

All you need to know about CLEAN SCIENCE & TECHNOLOGY LIMITED IPO

IPO



Face Value: **INR 1**
Issue Size: **INR 1546.6 Cr**
Bid Lot: **16 Equity Shares**
Issue Type: **100% Book Building**
Post money market cap of ₹9,559 crores-at upper price band.

Price Band:
**INR 880 –
INR 900**

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Issue Opens: 7th July 2021; Issue Closes: 9th July 2021

Shareholding (%)	Pre IPO	Post IPO
Promoter & Promoter Group	94.65	78.51
Public	5.35	21.49

*Source: RHP

Company Leadership	
Ashok Ramnarayan Boob	Managing Director and Promoter
Pradeep Ramwilas Rathi	Chairman and Non-Executive Director
Pratik Abhaykumar Bora	CFO

Share Reservation	Net issue (%)
QIB	50
NII	15
Retail	35

Issue Managers	
BRLMs	JM Financials Ltd., Kotak Mahindra Capital Company and Axis Capital Limited
Registrar	Link Intime India Pvt. Ltd.

Company Overview:

Clean Science and Technology Limited manufactures functionally critical specialty chemicals such as Performance Chemicals, Pharmaceutical Intermediates, and FMCG Chemicals. The company was incorporated in 2003, and within 17 years of incorporation the 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. The company is among the few companies globally which is focused entirely on developing newer technologies using in-house catalytic processes that are eco-friendly and cost competitive. This has enabled the company to emerge as the largest manufacturer globally of certain specialty 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.

This document summarizes a few key points related to the issue and should not be treated as a comprehensive summary. Investors are requested to refer the Red Herring Prospectus for further details regarding the issue, the issuer company and the risk factors before taking any investment decision. Please note that investment in securities is subject to risks including loss of principal amount and past performance is not indicative of future performance. Nothing herein constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. This document is not intended to be an advertisement and does not constitute an invitation or form any part of any issue for sale or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever.

Objects of the Offer

The offer is fully comprised of an offer for sale of shares aggregating up to INR 1546.62 crores at the upper price band. The proceeds would go directly to such selling shareholders. The objective of offer is to provide the company with the benefits of listing on the exchanges.

Consistent Track Record of Financial Performance

Clean Science and Technology Limited's revenue from operations have grown at a CAGR of 14.15% from INR 3,932.70 mn in FY19 to INR 5,124.28mn in FY21. EBITDA margin has grown substantially from 37.53% in FY19 to 55.54% on FY21 during the pandemic. The company has delivered excellent return ratios i.e. ROE of 35.90%, 40.82% and 36.76% during fiscal years of 2019, 2020 and 2021, respectively, while ROCE during the same period was 50.75%, 58.48% and 73.89%, respectively.

(₹ in million)	FY19	FY20	FY21
Revenue from Operations	3,932.70	4,193.00	5,124.28
EBITDA	1,476.02	1,961.51	2,845.97
EBITDA Margin (%)	37.53	46.78	55.54%
PAT	976.58	1,396.31	1,983.8
PAT Margin (%)	24.83	33.30	38.71
EPS	9.19	13.15	18.68
ROCE (%)	50.75	58.48	73.89
ROE (%)	35.90	40.82	36.76
Net Debt to Equity (x)	0.17	0.23	0.19



Competitive Strengths

Strategic process innovation through consistent R&D Initiatives:

Clean Science and Technology Limited is among the leading companies in India to have commercialized use of environment-friendly processes to manufacture certain specialty chemicals. This was possible by optimizing the use of conventional raw materials, improving atom economy, enhancing yields, reducing effluent discharge, and consequently increasing cost competitiveness. This process at such a large scale is difficult to replicate and creates a significant barrier for new entrants.

One of the largest producers globally of certain critical specialty chemicals used across industries:

Clean Science and Technology Limited is amongst the largest producer of certain specialty chemicals in terms of manufacturing capacities as of FY21. The company's 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, flavors and fragrance, food and animal nutrition, and personal care products.

Strong and long-term relationships with key customers:

The company's ability to meet the demand along with quality at competitive prices has resulted strong and long-standing relationship with various multinational corporations. Revenue generated from the top 10 customers represented 47.9% of the revenue from operations as of FY21. The company's long-term relationships and ongoing active engagements with customers also allow them to plan their capital expenditure, enhance the company's ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base.

Automated manufacturing capabilities with dedicated product lines:

Clean Science and Technology Limited has two manufacturing facilities in India with 11 production lines which has a combined installed capacity of 29,900 MTPA as of 31st March 2021. The company has dedicated production lines for their key products, which helps in limit losses and capacity reductions that are typically incurred during transitioning between products.



Strategies Going Forward



Capitalize on Industry Opportunities

The tightening of the environmental norms in China have resulted in closure and relocation of manufacturing facilities along with rising labour cost. This will enable India to significantly strengthen its position in the global supply chain and position itself as a viable alternative for global players seeking a de-risked supply chain while retaining sourcing costs. Clean Science and Technology Limited is well positioned to capitalize on these opportunities in the specialty chemicals segment due to its lower cost of production in India as compared to imports from China.

Leveraging R&D capabilities and enhancing product portfolio

Clean Science and Technology Limited intends to continue focus on specialty chemicals that find applications in high-growth industries and leverage their deep understanding of complex chemistries to create an alternate supply chain for their customers using cleaner technologies and cost-effective processes. The company is in process of expanding their R&D infrastructure by setting-up an additional R&D unit at Facility III at Kurkumbh (Maharashtra), where it proposes to install R&D equipment for synthesizing new products and certain catalysts under development. To expand their product portfolio, the company intends to focus on identifying products with high demand than can be produced by limited manufacturers.

Expand their sales and distribution network in international markets

Clean Science and Technology Limited intends to expand globally in order to serve the existing direct end-use customers and distributors, as well as to secure new direct end-use customers and distributors and expand the reach of their products to new markets. The company intends to achieve this by having dedicated teams whose primary focus will be on exports in international markets and in certain focus geographies, such as Europe, China and Americas. The management's focus will be on increasing the number of stock points they have globally and strengthen their sales team in India to ensure that the company is able to deliver products in a timely manner.

Expand and set up new manufacturing capacities for existing and new products

To cater to the growing demand of the company's existing customers and to meet requirements of the new customers, Clean Science and Technology Limited is in the process of expanding the manufacturing capacities for some of their existing products. The company intends to add manufacturing capacities for certain new products that will be a part of their stabilizer/ additive product portfolio for application in paints and coatings, pharmaceutical, flavours and fragrance, and agriculture industries.

Management

Pradeep Ramwilas Rathi (Chairman and Non-Executive Director):

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. He also holds a master's degree in business administration from Columbia University, USA. He has close to 25 years of experience in the chemical industry and is currently a director of Sudarshan Chemical Industries Limited.

Ashok Ramnarayan Boob (Managing Director):

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.

Pratik Abhaykumar Bora (Chief Financial Officer):

He holds a bachelor's degree in engineering (computer science and engineering) from Dr. Babasaheb Ambedkar Marathwada University, Aurangabad and a master's degree in business administration (capital markets) from Narsee Monjee Institute of Management Studies, Mumbai. He has also cleared the Chartered Financial Analyst Level 2 (USA) examination. He joined the company in January 2020 and was promoted as the CFO in February 2021.



Recommendation & Valuation

At a higher price band of Rs. 900 the company is demanding a PE multiple of 48.18x on FY21 earnings, which is lower than the industry average of ~55.38x. Considering the future growth potential of the specialty chemical industry, strong return ratios (FY21 ROE & ROCE at 36.76% & 73.89%, respectively), strong R&D capabilities and long-term relationships with the multinational companies, we recommend 'Subscribe' to the issue with long term perspective.

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RISKS

1. Operations are dependent on R&D capabilities and their inability to continue to design catalytic processes may adversely affect their business.
2. None of catalytic processes are patented and the intellectual property may not be adequately protected.
3. Significant portion of their revenue comes from certain key customers and loss of one or more of such customers can have an adverse impact on their operations.
4. No long-term agreement with majority of the customers and raw material suppliers.
5. Sale of MEHQ is a significant proportion of their revenue and accounted for 48.08% in FY21. Any reduction in the demand for MEHQ would have an adverse effect on the company's business.
6. Delay or inability in obtaining, renewing or maintaining of the necessary statutory and regulatory permits, licenses and approvals required to operate the business would have an adverse effect on the results of their operations.

*For complete list of risk factors referring to the Red Herring Prospectus.

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