

06 July 2021

Clean Science & Technology–SUBSCRIBE

Investment Thesis

Clean Science and Technology Ltd. (CSTL) is coming out with an initial public offering (IPO) on July 06, 2021. The Issue comprises of an offer for sale of equity share worth Rs.15,466.2mn by the selling shareholders. Post IPO issue, promoters shareholding in the company will decline to 78.51% from 94.66% currently.

CSTL is amongst few companies globally which are focused entirely on developing newer technologies using in-house catalytic processes, which is eco-friendly and cost-competitive. This focused approach has enabled CSTL to emerge as the largest manufacturer globally of certain speciality chemicals in terms of installed manufacturing capacities by FY21, some of these technologies have been developed and commercialized for first time globally. CSTL plans to focus on product identification, process innovation, catalyst development, scale of operations as well as measures towards strategic backward integration which contributed to its success as one of the fastest-growing and among the most profitable speciality chemical companies globally. CSTL will continue to design and implement '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.

CSTL products are used as polymerization inhibitors, intermediates for agrochemicals and pharmaceuticals, antioxidants, UV blockers and anti-retroviral reagents, which are functionally critical in a wide range of industries, including in the manufacture of paints and inks, agrochemicals, pharmaceuticals, flavors and fragrance, food and animal nutrition and cosmetics products. CSTL's specialty chemicals has a wide range of applications that cater to a diverse base of customers across industries. CSTL customers comprise manufacturers in India and other regulated international markets including China, Canada, Europe, the United States of America, Taiwan, Korea, and Japan.

Financials

- During the past 3 years, revenue of CSTL grew at a CAGR of 28.6% while PAT grew at a CAGR of 59.5% in the same period.

Consol. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Revenue	3,933	4,193	5,124	5,893	6,777
EBITDA	1,366	1,856	2,592	2,981	3,428
% growth	-84.9	35.8	39.7	15.0	15.0
PAT	977	1,396	1,984	2,281	2,624
EPS (Rs.) #	9.2	13.1	18.7	21.5	24.7
P/E (x) *#	97.9	68.5	48.2	41.9	36.4
RoE (%) #	34.7%	39.7%	36.8%	38.5%	40.3%

* At highest price band # Post listing

IPO Details

Issue Open Date	07 July, 2021
Issue Close Date	09 July, 2021
Price Band (Rs.)	880.00 to 900.00
Issue Size (Rs. Mn)	15,466.20
Issue Size (Shares)*	1,71,84,667
Market Lot	16 Equity Share
Listing Exchanges	BSE and NSE
Face Value (Rs.)	1.0/-

* At highest price band

Key Details

Fresh Issue	No Fresh Issue
Offer for Sales	1,71,84,667 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Axis Capital, JM Financial and Kotak Mahindra Capital
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Issue Listing Date	19 July, 2021

* At highest price band

Key Business Highlights

- CSTL manufactures functionally critical specialty chemicals such as performance chemicals like mono methyl ether of hydroquinone (MEHQ), butylated hydroxyl anisole (BHA), and L-ascorbyl palmitate (AP), pharmaceutical intermediates like dicyclohexylcarbodiimide (DCC) and guaiacol and FMCG chemicals like 4-methoxy acetophenone (4-MAP) and anisole.
- CSTL products are used as key starting level materials like inhibitors or additives for products sold in regulated markets. Its key customers include Bayer AG, SRF Ltd., Gennex Laboratories, Nutriad International NV and Vinati Organics. Some of its customers have also been associated with them for over 10 years.
- CSTL has two manufacturing facilities in India with 11 production lines with combined installed capacity of 29,900 MTPA (metric tonnes per annum) and capacity utilization of ~72.0% for FY21.

Valuation

- Over the period, CSTL has set-up two manufacturing facilities in India with 11 production lines including three lines for catalyst production and regeneration. Combined installed capacity of CSTL is 29,900 MTPA by the end of FY21 with capacity utilization of ~72.0%. Since, majority of CSTL's sales are through exports, both facilities are strategically located at Kurkumbh in Maharashtra, which is in proximity to the JNPT port. 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. Recently, CSTL has also setting-up a unit at the third facility adjacent to its existing facilities and allotted land for the construction of a fourth facility at Kurkumbh in Maharashtra. CSTL is also in the process of expanding its R&D infrastructure by setting-up an additional R&D unit at upcoming manufacturing facility, where it plans to install R&D equipment for synthesizing new products and certain catalysts under development.
- CSTL's raw materials largely comprise commodity chemicals due to catalytic processes and backward integration. Key raw materials comprise of major bulk chemicals including phenol, hydrogen peroxide, acetic anhydride, acetone and tertiary butanol, which are widely available, unlike conventionally used diphenols such as hydroquinone and catechol that are susceptible to increased price volatility due to controlled supply. The company engages with numerous suppliers for its raw materials that are available domestically and imported in large volumes in India, enabling it to has greater control over costs.
- With largest manufacturer globally of certain specialty chemicals, focus on product identification, process innovation, catalyst development, wide range of applications that cater to a diverse base of customers and setting-up two new facility adjacent to its existing facilities, we are recommending **SUBSCRIBE** to the IPO of Clean Science and Technology Ltd.

Risk & Concern

- CSTL is subject to strict quality requirements, regular inspections and audits, any failure to comply with quality standards may adversely affect its business prospects and financial performance going ahead.
- CSTL derives a significant portion of its revenues from operations from a limited number of markets and any adverse developments in these markets may adversely affect business.
- Any exchange rate fluctuations may adversely affect margin of CSTL as major portion of revenue comes from export.

Graphs & Charts

Figure 1: Net Sales Trend

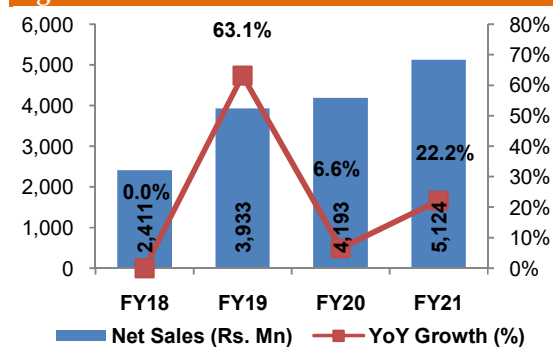


Figure 2: EBITDA & EBITDA Margin Trend

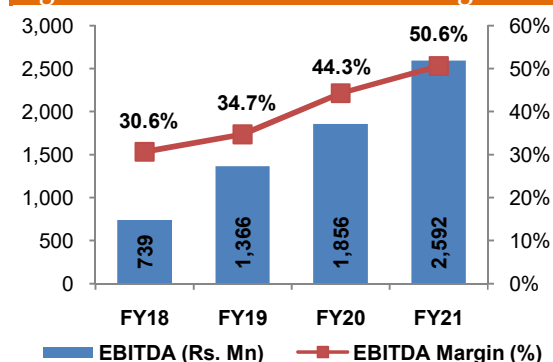


Figure 3: PAT Trend

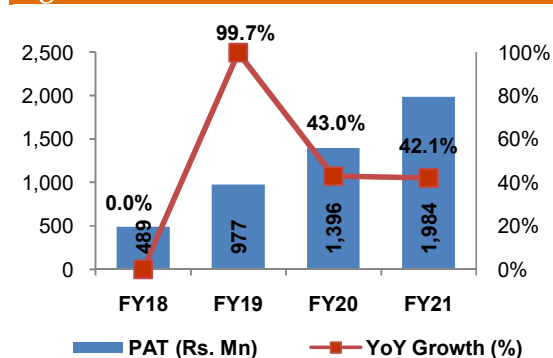
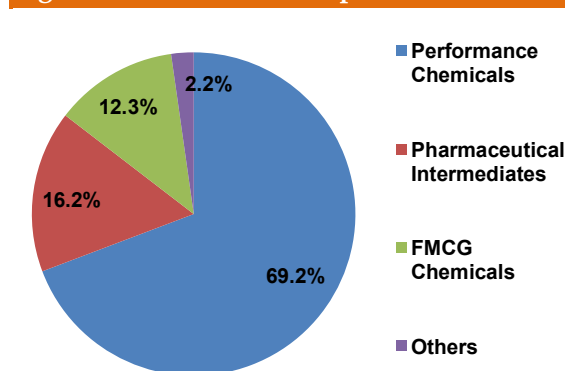


Figure 4: Revenue Break-Up (FY21)



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