

### Company Overview

Clean Science and Technology Limited (“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 them to emerge as the largest manufacturer of certain specialty chemicals in terms of manufacturing capacities as of March 31, 2021. Some of these technologies have been developed and commercialized for the first time globally. CSTL’s continued focus on product identification, process innovation, catalyst development, significant scale of operations as well as their measures towards strategic backward integration have all contributed to their success as one of the fastest growing and among the most profitable specialty chemical companies globally. 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- Guaiaicol and Dicyclohexyl Carbodimide (“DCC”) which are also widely used in anti-retroviral drugs, and FMCG Chemicals- 4-Methoxy Acetophenone (“4-MAP”) and Anisole.

### Objects of the issue

- ⇒ To make an offer for sale of equity shares aggregating to Rs. 1,5466.22 million.
- ⇒ To achieve the share listing benefits on the BSE and NSE.

### Investment Rationale

#### Consistent R&D initiatives resulting in a track record of strategic process innovation.

CSTL is one of India's leading firms in commercializing the use of environmentally friendly techniques to produce specific specialty chemicals at global scales. They have achieved this position by maximizing use of conventional raw materials, improving atom economy, enhancing yields, lowering effluent discharge, and consequently increasing cost competitiveness. These technologies were developed by CSTL through process innovation and persistent R&D. Various catalysts have been developed in-house through R&D and have helped boost productivity, yields, atom economy, and cost efficiencies across process advancements. 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.

#### Strong long term relationship with key customers

Strong and long-standing ties with many global organisations have come from the company's capacity to meet demand for, and quality of, their products at affordable pricing. They've been able to extend their product options and geographic reach because to these long-term consumer ties. 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.

#### Valuation and Outlook

Clean Science and Technology Ltd. (CSTL) is one of the largest manufacturer of certain specialty chemicals in terms of manufacturing capacities. Moreover, CSTL’s continued focus on product identification, process innovation, catalyst development, significant scale of operations as well as their measures towards strategic backward integration make it a good long term investment offer. On the valuation front, at the upper price band, the company is valued at 48.2x P/E considering the diluted equity shares which is at a discount compared to the industry average of 55.38 and Vinati Organics, Fine Organics, Camlin Fine, SRF Ltd., Navin Fluorine and PI Ind, its listed peers that are currently trading at a P/E of 77.4x, 78.5x, 290.5x, 48x, 74.6x and 63.9x. Considering these factors we give a “SUBSCRIBE” rating on this issue for the long term.

### Issue Details

Offer Period	7th July to 9th July 2021
Price Band	INR.880 to INR.900
Bid Lot	16
Listing	BSE&NSE
Issue Size (no. of shares in mn)	17.18
Issue Size (INR. in bn)	15.46
Face Value	1

### Issue Structure

QIB	50%
Retail	15%
HNI	35%

BRLM	Axis Capital, JM Financial, Kotak Mahindra Capital ,:
Registrar	Link Intime India Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	94.66	78.51
Public	5.35	21.49
<b>Total</b>	<b>100</b>	<b>100</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



## Income Statement (In mn)

Particulars	FY19	FY20	FY21
<b>Revenue</b>			
Revenue from operations	3,933	4,193	5,124
<b>Total revenue</b>	<b>3,933</b>	<b>4,193</b>	<b>5,124</b>
<b>Expenses</b>			
Raw Materials Consumed	1,786	1,280	1,379
Changes in inventories of finished goods and work in progress	(74)	13	(143)
Purchase of Stock in Trade	-	-	-
Excise Duty	-	-	-
Employee benefit expenses	249	310	436
Other expenses	609	738	863
<b>Total Operating expenses</b>	<b>2,570</b>	<b>2,340</b>	<b>2,535</b>
<b>EBITDA</b>	<b>1,363</b>	<b>1,853</b>	<b>2,590</b>
Depreciation and amortisation expense	110	137	172
Other income	113	109	256
<b>EBIT</b>	<b>1,366</b>	<b>1,824</b>	<b>2,674</b>
Finance costs	0	1	1
Share in Profit/(Loss) of Joint Ventures	-	-	-
<b>PBT</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>
Current tax	351	461	618
Deferred Tax charge	38	(34)	72
<b>Total tax</b>	<b>389</b>	<b>427</b>	<b>689</b>
<b>PAT</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>
<b>Diluted EPS</b>	<b>9.2</b>	<b>13.2</b>	<b>18.7</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash Flow from operating activities	847	1,601	1,928
Cash flow from investing activities	(950)	(1,063)	(1,868)
Cash flow from financing activities	(108)	(554)	(59)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(211)</b>	<b>(16)</b>	<b>2</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>305</b>	<b>108</b>	<b>92</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>94</b>	<b>92</b>	<b>93</b>

Source: RHP, BP Equities Research



## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
<b>Liabilities</b>			
Share Capital	14	13	106
Other Equity	2,706	3,408	5,290
Non-Controlling Interest	-	-	-
<b>Net worth</b>	<b>2,721</b>	<b>3,421</b>	<b>5,397</b>
Long-Term Borrowings	1	3	3
Long-Term Provisions	3	3	4
Other Non Current Liabilities			
<b>Total Non Current Liabilities</b>	<b>4</b>	<b>6</b>	<b>7</b>
Trade payables	223	357	610
current tax liability	-	30	-
Deferred Tax Liabilities	139	102	176
Borrowings	25	24	-
Other Financial Liabilities	109	184	278
Lease Liabilities	-	-	-
Other current liabilities	53	173	131
Short Term Provisions	1	1	2
<b>Total Current Liabilities</b>	<b>550</b>	<b>872</b>	<b>1,195</b>
<b>Total liabilities</b>	<b>3,275</b>	<b>4,299</b>	<b>6,599</b>
<b>Assets</b>			
Tangible Assets	1,249	1,626	1,826
Right of Use Assets	19	27	30
Capital work in Progress	39	34	550
Good will	-	-	-
Intangible Assets	2	3	3
Equity Accounted Investment	10	12	21
Other Financial Assets	3	4	155
Income tax assets (net)	4	3	14
Other non-current assets	23	20	49
<b>Total Non current assets</b>	<b>1,349</b>	<b>1,729</b>	<b>2,648</b>
Investment	752	1,330	2321
Trade Receivables	598	698	742
Cash and Bank Balances	94	92	93
Other current assets	67	40	105
Bank Balances	0	1	63
Other Financial Assets	44	63	97
Inventories	370	346	529
<b>Total Current Asset</b>	<b>1,926</b>	<b>2,570</b>	<b>3,951</b>
Net Current Assets	1,376	1,698	2,756
<b>Total Assets</b>	<b>3,275</b>	<b>4,299</b>	<b>6,599</b>

Source: RHP, BP Equities Research

### Key Risks

- ⇒ Clean Science and Technology Limited ("CSTL") business operations are dependent on their R&D capabilities and an inability to continue to design catalytic processes may adversely affect their business.
- ⇒ All the manufacturing facilities are located in close proximity to each other in a particular region and any adverse development affecting such region may have an adverse effect on the business, prospects, financial condition and results of operation.
- ⇒ The company depends on the success of the relationships with their customers. In FY21 47.90% of total revenues were derived from the top 10 customers. Loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for products could adversely affect the company's business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

**General Disclaimer**

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001  
BP Wealth Management Pvt. Ltd.  
CIN No: U67190MH2005PTC154591  
BP Equities Pvt. Ltd.  
CIN No: U67120MH1997PTC107392