

Clean Science and Technology



Novel chemistry at play

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Our recent sector initiation report
on specialty chemicals



Clean Science and Technology: Novel chemistry at play

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Clean Science and Technology

BSE Sensex
56,125

S&P CNX
16,705

CMP: INR1,438

TP: INR1,700 (+18%)

Buy



Bloomberg	CLEAN IN
Equity Shares (m)	106.2
M.Cap.(INRb)/(USDb)	152.7 / 2.1
52-Week Range (INR)	1784 / 1423
1, 6, 12 Rel. Per (%)	-21/-/-
12M Avg Val (INR M)	2656

Financial Snapshot (INR m)

Y/E March	FY22E	FY23E	FY24E
Sales	6,277	8,002	9,606
EBITDA	3,044	3,921	4,707
PAT	2,353	3,030	3,611
EPS (INR)	22.2	28.5	34.0
EPS Gr. (%)	18.6	28.8	19.2
BV/Sh.(INR)	69.6	93.9	122.8

Ratios

Net D:E	(0.2)	(0.3)	(0.4)
RoE (%)	36.8	34.9	31.4
RoCE (%)	35.8	34.2	30.9
RoIC (%)	74.1	76.2	74.4
Payout (%)	15.0	15.0	15.0

Valuations

P/E (x)	64.9	50.4	42.3
P/BV (x)	20.6	15.3	11.7
EV/EBITDA (x)	49.7	38.2	31.3
Div. Yield (%)	0.2	0.3	0.4
FCF Yield (%)	1.0	1.4	1.8

Shareholding pattern (%)

As On	June-21	Jul-21
Promoter	94.6	78.5
Others	5.4	21.5

Details of the Offer for Sale (OFS)

Shareholders	Proceeds from the OFS (INR million)
Promoter Selling Shareholders	5,536
Other Selling Shareholders	9,931
Total	15,466

Source: RHP

Novel chemistry at play

- Clean Science and Technology (CSTL) recently concluded its IPO via an offer for sale of INR15.5b, priced at INR900/share. Post the IPO the promoter shareholding stands at 78.5%.
- CSTL has emerged as the global leader in most of its product categories on the back of niche product offerings catering to polymer inhibitors / super-absorbents, anti-oxidants for the Food/Feed industry, pharma, home, and personal care. It has further bolstered its value chain through novel manufacturing technology based on green chemistry for one of the key raw materials.
- CSTL's streak is driven by its strong R&D capabilities – in both plant technological /engineering development as well as process innovation (based on greener chemistries). This has led to the gross margin expanding to 76% in FY21 from 62% in FY16 (the EBITDA margin expanded from 33% to 50.5% over FY16–21).
- The company has posted a robust revenue CAGR of ~29% in the last five years. We expect CSTL's revenues to grow at a CAGR of ~23% over FY21–24 (on the back of capacity additions at Unit-III in phases over FY22). The company plans to capture higher market share for its products.
- Its EBITDA margin is likely to remain robust at ~49%, with the gross margin at ~70% over FY21–24 – as the company continues to improve the yield of its products and processes. In view of its dominating product market share and ability to sustain the highest margins in the industry, we value the company at 50x FY24E EPS (as the company commands ROIC of ~75%) to arrive at Target Price of INR1,700/share. We initiate coverage on CSTL with a Buy rating.
- In our recently-released sector initiating report "[Genie is out](#)", we had highlighted that normally, companies with a higher proportion of specialty chemicals command richer valuations.

Largest manufacturer of multiple specialty chemicals

- CSTL is the largest producer of Monomethyl ether of hydroquinone (MEHQ), Butylated Hydroxy Anisole (BHA), and 4-Methoxy Acetophenone (4-MAP) globally. Furthermore, it has backward integrated into producing Anisole, a key raw material, and has even become the largest producer of Anisole globally. CSTL is also one of the top three global producers of the remaining three products.
- MEHQ is CSTL's largest selling product (48% of total revenue); the company holds a 52% global market share, which it expects to increase further to ~65% over the next 2–3 years.
- Most players in the Indian Specialty Chemicals industry view China as a competitor. However, CSTL rather sees the Chinese market as an opportunity as it supplies its products to this country – which contributed ~37% to its revenues in FY21 and is the biggest market for the company.

Our recent sector initiation report on specialty chemicals



Indian Specialty Chemicals to benefit from China+1 strategy



R&D – a key differentiator

- The company started producing Anisole through the liquid phase technology (an unclean and inefficient route) in 2017. **Through its in-house R&D, the company developed a greener route, vapor phase technology in 2018** (making it the only company globally to manufacture via this process).
- **Continuing its pursuit of process innovation through catalytic technology, CSTL has forayed into the Hindered Amine Light Stabilizers (HALS) series.** Applications for the same are in diverse end industries such as Polymerization Inhibitor, Water Treatment, Paint, Coatings, etc. The estimated global market size for HALS is USD1b and CSTL would be the first company to develop HALS series in India.
- **While many companies in the space only have a single R&D center, CSTL has a separate one for all its manufacturing facilities.** It is also setting up an R&D center at its third unit, where it proposes to install R&D equipment to synthesize new products and certain catalysts under development.

Focus on process innovation to aid margins

- **The introduction of (cost-effective) vapor phase technology and continued process innovation aided EBITDA margin improvement to 50.5% in FY21 from 33% in FY16 - resulting in an EBITDA CAGR of 40% over FY16–21** (a 53% CAGR in the last three years, led by the commissioning of the Anisole capacity in FY18).
- Unit-III (which would get commissioned in phases over FY22) would focus on Anisole (already commissioned in 1QFY22) and certain performance chemicals (although, the management has not provided any capacity bifurcation).
- **Unit-III would also have the first line of production dedicated to HALS series** (expected to be commercialized by 2HFY23), while additional production lines would be installed in Unit-IV.
- **Additional capacity expansion would drive further growth for the company, accompanied by low margin volatility, due to:**
 - Challenges faced in terms of competing on the cost and margins fronts, leading to likely consolidation or shutdowns at units globally
 - Further downstream/forward integration by CSTL into high-value products, which would offset any potential threat to its current high margins

Expansion of capacities for existing products to drive growth

- The global market for MEHQ, Anisole, and AP is expected to grow approximately ~6% over the next five years. For BHA, 4-MAP, and DCC, the market is expected to grow by ~4% over the same period.
- As we deep-dive into CSTL’s segmental analysis below (and a review of its product offerings), **we expect continued market share gains on the back of its developed expertise (despite mid-single digit market growth for its products).**
- In order to meet the growing demand from end user industries, CSTL is in the process of **expanding its capacities by at least 20,000mt at Unit-III (in addition to its two existing units at Kurkumbh with total capacity of 29,900mt).** Its capacity utilization at end-FY21 was ~72%.
- **CSTL has also acquired land for Unit-IV, which would focus on stabilizers and other downstream intermediates for Pharma and Agro.**

Valuation and view – initiate with Buy

- CSTL is an integrated player for its key products and is likely to grow at a faster rate than the industry due to its cost advantage as well as the introduction of new products. On this consideration, **we forecast a revenue/EBITDA/PAT CAGR of 23%/22%/22% over FY21–24.**
- **CSTL is likely to generate FCF of INR6.4b over FY22–24E, with capex of INR3b planned over this period (INR1.5b each for units III and IV)** – thus funding its capex purely via internal accruals and remain net cash going forward as well.
- CSTL has guided for a dividend payout policy of ~15% in view of its better cash generation. It also completed buyback of equity share worth INR491m in FY20.
- The key risks to our recommendations are (a) the lack of innovation in future – which has helped CSTL differentiate itself from others until now, (b) rising prices of key raw materials such as Phenol, which could suppress its gross margins, (c) any adverse ruling on the usage of any of its key products, which could affect global demand and, in turn, sales.
- We value the company at 50x FY24 EPS (as it commands ROIC of ~75%) to arrive at Target Price of INR1,700/share and recommend a Buy rating on the stock.

Exhibit 1: Products manufactured at CSTL's manufacturing facilities

Manufacturing Facility	MEHQ	Guaiacol	BHA	4-MAP	DCC	AP	Anisole	Catalyst	Stabilizer and other intermediates
Unit I	Yes	Yes	Yes	Yes			Yes	Yes	
Unit II	Yes	Yes			Yes	Yes	Yes	Yes	
Unit III	Yes	Yes	Yes				Yes		
Unit IV									Yes

Source: Company, MOFSL

Exhibit 2: Focus on R&D and innovation has led to new product launches on a consistent basis

Calendar year	Event
2021	❖ R&D breakthrough into the Hindered Amine Light Stabilizers (HALS) series
2020	❖ Commenced manufacturing DCC
2018	❖ Started manufacturing Anisole using vapor phase technology ❖ Commenced manufacturing AP
2017	❖ Commenced manufacturing Anisole using liquid phase technology
2014	❖ Commenced manufacturing BHA
2011	❖ Commenced manufacturing 4 MAP
2009	❖ Commenced manufacturing MEHQ and Guaiacol

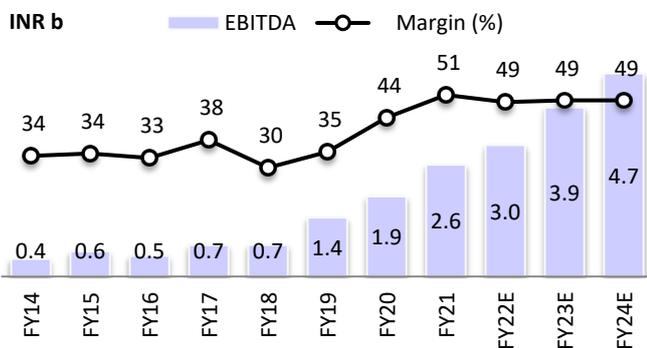
Source: Company, MOFSL

What does CSTL do and where it stands

Exhibit 3: CSTL’s portfolio of products and their applications

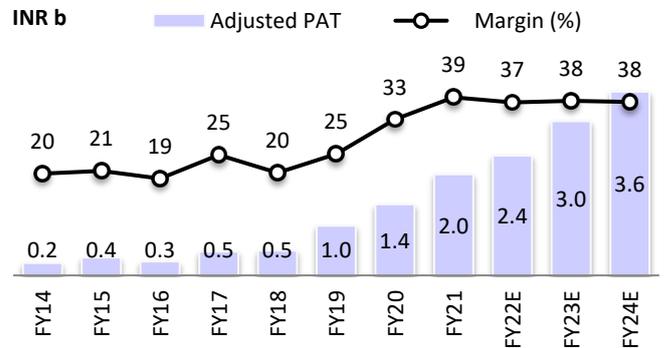
Product (Global Market Size)	CSTL Ranking	Application	Industry Category
MEHQ (12,500mt)	Largest globally	❖ Used as polymerization inhibitor in acrylic acids, acrylic esters, super absorbent polymers, precursor for the agrochemicals industry	❖ Agrochemicals and fertilizers, home and personal care, paints & coatings additives, textile chemicals
BHA (9,000mt)	Largest globally	❖ Used as anti-oxidant in food and feed industry	❖ Home and personal care
AP (450mt)	Second-largest in India	❖ Used in infant food formulations, breakfast cereals and cosmetics	❖ Home and personal care, pharma API
Guaiacol (60,000mt)	Third-largest globally and second-largest in India	❖ Precursor to manufacturing of APIs for cough syrup, key raw material for producing Vanillin	❖ Pharma API, flavours and fragrances ingredients
DCC (7,000mt)	Among the largest globally and largest in India	❖ Used as reagent in anti-retroviral	❖ Pharma API
4-MAP (7,200mt)	Largest globally	❖ Used in UV blocker in sunscreens	❖ Home and personal care, flavours and fragrances ingredients
Anisole (34,000mt)	Largest globally	❖ Precursor to perfumes, insect pheromones, pharmaceuticals, majority of anisole produced is used by CSTL for captive consumption	❖ Home and personal care, agrochemicals and fertilizers, pharma API

Exhibit 4: EBITDA margins to remain robust, as the company continues to improve yields of its products and processes...



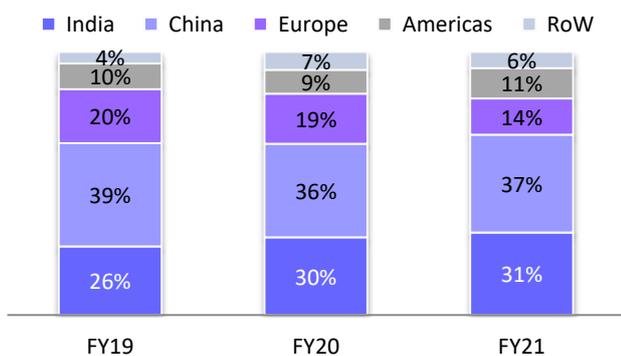
Source: Industry, MOFSL

Exhibit 5: ...with additions of capacity in FY22 (unit-III) and new range of products in Unit-IV (over next 2 years)



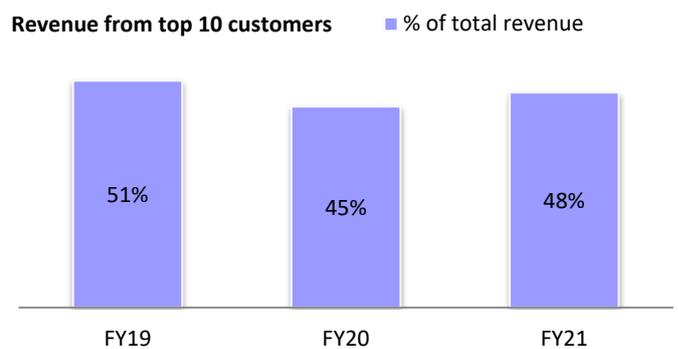
Source: Industry, MOFSL

Exhibit 6: CSTL’s geographical revenue mix – China is the biggest market with ~37% contribution in FY21



Source: Company, MOFSL

Exhibit 7: % mix of top 10 customers is reducing and will fall further after commissioning of unit-IV



Source: Company, MOFSL

Spearheading incorporation of green chemistry

...Creating sustainable chemistry with more environment-friendly products

- Growing concerns over environmental and human health due to increasing pollution has led to a huge shift in focus of companies on sustainable and green chemicals.
- Green chemistry (GC) minimizes pollution at the molecular level to minimize impact on the environment by adopting new scientific processes and actively designing novel concepts to reduce emissions of hazardous substances. Such products either reduce energy and water consumption in the process, or reduce the chemical and biochemical waste generated – further lowering treatment costs.
- The global green chemicals market was valued at ~USD91b in 2019 and is expected to reach ~USD165b by the year 2027, expanding at a CAGR of 8.4% - driven by awareness-led consumption from industries like food and feed nutrition/additives, personal care and pharmaceuticals.
- The pharmaceutical industry was among the first to embrace green chemistry for its significant potential to reduce costs and risks. Green pharmaceuticals as a segment is projected to grow to USD96.2b in 2026.
- India's exports are on the rise as the country is becoming a central manufacturing hub for such chemicals. Tightening of environmental norms (e.g. REACH registration, evaluation, authorization and restriction of chemicals regulations) in the developed countries and a slowdown in China are further contributing to the growth in exports.
- Increasing R&D investment by several manufacturers in search of producing innovative and new applications of green chemical products will create lucrative opportunities for the massive development of the target market.

Exhibit 8: 12 key industry-wide principles of green chemistry



Focus on specialty products

...and emphasis on process innovation supports margins



The global demand for SAP in 2019 was about 3,861KT and is expected to grow at a CAGR of 6.2% by 2025. The strong demand from the baby diaper segment is projected to drive the overall growth.

The current demand in India for SAP is about approximately 37KT which is entirely met by imports due to the absence of local producers. The demand for SAP in India is expected to grow at about ~12% by 2025.

Performance chemicals – 70% of total revenues

Monomethyl ether of hydroquinone (MEHQ)

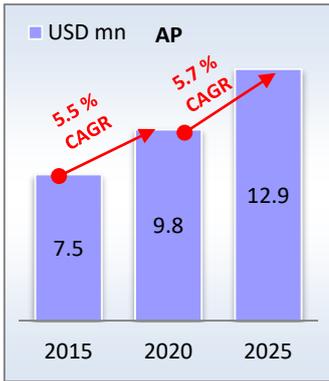
- MEHQ is an organic compound and a synthetic derivative of hydroquinone. Hydroquinone is basically an aromatic organic compound. **CSTL is the only producer globally to manufacture MEHQ by the hydroxylation of anisole.**
- It is mainly used as a polymerization inhibitor in the manufacturing of monomers and inks. It also serves as an API in the agrochemical and organic chemical manufacturing.
- However there are certain regulations on the exposure limit for MEHQ. Also, the use of Hydroquinone is banned in cosmetic products in Europe as well as several countries such as Japan, Australia and a number of African states.
- MEHQ is also used as an intermediate to manufacture BHA (Butylated Hydroxy Anisole) – for which the company has already undertaken forward integration.**
- MEHQ is used as a stabilizer for acrylic acid and its salts. Stabilization is particularly necessary if the acrylic acid has to be transported and/or stored between manufacturing and processing. Inhibitors such as MEHQ (monomethyl ether hydroquinone) and PTZ (phenothiazine) are added to acrylic acid during the shipping and storage process to prevent its spontaneous polymerization.
- Superabsorbent polymers (SAP) are commonly made from the polymerization of acrylic acid blended with sodium hydroxide. They are essential in the production of numerous hygiene products such as infant diapers, feminine products and adult incontinence products that require high absorbency along with material strength and are of lightweight.

MEHQ	12,500mt market globally
1	CSTL
2	Solvay
3	Camlin Fine Science



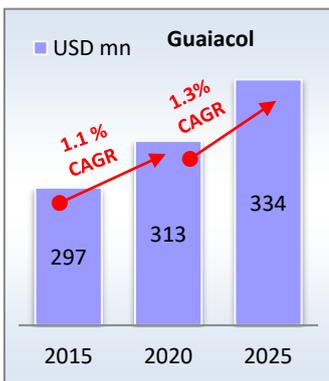
Butylated Hydroxy Anisole (BHA)

- CSTL began manufacturing BHA in 2014. The company is the largest producer of BHA globally (followed by Solvay and Camlin Fine Sciences).
- BHA is used as an anti-oxidant in the food and feed industry, in animal feed and nutrition and personal care. Antioxidants are used for providing protection to essential nutrients such as vitamins, fats, and pigments from deterioration.
- CSTL manufactures sulphur-free BHA in India, as compared to other manufacturers.**
- India is one of the largest and fastest growing feed markets in the world. **The Indian animal feed market is poised to grow to ~USD11b by 2025, growing at a CAGR of ~14%.** The major factors that will contribute to the growth are increased demand for nutritious animal feed and growing livestock industrialization, among others.



Ascorbyl Palmitate (AP)

- Ascorbyl Palmitate (AP) is produced from ascorbic acid or vitamin C – thus, it is extensively used as an ingredient in anti-aging cosmetic products. **Anti-aging products account for 17% of the total active personal care ingredients market (which is expected to grow further at a CAGR of 6.5% going forward).**
- CSTL (which started producing AP in 2018) is the second-largest producer in India (other manufacturers include Shandong Huihai Pharma (China) and Hongrui Fine Chemicals (China), Tianxin Pharmaceutical Company Limited (China), Yasho Industries Private Limited (India), DSM Nutrition Products, and Camlin Fine Sciences (India).
- **As customers become more aware by reading beauty and personal care labels, it is becoming imperative for companies to move towards natural and organic chemicals.**
- The APAC region held a share of 35% in the global personal care market in 2019 and is expected to grow further at CAGR 9.3% and capture 42% of the total global market share by 2025. **The Indian Personal Care Ingredients market was valued at USD1.1b in 2019 and is expected to grow at a CAGR of 11% to USD2.1b by 2025.**



Pharmaceutical Intermediates –17% of revenues

Guaiacol

- CSTL is the third-largest producer globally (Solvay is the largest player) and the second-largest in India (Camlin Fine Sciences is the largest player).
- **Guaiacol is a precursor to manufacturing APIs and is primarily used in the pharmaceutical industry for the production of cough syrups. It is also used a key raw material for Vanillin, a food and flavour enhancer.**

Guaiacol	60,000mt market globally
1	Solvay
2	Camlin Fine Science
3	CSTL



Dicyclohexyl Carbodimide (DCC)

- CSTL began manufacturing DCC in 2020 and has become the largest DCC player in India and one of the largest players globally within just two years of commencing production. **CSTL manufactures sulphur-free DCC without using carbon disulphide. It acts as an anti-retroviral reagent and is primarily used in the pharmaceutical industry.**
- DCC is used as a key starting material for producing APIs like Valaciclovir, Amikacin and Glutathione, among others.

DCC	7,000mt market globally
1	CSTL
2	Shandong Huihai Pharma
3	Hongrui Fine Chemicals



FMCG chemicals – 13% of revenues

4-Methoxy Acetophenone

- 4-MAP is a FMCG chemical with CSTL being its largest manufacturer globally. It is a specialty chemical with UV blocking properties and is primarily used as an API in the cosmetics industry.
- UV Filters account for 9% of the global API market (valued at USD373m in 2019). It is also used as a chemical intermediate for manufacturing cosmetic additives like Avobenzone.
- The company, through its catalytic processes, manufactures 4-MAP without using aluminium chloride, which is environmentally hazardous.

4-MAP	7,200mt market globally
1	CSTL
2	Haining Sino Fine
3	CososNajing



Anisole

- Anisole is CSTL's key raw material which the company began producing in 2017 using liquid-phase technology. Staying true to its motto of producing green chemicals, CSTL moved on to adopting the vapour-phase technology which leaves only water as residual discharge in 2018.
- Anisole is primarily consumed actively by CSTL for manufacturing other key products, including MEHQ, Guaiacol, 4-MAP, and BHA.
- The company is the world's largest manufacturer (in terms of manufacturing capacities), accounting for 45% - 55% of the global capacity. CSTL's other key competitors in the industry include Solvay, Atul Limited, and Westman Chemicals Private Limited (Mithila Rasayan Private Limited).
- Anisole is a precursor to perfumes, insect pheromones, and pharmaceuticals. Synthetic anethole is formulated from anisole. The compound is mainly made synthetically and is a precursor to other synthetic compounds.

- By manufacturing anisole in-house, the company has not only reduced its dependence on suppliers but also achieved huge success in lowering the cost of production (in a much greener way), thereby aiding margins expansion over the last three years.
- The company believes that its gross margin is likely to remain at around 66-71% going forward as well – on the back of further leveraging of the pronounced in-house technology for anisole.
- We believe that with the commissioning of its Unit –IV, that is primarily focusing on stabilizers and other intermediates (i.e. downstream products) - the company's margins will remain at around similar levels if they do not expand from here on.

Financial story in charts

Exhibit 9: Backward integration into anisole increases CSTL's nameplate capacity over last two years

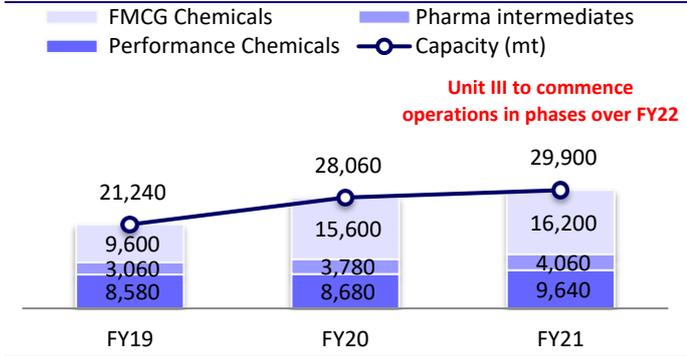


Exhibit 10: Commissioning of Unit-III (with MEHQ, BHA, Gaiacol and Anisole) expected by end of FY22 (%)

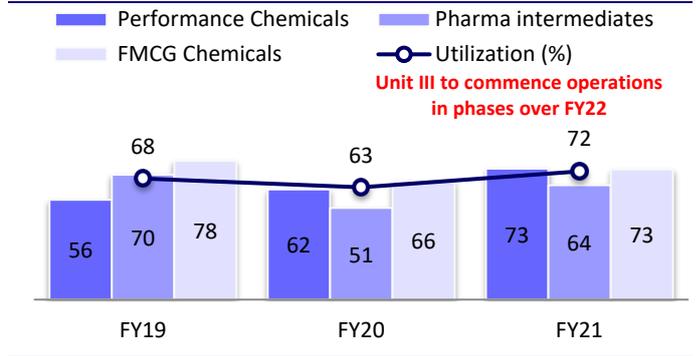


Exhibit 11: Revenue CAGR estimated at 23% over FY21-24E..

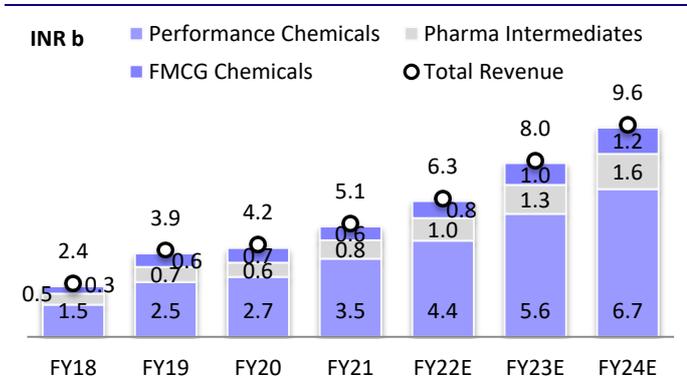


Exhibit 12: ...due to higher contribution from BHA and DCC (%)

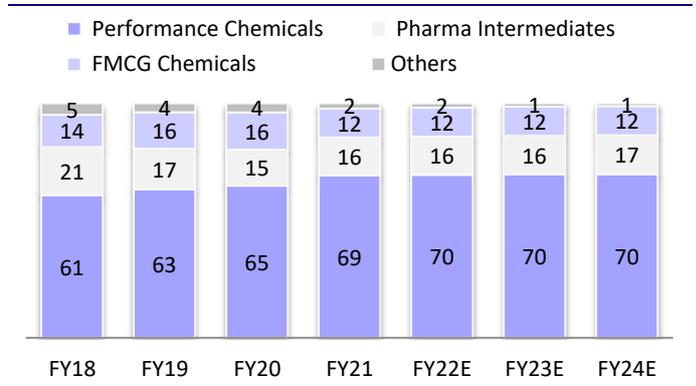


Exhibit 13: EBITDA margins to remain robust, as CSTL continues to improve yields of its products and processes...

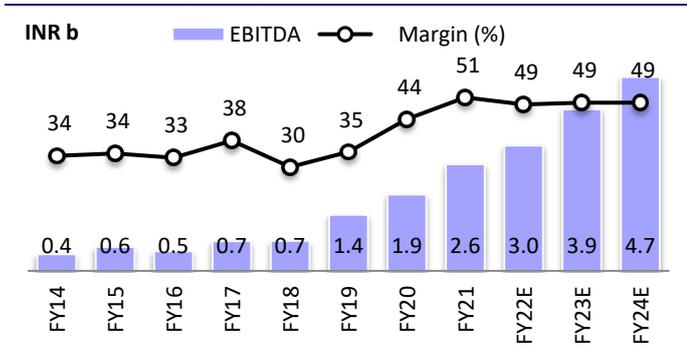


Exhibit 14: ...with additions of capacity in FY22 (unit-III) and new range of products in Unit-IV (over next 2 years)

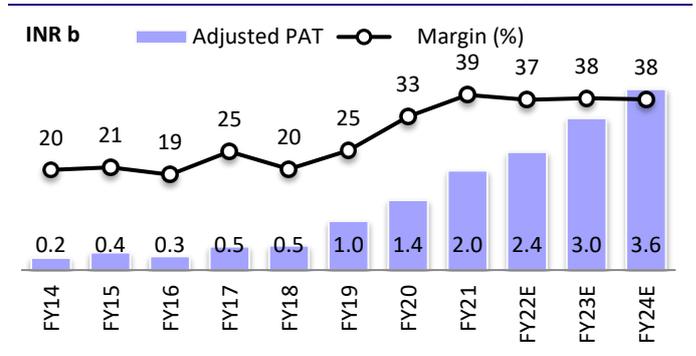


Exhibit 15: Return profile to moderate due to capacity additions (at unit-III and unit-IV)

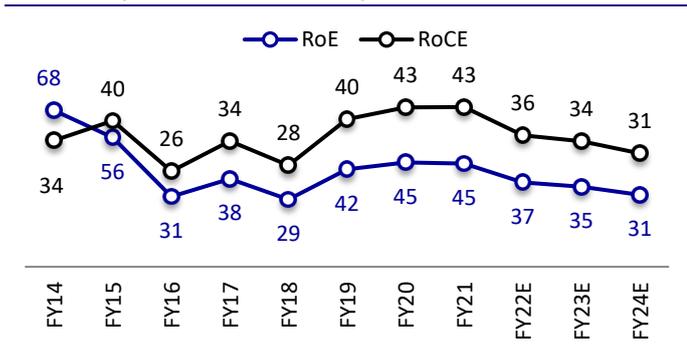
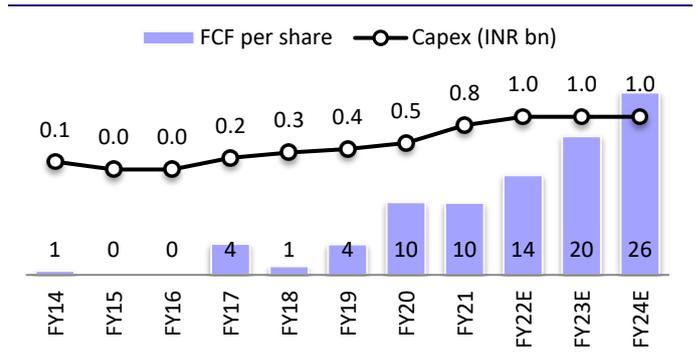


Exhibit 16: with a capex plan of INR3b (via internal accruals) over FY22-24E



Source: Company, MOFSL

Source: Company, MOFSL

Valuation and view

Initiating with Buy rating

Our recent sector initiation report on specialty chemicals



- CSTL's backward integration into producing its key raw material - anisole – especially by using novel cost-effective vapour-phase technology has helped its gross margins improve from an average of 59% in FY15-19 to an average of 73% in FY20-21.
- The company recorded an average EBITDA margin of 34% during FY15-19 although stabilization of its backward integration into anisole resulted in its EBITDA margin rising to 44% in FY20 and further expansion to 50.5% in FY21 (as CSTL also added new product called DCC in 2020).
- However, it must be noted that the rising cost of phenol, which is the largest contributor to its raw material costs, could result in pressure on company's margin. Although, considering normalization in currently high phenols prices, we remain confident on CSTL's ability to maintain its EBITDA margin at current levels of ~49% as:
 - The company is erecting Unit-III of 20,000mt and further strengthening its capacity for anisole (already commissioned in 1QFY22) as well as performance products, which will aid its growth going forward. It has also acquired land for Unit-IV which would be used for manufacturing stabilizers and other intermediates for pharma and agro, thereby aiding its growth in the longer run.
 - CSTL's proven in-house R&D capability which it has exhibited by mastering the vapour phase production of anisole lends further confidence that such innovations could lead in the company's further differentiation in cost leadership against its global competitors. Management remains focused on gaining higher wallet share of its customers, and commanding further market share gain in its products.
- In our recently-released sector initiating report "[Genie is out](#)", we had highlighted that normally, companies with a higher proportion of specialty chemicals command richer valuations. Companies such as Navin Fluorine, Vinati Organics and Fine Organics trade at 36-40x while the likes of Atul, NOCIL and Deepak Nitrite trade at 19-31x FY23E EPS.
- CSTL is an integrated player for its key products and is likely to grow at a faster rate than the industry due to its cost advantage as well as introduction of new products. We value the company at 50x FY24E EPS and recommend a Buy rating on the stock.
- The key risk to our recommendations are- (a) lack of innovations by CSTL in the future that has helped it to differentiate from others until now, (b) rising prices of key raw materials like phenol, which can suppress its gross margins, (c) any adverse ruling on the usage of any of the key products that can affect their global demand and sales.

Exhibit 17: Peer comparison table for specialty chemicals companies under MOFSL coverage

Company	Rating	TP (INR)	Mkt Cap (USD B)	EPS (INR)		EPS CAGR, %	P/E (x)		ROE (%)	
				FY22E	FY23E		FY21-23E	FY22E	FY23E	FY22E
Alkyl Amines	Neutral	3,665	2.7	59	74	13	72	57	34	33
Atul	Neutral	10,000	3.6	259	290	15	35	31	18	18
Deepak Nitrite	Buy	2,350	3.9	69	78	17	31	27	34	30
Fine Organic	Neutral	3,134	1.2	50	78	45	56	36	20	26
Galaxy Surfact.	Buy	3,620	1.5	91	104	10	34	30	23	22
Navin Fluo.Intl.	Neutral	4,040	2.4	58	96	37	67	40	16	23
NOCIL	Buy	340	0.6	12	14	65	23	19	15	16
Vinati Organics	Buy	2,220	2.5	34	45	31	53	40	21	23
Clean Science	Buy	1,700	2.1	22	29	23	65	50	37	35



Bull and Bear Case

Exhibit 18: Margin sustainability and robust growth from hereon – remains a key

TP (at 50x FY24E EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR FY21-24E	Thesis	
Bear Case	Revenue	5,124	5,876	6,740	7,734	15%	❖ Assuming revenue CAGR of ~15% over FY21-24E (as gaining further market share becomes tougher) - which results in EBITDA margins to fall ~45% (similar to FY20 levels) due to higher power and other costs	
	EBITDA	2,590	2,644	3,033	3,480	10%		
INR1,250	EPS	18.7	19.2	22.0	25.0	10%		
Base Case	Revenue	5,124	6,277	8,002	9,606	23%		❖ Assuming revenue CAGR of ~23% over FY21-24E (on the back of commissioning of unit-III), with EBITDA margins normalization at ~49% going forward.
	EBITDA	2,590	3,044	3,921	4,707	22%		
INR1,700	EPS	18.7	22.2	28.5	34.0	22%		
Bull Case	Revenue	5,124	6,627	8,581	11,121	29%	❖ Assuming revenue CAGR of ~29% over FY21-24E (similar to that of FY16-21) on the back of capacity expansion (at unit-III and unit-IV), with EBITDA margins expansion to 52%.	
	EBITDA	2,590	3,448	4,465	5,787	31%		
INR2,125	EPS	18.7	25.1	32.7	42.5	32%		

Source: Company, MOFSL

SWOT analysis

- ❖ CSTL is the world's largest producer of four out of the seven products that it manufactures, thus making it a market leader.
- ❖ It has strong and long standing customer relationships. Some of the customers have been associated with the company for more than 10 years.

S
STRENGTH



- ❖ The majority of CSTL's total revenues is generated from Performance Chemicals, especially MEHQ. Any demand contraction can affect the company's revenues.
- ❖ 48% of CSTL's total revenues is generated by its top 10 customers. If any customer moves away, CSTL's revenues are likely to be hit.

W
WEAKNESS



- ❖ CSTL is expanding its capacities by at least 20,000mt for its existing products and also for new products.
- ❖ Significant opportunities to strengthen presence in India and expand sales and distribution network in international markets.

O
OPPORTUNITY



- ❖ None of the company's catalytic processes is patented and others may be able to imitate the process technologies easily.
- ❖ Capacity expansion by domestic competitors (Camlin Fine Sciences and Atul) will result in pressure on CSTL's current high margins

T
THREATS



Key Managerial Personnel are technocrats

CSTL's Promoters overview

	<p>Ashok Boob Managing Director</p> <ul style="list-style-type: none"> ❖ Key functions: Projects, Manufacturing Capabilities 	<ul style="list-style-type: none"> ❖ Over 25 years of work experience in the chemical industry. ❖ Previously worked as an Executive Director at Mangalam Drugs and Organics Ltd. 	<ul style="list-style-type: none"> ❖ B.Chem. Engg. ICT, Mumbai, India
	<p>Siddharth Sikchi Executive Director</p> <ul style="list-style-type: none"> ❖ Key functions: Marketing, R&D 	<ul style="list-style-type: none"> ❖ Over fourteen years of experience in the chemical industry. 	<ul style="list-style-type: none"> ❖ M.Sc. University of Manitoba, Canada. ❖ B.Tech ICT, Mumbai
	<p>Krishna Boob Executive Director</p> <ul style="list-style-type: none"> ❖ Key functions: Public relations, Purchase 	<ul style="list-style-type: none"> ❖ Close to two decades of expertise in the chemical industry. ❖ Previously, worked as Director at Mangalam Drugs and Organics Ltd. 	<ul style="list-style-type: none"> ❖ B.Pharma, University of Mumbai, India
	<p>Parth Maheshwari Vice President</p> <ul style="list-style-type: none"> ❖ Key functions: Business operations 	<ul style="list-style-type: none"> ❖ Over 5 years of work experience in the chemical industry. 	<ul style="list-style-type: none"> ❖ MBA –Babson College ❖ B.Chem. Engg., Savitribai Phule University, India

CSTL's management Organization Chart



Financials and valuations

Consolidated - Financial Snapshot

(INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	1,905	2,411	3,933	4,193	5,124	6,277	8,002	9,606
Change (%)	31.6	26.5	63.1	6.6	22.2	22.5	27.5	20.0
Gross Margins (%)	64.3	53.0	56.5	69.2	75.9	70.0	70.0	69.0
EBITDA	723	729	1,363	1,853	2,590	3,044	3,921	4,707
Margin (%)	37.9	30.3	34.7	44.2	50.5	48.5	49.0	49.0
Depreciation	64	76	110	137	172	212	271	336
EBIT	659	654	1,253	1,716	2,417	2,832	3,650	4,371
Int. and Finance Charges	4	1	0	1	1	1	1	1
Other Income	42	46	113	109	256	314	400	456
PBT bef. EO Exp.	697	699	1,365	1,823	2,673	3,145	4,049	4,826
PBT after EO Exp.	697	699	1,365	1,823	2,673	3,145	4,049	4,826
Total Tax	229	212	389	427	689	792	1,019	1,215
Tax Rate (%)	32.8	30.4	28.5	23.4	25.8	25.2	25.2	25.2
Reported PAT	468	487	977	1,396	1,984	2,353	3,030	3,611
Adjusted PAT	468	487	977	1,396	1,984	2,353	3,030	3,611
Change (%)	72.1	3.9	100.7	43.0	42.1	18.6	28.8	19.2
Margin (%)	24.6	20.2	24.8	33.3	38.7	37.5	37.9	37.6

Consolidated - Balance Sheet

(INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	14	14	14	13	106	106	106	106
Total Reserves	1,426	1,861	2,706	3,408	5,290	7,291	9,866	12,936
Net Worth	1,440	1,875	2,721	3,421	5,397	7,397	9,972	13,042
Total Loans	4	1	26	27	3	3	3	3
Deferred Tax Liabilities	108	100	139	102	176	176	176	176
Capital Employed	1,551	1,976	2,885	3,550	5,576	7,576	10,151	13,221
Gross Block	1,057	1,375	1,724	2,247	2,610	3,385	4,273	5,217
Less: Accum. Deprn.	286	351	454	591	752	964	1,236	1,572
Net Fixed Assets	771	1,024	1,270	1,656	1,859	2,421	3,037	3,645
Capital WIP	23	15	39	34	550	775	887	944
Total Investments	319	181	752	1,330	2,321	2,321	2,321	2,321
Curr. Assets, Loans&Adv.	675	1,137	1,213	1,279	1,870	3,244	5,415	8,122
Inventory	307	290	370	346	529	583	743	892
Account Receivables	214	397	598	698	742	977	1,246	1,496
Cash and Bank Balance	65	295	95	93	157	1,307	2,946	5,158
Cash	0	0	94	92	93	1,244	2,883	5,095
Bank Balance	0	295	0	1	63	63	63	63
Loans and Advances	89	155	151	142	442	377	480	577
Curr. Liability & Prov.	238	380	390	749	1,023	1,185	1,510	1,811
Account Payables	135	264	223	357	610	641	817	980
Other Current Liabilities	101	113	162	387	408	540	688	826
Provisions	2	3	4	5	5	5	5	5
Net Current Assets	437	756	824	530	846	2,059	3,905	6,311
Appl. of Funds	1,551	1,976	2,885	3,550	5,576	7,576	10,151	13,221

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	4.4	4.6	9.2	13.1	18.7	22.2	28.5	34.0
EPS Growth (%)	72.1	3.9	100.7	43.0	42.1	18.6	28.8	19.2
Cash EPS	5.0	5.3	10.2	14.4	20.3	24.2	31.1	37.2
BV/Share	13.6	17.7	25.6	32.2	50.8	69.6	93.9	122.8
DPS	0.3	0.2	0.9	1.0	0.3	3.3	4.3	5.1
Payout (%)	7.3	4.7	9.5	7.4	1.7	15.0	15.0	15.0
Valuation (x)								
P/E	326	314	156	109	77	64.9	50.4	42.3
Cash P/E	287	271	140	100	71	59	46	39
P/BV	106	81	56	45	28	21	15	12
EV/Sales	80	63	39	36	30	24	19	15
EV/EBITDA	211	209	112	82	59	50	38	31
Dividend Yield (%)	0	0	0	0	0	0	0	0
FCF per share	4	1	4	10	10	14	20	26
Return Ratios (%)								
RoE	38	29	42	45	45	36.8	34.9	31.4
RoCE	34	28	40	43	43	36	34	31
RoIC	39	35	51	64	77	74	76	74
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	2.7	3.4	2.9	2.9	2.9	2.9	2.9
Asset Turnover (x)	1.2	1.2	1.4	1.2	0.9	0.8	0.8	0.7
Inventory (Days)	59	44	34	30	38	34	34	34
Debtor (Days)	41	60	55	61	53	57	57	57
Creditor (Days)	26	40	21	31	43	37	37	37
Leverage Ratio (x)								
Current Ratio	2.8	3.0	3.1	1.7	1.8	2.7	3.6	4.5
Net Debt/Equity	0.0	-0.2	0.0	0.0	0.0	-0.2	-0.3	-0.4

Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	697	699	1,365	1,823	2,673	3,145	4,049	4,826
Depreciation	64	76	110	137	172	212	271	336
Others	-14	-18	-65	-67	-109	0	0	0
Direct Taxes Paid	-204	-219	-355	-424	-659	-792	-1,019	-1,215
(Inc)/Dec in WC	143	-89	-208	131	-149	-62	-208	-193
CF from Operations	690	449	848	1,601	1,928	2,505	3,094	3,755
(Inc)/Dec in FA	-222	-320	-388	-503	-840	-1,000	-1,000	-1,000
Free Cash Flow	468	129	460	1,098	1,088	1,505	2,094	2,755
Change in Investments	-302	144	-576	-563	-1,078	0	0	0
CF from Investments	-524	-175	-950	-1,063	-1,867	-1,000	-1,000	-1,000
Inc/(Dec) in Debt	-116	1	20	1	-24	0	0	0
Dividend Paid	-34	-51	-128	-153	-33	-353	-454	-542
CF from Fin. Activity	-148	-44	-98	-540	-59	-354	-455	-543
Inc/Dec of Cash	19	230	-200	-3	1	1,151	1,639	2,212
Opening Balance	46	65	295	95	92	93	1,244	2,883
Closing Balance	65	295	94	92	93	1,244	2,883	5,095

NOTES

REPORT GALLERY

RECENT SECTOR THEMATIC REPORTS

MOTILAL OSWAL June 2021
Sector: Chemicals
Specialty Chemicals

Genie is out!

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MOTILAL OSWAL Thematic | July 2021
Automobiles: Tyres

Ready to roll

CSO has been a year of high volatility, with indices ranging from the depths of extreme pessimism to a sharp recovery in a short span of time. Such volatility in such a challenging and volatile period creates greater importance. In this context, we launch a new initiative - **BSF Model Portfolio**. Through this, we attempt to present our relative preference in various sectors and discuss sector portfolio related issues in greater detail.

CS	MSFE	4Q NIFTY
High Imports	25.0	1218
High Capex	15.0	1218
Weak demand	17.0	1218
High Imports	8.0	1438
High Capex	7.5	1247
Weak demand	6.0	1243
High Imports	4.5	124
High Capex	2.0	34
Weak demand	1.0	13
High Imports	1.5	13
High Capex	1.0	100
Weak demand	1.0	100
High Imports	1.5	100
High Capex	1.5	100
Weak demand	1.5	100
High Imports	1.0	100
High Capex	1.0	100
Weak demand	1.0	100

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MOTILAL OSWAL 30 May 2021
Financials

Model Portfolio

Introducing the MOSL BSFI Model Portfolio

The financial sector is the largest constituent of all the benchmarks with weights of 38-43% in NIFTY50 and BSE-30 Index. However the divergent stock performance of Indian Financials vis-a-vis the Nifty Financial Services Index highlights the need for an active stock selection strategy. This becomes even more important owing to: (i) existing facility scenario, (ii) fast-changing macro, and (iii) asset quality / growth outlook. In this endeavor, we introduce the MOSL BSFI Model Portfolio with the objective of capturing the sector's risk-adjusted returns through a holistic approach to sector positioning.

While the near-term outlook remains cautious due to COVID-2.0 impact and ongoing lockdowns in key states, vaccination drives across the country would aid quick recovery. Thus, we are positive on the BSFI space given strengthening economic recovery and the progress being made in improving asset quality. This would aid the strong rebound in earnings as the credit cost moderates.

The BSFI's accommodative stance, along with the recent measures announced for impacted sectors, should help Financials in general. The sector has performed the Nifty over past few months, which presents an attractive opportunity for active stock selection given the reasonable valuations. In our first edition of the MOSL BSFI Model Portfolio, we are overweight on ICICF, SBIL, and ASB among the leading large-cap Financials. Within the mid-cap space, we like METLIFE, CFC, SIFY, and AUFIN. Among the non-leading Financials, we like MAFAP and PRU within Life Insurance and DFC, IDFCBANK, and PFC within Other Financials. We believe that as the recovery momentum picks pace the valuation re-rating will also see important role in stock return. We are Underweight on NIFTY in general due to the looming uncertainty surrounding the second wave and India inflation levels.

Benchmarks underperform Nifty over past three months; stock performance remains divergent

- In YTD CY20, the BSFI sector index (Nifty Financial Services) has performed in line with the Nifty, with returns of 2% vis-à-vis 8% for the Nifty. This was primarily driven by (a) a progressive budget, (b) sharp improvement in collection trends, (c) better restructuring reported by leading entities, (d) the launch of vaccination drives against COVID-19, and (e) economic activity resuming to pre-COVID levels. However, over the past three months, the sector has underperformed the Nifty due to a rise in the number of COVID-19 cases and consequent lockdowns in key states/territories. The sector delivered -3% returns vis-à-vis 4% by the Nifty.
- Further analysis indicates stronger performance from stocks such as ICICFBSFI, SBIL, SIFY, METLIFE, CFC (42%), SIFY (34%), MAFAP (24%), PFC (22%), and BFIN (42%). We believe most entities, having recovered from the lows of Mar-Apr 20, are trading at reasonable valuations.
- Given the finance sector's exposure to various segments of the economy and the difference in their liability structures, we see an opportunity to generate alpha by actively playing underlying product-specific themes (such as asset flipping and capital market price) and the evolving growth and cost scenario.

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RECENT INITIATING COVERAGE REPORTS

MOTILAL OSWAL 16 July 2021
Initiating Coverage | Sector: Retail
Burger King India

Whopper of an Opportunity

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MOTILAL OSWAL 30 May 2021
Initiating Coverage | Sector: Healthcare
Solara Active Pharma Sciences

'Partner of Choice' in API/CRAMS space

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MOTILAL OSWAL 13 March 2021
Initiating Coverage | Sector: Consumer Durables
Orient Electric

Reinventing through innovation

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MOTILAL OSWAL 1 March 2021
Initiating Coverage | Sector: Financials
SBI Cards and Payment Services

Cashing in on the cashless surge!

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MOTILAL OSWAL 17 February 2021
Initiating Coverage | Sector: Healthcare
Gland Pharma

A Master Injector

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MOTILAL OSWAL 12 February 2021
Initiating Coverage | Sector: Consumer Durables
Whirlpool of India

Pure play in the underpenetrated White Goods space

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