

RETAIL EQUITY RESEARCH

Clean Science & Technology Ltd

Specialty Chemicals

Sensex: 52,880

Nifty:15,834

SUBSCRIBE

Price Range Rs. 880 - Rs. 900

A Pioneer in in-house specialty chemical manufacturing...

Clean Science and Technology Ltd (CSTL), incorporated on November 7, 2003 in Pune, Maharashtra is one of the fastest growing and among the most profitable specialty chemical manufacturing companies globally, with innovative chemical processes developed in-house. CSTL manufactures functionally critical specialty chemicals such as Performance Chemicals, Pharmaceutical Intermediates and FMCG Chemicals. CSTL has two manufacturing facilities in India located at Kurkumbh (Maharashtra), with a combined installed capacity of 29,900 MTPA and capacity utilisation rate of 72% in FY21.

- The overall market for specialty chemicals is valued at US\$ 800 billion in 2019 and is expected to record a growth rate of 5% to 6% over the next five years.
- As of FY21, CSTL has emerged as the largest manufacturer globally of certain specialty chemicals (like MEHQ, BHA, Anisole etc.) in terms of installed manufacturing capacities.
- Enjoys strong customer base with key customers like Bayer AG, SRF Ltd, Vinati Organics Ltd, etc. As of FY21, ~48% of revenue is contributed from its top 10 customers.
- Revenue and PAT grew at a CAGR of ~14% and ~43% over FY19-FY21 backed by increase in exports, rise in demand for specialty chemicals and better operating performance.
- CSTL enjoys superior EBITDA margins (~51%) and PAT Margins (~39%) in FY21 led by economies of scale, competitive pricing, in-house capabilities, and adoption of cost optimisation techniques.
- The company has a healthy balance sheet with D/E ratio of 0.1x as of FY21. Moreover, the return ratios RoE and RoCE remain healthy at ~38% & ~26% (3-year Avg.).
- CSTL is well positioned to capitalize on opportunities in specialty chemical sector backed by its process innovation, catalyst development, significant scale of operations & strategic backward integration.
- At the upper price band of Rs.900, CSTL is available at a P/E of 48x (FY21) which appears to be fully priced in. However, we assign a "Subscribe" rating for the issue on a long-term basis considering its technical expertise, process innovation, consistent focus on R&D, positive industry outlook, superior margin profile and healthy return ratios.

Purpose of IPO

At the upper price band, total issue size stands at Rs 1,547cr. The issue consists of only offer for sale (OFS), wherein the promoters and existing shareholders will dilute 10.62cr shares of the company. The prime purpose of the issue is to enhance visibility, brand, provide liquidity to existing shareholders and achieve the benefits of listing shares on stock exchanges.

Key Risk

- As of FY21, Top 10 customers contribute ~48% of total revenue. However, CSTL intends to grow its customer base by expansion plans & product diversification going ahead.

Peer Valuation

Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	EV/EBITDA	P/E
Clean Science and Technology Ltd	9,560	512	50.5	18.7	37.0	48.2
Vinati Organics	2,01,117	942	37.4	26.2	40.3	71.1
Fine Organics	8,987	1,133	17.6	39.3	34.0	73.6
PI Industries	26,408	3,731	24.6	217.4	22.4	41.2
Atul Ltd	2,529	1,170	15.5	4.0	12.2	49.4

Source: Geojit Research, Bloomberg; Valuations CSTL are based on upper end of the price band, Financials as per FY21.

Issue Details	
Date of Opening	7 th July, 2021
Date of Closing	9 th July, 2021
Total no. of Shares offered(cr)	1.7
Post Issue No. of shares (cr)	10.62
Price Band	Rs. 880- 900
Face Value	Rs. 1
Bid Lot	16 shares
Minimum application for retail (upper price band for 1 lot)	Rs. 14,400
Maximum application for retail (upper price band for 13 lot)	Rs. 1,87,200
Listing	BSE & NSE
Lead Manager	Axis Capital, Kotak investment, JM Financial
Registrars	Link Intime India Pvt Ltd.
Issue size (upper price)	
Fresh Issue	0.0
OFS	1,546.6
Total Issue	1,546.6
Shareholding (%)	
Promoter & Promoter group	94.7
Public	5.3
Total	100
Issue structure	
Retail	35
Non-Institutional	15
QIB	50
Emp. Reservation	-
Total	100
Y.E March(Rs cr)*	
Sales	393.3
Growth (%)	-
EBITDA	136.3
Margin%	34.7
PAT Adj	97.7
Growth (%)	-
EPS	9
P/E (x)	97.9
EV/EBITDA	70.2
RoE (%)	35.9

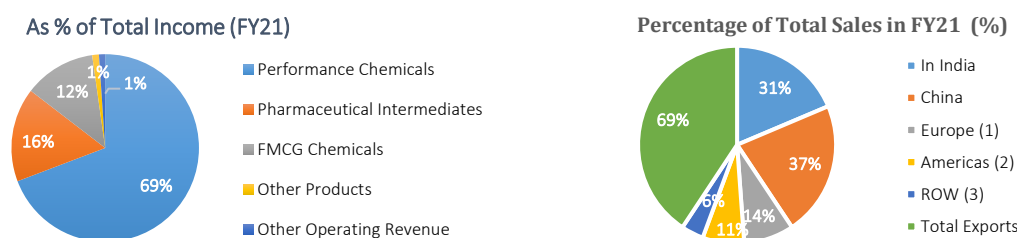
*Consolidated.

Company Description

Clean Science and Technology Ltd (CSTL), incorporated on November 7, 2003 in Pune, Maharashtra is one of the fastest growing and among the most profitable specialty chemical manufacturing companies globally, with unique and innovative chemical processes developed in-house. CSTL manufactures functionally critical specialty chemicals such as Performance Chemicals (i.e. MEHQ, BHA and Ascorbyl Palmitate), Pharmaceutical Intermediates (i.e. Guaiacol and DCC), and FMCG Chemicals (i.e. 4-MAP and Anisole). Export contributed ~68% of total revenue as of FY21. CSTL has two manufacturing facilities in India located at Kurkumbh (Maharashtra), with a combined installed capacity of 29,900 MTPA and capacity utilisation rate of 72% in FY21.

Product Portfolio

The products are classified into the following segments. (i) **Performance Chemicals**, comprising MEHQ, BHA and Ascorbyl Palmitate; (ii) **Pharmaceutical Intermediates**, comprising Guaiacol and DCC; (iii) **FMCG Chemicals**, comprising 4-MAP and Anisole; and (iv) **Other Products**, comprising acetic acid, tertiary butyl toluene, ortho cresol and para cresol, that are generated as by-products of its manufacturing processes.



Note:

(1) Europe comprises countries forming part of the European Union, Russia, and the United Kingdom.

(2) Americas comprises North America and South America.

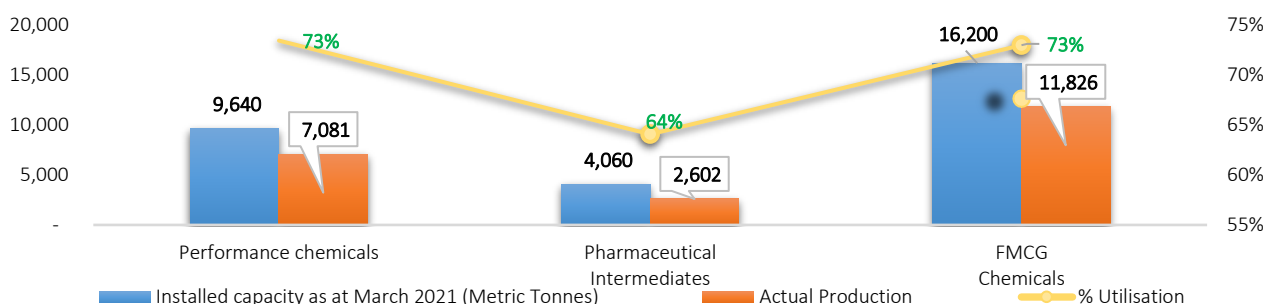
(3) Rest of the World comprises Asia (excluding China and India), South Africa, Australia, Canada, and UAE

Source: RHP, Geojit Research

CSTL is one among the largest producers globally of functionally critical specialty chemicals used across various industries and geographies resulting in a de-risked business model.

Automated manufacturing facilities with proven design & commercialization capabilities:

CSTL has two manufacturing facilities in India with 11 production lines (including three lines for catalyst production and regeneration), which has a combined installed capacity of 29,900 MTPA strategically located at Kurkumbh (Maharashtra), which is in close proximity to the JNPT port as of March 31, 2021. The captive solar plants of company meet part of power requirements at facilities, which improves cost efficiencies and results in better utilization of resources. As of March 31, 2021, the direct current capacity of captive solar power plant is 5.42 MW.



Source: RHP, Geojit Research

Further, CSTL has recently set-up a unit at third manufacturing facility that is being constructed adjacent to existing facilities at Kurkumbh (Maharashtra), and have recently been allotted land for the construction of a fourth facility in Kurkumbh (Maharashtra).

Strong customer base:

Enjoys strong customer base with key customers like Bayer AG, SRF Ltd, Vinati Organics Ltd, etc. As of FY21, ~48% of revenue is contributed from its top 10 customers.

Focus on R&D:

As of May 31, 2021, Company has two R&D units within the premises of its manufacturing facilities. Intends to expand R&D infrastructure by setting-up an additional R&D unit at Facility III at Kurkumbh (Maharashtra), to install R&D equipment for synthesizing new products and certain catalysts under development.

Raw material sourcing...

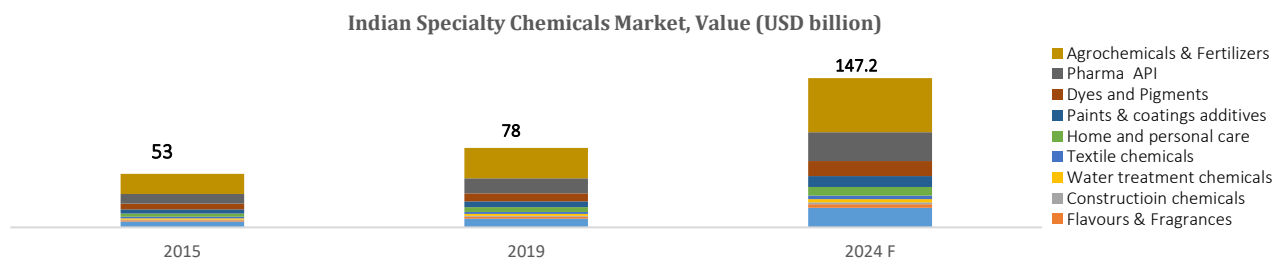
The cost of material consumed represented 45.42%, 30.52% and 26.90% of revenue from operations in FY19, FY20 and FY21 respectively. CSTL procure raw materials from the domestic and international market, relying primarily on spot contracts.

Exports

The direct customers and distributors comprise entities located in India and outside India, including China, United States, Europe, Japan, Taiwan, and Korea. Export contributed ~68% of total revenue as of FY21.

Well placed to capitalize on opportunities in specialty chemical sector....

The global chemicals market is valued at US\$ 4,738 billion in 2019 is expected to grow at a CAGR of 6.2% to US\$ 6,785 billion from 2019 to 2025. The overall market for specialty chemicals is valued at US\$ 800 billion in 2019 and is expected to record a growth rate of 5% to 6% over the next five years.



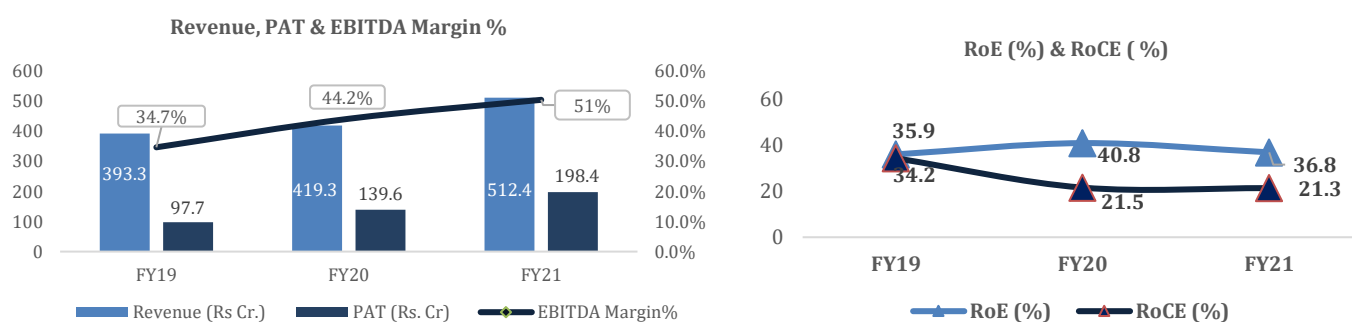
Agrochemical & Fertilizer and Pharma API contribute to more than 55% of the specialty chemical space in India. The tightening of environmental norms in China and the recent trade dispute between China and the United States has reduced Chinese exports and resulted in shifting the source of key raw materials from China to India. Hence, CSTL is well positioned to capitalize on these opportunities in the specialty chemicals segment due to lower cost of production in India as compared to imports from China.

Key Strategies:

- Continue to focus on R&D and product innovation.
- Focus on cost optimization.
- Capacity expansions
- Captilise on industry opportunities.
- Geographical expansion & expand customer base to grow their market share effectively.

Consistent Financial Performance...

CSTL has delivered a consistent growth over the last three financial years both in terms of financial and operational metrics. Revenue & PAT grew at a CAGR of ~14% and ~43% over FY19-FY21 led by increase in exports, rise in demand for specialty chemical products and better operating performance. CSTL enjoys superior EBITDA margins (51%) and PAT Margins (39%) in FY21 led by economies of scale, competitive pricing, in-house capabilities, and adoption of cost optimization techniques. The company has a healthy balance sheet with D/E ratio of 0.1x as of FY21. Moreover, the return ratios RoE and RoCE remain healthy at ~38% & ~26% (3-year Avg.).



Source: RHP, Geojit Research

Promoter and promoter group

Mr. Ashok Ramnarayan Boob, Krishnakumar Ramnarayan Boob, Siddhartha Ashok Sikchi and Parth Ashok Maheshwari are the Promoters of the company.

Brief Biographies of Directors

The Board of Directors comprises of eight Directors, including one Managing Director, two Wholetime Directors, and five Non-Executive Director (out of which three are Independent Directors, including one woman Independent Director).

- **Ashok Ramnarayan Boob**, is the Managing Director of the company.
- **Pradeep Ramwilas Rathi**, is the Chairman and Non-Executive Director of the company.
- **Siddhartha Ashok Sikchi**, is a Wholetime Director of the company.
- **Krishnakumar Ramnarayan Boob**, is a Wholetime Director of the company.
- **Sanjay Kothari**, is a Non-Executive Director of the company.
- **Ganapati Dadasaheb Yadav**, is a Non-Executive, Independent Director of the company.

Consolidated Financials

Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	FY21
Sales	393.3	419.3	512.4
% change	-	6.6	22.2
EBITDA	136.3	185.3	259.0
% change	-	36	40
Depreciation	11.0	13.7	17.2
EBIT	125.3	171.6	241.7
Interest	0.0	0.1	0.1
Other Income	11.3	10.9	25.6
Exceptional Items	-	-	-
PBT	136.5	182.3	267.3
% change	-	34	46.6
Tax	38.9	42.7	68.9
Tax Rate (%)	28	23	36
Reported PAT	97.7	139.6	198.4
Adj	-	-	-
Adj PAT	97.7	139.6	198.4
% change	-	43	42
No. of shares (cr)	10.62	10.62	10.62
Adj EPS (Rs)	9	13	19

Balance Sheet

Y.E March (Rscr)	FY19	FY20	FY21
Cash	9.4	9.3	15.7
Accounts Receivable	59.8	69.8	74.2
Inventories	37.0	34.6	52.9
Other Cur. Assets	6.7	4.2	10.7
Investments	79.9	139.4	257.1
Deff. Tax Assets	0.4	0.3	1.4
Net Fixed Assets	126.7	165.3	185.6
CWIP	3.9	3.4	55.0
Intangible Assets	0.2	0.3	0.3
Other Assets	3.3	3.2	7.0
Total Assets	327	430	660
Current Liabilities	27.7	53.0	74.0
Provisions	0.4	0.5	0.5
Debt Funds	13.4	21.1	28.1
Minority Interests	-	-	-
Def. Tax Liabilities	13.9	13.2	17.6
Equity Capital	1.4	1.3	10.6
Reserves & Surplus	270.6	340.8	529.0
Shareholder's Fund	272.1	342.1	539.7
Total Liabilities	327	430	660
BVPS (Rs)	26	32	51

Cash Flow

Y.E March (Rscr)	FY19	FY20	FY21
PBT	137	182	267
Non-cash adj.	4.7	7.1	6.4
Changes in W.C	-56.5	-29.3	-80.8
C.F.O	84.7	160.1	192.8
Capital exp.	-39	-50	-84
Change in inv.	-136	-398	-335
Sale of investment	78.6	341.8	227.6
Other invest.CF	1.4	0.3	5.0
C.F - investing	-94.9	-106.3	-186.7
Issue of equity	0.0	-40.1	0.00
Issue/repay debt	0.0	0.2	0.0
Dividends paid	-13	-15	-3
Other finance.CF	2	-0.2	-2.6
C.F - Financing	-10.8	-55.4	-5.9
Chg. in cash	-21.0	-1.6	0.2
Closing cash	9.4	9.2	9.0

Ratios

Y.E March	FY19	FY20	FY21
Profitab. & Return			
EBITDA margin (%)	34.7	44.2	50.5
EBIT margin (%)	31.9	40.9	47.2
Net profit mgn.(%)	24.8	33.3	38.7
ROE (%)	35.9	40.8	36.8
ROCE (%)	34.2	21.5	21.3
W.C & Liquidity			
Receivables (days)	55	56	48
Inventory (days)	79	101	123
Payables (days)	21	31	43
Current ratio (x)	6.9	4.8	5.5
Quick ratio (x)	2.5	1.5	1.2
Turnover &Levg.			
Net asset T.O (x)	3.1	2.9	3.2
Total asset T.O (x)	1.2	1.1	1.1
Int. covge. ratio (x)	-	-	-
Adj. debt/equity (x)	0.0	0.1	0.1
Valuation ratios			
EV/Sales (x)	24.3	22.8	18.7
EV/EBITDA (x)	70.2	52	37
P/E (x)	97.9	68.5	48.2
P/BV (x)	35.1	27.9	17.7

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