

Aether Industries

Chemicals | India

IPO | 23 May 2022

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Core Competence Manufacturer of Specialty Chemicals

About the Company

Aether Industries (Aether) is a manufacturer of advanced intermediates and specialty chemicals and is India's sole producer of chemicals such as 4-2-Methoxyethyl Phenol (4MEP), 3-Methoxy-2-Methylbenzoyl Chloride (MMBC), Thiophene-2-Ethanol (T2E), Ortho Toly Benzo Nitrile (OTBN), N-Octyl-D-Glucamine, Delta-Valerolactone and Bifenthrin Alcohol. The company was incorporated in 2013 and its products receive traction from sectors like pharmaceutical, agrochemical, material science, coating, high performance photography, additive, and oil and gas segments of the chemical industry. Aether is coming out with an IPO of Rs8.1bn, comprising of a fresh issue of Rs6.3bn and an OFS of 2.8mn shares. The price band is at Rs610-Rs642, while the market cap is seen at Rs79.9bn at the higher band. The funds will be utilized in the repayment of borrowings, funding capex, working capital requirements and for general corporate purposes.

Diverse Portfolio with Domestic and Global Clientele

Aether is the largest manufacturer of 4MEP, T2E, NODG and HEEP products in the world by volume. Moreover, it is the fastest-growing specialty chemical companies in India, clocking a CAGR of ~60% during FY18-FY21. As of Mar'22, the company's product portfolio comprises of over 25 products that are sold to over 154 domestic companies and over 34 global companies in 18 countries.

Strategic Business Models

The company operates using 3 business models: Large-scale manufacturing of intermediates and specialty chemicals, Contract Research and Manufacturing Services (CRAMS) and Contract manufacturing. Aether has 2 manufacturing sites at Sachin in Surat, Gujarat, of which 1 is a 3,500mn sqft facility with R&D and hydrogenation facilities and a pilot plant. The other facility spans ~10,500mn sqft with an installed capacity of 6,096MTPA that is spread among 3 buildings and has 16 production streams as of 1HFY22. Aether's entire R&D, pilot plant, CRAMS, and large-scale manufacturing facilities are capable of switching between batch and the continuous process technology.

Financials in Brief

During FY19-FY21, its revenue clocked a CAGR of 67%, while EBITDA and PAT grew at a CAGR of 65% and 57%, respectively. For 9MFY22, the company's revenue rose by 32% YoY to Rs4.4bn, while EBITDA stood at Rs1.3bn. Margin expanded to 28.5% in 9MFY22, from the average margin of ~24% during FY19-FY21. Moreover, RoE stood at 40.8% in FY21, as against 51% in FY20 and 60.5% in FY19.

Our View

On FY22 annualized financials, the IPO is valued at 48.7x EV/EBITDA, 13.9x EV/Sales and 72x P/E. The company focuses on R&D to leverage the core competencies of chemistry and technology. **It has an experienced and talented promoter group with strong educational background and work experience with global giants like Dow Chemical. Company caters to diversified customer base in India and abroad. Due to the strong and sustained financial record, differentiated portfolio of market-leading products, global outreach, strong technology oriented product portfolio and its focus on QEHS (Quality, Environment, Health and Safety), we recommend SUBSCRIBE to the issue.**

IPO Details

Price Band (Rs)	610-642
Face Value (Rs)	10
Issue Open/Closing Date	24 May 22/26 May 22
Fresh Issues (mn)	9.8
OFS (mn)	2.8
Total Issue (mn)	12.6
Minimum Bid Qty. (Nos)	23
Issue Size (Rs bn)	8.1
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs bn)	79.9

**At a higher band*

Object of the Issue

- ▶ Prepayment of debt
- ▶ Funding capex requirements
- ▶ Funding WC requirements

Key Risk

- ▶ Inability to successfully implement business strategies in a timely manner
- ▶ Significant part of revenue from major customers and do not have long term contracts
- ▶ Depend on certain industries for a significant portion of sales
- ▶ Unable to develop new products and expansion
- ▶ Exchange rate fluctuations

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	97.0	87.1
Others	3.0	12.9

Key Financials

(Rs mn)	FY19	FY20	FY21
Revenue	2,012	3,018	4,498
EBITDA	475	718	1,122
EBITDA Margin (%)	23.6	23.8	24.9
PAT	233	400	711
PAT Margin (%)	11.6	13.2	15.8
EPS (Rs)	1.9	3.2	5.7
P/E (x)	342	200	112
EV/EBITDA (x)	170.9	113.7	73.1
EV/Sales (x)	40.3	27.0	18.2
Net Worth	385	783	1,743
RoE (%)	60.5	51.0	40.8
Gross Debt	1,261	1,705	2,082
Net Block	1,063	1,293	2,162
Net Asset Turnover (x)	1.9	2.3	2.1

Source: RHP

Research Analyst:

Arafat Saiyed

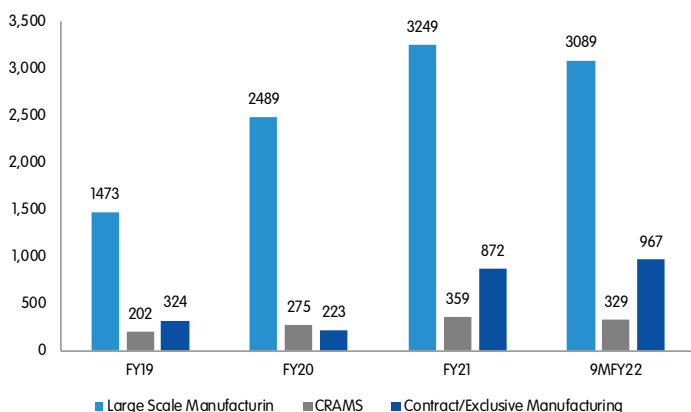
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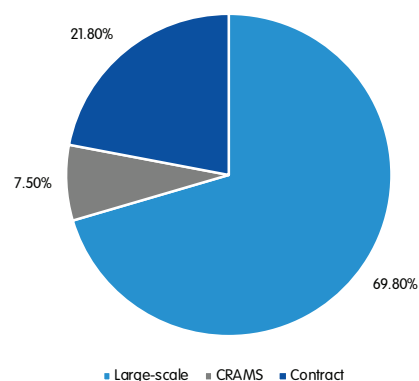
Exhibit 1: Differentiated Product Portfolio

Product	Launch Date	Industry Application	Company Global Market Position	Global Market Share (%)	Volume Produced (MT, FY21)	Volume CAGR (FY19-21) (%)	Revenue (FY21, Rsmn)
4MEP	Dec-16	Pharma - Metoprolol Succinate Metoprolol Tatarate	Largest manufacturer in world, only manufacturer in India	28	612	44.2	944
MMBC2	Sep-19	Agro - Methoxyfenozide	Second largest manufacturer in world, only manufacturer in India	14	238	NA	695
T2E	May-17	Pharma - Clopidogrel, Ticlopidine APIs	Largest manufacturer in world, only manufacturer in India	50	420	20.2	682
OTBN	Dec-18	Pharma - Valsartan, Telmisartan, Olmesartan, Losartan, Candisartan APIs	Only manufacturer in India	8	405	291.5	621
NODG	Jul-15	Pharma - Naproxen, Dexketoprofen APIs	Largest manufacturer in world, only manufacturer in India	46	452	23.2	290
HEEP	May-18	Pharma - Quetiapine, Hydroxyzine APIs	Largest manufacturer in world, only manufacturer in India back-integrated into key RM	34	156	53.1	182
DVL	Sep-16	Coating additive, Monomer, Electronic chemical	Second largest manufacturer in world, only manufacturer in India	13	112	46.2	125
BFA	Aug-21	Agro - Bifenthrin	Only manufacturer in India	Negligible	NA	NA	NA

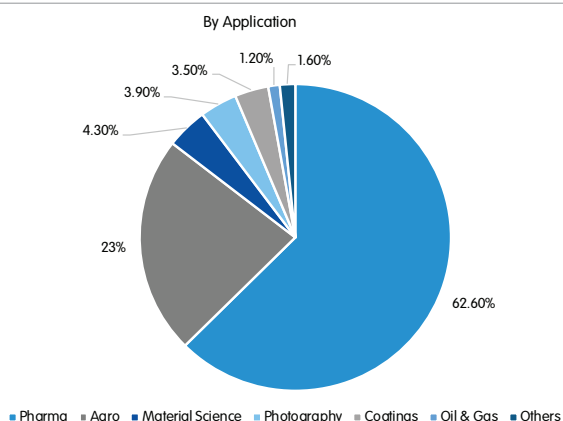
Source: RHP

Exhibit 2: Segmental Revenue Trend


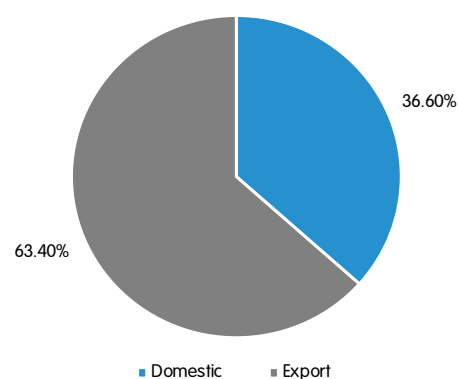
Source: RHP

Exhibit 3: Segmental Revenue Mix (9MFY22)


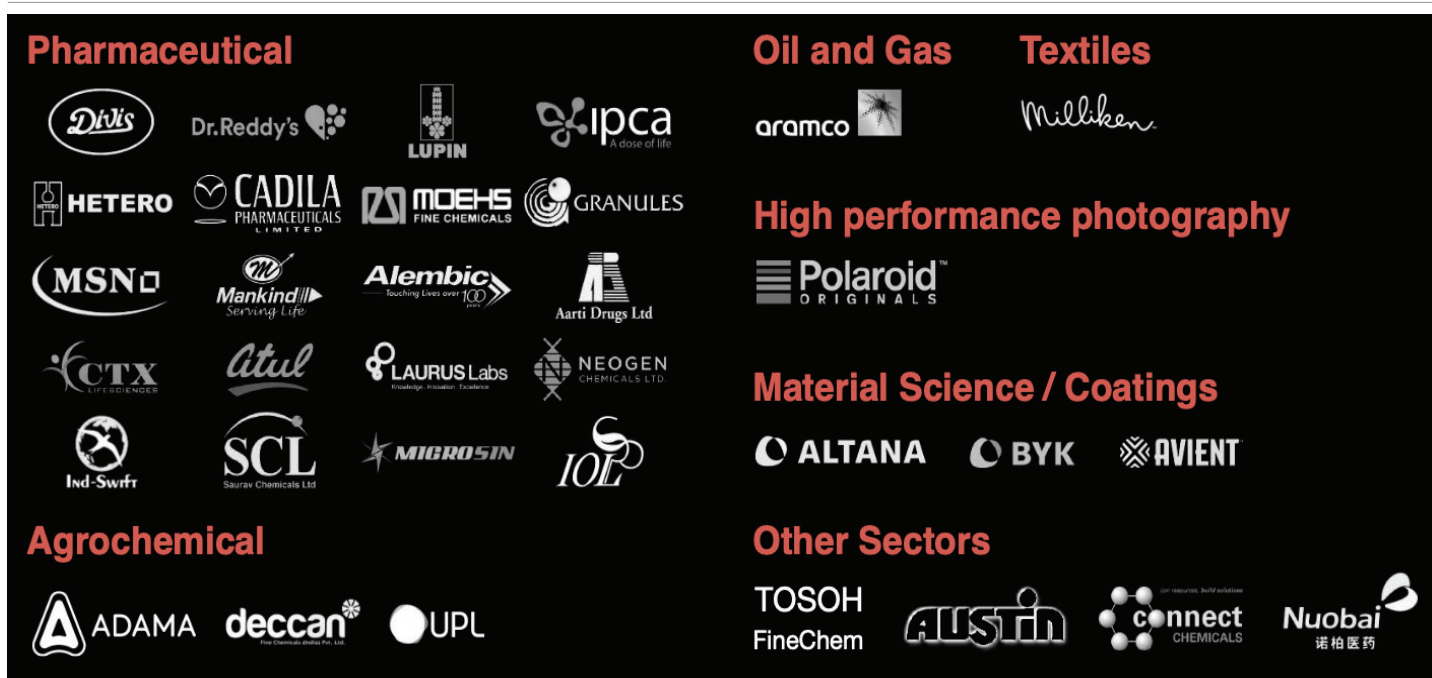
Source: RHP

Exhibit 4: Sales Mix by Sector


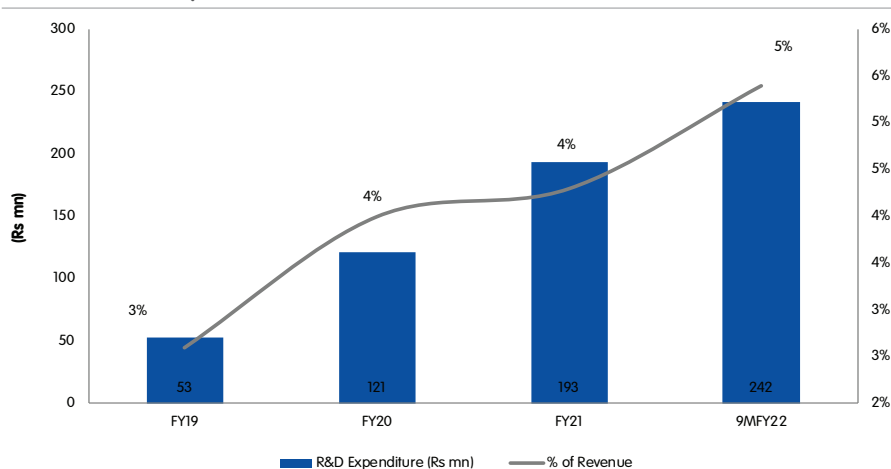
Source: RHP

Exhibit 5: Sales Mix by Region


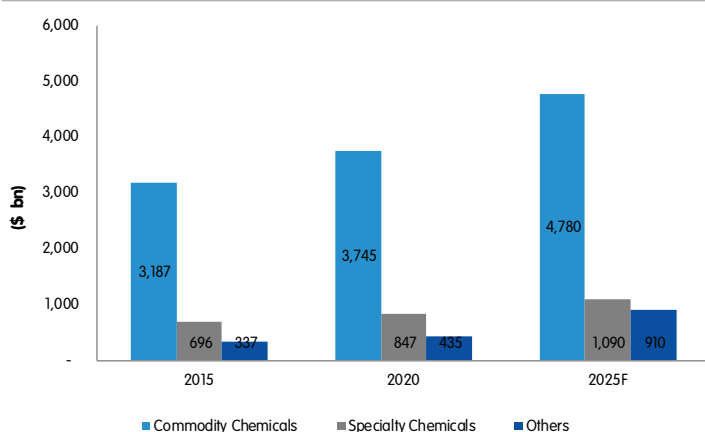
Source: RHP

Exhibit 6: Strong Client Base


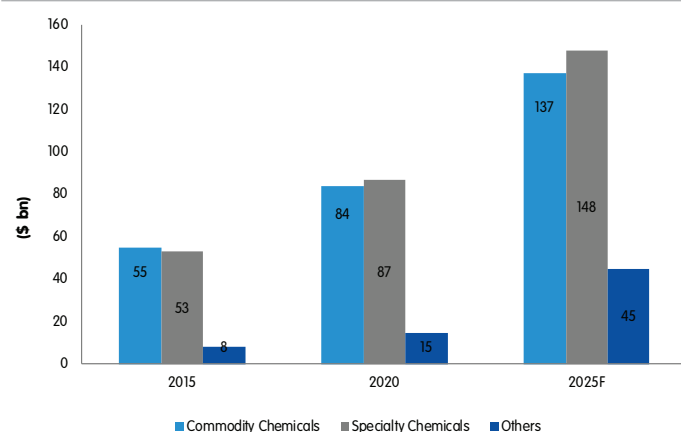
Source: RHP

Exhibit 7: R&D expenses of Aether


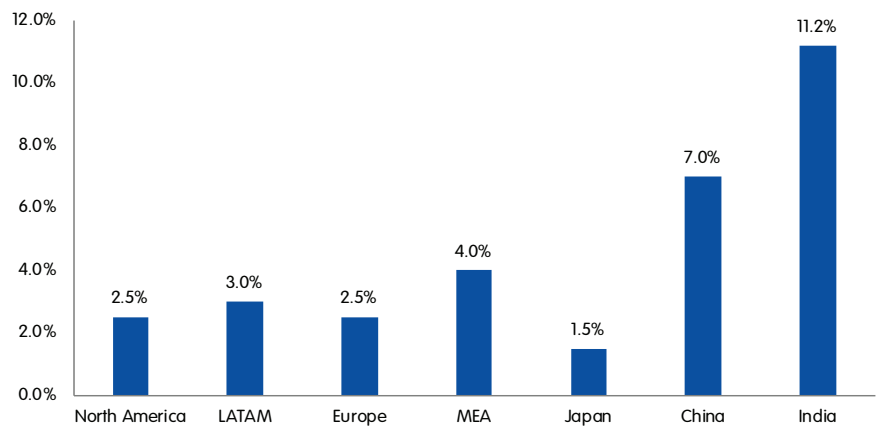
Source: RHP

Exhibit 8: Global Chemicals Market


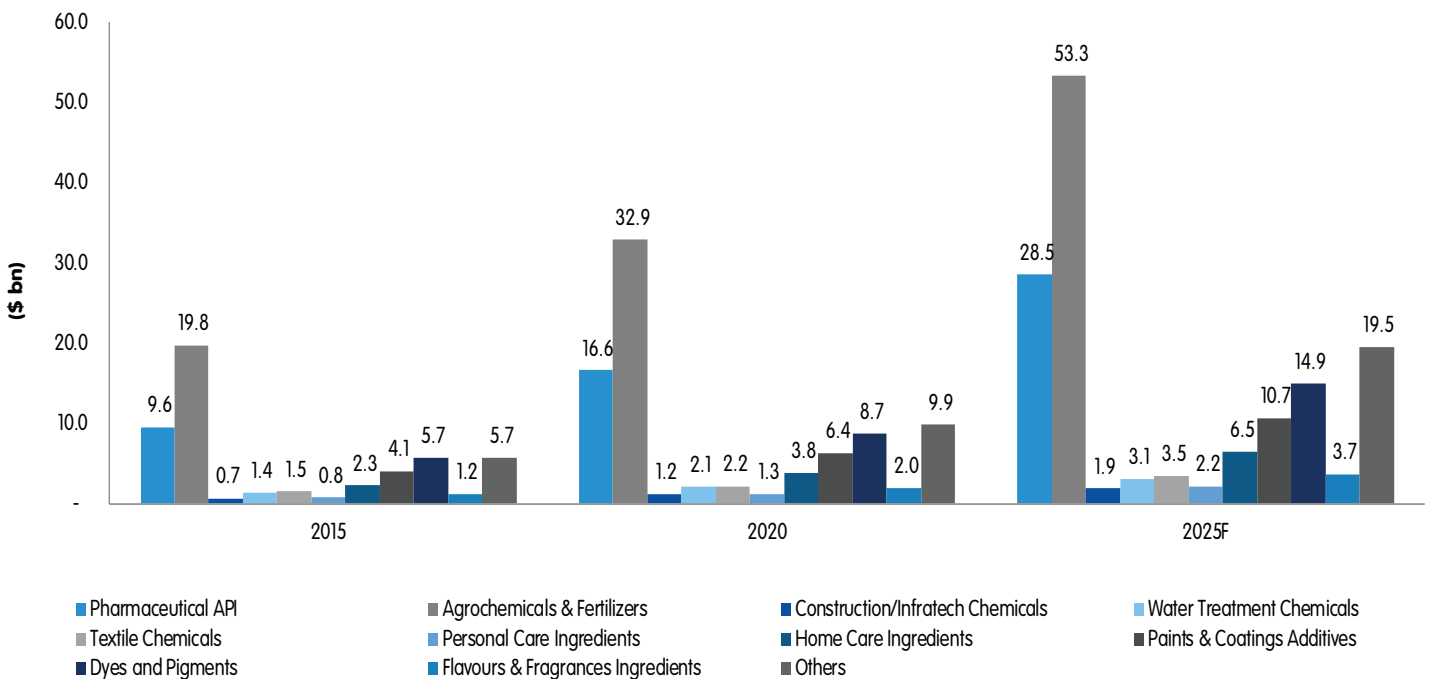
Source: RHP, Frost & Sullivan

Exhibit 9: Indian Chemicals Market


Source: RHP, Frost & Sullivan

Exhibit 10: Region-wise Specialty Chemicals Growth


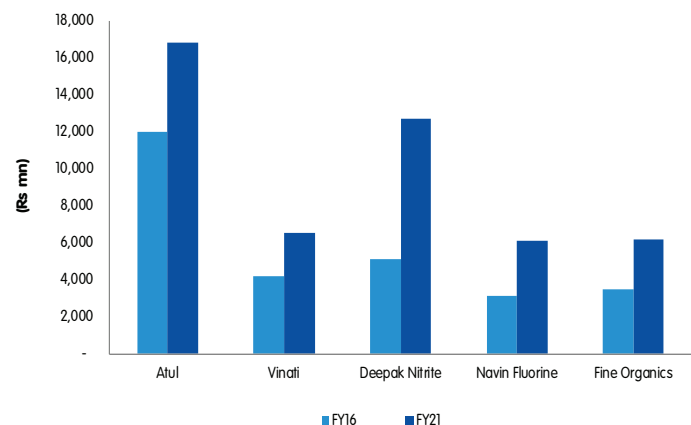
Source: RHP, Frost & Sullivan

Exhibit 11: Indian Specialty Chemicals Market


Source: RHP, Frost & Sullivan

Exhibit 12: Chemicals Exports Trend


Source: RHP, Frost & Sullivan

Exhibit 13: Export by Indian Speciality Chemicals


Source: RHP, Frost & Sullivan

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