

Rating: Avoid

Issue Offer

Fresh Issue of 97,66,355 equity shares upto INR 627Cr and OFS of 28,19,938 shares by Promoters group taking the total issue size at INR 808.04 cr

Issue Summary

Price Band (INR)	610-642
Face Value (INR)	10
Implied Market Cap (INR Cr)	7,992
Market Lot	23
Issue Opens on	May, 24, 2022
Issue Close on	May, 26, 2022
No. of share pre-issue	11,47,16,318
No. of share post issue	12,44,82,673
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≤ 50
NIB Portion	≥15
Retail Portion	≥35

Book Running Lead Managers

HDFC Bank
Kotak Mahindra Capital

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	97.0%	87.1%
Public & Others	3.0%	12.9%

Objects of the issue

- 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

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Aether Industries Ltd was incorporated in 2013, it's a manufacturer of speciality chemicals. The chemical products are 4-(2-Methoxyethyl) Phenol (4MEP), Thiophene-2-Ethanol (T2E), Ortho Toly Benzo Nitrile (OTBN), 3-Methoxy-2-Methylbenzoyl Chloride (MMBC), Delta Valerolactone, N-Octyl-D-Glucamine and Bifenthrin. The company is doing large scale manufacturing of speciality chemicals and intermediates, contract research and manufacturing services. The company has two manufacturing facilities at Sachin in Surat, Gujarat. The facility I is a 3,500 sq meter facility including Hydrogenation, Pilot plants and R&D facilities. The facility II is a 10,500 sq meter facility including three buildings, 16 production streams having capacity of 6,096 MT as on Q3FY22. The company has 25 products in portfolios which are sold to 34 global companies in 18 countries and to over 154 domestic companies.

Investment Rationale

Differentiated portfolio of market-leading products: The company focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemicals and technology core competencies. The company products have applications at various sectors such as agrochemicals, material science, coatings, pharmaceutical, additives and oil & gas industries.

Focus on R&D to leverage core competencies of chemistry and technology: The company has developed technical expertise over the years. The products have been developed by the R&D team, scaled up pilot plant and launched into production with in-house design and engineering. The innovation, research strength and expertise in chemistries and technologies has allowed to support end use industries.

Long standing relationship with a diversified customer base: The company has sold its products to 34 global customers in 18 countries, 154 domestic customers. The customers are Indian pharma companies like Aarti Drugs, Divis Lab etc; Agro chemical companies like UPL, Deccan Fine Chemicals and other companies in various industries.

Synergistic business models focused on large scale manufacturing, CRAMS and Contract manufacturing: The company has three business models 1) large scale manufacturing of intermediates and speciality chemicals; 2) CRAMS; 3) Contract/exclusive manufacturing. These business models have synergies and benefits for the company as well as customers. The increase in production through contract manufacturing business allows to benefit from larger scale production and negotiating better prices with suppliers.

Valuation and View

Aether Industries Ltd has witnessed strong revenue growth (49.5% CAGR) from FY19-FY21, strategically located plants, diversified and differentiated product portfolios, long standing relationship customers, focus on R&D, capacity expansion, experienced management and expanding network would lead the business growth going forward. At the upper band of INR 642, the issue is valued at a EV/EBITDA of 60x based on FY21 EBITDA. We are expecting post listing investors would get at discounted prices. We are recommending "Avoid" for this issue.

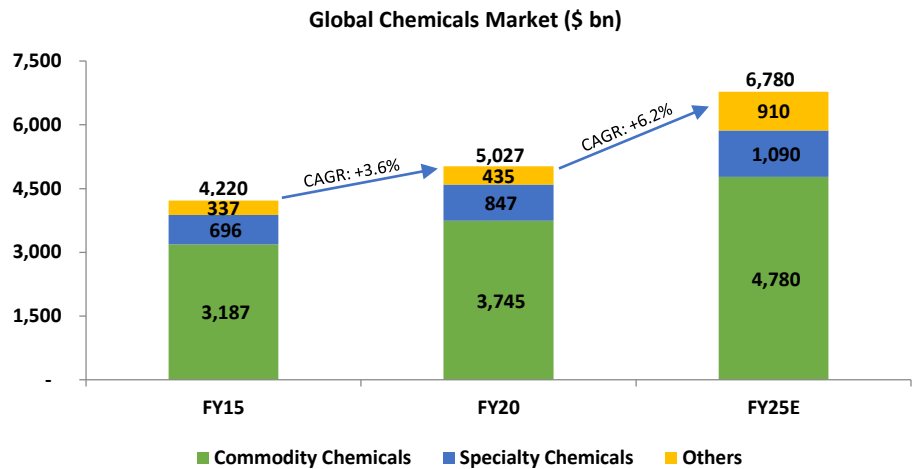
Industry Overview

Global Chemicals Market

The Global chemical markets was valued at US\$ 5,027 bn in FY20. China has higher market share (39%), followed by EU (15%), US (13%). India has 4% market share in the global chemicals market. The global chemical markets is expected to grow at a CAGR 6.2% from US\$ 5,027 bn to reach US\$ 6,780 bn by FY25E. The Asia pacific chemicals markets is expected to grow at a faster rate of 7% to 8%, while Western Europe, North America and Japan are expected to grow at a slower rate of 3% to 4%.

The rapid industrialisation in India and china is expected to drive demand for speciality chemicals. Asia pacific chemical markets are dominated with 42% market share supported by increasing industrial production, huge customer base and robust growth in construction sector.

Exhibit 1: Global Chemical Market is expected to grow at a CAGR 6.2% (FY20-FY25E)

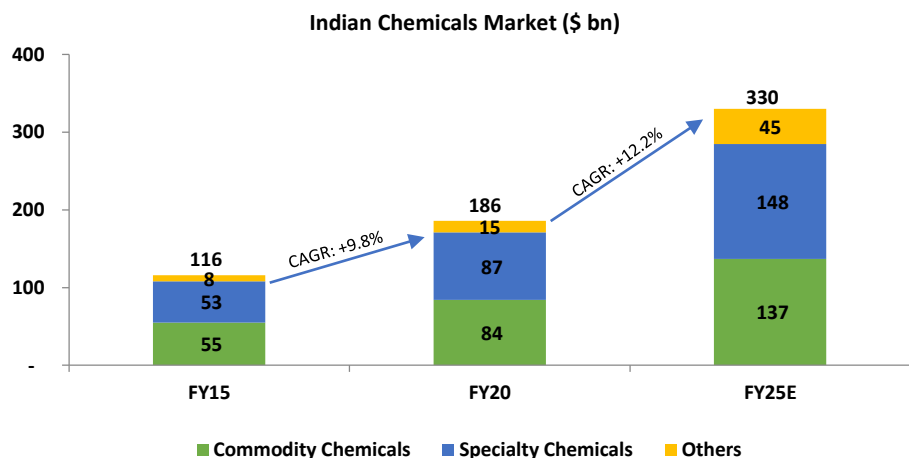


RHP, Arihant Capital Research

Indian Chemicals Market

Indian chemicals industry contributed ~6.6% of national GDP and accounted for 15% to 17% of value in manufacturing sector. Indian chemicals industry was valued at US\$ 186 bn in FY20 and estimated to grow at a CAGR 12.2% to reach US\$ 330 bn by FY25E. The increase in capex and R&D, rise on green chemicals, demand from pharma sectors, make in India initiative are the key triggers for the industry.

Exhibit 2: Indian Chemical Market is expected to grow at a CAGR 12.2% (FY20-FY25E)



RHP, Arihant Capital Research

Business Overview

Aether Industries Ltd was incorporated in 2013, it's a manufacturer of speciality chemicals. The chemical products are 4-(2-Methoxyethyl) Phenol (4MEP), Thiophene-2-Ethanol (T2E), Ortho Toly Benzo Nitrile (OTBN), 3-Methoxy-2-Methylbenzoyl Chloride (MMBC), Delta Valerolactone, N-Octyl-D-Glucamine and Bifenthrin.

The company is doing large scale manufacturing of speciality chemicals and intermediates, contract research and manufacturing services. The company has two manufacturing facilities at Sachin in Surat, Gujarat. The facility I is a 3,500 sq meter facility including Hydrogenation, Pilot plants and R&D facilities. The facility II is a 10,500 sq meter facility including three buildings, 16 production streams having capacity of 6,096 MT as on Q3FY22. The company has 25 products in portfolios which are sold to 34 global companies in 18 countries and to over 154 domestic companies.

Major Products	Application	Therapeutic or other use
4-(2-Methoxyethyl) Phenol (4MEP)	Metoprolol Succinate / Metoprolol Ttrate	Hypertension
N-Octyl-D-Glucamine / 1-Deoxy-1-(Octylamino)-D-Glucitol (NODG)	Naproxen, Dexketoprofen APIs	NSAID
Ortho Toly Benzo Nitrile / 4'-Methyl-2-Cyanobiphynyl (OTBN)	Valsartan, Telmisartan, Olmesartan, Losartan, Candisartan APIs	Hypertension
Thiophene-2-Ethanol (T2E)	Clopidogrel, Ticlopidine APIs	Anti-Platelet
1-2-(2Hydroxyethoxy) Ethyl Piperazine (HEEP)	Quetiapine, Hydroxyzine APIs	Anti-Psychotic Anti Histamine
Delta-Valerolactone (DVL)	Coating additive Monomer electronic chemical	Coatings
Bifenthrin Alcohol	Bifenthrin	Agrochemical

RHP, Arihant Capital Research

Revenue Split (%)

Exhibit 3: Customer Segment Revenue (%) – 9MFY22

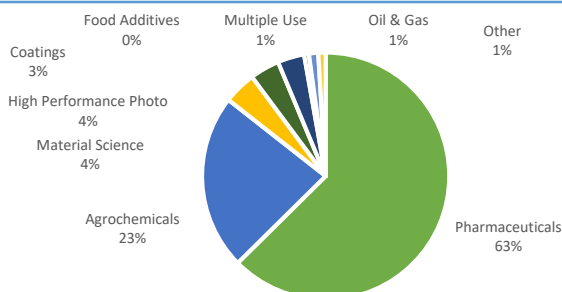
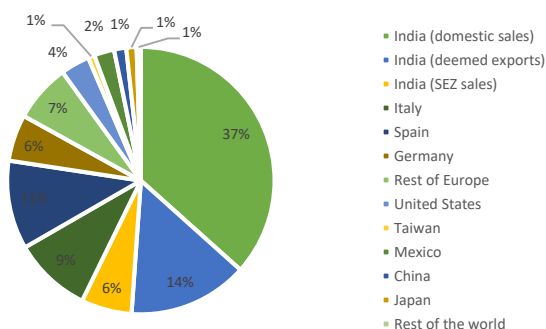


Exhibit 4: Geography Revenue (%) – 9MFY22



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Key Strengths	Details
Differentiated portfolio of market-leading products	The company focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemicals and technology core competencies. The company products have applications at various sectors such as agrochemicals, material science, coatings, pharmaceutical, additives and oil & gas industries.
Focus on R&D to leverage core competencies of chemistry and technology	The company has developed technical expertise over the years. The products have been developed by the R&D team, scaled up pilot plant and launched into production with in-house design and engineering. The innovation, research strength and expertise in chemistries and technologies has allowed to support end use industries.
Long standing relationship with a diversified customer base	The company has sold its products to 34 global customers in 18 countries, 154 domestic customers. The customers are Indian pharma companies like Aarti Drugs, Divis Lab etc; Agro chemical companies like UPL, Deccan Fine Chemicals and other companies in various industries.
Synergistic business models focused on large scale manufacturing, CRAMS and Contract manufacturing	The company has three business models 1) large scale manufacturing of intermediates and speciality chemicals; 2) CRAMS; 3) Contract/exclusive manufacturing. These business models have synergies and benefits for the company as well as customers. The increase in production through contract manufacturing business allows to benefit from larger scale production and negotiating better prices with suppliers.
Focus on Quality, Environment, Health and Safety (QEHS)	The company focused on sustainability by emphasizing on quality, environment, health and safety. The maintaining of high quality standard for products is critical to brand and continued growth. In manufacturing facilities, the company have put in place quality systems that covers all areas of processes from manufacturing, supply chain to product delivery to consistent quality and safety of products.

Source: Company, Arihant Capital Research

Key Strategies	Details
Leverage strong position in the speciality chemicals industry to capitalize on industry opportunities.	The company focused to introduce new products with varied applications across industries. The company aims to achieve this by leveraging existing R&D capabilities, as well as by evaluating strategic acquisition opportunities. The company also intend to capitalize on the growing demand for products by expanding manufacturing capacities and strengthening sales and distribution network in existing markets and gaining access to newer markets.
Expand Product Portfolio and diversify into additional business segments	The company continue to expand product portfolio both in line with existing new competencies, but also by adding new competencies. The company planned to invest INR 12.5cr towards R&D in the first years and increasing 30% to 35% in the next two years.
Expand Manufacturing, R&D and Pilot Plant Capacities.	The company is in the process of expanding manufacturing capacities for existing products including 4MEP and BFA. The company also intend to add manufacturing capacities for new product line that are in the process of developing and commercializing.
Continue to strengthen presence in India and expand sales and distribution network in international markets	The company's product portfolio catered to 34 global customers in 18 countries and 154 domestic customers. The company continued to increase the presence in India and international markets through expanding sales and distribution network. The company intend to focus on increasing wallet share with existing customers. The company have built long-standing relationship with customers through various strategic endeavors, which intend to leverage by selling baskets of products to the same customers. The company continue to leverage existing sales and marketing network, diversified product portfolios.
Continue to focus on contract manufacturing / exclusive manufacturing by developing innovative processes and value engineering	The company continuously looking to convert R&D (CRAMS) opportunities provided by clients into large-scale contract manufacturing projects. The company believe that by offering value engineering, developing innovative processes and undertaking core competency chemistries in contract manufacturing / exclusive manufacturing operations. This allows to enter into long-term contracts with customers that provide assured product off-take and better margins.
Growth through strategic acquisitions and alliances	The company will look for strategic acquisition targets in the US and EU for R&D and manufacturing assets that are in line with existing or desired competencies. The company focused on identifying acquisition targets that will benefit from management expertise, core competencies and the scale of operations.

Source: Company, Arihant Capital Research

Key Management

Personnel	Designation	Description
Ashwin Jayantilal Desai	Promoter and Managing Director	He holds a bachelor's degree in Chemical Engineering from ICT. He has been awarded the Distinguished Alumnus award by Indian Chemical Technology in 2010. He has multiple decades of experience in the speciality chemical industry. Prior to this company, he was the founding member of Anupam Rasayan India Ltd and was the Chairman and Managing Director of Anupam Rasayan India Ltd till 2013.
Dr. Aman Ashvin Desai	Whole Time Director	He has over 10 years of experience in the speciality chemicals industry. He is responsible for R&D, pilot plant, and production operations, new projects, and technical business development.
Rohan Ashwin Desai	Whole Time Director	He has a bachelor's degree from South Gujarat University of Commerce, Surat. He has extensive experience in the speciality chemical industry and looks after the entire commercial portfolio of the Company. Rohan Desai was previously a Director at Anupam Rasayan India Ltd until 2013.
Purnima Ashwin Desai	Whole Time Director	She has a bachelor's degree from the University of Delhi. She has multiple decades of experience in the speciality chemical industry, she leads the overall accounting and finance operations of the company. Previously, she was a Director at Anupam Rasayan India Ltd until 2013.

Source: Company, Arihant Capital Research

Key Risks

- The manufacturing operations involving hazardous which arises certain risks.
- The company derives a significant part of revenue from major customers and company do not have long term contracts with all of these customers. If one or more of such customers choose not to source their requirements from the company could affect profitability of the company.
- Non-compliance with changes in safety, health, environmental and labour laws and other applicable regulations may affect the business. In past, the company failed to make a regulatory filing in a timely manner with MCA under applicable law.
- The reliance on certain industries for a significant portion of sales could have an adverse effect on the business.
- The company is subject to strict quality requirements, regular inspections, audits by customers and any failure to comply with quality standards may lead to cancellation of existing and future orders and could negatively impact the business.
- The company facing competition from domestic and international markets. The company may not have the ability to compete in effective manner.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	9MFY22
Revenue	20.1	30.2	45.0	44.3
Net Raw Materials	11.0	15.6	23.1	21.5
Employee Cost	1.1	1.3	2.2	2.1
Other Expenses	3.3	6.1	8.5	8.0
EBITDA	4.8	7.2	11.2	12.6
EBITDA Margin (%)	23.6%	23.8%	24.9%	28.5%
Depreciation	(0.6)	(0.8)	(1.1)	(1.1)
Interest expense	(1.1)	(0.9)	(1.1)	(1.0)
Other income	0.2	0.2	0.4	0.7
Profit before tax	3.3	5.7	9.4	11.1
Taxes	(0.9)	(1.7)	(2.3)	(2.8)
PAT	2.3	4.0	7.1	8.3
PAT Margin (%)	11.6%	13.2%	15.8%	18.7%
Other Comprehensive income	(0.0)	(0.0)	(0.0)	(0.0)
Net profit	2.3	4.0	7.1	8.3
EPS (INR)	2.7	4.6	7.0	7.3

Source: Company Reports, Aриhant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	9MFY22
Equity capital	0.9	0.9	1.0	11.3
Reserves	3.0	7.0	16.4	24.8
Net worth	3.9	7.8	17.4	36.0
Provisions	-	0.0	-	0.0
Debt	12.8	17.4	21.6	24.5
Other non-current liabilities	0.3	0.8	1.0	1.3
Total Liabilities	17.0	26.0	40.0	61.9
Fixed assets	9.9	12.1	20.6	23.9
Capital Work In Progress	0.1	1.7	0.0	0.6
Other Intangible assets	0.1	0.1	0.1	0.0
Investments	0.2	0.2	0.2	0.2
Other non current assets	0.8	1.2	1.0	4.5
Net working capital	5.8	10.3	15.3	25.9
Inventories	4.0	7.2	8.5	15.0
Sundry debtors	4.8	6.3	10.8	16.9
Loans & Advances	0.1	0.1	0.1	0.1
Other current assets	0.6	0.9	1.2	3.0
Sundry creditors	(2.3)	(3.8)	(4.8)	(8.6)
Other current liabilities & Prov	(1.4)	(0.2)	(0.5)	(0.5)
Cash	0.1	0.4	0.6	4.8
Other Financial Assets	0.0	0.0	2.3	1.9
Total Assets	17.0	26.0	40.0	61.9

Source: Company Reports, Aриhant Capital Research

9MFY22 – as on 31st Dec, 2021

Cashflow summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	9MFY22
Profit before tax	3.3	5.7	9.4	11.1
Depreciation	0.6	0.8	1.1	1.1
Tax paid	(0.9)	(1.7)	(2.3)	(2.8)
Working capital Δ	(5.8)	(4.5)	(4.9)	(10.6)
Operating cashflow	(2.8)	0.3	3.3	(1.2)
Capital expenditure	(10.6)	(4.6)	(8.0)	(5.0)
Free cash flow	(13.5)	(4.3)	(4.7)	(6.2)
Equity raised	1.5	(0.0)	2.5	10.3
Investments	(0.2)	(0.0)	0.0	(0.0)
Others	(0.8)	(0.4)	(2.1)	(3.1)
Debt financing/disposal	12.8	4.6	4.2	3.0
Other items	0.3	0.4	0.3	0.3
Net Δ in cash	0.1	0.2	0.2	4.3
Opening Cash Flow	-	0.1	0.4	0.6
Closing Cash Flow	0.1	0.4	0.6	4.8

Source: Company Reports, Aриhant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	9MFY22
Growth matrix (%)				
Revenue growth		50.0%	49.0%	-1.6%
Op profit growth		51.0%	56.3%	12.3%
Profitability ratios (%)				
RoCE	18.5%	22.2%	24.8%	18.1%
RoNW	60.5%	68.4%	56.3%	31.0%
RoA	13.7%	15.4%	17.8%	13.4%
Per share ratios (INR)				
EPS	2.7	4.6	7.0	7.3
Cash EPS	3.5	5.6	8.1	8.4
Book value per share	4.5	9.1	17.3	32.0
Valuation ratios (x)				
P/E	236	138	91	87
P/CEPS	185	115	79	77
P/B	143	70	37	20
EV/EBITDA	118	79	60	59
Liquidity ratios				
Debtor days	87	67	69	114
Inventory days	133	131	124	199
Creditor days	54	49	47	77
WC Days	166	149	147	236
Leverage ratios (x)				
Interest coverage	3.9	6.8	8.9	11.4
Net debt / equity	3.3	2.2	1.2	0.5

Source: Company Reports, Aриhant Capital Research

Story in Charts

Exhibit 5: Strong Revenue Growth - 49.5% CAGR (FY18 – FY21)

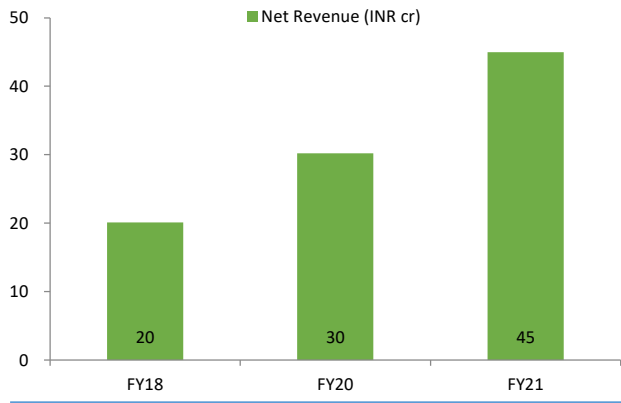


Exhibit 6: Gross Margins Improved

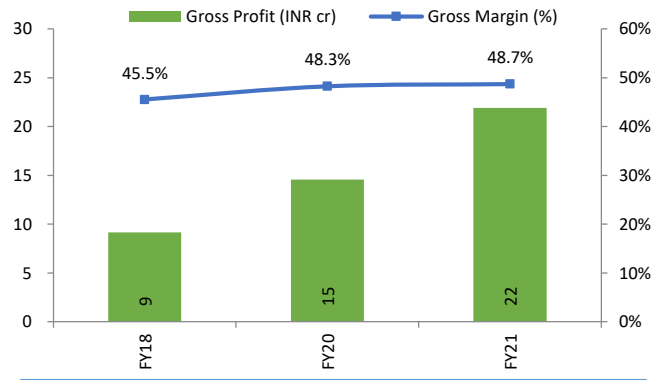


Exhibit 7: EBITDA and PAT Margins improved

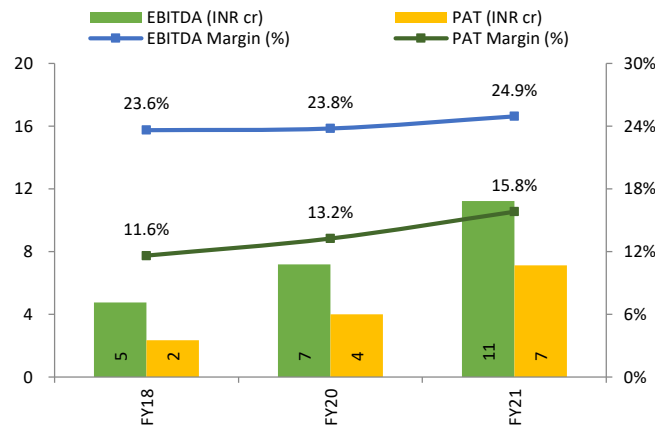


Exhibit 8: FCF were negative due to higher capex

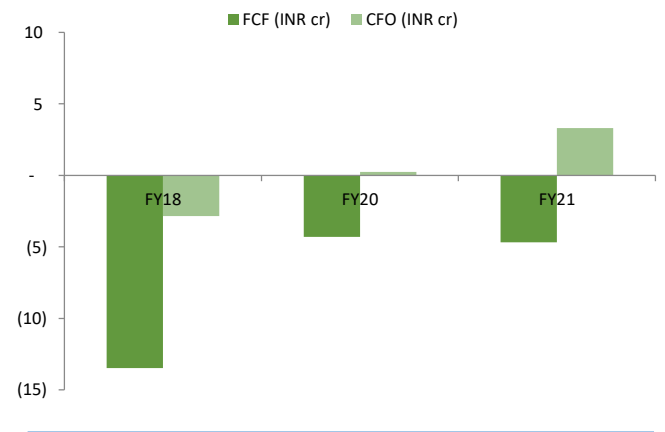


Exhibit 9: Return ratios improved

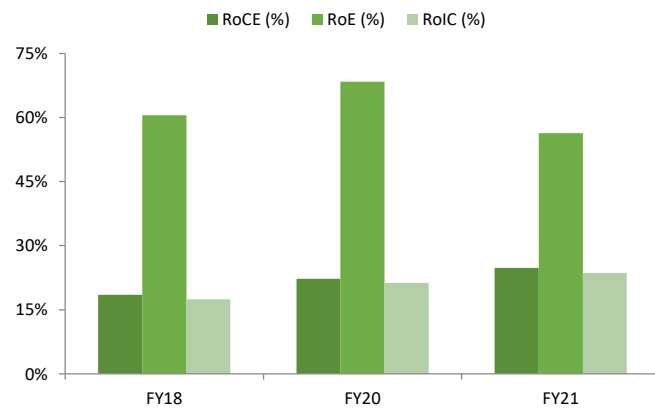
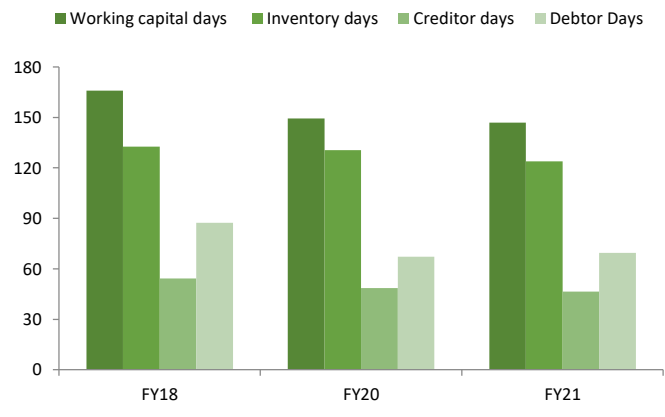


Exhibit 10: Working capital days reduced



Source: RHP, Company Reports, Aриhant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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