

The Issue	
Type of Issue	Units Aggregating upto Rs. Mn
Fresh Issue	6,270
Offer for Sale	1,810
<b>Total</b>	<b>8,080</b>
Issue Break-Up	
Reservation for	% of Issue
QIB	50%
Non-Institutional	15%
Retail	35%
<b>Total</b>	<b>100%</b>
Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	24th May, 2022
Bid/Offer Closing Date	26th May, 2022
Basis of Allotment Date	31st May, 2022
Initiation of refunds	01st June, 2022
Listing Date	03rd June, 2022
Use of Proceeds	
Funding capital expenditure requirements for the Proposed Greenfield Project; Funding working capital requirements of the company; General Corporate Purpose	
General Information	
BRLMs	HDFC Bank, Kotak Mahindra Capital
Registrar	Link Intime India Pvt. Ltd.

## Global leader in specialty chemicals

### Executive Summary:

Incorporated in 2013, Aether is a speciality chemical manufacturer in India focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemistry and technology core competencies. Aether is one of the fastest growing specialty chemical companies in India, CAGR of ~49.5% between FY19 and FY21. Aether has 8 chemistry competencies to use for their wide array of products, which enables them 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 their R&D team.

Aether has 3 business models under which they operate: (1) Large scale manufacturing of their own intermediates and speciality chemicals (~70% of Sales); (2) Contract research and manufacturing services (CRAMS) (~7% of Sales); and (3) Contract/exclusive manufacturing (~23% of sales). Aether is among the few Indian specialty chemical companies to have successfully launched these 3 separate business models in just 5 years into commercial manufacturing. Aether's product portfolio comprised over 25 products. In CY2020, they were the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol, and the largest manufacturer in the world by volume for 4MEP, T2E, NODG and HEEP.

### Valuation and View:

Aether is the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol and is the largest manufacturer in the world by volume for 4MEP, T2E, NODG and HEEP in CY2020. The company's products have applications across a wide spectrum of uses in the pharmaceutical, agrochemicals, material science, coatings, high-performance photography, additives, and oil & gas industries. Further, company enjoys B2B relationships of 5 years with 7 out of its top 10 customers. The company's long-term relationships and ongoing active engagements with customers allow it to plan its capex and enhance its bargaining power with vendors. These stable customer relationships also helped to expand the product offerings and geographic reach across the globe.

At the upper price band of Rs. 642, the stock is offered at a PE of 72.3x on FY22E EPS respectively on post issue basis, which is in line when compared to its peers (i.e, Clean Science and Technology Ltd – 100.8x, Navin Fluorine International Limited Ltd- 73.9x and Vinati Organics Ltd – 74.9x). Considering the growth opportunities for specialty chemicals in pharma & agrochemicals space and improving prospects for contractual manufacturing & CRAMS under Make-in-India initiatives. **We thus assign a Subscribe rating to the issue.**

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## Peers Comparison

### Key Financial Parameters

Key financials (FY21 INR Mn)	Revenue	EBITDA margin	PAT margin	ROE	EPS	P/E
<b>Aether Industries Ltd</b>	<b>4,498</b>	<b>24.9%</b>	<b>15.7%</b>	<b>40.8%</b>	<b>7.4</b>	<b>86.7*</b>
Clean Science and Technology Ltd	5,120	50.8%	38.7%	36.7%	18.6	83.1
Navin Fluorine International Limited	11,790	26.2%	21.9%	15.7%	52.0	73.9
Vinati Organics Limited	9,540	37.0%	28.2%	17.4%	26.2	74.9
PI Industries Limited	45,770	22.2%	16.1%	13.8%	49.8	55.6
Fine Organic Industries Limited	11,330	17.5%	10.6%	16.4%	39.2	112.1

Note: \*At upper price band as on FY21

### Aether Industries Ltd key Financial Summary

Financial summary (Rs Mn)	FY19	FY20	FY21	9MFY22
Revenue	2,012	3,018	4,498	4,425
EBITDA	475	718	1,122	1,260
EBITDA margin (%)	23.6%	23.8%	24.9%	28.5%
PAT	233	400	711	829
Adj EPS (Rs.)	2.5	4.2	7.4	7.5

### Pre-issue and post-issue

Shareholding pattern	Pre-issue (%)	Post-issue* (%)
Promoter & Promoters Group	96.96%	87.09%
Public	3.04%	12.91%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Company Overview (1/3)

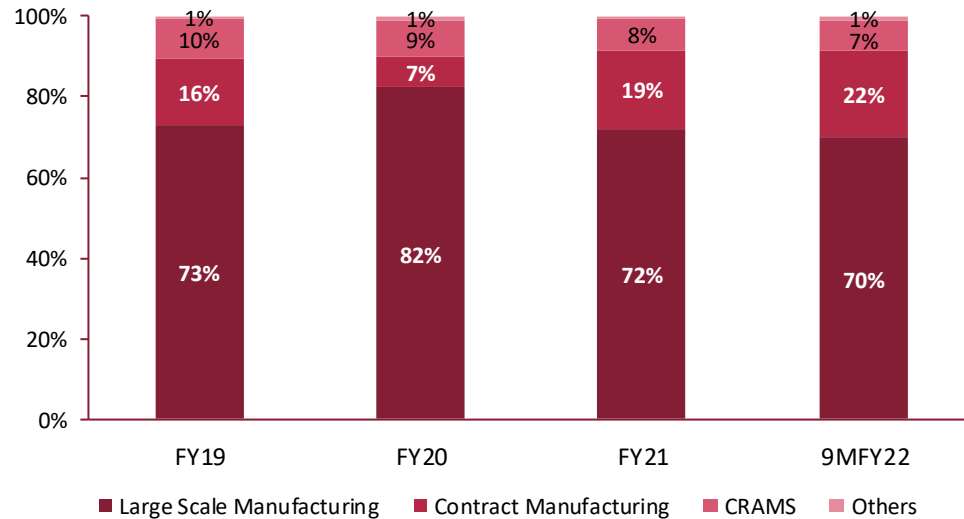
Aether has 2 sites at Sachin in Surat (Gujarat, India). Their Manufacturing Facility 1 is an approximately 3,500 sq.mtr facility including the R&D Facilities, the analytical sciences laboratories, the Pilot Plant, the CRAMS facility and the hydrogenation facility. Their Manufacturing Facility 2 spans ~10,500 sq.mtr acts as a large scale manufacturing facility. Both the facilities are in close proximity to the Hazira Port and JNPT Port, which helps them save freight costs for the exports. Their operations at Manufacturing Facility-2 have ISO and Indian GMP certification. In August 2021, they commenced construction of a new 3rd manufacturing facility at Sachin, and they are in discussion with relevant authorities for acquiring land for the 4th manufacturing facility at Sachin.

### Capacity and capacity utilisation

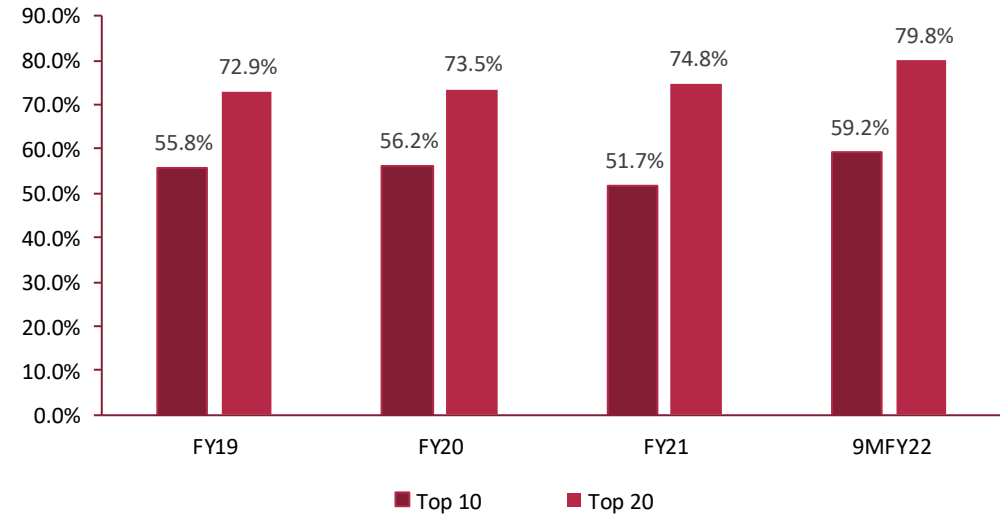
Plant (in MT)	FY19			FY20			FY21			9MFY22		
	Installed Capacity	Actual Production	Utilization (%)	Installed Capacity	Actual Production	Utilization (%)	Installed Capacity	Actual Production	Utilization (%)	Installed Capacity	Actual Production	Utilization (%)
<b>Intermediate Building 1</b>												
Stream 1	360	332	92.2%	480	449	93.5%	480	452	94.2%	480	355	98.6%
Stream 2	360	301	83.7%	360	293	81.5%	420	413	98.2%	420	260	82.5%
Stream 3	660	617	93.5%	660	424	64.3%	900	543	60.3%	900	655	97.1%
Stream 4	336	187	55.5%	336	209	62.2%	336	259	77.1%	336	220	87.1%
Stream 5	150	143	95.3%	150	122	81.5%	240	220	91.8%	240	175	97.4%
Streams 6 +7	360	137	38.0%	420	386	92.0%	480	422	87.8%	480	243	67.5%
Stream 8	354	257	72.5%	354	275	77.6%	384	328	85.4%	384	274	95.3%
Stream 9	180	72	40.1%	180	30	16.7%	252	140	55.5%	252	137	72.4%
Stream 10	192	82	42.7%	192	94	49.0%	192	102	53.1%	192	74	51.2%
<b>Total (A)</b>	<b>2,952</b>	<b>2127</b>	<b>72.1%</b>	<b>3,132</b>	<b>2283</b>	<b>72.9%</b>	<b>3,684.00</b>	<b>2878</b>	<b>78.1%</b>	<b>3,684</b>	<b>2,393</b>	<b>86.6%</b>
<b>Intermediate Building 2</b>												
Stream 1				576	197	68.4%	576	422	73.3%	576	364	84.3%
Stream 2				420	81	38.7%	420	252	60.0%	420	188	59.8%
<b>Total (B)</b>				<b>996</b>	<b>278</b>	<b>55.9%</b>	<b>996</b>	<b>674</b>	<b>67.7%</b>	<b>996</b>	<b>552</b>	<b>74.0%</b>
<b>Intermediate Building 3</b>												
Stream 1							660	161	97.5%	660	487	98.4%
Stream 2							312	0	0%	312	106	45.5%
Stream 3							84	0	0%	84	3	4.9%
Stream 4							360	0	0%	360	0	0%
<b>Total ©</b>							<b>1,416</b>	<b>161</b>	<b>45.4%</b>	<b>1,416</b>	<b>597</b>	<b>56.2%</b>
<b>Total (A+B+C)</b>	<b>2952</b>	<b>2127</b>	<b>72.1%</b>	<b>4,128</b>	<b>2,561</b>	<b>70.6%</b>	<b>6096</b>	<b>3713</b>	<b>73.8%</b>	<b>6,096</b>	<b>3542</b>	<b>77.5%</b>
<b>Solvent Recovery Plant (6)</b>							13140	1599	73.0%	13140	7651	77.6%

## Company Overview (2/3)

### Revenue by Business Segment



### Revenue from Customer



### External Revenue by Product Line

Product Line	FY19	FY20	FY21	9MFY22
4'-Methyl-2-Cyanobiphenyl (OTBN)	2%	29%	15%	5%
4-(2-Methoxyethyl) Phenol (4MEP)	25%	22%	23%	34%
Thiophene-2-Ethanol (T2E)	19%	13%	16%	13%
1-Deoxy-1-(Octylamino)-D-Glucitol (NODG)	11%	9%	7%	4%
3-Methoxy-2-Methylbenzoyl Chloride (MMBC)	0%	7%	17%	12%
1-[2-(2-Hydroxyethoxy)Ethyl]Piperazine (HEEP)	0%	4%	4%	4%
2-Methoxy-6-Chlorotoluene (MCT)	0%	1%	4%	3%
BFA	0%	0%	0%	9%
Other Products	42%	15%	13%	17%

### Revenue By Geography/Region

Geography	FY19	FY20	FY21	9MFY22
India (domestic sales)	50%	50%	44%	37%
India (deemed exports)	4%	8%	5%	14%
India (SEZ sales)	8%	12%	8%	6%
Italy	0%	5%	16%	9%
Spain	5%	6%	9%	11%
Germany	7%	3%	5%	6%
Rest of Europe	2%	6%	3%	7%
United States	4%	4%	5%	4%
Taiwan	0%	0%	1%	1%
Mexico	2%	2%	1%	2%
China	0%	2%	1%	1%
Japan	1%	1%	1%	1%
Rest of the world	17%	1%	1%	1%

## Company Product Portfolio

Product	Industry Application	Company Global Market Position	Company India Market Position	Launch Month / Year	Volume Sold in FY21	Volume CAGR FY19 to FY21	Revenue FY21 in Mn
4-(2-Methoxyethyl) Phenol (4MEP)	Metoprolol Succinate / Metoprolol Ttrate	Largest manufacturer in the world (with 28% market share in CY2020)	Only manufacturer in India	Dec-16	612	44.2%	944
3-Methoxy-2-Methylbenzoyl Chloride (MMBC)	Methoxy fenozide	2nd largest manufacturer in the world (with 14% market share in CY2020)	Only manufacturer in India	Sep-19	238	NA	695
Thiophene-2-Ethanol (T2E)	Clopidogrel, Ticlopidine APIs	Largest manufacturer in the world (with 50% market share in CY2020)	Only manufacturer in India	May-17	420	20.2%	682
4'-Methyl-2-Cyanobiphenyl (OTBN)	Valsartan, Telmisartan, Olmesartan, Losartan, Candisartan APIs	Market share of 8% in CY2020	Only manufacturer in India	Dec-18	405	291.5%	621
1-Deoxy-1-(Octylamino)-D-Glucitol (NODG)	Naproxen, Dexketoprofen APIs	Largest manufacturer in the world (with 46% market share in CY2020)	Only manufacturer in India	Jul-15	452	23.2%	290
1-[2-(2-Hydroxyethoxy) Ethyl]Piperazine (HEEP)	Quetiapine, Hydroxyzine APIs	Largest manufacturer in the world (with 34% market share in CY2020)	One of 3 major manufacturers, only manufacturer in India to be back integrated into key raw material	May-18	156	53.1%	182
Delta-Valerolactone (DVL)	Coating additive, speciality monomer, electronic chemical	2nd largest manufacturer in the world (with 13% market share in CY2020)	Only manufacturer in India	Sep-16	112.41	46.2%	124.8
Bifenthrin Alcohol (BFA)	Bifenthrin	Negligible	Only manufacturer in India	Aug-21	NA	NA	NA

## Company Customer base

### Revenue by Customer Segment:

Customer Segment	FY19		FY20		FY21		9MFY22	
	Rs Mn	% of Revenue	Rs Mn	% of Revenue	Rs Mn	% of Revenue	Rs Mn	% of Revenue
Pharmaceutical	1,253	62.3%	2,455	81.3%	3,042	67.6%	2,771	62.6%
Agrochemicals	447	22.2%	258	8.5%	927	20.6%	1,018	23.0%
Material Science	95	4.7%	46	1.5%	196	4.4%	188	4.3%
High Performance Photo	12	0.6%	58	1.9%	126	2.8%	171	3.9%
Coatings	66	3.3%	1	0.0%	125	2.8%	154	3.5%
Multiple Use	44	2.2%	139	4.6%	57	1.3%	28	0.6%
Food Additives	1	0.1%	2	0.1%	1	0.0%	0	0.0%
Oil & Gas	66	3.3%	27	0.9%	0	0.0%	54	1.2%
Other	29	1.5%	34	1.1%	26	0.6%	42	1.0%
<b>Total Revenue</b>	<b>2,012</b>	<b>100.0%</b>	<b>3,018</b>	<b>100.0%</b>	<b>4,498</b>	<b>100.0%</b>	<b>4,425</b>	<b>100.0%</b>

**Diversified Customer Base:** Company's customers include over 160 multinational, global, regional and local companies. As of March 31, 2022, their product portfolio was sold to over 34 global customers in 18 countries and to over 154 domestic customers. Selected examples of their clientele are provided below:

### AETHER's Key customer base – Domestic & Global

<b>Pharmaceutical</b>  Dr.Reddy's                   	<b>Oil and Gas</b>  <b>High performance photography</b>  <b>Material Science / Coatings</b>   	<b>Textiles</b>  <b>Other Sectors</b>    
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## Key Strengths (1/2)

### Differentiated portfolio of market-leading products

Aether's products have applications across a wide spectrum of uses in the pharmaceutical, agrochemicals, material science, coatings, high performance photography, additives and oil & gas industries. They are focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemistry and technology core competencies.

**The complexity of their products relative to commodity chemicals and regular specialty chemicals is as below:**

Parameter	Commodity Chemicals	Regular Specialty Chemicals	Aether Specialty Chemicals
Blended Price	Rs 200-300 per kg	Rs 400-700 per kg	Rs 1,440.85 per kg
Steps in the manufacturing process	2-Jan	3-Feb	10-Apr
No. of stages remaining until active ingredients are produced	n-10 and upwards	n-6 till n-9	n-1 till n-6

Aether has achieved these market positions by developing differentiated processes with the use of their core competencies of chemistry and technology, which helped them to optimize the use of conventional raw materials, improve atom economy, enhance yields, reduce effluent discharge, and increase cost competitiveness. Based on the technical expertise they have developed over the years, they are able to carry out these processes for their products at global scale capacities. In CY2020, they were the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol, and they were the largest manufacturers in the world by volume for 4MEP, T2E, NODG and HEEP. They have emerged as one the biggest competition and threats to the Chinese specialty chemical companies for these products and the Chinese customers are dependent on Aether for supplying these products.

### Focus on R&D to leverage core competencies of chemistry and technology

The foundation of Aether is their in-house research and development capabilities. Their strategic investments in R&D have been critical to their success and a differentiating factor for them to attain leading market positions for certain products. Based on the technical expertise they have developed over the years, they are able to carry out innovative processes at global scale, which is difficult to replicate, and creates significant barriers for new entrants. Their chemistry and technology core competencies and all of their products have been developed by their own R&D team, scaled up in their Pilot Plant, and launched into production with in-house design and engineering. Their R&D laboratories are fitted with modern synthesis equipment and are supplemented with modern analytical method development (ADL) and quality control (QC) laboratories equipped with the entire suite of equipment necessary for modern organic chemistry research.

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## Key Strengths (2/2)

### Long standing relationships with a diversified customer base

Company's Top-10 customers contributed ~55.7% and ~56.2%, and their Top-20 customers contributed 72.9% and 73.5%, for 9MFY22 and FY21 respectively. They enjoy relationships in excess of 5 years with 7 out of Top-10 customers. Their customer engagements are dependent on the company delivering quality products consistently. Due to the resources involved in engaging with new suppliers, customers are less inclined to pursue alternate supply sources. This provides Aether with an advantage over new entrants that would need to make significant investments and endure a long gestation period with potential customers in order to effectively compete. In fact, in the past 3 financial years, facilities were audited 57 times by 43 customers. Additionally, their CRAMS business model also enables their dialogue and discussions with the top technical teams and leadership of their customers, leading to additional projects and products across their 3 business models.

### Automated manufacturing facilities utilizing advanced technologies and systems

Aether has innovated the manufacturing process or product recipe for most of their products, thus making themselves as a leader in many of their products. Additionally, their manufacturing facilities utilize DCS (distributed control system) for process automation. Their Pilot Plant and CRAMS operations use a Siemens PCS7 DCS and their manufacturing facilities use a Yokogawa Centum VP DCS. The automation brings reliability, reproducibility of product quality, reduces overhead costs, and brings inherent safety by mitigating exposure to human error and industrial accidents. They have procured various certifications for their operations such as ISO 9001: 2015, ISO 14001:2015, ISO 45001:2018, ISMS 27001:2013 and Indian GMP.

**Contract Research and Manufacturing Services (CRAMS):** The CRAMS business is the services that their customers outsource to them and include: Contract research; Pilot scale-up services; Contract manufacturing; Full time equivalent (FTE) services; Technology development; and Process development.

Their CRAMS customers work jointly with their scientists and engineers, and the company executes their projects in their R&D Facilities, analytical sciences laboratories, and their Pilot Plant. Molecules developed in their CRAMS business for their customers have the potential to convert into regular commercial supplies and become large scale manufacturing products for them. Aether also manufactures their 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.

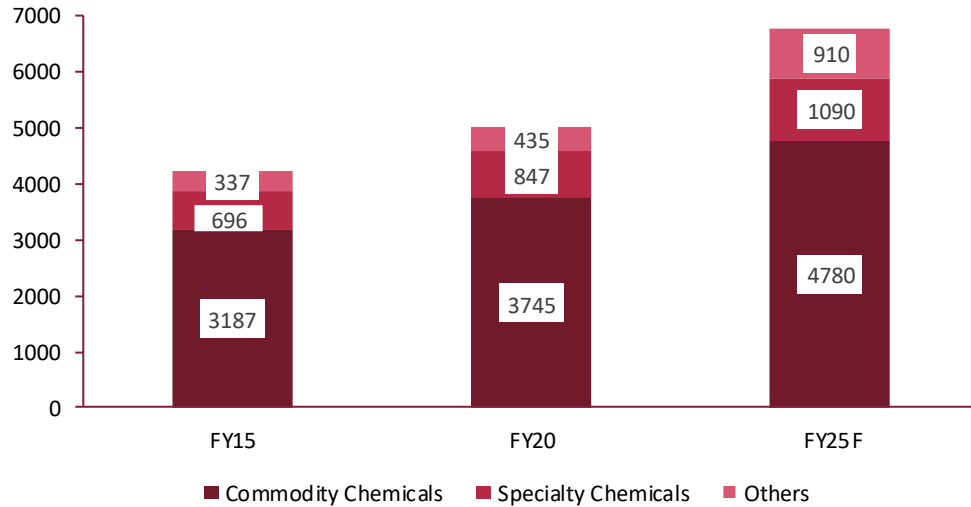
### Strong and consistent financial performance

In the short period of 9 years of incorporation and 5 years into commercial manufacturing, Aether as reached revenue of over Rs 4.5bn in FY21. They have built their business organically and have demonstrated consistent growth in terms of revenues and profitability. They are one of the fastest growing specialty chemical companies in India, growing at a CAGR of nearly 49.5% between FY19 and FY21. Their revenue from operations has increased at a CAGR of 49.5% from Rs 2.01 Bn in FY19 to Rs 4.5 bn in FY21.

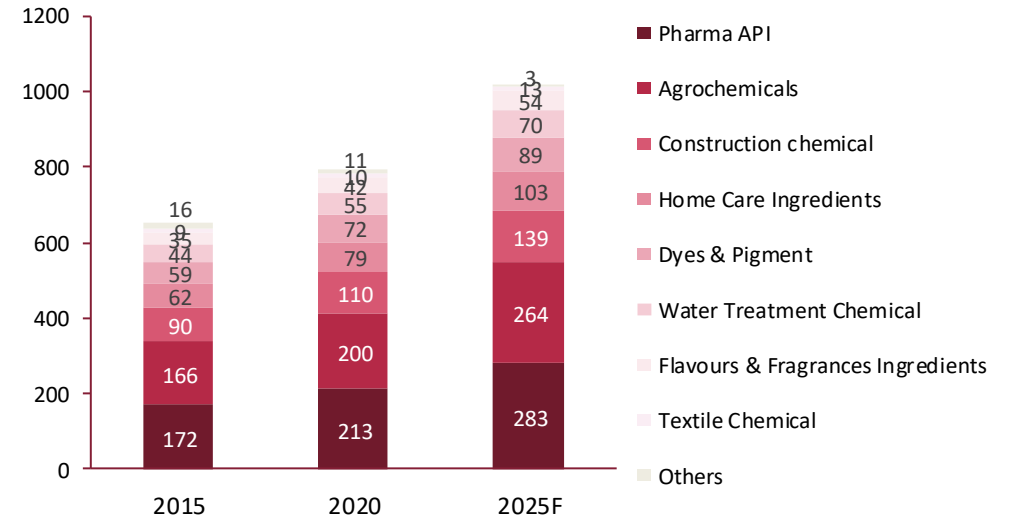


# Chemical Market (1/3)

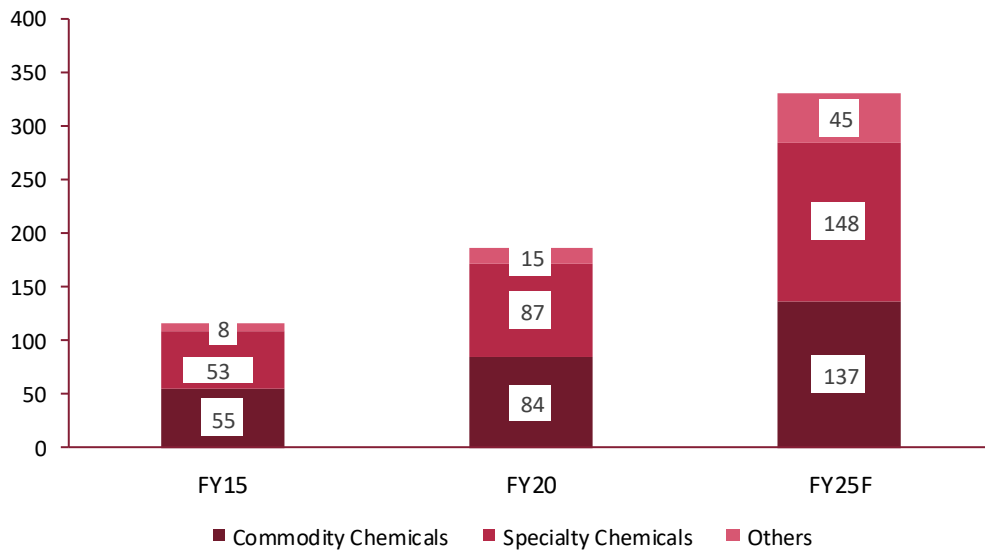
### Global Chemicals Market (US\$ Bn)



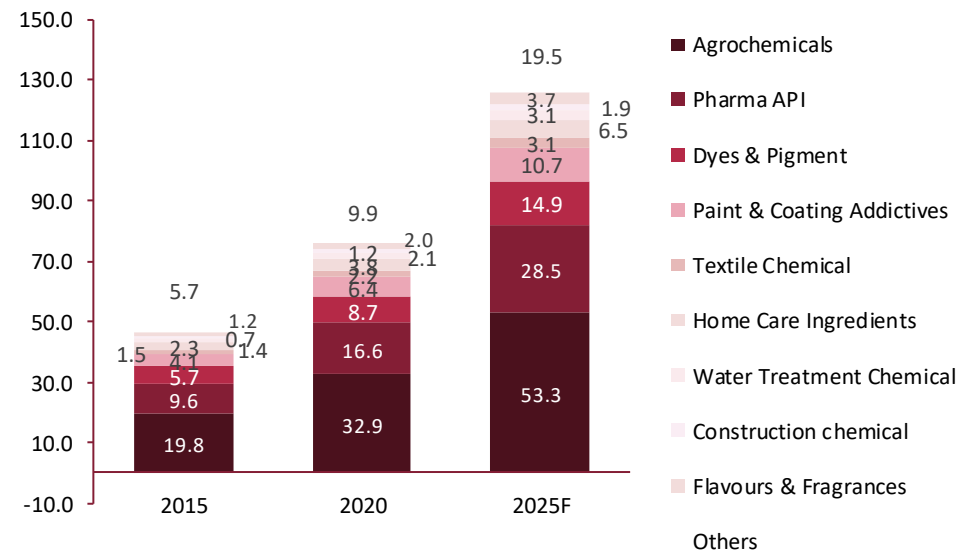
### Value of global specialty chemicals market (US\$ Bn)



### Indian Chemicals Market (US\$ Bn)

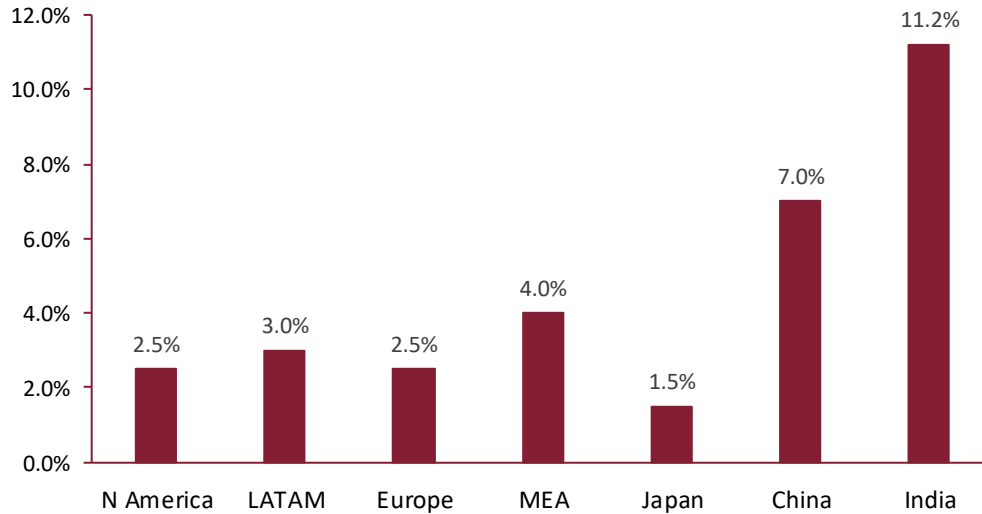


### Value of Indian Specialty Chemicals Market (US\$ Bn)

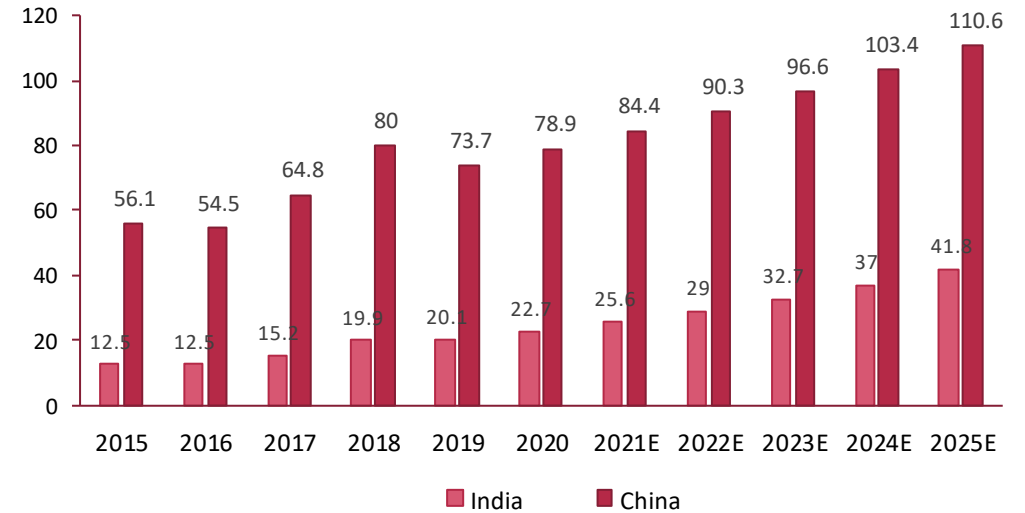


## Chemical Market (2/3)

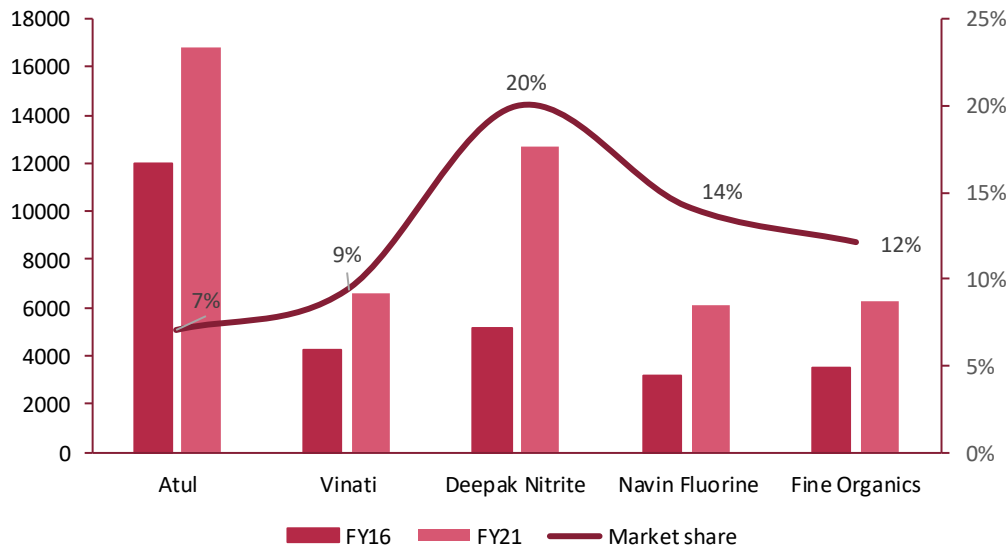
### Region-wise Specialty Chemicals % Growth, (2020-25)



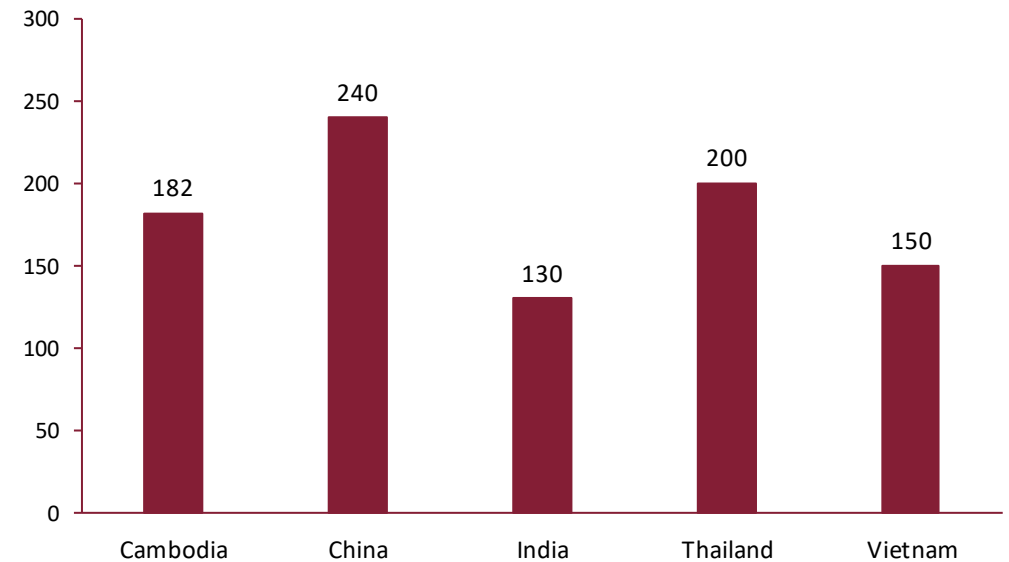
### Value of global specialty chemicals market (US\$ Bn)



### Export by Indian Specialty Chemicals (in Rs. Mn) export share in FY21

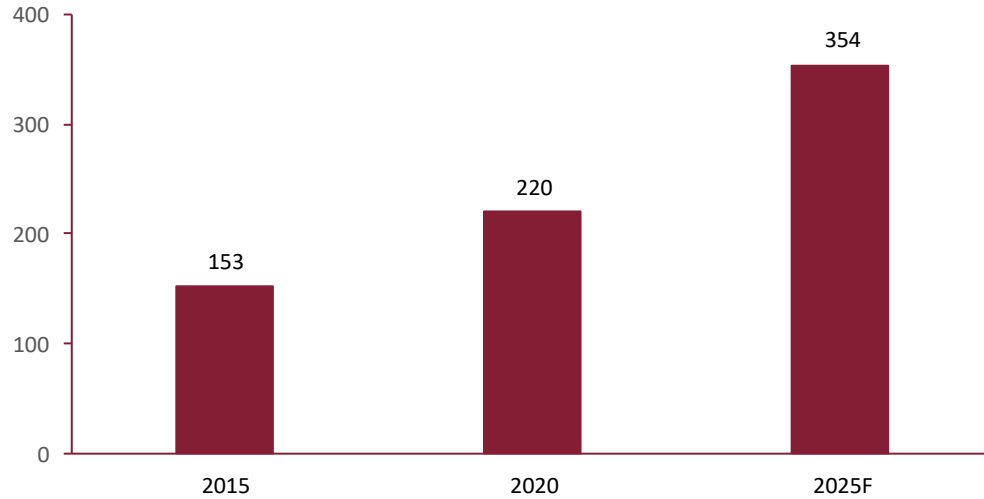


### Low Cost of Skilled Labour in India to support chemical exports (US(\$)) 2019

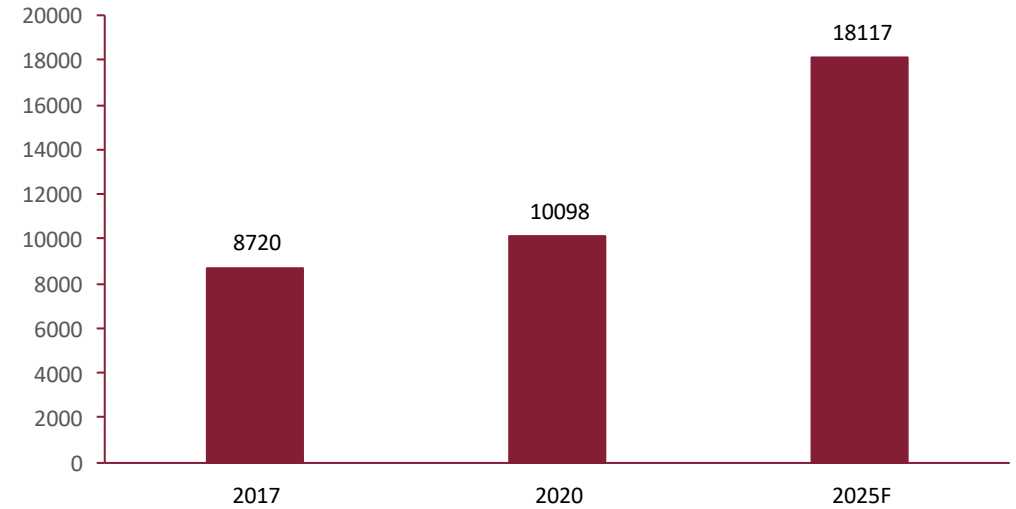


## Chemical Market (3/3)

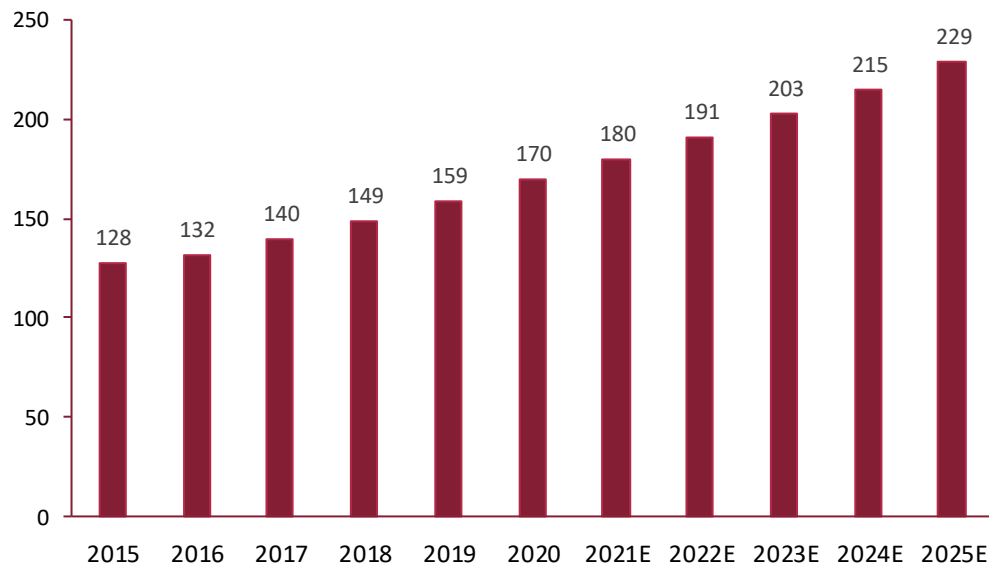
**Value of the global CRAMS industry (USD \$ Bn)**



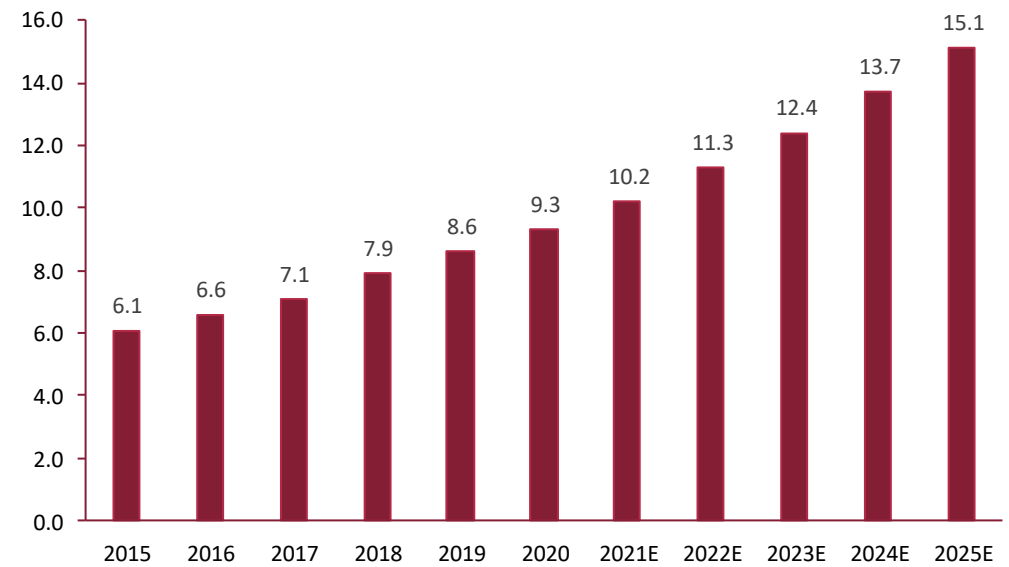
**India CRAMS market (US\$ million)**



**Global API, Industry size (US\$ billion)**



**Indian API Industry size (US\$ billion)**



## Key Risks

### **Dependence on key customer is more**

Revenues generated from sales to top 10 customers represented 51.7% and 59.2% of revenue from operations in FY21 and in 9MFY22, respectively. The loss of one or more of these significant customers or a significant decrease in business from any such key customer may materially and adversely affect business, results of operations and financial condition

### **Failure to comply with the quality standards and technical specifications**

Given the nature of the products, customers have high standards for product quality as well as delivery schedules. Adherence to quality standards is a critical factor in manufacturing process as any defects in the products manufactured by the Company or failure to comply with the technical specifications of customers may lead to cancellation of the orders placed by customers. Further, any failure to make timely deliveries of products in the desired quantity as per customers' requirements could also result in the cancellation of orders placed by customers and may adversely affect reputation and goodwill.

### **Dependence on key sector is more**

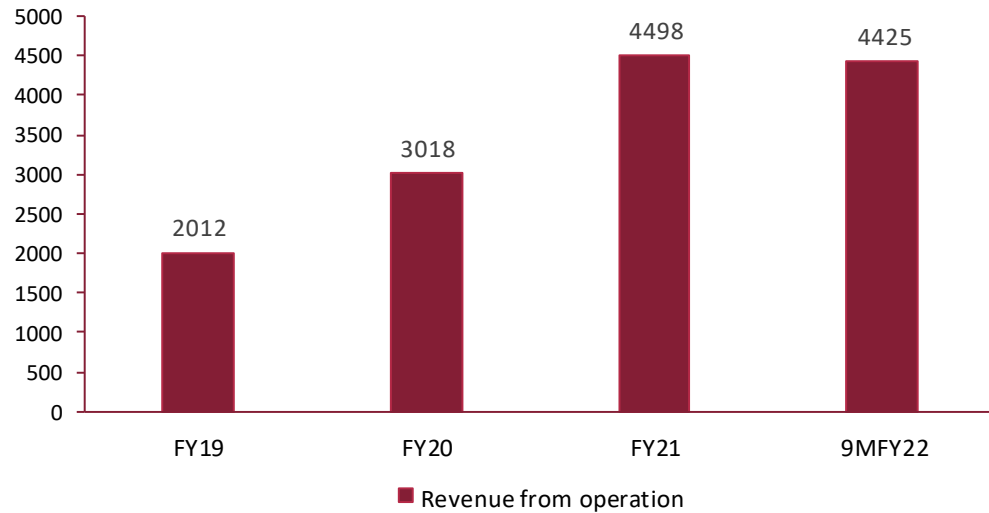
The company's business depends on the demand from the global pharmaceutical and Agrochemical industry for a significant portion of its revenue. Any downturn in the global pharmaceutical or Agrochemical industry could adversely affect business performance.

### **Any Disturbance in Manufacturing process impacts business operations:**

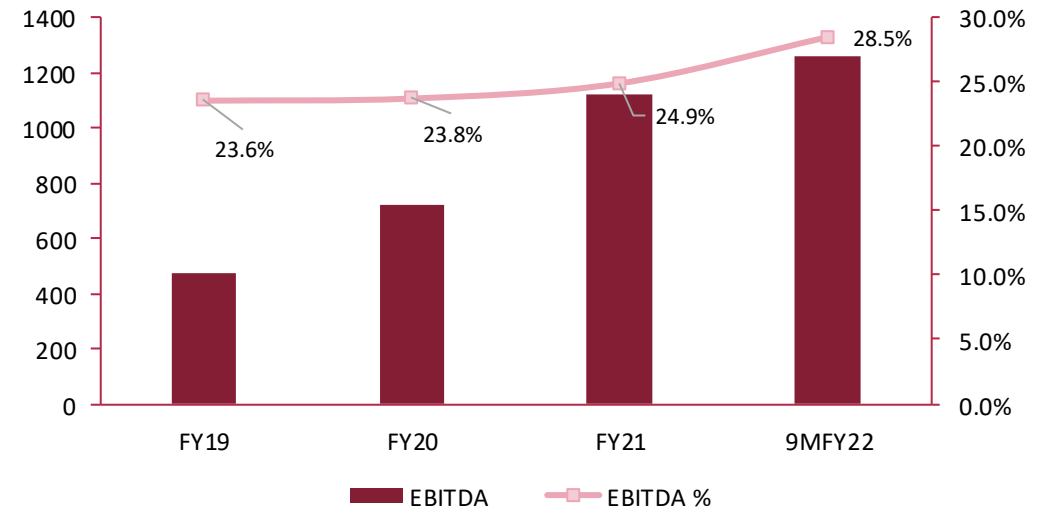
The Company's business is dependent and will continue to depend on manufacturing facilities, and the company is subject to certain risks in manufacturing process. Any slowdown or shutdown in manufacturing operations or strikes, work stoppages or increased wage demands by employees that could interfere with operations could have an adverse effect on business, financial condition and results of operations.

# Financials

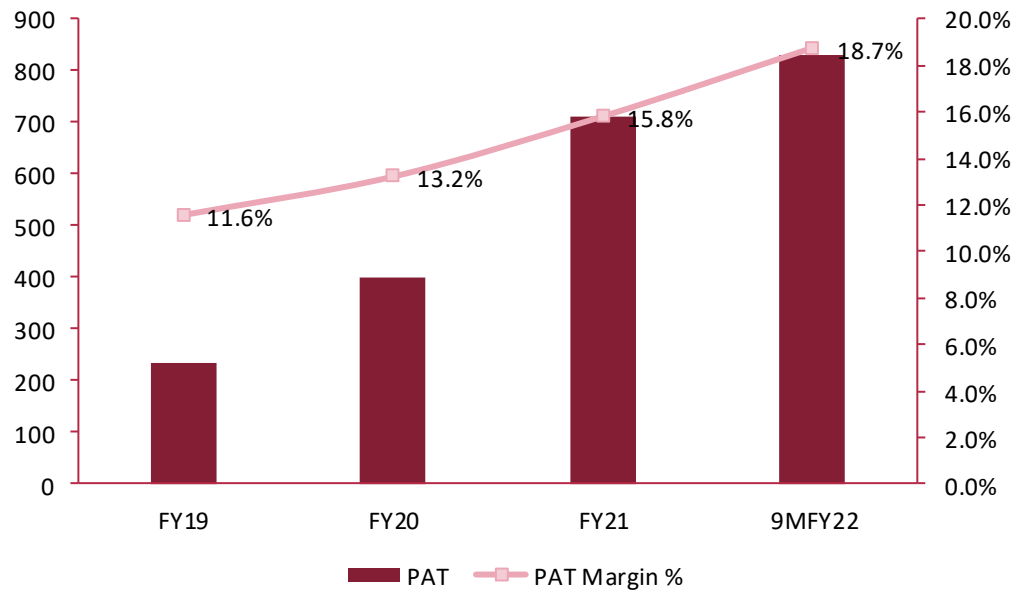
### Aether Industries Ltd Revenue trend (Rs. Mn)



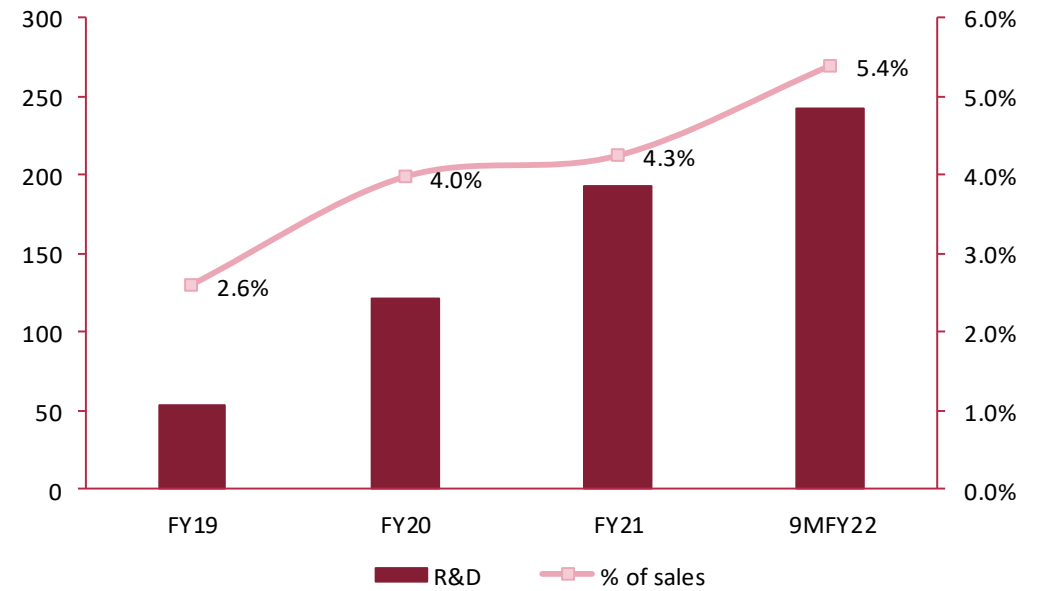
### EBITDA (Rs. Mn) & EBITDA Margins (%)



### PAT (Rs. Mn) & PAT Margins (%)



### Consistently rising R&D Expenditure



## DISCLOSURE

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## DISCLOSURE

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