

## Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs.880 - 900
Face Value (Rs)	1
Issue Size (Rs)	1,546.62Cr
Issue Type	Book Building
Minimum lot	16
Issue Opens	July 07, 2021
Issue Closes	July 09, 2021
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	July 14, 2021
Unblocking of Funds	July 15, 2021
Credit of shares to Demat Account	July 16, 2021
Listing on exchange	July 19, 2021

Other Detail	
Book Running Lead Managers	Axis Capital Limited, JM Financial Limited, Kotak Mahindra Capital Company Limited
Registrar	Link Intime India Private Limited

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## Clean Science and Technology Ltd

### 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. It manufactures functionally critical specialty chemicals such as Performance Chemical, Pharmaceutical Intermediates, and FMCG Chemicals. The company supplies its products to manufacturers and distributors in India as well as overseas markets. The Company has 2 certified production facilities in India strategically located at Kurkumbh (Maharashtra), in close proximity to the JNPT port.

### Issue Details

The offer comprises offer for sale of Equity Shares aggregating upto Rs.1,546.62Cr.

### Issue Objectives

- To achieve the share listing benefits
- To make an offer for sale

### IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.880	Number of Shares at Rs.900	Issue Size (Rs.Cr)
QIB	50%	87,87,622	85,92,340	773.31
Non-Institutional	15%	26,36,287	25,77,703	541.32
Retail	35%	61,51,336	60,14,639	231.99
<b>Total</b>		1,75,75,245	1,71,84,682	1,546.62

Source: Company RHP, ACMIL Research

### Outlook and Valuations

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. This has enabled it to emerge as the largest manufacturer globally of certain speciality chemicals in terms of installed manufacturing capacities as of March 31, 2021. Some of these technologies have been developed and commercialized for the first time globally. The company continued to focus on product identification, process innovation, catalyst development, the significant scale of operations as well as measures towards strategic backward integration have all contributed to its success as one of the fastest-growing and among the most profitable speciality chemical companies globally. With its superior product mix, established brand name, backward integration, strong relationships with multinational, and adding capacities, we believe CSTL likely to deliver healthy financial performance. At the upper price band of Rs.900/-, stock is valued at 48.17x of FY21 Earnings of Rs.18.68. **We recommend to subscribe the issue from a long-term prospective.**

### Investment Rationale

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

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. CSTL has developed these technologies through process innovation and consistent R&D. 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, and products that are not as harmful to the end-consumer as conventionally produced chemicals. For instance, they manufacture sulphur-free BHA and sulphur-free DCC.

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 FY2020.

### Globally leading supplier of certain chemicals

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, anti-oxidants, 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.

### The revenue from operations contributed by each of their product segments

Particulars	2019		2020		2021	
	Revenue (Rs.Cr)	% of Total	Revenue (Rs.Cr)	% of Total	Revenue (Rs.Cr)	% of Total
Performance Chemicals	249	63%	272	65%	355	69%
Pharmaceutical Intermediates	68	17%	64	15%	83	16%
FMCG Chemicals	61	16%	67	16%	63	12%
Other Products	15	4%	16	4%	12	3%
<b>Total for Revenue from operations</b>	<b>393</b>	<b>100%</b>	<b>419</b>	<b>100%</b>	<b>513</b>	<b>100%</b>

Source: Company RHP, ACMIIL Research

### Strong and long-standing relationships with key customers

Company's customers comprise manufacturers in India and other regulated international markets including China, Canada, Europe, the United States of America, Taiwan, Korea, and Japan. 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. These enduring customer relationships have helped them to expand their product offerings and geographic reach. Their long-term relationships and on-going active engagements with customers also allow them to plan their capital expenditure, enhance their ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base, thereby ensuring a competitive cost structure to achieve sustainable growth and profitability. Some of their customers have been associated with them for over 10 years as of May 31, 2021.

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

Source: Company RHP, ACMIIL Research

### Experienced Promoters and senior management with extensive domain knowledge

CSTL is led by their Promoters comprising the Managing Director Ashok Ramnarayan Boob, the Whole-Time Directors Siddhartha Ashok Sikchi and Krishnakumar Ramnarayan Boob, and the Vice President Parth Ashok Maheshwari, who have a combined experience of over 60 years in the chemical industry. Each of their Promoters is a career-technocrat and is actively involved in the critical aspects of their business, including R&D and plant engineering.

Ashok Ramnarayan Boob is credited with their manufacturing capabilities and projects and has over 25 years of experience in the chemical industry. Siddhartha Ashok Sikchi is responsible for the R&D and marketing efforts and has over 10 years of experience in the specialty chemical industry. Krishnakumar Ramnarayan Boob is responsible for their liaising and purchasing activities. He has over 25 years of experience in the chemical industry. Parth Ashok Maheshwari supports their overall business operations, with over 5 years of experience in the chemical industry. All the 4 Promoters are involved in the day-to-day management of the company.

## Automated manufacturing facilities with strong focus on EHS

CTSL has 2 manufacturing facilities in India with 11 production lines (including 3 lines for catalyst production and regeneration). Their captive solar plants meet part of their power requirements at their facilities, which improves cost efficiencies and results in better utilization of resources. As of March 31, 2021, the direct current capacity of the captive solar power plant was 5.42 MW. They have cumulatively consumed 6.34 million units of electricity from their captive solar power plants in Fiscal 2021. In addition, their eco-friendly production processes have led to limited effluent discharge, making their effluent generation among the lowest in the specialty chemicals industry. As a result, they have not received any material observations from the pollution control board in India with respect to their manufacturing facilities.

## Strong and consistent financial performance

CTSL has established a consistent track record of financial performance and growth. During FY19-21, The company's revenue and profitability has grown at a CAGR of 14% and 43% respectively. Further, during the same period, the company's operating profit has grown at a CAGR of 39% due to optimization of raw material cost. Cost of material consumed represented 26.90% of their revenue from operations in the FY 2021. Moreover, company's operating margin improved from 37.53% in FY18 to 55.54% in FY21. CTSL have a strong balance sheet with a debt-equity ratio of 0.19x as on FY21. Further, as on FY21, company's ROE and ROCE stands at 36.7% and 73.8% respectively.

## Financials Snapshot

Particulars (Rs. Million)	FY19	FY20	FY21
Equity share capital	14	13	106
Net worth	2,721	3,421	5,397
Net asset value per share	26	32	51
Debt to Equity Ratio	0.17	0.23	0.19
Revenue from Operations	3,933	4,193	5,124
EBITDA	1,476	1,962	2,846
EBITDA %	37.53%	46.78%	55.54%
Net Profit	977	1,396	1,984
Diluted EPS (Rs)	9.19	13.15	18.68
ROE	35.90%	40.82%	36.76%
ROCE	50.75%	58.48%	73.89%

Source: Company RHP, ACMIL Research

## Comparison With Listed Peers

Company	Total Income (Rs.Mn)	EPS	NAV	P/E	ROE (%)
Clean Science and Technology Limited	5,380	18.68	51	48.17^	36.76%
Vinati Organics Limited	9,801	26.20	150	26.20	17.45%
Fine Organic Industries Limited	11,503	39.25	239	39.25	16.45%
Atul Limited	38,345	221.17	1,304	221.17	17.11%
Camlin Fine Sciences Limited	11,921	3.68	56	4.13	9.16%
SRF Limited	84,545	205.54	1,167	205.54	17.47%
Navin Flourine International Limited	12,584	51.96	330	52.03	15.76%
PI Industries Limited	47,019	49.89	352	49.92	13.82%

Source: Company RHP, ACMIL Research

All the financial information for listed industry peers mentioned above is on a consolidated basis (unless otherwise available only on standalone basis) and is sourced from the annual reports/ annual results as available of the respective company for the year ended March 31, 2021. P/E Ratio has been computed based on the closing market price of equity shares on NSE on June 11, 2021, divided by the Diluted EPS. ^P/E Ratio has been computed based on the Issue price and FY21 earnings.

## Risk and Concern

1. CTSL operations are dependent on their R&D capabilities and an inability to continue to design catalytic processes may adversely affect their business.
2. None of the company's catalytic processes are patented and their intellectual property may not be adequately protected, which may have a material adverse impact on their business and results of operations.

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Morning Notes	Momentum Calls
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Market Watch	Smart Delivery Calls
Investor First Magazine	Investment Ideas
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Market Pulse	Master Trades Medium Risk
RBI Monetary Policy	Techno-Funda
Union Budget Report	Top Mutual Fund Schemes
Weekly Derivative Synopsis	Portfolio Review
Rollover Snapshot	Stock Basket

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