

Clean Science and Technology Ltd

Recommendation: SUBSCRIBE

July 5, 2021

Details of the Issue

Price Band	₹ 880 - ₹ 900
Issue Size	₹ 1,546 Cr
Opening Date	Jul 7, 2021
Closing Date	Jul 9, 2021
Face Value	₹1
Bid Lot	16
Listing on	BSE, NSE

Objects of the Issue

To make an offer for sale of equity shares aggregating to Rs. 1,546.22 million.
To achieve the share listing benefits on the BSE and NSE.

Lead Managers

Axis Capital Limited
JM Financial Consultants Private Limited
Kotak Mahindra Capital Company Limited d

Registrar

Link Intime India Private Ltd

Investment Details

No. of shares at cut-off	208
Max. Amount to be paid	₹ 1,87,200

Offer Details

Fresh Issue	NIL
OFS	₹ 1,546 cr

Company Background

Clean Science and Technology Limited (“CSTL”) was incorporated on November 7, 2003. 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 developed and commercialized for the first time. Company’s name was changed to ‘Clean Science and Technology Pvt. Ltd.’ in 2006, to reflect their vision of focusing on sustainable chemistry led by innovative technology and lower effluents. They continue to exemplify their name by designing and implementing ‘clean’ chemistries based on catalytic technology developed in-house.

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 is 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.

CSTL’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. In Fiscal 2021, revenue from operations for sales outside India represented 67.86% of their total revenue from operations.

Key customers include **Bayer AG, SRF Ltd, Gennex Laboratories Ltd, Nutriad International NV and Vinati Organics Ltd.**

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 their facilities zero liquid discharge facilities. Their facilities have dedicated production lines for their products, with a combined installed capacity of 29,900 MTPA and capacity utilization rates of 71.94% for Fiscal 2021. They have recently set-up a Facility-III adjacent to their existing facilities at Kurkumbh, Pune, and have been allotted land for the construction of a Facility-IV at Kurkumbh.

They have broadly structured their R&D activities into 3 verticals: (i) for existing products and catalyst systems, to improve yields and selectivity in their existing product portfolio; (ii) for expanding their product portfolio in the stabilizer and additives business; and (iii) for identifying products with high demand that only limited manufacturers produce within India and globally. In particular, they focus on specialty chemicals which find applications in critical industries such as pharmaceuticals and agriculture.

Promoters - Ashok Ramnarayan Boob, Krishnakumar Ramnarayan Boob, Siddhartha Ashok Sikchi and Parth Ashok Maheshwari (combined experience of over 60 years in the chemicals industry)

Source: RHP, GEPL Capital Research

Strengths & Strategies

Track record of strategic process innovation through consistent R&D initiatives

Being a technologically advanced company, CSTL has pioneered the commercialization of catalytic-reactions in production processes. They have similarly developed unconventional processes to manufacture certain of their other specialty chemicals. With phenol being widely available and Anisole being produced for captive consumption, they are integrated to the commodity level, which also helps them reduce costs and increase their profit margins. This has led to their distinguished position as the most cost-competitive producer of these critical products, demonstrated by their significant exports to China, and giving them the highest margins in the industry in India for Fiscal 2020.

CSTL is among the leading companies in India to have commercialized use of environment-friendly processes to manufacture certain specialty chemicals, at global capacities. They have achieved this position by optimizing use of conventional raw materials, improving atom economy, enhancing yields, reducing effluent discharge, and consequently increasing cost competitiveness.

Among the largest producers globally of functionally critical specialty chemicals used across various industries and geographies resulting in a de-risked business model

Company's specialty chemicals have a wide range of applications and their key raw materials are abundantly available resulting in a significantly de-risked business model. Their 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, agro-chemicals, pharmaceuticals, flavours and fragrance, food and animal nutrition (feed), and personal care (cosmetics) products

In Fiscals 2019, 2020 and 2021, revenue generated from their top 10 customers represented 50.53%, 44.77% and 47.90% of their revenue from operations, respectively. Their products and customer base allow for limited dependence on any particular industry, relatively insulating them from any industry-specific slowdown.

Automated manufacturing facilities with proven design and commercialization capabilities

CSTL has 2 manufacturing facilities in India with 11 production lines (including 3 lines for catalyst production and regeneration). With dedicated production lines for their key products, they aim to limit losses and capacity reductions that are typically incurred during transitioning between products.

They also have multiple lines across separate units for their key products to limit contagion risk, and consistently meet the demand for these products. Their operations have received certifications from Ecovadis and Together for Sustainability, and are routinely audited and approved by certain of their customers. In addition, their facility for manufacturing BHA and Ascorbyl Palmitate is also registered with the US FDA as an approved food facility.

Leverage the leadership position in the specialty chemicals industry to capitalize on industry opportunities

The global chemicals market is valued at US\$ 4,738 billion in 2019 with China accounting for 40% of the market share. The global chemicals market 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 was valued at US\$800 billion in 2019, and is expected to record a growth rate of 5% to 6% over the next 5 years. The tightening of environmental norms in China and the recent trade dispute between China and the United States have reduced Chinese exports and resulted in shifting the source of key raw materials from China to India. This tightening of the environmental norms have resulted in increase in operating costs, closure and relocation of manufacturing facilities along with rising labour costs. While these may not be permanent trends, these will involve significant costs of production for Chinese companies, enabling India to significantly strengthen its position in the global supply chain and position itself as a viable alternative for global players seeking a de-risked supply chain while retaining sourcing costs. Pharmaceuticals and agrochemicals sectors are expected to benefit from this as Chinese manufacturers continue to operate at lower capacity levels, given increased monitoring of safety standards and compliance norms.

Leverage the R&D capabilities and understanding of catalysis to continue process re-engineering, further enhancing the product portfolio

They intend to continue to focus on speciality chemicals that find applications in high-growth industries and leverage their deep understanding of complex chemistries to create an alternate supply chain for their customers using cleaner technologies and cost effective processes. To expand their product portfolio, they seek to identify products with high demand that only limited manufacturers produce within India and globally. They also intend to continue to explore high margin downstream product lines, which have low competition and multiple applications. For instance, they are in the process of developing a portfolio of stabilizer products to be used as additives/ stabilizers by manufacturers. They are similarly engaged in developing catalytic systems to make intermediates for application in high-growth industries including paints and coatings, adhesives and sealants that are expected to be driven by growth in the infrastructure segment.

Valuation & Recommendation

Company's ability to meet the demand for, and quality of, their products, at competitive prices, have resulted in strong and long-standing relationships with various multinational corporations.

Various catalysts have been developed in-house through R&D, which are used across process developments, and have helped **improve productivity, yields, atom economy and cost efficiencies**. By employing "clean-technologies", they distinguish their processes from conventional processes and optimize use of non-toxic raw materials, resulting in lower effluent generation, in line with ESG practices.

Their in-house capabilities also enable them to optimise capital expenditure for their facility expansion activities. As a result, their asset turns are among the highest in the chemical industry. They are well positioned to capitalize on these opportunities in the specialty chemicals segment due to their lower cost of production in India as compared to imports from China, and based on their established relationships with multinational corporations. In particular, they propose to introduce new products with varied applications across industries, and continue to design catalysts to improve process and cost efficiencies in their operations.

The offer is well priced at ~48x FY20 EPS, we recommend a SUBSCRIBE rating to the issue.

Financial Snapshot

Particulars	2021	2020	2019
Equity Share Capital-	10.62	1.33	1.42
Reserves	529.05	340.77	270.64
Net worth	539.67	342.1	272.06
Revenue	512.43	419.3	393.27
EBITDA as stated	284.6	196.15	147.6
EBITDA (%) as stated	55.5%	46.8%	37.5%
Profit Before Tax	267.3	182.32	136.54
PAT	198.38	139.63	97.66
PAT Margins	38.71%	33.30%	24.83%
EPS (₹)	18.68	13.15	9.19
RoNW (%)	36.76%	40.82%	35.90%
NAV(₹)	50.81	32.21	25.61
ROCE (%)	73.89%	58.48%	50.75%
CFO	192.85	160.1	84.74

(In ₹ cr except per share data)

Source: RHP, GEPL Capital Research

NOTES

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