AXIS DIRECT

Result Update
10th November, 2025

Aarti Industries Ltd
Specialty Chemicals

BUY
Target Price
530

Taking Steps to Recoup Growth; Maintain BUY

Est. Vs. Actual for Q2FY26: Revenue: BEAT; EBITDA: BEAT; PAT: BEAT

Changes in Estimates post Q2FY26

FY26E/FY27E: Revenue: 0%/0%; **EBITDA:** -5%/-3%; **PAT**: -1%/-1%

Recommendation Rationale

- **Robust Volume Growth and Margin Rebound:** Aarti Industries delivered a strong performance in Q2FY26, with revenue up 29% YoY, driven by higher volumes—particularly in the MMA business—and the recognition of bulk shipments deferred from Q1. The energy segment reported an impressive 118% YoY volume growth, while the non-energy segment grew 17% YoY, indicating a broad-based recovery across end markets. EBITDA margin improved to 14%, supported by operating leverage from higher capacity utilization.
- **De-risking Through Geographic Expansion:** Despite headwinds from US tariffs, AIL delivered healthy growth driven by diversification of its product portfolio and regional rebalancing. The company continues to strengthen its presence across Europe, the Middle East, and Africa, while refining its US market strategy to maintain long-term competitiveness. Management reiterated confidence in achieving its FY28 EBITDA targets, supported by volume growth, cost optimization, operating efficiency, and the commissioning of ongoing capex projects.
- **Gradual Capacity Enhancement Through Disciplined Capex:** During Q2FY26, the company incurred capex of Rs 267 Cr, primarily directed toward ongoing expansion initiatives. Execution at Zone-4 projects remains on schedule, with multiple projects planned for commissioning in a phased manner over the next one and a half years. These strategic expansions will be undertaken selectively and are expected to strengthen integration, enhance product diversification, and support margin sustainability.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The company is actively expanding its product portfolio to enhance diversity and improve capacity utilization. Simultaneously, AIL is progressing with backward integration into select downstream products to support margin expansion. Going forward, it intends to execute its growth strategy in a measured and disciplined manner, with planned capex of less than Rs 1,000 Cr for FY26. As the global demand environment stabilizes, AIL is well-positioned to benefit from the next phase of recovery, driven by improved operating leverage and innovation in high-value chemistries. The company continues to target an annual EBITDA range of Rs 1,800–2,200 Cr by FY28.

Current Valuation: 23x Sept'27E (25x FY27E)

Current TP: Rs 530/share (Earlier TP: Rs 525/share).

Recommendation: We **maintain our BUY rating on the stock** with a revised target price of Rs 530/share, implying a 38% upside from the CMP.

Financial Performance: AIL's performance exceeded expectations across all parameters. Revenue stood at Rs 2,100 Cr, up 29% YoY and 25% QoQ, surpassing estimates by 16%. EBITDA came in at Rs 291 Cr, up 48% YoY and 37% QoQ, beating estimates by 21%. EBITDA margin improved to 13.9%, compared to 12% in Q2FY25 and 12.7% in Q1FY26. PAT stood at Rs 106 Cr, significantly up 112% YoY and 147% QoQ, driven by improved operating leverage and the impact of exceptional items (Rs 22 Cr related to tax relief and advance payment provision), outperforming the estimated Rs 63 Cr.

Key Financials (Consolidated)

(Rs Cr)	Q2FY26	YoY (%)	QoQ (%)	Axis Est.	Var (%)
Net Sales	2,100	29%	25%	1,807	16%
EBITDA	291	48%	37%	240	21%
EBITDA Margin	13.9%	182bps	120bps	13.3%	56bps
Net Profit	106	112%	147%	63	68%
EPS (Rs)	2.9	104%	147%	1.7	68%

Source: Company, Axis Securities Research

(CMP as of 7th November, 2025)

CMP (Rs)	385
Upside /Downside (%)	38%
High/Low (Rs)	519/344
Market cap (Cr)	13,974
Avg. daily vol. (1m) Shrs.	4,77,557
No. of shares (Cr)	36.3

Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	42.24	42.24	42.18
FIIs	6.29	6.44	6.40
DIIs	19.96	20.38	18.21
Other	31.49	30.93	33.21

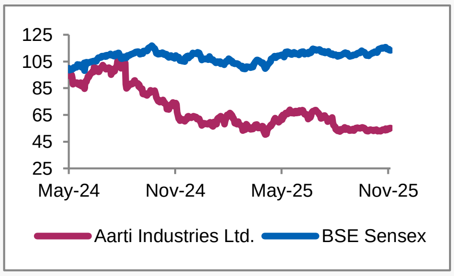
Financial & Valuations

Y/E Mar	FY25	FY26E	FY27E
Net Sales	7,271	8,362	9,867
EBITDA	1,001	1,212	1,529
Net Profit	345	519	764
EPS (Rs)	9.5	14.3	21.1
PER (x)	40.5	26.9	18.3
P/BV (x)	2.5	2.3	2.0
EV/EBITDA (x)	17.5	14.5	11.4
ROE (%)	6%	8%	11%

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	0%	0%
EBITDA	-5%	-3%
PAT	-1%	-1%

Relative Performance



Source: Ace Equity, Axis Securities Research

Results Gallery

Q1FY26

Q4FY25

Q3FY25

Q2FY25

Sani Vishe
Analyst
Sani.vishe@axissecurities.in

Shivani More
Associate
Shivani.more@axissecurities.in

Outlook

AIL plans to make calibrated investments to expand its product pipeline, focusing on evolving market opportunities. As macro conditions stabilize, management expects capacity additions and entry into advanced chemistries to drive growth momentum and margin improvement. The company also aims to diversify its energy vertical, enhancing long-term business resilience. While the long-term growth outlook remains positive, a clear recovery will depend on the resolution of uncertainties surrounding US tariffs.

Valuation

We have marginally revised our FY26E/FY27E estimates and rolled them forward to incorporate potential contributions from the announced capacity expansions and margin improvements driven by operating leverage. Accordingly, **we maintain our BUY rating on Aarti Industries with** a **target price of Rs 530/share, implying a 38% upside from current levels.** This denotes a valuation of **23x Sept'27E EPS,** reflecting confidence in a volume-led recovery, operating leverage gains, and disciplined capital allocation, positioning AIL well for a medium-term growth recovery.

Key Concall Highlights

Financial Performance

Aarti Industries reported a strong 29% YoY revenue growth in Q2FY26, led by higher volumes, particularly in the MMA portfolio. EBITDA rose 48% YoY, supported by improved capacity utilization and continued cost optimization efforts. Finance costs during the quarter included a forex mark-to-market loss of Rs 34 Cr on ECB borrowings. The company also recorded a one-time exceptional income of Rs 29 Cr from a favourable income tax appellate order covering seven assessment years, partially offset by an exceptional expense of Rs 7 Cr related to doubtful land advances. As a result, PAT surged 112% YoY to Rs 106 Cr, driven by stronger operating leverage and the impact of these exceptional items.

Management highlighted proactive steps taken to mitigate the impact of US tariff headwinds while sustaining volume growth across value chains. The MMA business achieved its highest-ever quarterly output, supported by improved gasoline–naphtha spreads that strengthened blending economics.

End-Use Segment Revenue Mix (Q2FY26)

- Energy: 43%
- Agrochemicals: 19%
- Dyes & Pigments: 11%
- Pharma: 10%
- Polymers & Additives: 12%
- Others: 5%

Operational and Volume Trends: The non-energy segment recorded a 17% YoY and 15% QoQ volume growth, while the energy business witnessed a sharp rise of 118% YoY and 48% QoQ, supported by favourable blending economics, capacity expansion, and spill over of bulk shipments from Q1.

Export and Working Capital: Exports contributed over 60% of total sales, leading to a marginally higher receivable cycle compared to domestic operations. Overall working capital cycle remained stable at 45–50 days.

Capital Expenditure: Q2FY26 capex stood at ₹267 crore (vs. ₹280 crore in Q1FY26). Full-year spending is expected to be at the lower end of the ₹1,000 crore guidance, with FY27 capex projected to be substantially lower than Rs 1000 cr.

Key Projects:

- **Zone IV Expansion:** Progressing on schedule; commissioning of a new multipurpose plant (MPP) expected in Q4FY26, providing greater flexibility in product development. The new Calcium Chloride facility is also slated for near-term commissioning.
- **PEDA Forward Integration:** A new 4,000 TPA PEDA project (downstream of ethylation) is set for commissioning by Q4FY26 at Dahej SEZ. The project strengthens backward integration and positions AIL as a key domestic supplier in agrochemical intermediates.
- **MMA Capacity Enhancement:** Further debottlenecking of MMA capacity (300 KT) underway; commissioning expected in Q4FY26, benefiting from improved gasoline–naphtha spreads.

US Tariffs: The management alluded that the imposition of US tariffs on select Indian chemical exports represents a near-term headwind, especially in the MMA business. AIL has accelerated its market diversification strategy, expanding its footprint across Europe, Africa, and the Middle East to mitigate dependency on the US market. While the MMA capacities are close to peak utilization by catering to non-US markets, the company plans to go back to the more profitable US market as and when the tariff overhang resides.

Other Initiatives: The ₹150–200 crore cost reduction programme has been fully implemented operationally, though 40–50% of the benefits are yet to be reflected in financials. The delayed impact is primarily due to renewable energy PPAs expected to commence in April 2026 and revised raw material pricing contracts that will flow through gradually. The company entered a long-term supply agreement with DCM Shriram for chlorine procurement—200 tonnes per day—supporting the upcoming downstream facility in Zone IV. This will enhance total chlorine offtake to 350 TPD (from 150 TPD earlier), strengthening supply chain integration and enabling cost and scale efficiencies.

Finance Costs: Finance costs in the current quarter were elevated due to Rs 34 Cr recognized as mark-to-market losses on foreign currency loans. Going ahead, finance costs are expected to rise modestly as new capacities are commercialised and working capital requirements increase. However, the expected easing of interest rates could offset some of the pressure in the coming quarters.

Outlook and Guidance: The company reiterated its commitment to achieving FY28 EBITDA of ₹1,800–2,200 crore. Strategic focus remains on cost optimisation, operating leverage, and monetisation of new capex projects. Ongoing efforts to de-risk product mix, diversify markets, and strengthen cost structures will support sustained margin performance. The company expects broader sector recovery to gradually over the next two years as global trade flows normalise; a potential India–US trade deal could act as a key catalyst. Leverage metrics are expected to improve with rising profitability; the Debt/EBITDA ratio is projected below 2.5x, and ROCE targeted above 15% by FY28.

Key Risks to Our Estimates and TP

- Any delay in capacity expansion or existing projects may affect ROCE negatively.
- The global slowdown may affect volumes and value growth.
- Involvement in complex, risky chemistries has significant operational risks.

Change in Estimates

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	8,362	9,867	8,362	9,867	0%	0%
EBITDA	1,212	1,529	1,271	1,569	-5%	-3%
PAT	519	764	526	770	-1%	-1%

Source: Company, Axis Securities Research

Q2FY26 Results Review

Particulars	Q2FY25	Q1FY26	Axis Sec Estimate (Rs Cr)	Q2FY26	% Change (YoY)	% Change (QoQ)	Variance (%)
Sales	**1,628**	**1,675**	**1,807**	**2,100**	**29%**	**25%**	**16%**
Expenditure							
COGS	1017	1122	1187	1375	**35%**	**23%**	**16%**
Employee Expenses	105	109	114	105	**0%**	**-4%**	**-8%**
Other Exp	310	232	266	329	**6%**	**42%**	**24%**
Total Expenditure	**1432**	**1463**	**1567**	**1809**	**26%**	**24%**	**15%**
EBIDTA	**196**	**212**	**240**	**291**	**48%**	**37%**	**21%**
EBITDA Margin (%)	12.04%	12.66%	13.30%	13.86%	**182bps**	**120bps**	**56bps**
Depreciation	108	114	115	120	**11%**	**5%**	**4%**
Other Income	6	4	4	0	**-100%**		
EBIT	94	102	129	171	**82%**	**68%**	**32%**
Interest	62	60	65	100	**61%**	**67%**	**54%**
Exceptional Item				22.0			
PBT	**32**	**42**	**64**	**93**	**191%**	**121%**	**45%**
Tax	-18	-1	1	-13	**-28%**	**1200%**	**-1110%**
PAT	**50**	**43**	**63**	**106**	**112%**	**147%**	**68%**
EPS (Rs)	1.4	1.2	1.7	2.9	**104%**	**147%**	**68%**

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Net sales	**6,372**	**7,271**	**8,362**	**9,867**	**11,643**
Cost of goods sold	3,880	4,655	5,351	6,246	7,277
Contribution (%)	*39.1%*	*36.0%*	*36.0%*	*36.7%*	*37.5%*
Employee Costs	404	422	460	533	629
Other Expenses	1,112	1,193	1,338	1,559	1,840
EBITDA	**977**	**1,001**	**1,212**	**1,529**	**1,898**
EBITDA Growth %	-10.3%	2.5%	21.1%	26.1%	24.1%
Other income	8	13	10	10	10
Depreciation	378	434	465	505	599
EBIT	**607**	**580**	**758**	**1,035**	**1,309**
Interest & Fin Chg.	211	275	281	256	228
E/o income / (Expense)	0	-2	-22	0	0
Pre-tax profit	**395**	**307**	**499**	**779**	**1,081**
Tax provision	-21	-24	-20	16	173
Reported PAT	**416**	**331**	**519**	**764**	**908**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Equity + Liabilities					
Equity Capital	181	181	181	181	181
Reserves & Surplus	**5,109**	**5,424**	**5,943**	**6,706**	**7,614**
Total Equity	***5,290***	**5,605**	**6,124**	**6,887**	**7,796**
Long-term Borrowings	1,525	1,867	1,867	1,817	1,617
Lease Liabilities	49	47	47	47	47
Other Non-Current Liabilities	175	127	127	127	127
Total Non-Current Liabilities	***1,749***	**2,042**	**2,042**	**1,992**	**1,792**
Short-Term Borrowings	**1,669**	**1,933**	**1,933**	**1,833**	**1,633**
Trade Payables	521	1,237	1,320	1,335	1,555
Provisions	40	16	16	16	16
Others	346	280	280	280	280
Total Current Liabilities	***2,576***	***3,466***	***3,548***	***3,464***	***3,484***
Total Liabilities	**4,325**	**5,508**	**5,590**	**5,456**	**5,276**
Total Equity + Liabilities	**9,615**	**11,114**	**11,714**	**12,343**	**13,071**
ASSETS					
Gross Block	7,453	8,293	9,293	10,093	10,893
Less: Depreciation	1,802	2,016	2,481	2,985	3,584
Property, Plant & Equipment	**5,588**	**6,277**	**6,813**	**7,108**	**7,309**
Capital WIP	1,052	1,274	1,059	1,059	1,059
Right to Use Assets	53	51	51	51	51
Other Non-Current Assets	101	122	122	122	122
Total Non-Current Assets	**7,146**	**8,219**	**8,539**	**8,834**	**9,035**
Current Assets					
Inventories	1,160	1,454	1,375	1,622	1,914
Trade Receivables	826	786	1,145	1,216	1,435
Cash	42	199	200	215	232
Other Financial Assets	236	23	23	23	23
Current Tax Assets	77	14	14	14	14
Other Current Assets	40	323	323	323	323
Total Current Assets	**2,469**	**2,895**	**3,175**	**3,509**	**4,036**
Total Assets	**9,615**	**11,113**	**11,714**	**12,343**	**13,071**

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Profit Before Tax	**395**	**305**	**499**	**779**	**1,081**
Finance Cost	211	275	281	256	228
Depreciation	378	434	465	505	599
(Inc)/Dec in Working Capital	323	230	-198	-303	-291
Tax Paid	(85.7)	6.9	20.0	(15.6)	(173.0)
Cash Flow from Operations	**1,209.6**	**1,241.9**	**1,066.6**	**1,220.5**	**1,444.2**
	-1,328	-1,386	-1,000	-800	-800
Change in Gross Block	22	7	0	0	0
(Inc)/Dec in Investments	**-1,369**	**-1,398**	**-785**	**-800**	**-800**
Cash Flow from Investing					
	686.3	238.5	0.0	(150.0)	(400.0)
Inc/(Dec) in Loans	(211.5)	(275.4)	(281.0)	(255.5)	(227.5)
Finance Cost	**420.5**	**(73.2)**	**(281.0)**	**(405.5)**	**(627.5)**
Cash Flow from Financing					
Net Inc/Dec in Cash	261	-229	1	15	17
Opening Cash	167	428	199	200	215
Closing Cash	428	199	200	215	232

Source: Company, Axis Securities Research

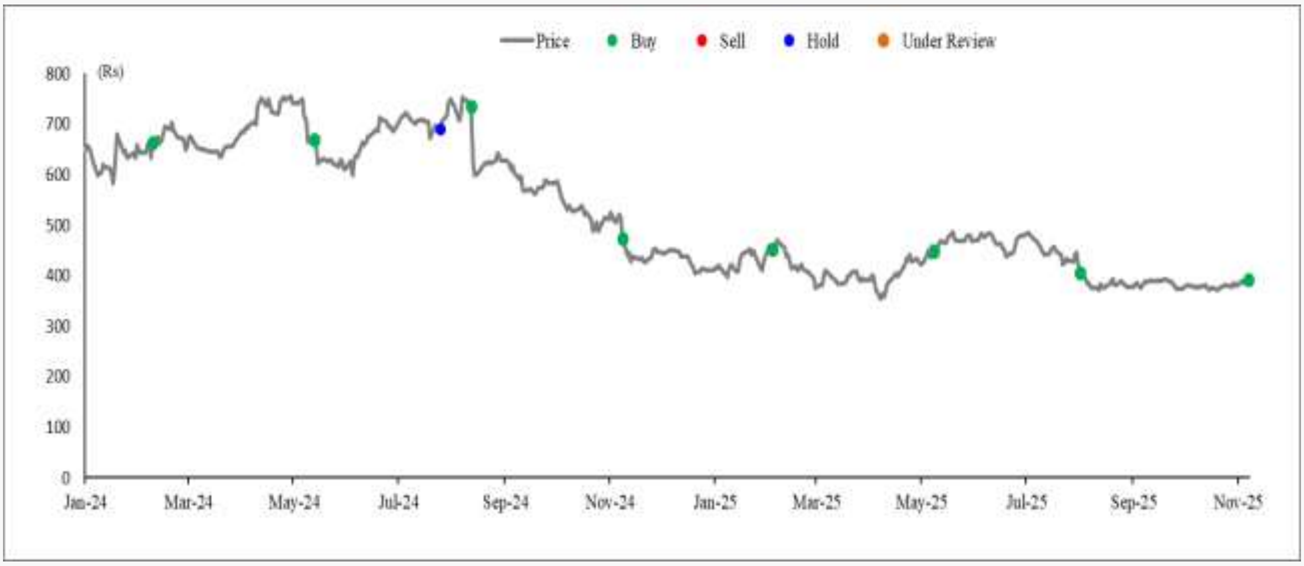
Ratio Analysis

(%)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Sales growth	**(3.7)**	**14.1**	**15.0**	**18.0**	**18.0**
OPM	**15.3**	**13.8**	**14.5**	**15.5**	**16.3**
Oper. profit growth	(10.3)	2.5	21.1	26.1	24.1
COGS / Net sales	60.9	64.0	64.0	63.3	62.5
Overheads/Net sales	6.3	5.8	5.5	5.4	5.4
Depreciation / G. block	5.3	5.2	5.0	5.0	5.5
RoCE	**6.8%**	**6%**	**8%**	**10%**	**12%**
Debt/equity (x)	0.7	0.7	0.6	0.5	0.4
Effective tax rate	(5.3)	(7.8)	(4.0)	2.0	16.0
RoE	**7.9%**	**6%**	**8%**	**11%**	**12%**
Payout ratio (Div/NP)	23.1	27.9	18.5	12.6	10.6
EPS (Rs)	**11.5**	**9.5**	**14.3**	**21.1**	**25.1**
EPS Growth	(23.6)	(17.2)	50.4	47.2	18.9
CEPS (Rs)	21.9	21.5	27.1	35.0	41.6
DPS (Rs)	2.4	2.4	2.4	2.4	2.4
Valuation (x)					
P/E	33.5	40.5	26.9	18.3	15.4
P/BV	2.6	2.5	2.3	2.0	1.8
EV/EBITDA	17.5	17.5	14.5	11.4	8.9
Mcap/Sales	2.2	1.9	1.7	1.4	1.2

Source: Company, Axis Securities Research

Aarti Industries Price Chart and Recommendation History



Date	Reco	TP	Research
12-Feb-24	BUY	735	Result Update
14-May-24	BUY	770	Result Update
01-Aug-24	HOLD	788	AAA
13-Aug-24	BUY	815	Result Update
11-Nov-24	BUY	540	Result Update
04-Feb-25	BUY	525	Result Update
09-May-25	BUY	540	Result Update
04-Aug-25	BUY	525	Result Update
10-Nov-25	BUY	530	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr Rajiv Kejriwal, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parć, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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HOLD	Between 10% and -10%
SELL	Less than -10%
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