aether
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July 31, 2023

Ref. No.: **AIL/SE/55/2023-24**

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 Wednesday, July 26, 2023, on the financial performance of the Company for the First Quarter of Financial Year 2023-24 ended on June 30, 2023, is enclosed herewith.

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

Thank you.

For Aether Industries Limited

AETHER INDUSTRIES LIMITED SURAT

Chitrarth Rajan Parghi
Company Secretary & Compliance Officer
Mem. No.: F12563

Encl.: As attached

CHITRARTH RAJAN PARGHI
Digitally signed by CHITRARTH RAJAN PARGHI
Date: 2023.07.31 17:56:14 +05'30'

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"Aether Industries Limited Q1 FY-24 Earnings Conference Call"

July 26, 2023

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** **MS. SHUBHANGI DESAI – EXECUTIVE (IR), AETHER INDUSTRIES LIMITED**
MODERATORS:	**MR. NILESH GHUGE – HDFC SECURITIES LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Aether Industries Q1 FY24 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 Yusuf. Good afternoon, all. On behalf of HDFC Securities, I welcome everyone to this Aether Industries conference call to discuss the Results for the Quarter Ended June 2023.

From Aether Industries we have with us today Dr. Aman Desai – Promoter and Whole-Time Director, Mr. Rohan Desai - Promoter and Whole-Time Director, Mr. Faiz Nagariya – Chief Financial Officer and Ms. Shubhangi Desai – Executive (IR).

Without further ado, I will now handover the floor to Ms. Shubhangi Desai to begin with the earning call for Q1 FY24. Over to you Shubhangi.

Shubhangi Desai: Today on July 26, 2023, our Board has approved the financial results for the first quarter of fiscal year 2024 and we have released the same to the stock exchanges as well as updated the same on our website. Please note that this conference call is being recorded and the transcript of the same will be made available on the website of Aether Industries Limited and exchange. Please also note that the audio of the conference call is the copyright material of Aether Industries Limited and cannot be copied, rebroadcasted, or attributed in 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. These estimates reflect 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 results to differ materially from what is expressed or implied. Aether Industries Limited or its officials do not undertake any obligation to publicly update any forward-looking statements whether as a result of future events or otherwise. Dr. Aman Desai will begin by sharing the ongoing expansions and strategy of the company going forward. Then Mr. Faiz Nagariya will cover the financial highlights for the period under review and Mr. Rohan Desai will share a broad overview of Aether's business. Now I shall handover the call to Dr. Aman Desai for his opening remarks. Over to you Dr. Aman.

Aman Desai: Thank you Shubhangi. Good evening and a warm welcome to everybody on this call. I hope everybody's doing well and I'm very happy to connect with all of you once again and discuss the performance of our company for the first quarter of the fiscal 2024.

To begin with in terms of strategy and expansions; all our expansion plans are advancing well as charted, and the strategies laid out for our growth trajectory are firmly in its place. Despite the current headwinds which we believe are temporary, we stand strong on our core competencies of class apart infrastructure, state of art technology, a focus on core chemistries and technologies and integrated systems. We have been investing strategically in these areas as well continuous investments in the human capital at Aether as well as research and development emphasize their pivotal role in the sustained growth of our company.

We have successfully raised Rs. 7,500 million or Rs. 750 crores through Qualified Institutional Placements or QIP by issuing 80.12 lakh equity shares, 36 qualified institutional buyers which would be deployed for funding CAPEX for Site 3, Site 5, meeting working capital requirements and general corporate purposes. The agro sector is currently witnessing an inventory reset year which has hampered both, our large-scale manufacturing as well as our contract exclusive manufacturing business model. Foraying of the Chinese competition and restarting of the Chinese industry into a few of our products in the pharma sector has also impacted us. But for the most part I do believe that we have been able to reasonably come through in this quarter because of our strong portfolio as well as the diversity in our business model as well as the end industry application sectors. In the material science and oil and gas sectors we are I do believe pioneers in the country in terms of tying up with the innovators of these fields in their R&D platforms going on towards commercialization and we have also made a few important announcements in this regard in this quarter which I'll speak shortly about.

In the CRAMS business model, we continue to see good growth which helps us to continuously collaborate with the elite technocrats across the borders and the contribution of large scale manufacturing has remained dominant in this quarter which is on the backdrop of the commercialization of new products in the new sites that we have upcoming that we have launched in this quarter and the last quarter. There is definitely a slowdown in the agro sector in this year as the agro companies are now destocking in a significant manner, but this is a cyclical event just like the pharma companies were undergoing in the last year. We do believe firmly this is a short-term phenomenon and the things will settle out in the third and the fourth quarters of this fiscal year. Demand certainly has been hit back in this quarter due to aggressive Chinese dumping but as is always the case, with this Chinese dumping scenario China will not be able to sustain this as there are various other geological and economic factors in play in China which does portray a good future for the Indian specialty chemical market beyond the current temporary headwinds.

A major development that came along from our side during this quarter was the execution of a letter of intent with one of the three major global oil field services companies based in the US. This LOI, letter of intent paves the way for the execution of a strategic supply agreement between the two companies within a few months of the LOI execution. The LOI specifies four strategic products of this new customer that will be contract manufactured by Aether as the first set of products. The individual volumes of these four products as is mentioned in the LOI totals to 16,000 metric tons per year with a significant revenue potential to the north of Rs. 300 crores per year from the fiscal '25 which is the next fiscal. And we do hope to see some contribution of this in the last quarter of this fiscal year as well. These products will be supplied to the global energy and oil and gas locations of this customer including a significant supply within India which will be in support of the 'Make in India' movement. This project is being undertaken by us at Site 4 under Aether Specialty Chemicals Limited which is 100% wholly owned subsidiary of Aether and the project work has already begun and is actually in full swing as we speak today.

Another important announcement that we did during this quarter was the signing and the finalization of the licensing agreement with Saudi Aramco Technologies Company for the commercialization of the sustainable converge polyols technology. After working collaboratively over the last many years in the CRAMS business model, we are now proceeding towards the commercialization of these sustainable polyols, and we are very excited to be starting off on this path.

We continue to make robust investments towards R&D. Our R&D expenses for the first quarter stood at Rs 124.6 million i.e. 7.6% of our total revenues for the quarter were going towards R&D expenses. The strength of the R&D team grew from 233 in Quarter 4 of fiscal '23 to 262 in Quarter 1 fiscal '24 that is this quarter. As always, the pipeline in R&D is fully backed up for future molecules with plans to launch these molecules in the upcoming years in the Site 3+, Site 3++, Site 4 and Site 5 greenfield manufacturing sites in the business models of largescale manufacturing as well as exclusive/contractual manufacturing. In this quarter itself we have exhibited the most important specialty chemical trade shows globally which are the ChemExpo show in Mumbai, the Chemspec Europe show in Switzerland, the CPHI show in Japan, Tokyo and the Chemicals America Show in Savannah, USA which gave us significant insights as always on the prospects of opportunities, the growth going forward as well as continued meetings and tie ups with some of our most important customers in USA, Europe and Japan.

We are as always committed to what we have said in the past and will continue to deliver. We see a good turnaround in the third and the fourth quarters of this fiscal year and are hopeful to close that the fiscal year with good numbers and margins along with the various other developments which we've always talked about, and which are in the pipeline.

With that I would like to conclude speaking and I will now request our CFO – Faiz to touch upon the financial highlights for the period under review.

Faiz Nagariya: Thank you Dr. Aman and good evening, everybody.

I'm glad to inform you that the total revenue of the company stood at INR 1,638 million in the first quarter of fiscal year '24, reflecting flattish when compared to Quarter 1 of fiscal year '23. EBITDA has also been flattish year-on-year basis from INR 486 million to INR 475 million thereby resulting in EBITDA margins of 29% in Q1. The PAT for Q1 for financial year '24 stood at INR 302 million which has also been flattish year-on-year based on Q1 of financial year '23. PAT has been 18% as a percentage of the total revenues. The debtor cycle of the company is still stretched but we have been able to bring down the debtors marginally from 145 days as on 31st March 2023 to 139 days as on June 30, 2023. We are continuously working on this area and are confident to bring it down much better by FY 2024 end. Now I would request Mr. Rohan Desai to share a broad overview of Aether's business. Over to you.

Rohan Desai: Thank you Faiz.

The entire chemical industry is currently facing tough times with various segments experiencing stock corrections, especially agrochemical segments. Chinese companies have been dumping material into India after reopening their production facilities following the COVID lockdown and the Chinese currency has also devalued significantly to aid in their dumping activities. Despite these challenges there is a hope for demand normalization as orders are in hand to be supplied from quarter third of this fiscal year which is expected to bring things back to normal. While raw material prices have stabilized on the lower side benefiting the company with reduced COGS. The selling price of all the finished products have also corrected quite a bit. It has been for the first time in the history of the company that we have seen reduction in the average realization of the price of the products which has gone down up to Rs. 100 per kilo as compared to the last quarter and the current quarter. With the new products that we have launched in the Site 3, the increase in turnover of these products will help us to achieve the realization much better in the quarters to come.

To save on major overheads like electricity costs, the company has installed 16 MW solar power plant providing optimum output for three units of Aether Industries Limited. For further discussions for a hybrid power plant, deal is already in advanced stages which is projected to cover 80% to 85% of the total electricity cost of all these three units with plans to increase the capacity for future expansion. Continuous discussions with steam service providers have led to a decrease by 17% in the steam utility cost in the last 6 to 8 months.

Coming to the three independent business models; in Quarter 1 of financial year 2024, we have seen 63% of our total top line coming from large scale manufacturing business model, 16% of our total top line coming from contract research and manufacturing services business model and our third business model which is contractual exclusive manufacturing contributed to 20% of our total top line. As always, we remain committed to delivering value to our shareholders and investors. With short term challenges persisting we firmly believe in the resilience of our business and the underlining fundamentals that have allowed us to thrive in the past.

We are confident that these qualities coupled with adaptability will guide us through the trying period and position us for sustained growth in the future. Thank you and back to you Shubhangi.

Shubhangi Desai: Thank you Mr. Rohan. We shall now request the moderator to open the forum for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Noel Vaz from Union Asset Management.

Noel Vaz: I just had one question. So, what I wanted to know is regarding the new molecules which are expected to come up in Site 3. I think you had mentioned that the realization should be better than the current realization that the company enjoys. So which particular segment which would this be coming from?

Management: They are coming from pharma segments. You are talking about Site 3, they are coming from pharma segments only, pharmaceutical segments.

Noel Vaz: And expected revenue would be how much approx.?

Management: Expected revenue of Site 3 at maturity which will be achieved in 2 years will be 400 crores.

Noel Vaz: Also, one of the questions, so I had a series of questions about the polyol segment. I just wanted to know what exactly is the realization that we are aiming for in that particular segment? Because I just had some doubts for that, so realizations and capacity is what exactly are we looking at right now?

Management: So as low as $8 and as high as $13 per kilo.

Moderator: The next question is from the line of Shatadru Chakraborty from Chakraborty Family office.

Shatadru Chakraborty: My first question is really a bookkeeping question. The cost of material consumed, this is up 18% year-on-year and then the effective tax rate that has really gone down year-on-year as well as quarter-on-quarter. I just wanted to understand what exactly is happening. Is it inventory destocking that is happening? Is it raw material which is costing us more and why do we see so much fluctuation in the tax rates?

Management: I will take the question for the tax rate. The tax rate if you see, we have just installed the solar power plant last year which was commissioned in July, but the plant started to give out the outputs from October. The installation taken in October. So, half year depreciation was taken, this year the full year depreciation is taken, and the revenue is low this time in the first quarter, so it's 161 crores and expenses have gone up. So, the resulted PBT and the actual tax payable which comes is less, so the average tax has gone down because of the capitalization of the solar power plant wherein the depreciation is 40% as per income tax. The deferred tax liability also went down because of the increase in the gross block of the depreciation as per Income Tax Act.

Shatadru Chakraborty: So, the tax rate per se what you're saying is in Q2-Q3 this will be slightly back up again in the 22%-23%.

Management: Yes, it will come back as the revenue will increase the tax rate will come back. It will come back to around 23%-24% for sure.

Shatadru Chakraborty: And then the question really on the increase in the cost of material consumed, can you response to that?

Management: The increase in cost of raw materials consumed is basically a factor of the raw materials which are used which were purchased at a higher price in the second quarter which are used now because we keep an inventory of 5 months and then the prices started going down. So those are now being used in the second quarter from now. So, we'll see a reduction in the raw materials consumed cost also. The major thing is the recoveries which we are having which have shown a decline which is the reason for the increase in the raw material cost. But now as we go in the second quarter, the raw material cost will still be going down because we have inventories which are purchased at the rock bottom prices of the raw materials which were purchased recently.

Rohan Desai: Mr. Chakraborty this Rohan over here. The raw material prices have reduced in last 60 days approximately and there was a drastic fall which has happened which was unseen before in Aether's history. So, it was quite drastic and hence the raw material prices have almost reached the rock bottom as we speak. As the inventory starts depleting you will see the benefits out of the lower cost raw material.

Shatadru Chakraborty: Makes sense. So, then I think Q2-Q3 we might see some of this play out. My second question really is on the contract manufacturing segment. I see numbers down year-on-year and quarter-on-quarter, and you mentioned that the agriculture sector has been relatively weak. I just want to understand, get your color and you said Chinese yuan has depreciated a lot, so their imports are cheaper and so on and so forth. I understand that. But my real question is, I know that you have lost price, but have you also lost volumes and how do you see the sector at least in the rest of this year? Because I understand that the agriculture sector recovery is probably not going to happen as much as we expect.

Management: So, we were anticipating the contract renewal to happen in the Quarter 1 which has been deferred to Quarter 2. Hence that's the only change which we are seeing right now. This moreover related with the destocking issues going on in the agrochemical sector. So, the demand is there but they are all destocking at this moment and getting their inventories corrected. We are believing today that the demands will be back, and the contract will be completed in Q2, and we will see a full force of our molecules coming back in demand in Q3 and Q4 on the agrochemical side.

Moderator: The next question is from the line of Viplav Srivastav from InCred Capital.

Viplav Srivastav: My question was regarding the large-scale manufacturing division of the company. So just want to get a hang of stuff, so the new products which the company was supposed to launch, the intermediates and other APIs. So, have they started contributing to the top line or what is the percentage contribution?

Management: Yes, it has started contributing to the top line as we speak. So, all the products have been launched commercially and they are already aiding to the sales. However, with the softer demand it is not picking up as per what we were looking for. But in Q2-Q3-Q4 we see it coming up back into action. They are not agrochemical intermediates; they are pharmaceutical intermediates.

Viplav Srivastav: So just a follow up question. On the Dolutegravir where we are intermediates which are supposed to be making so Gilead has launched a drug called BIKTARVY which has rapidly gained market share in US, it has 50% market share. So, will it be a competition for our intermediate as far as the demand for the intermediate is concerned?

Management: Not on the shorter period of time but over a longer period of time how it sees the acceptability in the market is to be seen. But in the shorter term we do not see this as a big trouble for us.

Viplav Srivastav: And one last question; regarding the large-scale manufacturing, we make the intermediate for Methoxyfenozide which is a Pyrethroid and Pyrethroid prices have been coming down since the beginning of the year. So, is it just a price decrease or we are also seeing volume decline as far as MMBC is concerned, so is the intermediate for the Methoxyfenozide?

Management: The volume has not declined. We are seeing the same level or some added demand which is coming up as a forecast. Only thing is it is being deferred from Q1 to Q2. The discussions have been differed because of the addition stock which they were holding, and they wanted to destock and correct the inventory positions at their end. So, we are not seeing any problems on Methoxyfenozide molecule. On volume wise it is stable or increasing as per the value. Yes, it will correct in terms of the value because all the raw materials have been decreased substantially. So, we have to adjust the price accordingly.

Moderator: Next question is from the line of Akul Broachwala from Ocean Dial Asset Management.

Akul Broachwala: Specifically taking this question on Site 3. You mentioned that over next 2 years once this matures, you expect 400 crores of revenue. You mentioned that we've already launched three products and are there any further pipeline products which we plan to launch this calendar year and basically what's the timeline to scale this up in order to achieve this sort of revenues within this span of time? Is it completely that within 6 months or so you're able to ramp up the production and supply it or what's the strategy behind this?

Management: So, sites, there are two different sites, Site 3, and Site 3++. Site 3 has five molecules. All five molecules have been launched. Site 3++ has three new molecules which are moreover on the agro site and two of agro and one more of material science which will be launched in the due course of time as the site comes online. The site will come online in next 12 to 14 months. As of now that is what we are seeing. I believe you are talking about Site 3++, right?

Akul Broachwala: I was referring to actually Site 3 only where you've launched five products. I further wanted to understand whether there are any further pipeline products which you plan to launch over next couple of quarters or so or is this what Site 3 will constitute overall?

Management: The Site 3 will constitute five products and we are looking as the businesses of the agrochemical sector is changing and stock correction is happening, we will see the opportunity of the asset utilization and maybe launch one or two products in Q2 and Q3.

Akul Broachwala: And the supplies to Otsuka is also part of Site 3 or will it happen from other side? Just wanted the clarity on that.

Management: Otsuka's product is coming from Site 2.

Moderator: We'll move to our next question from the line of Simar from Negen Capital Service.

Simar: In terms of the room for growth, we do have an international lever as well as the product mix. So how do you see the growth for the next year or so?

Management: We could not hear you properly Mr. Simar. Can you just repeat this question please?

Simar: In terms of the headroom for growth we do have an international lever as well as the product mix. So, could you say how much do you see the growth for the next financial year as well as like a year or so?

Management: Before Q1 we were anticipating a robust growth happening in this financial year. Just in the last 60 days the price crashed of all the raw materials. Most of the raw materials are available at all time low, even solvents and everything is crashed to the rock bottom. So, we are trying pushing out that right now to take it quarter-on-quarter basically and we believe that in Q3 and Q4 will be back to normal. That's what our belief is, and our understanding is. And I think we will be able to come back to the original state more or less with this new LOI signing which we have done and with the new 2 or 3 product launches which we are anticipating to do in the upcoming quarters to come. So, I don't have a number, but we believe that we will more or less reach the target which we had projected in the starting of the year. Does this answer help you?

Simar: Yes, I got it. Thank you for this. I have another question. With the business mix, do you expect the number to be remaining the same the pharma contributing upwards of 50% and agro around 20% to 30%?

Management: No actually we expect that the agro and the others will pick up more in the next two quarters as compared to the first two quarters. The absolute number of the pharma will remain the same. But we are currently seeing a historical 5-year cycle of agrochemical industry where it's at its resetting here and inventory restocking here. And so that's why in this quarter especially you've seen the agro components being quite small and we anticipate that to come back reasonably well in the third and the fourth quarters and so if the agro numbers going up the pharma will remain where it is and especially with the oil field services company contribution coming in the last quarter of this fiscal year, we anticipate the oil and gas and material science's sector to also go up in the last quarter. We do anticipate continuing to equalize continuously these various portfolios that we are into.

Simar: And if I can slip in one last question. So, with respect to the contracts from Aramco, Otsuka, and Polaroid, can you elaborate how much of growth that would be contributing to the revenue or the EBITDA margins in the next 5 years?

Management: The EBITDA margins will be in the 29-30 range. That is what we are projecting at the moment. Anything above that would be good to have. We are targeting good margins in polyols business. To start with on Otsuka which are the primary two products which we are already manufacturing, we are seeing the EBITDA levels to be at the large-scale manufacturing EBITDA levels only. So, you will not see a bump up on that part. In oil field services business LOI which we have done, we see the EBITDA margins to be at 28% to 30% also and in terms of the Polaroid contract research and manufacturing services we see approximately (+50%) EBITDA margin which is categorized as CRAMS for us.

Moderator: Next question is from the line of Shatadru Chakraborty from Chakraborty Family Office.

Shatadru Chakraborty: This time I really want to converge on basically the two potential future drivers, starting with the oil field company. You just mentioned the EBITDA margin and said that the revenues will potentially start either the last quarter of this financial year or definitely in '25. I was just kind of thinking what kind of blended realization are we expecting for this and if you could also throw a bit more light on what kind of molecule it is and also in the light of your funnel where you mentioned that is it really the first time manufactured in India? Does it have four steps? So, whatever you could add on the molecule itself will be very helpful.

Management: So, this is one of the top three oil field services company in the US and they are in the oil field services area and what we're going to be supplying them with is across four molecules itself we have a combined volume of almost 1300 metric tons per month. So, this is a high-volume area. This is a good fit to our core competencies of high-pressure technology and continuous flow technology and so that's why it's of interest to us. In addition to of course being the strategic association with one of the top three leading oil field services company in the US. And being in the non-pharma, non-agro sector which is our continued goal to diversify because of the high volume obviously the average utilization is low and so we're talking about a $3 to $5 per kilo range on a per kilo basis. But if you multiply those numbers into the volumes that I just mentioned it's a potential to be a game changer for the company. And what we've always given guidance is that we are actively looking at various opportunities and various areas of innovation, partnership with such companies where we are talking about such game changing areas for Aether, so that kind of speaks to the average realization part of your question. In terms of the molecules these are used in oil field services. But beyond that I'm afraid the confidentiality agreements just from sharing more information. But as is mentioned in the LOI the Strategic Supplier Agreement is being currently constructed between the two companies and we are hopeful that we'll be able to disclose the name of the company as well as more details once this strategy agreement is finalized in the next few months. And as you mentioned it could be potentially game changing for us and we are hopeful that we'll be seeing contributions in the last quarter of this fiscal year and with the full contribution with the new site in Site 4 in the next fiscal year.

Shatadru Chakraborty: A similar question on the converge polyols agreement also that you signed. So here since you have not guided to any start date whatsoever. So, I was just curious what do you think of when you can potentially record revenue for this? Because I know there are some contracting pieces also left and any idea of what kind of volumes and what kind of realizations are you potentially looking at this segment, also maybe some light on I probably think you cannot throw some light on the molecule itself but anything apart from that will be helpful.

Management: We are setting up two KTA plants as we speak. That is a production line which will have a manufacturing capacity of 2 KTA for Converge polyols. We potentially see a sale of approximately 500 tons in next financial year, half KTA that is. Then full KTA in the subsequent year and the 2 KTA in the third year.

Shatadru Chakraborty: And just last question from my side. Site 5 per se for which you have also now gotten some money from the QIP placement that you did, in the document itself it's mentioned 330 crores of CAPEX and I believe you mentioned sometime before that this will be a mix of contract manufacturing in CRAMS. I was just wondering is this exactly the Converge polyols business that you're trying to do here and similar questions then anything that you can share on the asset? I think the realization which you already mentioned.

Management: Site 5 will not initially have Converge. We have not planned that over there. We have planned large scale manufacturing business model molecules and contractual exclusively manufacturing molecules in the first stage in Site 5. Usually, the asset turns at maturity is approximately 2X and we are targeting 2X at this moment.

Moderator: Next question is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Just had two small clarifications I would say. So, the first is I think you mentioned about 2 to 3 new product launches. Just wanted to understand under which business segment would these be?

Management: Two are in agrochemicals, they are intermediates of agrochemicals and one is the intermediate of material science.

Krishan Parwani: And this would be in this fiscal and you don't see a challenge?

Management: That is in next fiscal because the plant is being built up. Site 3++.

Krishan Parwani: So, this fiscal there is no new product addition. I mean it is more like a ramp up of whatever new product that you have launched in the last 5 to 6 months, correct?

Management: Yes. But now we are projecting that we will go for earlier launch of two molecules out of these three. And if the assets permit us and if the installation is not up to the mark.

Krishan Parwani: And just one last clarification is that we are already in the month of July and right in the month gone by you see any hopes of bettering the run rate in second quarter versus what you have seen in first quarter. Just wanted to understand where do we stand in terms of recovery?

Management: Q2 is a good challenge to have. If we can better in Q2 it will give us a good momentum in Q3 and Q4. So that's the target. Q3-Q4 we are looking at as per our understanding and estimates and discussing with the various customers which we have on contract services and manufacturing and large-scale manufacturing we feel we will be back to normal levels and with the inventory of raw materials coming in at all time low it will also aid to the margin. So Q2 will be a challenging one for sure. But however, we are trying our best to make it a better one than this Q1.

Krishan Parwani: I'll just pitch in one last one. So whatever run rate we saw in 4Q '23 in terms of the top line, probably 3Q '24 and 4Q '24 could be much better than that. Is that a safe statement?

Management: Yes.

Moderator: The next question is from the line of Viplav Srivastav from InCred Capital.

Viplav Srivastav: Just wanted to understand one thing. So, a lot of value of Aether comes from a strong R&D team, right? I mean its research and development team is very well accredited. So just want to understand that what differentiates your R&D team from your peers in terms of recruitment from where you recruit or what type of compensation you pay? How is your R&D team differentiated? I'm asking this because a lot of the value which Aether caters to is from this R&D. so that's why I just want to know this. So, if you can throw some light on this.

Management: We are built on R&D and the initial focus, the first 3-4 years of the company especially we did only R&D and built on that fundamental base and we've continued to build on that. R&D remains the face of the company. R&D remains the focus of the company. As you found out almost 8% of the revenues go towards R&D and we foresee that continuing in the next quarters to come, in the next years to come. Even as the absolute sales go up the percentage of the R&D spend will remain the same. So, the absolute R&D spend will continue to increase. So that remains the focus of the company and that is what differentiates us. I think a big plus point especially for Aether has been that the promoter family and the top management is a great mix of techno-commercial excellence and so there's absolute technical excellence in the promoter family itself in terms of organic chemistry and chemical engineering which helps us really drive from the top and focus on this R&D aspect of the focus of the company which makes us not dependent on key critical decision making on any other person outside of the promoter family which I think is a huge advantage to the company with such R&D focus. So other than that, we have a team of I think more than 250 R&D scientists and engineers. We have eight research groups led by PhD seasoned, PhD organic chemists who all report into the management. Viplav, I don't know why I lost you, but did you hear any part of my answer?

Viplav Srivastav: Yes, I heard you have 250 strong R&D team till that point.

Management: We basically to continue to invest into R&D. R&D remains the bedrock of the company. We have a global technology leadership team as well that's helping us on a continuous daily basis. We lead from the top. Now, we have more than 250 scientists and engineers, and we are continuously adding more to the team. We have eight independent research groups led by PhD synthetic organic chemists who are completely independent and lead the entire projects from paper all the way up to commercialization. We invest in top-notch analytical equipment across R&D. In terms of recruitment, since we lead from the top, we don't need to recruit competency, capability or product knowledge. We build these ourselves from the ground up. So, which means we basically recruit a fundamentally good understanding of chemistry and chemical engineering, which is relatively easier to get and cheaper to get as well, if I may add. And so that kind of differentiates us as well in terms of the total spend that we have on, for example, our manpower and the R&D budget. And so, it keeps us in line, which helps us to kind of invest money elsewhere into equipment, facilities, and capabilities. We are on the way to doubling further our R&D, hopefully by next year or the year after that, where we are going to launch an entirely new R&D building adjacent to the current R&D building with essentially doubling of the infrastructure and the manpower. We have very firm plans for R&D going forward.

Moderator: The next question is from the line of Noel Vaz from Union Asset Management.

Noel Vaz: I wanted to just cover about Site 3+. So, I think there are five molecules coming, two from Material Science, three from Agrochem.

Management: You are talking about Site 3+?

Noel Vaz: Yes.

Management: Two are Agrochemical intermediates. One is material science intermediate.

Noel Vaz: So, the Agrochem molecules, these are associated with crop protection or which particular segment?

Management: Yes, crop protection.

Noel Vaz: The end application, are they going towards generic, or could we have some more detail or color on that?

Management: One I think is generic now, and another is under patent.

Moderator: Next question is from the line of Mr. Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First question on the Agrochemical side, one of your larger peers has said that the problem may persist for a few more quarters, while we remain optimistic of seeing the revival from Q2. Did that we commit with the newer product the basis, or is that what helping us for a faster way in the Agrochemical, number one. Number two on the currency side, that Chinese Yuan has depreciated, and Indian currency has…

Sanjesh Jain: Second, on the currency side, now that the Chinese Yuan has depreciated while Indian currency has remained stable, do you think this could play a slight spoil sport in our margin assumption? And the last question is on the guidance. In the previous call when we spoke, we were hopeful of doing close to 1000 crores of top line this year. Do you see any challenge for that? Do you see it could be pushed by a quarter or so?

Management: On the RMB side, there has been devalued, the RMB devalued aid to the sales of China, basically. So, they are able to dump at a more better pricing even because the RMB has devalued. So that has helped them. Now it has stabilized, I believe. So, we are tracking it on a daily basis. If it appreciates, the prices of all the raw materials will automatically start correcting. That is what our understanding and assumption is. There are multiple factors, but this is one of the factors where in two weeks' time they were able to correct the price by 2% to 3% is just because their currencies were devaluating as compared to US Dollars. In terms of the guidance, 1,000 crores was something which I don't know. We have never given the forward numbers to you or to anybody else. But with the start of this year, we had targeted certain numbers and we have fallen back on this in terms of quarter one. But we think that with Q3 and Q4 being stronger, we will reach in the nearby range.

Sanjesh Jain: And on the agrochemical cycle?

Management: Agrochemical cycle, yes, some of the peers have suggested that the whole year would be troublesome for agrochemical side. But there are a lot of products, and a lot of products play differently in the agro side. So, we have very limited products. As such, we have three to four products as we speak only on the agro side. And we see the demand coming back in Q3 and Q4 for sure. It's more of a destocking issue only it's not more related to the climate or something like that.

Moderator: Next question is from the line of Jason Soans from IDBI Capital.

Jason Soans: My question is related to a little more broader level. I just wanted to know clearly in terms of the agrochemical cycle, there seems to be a down cycle setting in and basically, it's being driven around through China, especially with all the raw materials, basically the inputs in the intermediate's prices crashing down and hence also finished goods prices also correcting. So, I just want from you a sense of in terms of what's the competitive intensity in terms of Indian specialty chemical companies as compared to the Chinese peers. Do you see this China resurgence, what is happening also affecting the sentiment for specialty chemicals, Indian specialty companies as well on ground?

Management: So, the prices have corrected very sharply in terms of China dumping and then the demand also not there. So, both had a multiple effect onto the prices of all the raw materials and the finished products also. But we understand that this has reached the bottom as we speak. It cannot be sustained at this level throughout the whole year. And so, we think that it will come back, it will start correcting and it will come back to its normal level in Q2 and maybe towards the end of Q2 or in the start of Q3. That's what our understanding is. And then once it is back, I believe this will remain stable throughout the next financial year. So, the whole Indian specialty chemical story has not lost its importance just because the Q1 of various companies have been affected because of this price correction. So, if you see the last financial year also Q1 was a tough one for the pharmaceutical focused companies. But towards the end of the last financial year also, everything came back to normal, and everybody was quite positive on the pharmaceutical side. So, the same thing is happening in the agrochemical side, and this will also come back to its normal course in the quarters to come.

Jason Soans: My question was basically with the Chinese resurgence which was not there till probably 1.5 to 2 years. So, they are coming back strongly. So, I just wanted to know how is the momentum on the ground just in terms of China-plus-one, Europe-plus-one. Just if you are seeing any material change in the outlook. That's what I wanted to know.

Management: The outlook of the people has not changed. So, the procurement teams are still believing that if they are selecting an Indian source, they would still stick to the Indian source. But obviously, if you see the ground reality, they also have pressure to perform and to deliver a product to their customers at a competitive price. So, if you are able to match the Chinese price, then you would obviously be the selected or the priority option for any procurement person through India or throughout the world.

Moderator: Next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Only one question. Our business model is primarily identifying the opportunities or the products where there is no manufacturer in India and probably offering a better costing compared to other suppliers, primarily in China. That was the business model, and we were fairly doing well in that in identifying multiple products. What you just mentioned, sir, with the currency depreciation in Chinese Yuan much sharper than Indian and increased manufacturing, you can say that aggression of these Chinese manufacturers, it has impacted us in last two quarters and probably maybe in a couple of quarters more. Why we think that this is just only short-term phenomena if the manufacturers in China remain aggressive and with the government support. Isn't it our business model is more susceptible to the Chinese supplies and in terms of our ability to protect the margin or gain market share.

Management: Our business model is not based on selling at a Ll price lower than Chinese price. It is always to match the Chinese price, not go into a rat race of price decrease against China. The currency devaluation plus aggressiveness has been across the board. So, it's not only as Aether's product but as everybody's, every chemical product has seen this phenomenon where the product was dumped, and the prices have corrected quite a lot. Most of the raw materials or basic commodities have seen a rock bottom price which has not been seen since the last ten years also. And Chinese are selling below without margins to start with coupled with no demand. This has been fueled at a higher level where they are becoming very aggressive and impatient. But this is not going to last long, and this is going to be applied for everybody else. So, it's not only Aether, which is going to suffer, and the rest of the companies are going to make money, but it's going to be affecting everybody out here. And this is not a sustainable model. So, it's not going to sustain for quite a long time. You cannot sell at a loss for a period of one year and not make any money and just keep on dumping material. And even if it happens with one product, also it's okay. It's not going to happen with all 20 products which we are supplying to which we are competing with Chinese too. So, I don't see a problem lasting long. But let's see how it turns up in Q2, Q3, Q4.

Moderator: Next question is from the line of Shreyal Doke, individual investor.

Shreyal Doke: My question only is regarding, you mentioned about the R&D, and can you please help me to know on how many patents did you have in last six months and what was last year total patents you have done?

Management: We are in the process development area and so typically we do not patent, we typically keep it as a trade secret because process patent enforcement in the Indian Asian regime is very difficult and so we typically tend to veer towards the preference of keeping a good trade secret. But having said that, we have done three patent applications combined with our customers over the last couple of years and these are in the works especially, but then we are inventors on that. But the patents will be owned by the customers because these are from the CRAMS for the separating also.

Shreyal Doke: Just one more question is you mentioned about purchasing with one of the Europe plants starting with the small one. So, can you please help us to know?

Management: You mean acquisitions. We are still in preliminary discussions with various people in the US as well as Europe and the idea is to be going for R&D capabilities and footprints. Either extending our competencies or getting into new competencies or a new client base would be the focus, especially in the R&D area. It would be a small acquisition, but just preliminary discussion still ongoing, nothing is finalized yet and of course if and when we get to a finalization, we'll be keeping all investors well informed.

Moderator: Next question is from the line of Rohit Nagaraj from Centrum Broking.

Rohit Nagaraj: One question and one clarification. So, one question, basically, last year we had got impacted because of the pharma slowdown, this year probably because of agro slowdown. Obviously, these are the issues which are not in our hand, but what steps or what lessons that we have learned from this in terms of maybe the inventories that we keep or the contract that we sign, the other factors which are impacting the business on a whole way. So, are there any steps that we have taken? That's the first question. And on the clarification front, we've said that all the raw material prices are coming down and we will be able to protect the margins. But mathematically speaking, obviously the EBITDA margins would look better, but the per kg margins, whether they will decline and will that have an impact on the absolute EBITDA. Thank you.

Management: So, I'll take the second question first. The absolute EBITDA, as the selling price decreases, this absolute EBITDA also will decrease. So, what we have to do is to change the product mix or focus on high value products more in this time to come and then once the whole environment stabilizes, try and increase the price. So currently yes, that is what, absolutely because will be affected if the top line is affected.

Management: With regards the first question in the lessons learned and the learnings and the pathways going forward, it's a great question Rohit and we do believe firmly that the answer is what we have always said actually we have been focusing on this answer well before these problems in the current quarters have hit, which is diversification of the business model and the diversification of the industry spectrum and the focus on the R&D. And so, R&D has to remain the focus. The R&D pipeline has to be full with products and opportunities and areas of innovation and the focus has to be on diversification, not on pharma, not on agro, but in the other fields of material sciences and the additives and the flavor and fragrances and the oil and gas especially that we are focusing on currently. And so the current sustained focus is, of course, we are going to retain our hold on the pharmaceutical import substitutes and the focus on the agrochemical products that we are in, in addition to the relationships that we have curated very carefully over the last few years in the Agrochemical Innovator space, but also with an increasing focus on the oil and gas sector and the material sciences sector, which kind of speaks if you look at the announcements that we have made in the last quarter itself, you will get all the Indian non pharma sectors and so diversifying out our business model further, diversifying out our industry applications further and focusing on innovation, R&D as the fundamental base of the company is going to be the answer. And as you've seen I think we have fared better as compared to the

Spec-Chem market because of the current headwinds and I think that is because of the diversification that we have in terms of the R&D and the areas that we are in.

Moderator: Ladies and gentlemen, we will take this as the last question for the day. I would now like to hand the conference over to the management for the closing comments.

Shubhangi Desai: Thank you everyone for participating in the call. We hope that we have addressed the majority of your questions. If you still have any further questions, please feel free to reach out to us and have a great day. Thank you.

Moderator: Thank you on behalf of HDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.