# Aether Industries Ltd (AIL)

Q2FY27 Result Update | **Speciality Chemical**

**CEM-Led Growth; Magnum Line of Sight Widens to 14 Blocks**

DALAL & BROACHA STOCK BROKING PVT. LTD.

Institutional Equity Research Desk

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**Aether Industries reported a strong Q2FY27 performance with Revenue/EBITDA/Adj. PAT increasing 24%/25%/20% YoY to ₹3.47 bn/₹1.10 bn/₹680 mn, respectively, supported by continued rampup in Contract & Exclusive Manufacturing (CEM) and CRAMS businesses. EBITDA margin remained healthy at 31.8% (+38 bps YoY), despite higher logistics and employee costs, reflecting an improving business mix towards structurally higher-margin CEM contracts and firm LSM pricing. Gross margin expanded ~280 bps YoY to 51.8%. Management highlighted a robust order pipeline, with several contracts under negotiation and a number expected to conclude this financial year, and line of sight on 14 of the 16 production blocks at Magnum. The CRAMS pipeline remained robust with 65+ projects, led by Oil & Gas and Material Science, with new engagements this quarter with an automotive ancillary major, a global mining company and another oil & gas major. CEM and CRAMS now contribute ~66% of revenue and management reiterated its expectation of these businesses contributing 70% of revenues over the next two years, providing greater earnings visibility and margin resilience**

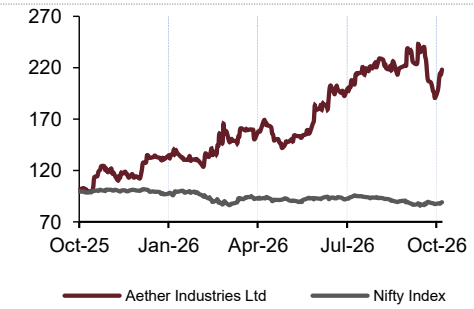
**Magnum (Site 5) is moving from capacity creation towards monetisation. The first two blocks are producing a pharma LSM product, with production expected to ramp up through Q3-Q4FY27. The next two blocks, for semiconductor materials and a new chemical entity for a leading global agrochemical major (CEM), are being equipped for commercial production from Q4FY27. Management now has line of sight on 14 of the 16 production blocks (2 LSM, 12 CEM) for commercialisation over the next 2–3 years, up from 10 at Q1. Under management's realistic best-case scenario, 15 of the 16 blocks are accounted for: four already assigned (two pharma LSM, one semiconductor and one agrochemical CEM), up to five for a European material-science multinational (including two held in reserve), two for an oil & gas major (including one held in reserve) and four under discussion with another customer. With only one block uncommitted, the company has begun planning for the adjacent land parcel.**

**Large Scale Manufacturing (LSM) revenue grew 1% YoY to ₹1.15 bn but fell 8% QoQ as select production lines were again repurposed to higher-priority CEM contracts. Pricing remained the support, with LSM prices up 27.5% YoY and 3.4% QoQ, implying lower volumes. LSM's share of revenue fell to 33% (Q2FY26: 41%). Management expects LSM to grow in absolute terms, led by the Magnum pharma product, with 12–15 LSM projects in R&D and at least two LSM launches a year, though CEM will grow faster. Pharma and agro contributed 26.6% and 7.9% of sales (Q2FY26: 36.6%/13.3%); management expects these to recover with the Magnum pharma product and the Q4FY27 agro CEM launch, but to grow slower than oil & gas and material science.**

| Rating | TP (Rs) | Up/Dn (%) |
|---|---|---|
| **BUY ON DIPS** | **1,632** | **1** |
| **Market data** | | |
| **Current price** | **Rs** | **1,615** |
| Market Cap (Rs.Bn) | (Rs Bn) | 215 |
| Market Cap (US$ Mn) | (US$ Mn) | 2,252 |
| Face Value | Rs | 10 |
| 52 Weeks High/Low | | Rs 1814.1 / 723.15 |
| Average Daily Volume | ('000) | 286 |
| BSE Code | | 543534 |
| Bloomberg | | AETHER.IN |

Source: Bloomberg

**One Year Performance**




Source: Bloomberg

| % Shareholding | Sep-26 | Jun-26 |
|---|---|---|
| Promoters | 75.00 | 75.00 |
| Public | 25.00 | 25.00 |
| **Total** | **100.00** | **100.00** |

Source: Bloomberg

**Key Risks:**

- Delay in Magnum Ramp-up
- Customer Concentration
- LSM Pricing Volatility
- Project Commercialization

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**Oil & gas rose to 33.4% of revenue (Q2FY26: 18.8%). Baker Hughes revenue at Strata (Site 4) was ₹720 mn, plus ₹150 mn from commercial sales of new products from the pilot plant. During the quarter Aether commercialised and shipped a new set of oilfield chemicals for Baker Hughes, made in India for the first time and replacing supply from Baker Hughes' Singapore side. No new block is required: one Strata production stream was modified within the original capex, and management now expects Strata to reach 3-3.5x asset turns at maturity. It sizes the market for the new products at ~US$2-2.5 bn and cited a healthy order book for the next six months, with further Baker Hughes products from Q3FY27**

**Aether also signed a new CEM contract with a leading global agrochemical innovator for a patented advanced intermediate, close to the active ingredient, of a recently launched molecule that management described as "pegged to be a blockbuster". Qualification took 12–16 months; supplies from Magnum block 4 are planned from Jan–Feb 2027, starting at 200–250 tpa with a projected path to ~600 tpa over time. On the Dow silicones programme, both teams have worked full time since 31 July; the immediate goal is a pilot unit that will generate data for a multikiloton commercial plant.**

**Management indicated that EBITDA margins should exceed its ~30% guidance, which it keeps conservative given geopolitical and pricing risks. The CFO guided FY27 capex at ₹3.5–3.7 bn, "not more than that" , with ~₹4 bn of the ~₹7 bn CWIP expected to be capitalised by FY27-end. Working capital is the key watchpoint: inventory days rose to 172 (Mar-26: 151) on rawmaterial stocking for CEM contracts and the Magnum blocks, net working capital stood at 165 days, H1 operating cash flow was ₹333 mn and gross debt rose to ₹6.24 bn (Jun-26: ₹5.22 bn). Management expects working capital to ease over the next six months as Magnum and Strata ramp up.**

**Financial Summary**

| Y/E Mar (Rs mn) | FY24 | FY25 | FY26 | FY27e | FY28e | FY29e |
|---|---|---|---|---|---|---|
| Net sales | 5,982 | 8,405 | 11,601 | 14,350 | 18,850 | 24,050 |
| EBIDTA | 1,322 | 2,430 | 3,634 | 4,613 | 5,924 | 7,695 |
| Margins | 22.1 | 28.9 | 31.3 | 32.1 | 31.4 | 32.0 |
| PAT (adj) | 962 | 1,703 | 2,284 | 2,802 | 3,736 | 4,823 |
| Growth (%) | -36.8 | 92.1 | 38.5 | 27.7 | 33.3 | 29.1 |
| EPS | 6.22 | 11.95 | 16.54 | 21.12 | 28.16 | 36.35 |
| P/E (x) | 260 | 135 | 98 | 76 | 57 | 44 |
| P/B (x) | 10 | 10 | 9 | 8 | 7 | 6 |
| EV/EBITDA (x) | 159 | 88 | 60 | 48 | 37 | 29 |
| RoE (%) | 6 | 8 | 10 | 11 | 13 | 14 |
| ROCE (%) | 8 | 10 | 12 | 12 | 14 | 16 |
| RoIC (%) | 6 | 8 | 8 | 9 | 10 | 12 |

Source: Dalal and Broacha

**Key Risks to Watch for FY27:**

- **Magnum Ramp-up:** Delays in commissioning blocks 3–4 (Q4FY27) or in converting reserved and under-discussion blocks into firm contracts could defer revenue and asset turns.
- **Customer Concentration:** Oil & gas is now 33% of revenue and Baker Hughes generated ₹870 mn in Q2 (including pilot-plant sales), raising dependence on a few strategic customers.
- **LSM Pricing:** Inventory days at 172, H1 operating cash flow of ₹333 mn and gross debt of ₹6.24 bn could weigh on return ratios if the expected unwind over the next six months is delayed.
- **Project Commercialization:** Slower conversion of CRAMS projects into CEM contracts, including semiconductor, material science and the agro NCE, could postpone the expected growth trajectory..

## Magnum & R&D Expansion to Drive Next Growth Phase

Aether maintained its **FY27 capex guidance of ₹300-370 crore**, with ~₹60 crore earmarked for the new Catalyst (Site 1) R&D centre and the balance for Magnum (Site 5). Total investment to **₹2,100-2,200 crore** and targeting **1.5-1.75x asset turns** at maturity. During Q1, Aether added **18 fume hoods** and a **400 MHz NMR**, while the new **₹100 crore R&D centre** (Q2FY28) will house **120 fume hoods and 8 technical labs**, expanding total R&D capacity from **55 to ~190-200 fume hoods** and strengthening its CRAMS-to-CEM pipeline.

## Baker Hughes Partnership Deepens

Aether has commercialised **a second set of oilfield chemicals for Baker Hughes**, shipped in Q2FY27 and produced in India for the first time, replacing supply from Baker Hughes' Singapore side. The products run on a modified Strata production stream within the original site capex, and **additional Baker Hughes products are slated from Q3FY27**. Management sizes the market for these products at **~US$2–2.5 billion** and expects Strata to reach **3–3.5x asset turns** at maturity. Oil & gas margins are in line with company margins, and Strata utilisation improved to 61%.

## Semiconductor Materials

Commercial sales of semiconductor materials to customers in **Japan began in October 2026 from the pilot plant**, with modest volumes growing month on month. The dedicated Magnum block is being equipped **for commercial production from Q4FY27**, and no re-approval is needed to move supplies there. The products are building blocks for silane coupling agents (glass fibre in circuit boards), PPE-type resins for copper-clad laminates in high-speed PCBs and low-dielectric formulations for 5G and next-generation chipsets. Management expects the business to reach maturity over ~2–2.5 years (around FY29).

## Key Takeaways – Q2 FY27

### ➢ Demand & Business Momentum

- Revenue grew 24% YoY, led by **CEM (+50% YoY) and CRAMS (+24% YoY)**, despite a volatile macro environment and nearly 3x higher logistics costs.
- CRAMS pipeline remained robust with **65+ projects**, with Oil & Gas and Material Science the largest share; new engagements this quarter with an automotive ancillary major, a global mining company and another oil & gas major.
- Management is **negotiating several contracts** and expects a number to conclude this financial year, with announcements over the coming months; no 2–3 year revenue guidance was given.

### ➢ CEM & CRAMS

- Ascend utilisation improved to 70% (Q1: 69%) as both the Milliken and European customer contracts ramp up.
- **6 new customers and 11 customer/certification audits in Q2 (H1FY27: 16 new customers, 20+ audits).**
- CRAMS + CEM contributed **66% of revenue**, with management targeting 70% within two years.

### ➢ LSM

- LSM revenue was ₹1,153 mn (+1% YoY, -8% QoQ) as select lines moved to CEM, while prices rose 27.5% YoY and 3.4% QoQ.
- The Magnum pharma LSM product (blocks 1–2) has received an encouraging customer response, with production ramping up through Q3–Q4FY27.
- 12–15 LSM projects in R&D; at least two LSM launches a year targeted, with no more than four LSM products at Magnum.

### ➢ Margins, Working Capital & Debt

- H1FY27 EBITDA margin was 31.6% (company-reported +88 bps YoY; -21 bps excluding H1FY26 exceptional items). The CFO said margins should exceed the ~30% guidance, which is kept conservative.
- Inventory days 172 (Mar-26: 151), debtor days 107 (109), creditor days 114; net working capital 165 days (162). Gross debt ₹6.24 bn (₹4.15 bn working capital, ₹2.09 bn term loans) vs ₹5.22 bn at Jun-26.

### ➢ Semiconductor & Advanced Materials

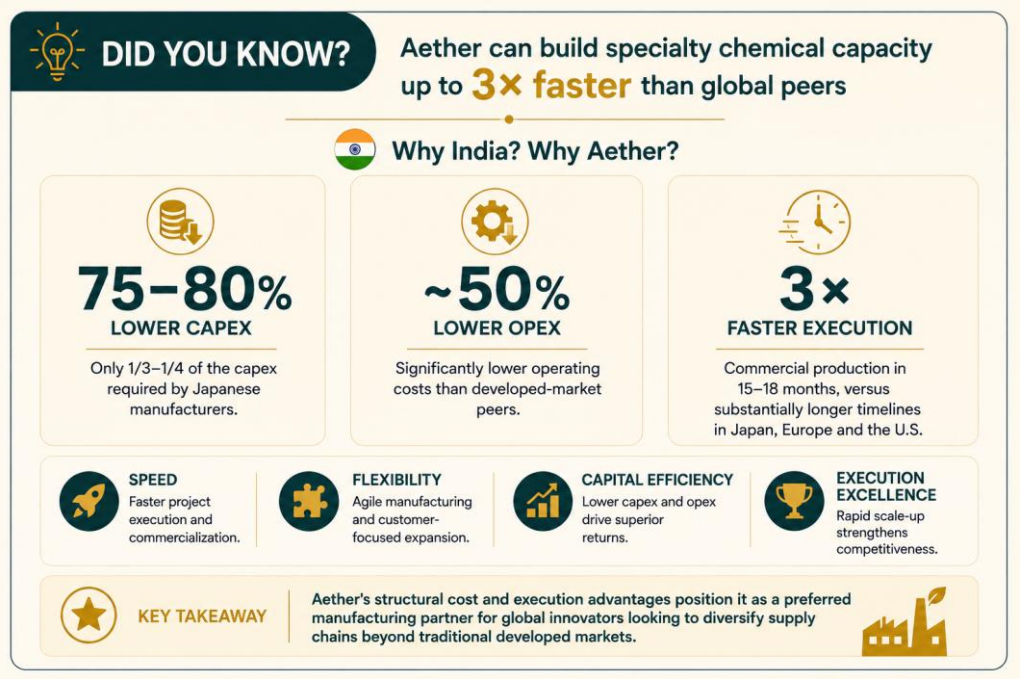
- Commercial sales to Japanese customers from the pilot plant began in October 2026; Magnum-scale supplies from the start of Q4FY27.
- Dow silicones: work started in the quarter, focused on complex chemical engineering design; the next step is to design, build and run a pilot unit.

### ➢ Strategic Partnerships

- Baker Hughes: ₹720 mn from Strata plus ₹150 mn from new products sold from the pilot plant; more Baker Hughes products from Q3FY27.
- Milliken (half of Ascend) is ramping up in line with expectations; strategic partners comprise Baker Hughes, Milliken and 10 others.

## ➢ Magnum (Site 5)

- Blocks 1–2 commissioned with a pharma LSM product; blocks 3–4 (semiconductor and agro CEM) to start commercial production in Q4FY27.
- Visibility on 14 of 16 blocks (2 LSM, 12 CEM) vs 10 at Q1; 6+ blocks are above ground and close to completion, with execution ahead of schedule in places.
- In management's realistic best case, a European material-science customer could take up to five blocks (a 1,000 tpa multi-product plant, two for a flagship-product collaboration, two reserved); an oil & gas major plant announcement is expected soon.



## Valuation & Outlook

Aether delivered a steady H1FY27 with improving earnings visibility, supported by a continued shift towards higher-margin CEM (57% of revenue in Q2) and EBITDA margins holding above 31% despite higher logistics and employee costs. The quarter added several growth levers: a second Baker Hughes product set, a patented agro intermediate for Magnum block 4, initial semiconductor sales to Japan and line of sight on 14 of 16 Magnum blocks. Key monitorables over the coming quarters include the Q4FY27 commissioning of Magnum blocks 3-4, conversion of reserved blocks into firm contracts, working capital normalisation and returns on ~₹7 bn of CWIP.

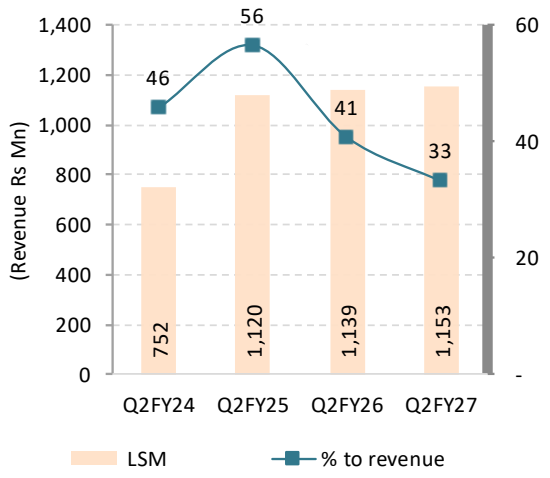
At the current market price of ₹1615, Aether trades at ~75x FY27E EPS of ₹21.1 and 57x FY28E EPS of ₹28.1. We believe the stock is fairly valued at current levels. With 65+ active CRAMS projects, a widening Magnum customer line-up and improving earnings visibility, we remain constructive on the long-term outlook. We value the stock at 58x FY28E EPS, arriving at a **target price of ₹1,632 and maintain our BUY ON DIPS** recommendation.

### Q2 Financials

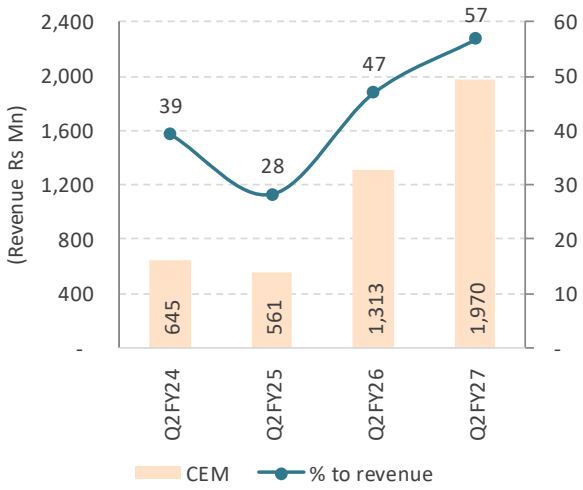
| Particulars (Rs.Mn) | Q2FY27 | Q2FY26 | YoY (%) | Q1FY27 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenue from Operations** | **3,472** | **2,801** | **24%** | **3,266** | **6%** |
| Other Income | 51 | 87 | -42% | 77 | -34% |
| Total RM Cost | 1,672 | 1,427 | 17% | 1,638 | 2% |
| **Gross Profit** | **1,800** | **1,374** | **31%** | **1,627** | **11%** |
| Employee Benefits Expense | 198 | 141 | 40% | 191 | 4% |
| Other Expenses | 498 | 352 | 41% | 409 | 22% |
| Total Expenses | 2,368 | 1,921 | 23% | 2,238 | 6% |
| **EBITDA (Excluding Other Income)** | **1,104** | **880** | **25%** | **1,028** | **7%** |
| Depreciation and Amortisation Expenses | 217 | 165 | 31% | 214 | 1% |
| **EBIT / PBIT** | **938** | **802** | **17%** | **890** | **5%** |
| Finance Costs | 53 | 32 | 65% | 56 | -5% |
| **EBT/ PBT** | **885** | **769** | **15%** | **835** | **6%** |
| Tax Expense | 205 | 203 | 1% | 207 | -1% |
| **Net Profit after Tax** | **680** | **566** | **20%** | **627** | **8%** |
| Adj Earning Per Share | 5.12 | 4.27 | 20% | 4.73 | 8% |
| | | | | | |
| **Margins (%)** | | | **(In bps)** | | **(In bps)** |
| Gross Margins | 51.8% | 49.1% | 278 | 49.8% | 200 |
| EBITDA Margins (Excl Other Income) | 31.8% | 31.4% | 39 | 31.5% | 34 |
| PAT Margins | 19.3% | 19.6% | -31 | 18.8% | 53 |
| Tax Rate | 23.2% | 26.4% | -321 | 24.8% | -163 |
| | | | | | |
| **As a % to sales** | | | | | |
| RM as a % to sales | 48.2% | 50.9% | | 50.2% | |
| EE Cost as a % to sales | 5.7% | 5.0% | | 5.8% | |
| Other exps as a % to sales | 14.3% | 12.6% | | 12.5% | |

Source: Dalal & Broacha Research

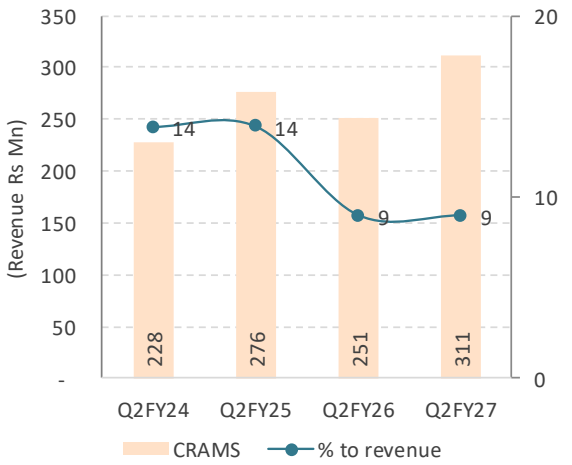
**LSM**



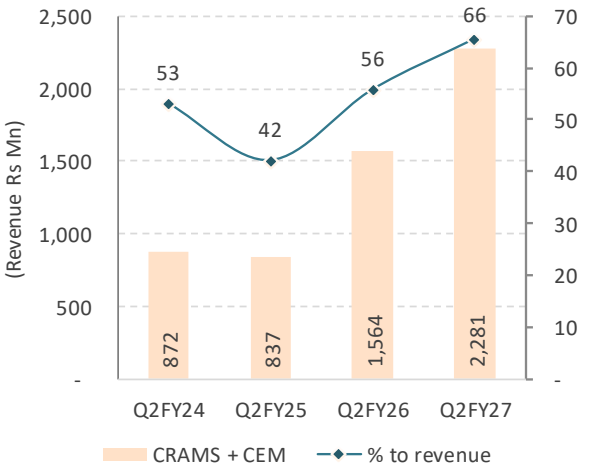

**CEM**



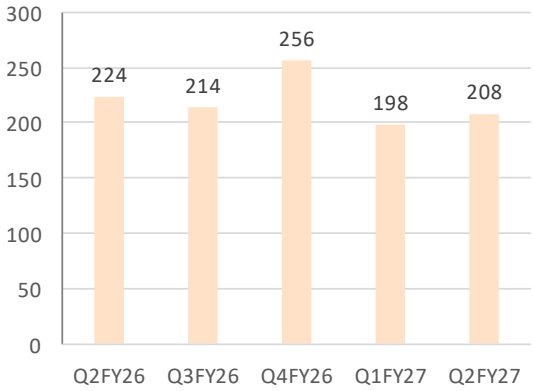

**CRAMS**



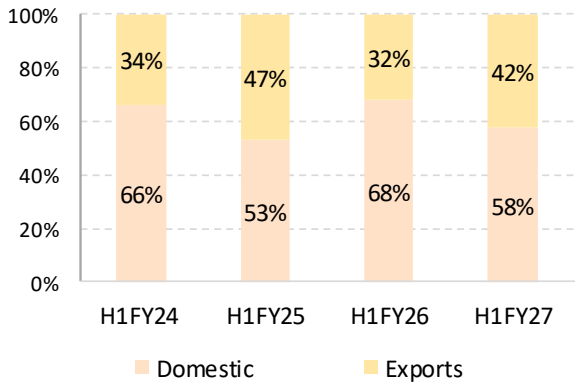

**CRAMS + CEM**




**R&D Spend**

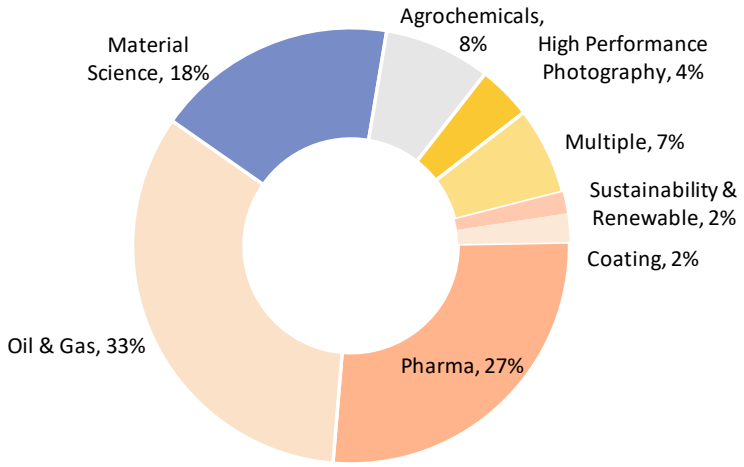



**By Region**




Source: Dalal & Broacha Research, Company

**Business Segment (Revenue)**




Source: Dalal & Broacha Research, Company

## Financials

| P&L (Rs mn) | FY24 | FY25 | FY26 | FY27e | FY28e | FY29e |
|---|---|---|---|---|---|---|
| Net Sales | 5,982 | 8,405 | 11,601 | 14,350 | 18,850 | 24,050 |
| Operating Expenses | -3,209 | -4,466 | -6,009 | -7,430 | -9,883 | -12,455 |
| Employee Cost | -386 | -462 | -627 | -800 | -1,050 | -1,300 |
| Other Expenses | -1,064 | -1,047 | -1,331 | -1,507 | -1,993 | -2,600 |
| **Operating Profit** | **1,322** | **2,430** | **3,634** | **4,613** | **5,924** | **7,695** |
| Depreciation | -397 | -450 | -664 | -800 | -1,009 | -1,204 |
| PBIT | 926 | 1,980 | 2,970 | 3,813 | 4,915 | 6,491 |
| Other income | 392 | 398 | 209 | 270 | 410 | 338 |
| Interest | -85 | -129 | -181 | -296 | -408 | -483 |
| PBT | 1,233 | 2,249 | 2,999 | 3,787 | 4,916 | 6,346 |
| Profit before tax | 1,095 | 2,130 | 2,911 | 3,687 | 4,916 | 6,346 |
| Provision for tax | -270 | -546 | -716 | -885 | -1,180 | -1,523 |
| Profit & Loss from | - | - | - | - | - | - |
| Reported PAT | 825 | 1,584 | 2,195 | 2,802 | 3,736 | 4,823 |
| MI | - | - | - | - | - | - |
| Owners PAT | 825 | 1,584 | 2,195 | 2,802 | 3,736 | 4,823 |
| **Adjusted Profit** | **962** | **1,703** | **2,284** | **2,802** | **3,736** | **4,823** |

| Balance Sheet (Rs mn) | FY24 | FY25 | FY26 | FY27e | FY28e | FY29e |
|---|---|---|---|---|---|---|
| Equity capital | 1,326 | 1,326 | 1,327 | 1,327 | 1,327 | 1,327 |
| Reserves | 19,308 | 20,933 | 23,232 | 26,034 | 29,770 | 34,594 |
| **Net worth** | **20,633** | **22,259** | **24,559** | **27,361** | **31,097** | **35,920** |
| MI | - | - | - | - | - | - |
| **Non Current Liabilites** | 483 | 676 | 882 | 3,886 | 5,391 | 6,895 |
| **Current Liabilites** | 2,891 | 3,507 | 6,573 | 5,622 | 5,959 | 6,312 |
| **TOTAL LIABILITIES** | **24,007** | **26,442** | **32,014** | **36,870** | **42,447** | **49,128** |
| **Non Current Assets** | 10,981 | 15,037 | 20,299 | 23,119 | 26,271 | 29,239 |
| Fixed Assets | 9,261 | 13,080 | 17,530 | 20,262 | 23,323 | 26,193 |
| Right of Use Assets | 1,596 | 1,726 | 2,587 | 2,668 | 2,746 | 2,829 |
| Financial Assets | 95 | 28 | 20 | 20 | 24 | 31 |
| Deferred Tax Asset | - | - | - | - | - | - |
| Advances | - | 8 | 9 | 9 | 9 | 9 |
| Other Non Current Assets | 28 | 195 | 154 | 161 | 169 | 178 |
| **Current Assets** | **13,027** | **11,405** | **11,715** | **13,750** | **16,176** | **19,889** |
| **Current investments** | - | - | - | - | - | - |
| Inventories | 3,435 | 3,969 | 5,375 | 5,583 | 7,230 | 8,895 |
| Trade Receivables | 2,329 | 2,886 | 3,901 | 4,128 | 5,151 | 6,573 |
| Cash and Bank Balances | 5,557 | 2,385 | 57 | 1,657 | 1,412 | 2,038 |
| Advances | 11 | 8 | 12 | 12 | 12 | 12 |
| Other Financial Assets | 352 | 319 | 200 | 200 | 200 | 200 |
| Other Current Assets | 1,343 | 1,838 | 2,171 | 2,171 | 2,171 | 2,171 |
| **TOTAL ASSETS** | **24,007** | **26,442** | **32,014** | **36,870** | **42,447** | **49,127** |

| Cashflow (Rs mn) | FY24 | FY25 | FY26 | FY27e | FY28e | FY29e |
|---|---|---|---|---|---|---|
| PBT | 1,095 | 2,130 | 2,911 | 3,687 | 4,916 | 6,346 |
| Depreciation | 397 | 450 | 664 | 800 | 1,009 | 1,204 |
| Net Chg in WC | -1,272 | -836 | -1,767 | -1,387 | -2,335 | -2,734 |
| Taxes | -173 | -544 | -542 | -885 | -1,180 | -1,523 |
| Others | -212 | -199 | 158 | 213 | 327 | 398 |
| **CFO** | **-165** | **1,000** | **1,424** | **2,427** | **2,737** | **3,691** |
| Capex | -4,277 | -4,523 | -6,233 | -3,532 | -4,070 | -4,074 |
| Net Investments made | 38 | 344 | 43 | - | -4 | -7 |
| Others | - | -6 | -3 | - | - | - |
| **CFI** | **-4,239** | **-4,185** | **-6,194** | **-3,532** | **-4,074** | **-4,081** |
| Change in Share capital | 7,509 | 12 | 41 | - | - | - |
| Change in Debts | - | - | 2,589 | 3,000 | 1,500 | 1,500 |
| Div. & Div Tax | -69 | -115 | -166 | -296 | -408 | -483 |
| Others | 1,498 | 116 | -26 | - | - | - |
| **CFF** | **8,938** | **13** | **2,439** | **2,704** | **1,092** | **1,017** |
| **Total Cash Generated** | **4,534** | **-3,172** | **-2,331** | **1,600** | **-245** | **626** |
| **Cash Opening Balance** | **1,023** | **5,557** | **2,385** | **57** | **1,657** | **1,412** |
| **Cash Closing Balance** | **5,557** | **2,385** | **57** | **1,657** | **1,412** | **2,038** |

| Ratios | FY24 | FY25 | FY26 | FY27e | FY28e | FY29e |
|---|---|---|---|---|---|---|
| GM | 46.4 | 46.9 | 48.2 | 48.2 | 47.6 | 48.2 |
| OPM | 22.1 | 28.9 | 31.3 | 32.1 | 31.4 | 32.0 |
| NPM | 15.1 | 19.3 | 19.3 | 19.2 | 19.4 | 19.8 |
| Tax rate | 24.7 | 25.6 | 24.6 | 24.0 | 24.0 | 24.0 |
| | | | | | | |
| **Growth Ratios (%)** | | | | | | |
| Net Sales | -8.1 | 40.5 | 38.0 | 23.7 | 31.4 | 27.6 |
| Operating Profit | -29.0 | 83.8 | 49.5 | 26.9 | 28.4 | 29.9 |
| PBIT | -43.2 | 113.9 | 50.0 | 28.4 | 28.9 | 32.1 |
| PAT | -36.8 | 92.1 | 38.5 | 27.7 | 33.3 | 29.1 |
| | | | | | | |
| **Per Share (Rs.)** | | | | | | |
| Net Earnings (EPS) | 6.22 | 11.95 | 16.54 | 21.12 | 28.16 | 36.35 |
| Cash Earnings (CPS) | 9.22 | 15.34 | 21.55 | 27.15 | 35.77 | 45.43 |
| Dividend | - | - | - | - | - | - |
| Book Value | 155.66 | 167.88 | 185.10 | 206.22 | 234.38 | 270.73 |
| | | | | | | |
| **Valuation Ratios** | | | | | | |
| P/E(x) | 260 | 135 | 98 | 76 | 57 | 44 |
| P/B(x) | 10 | 10 | 9 | 8 | 7 | 6 |
| EV/EBIDTA(x) | 159 | 88 | 60 | 48 | 37 | 29 |
| Div. Yield(%) | - | - | - | - | - | - |
| | | | | | | |
| **Return Ratios (%)** | | | | | | |
| ROE | 6% | 8% | 10% | 11% | 13% | 14% |
| ROCE | 8% | 10% | 12% | 12% | 14% | 16% |
| RoIC | 6% | 8% | 8% | 9% | 10% | 12% |

Source: Dalal & Broacha Research

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