

IPO Note

18th August 2025

Company Overview

Gem Aromatics Ltd. is a manufacturer of specialty ingredients, including essential oils, aroma chemicals and value-added derivatives. The company offers 70 products across four categories, namely, mint and mint derivatives; clove and clove derivatives; phenol and other synthetic & natural ingredients. Products manufactured by the company are used across a broad spectrum of industries such as oral care, cosmetics, nutraceuticals, pharmaceuticals, wellness & pain management and personal care. The company has a strong presence in essential oil-based products and derivatives that are manufactured from mint, clove, eucalyptus oils and other essential oils. The diversified product range helps cater to a wide range of customers and drive brand equity, given the fragmented nature of the F&F (Flavour & Fragrance) market. The company has an in-house R&D team comprising 13 scientists, which helps in the development of new formulations as well as product and process improvements to achieve better quality and efficacy for its existing products. The company has several marquee Indian and global clients and enjoys long-standing relationships. In FY25, the company supplied products to 225 customers domestically and 44 customers cumulatively across 18 foreign countries, covering geographies including the Americas, Asia, Africa and Australia. The process of being inducted as an F&F supplier involves various assessments, including product composition, quality control, quality certifications, and an established track record, which acts as a major entry barrier for new players. Gem Aromatics' long-term relationships with customers provide revenue visibility and cross-selling opportunities for existing and future product suites. The company has three manufacturing facilities strategically located across India in Uttar Pradesh (Budaun facility), Silvassa, Dadra and Nagar Haveli (Silvassa facility) and Dahej, Gujarat (Dahej facility).

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Repayment and / or pre-payment, in full or part, of certain borrowings availed by the company;
- ⇒ General corporate purposes.

Investment Rationale

Dominant player in India's essential oils and derivatives market

The company is strategically positioned to benefit from the structural growth in the flavours and fragrances (F&F) industry, backed by its dominant presence in essential oils and derivatives. With over two decades of operations, it has built leadership in key categories such as mint, clove, and eucalyptus oils, where it enjoys significant market share of 65% in Eugenol, 58% in Eucalyptus oil, and 12% in DMO as on FY25. Its scale in procurement (one of the largest buyers of Piperita oil) and processing capabilities make it a critical supplier within India's highly consolidated essential oils segment. The Indian F&F market, valued at USD 2.7 billion in 2025e, is projected to expand at a CAGR of ~9% to USD 4.1 billion by 2030, with essential oils expected to lead growth at an 8.8% CAGR as they are perceived as natural, environmentally friendly, and without any adverse effect on health. The company is well-placed to capture this opportunity given its presence in three of the four largest essential oil categories - mint, clove, and eucalyptus. Importantly, demand in India is also supported by unique end-uses such as incense sticks, which create a steady base for single aroma products. On the global front, the F&F industry remains concentrated, with large multinationals like Firmenich, Givaudan, Symrise, and IFF together holding over 60% market share. The company already supplies essential oils and derivatives to these global majors and other leading ingredient houses, positioning it as a key part of their value chain. Gem Aromatics' leadership in niche essential oil segments, diversified product portfolio, and strong linkages with global F&F majors is expected to translate into sustained revenue visibility, margin stability, and market share gains.

Wide product range along with continuous product development backed by strong R&D-led innovation

The company offers a wide and differentiated portfolio of ~70 products as of March 31, 2025, spanning four categories, such as mint and derivatives, clove and derivatives, phenol, and other synthetic

Issue Details

Offer Period	19 th August, 2025 - 21 st August, 2025
Price Band	Rs. 309 to Rs. 325
Bid Lot	46
Listing	BSE, NSE
Issue Size (no. of shares in mn)	13.80
Issue Size (Rs. in bn)	4.51
Face Value (Rs.)	2

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Motilal Oswal Investment Advisors Limited.
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Registrar	KFin Technologies Limited.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	75.00	55.06
Public	25.00	44.94
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

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and natural ingredients, enabling it to serve a broad spectrum of customer needs across price points. It has also expanded into new product categories such as citral, supported by ongoing capacity expansion at its Dahej facility and the establishment of advanced R&D and pilot plant infrastructure. This infrastructure will ensure a smooth transition from pilot trials to full-scale production, allowing to meet growing demand while maintaining quality and efficiency. The company offers a diversified portfolio across mother ingredients and value-added derivatives, enabling it to cater to a broad demand spectrum in a fragmented market. Its breadth of products across categories and price points reduces dependence on any single demand driver, strengthens customer relationships, and enhances brand equity. This diversification positions the company well to capture future growth opportunities, expand its addressable market, and adapt to evolving customer requirements. The company's in-house R&D team, with expertise in complex chemistries and advanced process technologies, has enabled it to consistently launch new products, improve process efficiencies, and integrate both forward and backward across the value chain. Notably, the company has successfully achieved forward integration in menthol (cooling agents) and guaiacol (Eugenol derivatives), while also developing backward integration through in-house catalyst manufacturing, ensuring cost competitiveness, process control, and quality consistency. These capabilities position the company as a reliable supplier with a holistic product offering and also as an innovation-led manufacturer with sustainable competitive advantages. With growing demand for natural and value-added ingredients, its breadth of portfolio, ability to scale innovations from lab to commercial production, and continuous expansion into high-value segments leave it well-placed to capture incremental market share and drive long-term growth.

Valuation

Gem Aromatics Ltd. is an established manufacturer of specialty ingredients, including essential oils, aroma chemicals, and value-added derivatives, with a proven track record of over two decades. Leveraging its brand recall, operational expertise, and broad product portfolio, the company has achieved leadership positions across several categories, with a dominant presence in essential oil-based products and derivatives derived from mint, clove, eucalyptus, and other oils. The company has built a diversified basket of 70 products across four categories - mint and derivatives, clove and derivatives, phenol, and other synthetic and natural ingredients - making it a leading supplier in multiple product lines. The company has demonstrated a consistent focus on diversification, having expanded from mint into clove derivatives in 2009, and is now scaling into high-value categories such as citral. This progressive diversification broadens its addressable market and strengthens customer stickiness, reduces dependence on any single product line, and positions Gem Aromatics to capture incremental growth opportunities in the structurally expanding flavours and fragrances industry. On the financial front, the company has delivered healthy CAGR growth over FY23–25, with Revenue/EBITDA/PAT CAGR of 8.9%/15.6%/9.3%, supported by ~200 bps improvement in EBITDA margins. Capacity has also expanded during this period, and ongoing investments at the Dahej facility, along with portfolio expansion into high-value citral-based products such as safranal and damascene, are expected to drive sustainable growth. Overall, we believe that the company's leadership position in the F&F market, product diversification, strengthened distribution network and margin-accretive expansion plans provide long-term growth visibility for the business. **On the upper price band, the issue is valued at a P/E of 28.5x based on FY25 earnings, which seems fairly valued. We, thus, recommend a "SUBSCRIBE" rating for this issue.**

Key Risks

- ⇒ The company derived ~56% of revenues from the top 10 customers in FY25. Loss of any of these customers due to loss of contracts or inability to negotiate favourable terms, failure to meet their quality specification, or technological changes may adversely affect revenues and profitability.
- ⇒ The company has generated a significant part of its revenue from the sale of mint and mint derivatives in the product category in FY23-25. Any reduction in demand or usage of the mint and mint derivatives product category may impact the company's revenue and profitability.
- ⇒ The company has not entered into any long-term agreement with farmers/suppliers and typically sources such raw materials on a purchase order basis. Any failure by suppliers to meet obligations could adversely affect the business operations.

Gem Aromatics Ltd.

Income Statement (Rs. in millions)

Particulars	FY23	FY24	FY25
Revenue			
Revenue from Operations	4,248	4,525	5,040
Total Revenue	4,248	4,525	5,040
Expenses			
Cost of raw materials consumed	3,165	3,444	3,641
Purchases of stock-in-trade	-	-	-
Changes in inventories of stock-in-trade and finished goods	9	(33)	118
Employee benefit expenses	108	111	128
Other expenses	304	218	267
Total Operating Expenses	3,586	3,741	4,155
EBITDA	662	784	885
Depreciation and Amortization expenses	48	63	73
Other income	3	18	17
EBIT	617	739	828
Finance costs	56	63	81
Exceptional Item	-	-	-
PBT	561	676	747
Total tax	114	175	208
PAT	447	501	540
Diluted EPS	9.5	10.7	11.4

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY23	FY24	FY25
Cash Flow from operating activities	153	401	-249
Cash flow from investing activities	-144	-511	-925
Cash flow from financing activities	64	154	1,026
Net increase/(decrease) in cash and cash equivalents	74	44	-148
Cash and cash equivalents at the beginning of the period	32	114	159
Cash and cash equivalents at the end of the period	106	159	11

Source: RHP, BP Equities Research

Gem Aromatics Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY23	FY24	FY25
Assets			
Non-Current Assets			
Property, plant and equipment	263	403	433
Capital work in Progress	109	304	1,255
Right of Use assets	94	93	110
Intangible Assets	1	1	1
Financial Assets			
Investments	9	9	28
Other financial assets	30	33	42
Non-Current Tax Assets	0	0	0
Deferred tax assets (net)	7	12	19
Other non current assets	1	28	29
Total Non current assets	514	881	1,917
Current Assets			
Inventories	1,425	1,745	1,661
Trade Receivables	796	453	1,410
Cash and cash equivalents	106	159	11
Other Bank Balance	0	5	10
Others financial assets	3	138	1
Current tax assets	112	304	333
Other current assets	1	0	1
Total Current Assets	2,444	2,805	3,428
Total Assets	2,958	3,686	5,345
Equity and Liabilities			
Equity Share Capital	18	94	94
Other Equity	1,777	2,212	2,746
Total Equity	1,795	2,305	2,840
Financial Liabilities			
Borrowings	3	240	687
Lease Liabilities	5	3	21
Current Liabilities			
Financial Liabilities			
Borrowings	891	871	1,537
Lease Liabilities	3	5	4
Trade Payable	211	189	232
Other financial liabilities	33	6	10
Current tax liabilities	5	30	4
Provisions	1	1	1
Other current liabilities	10	35	9
Total Current Liabilities	1,155	1,137	1,798
Total liabilities	1,162	1,380	2,505
Total Equity and Liabilities	2,958	3,686	5,345

Source: RHP, BP Equities Research

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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