

Clean Science & Technology Ltd

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Price Band: INR 880-900

ISSUE SUMMARY

Issue Opens	7-July-21
Issue Closes	9-July-21
Offer Price (INR per share)	880-900
Bid Lot	16 shares
Face Value (INR)	1.0
Pre Issue Shares o/s (mn)	106.2
^Offer for Sale (No of sh. mn)	17.2
^Fresh Issue (No of sh. mn)	-
^Post Issue shares o/s (mn)	106.2
^*Issue Size (INR bn)	15.5
QIB	=>50%
Non-institutional	<15%
Retail	<35%
^ Issue Size (@INR900)	

POST ISSUE DETAILS

M.Cap @INR900/sh. (INR bn)	95.6
Shareholding pattern	
Promoters	78.5%
Non-Promoters	21.5%

Clean Science and Technology Ltd (CSTL) is one of the leading global specialty chemical manufacturer, focused on developing green chemicals.

Largest manufacturer of multiple green chemicals: CSTL has created niche by developing clean-technology that uses non-toxic raw materials with lower effluents, leading to cost efficiencies. It has unique ability to produce through catalytic transformation (rare among Indian chemical companies) and is the only company globally to use vapor phase process for Anisole (used as a key raw material for all its other products). CSTL also manufactures sulphur-free BHA & sulphur-free DCC. It has grown to be the largest manufacturer globally of MEHQ and BHA and second largest for AP under Performance Chemicals (69% of FY21 revenues) while it is largest for both Anisole/ 4-MAP under FMCG Chemicals (12% of revenues). It is the third largest for Guaiacol and among the largest for DCC under Pharma Intermediates (16% of revenue).

De-risked business model; well placed to capture industry opportunities:

Green chemicals demand is expected to grow at 10.5% CAGR (F&S report) globally over CY19-25E, led by rising awareness for ill-effects of certain chemicals. CSTL has built well diversified product portfolio in this space and is well placed to capitalize on it. It is further exploring high margin products like stabilizers/ additives and is setting up a third plant while acquired land for the fourth one. It also plans to shift key raw materials sources to India due to tightening environment norms in China, thus further reducing import-dependence (28% of total raw material cost). Exports form 69% of FY21 revenues while top 10 customers contribute 48% of revenue.

Robust Financials: Over FY18-21, CSTL revenue/EBITDA/PAT grew at 28%/ 52%/ 60% CAGR, while EBITDA margins expanded from 30.2% to 50.5%, led by presence in high margin products, superior technological innovation and highly backward integrated to basic commodity- Phenol. Continuous efforts to design catalysts would help in further cost efficiencies. It is debt free with strong return ratio of 45%. Its cash conversion cycle is healthy at 45 days which helped in FCF accumulation of INR2.8bn over FY18-21 (103% CAGR).

Issue Size: INR15.5bn IPO consists of entirely OFS (by promoters) which would result in promoter's stake reducing to 78.5% post-IPO.

Valuation & View: We like CSTL given its global leadership in green chemicals, diversified product portfolio, robust financials with industry leading margins/return ratios and strong focus on ESG front. It is well placed to tap opportunity in the fast growing specialty chemical space especially green chemicals, by leveraging its strong R&D capabilities and expanding product portfolio. The issue is reasonably valued at 48.2x FY21 P/E on post issue basis (avg. peer FY21 P/E of 60x), while it enjoys higher RoE of 45% (avg. peer RoE of 18%). We believe that the market would like to give premium valuation to such emerging niche stories. We recommend **Subscribe**.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	FY21
Revenue	2,427	3,933	4,193	5,124
Growth (%)	-	62.0	6.6	22.2
Adj PAT	489	977	1,396	1,984
Growth (%)	-	99.7	43.0	42.1
EPS (INR)	4.6	9.2	13.1	18.7
RoE (%)	-	35.9	45.5	45.0
P/E	195.5	97.9	68.5	48.2

*Calculated on post issue basis, at the upper price band of INR900; Source: RHP, MOFSL

About the Company

Clean Science and Technology Ltd (CSTL), incorporated in 2003 as Sri Distikemi Private Limited, later changed its name to CSTL in 2006 to reflect its vision of focusing on sustainable chemistry led by innovative technology and lower effluents. It is among the few companies globally focused entirely on developing newer technologies using in-house catalytic processes, which are eco-friendly and cost competitive. It is designing and implementing 'clean' chemistries based on catalytic technology developed in-house. As a result, most of its current production processes are either zero liquid discharge or release only water as discharge.

Exhibit 1: Key Products & its application

Product	Application	Industry
MEHQ	Polymerization inhibitor in the manufacturing of various monomers such as acrylics, methacrylics and other acrylates, vinyl acetate monomers, along with unsaturated polyesters. Also used as a stabilizer for cosmetics, liquid detergents, and cellulose materials	Acrylic fibers, inks, agrochemicals, cosmetics, topical drugs.
Guaiacol	Pre-cursor for vanillin production, and in the synthesis of pharmaceuticals. Majorly used as a reducing co-substance for COX reactions, as an expectorant and antiseptic.	Pharmaceuticals, flavours and fragrances, and agriculture.
BHA	Used as a synthetic antioxidant	Food packaging, animal feed, rubber, cosmetics and petroleum products.
4-MAP	Spice, medicine and make-up intermediate, ingredient for UV filters, cigarette additive and flavouring in food	Personal care (cosmetics), flavors and fragrance industry
DCC	Powerful dehydrating agent commonly used for the preparation of amides, esters, and anhydrides. Also used as a reagent in antiretroviral drugs	Pharmaceuticals
Ascorbyl Palmitate	Anti-oxidant properties for anti-aging products	Personal care, topical drugs in dermatology to prevent hyperpigmentation and photoaging
Anisole	Precursor to perfumes, insect pheromones, and pharmaceuticals.	Cosmetics, pharmaceutical and agrochemicals

Source: RHP, MOFSL

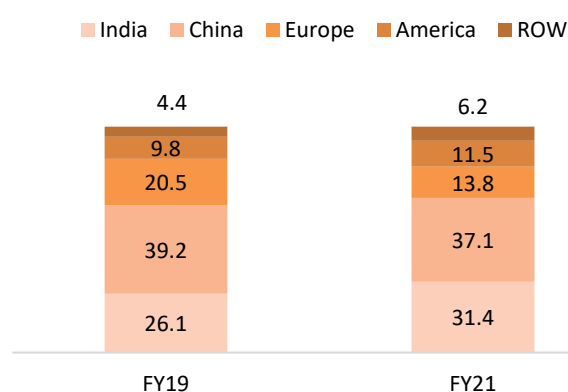
This has enabled the company to emerge as the largest manufacturer globally of certain specialty chemicals viz. MEHQ, BHA, Anisole and 4-MAP in terms of installed manufacturing capacities as of March 31, 2021 (F&S Reports). Some of these technologies have been developed and commercialized for the first time globally (F&S Reports). For instance, it is the only company globally to deploy vapour-phase technology for manufacturing Anisole from phenol with better atom economy and only water as effluent compared to liquid phase manufacturing process. With phenol being widely available and Anisole being produced for captive consumption, CSTL is backward integrated to the commodity level, which helps the company to reduce costs and increase its profit margins.

Exhibit 2: Leading position globally for its various products

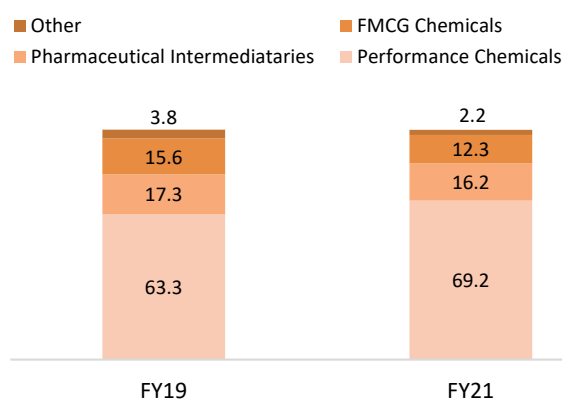
Product	Global Market Size (Volume)	CAGR (CY19-25E)	Company Global Position	Company Indian Position
MEHQ	12,500 MT	5.8%	Largest in World	Largest in India
BHA	9,000 MT	3.3%	Largest in World	Largest in India
Guaiacol	60,000 MT	1.3%	Third Largest in World	Second Largest in India
Anisole	34,000 MT	5.0%	Largest in World	Largest in India
4-MAP	7,200 MT	3.6%	Largest in World	Largest in India
DCC	7,000 MT	4.9%	Among Largest in World	Largest in India
L-Ascorbyl Palmitate	450 MT	5.8%	Second Largest in World	Second Largest in India

Source: RHP, MOFSL

CSTL caters to three business segments, including (1) Performance Chemicals (MEHQ, BHA and AP), (2) Pharmaceutical Intermediates (Guaiacol and DCC), and (3) FMCG Chemicals (4-MAP and Anisole). Its specialty chemicals have a wide range of applications that cater to a diverse base of customers across industries, both in India as well as international markets including China, Europe, US, Taiwan, Korea, and Japan. In FY21, revenue from export was 69%.

Exhibit 3: Revenue Mix - Geography wise (%)

Source: RHP, MOFSL

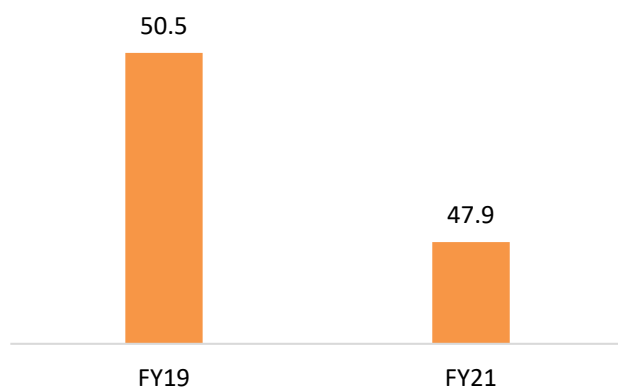
Exhibit 4: Revenue Mix – Product wise (%)

Source: RHP, MOFSL

CSTL products are used as key starting level materials, as inhibitors, or as additives, by customers, for products sold in regulated markets. Key customers include Bayer AG, SRF Limited, Gennex Laboratories Limited, Nutriad International NV and Vinati Organics Limited. It has developed a strong customer relationships over a long period, based on its ability to consistently deliver quality products at competitive prices. The top 10 customers currently account for ~48% of its revenue with largest client contributing 13%.

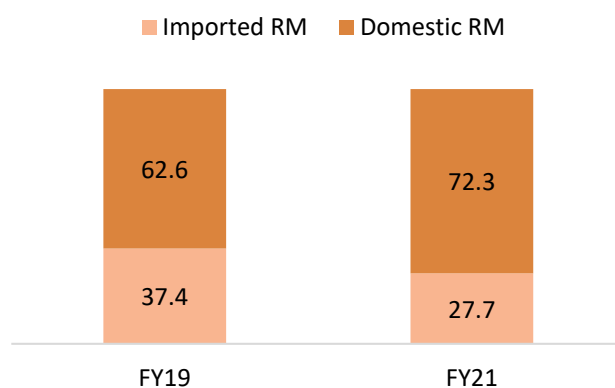
Due to catalytic processes and backward integration, raw materials largely comprise of commodity chemicals, including phenol, hydrogen peroxide, acetic anhydride, acetone, and tertiary butanol, which are widely available. It largely procures its raw materials domestically, with only 28% being imported. CSTL is further looking to reduce this dependence by shifting sources to India due to tightening environment norms in China.

Exhibit 5: Revenue contribution by top 10 clients (%)



Source: RHP, MOFSL

Exhibit 6: Domestic vs imported RM (%)



Source: RHP, MOFSL

The company has two certified production facilities in India strategically located, in close proximity to the JNPT port from where they can export majority of the products. Each facility has an on-site R&D unit, quality control department, warehouse, and effluent treatment system that treats effluent, to make facilities zero liquid discharge facilities. As on FY21, company has combined installed capacity of 29,900 MTPA and capacity utilization rates of 71.9%. It is also setting-up a unit at the third facility adjacent to its existing facilities at Kurkumbh (Maharashtra), and recently acquired land for the construction of a fourth facility at Kurkumbh (Maharashtra).

Peer Comparison

Exhibit 7: Peer Comparison

Company	M.Cap. INR Bn	Revenue CAGR FY18-21 (%)	PAT CAGR FY18-21 (%)	EBITDA M FY21 (%)	ROE FY21 (%)	P/E FY21 (x)	EV/EBITDA FY21 (x)
PI Industries	442.8	26.2	26.2	22.1	18.5	62.3	41.7
SRF	442.5	5.8	24.5	25.4	20.1	38.0	22.0
Atul	265.6	3.8	33.3	24.6	18.5	42.9	28.7
Vinati Organics	191.2	8.7	23.2	36.9	19.1	77.4	54.3
Navin Fluorine	183.7	8.5	11.9	27.4	16.5	74.2	57.8
CSTL	95.6	28.3	59.5	50.5	45.0	48.2	36.3
Fine Organics	88.6	9.0	4.3	17.1	16.8	78.5	45.0
Camlin Fine Science	25.1	18.1	LTP	15.7	14.6	49.3	15.6

Source: Company RHP, Bloomberg, MOFSL

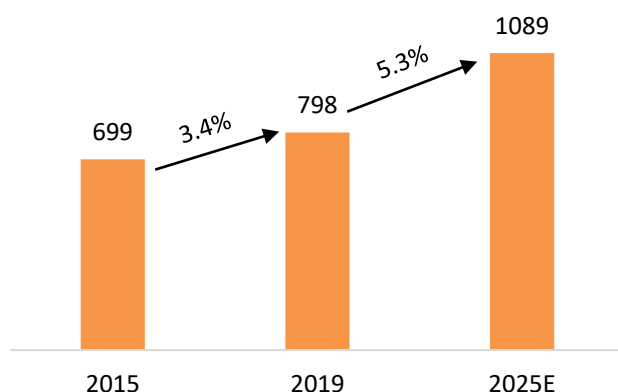
*Price Data as on 02nd July, 2021

^Calculated on fully diluted basis at upper price band of INR900

Industry Landscape

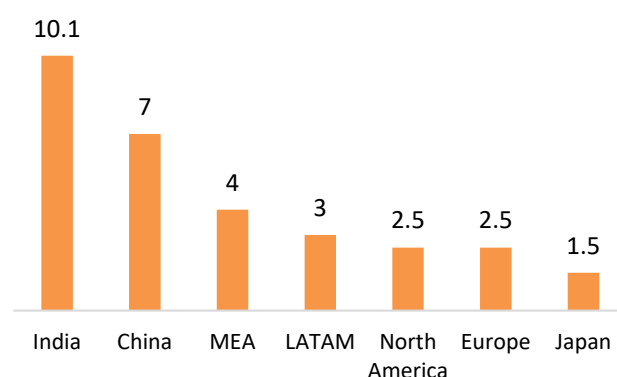
The global specialty chemicals market is expected to grow at a CAGR of 5.3% over CY19-25E, while India is expected to grow faster at 10.1% CAGR. Further with China facing tightening environmental norms, and global firms moving to China+1 strategy, it has open plethora of opportunity for India. India's export is expected to grow at 12.5% CAGR as compared to 6.8% for China for CY19-25E.

Exhibit 8: Global Specialty Chemical market (USD Bn)



Source: RHP, MOFSL

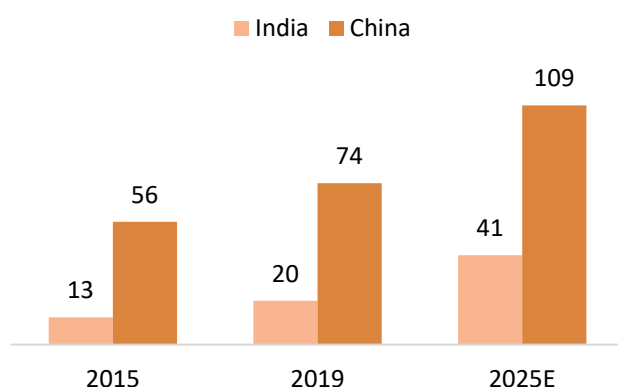
Exhibit 9: Region wise growth (%) (CY19-25E)



Source: RHP, MOFSL

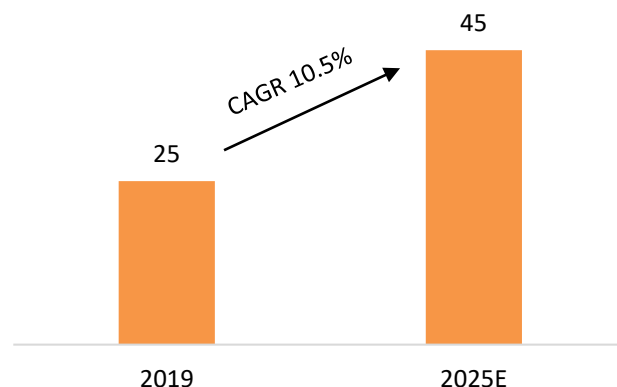
With an increase in awareness of the ill-effects of certain chemicals on humans and the environment, there is a growing trend in the chemicals industry to shift towards 'green chemicals or 'sustainable chemistry'. These products are bio-degradable and natural products with less effluents and thus their consumption are on an uptrend. Not necessarily all green chemicals would be bio-degradable; there are green products in market which are produced with least effluents, or natural extracts. Such products can be either through reducing energy and water consumption in the process or reducing the chemical and biochemical oxygen demand of the waste generated which reduces treatment costs and is kinder to the environment. The evolution of green chemistry in the chemical industry will be a critical trend fuelling the growth of the green chemicals market. The global green chemicals market is expected to grow by USD 45 billion by 2025 at a CAGR of 10.5% between 2019 and 2025.

Exhibit 10: Chemicals export trend – India vs China (USD Bn)



Source: RHP, MOFSL

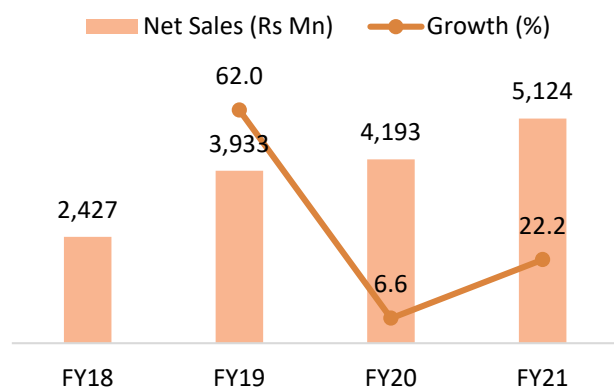
Exhibit 11: Growing consumption of green chemicals globally (USD Bn)



Source: RHP, MOFSL

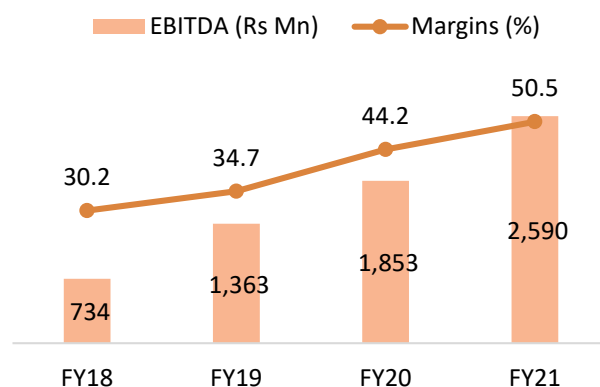
Story in Charts

Exhibit 12: Revenue grew at 28% CAGR (FY18-21)



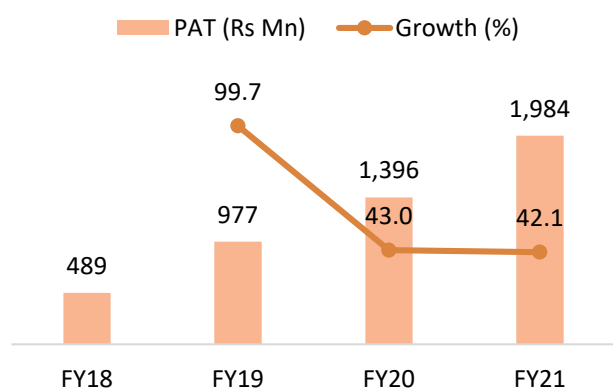
Source: RHP, MOFSL

Exhibit 13: EBITDA grew at a CAGR of 52% (FY18-21)



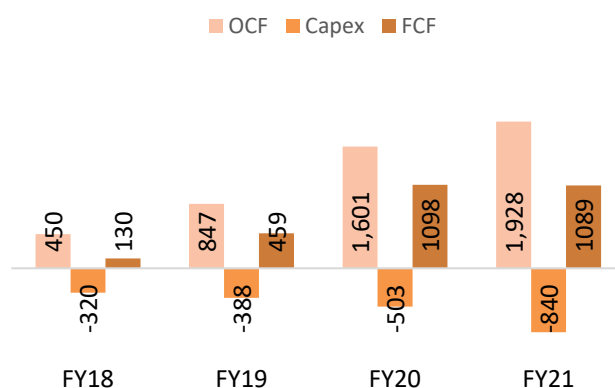
Source: RHP, MOFSL

Exhibit 14: PAT grew at a 59% CAGR over FY18-21



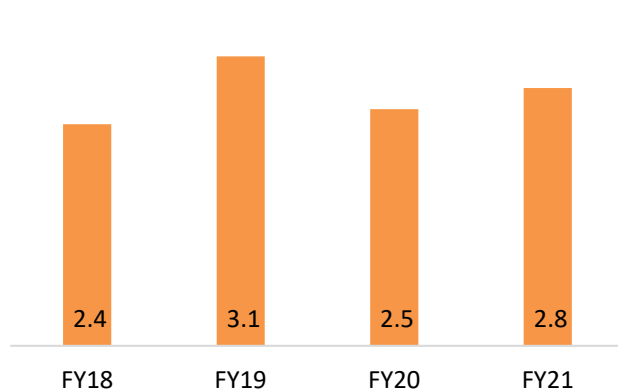
Source: RHP, MOFSL

Exhibit 15: Consistent FCF generation (Rs mn)



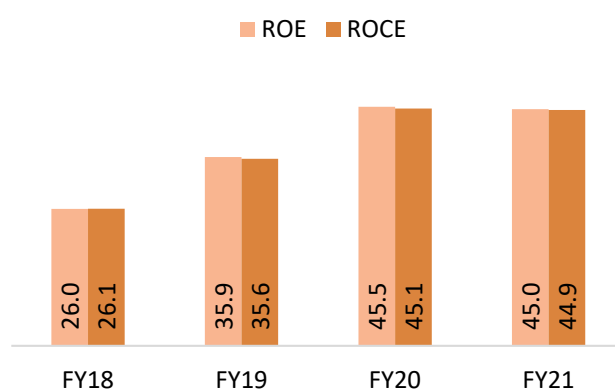
Source: RHP, MOFSL

Exhibit 16: Healthy Asset Turnover (x)



Source: RHP, MOFSL

Exhibit 17: Superior Return Ratio (%)



Source: RHP, MOFSL

Risk and concerns

- CSTL competitive position in the specialty chemicals industry is primarily derived from cost-efficiencies and R&D improvements. Thus any inability to continue to design catalytic processes may adversely affect its business.
- None of its catalytic processes are patented and thus can be replicated by competitors.
- Top 10 customers account for 48% of FY21 revenue. Moreover, CSTL does not enter into any long term contract with them. Thus loss of any customer could impact its business.
- High exposure to foreign currency risk as exports form 69% of revenue

Financials

Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
Net Sales	2,427	3,933	4,193	5,124
Change (%)	-	62.0	6.6	22.2
Total Expenditure	1,693	2,570	2,340	2,535
% of Sales	69.8	65.3	55.8	49.5
EBITDA	734	1,363	1,853	2,590
Margin (%)	30.2	34.7	44.2	50.5
Depreciation	76	110	137	172
EBIT	658	1,253	1,716	2,417
Int. and Finance Charges	1	0	1	1
Other Income	45	113	109	256
PBT	703	1,365	1,823	2,673
Tax	214	389	427	689
Tax Rate (%)	30.4	28.5	23.4	25.8
Reported PAT	489	977	1396	1984
Adjusted PAT	489	977	1,396	1,984
Change (%)	-	99.7	43.0	42.1
Margin (%)	20.1	24.8	33.3	38.7

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
Share Capital	14	14	13	106
Reserves	1,864	2,706	3,408	5,290
Net Worth	1,879	2,721	3,421	5,397
Debt	1	26	27	3
Deferred Tax (Net)	102	139	102	176
Total Capital Employed	1,981	2,885	3,550	5,576
Net Fixed Assets	1,024	1,270	1,656	1,858
Capital WIP	15	39	34	550
Investments	178	752	1,330	2,321
Current Assets	1,144	1,213	1,279	1,870
Inventory	290	370	346	529
Debtors	397	598	698	742
Cash and Bank Balance	295	94	93	157
Loans and Advances & OCA	162	151	142	442
Curr. Liability & Provisions	380	389	749	1,024
Account Payables	264	223	357	610
Current Liabilities	113	162	387	408
Other Long Term Liab. & Provs.	2	4	5	5
Net Current Assets	764	824	530	846
Misc Expenditure	-	-	-	-
Appl. of Funds	1,981	2,885	3,550	5,576

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY18	FY19	FY20	FY21
Basic (INR)				
EPS	4.6	9.2	13.1	18.7
Cash EPS	5.3	10.2	14.4	20.3
BV/Share	17.7	25.6	32.2	50.8
DPS	0.4	1.0	1.2	0.3
Valuation (x)				
P/E	195.5	97.9	68.5	48.2
Cash P/E	169.2	88.0	62.3	44.3
P/BV	50.9	35.1	27.9	17.7
EV/Sales	39.3	24.2	22.6	18.4
EV/EBITDA	129.8	70.0	51.2	36.3
Dividend Yield (%)	0.0	0.1	0.1	0.0
Return Ratios (%)				
RoE	NA	35.9	45.5	45.0
RoCE	NA	35.6	45.1	44.9
Working Capital Ratios				
Asset Turnover (x)	1.2	1.4	1.2	0.9
Inventory (Days)	44	34	30	38
Debtor (Days)	60	55	61	53
Creditor (Days)	40	21	31	43
Leverage Ratio (x)				
Net Debt/Equity	-0.3	-0.3	-0.4	-0.5

Source: Company RHP, MOFSL

*All ratios calculated on fully diluted basis at the upper price band of INR900

Cash Flow Statement**(INR mn)**

Y/E March	FY18	FY19	FY20	FY21
OP/(Loss) before Tax	703	1,365	1,823	2,673
Depreciation	76	110	137	172
Finance Cost	1	0	1	1
Income Taxes paid	-220	-355	-424	-659
(Inc)/Dec in WC	-87	-209	131	-149
CF from Operations	472	911	1,668	2,038
Others	-23	-64	-67	-109
CF from Operating (Net)	450	847	1,601	1,928
(Pur)/Sale of FA	-320	-388	-503	-840
(Pur)/Sale of Investments	137	-573	-562	-864
Interest/Dividend received		14	3	50
Bank Deposits	8	-3	-1	-214
CF from Investments	-175	-950	-1,063	-1,868
Proceeds from borrowings	1	20	1	-24
Issue of equity shares	-1		-401	-1
Interest Paid	-1	-0	-1	-1
Dividend Paid	51	-128	-153	-33
CF from Fin. Activity	50	-108	-554	-59
Net Inc/Dec of Cash	325	-211	-16	2
Exchange differences	6	10	14	-0
Opening Balance	65	295	94	92
Closing Balance	392	87	80	96

Source: Company RHP, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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