

AARTI INDUSTRIES LTD.

27th SEPTEMBER, 2016

CMP: Rs. 621
Not Rated

Stock Info

BSE Group	B
BSE Code	524208
NSE Symbol	AARTIIND
Bloomberg	ARTO IN
Reuters	-
BSE Sensex	24,825
NSE Nifty	7,563

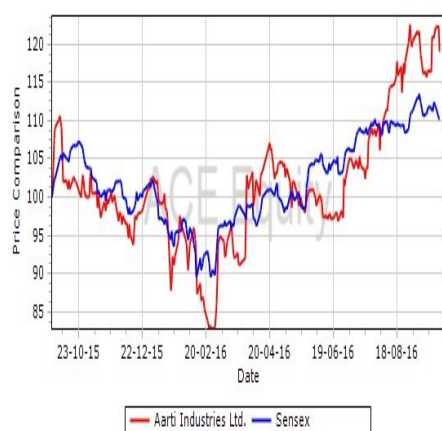
Market Info

Market Capital	5217.11Cr
Equity Capital	41.66Cr
Avg. Trading Vol.	55,18,000
52 Wk High/ Low	635/417
Face Value	Rs10

Shareholding Pattern (%) (Jun 2016)

Promoters	54.8
Domestic Institutions	12.1
Foreign Institutions	3.4
Public & Others	29.7

Chart:



Background:

Aarti Industries is one of the most competitive benzene based speciality chemical companies in the world. Globally it ranks at 1st to 4th position for 75% of its portfolio. Company has product mix that comprises of more than 125 research led products. Company has selected to be present in niche chemistry spaces with relatively low competition. Product range of the company includes Para nitro aniline/Para fluoro aniline, Etopylline b.p. /e.p. Aminophylline b.p. Aciphylline piperazine, Para fluoro nitro benzene/ Ortho fluoro nitro benzene, Chloro fluoro aniline/ 2,4, Dichloro fluoro benzene & 1,3, Difluoro benzene. The company is also in the business segment of Pharmaceuticals, Speciality Chemicals, Home & Personal Care Chemicals.

Meeting Update:

- Speciality chemical industry is growing about 5.3% and company has been growing about 16%.
- It has wide variety of 125+ products in portfolio.
- 80% revenue comes from 5+ years of customers.
- 40% revenues contributed by exports and in future, it is going to improve.
- 60% sales generated by top 20 products.
- Maintenance capex around 80-100 crores and new capex would be around 400-450 crores.
- Dividend payout policy will stand at 25%.
- Top line growth around 15% and bottomline growth around 20% in next 5 years.
- Company has higher debt because of high working capital requirements. Company is comfortable with having debt to equity ratio around 0.8 to 1.2. Currently; Debt to equity ratio is 1.2.
- EBIT margin has expanded from 16.3% in Q1FY16 to 18.7% in Q1FY17, mainly due to benzene prices that were lower by 17% YoY.

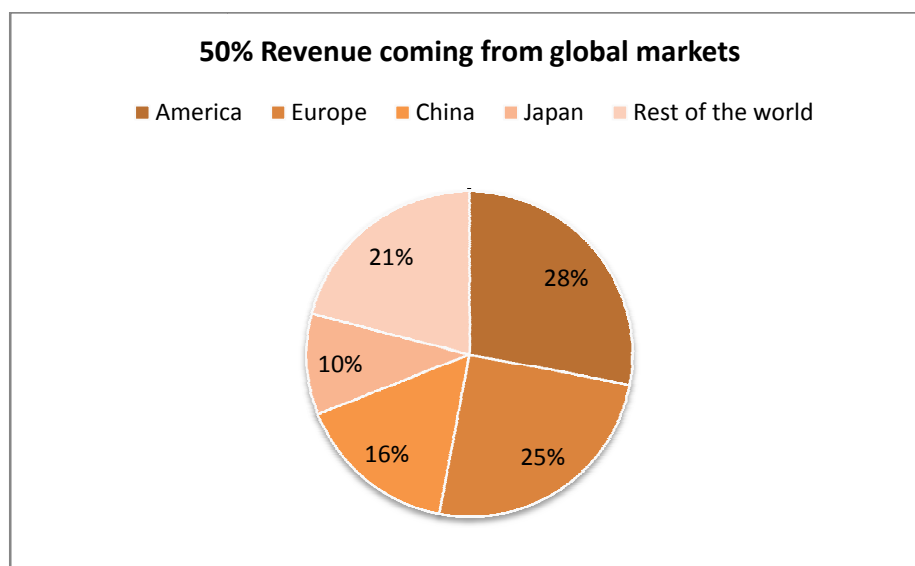
Financial Snapshot:

Inc/Exp Statement(Standalone)					(Rs in Crore)
Description	201603	201503	201403	201303	201203
Net Sales	2717.01	2870.65	2632.78	2096.12	1673.31
Total Income	2726.65	2872.62	2643.20	2100.51	1676.15
Total Expenditure	2186.81	2414.17	2237.29	1739.87	1428.67
PBIDT	539.84	458.45	405.91	360.64	247.48
PAT	252.43	187.80	148.70	131.34	87.19
Dividend %	170.00	110.00	90.00	80.00	70.00
Adj. EPS(Rs)	30.30	21.20	16.78	16.60	11.02

Source: - Company data Ace Equity, Arihant Research



Global Presence – Exports by geography

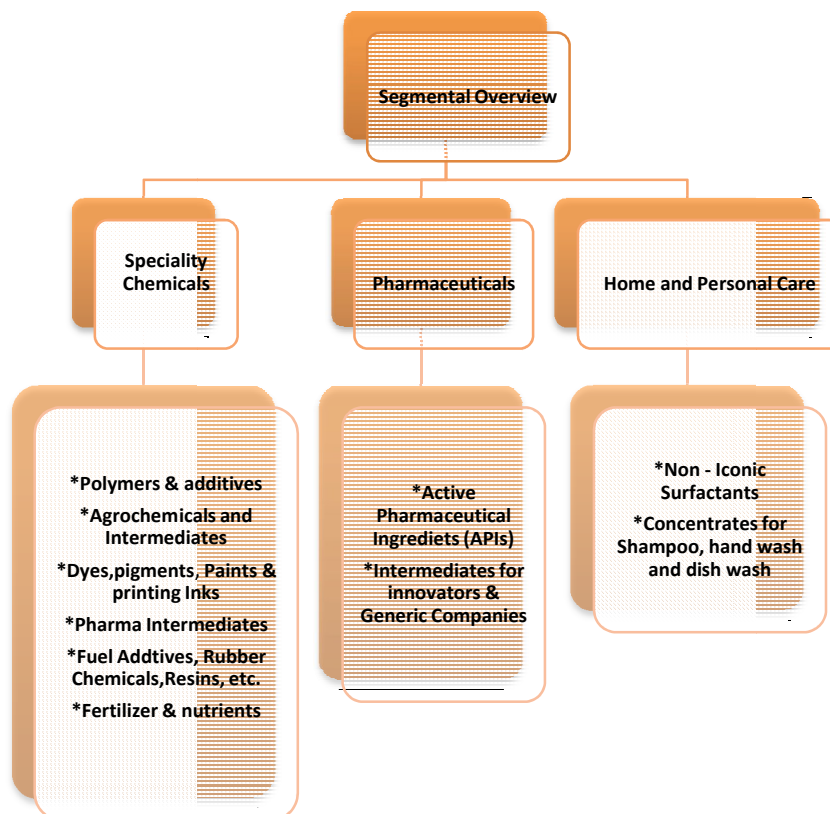


Specialty Chemicals – major Customers:

Agro Intermediaries & Fertilizers	Polymers & Additives	Pigments, Paints , Printing Inks, Dyes	Pharmaceuticals, Other Specialty Chemicals
BASF	BASF	BASF	CIPLA
Syngenta	Ticona	Clariant	3M
Bayer	TORAY	EASTMAN	SUN PHARMA
UPL	Chemipro	Atul	Zydus
Dow	Solvay	SUDARSHAN	Dabur
FMC	Sojitz	HUNTSMAN	
UPL	Everlight	MICRO INKS	
DUPONT	DUPONT	Sun Chemical	



Company's Business Model:



Specialty Chemicals overview

- 100% FDI permissible under the automatic route in the chemicals sector
- GOI is progressively reducing the list of reserved chemical items for production in the small scale sector, thus enabling higher investment in technology upgradation and modernization.

Pharmaceuticals Chemicals overview

- Global Generic Pharmaceutical Companies, Innovator and Large Pharmaceuticals MNCs, Branded Generic Indian Pharma Companies.
- Debottlenecking and Expansion activities have facilitated Growth in Pharma Volumes.

Home & Personal Care products overview

- Plans are afoot to optimize on the production capabilities to suitably alter/revise the product mix and explore new market to improve the margins.
- FMCGs – Shampoos, Anti-Dandruff Shampoos, Disinfectants, Hand & Body wash, Dish Wash, Detergents Bars & Powders, Soaps, Tooth Powders & Paste etc.

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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Source: - Company data, Arihant Research