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AETHER INDUSTRIES LIMITED

May 23, 2022

aether
elementally innovative

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Speciality chemicals
Offer for sale (Shares)	2,820,000
Fresh Issue (Shares)	9,766,355
Net Offer to the Public	12,586,355
Issue Size (Rs. Cr.)	768-808
Price Band (Rs.)	610-642
Offer Date	24-May-22
Close Date	26-May-22
Face Value	10
Lot Size	23

Issue Composition

	In shares
Total Issue for Sale	12,586,355
QIB	6,293,178
NIB	1,887,953
Retail	4,405,224

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	96.97%	87.09%
QIB	0.00%	5.06%
NIB	3.03%	4.31%
Retail	0.00%	3.54%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company.
- Funding capital expenditure requirements for the manufacturing facility (Proposed Greenfield Project).
- Funding working capital requirements of the Company.
- General corporate purposes.

Book Running Lead Manager

- HDFC BANK LIMITED
- KOTAK MAHINDRA CAPITAL COMPANY LIMITED

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 2013, Aether Industries Limited is a manufacturer of speciality chemicals. The company is the sole manufacturer in India of chemicals such as 4-(2-Methoxyethyl) Phenol (4MEP), 3-Methoxy-2-Methylbenzoyl Chloride (MMBC), Thiophene-2-Ethanol (T2E), Ortho Tolyl Benzo Nitrile (OTBN), N-Octyl-D-Glucamine, Delta-Valerolactone and Bifenthrin Alcohol. The company has three business models: Large scale manufacturing of intermediates and speciality chemicals, CRAMS (contract research and manufacturing services) and Contract manufacturing. Aether Industries has two manufacturing sites at Sachin in Surat, Gujarat. Manufacturing Facility 1 is a 3,500 square metre facility including R&D and Hydrogenation Facilities and Pilot Plant. Manufacturing Facility 2 encompasses roughly 10,500 square metres, with an installed capacity of 6,096 MT per year spread among three buildings and 16 production streams as of September 30, 2021. As of March 31, 2022, Aether Industries Limited's product portfolio comprised over 25 products which were sold to over 34 global companies in 18 countries and to over 154 domestic companies. The company is the largest manufacturer of 4MEP, T2E, NODG and HEEP products in the world by volume.

Strength

Differentiated portfolio of market-leading products: Aether Industries is a speciality chemicals manufacturer in India focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemistry and technology core competencies. As of March 31, 2022, the company's product portfolio comprises over 25 products which were marketed to 34 global customers in 18 countries including Italy, Spain, Germany, the United States and to 154 domestic customers.

Focus on R&D to leverage the core competencies of chemistry and technology: Aether has in-house R&D Facilities and Pilot Plant at Manufacturing Facility 1 at Sachin in Surat, Gujarat for the development of its pipeline and next-generation products as well as for their CRAMS customers. As of March 31, 2022, the company had a specialized R&D team of 164 scientists and engineers including 92 scientists (with PhDs or Master of Science degrees) and 72 chemical engineers. Its R&D laboratories are fitted with modern synthesis equipment including fume hoods, lab scale continuous and flow reactors and advanced separation equipment.

Long-standing relationships with a diversified customer base: Its customers include over 160 multinational, global, regional and local companies. As of March 31, 2022, its product portfolio was sold to 34 global customers in 18 countries and to 154 domestic customers. Of its revenue from operations in the nine months ended December 31, 2021 and Fiscal 2021, its largest customer contributed approximately 13.52% and 19.38%, respectively; its top 10 customers contributed approximately 55.76% and 56.23%, respectively; and its top 20 customers contributed 72.93% and 73.50%, respectively. The company enjoys relationships in excess of 5 years with 7 out of its top ten customers. Of its revenue from operations in the nine months ended December 31, 2021 and Fiscal 2021, 57.32% and 57.82% were from India, 32.74% and 32.97% were from EU countries, 5.95% and 5.77% were from the North America (United States and Mexico), 3.49% and 2.92% were from Asia and 0.50% and 0.52% from the rest of the world. Its diversified global customer base assists it in reducing its geographic dependence, which helps in mitigating the effects of economic and industry-specific cycles.

Synergistic Business Models focused on Large Scale Manufacturing, CRAMS and Contract Manufacturing: The company has three business models under which it operates: (i) large scale manufacturing of its own intermediates and speciality chemicals; (ii) CRAMS (contract research and manufacturing services) and (iii) contract / exclusive manufacturing. According to F&S, the company is among the few Indian specialty chemical companies to have successfully launched these three separate business models in just 5 years into commercial manufacturing. These business models benefit from, and have synergies with, each other. The company has a state-of-art Pilot Plant, which gives it a competitive advantage in attracting CRAMS customers. Its Pilot Plant encompasses a wide range of reactors and downstream equipment, in both continuous and batch regimes, across the entire range of scale-up volumes, metallurgy, and process parameters and is automated through DCS process automation. The company also manufacture 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.

Focus on Quality, Environment, Health and Safety (QEHS): The company believes that maintaining a high standard of quality for its products is critical to its brand and continued growth. As of March 31, 2022, it had an environmental team of 43 employees (constituting 5.98% of its workforce) and a safety team of 30 employees (constituting 4.17% of its workforce). To provide sustainable power for its operations, it has issued a purchase order for the construction of a 16 MW solar power generation plant at Sarod Village, Bharuch District, Gujarat to provide electricity to its current operational two manufacturing facilities and it Proposed Greenfield project, which is expected to be operational in Fiscal 2023. It expects to incur approximately Rs 651.59 million (including taxes) towards capital expenditure for this solar power project which will be financed by its internal accruals.

Strong and consistent financial performance: In 9 months of FY22, Aether Industries has posted total revenue of Rs.449.3 crore while its PAT stood at Rs.82.9 crore in this period. In FY19, its total revenue stood at Rs.203.2 crore while its PAT stood at Rs.23.3 crore. Similarly in FY20, its total revenue/PAT stood at Rs.303.7 crore / 39.9 crore whereas in FY21 its total revenue / PAT stood at Rs.453.7 crore / Rs.71.1 crore.

Strategy

To leverage strong position in the speciality chemicals industry to capitalize on industry opportunities: From CY 2020 to CY 2025, the global chemicals market is expected to grow at a CAGR of 6.2% and the India Speciality chemical market at a CAGR of 11.2 %, according to Frost & Sullivan. This growth is expected to be led by sustained demand in the end-use customer segments for its intermediate and speciality chemical products or business, which are experiencing consumption-led growth in India and key global markets. Due to its market leadership position in a number of speciality chemical product areas, it is well positioned to capitalize on these market opportunities. It aims to achieve this by leveraging its existing R&D capabilities, as well as by evaluating strategic acquisition opportunities. It also intends to capitalize on the growing demand for its products by expanding its manufacturing capacities and strengthening its sales and distribution network in existing markets and gaining access to newer markets.

To expand Product Portfolio and diversify into additional business segments: The company plans to continue to expand its product portfolio both in line with its existing new competencies but also by adding new competencies. In the next three years, it expects to invest approximately Rs.12.50 crore towards R&D in the first year with an increasing trend of 30% to 35% in the next two years. Some of the key APIs for which it expects to launch advanced intermediate products in the next year during Fiscal 2022 and Fiscal 2023 are Planned for Fiscal 2022-23, Dolutegravir (Antiretroviral to treat HIV/AIDS), Carbamazepine (Anti-epileptic), Oxcarbazepine (Anticonvulsant), Memantine (treats symptoms of Alzheimer’s) and Ambroxol (treatment of respiratory disease. In addition, it intends to continue to add new core chemistry and technology competencies, which will lead to additional product line developments. It is also looking to diversify into additional business segments.

Expand Manufacturing, R&D and Pilot Plant Capacities: To cater to the growing demand from its existing customers and to meet requirements of new customers, it intends to, and are in the process of, expanding its manufacturing capacities for existing products including 4MEP and BFA. It also intends to add manufacturing capacities for its new product line (discussed above) that it is in the process of developing and commercializing. It also expanded the capacity of its R&D laboratories by adding an additional 30 fume hoods. These additional fume hoods will be divided into four organic synthesis labs in a separate floor in its R&D Facilities. In the pilot plant expansion, it is installing new equipment including 26 reactors ranging from 250 L reactor volume to 4000 L reactor volume. Best-in-class utility (total 16 equipment) is being installed to support the pilot plant reaction processes. True DCS platform of Siemens PCS7 (German make) will be deployed in a “hot” redundant configuration. The entire new pilot plant will be protected by a comprehensive fire hydrant. In the pilot plant expansion, it is installing new equipment including 26 reactors ranging from 250 L reactor volume to 4000 L reactor volume.

Continue to strengthen presence in India and expand sales and distribution network in international markets: It believes that the long-standing relationships that it has enjoyed with its customers over the years and the repeat and increased orders received from them are an indicator of its position as a preferred source as compared to its competition which is mostly located in China. In addition, it has an international sales and marketing team and business development team that is dedicated to taking new orders, quoting rates and aids in understanding the requirements of its customers. Its new business development and marketing / sales is conducted with physical presence in 3 different continents (Asia / India by HQ, Europe / Germany by Dr. Norbert Flüggen, North America / USA by Dr. James Ringer and Raymond Paul Roach). It intends to focus on increasing its wallet share with existing customers. It has built long-standing relationship with its customers through various strategic endeavors, which it intends to leverage by selling baskets of products to the same customers.

Continue to focus on contract manufacturing / exclusive manufacturing by developing innovative processes and value engineering: The Company looks to convert R&D (CRAMS) opportunities provided by its clients into large-scale contract manufacturing projects. It believes that by offering value engineering, developing innovative processes and undertaking its core competency chemistries in its contract manufacturing / exclusive manufacturing operations allows it to enter into long-term contracts with customers that provide assured product off-take and better margins, thereby helping improve its profitability. Further, it seeks to continue to explore opportunities to enhance its existing customer relationships by undertaking CRAMS for new molecules. It believes its focus on value engineering by extending its process and chemistry expertise to enter into new value chains and replace the lower value products with higher value products in the same chemistry will enable it to service more of its customers' needs and increase its revenues from existing customers. It will look for strategic acquisition targets in the United States and the EU for R&D and manufacturing assets that are in line with its existing or desired competencies. It also will look for opportunities to acquire businesses to add additional chemistry or technology competencies (for example, photochemistry) or to add business segments where it is currently not present (for example, cytotoxic compounds, advanced silicone products or active pharmaceutical ingredients and formulations). It is focused on identifying acquisition targets that will benefit from its management expertise, its core competencies and the scale of its operations.

Risk factor

- The company is dependent on its manufacturing facilities and is subject to certain risks in the manufacturing process.
- The company is subject to certain risks involving manufacture, usage and storage of various hazardous substances.
- The company derives a significant part of the revenue from major customers and it does not have long term contracts with them.
- The company's reliance on certain industries for a significant portion of its sales could have an adverse effect on its business.

Peer comparison

Company Name	Net Sales	PAT	EPS	P/E	P/BV	B/V	FV	CMP	MCAP
Vinati Organics	1615.51	346.57	33.72	62.42	11.84	177.85	1	2104.95	21635.11
P I Industries	5299.50	843.80	55.62	47.05	6.49	403.40	1	2617.10	39706.15
Navin Fluo.Intl.	1453.36	263.08	53.09	71.29	10.17	372.17	2	3785.05	18756.12
Fine Organic	1582.28	169.55	55.30	79.92	17.27	255.90	5	4419.80	13551.10
Clean Science	614.16	219.24	20.64	82.84	28.03	61.00	1	1709.90	18162.38
Aether Industries Limited**	590.06	110.54	9.64	72.30	7.87	81.53	10	642.00	7991.79

**Estimated annualised FY22
*Peer Comparison on TTM

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.642, the stock is priced at pre issue P/E of 66.62x on an estimated annualised FY22 EPS of Rs.9.64. Post issue, the stock is priced at a P/E of 72.30x on its EPS of Rs.8.88. Looking at the P/B ratio at Rs.642, pre issue, book value of Rs. 31.41 of P/Bvx 20.44x. Post issue, book value of Rs.81.53 of P/Bvx 7.87x.

Considering the P/E valuation, on the lower end of the price band of Rs.610, the stock is priced at pre issue P/E of 63.30x on an estimated annualised FY22 EPS of Rs.9.64. Post issue, the stock is priced at a P/E of 68.69x on its EPS of Rs.8.88. Looking at the P/B ratio at Rs.610, pre issue, book value of Rs. 31.41 of P/Bvx 19.42x. Post issue, book value of Rs.81.52 of P/Bvx 7.48x.

Industry overview

According to the F&S Report, in calendar year 2020, the Indian chemicals industry was valued at US$186 billion, representing approximately 4% of the value of the global chemicals industry. According to the F&S Report, the value of the Indian chemicals industry is expected to grow at a CAGR of 12.2% from US$186 billion in 2020 to US$330 billion in 2025. According to the F&S Report, in fiscal 2020, the Indian chemical industry contributed approximately 6.6% of the national gross domestic product and accounted for 15- 17% of value of the India's manufacturing sector. The value of the commodity chemicals segment and the specialty chemicals segment accounted for approximately 46% and 47% of the Indian chemicals industry, respectively. The growth rate of the Indian specialty chemicals segment in 2015-2020 was higher than the growth rate of the Indian commodity chemicals (10.4% vs. 8.7%). From 2020 to 2015, the Indian specialty chemicals segment is expected to grow at a CAGR of 11.2%.

Outlook

The company is one of the fastest-growing specialty chemical companies in India, growing at a CAGR of nearly 60% between Fiscal 2018 and Fiscal 2021. It is also a leading CRAMS (Contract Research and Manufacturing Services) provider and Contract / Exclusive Manufacturing services provider, built upon technology-intensive and state-of-art R&D and Pilot Plant facilities. Based on its financial parameters, the issue is fully priced. A long term investor may opt the issue.

EVENT	INDICATIVE DATE (On or about)
IPO Opening Date	24-May-22
IPO Closing Date	26-May-22
Basis of Allotment	31-May-22
Initiation of Refunds	1-Jun-22
Credit of Shares to Demat	2-Jun-22
IPO Listing Date	3-Jun-22

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-21 (9 Months)	Period ended 31-Mar-21 (12 Months)	Period ended 31-Mar-20 (12 Months)
Revenue from operations	442.54	449.82	301.81
Total expenditure	316.55	337.66	230.05
Operating Profit	126.00	112.16	71.76
OPM%	28.47	24.93	23.78
Other Income	6.77	3.97	1.98
PBDIT	132.77	116.13	73.73
Depreciation	11.42	11.01	7.85
PBIT	121.35	105.12	65.88
Interest	10.04	11.32	9.38
Restated Profit before tax	111.31	93.81	56.51
tax	28.41	22.69	16.55
Profit After Tax	82.91	71.12	39.96

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	239.26	206.50	120.60
Capital Work in Progress	5.72	0.20	17.23
Right-of-Use Assets	21.41	9.17	8.16
Other intangible assets	0.50	0.56	0.58
Financial Assets			**0.00**
Investments	0.21	0.21	0.21
Other financial assets	1.85	1.53	2.02
Other non-current assets	23.14	1.24	3.89
Total non-current assets	**292.09**	**219.42**	**152.68**
Current assets			
Inventories	149.75	84.73	71.94
Financial Assets			**0.00**
Investments	19.13	22.09	0.01
Trade receivables	169.18	108.24	62.97
Cash and cash equivalents	5.56	3.51	0.07
Bank balances other than (iii) above	42.92	2.05	3.53
Loans	0.98	0.79	0.70
Other Financial assets	0.20	0.57	0.06
Other Current assets	29.76	11.54	8.50
Total current assets	**417.48**	**233.53**	**147.79**
Total Assets	**709.56**	**452.94**	**300.47**
Non-current liabilities			
Financial liabilities			
Borrowings	101.85	103.79	95.10
Lease Liabilities	5.30	2.71	1.59
Deferred tax liabilities (net)	12.75	10.21	7.64
Total financial liabilities	**119.90**	**116.71**	**104.33**
Current liabilities			
Financial liabilities			
Borrowings	132.88	104.41	75.39
Lease liabilities	0.86	0.36	0.25
Trade payables			0.00
total outstanding dues of micro enterprises and small enterprises	13.19	8.94	4.98
total outstanding dues of creditors other than micro enterprises and small enterprises	72.78	38.84	33.38
Other Financial liabilities	4.48	4.44	1.58
Other current liabilities	4.54	4.15	1.60
Provisions	0.40	0.00	0.01
Current tax liabilities (net)	0.27	0.77	0.67
Total current liabilities	**229.39**	**161.91**	**117.86**
Total	**349.29**	**278.61**	**222.19**
Net worth represented by:			
Share capital	112.69	10.10	8.56
Other Equity	247.59	164.23	69.72
Net Worth	**360.28**	**174.33**	**78.28**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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