

## Clean Science & Technology Ltd.

**CLEAN SCIENCE AND TECHNOLOGY LTD. (CSTL)** is a globally focused entirely on developing newer technologies using in-house catalytic. It 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). Within 17 years of incorporation, it has grown to be the largest manufacturer globally of MEHQ, BHA, Anisole and 4-MAP, in terms of installed manufacturing capacities.

**Positives:** (a) Track record of strategic process innovation through consistent R&D initiatives (b) Experienced Promoters and senior management with extensive domain knowledge. (c) Strong and long-standing relationships with key customers (d) Automated manufacturing facilities with proven design and commercialization capabilities and strong focus on EHS. (e) Strong and consistent financial performance in the last three Fiscals.

**Investment concerns:** (a) Operations are dependent on R&D capabilities and an inability to continue to design catalytic processes may adversely affect the business. (b) Intellectual property may not be adequately protected, may have a material adverse impact on the business (c) A significant portion of its revenue is generated from certain key customers. (d) A significant proportion of revenues are derived from sale of MEHQ & any reduction in the demand for MEHQ could have an adverse effect on business.

**Outlook & Valuation:** CSTL's revenue has grown at CAGR of 9.1% over FY19-21 on the back of strong 22% top line growth in FY21 despite the Covid 19 crisis. Moreover the company has posted strong EBITDA and PAT CAGR of 23.6% and 26.3% respectively during the same period. Given strong financial performance, industry leading margins and returns ratios CSTL should be able to command a premium to peers. We believe that the India specialty chemical industry is going to be one of the biggest beneficiaries of shifting of supply chains post the Covid-19 pandemic. Given CSTL's financial performance, industry leading returns ratios and favorable outlook for the industry we recommend "SUBSCRIBE" to the issue.

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	393.3	419.3	512.4
% chg	-	6.6	22.2
<b>Net Profit</b>	97.7	139.6	198.4
% chg	-	43.0	42.1
EBITDA (%)	34.7	44.2	50.5
<b>EPS (Rs)</b>	9.2	13.1	18.7
P/E (x)	97.9	68.5	48.2
P/BV (x)	35.1	27.9	17.7
ROE (%)	35.9	40.8	36.8
ROCE (%)	43.4	48.3	43.3
EV/EBITDA	70.1	51.6	36.9
EV/Sales	24.3	22.8	18.6

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

## SUBSCRIBE

Issue Open: July 07, 2021

Issue Close: July 09, 2021

### Issue Details

Face Value: ₹1

Present Eq. Paid up Capital: ₹10.6 cr

Offer for Sale: 1.71-1.75 cr sh

Fresh issue: 0 cr sh

Post Eq. Paid up Capital: ₹10.6cr

Issue size (amount): ₹1546.6 cr

Price Band: ₹880-900

Lot Size: 16 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹9347 cr - \*\* ₹9559 cr

Promoters holding Pre-Issue: 94.6%

Promoters holding Post-Issue: 78.5%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	78.5%
Others	21.4%

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## Company background

Company was incorporated as 'Sri Distikemi Private Limited' on November 7, 2003 in Pune, Maharashtra. Name changed to 'Clean Science and Technology Private Limited' with fresh certificate of incorporation, dated August 25, 2006. It manufactures functionally critical specialty chemicals such as Performance Chemicals & Pharmaceutical Intermediates. Company has grown to be the largest manufacturer globally of MEHQ, BHA, Anisole and 4-MAP, in terms of installed manufacturing capacities as of March 31, 2021.

## Issue details

The issue comprises of offer for sale of upto ₹1546.63 crore in the price band of ₹880-900.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	100,540,960	94.7	83,356,293	78.5
Public	5,678,000	5.3	22,862,667	21.5
<b>Total</b>	<b>106,218,960</b>	<b>100.0</b>	<b>106,218,960</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- To carry out the Offer for Sale of up to ₹1,546.6 Cr by the Selling Shareholders.
- Achieve the benefits of listing the Equity Shares on the Stock Exchange.

## Key Management Personnel

**Pradeep Ramwilas Rathi**, is the Chairman and Non-Executive Director of our Company. He holds a bachelor's degree in science from University of Poona and master's degree of science in chemical engineering practice from Massachusetts Institute of Technology, USA.

**Ashok Ramnarayan Boob**, is the Managing Director of our Company. He holds a bachelor's degree in chemical engineering from the Institute of Chemical Technology, Mumbai. He has close to 25 years of experience in the chemical industry and has previously worked as an executive director at Mangalam Drugs and Organics Limited.

**Siddhartha Ashok Sikchi**, is a Wholetime Director of our Company. He holds a master's degree in science from the University of Manitoba, Canada and a bachelor's degree in technology from the Institute of Chemical Technology, Mumbai. He has over fourteen years of experience in the chemical industry.

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**Exhibit 1: Consolidated Profit & Loss Statement**

Y/E March (₹ Cr)	FY2019	FY2020	FY2021
<b>Total operating income</b>	393.3	419.3	512.4
% chg	-	6.6	22.2
<b>Total Expenditure</b>	257.0	234.0	253.5
Cost of materials consumed	178.61	127.98	137.86
Changes in inventories	-7.39	1.26	-14.28
Employee benefits expenses	24.86	31.01	43.56
Other expenses	60.88	73.76	86.33
<b>EBITDA</b>	136.3	185.3	259.0
% chg	-	35.9	39.8
(% of Net Sales)	34.7	44.2	50.5
Depreciation & Amortisation	11.0	13.7	17.2
<b>EBIT</b>	125.3	171.6	241.7
% chg	-	37.0	40.9
(% of Net Sales)	31.9	40.9	47.2
Finance costs	0.0	0.1	0.1
Other income	11.3	10.9	25.6
(% of Sales)	2.9	2.6	5.0
<b>Recurring PBT</b>	136.5	182.3	267.3
% chg	-	33.5	46.6
Exceptional item	-	-	-
Tax	38.9	42.7	68.9
<b>PAT (reported)</b>	97.7	139.6	198.4
% chg	-	43.0	42.1
(% of Net Sales)	24.8	33.3	38.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	9.2	13.1	18.7

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ Cr)	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	1.4	1.3	10.6
Other equity (Retained Earning)	270.6	340.8	529.0
<b>Shareholders' Funds</b>	<b>272.1</b>	<b>342.1</b>	<b>539.7</b>
<b>Total Loans</b>	<b>2.6</b>	<b>2.7</b>	<b>0.3</b>
Other liabilities	14.2	10.5	17.9
<b>Total Liabilities</b>	<b>288.8</b>	<b>355.3</b>	<b>557.9</b>
<b>APPLICATION OF FUNDS</b>			
Property, plant and equipment	124.9	162.6	182.6
Capital work-in-progress	3.9	3.4	55.0
Right-of-use asset	1.9	2.7	3.0
Other intangibles assets	0.2	0.3	0.3
<b>Current Assets</b>	<b>192.6</b>	<b>257.0</b>	<b>395.1</b>
Inventories	37.0	34.6	52.9
Investments	75.2	133.0	232.1
Trade receivables	59.8	69.8	74.2
Cash and cash equivalents	9.4	9.2	9.3
Bank balances other than (iii) above	0.0	0.1	6.3
Loans	-	0.2	0.2
Other financial assets	4.4	6.1	9.5
Other current assets	6.7	4.0	10.5
Current Liability	38.6	74.6	102.0
<b>Net Current Assets</b>	<b>153.9</b>	<b>182.5</b>	<b>293.2</b>
Other Non-Current Asset	4.0	3.9	23.9
<b>Total Assets</b>	<b>288.8</b>	<b>355.3</b>	<b>557.9</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹cr)	FY2019	FY2020	FY2021
Operating profit before working capital changes	141.2	189.4	273.7
Net changes in working capital	-20.9	13.1	-14.9
Cash generated from operations	120.3	202.5	258.8
Direct taxes paid (net of refunds)	-35.5	-42.4	-65.9
<b>Net cash flow from operating activities</b>	<b>84.7</b>	<b>160.1</b>	<b>192.8</b>
Bank deposits placed during the year	-0.3	-0.1	-21.4
Sale proceeds from property, plant and equipment	0.1	-	0.4
Others	-94.8	-106.2	-165.8
<b>Cash Flow from Investing</b>	<b>-95.0</b>	<b>-106.3</b>	<b>-186.8</b>
Long-term borrowings (repaid) during the year	-0.4	0.2	0.0
Proceeds of short-term borrowings (net)	2.5	-0.1	-2.4
Interest paid	0.0	-0.1	-0.1
Buyback of equity shares	-	-49.1	-
Tax on buyback of equity shares	-	9.1	-
Transaction costs of increase in share capital	0.0	0.0	-0.1
Other Financing activity	-12.8	-15.3	-3.3
<b>Cash Flow from Financing</b>	<b>-10.8</b>	<b>-55.4</b>	<b>-5.9</b>
Inc./ (Dec.) in Cash	-21.1	-1.6	0.2
<b>Opening Cash balances</b>	<b>29.5</b>	<b>9.4</b>	<b>9.2</b>
<b>Forex Difference</b>	<b>1.0</b>	<b>1.4</b>	<b>0.0</b>
<b>Closing Cash balances</b>	<b>9.4</b>	<b>9.2</b>	<b>9.3</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	97.9	68.5	48.2
P/CEPS	88.0	62.3	44.3
P/BV	35.1	27.9	17.7
EV/Sales	24.3	22.8	18.6
EV/EBITDA	70.1	51.6	36.9
<b>Per Share Data (Rs)</b>			
EPS (Basic)	9.2	13.1	18.7
EPS (fully diluted)	9.2	13.1	18.7
Cash EPS	10.2	14.4	20.3
Book Value	25.6	32.2	50.8
<b>Returns (%)</b>			
ROE	35.9	40.8	36.8
ROCE	43.4	48.3	43.3
<b>Turnover ratios (x)</b>			
Receivables (days)	55.5	60.8	52.9
Inventory (days)	34.4	30.1	37.7
Payables (days)	20.7	31.1	43.4
Working capital cycle (days)	69.1	59.8	47.1

Source: Company, Angel Research

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