Aether Industries Ltd (AIL)

Management & Plant Visit Note | Specialty Chemical

Unique moated business; Premium for specialty

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Institutional Equity Research Desk
3rd July, 2026

Aether Industries Limited (AIL) is a technology and research-driven specialty chemical manufacturer focused on complex chemistry, advanced process systems, and scalable manufacturing execution. The company operates at the high end of the specialty chemicals value chain, where differentiation is driven by technical complexity, process reliability, and long-term customer integration rather than price competition.

AIL's operating philosophy is built on three foundational pillars - chemistry expertise, proprietary technology, and robust operating systems - enabling it to manufacture highly complex molecules, often for the first time in India. This positions the company as a strategic manufacturing partner to global innovators like Suadi Aramco, Milliken, Baker Hughes, and Sequens seeking reliable, high-capability Indian suppliers.

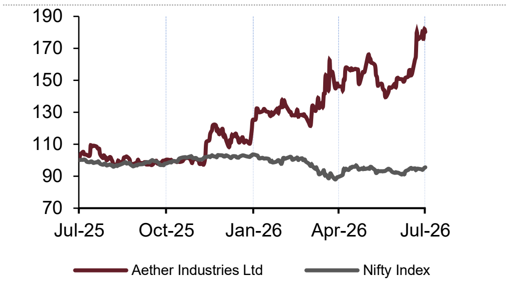
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	**1,444**	**6**

Market data

Current price	**Rs**	**1,360**
Market Cap (Rs.Bn)	(Rs Bn)	180
Market Cap (US$ Mn)	(US$ Mn)	1,891
Face Value	Rs	10
52 Weeks High/Low	Rs	1392.5 / 723.15
Average Daily Volume	('000)	489
BSE Code		543534
Bloomberg		AETHER.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-26	Dec-25
Promoters	75.00	75.00
Public	25.00	25.00
Total	**100.00**	**100.00**

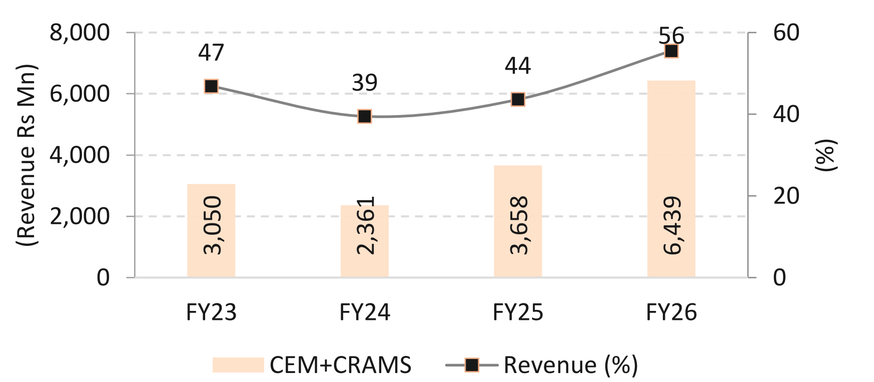
Source: Bloomberg

The Strategic Pivot: From Lsm To Contract-Led

Aether Industries Limited (AIL) is an R&D-led specialty chemicals company with core strengths in chemistry, process engineering, and advanced systems. Its R&D centre (Site 1) acts as the primary driver for new product development and customer engagement. The company initially scaled up through Large Scale Manufacturing (LSM) of proprietary specialty chemicals and advanced intermediates, often being among the first domestic manufacturers in India. For several of its CEM products, Aether serves as the sole global manufacturer, highlighting its differentiated process capabilities, deep customer integration, and high technical entry barriers.

Over time, AIL has transitioned to a three-pillar business model comprising LSM, CRAMS, and CEM, aimed at improving risk diversification, margin profile, and revenue visibility. While LSM remains relevant, its contribution is expected to normalize at ~30% of revenues from 43% in FY26. The strategic focus has shifted toward Contract Research & Manufacturing Services (CRAMS) and Contract/Exclusive Manufacturing (CEM), which together are targeted to contribute 60–70% of total revenues over the medium to long term.

Contract Manufacturing: The New Growth Engine



Source: Company, Dalal & Broacha Research

CRAMS + CEM gradually increasing towards 70%

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Capacity Expansion: The Next Growth Phase

This shift is supported by significant Greenfield capacity additions. Site 4, recently commissioned, is fully dedicated to CEM under a Strategic Supply Agreement with Baker Hughes. Site 3++ (an expansion of Site 3) is fully dedicated to Milliken under a 10-year exclusive manufacturing contract and was commissioned in Q4 FY26, with commercial production and deliveries to Milliken commencing in April-May 2026. The facility is currently in ramp-up phase and expected to drive material science revenue growth. Site 5, the greenfield complex at Panoli, was partially commissioned in Q1 FY27 with Phase 1 production expected to scale over the coming quarters, supported by total planned capex of Rs.2,000-2,100 crore through FY30.

Anchor Customers: Near-Term & Long-Term Visibility

Anchor customers provide meaningful revenue visibility and long-term upside. Baker Hughes is projected to contribute Rs.250-300 crore in FY27 (vs. Rs.226 crore in FY26) with a long-term potential of Rs.1,000+ crore across two molecules (PPD and DRAs). Milliken, a 100-year-old material science leader with 70-80% global market share in its category, has locked in a 10-year exclusive manufacturing contract. Otsuka Chemical is tracking Rs.35-40 crore for FY26 with growth expected in FY27. These contracts provide both revenue certainty and operating leverage.

Financial Summary

Y/E Mar (Rs mn)	FY24	FY25	FY26	FY27e	FY28e	FY29e
Net sales	5,982	8,405	11,601	14,050	18,350	23,100
EBIDTA	1,322	2,430	3,630	4,354	5,506	6,908
Margins	22.1	28.9	31.3	31.0	30.0	29.9
PAT (adj)	962	1,703	2,278	2,718	3,539	4,422
Growth (%)	-36.8	92.1	38.1	24.2	30.2	24.9
EPS	6.22	11.95	16.49	20.49	26.68	33.33
P/E (x)	217	113	82	66	51	41
P/B (x)	9	8	7	7	6	5
EV/EBITDA (x)	132	73	51	42	34	27
RoE (%)	6	8	10	10	12	13
ROCE (%)	8	10	12	12	14	15
RoIC (%)	6	8	8	9	10	11

Source: Company, Dalal & Broacha Research

Key Value Drivers & Catalysts

1. LSM Pricing Tailwinds Driving Near-Term Earnings:

Q4 FY26 witnessed strong pricing momentum in the LSM business, with realizations rising 20% YoY and 18% QoQ, driven by global supply disruptions. While part of this benefit was supply-led, management believes pricing should remain relatively resilient due to ongoing supply constraints and increasing customer preference for reliable alternative suppliers. This provides a near-term earnings tailwind while the company executes its longer-term strategy of improving margins through a richer product mix.

2. R&D Expansion Strengthens Innovation Pipeline :

The ongoing R&D expansion further strengthens Aether's growth platform. An interim expansion completed during FY26 added 18 fume hoods and advanced analytical capabilities, while the next phase targeted for Q2 FY28 is expected to nearly double R&D capacity. Backed by 55+ active CRAMS projects, management expects CRAMS revenues to grow at 20-25% CAGR over the next few years with upto 120 projects in next 18 to 24 months, with successful projects gradually transitioning into long-term CEM opportunities.

3. CRAMS Pipeline Creating Long-Term Growth Visibility :

Customer traction also accelerated during FY26. The company completed over 50 customer certification audits and added 19 marquee customers, with momentum picking up significantly in the second half. Several customers have already completed pre-audits for Site 5, indicating a healthy qualification pipeline ahead of commercialization.

5. Capacity Ramp-Up and Improving Business Mix :

Operationally, Site 4 (dedicated to Baker Hughes) delivered a strong ramp-up in FY26, generating ₹220 crore in revenue. Separately, the Baker Hughes CRAMS project contributed an additional ₹6 crore from Site and contributing cumulative over one-fifth of company sales. Meanwhile, Site 3++ and Site 5 Phase 1 were commissioned during FY26 and are expected to scale up gradually over the next 12-24 months. Improving business mix also supports the investment case, as higher contribution from CRAMS/CEM contracts-with shorter working capital cycles-should enhance cash conversion and overall capital efficiency over time.

6. Building a Sustainable Growth Platform :

AIL has also created a dedicated Sustainability and Renewables segment. Key initiatives include a licensing agreement with Saudi Aramco Technologies Company for commercialization of CO_2-based Converge polyols, collaboration with Novoloop for plastic waste upcycling.

7. Strengthened Safety Framework and Risk Management:

Aether has experienced two fire-related incidents over the last three years. While the November 2023 fire at Site 2 resulted in fixed asset losses and temporary operational disruption, the March 2026 fire at an external warehouse led to an inventory write-off of approximately ₹7 crore. Management clarified that the latter incident originated from a neighboring premises, caused no casualties or operational impact, and was effectively contained by existing safety systems. Following these events, the company has further strengthened safety protocols and risk-control measures across its manufacturing and storage infrastructure.

Why Specialty Chemical as a sector?

- **Specialty Chemicals: A High-Value Business Model:**

  The specialty chemicals industry differs fundamentally from commodity chemicals in that products are customized for specific performance characteristics and end-use applications. Demand is driven by functionality, consistency, and compliance rather than by price alone. As a result, specialty chemical players typically enjoy higher margins, longer customer relationships, and greater pricing stability.

- **Global Supply Chain Shifts Creating Structural Tailwinds**

  Globally, the industry is benefiting from structural tailwinds. Multinational customers are actively diversifying supply chains under the China+1 strategy to reduce geopolitical and operational risks. Simultaneously, rising environmental and regulatory costs in Europe are encouraging companies to outsource complex manufacturing to reliable partners in cost-efficient regions such as India.

- **India Positioned as a Global Manufacturing Hub**

  India is emerging as a preferred destination due to its strong chemistry talent pool, improving regulatory framework, and growing manufacturing scale. Companies with strong R&D capabilities and compliance standards are best positioned to capture this opportunity.

Investment Rationale:

Why Aether Industries Ltd ?

Aether Industries stands out as a differentiated specialty chemicals platform built on innovation, complex chemistry, and long-term customer partnerships. Its products are protected by high technical and regulatory entry barriers, resulting in lengthy customer qualification cycles, high switching costs, and long product lifecycles that translate into recurring, high-quality revenue streams. Backed by a flexible manufacturing base, strong R&D capabilities, and disciplined execution, Aether is well positioned to capitalize on the global China+1 opportunity as multinational customers increasingly shift sourcing toward reliable Indian specialty chemical manufacturers.

The Aether Competitive Moat:

Source: Company, Dalal & Broacha Research

❖ Flexible Manufacturing Platform Driving High-Quality Growth :

Aether's multipurpose, chemistry-agnostic manufacturing platform enables it to efficiently serve multiple products and customer programs while converting CRAMS projects into long-term CEM contracts. This strategic shift is expected to improve both margins and earnings quality, with CRAMS and CEM targeted to contribute ~70% of revenues over the medium term.

The financial benefits are compelling, with CRAMS generating EBITDA margins of 60-70% versus 21–25% for LSM, while CEM debtor cycles of 45-60 days compare favorably with 120-150 days for LSM, supporting stronger cash conversion. Backed by 55+ active CRAMS projects and a 20-25% growth outlook, Aether is steadily building a more resilient, higher-quality revenue base.

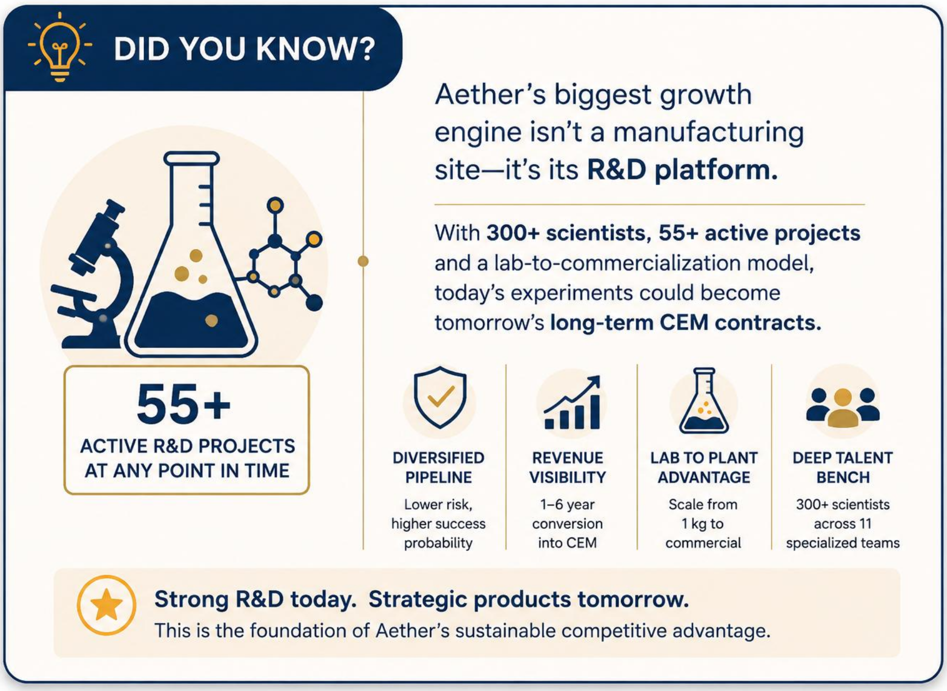
The Milliken partnership, which evolved from a development project into a dedicated manufacturing facility under a long-term exclusive agreement, exemplifies the strength of this model.

❖ R&D-Led Innovation Driving Long-Term Growth

Research and development remain the cornerstone of Aether's business model, supported by a team of 300+ scientists and engineers and 55+ active CRAMS projects out which 70% of the projects are from non-agro and non-pharma segments.

To strengthen its innovation platform, the company completed an interim R&D expansion in Q4 FY26, adding two laboratories, 18 fume hoods, and a 400 MHz NMR system, with commercialization expected from Q2 FY27.

A larger next-generation R&D facility, targeted for Q2 FY28, is expected to nearly double research capacity and significantly enhance project throughput. Coupled with rising CRAMS inquiries and expanding opportunities in semiconductors, advanced materials, and sustainable chemistry, Aether's R&D platform continues to strengthen its long-term competitive moat.



❖ Strong Competitive Positioning Backed by Blue-Chip Customer Relationships

Aether's competitive advantage is built on proprietary process know-how, advanced engineering capabilities, long customer qualification cycles, and exclusive manufacturing contracts, creating high entry barriers and strong customer stickiness.

Long-term partnerships with Baker Hughes, Milliken, Otsuka Chemical, and H.B. Fuller provide strong revenue visibility and validate the company's technical capabilities. Baker Hughes generated Rs.226 crore in FY26 revenue and is expected to reach Rs.250-300 crore in FY27, while the Milliken partnership has successfully transitioned into commercial manufacturing under a 10-year exclusive agreement, highlighting Aether's CRAMS-to-CEM model.

Backed by opportunities across material science, semiconductor chemicals, oil & gas additives, and sustainable products, Aether is well positioned to benefit from global supply-chain diversification and rising demand for complex specialty chemistries.

❖ Strong Pricing Environment and Increasing Exposure to High-Value Specialty Segments

Q4 FY26 witnessed exceptionally strong pricing performance within the LSM portfolio, with realizations increasing ~20% YoY and ~18% QoQ. Management attributed the improvement to global supply disruptions, lower industry inventories and continued supply rationalization across key chemical value chains.

Importantly, management believes current pricing conditions are supported by structural rather than temporary factors, including rising compliance costs in China, capacity rationalization in Europe and increasing customer preference for diversified supply chains.

Simultaneously, Aether continues to expand its presence in higher-value segments such as material science, specialty polymers, oilfield chemicals, semiconductor materials and sustainable products, reducing dependence on traditional commodity-linked opportunities.

❖ Capacity Expansion and Utilization Ramp-Up Supporting the Next Growth Phase

Aether is entering a multi-year growth phase supported by the commercialization of Site 3++, Site 4 and Site 5. The company has demonstrated its ability to rapidly scale new facilities, with Site 4 increasing from approximately ₹50 crore of revenue in FY25 to Rs.220 crore in FY26.

Site 3 continues to operate below peak utilization levels, providing near-term operating leverage as volumes increase. Site 3++ has recently commenced commercialization under the Milliken contract, while Site 5 has completed commissioning and is expected to commercialize multiple new products across pharmaceutical, agrochemical and specialty chemical applications. Management highlighted that validation activities have largely been completed and customer interest remains strong.

Over the medium term, management targets asset turns of approximately 1.5-1.75x and EBITDA margins of ~30% at Site 5, supported by higher utilization levels, increasing contract manufacturing contribution and operating leverage.

❖ Structural China+1 Tailwind Supporting Long-Term Growth

Global specialty chemical supply chains continue to undergo structural realignment driven by rising regulatory costs in China, energy-related challenges in Europe and increasing customer focus on supply-chain resilience. As a result, global chemical companies are increasingly seeking reliable manufacturing partners with strong technical capabilities and regulatory compliance standards.

Aether remains well positioned to benefit from this trend given its expertise in complex chemistries, successful commercialization track record and expanding manufacturing footprint. During FY26, the company completed more than 50 customer audits, added multiple marquee customers and witnessed increasing engagement across pharmaceutical, material science and industrial segments.

Management believes the demand environment remains favourable, particularly within material science, oil & gas and specialty industrial applications where global customers are actively seeking long-term manufacturing partners outside traditional supply hubs.

The Aether's Value Creation Journey

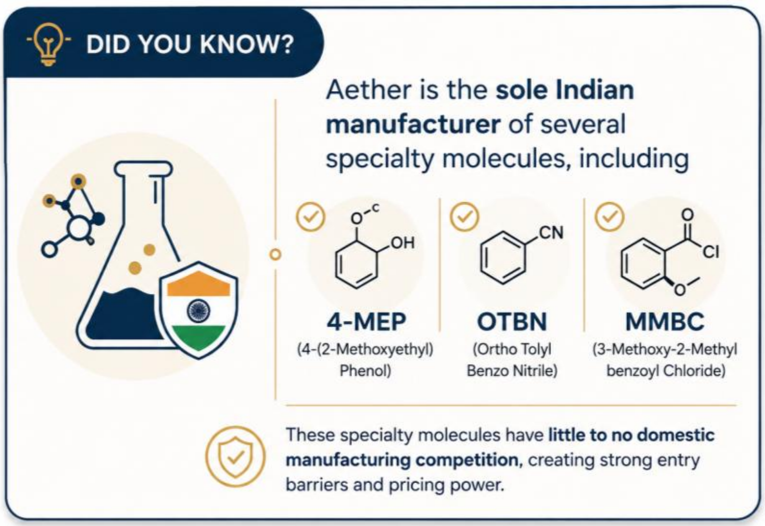
Source: Dalal & Broacha Research

Diversified Specialty Chemicals Portfolio Addressing High-Growth End Markets

Aether Industries manufactures highly specialized and process-intensive chemical intermediates requiring advanced chemistry capabilities, process engineering expertise and stringent quality standards. **The company has progressively diversified beyond traditional pharmaceutical and agrochemical intermediates into material science, oil & gas, semiconductor materials and sustainability-focused specialty chemicals, reducing dependence on any single end-market while expanding its addressable opportunity.**

Key Product Categories

- **Pharmaceutical & Agrochemical Intermediates (46% of FY26 revenues):** Aether maintains a strong presence in high-value pharmaceutical and agrochemical intermediates, supported by process know-how, regulatory compliance and import-substitution opportunities. Key commercial products include 4-MEP, BFA, T2E, NODG, DVL and MMBC, which cater to pharmaceutical, agrochemical and specialty chemical applications globally. The company is also expected to commercialize three new large-scale manufacturing products from Site 5, all being manufactured for the first time in India and priced in the range of $30–40/kg, further strengthening its specialty chemicals portfolio.



- **Material Science & Sustainable Products (17% of FY26 revenues):** The company has expanded its presence in advanced material science applications through specialty polymers and Converge Polyols, a CO_2-based sustainable polyol platform licensed from Saudi Aramco Technologies. The segment caters primarily to CASE (Coatings, Adhesives, Sealants and Elastomers) applications and is expected to emerge as a significant growth driver over the medium term.

- **Oilfield Chemical Intermediates:** Aether supplies critical specialty chemicals used in drilling, production and enhanced oil recovery applications through long-term strategic partnerships with global oilfield service companies. Site 4 remains largely dedicated to this segment, with Baker Hughes emerging as a key anchor customer and contributing meaningfully to overall revenue growth.

- **Electronic Chemicals & Semiconductor Materials:** The company is developing advanced specialty chemicals including low dielectric materials, silane coupling agents, specialty resins, ion-exchange resins and performance polymers targeted at semiconductor and electronics applications. Validation activities are currently underway with customers across Japan, South Korea and Taiwan, positioning Aether to participate in the global electronics supply-chain diversification opportunity.

Converge® Polyols: From Technology Licensing to Global Commercialization

Aether's partnership with Saudi Aramco Technologies reflects its ability to take advanced technologies from the lab to the market. Since signing the LOI in March 2023, the project has steadily progressed through scale validation, joint commercialization with H.B. Fuller, product testing and initial commercial orders. As production ramps up, Converge® Polyols has the potential to become a meaningful long-term growth driver, strengthening Aether's position in sustainable specialty chemicals and global polyurethane markets.

Converge® Commercialization Journey:

Source: Dalal & Broacha Research

Aether Industries | Customer-Wise Summary						
Customer	**Baker Hughes**	**Milliken**	**Saudi Aramco / Converge Polyols**	**Seqens**	**Otsuka Chemicals**	**H.B. Fuller**
Industry / Business	Oilfield Services (drilling, production)	Textiles & Performance Fabrics (plastics, adhesives, coatings)	Energy & Chemical Technology (crude oil, specialty polymers)	Pharmaceuticals, Personal Care, Specialty Ingredients (France-based)	Specialty Chemicals	Adhesives, Coatings, Sealants (global leader)
Key Product / Category	PPDs	Generation-5 polymer polyol (material science)	CO_2-based polyols (sustainable)	Natural bio-based pharma intermediates	Existing specialty chemical intermediates (portfolio)	Converge polyols (CO_2-based)
Contract & Commercialization Date	Exclusive CEM 25 Jun 2024	Exclusive CEM 17 Jun 2025	Licensed partnership 9 Jan 2024	CEM partnership 22 Aug 2024	Anchor customer relationship LOI 3 Mar 2023	Strategic partnership Jan 2024
Duration	5 yrs (extendable)	10 years	Not Disclosed	3 years	10 years	Not Disclosed

Experienced Leadership Backed by Global Technical Expertise

Aether's biggest strength isn't just its technology or manufacturing capabilities-it's the team behind them. The company is led by experienced professionals with deep expertise across R&D, process engineering, business development, and capital allocation. By combining strong promoter leadership with talent from global chemical companies such as Dow Chemical, ALTANA, Saudi Aramco, and Corteva, Aether has built a team capable of commercializing complex chemistries, winning global customers, and executing large-scale expansion. This leadership depth gives the company a strong foundation to capitalize on the growing global shift toward reliable Indian specialty chemical manufacturers.

Ashwin Desai – Founder & Managing Director : With **50+ years** of experience in specialty chemicals, Ashwin Desai leads Aether's long-term strategy, technology roadmap, manufacturing expansion, and capital allocation, driving the company's innovation-led growth.

Purnima Desai – Whole-Time Director (Finance & Accounts) : Oversees finance, accounting, and corporate governance, ensuring disciplined financial management, strong internal controls, and effective working capital oversight.

Rohan Desai – Whole-Time Director (Commercials) : Leads commercial operations, strategic procurement, and key global partnerships, including **Saudi Aramco** and **Milliken**, supporting business development and long-term customer relationships.

Faiz Arif Nagariya – Chief Financial Officer : Leads financial strategy, capital allocation, funding, and investor relations, while supporting Aether's expansion plans and maintaining strong financial discipline.

Global Experts Driving Technology & Customer Growth

 **Dr. Aman Desai** *Promoter,* *Whole Time Director*	Dr. Aman Desai is a **Promoter and Whole-Time Director at Aether Industries Ltd**, leading **R&D, innovation, and projects**. He holds a **PhD in Organic (chiral) Chemistry from Michigan State University** and a **BTech from ICT Mumbai**, with prior experience at **Dow Chemical (USA)**. He has **25 international publications**, **4 US patents**, and received ICT's **UAA Young Achiever Award (2018).**
 **Dr. James (Jim) W. Ringer** *Chief Technology Officer*	Dr. James (Jim) W. Ringer is the **Chief Technology Officer (CTO) of Aether Industries Ltd** since **March 1, 2024**. With **30+ years of R&D and leadership experience** at **Dow Chemical**, he holds a **PhD from the University of Wisconsin** and a **BS from Purdue University**. He is a **co-inventor on 22 US patents**, has worked with **Corteva AgriScience**, runs a consulting firm, and previously advised Aether and mentored **Dr. Aman Desai**.
 **Raymond (Ray) Roach** *Business Development Leader (Americas)*	Raymond (Ray) Roach is the **Business Development Leader – Americas at Aether Industries Ltd**, overseeing **U.S. business development and custom manufacturing for multinational clients**. He holds **Bachelor's and Master's degrees in Chemical Engineering from the University of Pittsburgh** and spent **30 years at Dow Chemical**. He has **7 patents** and has been a **key partner in building Aether's North American presence** since 2013.
 **Dr. Norbert Flüggen** Business Development Leader (Europe)	Dr. Norbert Flüggen is the **Business Development Leader – Europe at Aether Industries Ltd**, leading **European expansion and multinational client acquisition** for custom and toll manufacturing. He holds a **PhD in Physics from the University of Hannover** and has **decades of chemical industry experience**, including at **ALTANA AG**.
 **Dr. Ron Valente, Ph.D.** *Business Development Leader*	Ron Valente is the **Business Development Leader for Aether Industries' specialty polyols business**, leading commercialization of **sustainable CO_2nverge polyols** developed with **Saudi Aramco**. He holds a **PhD in Organic Chemistry from the University of Rochester**, has **30+ years of R&D and manufacturing experience**, previously served as **President of Aramco Performance Materials**, and is a **co-inventor on 12 US patents**.
 **Mr. Guenter Stevens** *Global Technology & Business Development* *(Senior Leadership)*	Recently added to Aether's global technology and business development team. Career span: Bayer (early), then **30+ years at ALTANA / BYK Chemie** (leading multibillion-dollar additives company). Extensive expertise in chemical R&D, process development, raw material development, and sustainable technology. Strengthens R&D leadership depth and brings European regulatory and customer relationships into Aether's technical platform.

Below is the site wise details:

							
Site	**Site 1**	**Site 2**	**Site 3**	**Site 3+/3++**	**Site 4**	**Site 5**	**Site 6**
Location	Sachin, Surat	Sachin, Surat	Sachin, Surat	Sachin, Surat	Sachin, Surat	Panoli, Bharuch	Panoli, Bharuch
Business Model & Key Customer	CRAMS + Pilot (55+ concurrent projects)	LSM (60%) + CEM (40%); multi-customer diversified	LSM (70%) + CEM (30%); pharma-focused	**Pure CEM; Milliken exclusive** (10-year contract)	**Pure CEM; Baker Hughes exclusive** (DRA + PPD)	**Multi-Customer CEM + LSM**	**LSM+CEM**
Utilization FY26	N/A	**75%**	70%	N/A	55%	N/A	N/A
Critical Status / Key Driver	● Fume hood expansion 55 → 120 (18–24 months); ● Feeds CRAMS-to-CEM pipeline	●Operating near full capacity. ● Growth increasingly driven by higher-margin CEM business.	● Pharma ramp ongoing (5 advanced intermediates). ●15-20% YoY growth expected	● Milliken Phase 1 ramp starts from Q4 FY26. ● Exclusive supply for Milliken (no competition for this reveneue)	● Early-stage ramp (11 months). Middle East ● Strong TAM ($3.1B global)	● Phase 1 commercialises in Q1FY27 (₹1300 cr more capex to be deployed through FY30) ● Multi-customer de-risks concentration ● Critical for 25% CAGR target	● Adjacent 15-acre expansion site acquired. ●Planned to accommodate 6-8 additional production blocks.

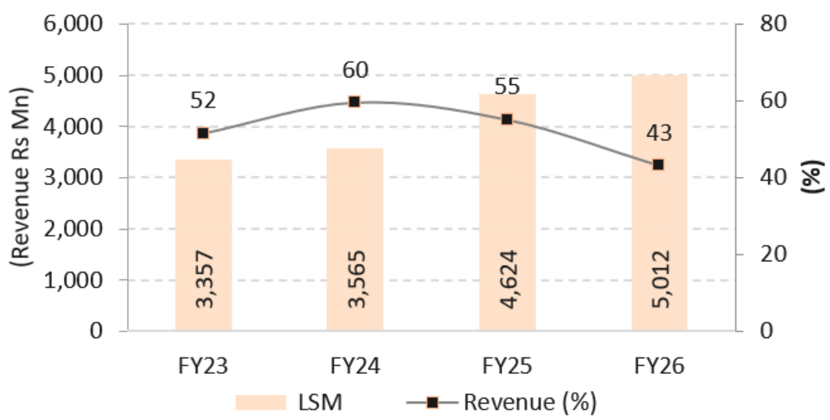
Revenue Streams and Business Overview

AIL derives its revenue from three distinct, yet interconnected, business models

1. **LSM : Declining Revenue Mix as Business Shifts Toward Higher-Margin Segments**

   This segment involves manufacturing proprietary products, typically generic advanced intermediates and complex specialty chemicals designed to substitute imports (primarily Chinese products). LSM constituted the largest portion of sales historically (67% in FY22), though recent strategic shifts have seen its contribution drop to 43% in FY26.

LSM Revenue & Declining Revenue Mix



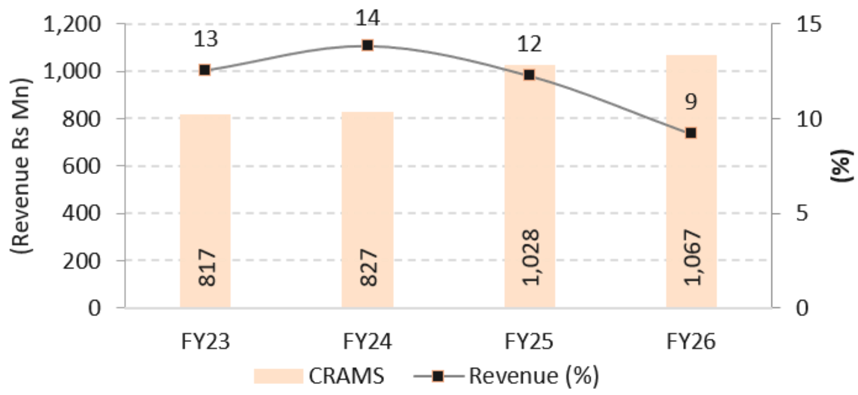
LSM gradually moving towards 30%

Source: Dalal & Broacha Research

2. **CRAMS : High-Margin R&D Platform Driving Future Growth**

   This model focuses on R&D, process development, and small-volume specialty chemical production in partnership with global innovators. CRAMS is categorized as a high-margin business, targeting EBITDA margins of 60% to 70%. It acts as a critical feeder stream (or "feeder stock") where successful research and scale-up projects migrate into commercial supply contracts in the Contract Exclusive manufacturing (CEM) segment. CRAMS typically accounts for ~10% to 15% of total revenue.

CRAMS: Building Tomorrow's CEM Pipeline

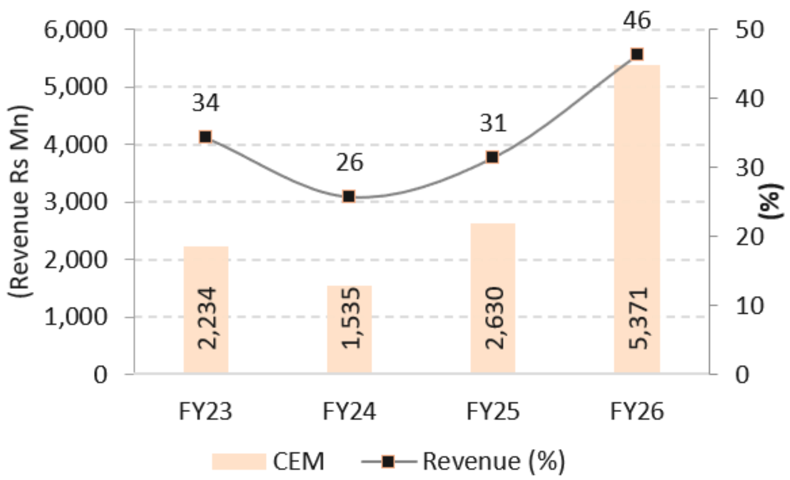


Source: Dalal & Broacha Research

3. **CEM : Long-Term Manufacturing Contracts Driving Earnings Visibility**

   This model involves commercial-scale, exclusive supply of products resulting from successful collaborations initiated under the CRAMS model. CEM has been the fastest-growing segment, constituting 47% of sales in Q2FY26, surpassing LSM for the first time.

CEM Revenue Growth & Increasing Revenue Contribution



Source: Dalal & Broacha Research

Capacity Expansion (CAPEX):

The overall expansion plan is substantial, targeting Rs.20-21 bn through FY30 for the massive Site 5 facility alone. With nearly ₹750 crore of capex already deployed and a further ₹1,300 crore planned through FY30, Site 5 is expected to become Aether's largest growth engine, supporting long-term revenue expansion and operating leverage. **Annual CAPEX is expected to be maintained at Rs.3-3.5 bn in the near term.**

Working Capital Management:

Historically, working capital cycles have been stretched (179 days as of Mar-26. However, the strategic shift towards the CEM model—where contracts typically dictate a faster cycle (45-70 days debtor cycle, 90 days inventory days)-is aiding improvement. Management is actively working to reduce the working capital cycle to ~150 days in the next 2-3 years.

Margin Outlook:

Despite market volatility and pricing pressures (particularly from Chinese competition), AIL aims to maintain average EBITDA margins **between 29% and 30%.** This stability is supported by the growing contribution from the **high-margin CRAMS and CEM segments.**

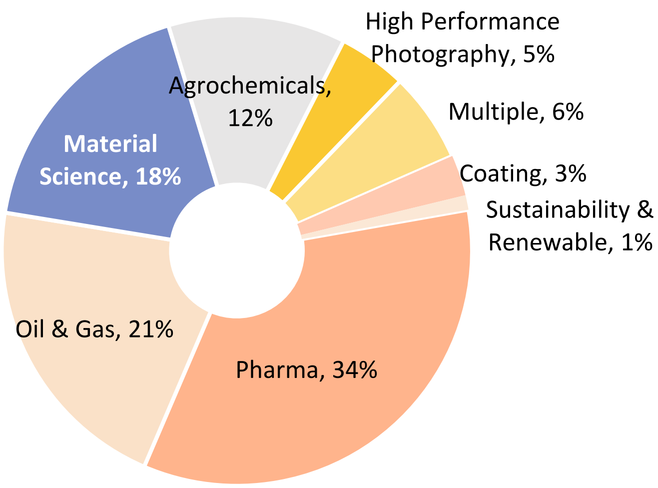
Financial Leverage:

Following a QIP issuance, the company intends to fund future expansion via a combination of internal accruals and debt, focusing on generating positive cash flow from operations.

Diversification Goals:

A primary strategic objective is industry diversification, moving beyond the traditional heavy reliance on Pharmaceuticals and Agrochemicals. The long-term vision is an equitable revenue split (25% each) across: Pharmaceuticals/Agrochemicals, Oil & Gas, Material Science, and Sustainability/Renewables.

Revenue Diversification Across End Markets in FY26 (%)

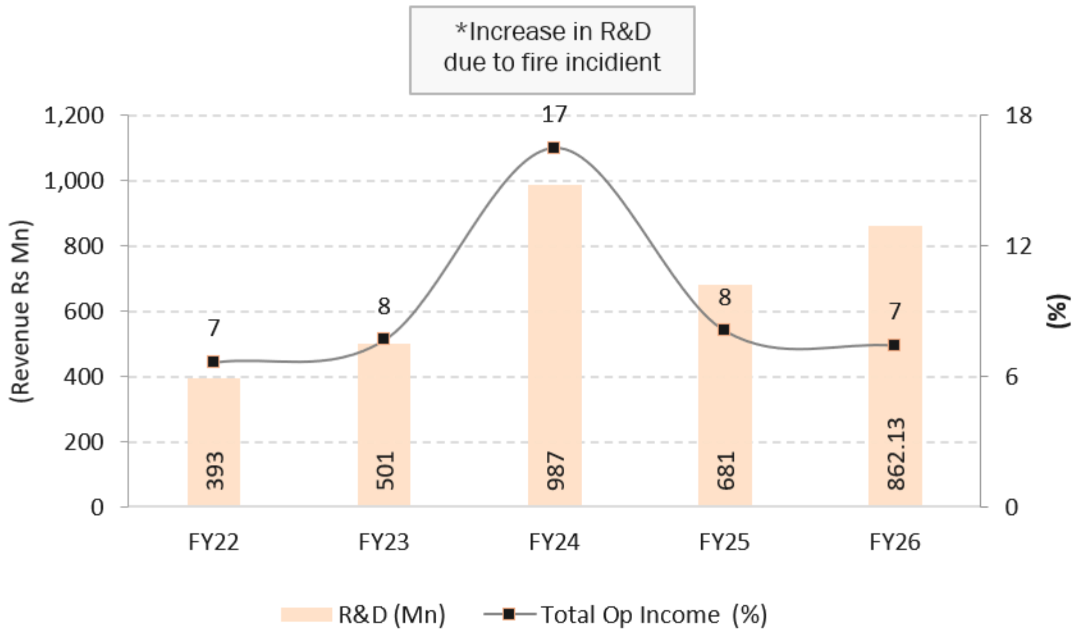


Source: Dalal & Broacha Research

Management Meet Summary

R&D-led platform with scale-up visibility:

Aether's business model is anchored in its in-house R&D capabilities, established in 2013 and now among the largest integrated pilot-plant facilities in India. The company operates a lab-to-commercialization model with pilot scale ranging from 100 kg to 10 tonnes, enabling faster de-risking of complex chemistries before full-scale manufacturing. The CRAMS division currently operates 55 fume hoods, which are expected to expand to 190-200 fume hoods over the next 18-24 months, supported by a new R&D facility under construction adjacent to the existing lab. CRAMS revenues are expected to grow at 20-25% CAGR over the next 2-3 years, with conversion into CEM typically occurring over 1-6 years, depending on customer qualification timelines.



Source: Dalal & Broacha Research

Strong anchor customer visibility:

Management highlighted meaningful medium-term revenue visibility from key global customers. Baker Hughes is expected to contribute ₹226 crore in FY26 and ₹250-300 crore in FY27, with long-term potential to scale into a ₹1,000 crore customer. Milliken, a 100-year-old material science company with 70–80% global market share in its product category, has signed a 10-year exclusive contract.

Manufacturing footprint and capacity ramp-up:

- Site 4: Capex of ₹160 crore, expected to achieve 2-3x asset turnover at maturity.
- Site 5: Two production blocks to be commercialized from Q1 FY27, with stabilization expected within 3 months. Initial blocks include one CEM line and one LSM line, catering to pharma, agro, and material science.
- Utilization levels: Site 2 is nearing peak revenue potential of ₹550 crore, while Site 3 is currently operating at 60–62% utilization, providing near-term operating leverage as volumes ramp up.

Capital allocation and returns:

Capex of ₹300-350 crore is planned over the next two years annually, with a trajectory of ₹2000-2100 crore till FY30 with funding through a mix of internal accruals and incremental debt of ₹500-600 crore. Management also indicated discussions with select customers for JV structures or upfront capex support for dedicated assets. Returns on capital for new chemical development are targeted at 18-20% ROIC

Chemistry depth as a structural moat:

Aether operates across an 8×8 chemistry matrix, with several platforms being Nobel-Prize-winning chemistries scaled beyond 500 tonnes, creating a significant entry barrier. Key strengths include greenfield chemistry (2,000+ tonnes vs peers at 1-2 tonnes), asymmetric hydrogenation (>500 tonnes), and continuous reaction technologies (15 reactor types). The R&D organization comprises 300 scientists across 11 teams, each handling 5-6 active projects, with new chemistries added only once production exceeds 1,500 tonnes, ensuring focus and scalability .

Sustainability and new-growth adjacencies:

Aether is steadily expanding its sustainability portfolio beyond traditional specialty chemicals. In addition to the Converge® Polyols platform (licensed from Saudi Aramco Technologies), the company is developing lithium-ion battery electrolyte additives, carbon capture-based products, and advanced water purification solutions. These initiatives position Aether to benefit from long-term structural trends in sustainable materials, clean energy, and environmental technologies.

Working capital and execution discipline:

CEM businesses operate on 45-60 days debtor days, while LSM operates at 120-150 days, reflecting semi-finished inventory requirements. Management emphasized disciplined execution, gradual ramp-ups, and risk diversification across customers, chemistries, and end markets to sustain growth through cycles.

Site 5: On-Site Observations and Key Takeaways

Site Visit Overview

As part of our due diligence, we visited Aether Industries' upcoming Site 5 – Magnum, along with interacting with the management team and touring the R&D and manufacturing facilities. The visit provided valuable insights into the company's execution capabilities, manufacturing philosophy, capital allocation approach, and long-term growth strategy. More importantly, the physical progress at the site reinforced management's confidence in the next phase of expansion and validated several aspects of our investment thesis.

Site 5 - "Magnum" - Site Overview & Scale

Rebranded terminology: **Site 5** is now called as **Magnum** the new **Strategic Manufacturing Campus**, largest site till date .

Land parcels:

- Operational campus: 125,000 sq. m (currently being brought online)
- Adjacent land already purchased: 65,000 sq. m
- Cumulative: 200,000 sq. m (50 acres) (6x the size of Site 2, which today generates ₹500+ Cr revenue)

Master plan: 4 zones × 4 production plants = **16 total production plants** at full build-out. Each plant is G+3 floors, 2 wings, 6 reactor bays per wing per floor so in total 36 reactor bays per plant thus **600+ reactor bays across all 16 plants**, with potential to add 10 more plants on the adjacent 65,000 sq. m parcel (shared utilities) could take total to **1,000+ reactor bays**, each reactor has around 10,000 L capacity.

The aerial view below shows Site 5, where four Phase 1 production plants have been completed. The remaining plants are under phased construction, with common utilities and supporting infrastructure already in place to enable future expansion.

Source: Company Provided Image (Courtesy: Aether Industries IR)

Site 5: Plant-wise Development & Commercialization Roadmap

Plant	Status	Product / Use
Plant 1	Operational (commissioned on June 26th, 2026)	Pharma advanced intermediate under the LSM model for a proprietary molecule.
Plant 2	Operational (commissioned on June 26th, 2026)	20% Pharma advanced intermediate (same molecule as Plant 1) and 80% Agrochemical advanced intermediate under the LSM model.
Plants 3 & 4	Reactors installed; piping under progress. Commercial start expected ~3–4 months ahead of the original schedule (target: December).	**Plant 3:** Dedicated CEM facility for semiconductor-grade low-dielectric styrene monomers used in semiconductor manufacturing. **Plant 4:** Dedicated to Material Science applications for a large European multinational customer.
Plants 5 & 6	Civil construction nearing completion, progressing well ahead of the original schedule.	Product details not yet disclosed by the company.

Committed Product Economics

Segment	Plants	Capacity	Pricing	Notes
Pharma (Plant 1 + part of Plant 2)	Plant 1 + part of Plant 2	**500 tons**	**$50–55/kg**	Import substitution; first-time manufactured in India
Agro (part of Plant 2)	Part of Plant 2	**350 tons**	**$35/kg**	Import substitution
Semiconductor (Plants 3 & 4, ramping)	Plants 3 & 4	**400 tons** (at maturity)	**$40–45/kg at maturity** (current spot $80–85/kg)	Export-oriented (Japan / Korea / Taiwan)

Note: All capacity and pricing figures are approximate, based on management disclosures during the Site 5 visit; not yet independently reconciled against filed disclosures.

Key Takeaways:

- High-value import substitution with export optionality
- Strategic products for global end-markets
- Long-duration demand visibility supports pricing power

Infrastructure already built:

- Warehouse is **10,000-ton capacity**
- **Zero Liquid Discharge (ZLD) effluent treatment plant** - **₹200 Cr investment**, 4-stage process: (1) primary/secondary treatment & neutralization, (2) evaporation, (3) biological oxidation, (4) RO membrane finishing.
- **Corporate center** (double-height glass facade) is under construction, 10 months from completion will include guest houses for visiting strategic-partner personnel who will co-locate during plant commissioning.
- Landscaping with around 45,000 trees planted (+25,000 more planned).
- Has a **Design philosophy** where material movement occurs on the periphery and personnel movement happens via internal arteries - a deliberate safety/efficiency separation.

Manufacturing Sites Rebranded:

Aether Industries has recently rebranded its manufacturing sites, giving each facility a distinct identity that reflects its role in the company's growth journey. The sites are now named Catalyst (Site 1), Genesis (Site 2), Ascend (Site 3), Strata (Site 4), and Magnum (Site 5), highlighting Aether's evolution into an integrated specialty chemicals manufacturing platform.

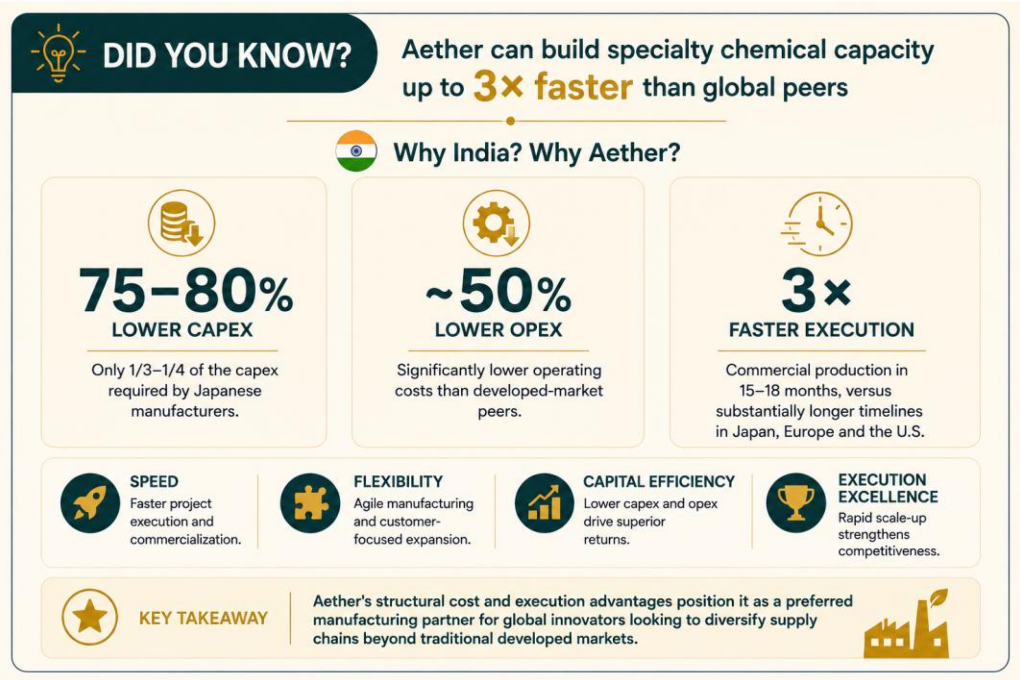
Semiconductor Opportunity

Product & value chain

- Family of styrene-based, **low-dielectric monomers** used in semiconductor wafer/chip layering (not packaging).
- Aether supplies the monomer only , the polymerization happens at the customer end.
- **Competitive landscape:** Currently there is only Japanese competition. The Japanese innovator could not scale fast enough to meet demand growth, which is how Aether was pulled in as a qualified alternative supplier.
- **IP structure:** Underlying molecules are generic (process patents only) the applications (into polymerization/end-use) are patented by the Japanese originator, not the synthesis route.

Capacity & Ramp

- Current production is **<10 tons**, run through two multipurpose (non-dedicated) plants to front-load qualification/validation trial batches.
- **Contracted/line-of-sight volume is 100 tons** - management target to reach this **within 3 months**, though customer-side qualification
- **The total opportunity size is 400 tons as of today**.
- **Long-term (FY29–30) demand target is 3x current scale**, i.e., approaching 1,200 tons, per management's characterization of end-market growth.
- Implied **semiconductor segment opportunity size is ₹160–180 Cr** at 400 tons and $45/kg realization.



Valuation and Outlook

Aether Industries stands at a pivotal inflection point in its journey from a specialty chemical manufacturer to a scaled, innovation-driven custom manufacturing and specialty chemicals platform. Over the last few years, the company has invested heavily in expanding its manufacturing footprint through Site 3+, Site 4 and Site 5, creating a strong foundation for the next phase of growth. While these investments have temporarily weighed on profitability due to higher depreciation, start-up costs and lower initial utilization levels, they position the company to benefit from a multi-year earnings expansion cycle as capacities ramp up and operating leverage kicks in.

We expect Aether to deliver robust Revenue/EBITDA/PAT/EPS CAGR of 26%/24%/27%/27% over FY26-FY29E, driven by improving utilization across recently commissioned facilities, increasing contribution from Custom Manufacturing (CRAMS/CEM), commercialization of new molecules, and a richer product mix. Revenue is expected to nearly double from ₹11.6 bn in FY26 to ₹23.1 bn by FY29, while PAT is projected to grow from ₹2.2 bn to ₹4.6 bn during the same period.

The company's growth outlook is supported by four key drivers.

1. Site 3+, Site 4 and Site 5 are expected to drive utilization-led growth and operating leverage.
2. Increasing outsourcing, strong customer relationships and a growing project pipeline support custom manufacturing growth.
3. Commercialization of new molecules and product additions is expected to create new revenue opportunities.
4. A higher share of specialty products and CRAMS projects should support margin expansion and improve earnings quality.

Beyond company-specific growth drivers, Aether is well positioned to benefit from structural industry tailwinds such as the China+1 strategy, global supply chain diversification and increasing outsourcing by multinational chemical companies. Backed by strong R&D capabilities, proven commercialization expertise and a growing project pipeline, the company remains well placed to capitalize on these opportunities.

Management has highlighted encouraging customer interest across newly commissioned facilities, particularly Site 5, while the acquisition of land for Site 6 reflects confidence in long-term demand visibility and future growth prospects.

In our view, the market remains largely focused on near-term challenges such as commissioning costs and utilization ramp-up, while overlooking the value of Aether's expanded manufacturing platform, growing custom manufacturing pipeline and long-term customer relationships. As utilization improves and high-value projects scale up, we expect a meaningful improvement in profitability, cash generation and return ratios over the coming years.

We value Aether Industries at 54x (i.e PEG of 2x, the stock is currently trading at PEG of 3x) FY28E EPS of ₹27 and arrive at a target price of ₹1,444 per share and recommending to BUY ON DIPS. While near-term execution remains a key monitorable, we believe the company's strong earnings growth trajectory, improving asset utilization, increasing CRAMS and CEM contribution and expanding specialty chemicals portfolio provide a compelling long-term investment opportunity.

Key Risks

➢ **Slower Capacity Ramp-Up:** Delays in utilization improvement across Site 3+, Site 4 and Site 5 could postpone operating leverage benefits and earnings growth.

➢ **CRAMS Commercialization Risk:** Delays in customer approvals, project scale-up or conversion of the development pipeline into commercial revenues may impact growth expectations.

➢ **Customer & Project Concentration:** Dependence on a limited number of large projects and strategic customers could result in revenue volatility if orders are delayed or scaled down.

➢ **Technology Commercialization Risk:** New products, including Converge Polyols and other specialty molecules, may witness slower-than-expected market adoption.

➢ **Global Demand Weakness:** Prolonged softness in global specialty chemical demand could impact exports, realizations and capacity utilization.

➢ **Raw Material & Margin Pressure**: Volatility in input costs or adverse product mix changes may impact profitability.

➢ **Operational & Execution Risks:** Any operational disruptions, safety incidents, regulatory issues or delays in future expansion plans could affect business performance.

Frequently Asked Questions (FAQs)

➢ **How large can the Converge Polyol opportunity become?**

Management believes Converge Polyol has the potential to evolve into a ₹1,500+ crore revenue opportunity over the long term, supported by increasing adoption in coatings, adhesives, sealants and elastomer (CASE) applications and global sustainability trends.

➢ **Why is Converge Polyol strategically important?**

Converge Polyol represents a differentiated, technology-driven product platform with sustainability benefits through CO_2 utilization. It also positions Aether among a limited number of global suppliers in a niche specialty chemical segment.

➢ **What is the opportunity in semiconductor chemicals?**

Aether is building capabilities in semiconductor specialty chemicals through Site 5. Management expects initial commercial contributions to begin from FY27, with the opportunity expanding meaningfully over the next few years as customer validations progress.

➢ **What makes Aether's semiconductor business difficult to replicate?**

The business requires complex chemistry capabilities, stringent quality standards, long qualification cycles and significant capital investment, creating high barriers to entry and strong customer stickiness.

➢ Why is the Baker Hughes relationship important?

Aether currently serves as a sole supplier for multiple molecules and continues to develop additional products for Baker Hughes. The relationship provides long-term revenue visibility, recurring demand and opportunities for future commercialization.

➢ What is the significance of the Milliken partnership?

The 10-year agreement with Milliken provides long-duration revenue visibility and validates Aether's custom manufacturing capabilities. It also strengthens the company's position as a preferred partner for future global CEM opportunities.

➢ What is the biggest misconception about Aether today?

The market largely focuses on near-term utilization and earnings volatility, while potentially underappreciating the value of Aether's expanded manufacturing platform, long-term customer contracts, technology capabilities and custom manufacturing pipeline.

➢ What should investors monitor most closely?

Investors should track:

- Site 5 utilization ramp-up
- CEM/CRAMS project commercialization
- Semiconductor customer validation progress
- Converge Polyol adoption
- New molecule launches
- Site 6 development and customer commitments.

➢ When will the benefits of Site 5 start reflecting meaningfully in earnings?

While initial revenues have started flowing, the larger impact is expected as utilization ramps up and fixed costs are absorbed over a larger revenue base. Site 5's contribution could become increasingly visible over FY27-FY29.

➢ What is the market missing about Aether today?

The market is focused on utilization, commissioning costs and near-term earnings volatility. We believe the bigger story is the platform that has been built—new manufacturing assets, long-duration customer relationships, a growing CRAMS pipeline, Converge Polyols, semiconductor chemicals and future expansion opportunities. The next few years may be less about building capacity and more about monetizing it.

Financials

P&L (Rs mn)	FY24	FY25	FY26	FY27e	FY28e	FY29e
Net Sales	5,982	8,405	11,601	14,050	18,350	23,100
Operating Expenses	-3,209	-4,466	-6,009	-7,430	-9,883	-12,455
Employee Cost	-386	-462	-627	-690	-918	-1,155
Other Expenses	-1,064	-1,047	-1,335	-1,576	-2,044	-2,582
Operating Profit	**1,322**	**2,430**	**3,630**	**4,354**	**5,506**	**6,908**
Depreciation	-397	-450	-664	-751	-850	-944
PBIT	926	1,980	2,966	3,603	4,655	5,964
Other income	392	398	209	270	410	338
Interest	-85	-129	-181	-296	-408	-483
PBT	1,233	2,249	2,994	3,577	4,657	5,819
Profit before tax	1,095	2,130	2,904	3,577	4,657	5,819
Provision for tax	-270	-546	-716	-858	-1,118	-1,396
Profit & Loss from	-	-	-	-	-	-
Reported PAT	825	1,584	2,188	2,718	3,539	4,422
MI	-	-	-	-	-	-
Owners PAT	825	1,584	2,188	2,718	3,539	4,422
Adjusted Profit	**962**	**1,703**	**2,278**	**2,718**	**3,539**	**4,422**

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	25,950	29,490	33,912
Net worth	**20,633**	**22,259**	**24,559**	**27,277**	**30,816**	**35,239**
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**	**36,786**	**42,166**	**48,446**
Non Current Assets	10,981	15,037	20,299	23,197	26,007	28,735
Fixed Assets	9,261	13,080	17,530	20,340	23,060	25,690
Right of Use Assets	1,596	1,726	2,587	2,667	2,746	2,828
Financial Assets	95	28	20	20	23	30
Deferred Tax Asset	-	-	-	-	-	-
Advances	-	8	9	9	9	9
Assets	28	195	154	161	169	178
Current Assets	**13,027**	**11,405**	**11,715**	**13,589**	**16,159**	**19,711**
Current investments	-	-	-	-	-	-
Inventories	3,435	3,969	5,375	5,466	7,038	8,544
Trade Receivables	2,329	2,886	3,901	4,042	5,015	6,313
Cash and Bank Balances	5,557	2,385	57	1,698	1,723	2,471
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**	**36,786**	**42,166**	**48,446**

Cashflow (Rs mn)	FY24	FY25	FY26	FY27e	FY28e	FY29e
PBT	1,095	2,130	2,904	3,577	4,657	5,819
Depreciation	397	450	664	751	850	944
Net Chg in WC	-1,272	-836	-1,767	-1,184	-2,209	-2,451
Taxes	-173	-544	-542	-858	-1,118	-1,396
Others	-212	-199	158	213	327	398
CFO	**-165**	**1,000**	**1,417**	**2,498**	**2,507**	**3,312**
Capex	-4,277	-4,523	-6,233	-3,561	-3,570	-3,574
Net Investments made	38	344	43	-	-4	-7
Others	-	-6	-3	-	-	-
CFI	**-4,239**	**-4,185**	**-6,194**	**-3,561**	**-3,574**	**-3,581**
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**	**-2,338**	**1,642**	**25**	**748**
Cash Opening Balance	**1,023**	**5,557**	**2,385**	**57**	**1,698**	**1,723**
Cash Closing Balance	**5,557**	**2,385**	**57**	**1,698**	**1,723**	**2,471**

Ratios	FY24	FY25	FY26	FY27e	FY28e	FY29e
GM	46.4	46.9	48.2	47.1	46.1	46.1
OPM	22.1	28.9	31.3	31.0	30.0	29.9
NPM	15.1	19.3	19.3	19.0	18.9	18.9
Tax rate	24.7	25.6	24.7	24.0	24.0	24.0
Growth Ratios (%)						
Net Sales	-8.1	40.5	38.0	21.1	30.6	25.9
Operating Profit	-29.0	83.8	49.4	19.9	26.5	25.5
PBIT	-43.2	113.9	49.8	21.5	29.2	28.1
PAT	-36.8	92.1	38.1	24.2	30.2	24.9
Per Share (Rs.)						
Net Earnings (EPS)	6.22	11.95	16.49	20.49	26.68	33.33
Cash Earnings (CPS)	9.22	15.34	21.50	26.15	33.08	40.44
Dividend	-	-	-	-	-	-
Book Value	155.66	167.88	185.10	205.59	232.26	265.59
Valuation Ratios						
P/E(x)	217	113	82	66	51	41
P/B(x)	9	8	7	7	6	5
EV/EBIDTA(x)	132	73	51	42	34	27
Div. Yield(%)	-	-	-	-	-	-
Return Ratios (%)						
ROE	6%	8%	10%	10%	12%	13%
ROCE	8%	10%	12%	12%	14%	15%
RoIC	6%	8%	8%	9%	10%	11%

Source: Dalal & Broacha Research

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