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IPO Note – Clean Science and Technology Limited

05-July-2021

RETAIL RESEARCH

Clean Science and Technology Limited

Issue Snapshot:
Issue Open: July 07 – July 09, 2021

Price Band: Rs. 880 –900

*Issue Size: 17,184,689 eq shares (Entirely Offer for Sale)

Issue Size: Rs.1546.62 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 1

Book value: Rs 50.81 (Mar 31, 2021)

Bid size: - 16 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 10.62 cr
*Post issue Equity:	Rs. 10.62 cr

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Ltd, JM Financial Ltd, Kotak Mahindra Capital Company Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	94.7	78.5
Public & Employee	5.3	21.5
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

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 to emerge as the largest manufacturer globally of certain specialty chemicals in terms of installed manufacturing capacities as of March 31, 2021. Its continued focus on product identification, process innovation, catalyst development, significant scale of operations as well as its measures towards strategic backward integration has all contributed to the success as one of the fastest growing and among the most profitable specialty chemical companies globally. It manufactures functionally critical specialty chemicals such as Performance Chemicals (i.e. MEHQ, BHA and AP), Pharmaceutical Intermediates (i.e. Guaiacol and DCC), and FMCG Chemicals (i.e. 4-MAP and Anisole).

CSTL's specialty chemicals have a wide range of applications that cater to a diverse base of customers across industries. Its customers include manufacturers and distributors in India as well as other regulated international markets including China, Europe, the United States of America, Taiwan, Korea, and Japan. In Fiscal 2021, revenue from operations for sales outside India represented 67.86% of its total revenue from operations, respectively. Products are used as key starting level materials, as inhibitors, or as additives, by customers, for products sold in regulated markets. Key customers include Bayer AG, SRF Limited, Gennex Laboratories Limited, Nutriad International NV and Vinati Organics Limited. Its customer relationships have been strengthened over a long period, based on its ability to consistently deliver quality products at competitive prices. Some of its customers have also been associated with it for over 10 years as of May 31, 2021.

The Company two certified production facilities in India strategically located at Kurkumbh (Maharashtra), in close proximity to the JNPT port from where it exports majority of its product. Its facilities have dedicated production lines for its products, with a combined installed capacity of 29,900 MTPA as of March 31, 2021, and capacity utilization rates of 71.94% for Fiscal 2021. Also it has recently set-up a unit at the third facility adjacent to its existing facilities at Kurkumbh (Maharashtra), and has recently been allotted land for the construction of a fourth facility at Kurkumbh (Maharashtra). It has grown organically, and its revenues and profitability have consistently increased, to emerge as one of the most profitable specialty chemical companies globally

Objects of Issue:

The objects of the Offer are to (i) to carry out the Offer for Sale aggregating up to Rs. 1,546.62 Cr by the Selling Shareholders; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges. CSTL will not receive any proceeds from the Offer and all such proceeds (net of any Offer related expenses to be borne by the Selling Shareholders) will go to the Selling Shareholders.

Competitive 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. It has achieved this position by optimizing use of conventional raw materials, improving atom economy, enhancing yields, reducing effluent discharge, and consequently increasing cost competitiveness. Based on the technical expertise it has developed over the years and is able to carry out these processes at global scale capacities, which is difficult to replicate, and create significant barriers for new entrants. It has developed these technologies through process innovation and consistent R&D. Various catalysts have been developed in-house through R&D, which are used across process developments, and has helped improve productivity, yields, atom economy and cost efficiencies. By employing "clean-technologies", it distinguish 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.

Being a technologically advanced company, CSTL has pioneered the commercialization of catalytic-reactions in production processes. It has similarly developed unconventional processes to manufacture certain of its other specialty chemicals. With phenol being widely available and Anisole being produced for captive consumption, it is integrated to the commodity level, which also helps reduce costs and increase profit margins. This has led to distinguished position as the most cost-competitive producer of these critical products, demonstrated by its significant exports to China, and giving the highest margins in the industry in India for Fiscal 2020.

Among the largest producers globally of functionally critical specialty chemicals used across various industries and geographies resulting in a de-risked business model: CSTL is among the largest producers globally of certain specialty chemicals in terms of manufacturing capacities as of March 31, 2021. Its specialty chemicals have a wide range of applications and its key raw materials are abundantly available resulting in a significantly de-risked business model. Products of the Company 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, flavours and fragrance, food and animal nutrition (feed), and personal care (cosmetics) products. In Fiscals 2019, 2020 and 2021, revenue generated from its top 10 customers represented 50.53%, 44.77% and 47.90%, of its revenue from operations, respectively. Its products and customer base allow for limited dependence on any particular industry, relatively insulating it from any industry-specific slowdown. Its customers comprise manufacturers in India and other regulated international markets including China, Canada, Europe, the United States of America, Taiwan, Korea, and Japan.

The Company has been supplying to customers in such regulated markets, which sets it apart from other Indian companies and enables to compete effectively in terms of cost and quality, with global players in industry. Its 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. CSTL engages with numerous suppliers for its raw materials that are available domestically and imported in large volumes in India, enabling to have greater control over its costs.

Experienced Promoters and senior management with extensive domain knowledge: CSTL is led by the Promoters comprising its Managing Director Ashok Ramnarayan Boob, its Whole-Time Directors Siddhartha Ashok Sikchi and Krishnakumar Ramnarayan Boob, and Vice President Parth Ashok Maheshwari, who have a combined experience of over 60 years in the chemical industry. Each of its Promoters is a career-technocrat and is actively involved in the critical aspects of the business, including R&D and plant engineering. It additionally benefit from the industry and academic experience of Padmashri Professor Ganapati Dadasaheb Yadav, Non- Executive, Independent Director. Pradeep Ramwilas Rathi, Non-Executive, Chairman of Board, brings over two decades of experience in the chemical industry. It is also supported by Sanjay Kothari, Non-Executive Director, who has been instrumental in instilling financial prudence to its operations.

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 customers have also been associated with it for over 10 years as of May 31, 2021. Ability to meet the demand for, and quality of, the products, at competitive prices, has resulted in strong and long-standing relationships with various multinational corporations. Revenue generated from top 10 customers as of March 31, 2021, represented 47.90% of the revenue from operations in Fiscal 2021. These enduring customer relationships have helped to expand its product offerings and geographic reach. Its long-term relationships and ongoing active engagements with customers also allow CSTL to plan its capital expenditure, enhance 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.

Automated manufacturing facilities with proven design and commercialization capabilities and strong focus on EHS: CSTL has two manufacturing facilities in India with 11 production lines (including three lines for catalyst production and regeneration), which had a combined installed capacity of 29,900 MTPA as of March 31, 2021. It has recently set-up a unit at its third manufacturing facility. As majority of its sales are through exports, both facilities are strategically located at Kurkumbh (Maharashtra), which is in close proximity to the JNPT port. With dedicated production lines for key products, it aims to limit losses and capacity reductions that are typically incurred during transitioning between products. Its facilities are automated to an extent which helps maintain consistent product quality and reduces overhead costs, thereby reducing its production costs, mitigating exposure to human error and industrial accidents involving labour force

CSTL's captive solar plants meet part of its power requirements at its facilities, which improves cost efficiencies and results in better utilization of resources. In addition, its eco-friendly production processes have led to limited effluent discharge, making effluent generation among the lowest in the specialty chemicals industry. As a result, it has not received any material observations from the pollution control board in India with respect to its manufacturing facilities. The Company 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. Its in-house capabilities also enable to optimise capital expenditure for its facility expansion activities. As a result, its asset turns are among the highest in the chemical industry.

Strong and consistent financial performance in the last three Fiscals: CSTL has organically grown its operations and are among the most profitable specialty chemical companies globally. Its operations have grown over the years predominantly based on its internal accruals. It has been declaring and paying out dividend to shareholders consistently since Fiscal 2012. Profitability is primarily attributable to CSTL's cost-efficiencies driven by optimization of raw material cost. Cost of material consumed represented 26.90% of its revenue from operations in the Fiscal 2021. Its0 asset turns are among the highest in the chemical industry underscoring its commitment to operationalizing its manufacturing facilities in a timely and cost efficient manner.

Business Strategy:

Leverage leadership position in the specialty chemicals industry to capitalize on industry opportunities: The global chemicals market is valued at US$ 4,738 billion in 2019 with China accounting for 40% of the market share. The global chemicals market is expected to grow at a CAGR of 6.2% to US$ 6,785 billion from 2019 to 2025. The overall market for specialty chemicals was valued at US$ 800 billion in 2019, and is expected to record a growth rate of 5% to 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.

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. In particular, it proposes to introduce new products with varied applications across industries, and continue to design catalysts to improve process and cost efficiencies in its operations. CSTL aims to achieve this by leveraging on its existing R&D capabilities, as well as by evaluating strategic acquisition opportunities. It also intends to capitalize on the growing demand for its products by expanding its manufacturing capacities and strengthening its distribution network in existing markets and gaining access to newer markets.

Leverage R&D capabilities and understanding of catalysis to continue process re-engineering, further its enhancing 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 its product portfolio, it seeks to identify products with high demand that only limited manufacturers produce within India and globally. It also intends to continue to explore high margin downstream product lines, which has low competition and multiple applications. It aims to continue to refine its existing processes in terms of improving yields and efficiencies, and enhancing backward integration, by leveraging expertise on complex chemistries such as halogenation, hydrogenation, oxidation, Grignard chemistry, and coupling reactions, that it has generated over time. CSTL intends to develop eco-friendly, cost effective processes through biphasic or triphasic reactions, in the form of either vapour-phase reactions, liquid-solid reactions, or liquid-liquid solid reactions. It is also in the process of expanding its 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.

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 intends to leverage on the aggressive growth rates of its products. To cater to the growing demand from its existing customers and to meet requirements of new customers, it intends to and are in the process of expanding the manufacturing capacities for few of its existing products. It also intends to add manufacturing capacities for certain new products that will form part of its stabilizer/ additive product portfolio that it is in the process of developing, for application in paints and coatings, pharmaceutical, flavours and fragrance, and agriculture industries.

Continue to strengthen presence in India and expand sales and distribution network in international markets: In order to serve CSTL's existing direct end-use customers and distributors, as well as to secure new direct end-use customers and distributors and expand the reach of the products to new markets, it intends to expand globally. It 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 Company intends to create a distribution network and channel partners across geographies and build capabilities to serve such jurisdictions. Going forward, it intends to continue to leverage its existing sales and marketing network, diversified product portfolio and its industry standing to establish relationships with new multinational, regional and local customers and expand its customer base to grow its market share effectively.

Products	Fiscal 2019		Fiscal 2020		Fiscal 2021	
	Revenue from Operations	As % of Total Income	Revenue from Operations	As % of Total Income	Revenue from Operations	As % of Total Income
	(₹ million)	(%)	(₹ million)	(%)	(₹ million)	(%)
Performance Chemicals	2,490.35	63.32%	2,721.18	64.90%	3,547.65	69.23%
Pharmaceutical Intermediates	681.05	17.32%	643.76	15.35%	830.06	16.20%
FMCG Chemicals	612.27	15.57%	665.68	15.88%	632.23	12.34%
Other Products	64.68	1.64%	62.76	1.50%	59.47	1.16%
Other Operating Revenue	84.35	2.14%	99.62	2.38%	54.87	1.07%
Total	**3,932.70**	**100.00%**	**4,193.00**	**100.00%**	5,124.28	100.00%

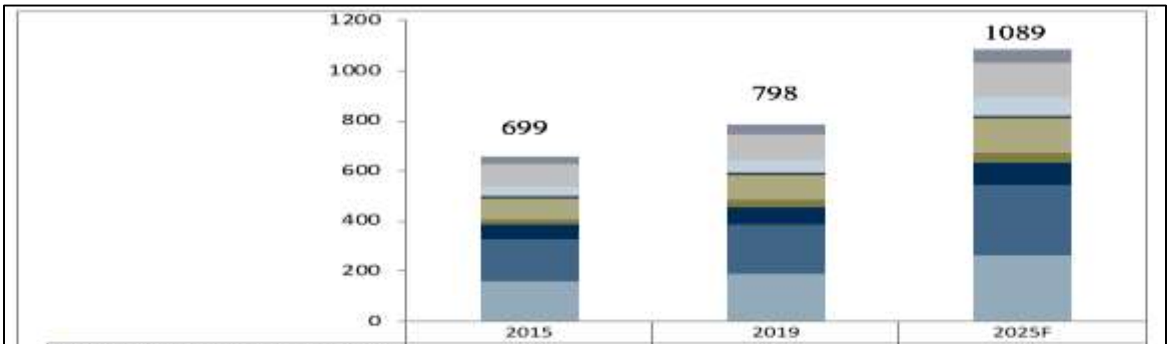
Industry

Global Specialty Chemicals Market

Specialty chemicals are low-volume and high-value products which are sold on the basis of 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 Chemicals Market, Industries & Applications, 2015 – 2025 Forecast, Value

Set forth below is an illustration of the value of the market of global speciality chemicals, categorized based on the industries and applications for such chemicals (in USD billion):



	2015	2019	2025F
Flavours & Fragrances Ingredients	33	40	54
Construction Chemicals	86	103	139
Water Treatment Chemicals	42	51	70
Textile Chemicals	9	10	13
Home & Personal Care	81	99	138
Paints & Coatings Additives	23	28	38
Dyes and Pigments	58	68	90
Pharma API	166	199	281
Agrochemicals & Fertilizers	161	189	263

	Agro	Pharma	Dyes & Pigments	Paints & Coatings	HPC	Textile	Water Treatment	Construction	F&F
2015-19	**4.1%**	**4.6%**	**4.1%**	**4.7%**	**5.1%**	**3.6%**	**4.9%**	**4.6%**	**4.7%**
2019-25F	**5.8%**	**6.1%**	**4.7%**	**5.1%**	**5.8%**	**3.9%**	**5.4%**	**5.1%**	**5.2%**

The Growing Consumption of Green Chemicals

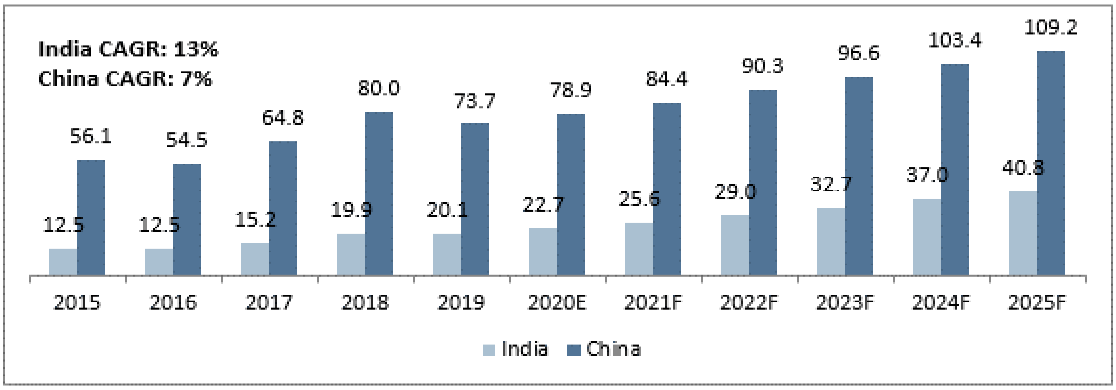
With an increase in awareness of the ill-effects of certain chemicals on humans and the environment, there is a growing trend in the chemicals industry to shift towards what is known as “green chemicals” or more accurately “sustainable chemistry” (environmentally friendly products). These are products which are bio-degradable and which show a significant reduction in environmental impact when applied. Not necessarily all green chemicals would be bio-degradable; there are green products in market which are produced with least effluents, or natural extracts. Such products can be either through reducing energy and water consumption in the process or reducing the chemical and biochemical oxygen demand of the waste generated which reduces treatment costs and is kinder to the environment. The evolution of green chemistry in the chemical industry will be a critical trend fuelling the growth of the green chemicals market. The global green chemicals market is expected to grow by USD 45 billion by 2025 at a CAGR of 10.5% between 2019 and 2025.

India – Racing Ahead of China

Exports are on the rise as India is becoming a central manufacturing hub for such chemicals. Tightening of environmental norms (e.g. REACH registration, evaluation, authorisation and restriction of chemicals regulations) in developed countries and the slowdown of China are contributing to the growth of exports. China's specialty chemicals market has seen a downturn in recent years due to various factors, the most prominent being the introduction of stringent environmental norms. Tightening environmental protection has resulted in new business operating costs and factory closures in high-polluting sectors, which in turn has weighed on industrial production. In 2018, an estimated 40% of the chemical manufacturing capacity in China was temporarily shut down for safety inspections, with over 80,000 manufacturing units charged and fined for breaching emission limits.

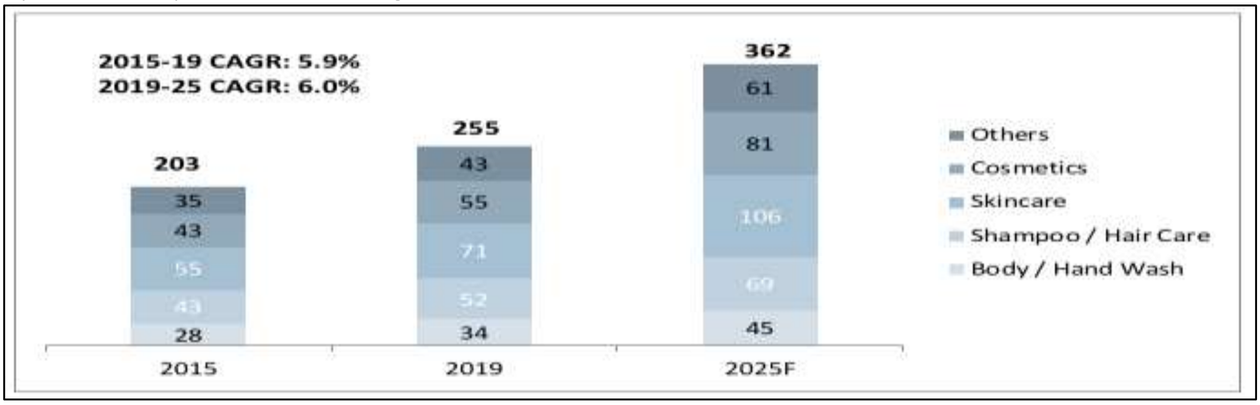
The labour cost in China was lower than that of India till 2007. However, over 2005-2015, the average labour cost in China increased at a CAGR of almost 19% to 20%, against 4% to 5% in India. Over the last five years, this cost has more than doubled compared to India, rendering Chinese manufacturers' uncompetitive vis-à-vis India in terms of labour cost. All these factors are pushing the capex and opex costs upwards, making Chinese chemical companies less competitive in the export market. Specialty chemical companies are expected to succeed in India because of its chemistry, R&D skillset and economies of scales achieved by the country. Major indicators for positive impacts on the specialty chemicals segment in India include the success of 'Make in India' and governments' permit for 100% foreign direct investment ("FDI"), in terms of competitive manufacturing costs, higher investments in R&D, cheaper raw material availability/transport, strong demand from end-use segments, overall supportive ecosystem, etc. Within the specialty chemicals, manufacturing of fine chemicals (pesticide ingredients as well active pharmaceutical ingredients), flavour ingredients, fragrance ingredients, surfactants and colorants will be the most attractive segments in the next half decade. This is predominantly due to their strong growth potential, highly differentiated products folio and high penetration levels. 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.

Chemicals Exports Trend – India v. China (2015 – 2019 Actuals, 2020 – 2025 Forecast), USD billion



Global Personal Care Market

The Global Personal Care market has shown steady growth of 5.8% till Fiscal 2019 and is expected to grow at 6% between 2019 and 2025. The main drivers are increasing disposable income, a growing middle class population and other trends such as men's grooming and increased hygiene awareness. With increasing internet penetration and social media, cosmetics and skin care products are expected to drive the market of personal care products across the globe.



Sustainable and clean products

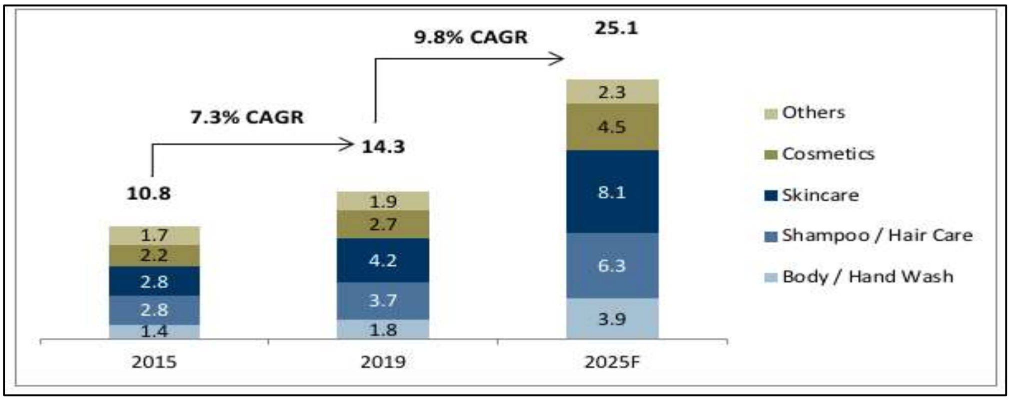
The global demand for natural and organic products is estimated to grow from USD 14.5 billion in 2019 to nearly USD 26 billion by 2025 registering a CAGR of over 10% in the coming years. Majority of these products are composed of plant-derived ingredients such as roots, essential oils, herbs and flowers and a few are composed of the animal-derived ingredients such as minerals and beeswax. From a customer buying behaviour perspective, research proves that an increasing number of consumers read beauty and personal care labels. This has resulted in customers opting for natural and organic products in place of synthetic chemicals, with an aim to reduce probable damage to their skin.

Global Personal Care Ingredients Market

Personal care active ingredients are ingredients added in personal care and cosmetic products to enhance their functional properties. Personal care inactive ingredients refer to those ingredients that provide physical and processable properties to a formulation as opposed to active properties.

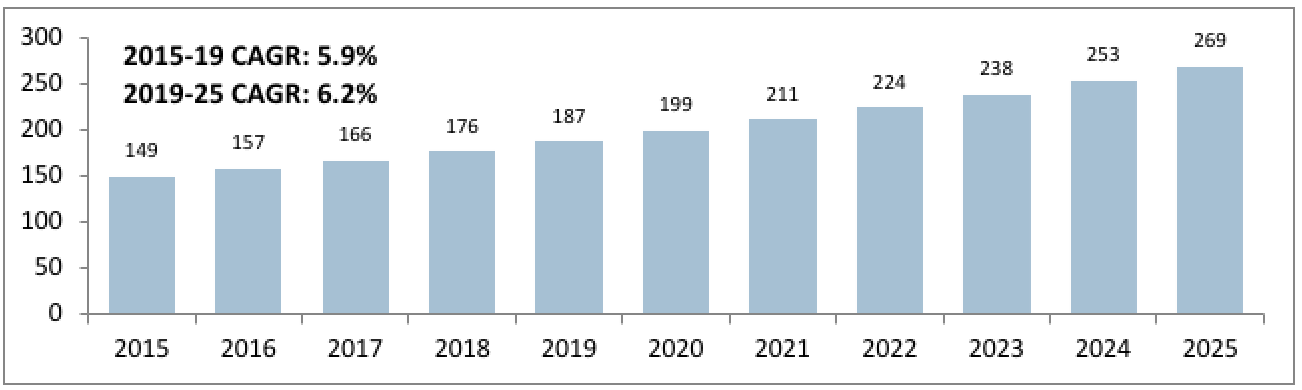
India Personal Care Market

The personal care industry in India is pegged at USD 14.3 billion, and expected to grow at a CAGR of 9.8% to reach USD 25 billion by 2025. Increasing disposable income and a young rising middle class are significant factors driving the market in the country.



Global Pharmaceutical Market

The Global Pharmaceutical market was valued at USD approximately 1.3 trillion in 2019 with a steady growth rate in past of CAGR 4% since 2015. Going forward, it is expected to grow at 4.5% from 2019 till 2025. The global active pharmaceutical ingredient (APIs) 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.



KSM: Key Starting Material
API: Active Pharmaceutical Ingredient

Growth in the Active Pharmaceutical Ingredients ("API") market will be primarily driven by government initiatives, regional penetration, increasing aged population and patent expiration of prominent drugs. The pharmaceutical industry was among the first to embrace Green Chemistry ("GC") for its significant potential to reduce costs and risks. Green pharmaceuticals as a segment are projected to grow to USD 96.2 billion in 2026. The industry has taken effort to implement key metrics to keep track of GC which includes E-factor, Process Mass Intensity ("PMI"), atom economy, number of steps, and carbon foot- print, among others. While E-factor was the first metric used by the industry, recent studies show PMI as the most preferred metric among "big pharma". PMI measures the ratio between the mass of all materials used to make a product and the mass of the product.

Indian government bodies such as the Department of Science and Technology, the Ministry of Chemicals and Fertilizers, and the Department of Pharmaceuticals, are beginning to organize various GC initiatives including partnering with SMEs to partially fund investments in green technology. Generic drug pharma and Active Pharmaceutical Ingredients ("API") manufacturers in India exhibit significant interest and some advances in using GC principles. At the same time, 65% of Indian companies rely on treatment and disposal of wastewater instead of source reduction and one in five (20%) do not use any GC metrics. The study found that generic pharma is more advanced in adopting GC principles than API manufacturers. Regulatory risk and time pressures to deliver drugs were reported as the two most significant barriers for greater adoption of GC in India, while cost savings and environmental regulations were cited as the top two drivers.

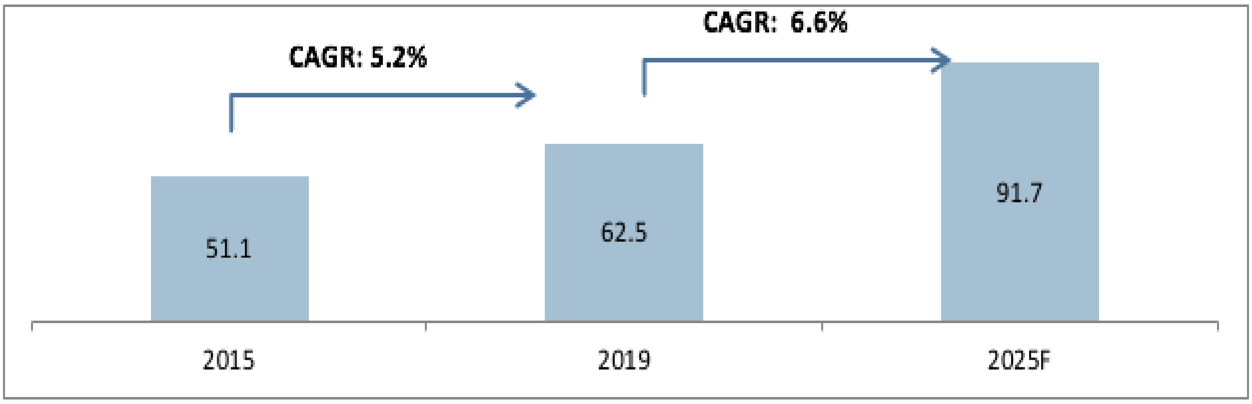
Domestic Consumption vs. Exports

Of the total domestic API demand, about 32–35% was imported in 2019. Of the overall imports, 57-60% of the imported APIs originate from China alone. Countries such as Italy, Germany, Malaysia and others are the other countries of origin. These facts suggest that the domestic API market has enough potential to expand if manufacturers are willing to self-produce the required quantity of APIs instead of importing them. The Government of India announced a Rs. 99.40 billion package to boost the domestic API manufacturing industry. The package is divided into two parts; (i) Rs. 69.40 billion has been allocated for the PLI Scheme and (ii) Rs. 30.00 billion will be spent on setting up three bulk drug parks. Out of the total allocation of Rs. 69.40 billion for the PLI Scheme, Rs. 46.00 billion will be earmarked for fermentation-based products and Rs. 23.40 billion for chemical synthesis products. The PLI scheme is applicable two broad categories; (i) chemical synthesis products comprising of 27 KSM/APIs and (ii) fermentation-based products comprising of 14 KSM/APIs. Under the fermentation-based category, two companies per product will benefit from the incentives, while four companies per product will benefit under the chemical synthesis category. These initiatives and government support will help India attain self-sufficiency in the drug supply chain. Market for cough syrups global (USD million), 2015-2025 Forecast The global cough syrup market was valued at USD 4.1 billion in 2019 and is expected to grow at a CAGR of approximately 3.5 % to reach USD 4.9 billion by 2025. The increasing incidences of respiratory disorders along with the rising air pollutio n are some of the key factors contributing to the growth of the cough syrup market.

Global Agrochemicals Market

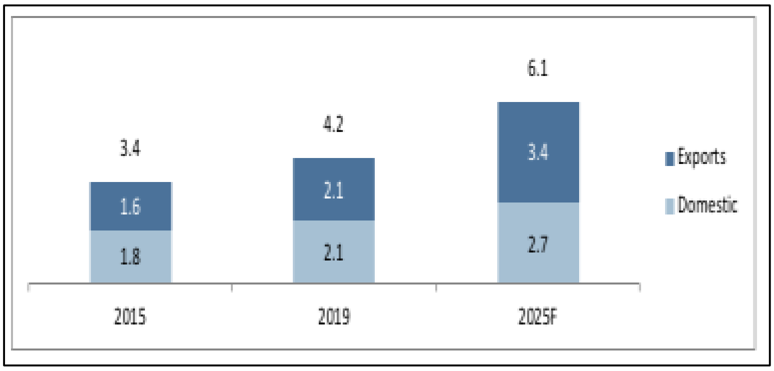
Note: Agrochemical section does not include commodity products such as fertilizers. It only covers crop protection products such as herbicides, insecticides, fungicides, etc. The global agrochemicals market was valued at USD 62.5 billion in 2019 and is forecasted to reach USD 92 billion by 2025 growing at a compound annual growth rate (CAGR) of 6.6%. The rising population across the world, accompanied by rising affluence, is seeing a shift in consumption patterns.

Global agrochemicals market (in USD billion), 2015, 2019 and 2025 Forecast



Indian crop protection chemicals market by exports and domestic consumption (USD billion)

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.



	Domestic	Exports	Total
2015-19	3.9%	7.0%	5.4%
2019-25F	4.3%	8.4%	6.4%

Global Flavours & Fragrances Market Overview

The flavour and fragrance industry is a USD 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 USD 25.6 billion in 2014 to USD 33.6 billion in 2019.

India Flavours & Fragrances Market ("F&F") Overview

The Indian flavour and fragrance industry was valued at USD 0.95 billion in 2019. The market is expected to grow at a CAGR of 10.2% between 2019 and 2025. Growth in population, rapid urbanisation, uptrend in lifestyle, double earning families and the increased need for convenience and personal control provides a big boost to the F&F industry as demand for packaged foods, beverages, home care, personal care, cosmetics, toiletries, pharmaceuticals and nutraceuticals increase. The increasing demand for convenience food products has propelled companies to introduce innovative flavours boosting the F&F market growth.

Key Concerns:

- Operations are dependent on R&D capabilities and an inability to continue to design catalytic processes may adversely affect the business.

- None of the catalytic processes are patented and its intellectual property may not be adequately protected, which may have a material adverse impact on the business and results of operations.

- CSTL depends on the success of its relationships with its customers. A significant portion of its revenue is generated from certain key customers, and the loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for its products could adversely affect its business, results of operations, financial condition and cash flows.

- Business is dependent on the manufacturing facilities and is subject to certain risks in its manufacturing processes. Any unscheduled, unplanned or prolonged disruption of manufacturing operations could materially and adversely affect its business, financial condition and results of operations.

- CSTL typically does not enter into long-term agreements with majority of its customers, and an inability to continue to engage with them would have a material adverse effect on its business, results of operations and financial condition.

- CSTL does not have long-term agreements with suppliers for raw materials and an increase in the cost of, or a shortfall in the availability or quality of such raw materials, in a timely manner or at all, could have an adverse effect on the business and results of operations.

- A significant proportion of the revenues are derived from sale of MEHQ and any reduction in the demand for MEHQ could have an adverse effect on the business, results of operations and financial condition.

- Derives a significant portion of the revenues from operations from a limited number of markets and any adverse developments in these markets could adversely affect the business.

- The specialty chemicals industry requires significant capital, and it may need to seek additional financing in the future to support its growth strategies. Any failure to raise additional financing could have an adverse effect on the business, results of operations, financial condition and cash flows.

- Manufacturing facilities are all 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 operations.

- CSTL is subject to strict quality requirements, regular inspections and audits by entities such as the USFDA and Bureau Veritas, and the success and wide acceptability of its products is largely dependent upon the quality controls and standards. Any failure to comply with quality standards may adversely affect the business prospects and financial performance, including cancellation of existing and future orders which may expose it to warranty claims.

- Exchange rate fluctuations may adversely affect the results of operations as its sales from exports and a significant portion of its expenditures are denominated in foreign currencies.

- Restrictions on import of raw materials and an increase in shipment cost may adversely impact the business and results of operations.

- CSTL's business is dependent on the delivery of adequate and uninterrupted supply of electrical power and water at a reasonable cost. Any shortages or any prolonged interruption or increase in the cost of power and water, could adversely affect the business, result of operations and financial conditions.

- CSTL's proposed capacity expansion plans relating to manufacturing facilities are subject to the risk of unanticipated delays in implementation and cost overruns.

- The specialty chemicals industry provides for significant entry barriers. It face competition from both domestic as well as multinational corporations and its inability to compete effectively could result in the loss of customers, hence, its market share, which could have an adverse effect on the business, results of operations, financial condition and future prospects.

- Non-compliance with and adverse changes in health, safety, labour, and environmental laws and other similar regulations to its manufacturing operations may adversely affect the business, results of operations and financial condition.

- Operate in a hazardous industry and are subject to certain business and operational risks consequent to its operations, such as, the manufacture, usage and storage of various hazardous substances.

- Adverse geopolitical conditions such as increased tensions between India and China, could adversely affect the business, results of operations and financial condition.

- CSTL is subject to risks associated with rejection of supplied products, and consequential claims and associated product liability costs due to defects in its products, which could generate adverse publicity or adversely affect the business, results of operations or financial condition.

- CSTL is required to obtain, renew or maintain statutory and regulatory permits, licenses and approvals to operate its business and its manufacturing facilities, and any delay or inability in obtaining, renewing or maintaining such permits, licenses and approvals could result in an adverse effect on the results of operations.

- Any adverse changes in regulations governing the business, products and the products of CSTL's customers, may adversely impact the business, prospects and results of operations.

- CSTL currently avails benefits under certain export promotion schemes and is entitled to certain incentives. Any change in these benefits and incentives applicable to it or a delay in disbursement of benefits under such schemes may affect the results of operations.

- Under-utilization of manufacturing capacities and an inability to effectively utilize expanded manufacturing capacities could have an adverse effect on the business, future prospects and future financial performance.

- An inability to effectively manage growth and expansion may have a material adverse effect on the business prospects and future financial performance.

- The continuing impact of the COVID-19 pandemic on CSTL's business and operations is uncertain and it may be significant and continue to have an adverse effect on its business, operations and its future financial performance.

- There is a growing consumption of green chemicals and evolution of green chemistry driving other companies to adopt green chemistries, which may affect CSTL's competitive position and thereby have an adverse effect on its business, results of operations, and financial condition.

- CSTL's commercial success depends on the success of its customer's products with end consumers.

- Inability to accurately forecast demand or price for the products and manage inventory may adversely affect the business, results of operations and financial condition.

- Newly developed products may replace existing products and its R&D efforts may not yield new products, processes and solutions consistently to enable CSTL to remain competitive.

- Failure to maintain confidential information of customers could adversely affect the results of operations and, or, damage the reputation.

- Inability to collect receivables and default in payment from customers could result in the reduction of profits and affect the cash flows.

- Dependent on third party transportation providers for the supply of raw materials and delivery of products.

- CSTL's growth strategy includes augmenting its organic growth by pursuing selective acquisitions and strategic alliances. If it is unable to successfully identify and integrate acquisitions, its growth strategy, business, financial condition, results of operations and prospects may be adversely affected.

- An inability to effectively manage growth or to successfully implement the business plan and growth strategy could have an adverse effect on the business, results of operations, financial condition, and cash flows.

- Significant disruptions of information technology systems or breaches of data security could adversely affect the business.

- Operations are labour intensive and its manufacturing operations may be materially adversely affected by strikes, work stoppages or increased wage demands by the employees or those of its suppliers.

- CSTL's customers may engage in certain transactions in or with countries or persons that are subject to U.S. and other sanctions.

- A slowdown in economic growth in India could cause the business to suffer.

Profit & Loss

Particulars (Rs in million)	FY21	FY20	FY19
Revenue from Operations	5124.3	4193.0	3932.7
Other Income	256.4	108.7	112.9
Total Income	**5380.7**	**4301.7**	**4045.6**
Total Expenditure	**2534.7**	**2340.1**	**2569.6**
Cost of material consumed	1378.6	1279.8	1786.1
Changes in inventories of finished goods and work-in-progress	-142.8	12.6	-73.9
Employee benefits expense	435.6	310.1	248.6
Other expenses	863.3	737.6	608.8
PBIDT	**2846.0**	**1961.5**	**1476.0**
Interest	0.9	1.2	0.3
PBDT	2845.1	1960.3	1475.7
Depreciation, amortization and impairment expense	172.1	137.1	110.3
PBT	**2673.0**	**1823.2**	**1365.4**
Tax (incl. DT & FBT)	**689.2**	**426.9**	**388.8**
Net Current Tax	617.5	461.2	350.8
Deferred tax charge / (credit)	71.7	-34.3	38.0
PAT	**1983.8**	**1396.3**	**976.6**
EPS (Rs.)	18.7	13.1	9.2
Equity (Latest)	106.2	106.2	106.2
Face Value	1.0	1.0	1.0
OPM (%)	50.5	44.2	34.7
PATM (%)	38.7	33.3	24.8

Balance Sheet

Particulars (Rs in million) As at	FY21	FY20	FY19
Assets			
Non-current assets			
Property, plant and equipment	1826.0	1626.3	1248.7
Right-of-use assets	29.8	27.0	18.6
Capital work-in-progress	549.9	34.2	39.3
Other intangible assets	2.7	2.5	2.4
Financial assets			
- Loans	21.2	12.2	9.8

- Other financial assets	155.0	3.5	3.0
Income tax assets (net)	14.4	3.1	4.0
Other non-current assets	48.8	20.0	23.1
Total non-current assets	**2647.8**	**1728.7**	**1348.9**
Current assets			
Inventories	529.0	345.9	370.2
Financial assets			
- Investments	2321.1	1329.8	752.5
- Trade receivables	742.3	698.3	597.7
- Cash and cash equivalents	93.4	92.1	94.2
- Bank balances other than (iii) above	63.4	0.8	0.3
- Loans	2.3	2.3	0.0
- Other financial assets	95.2	61.1	43.8
Other current assets	104.7	39.9	67.1
Total current assets	**3951.4**	**2570.1**	**1925.8**
Total assets	**6599.2**	**4298.8**	**3274.7**
Equity and Liabilities			
Equity			
Equity Share Capital	106.2	13.3	14.2
Other equity	5290.5	3407.7	2706.4
Total equity	**5396.7**	**3421.0**	**2720.6**
Liabilities			
Non-current liabilities			
Financial liabilities			
- Borrowings	3.3	2.9	1.3
Deferred tax liabilities (net)	175.7	102.0	138.8
Provisions	3.7	3.3	2.9
Total non-current liabilities	**182.7**	**108.2**	**143.0**
Current liabilities			
Financial liabilities			
- Borrowings	0.0	24.0	24.7
- Trade payables			
total outstanding dues of micro enterprises and small enterprises	2.4	1.0	2.0
total outstanding dues of creditors other than micro enterprises and small enterprises	607.5	355.9	221.4
Other financial liabilities	277.9	184.4	108.5
Other current liabilities	130.5	172.9	53.3
Provisions	1.5	1.5	1.3
Current tax liabilities (Net)	0.0	29.8	0.0
Total current liabilities	**1019.8**	**769.6**	**411.1**
Total equity and liabilities	**6599.2**	**4298.8**	**3274.7**

(Source:RHP)

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