# IPO Flash

July 05, 2021

## Index

| IPO Details: | |
|---|---|
| Issue opens | Wednesday, July 7, 2021 |
| Issue closes | Friday, July 9, 2021 |
| Issue size | up to Rs. 1,546.62 crore |
| Issue details | Offer for sale of equity shares aggregating up-to Rs. 1,546.62 |
| Face Value | Re. 1 per share |
| Price Band | Rs. 880-900 per share |
| Bid Lot | 16 shares and in multiples there-of |
| **Issue Structure** | |
| QIB portion | Not more than 50% of the issue size |
| Non-Institutional portion | Not less than 15% of the issue size |
| Retail portion | Not less than 35% of the issue size |
| BRLMs | Axis Capital, JM Financial, Kotak Investment Banking, Link Intime |

*Source: Company RHP, Note: The Company and selling shareholders in consultation with BRLM might offer 60% of QIB portion to anchor investors on a discretionary basis*

**Shareholding pattern**

| Shareholder | Pre-issue | | Post-issue* | | Post-issue^ | |
|---|---|---|---|---|---|---|
| | No of shares | Holding (%) | No of shares | Holding (%) | No of shares | Holding (%) |
| Promoters & its Group | 10,05,40,960 | 94.7% | 8,29,65,733 | 78.1% | 8,33,56,293 | 78.5% |
| Public & employee trust | 56,78,000 | 5.3% | 2,32,53,227 | 21.9% | 2,28,62,667 | 21.5% |
| Total | 10,62,18,960 | 100% | 10,62,18,960 | 100% | 10,62,18,960 | 100% |

*Source: Company RHP, *Lower Price band ^Upper price band*

## Fundamentals of company

### Company Background (Source: As per company RHP)

Clean Science and Technology Limited (CSTL) was incorporated as 'Sri Distikemi Private Limited' on November 7, 2003 in Pune, Maharashtra as a private limited company. They manufacture functionally critical specialty chemicals such as Performance Chemicals, Pharmaceutical Intermediates and FMCG Chemicals. The company's products are used as polymerisation 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 company was established on 'green' or eco-friendly manufacturing processes led by differentiated catalytic technologies.

### Key products:

CSTL's product portfolio comprises of a range of specialty chemicals, including polymerization inhibitor products such as MEHQ, pre-cursors for pharmaceutical products such as Guaiacol, food and feed grade antioxidants such as BHA and Ascorbyl Palmitate, products with UV blocker properties such as 4-MAP, and anti-retroviral reagents such as DCC. In addition, while they manufacture Anisole largely for captive consumption, they also supply it as a key starting material for agrochemicals, flavours and fragrance products.

**CSTL's key products, their applications, and the industries**

| Product | Application | Industry |
|---|---|---|
| MEHQ | Polymerisation inhibitor in the manufacturing of various monomers such as acrylics, methacrylics and other acrylates vinyl acetate monomers, along with unsaturated polyesters. Also used as a stabiliser for cosmetics, liquid detergents, and cellulose materials. | Acrylic fibers, inks, agro-chemicals, cosmetics, topical drugs. |
| Guaiacol | Pre-curser for vanillin production, and in the synthesis of pharmaceuticals. Majorly used as a reducing co-substance for COX reactions, as an expectorant and anti-septics. | Pharmaceuticals, flavours and fragrances, and agriculture. |
| BHA | Used as a synthetic anti-oxidant | Food packaging, animal feed, rubber, cosmetics and petroleum products. |
| 4-MAP | Spice, medicine and make-up intermediate, ingredient for UV filters, cigarette additive and flavouring in food | Personal care (cosmetics), flavours and fragrance industry |
| DCC | Powerful dehydrating agent commonly used for the preparation of amides, esters, and anhydrides. Also used as a reagent in anti-retroviral drugs | Pharmaceuticals |
| Ascorbyl Palmitate | Anti-oxidant properties for anti-aging products | Personal care, topical drugs in dermatology to prevent hyperpigmentation and photo aging |
| Anisole | Precursor to perfumes, insect pheromones, and pharmaceuticals | Cosmetics, pharmaceutical and agrochemicals |

*Source: Company RHP*

**CSTL is among the largest producers globally of certain specialty chemicals in terms of manufacturing capacities as of March 31, 2021**

| Product | Global Market Size (Volume) in MT | Company Global Position | Company India Position |
|---|---|---|---|
| MEHQ | 12,500 | Largest in World | Largest in World |
| BHA | 9000 | Largest in World | Largest in World |
| Guaiacol | 60,000 | Third Largest in World | Second Largest in World |
| Anisole | 34,000 | Largest in World | Largest in World |
| 4-MAP | 7,200 | Largest in World | Largest in World |
| DCC | 7,000 | Amongst Largest in World | Largest in World |
| L-Ascorbyl Palmitate | 450 | Second Largest in World | Second Largest in World |

*Source: Company RHP*

**Revenue from operations contributed by each of product segments**

| Products | FY2019 | | FY2020 | | FY2021 | |
|---|---|---|---|---|---|---|
| | Revenue from Operations (Rs Cr.) | As % of Total Income | Revenue from Operations (Rs Cr.) | As % of Total Income | Revenue from Operations (Rs Cr.) | As % of Total Income |
| 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 | 6 | 2% | 6 | 1% | 6 | 1% |
| Other Operating Revenue | 8 | 2% | 10 | 2% | 5 | 1% |
| Total | 393 | 100% | 419 | 100% | 512 | 100% |

*Source: Company RHP*

## Management details (Source: As per company RHP)

### Brief Profiles of Directors

**Pradeep Ramwilas Rathi** is the Chairman and Non-Executive Director. He holds a Bachelor's degree in science from University of Pune and Master's degree of science in chemical engineering practice from Massachusetts Institute of Technology, US. He also holds a master's degree in business administration from Columbia University, US. He has close to 25 years of experience in the chemical industry and is currently a director of Sudarshan Chemical Industries Limited, Pune, India.

**Ashok Ramnarayan Boob** is the 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.

**Siddhartha Ashok Sikchi** is a Wholetime Director. 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.

**Krishnakumar Ramnarayan Boob** is a Wholetime Director. He holds a Bachelor's degree in pharmacy from the University of Mumbai. He has close to two decades of experience in the chemical industry and has previously worked as a director at Mangalam Drugs and Organics Limited.

**Sanjay Kothari** is a Non-Executive Director. He holds a bachelor's degree in commerce from University of Calcutta. He is a member of the ICAI and ICSI. He has been awarded a certificate of merit from Institute of Cost and Works Accountants of India. He has previously been associated with Industrial Meters Limited, Ajanta Auto Industries Private Limited, Akar Tools Limited and Hindustan Wires Limited. He is currently a director of Anantroop Financial Advisory Services Private Limited, among others.

**Ganapati Dadasaheb Yadav** is a non-executive, independent director. He holds a Bachelor's degree in chemical engineering from University of Bombay. He also holds a doctorate in philosophy (technology) from Mumbai University, a doctorate of science (Honoris Causa) from D.Y. Patil University, Kolhapur and a Doctorate in Engineering (Honoris Causa) from the National Institute of Technology Agartala. He was also awarded the civilian honour of Padma Shri by the Government of India in 2016.

**Keval Navinchandra Doshi** is a Non-Executive, Independent Director. He holds a Bachelor's degree in commerce from University of Bombay. He is a chartered accountant. He was a Partner at Ernst & Young LLP in the past.

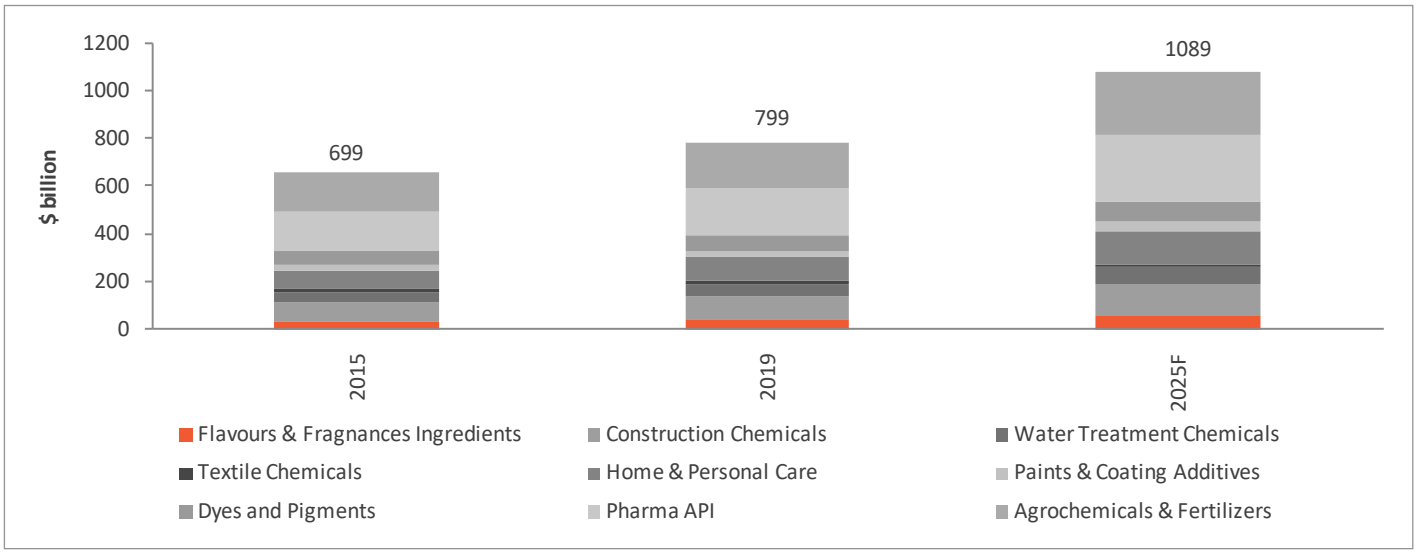
**Madhu Dubhashi** is a non-executive, independent director. She holds a post graduate diploma in business administration from the Indian Institute of Management, Ahmedabad. She has been associated with Global Data Services of India Limited in the past.

## Industry overview

### Global speciality chemical industry

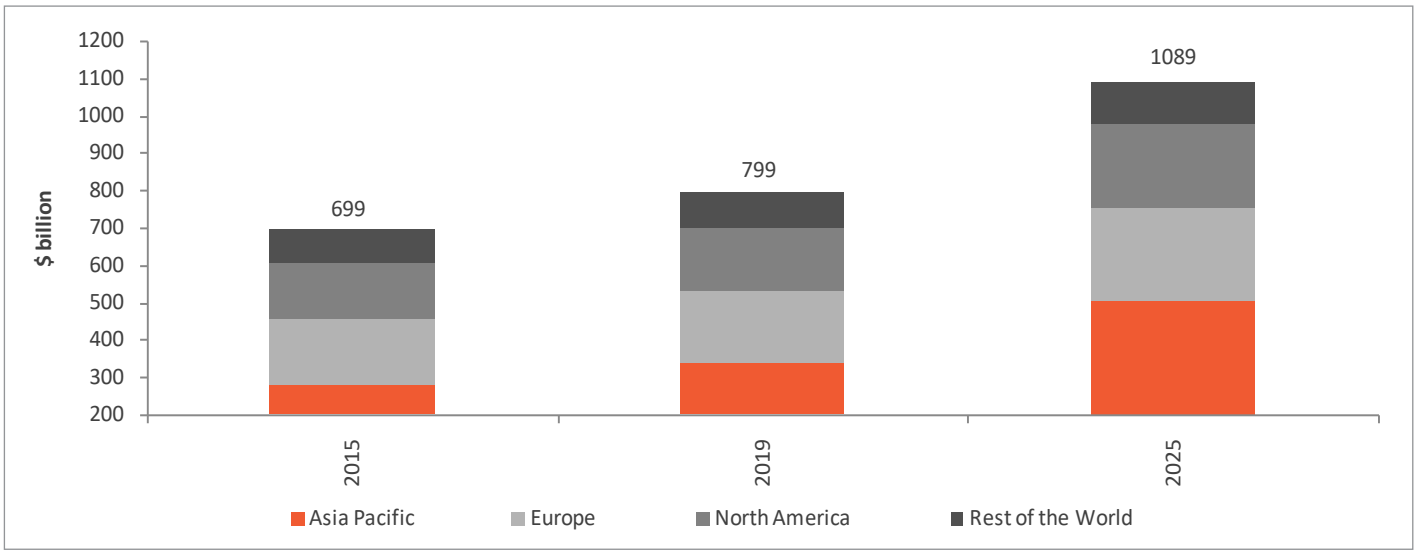
Specialty chemicals are low-volume and high-value products which are sold based on their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end-product. Specialty chemicals are more likely to be prepared and processed in batches. The focus is on value addition to the end-product and the properties or technical specifications of the chemical.

**Global specialty chemical market value in $billion - Industries & Applications**




*Source: Company RHP*

**Global specialty chemical market (geography-wise in $billion)**




*Source: Company RHP*

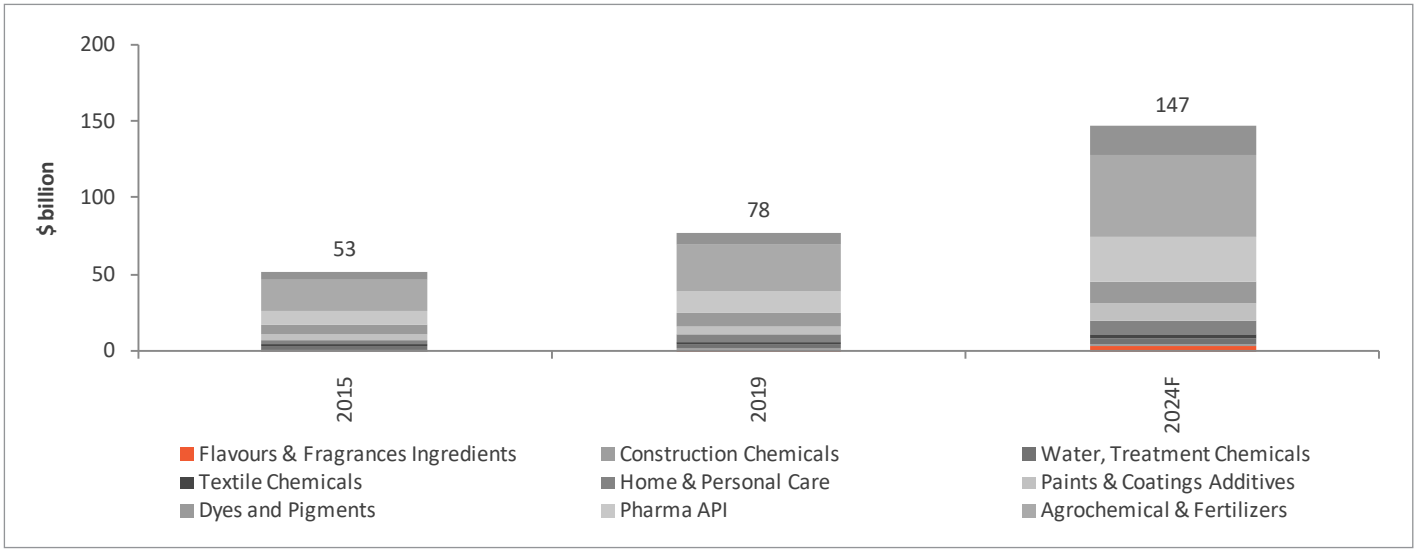
## Green chemicals

With an increase in awareness of the ill-effects of certain chemicals on humans and the environment, there is a growing trend in the chemicals industry to shift towards “green chemicals” or more accurately “sustainable chemistry” (environment-friendly products). These are products which are bio-degradable and the environmental impact is significantly lower when they are used. Not necessarily all green chemicals would be bio-degradable; there are green products which are produced with least effluents, or natural extracts. Such products can be either by 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 $45 billion by 2025 at a CAGR of 10.5% between 2019 and 2025.

## Indian speciality chemical market

Indian chemical industry generally showcases agrochemicals & fertilisers and pharma API outside of Specialty chemicals. Agrochemical & Fertilizer and Pharma API contribute to more than 55% of the specialty chemical space in India.

**Indian specialty chemicals market value ($billion)**

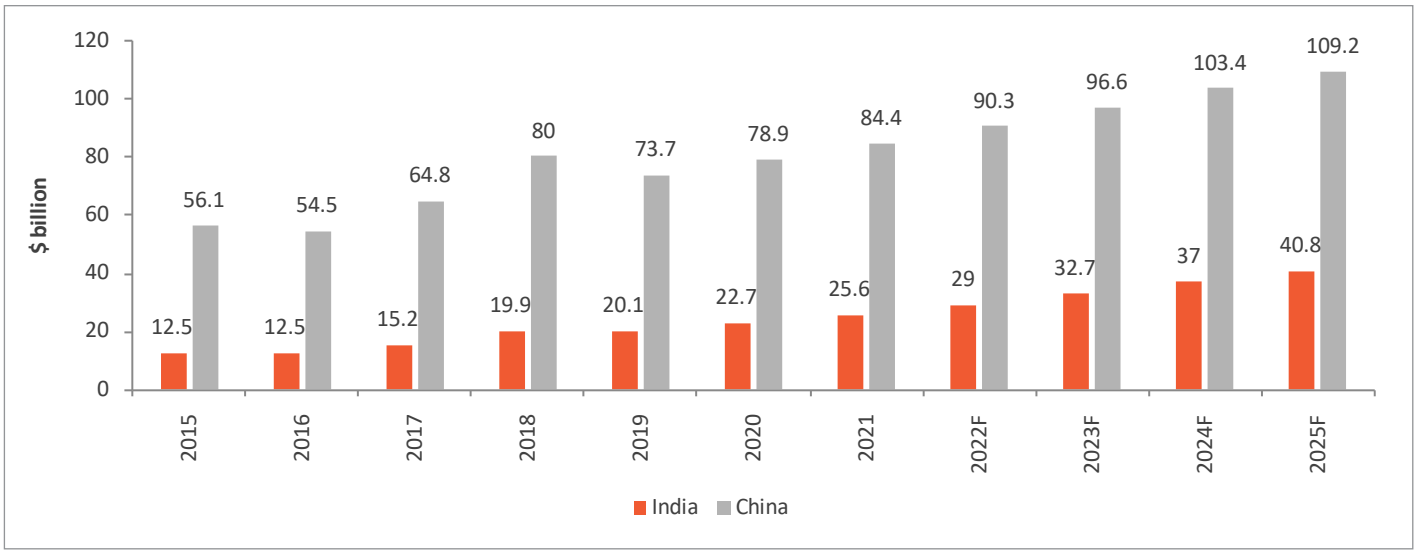



*Source: Company RHP*

Exports are on the rise as India is becoming a central manufacturing hub for specialty chemicals. Tightening of environmental norms in developed countries and the slowdown of China are contributing to the growth of exports.

Moreover, India's specialty chemical companies are gaining favour with global multinational corporations because of the geopolitical shift after the COVID-19 outbreak as the world looks to reduce its dependence on China.

**Chemical export trend – India versus China**




*Source: Company RHP*

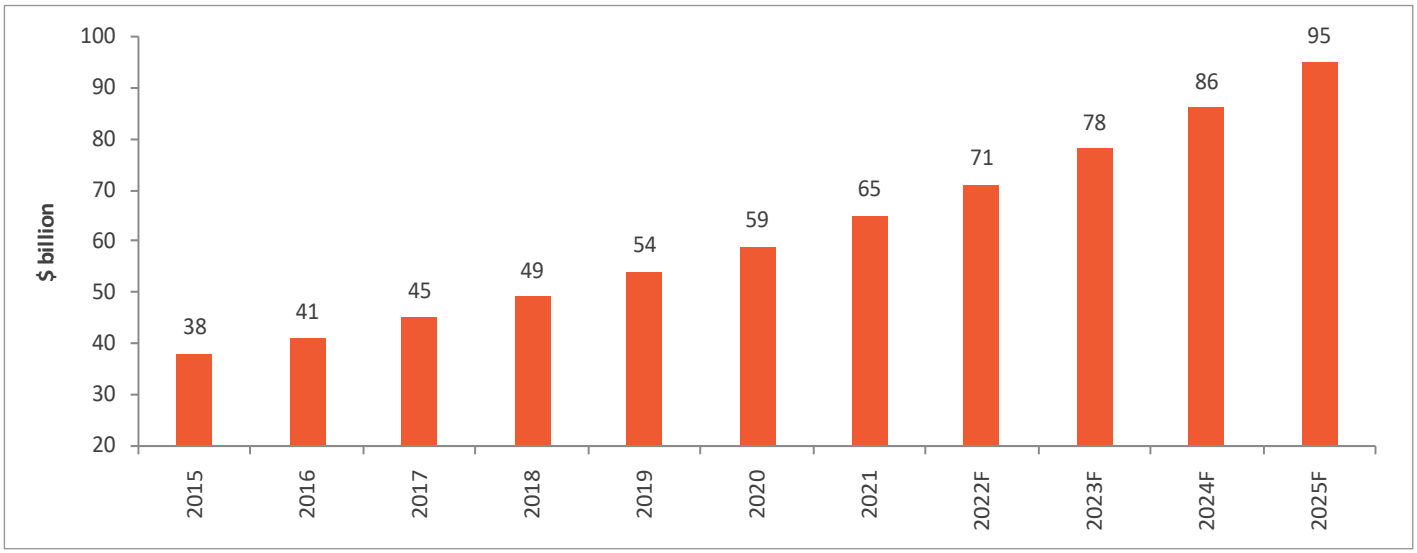
## Global pharmaceutical market

The Global pharmaceutical market was valued at ~$1.3 trillion in 2019 with a steady growth rate of 4% CAGR since 2015. It is expected to grow at 4.5% over 2019 to 2025. The global active pharmaceutical ingredient (API) market has shown steady growth of 5.8% since 2015 and is expected to further grow at 6.2% due to an increased focus on developing geographies.

The Indian Pharmaceuticals market was valued at $54 billion in 2019, contributing to around 4% of the global market. The Indian market is expected to clock a CAGR of ~10% between 2019 and 2025, fuelled by a substantial increase in Indian API domestic consumption. In addition, the government is also taking

various initiatives to boost the industry, such as allocating land in different states to develop API Mega Parks, increasing investment in R&D, etc.

**Indian KSM & API Industry size ($billion)**



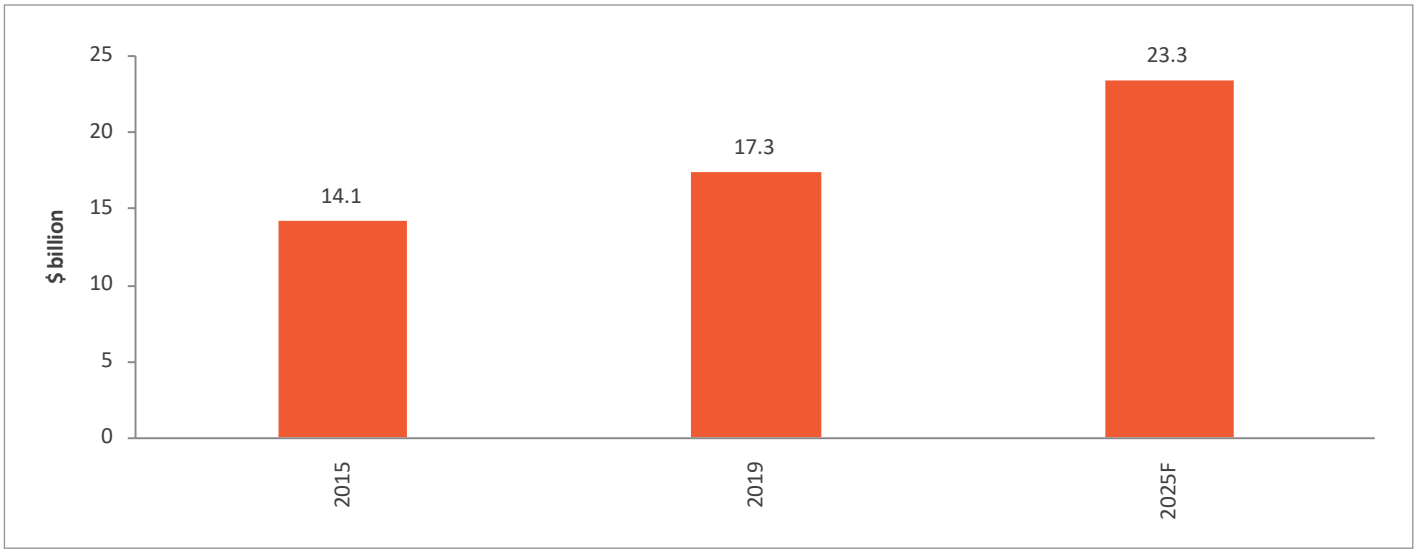

*Source: Company RHP*

## Global animal feed market

Increase in cattle farming is likely to result in an increased animal feed demand. Increasing consumer awareness of the benefits associated with the use of feed additives has supported the need of the market. On the other hand, the increasing popularity of meat & meat related products and rising health problems in animals will promote new opportunities for animal feed.

Antioxidants (part of others) are mainly used in animal feed industry for providing protection of essential nutrients such as vitamins, fats, and pigments from deterioration. Furthermore, these ingredients are capable of extending the storage period as well as the durability of animal feed. BHA is widely used in animal feed industry as it can stabilise a free radical by sequestering it, thus avoiding subsequent free radical reactions. BHT is used in conjunction with the BHA for greater efficiency since it is not as thermally stable as the BHA.

**Global Animal Feed Ingredients Market Size ($ billion)**

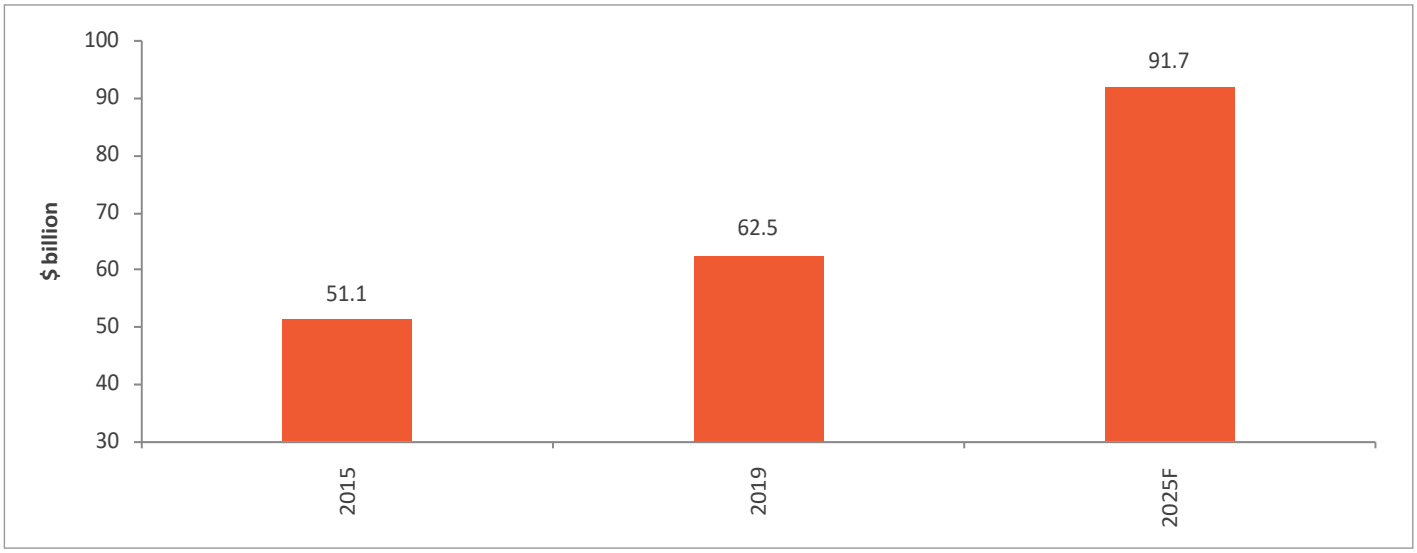



*Source: Company RHP*

## Global agrochemical market

The global agrochemicals market was valued at USD 62.5 billion in 2019 and is forecasted to reach USD $92 billion by 2025 clocking a CAGR of 6.6%. Rising global population and growing affluence, is seeing a shift in consumption patterns.

**Global agrochemicals market size (in $billion)**




*Source: Company RHP*

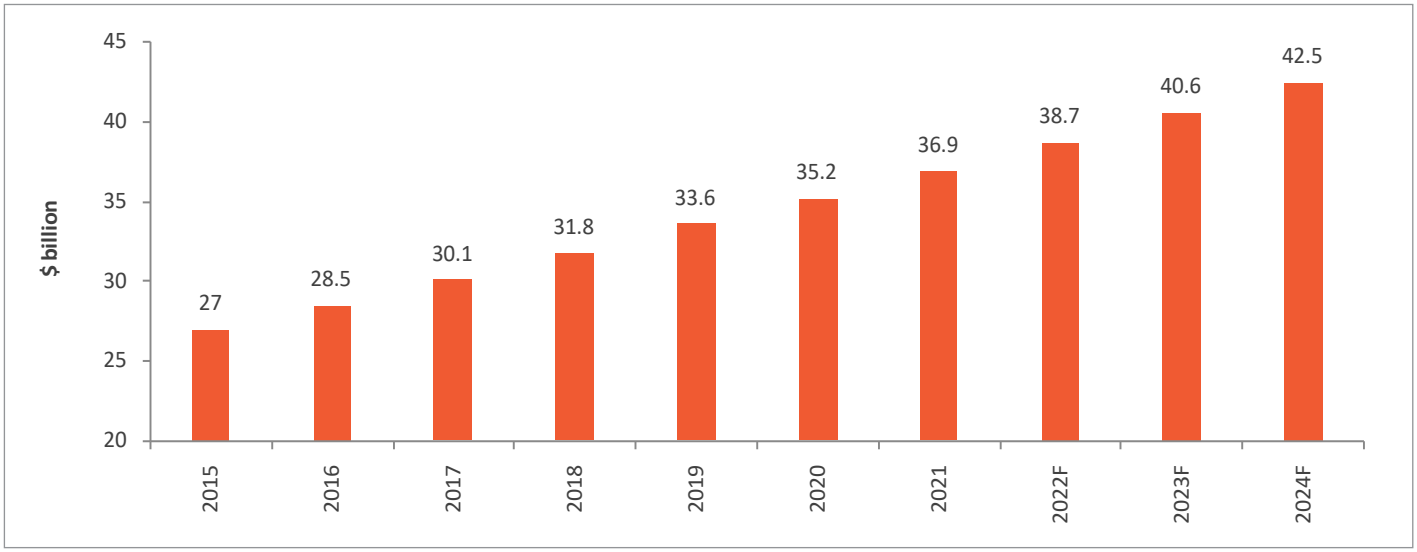
India was world's third largest pesticide exporter by volume in 2018. China leads the exports of pesticides with 27% market share in the world exports followed by Germany (8.3%), India (8%), US, Belgium, France.

The agrochemical technical manufacturing in India is strongly driven by export led demand and contract manufacturing. India is looked upon for its sizeable skilled labour force, its R&D capabilities and its rapidly developing infrastructure.

## Global Flavours & Fragrances Market

The flavour and fragrance industry is a $31-billion global market. The market is expected to grow at a CAGR of 4.8% between 2019 and 2025. Historically the market has grown at 5.6% from $25.6 billion in 2014 to $ 33.6 billion in 2019. The Indian flavour & fragrance industry was valued at $0.95 billion in 2019. The market is expected to grow at a CAGR of 10.2% between 2019 and 2025.

**Global Flavours & Fragrances Market ($billion)**

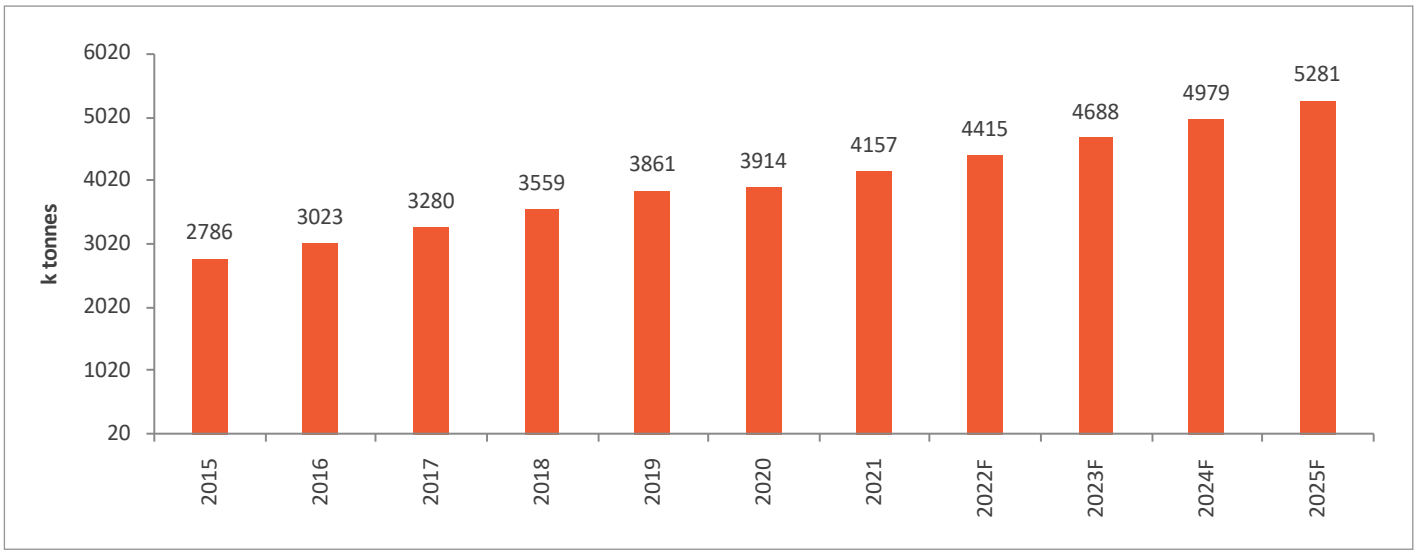



*Source: Company RHP*

### Global SAP market

The global demand for superabsorbent polymers (SAP) in 2019 was about 3,861 kilotonnes and the demand is expected to grow at a CAGR of 6.2% between 2019 and 2025 on a volume basis. Strong demand from the baby diaper segment is projected to stoke the overall growth. In addition, surging demand for adult incontinence and female hygiene products owing to increasing awareness about hygiene is poised to further drive product demand.

**Global SAP Market ('000 MT)**




*Source: Company RHP*

## Investment Rationale:

### Strengths

**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 optimising use of conventional raw materials, improving atom economy, enhancing yields, reducing effluent discharge, and consequently increasing cost competitiveness. Based on the technical expertise they have developed over the years, they are able to carry out these processes at global scale capacities, which they believe is difficult to replicate and create significant barriers for new entrants. They have developed these technologies through process innovation and consistent R&D. By employing "clean-technologies", the company distinguishes its 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.

**Among the largest producers globally of functionally critical specialty chemicals used across various industries and geographies resulting in a de-risked business model**

The company's specialty chemicals have a wide range of applications and the key raw materials for the same are abundantly available resulting in a significantly de-risked business model. The company's products are used as polymerisation 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 & inks, agro-chemicals, pharmaceuticals, flavours and fragrance, food and animal nutrition (feed) and personal care (cosmetics) products. The global personal care, pharmaceutical, animal feed, and agrochemical markets are valued at $255 billion, $1.3 trillion, $425 billion, and US$ 62.5 billion, in FY2019, respectively, and are expected to grow at a CAGR of 6%, 4.5%, 3.7% and 6.6%, between FY2019 and FY2025, respectively. The company's products and customer base allow for limited dependence on any particular industry, relatively insulating them from any industry-specific slowdown.

The company's customers comprise manufacturers in India and other regulated international markets including China, Canada, Europe, the US, Taiwan, Korea, and Japan. They have been supplying to customers in such regulated markets, which sets them apart from other Indian companies and enables them to compete effectively in terms of cost and quality, with global players in the industry.

Due to catalytic processes and backward integration, CSTL's raw materials largely comprise of commodity chemicals. The company's key raw materials comprise of major bulk chemicals including phenol, hydrogen peroxide, acetic anhydride, acetone, and tertiary butanol, which are widely available, unlike conventionally used diphenols such as hydroquinone and catechol that are susceptible to increased price volatility due to controlled supply. The company engage with numerous suppliers for the raw materials that are available domestically and imported in large volumes in India, enabling them to have greater control over the costs.

**Experienced promoters and senior management with extensive domain knowledge**

CSTL is led by its promoters comprising Managing Director Ashok Ramnarayan Boob, its whole-time directors Siddhartha Ashok Sikchi and Krishnakumar Ramnarayan Boob, and its Vice President Parth Ashok Maheshwari, who have a combined experience of over 60 years in the chemicals industry. Each of the company's promoters is a career-technocrat and is actively involved in the critical aspects of the business, including R&D and plant engineering.

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

CSTL's customers comprise direct end-use manufacturers as well as institutional distributors. A majority of its revenues is generated from direct sales to customers. Certain of its key customers include Bayer AG and SRF Limited for agro-chemical products, Gennex Laboratories for pharmaceutical intermediates, and Vinati Organics Limited for specialty monomer products, Nutriad International NV for animal nutrition. Some of the company's customers have also been associated with them for over 10 years as of December 31, 2020.

The company's products are used as key starting level materials, as inhibitors, or additives by its customers for the finished products, for sale in regulated markets. The company's customer engagements are therefore dependent on delivering quality products consistently, and it could take potential customers few years to approve them as suppliers, based on quality control systems and product approvals across jurisdictions by multiple regulators. Due to the resources involved in engaging with new suppliers, customers are less inclined to pursue alternate supply sources. This provides the company with an advantage over new entrants that would need to make significant investments and endure a long gestation period with potential customers in order to effectively compete.

**Automated manufacturing facilities with proven design and commercialization capabilities**

The company has two manufacturing facilities in India with eleven production lines (including three for catalyst production and regeneration), which had a combined installed capacity of 29,900 MTPA as of December 31, 2020. As majority of the company's sales are through exports, both facilities are strategically located at Kurkumbh (Maharashtra), which is close to the JNPT port.

With dedicated production lines for key products, CSTL aims to limit losses and capacity reductions that are typically incurred during transitioning between products. Each facility is equipped to function independently, with its separate quality department, effluent treatment plant, warehouse and R&D unit. The company's facilities are automated to an extent which helps maintain consistent product quality and reduces overhead costs, thereby reducing the production costs, mitigating exposure to human error and industrial accidents involving labour force. The company's captive solar plants meet part of the power requirements at its facilities, which improves cost efficiencies and results in better utilisation of resources.

The operations have received sustainability certifications from Ecovadis and Together for Sustainability, and are routinely audited and approved by certain of its customers. In addition, the company's facility for manufacturing BHA and Ascorbyl Palmitate is also registered with the US FDA as an approved food facility.

Thus, CSTL leverages its in-house process design expertise to carry out timely capacity expansions at its facilities to cater to the increased demand for its products.

**Strategies** (Source: As per company RHP)

**Leverage its leadership position in the specialty chemicals industry**

The global chemicals market is valued at $4,738 billion in 2019 with China accounting for 40% of the market share. The global chemicals market is expected to post a CAGR of 6.2% to US$ 6,785 billion from 2019 to 2025. The overall market for specialty chemicals was valued at $800 billion in 2019, and is expected to grow by 5-6% over the next five years. The tightening of environmental norms in China and the recent trade dispute between China and the United States has reduced Chinese exports and resulted in shifting the source of key raw materials from China to India. This tightening of the environmental norms have resulted in increase in operating costs, closure and relocation of manufacturing facilities along with rising labour costs. While these may not be permanent trends, these will involve significant costs of production for Chinese companies, enabling 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. Pharmaceuticals and agrochemicals sectors are expected to benefit from this as Chinese manufacturers continue to operate at lower capacity levels, given increased monitoring of safety standards and compliance norms.

CSTL 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, and based on its established relationships with multinational corporations.

**Leverage its R&D capabilities and understanding of catalysis to continue process re-engineering, further enhance product portfolio**

CSTL intends to continue to focus on speciality chemicals that find applications in high-growth industries and leverage its deep understanding of complex chemistries to create an alternate supply chain for its customers using cleaner technologies and cost effective processes.

To expand the product portfolio, they seek to identify products with high demand that only limited manufacturers produce within India and globally. They also intend to continue to explore high margin downstream product lines, which see low competition and multiple applications.

CSTL is also in the process of expanding its R&D infrastructure by setting-up an additional R&D unit at its upcoming manufacturing facility at Kurkumbh (Maharashtra), where it proposes to install R&D equipment for synthesizing new products and certain catalysts under development.

**Expand manufacturing capacities of existing products and set up additional capacities for new products**

CSTL's product portfolio is aligned to the changing global and Indian trend of environmentally friendly chemicals, and it intend to leverage on the aggressive growth rates for itsr products. For instance, the global market for MEHQ, Anisole and AP is expected to grow at approximately 5-6% over the next five years, and for BHA, 4-MAP and DCC is expected to grow by approximately 4% over the same period.

To cater to the growing demand from the existing customers and to meet requirements of new customers, the company intend to and are in the process of expanding the manufacturing capacities for few of its existing products. The company also intend to add manufacturing capacities for certain new products that will form part of its stabiliser/additive product portfolio that it is in the process of developing. To achieve expanded capacities, the company is in the process of setting-up a third manufacturing facility adjacent to its existing facilities at Kurkumbh (Maharashtra), and are in discussions with relevant authorities for acquiring land for the construction of a fourth facility in Kurkumbh.

**Continue to strengthen its presence in India and expand its sales and distribution network in international markets**

In order to serve its existing direct end-use customers and distributors, as well as to secure new direct end-use customers and distributors and expand the reach of its products to new markets, they intend to expand globally. They intend 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. They intend to create a distribution network and channel partners across geographies and build capabilities to serve such jurisdictions.

## Key concerns

**Dependency on R&D capabilities and inability to continue to design catalytic processes may adversely affect business**

CSTL's competitive position in the specialty chemicals industry is primarily characterised by cost-efficiencies and R&D improvements. Its ability to continue to design catalytic processes is a significant factor in its ability to remain competitive. There can be no assurance that the company will be able to secure the necessary technological knowledge through its R&D or external sources, such as technical assistance agreements or strategic acquisitions, that will allow us to continue to develop its product portfolio or that we will be able to respond to industry trends by developing and offering cost effective products. The company may also be required to make significant investments in R&D, which may strain its resources and may not provide results that can be monetised. If the company is unable to obtain such knowledge in a timely manner or unable to effectively implement strategies, then its business operations may be adversely affected.

**None of the company's catalytic processes are patented and intellectual property may not be adequately protected, which may affect business**

None of the company's catalytic processes are patented, and competitors may be able to imitate these process technologies and erode or negate any competitive advantage which the company may have. This could harm CSTL's business and ability to continue to achieve profitability. Further, there can be no assurance that any patent applications that the company may make in the future will mature into granted patents, or that such patents, if issued, will provide with adequate proprietary protection or competitive advantages.

**Inability to continue engaging with customers would have an adverse effect on business**

The company typically does not enter in to long-term contracts with its customers. In the absence of long-term contracts, there can be no assurance that existing customers will continue to purchase its products and any loss of customers will have a material adverse effect on its business, results of operations and financial condition.

**Lack of long-term agreements with suppliers for raw materials**

The company's competitiveness, costs and profitability depend, partly on its ability to source and maintain a stable and sufficient supply of raw materials, including phenol, hydrogen peroxide, acetic anhydride, tertiary butyl alcohol, acetone, methanol, and cyclohexylamine at acceptable prices. The company usually do not enter into long-term supply contracts with any of its raw material suppliers and typically source raw materials from third-party suppliers or the open market on a spot basis. The absence of long-term contracts at fixed prices exposes CSTL to volatility in the prices of raw materials and it may be unable to pass these costs increases onto its customers, which may reduce its profit margins.

## Valuation and view

At the IPO price band of Rs. 880-900 per share, the offer is valued at 47.1/48.2x its FY2021 EPS at the lower and upper end of the price band. CSTL posted strong results in FY2021 with revenues growing by 22% y-o-y and the operating profit growing by 40% y-o-y (OPM expansion of 635 bps y-o-y at 51%). Reported PAT grew by 42% y-o-y to Rs. 198 crore in FY2021. CSTL has a strong earnings track record with 59% PAT CAGR over FY2018-FY2021 and RoE of ~36.8%. CSTL's earnings growth outlook is robust given its strong market share (among the largest producer globally of functionally critical specialty chemicals), consistent focus on R&D, greater cost control and strong long-standing relationships with key customers.

**Peer comparison (for the year ended March 31, 2021)**

| Name of the company | FY21 Total Income (Rs crore) | FY21 EPS (Rs) | FY21 RoE (%) | P/E (x) |
|---|---|---|---|---|
| Clean Science and Technology Limited - Upper Band | 538 | 18.7 | 36.8 | 48.2 |
| Clean Science and Technology Limited - Lower Band | | | | 47.1 |
| Vinati Organics Limited | 980 | 26.2 | 17.5 | 77.8 |
| Fine Organic Industries Limited | 1,150 | 39.3 | 16.5 | 78.7 |
| Atul Limited | 3,834 | 221.2 | 17.1 | 42.0 |
| Camlin Fine Sciences Limited | 1,192 | 4.1 | 9.2 | 47.7 |
| SRF Limited | 8,455 | 205.5 | 17.5 | 36.4 |
| Navin Flourine International Limited | 1,258 | 52.0 | 15.8 | 73.4 |
| PI Industries Limited | 4,702 | 49.9 | 13.8 | 60.2 |

*Source: Company RHP; Sharekhan Research*

## FINANCIALS

**Profit & Loss Account (re-stated)** Rs crore

| Particulars | FY19 | FY20 | FY21 |
|---|---|---|---|
| Revenue from Operations | 393 | 419 | 512 |
| **Expenses** | | | - |
| Cost of material consumed | 179 | 128 | 138 |
| Changes in inventories of stock-in-Trade | -7 | 1 | -14 |
| Employee benefits expense | 25 | 31 | 44 |
| Other Expenses | 61 | 74 | 86 |
| **Total expenses** | **257** | **234** | **253** |
| **Operating profit** | **136** | **185** | **259** |
| **OPM (%)** | **35** | **44** | **51** |
| Other Income | 11 | 11 | 26 |
| Finance Costs | 0 | 0 | 0 |
| Depreciation and Amortisation Expenses | 11 | 14 | 17 |
| **Profit before tax** | **137** | **182** | **267** |
| **Tax Expense** | | | |
| Current Tax | 35 | 46 | 62 |
| Deferred tax (credit) / charge | 4 | -3 | 7 |
| **Profit for the year** | **98** | **140** | **198** |

*Source: Company RHP*

**Cash flow statement (Re-stated)** Rs crore

| Particulars | FY19 | FY20 | FY21 |
|---|---|---|---|
| Net cash flow from operating activities | 85 | 160 | 193 |
| Net cash flow from investing activities | -95 | -106 | -187 |
| Net cash flow from financing activities | -11 | -55 | -6 |
| **Net increase in cash & cash equivalent** | **-21** | **-2** | **0** |
| Cash & cash equivalent at beginning of the year | 30 | 9 | 9 |
| Effect of Foreign Exchange Fluctuation | 1 | 1 | -0 |
| **Cash & cash equivalent at the end of the year** | **9** | **9** | **9** |

*Source: Company RHP*

**Balance Sheet (re-stated)** **Rs crore**

| Particulars | FY19 | FY20 | FY21 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Property, plant and equipment | 125 | 163 | 183 |
| Capital work-in-progress | 4 | 3 | 55 |
| Intangible Assets | 0 | 0 | 0 |
| Right of use assets | 2 | 3 | 3 |
| Income tax assets (net) | 0 | 0 | 1 |
| Other non-current asset | 3 | 4 | 23 |
| **Total Non-Current Assets** | **134** | **173** | **265** |
| **Total Investments** | **75** | **133** | **232** |
| Current Assets | | | |
| Inventories | 38 | 35 | 53 |
| Trade Receivables | 60 | 70 | 74 |
| Cash and cash equivalents | 9 | 9 | 16 |
| Other current assets | 11 | 10 | 20 |
| **Total Current Assets** | **118** | **124** | **163** |
| **Total Assets** | **327** | **430** | **660** |
| **Equity** | | | |
| Equity share capital | 1 | 1 | 11 |
| Other equity | 271 | 341 | 529 |
| Total Equity | 272 | 342 | 540 |
| Non-Current Liabilities | - | - | |
| Borrowings | 0 | 0 | 0 |
| Deferred Tax balances (net) | 14 | 10 | 18 |
| **Total Non-Current Liabilities** | **14** | **10** | **18** |
| **Total Provisions** | **0** | **0** | **1** |
| Current Liabilities | | | |
| Borrowings | 2 | 2 | - |
| Trade payables | 22 | 36 | 61 |
| Other current liabilities | 16 | 39 | 41 |
| **Total Current Liabilities** | **41** | **77** | **102** |
| **Total Liabilities** | **55** | **88** | **120** |
| **Total Equity and Liabilities** | **327** | **430** | **660** |

*Source: Company RHP*

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