INSTITUTIONAL RESEARCH

Aether Industries

Composite of competencies

Aether Industries Ltd has a technology-oriented business model and it sells innovations in chemistries and technologies. Competencies in eight chemistries and eight technologies has enabled the company to successfully build all three of its business verticals—large-scale manufacturing, contract manufacturing and contract research and manufacturing services (CRAMS)—in less than six years of operation. The company is more than doubling its manufacturing capacity by CY23 end. Augmentation of capacity will not only allow it to fulfil the demand of the existing and potential customers for existing products, but also provide an opportunity to launch new products.

Aether's business model compels it to regularly launch products and add competencies. It is tripling its research and development (R&D) infrastructure and strengthening its team size. Capacity addition and strengthening of R&D infrastructure will support its growth pace. We expect EBITDA and PAT CAGRs of 43/45% over FY22-25E. We initiate coverage on Aether Industries Ltd with a BUY and target price of INR 1,045 (WACC 11%, terminal growth 6%). The stock is trading at 40.7x on FY24E EPS.

Market leadership in products with INR 37.5bn opportunity size in CY25

In the eight major products that contributed ~75% to the revenue in FY22, Aether is a market leader globally for four products and the second-largest producer globally for two products. The company has achieved these market positions by developing differentiated processes with the use of its core competencies of chemistry and technology. The market opportunity for eight of their major products is INR 37.5bn in CY25. We believe, owing to its market leadership position in these products, the company is well-positioned to capitalise on market opportunities.

Long-standing relationships with marquee customers

Aether has a loyal customer base of over 188 multinational, regional and domestic pharmaceutical, agrochemical, material science, oil & gas and textile companies. Top-20 customers contributed ~73% to the total revenue in FY22 having a relationship in excess of five years with 70% of customers. These enduring customer relationships have helped Aether expand its product offerings and geographic reach.

Financial summary

INR mn	Q4 FY22	Q3 FY22	QoQ (%)	Q4 FY21	YoY (%)	FY21	FY22P	FY23E	FY24E	FY25E
Net Sales	1,475	1,513	(2.5)	1,157	27.5	4,498	5,900	7,673	11,547	15,460
EBITDA	421	392	7.4	356	18.2	1,122	1,681	2,278	3,642	4,940
APAT	260	254	2.5	229	13.8	711	1,089	1,639	2,541	3,345
AEPS (INR)	2.1	2.0	2.5	1.8	13.8	5.7	8.8	13.2	20.4	26.9
P/E (x)						145.5	95.0	63.1	40.7	30.9
EV/EBITDA(x)						94.0	63.1	43.6	27.7	20.6
RoE (%)						56.3	38.8	19.3	17.7	19.3

Source: Company, HSIE Research

BUY

CMP *(as on 7 July 2022)*	INR 831
Target Price	INR 1,045
NIFTY	16,133

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	INR 1,045
	FY23E	FY24E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	AETHER IN
No. of Shares (mn)	124
MCap (INR bn) / ($ mn)	103/1,389
6m avg traded value (INR mn)	-
52 Week high / low	INR 874/700

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)	May-22	Jun-22
Promoters	87.09	87.09
FIs & Local MFs	5.31	8.32
FPIs	2.54	1.80
Public & Others	5.06	2.79
Pledged Shares	0.00	0.00

Source: BSE

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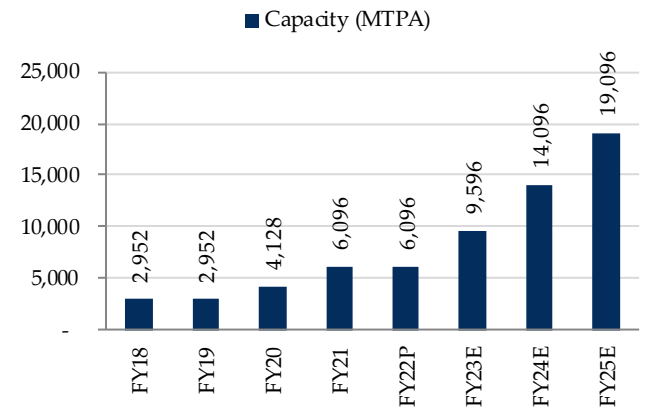
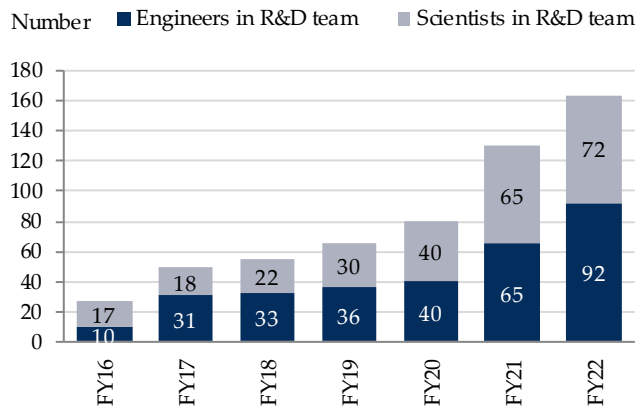
Story in charts

Exhibit 1: More than doubling its capacity with an investment of INR 4.4bn by end CY23



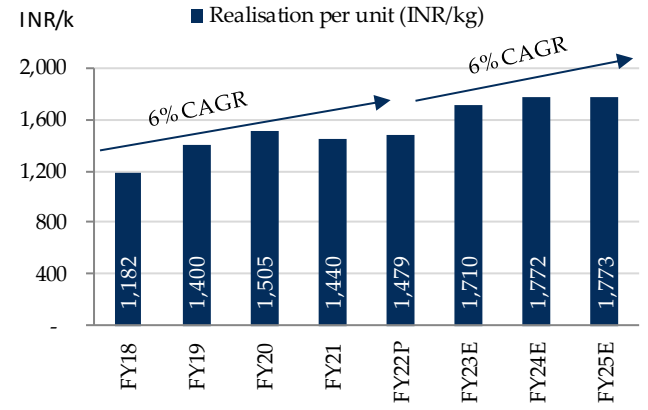
Source: Company, HSIE Research

Exhibit 2: R&D team grew by 6x to 164 people over FY16-22



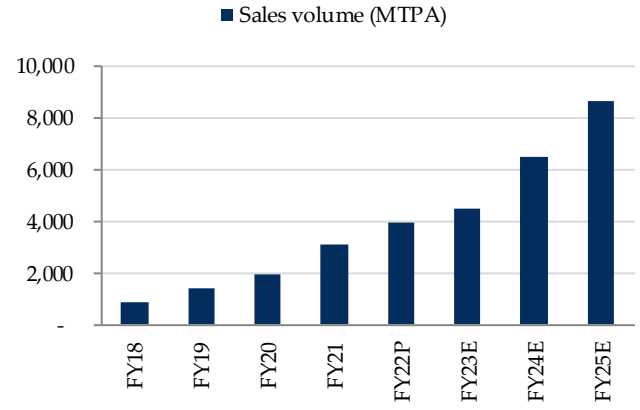
Source: Company, HSIE Research

Exhibit 3: Realisation to increase by 6% CAGR over FY22-25E



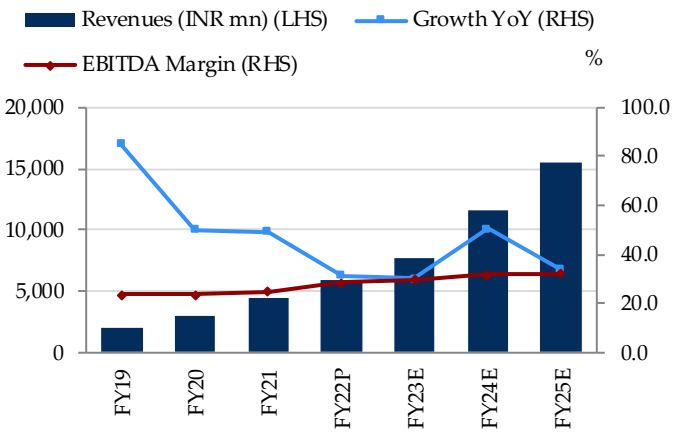
Source: Company, HSIE Research

Exhibit 4: Sales volume to grow at a CAGR of 30% over FY22-25E



Source: Company, HSIE Research

Exhibit 5: Revenue, growth and EBITDA margin



Source: Company, HSIE Research

Exhibit 6: Characteristics of Aether's products

Parameter	Commodity Chemicals	Regular Speciality Chemicals	Aether's Speciality Chemicals
Blended Price	INR 200-300 per kg	INR 400-700 per kg	INR 1,440.85 per kg
Steps in the manufacturing process	1-2	2-3	4-10
Number of stages remaining until active ingredients are produced	n-10 and upwards	n-6 till n-9	n-1 till n-6

Source: Company, HSIE Research

Why Aether?

Aether Industries has a technology-oriented business model. The company is selling innovations in chemistries and technologies. It has acquired core competencies in eight different chemistries and eight different technologies (Refer exhibit-7). It sells these competencies in chemistries and technologies to attract projects for its contract research (CRAMS) business and orders for exclusive/contract manufacturing. The 8 by 8 matrix of competencies in chemistries and technologies opens up a large number of opportunities for the company to manufacture products for its large-scale manufacturing business. Targeting competencies rather than products gives Aether the flexibility to switch products in a short period.

Constant focus on research and development is the key success factor in a technology-oriented business model. Research & development is the core strength of Aether Industries. The company's business model requires it to launch products regularly and continuously add competencies. In order to achieve this, it has to invest in R&D infrastructure. The company's promoters strive hard to make sure that Aether remains a research driven organisation. Aether is expanding its R&D infrastructure and team members. It has already expanded number of fume hoods from 18 to 30 in Q1FY23, and is planning to expand further to 55 by Q2FY23. It has invested in land for R&D site adjacent to its existing facility. It plans to expand fume hoods to more than 100 and scientist count to ~300 in the coming years.

Expansion in its R&D infrastructure will help increase the company's products and add competencies. The company is focused on and expanding its competencies. Currently, it is working on metallic fluorination chemistry and organolithium chemistry, apart from developing other competencies and technologies. The company has a strong product pipeline for its large-scale manufacturing and is also working on a number of projects in CRAMS.

Aether is technically- and research-led from the top by technocratic promoters, board members, and senior management team. Mr. Ashwin Desai, founding member and managing director, holds a bachelor's degree in chemical engineering from Institute of Chemical Technology (ICT). Dr. Aman Desai, promoter and director, holds a bachelor's degree in chemical technology from ICT and has a Doctor of Philosophy (PhD) degree in organic chemistry from Michigan State University. The company has career-technocrats Dr. James Ringer, Mr. Raymond Roach, and Dr. Norbert Flüggen in its senior management team. Raymond Paul Roach has previously worked at The Dow Chemical Company. Dr. James Ringer has previously worked at The Dow Chemical Company or its subsidiaries for more than 30 years in various positions including Director R&D, R&D Director II, and Leader R&D Director. Dr. Norbert Flüggen has previously worked at Altana AG, Germany. Dr James Ringer and Raymond Roach are business development leaders for the US while Dr Norbert Flüggen is the business development leader for Europe. The team's vast experience has led to forging of relationships with top echelons of global agrochemicals, pharma and chemical companies.

The company has the vision to develop leadership within the organisation. The delegation is very strong from the promoters. There are 5-6 senior scientists who handle individual projects or assignments. Dr. Aman Desai, Dr. James Ringer and Mr. Raymond Roach guide the R&D team members on assignments and guide process engineers on projects. However, their involvement is just to oversee and guide. Senior scientists handle most of the projects independently.

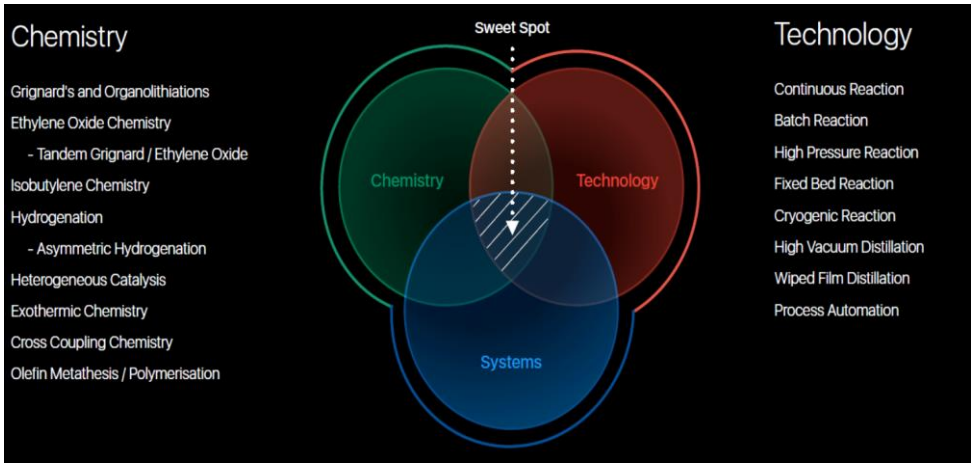
In the short period of nine years from incorporation and six years from entering commercial manufacturing, the company has successfully developed three business models—large-scale manufacturing, CRAMS, and contract manufacturing. The company has stringent criteria for selecting products for its large-scale manufacturing.

It selects products that can be manufactured by using its core competencies, that should be made first time in India, and one that would generate a minimum revenue of INR 500mn at maturity with market leading positions. The company has launched 23 products in its large-scale manufacturing business. The uniqueness of the company's products is that all of these products are developed inhouse. Reactors for these are conceptualised, designed, and constructed inhouse. Moreover, the company makes its own catalyst for fixed bed continuous flow reactors. Thus, Aether controls the primary technologies behind the products it manufactures.

The company has a diversified customer base. It caters to the demand of pharmaceuticals, agrochemicals, material science, oil & gas, coatings and food additives industries. Instead of focusing on products, it focuses on chemistries and technologies. This helps it fulfil requirements for a wide range of industries.

Grignard chemistry is one of the core competencies of Aether. The company carries out Grignard reactions in a continuous reactor. This enables it to handle complex Grignards on a very large scale. The company uses complex Grignard chemistry with 20MTPD of Grignard reaction. The average molecular weight of Grignard used by Aether is more than 200.

Exhibit 7: Core competencies of Aether (8x8 matrix)



Source: Company, HSIE Research

Investment rationale

1. More than doubling its capacity to 14,096 MTPA by CY23 end

Aether currently has two sites at Sachin in Surat. The manufacturing facility 1 includes the company's R&D facilities, analytical sciences, pilot plant, CRAMS facility and hydrogenation facility. The manufacturing facility 2 acts as a large-scale manufacturing facility with an installed capacity of 6,096 MT per annum.

In order to address the growing demand of its existing customers and to meet requirements of new customers, the company is expanding its manufacturing capacities for existing products. It also intends to add manufacturing capacities for its new product line that it is in the process of developing and commercialising.

Aether commenced construction of a new manufacturing facility at a third site near its existing manufacturing facilities in Aug-21. This new facility is proposed to host four streams for production of new speciality chemicals and intermediates, these products have applications in pharmaceutical, agrochemical and material science industries. The company is investing INR ~1.9bn in this project. This manufacturing facility 3 of ~3,500MT per annum capacity shall come on stream by CY22 end.

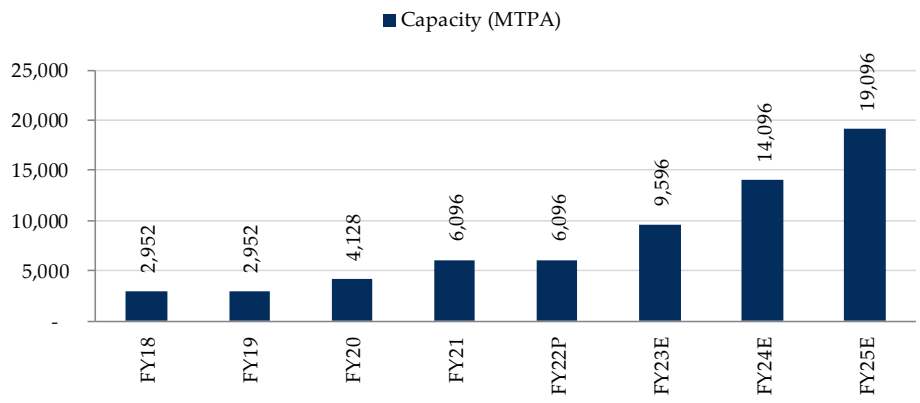
The company is in the process of final documentation of land acquisition in Sachin for a fourth facility, where it will manufacture intermediates for application in pharmaceuticals, agrochemicals, coatings and oil & gas sectors. The investment for this project is INR ~2.5bn. This manufacturing facility 4 of ~4,500MT per annum shall come on stream by CY23 end.

Aether has also acquired land measuring approximately 125,000 square meters at Panoli GIDC, Gujarat, for future expansion projects.

Aether is continuously investing in building its R&D infrastructure. It shall triple the capacity of its R&D laboratories by Q2FY23. From having 18 fume hoods at inception, currently it has 30 fume hoods, and post completion of the ongoing expansion, it shall have over 55 fume hoods.

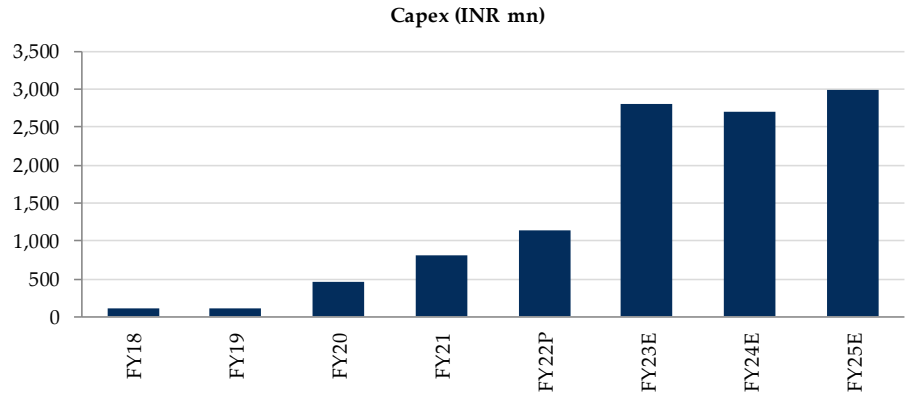
In addition, the company recently expanded its pilot plant by installing additional trains of pilot scale equipment that has tripled its capacity. The expanded pilot plant is equipped with batch and continuous regimes, advanced instrumentation, engineering, and safety systems, and is automated on distributed control system (DCS) process automation.

Exhibit 8: Capacity to more than triple over FY22-25E



Source: Company, HSIE Research

Exhibit 9: Aether to invest INR 8.5bn in Capex over FY23-25E



Source: Company, HSIE Research

Exhibit 10: Upcoming Capex plans

Particulars	Site - 3	Site - 4	Panoli
Land area (Sq. Mtrs.)	5,250	8,000	125,000
Cost of investment (INR mn)*	1,900	~2,500	~8,000
Capacity (MTPA)	3,500	4,500	To be decided
End-user industries targeted	Pharma, Agro, Material Science	Pharma, Agro, Material Science, Oil & Gas	Pharma, Agro, Material Science, Oil & Gas
Commissioning date / period	Dec-22	Dec-23	Over FY25-26 in phases
Peak utilisation achievement date / period	Mar-25	Mar-26	1/1.5 years post commissioning

Source: Company, HSIE Research | Note: *Cost of investment at Site-4 and Panoli are approximated figures. INR 8,000mn is the cost of investment at Panoli for a part expansion.

Exhibit 11: Manufacturing facility 3 to come on stream by Dec-22

Source: Company, HSIE Research

Exhibit 12: Panoli land is 12x the current land bank of Aether

Source: Company, HSIE Research

2. Tripling of R&D infrastructure; strengthening of R&D team

Aether Industries is an R&D driven organisation and its strategic investments in R&D have been critical to its success. The company's technical prowess and advanced R&D capabilities have led to significant innovation, which creates significant barriers for new entrants. The company's R&D facilities are dedicated to the development of its product pipeline as well as to its CRAMS customers. Aether's heart is its R&D infrastructure and it strives to improve it with each passing year.

Currently, the company has an R&D team of 164 scientists and engineers, including 92 scientists (with PhDs or Master/Bachelor of Science degrees). It plans to increase its team to 300 people in the coming years. The R&D team is spearheaded by Dr. Aman Desai, Dr. James Ringer, and Raymond Paul Roach, who are industry veterans and in constant touch with the company's five R&D project leaders who are responsible for their team of 8-10 scientists. At any given point of time, each project leader and his/her team are working on 3-4 molecules.

Aether's R&D laboratories are fitted with modern synthesis equipment, including fume hoods, lab scale continuous flow reactors, and separation equipment. In addition, the R&D labs are supplemented with modern analytical method development (ADL) and quality control (QC) laboratories equipped with the entire suite of equipment necessary for organic chemistry research.

The company also has a pilot plant installed with 106 reactors, which is a vital link between R&D and large-scale production. The pilot plant has a dual functionality. It functions to generate critical scale-up data in the transition from R&D to production to help eliminate issues at full production scale. It also functions as a standalone manufacturing facility for low volume, high value products for its CRAMS customers. The pilot plant can produce quantities ranging from 1kg to 1 ton.

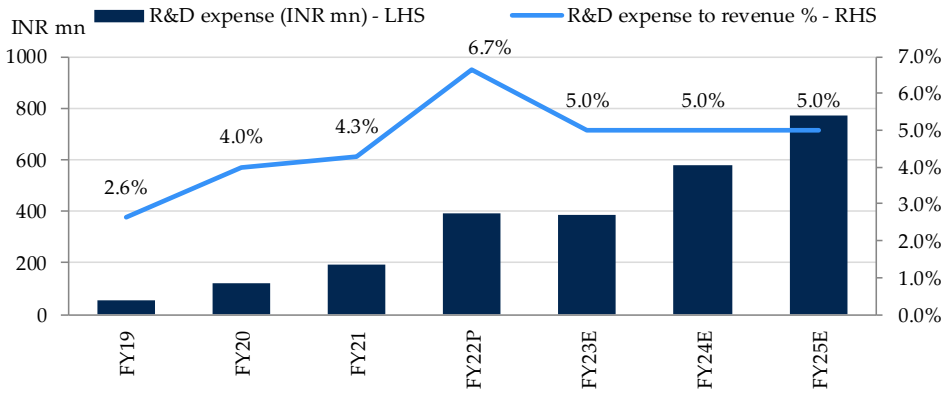
The company has an association and collaboration with many universities and institutions of India such as the National Chemical Laboratory (NCL, Pune), Institute of Chemical Technology (ICT, erstwhile UDCT, Mumbai), Uka Tarsadia University (UTU, Bardoli), and Sardar Vallabhbhai National Institute of Technology (SVNIT, Surat).

Aether sponsors its own PhD programs—which help its R&D team gain a PhD degree—with Institute of Chemical Technology (ICT, erstwhile UDCT, Mumbai),

National Chemical Laboratory (NCL, Pune), Uka Tarsadia University (Bardoli), and Sardar Vallabhbhai National Institute of Technology (SVNIT, Surat).

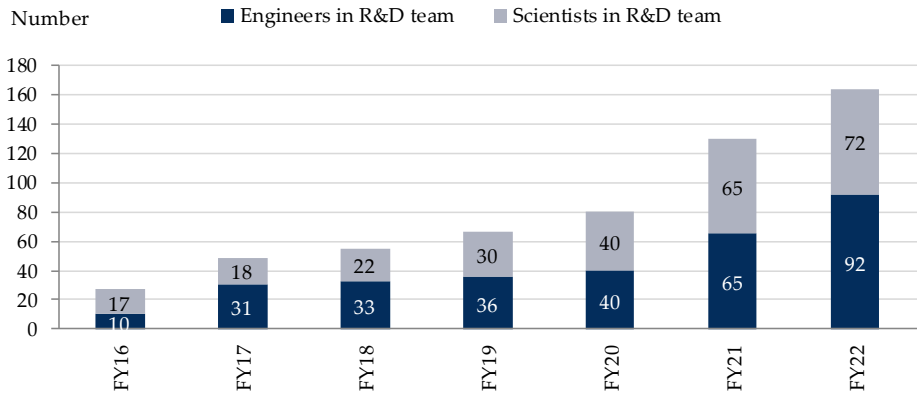
The company's R&D expense to revenue has increased from 2.6% in FY19 to 6.7% in FY22. It plans to keep spending ~5% of its revenue on R&D.

Exhibit 13: Continuous investments in R&D



Source: Company, HSIE Research

Exhibit 14: Plans to take up the R&D team to 300 people in near future



Source: Company, HSIE Research

Exhibit 15: R&D labs to be equipped with >55 fume hoods post expansion

Source: Company, HSIE Research

Exhibit 16: Pilot plant with over 100 reactors

Source: Company, HSIE Research

3. Technocrats at the helm; knowledge-driven company

Aether is led by a team of technocrats and industry veterans, which makes the company a completely knowledge-driven company. These leaders, given their vast experience, steer the company towards innovation and best practises that give it a competitive edge.

The company is led by its promoters comprising its founding member and managing director, Ashwin Desai, and executive directors Purnima Desai, Rohan Desai and Dr. Aman Desai. Each promoter is a career-technocrat actively involved in the critical aspects of the business, including R&D, process and plant engineering, finance, and marketing.

Ashwin Desai, a chemical engineer from Institute of Chemical Technology, Mumbai was the founding member of Anupam Rasayan India Ltd and the chairman and managing director of Anupam Rasayan until 2013. Dr. Aman Desai has a bachelor's degree in chemical technology from Institute of Chemical Technology, Mumbai, and a PhD in organic chemistry from Michigan State University, US. He was a project leader in the process development group at the core R&D headquarters of The Dow Chemical Company, US. Rohan Desai has a B.Com degree and extensive experience in sales, marketing, finance, strategy, and human resources.

Ashwin Desai looks after the technical side whereas Purnima Desai takes care of the commercial side of the business at the macro level. Dr. Aman Desai is responsible for Aether's R&D, pilot plant, production operations, new projects and technical business development. Rohan Desai handles the company's entire commercial portfolio.

The company's board also consists of Kamalvijay Tulsian, Jeevan Lal Nagori, Leja Hattiangadi and Dr. Amol Kulkarni.

Aether's senior management personnel also include career-technocrats such as Dr. James Ringer, Raymond Paul Roach, and Dr. Norbert Flüggen. They represent the company at a global level and are involved in the operations of Aether. They provide guidance, work extensively in R&D and CRAMS, help in securing orders from marquee customers, etc.

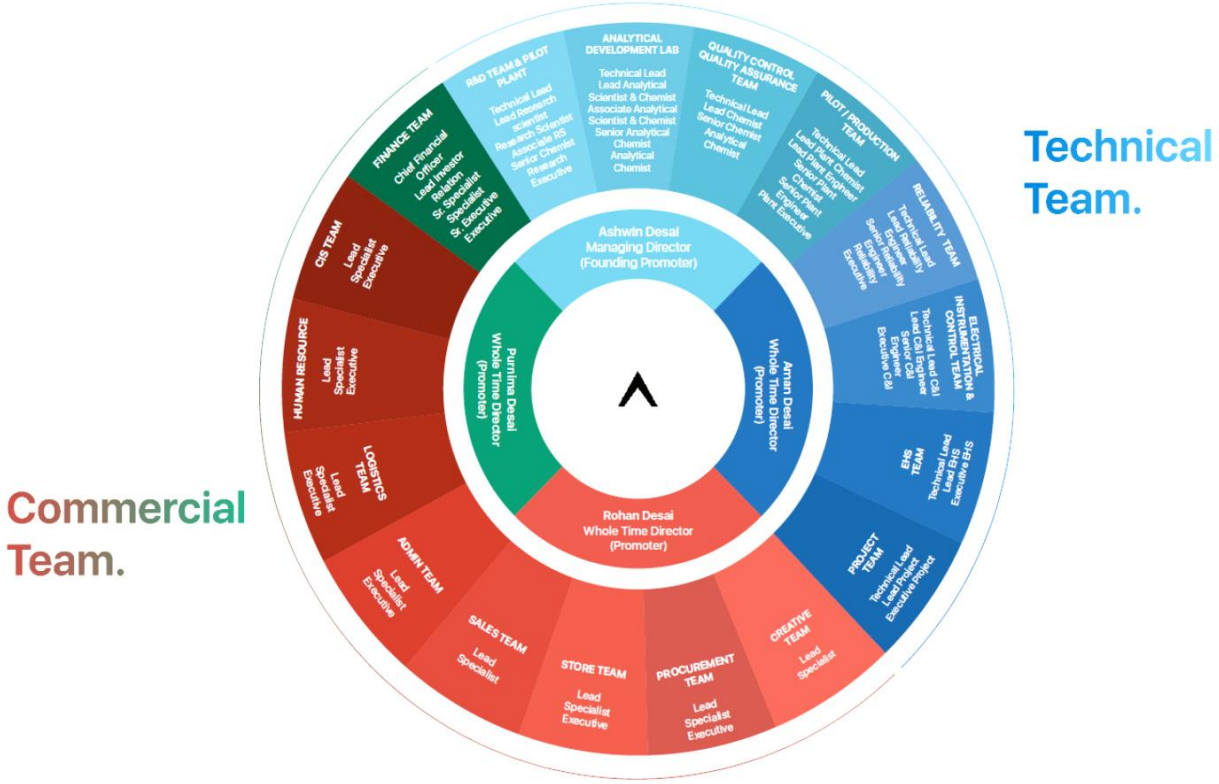
Dr. James Ringer is the business development leader (US) of Aether. He holds a bachelor's degree in science from Purdue University and a PhD degree in organic chemistry from University of Wisconsin in Madison. Before joining Aether, he has previously worked at The Dow Chemical Company or its subsidiaries for more than 30 years in various positions including Director R&D, R&D Director II, and Leader R&D Director. He is the inventor/co-inventor on 22 patents granted in the US and published worldwide.

Raymond Paul Roach is the business development leader (US) of Aether. He holds a bachelor's degree in science and a master's degree in chemical engineering from the University of Pittsburgh (US). Before joining Aether, he worked at The Dow Chemical Company (US). He is the inventor/co-inventor on seven patents granted in the US and published worldwide.

Dr. Norbert Flüggen is the business development leader (Europe) of Aether. He holds a diploma in physics and a PhD degree from the University of Hannover (Germany). Before joining Aether, he worked at Altana AG, Germany.

The experience, depth, and diversity of the company's directors, management team, and promoters have enabled it to be recognised as a leading speciality chemical manufacturer in India. Their industry experience enables it to anticipate and address market trends, manage and grow its operations, maintain and leverage customer relationships, and respond to changes in customer preferences.

Exhibit 17: Organisation structure



Source: Company, HSIE Research

4. Ever-growing product basket

Aether's current product portfolio comprises over 25 products. These products are advanced intermediates and speciality chemicals, which are n-1 to n-6 molecules, where n is the final product. They find application in a number of therapeutic segments in the pharmaceuticals industry like hypertension, anti-platelet, anti-psychotic, anti-histamine and non-steroidal anti-inflammatory drugs. The company's products also find application in various other industries like agrochemicals, material science, coatings, high-performance photography, additives and oil & gas.

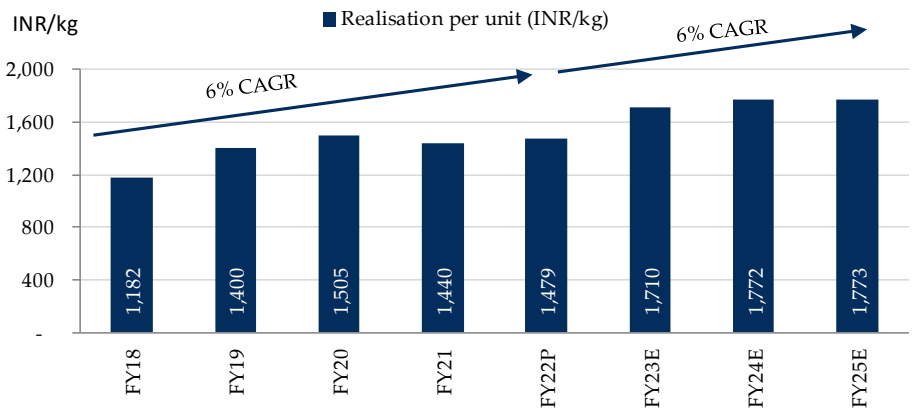
Aether has a comprehensive product selection process where (1) the product should be made for the first time in India, (2) the company should become a global leader in that product on maturity, (3) minimum four manufacturing steps required to produce the product, (4) generate revenue of INR 500mn at maturity, and (5) product should be based on core competencies of the company in chemistry, technology and systems. Owing to a comprehensive product selection process, the company's products are more complex, garner better realisations, and make the company a market leader globally.

Exhibit 18: Characteristics of Aether's products

Parameter	Commodity Chemicals	Regular Speciality Chemicals	Aether's Speciality Chemicals
Blended Price	INR 200-300 per kg	INR 400-700 per kg	INR 1,440.85 per kg
Steps in the manufacturing process	1-2	2-3	4-10
Number of stages remaining until active ingredients are produced	n-10 and upwards	n-6 till n-9	n-1 till n-6

Source: F&S Report, May 2022, Company, HSIE Research

Exhibit 19: Realisation to increase by 6% CAGR over FY22-25E



Source: Company, HSIE Research

Aether has already launched one advanced intermediate that is an intermediate for API ambroxol (treatment of respiratory disease). It plans to launch advanced intermediates for carbamazepine (anti-epileptic) and oxcarbazepine (anticonvulsant) by Q2FY23 end. The other two advanced intermediates for APIs dolutegravir (antiretroviral to treat HIV/AIDS) and memantine (treats symptoms of Alzheimer's) shall be launched by FY23 end.

The company plans to continue to expand its product portfolio both in line with its existing competencies and add new competencies. It plans to commercialise 4-5 products each year, going forward.

The company, by continuously innovating through its R&D facilities, shall be able to identify and introduce numerous value-added products and have a robust pipeline.

The company is also looking to diversify into additional business segments. It is actively considering the advanced organic silicone products market, which lends itself into high-end high-value applications in material sciences, coatings, advanced electronics and other similar applications.

5. Market leadership in products

Aether is a market leader globally in 50% of its eight major products. According to Frost & Sullivan, in CY20, Aether was the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol. According to the Frost & Sullivan Primary Research & Analysis, in 2020, Aether was (i) the largest manufacturer of 4MEP globally, (ii) the largest manufacturer of HEEP in globally, (iii) the largest manufacturer of NODG globally and the only manufacturer of this product in India and (iv) the biggest manufacturer of T2E globally and the only manufacturer of this product in India.

The company has achieved these market positions by developing differentiated processes with the use of its core competencies of chemistry and technology. This helps it optimise the use of conventional raw materials, improve atom economy, enhance yields, reduce effluent discharge, and increase cost competitiveness.

The company has emerged as one the greatest competitions and threats to the Chinese specialty chemical companies for these products and the Chinese customers are dependent on Aether for supplying these products. Due to the company's market leadership position in a number of speciality chemical product areas, it is well-positioned to capitalise on market opportunities.

Exhibit 20: Market leader in eight major products

Product	Industry Application	Company Global Market Position (1)	Company India Market Position (1)	Launch Month / Year	Volume Produced in FY22 (MT)	Global demand for product in CY20 (MT)	Volume CAGR (FY19 to FY22)	Revenue FY22 (INR million)	Market opportunity size in CY25 (INR mn) (3)
4-(2-Methoxyethyl) Phenol **(4MEP)**	Metoprolol Succinate / Metoprolol Tartrate	Largest manufacturer in the world (with 28% market share in CY20)	Only manufacturer in India	December 2016	1,053.84	1,750	55.75%	1,650.33	3,320
3-Methoxy-2-Methylbenzoyl Chloride (**MMBC**) **(2)**	Methoxyfenozide	Second largest manufacturer in the world (with 14% market share in CY20)	Only manufacturer in India	September 2019	211.20	1,750	N/A	588.49	6,409
Thiophene-2-Ethanol **(T2E)**	Clopidogrel, Ticlopidine APIs	Largest manufacturer in the world (with nearly 50% market share in CY20)	Only manufacturer in India	May 2017	379.81	780	25.57%	668.10	2,498
Ortho Tolyl Benzo Nitrile / 4'-Methyl-2-Cyanobiphynyl **(OTBN)**	Valsartan, Telmisartan, Olmesartan, Losartan, Candisartan APIs	Market share of 8% in CY20	Only manufacturer in India	December 2018	204.08	5,045	80.02%	243.51	12,374
N-Octyl-D-Glucamine / 1-Deoxy-1-(Octylamino)-D-Glucitol (**NODG**)	Naproxen, Dexketoprofen APIs	Largest manufacturer in the world (with 46% market share in CY20)	Only manufacturer in India	July 2015	345.09	845	3.73%	219.18	743
1-2-(2Hydroxyethoxy) Ethyl Piperazine **(HEEP)**	Quetiapine, Hydroxyzine APIs	Largest manufacturer in the world (with 34% market share in CY20)	One of three major manufacturers, only manufacturer in India to be back-integrated into key raw material	May 2018	189.44	500	41.76%	225.03	683
Delta-Valerolactone (**DVL**)	Coating additive, speciality monomer, electronic chemical	Second largest manufacturer in the world (with 13% market share in CY 20)	Only manufacturer in India	September 2016	147.43	650	607.91%	195.31	1,265
Bifenthrin Alcohol	Bifenthrin	Negligible	Only manufacturer in India	August 2021	216.85	3,250	N/A	623.15	10,201

Notes:
(1) Market share by volumes as of CY20.
(2) MMBC is manufactured for its customer as part of the company's contract/exclusive manufacturing business model.
(3) We have used average price realisations for FY22 and volumes as per F&S report May'22 for CY25 to arrive at the market size in CY25.
Source: F&S Report, May 2022, Company, HSIE Research

6. Long-standing relationships with marquee customers

Aether's customers include over 188 multinational, regional, and local companies. As of March 31 2022, its product portfolio was sold to 34 global customers (in 17 countries) and 154 domestic customers. The company enjoys long-standing relationships with most of its customers, who are big pharmaceutical, agrochemical, oil & gas, materials, and textile companies.

The largest customer contributed ~12%; top 10 customers contributed ~56%; and top 20 customers contributed ~73% to the total revenue in FY22. The company enjoys relationships in excess of five years, with seven out of its top-10 customers. Aether's long-term relationships and ongoing active engagements with customers allow it to plan its capital expenditure, enhance its ability to benefit from increasing economies of scale, with stronger purchasing power for raw material and a lower cost base. These enduring customer relationships have also helped Aether expand its product offerings and geographic reach.

Some of its marquee clients are listed below:

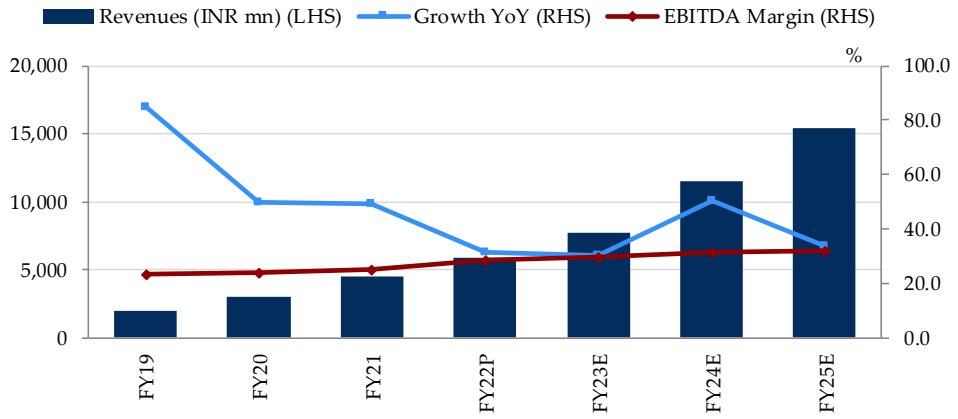
- Indian pharmaceutical companies like Aarti Drugs Ltd, Alembic Pharmaceuticals Ltd, Atul Bioscience Ltd, Cadila Healthcare Ltd, CTX Lifesciences Pvt Ltd, Divis Laboratories Ltd, Dr. Reddy's Laboratories Ltd, Granules India Ltd, Hetero Drugs Ltd, IOL Chemicals, Ind-Swift Laboratories Ltd, IPCA Laboratories Ltd, Laurus Labs Ltd, Lupin Ltd, Mankind Pharma, Neogen Chemcials Ltd and MSN Laboratories Private Ltd.
- Global generic pharmaceutical companies like Moehs Iberica SL (Spain), Microsin SRL (Romania) and Dr. Reddy's Laboratories (Mexico).
- Global and domestic generic agrochemical companies like Adama Agan (Israel), Adama Makhteshim (Israel), Deccan Fine Chemicals (India) and UPL Ltd (India).
- Global oil and gas companies like Aramco Performance Materials LLC (US/Saudi Arabia).
- Global material science/coatings/speciality polymer companies like Altana AG (Germany), BYK Chemie GmbH (Germany) and Avient Corporation (UK).
- Global textile companies like Milliken & Co (US).
- Global high performance photography companies like Polaroid Film BV (Netherlands).
- Global marketing and trading companies like Austin Chemical Company, Inc (US) and Connect Chemicals GmbH (Germany).
- Global and domestic chemical companies like Ningbo Noubai Pharmaceutical Co. Ltd (China), Saurav Chemicals Ltd (India), Neogen Chemicals Ltd (India), and IOL Chemicals and Pharmaceuticals (India).
- Global organometallic and halogenated chemistries company Tosoh FineChem Corporation (US).

7. Strong financials

In our view, Aether's revenue would grow at 38% CAGR over FY22-25E to INR 15.5bn, owing to more than tripling of its capacity by FY25 end and capacity ramp-up. At the same time, EBITDA CAGR would be ahead of revenue growth at 43%, due to (1) favourable change in the product mix and (2) operating leverage. By FY25E, we believe the EBITDA would reach INR 4.9bn from INR 1.7bn in FY22P, while margin would expand by 346bps to 32%.

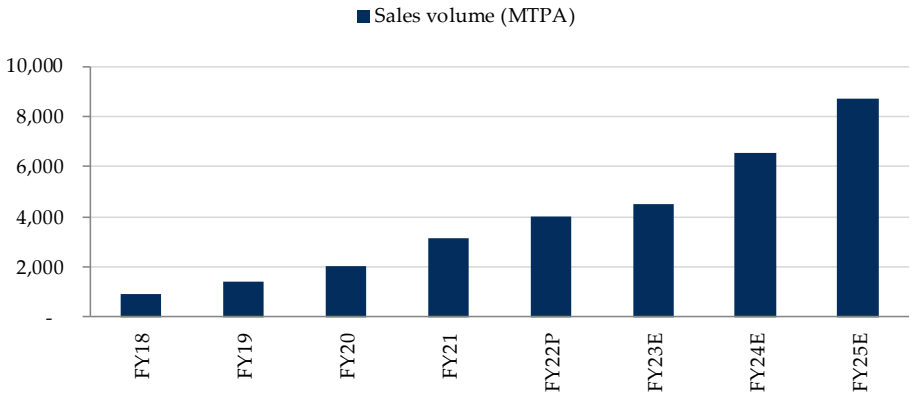
APAT will grow from INR 1.1bn in FY22P to INR 3.3bn in FY25E at a CAGR of 45% over FY22-25E. APAT margin will expand by 317bps from 18.5% in FY22P to 21.6% in FY25E, in line with EBITDA expansion.

Exhibit 21: Revenue, growth and EBITDA margin



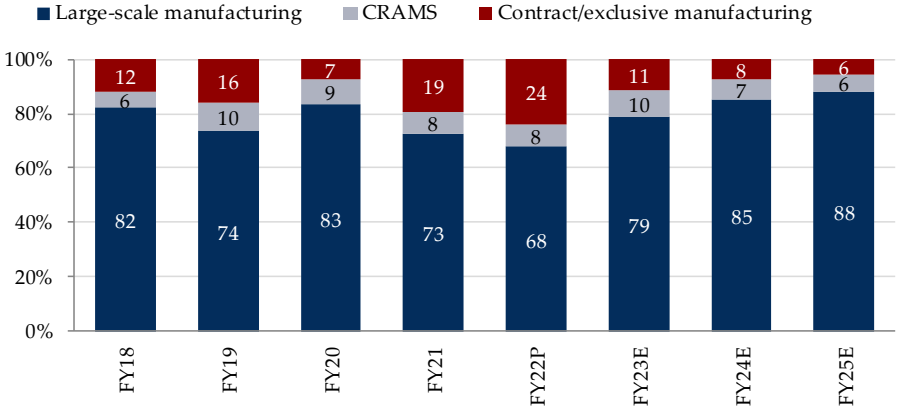
Source: Company, HSIE Research

Exhibit 22: Sales volume to grow owing to capacity expansion



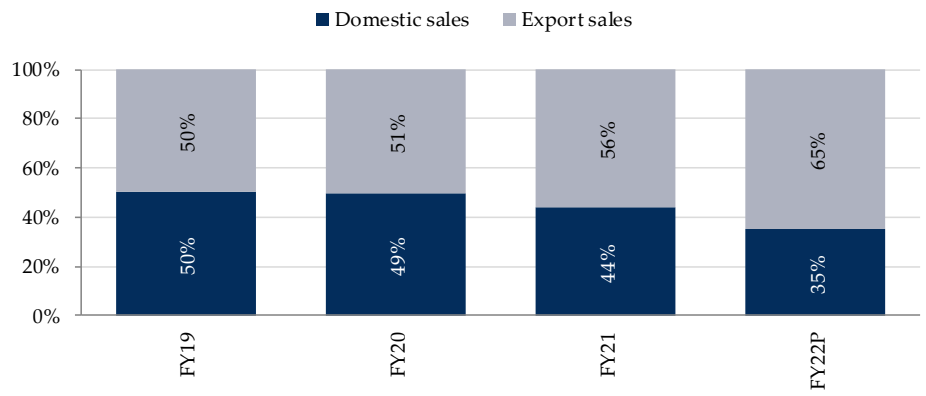
Source: Company, HSIE Research

Exhibit 23: Revenue mix (%)



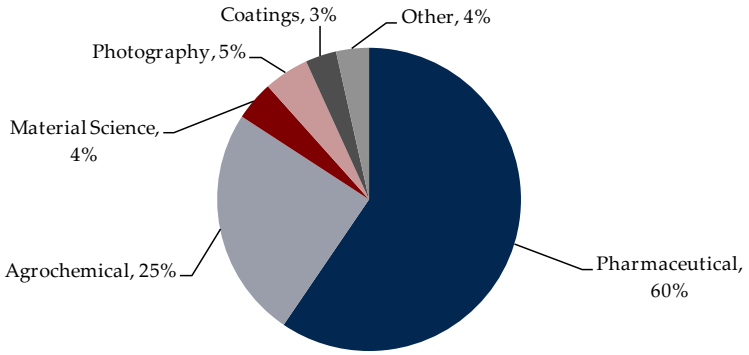
Source: Company, HSIE Research

Exhibit 24: Geographical revenue mix (%)



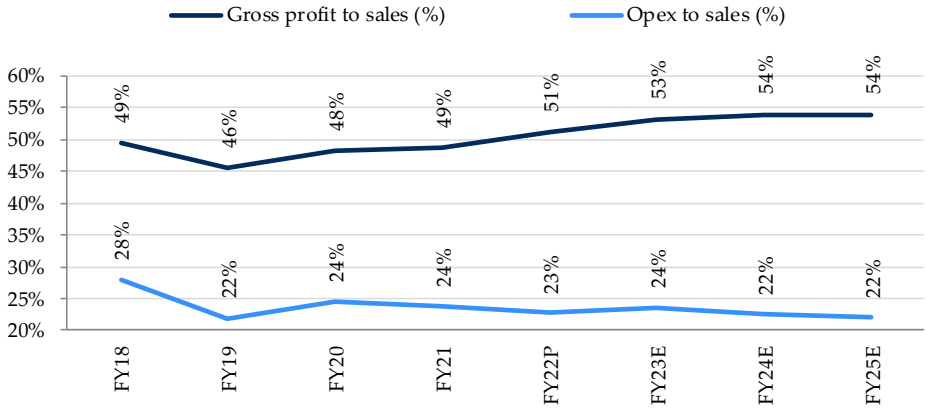
Source: Company, HSIE Research | Exports include deemed exports and SEZ sales

Exhibit 25: End-user industries mix in FY22



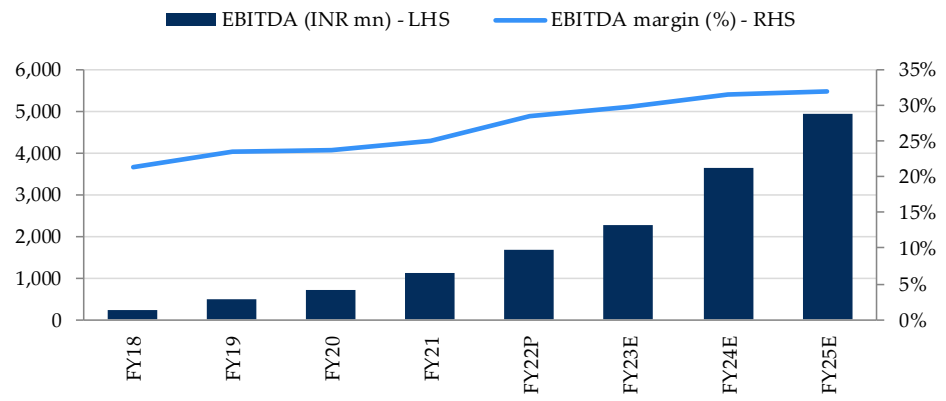
Source: Company, HSIE Research

Exhibit 26: Gross margin movement and opex trend (%)



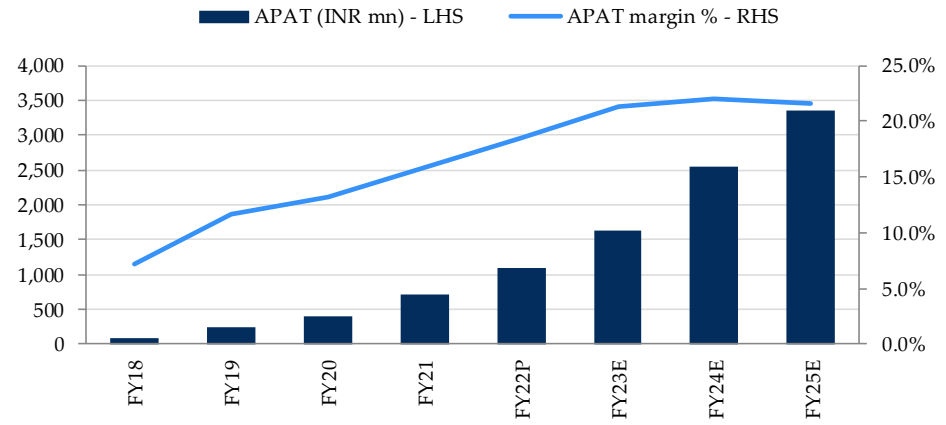
Source: Company, HSIE Research

Exhibit 27: EBITDA and EBITDA margin %



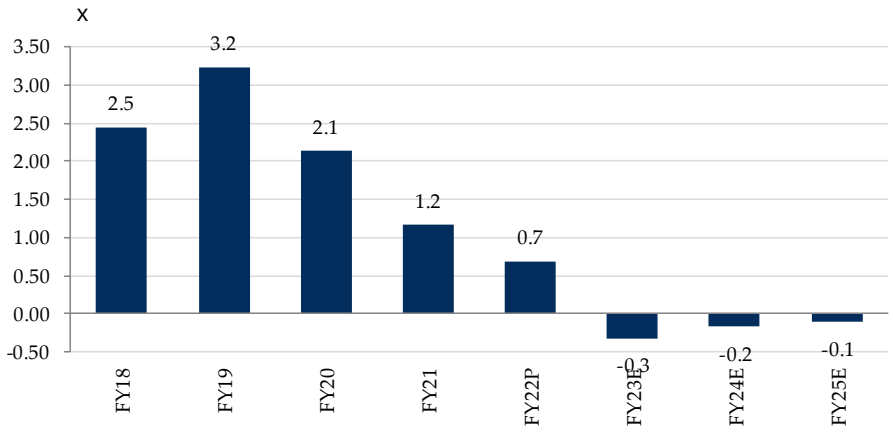
Source: Company, HSIE Research

Exhibit 28: APAT and APAT margin %



Source: Company, HSIE Research

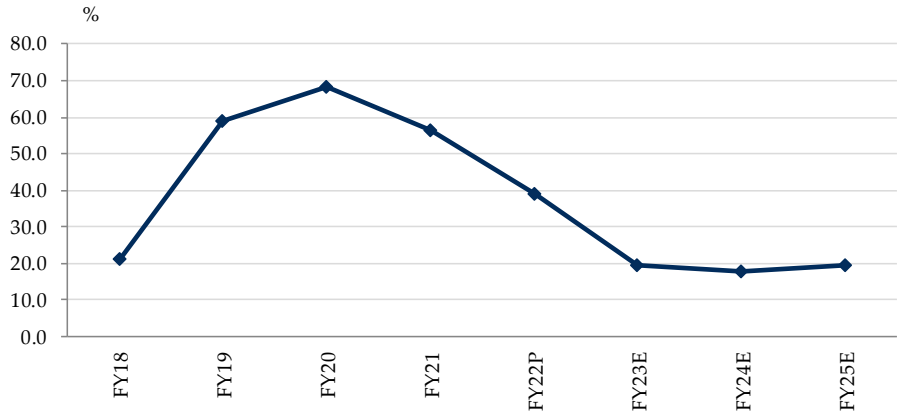
Exhibit 29: Net debt-equity ratio



Source: Company, HSIE Research

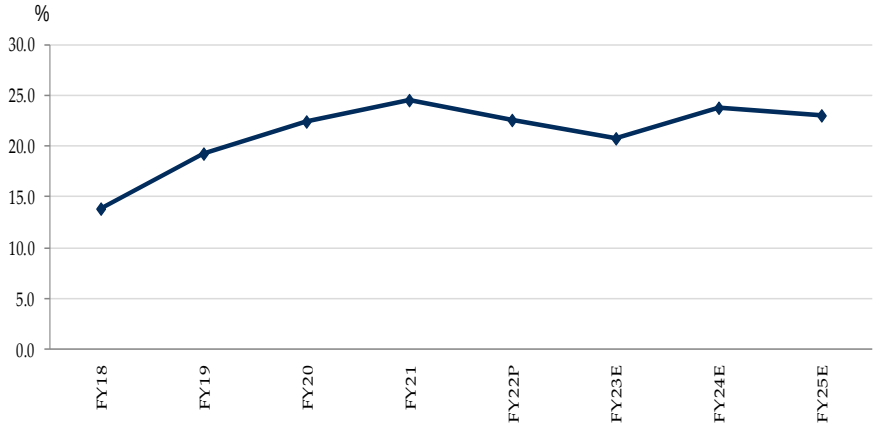
The RoE of Aether would fall from 38.8% in FY22P to 19.3% in FY25E, owing to increase in shareholder's funds due to IPO proceeds. RoIC would expand from 22.6% in FY22P to 23.1% in FY25E, owing to an increase in profitability.

Exhibit 30: Return on equity ratio (%)



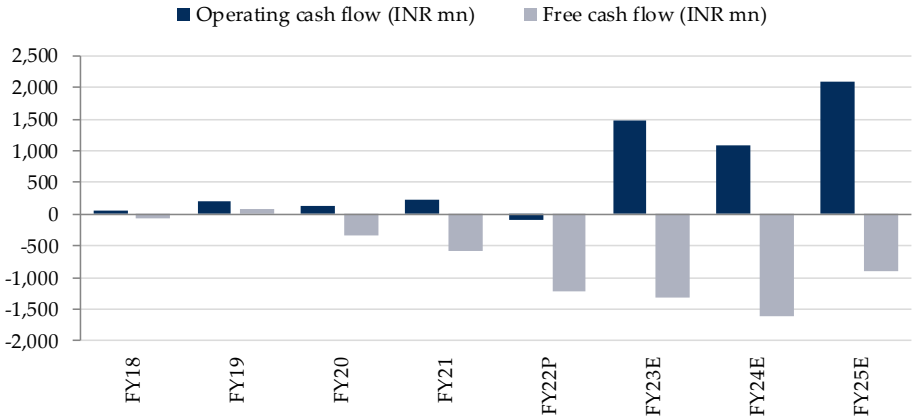
Source: Company, HSIE Research

Exhibit 31: Return on invested capital (%)



Source: Company, HSIE Research

Exhibit 32: Operating cash flows and free cash flows over the years



Source: Company, HSIE Research

About the company

Aether Industries Ltd is a speciality chemical manufacturer in India focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemistry and technology.

In the first phase of the company's development through FY17, it focused on building team, infrastructure, and R&D centred on building core competencies. Its revenue generation operations commenced with the second phase in FY17. The company is focused on the core competencies model of chemistry and technology. Chemical companies usually have a single or a couple of chemistry competencies for their entire product portfolio; however, Aether has eight chemistry competencies to use for its wide array of products, which enables it to cater to niche and advanced intermediate requirements of a wider range of end-products and applications. All these competencies have been developed inhouse, which is one of the core strengths of the company's R&D team.

Aether has three broad business models: (i) large-scale manufacturing of its own speciality chemicals and intermediates; (ii) contract research and manufacturing services (CRAMS); and (iii) contract manufacturing/exclusive manufacturing.

(i) ***Speciality chemicals and intermediates***

Aether specialises in speciality chemicals and advanced intermediate products based on an intricate marriage of complex chemistry and technology core competencies. The company's focus on core competencies also helps it mitigate risk because its business strategy and R&D are not targeted to any specific product, customer, region, or industry.

Exhibit 33: Major products and their chemistry and technology

Product	Chemistry and Technology/Process
4-(2-Methoxyethyl) Phenol **(4MEP)**	Aether employs Grignard chemistry, ethylene oxide chemistry, and isobutylene chemistry as the core chemistry competencies and continuous reaction technology and fractional distillation technology as the core technology competencies for this product. There are high entry barriers for this product as the process is very complex and the demand is quite niche.
N-Octyl-D-Glucamine / 1-Deoxy-1-(Octylamino)-D-Glucitol (**NODG**)	The production process includes hydrogenation of n-octylamine with D-glucose to produce N-n-octyl-D-glucamine. Aether has superior hydrogenation and high-pressure chemistry core competencies which helps it to have an edge over other companies in this product.
Ortho Tolyl Benzo Nitrile / 4'-Methyl-2-Cyanobiphynyl **(OTBN)**	Aether has deployed Grignard chemistry and coupling chemistry as the core chemistry competencies, and continuous reaction technology and fractional distillation technology as the core technology competencies for this product. It has improved the Grignard reaction and has also established a continuous recovery and recycle process for the THF solvent, to increase the yield of production and to improve the overall process economics.
Thiophene-2-Ethanol **(T2E)**	Aether has deployed Grignard chemistry and ethylene oxide chemistry as the chemistry core competencies, and continuous reaction technology and fractional distillation technology as the core technology competencies for this product.
1-2-(2Hydroxyethoxy) Ethyl Piperazine **(HEEP)**	Aether deploys ethylene oxide chemistry as the chemistry core competency, and continuous reaction technology as the technology core competency for this product, with inhouse continuous dry HCl gas generation plant. Amongst all the 3 Indian manufacturers of HEEP, the company is the only manufacturer that is back-integrated into the manufacture of HEEP's key raw material, 2-CEE.
Delta-Valerolactone (**DVL**)	Aether deploys heterogeneous catalysis as the chemistry core competency, and continuous reaction technology, fixed bed reaction technology, gas phase reaction technology, and high vacuum fractional distillation as the technology core competencies for this product.
Bifenthrin Alcohol	Aether deploys Grignard chemistry and coupling chemistry as the key chemistry competencies, and continuous reaction technology and high vacuum fractional distillation technology as the key technology competencies for this product.

Source: Company, F&S Report May 2022

(ii) ***Contract Research and Manufacturing Services (CRAMS)***

The CRAMS business includes services that customers outsource to the company and include:

- Contract research;
- Pilot scale-up services;
- Contract manufacturing;
- Full time equivalent (FTE) services, where one or more of the company's employees work full-time on the project;
  - Technology development; and
  - Process development and optimisation

CRAMS customers work jointly with the company's scientists and engineers, and the company executes their projects in its R&D facilities, analytical sciences laboratories, and its pilot plant. Molecules developed in the CRAMS business have the potential to convert into regular commercial supplies and become large-scale manufacturing products for the company.

(iii) Contract manufacturing/exclusive manufacturing

The company also manufactures its customers' products under a contractual supply agreement-based model. These customer contracts are both short term and long term, and involve both exclusive and non-exclusive arrangements.

Exhibit 34: Products manufactured in the contract manufacturing business

Product	Launch Month / Year	Application	Therapeutic or other use	Chemistry and Technology/Process
3-Methoxy-2-Methylbenzoyl Chloride (**MMBC**)	September 2019	Methoxyfenozide	Agrochemical Insecticide	The company deploys Grignard chemistry and carbon dioxide coupling chemistry as the chemistry core competencies, and continuous reaction technology and high vacuum fractional distillation technology as the technology core competencies for this product.
2-Methoxy-6-Chlorotoulene	February 2020	Methoxyfenozide	Agrochemical Insecticide	Sodium methoxide chemistry and fractional distillation technology are the core competencies utilised in this product.

Source: Company, HSIE Research

Management: board of directors

- **Ashwin Jayantilal Desai (promoter and managing director):** He holds a bachelor's degree in chemical engineering from the Institute of Chemical Technology, Mumbai. Prior to incorporation of Aether, he was the founding member of Anupam Rasayan India Ltd and chairman and managing director of Anupam Rasayan India Ltd until 2013. At Aether, he is responsible for creating the company's overall vision and is actively involved in all techno-commercial departments. He focuses on innovative chemical engineering solutions for R&D, pilot plant, and production processes and is responsible for leading core competency in continuous reaction and flow technology.

- **Dr. Aman Ashvin Desai (promoter and whole-time director):** He is responsible for the company's R&D, pilot plant, production operations, new projects, and technical business development, and has over 10 years of experience in the speciality chemical industry. Dr. Aman Desai has a bachelor's degree in chemical technology (intermediates and dyestuff technology, 2005) from the Institute of Chemical Technology, Mumbai, and has a Doctor of Philosophy (PhD) degree in organic chemistry (with a focus on chiral chemistry) from Michigan State University (US, 2010). His doctoral research was published in the Journal of the American Chemical Society and featured in Chemical & Engineering News in 2010. He was a project leader in the process development group in the core R&D headquarters at The Dow Chemical Company in Michigan, US. He was awarded the UAA Young Achiever Award in 2018 in the UAA-ICT Distinguished Alumnus Awards from his alma mater, ICT (Mumbai, India). He is an author/co-author of 25 publications in international technical journals. He has been granted four patents in the US, which are published worldwide.

- **Rohan Ashwin Desai (promoter and whole-time director):** He holds a bachelor's degree in commerce from South Gujarat University of Commerce. He has extensive experience in the speciality chemical industry and looks after the company's entire commercial portfolio (including sales, finance, strategic procurements, human resources and systems). He was a director at Anupam Rasayan India Ltd until 2013.

- **Purnima Ashwin Desai (promoter and whole-time director)**: She holds a bachelor's degree from University of Delhi. With multiple decades of experience in the speciality chemical industry, she leads the overall accounting and finance operations of the company. She was previously a director at Anupam Rasayan India Ltd until 2013.

- **Kamalvijay Ramchandra Tulsian (chairperson and non-executive director):** He holds a diploma in electrical engineering from Maharaja Sayajirao University of Baroda and a diploma in mechanical engineering from Baroda's Maharaja Sayajirao University. He has many decades of experience in the textile and chemical industry.

- **Ishita Surendra Manjrekar (non-executive director):** She holds a bachelor's degree in chemical engineering from Institute of Chemical Technology Mumbai, and a master's degree from Rensselaer Polytechnic Institute, US. She has vast experience in the construction chemicals industry. She is currently serving as director (technology) in Sunanda Speciality Coatings Private Ltd, and leads their research and development department and business development. Prior to working at Sunanda Coatings Private Ltd, she worked as the vertical head (clean technology) for Primary Global Research, US. She is a director on the board of US' American Concrete Institute and was given the ACI Young Member Award for professional achievement in 2016.

- **Arun Brijmohan Kanodiya (non-executive independent director):** He holds a bachelor's degree from University of Delhi and is a fellow member of the Institute of Chartered Accountants of India. He is a partner at M/s. KSA & Associates, Chartered Accountants. He has over 15 years of experience in chartered accountancy and finance.

- **Jeevan Lal Nagori (non-executive independent director)**: He holds a bachelor's degree from University of Udaipur, and is a fellow member of the Institute of Chartered Accountants of India. He was previously associated with IPCA Laboratories Ltd for 34 years as the president of a project.

- **Leja Satish Hattiangadi (non-executive independent director):** She holds a bachelor's degree in chemical engineering from Indian Institute of Technology (IIT, Bombay) and a master's degree in chemical engineering from Lowell Technological Institute (Massachusetts, US). She has been elected as a member of the American Institute of Chemical Engineers (AIChE). She has many decades of experience in the engineering contracting and chemical industry. She has previously worked at Tata Consulting Engineers Ltd (a TATA Enterprise). She has also previously worked at Jacobs India for nine years as a director (business development). During her tenure at Jacobs India, she was also a whole-time director of the board. Leja Satish Hattiangadi is presently an adjunct professor in the department of chemical engineering, Indian Institute of Technology (IIT, Bombay). She is also currently serving as an independent director on the board of M/s. Alkyl Amines Chemicals Ltd and M/s. Artson Engineering Ltd**.**

- **Dr. Amol Arvindrao Kulkarni (non-executive independent director):** He is currently a senior principal scientist in the chemical engineering & process development division at National Chemical Laboratory (NCL), Pune (India). He holds a bachelor's degree, master's degree and Doctor of Philosophy (PhD) in chemical engineering from Institute of Chemical Technology, Mumbai. Dr. Amol Kulkarni has established the first of its kind microreactor laboratory in India. He is the recipient of numerous awards, including Young Associate of Indian Academy of Sciences (2011), CSIR Young Scientist Award (2011), and Indian National Science Academy's (INSA) Medal for Young Scientists (2009). He is the author/co-author of 138 publications in international technical journals and has been granted 17 patents in India, US, and worldwide.

- **Rajkumar Mangilal Borana (non-executive independent director):** He holds a bachelor's degree from Veer Narmad South Gujarat University (Surat). He has experience in the textile industry and is associated with R&B Denim Ltd.

- **Jitendra Popatlal Vakharia (non-executive independent director):** He holds a diploma in textile chemistry from Maharaja Sayajirao University of Baroda. He is currently serving as a partner at Narayan Processors and is a director at Pandesara Infrastructure Ltd.

Financials

INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22P	FY23E	FY24E	FY25E
Revenues	**1,087**	**2,012**	**3,018**	**4,498**	**5,900**	**7,673**	**11,547**	**15,460**
Growth %	***345.0***	***85.1***	***50.0***	***49.0***	***31.2***	***30.0***	***50.5***	***33.9***
Raw Material	550	1,096	1,562	2,307	2,880	3,586	5,312	7,111
Employee Cost	92	109	134	221	270	352	457	548
Other Expenses	213	332	605	849	1,069	1,458	2,136	2,860
EBITDA	**232**	**475**	**718**	**1,122**	**1,681**	**2,278**	**3,642**	**4,940**
EBIDTA Margin (%)	*21.4*	*23.6*	*23.8*	*24.9*	*28.5*	*29.7*	*31.5*	*32.0*
EBITDA Growth %	*888.9*	*104.5*	*51.0*	*56.3*	*49.9*	*35.5*	*59.9*	*35.6*
Depreciation	52	64	78	110	155	284	419	567
EBIT	**180**	**411**	**639**	**1,011**	**1,526**	**1,994**	**3,223**	**4,372**
Other Income (Including EO Items)	5	21	20	40	70	200	175	100
Interest	92	106	94	113	131	4	4	4
PBT	**93**	**326**	**565**	**938**	**1,465**	**2,189**	**3,394**	**4,468**
Tax	15	93	166	227	375	550	853	1,123
PAT	**78**	**233**	**400**	**711**	**1,089**	**1,639**	**2,541**	**3,345**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	**78**	**233**	**400**	**711**	**1,089**	**1,639**	**2,541**	**3,345**
Share from associates	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Consolidated APAT	**78**	**233**	**400**	**711**	**1,089**	**1,639**	**2,541**	**3,345**
Consolidated APAT Growth (%)	*N/A*	*200.5*	*71.2*	*78.0*	*53.2*	*50.5*	*55.0*	*31.7*
AEPS	**0.6**	**1.9**	**3.2**	**5.7**	**8.8**	**13.2**	**20.4**	**26.9**
AEPS Growth %	***N/A***	***200.5***	***71.2***	***78.0***	***53.2***	***50.5***	***55.0***	***31.7***

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY18	FY19	FY20	FY21	FY22P	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	336	86	86	101	1,127	1,245	1,245	1,245
Reserves And Surplus	70	300	697	1,642	2,742	11,833	14,374	17,719
Total Equity	**405**	**385**	**783**	**1,743**	**3,869**	**13,078**	**15,619**	**18,963**
Minority Interest	-	-	-	-	-	-	-	-
Long-term Debt	785	757	951	1,038	1,218	-	-	-
Short-term Debt	220	504	754	1,044	1,633	94	94	94
Total Debt	**1,005**	**1,261**	**1,705**	**2,082**	**2,851**	**94**	**94**	**94**
Deferred Tax Liability	12	34	76	102	139	120	120	120
Long-term Provision and others	-	3	16	27	51	-	-	-
TOTAL SOURCES OF FUNDS	**1,422**	**1,683**	**2,580**	**3,955**	**6,909**	**13,292**	**15,833**	**19,177**
APPLICATION OF FUNDS								
Net Block	1,002	1,063	1,293	2,162	2,571	4,820	7,060	9,407
Capital WIP	19	12	172	2	577	844	886	972
Other non-current assets	21	28	59	28	450	10	10	10
Non-current Investments	2	2	2	2	2	5	5	5
Total Non-current assets	**1,044**	**1,106**	**1,527**	**2,194**	**3,600**	**5,679**	**7,960**	**10,393**
Inventories	224	398	719	847	1,627	2,102	3,164	4,236
Debtors	262	482	630	1,082	1,635	2,102	3,164	4,236
Cash and Cash Equivalents	11	13	36	56	180	4,249	2,811	2,008
Other Current Assets	46	68	93	350	656	315	475	635
Total Current Assets	**542**	**961**	**1,478**	**2,335**	**4,098**	**8,769**	**9,612**	**11,114**
Creditors	139	228	384	478	699	946	1,424	1,906
Other Current Liabilities & Provns	25	156	41	97	91	210	316	424
Total Current Liabilities	**164**	**384**	**425**	**575**	**789**	**1,156**	**1,740**	**2,330**
Net Current Assets	**379**	**577**	**1,053**	**1,760**	**3,309**	**7,613**	**7,872**	**8,784**
TOTAL APPLICATION OF FUNDS	**1,422**	**1,683**	**2,580**	**3,955**	**6,909**	**13,292**	**15,833**	**19,177**

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22P	FY23E	FY24E	FY25E
Reported PBT	93	326	565	938	1,465	2,189	3,394	4,468
Non-operating & EO Items	(5)	(21)	(20)	(40)	(70)	(200)	(175)	(100)
Interest Expenses	92	106	94	113	131	4	4	4
Depreciation	52	64	78	110	155	284	419	567
Working Capital Change	(164)	(197)	(453)	(687)	(1,424)	(235)	(1,698)	(1,715)
Tax Paid	(20)	(71)	(123)	(201)	(339)	(569)	(853)	(1,123)
OPERATING CASH FLOW (a)	**48**	**208**	**142**	**233**	**(82)**	**1,474**	**1,091**	**2,101**
Capex	(107)	(119)	(469)	(809)	(1,139)	(2,800)	(2,700)	(3,000)
Free Cash Flow (FCF)	(59)	89	(327)	(576)	(1,221)	(1,326)	(1,609)	(899)
Investments	-	0	-	-	-	(3)	-	-
Non-operating Income	5	21	20	40	70	200	175	100
Others	(4)	(8)	(31)	31	(422)	440	-	-
INVESTING CASH FLOW (b)	**(106)**	**(105)**	**(480)**	**(738)**	**(1,491)**	**(2,163)**	**(2,525)**	**(2,900)**
Debt Issuance/(Repaid)	150	256	444	377	769	(2,757)	-	-
Interest Expenses	(92)	(106)	(94)	(113)	(131)	(4)	(4)	(4)
FCFE	(1)	239	23	(312)	(583)	(4,087)	(1,614)	(903)
Share Capital Issuance	-	(250)	-	15	1,026	118	-	-
Dividend	-	-	-	-	-	-	-	-
Others	0	(1)	11	245	34	7,401	0	(0)
FINANCING CASH FLOW (c)	**58**	**(101)**	**361**	**525**	**1,697**	**4,758**	**(4)**	**(4)**
NET CASH FLOW (a+b+c)	**(1)**	**2**	**23**	**20**	**125**	**4,069**	**(1,439)**	**(803)**
EO Items, Others								
Closing Cash & Equivalents	**11**	**13**	**36**	**56**	**180**	**4,249**	**2,811**	**2,008**

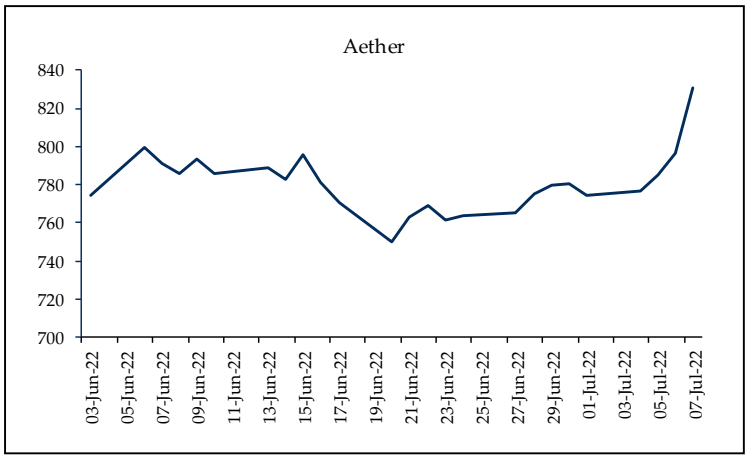
Source: Company, HSIE Research

KEY RATIOS

	FY18	FY19	FY20	FY21	FY22P	FY23E	FY24E	FY25E
PROFITABILITY %								
Gross Margin	49.4	45.5	48.3	48.7	51.2	53.3	54.0	54.0
EBITDA Margin	21.4	23.6	23.8	24.9	28.5	29.7	31.5	32.0
EBIT Margin	16.6	20.4	21.2	22.5	25.9	26.0	27.9	28.3
APAT Margin	7.1	11.6	13.2	15.8	18.5	21.4	22.0	21.6
RoE	21.2	59.0	68.4	56.3	38.8	19.3	17.7	19.3
RoIC	13.8	19.3	22.5	24.5	22.6	20.8	23.7	23.1
RoCE	11.8	19.9	21.9	24.4	21.9	16.3	17.5	19.1
EFFICIENCY								
Tax Rate %	16.6	28.4	29.3	24.2	25.6	25.1	25.1	25.1
Fixed Asset Turnover (x)	1.3	1.8	2.2	2.3	2.1	1.8	1.7	1.6
Inventory (days)	75	72	87	69	101	100	100	100
Debtors (days)	88	87	76	88	101	100	100	100
Other Current Assets (days)	15	12	11	28	41	15	15	15
Payables (days)	92	76	90	76	89	96	98	98
Other Current Liab & Provns (days)	8	28	5	8	6	10	10	10
Cash Conversion Cycle (days)	78	68	80	102	148	109	107	107
Net Debt/EBITDA (x)	4.3	2.6	2.3	1.8	1.6	(1.8)	(0.7)	(0.4)
Net D/E	2.5	3.2	2.1	1.2	0.7	(0.3)	(0.2)	(0.1)
Interest Coverage	2.0	3.9	6.8	8.9	11.6	460.2	744.0	1,009.2
PER SHARE DATA (INR)								
EPS	0.6	1.9	3.2	5.7	8.8	13.2	20.4	26.9
CEPS	1.0	2.4	3.8	6.6	10.0	15.4	23.8	31.4
Dividend	-	-	-	-	-	-	-	-
Book Value	3.3	3.1	6.3	14.0	31.1	105.1	125.5	152.3
VALUATION								
P/E (x)	1,332.0	443.3	258.9	145.5	95.0	63.1	40.7	30.9
P/Cash EPS (x)	798.7	347.8	216.4	126.0	83.1	53.8	35.0	26.4
P/BV (x)	255.2	268.4	132.2	59.3	26.7	7.9	6.6	5.5
EV/EBITDA (x)	449.5	220.4	146.5	94.0	63.1	43.6	27.7	20.6
EV/Revenue (x)	96.1	52.0	34.8	23.4	18.0	12.9	8.7	6.6
Dividend Yield (%)	-	-	-	-	-	-	-	-
OCF/EV (%)	0.0	0.2	0.1	0.2	(0.1)	1.5	1.1	2.1
FCFF/EV (%)	(0.1)	0.1	(0.3)	(0.5)	(1.2)	(1.3)	(1.6)	(0.9)
FCFE/M Cap (%)	(0.0)	0.2	0.0	(0.3)	(0.6)	(4.0)	(1.6)	(0.9)

Source: Company, HSIE Research

1 Yr price performance



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:
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