

IPO Note: Clean Science and Technology Ltd.

Industry: Chemical
Reco: Subscribe
Date: July 06, 2021

Issue Snapshot		Issue Break up		
Company Name	Clean Science and Technology Ltd.	QIB ex Anchor	20%	3,436,938
Issue Opens	July 07, 2021 to July 09, 2021	Anchor Investor	30%	5,155,407
Price Band	Rs. 880 to Rs. 900	HNI	15%	2,577,703
Bid Lot	16 Equity Shares and in multiples thereof.	RII	35%	6,014,641
The Offer	Public issue of 17,184,689 Equity shares of Face value Rs. 1 each, (Comprising of Offer for Sale by Selling Shareholder).	Total Public	100%	17,184,689
Issue Size	Rs. 1546.62 Crore	Equity Share Pre Issue (Nos. Cr.)		10.6
IPO Process	100% Book Building	OFS Share (Nos. Cr.)		1.7
Face Value	Rs. 1.00	Equity Share Post Issue (Nos. Cr.)		10.6
Exchanges	NSE & BSE	Market Cap (Rs. Cr.)		9,559.7
BRLM	Axis Capital Limited, JM Financial Limited and Kotak Mahindra Capital Company Limited	OFS - Dilution		16.2%
Registrar	Link Intime India Private Limited			

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (By Ashok Ramnarayan Boob up to Rs. 2,440.16 million, by Krishnakumar Ramnarayan Boob up to Rs. 1,930.59 million, by Siddhartha Ashok Sikchi up to Rs. 405.05 million, by Parth Ashok Maheshwari up to Rs. 759.83 million, by Asha Ashok Boob up to Rs. 2,440.16 million, by Ashokkumar Ramkishan Sikchi HUF up to Rs. 1,360.51 million, by Krishnakumar Ramnarayan Boob HUF up to Rs. 415.51 million, by Ashok Ramnarayan Boob HUF up to Rs. 752.60 million, by Nidhi Mohunta up to Rs. 759.83 million, by Nilima Krishnakumar Boob up to Rs. 840.77 million, by Shradha Krishnakumar Boob up to Rs. 440.28 million, by Prasad Krishnakumar Boob up to Rs. 440.28 million, by Pooja Vivek Navandar up to Rs. 440.28 million, by Asha Ashok Sikchi up to Rs. 1,141.38 million, by Kunal Ashok Sikchi up to Rs. 310.54 million, by Ashok Sikchi up to Rs. 282.43 million, by Nandita Sikchi up to Rs. 273.60 million and by Ganapati Dadasaheb Yadav up to Rs. 32.42 million.)

Company Highlights

- Clean Science & Technology Ltd. (CSTL) manufacture functionally critical specialty chemicals such as Performance Chemicals - Mono methyl ether of hydroquinone (MEHQ), Butylated hydroxyl anisole (BHA), and L-Ascorbyl Palmitate (AP), Pharmaceutical Intermediates- Guaiacol and Dicyclohexyl Carbodimide (DCC) which are also widely used in anti-retroviral drugs, and FMCG Chemicals- 4-Methoxy Acetophenone (4-MAP) and Anisole.
- Within 17 years of incorporation, CSTL has grown to the largest manufacturer globally of MEHQ, BHA, Anisole and 4-MAP, in terms manufacturing capacities as of March 31, 2021.
- CSTL is among the few companies globally focused entirely on developing newer technologies using in-house catalytic processes, which are eco-friendly and cost competitive. Some of these technologies have been developed and commercialized for the first time globally.
- CSTL's continued focus on product identification, process innovation, catalyst development, significant scale of operations as well as their measures towards strategic backward integration have all contributed to their success as one of the fastest growing and among the most profitable specialty chemical companies globally.
- CSTL's specialty chemicals have a wide range of applications that cater to a diverse base of customers across industries. The company's customers include manufacturers and distributors in India as well as other regulated international markets including China, Europe, the United States of America, Taiwan, Korea and Japan.
- CSTL's 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. Some of their customers have been associated with them for over 10 years as of May 31, 2021.

- CSTL has 2 certified production facilities in India strategically located at Kurkumbh (Maharashtra), in close proximity to the JNPT port. Each facility has an on-site R&D unit, quality control department, warehouse, and effluent treatment system that treat effluent, to make the facilities zero liquid discharge facilities. The facilities have dedicated production lines for the products, with a combined installed capacity of 29,900 MTPA and capacity utilization rates of 71.94% for FY21. The company have recently set-up a Facility-III adjacent to the existing facilities at Kurkumbh, Pune, and have been allotted land for the construction of a Facility-IV at Kurkumbh.

View

- CSTL manufactures functionally critical specialty chemicals such as Performance Chemicals (MEHQ, BHA and AP), Pharmaceutical Intermediates (i.e. Guaiacol and DCC) and FMCG Chemicals (i.e. 4-MAP and Anisole).
- The company has two production facilities in India strategically located at Kurkumbh in Pune district of Maharashtra with 11 production lines & a cumulative capacity of 29,900 MTPA. The plants are located in close proximity to the JNPT port from where the company export majority of the products.
- The company has also recently set-up a unit at the third facility adjacent to its existing facilities at Kurkumbh (Maharashtra), and have recently been allotted land for the construction of a fourth facility at Kurkumbh (Maharashtra). The captive solar plants meet part of its power requirements at facilities, which improves cost efficiencies and results in better utilization of resources.
- The company is in the process of expanding its R&D infrastructure by setting-up an additional R&D unit at upcoming manufacturing facility at Kurkumbh (Maharashtra), where it plans to install R&D equipment for synthesizing new products and certain catalysts under development.
- CSTL is among a few companies globally that focuses on developing newer technologies using in-house catalytic processes, which are eco-friendly and cost competitive. This has enabled the company to emerge as the largest manufacturer globally of certain specialty chemicals in terms of installed manufacturing capacities as of March 31, 2021.
- CSTL has historically entered into manufacturing of only those products that are produced only by limited players globally and enjoy strong structural demand. Further, the company continuously develops processes & catalysts that improve the overall efficiency of the facilities and create strong entry barriers.
- CSTL's specialty chemicals have a wide range of applications that cater to a diverse base of customers across countries and industries. It derived 68% of its revenues from exports with key market of China (33% of total revenues), Korea, Taiwan, USA and Europe. Its range of performance chemicals (70% of revenues) has a diverse end-use across several industries of paints, adhesives, agrochemicals and FMCG products.
- The company's continued focus on product identification, process innovation, catalyst development, significant scale of operations as well as its measures towards strategic backward integration have all contributed to its success as one of the fastest growing and among the most profitable specialty chemical companies globally.
- The specialty chemicals industry in India is on an upswing on the back of several favourable factors such as 'China + 1' sourcing strategies adopted by several MNCs, reduced production in China on the back of strict environment & pollution norms on the chemical industry, increasing manufacturing base of several end-user industries in India, favourable government policies such as the PLI scheme, dedicated chemical parks and protection through anti-dumping duties on imports especially from China.
- CSTL's financial performance has been quite impressive on all counts. Revenue and EBITDA recorded a CAGR growth of 14.2% and 37.8%, respectively through FY18- FY21, its net profit recorded a 42.5% CAGR over the same period. Especially, its EBITDA margin has improved from 34.7% in FY19 to 50.5% in FY21. Margins has improved because of backward integration and improvement of yields and not because of price increase of products. As per the management, current margins is expected to sustainable going ahead. Company is a debt free with RoE of 36.8% and RoCE of 46.4%.
- In terms of the valuations, on the higher price band, CSTL demands a P/E multiple of 48.2x based on FY21 post issue fully diluted EPS. Almost all listed peers are trading in the range of 42x – 77x and industry average is at 60x. Despite of reporting better return ratios compared to peers, CSTL is valued at discount to peers. Thus, issue appears attractive for investment.
- Given the healthy growth prospects and China plus one policy, largest manufacturer of certain specialty chemicals, expanding manufacturing facility, expanding R&D infrastructure, strong financials and healthy balance sheet augur well for the company's performance going forward. Hence, it is recommended to "SUBSCRIBE" the issue.

Key products, their applications, their ranking and key peers details

Product	Global Market Size	Application	CSTL Ranking	Key Peers
Performance chemicals (69.23% revenue for FY21)				
MEHQ	12,500 MT	• Used as Polymerization inhibitor in acrylic acids, acrylic esters, super absorbent polymers (diapers and sanitary pads)	#1 in World	• Solvay
		• Pre-cursor for agrochemical industry	# 1 in India	• Camlin Fine Sciences
BHA	9,000 MT	• Used as anti-oxidant in food and feed industry	#1 in World	• Solvay
			#1 in India	• Camlin Fine Sciences
Ascorbyl Palmitate	450 MT	• Used in infant food formulations, breakfast cereals and cosmetics	#2 in India	• Camlin Fine Sciences
				• Yasho Industries
				• DSM Nutrition Products
Pharmaceutical Intermediates (16.20% revenue for FY21)				
Guaiacol	60,000 MT	• Pre-cursor to manufacture APIs for cough syrup (pharma industry)	#3 in World	• Solvay
		• Key raw material to produce Vanillin	#2 in India	• Camlin Fine Sciences
DCC	7,000 MT	• Used as Reagent in anti-retroviral	Amongst Largest in World	• Shandong Huihai Pharma
			#1 in India	• Hongrui Fine Chemicals
FMCG Chemicals (12.34% revenue for FY21)				
4-MAP	7,200 MT	• Used in UV blocker in sunscreen (cosmetics industry)	#1 in World	• Cosmos Nanjing
			#1 in India	• Haining Sino Fine Chemical
Anisole	34,000 MT	• Precursor to perfumes, insect pheromones, pharmaceuticals • Majority of Anisole produced is used for captive consumption by CSTL	#1 in World	• Atul Ltd
			#1 in India	• Mithila Rasayan
				• Solvay

Installed Production Capacity and Utilisation

Unit	FY19			FY20			FY21		
	Installed Capacity in MT	Actual Production in MT	% Utilization	Installed Capacity in MT	Actual Production in MT	% Utilization	Installed Capacity in MT	Actual Production in MT	% Utilization
Performance Chemicals	8,580	4,804	55.99%	8,680	5,363	61.79%	9,640	7,081	73.46%
Pharmaceutical Intermediates	3,060	2,143	70.04%	3,780	1,942	51.37%	4,060	2,602	64.08%
FMCG Chemicals	9,600	7,471	77.83%	15,600	10,360	66.41%	16,200	11,826	73.00%
Total	21,240	14,418	67.88%	28,060	17,665	62.95%	29,900	21,509	71.94%

Revenue from Operations

Particulars	FY19		FY20		FY21	
	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total
Business Segment-wise						
Performance Chemicals	249.04	63.32%	272.12	64.90%	354.77	69.23%
Pharmaceutical Intermediates	68.11	17.32%	64.38	15.35%	83.01	16.20%
FMCG Chemicals	61.23	15.57%	66.57	15.88%	63.22	12.34%
Other Products	6.47	1.64%	6.28	1.50%	5.95	1.16%
Other Operating Revenue	8.44	2.14%	9.96	2.38%	5.49	1.07%
Total for Revenue from operations	393.27	100.00%	419.3	100.00%	512.43	100.00%
Product Segment-wise						
Sale of products	384.84	97.86%	409.34	97.62%	506.94	98.93%
Ketone with other oxygen functions	46.13		49.17		49.98	
Ether phenols	317.14		333.52		420.28	
Others	21.57		26.65		36.68	
Other operating revenue	8.44	2.15%	9.96	2.38%	5.49	1.07%
Export incentives	6.94		8.65		4.37	
Scrap sale	0.07		0.06		0.12	
Sale of electricity	1.43		1.26		1	
Total	393.27	100.00%	419.3	100.00%	512.43	100.00%
Sale of Products – Region-wise						
In India	100.54	26.13%	121.03	29.57%	159.22	31.41%
Outside India/ Exports						
China	151.02	39.24%	145.46	35.53%	188.18	37.12%
Europe	78.73	20.46%	77.93	19.04%	70.05	13.82%
America	37.76	9.81%	37.08	9.06%	58.17	11.47%
Rest of World	16.79	4.36%	27.85	6.80%	31.33	6.18%
Total Exports	284.29	73.87%	288.31	70.43%	344.72	68.59%
Total Sale of Products	384.84	100.00%	409.34	100.00%	506.94	100.00%

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21
Share Capital	1.4	1.3	10.6
Net Worth	272.1	342.1	539.7
Long Term Borrowings	0.0	0.0	0.0
Other Long Term Liabilities	14.3	10.8	18.3
Short-term borrowings	2.5	2.4	0.0
Other Current Liabilities	38.6	74.6	102.0
Fixed Assets	130.9	169.0	240.8
Non Current Assets	4.0	3.9	23.9
Current Assets	192.6	257.0	395.1
Total Assets	327.5	429.9	659.9
Revenue from Operations	393.3	419.3	512.4
Revenue Growth (%)		6.6	22.2
EBITDA	136.3	185.3	259.0
EBITDA Margin (%)	34.7	44.2	50.5
Net Profit	97.7	139.6	198.4
Net Profit Margin (%)	24.8	33.3	38.7
Earnings Per Share (Rs.)	9.2	13.2	18.7
Return on Networth (%)	35.9	40.8	36.8
Net Asset Value per Share (Rs.)	25.6	32.2	50.8

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21
Cash flow from Operations Activities	84.7	160.1	192.8
Cash flow from Investing Activities	(95.0)	(106.3)	(186.8)
Cash flow from Financing Activities	(10.8)	(55.4)	(5.9)
Net increase/(decrease) in cash and cash equivalents	(21.1)	(1.6)	0.2
Cash and cash equivalents at the beginning of the year	29.5	9.4	9.2
Cash and cash equivalents at the end of the year	9.4	9.2	9.3

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Clean Science and Technology Ltd.	512.4	50.5	0.0	46.4	36.8	48.2	17.7	36.9	18.7	9559.7
PI Industries Ltd.	3366.5	22.8	0.2	23.1	18.6	62.2	8.6	40.7	10.0	45903.1
SRF Ltd.	7418.7	22.4	0.8	15.1	22.5	37.0	6.5	21.9	5.3	44360.4
Atul Ltd.	4093.1	23.9	0.0	28.2	22.7	42.2	7.2	27.2	7.4	27666.0
Vinati Organics Ltd.	954.3	39.7	0.0	23.8	19.1	77.4	13.5	55.0	21.8	20846.3
Navin Fluorine International Ltd.	1061.6	28.0	0.0	20.9	32.4	73.0	11.5	47.7	15.9	18810.9
Fine Organic Industries Ltd.	1038.1	25.4	0.2	33.4	30.4	75.0	12.3	41.3	8.0	9026.6
Camlin Fine Sciences Ltd.	1187.1	16.6	1.1	15.2	14.6	48.7	5.1	14.6	2.1	2483.6

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