Aarti Industries Ltd — Nov 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Strong Beat **One-line:** AIL has delivered its highest-ever quarterly EBITDA by successfully navigating raw material (RM) hyper-inflation through volume growth and absolute-margin pass-throughs, though the resulting working capital bloat has necessitated a ₹1,000 Cr deleveraging event.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA of ₹418 Cr vs ₹342 Cr in the prior quarter; surpassing the ₹400 Cr threshold.	□
Earnings Quality	Moderate	PAT grew 60% YoY, but "hollow" revenue growth (73% YoY) driven by ₹500 Cr trading and RM pass-through.	□
Guidance Confidence	Strong	Maintained FY28 EBITDA target of ₹1,800-2,200 Cr despite Zone IV delays.	□
Management Credibility	High	Delivered Zone IV Phase I commissioning and signed a new ₹1,500 Cr long-term contract.	□
Business Quality Signal	Improving	China's "anti-involution" strategy is yielding margin expansion in the NCB value chain.	□
Key Q&A Exchange	Q#3: Guidance Revision	Mgmt admitted NCB upside exists but is currently offset by Zone IV delays and high fixed costs.	□
The Street's Primary Anxiety	Leverage & Working Capital	Mgmt confirmed net debt rose to ₹4,650 Cr, triggering a ₹1,000 Cr equity/fundraise resolution.	□
Capital Cycle Stage	Harvesting Transition	Zone IV Phase I commissioned (Sept 7); focus shifting from capex to asset utilization.	□
Margin / Return Ratio Trajectory	Stable (Absolute)	EBITDA margins compressed in % terms (10.7% vs 14.1%) due to RM denominator effect, but absolute EBITDA is up.	□
Pricing Power	Strong in NCB / Weak in PDA	Successful pass-through in most chains; Acids and PDA (dumping) remain pressured.	□
FCF Conversion & Quality	Distorted	Stretched by ₹800-1,000 Cr of "inventory on waters" and high Aniline/Sulfur prices.	□
Competitive Moat Signals	Widening	10+ year proprietary tech contract for ₹1,500 Cr reinforces deep customer integration.	□
Balance Sheet Strength	Stressed	Net Debt/EBITDA exceeds 3.0x; fundraise is critical to hit <2.5x target.	□
Working Capital Efficiency	Deteriorating	Inventory doubled in absolute terms; optimized to 55-60 days but values are inflated.	□
Mgmt Guidance Track Record	Reliable	Delivered on the "Energy" segment ramp-up and Phase I Zone IV commissioning.	□
Key Vulnerability / Red Flag	Middle East Volatility	Methanol sourcing and Energy segment cracks sensitive to regional geopolitical escalations.	□
Management Tone	Disciplined	Focused on "capital-efficient foundations" and deleveraging via equity.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** AIL has reached a critical scale milestone with ₹418 Cr quarterly EBITDA, driven by a doubling of the Energy portfolio revenue and high utilization in the NCB chain. The commissioning of Zone IV Phase I (PEDA and Calcium Chloride) provides the next leg of volume growth for FY28. The new ₹1,500 Cr CDMO-style contract utilizing proprietary technology highlights a shift toward higher-value, asset-light manufacturing partnerships. * **Negatives:** The balance sheet is under visible strain; net debt has spiked to ₹4,650 Cr due to the "tax" of high raw material prices on working capital. While absolute EBITDA is strong, the percentage margins are being optically suppressed by the massive pass-through of costs (Aniline/ Sulfur), and the PDA (Polymer) chain remains a victim of Chinese dumping. * **Forward Watchpoint:** The success of the ₹1,000 Cr fundraise. This is the "bridge" needed to transition from the current high-leverage capex phase to the FY28 "harvesting" phase without breaching debt covenants or stalling growth initiatives.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT primary source; Concall used for commentary and missing values.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (MT)	Not in document	Not in doc	Improving	↑	Growth driven by Fuel Additives and NCB chain utilization.
Realization/MT (₹)	Not in document	Not in doc	Increasing	↑	Significant price pass-through of Aniline, Methanol, and Sulfur.
Utilization (%)	Elevated	Not in doc	Improving	↑	NCB assets at "elevated" levels; considering further expansion.
Gross Margin (%)	Not in document	Not in doc	Pressured	↓	Impacted by absolute pass-through on a higher revenue base.
EBITDA (₹Cr)	418	+44.1%	+22.2%	↑	Highest-ever quarterly EBITDA; surpassed ₹400 Cr threshold.
EBITDA Margin %	10.7%	↓	↓	↓	Compressed from 14.1% (prior Q) due to RM cost inflation.
Revenue (₹Cr)	3,887	+73.0%	+60.5%	↑	Growth = Volume + RM Pass-through + ₹500 Cr (H1) trading.
PAT (₹Cr)	169	+60.0%	+23.3%	↑	H1 PAT grew 117% YoY to ₹324 Cr.
ROCE (%)	Not in document	Not in doc	Not in doc	→	Post-Zone IV harvesting target remains >15% for FY28.
Cash Flow (OCF)	Not in document	Not in doc	Distorted	↓	Impacted by ₹1,650 Cr net debt and higher WC requirements.
Net Debt / (Cash)	4,650	Not in doc	+8.1%	↓	Increased from ₹1,300 Cr due to high RM-led WC needs.
Interest Coverage	Not in document	Not in doc	Decreasing	↓	Impacted by higher finance costs from stretched WC.
Working Capital	55-60 days	Not in doc	Stable (Days)	→	Days optimized, but absolute value high due to RM pricing.
Exports (₹Cr)	Not in document	Not in doc	Improving	↑	Resilient export demand, especially in the Energy portfolio.
R&D Spend (₹ Cr)	Not in document	Not in doc	Not in doc	→	Focused on MPP/Zone IV and newer chemistry platforms.

2B. SEGMENT BREAKDOWN

Segment	Revenue Share	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Energy Portfolio	~50% (Q2 peak)	~100%+	Volatile	↑	Outperform	Rev doubled to ~₹1,900 Cr; Fuel additives at 360 KTPA.
NCB Chain	~12-15%	Not in doc	Improving	↑	Outperform	Benefit from China's VAT reversal; utilization elevated.
Agrochemicals	~20%	Not in doc	Pressured	↓	Underperform	Price pass-through lag; 10-yr ₹1,500 Cr deal signed.
Pharma	13%	Not in doc	Stable	→	In line	Paracetamol blocks strong; China rationalization benefit.
Polymers (PDA)	10%	Not in doc	Weak	↓	Underperform	Overcapacity/dumping from China; asset re-evaluation.

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	Needs ~18% CAGR from current H1 run-rate (₹802 Cr).	On track	Medium
Guidance	Debt/ EBITDA	< 2.5x	Requires fundraise + EBITDA growth to offset ₹1,650 Cr debt.	Deteriorated	High
Guidance	FY27 Capex	₹700 - 800 Cr	Consistent with "harvesting" transition phase.	On track	Low
Strategy	Zone IV Comm.	Phased FY27	Phase I commissioned Sept 2026; next 4 blocks by Mar 2027.	Delivered (Ph I)	Medium
Strategy	New Contract	₹1,500 Cr (10 yr)	High visibility; proprietary tech; FY29 start.	New	Low
Macro	China Strategy	"Anti-involution"	Already boosting NCB margins via VAT rebate removals.	On track	Low
Macro	Energy Cracks	Gaso-Naphtha $20+	Highly sensitive to crude; volatile but currently robust.	On track	Medium

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
3	5.0	Arun Prasath / Avendus	Guidance Revision	Mgmt Outlook	"Should not [the EBITDA guidance] be revised anyway given that current pricing scenario is likely to sustain?"	Management declined to revise the ₹1,800-2,200 Cr range, citing that NCB margin gains are currently offset by Zone IV commissioning delays and associated fixed costs. This signals that peak earnings "harvesting" is still 12-18 months away.	None	4.0	Cautiously realistic
4	4.5	Arun Prasath / Avendus	Energy Volume	Business Overview	"Energy segment has kind of doubled... we are not seeing this kind of a sequential growth in any other segment."	Management attributed the doubling of Energy revenue to gasoline-naphtha cracks ($20+) and price pass-through of raw materials. This highlights the "volatility risk" in the Energy segment's top-line contribution, which mgmt expects to settle at 30-40% of the mix.	None	4.5	High transparency
6	4.0	Arun Prasath / Avendus	Inventory Loss	Financials	"What kind of an action we can take to reduce this inventory loss whenever the pricing corrects?"	Management is using forward-booking of contracts to match RM costs with customer pricing and running tight on 55-60 day cycles. This confirms that while they are minimizing exposure, they remain	None	3.5	Practical admission

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						vulnerable to sudden crude/ RM price crashes.			
8	4.0	Abhijit Akella / Kotak	Zone IV Potential	Financials	"What sort of peak revenue potential we see from the Zone [IV]... how much of [CWIP] pertains to Zone IV?"	Management expects to capitalize ₹1,800-1,900 Cr of CWIP by March 2027, with a target bottom-line contribution of ₹250-350 Cr from the Zone. This quantifies the imminent depreciation and interest drag that must be offset by ramp-up volumes.	Peak Revenue	4.0	Specific bottom-line
11	3.5	Darshita Shah / DSP	PDA Dumping	Management Outlook	"Is there any difference in the competitive intensity in China specifically [between NCB and PDA]?"	Management noted that China's anti-involution (VAT rebate removal) helped NCB but has not yet been applied to the PDA chain. This implies AIL is "waiting out" the Chinese policy cycle for PDA while re-purposing assets to higher-margin products.	None	3.5	Policy dependent
15	4.5	Siddharth Gadekar / Equirus	New Contract Tech	Management Outlook	"Is this product manufactured by anyone else in India or this is the first time this technology is coming to India?"	Management confirmed this is a first-time India deployment of this proprietary technology for this global customer. This reinforces AIL's role as the preferred "India Plus One" partner for	Global comp.	3.0	Strategic intent

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						complex, long-gestation specialty chemistries.			
16	4.0	Rohit Sinha / Sunidhi	Trading Volumes	Financials	"Is there any trading volume also involved in this top-line growth?"	Management admitted to ~500 Cr of trading revenue in H1 to build markets for expanded capacities. This explains the 73% revenue surge and confirms that core manufacturing growth is lower than the headline number.	None	5.0	Clear disclosure

PATTERN FLAGS & SENTIMENT Analyst focus has shifted from "demand recovery" to "working capital stress." Multiple questions probed the sustainability of the Energy segment's doubling and the risk of inventory losses if crude prices correct. Management's tone was disciplined—they acknowledged the high debt/WC burden and proactively approved a ₹1,000 Cr fundraise to address it, rather than waiting for a crisis.

Analyst Sentiment Verdict: Analysts remain impressed by the **absolute EBITDA delivery** but are wary of the **hollow revenue growth** (trading + RM pass-through) and the **rising leverage**. Management's refusal to raise guidance despite a strong beat was seen as a sign of maturity, acknowledging the "fixed cost drag" of new plants. The primary unresolved tension is the Net Debt/EBITDA trajectory; the equity raise is now the essential catalyst for the stock's re-rating.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Zone IV Timeline | Expected earlier in FY27. | Phased commissioning; 4 blocks still pending. | Minor ramp-up delay. | Pushes peak margins to H2 FY28. | | Net Debt | Expected to peak. | Rose to ₹4,650 Cr. | Stretched by RM inflation. | Necessitated ₹1,000 Cr equity raise. | | Energy Mix | Expected to be stable. | Touched 50% of revenue in Q2. | Unusual spike due to cracks/prices. | Potential volatility if cracks soften. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Quarterly EBITDA	₹342 Cr	₹418 Cr (Highest Ever)	↑
Net Debt	₹1,300 Cr	₹1,650 Cr	↓
Zone IV Status	In CWIP (₹1,200 Cr)	Phase I Commissioned (Sept 7)	↑
Energy Segment Revenue	~₹1,000 Cr	~₹1,900 Cr	↑
Capital Allocation	Capex focus.	Deleverage focus (₹1,000 Cr fundraise).	↑ (Financial Prudence)
New Order Book	CDMO focus.	₹1,500 Cr, 10-year dedicated contract.	↑
Aniline Sourcing	General imports.	Moving to "strategic partnerships" for Aniline.	↑
NCB Chain Spreads	Improving.	"Upside" vs original assumptions (China VAT).	↑

Investor Notes: * **The "Hollow" Revenue Surge:** The 73% revenue growth is misleading; roughly ₹900-1,000 Cr of the incremental quarterly revenue is purely RM pass-through and trading volumes. Investors should focus on the ₹418 Cr EBITDA as the true barometer of scale. * **Balance Sheet Bridge:** The ₹1,000 Cr fundraise is not for "new" growth but to repair the damage RM-inflation did to the working capital cycle. It is a defensive but necessary move to keep the Net Debt/EBITDA below the 2.5x threshold. * **Zone IV Contribution:** With Phase I operational, the "fixed cost" drag will start hitting the P&L in Q3/Q4. Investors must expect a temporary margin "air pocket" before the ₹250-350 Cr bottom-line contribution scales up in FY28.