



AARTI INDUSTRIES LIMITED

BUY

CMP: Rs 51.2 Target Prize: Rs 60

Industry: Basic Organic Chemicals

Stock Info		Exchange Information		Shareholding Pattern (As on 31 st March, 2010)	
Market Capital	Rs 392.81 cr	BSE Group	B	Promoters	49.92
Equity Capital	Rs 38.36 cr	BSE Code	524208	Foreign Institutions	0.17
Avg Trading Vol.	50,542 (Qtly,BSE)	NSE Symbol	AARTIIND	Domestic Institutions	8.38
52 WK High/Low	56.80 / 34.10	ISIN Id	INE769A01020	Corporate	2.42
Face Value	Rs 5			Public & Others	39.11

Company Sketch:

Aarti Industries (Aarti Ind), the flagship company of the Aarti Group is **involved in the manufacturing of various basic chemicals, speciality chemicals, agrochemicals & pharmaceuticals**. These chemicals have applications into the end-user industries of pharmaceuticals, agrochemicals, FMCG, pigments and paints, polymers, dyes, rubber chemicals, etc. By the merger of erstwhile Surfactant Specialities, the company has also entered the **personal care and oral care based products** to its existing product portfolio. The company exports in countries such as USA, UK, Germany, Spain, Italy, Switzerland, Belgium, Japan, Korea, China, Russia among others.

The Company has emerged as a **market leader in India** and also globally ranks at 1st - 5th position for more than 75% of its top 50 products.

Starting its manufacturing activity from a small unit at Sarigam in Gujarat, the Company in its journey of past 26 years has setup various global size manufacturing units with state-of-the-art technologies. These manufacturing units are situated at Vapi, Sarigam & Jhagadia in the state of Gujarat, at Tarapur & Dombivali in the state of Maharashtra and at Silvassa.. The manufacturing units of the company are of global scale and size and have received several certifications for excellence. The company has **received ISO14001:2004 and OHSAS 18001:1999** from SGS for its Vapi unit and ISO-9002 for majority of its units.

Value Drivers:

- **Robust chemical industry:** With the shifting of chemical business from developed countries to Asia (especially India & China), the Asian chemical industries has grown tremendously in the recent past. Taking the cues from the global markets, the Indian manufacturers have been expanding in the streams of chemicals and pharmaceuticals, placing **Indian made chemicals in a strategic position in the global markets**.
- **Pharmaceutical sector to provide further momentum:** The Company has a state-of-art facility at Tarapur to which is approved by the US FDA Authorities. The products cater to the high-value life style drugs markets and are poised for rapid growth in coming years. The Company has filed ANDA applications with US FDA, an approval required to market the chemicals in the US. The pharmaceuticals sector is expected to grow by 25% in FY11.
- **Benefits of diversification:** Aarti Ind has diversified its portfolio by adding value added chemicals and surfactants in speciality chemicals portfolio. The diversified product mix and varied customer base from different end-user industry provides for an ideal **insulation for any downturn in a particular**

market segment.

- **Efficiency in operations:** The upgradation of hydrogenation unit by Sep 2010 is expected to attain efficiency in operations. Further, benzene prizes are expected to settle down in the current fiscal against the previous year. The captive thermal power plant with a capacity of 2 MW/h is expected to entail 15-20% savings in cost for the company.
- **Investor- friendly management:** The company has a very high dividend yield and has managed to maintain an average of approximately 5%, which is exceptional for a company of this size.

Risks:

Benzene prices, key raw material used in specialty chemicals is imported, and has a direct correlation with final product prices. Increase or decrease in the prices of benzene affects the EBIDTA margins directly.

Financials:

(Rs in cr)

Period ending (months)	31-Mar-2010 (12)	31-Mar-2009 (12)	31-Mar-2008 (12)
Sales and other income	1,291.90	1,449.27	897.73
EBIDTA	203.93	242.09	119.51
Interest	51.71	89.36	38.83
PAT	70.11	84.47	36.67
Equity capital	38.36	36.85	36.4
EPS	9.14	11.46	5.04
Operating margin (%)	15.82	16.73	13.33

Market Data:**Price Movement Chart:**

Market Data (As on July 2 nd , 2010)	
Lat. EPS(Rs)	9.14
Lat. P/E	5.60
Lat. BV(Rs)	51.96
Div. Yield (%)	5.59
Beta-Sensex	0.8133



Source: Capitaline

ARIHANT - Research Desk

For more information contact:

research@arihantcapital.com

Tel: 022-42254832/34

Note: Fundamental stock ideas are based upon in-depth research and analysis of the company's business model, financials, top management and stock performance over a period of time. The stocks suggested herein can be bought for medium-long term outlook. Any considerable changes in the company's performance leading to revision in our price targets regarding the same shall be intimated in due course.

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ARIHANT capital markets Ltd.

3rd Floor Krishna Bhuvan, 67, Nehru Road, Vile Parle (E) Mumbai 400057. Tel. 022-422544800. Fax: 022-42254880

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