

Continuing stellar performance; maintain Hold

Aarti Industries Ltd (AIL), for Q4FY19, reported strong set of numbers. Revenue has grown by 17.7% mainly due to healthy performance across all segments. EBITDA grew by 31.4%YoY to INR2,369mn with 205bps improvement in margins to 19.6% on account of increasing share of value added and high margin products. Net profit grew at a higher pace of 46.9% to INR 1245mn, due to slower growth in depreciation and interest expenses bolstered by operationally strong performance. Overall volumes in the specialty chemical segment grew by 3% YoY in Q4FY19 (FY19: 8%); For FY20, the management has guided for midteen volume growth. Moreover, they have alluded an increase in realization in many of the products leading to a better margin profile, which would aid in supporting growth going forward. During the quarter exports accounted for ~41% of revenue.

Better realization with favorable margin profile compensated to low volume growth in specialty chemicals

During the quarter, the specialty chemicals business, which accounts around 76% of AIL's overall revenues. EBIT margin has also shown 349bps improvement on the back of increasing share of value added and high margin products, as increasing raw material costs, which are typically built into as a pass through mechanism in their selling prices. The board has already approved for a brownfield capacity expansion plan in nitrochlorobenzene from 75,000MTPA to 108,000 MTPA resulting in a capex of INR1.5bn. These capacities would be fully commissioned in two phases, Phase 1 in 2HFY20 and Phase 2 in FY21. The expanded capacity would not only help in meeting the increasing domestic demand but also for downstream captive requirement. AIL's nitrotoluene facility reached 53%utilization level, since its commissioning in Sep 2017 during Q4FY19, which the management expects to be ramped up to at least 80% by FY20.

Pharma business: Momentum accelerate

The pharmaceutical segment reported strong growth of 22.1% in Q4FY19, lead by expanding volumes across markets. However, EBIT margin witnessed 414bps contraction to 13% compared to Q4FY18, due to adverse revenue mix. The Management expects pharma revenues to grow at 20-25% with margin improvement. Since major fixed costs are already built-in, incremental volumes will result in significant increase in segment profits. We expect AIL's pharma segment to deliver strong revenue growth of 21.7% CAGR over F19-FY21E.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	1,693
Target Price (Rs)	1,881
BSE code	524208
NSE Symbol	AARTIIND
Bloomberg	ARTO IN
Reuters	ARTI.BO

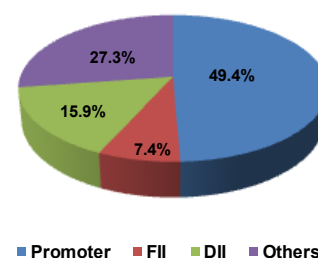
Key Data

Nifty	11,738
52WeekH/L(Rs)	1,808/1,100
O/s Shares (Mn)	87
Market Cap (Rs bn)	147
Face Value (Rs)	5

Average volume

3 months	1,25,113
6 months	1,00,973
1 year	70,120

Share Holding Pattern (%)

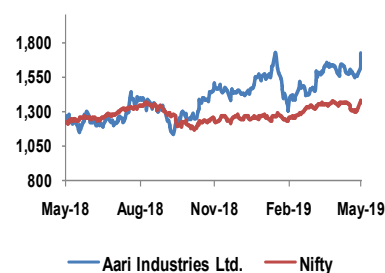


Key Financials					
YE March (INR. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	29,977	36,993	48,753	56,593	69,721
Growth %	10%	23%	32%	16%	23%
EBIDTA	6,084	6,567	9,064	10,680	14,087
Growth%	15%	8%	38%	18%	32%
Net Profit	3,067	3,164	4,627	5,076	7,224
Growth %	21%	3%	46%	10%	42%
Diluted EPS	38	39	57	62	89
Growth %	23%	3%	46%	10%	42%

Profitability & Valuation					
EBIDTA (%)	20.3%	17.8%	18.6%	18.9%	20.2%
NPM (%)	10.2%	8.6%	9.5%	9.0%	10.4%
RoE (%)	25.8%	22.4%	26.6%	22.9%	25.6%
RoCE (%)	20.3%	17.6%	20.6%	18.8%	20.3%
P/E (x)	45.3	43.9	30.0	27.3	19.2
EV/EBITDA (x)	25.1	24.0	17.6	15.4	11.6
P/BV (x)	10.6	9.2	7.0	5.6	4.4

Source: Company, BP Equities Research

Relative Price Chart



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Aarti Industries Ltd Q4FY19 Quarterly Result

YE March (INR. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %
Net Sales	12,114	12,682	(4.5%)	10,294	17.7%
Other Operating Income	0	0		0	
Total Revenue	12,114	12,682	(4.5%)	10,294	17.7%
Less:					
Raw Material Cost	6,923	7,468	(7.3%)	6,072	14.0%
Operating & Manufacturing Expenses	2,106	2,121	(0.7%)	1,910	10.2%
Employee Cost	716	624	14.8%	509	40.7%
Total Expenditure	9,745	10,213	(4.6%)	8,491	14.8%
EBIDTA	2,369	2,469	(4.0%)	1,803	31.4%
Less: Depreciation	425	406	4.5%	369	15.1%
EBIT	1,945	2,063	(5.7%)	1,434	35.6%
Less: Interest	412.0	423.5	(2.7%)	364.2	13.1%
Add: Other income	7	2		12	
Profit before tax	1,540	1,642	(6.2%)	1,081	42.4%
Adjusted Profit before Tax	1,540	1,642	(6.2%)	1,081	42.4%
Less: Total Tax	295	315	(6.3%)	234	26.0%
Profit After Tax	1,245	1,327	(6.2%)	847	46.9%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	1,245	1,327	(6.2%)	847	46.9%
Diluted EPS (Rs.)	15.2	16.2	(6.2%)	10.3	46.9%
Adjusted Diluted EPS	15.2	16.2	(6.2%)	10.3	46.9%
Diluted No of Share (mn)	82.1	82.1		82.1	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	19.6%	19.5%	9	17.5%	205
EBIT Margin %	16.1%	16.3%	(21)	13.9%	213
NPM %	10.3%	10.5%	(19)	8.2%	204
Effective Tax Rate %	19.2%	19.2%	(3)	21.7%	(249)

Revenue were slightly below our estimates of INR 12,291mn mainly due to lower than expected volume growth in Speciality chemicals segment

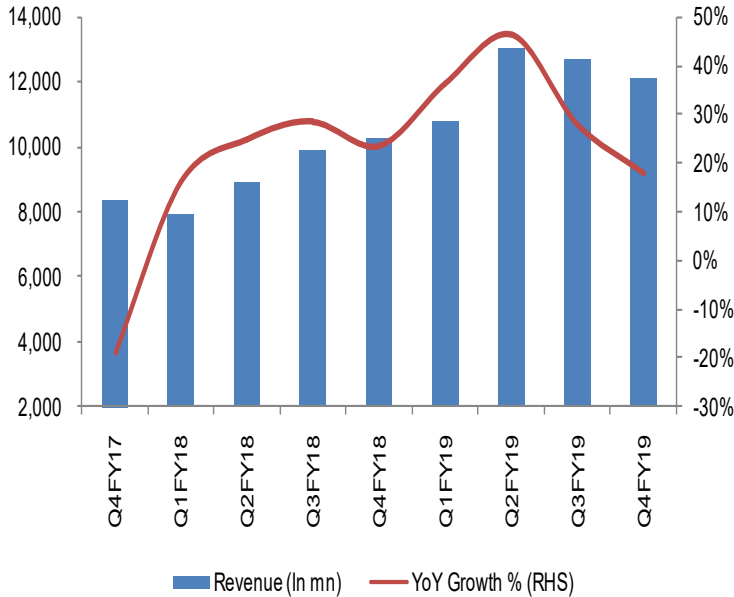
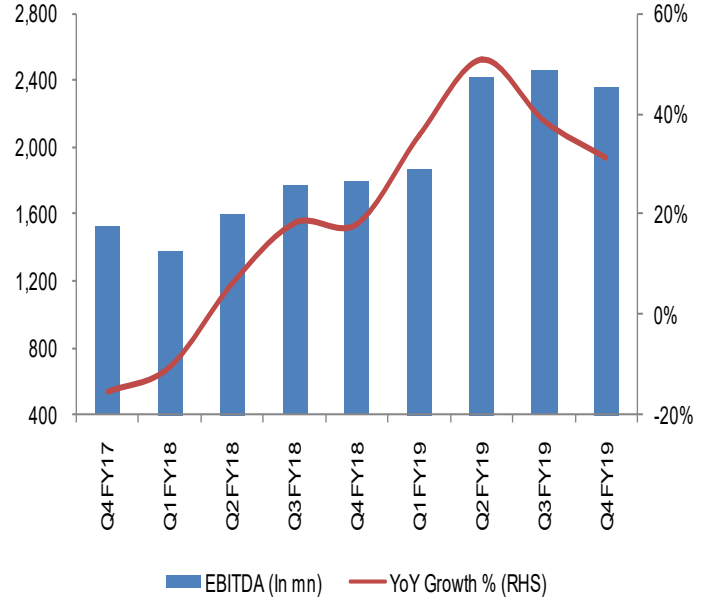
Adj. PAT came above our estimate of INR 1,170mn due to operationally strong performance

The EBITDA margin, at 19.6% was above our estimate of 18.7% mainly due to favorable product mix

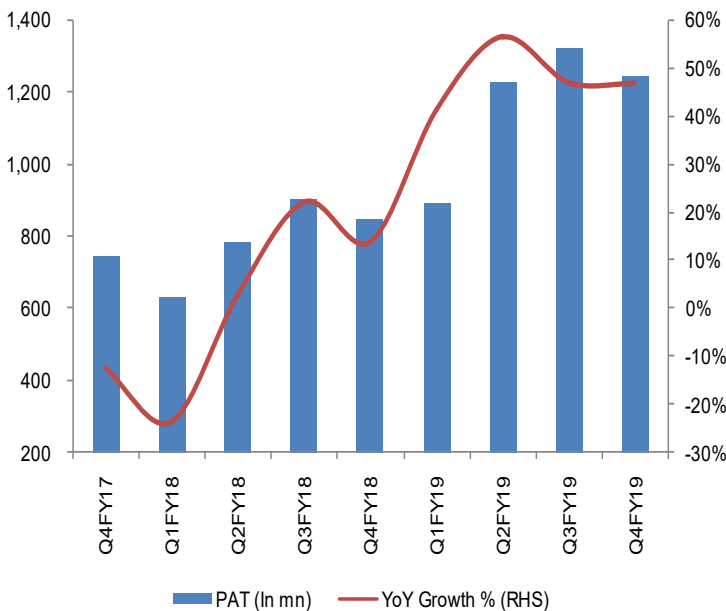
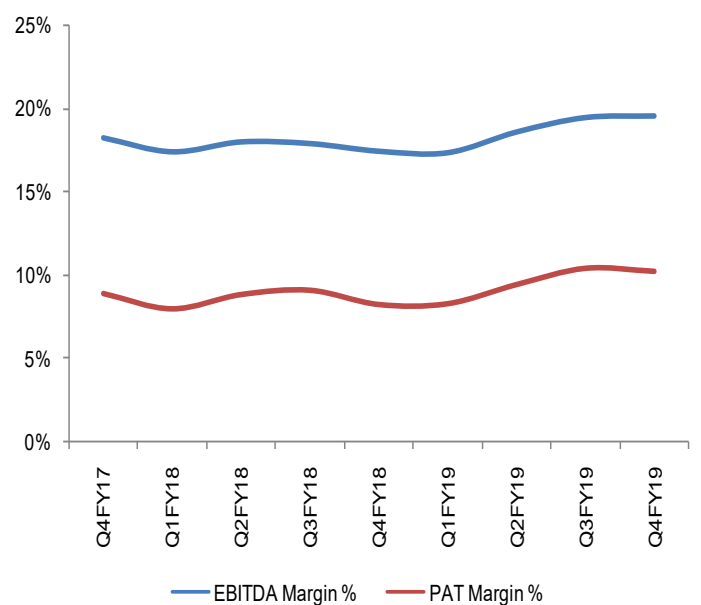
Source: Company, BP Equities Research

Valuation and Outlook

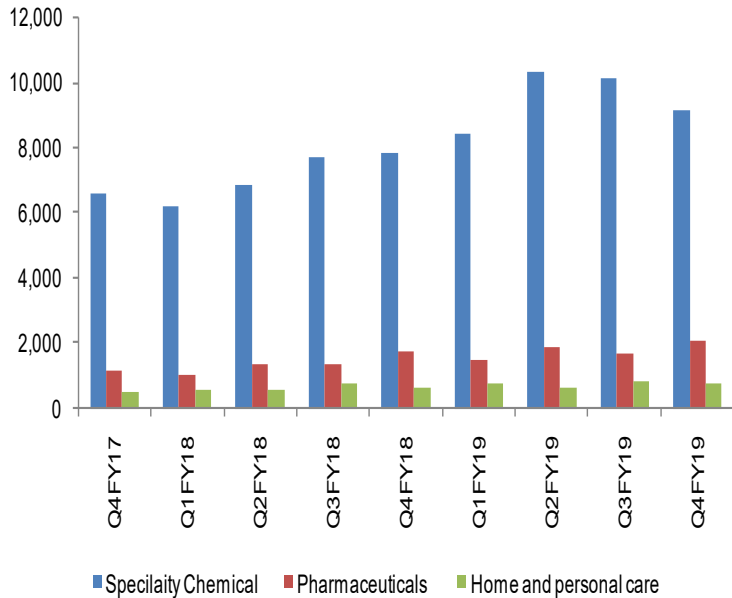
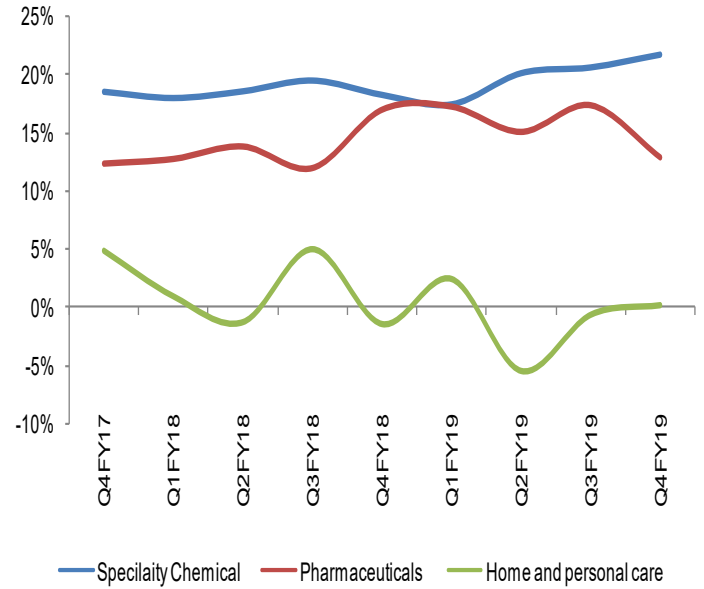
AIL is well placed to capture the benefit on account of shift in manufacturing base from western countries to emerging economics like India and China. With China facing environmental and cost pressures leading to the creation of a supply risk situation. This situation is beneficial for the company and it is expected to capitalize this opportunity and increase its market penetration. Improving demand visibility and new product introduction would lead to increased capacity utilization. Further, strong volume growth and new high margin order wins are expected to drive healthy revenue and profitability growth going ahead. Overall, we remain optimistic on the future growth prospects of the company. However, the recent run in stock price limits upside from the current level. Hence, we retain our Hold rating, with a price target of INR 1,881 by assigning P/E of 21x on its FY21E earnings.

Revenue grew by 17.7% YoY

EBITDA surged by 31.4% YoY


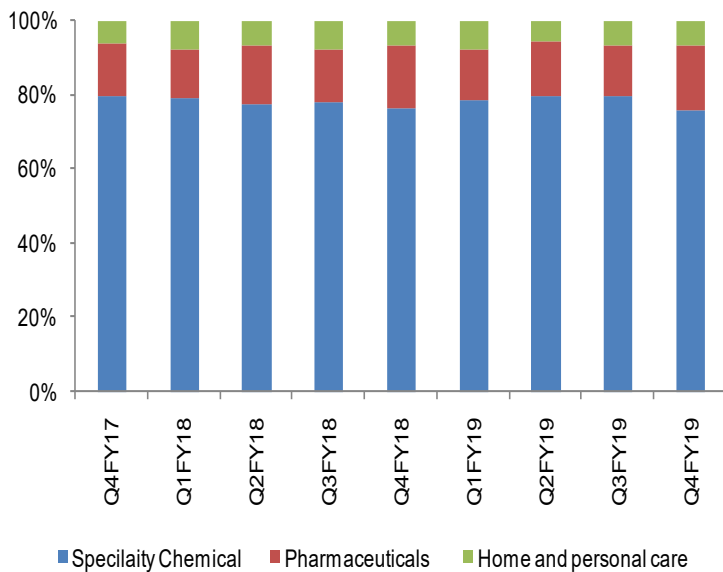
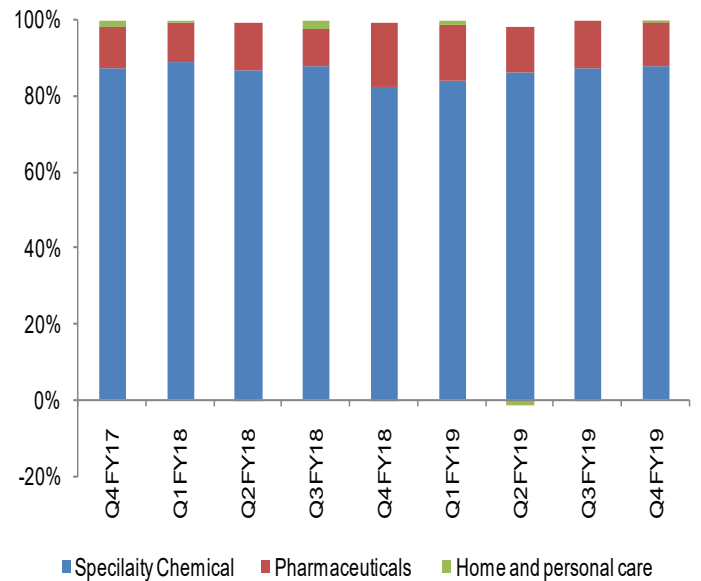
Source: Company, BP Equities Research

PAT showed growth of 46.9% YoY

EBITDA/ PAT margin trend


Source: Company, BP Equities Research

Quarterly Performance In Charts
Revenue by Segment (In mn)

Segment wise EBIT margin (%)


Source: Company, BP Equities Research

Segment Wise Revenue Contribution (%)

Segment Wise EBIT Contribution %


Source: Company, BP Equities Research



Profit & Loss A/c					
YE March (INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	30,502	36,993	48,576	57,235	68,977
<i>Growth %</i>	12.3%	21.3%	31.3%	17.8%	20.5%
Total Revenue	30,502	36,993	48,576	57,235	68,977
Less:					
Raw Material Consumed	15,156	19,010	28,930	33,706	39,346
Employee Cost	1,402	1,768	2,381	2,576	3,173
Other Expenses	7,861	9,648	8,127	9,729	11,724
Total Operating Expenditure	24,418	30,426	39,438	46,010	54,243
EBIDTA	6,084	6,567	9,138	11,226	14,733
<i>Growth %</i>	14.8%	7.9%	39.1%	22.8%	31.2%
Less: Depreciation	1,148	1,358	1,596	1,943	2,649
EBIT	4,936	5,210	7,542	9,283	12,084
<i>Growth %</i>	12.8%	5.5%	44.8%	23.1%	30.2%
Interest Paid	1,174	1,307	1,810	2,456	2,456
Non-operating Income	25	21	46	57	58
Extraordinary Income	0	0	0	0	0
Profit Before tax	3,787	3,924	5,778	6,884	9,686
Tax	721	759	1,085	1,365	1,926
Net Profit	3,067	3,164	4,693	5,519	7,760
Adjusted Profit	3,067	3,164	4,693	5,519	7,760
Reported Diluted EPS Rs	35.4	36.5	54.2	63.7	89.6
<i>Growth %</i>	21.5%	3.2%	48.3%	17.6%	40.6%
Adjusted Diluted EPS Rs	35.4	36.5	54.2	63.7	89.6
<i>Growth %</i>	21.5%	3.2%	48.3%	17.6%	40.6%

Source: Company, BP Equities Research

Cash Flows Statement					
YE March (INR. Mn)	FY17	FY18	FY19	FY20E	FY20E
PAT	3,066.8	3,164.4	4,693.0	5,518.9	7,760.5
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(25.1)	(21.3)	(45.5)	(57.2)	(57.9)
Add: Depreciation	1,148.0	1,357.7	1,596.3	1,942.7	2,649.4
Add: Interest Paid	1,173.8	1,307.4	1,809.6	2,455.8	2,455.8
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	5,363.5	5,808.2	8,053.4	9,860.1	12,807.8
(Inc)/Dec in Current Assets	(662.0)	(1,481.3)	(1,529.2)	(1,534.7)	(2,066.7)
Inc/(Dec) in Current Liabilities	649.1	878.1	1,099.2	727.4	834.5
Changes in Inventory	(723.5)	(1,401.6)	(668.6)	(1,255.8)	(1,573.3)
Net Cash Generated From Operations	4,627.1	3,803.4	6,954.8	7,797.0	10,002.2
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(5,113.3)	(4,128.5)	(4,297.1)	(10,000.0)	(5,000.0)
(Inc)/Dec in Capital Work In Progress	399.7	(1,643.9)	(3,678.6)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	2,765.7	(497.5)	(803.9)	(297.4)	(327.1)
Add: Non Operating Income	25.1	21.3	45.5	57.2	57.9
(Inc)/Dec in Intangible Assets	(293.0)	58.0	(90.1)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(2,215.8)	(6,190.6)	(8,824.2)	(10,240.2)	(5,269.3)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(592.4)	4,837.3	4,380.8	5,338.9	351.8
Inc/(Dec) in Reserves & Surplus	(574.2)	(1,022.7)	7,584.2	0.0	0.0
Inc/(Dec) in Equity	(6.0)	(4.1)	26.8	0.0	0.0
Dividend Paid	(86.7)	(86.7)	(606.6)	(685.0)	(773.6)
Less: Interest Paid	(1,173.8)	(1,307.4)	(1,809.6)	(2,455.8)	(2,455.8)
Adjustments	(3.4)	(6.3)	(0.0)	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(2,436.5)	2,410.1	9,575.6	2,198.1	(2,877.6)
Net Inc/Dec in cash equivalents	(25.2)	22.9	7,706.2	(245.1)	1,855.3
Opening Balance	241.6	216.4	239.3	7,945.5	7,700.4
Closing Balance Cash and Cash Equivalents	216.4	239.3	7,945.5	7,700.4	9,555.7

Source: Company, BP Equities Research



Balance Sheet

YE March(INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	411	407	433	433	433
Reserves & Surplus	12,690	14,745	26,416	31,250	38,237
Equity	13,101	15,152	26,849	31,683	38,670
Net Worth	13,101	15,152	26,849	31,683	38,670
Minority Interest					
Net Deferred tax liability/(Asset)	1,420	1,594	3,815	1,653	2,005
Total Loans	14,179	18,843	21,003	28,503	28,503
Capital Employed	28,700	35,588	51,666	61,839	69,178
Assets					
Gross Block	24,745	28,873	33,170	43,170	48,170
Less: Depreciation	9,079	10,430	12,027	13,969	16,619
Net Block	15,666	18,443	21,144	29,201	31,552
Capital WIP	2,668	4,312	7,990	7,990	7,990
Investments	1,673	2,170	2,974	3,271	3,599
Others - A	617	559	649	649	649
Current Assets					
Inventories	5,466	6,868	7,536	8,792	10,365
Sundry Debtors	5,474	6,392	8,366	9,858	11,880
Cash and Bank Balance	216	239	7,946	7,700	9,556
Loans and Advances	1,425	1,948	1,411	1,452	1,494
Other Current Assets	205	245	337	339	342
Total Current Assets	12,786	15,692	25,596	28,141	33,636
Less: Current Liabilities & Provisions					
Sundry Creditors	2,949	3,466	3,131	3,648	4,258
Provisions	238	275	390	394	399
Other Current Liabilities	1,523	1,846	3,165	3,372	3,591
Total Current Liabilities & Provisions	4,709	5,587	6,686	7,414	8,248
Capital Applied	28,700	35,588	51,666	61,839	69,178

Source: Company, BP Equities Research

Key Ratios

YE March (INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	19.9%	17.8%	18.8%	19.6%	21.4%
Tax / PBT (%)	19.0%	19.3%	18.8%	19.8%	19.9%
Net Profit Margin (%)	10.1%	8.6%	9.7%	9.6%	11.3%
RoE (%)	25.8%	22.4%	22.3%	18.9%	22.1%
RoCE (%)	20.3%	17.6%	18.6%	17.5%	19.7%
Current Ratio (x)	2.7x	2.8x	3.8x	3.8x	4.1x
Dividend Payout (%)	2.8%	2.8%	2.8%	2.8%	2.8%
Book Value Per Share (Rs.)	151.2	174.8	309.8	365.6	446.2
Financial Leverage Ratios					
Debt/ Equity (x)	1.1x	1.2x	0.8x	0.9x	0.7x
Interest Coverage (x)	5.2x	5.0x	5.0x	4.6x	6.0x
Interest / Debt (%)	8.9%	7.9%	9.1%	9.9%	8.6%
Growth Indicators %					
Growth in Gross Block (%)	26.0%	16.7%	14.9%	30.1%	11.6%
Sales Growth (%)	12.3%	21.3%	31.3%	17.8%	20.5%
EBITDA Growth (%)	14.8%	7.9%	39.1%	22.8%	31.2%
Net Profit Growth (%)	21.5%	3.2%	48.3%	17.6%	40.6%
Diluted EPS Growth (%)	21.5%	3.2%	48.3%	17.6%	40.6%
Turnover Ratios					
Debtors Days	66	63	63	63	63
Creditors Days	71	67	40	40	40
Inventory Days	82	82	70	70	70

Source: Company, BP Equities Research

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