

May 23, 2022

Aether Industries Limited IPO

Aether Industries Limited (AIL) was incorporated on January 23, 2013. It is engaged in the business of Specialty Chemicals and Intermediates. The products of the Company find application in various sectors like Pharmaceuticals, Agrochemicals, Specialty, Electronic Chemicals, Material Sciences, High Performance Photography etc. Aether's business models include Large Scale Manufacturing of Specialty Chemicals, Contract Manufacturing and Contract Research and Manufacturing Services (CRAMS). It is a leading CRAMS provider, built upon technology intensive and state-of-art R&D and pilot plant facilities. All its R&D, pilot, CRAMS, and large-scale manufacturing facilities can switch between batch and continuous process technology. It has a production capacity of 6,096MT as of 31st March 2021.

Positives: (a) Differentiated portfolio of market-leading products (b) Focus on R&D to leverage the core competencies of chemistry and technology (c) Strong and long-standing relationships with diversified customer base (d) Synergistic Business Models focused on Large Scale Manufacturing, CRAMS and Contract Manufacturing (e) Experienced Promoters and Senior Management with extensive domain knowledge.

Investment concerns: (a) Business is dependent on manufacturing facilities and any shutdowns or slowdowns in manufacturing operations can have adverse effect on company (b) Currently, AIL derives majority of its revenue from top 20 customers (~73%) without having any long-term contracts with all of them (c) Non-Compliance and changes in regulations can adversely affect AIL's business.

Outlook & Valuation: In terms of valuations, the post-issue TTM P/E works out to 75.6x (at the upper end of the issue price band), which is reasonable considering AIL's historical top-line & bottom-line CAGR of ~50% and ~75% respectively over FY19-21. Further, AIL has diversified customer base, strong financial track record and higher ROE. Considering all the positive factors, we believe this valuation is at reasonable levels. **Thus, we recommend a subscribe rating on the issue.**

Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021	9MFY21	9MFY22
Net Sales	201	302	450	334	443
% chg		50.0	49.0	-	32.5
Net Profit	23	40	71	48	83
% chg		71.2	78.0	-	71.8
OPM (%)	23.6	23.8	24.9	22.9	28.5
EPS (₹)	2.1	3.5	6.3	4.3	7.4
P/E (x)	310.0	181.1	101.7	-	-
P/BV (x)	187.7	92.4	41.5	-	-
RoE (%)	60.5	51.0	40.8	-	-
RoCE (%)	24.9	25.5	26.2	-	-
EV/Sales (x)	36.6	24.5	16.5	-	-
EV/EBITDA (x)	154.9	103.2	66.1	-	-

Angel Research; Note: Valuation ratios based on post-issue shares and at ₹642 per share.

Subscribe

Issue Open: May 24, 2022

Issue Close: May 26, 2022

Face Value: ₹10

Present Eq. Paid up Capital: ₹112.69cr

Offer for sale: ₹181cr

Fresh Issue: ₹627cr

Post Eq. Paid up Capital: ₹122.5cr

Issue size (amount): ₹808cr

Price Band: ₹610-642

Lot Size: 23 shares

Post-issue mkt.cap: ₹7,625* – 7,992cr**

Promoter holding Pre-Issue: 97.0%

Promoter holding Post-Issue: 87.1%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Post Issue Shareholding Pattern

Promoters	87.1%
Public	12.9%

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Company background

Incorporated on January 23, 2013, as a Public Limited Company. It is engaged in the business of Specialty Chemicals and Intermediates. The products of the Company find application in various sectors like Pharmaceuticals, Agrochemicals, Specialty, Electronic Chemicals, Material Sciences, High Performance Photography etc. Aether's business models include Large Scale Manufacturing of Specialty Chemicals, Contract Manufacturing and Contract Research and Manufacturing Services (CRAMS).

It is a leading CRAMS provider, built upon technology intensive and state-of-art R&D and pilot plant facilities. All its R&D, pilot, CRAMS, and large-scale manufacturing facilities can switch between batch and continuous process technology. It has a production capacity of 6,096MT as of 31st March 2021.

Aether is one of the fastest growing specialty chemical companies in India, growing at a CAGR of nearly 49.5% between Fiscal 2019 and Fiscal 2021.

As of March 31, 2022, Aether's product portfolio comprised over 25 products. In CY2020, they were the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol.

Issue details

ALL is raising ₹181cr through OFS and ₹627cr through Fresh Issue in the price band of ₹610-₹642 per share.

Exhibit 1: Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	11,12,36,127	97.0%	10,84,16,127	87.1%
Public	34,80,191	3.0%	1,60,66,546	12.9%
Total	11,47,16,318	100.0%	12,44,82,673	100.0%

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company (~₹138cr).
- Funding capital expenditure requirements for the manufacturing facility - Proposed Greenfield Project (~₹163cr).
- Funding working capital requirements of the Company (~₹165cr).
- General corporate purposes.

Profit & Loss Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021	9MFY21	9MFY22
Net Sales	201	302	450	334	443
% chg		50.0	49.0		32.5
Total Expenditure	154	230	338	258	317
Raw Material	110	156	231	178	215
Personnel	11	13	22	16	21
Other Expenses	33	61	85	64	80
EBITDA	48	72	112	77	126
% chg		51.0	56.3		64.6
(% of Net Sales)	23.6	23.8	24.9	22.9	28.5
Depreciation & Amortization	6	8	11	8	11
EBIT	41	64	101	68	115
% chg		55.5	58.3		68.1
(% of Net Sales)	20.4	21.2	22.5	20.4	25.9
Interest & other Charges	11	9	11	8	10
Other Income	2	2	4	3	7
(% of PBT)	6.4	3.5	4.2	5.1	6.1
PBT	33	57	94	63	111
% chg		73.4	66.0		75.4
Tax	9	17	23	15	28
(% of PBT)	28.4	29.3	24.2	24.0	25.5
PAT	23	40	71	48	83
% chg		71.2	78.0		71.8
Basic EPS (Rs)	2.1	3.5	6.3	4.3	7.4

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY2019	FY2020	FY2021
SOURCES OF FUNDS			
Equity Share Capital	9	9	10
Reserves & Surplus	30	70	164
Shareholders' Funds	39	78	174
Total Loans	126	172	211
Other Liabilities	-	-	-
Total Liabilities	165	251	386
APPLICATION OF FUNDS			
Net Block	106	129	216
Capital Work-in-Progress	1	17	0
Investments	0	0	22
Current Assets	96	148	211
Inventories	40	72	85
Sundry Debtors	48	63	108
Cash	1	4	6
Loans & Advances	1	1	1
Other Assets	6	9	12
Current liabilities	38	42	57
Net Current Assets	58	106	154
Deferred Tax Liabilities	3	8	10
Other Assets	3	6	3
Total Assets	165	251	386

Source: Company, Angel Research

Cash Flow Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021
Profit before tax	33	57	94
Depreciation	6	8	11
Change in Working Capital	-20	-43	-73
Interest / Dividend (Net)	10	9	11
Direct taxes paid	-6	-13	-20
Others	0	0	0
Cash Flow from Operations	23	18	23
(Inc.)/ Dec. in Fixed Assets	-12	-48	-77
(Inc.)/ Dec. in Investments	0	0	0
Interest Received	0	0	0
Cash Flow from Investing	-13	-48	-77
Issue of Equity	0	0	0
Inc./(Dec.) in loans	1	42	67
Dividend Paid (Incl. Tax)	0	0	0
Interest / Dividend (Net)	-11	-9	-11
Cash Flow from Financing	-10	33	55
Inc./(Dec.) in Cash	0	2	2
Opening Cash balances	1	1	4
Closing Cash balances	1	4	6

Source: Company, Angel Research

Key Ratios

Y/E March	FY2019	FY2020	FY2021
Valuation Ratio (x)			
P/E (on FDEPS)	310.0	181.1	101.7
P/CEPS	243.3	151.3	88.1
P/BV	187.7	92.4	41.5
EV/Sales	36.6	24.5	16.5
EV/EBITDA	154.9	103.2	66.1
EV / Total Assets	44.6	29.5	19.2
Per Share Data (Rs)			
EPS (Basic)	2.07	3.55	6.31
EPS (fully diluted)	2.1	3.5	6.3
Cash EPS	2.6	4.2	7.3
Book Value	3.4	6.9	15.5
Returns (%)			
ROCE	24.9	25.5	26.2
Angel ROIC (Pre-tax)	25.1	25.9	28.3
ROE	60.5	51.0	40.8
Turnover ratios (x)			
Asset Turnover (Net Block)	1.9	2.3	2.1
Inventory / Sales (days)	72	87	69
Receivables (days)	87	76	88
Payables (days)	41	46	39
Working capital cycle (ex-cash) (days)	118	117	118

Source: Company, Angel Research

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