

November 17, 2022

Ref. No.: **AIL/SE/72/2022-23**

To,

BSE Limited

Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001, MH.

Scrip Code: **543534**

National Stock Exchange of India Limited

Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai-400051, MH.

Symbol: **AETHER**

Dear Madam / Sir,

Subject: Transcript of the Earning Conference Call

In accordance with Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, the Transcript of the Earning Conference Call scheduled on Monday, November 14, 2022, on the financial performance of the Company for the Second Quarter ended on September 30, 2022 is enclosed herewith.

We request you to kindly take the information on your records.

Thank you.

For Aether Industries Limited



Chitrarth Rajan Parghi
Company Secretary & Compliance Officer



Encl.: As attached



“Aether Industries Limited Q2 and H1 FY2023
Earnings Conference Call”

November 14, 2022



MANAGEMENT: **DR. AMAN DESAI – PROMOTER & WHOLE TIME
DIRECTOR, AETHER INDUSTRIES LIMITED
MR. ROHAN DESAI – PROMOTER & WHOLE TIME
DIRECTOR – AETHER INDUSTRIES LIMITED
MR. FAIZ NAGARIYA – CHIEF FINANCIAL OFFICER,
AETHER INDUSTRIES LIMITED
MR. RAVI BHOJANI – LEAD INVESTOR RELATIONS,
AETHER INDUSTRIES LIMITED**

MODERATOR: **MR. NILESH GHUGE – HDFC SECURITIES**

Moderator: Ladies and gentleman good day and welcome to the Aether Industries Limited Q2 and H1 FY2023 Earnings Conference Call hosted by HDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Ghuge from HDFC Securities Limited. Thank you and over to you Sir.

Nilesh Ghuge: Thank you. Good evening to all. On behalf of HDFC Securities, I welcome everyone to this Aether Industries conference call to discuss the results for the quarter and half year ended September 2022. From Aether Industries we have with us today Dr. Aman Desai – Promoter & Whole Time Director, Mr. Rohan Desai – Promoter & Whole Time Director and Mr. Faiz Nagariya – Chief Financial Officer. Without further ado, I will now handover the floor Mr. Ravi Bhojani – Lead Investor Relations at Aether Industries to begin with the earnings call for Q2 and H1. Over to you, Ravi.

Ravi Bhojani: Good afternoon everyone, and thank you Nilesh, for the brief introduction. I would like to take this opportunity and wish everyone here a very happy and a prosperous New Year. On November 11, 2022, our Board has approved the results for the second quarter and half year of fiscal year 2023 ended on September 30, 2022, and we have released the same to the stock exchanges as well as updated on the website. Please note that this conference call is being recorded and a transcript of the same will be made available on the website of Aether and exchanges. Please also note that the audio of the conference call is copyright material of Aether Industries Limited and cannot be copied, rebroadcasted or attributed in any press or media without specific and written consent of the Company.

Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are predictions, projections or other estimates about future events. This estimate reflects management’s current expectations on future performance of the Company. Please note that these estimates involve several risks and uncertainties that could cause our actual result to defer materially from what is expressed or implied. Aether Industries or its officials do not undertake any obligations to publicly update any forward-looking statement whether as a result of future events or otherwise.

So, Dr. Aman will begin the discussion by sharing on the ongoing expansion, strategy of the Company going forward. Then Mr. Faiz will cover the financial highlights for the period under review and Mr. Rohan will talk on a high-level overview of Aether’s business.

Now, I hand over the call to Dr. Amin Desai to share the update, over to you Dr. Aman.

Dr. Aman Desai:

Good afternoon, hope everybody is doing well and I am happy to connect with you all to discuss the performance of our Company for the second quarter of the current fiscal year 2022-2023.

In this quarter, we have fully completed the CAPEX of our newly expanded R&D Center and it was inaugurated in October 11th, 2022, by Padma Vibhushan Dr. Man Mohan Sharma – Ex UDCT Director. Capex on an upcoming Greenfield production site 3 is going as per plan, and civil construction was fully completed in the second quarter and the installation of the reactors was started in the second quarter.

We expect the production lines to be live by the end of this calendar year 2022, i.e. December 2022 to January 2023 where we will begin stepwise, the production of five new advanced intermediates which are pharmaceutical applications in our large-scale manufacturing site number 3, and these five advanced pharmaceutical intermediates will be made by us for the first time in India.

Our plans towards the next two greenfield manufacturing sites that is site 4 in Surat and site 5 in Panoli are also advancing well, and various activities are going on towards the planning initial, civil construction, product selections, regulatory approvals, and the overall design of these two new further, additional Greenfield production sites.

I think one of the most important highlights of this past quarter has been the growth of the business models of CRAMS and Contract/Exclusive Manufacturing which have shown significant and promising growth. We are continuing to see a significantly upward trend in the inquiries, customer additions, previous contract renewals, and actual business being translated into revenues in these two business models of CRAMS and Contract/Exclusive Manufacturing. This is evident in our growth numbers for these two business models where the CRAMS business model has grown 69% year-on-year and the Contract/Exclusive Manufacturing business model has grown 112% year-on-year.

The R&D expenditure for the first half of the financial year stood at 8.7% of the total revenues which is significant and includes revenue plus capital expenditures. The strength of the R&D team has also increased significantly from 164 in March 2022 to 193 in September 2022. With four new senior scientists including three PhD project leaders, having already joined or joining in this current month.

A 16 MW solar power plant was commissioned in the second quarter and has already shown 85% output in the initial months itself, which is now helping us to save on electricity load and we will thereby set of 24,000 tons of carbon dioxide per annum. This has also helped us reduce our net tax and save cash outflow and to add our PAT as well.

Our three business models continue to be robust and we are seeing growth in all the three business models. The large-scale manufacturing business model contribution will increase by the end of the current fiscal year 2023 as the aforementioned new products are being launched in the upcoming Greenfield manufacturing site 3 which are of high value and have a significantly high demand in the current market scenario already. Also, the pipeline is packed in R&D for future molecules with plans to launch these molecules in all three business models in the upcoming years, in the site 4 and site 5 Greenfield manufacturing sites. So, with this very high-level overview, I will now request our CFO, Faiz Nagariya to share the financial highlights of the second quarter and half year of FY2023.

Faiz Nagariya:

Good afternoon all of you and I hope you had a great New Year celebration.

The Company has recorded a total revenue of Rs.1,466 million in quarter 2 of financial year 2023 leading to a total revenue of Rs. 3,127 million, in half year of financial year 2023, which has led to an increase of 6% in the total revenues in half year-to-half year. The EBITDA remained almost flat half year-to-half year from Rs. 912 million in half year 2022 to Rs. 918 million in half year 2023. Thereby resulting an EBITDA margin of 29.4% in the half year 2023. The PAT has increased from Rs. 575 million in half year 2022 to Rs. 578 million in half year 2023, being almost flat.

Revenue for quarter 2 of financial year 2023 grew by 1.5% year-on-year compared to the quarter 2 of FY 2022 from Rs. 1,445 million to Rs. 1,466 million but showed a drop by 11.8% compared to Q1 of FY2023, which was annuitized and well informed by the Company in the last quarter also due to the slowdown in the pharmaceutical industry. The Company earned an EBITDA of Rs. 433 million in Q2 of FY2023, which was down by 0.8% compared to Q2 of FY2022 and down by 10.9% compared to Q1 of FY2023. The PAT of the Company has been Rs. 272 million in quarter 2 of FY 2023, which has increased by 8% compared to Q2 of FY2022 and reduced by 11.1 percent in line with the drop of revenues compared to Q1 of FY 2023.

As mentioned earlier by Dr. Aman initially, we have the solar power plant, which was commissioned and operational from July 2022. The plant is running at 85%, efficiency already and efficiency is going to increase as the quarter of July-September was rainy season and now, the season will give more output. This has helped us reduce our tax net and save cash outflow and also add to the PAT.

The use of IPO fund is done for the CAPEX for the Greenfield project 3 repayment of loans, from the banks and various working capital requirements. IPO expenses except the ASBA and Syndicate. Commissions have also been paid off. We have utilized the funds as per the object clause of the IPO, where we utilized the funds from the date of IPO till 30th September as per the table given below.

Funding CAPEX, the total requirement was Rs. 1,630 million out of which we have already drawn Rs. 310 million and remaining is Rs. 1,320 million. For the funding for the working capital requirements of the Company, the total requirement was Rs. 1,650 million from that we have already used Rs. 600 million, and Rs.1,050 is to be used now. For the repayment of the loans of the banks, we have already done that when the IPO was done in June and so this figure is unchanged, and we are just reproducing it for the ease of the investors and analysts. The GCP was Rs. 1,226 million from that we have used Rs. 960 million and Rs. 316 million is excess.

Now, I will request Mr. Rohan Desai to talk on high-level overview of Aether's business.

Rohan Desai:

Thank you Faiz, for the financial highlights. We are certainly committed to making these numbers look better in the quarters to come. Aether has shown stable revenues in Q2 in spite of the volatility in demand and sustained the margins. The good news is that the raw material prices are now getting stabilized, we are also seeing the demand coming back and we are foreseeing growth opportunity due to China Plus One and Euro Plus One Company wide mandate. We are also seeing a lot of inquiries coming from Europe, especially for the contract/exclusive manufacturing due to ongoing energy crisis.

Coming to our three independent business models in half year of financial year 2022-2023:

We have seen 52% of our total top-line coming out from large-scale manufacturing business model, which has shown a decline primarily due to the down trend in the global pharmaceutical industry. We, however, anticipate good future growth in this business model due to the launch of five products in the upcoming Greenfield manufacturing site within this fiscal year. 13% of our total top-line comes out of contract research and manufacturing services (CRAMS) which has shown 69% growth in the half year of financial year 2022-23 as compared to half year, financial year 2021-2022. And our third business model that is contract/exclusive manufacturing, which has contributed to 33% of our total top-line has shown a growth of 112% in half year 2022-2023 as compared to half year 2021-2022.

Our endeavor is to achieve balance between large scale manufacturing business model, CRAMS and contract/exclusive manufacturing so that we are not dependent on any business model. Our sales mix stands as pharmaceutical 46%, agro 33%, material science 6%, high-performance photography 6%, voting 4% and others including oil and gas as 5%. Our export stands at 49%, which includes exports to SEZ and EOU units in India and domestic sales stands at 51%. Exports outside the geography of India, accounted for 36% of our total revenue from operations.

We believe that with the launch of new products building up the new capacities, seeing the increasing demand in the current quarter and renewal of the existing contracts we are certain to deliver good growth in the coming quarters. Thank you and back to you, Ravi.

- Ravi Bhojani:** Thank you Rohan. We request the moderator to open the line for questions and answer now.
- Moderator:** Thank you very much. We have a question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** The first question is in terms of large-scale manufacturing; you indicated that the business was impacted due to downtrend in global pharma. So, have there been any postponements, or cancellations of orders, which we have experienced during Q2 and anything similar that we have experienced in the first half of, the ongoing Q3.
- Rohan Desai:** Yes, I will take this question Rohit. Thank you for this question. There was no cancellation of any contracts or any orders. There were postponements of few domestic orders which were paused and the deliveries were made to be done in the Q3 of this current fiscal year and we have restarted that shipments already.
- Rohit Nagraj:** And just by looking at the first half performance of this year and compared it with the last year and in the second half of last year, so more or less, our revenues were similar for first half of FY2022 and FY2023. So, is there any seasonality factor which is there for first half and second half and probably our second half revenues could be different than first half?
- Rohan Desai:** There is no seasonality in the first product. The only problem was the laggard demand of the pharmaceutical industry. Except for that, we did not face any issues and we do not have any seasonal products.
- Rohit Nagraj:** Last question in terms of the raw material prices and energy prices. Have we seen any impact during Q2 and how they are behaving in Q3? So are there any high-cost inventories which are still left and that will have some impact on the margins incorrectly or we are completely safe from that thing.
- Rohan Desai:** Q2 faced the higher inventory levels which we had already mentioned in the last earnings call that we will be flushing out this inventory in Q2 and Q3, there would be very small impact of this inventory because we could not flush out the whole inventory because of the laggard in the demand but we have done our analysis, internal analysis and we see a better Q3 and Q4.
- Moderator:** Thank you. We have our next question from the line of Nilesh Ghuge from HDFC Securities. Please, go ahead.
- Nilesh Ghuge:** This question is to Aman. Can you elaborate on the opportunity in CRAMS moving to current ongoing crisis in Europe and second thing or in our last interaction during conference call post Q1 results, you did mention that you are planning to increase your CRAMS revenues share going

ahead on the background that you recently commissioned your R&D Center. So, what are the chances the revenue from CRAMS revenue to go up significantly over the next couple of years?

Aman Desai:

Yes, thanks Nilesh, great questions. Let me answer the Europe opportunity question first because of these problems that have been happening in Europe, which are really unprecedented in our times. Fortunately, unfortunately, we are seeing actually a good influx of increased opportunities customers that we had been talking to, for the longest times, have actually started translating some of the under discussion projects into actual realities and we are seeing a significant push of enquiries, but also more, interestingly, we are seeing actual conversions of enquiries into projects and revenues happening in the recent months which is considerably increased as compared to say, for example, the same time last year. And so, we are seeing a good influx of opportunities because of the Europe crisis and then to answer the second part of the question. Yes, the R&D expansion that has happened is triple in nature. This is fully operationalized since the last quarter and we have, in fact increased our R&D CRAMS strength from I believe 160 to almost 200 now and we have even further increasing additional project leaders have joined, three new project leaders have joined, PhD project leaders in the R&D and they are already off and running on various multiple projects. If you compare, the first half of this fiscal year with the first half of the last fiscal year, our CRAMS has gone grown by a significant 69% in terms of revenues and our exclusive/contract manufacturing business model has grown by 112% which are really significant numbers of growth for these two business models and going forward as these new group leaders and as the new assets and resources in the R&D are further translated into running projects, we do anticipate that these numbers will further increase and our CRAMS buy off the bucket and the exclusive/contract manufacturing buy off the bucket will further increase as well and so very upbeat and optimistic on these two business models for very well forward reasons.

Nilesh Ghuge:

And Aman in our annual report you mentioned that you people are looking for any acquisition, particularly in US and Europe, for R&D centers. So, what kind of resource you are looking for and what kind of investment you are planning to do.

Aman Desai:

Yes, so these are very preliminary discussions and very preliminary evaluations happening in terms of areas that we would like to potentially acquire a Company would be primarily in the geographic regions of the US or Europe. And they will primarily be in the area of R&D where we add to our existing set of competencies or further complement our existing set of competencies in terms of chemistry and technologies and so the area that we would be solely interested in terms of acquisitions is R&D capabilities anywhere the US or Europe, which is further abetted by the presence of our global technology and business development leaders in the US and Europe namely Jim Ringer, Ray Roach and Nibert Fluggen. In terms of the size of the acquisition, it would be small and so anywhere in the region of between \$5 to \$15 million probably on the lower end of this range. In fact, our Dr. Jim Ringer, our business development

leader in the US likes to tell a story of these two fish named Hawkeye and Walleye and one is smaller, and one is bigger and he likes to go fishing and most times, the bigger fish has swallowed, the smaller fish while he is fishing, but every now, and then he comes across a small fish that has tried to swallow the big fish and has died in the process. And so, the moral of the story that he tries to tell me being that be a small in your approach towards acquisitions and to start with and so that, you can, if any problems happen, then the Company fully survives this problem. And so the idea is to go do its R&D acquisitions, very preliminary discussions and these acquisitions. If we do, these will be small in nature to start with.

Nilesh Ghuge: My next question is to Rohan; in your initial comment you did mention about the raw material prices coming off. So, can you throw light on this going ahead how do you see the raw material prices and these realization for your new products?

Rohan Desai: Yes, so, the overall raw material prices are 75% of the raw materials, which have the derivatives of crude has been corrected already. There are a few exceptions which has not been corrected, but overall the scenario of the raw material is looking very good and it is now in the stable zone. So, we see because of this and after the flushing of the inventory, we see the robust EBITDA margins of Aether coming back to the actual where it were and we will see this in the next upcoming two quarters, basically.

Nilesh Ghuge: Okay, so when you say it will bounce back, so if I look at the first half of FY 2023, your margins were about 49% or so, compared to 51% in FY 2022. So, do you think it will bounce back to 50 or close to 51% or you will close the air with a 51% gross profit margins.

Rohan Desai: Yes, our endeavor would be to come back to the numbers of the H1 of the last financial year that was when everything was good. But the only spoilsport today is the energy crisis which are there and few of the commodity prices are still trailing at the higher levels like caustic soda, lye and flakes which also impacts the affluent treatment and other costs. Except for that, we are seeing a good scope of increase in the in the EBITDA and gross profit margins.

Moderator: Thank you. We have our next question from the line of Rutvi from the line HDFC Securities. Please go ahead.

Rutvi Chokshi: Hi team, I just have two questions, one being that how is the traction in terms of the five intermediates that we had announced in the facility 3 and they have already been loading some production facility 2. what kind of product response are you getting? And also any plans of site four and site five facilities? Like do you have anything to add to it.?

Rohan Desai: Yes, we thank you for this question. I will answer this question. Out of the five products, we have already launched one in the last quarter, we are seeing full demand we are manufacturing

close to 12-14 tons of that product right now and practicing that out in the existing asset and we have seen a good demand on that product. On the remaining products, we are planning to launch it in the existing facility also in the next quarter that is quarter 3 and quarter 4 currently so that we can practice that products also simultaneously and give the validation quantities out of the existing site. This will cut short, the gestation period to a very great extent for the international clients sitting out in Europe. And for the domestic clients, we have already been approved by everybody and we are seeing a huge incoming demand because we are having these products manufactured for the first time in India, and we are competing against China. Talking about site 4 and site 5, we have already submitted for the approval with the Pollution Control Board and we are expecting the approvals to come in a short period of time.

Moderator: Thank you. We have our next question, from the line of Kalpit Narvekar from Allianz Global Investors. Please go ahead.

Kalpit Narvekar: So, my first question was on you mentioned that there was some slowdown and on the pharma side. So, could you add some color on which geography are you seeing slowdown or which chemical are you seeing the slowdown in.

Rohan Desai: Kalpit, thank you for this question. Again, the customers are sitting out in India and sitting out in Europe, what we have understood is they were holding a lot of inventory and hence the slowdown had happened. This inventory was lacked because of the uncertain situation and time, during the COVID time and for which they had increased their inventory holding period and once the COVID went off from these respective countries, they wanted to control the inventory back to their normal levels. And so, we are seeing this slowdown in all the products of various products, except for one or two products, we have seen a slowdown across the whole world and that was the issue.

Kalpit Narvekar: And my follow-up to this was. Sir, do you see this inventory situation normalizing in a quarter? Or is there an actual impact on the end user demand of these products, whatever the end medicine is going to the customer. Is there some impact on that because of macro or inventory situation will normalize by next quarter?

Rohan Desai: The inventory situation Kalpit, as we speak in quarter 3 is already getting normalized. We are seeing inbound, enquiries, and restarting of the existing orders already there. So, and this inventory levels will, is not a slowdown of a particular product with this. Because if you study our products are going into as a drug for curing anti-hypertension and is used in blood thinning agent which is used quite popularly. So, it is not an uncommon product or a product, which can be which can be shifted or which can be removed. Totally, and hence, I do not see the product or the demand going off totally at all on the products where we are in, but we are seeing this

only as a temporary phenomenon, which is now on already been recovering as you speak in quarter 3 and we believe it will be out of this question in the quarter 4.

Kalpita Narvekar: My second question was on the ramp up in the new facility. So how much revenue potential do you expect on a steady state basis when that facility completely ramps up and how quickly do you expect that ramp up? Say fourth quarter, how much can you potentially ramp it up to or and going forward as well.

Rohan Desai: Kalpita, I would not be giving you exact number, but I will give you just an idea. We have investing around Rs.200 crores, Rs.190 crores in the site 3 and traditionally, we have done a 2X effect on this, we see a full maturity or 80% maturity to be arriving at in the two financial years.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments over to you sir.

Ravi Bhojani: Thank you everyone, for joining the call. We hope that we have covered most of the questions. If you still have any further queries, please feel free to reach us. Stay safe, have a great day ahead. Thank You.

Moderator: Thank you, for joining us and you may now disconnect your lines.