

India

ADD (previously HOLD)

Consensus ratings*: Buy 5 Hold 1 Sell 0

Current price:	Rs880
Target price: ▲	Rs1,170
Previous target:	Rs1,124
Up/downside:	33.0%
InCred Research / Consensus:	4.2%

Reuters:	
Bloomberg:	AETHER IN
Market cap:	US\$1,401m
	Rs116,661m
Average daily turnover:	US\$1.0m
	Rs82.5m
Current shares o/s:	132.7m
Free float:	18.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.1)	(19.5)	(7.9)
Relative (%)	(6.3)	(16.2)	(11.8)

Major shareholders	% held
Promoters	82.0
SBI Magnum Mid Cap	9.0
Retail	2.0

Aether Industries Ltd

Headwinds, but valuation leaves upside

- 2QFY24 results were in line, with revenue at Rs1,642m (up 17% YoY), EBITDA at Rs460m (up 24% YoY) and PAT at Rs367m (up 36% YoY).
- Aether Industries has been investing significantly in R&D (8% of sales) and is also incurring significant capex (gross block is expected to double by FY25F).
- We feel the company's entry into high-realization products will counteract the global agrochemicals slowdown. Upgrade to ADD with a new TP of Rs1,170.

Significant capex to aid topline despite conservative utilization

Aether Industries is incurring a significant amount of capex, as its net block is expected to double in FY26F from the FY23 level. The company is currently in the process of expanding manufacturing capacities at its facility-3 (for large-scale manufacturing), facility-4 (exclusively for contract manufacturing), and facility-5 (housing polyols and various new projects). With a capex plan of nearly Rs13bn in the next few years, Aether Industries' topline is likely to post a 23% CAGR over FY23-26F.

Import substitution via higher-realization new pharma intermediates

Aether Industries is expanding its product portfolio by manufacturing five new pharmaceutical intermediates. These products have an average realization of Rs5,240/kg, which is significantly higher than the current blended realization of Rs1,600/kg. There is a significant import substitution opportunity here, given that Aether Industries has a relatively small size. Even at conservative estimates, the company is likely to post an incremental revenue of Rs2,481m and Rs 2,791m for FY25F and FY26F, respectively, which is the main driving force behind our conviction.

High R&D spending coupled with the converge polyols optionality

Aether Industries' R&D spending, as a percentage of its sales, is way higher than its peers (close to 7%). This is the highest R&D spending in India's specialty chemicals industry. As a result, the company has commercialized close to 25 products. This has also ensured a strong pipeline of new products, offering an opportunity of import substitution for the company, thereby weaning away market share from Chinese specialty chemical players. Moreover, Aether Industries has also started manufacturing converge polyols for Aramco, which has a revenue potential of Rs1.5-2bn.

We value the stock at 40x FY26F EV/EBITDA; upgrade to ADD

We feel there is a lot of upside left while looking at the current valuation of Aether Industries. Even though the chemical industry is facing headwinds, Aether Industries, due to its product fungibility coupled with a higher-realization product portfolio, will achieve the guided 23% topline CAGR. We value the stock at 40x FY26F EV/EBITDA to arrive at a higher target price of Rs1,170 from Rs1,124 earlier. Upgrade to an ADD rating (HOLD earlier). Downside risks: Further loss of market share for the company's molecules.

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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	5,900	6,511	7,410	10,647	12,154
Operating EBITDA (Rsm)	1,681	1,862	2,075	3,301	3,889
Net Profit (Rsm)	1,089	1,304	1,364	2,227	2,550
Core EPS (Rs)	10.2	11.0	10.6	16.8	19.2
Core EPS Growth	33.7%	7.9%	(3.6%)	58.3%	14.5%
FD Core P/E (x)	86.34	80.06	83.00	52.44	45.82
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	57.54	55.51	50.39	33.10	28.35
P/FCFE (x)	(72.56)	(20.63)	191.25	(293.40)	(4,120.91)
Net Gearing	69.0%	(8.2%)	(40.5%)	(32.0%)	(24.9%)
P/BV (x)	25.64	8.81	5.45	4.93	4.44
ROE	38.8%	16.0%	8.1%	9.9%	10.2%
% Change In Core EPS Estimates			(3.04%)	(3.98%)	(7.69%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Company’s products are also facing pricing pressure ➤

Primary products in Aether Industries’ portfolio includes 4-MEP, MMBC, T2E and bifenthrin alcohol. Out of these, MMBC and bifenthrin alcohol are agrochemical molecules, which are facing relatively severe headwinds due to lack of demand and inventory destocking in the agrochemicals space. However, pharmaceutical intermediates have shown a relatively lesser price erosion.

Figure 1: 4-MEP is a intermediate for making metoprolol succinate whose prices have declined marginally

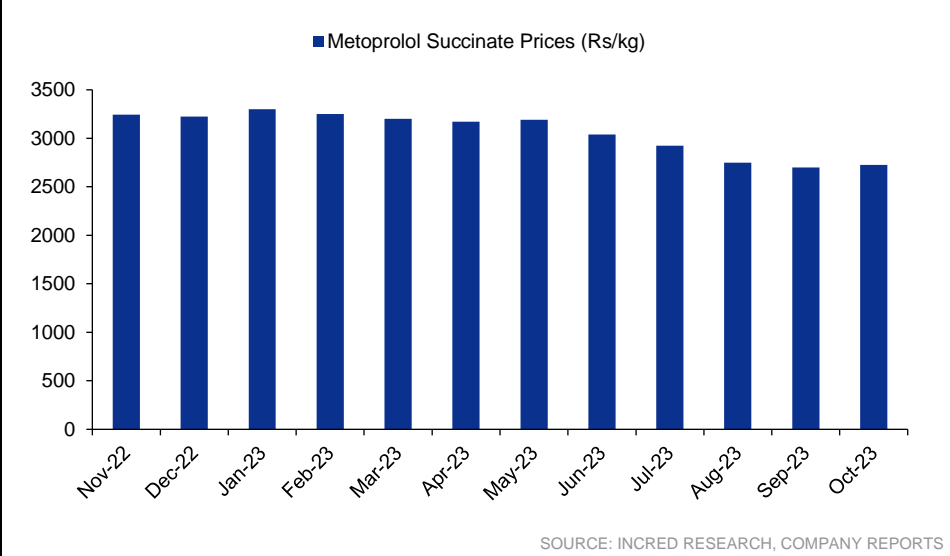


Figure 2: Prices of bifenthrin alcohol, a pyrethroid, have decreased considerably due to dumping by Chinese players

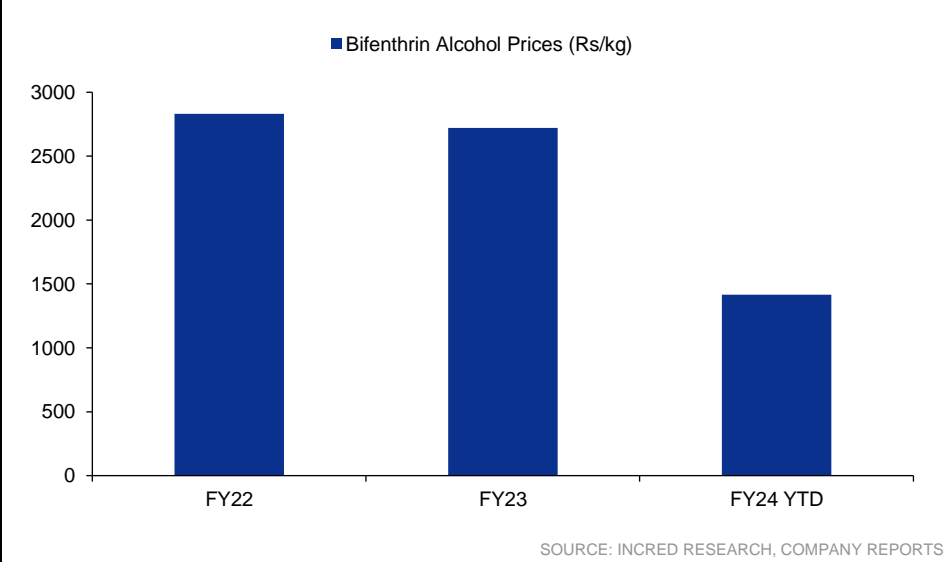
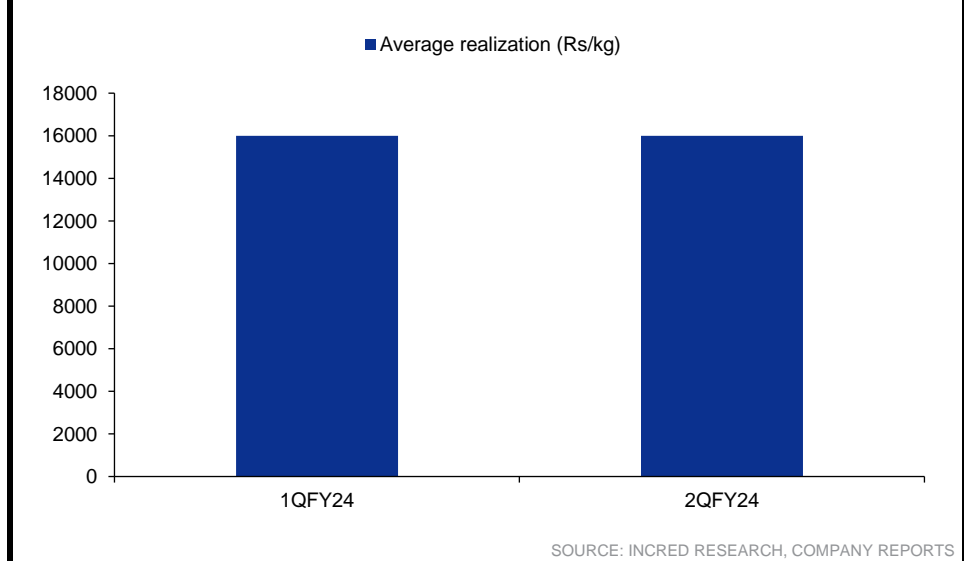


Figure 3: Average realization remains flat QoQ - this suggests falling realization in Aether Industries' old molecules, as new molecules have a higher realization



Demand for dolutegravir declines by 40% ➤

In the conference call, management highlighted that the demand for dolutegravir, for which Aether Industries makes the key intermediate, 3-R-Amino-1-butanol, has decreased by 40%, which is a significant number. Dolutegravir is also facing headwinds because of the launch of Biktarvy by Gilead, a drug which has captured 50% of the market share for treating AIDS. It should also be noted that Aether Industries' 3-R-amino-1-butanol has a realization of Rs6,000/kg, much higher than the company's average realization of Rs1,600/kg.

Figure 4: Dolutegravir prices decline considerably

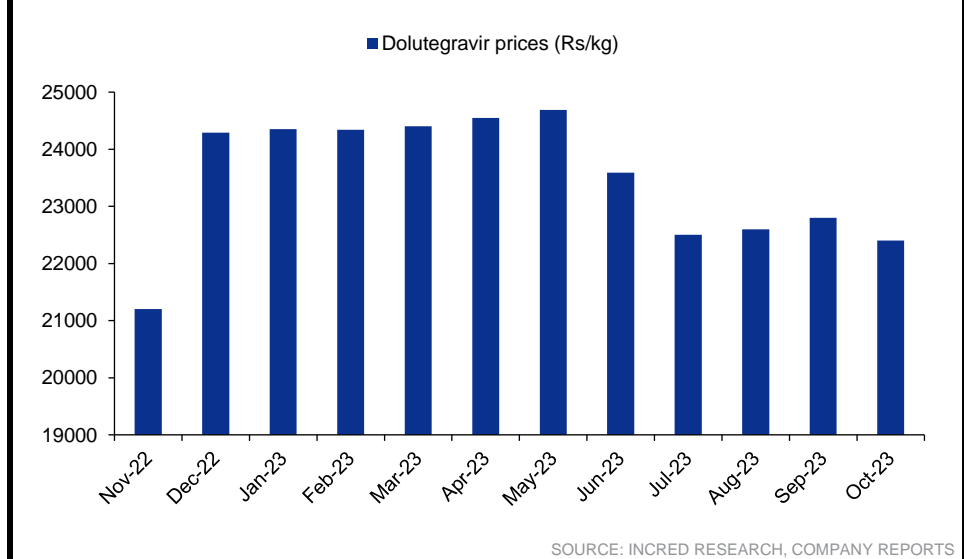


Figure 5: Top-selling HIV drugs (US\$m); Biktarvy has captured almost 50% market share because of having lesser side effects and being cheaper compared to DTG ARV therapy

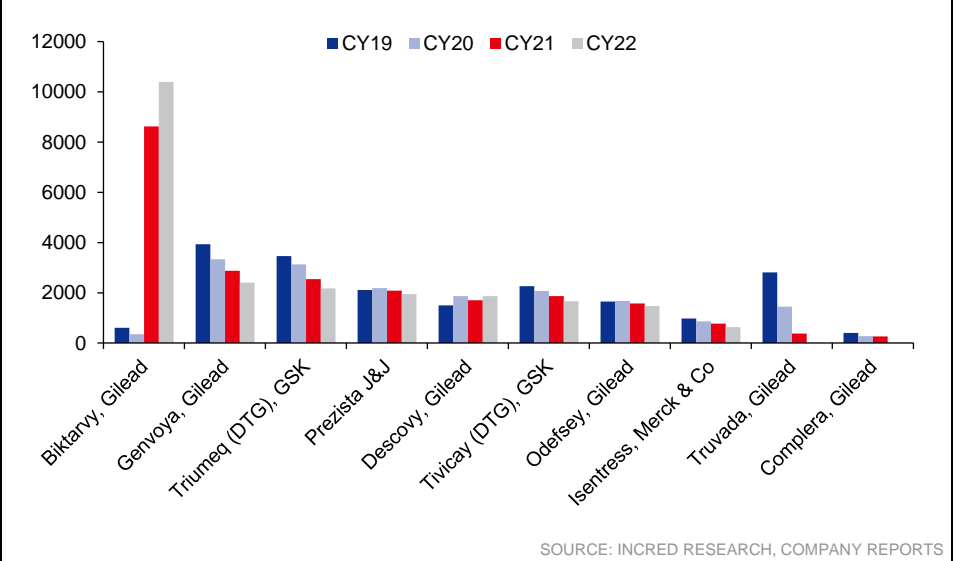
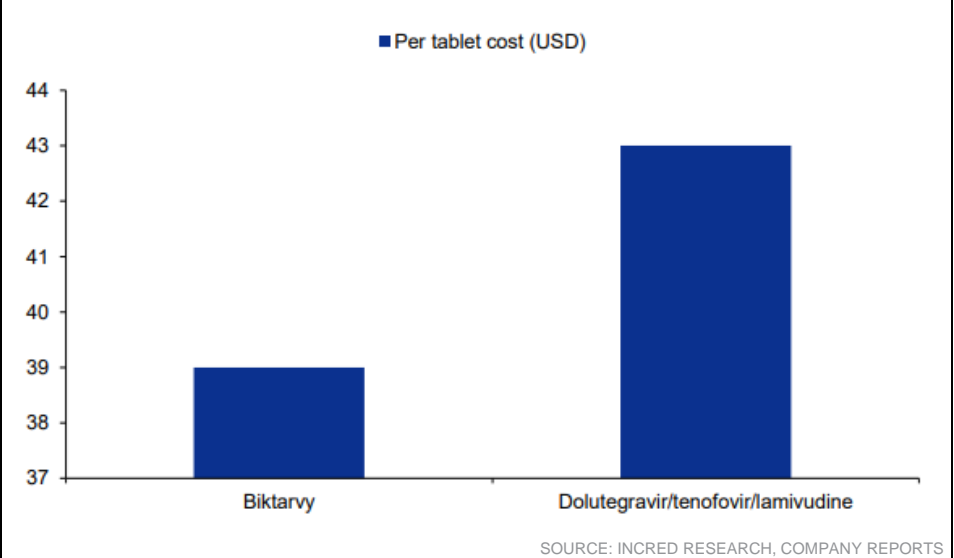


Figure 6: Biktarvy is cheaper than the existing DTG ARV therapy



Converge polyols - an interesting optionality ➤

- Aether Industries collaborated with Saudi Aramco to develop converge polyols. They jointly developed the manufacturing process and validated the production on a pre-commercial scale. This novel technology allows the production of converge polyols with up to 40% weight of carbon dioxide.
- Converge polyols are superior to existing products with a ready customer base. When these polyols are incorporated into polyurethane, the product has superior material performance in strength, abrasion, hardness, and tear strength, more significant load-bearing capacity, chemical and weather resistance, and reduced heat combustion. Due to these properties, converge polyols find usage in automotive and furniture industries. Overall, they are broad-spectrum products that can be used from automobile seats to building insulation parts. They have several applications, including flexible foam, rigid insulation foam for construction, industrial use, appliance coating, adhesives, sealants, and elastomers, which indicates that a broad customer base is ready for the product.
- **Converge polyol offers a significant advantage to the company.** The CASE polyol industry has a market size of more than 1,000ktpa. Saudi Aramco targets a market size of 850ktpa and a CAGR of 5%. Aether Industries will

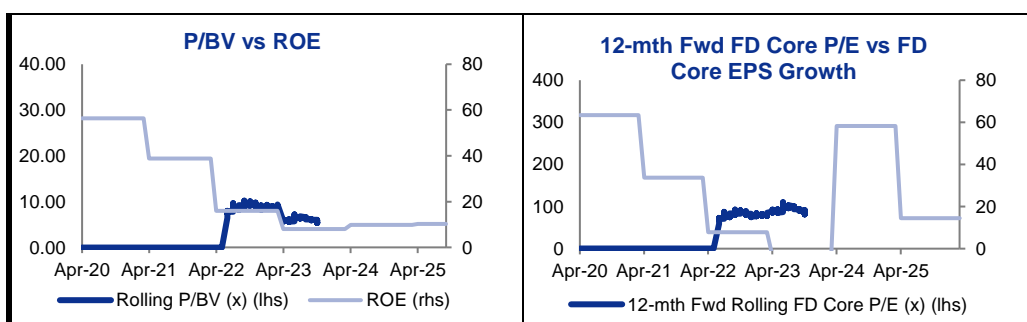
manufacture 2,000mt of the product, in volume terms, for Saudi Aramco, at a price close to Rs400/kg. The company could end up supplying up to 30,000mt in the long run. It will supply globally to different Aramco locations. Aether Industries can generate Rs1.5bn-2.0bn of revenue in FY26F via this collaboration. Another advantage is that this establishes Aether Industries' relationship with Saudi Aramco, which has a specialty and intermediate chemicals portfolio, paving the way for future collaborations.

Figure 7: Quarterly results snapshot

Rs m	2QFY24	2QFY23	YoY	1QFY24	QoQ	Inc'd Estimates	Diff.	Bloomberg Estimates	Bloomberg Diff.
Revenue	1,642	1,400	17.3%	1,610	2.0%	1,667	-1.5%	1,720	-4.6%
Raw Material Costs	760	682	11.5%	769	-1.2%	797	-4.7%		
Employee Costs	115	89	29.5%	85	34.9%	88	30.5%		
Other Expenditure	307	259	18.5%	306	0.3%	317	-3.1%		
Total Expenses	1,182	1,030	14.8%	1,160	1.9%	1,202	-1.7%		
EBITDA	460	370	24.1%	450	2.3%	465	-1.2%	512	-10.2%
OPM (%)	28.0%	26.5%	154.5 bp	27.9%	8.1 bp	27.9%	10.5 bp		
Other Income	141	60	135.6%	30	371.2%	56	154.4%		
Interest	16	10	64.1%	10	64.1%	10	64.1%		
Depreciation	97	50	94.8%	90	8.2%	100	-2.6%		
PBT	487	370	31.5%	380	28.4%	411	18.6%		
Total Tax	121	100	20.5%	68	76.4%	82	46.7%		
PAT	367	270	35.6%	311	17.8%	329	11.6%	322	13.9%
Net Margin (%)	22.3%	19.3%	302.5 bp	19.3%	300.9 bp	19.7%	263.2 bp		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	5,900	6,511	7,410	10,647	12,154
Gross Profit	3,020	3,337	3,779	5,750	6,684
Operating EBITDA	1,681	1,862	2,075	3,301	3,889
Depreciation And Amortisation	(155)	(232)	(450)	(606)	(804)
Operating EBIT	1,526	1,630	1,625	2,695	3,085
Financial Income/(Expense)	(131)	(51)	(4)	(4)	(4)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	70	166	222	319	365
Profit Before Tax (pre-EI)	1,465	1,745	1,843	3,010	3,445
Exceptional Items					
Pre-tax Profit	1,465	1,745	1,843	3,010	3,445
Taxation	(375)	(441)	(479)	(783)	(896)
Exceptional Income - post-tax					
Profit After Tax	1,089	1,304	1,364	2,227	2,550
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,089	1,304	1,364	2,227	2,550
Recurring Net Profit	1,089	1,304	1,364	2,227	2,550
Fully Diluted Recurring Net Profit	1,089	1,304	1,364	2,227	2,550

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	1,681	1,862	2,075	3,301	3,889
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,452)	(1,696)	720	(942)	(419)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	186	138	230	327	372
Net Interest (Paid)/Received	(131)	(51)	(4)	(4)	(4)
Tax Paid	(338)	(318)	(345)	(563)	(645)
Cashflow From Operations	(54)	(66)	2,676	2,119	3,194
Capex	(1,517)	(3,567)	(2,166)	(2,600)	(3,305)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	8	83	83	83	83
Cash Flow From Investing	(1,509)	(3,484)	(2,084)	(2,517)	(3,222)
Debt Raised/(repaid)	268	(1,510)			
Proceeds From Issue Of Shares	1,032	7,259	7,579	9	9
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	389	(1,357)	4	4	4
Cash Flow From Financing	1,688	4,392	7,583	13	13
Total Cash Generated	125	843	8,175	(385)	(15)
Free Cashflow To Equity	(1,296)	(5,060)	592	(398)	(28)
Free Cashflow To Firm	(1,433)	(3,498)	596	(394)	(24)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	180	1,023	8,665	7,573	6,553
Total Debtors	1,635	2,590	2,594	3,727	4,254
Inventories	1,627	2,488	1,997	1,959	1,914
Total Other Current Assets	656	651	366	478	535
Total Current Assets	4,098	6,752	13,621	13,737	13,256
Fixed Assets	2,933	5,705	7,700	10,250	13,505
Total Investments	2	2	2	2	2
Intangible Assets	216	1,128	1,129	1,129	1,129
Total Other Non-Current Assets	450	212	212	212	212
Total Non-current Assets	3,600	7,047	9,042	11,592	14,847
Short-term Debt	1,633	1	1	1	1
Current Portion of Long-Term Debt					
Total Creditors	699	815	763	1,029	1,149
Other Current Liabilities	85	113	113	113	113
Total Current Liabilities	2,416	929	877	1,143	1,263
Total Long-term Debt	1,218				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	57	156	156	156	156
Total Non-current Liabilities	1,275	156	156	156	156
Total Provisions	139	268	216	352	403
Total Liabilities	3,829	1,353	1,248	1,651	1,822
Shareholders Equity	3,869	12,446	21,415	23,678	26,282
Minority Interests					
Total Equity	3,869	12,446	21,415	23,678	26,282

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	31.2%	10.3%	13.8%	43.7%	14.1%
Operating EBITDA Growth	49.9%	10.8%	11.4%	59.1%	17.8%
Operating EBITDA Margin	28.5%	28.6%	28.0%	31.0%	32.0%
Net Cash Per Share (Rs)	(23.70)	8.21	65.29	57.06	49.38
BVPS (Rs)	34.33	99.96	161.38	178.44	198.06
Gross Interest Cover	11.63	32.01	406.22	673.68	771.21
Effective Tax Rate	25.6%	25.3%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	84.04	118.42	127.66	108.33	119.83
Inventory Days	156.80	236.66	225.41	147.41	129.25
Accounts Payables Days	74.53	87.05	79.30	66.74	72.65
ROIC (%)	29.1%	18.1%	10.2%	15.2%	13.7%
ROCE (%)	28.3%	16.7%	9.5%	11.8%	12.2%
Return On Average Assets	19.4%	12.5%	7.5%	9.3%	9.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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