, eroding the margin premium usually enjoyed in the North American market. Chinese competition in the Fluoro chain remains "aggressive," capping margin expansion in specialty segments. * **Forward Watchpoint:** The commissioning of the Zone 4 Multipurpose Plant (MPP) and PEDA capacity in Q4 FY26. These are the primary engines for the FY27 growth step-up.

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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
Revenue (₹Cr)	2,250	27% (est)	21%	↑	Driven by volume ramp-up across key products.
Volume (MT)	Not in doc	Not in doc	Positive	↑	MMA at "highest-ever quarterly volumes."
Utilization (%)	High	Not in doc	Improving	↑	MMA at peak; Ethylation and NT ramping up.
Gross Margin (%)	Not in doc	Not in doc	Stable	→	Pressure from China Fluoro pricing offset by mix.
EBITDA (₹Cr)	292	Not in doc	36%	↑	Primarily fueled by operating leverage.
EBITDA Margin %	13%	Not in doc	150 bps	↑	Conversion of volume to profit via cost ops.
PAT (₹Cr)	106	Not in doc	150%	↑	Reflects operating leverage and FX math.
ROCE (%)	Not in doc	Not in doc	Not in doc	→	Long-term target remains >15%.
Cash Flow (OCF)	Not in doc	Not in doc	Not in doc	↓	Receivables up due to higher export share (60% +).
Net Debt / EBITDA	~3.0x (est)	Not in doc	Peaked	↓	Management expects ratio to improve from here.
Capex (₹Cr)	267	Not in doc	Not in doc	→	FY26 full-year target maintained at ₹1,000 Cr.
R&D Spend (₹Cr)	Not in doc	Not in doc	Not in doc	→	Focus on "Advanced Materials" and CDMO.

2B. SEGMENT BREAKDOWN (By Application)

Segment	Revenue Mix	QoQ Growth	Margin	Trend	vs Company Avg	Key Development
Energy & Additives (MMA)	43%	Strong	Converging	↑	Outperforming	Highest ever volumes; debottlenecking by Q4.
Agro / Pharma Intermediates	20%	Muted	Pressured	→	Underperforming	Zone 4 commissioning in Q4 FY26 to reset.
Polymers & Additives	12%	Weak	Pressured	↓	Underperforming	Impacted significantly by US Tariffs in Q2.
Dyes & Pigments	11%	Muted	Low	→	Underperforming	Demand remains muted globally.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	FY25 EBITDA	1,000 - 1,050 Cr	Needs ~500 Cr EBITDA in H2 (~250 Cr/qtr).	On Track	Low
Guidance	FY28 EBITDA	1,800 - 2,200 Cr	Requires 25% CAGR from FY25 exit.	First Entry	High (Execution)
Guidance	FY26 Capex	1,000 Cr	Spent 267 Cr in Q2; run-rate is consistent.	On Track	Medium (Debt)
Guidance	Leverage (Debt/ EBITDA)	< 2.5x	EBITDA must grow 30% to hit without debt cut.	First Entry	Medium
Strategy	Zone 4 MPP	Q4 FY26 Commissioning	N/A	On Track	Medium
Strategy	PEDA (Agro)	Q4 FY26 Commissioning	4,000 TPA target; key for domestic Agro.	First Entry	Low
Macro	US Tariffs	Negotiating/Rerouting	Shifting focus to EMEA/GCC regions.	Ongoing	High
Strategy	Cost Savings	150 - 200 Cr	Actions completed; 50% flow-through pending.	Delivered (Actions)	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	4.5	Arun Prasath / Avendus	Margins	Financials	How are margins improving despite a higher mix of low-margin MMA?	Management attributed the gain to operating leverage as volumes rose across the portfolio. This implies profitability is now volume-sensitive rather than just product-mix sensitive.	None	4.0	Clear and quantified
2	4.0	Arun Prasath / Avendus	Capex	Capex	What are the key plants starting in the next 12-18 months?	Calcium Chloride (Q3), MPP (Q4), and PEDA (Q4) are immediate; 5 blocks in Zone 4 to follow in FY27. These are the primary triggers for the 2,000 Cr EBITDA thesis.	None	4.5	Specific timeline given
3	3.5	Arun Prasath / Avendus	Allocation	Strategy	What is the future capital allocation strategy after the current cycle?	Focus will shift to medium-ticket projects with faster turnaround using existing infrastructure. This signals a move from a "build" phase to a "harvest/ optimize" phase.	None	4.0	Directional with evidence
4	5.0	Arun Prasath / Avendus	Tariffs	Macro	What can be done to mitigate US tariff impacts?	Levers are limited; management is renegotiating sharing pain with customers and rerouting to EMEA/GCC. This confirms a near-term	None	3.0	Vague but consistent

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						margin overhang for products exported to the US.			
5	4.0	Archit Joshi / Nuvama	EBITDA	Financials	Is ₹270-280 Cr the steady-state EBITDA for the current portfolio?	Management avoided a specific number but stated that volume ramp-up and cost optimization should push results higher. This suggests current levels are a floor, not a ceiling.	Deflected specific number	3.0	Deflected — key signal
6	4.5	Archit Joshi / Nuvama	PEDA	Business Overview	Why enter PEDA when the Indian market is small and competition exists?	Aarti sees it as a "Value Chain" play starting from basic petrochemicals to provide a global cost advantage. This leverages their ethylation capacity to create an integrated moat.	None	4.5	Clear rationale
7	4.0	Archit Joshi / Nuvama	CDMO	Strategy	What is the status of the CDMO business?	Currently 3-4 projects at R&D level; large-scale manufacturing is an 18-24 month journey. CDMO remains a long-term optionality rather than a near-term earnings driver.	None	3.5	Vague on revenue
8	4.5		MMA Strategy	Strategy	Does the US tariff	The thesis remains intact,	None	4.0	

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		Rohit Nagraj / 360 One			change the MMA thesis (since US is the largest gasoline market)?	but the geographical mix is being rebalanced to EMEA while waiting for a US-India trade deal. The underlying demand for gasoline additives remains the driver.			Directional with evidence
9	4.5	Aditya Khetan / SMIFS	MMA Concentration	Business Overview	Will Energy segment reach 50% of revenue and hurt blended margins?	Management will maximize net contribution across all assets; Energy is expected to settle at 30-40% once Zone 4 ramps up. This reassures that the current "Energy heavy" mix is temporary.	None	4.0	Clear and quantified
10	4.5	Abhijit Akella / Kotak	Cost Savings	Financials	Is the 150-200 Cr cost saving in the base yet?	Only 50-60% has flowed through; the rest (like renewable power) hits in April 2026. This provides a clear margin expansion tailwind for FY27 regardless of market conditions.	None	4.5	Specific timeline given

PATTERN FLAGS & SENTIMENT

Analysts were primarily focused on two friction points: the impact of US tariffs on specialty margins and the sustainability of the MMA-led volume growth. There was a noticeable shift in analyst tone from questioning "survival" in prior years to questioning the "speed of ramp-up" in the current cycle. Management appeared more confident than in previous quarters, particularly regarding their ability to reroute volumes away from the US.

The sentiment among analysts remains **Skeptically Positive**. While the operational recovery (EBITDA growth) was welcomed, the "US Tariff" situation remains an unresolved overhang that analysts will likely press on again next quarter. The greatest risk to the thesis is a delay in the H1 CY26 commissioning of the UPL JV and the Zone 4 specialty blocks.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Primary EBITDA Driver	Recovery expectations	Operating leverage from MMA (Energy)	↑
Export Strategy	US-focused	Rerouting to EMEA/GCC due to tariffs	↓ (Margin)
Cost Saving Status	"In progress"	"Actions completed" (50% benefit realized)	↑
Balance Sheet View	Heavy investment focus	Statement that "Debt/EBITDA has peaked"	↑
Product Pipeline	Zone 4 planning	Calcium Chloride (Q3) and PEDA (Q4) commissioning dates set	↑
Asset Utilization	Ramping up	MMA at peak quarterly volumes	↑

STOP HERE.