

Clean Science & Technology Ltd.

Chemicals | India

IPO | 06 July 2021

SUBSCRIBE 

Healthy Growth Prospects with Reasonable Valuations

About the Company

Clean Science & Technology Ltd. (CSTL), incorporated in 2003, is among the few global companies focused on developing newer technologies using in-house catalytic processes, which are eco-friendly and cost-effective. This has enabled CSTL to emerge as the largest global manufacturer of certain specialty chemicals in terms of installed capacities as of 31st Mar'21. CSTL manufactures functionally-critical specialty 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). CSTL's specialty chemicals have a wide range of applications across diverse industries globally. The company has 2 certified production facilities in India at Kurkumbh near the JNPT in Maharashtra. Each facility has an on-site R&D unit, quality control department, warehouse and effluent treatment system that treats effluent to make them zero liquid discharge (ZLD) units. CSTL's facilities have dedicated production lines for its products with a combined installed capacity of 29,900 MTPA with capacity utilization rate of 72% in FY21.

Financials in Brief

CSTL's financial performance has been impressive over the years on the back of strong traction in specialty chemical segment and consistent improvement in margin. While its consolidated revenue and EBITDA recorded 14% and 38% CAGR, respectively through FY19-FY21, its net profit recorded 43% CAGR during the same period. Notably, its EBITDA margin has improved remarkably from 24.8% in FY19 to 38.7% in FY21. Further, it has been maintaining a strong balance-sheet with D/E and D/EBITDA of -0.03x and -0.06x, respectively as of FY21-end. Further, its working capital cycle remains comfortable in the range of 47 days in FY21. Additionally, the company has generated cumulative OCF and FCF of Rs4.4bn and Rs2.6bn, respectively over FY19-FY21.

Our View: SUBSCRIBE

The IPO is valued at 42.2x of FY21 earnings, which looks to be reasonably priced. However, peers like Vinati Organics and Fine Organic trade at ~75x FY21 earnings, which offers valuation comfort for CSTL. We note CSTL's RoE at 37% is superior to its peers, which along with healthy asset turnover ratio at 3.8x FY21 (at utilization of 72%) and better OCF yield offer an edge. Further, strong growth prospects for domestic specialty chemical manufacturers on the back of China+ One strategy may eventually aid CSTL to sustain strong earnings momentum, going forward. **Hence, we recommend SUBSCRIBE to the IPO.**

IPO Details

Pice Band	Rs880-900
Face Value (Rs)	1
Issue Open/Closing Date	7th / 9th Jun'21
Fresh Issues (mn)	0.0
OFS (mn)	17.2
Total Issue (mn)	17.2
Minimum Bid Qty. (Nos)	16
Issue Size (Rs bn)	15.5
QIB / HNI / Retail	50% / 15% / 35%
Implied Market Cap (Rs bn)	96

Key Risks

- ▶ Any failure to obtain regulatory approvals and renewals of products
- ▶ Environmental risk

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	94.7	78.5
Public	5.4	21.5

Key Financials

(Rs bn)	FY19	FY20	FY21
Revenue	3.9	4.2	5.1
EBITDA (Adj)	1.4	1.9	2.6
EBITDA Margin (%)	34.7	44.2	50.5
PAT	1.0	1.4	2.0
PAT Margin (%)	24.8	33.3	38.7
EPS (Rs)	9.2	13.2	18.7
P/E (x)	97.9	68.5	48.2
EV/EBITDA (x)	70.1	51.6	36.9
P/BV (x)	35.1	28.0	17.7
Net Worth	2.7	3.4	5.4
RoE (%)	35.9	40.8	36.7
OCF	0.8	1.6	1.9
OCF Yield (%)	0.9	1.7	2.0
FCF	0.5	1.1	1.1
Gross Debt	0.0	0.0	0.0
Net Debt/Equity (x)	-0.03	-0.02	-0.03
Net Debt/EBITDA (x)	-0.05	-0.04	-0.06
Gross Block	0.8	1.1	1.3
Asset Turnover Ratio (x)	5.1	3.9	3.8
WCC (Days)	70	61	47

Source: RHP

Senior Research Analyst:

Vikas Jain

Contact: (022) 42157022 / 9324611393

Email : vikas.i.jain@relianceada.com

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies)?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Broker: INZ000172433, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.