

Rating: Subscribe

Issue Offer

OFS of 17,184,682 shares by Promoters group and public taking the total issue size at INR 1546.62 cr

Issue Summary

Price Band (Rs)	880-900
Face Value (Rs)	1
Implied Market Cap (Rs Cr)	9,560
Market Lot	16
Issue Opens on	July,7, 2021
Issue Close on	July,9, 2021
No. of share pre-issue	106,218,960
No. of share post issue	106,218,960
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

JM Financial
Kotak Mahindra Capital

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	94.66%	78.51%
Public & Others	5.34%	21.49%

Objects of the issue

➤ To achieve the share listing benefits on the BSE and NSE.

➤ To make an offer for sale of up to 17,184,682 shares, aggregating to INR 1546.62cr

ShreyGandhi
shrey.gandhi@arihantcapital.com
022 671114834

Clean Science and Technology Ltd (CSTL) is a chemical manufacturing and exporting company in India, incorporated in 2003 as a family owned enterprise. The company is developing eco friendly and sustainable manufacturing processes of specialty and fine chemicals, exporting countries across the world. Its have manufacturing facility in Kurkumbh, Maharashtra, automated to maintain high level of efficiency and accuracy. The company exporting to Japan and USA customers that makes a way to become global chemical company. The company focused on newer technologies, using in-house catalytic processes are cost competitive and eco friendly.

Key Highlights:

- CSTL has grown largest manufacturer of MEHQ, BHA, 4-MAP and Anisole in global level, within 17 years of incorporation. CSTL manufactures critical specialty chemicals such as

performance chemicals

- Mono methyl ether of hydroquinone (MEHQ).
- Butylated hydroxyl anisole (BHA).
- L-Ascorbyl Palmitate (AP).

Pharmaceutical Intermediaries

- Guaiacol and Dicyclohexyl Carbodimide (DCC), used in anti-retroviral Drugs.

FMCG Chemicals

- 4-Methoxy Acetophenone (4-MAP).
- Anisole.
- CSTL's key customers are manufacturers, distributors from domestic as well as regulated international markets like Europe, USA, China, Korea, Japan and Taiwan.
- The Key customers include SRF Ltd, Vinati Organics Ltd, Genex laboratories ltd, Bayer AG and Nutriad International NV. The products are used as starting level materials as additives, inhibitors by the customers and products sold in regulated markets.
- CSTL manufacturing certified facilities are strategically located at Kurkumbh, Maharashtra in india, near by JNPT port

Valuation and View:

At a upper price band of INR 900 stock is trading at a P/E multiple of 48(X) to its EPS of INR 18.6 We are recommending subscribe on IPO for long term pick as well as listing gains We like company backed by 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. Their in-house capabilities also enable them to optimize 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.

Key Strength

Robust and consistent financial performance in last three years

CTSL's profitability driven by primarily to their cost efficiencies by the way of raw material cost optimization. In FY21, the cost of materials consumed 26.90% of their revenue from operations. The company operations grown based on internal accruals and declaring and paying dividends since FY12. The company grown organically over the years and one most profitable specialty chemicals company amongst global players.

Strong Relationship with clients:

The company maintaining strong and long term relationships with customers by the way of providing quality of the products at competitive prices and ability to meet the demand on time. The customer relationship helps to reach geographies and expand their products offerings to multinational corporations.

Key Customers	Sector
Bayer AG, SRF Ltd	Agro Chemical Products
Gennex Laboratories	Pharmaceutical Intermediates
Vinati Organics Limited	Specialty Monomer Products
Nutriad International NV	Animal Nutrition

Source: Company, Aриhant Capital Research

Strategic process innovation through R&D Initiatives:

CTSL's has commercialized use of eco-friendly process to manufacture specialty chemicals at global capacity levels. The company achieved through raw material usage optimization, enhancing yields, reducing effluent discharge and increasing cost competitiveness. CTSL is being a technically advanced company, pioneered commercialization in the process of catalytic-reactions. They have developed other specialty chemicals, phenol is being widely available and anisole produced for captive consumption. CTSL's are integrated in commodity levels, helps them to reduce cost and increase margin levels, led them to become most cost competitive producer of these critical products. So, they can able to exports with higher margins in the industry.

Automated Manufacturing Facilities:

CTSL has two manufacturing facilities with 11 production lines including 3 lines for catalyst production and regeneration. They executed capacity expansions in timely to meet the increased demand for their products, resulted higher asset turns among the chemical industry.

Manufacturing Facility	MEHQ	Guaiacol	BHA	4-MAP	DCC	AP	Anisole	Catalyst
Facility I	✓	✓	✓	✓	-	-	✓	✓
Facility II	✓	✓	-	-	✓	✓	✓	✓

Source: Company, Aриhant Capital Research

Key Strategies

Key Strategies:

Expand Manufacturing Capacities:

CSTL focused to expand manufacturing capacities for existing products and additional capacity for newer products, to cater growing demand from their existing customers as well as to meet requirements of new customers. They intended to add manufacturing capacities for new products that will form part of the additive products portfolio in the process of developing, used in applications such as pharmaceutical chemicals, fragrance, paints & coatings and agricultural industries. The markets for pharmaceutical chemicals, fragrance, paints & coating and agrochemicals are expected to grow at CAGR of 6.1%, 5.2%, 5.8%, 5.1% respectively from FY19-FY25.

Production Capacity and Utilization									
Year	2019			2020			2021		
Unit	Capacity	Actual Production	Utilization (%)	Capacity	Actual Production	Utilization (%)	Capacity	Actual Production	Utilization (%)
Performance Chemicals	8,580	4,804	56.0%	8,680	5,363	61.8%	9,640	7,081	73.5%
Pharmaceutical Intermediates	3,060	2,143	70.0%	3,780	1,942	51.4%	4,060	2,602	64.1%
FMCG Chemicals	9,600	7,471	77.8%	15,600	10,360	66.4%	16,200	11,826	73.0%
Total	21,240	14,418	67.9%	28,060	17,665	63.0%	29,900	21,509	71.9%

Source: Company, Aриhant Capital Research

Strengthen the presence and distribution network in domestic and international markets to increase sales:

CSTL focused to serve existing end use direct customers and distributors and secure new direct end use customers and distributors by the way of entering new markets to cater their products. They primarily focused on exports in international markets and focus geographies such as China, Europe and USA. The management focused to increase sales points to strengthen the team to deliver products to customers in a timely manner.

Revenue : Region wise						
Particulars (INR cr)	2019	%	2020	%	2021	%
India	100.5	26.1%	121.0	29.6%	159.2	31.4%
Exports						
China	151.0	39.2%	145.5	35.5%	188.2	37.1%
Europe	78.7	20.5%	77.9	19.0%	70.1	13.8%
America	37.8	9.8%	37.1	9.1%	58.2	11.5%
ROW	16.8	4.4%	27.9	6.8%	31.3	6.2%
Total Exports	284.3	73.9%	288.3	70.4%	347.7	68.6%
Total Sale of Products	384.8	100.0%	409.4	100.0%	507.0	100.0%

Source: Company, Aриhant Capital Research

Leverage the leadership position in the industry to capitalize industry opportunities.

The global chemical markets estimated \$4,738bn, china accounting ~40% market share. The global chemicals markets expected to grow 6.2% of CAGR to \$6,785bn from FY19 to FY25. The specialty chemicals markets estimated \$800bn and expected grow 5-6% CAGR over next 5 years. environmental norms and US Trade war resulted reduction in Chinese exports and markets shifted to India. Environmental norms imposed by china, resulted higher operating costs, relocation or closure of manufacturing facilities and rising labour costs significantly increasing costs of production in Chinese companies, enables India as a alternative player have significant strength in global supply chain and affordable sourcing costs.

Key Risks

- Client Concentration-Over dependence on few clients concentration.
- Volatility in raw material prices.
- Reduction in demand for MEHQ

Revenue Breakups

Revenue : Business Segment-wise						
Particulars (INR cr)	2019	%	2020	%	2021	%
Sale of products						
-Ketone with other	46.1		49.2		50.0	
-Ether phenols oxygen functions	317.1		333.5		420.3	
Others	21.6		26.7		36.7	
Total sale of products	384.8	97.9%	409.3	97.6%	506.9	98.9%
Other operating revenue						
-Export incentives	6.9		8.7		4.4	
-Scrap sale	0.1		0.1		0.1	
-sale of electricity	1.4		1.3		1.0	
Total Other operating revenue	8.4	2.1%	10.0	2.4%	5.5	1.1%
Total	393.3	100.0%	419.3	100.0%	512.4	100.0%

Source:Company, Arihant Capital Research

Revenue : Product Portfolio						
Particulars (INR cr)	2019	%	2020	%	2021	%
Performance Chemicals	249.0	63.3%	272.1	64.9%	354.8	69.2%
Pharmaceutical Intermediates	68.1	17.3%	64.4	15.4%	83.0	16.2%
FMCG Chemicals	61.2	15.6%	66.6	15.9%	63.2	12.3%
Other Products	6.5	1.6%	6.3	1.5%	6.0	1.2%
Other Operating Revenue	8.4	2.1%	10.0	2.4%	5.5	1.1%
Total for Revenue from operations	393.3	100.0%	419.3	100.0%	512.4	100.0%

Source:Company, Arihant Capital Research

Peer Comparison

Company (in Cr.)	CMP (INR)	Revenue	EBITDA	EBITDA M (%)	PAT	EPS (INR)	RoE (%)	P/E (x)
GR Infra Projects Ltd [^]	900	512	285	56%	198	18.7	36.80%	48.1
Vinati Organics Ltd	2042	954	353	37%	269	26.2	19.10%	77.9
Fine Organic Industries Ltd	3089	1,133	199	18%	120	39.2	3.53%	78.7
Navin Flourine International Ltd	3820	1,179	309	26%	258	52.0	13.11%	73.4

Financials are as on FY21; [^] at upper price band

Management

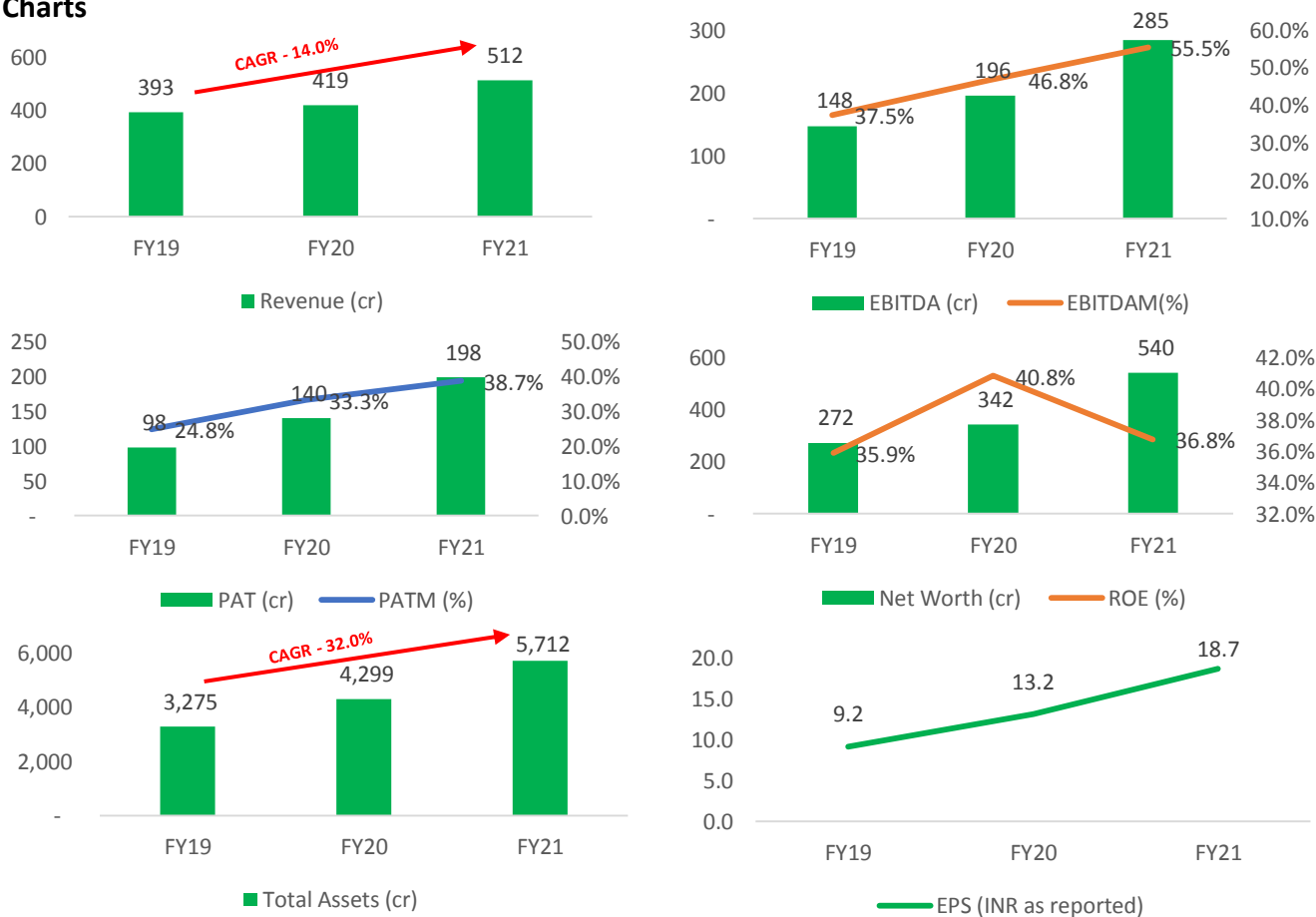
Key Person	Description
Mr Pradeep Ramwilas Rathi	Mr Pradeep Ramwilas Rathi is the Chairman and Non-Executive Director of the company, having 25 years of chemicals industry and currently holding director position of Sudarshan Chemicals Ltd
Mr Ashok Ramnarayan Boob	Mr Ashok Ramnarayan Boob is the promoter and Managing Director of the company, having 25 years of experience in the chemicals industry. Previously worked as an executive director at Mangalam Drugs and Organics Ltd.
Mr Siddhartha Ashok Sikchi	Mr Siddhartha Ashok Sikchi is the promoter and Wholetime director of the company, having 14 years of experience in chemicals industry.
Mr Pratik Abhaykumar Bora	Mr Pratik Abhaykumar Bora is the Chief Financial Officer of the company, associated with the company since Jan 27,2020, Priorly he worked in Mirae Asset Capital Markets (India) Ltd

Financial Performance

Particulars (in cr.)	FY19	FY20	FY21
Revenue	393	419	512
EBITDA	148	196	285
EBITDAM(%)	37.5%	46.8%	55.5%
PAT	98	140	198
PATM (%)	24.8%	33.3%	38.7%
EPS (INR as reported)	9.2	13.2	18.7
Net Worth	272	342	540
Total Debt	3	3	0
Total Assets	3,275	4,299	5,712
ROE (%)	35.9%	40.8%	36.8%
ROCE (%)	50.8%	58.5%	73.9%

Source: Company, Arianth Capital Research , Total Debt & Assets as on 9MFY21.

Charts



Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880