



## IPO Report

23<sup>rd</sup> May' 22

### Snapshot

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

### VALUATION

Company is bringing the issue at price band of Rs 610-642 per share at p/e multiple of 72x on post issue 9Months annualized PAT basis.

Company with its differentiated portfolio of market-leading products has focus on R&D to leverage its core competencies of chemistry and technology. Company has long standing relationships with a diversified customer base & with synergistic business models focused on large Scale Manufacturing, CRAMS and Contract Manufacturing .On financial front, company has shown strong and consistent financial performance . Company with its experienced promoters and senior management with extensive domain knowledge is looking decent avenue to deploy the funds in.

Hence we recommend “Subscribe” on issue.

<b>Price Band (Rs./Share)</b>	<b>610-642</b>
<b>Opening date of the issue</b>	<b>24<sup>th</sup> May 2022</b>
<b>Closing Date of the issue</b>	<b>26<sup>th</sup> May 2022</b>
<b>No of shares pre issue</b>	114,716,318 Eq Shares
<b>Issue Size</b>	Rs 799-Rs 808 Cr
<b>Offer For Sale</b>	28,20,000 Equity Shares
<b>Fresh Issue</b>	Rs 627 Cr
<b>Face Value (Rs/ share)</b>	10
<b>Bid Lot</b>	23

### BIDDING DETAILS

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 6,237,492 Eq Shares)
<b>Non-Institutional</b>	15% of the offer ( Approx 1,871,248 Eq Shares)
<b>Retail</b>	35 % of the offer ( Approx 4,366,245 Eq Shares)
<b>Employee Reservation</b>	111370 Equity Shares
<b>Lead managers</b>	HDFC Bank, Kotak Mahindra Capital
<b>Registrar to the issue</b>	Link Intime India Pvt. Ltd.

## WHAT WE LIKE

### Differentiated portfolio of market-leading products

Company is focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemistry and technology core competencies. 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. As of March 31, 2022, company's product portfolio comprised over 25 products which were marketed to 34 global customers in 18 countries and to 154 domestic customers.

### Long standing relationships with a diversified customer base

Company's customers include over 160 multinational, global, regional and local companies. As of March 31, 2022, company's product portfolio was sold to 34 global customers in 18 countries and to 154 domestic customer. Company enjoy relationships in excess of 5 years with 7 out of its top ten customers. Company's long-term relationships and ongoing active engagements with customers also allow to plan capital expenditure, enhance its ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base. These enduring customer relationships have helped expand company's product offerings and geographic reach.

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

Company's in-house development (without the support from any clients for R&D) showcases its innovation and research strength, and its expertise in a large range of chemistries and technologies has allowed company to support a number of end use industries. Examples of company's chemistry core competencies include Grignards, organolithium and other organometallic chemistry, ethylene oxide and isobutylene chemistry, hydrogenation, catalysis (homogeneous /heterogeneous), cross coupling chemistry and metathesis/polymerization chemistry.



## COMPANY BACKGROUND

Aether Industries organize its business based on three business models: (i) large scale manufacturing of its own speciality chemicals and intermediates, (ii) CRAMS (contract research and manufacturing services) and (iii) contract manufacturing/exclusive manufacturing. Company have eight chemistry competencies to use for its wide array of products, which enables to cater to niche and advanced intermediate requirements of a wider range of end-products and applications. All these competencies have been developed in-house, which is one of the core strengths of company's R&D team. 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.

As of March 31, 2022, company's product portfolio comprised over 25 products. In CY2020, company was the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol. Company was (i) the biggest manufacturer of 4MEP globally in terms of production volume and the only manufacturer of this product in India, (ii) the largest manufacturer of HEEP in India and globally in terms of production volume, (iii) the largest manufacturer of NODG globally in terms of production volume and the only manufacturer of this product in India and (iv) the biggest manufacturer of T2E globally in terms of production volume and the only manufacturer of this product in India.

Company is known to have strong market positioning in complex intermediates where global competition is intense. The average selling price of all company's products in Fiscal 2021 was ₹1,440.85 per kg. Company have been focused on developing high value products, which has resulted in the average selling price of all its products to grow by a CAGR of 6.8% between Fiscal 2016 and Fiscal 2021. Company's products find application in a number of therapeutic segments in the pharmaceuticals industry including hypertension, anti-platelet, anti-psychotic, anti-histamine and nonsteroidal anti-inflammatory drugs ("NSAIDs"). Company's products also find application in various other industries like agrochemicals, material science, coatings, high performance photography, additives and oil & gas. Most of company's advanced intermediates and speciality chemicals product portfolio was developed for the first time in India and constitute 100% import substitution, thus furthering the "Make in India" or "Atma-Nirbharta" campaigns of the Government of India. For example, 4MEP, T2E, MMBC, NODG, BFA, OTBN and DVL were 100% imported into India from China four years ago and now company is selling these products to Chinese customers. Company's sales of its advanced intermediates and speciality chemicals products are predominantly conducted on a business-to-business basis both in India and internationally. A majority of company's products are exported internationally, and company export products to 18 countries, including Italy, Spain, Germany, the United States and other parts of the world.

Company have a state-of-art Pilot Plant, which is a vital link between R&D and large scale production. Company have one of the largest pilot plants in the world with 106 reactors installed, for both batch as well as continuous reaction technology.

Company have two sites at Sachin in Surat (Gujarat, India). Its Manufacturing Facility 1 is an approximately 3,500 square meters facility including its R&D Facilities, its analytical sciences laboratories, its Pilot Plant, its CRAMS facility and its hydrogenation facility. Company's Manufacturing Facility 2 spans approximately 10,500 square meters and acts as a large scale manufacturing facility with an installed capacity of 6,096 MT per annum (for its solvent recovery plant ("SRP Plant"): 13,140 MT) distributed among three buildings that host 16 production streams (and one SRP Plant Stream), as of December 31, 2021. Company's capacity utilization was 77.47% (for SRP Plant: 77.64%) in the nine months ended December 31, 2021 and 73.75% (for SRP Plant: 72.99%) in Fiscal 2021

In addition to R&D and manufacturing of company's products (its first business model), company engage in contract research and manufacturing services (CRAMS, its second business model), which are the research and technology services that customers outsource to company and include contract research, pilot scale-up services, contract manufacturing, FTE services, technology development and process development and optimisation. Company's CRAMS customers work jointly with its scientists and engineers, and it execute their projects in its R&D Facilities, analytical sciences laboratories, and its Pilot Plant. Molecules developed in its CRAMS business for its customers have the potential to convert into regular commercial supplies and become large scale manufacturing products for Company. The CRAMS business model also enables its dialogue and discussions with the top technical teams and leadership (CTOs, technical directors and technical vice presidents) of its customers, opening up future contract manufacturing opportunities



## INVESTMENT RATIONALE

<p><i>Focus on Quality, Environment, Health and Safety (QEHS)</i></p>	<p>Company believe that maintaining a high standard of quality for its products is critical to company's brand and continued growth. Across its manufacturing facilities, company have put in place quality systems that cover all areas of company's business processes from manufacturing, supply chain to product delivery to ensure consistent quality, efficacy and safety of products. Company's products adhere to global quality standards. Company's random sampling check and quality check internally. Many of company's key customers have audited and approved its facilities and manufacturing processes in the past, which ensures that the regulator and company's customers are able to confirm the continuance of quality of its facility and processes. In the past three fiscal years, company's facilities were audited 57 times by 43 customers or their external consultants. In addition, company's facilities have received certificate of ISO 14001 for Environment and ISO 45001 for Occupational Safety and ISO 27000 certification. As of March 31, 2022, company 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).</p>
<p><i>Synergistic Business Models focused on Large Scale Manufacturing, CRAMS and Contract Manufacturing</i></p>	<p>Company's business models benefit from, and have synergies with, each other. As customers to which company sell its own intermediates and speciality chemicals are also target customers for company's CRAMS and contract manufacturing business models. Company's CRAMS business allows to work with innovative companies on cutting-edge new products with enhances company's own R&amp;D skill sets to develop its own products. Further, increasing company's production through its contract manufacturing business allows company to benefit from larger scale production and negotiating better prices with its suppliers ▪</p>
<p><i>Focus on R&amp;D to leverage its core competencies of chemistry and technology</i></p>	<p>The foundation of company is its in-house research and development capabilities. Company's strategic investments in R&amp;D have been critical to its success and a differentiating factor for company to attain leading market positions for certain products. Based on the technical expertise company have developed over the years, company is able to carry out innovative processes at global scale, which, is difficult to replicate, and creates significant barriers for new entrants.</p>



## OBJECTS OF OFFER

The Offer comprises the Offer for Sale and the Fresh Issue. The Fresh Issue comprises of up to ₹6,270.00 million by company and the Offer for Sale comprises of up to 2,820,000 Equity Shares.

### Fresh Issue

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

1. Prepayment or repayment of all or a portion of certain outstanding borrowings availed by company;
2. Funding capital expenditure requirements for company's manufacturing facility ("Proposed Greenfield Project");
3. Funding working capital requirements of company; and
4. General corporate purposes.

## RISKS

Company derive a significant part of its revenue from major customers and 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 company or to terminate company's long-term contracts, company's business, financial condition and results of operations may be adversely affected.

Source:RHP

## INDUSTRY OVERVIEW

### Key trends in the Indian chemicals industry

*Increase in capital expenditure by Indian chemicals companies* :Traditionally, low-cost labour and readily available raw material provided an edge to the Indian manufacturing companies. Increasingly, though, specialty chemicals companies are focusing beyond these traditional cost advantages. Product development capabilities have become progressively more important and are the key differentiator among various companies in the industry. The Indian chemicals industry has increased its capital expenditure over the past decade in order to be well equipped to capture future opportunities. According to the F&S Report, ₹95 billion was spent in fiscal 2020 by the 30 leading chemical companies in India on capital expenditure, as compared to ₹39 billion in fiscal 2010. In calendar year 2018, India's chemicals sector attributed 23.3% of its profit after tax to capital expenditure, whereas China's chemicals sector attributed 32.6 %. All other countries in the world attributed less than one-fifth of its profit after tax to capital expenditure in calendar year 2018. Capital expenditures are spent for capacity augmentation and/or product development by these leading chemicals companies.

*Increase in R&D by specialty chemicals companies*: Aggregate research and development (R&D) expenditure incurred by the 30 key leading global chemical companies has grown at a CAGR of 16% over fiscal 2010 to fiscal 2019, while their revenue has grown at a CAGR of 11% over the same period. In terms of absolute amount, ₹4.5 billion was spent by these companies on R&D in fiscal 2019, as compared to ₹1.1 billion in fiscal 2010. R&D expense as a percentage of revenue has remained stable in the range of 0.4-0.5% for these companies from fiscal 2015 to fiscal 2019. India's share in the aggregate R&D spending incurred over the globe by chemical companies has grown from 2.7% in calendar year 2008 to 3.3% in calendar year 2018.

*Increase in R&D by Indian pharmaceutical companies*: The Indian pharmaceutical industry, world's third largest in terms of volume and thirteen largest in terms of value, is also spending on R&D to keep up with the momentum. According to the F&S Report, on average, the Indian pharmaceutical companies tend to spend less than 11% of their annual turnover on R&D. Indian companies recognize the need of R&D spend and shall ramp up their expenditure on development and research to propel their growth and have strong positioning in market. Frost & Sullivan expects that more new product lines will be developed by Indian pharmaceutical companies with their increased R&D spend. In order to support these new product lines, the demand for purchase of raw materials and intermediates by these companies is expected to increase, providing a boost to the specialty chemicals industry.

*The rise of green chemicals* :The concept of green chemicals in India is evolving. The rising pollution and harm caused to water bodies owing to emission of harmful chemical effluents into water is leading to rise in concern of sustainability. The companies in India are still in the process of incorporating this new concept from raw materials to manufacturing activities. Major challenge to the adoption of these environmental friendly chemicals by service providers and consumers is the high initial cost of such products. However, even though green chemicals cost more at the initial stage, their usage over a period of time has shown a reduction in price by approximately 18-20%. Indian Government bodies such as the Department of Science and Technology, the Ministry of Chemicals and Fertilizers, and the Department of Pharmaceuticals, are beginning to establish various green chemistry initiatives and in some cases to partner with SMEs to partially fund investments in green technology

*Make in India initiative*: On May 12, 2020, the Government announced the Aatmanirbhar Bharat Abhiyan which combined relief, policy reforms and fiscal and monetary measures to help businesses and individuals to cope with the situation created by the pandemic and help transform India into a self-reliant economy. This campaign is especially expected to benefit the specialty chemicals sector, with several players hoping to position themselves as an alternative to China as the coronavirus crisis prompts companies to diversify their supply chains.



**(Rs in Mn)**

<b>Financials</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>As at 31 Dec'21</b>
Total Revenue (A)	2011.80	3018.06	4498.16	4425.44
Total Expenditure (B)	1536.73	2300.5	3376.57	3165.49
EBIDTA	475.07	717.56	1121.59	1259.95
EBIDTA Margin	23.61	23.78	24.93	28.47
Other Income	20.97	19.75	39.73	67.71
Depreciation	64.07	78.48	110.11	114.19
EBIT	431.97	658.83	1051.21	1213.47
Interest	106.00	93.76	113.15	100.35
PBT	325.97	565.07	938.06	1113.12
Tax	92.62	165.51	226.87	284.05
PAT	233.35	399.56	711.19	829.07
NPM	11.60	13.24	15.81	18.73
ROE %	60.54	51.04	40.79	23.01
EPS	27.26	46.68	70.42	7.36
Eq Cap	85.60	85.60	100.99	1,126.91
Net Worth	385.47	782.79	1743.35	3602.76

(Source: RHP)

## Peer Comparison

<b>Company Name</b>	<b>OPM%</b>	<b>ROE %</b>	<b>PE</b>	<b>PBV</b>
Clean Science	42.10	44.99	91.55	25.73
Fine Organic	17.58	18.02	79.92	16.20
Navin Fluorine	24.41	16.25	71.30	10.17
PI Industries	21.55	18.41	47.06	6.49
Vinati organics	26.87	19.08	62.42	11.84
<b>Aether</b>	<b>24.93</b>	<b>40.79</b>	<b>---</b>	<b>--</b>

(Source: Ace Equity database as on 20<sup>th</sup> May'22)





## DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.