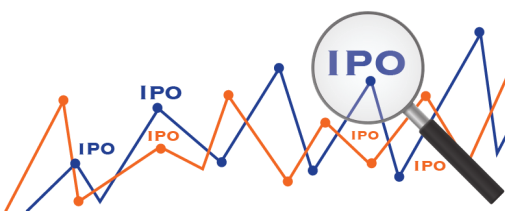




## Clean Science and Technology Limited

Issue Opens	Wednesday, July 07, 2021
Issue Closes	Friday, July 09, 2021
Price Band (in Rs)	880/900
Bid Lot	16 shares and multiples thereafter



**IPO UPDATE**  
**Clean Science and Technology Limited**

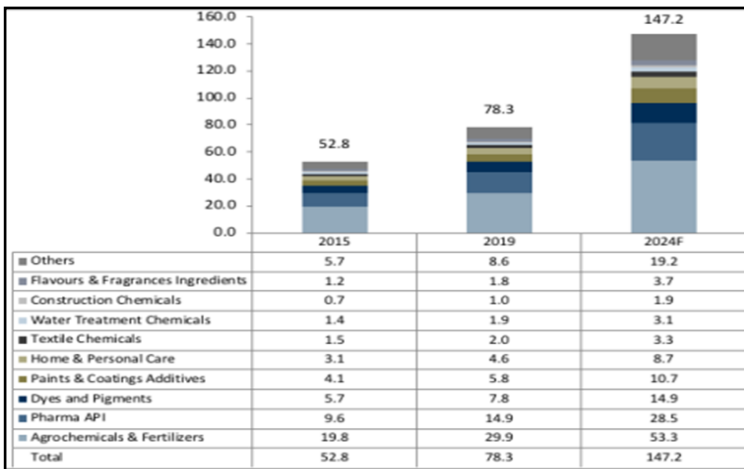
**Industry Overview:** Specialty chemicals are low-volume and high-value products sold on the basis of their quality or utility, rather than composition. They may be used primarily as additives or to provide a specific attribute to the end product.

**India – Racing Ahead of China:** Tightening of environmental norms (e.g. REACH registration, evaluation, authorisation and other chemicals regulations) in developed countries and the slowdown of China is contributing to the growth of exports. In 2018, an estimated 40% of the chemical manufacturing capacity in China was temporarily shutdown for safety inspections, with over 80,000 manufacturing units charged and fined for breaching emission limits. Major indicators for positive impacts on the specialty chemicals segment in India include the success of ‘Make in India’ and governments’ permit for 100% FDI, in terms of competitive manufacturing costs, higher investments in R&D, cheaper raw material availability/transport, strong demand from end-use segments, overall supportive ecosystem, etc. Within the specialty chemicals, manufacturing of fine chemicals (pesticide ingredients as well active pharmaceutical ingredients), flavour ingredients, fragrance ingredients, surfactants and colorants will be the most attractive segments in the next half decade. This is predominantly due to strong growth potential, highly differentiated products folio and high penetration levels. Moreover, India’s specialty chemical companies are gaining traction as global MNC’s are looking to reduce dependence on China.

SNAPSHOT		
Issue Opens	Wednesday, July 07, 2021	
Issue Closes	Friday, July 09, 2021	
Price Band (Rs)	880/900	
Bid Lot	16 shares and multiples thereafter	
Face Value	Rs1	
Listing	BSE & NSE	
Type of Issue	OFS	
Offer Size (Rs Mn)	Fresh Issue	-
	OFS	15,466
	Total	15,466
*Implied Market Cap (Rs Mn)	95,597	
P/E (based on FY21 Earnings)*	48.09	

\*Note: Implied Market Cap & P/E are calculated at upper price band of Rs900

**Exhibit 01: Indian Specialty Chemicals Market, Value (USDbn), 2015, 2019 and 2024E Forecast:**



Source: Company RHP

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
<b>Total</b>	<b>100</b>

Object of the Offer	
• To make an offer for sale of equity shares aggregating to Rs15466.22mn	
• To achieve the share listing benefits on the BSE and NSE	

**Exhibit 02: Chemicals Exports Trend – India vs. China (2015 – 2019 Actuals, 2020 – 2025E), USDbn**



Source: Company RHP



**IPO UPDATE**  
**Clean Science and Technology Limited**

**Industry Overview (contd.)**

**Global Personal Care and Ingredients Market:** Personal care active ingredients are added to enhance the functional properties of a formulation as opposed to active properties. The Global Personal Care market has shown steady growth of 5.8% till FY19 and is expected to grow at 6% between 2019 and 2025. The main drivers are increasing disposable income, a growing middle-class population and other trends such as men’s grooming and increased hygiene awareness. With increasing internet penetration and social media, cosmetics and skin care products are expected to drive the market of personal care products across the globe.

**Sustainable and Clean Products:** The global demand for natural and organic products is estimated to grow from USD14.5bn in 2019 to nearly USD 26bn by 2025 registering a CAGR of over 10% in the coming years. Majority of these products are composed of plant-derived ingredients such as roots, essential oils, herbs and flowers and a few are composed of the animal-derived ingredients such as minerals and bee-wax.

**Evolution of Green Chemistry:** Green chemistry is an emerging focus among manufacturing industries that minimizes pollution at a molecular level. The idea is that companies can adopt new scientific processes to minimize the toll their products take on the environment. Green chemistry applies across the life cycle of a chemical product, including its design, manufacture, use, and ultimate disposal. Companies are actively designing novel concept to reduce emission of hazardous substances. The changes can be as large as changing the entire chemistry or as small as changing catalyst to reduce carbon footprints.

**The Growing Consumption of Green Chemicals:** With an increase in awareness of the ill-effects of certain chemicals on humans and environment, there is a growing trend in the chemicals industry to shift towards what is known as “green chemicals” or more accurately “sustainable chemistry” (environmentally friendly products). These are products which are bio-degradable and which show a significant reduction in environmental impact when applied. Not necessarily all green chemicals would be bio-degradable; there are green products in market which are produced with least effluents, or natural extracts. Such products can be either through reducing energy and water consumption in the process or reducing the chemical and biochemical oxygen demand of the waste generated which reduces treatment costs and is kinder to the environment. The evolution of green chemistry in the chemical industry will be a critical trend fuelling the growth of the green chemicals market. The global green chemicals market is expected to grow by USD45bn by 2025 at a CAGR of 10.5% between 2019 and 2025.

**About the Company:** 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. CSTL manufacture functionally critical specialty and performance chemicals like, mono methyl ether of hydroquinone (MEHQ), butylated hydroxyl anisole (BHA), and L-ascorbyl palmitate (AP); Pharma intermediates like guaiacol and dicyclohexyl carbodimide (DCC) which is also widely used in anti-retroviral drugs, and FMCG Chemicals like 4-methoxy acetophenone (4-MAP) and Anisole.

**Exhibit 03: Diversified product profile serving critical end-user industries**

Product (Global Market Size)	Application	CSTL Ranking	Key Peers
<b>1) Performance chemicals (69.2% revenue for FY2021)</b>			
MEHQ (12,500 MT)	➤ Used as polymerization inhibitor in acrylic acids, acrylic esters, super absorbent polymers (diapers and sanitary pads) ➤ Pre-cursor for agrochemical industry	✓ #1 in World ✓ #1 in India	1. Solvay 2. Camlin Fine Sciences
BHA (9,000 MT)	➤ Used as anti-oxidant in food and feed industry	✓ #1 in World ✓ #1 in India	1. Solvay 2. Camlin Fine Sciences
AP (450 MT)	➤ Used in infant food formulations, breakfast cereals and cosmetics	✓ #2 in World ✓ #2 in India	1. Camlin Fine Sciences 2. Yasho Industries 3. DSM Nutrition Products
<b>2) Pharmaceutical intermediates (16.2% revenue for FY2021)</b>			
Guaiacol (60,000 MT)	➤ Pre-cursor to manufacture APIs for cough syrup (pharma industry) ➤ Key raw material to produce Vanillin	✓ #3 in World ✓ #2 in India	1. Solvay 2. Camlin Fine Sciences
DCC (7,000 MT)	➤ Used as reagent in anti-retroviral	✓ Amongst Largest in World ✓ #1 in India	1. Shandong Huihal Pharma 2. Hongrui Fine Chemicals
<b>3) FMCG chemicals (12.3% revenue for FY2021)</b>			
4-MAP (7,200 MT)	➤ Used in UV blocker in sunscreens (cosmetics industry)	✓ #1 in World ✓ #1 in India	1. Cosmos Nanjing 2. Haining Sino Fine Chemical
Anisole (34,000 MT)	➤ Precursor to perfumes, insect pheromones, pharmaceuticals ➤ Majority of Anisole produced is used for captive consumption by CSTL	✓ #1 in World ✓ #1 in India	1. Atul Ltd. 2. Mithila Rasayan 3. Solvay

Source: Company RHP

Within 17 years of incorporation, CSTL has grown to become the largest manufacturer globally of MEHQ, BHA, Anisole and 4-MAP, in terms of manufacturing capacities.

CSTL’s customers include manufacturers and distributors in India as well as in China, Europe, USA, Taiwan, Korea, Japan etc. Key customers include Bayer AG, SRF Ltd, Gennex Laboratories Ltd, Nutriad International NV and Vinati Organics Ltd. CSTL’s products are used as key starting level materials, as inhibitors, or as additives, by customers, for products sold in regulated markets with 2 certified production facilities strategically located at Kurkumbh (Maharashtra), in close proximity to the JNPT port which helps the exports driven revenue. These manufacturing facilities have an effluent treatment plant equipped with aerobic as well as anaerobic systems to treat the industrial waste water and recycle it for reuse, making both facilities ZLD facilities.



## IPO UPDATE

# Clean Science and Technology Limited

### About the Company (contd.):

In order to meet the growing market demand for their key products and to develop and introduce newer products, the company is already looking at expansion plans. The company has recently set-up a unit at their 3rd manufacturing facility, adjacent to their existing facilities and is proposed to be used to manufacture Anisole and certain Performance Chemicals, including MEHQ. For Facility-IV, they have recently allotted land at Kurkumbh, where they intend to manufacture stabilizer and other intermediates for application in pharmaceutical, flavours and fragrance and agriculture industries.

### Strengths:

- Track record of strategic process innovation through consistent R&D initiatives
- Among the largest global producers of functionally critical specialty chemicals used across various industries and geographies
- Experienced Promoters and senior management with extensive domain knowledge
- Strong and long-standing relationships with key customers
- Automated manufacturing facilities with proven design and commercialization capabilities and strong focus on EHS
- Strong and consistent financial performance (in the last three financial years)

### Strategies:

- Leverage their leadership position in the specialty chemicals industry to capitalize on industry opportunities
- Expand manufacturing capacities of existing products and set up additional capacities for new products
- Continue to strengthen their presence in India and expand the sales and distribution network in international markets
- Leverage their R&D capabilities to further enhance the product portfolio

**Financials:** The company has grown organically through internal accruals and its revenues and profitability have consistently increased, to emerge as one of the most profitable specialty chemical companies globally. Total revenue from operation has grown at a CAGR of 14.15% between FY19-21. In FY19/20/21, the PAT margin was 24.83%, 33.30% and 38.71%, and EBITDA margin was 37.53%, 46.78% and 55.54% respectively. Net cash from operating activities was Rs847.38mn, Rs1,601.03mn and Rs1,928.45mn, respectively. The company has been paying dividends since FY12. It has paid a dividend of 750% for FY19, 900% for FY20 and 20% for FY21. It will follow a prudent dividend policy post listing on the basis of its financial performance and future prospects.

### Risks & Concerns:

- Inability to continue to design catalytic processes may adversely affect the business
- None of their catalytic processes are patented and the intellectual property are not be adequately protected
- The business is dependent on the manufacturing facilities and thus subject to certain risks in the manufacturing processes
- The company typically do not enter into long-term agreements with majority of the customers, and an inability to continue to engage with them would have a material adverse effect on the business
- The company derive a significant portion of their revenues from operations from a limited number of markets and any adverse developments in these markets could adversely affect the business
- Specialty chemicals industry requires significant capital and the company might need additional financing for future growth

**Outlook and Recommendations:** Clean Science is among the few companies on a global level that focuses on developing newer technologies using in-house catalytic processes, which are eco-friendly and cost competitive. This has enabled the company to emerge as the largest manufacturer of certain specialty chemicals in terms of installed manufacturing capacities. The company is essentially involved in designing catalysts and new chemistry with a focus on developing eco-friendly processes by eliminating use of toxic starting materials. The main aim of these existing products and catalyst systems is to improve yields and thus benefit the customers as well. The company derives majority of its revenue from the sale of MEHQ, primarily involved in the manufacturing of acrylic fibers, paints and inks, adhesives and super absorbent polymers which has a good growth potential. Nearly two-third of the company's revenues comes from exports. The firm is in the process of commencing operations of the third facility, while its fourth unit will be set up by 2023-24. Some of the key growth triggers include identifying products and chemistries with high demand in the domestic as well as global markets, expansion of the existing product portfolio, focus on niche and value added products, stickiness to customers while delivering consistent quality products with profitable growth. Vinati Organics, Fine Organic Industries, Camlin Fine Sciences, Atul, SRF, Navin Flourine International, and PI Industries are among its listed peers, although not truly comparable on apple to apple basis. The issue is priced at a P/E of around 48.09 against the industry average of approximately 55.38. **One can consider applying for the IPO from a long term perspective.**

### Exhibit 04: Financials Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	3,933	4,193	5,124
EBITDA	1,363	1,853	2,590
EBITDA Margin %	34.7%	44.2%	50.5%
Net Profit After	977	1,396	1,984
Net Profit Margin	24.8%	33.3%	38.7%
Earning Per Share	9.2	13.2	18.7
RoNW (%)	35.9%	40.8%	36.8%

Source: Company RHP, Progressive Research



**IPO UPDATE**

**Clean Science and Technology Limited**

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