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Aether Industries

INSTITUTIONAL RESEARCH

Aether Industries

Transformative changes in the air

Aether Industries limited (AIL) business model is going through changes in its business mix and customer mix while maintaining its identity as a technology-oriented, research-focused organization. The Contract or Exclusive Manufacturing (CEM) business vertical will lift the revenue boats of the company in the coming years. The share of CEM and CRAMS together is expected to increase to 48% in FY29 from 34% in FY24. Leveraging its competencies in chemistries and technology, AIL is looking to tap application-driven research and application-driven business opportunities in material science and the oil and gas industries. This will uplift the share of the oil & gas and material science industries in revenue and allow the company to widen its customer base into sustainable and eco-friendly end-user industries. While this transformation is crystallizing, AIL continues to invest in Research and Development (R&D) infrastructure and manpower to support the Large Scale Manufacturing (LSM) and CEM businesses by continuing the supply of new molecules. We expect Revenue/EBITDA/PAT CAGR of ~30/39/38% over FY24-29E while RoE is expected to improve from 6% in FY24 to 11% in FY29. AIL has commissioned Site 4 to execute a strategic supply agreement with Baker Hughes. The company has received a revocation of the closure order from the Gujarat Pollution Control Board (GPCB) for 75% of Site 2, and for the remaining site, the revocation order is expected by December-24. The expansion project at Sites 3+ and 3++ is on track to be commissioned by the end of FY25. Phase I of the greenfield project at Panoli (Site 5) is on track to be commissioned by December-25. These developments will drive revenue growth for the company. We maintain a BUY rating with a target price of INR 1,142.

CEM contribution increasing from ~18% to ~37%

The contribution from the CEM business is expected to increase to ~37% in FY29 from ~18% in FY24. AIL has commissioned a dedicated plant for Baker Hughes under the strategic supply agreement. The tenure of the agreement is five years, extendable by three additional one-year terms. Revenue potential from this exclusive contract is ~INR 4bn (~67% of AIL's FY24 revenue) at full capacity utilization. The number of inquiries in the CRAMS business has increased, particularly after appointing Dr. James W. Ringer as CTO. Most of these project-based works are originating from medium- and small-sized organizations. Typically, the probability of projects from this set of customers converting into contract manufacturing is high. The company is currently working on over 50 projects, giving the management confidence of comfortably filling capacity at Sites 3+ and 3++, with a revenue potential of ~INR 3bn. The rising contribution of CEM should enable AIL to navigate tough times, such as those experienced last year, due to firm contracts with customers. Contract manufacturing not only increases plant capacity utilization but also secures revenue and profitability visibility. Additionally, contracts like Seqens, EV battery, Novoloop, and Saudi Aramco will add to CEM contributing a higher share and aid margins.

Financial summary

INR mn	2QFY25	1QFY25	QoQ(%)	2QFY24	YoY (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,988	1,800	10.4	1,642	21.1	5,900	6,511	5,982	8,051	10,517
EBITDA	536	435	23.4	460	16.7	1,681	1,862	1,322	2,071	2,934
APAT	371	325	14.3	367	1.2	1,089	1,304	929	1,502	2,145
AEPS (INR)	2.8	2.5	14.3	2.8	1.2	8.2	9.8	7.0	11.3	16.2
P/E (x)						110.0	91.9	128.5	79.8	55.9
EV/EBITDA(x)						72.9	63.8	87.7	51.5	37.2
RoE (%)						38.8	16.0	5.6	5.6	6.3

Source: Company, HSIE Research

BUY

CMP *(as on 10 Dec 2024)*	**INR 885**
Target Price	**INR 1,140**
NIFTY	**24,610**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 1,120	INR 1,140
	FY25E	**FY26E**
EPS %	1.9%	3.9%

KEY STOCK DATA	
Bloomberg code	AETHER IN
No. of Shares (mn)	133
MCap (INR bn) / ($ mn)	117/1,382
6m avg traded value (INR mn)	132
52 Week high / low	INR 1,071/762

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(16.5)	6.9	12.0
Relative (%)	(16.0)	0.4	(4.7)

SHAREHOLDING PATTERN (%)	**June-24**	**Sept-24**
Promoters	81.79	81.79
FIs & Local MFs	11.56	11.63
FPIs	2.90	3.17
Public & Others	3.75	3.41
Pledged Shares	0.00	0.00

Source: BSE

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Investment in R&D to continue

The technology-oriented business model of the company compels it to regularly launch products and add competencies. The company sells innovations through chemistries and technologies. To maintain a leadership position and replace obsolete molecules in its existing product basket, the company needs to introduce new molecules. Strengthening R&D infrastructure and increasing manpower strength will support the company's growth. Apart from feeding molecules to its LSM and CEM businesses, R&D generates revenue for AIL.

AIL's focus is on maintaining R&D spending as a percentage of revenue in the range of 6-7%, whereas domestic chemical companies typically spend about ~1-2%. Over the last three years, AIL's R&D spend was 6-7% of revenue. The company spent INR 308mn on R&D in 1HFY25, and going forward, it will continue to spend between 6-7% of revenue on R&D.

The exact assessment of the economic impact of the investment in R&D is very challenging. The benefits derived from these investments are realized over a long period. The work done in R&D has resulted in better, high-quality products, improved productivity, a wider range of products, and indigenously developed catalysts. All this R&D work has supported the company in mitigating the impact of sectoral headwinds, such as the sharp fall in product prices and demand slowdowns.

The company has appointed Dr. James W. Ringer as the Chief Technology Officer (CTO) with a focus on process safety. He worked at Dow Core R&D, where his teams were responsible for developing and implementing process technology. Process technology involves the integration of chemicals and engineering to create safe, efficient, and cost-effective processes. The company has already demonstrated its competencies in process development and cost optimization. Dr. Ringer's experience is expected to help them innovate processes for existing and new molecules, enabling the production of competitive products. Also, Raymond Paul Roach, Dr. Norbert Flüggen, and Dr. Ron Valente from Saudi Aramco are opening doors for the company with MNC.

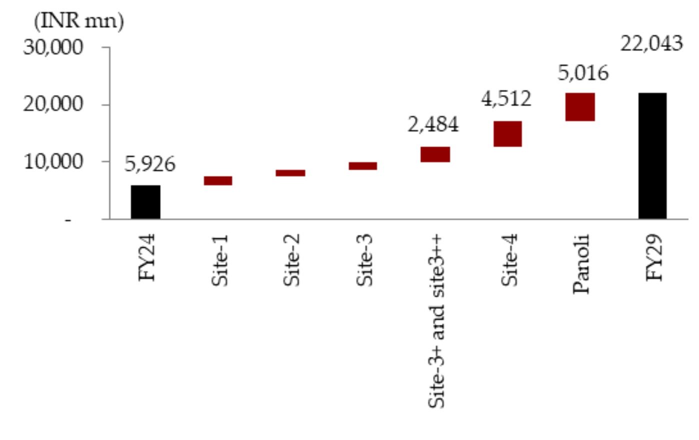
Change in estimates (Consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	2,336	2,071	(11.4)	3,075	2,934	(4.6)
Adj. EPS (INR/sh)	11.1	11.3	1.9	15.6	16.2	3.9

Source: Company, HSIE Research

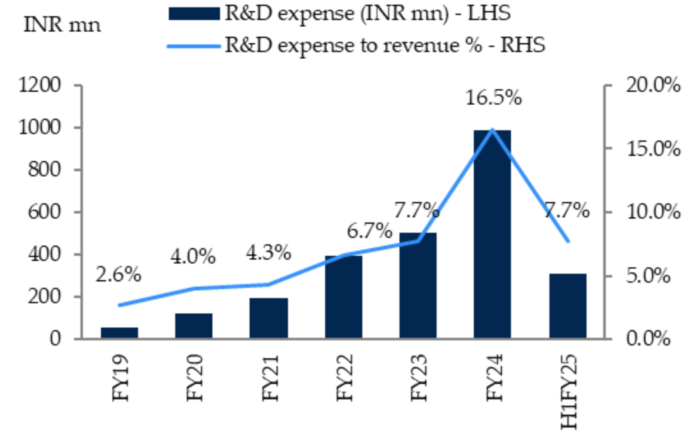
Story in charts

Exhibit 1: Incremental revenue of ~INR16.12bn over FY24-29E



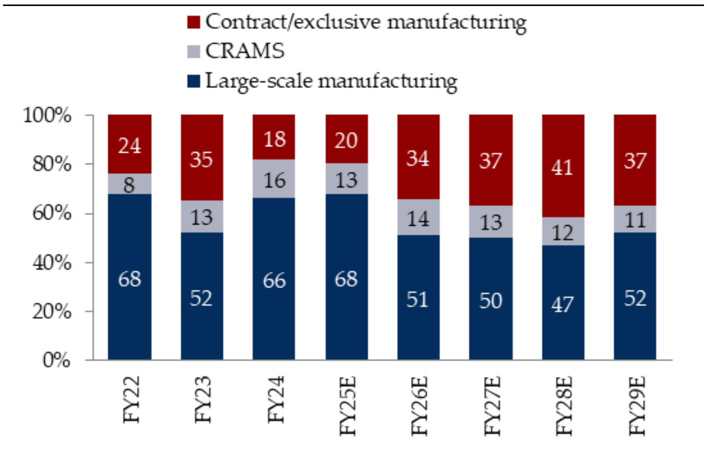
Source: Company, HSIE Research

Exhibit 2: R&D expenditure ranging in 6-7% going ahead



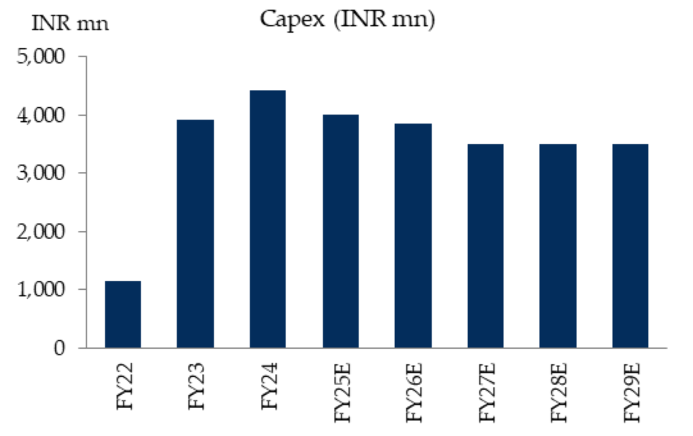
Source: Company, HSIE Research

Exhibit 3: Increased focus on CRAMS and CEM business



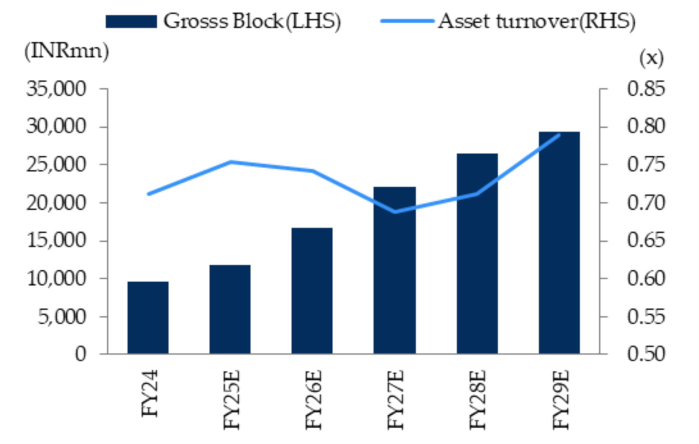
Source: Company, HSIE Research

Exhibit 4: Capex of INR ~18.35bn during FY25 to FY29



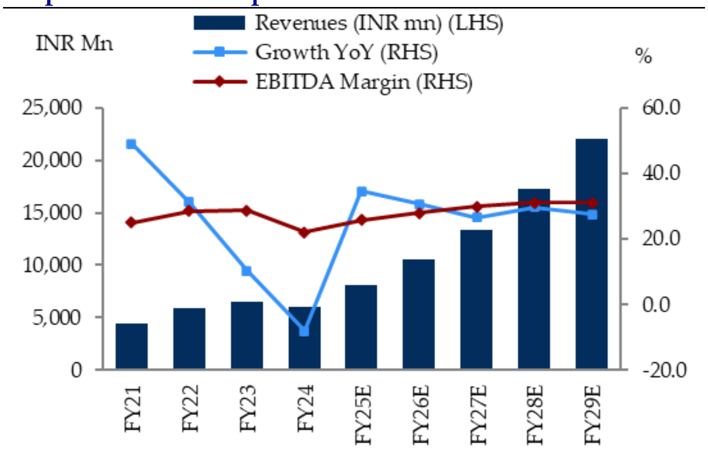
Source: Company, HSIE Research

Exhibit 5: Increased gross block by ~205% and asset turnover from 0.71x to 0.79x over FY24-29E



Source: Company, HSIE Research

Exhibit 6: Revenue growth, EBITDA margin expansion of ~896bps over FY24-29E



Source: Company, HSIE Research

Investment rationale

Revenue from Baker Hughes to reach ~INR2bn in FY26

Baker Hughes, a global leader in energy technology, has selected AIL to manufacture and supply six chemicals for its customers worldwide and entered a strategic supply agreement for the same. This demonstrates AIL's impeccable capabilities in developing innovative process technologies and efficiently manufacturing products. These products are critical and are used in oil extraction during onshore and offshore oil well drilling. The manufacturing of these chemicals involves pressure polymerization reactions, which is one of AIL's core competencies.

AIL entered into Strategic Supply Agreement with Baker Hughes to supply six molecules

We understand that these chemicals have complex specifications as they are used in subsea environments and various climatic conditions. Therefore, conforming to these specifications is critical during manufacturing. AIL, with its solution-oriented approach backed by robust R&D capabilities, has successfully achieved the required product specifications.

The intellectual property (IP) of these products belongs to Baker Hughes, while AIL has scaled up the production, making it more sustainable with process improvements. Baker Hughes was producing these chemicals at the UK facillites, which transferred to a Singapore facility. We believe, AIL can manufacture these products at competitive prices. This partnership allows Baker Hughes to expand its business, as AIL brings incremental capacity of approximately 20,000 MTPA to the table. Additionally, AIL is working on six more molecules with Baker Hughes as part of its CRAMS (Contract Research and Manufacturing Services) business. In the coming years, these molecules are likely to transition from CRAMS to exclusive manufacturing contracts.

AIL has set up dedicated plant at Site 4 for the exclusive manufacturing of products for Baker Hughes

Aether will supply these chemicals to Baker Hughes' customers in the oil and gas sector. A dedicated plant at Site-4, with an investment of approximately INR 1.6bn (including land acquisition costs), is being set up to manufacture products for Baker Hughes. This plant is expected to commence commercial production in Q4 FY25. The plant's production schedule was initially planned for production in last year , but the fire incident at Site-2 caused a delay in commercialization. Since Site-2 was also a registered site, regulatory approval requirements further delayed the process.

With local partners like AIL, Baker Hughes can now bid for contracts to supply these chemicals to Indian oil and gas companies. We believe Aether Industries will initially begin supplying to domestic oil and gas exploration companies, and over time, orders from both domestic and international customers of Baker Hughes will flow. Aether has already sent validation samples to Baker Hughes' customers across various global exploration sites.

Application-driven research and business opportunities are abundant in the material science and oil and gas industries. AIL aims to capitalize on these opportunities by leveraging its expertise in chemistry and technologies.

The Baker Hughes contract has a revenue potential exceeding INR 4bn from the six molecules.

The Baker Hughes contract has a revenue potential exceeding INR 4bn from the six molecules. With a dedicated plant for these specialized products, we anticipate a sharp ramp-up in utilization. These are low-price, high-volume products.

We believe that AIL's association with Baker Hughes will open opportunities to collaborate on additional molecules in the future. Currently, only 40% of the land at Site-4 is occupied, leaving ample space for new projects in the oil and gas sector. This capacity for expansion will accelerate the company's revenue growth in the years ahead.

CEM share is rising to ~37%, CRAMS revenue to double by FY28

The rising Share of CEM is supported by the signing contracts with Baker Hughes, H.B. Fuller-Saudi Aramco, Novoloop, Seqens

AIL's revenue mix is shifting towards contract or exclusive manufacturing. The contribution from the CEM business will more than double to ~37% in FY29 from 18% in FY24. Contract manufacturing for Baker Hughes has a revenue potential of ~INR 4bn at maturity with the supply of six molecules. We believe that AIL is in the final stage of developing the technology with Novoloop before commercialization. In the coming quarters, we believe the company will commercialize the product, which involves converting polyols into monomers from recycled materials.

AIL has signed a license agreement with Saudi Aramco for the commercialisation of the Converge polyols. Aether and Aramco, along with H.B. Fuller, have jointly announced the commercialisation of the converge polyols technology. The company has also entered into a contract/exclusive manufacturing agreement with Chemoxy International wholly-owned subsidiary of the SEQENS group. Under this take-or-pay contract, Aether will produce a series of natural bio-based products exclusively for Seqens. The contract spans an initial period of three years. The production is expected to commence in the next 10 months with a volume of 100+ MT per year. These type of contracts are likely to create unique products, which will lead to a greater impact, going forward. Apart from this, the company is working on more than 50 different projects in R&D. Out of these, a few projects may get converted into contract manufacturing in the coming years.

The chances of CRAMS projects from medium and small enterprises converting into CEM are higher compared to project-based work from large organizations transitioning into CEM

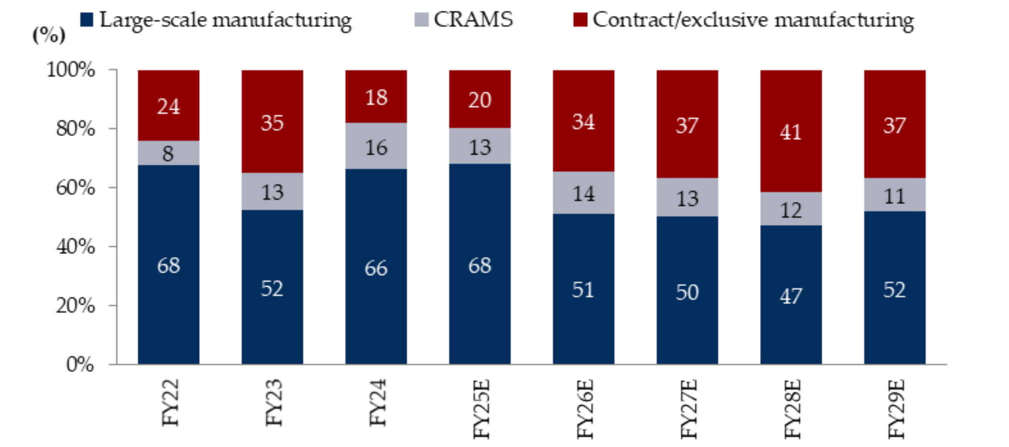
Inquiries originating from medium and small-sized organizations for various CRAMS projects have increased, particularly after the appointment of Dr. James W. Ringer as CTO. Typically, the chances of CRAMS projects from medium and small enterprises converting into CEM are higher compared to project-based work from large organizations transitioning into CEM.

CEM will increase plant capacity utilization apart from securing revenue and profitability visibility

CEM will increase plant capacity utilization apart from securing revenue and profitability visibility. This business vertical could easily help AIL navigate challenging periods, such as last year, through firm contracts with customers.

Revenue from the CRAMS business is expected to increase from INR 1.06 bn in FY24 to ~INR 2.5bn in FY29 due to the rise in project inquiries the company is receiving.

Exhibit 7: Inflection towards CRAMS and Contract Manufacturing (%)



Source: Company, HSIE Research

R&D expenses as % of revenue much higher than industry

In the specialty chemicals industry, a company's success and sustained growth depend on its ability to innovate. Additionally, technology is not available off the shelf for specialty chemicals, unlike for commodity chemicals. Thus, to innovate new-age molecules and enter into newer chemistries, it is crucial to develop strong R&D capabilities.

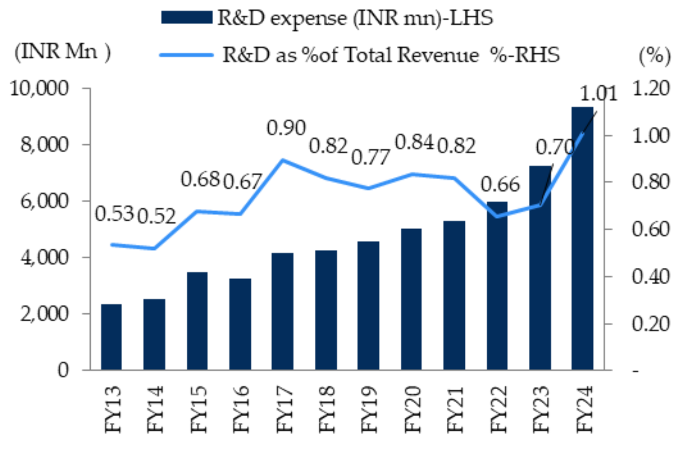
The aggregate R&D expenditure incurred by the 25 leading chemical companies we considered has grown at a 10% CAGR over FY18-24. Approximately INR 7.5bn was spent on R&D by these companies in FY24, compared to ~INR 4.3bn in FY18. Over the last four years, companies that have expanded their product portfolios to supply molecules/chemicals to the pharmaceutical and agrochemical industries have invested heavily in developing R&D capacity.

R&D expenditure to remain in the range of 6-7% of total revenue going ahead while average R&D expenditure for other chemical companies to remain in the range of ~1-2%

R&D spending by Aether Industries has increased significantly over the last four years. The company is focusing on developing new molecules and the R&D infrastructure required for the same. Aether Industries turns these R&D capabilities into contract manufacturing and research services. In FY24, the company expanded its pilot plant with a total R&D expenditure of INR 980mn, which comes to ~16.5% of the revenue. In H1FY25, it spent INR 310mn on R&D, which is 7.69% of revenue. Over the last four years, the average expenditure was ~INR 680mn, which comes to ~6% of the total revenue. Going forward, we expect it to remain in the same range.

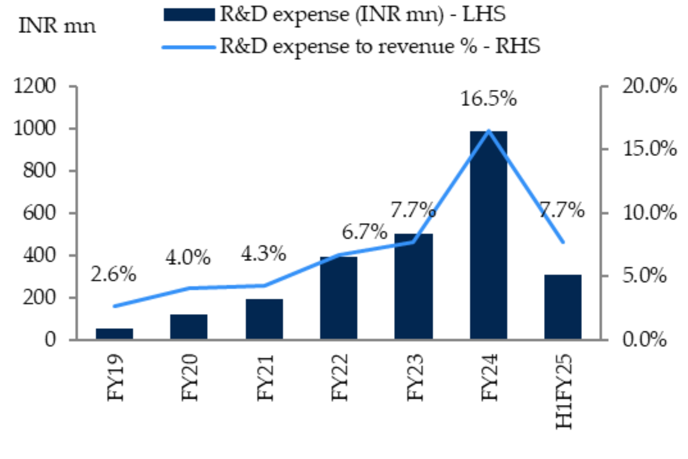
Across the 25 companies, R&D expenditure over the last three years has remained in the range of 1-2%, while for Aether Industries, it has been in the range of 6-7% over the same period.

Exhibit 8: R&D expenses at ~1% of revenue for 25 chemical companies



Source: Company, HSIE Research

Exhibit 9: …while it was 6-7% for Aether



Source: Company, HSIE Research

Tripling of R&D infrastructure; strengthening of R&D team

Constant focus on research and development is a key success factor in a technology-oriented business model. R&D is the core strength of Aether. The company's business model requires it to launch products regularly and continuously add competencies. To achieve this, it must invest in R&D infrastructure. The company's R&D expenditure almost doubled from INR 501mn in FY23 to INR 987mn in FY24. Aether spent 16.5% of its revenue on R&D in FY24, up from 7.7% in FY23. As of March 2024, the total number of scientists increased from 111 to 148, and the company also raised the count of highly qualified employees from 233 to 276.

The number of fume hoods in the R&D lab has tripled over the last three years, increasing from 17 to 55.

The company commissioned a pilot plant in Q4FY24 at Site 1. It has over 200 reactors, including batch and continuous reaction technologies. The number of fume hoods in the R&D lab has tripled over the last three years, increasing from 17 to 55. The company is also integrating additional reactors in the pilot plant to enable faster scale-up of newly developed products in R&D. This expanded pilot plant will significantly support the CRAMS business. Currently, the scientists are working on about 3-4 CRAMS products, each with a potential annual value of ~USD 5-6mn.

The company has appointed Dr. James W. Ringer as the Chief Technology Officer (CTO) with a focus on process safety. Dr. Ringer previously worked at Dow Core R&D, where his teams were responsible for the development and implementation of process technology across numerous business areas. Process technology bridges the gap between lab scale and commercial manufacturing, integrating chemicals and engineering to create safe, efficient, and cost-effective processes. Aether has already demonstrated its competencies in process development and cost optimization. Dr. Ringer's expertise is expected to help the company innovate processes for both existing and new molecules, enabling the production of competitive products.

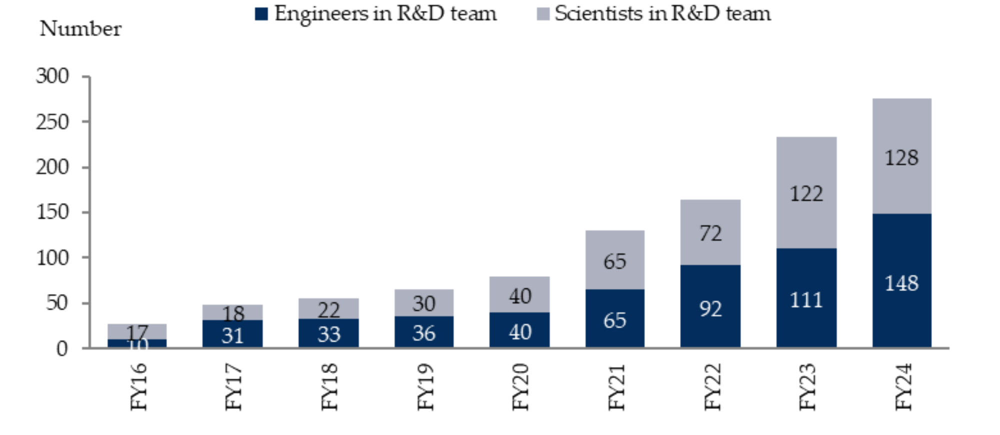
The company has an R&D team of 276 scientists and engineers, including 128 scientists with PhDs or Master's/Bachelor's degrees in science. It plans to expand this team to 300 members

Currently, the company has an R&D team of 276 scientists and engineers, including 128 scientists with PhDs or Master's/Bachelor's degrees in science. It plans to expand this team to 300 members in the coming years. The R&D team is led by industry veterans Dr. Aman Desai, Dr. James W. Ringer, Raymond Paul Roach, Dr. Norbert Flüggen, and Dr. Ron Valente, who coordinate closely with the company's five R&D project leaders. Each project leader oversees a team of 8-10 scientists, with each team working on 7-8 molecules at any given time.

Aether's R&D laboratories are equipped with modern synthesis tools, including fume hoods, lab-scale continuous flow reactors, and separation equipment. These labs are further supported by advanced analytical method development (ADL) and quality control (QC) laboratories, outfitted with the full suite of equipment necessary for organic chemistry research.

The company also operates a pilot plant installed more than 200 reactors, serving as a critical link between R&D and large-scale production. The pilot plant has dual functionality: it generates essential scale-up data during the transition from R&D to production, helping to eliminate issues at the full production scale, and it acts as a standalone manufacturing facility for low-volume, high-value products for CRAMS customers. The pilot plant can produce quantities ranging from 1 kg to 1 ton.

Exhibit 10: Plans to take up the R&D team to 300 people in near future



Source: Company, HSIE Research

Revenue to grow at a CAGR of ~30% over FY24-29E

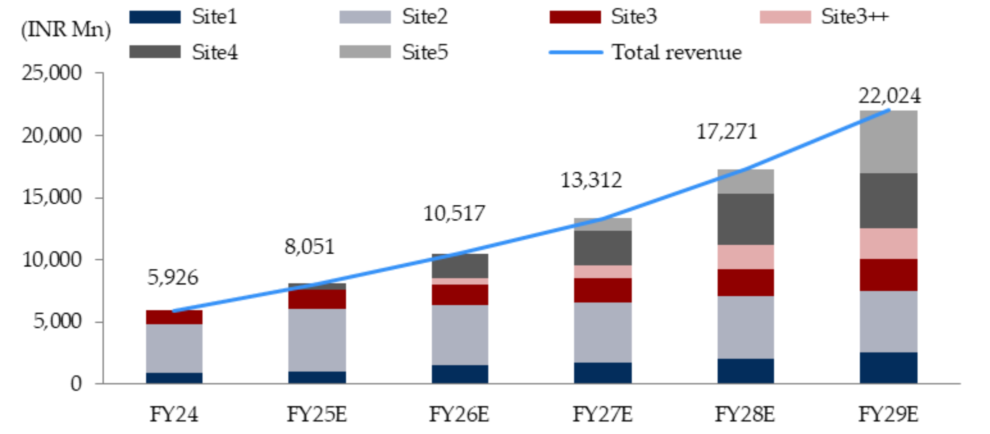
We expect AIL's revenue to increase from INR 5.98bn in FY24 to ~INR 22bn in FY29 at a CAGR of ~30%. During this period, incremental revenue from site 3+,3++,4 and site 5 will be ~INR 16.12bn spread until FY29. Additionally, GPCB has revoked the closure order on 75% of manufacturing capacity at site 2. The company commenced the commercialisation of site 4 with a supply agreement with Baker Hughes that has a revenue potential of more than ~INR4bn. We expect revenue to increase by 35/31% to ~INR 8.05/10.51bn in FY25/FY26 due to (a) improved utilisation of facility 2; (b) the commercialisation of site 4; and (c) commissioning of site 3++ in H2FY25.

- Aether Industries CRAMS (Site 1) is expected to grow 22% from FY24 to FY29. During FY24, it generated revenue of INR 920mn, which is expected to grow to INR 2,510mn by FY29. Going ahead, the company is focusing more on molecules that are contract and exclusive manufacturing and CRAMS which are expected to ramp up at site 3++ and site 5.

Incremental revenue from Site 3++, Site 4 and Site 5. With increased focused on CRAMS and Contract/ Exclusive Manufacturing

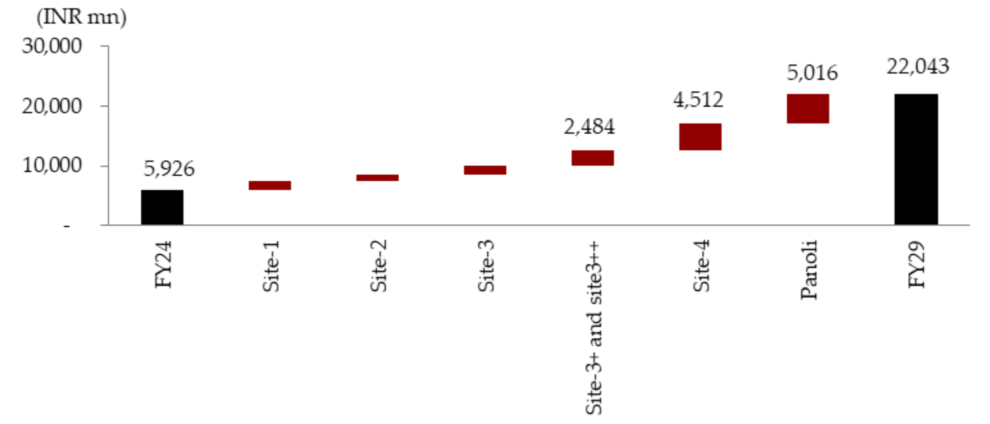
- Site 3, commissioned in January 2023, will predominantly focus on LSM. It has 5 pharma intermediate molecules. During FY24, it generated revenue of INR 1,085mn. It is expected to grow at a CAGR of ~18% from FY24 to FY29, generating revenue of INR 2,493mn in FY29.
- Site 3++ (Extended part of site 3) is expected to be commissioned in FY25E. The company is now focusing on converting the site into exclusive manufacturing services. Initially, we believe it will contribute ~INR 500mn. From FY26, with the launch of new molecules, it is expected to grow at a CAGR of ~71% from FY26 to FY29. The revenue is expected to reach INR 2,484mn by FY29.
- Site 4 is focused on the contract of Baker Hughes, which is expected to contribute ~INR 503mn in FY25. The molecules are more focused on the oil and gas domain. It will contribute INR ~2,000mn in FY26 and is expected to grow at a CAGR of ~77% from FY25 to FY29. It is expected to reach ~INR 4,500mn FY29.
- Site 5 is located in Panoli and is expected to be commissioned by FY26. It is a mega production site with 16 product blocks. The company will launch the site in a phase-wise manner. Initially, the revenue contribution is expected to be ~INR 1bn in FY27 and it is expected to ramp up to ~INR 5bn by FY29. The company is planning hydrocarbon projects at site 5. Additionally, it is in discussion for 5th-generation molecules focused on sustainability, which are expected to be at site 5.

Exhibit 11: Major revenue contribution from Site 3+ /3++, Site 4 & Site 5…



Source: Company, HSIE Research

Exhibit 12: …of INR 16.12bn over FY24-29E



Source: Company, HSIE Research

EBITDA margin to improve from 22% in FY24 to 31% in FY29

Business mix shifting towards the CEM and CRAMS segments, along with energy cost savings from the solar plant, will contribute to the improvement in EBITDA margin

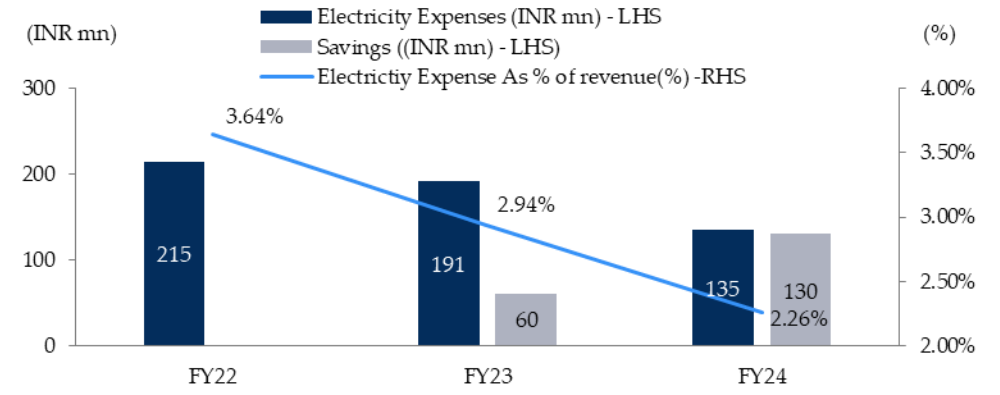
AIL's EBITDA is expected to grow from INR 1.32bn in FY24 to INR 6.84bn in FY29, with a CAGR of 39%, while the EBITDA margin is projected to increase by 896bps, from 22% in FY24 to 31% in FY29. We believe the business mix shifting towards the CEM and CRAMS segments, along with energy cost savings from the solar plant, will contribute to the improvement in EBITDA margin. Margins in the CEM segment are better compared to the LSM segment, while in the CRAMS segment, margins are significantly higher than those in both the LSM and CEM segments.

The company is increasing its focus on the CEM segment, with the contribution of CEM to total revenue expected to rise to 37% in FY29 compared to 18% in FY24. Revenue from the CRAMS segment is projected to double to INR 2.51bn by FY29.

In June 2022 (H1FY23), the company commissioned a static solar power plant with a capacity of 16MW at Sarod village in Bharuch district. The total cost of the project was INR 675mn, funded through internal accruals. The company entered into a power purchase agreement to gain benefits in the form of rebates and expects to save 4.85 lakh units of power through this initiative. Over the past two years, the solar plant has helped the company save electricity costs of approximately INR 60mn in FY23 (partial benefit due to commissioning in H1FY23) and ~INR 130mn in FY24. It expects to save another INR 180-200mn in the coming year with the commissioning of same.

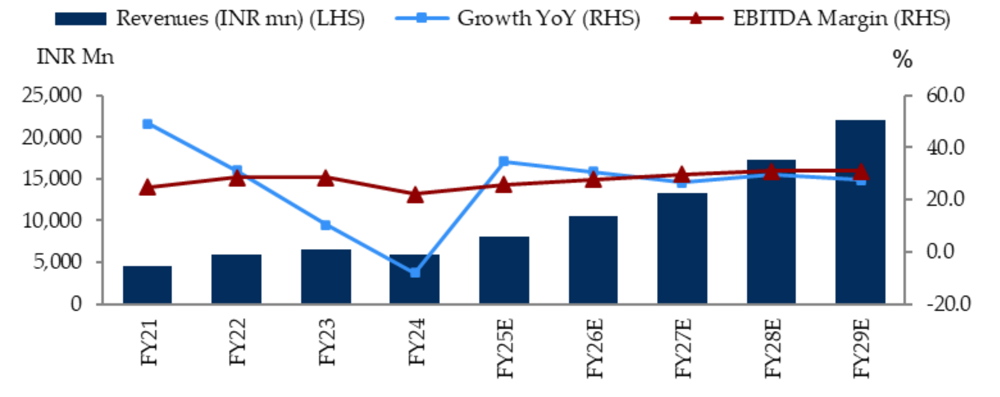
Additionally, the company will commission a 15MW solar power plant in a phased manner in FY25, featuring auto-tracker modules. In H1FY25, the company commissioned a 10MW solar power project, with the remaining 5MW to be commissioned in H2FY25. As of March 2024, the company has invested INR 375mn in this project. These solar initiatives will not only reduce electricity costs but also mark a significant milestone in sustainability efforts.

Exhibit 13: Reduction of 138 bps electricity expenses in the last two years



Source: Company, HSIE Research

Exhibit 14: Revenue growth and EBITDA margin



Source: Company, HSIE Research

Doubling of capacity at site-3, capex at Panoli taking shape

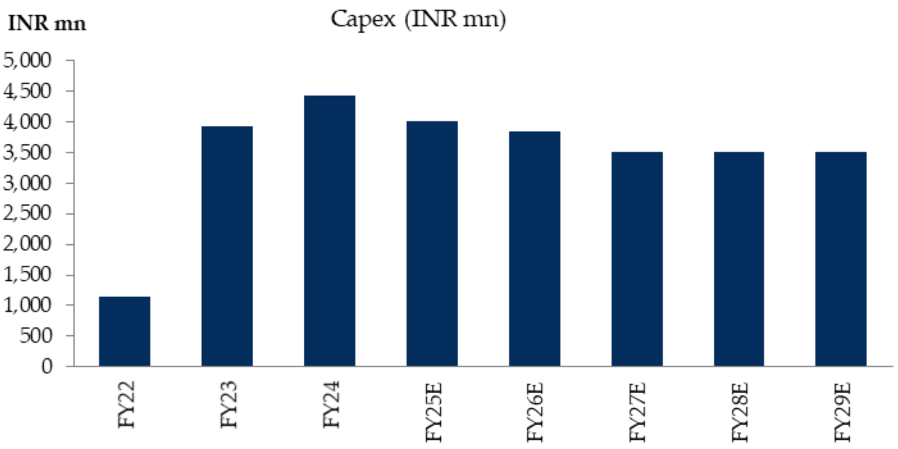
Aether had planned to incur capex on land parcel near site 3 named as site 3+,3++ of ~INR 2bn. In FY23, the company has raised INR 7.5bn through QIP. Out of this, the company has allocated INR 1.83bn for site 3, of which it has utilised INR 0.708bn as of October 2024. Aether is doubling its capacity with this expansion at site 3. Post this expansion, the capacity at site 3 will be 7,500MTPA.

Site 5 has strategic investment potential of INR ~23-25bn. Company is planning to invest ~INR 5bn in phase 1 and ~INR 4bn in phase2.

Aether will be launching molecules at Site 3+ and Site 3++ either through LSM and CEM models, which is yet to be decided. The company is expected to launch three molecules related to Pharma, Agro and Material Science if they go ahead with the LSM model. The plant will be operational by Q4FY25.

As announced earlier, the company has started work at its Panoli site. Site 5 has strategic investment potential of INR ~23-25bn.It is a mega production site with 16 production blocks. In the first phase, the company is planning to invest ~INR 5bn. In this phase, INR 3bn will be spent on productive assets while ~INR 2 bn will be spent on utilities, land development, and other facilities for all 16 blocks. The first phase is expected to commence production by December 2025 and is likely to stabilise by the end of FY26. In the second phase, the company will invest ~INR 4bn, which is expected to be commissioned by FY29.

Exhibit-15: Capex for site 3+,3++, and site 5 in the next 3 years. Aether to invest ~INR 18.35bn in Capex over FY25-29E



Source: Company, HSIE Research

Exhibit 16: Upcoming and executed Capex plans

Particulars	Site – 3++	Site - 4	Panoli Phase 1	Panoli Phase 2
Land area (Sq. Mtrs.)	5,250	8,000	25,000	15,000
Cost of investment (INR mn)*	1,900	~2,500	~5,000	~4,000
Capacity (MTPA)	3,500	-	1,500	1,500
End-user industries targeted	Pharma, Agro, Material Science	Oil & Gas	Pharma, Agro, Material Science, Oil & Gas	Pharma, Agro, Material Science, Oil & Gas
Commissioning date / period	Q4FY25	FY25	FY27	FY29
Peak utilisation achievement date / period	Mar-27	Mar-27	2 years post commissioning	2 years post commissioning

Source: Company, HSIE Research

Entering decarbonization, sustainable product manufacturing

Partnership with Novoloop on the sustainable plastic management project

This collaboration with Novoloop is significant for Aether as it diversifies the company's sustainable processes.

Aether has partnered with Novoloop for Lifecycling technology. The company has signed exclusive partnership with Novoloop, California, which has developed a novel technology to degrade polymer waste into crude basic monomers and then upcycle them into useful polymers, fostering a circular and upcycling economy. This technology offers an economical and sustainable solution for hard-to-recycle plastics, with operations set to begin in coming quarters at company's newly built pilot plant dedicated to the project. This technology transforms post-consumer plastic waste into virgin-quality monomers for the synthesis of virgin-quality, high performance materials such as the company's Lifecycled™ thermoplastic polyurethane.

Currently, Aether Industries is working with Novoloop up to the monomer formation stage. The company is confident that it will also achieve thermoplastic extrusion to produce polyols. This pilot plant is a testament to the commitment of both Novoloop and Aether to addressing the global plastic crisis. By scaling this technology, a pathway is being created toward a truly circular world, where plastic waste becomes a valuable resource. Using this scalable oxidation mechanism to convert post-consumer polyethylene into useful monomers for durable materials, Novoloop expects to offer its products at prices competitive with fossil-based alternatives. This process is expected to reduce the carbon footprint by up to 91%.

Currently, the process is being validated in Novoloop's labs, while Aether is in the pilot plant phase. This partnership involves scaling up the process with the ultimate goal of commercializing the technology. This collaboration is significant for Aether as it diversifies the company's sustainable processes and products, moving beyond its core business areas of agriculture and pharmaceuticals. These initiatives have paved the way for the company to enter the fields of decarbonization and sustainable solutions.

Saudi Aramco and H B fuller -Novel Converge Polyols contract

The company is progressing toward adopting sustainable business practices and transitioning to a low environmental footprint. AIL has signed a license agreement with Saudi Aramco Technologies Company, Saudi Arabia, for the commercialization of Converge polyols technology. These polyols can contain up to 40% carbon dioxide (CO_2) by weight, thus reducing overall CO_2 emissions. They represent a differentiated series of polyols with promising applications in the CASE (coatings, adhesives, sealants, elastomers) industry. The targeted market for these polyols is 850 KTPA, growing at a CAGR of 5%.

Contract with Saudi Aramco and H. B. fuller underscores *AIL's collaborative efforts in the CASE industry to identify sustainable alternatives that not only enhance performance but also prioritize sustainability*

Aether, Aramco, and H.B. Fuller, a global leader in adhesive manufacturing, have jointly announced the commercialization of Converge polyols technology. This announcement further underscores the company's collaborative efforts in the CASE industry to identify sustainable alternatives that not only enhance performance but also prioritize sustainability. Aether has appointed Dr. Ron Valente as a Business Development Leader for specialty polyols.

The difference between Novoloop's LifeCycle technology and Converge polyols lies in their source materials. The polyols that Novoloop produces are made from recycled materials. Therefore, they maintain the same composition of matter and are not a new polyol. When Novoloop enters the market, they will market a polyol with a drastically reduced carbon footprint but with the same composition of matter. This eliminates the need for new product approvals.

Agreement with major global lithium-ion battery manufacturer

Aether has executed a strategic agreement with a global lithium-ion battery producer, entering the electrolyte additives space. The agreement includes the finalization of the commercial supply of one specific electrolyte additive and initiates discussions on three others. The company had been developing products for this field for a long time but chose to make it public only after securing a substantial commercial contract with a global lithium-ion battery producer.

Contract agreement manufacturing with Seqens Group

Aether will produce a series of natural bio-based products exclusively for Seqens

Aether industry has entered into contract and exclusive manufacturing with Chemoxy International Limited, a wholly owned subsidiary of SEQUENS group wholly-owned subsidiary of the SEQENS group (Seqens). Headquartered in France, the SEQENS group is an integrated global leader in Health, Personal Care, and Speciality Ingredients, operating 16 production sites and 9 R&D centres worldwide, with an annual revenue of EUR 1.1 billion.

Under this take-or-pay contract, Aether will produce a series of natural bio-based products exclusively for Seqens. The contract spans an initial period of three years. The production is expected to commence over the next 10 months with a volume of 100+ MT per year. The innovative manufacturing process, which involves a complex process and continuous reaction technology, was collaboratively developed by Aether and Seqens over the past three years. This venture marks a significant milestone for Aether's Renewables and Sustainability business segment, enhancing Aether's reputation as a leading India-based specialty chemical manufacturer and provider of sustainable and carbon-neutral chemistry solutions across the industry spectrum.

Long-standing relationships with marquee customers

Revenue from the largest customer decreased from ~14% in FY23 to ~10.7% in FY24.

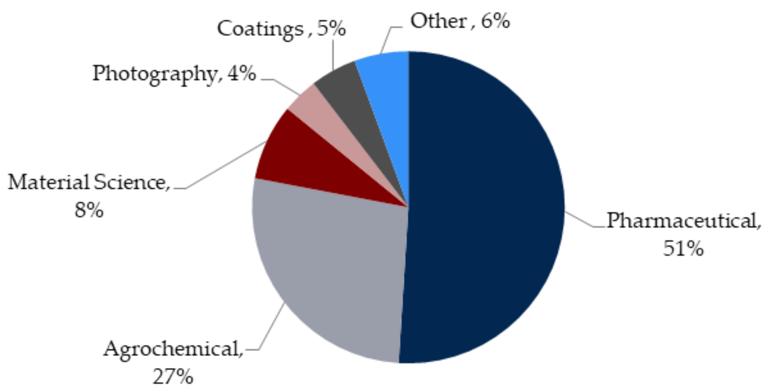
Revenue concentration from the top 10/20 customers decreased from ~55%/~70% in FY23 to ~51%/~65% in FY24.

Over the past two years, Aether's customer base has grown over 290 (FY22: 188), including multinationals, regional, and local companies. As of March 31, 2024, its product portfolio serves 50 global customers across 18 countries. The company had 174 customers in the pharmaceutical industry and 31 customers in material science where major improvement can be seen. Aether enjoys long-standing relationships with most of its customers, which include large companies in the pharmaceutical, agrochemical, oil & gas, materials, and textile sectors.

The company has reduced its reliance on major customers by expanding its customer base. Revenue from the largest customer decreased from ~14% in FY23 to ~10.7% in FY24. Revenue concentration from the top 10/20 customers decreased from ~55%/~70% in FY23 to ~51%/~65% in FY24. Aether's long-term relationships and active customer engagement enable it to plan capital expenditures effectively, benefit from increasing economies of scale, strengthen purchasing power for raw materials, and maintain a lower cost base. These enduring customer relationships have also helped the company expand its product offerings and geographic reach.

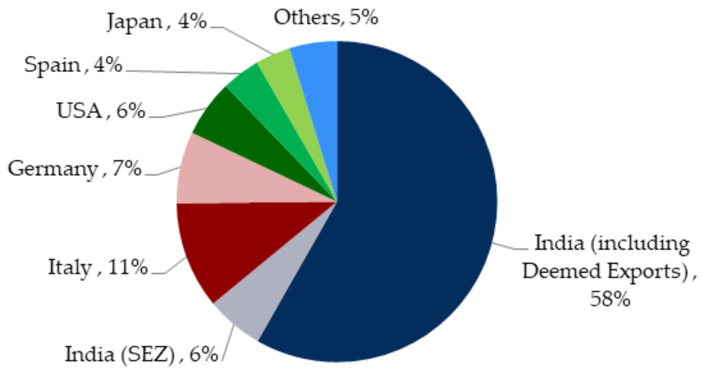
The company has increased its focus on the CRAMS business model, which facilitates frequent discussions with customers, often leading to additional projects.

Exhibit 17: End-user industries mix in FY24



Source: Company, HSIE Research

Exhibit-18: Geographical revenue of the customers in FY24

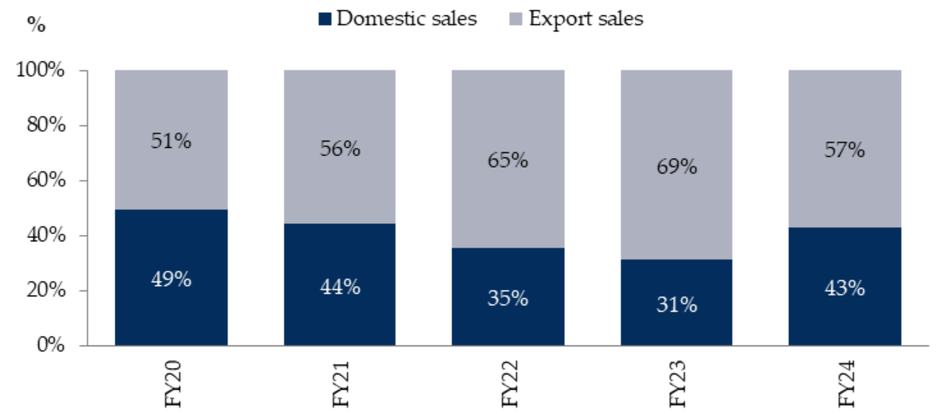


Source: Company, HSIE Research

Some of its marquee clients are listed below:

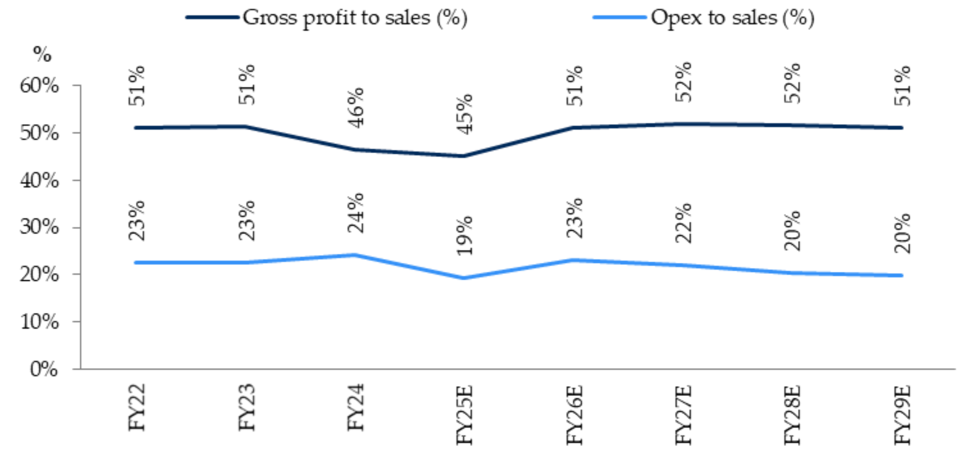
- Indian pharmaceutical companies like Aarti Drugs Ltd, Alembic Pharmaceuticals Ltd, Atul Bioscience Ltd, Cadila Healthcare Ltd, CTX Lifesciences Pvt Ltd, Divis Laboratories Ltd, Dr. Reddy's Laboratories Ltd, Granules India Ltd, Hetero Drugs Ltd, IOL Chemicals, Ind-Swift Laboratories Ltd, IPCA Laboratories Ltd, Laurus Labs Ltd, Lupin Ltd, Mankind Pharma, and MSN Laboratories Private Ltd.
- Global generic pharmaceutical companies like Moehs Iberica SL (Spain), Microsin SRL (Romania) and Dr. Reddy's Laboratories (Mexico).
- Global and domestic generic agrochemical companies like Adama Agan (Israel), Adama Makhteshim (Israel), and UPL Ltd (India).
- Global oil and gas companies like Aramco Performance Materials LLC (US/Saudi Arabia).
- Global material science/coatings/specialty polymer companies like Altana AG (Germany), BYK Chemie GmbH (Germany) and Avient Corporation (UK).
- Global and domestic chemical companies like Ningbo Noubai Pharmaceutical Co. Ltd (China), Saurav Chemicals Ltd (India), Neogen Chemicals Ltd (India), and IOL Chemicals and Pharmaceuticals (India).
- Baker Hughes (US), H B fuller (US), Novoloop (US), SEQUENS (Germany)

Exhibit 19: Geographical revenue mix (%)



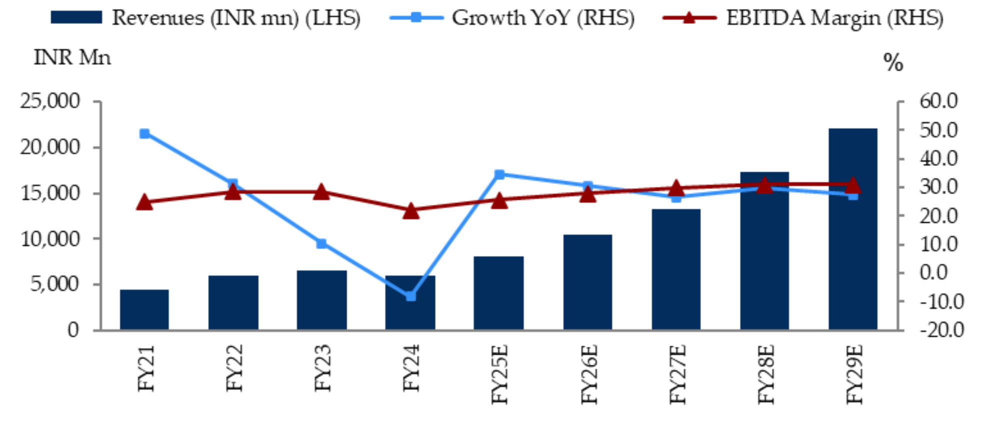
Source: Company, HSIE Research

Exhibit 20: Gross margin movement and opex trend (%)



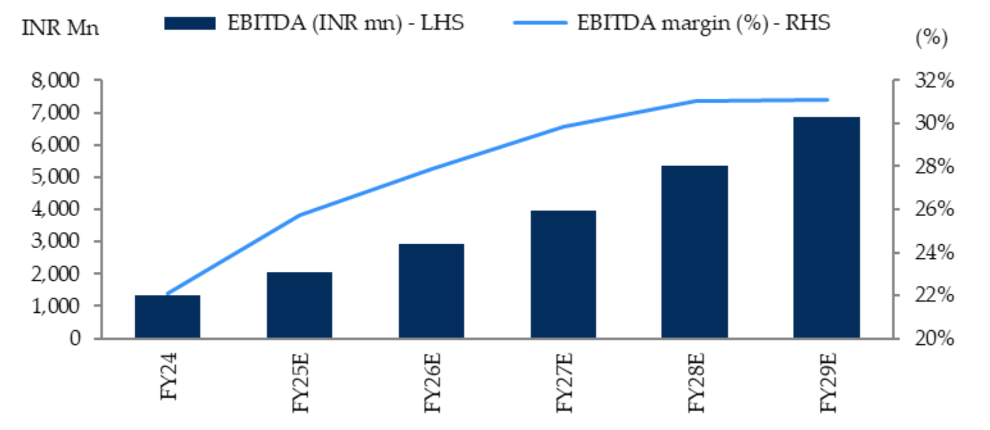
Source: Company, HSIE Research

Exhibit 21: Revenue and Revenue Growth



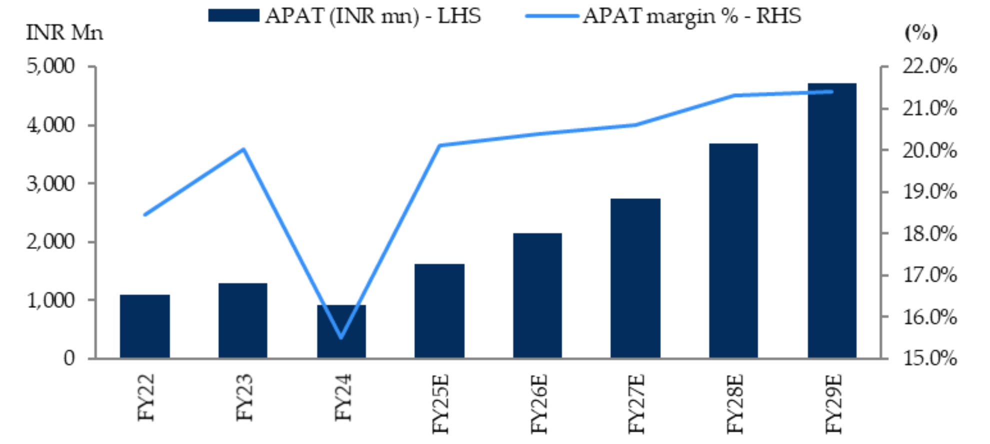
Source: Company, HSIE Research

Exhibit 22: EBITDA and EBITDA margin %



Source: Company, HSIE Research

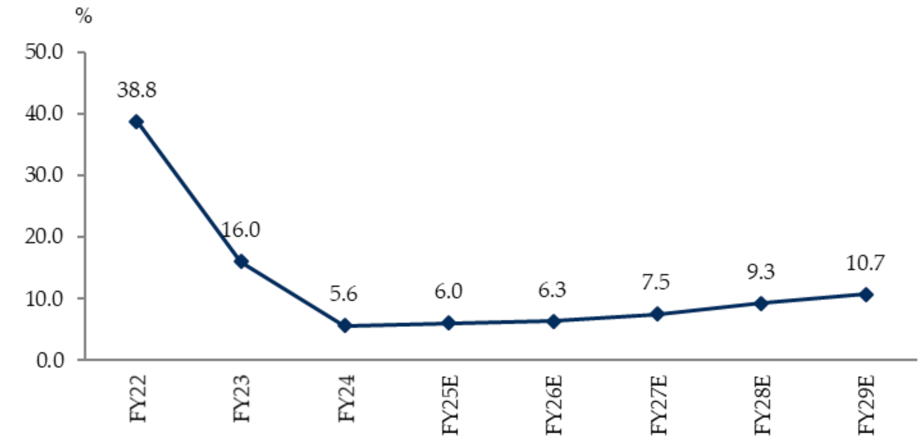
Exhibit 23: APAT and APAT margin %



Source: Company, HSIE Research

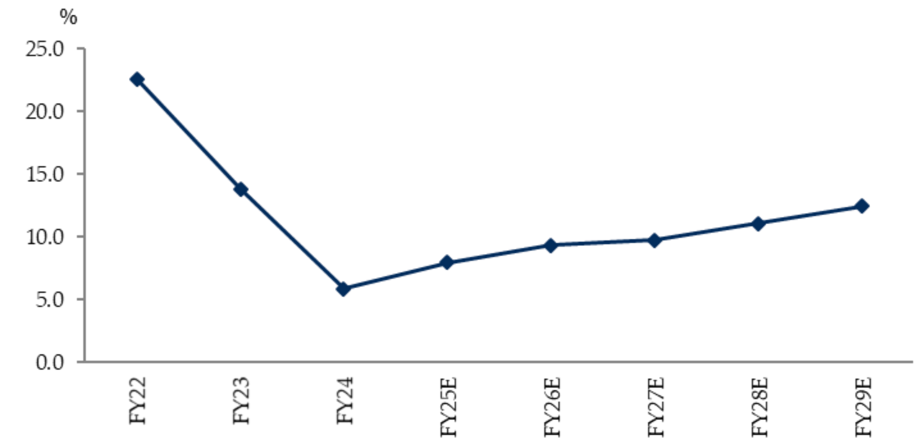
APAT will grow from INR 929mn in FY24 to INR 4,717mn in FY29E at a CAGR of 38% over FY24-29E. APAT margin will expand by 589bps from 15.5% in FY24 to 21.4% in FY29E, in line with EBITDA expansion. The ROE is expected to grow from the 5.6% in FY24 to 10.7% in FY29. It will be primarily driven by asset turnover, which is expected to increase from 0.71x in FY24 to 0.79x in FY29.

Exhibit 24: Return on equity ratio (%)



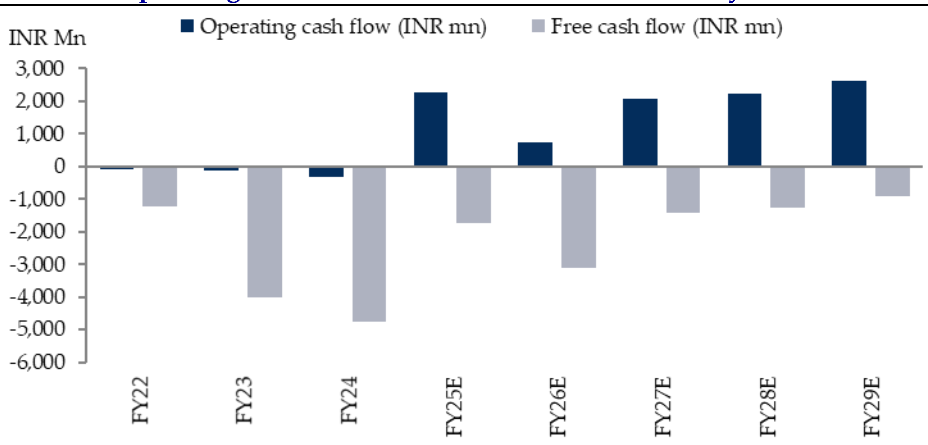
Source: Company, HSIE Research

Exhibit 25: Return on invested capital (%)



Source: Company, HSIE Research

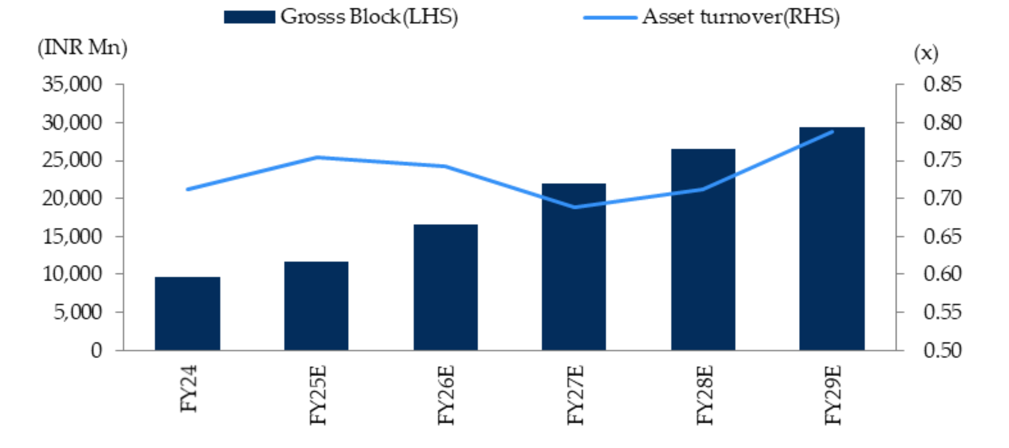
Exhibit 26: Operating cash flows and free cash flows over the years



Source: Company, HSIE Research

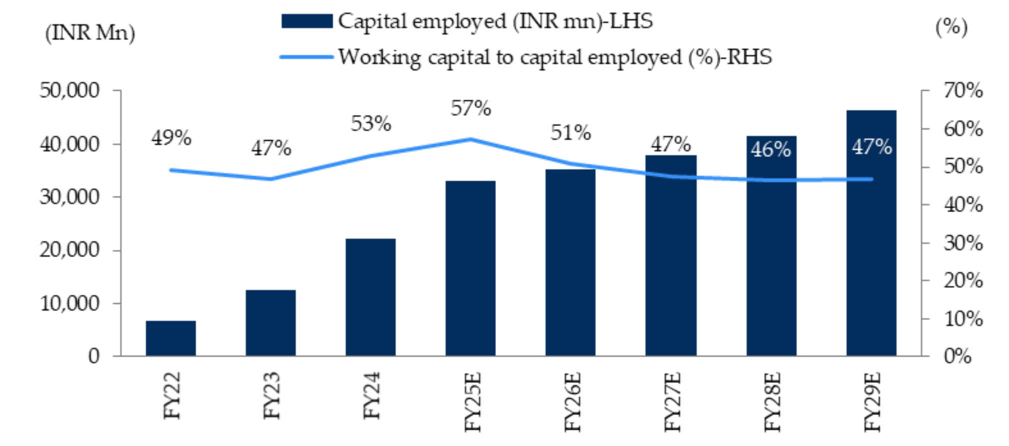
The company will generate an operating cash flow of ~INR 9.92bn spread over the next five years. The gross block is expected to grow from ~INR 7.1bn in FY24 to INR 29.330bn in FY29 while the asset turnover is likely to improve from 0.71x to 0.79x in FY29.

Exhibit 27: Gross Block viz-a-viz Asset Turnover



Source: Company, HSIE Research

Exhibit 28: Working Capital Employed



Source: Company, HSIE Research

Financials

INCOME STATEMENT

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Revenues	**5,900**	**6,511**	**5,982**	**8,051**	**10,517**	**13,312**	**17,271**	**22,024**
Growth %	***31.2***	***10.3***	***(8.1)***	***34.6***	***30.6***	***26.6***	***29.7***	***27.5***
Raw Material	2,880	3,173	3,209	4,428	5,154	6,390	8,377	10,792
Employee Cost	270	345	386	425	484	552	596	644
Other Expenses	1,069	1,130	1,064	1,127	1,946	2,396	2,936	3,744
EBITDA	**1,681**	**1,862**	**1,322**	**2,071**	**2,934**	**3,974**	**5,362**	**6,844**
EBIDTA Margin (%)	28.5	28.6	22.1	*25.7*	*27.9*	*29.9*	*31.0*	*31.1*
EBITDA Growth %	49.9	10.8	(29.0)	*56.6*	*41.7*	*35.4*	*34.9*	*27.6*
Depreciation	155	232	397	483	684	908	1,092	1,208
EBIT	**1,526**	**1,630**	**926**	**1,588**	**2,249**	**3,066**	**4,270**	**5,636**
Other Income (Including EO Items)	70	166	254	350	500	450	450	450
Interest	131	51	85	0	0	0	0	0
PBT	**1,465**	**1,745**	**1,095**	**1,938**	**2,749**	**3,516**	**4,720**	**6,086**
Tax	375	441	270	436	605	774	1,038	1,369
PAT	**1,089**	**1,304**	**825**	**1,502**	**2,145**	**2,743**	**3,682**	**4,717**
EO (Loss) / Profit (Net Of Tax)	-	-	(104)	-	-	-	-	-
APAT	**1,089**	**1,304**	**929**	**1,502**	**2,145**	**2,743**	**3,682**	**4,717**
Share from associates	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Consolidated APAT	**1,089**	**1,304**	**929**	**1,502**	**2,145**	**2,743**	**3,682**	**4,717**
Consolidated APAT Growth (%)	53.2	19.7	(28.8)	*61.7*	*42.8*	*27.9*	*34.3*	*28.1*
AEPS	**8.2**	**9.8**	**7.0**	**11.3**	**16.2**	**20.7**	**27.8**	**35.6**
AEPS Growth %	***53.2***	***19.7***	***(28.5)***	*61.1*	*42.8*	*27.9*	*34.3*	*28.1*

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
SOURCES OF FUNDS								
Share Capital	1,127	1,245	1,326	1,443	1,443	1,443	1,443	1,443
Reserves And Surplus	2,742	11,201	19,308	31,440	33,584	36,327	40,009	44,725
Total Equity	**3,869**	**12,446**	**20,633**	**32,882**	**35,027**	**37,770**	**41,451**	**46,168**
Minority Interest	-	-	-	-	-	-	-	-
Long-term Debt	1,218	-	-	-	-	-	-	-
Short-term Debt	1,633	1	1,686	0	0	0	0	0
Total Debt	**2,851**	**1**	**1,686**	**0**	**0**	**0**	**0**	**0**
Deferred Tax Liability	139	268	364	364	364	364	364	364
Long-term Provision and others	51	145	119	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**6,909**	**12,860**	**22,803**	**33,247**	**35,391**	**38,134**	**41,816**	**46,532**
APPLICATION OF FUNDS								
Net Block	2,571	6,462	8,595	10,208	14,411	18,925	22,304	23,921
Capital WIP	577	372	2,261	4,165	3,127	1,206	235	910
Other non-current assets	450	212	121	121	121	121	121	121
Non-current Investments	2	2	2	5	5	5	5	5
Total Non-current assets	**3,600**	**7,047**	**10,979**	**14,499**	**17,665**	**20,257**	**22,665**	**24,957**
Inventories	1,627	2,488	3,435	3,529	4,610	5,106	6,625	8,448
Debtors	1,635	2,590	2,329	2,867	3,746	4,668	5,678	7,241
Cash and Cash Equivalents	180	1,023	5,557	13,145	10,523	9,561	8,740	8,300
Other Current Assets	656	651	1,707	816	1,066	1,349	1,751	2,233
Total Current Assets	**4,098**	**6,752**	**13,027**	**20,358**	**19,945**	**20,685**	**22,794**	**26,222**
Creditors	699	815	1,035	1,456	2,017	2,553	3,312	4,224
Other Current Liabilities & Provns	91	124	168	154	202	255	331	422
Total Current Liabilities	**789**	**939**	**1,204**	**1,610**	**2,219**	**2,808**	**3,644**	**4,646**
Net Current Assets	**3,309**	**5,813**	**11,823**	**18,748**	**17,726**	**17,877**	**19,150**	**21,575**
TOTAL APPLICATION OF FUNDS	**6,909**	**12,860**	**22,802**	**33,247**	**35,391**	**38,134**	**41,816**	**46,532**

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Reported PBT	1,465	1,745	1,095	1,938	2,749	3,516	4,720	6,086
Non-operating & EO Items	(70)	(166)	(254)	(350)	(500)	(450)	(450)	(450)
Interest Expenses	131	51	85	0	0	0	0	0
Depreciation	155	232	397	483	684	908	1,092	1,208
Working Capital Change	(1,424)	(1,661)	(1,476)	664	(1,601)	(1,111)	(2,095)	(2,865)
Tax Paid	(339)	(312)	(174)	(436)	(605)	(774)	(1,038)	(1,369)
OPERATING CASH FLOW (a)	**(82)**	**(110)**	**(328)**	**2,299**	**728**	**2,089**	**2,229**	**2,610**
Capex	(1,139)	(3,918)	(4,419)	(4,000)	(3,850)	(3,500)	(3,500)	(3,500)
Free Cash Flow (FCF)	(1,221)	(4,028)	(4,747)	(1,701)	(3,122)	(1,411)	(1,271)	(890)
Investments	-	(0)	-	(2)	-	-	-	-
Non-operating Income	70	166	254	350	500	450	450	450
Others	(422)	238	90	-	-	-	-	-
INVESTING CASH FLOW (b)	**(1,491)**	**(3,514)**	**(4,074)**	**(3,652)**	**(3,350)**	**(3,050)**	**(3,050)**	**(3,050)**
Debt Issuance/(Repaid)	769	(2,850)	1,685	(1,686)	-	-	-	-
Interest Expenses	(131)	(51)	(85)	(0)	(0)	(0)	(0)	(0)
FCFE	(583)	(6,929)	(3,147)	(3,387)	(3,122)	(1,411)	(1,271)	(890)
Share Capital Issuance	1,026	118	80	117.1	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
Others	34	7,249	7,256	10,511	0	(0)	(0)	0
FINANCING CASH FLOW (c)	**1,697**	**4,467**	**8,936**	**8,942**	**(0)**	**(0)**	**(0)**	**(0)**
NET CASH FLOW (a+b+c)	**125**	**843**	**4,534**	**7,588**	**(2,622)**	**(961)**	**(821)**	**(440)**
EO Items, Others								
Closing Cash & Equivalents	**180**	**1,023**	**5,557**	**13,145**	**10,523**	**9,561**	**8,740**	**8,300**

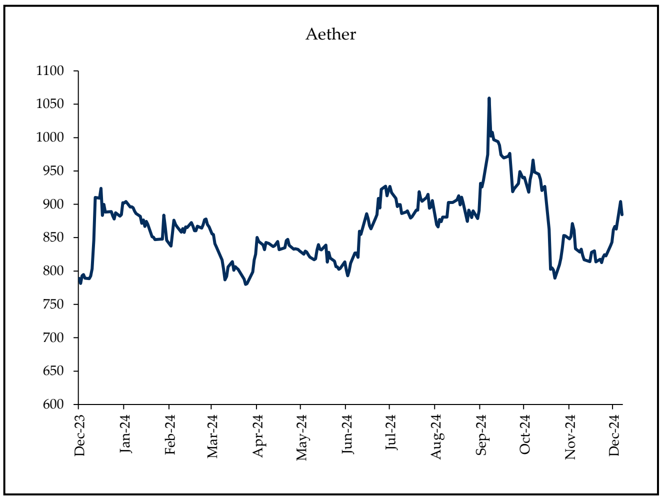
Source: Company, HSIE Research

KEY RATIOS

	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
PROFITABILITY %								
Gross Margin	51.2	51.3	46.4	45.0	51.0	52.0	51.5	51.0
EBITDA Margin	28.5	28.6	22.1	25.7	27.9	29.9	31.0	31.1
EBIT Margin	25.9	25.0	15.5	19.7	21.4	23.0	24.7	25.6
APAT Margin	18.5	20.0	15.5	18.7	20.4	20.6	21.3	21.4
RoE	38.8	16.0	5.6	5.6	6.3	7.5	9.3	10.8
RoIC	22.6	13.8	5.9	8.0	9.3	9.7	11.1	12.5
RoCE	21.9	13.6	5.6	5.4	6.2	7.5	9.2	10.7
EFFICIENCY								
Tax Rate %	25.6	25.3	24.7	22.5	22.0	22.0	22.0	22.5
Fixed Asset Turnover (x)	2.1	1.3	0.71	0.75	0.74	0.69	0.71	0.79
Inventory (days)	101	139	210	160	160	140	140	140
Debtors (days)	101	145	142	130	130	128	120	120
Other Current Assets (days)	41	37	104	37	37	37	37	37
Payables (days)	89	94	118	120	143	146	144	143
Other Current Liab & Provns (days)	6	7	10	7	7	7	7	7
Cash Conversion Cycle (days)	148	220	328	200	177	152	146	147
Net Debt/EBITDA (x)	1.6	(0.5)	(2.9)	(6.3)	(3.6)	(2.4)	(1.6)	(1.2)
Net D/E	0.7	(0.1)	(0.2)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)
Interest Coverage	11.6	32.0	10.9	-	-	-	-	-
PER SHARE DATA (INR)								
EPS	8.2	9.8	7.0	11.3	16.2	20.7	27.8	35.6
CEPS	9.4	11.6	10.0	15.0	21.3	27.5	36.0	44.7
Dividend	-	-	-	-	-	-	-	-
Book Value	29.2	93.9	155.7	248.1	264.3	285.0	312.8	348.4
VALUATION								
P/E (x)	110.0	91.9	128.5	79.8	55.9	43.7	32.5	25.4
P/Cash EPS (x)	96.3	78.0	90.1	60.4	42.3	32.8	25.1	20.2
P/BV (x)	31.0	9.6	5.8	3.6	3.4	3.2	2.9	2.6
EV/EBITDA (x)	72.9	63.8	87.7	51.5	37.2	27.7	20.7	16.3
EV/Revenue (x)	20.8	18.2	19.4	13.2	10.4	8.3	6.4	5.1
Dividend Yield (%)	-	-	-	-	-	-	-	-
OCF/EV (%)	(0.1)	(0.1)	(0.3)	2.2	0.7	1.9	2.0	2.3
FCFF/EV (%)	(1.0)	(3.4)	(4.1)	(1.6)	(2.9)	(1.3)	(1.1)	(0.8)
FCFE/M Cap (%)	(0.5)	(5.8)	(2.6)	(2.9)	(2.6)	(1.2)	(1.1)	(0.7)

Source: Company, HSIE Research

Price movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:
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