



Choice

Nurturing Financial Excellence

IPO REPORT

**“Subscribe for Long Term” to
Clean Science and Technology**

‘Fundamentals fully priced in demanding valuation’



Salient features of the IPO:

- **Clean Science and Technology Ltd. (CSTL)**, incorporated in 2003, is among the few companies globally focused entirely on developing newer technologies using in-house catalytic processes which are eco-friendly and cost competitive.
- Within 17 years of incorporation, the company has grown to be the largest manufacture globally of MEHQ, BHA, Anisole and 4-MAP in term of installed capacity.

Valuation: At the higher price band of Rs900, the issue is valued at P/E of 48.2x on FY21 EPS.

Below are few key observations of the issue: (continued in next page)

- CSTL, incorporated in 2003, is among the few companies globally focused entirely on developing newer technologies using in-house catalytic processes resulting in lower effluent generation.
- Through its superior R&D and technical expertise, CSTL has developed in-house catalytic technology. The company developed unconventional processes by employing clean technologies to manufacture speciality chemicals at global scale capacities, which the company believes difficult to replicate and create significant barriers for new entrants. For instance, CSTL manufactures sulphur-free BHA and sulphur-free DCC.
- CSTL has a diversified product portfolio serving critical end-user industries. The company operates under three segments include 1) performance chemical 2) pharmaceutical intermediates and FMCG chemicals.
- Performance chemicals segment accounted for 69.2% of operating revenue for FY21 and consists three products MEHQ, BHA and AP. Under pharmaceutical intermediate segment, which represents 16.2% of revenue, CSTL manufactures Guaiacol and DCC. Chemicals namely 4-MAP and Anisole are included in FMCG segment which accounted for 12.3% for operating revenue in FY21.
- The company has grown to be the largest manufacture globally of MEHQ, BHA, Anisole and 4-MAP in term of installed capacity.
- As per the mgmt, the company has incurred lot of catalytic transformations over the years, which is very rare to Indian chemical industry. The process involves usage of a catalyst 'a unique chemical' which if made correctly use properly in manufacturing can result in desired product, reduce impurity, by-products and effluents. In 2009, CSTL used this technology for manufacturing MEHQ and Guaiacol using Anisole as the starting material (key strategic raw material). In 2011, the company produced another key chemical product 4-MAP with Anisole as the starting material in the process. CSTL manufactured high margin product BHA using as MEHQ though forward integration process.
- As Anisole became key strategic raw material for the company, CSTL employed vapour phase technology (from liquid phase technology), first time in globally' which is more efficient with only water as effluent. Usages of this technology has streamlined the operating process and thereby providing a boost to margin and profitability.

Recommendation	Subscribe for Long Term
Price Band	Rs880 - Rs900 per share
Face Value	Rs1 per share
Fresh Issue Size	Nil
Shares for OFS	1.72 cr
OFS Issue Size	Rs1,546.6 cr
Total Issue Size	Rs1,546.6 cr
Bidding Date	Jul 07' 2021 - Jul 09' 2021
MCAP at Higher Price Band	Rs9,559.7 cr

Book Running Lead Manager	Axis Capital Limited JM Financial Limited Kotak Mahindra Capital Company Limited
Registrar	Link Intime India Private Limited
Industry	Specialty Chemicals

Retail application money at higher cut-off price per lot	
Number of shares per lot	16
Application Money	Rs14,400 per lot

Allocation Detail	
Qualified Institutional Buyers (QIB)	50%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	35%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoter & promoter group	94.7%	78.5%
Public	5.3%	21.5%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

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- Exports accounted for 68% of the total operating revenue in FY21. Geography wise, 37.1% of sales came from China, 31% from India, 13.8% from Europe, 11.8% from Americas and 6.2% from rest of world. Moreover, ~72% of total raw materials (RW) was sourced from India. Largest client contributed less than 14% of total revenue from operations in the last 3 fiscal years. While top 10 clients accounted for 48% of total revenue in FY21.
- Considering the financial performance over past few years, CSTL is among the most profitable speciality companies in India. Sales grew by a CAGR of 14.1% during FY19-FY21 to Rs512 cr. Meanwhile we are surprised by the EBIDTA margin at 50% in FY21, way higher than peer average of 24%. **EBIDTA margin improved from 34.7% in FY19 to 50.5% in FY21. Sharp uptick in margin witnessed since the company stated making Anisole through backward integration using vapour phase technology. Further, the mgmt also attributed high EBIDTA margin to yield improvement, process efficiency and increasing usages of solar power for manufacturing. We expect sustaining margin at these levels would remain challenging task for the company though mgmt is confident about sustaining margin.** As per mgmt, company's key products MEHQ and BHA generates high margin further they are over 6 years in the manufacturing process. Generally, products in the initial phase generate less margin as the process streamlined with experience.
- Cash flow generation remains strong with cash balance of almost Rs250 cr as of FY21. **With strong margin and operating cash flow trend, we expect CSTL to incur capex expansion with internal accruals. As of FY21, installed capacity stood at 29,900 MTPA with capacity utilisation level at 72% which indicates significant operating leverage for future growth.** Though mgmt stated to continue with capacity expansion and R&D (~1% of sales) for business expansion. CSTL has been consistently paying dividend since FY12 given strong internal accrual position.
- At the higher price band of Rs900, demanding valuation at Rs9,559.7 cr is derived at P/E of 48.2x on FY21 EPS, which looks expensive given the small size of revenue at Rs512 cr. On P/S basis, the issue is priced at 18.7x as compared to peer average of P/Sx of 10.** Camlin Fine Sciences which is competitor to CSTL for key products MEHQ, BHA and Guaiacol is currently trading at P/S of 2.1x.
- CSTL is operating in niche chemical segments identified by the company itself considering the product growth potential, low competition and high margin. RoE stood at healthy level at 36.8% in FY21. Considering the niche business presence with high entry barriers, business growth and profitability trend are expected to remain strong in coming fiscals.**
- Positive fundamentals are fully priced in the demanding valuation. Considering the above parameters, we believe investors should consider investment in issue for the long term.** Thereby, we assign 'Subscribe for Long Term' rating to the issue.

Companies	CMP (Rs/s)	6M (R%)	12M (R%)	M Cap (Rs cr)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)	Sales CAGR FY19-FY21	EPS (Rs/sh)	BVPS (Rs/sh)	EV (Rs cr)
Clean Science (CSTL)	900	-	-	9,560	50.5%	38.7%	36.8%	30.1%	14.1%	18.7	50.8	9,544
Camlin Fine Sciences	195	52.3%	251.0%	2,535	15.8%	4.3%	8.5%	3.5%	15.4%	3.9	46.0	2,947
Vinati Organics	2,028	64.6%	104.0%	20,280	37.0%	28.2%	17.4%	15.5%	-8.0%	26.9	154.3	20,275
Atul Ltd.	9,350	43.8%	105.0%	28,050	24.6%	17.6%	17.1%	13.3%	-3.9%	218.7	1,275.7	27,804
SRF Ltd.	7,488	31.8%	106.0%	44,928	25.5%	14.3%	17.5%	9.3%	8.8%	199.7	1,142.7	47,654
Navin Flourine	3,799	43.8%	126.0%	18,995	26.2%	21.9%	15.8%	13.6%	8.8%	51.6	326.8	18,454
PI Industries	3,025	34.0%	92.0%	45,375	22.1%	16.1%	13.8%	10.5%	26.9%	49.2	356.1	44,012
Fine Organic Industries	2,944	15.7%	57.0%	8,832	17.6%	10.6%	16.4%	12.7%	3.4%	40.0	243.7	8,625

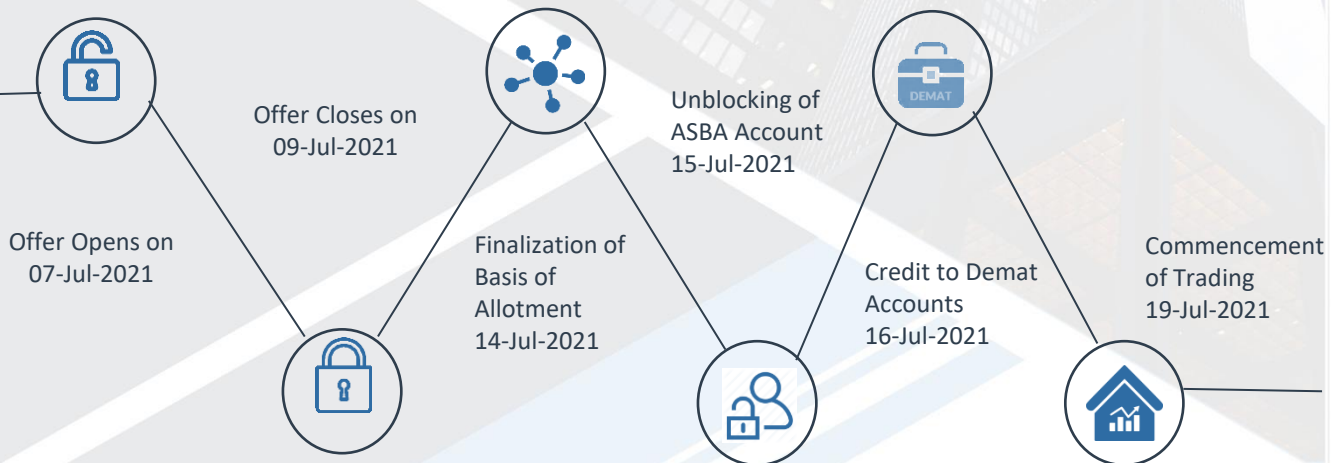
Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDTA (x)	D/E (x)	EV	Net Worth	Share Capital	Sales TTM	EBIDTA TTM	PAT TTM	Total Assets
Clean Science (CSTL)	48.2	17.7	18.7	36.9	0.0	9,544	540	11	512	259	198	660
Camlin Fine Sciences	49.7	4.2	2.1	15.8	0.9	2,947	598	13.0	1,187	187	51	1,475
Vinati Organics	75.4	13.1	21.3	57.4	0.0	20,275	1,543	10	954	353	269	1,734
Atul Ltd.	42.8	7.3	7.5	30.3	0.0	27,804	3,827	30	3,731	917	656	4,937
SRF Ltd.	37.5	6.6	5.3	22.2	0.4	47,654	6,856	60	8,400	2,145	1,198	12,929
Navin Flourine	73.6	11.6	16.1	59.7	0.0	18,454	1,634	10	1,179	309	258	1,898
PI Industries	61.5	8.5	9.9	43.5	0.0	44,012	5,342	15	4,577	1,012	738	7,002
Fine Organic Industries	73.6	12.1	7.8	43.3	0.1	8,625	731	15	1,133	199	120	947

Source: Choice Broking Research, RHP

About the issue:

- Clean Science & Technology Limited (CSTL) is coming out with initial public offering of Rs1,546.6 cr.
- The issue is 100% offer for sale (OFS).
- OFS size is Rs1,546.6 cr. At the higher price band of Rs900, OFS consists of 1.72 cr shares.
- Promoter & promoter group is participating in the OFS.
- Post issue, promoter & promoter group stake will reduce to 78.5% from 94.7% pre-issue stake.
- Issue will open for subscription on Jul 07' 2021 and close on Jul 09' 2021
- Not more than 50% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not less than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not less than 35% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- Company has been paying dividend since FY12.

Indicative IPO process time line:



Company introduction:

CSTL, incorporated in 2003, is among the few companies globally focused entirely on developing newer technologies using in-house catalytic processes which are eco-friendly and cost competitive. Strong focus on developing newer technologies has enabled CSTL to emerge as the largest manufacturer globally of certain speciality chemicals in terms of installed capacity as of Mar' 2021.

CSTL is known for newer technologies, some of which has been developed and commercialized for the first time globally. The company manufactures functionally critical speciality chemicals such as performance chemicals (i.e. MEHQ, BHA and AP), pharmaceutical intermediates (i.e. Guaiacol and DCC), and FMCG Chemicals (i.e. 4-MAP and Anisole). Within 17 years of incorporation, the company has grown to be the largest manufacturer globally of MEHQ, BHA, Anisole and 4-MAP in term of installed capacity.

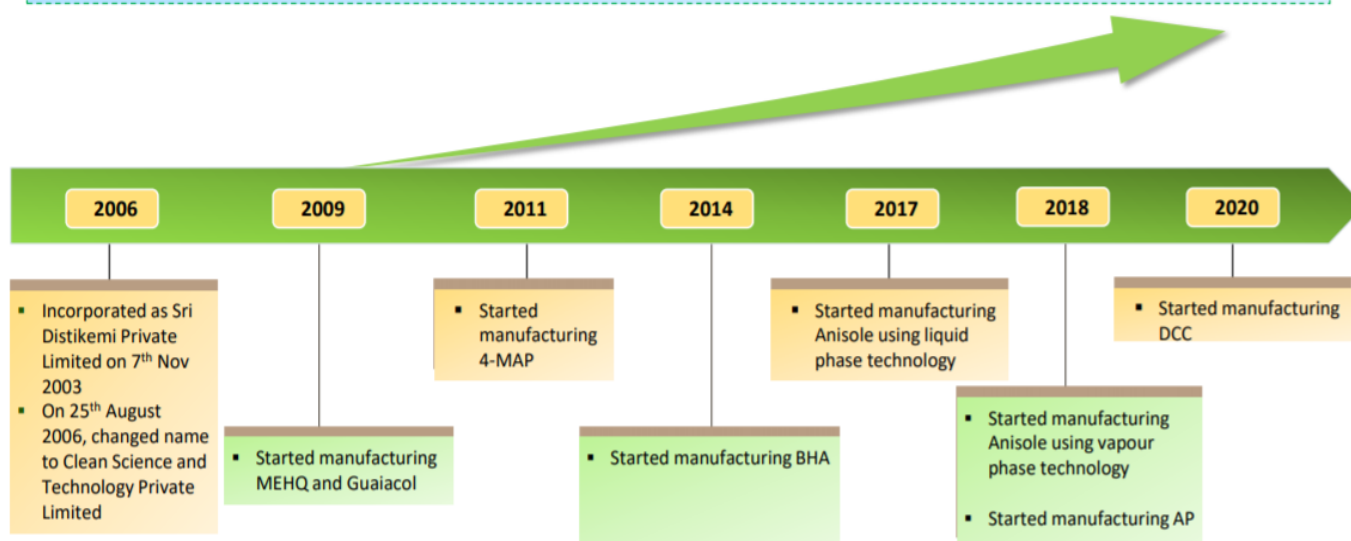
CSTL has business presence across countries. Besides India, CSTL caters to other regulated international markets including China, Europe, the United States of America, Taiwan, Korea, and Japan. In FY21, exports represent 68% of total business.

Product portfolio evolution

Continuous R&D has led to new product launches on a consistent basis since inception



- ✓ We have multiple units for MEHQ, Guaiacol and Anisole. To that extent, each plant is relatively immune to challenges in other plants
- ✓ Multiple, dedicated units are a) inherently efficient and b) less prone to contagion risk
- ✓ The catalysts are identified/designed/customized and re-generated in house within 3 dedicated plants.



Source: Choice Broking Research, RHP

Business Overview:

The company has two certified production facilities in India strategically located at (Maharashtra) having close proximity to the JNPT port from where it exports majority of products. Manufacturing units have dedicated production lines for products, with a combined installed capacity of 29,900 MTPA as of FY21, and capacity utilization rates of 71.9% for FY21. CSTL has recently set-up a unit at third facility adjacent to the existing facilities and has also recently allotted land for the construction of fourth facility at the same location.

The company is incorporated as Sri Distikemi Private Limited on Nov 2003. Meanwhile the company in 2006 changed its name to Clean Science and Technology Private Limited with aim at focusing on sustainable chemistry led by innovative technology and lower effluents. The company started manufacturing of MEHQ and Guaiacol in 2009, 4-MAP in 2011 and BHA in 2014.

CSTL has started manufacturing Anisole in 2017 using liquid phase technology, though it soon shifted Anisole manufacturing to vapour phase technology which is less effluent and more efficient. In 2020, CSTL started making DCC. Revenue mix in FY21 include 69% as performance chemicals, 16.2% pharmaceuticals intermediates, 12.3% FMCG chemicals while the balance represents 2.2% of sales.

Over 68% of the business is generated through exports with major contribution from China at 37.1%. Sales contributed by top 10 clients was 47.9% of total sales while the sales contribution by largest customers was 13.3% in FY21.

During FY19-FY21, operating revenue grew by a CAGR of 14.1% to Rs512 cr. Meanwhile EBIDTA margin improved to 50.5% in FY21 from 34.7% in FY19, significantly higher than the industry average, attributed to newer technologies and higher usages of backward integrated raw materials. The company is almost debt free with strong cash accumulation at hand. PAT margin also improved to 38.7% in FY21 from 24.8% in FY19.

Diversified product profile serving critical end-user industries

Largest capacity in the world for certain products[^]



Product (Global Market Size)	Application	CSTL Ranking	Key Peers
1) Performance chemicals (69.2% revenue for FY2021)			
MEHQ (12,500 MT)	<ul style="list-style-type: none"> ➤ Used as polymerization inhibitor in acrylic acids, acrylic esters, super absorbent polymers (diapers and sanitary pads) ➤ Pre-cursor for agrochemical industry 	<ul style="list-style-type: none"> ✓ #1 in World ✓ #1 in India 	<ol style="list-style-type: none"> 1. Solvay 2. Camlin Fine Sciences
BHA (9,000 MT)	<ul style="list-style-type: none"> ➤ Used as anti-oxidant in food and feed industry 	<ul style="list-style-type: none"> ✓ #1 in World ✓ #1 in India 	<ol style="list-style-type: none"> 1. Solvay 2. Camlin Fine Sciences
AP (450 MT)	<ul style="list-style-type: none"> ➤ Used in infant food formulations, breakfast cereals and cosmetics 	<ul style="list-style-type: none"> ✓ #2 in World ✓ #2 in India 	<ol style="list-style-type: none"> 1. Camlin Fine Sciences 2. Yasho Industries 3. DSM Nutrition Products
2) Pharmaceutical intermediates (16.2% revenue for FY2021)			
Guaiacol (60,000 MT)	<ul style="list-style-type: none"> ➤ Pre-cursor to manufacture APIs for cough syrup (pharma industry) ➤ Key raw material to produce Vanillin 	<ul style="list-style-type: none"> ✓ #3 in World ✓ #2 in India 	<ol style="list-style-type: none"> 1. Solvay 2. Camlin Fine Sciences
DCC (7,000 MT)	<ul style="list-style-type: none"> ➤ Used as reagent in anti-retroviral 	<ul style="list-style-type: none"> ✓ Amongst Largest in World ✓ #1 in India 	<ol style="list-style-type: none"> 1. Shandong Huihai Pharma 2. Hongrui Fine Chemicals
3) FMCG chemicals (12.3% revenue for FY2021)			
4-MAP (7,200 MT)	<ul style="list-style-type: none"> ➤ Used in UV blocker in sunscreens (cosmetics industry) 	<ul style="list-style-type: none"> ✓ #1 in World ✓ #1 in India 	<ol style="list-style-type: none"> 1. Cosmos Nanjing 2. Haining Sino Fine Chemical
Anisole (34,000 MT)	<ul style="list-style-type: none"> ➤ Precursor to perfumes, insect pheromones, pharmaceuticals ➤ Majority of Anisole produced is used for captive consumption by CSTL 	<ul style="list-style-type: none"> ✓ #1 in World ✓ #1 in India 	<ol style="list-style-type: none"> 1. Atul Ltd. 2. Mithila Rasayan 3. Solvay

Source: Choice Broking Research, RHP



Competitive strengths:

- Track record of strategic process innovation through consistent R&D initiatives
- Among the largest producers globally of functionally critical speciality chemicals used across various industries and geographies in a de-risked business model
- Strong and long-standing relationship with key customers
- Automated manufacturing facilities with proven design and commercialization capacity and strong focus on EHS
- Strong and consistent financial performance in the last three fiscals

Business strategy:

- Leverage leadership position in speciality chemicals industry to capitalize on industry opportunities
- Leverage R&D capacities and understanding of catalysis to continue process re-engineering, further enhancing product portfolio
- Expand manufacturing capacities of existing products and set up additional capacities for new products
- Continue to strengthen presence in India and expand sales and distribution network in international markets



Risk and concerns:

- Threat to business if competitors develop similar catalytic technology for manufacturing process
- Volatility in Phenol prices which is major raw material
- Hawkish govt regulations for chemical industry

Financial statements:

Rs crore

Profit & Loss A/c

Particulars	FY19	FY20	FY21
Operating Revenue (OR)	393.3	419.3	512.4
Cost of materials consumed	(178.6)	(128.0)	(137.9)
Changes in Inventories of Finished Goods, Work-in-Progress	7.4	(1.3)	14.3
Employee Benefit Expenses	(24.9)	(31.0)	(43.6)
Other Expenses	(60.9)	(73.8)	(86.3)
EBITDA	136.3	185.3	259.0
Depreciation and Amortization Expenses	(11.0)	(13.7)	(17.2)
EBIT	125.3	171.6	241.7
Finance Costs	(0.0)	(0.1)	(0.0)
Other Income	11.3	10.9	25.6
PBT	136.5	182.3	267.4
Tax Expenses	(38.9)	(42.7)	(68.9)
PAT	97.7	139.6	198.4

Balance Sheet

Particulars	FY19	FY20	FY21
Share Capital	1.4	1.3	10.6
Reserves and Surplus	270.6	340.8	529.0
Long Term Borrowings	0.1	0.3	0.3
Long Term Provisions	0.3	0.3	0.4
Short Term Borrowings	2.4	2.5	0.0
Trades Payables	22.3	35.7	61.0
Other short term liabilities	16.2	35.7	40.8
Short Term Provisions	0.1	0.1	0.2
Deferred tax liabilities (Net)	13.9	13.2	17.6
Total Liabilities	327.4	429.9	659.9
Tangible Assets	124.9	162.6	182.6
Intangible Assets	2.1	3.0	3.2
Capital Work In Progress	3.9	3.4	55.0
Long Term Loans and Advances	1.0	1.2	2.1
Non-current financial assets	0.3	0.4	15.5
Other Non Current Assets	2.7	2.3	6.3
Inventories	37.0	34.6	52.9
Trade Receivables	59.8	69.8	74.2
Cash and Bank Balances	9.4	9.3	15.7
Short term investment	75.2	133.0	232.1
Other Current Assets	11.1	10.3	20.2
Total Assets	327.5	429.9	659.9

Source: Choice Broking Research, RHP

IPO UPDATE

Cash Flow Statement

Particulars	FY19	FY20	FY21
Cash Flow from Operating Activities	84.7	160.1	192.8
Cash Flow from Investing Activities	(95.0)	(106.3)	(186.8)
Purchase of fixed assets and properties	(38.8)	(50.3)	(84.4)
Cash Flow from Financing Activities	(10.8)	(55.4)	(5.9)
Net Cash Flow	(21.1)	(1.6)	0.2
Opening Balance of Cash and Bank Balances	30.5	10.8	9.2
Closing Balance of Cash and Bank Balances	9.4	9.2	9.3

Financial Ratios

Particulars	FY19	FY20	FY21
Growth & Margin ratios			
Revenue Growth Rate (%)		6.6%	22.2%
EBITDA Growth Rate (%)		35.9%	39.8%
EBITDA Margin (%)	34.7%	44.2%	50.5%
EBIT Growth Rate (%)		37.0%	40.9%
EBIT Margin (%)	31.9%	40.9%	47.2%
Adjusted PAT Growth Rate (%)		43.0%	42.1%
Reported PAT Margin (%)	24.8%	33.3%	38.7%

Turnover ratios

Inventories Turnover Ratio (x)	10.6	12.1	9.7
Trade Receivable Turn. Ratio (x)	6.6	6.0	6.9
Accounts Payable Turn Ratio (x)	17.6	11.7	8.4
Fixed Asset Turnover Ratio (x)	3.1	2.6	2.8
Total Asset Turnover Ratio (x)	1.2	1.0	0.8
Working Capital Turn. Ratio (x)	0.0	2.4	1.8

Operational ratios

Current Ratio (x)	4.7	3.5	3.9
Debt to Equity (x)	0.0	0.0	0.0
Total Debt (Rs cr)	2.5	2.8	0.3
Net Debt (Rs cr)	-82.2	-139.5	-247.5
Net Debt to EBITDA (x)	-0.6	-0.8	-1.0
Net Debt to Equity (x)	-0.3	-0.4	-0.5

Return ratios

RoE (%)	35.9%	40.8%	7.3%
RoA (%)	29.8%	32.5%	2.8%
RoCE (%)	46.0%	50.1%	44.7%
RoIC (%)	31.9%	37.4%	37.2%
EV (Rs cr)	9,552.8	9,553.2	9,544.4
EV/Sales (x)	24.3	22.8	18.6
EV/EBITDA (x)	70.1	51.6	36.9

Per share ratios

EPS	9.2	13.1	18.7
BVPS	25.6	32.2	50.8
OCF/sh	8.0	15.1	18.2
FCF/sh	-1.1	15.4	16.1

Valuation ratios

P/E (x)	97.9	68.5	48.2
P/BVPS (x)	35.1	27.9	17.7
P/S (x)	24.3	22.8	18.7
EV/EBITDA (x)	70.1	51.6	36.9

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