

Clean Science & Technology

Estimate changes



TP change



Rating change



Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	155.3 / 1.9
52-Week Range (INR)	1622 / 1227
1, 6, 12 Rel. Per (%)	-8/0/-25
12M Avg Val (INR M)	228

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	7.6	9.9	12.3
EBITDA	3.2	4.0	4.8
PAT	2.3	2.9	3.5
EPS (INR)	21.6	27.0	33.1
EPS Gr. (%)	-22.3	25.0	22.7
BV/Sh.(INR)	112.8	134.9	162.0
Ratios			
Net D:E	-0.1	-0.1	-0.1
RoE (%)	20.8	21.8	22.3
RoCE (%)	20.4	21.5	22.0
Payout (%)	18.0	18.0	18.0
Valuations			
P/E (x)	67.7	54.2	44.2
P/BV (x)	13.0	10.8	9.0
EV/EBITDA (x)	47.9	38.7	31.7
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	0.7	0.6	1.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	78.5
DII	5.1	5.2	4.7
FII	5.9	6.0	4.0
Others	14.0	12.8	12.9

FII Includes depository receipts

CMP: INR1,461

TP: INR1,420 (-3%)

Neutral

Early signs of demand recovery but realization still subdued

- Clean Science's (CLEAN) reported EBITDA in 3QFY24 came in line with our estimate at INR866m, with a gross margin of 66.8% (vs. est. 68.5%). EBITDAM contracted to 44.5% from 45.6% in 3QFY23. Revenue contribution of FMCG Chemicals contracted QoQ in 3QFY24, while that of Performance Chemicals and Pharma & Agro stood flat.
- The management highlighted that the sequential improvement in revenue was on account of higher volumes. Realization remained flat due to downward pressure from China and is expected to remain subdued in the near term amid capacity additions in China.
- Revenue share of principal products improved to 78% in 3QFY24 from 73% in 2QFY24, led by 60% QoQ growth in Guaiacol sales. However, the contribution of principal products is expected to decline going ahead since no capacity enhancements are currently underway.
- Commercial production from CFCL is expected to commence in 4QFY24 and the company expects HALS utilization to reach 80% in three years. Commercial production of pharma intermediate is expected to commence in 3QFY25 and will cater primarily to Indian customers.
- CLEAN is currently trading at 54x FY25E EPS of INR25 and 39x FY25E EV/EBITDA. We value the stock at 45x FY26E EPS to arrive at our TP of INR1,420.

Performance improves sequentially but weak YoY

- Reported revenue came in line with our estimates at INR1.9b (-18% YoY).
- Gross margin stood at 66.8% (-40bp YoY).
- EBITDA margin was at 44.5% (-110bp YoY).
- EBITDA was in line with est. at INR866m (-20% YoY).
- PAT was in line at INR626m (-25% YoY).
- For 9MFY24, revenue stood at INR5.6b (-22% YoY), EBITDA at INR2.4b (-20%) and PAT stood at INR1.7b (-19%).
- EBITDAM stood at 42.1% (+80bp YoY).

Segmental and other highlights

- Revenue from Pharma Chemicals stood at INR370m (-3% YoY), while that from Performance Chemicals came in at INR1.3b (-23% YoY). Revenue from FMCG Chemicals stood at INR370m (-11% YoY).
- Domestic revenue stood at 36%, while the rest came from exports.
- Exports to China increased sequentially, while those to Europe declined.
- CLEAN incurred a total capex of INR2,250m in 9MFY24, including investments of INR2,150 in subsidiary.

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Valuation and view

- CLEAN is actively pursuing R&D and has entered the HALS series, which has an estimated global market size of USD1b. Commercial production from CFCL is expected to commence soon and the management expects HALS utilization to reach 80% in three years.
- CLEAN is expected to generate INR2.4b in FCF during FY25-26, with a planned capex of INR4b for the same period. The company plans to finance this capex through internal accruals and is projected to maintain a net cash position in the future.
- The company is currently trading at 54x FY25E EPS of INR25 and 39x FY25E EV/EBITDA. We value the stock at 45x FY26E EPS to arrive at our TP of INR1,420.

Consolidated - Quarterly Snapshot**(INR m)**

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	2,341	2,475	2,374	2,169	1,881	1,811	1,947	1,981	9,358	7,621	1,995	-2%
YoY Change (%)	60.0	61.6	31.3	6.0	-19.6	-26.8	-18.0	-8.6	36.6	-18.6	-16.0	
Gross Margin (%)	61.0%	62.5%	67.2%	70.5%	61.4%	65.9%	66.8%	67.4%	65.2%	65.0%	68.5%	-1.7%
EBITDA	913	975	1,082	1,051	761	748	866	880	4,021	3,224	895	-3%
Margin (%)	39.0	39.4	45.6	48.5	40.5	41.3	44.5	44.4	43.0	42.3	44.9	-0.4
Depreciation	85	87	89	101	108	111	113	117	361	449	114	
Interest	0	0	1	1	1	3	1	4	2	8	2	
Other Income	18	28	126	126	134	60	78	14	298	286	55	
PBT before EO expense	847	916	1,118	1,075	787	695	830	772	3,956	3,052	834	0%
PBT	847	916	1,118	1,075	787	695	830	772	3,956	3,052	834	0%
Tax	218	237	280	270	198	173	204	185	1,005	760	210	
Rate (%)	25.7	25.8	25.1	25.1	25.1	24.9	24.6	24.0	25.4	24.9	25.2	
Reported PAT	629	679	838	805	589	522	626	586	2,952	2,292	624	0%
YoY Change (%)	15.2	26.9	44.5	29.1	-6.3	-23.2	-25.3	-27.2	29.2	-22.3	-25.5	
Margin (%)	26.9	27.5	35.3	37.1	31.3	28.8	32.2	29.6	31.5	30.1	31.3	0.9

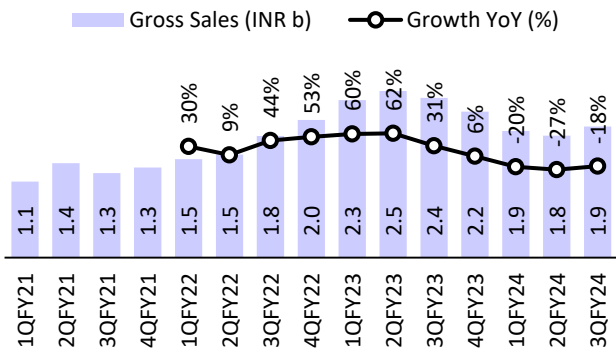


Management concall highlights

- QoQ revenue growth was driven by higher volumes.
- However, realization remained flat amid continued dumping from China.
- The share of principal products increased to 78% in 3QFY24 from 73% in 2Q.
- YoY revenue declined 18%, of which 5% was due to volume and 13% due to realization.
- Segment-wise revenue trends:
 - Performance chemicals revenue declined YoY due to lower realizations.
 - Pharma and agro intermediates were steady as volume-led growth offset lower realization.
 - FMCG chemicals revenue declined due to lower realization.
- Commercial production from Clean Finochem expected in 4QFY24.
- Margins for MEHQ and BHA have reached pre-Covid levels in percentage terms; however, they are still lower compared to pre-Covid levels on per kg basis
- All 10 HALS products can be manufactured from 1st day at the new plant; however, the company will start with one product at a time and will not start all products simultaneously.
- CLEAN is not planning to start entire HALS capacity and will be starting just 25% initially.
 - Even if HALS demand remains subdued, the company expects to sell enough quantity to utilize 25% of installed capacity.
 - HALS utilization is expected to reach 80% in three years.
- The destocking trend is most likely over; however, demand concerns persist.
- MEHQ utilization is at 60-65%.
- Commercial production of new pharma intermediates will start in 3QFY25 and will cater primarily to domestic customers.

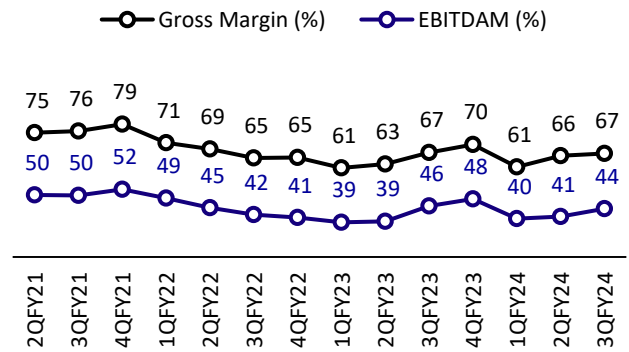
3QFY24 story in charts

Exhibit 1: Revenue declined 18% YoY



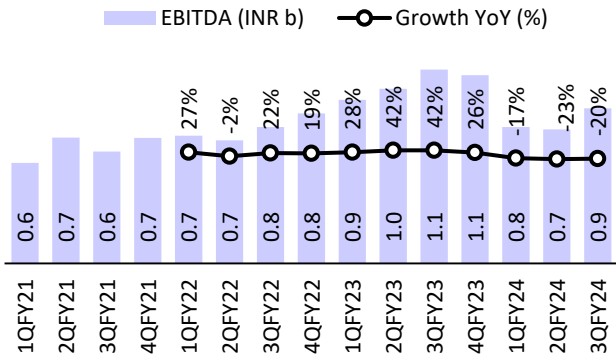
Source: Company, MOFSL

Exhibit 2: GM and EBITDAM contracted



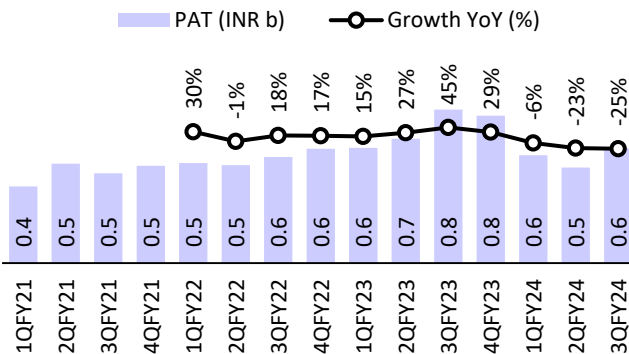
Source: Company, MOFSL

Exhibit 3: EBITDA declined 20% YoY



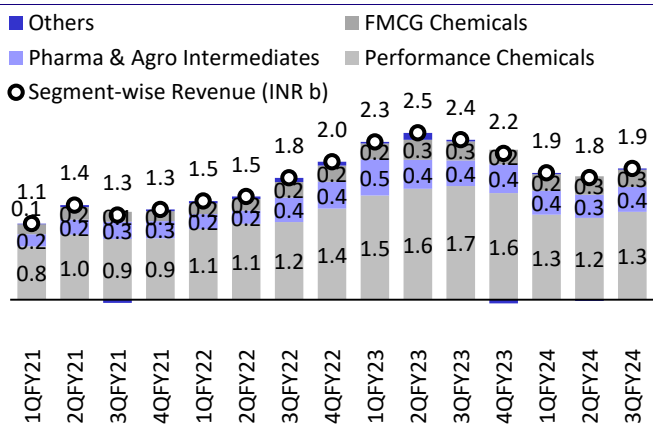
Source: Company, MOFSL

Exhibit 4: PAT was down 25% YoY



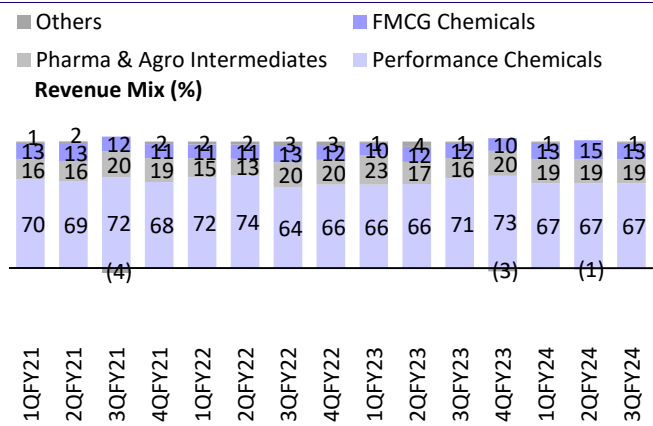
Source: Company, MOFSL

Exhibit 5: Revenue from all segments declined YoY



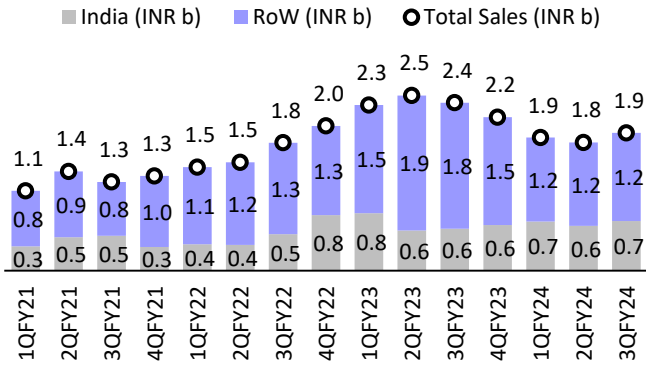
Source: Company, MOFSL

Exhibit 6: Contribution from segments remained fairly stable



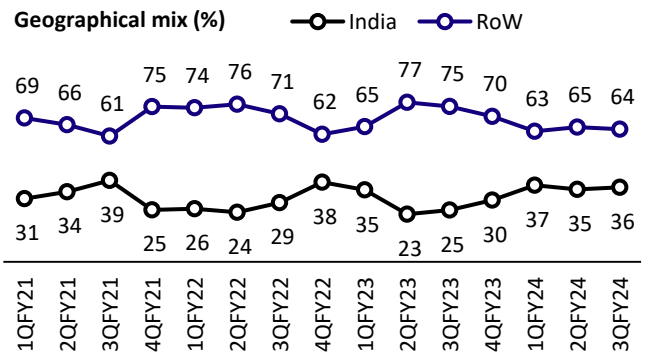
Source: Company, MOFSL

Exhibit 7: Domestic sales increased 18% YoY



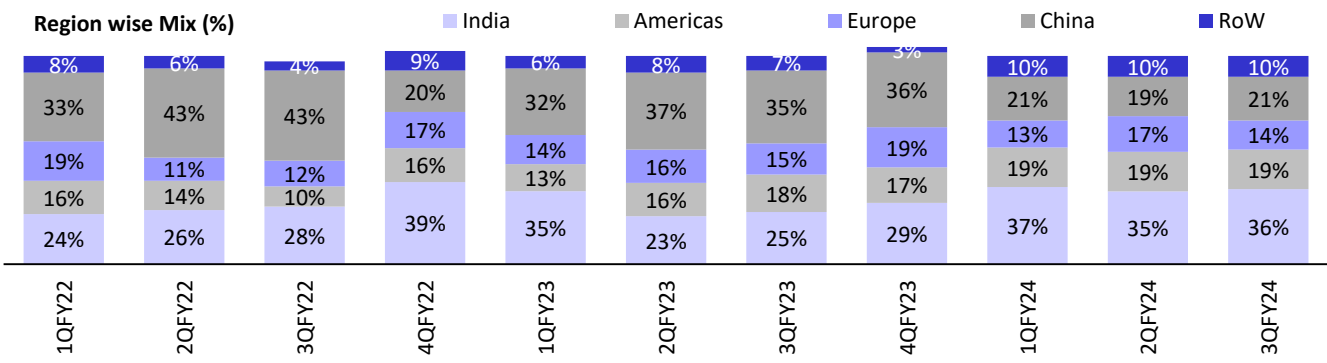
Source: Company, MOFSL

Exhibit 8: Contribution from domestic market increased YoY



Source: Company, MOFSL

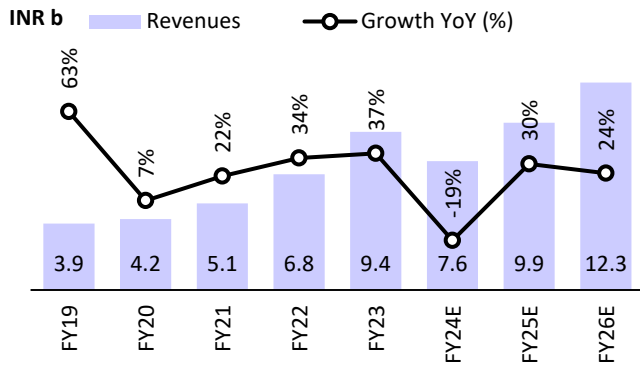
Exhibit 9: Contribution from America and ROW increased, while the same from China declined



Source: Company, MOSL

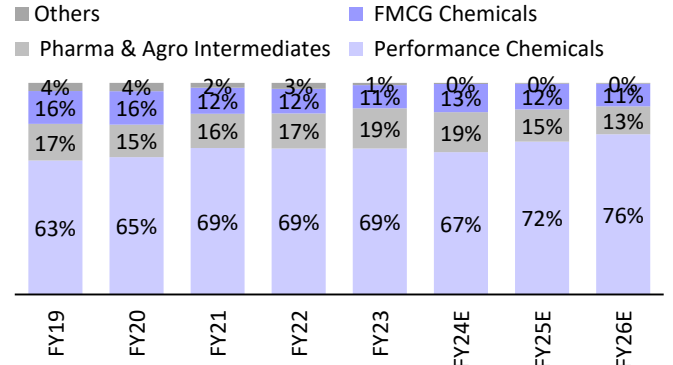
Financial story in charts

Exhibit 10: Expect 9.5% revenue CAGR over FY24-26...



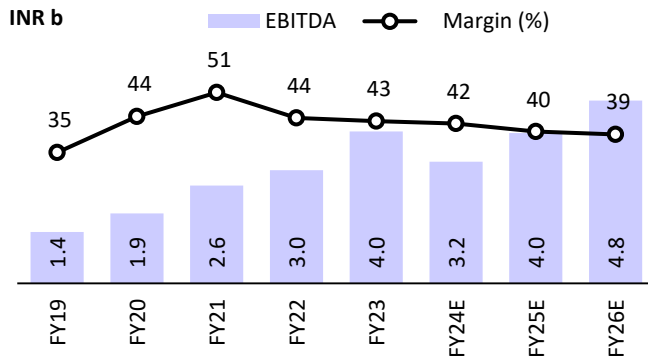
Source: Company, MOFSL

Exhibit 11: ...driven by contribution from Performance Chemicals



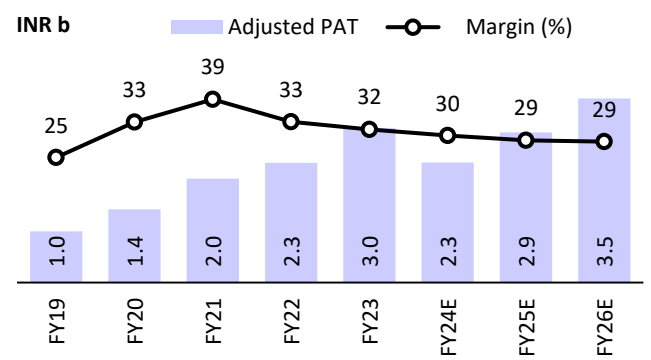
Source: Company, MOFSL

Exhibit 12: EBITDA margin to normalize with commissioning of HALS and capacity ramp up of the same



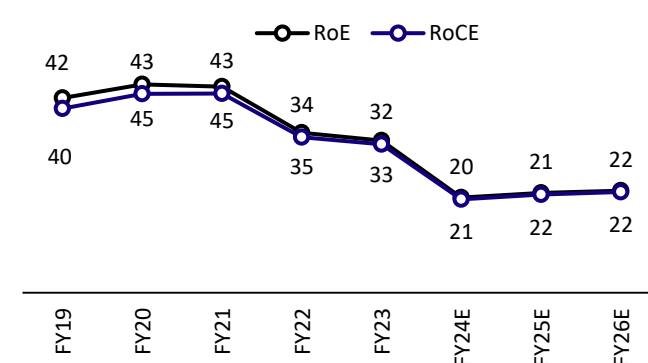
Source: Company, MOFSL

Exhibit 13: PAT margin also expected to normalize



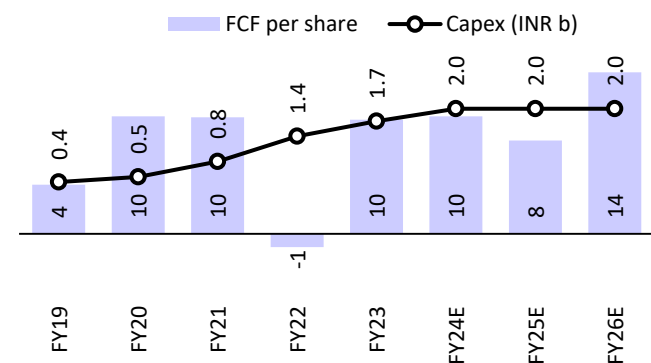
Source: Company, MOFSL

Exhibit 14: Return profile to moderate vs. FY21 due to capacity additions



Source: Company, MOFSL

Exhibit 15: Expect capex of INR4b (to be funded via internal accruals) over FY25-26



Source: Company, MOFSL

Financials and valuations

Consolidated - Financial Snapshot

	(INR m)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	3,933	4,193	5,124	6,849	9,358	7,621	9,897	12,273
Change (%)	63.1	6.6	22.2	33.7	36.6	-18.6	29.9	24.0
Gross Margin (%)	56.5	69.2	75.9	67.2	65.2	65.0	65.0	65.3
EBITDA	1,363	1,853	2,590	2,999	4,021	3,224	3,979	4,842
Margin (%)	34.7	44.2	50.5	43.8	43.0	42.3	40.2	39.5
Depreciation	110	137	172	249	361	449	455	461
EBIT	1,253	1,716	2,417	2,750	3,660	2,774	3,524	4,381
Int. and Finance Charges	0	1	1	1	2	8	9	11
Other Income	113	109	256	300	298	286	314	328
PBT bef. EO Exp.	1,365	1,823	2,673	3,048	3,956	3,052	3,829	4,697
PBT after EO Exp.	1,365	1,823	2,673	3,048	3,956	3,052	3,829	4,697
Total Tax	389	427	689	763	1,005	760	964	1,182
Tax Rate (%)	28.5	23.4	25.8	25.0	25.4	24.9	25.2	25.2
Reported PAT	977	1,396	1,984	2,285	2,952	2,292	2,865	3,515
Adjusted PAT	977	1,396	1,984	2,285	2,952	2,292	2,865	3,515
Change (%)	100.7	43.0	42.1	15.2	29.2	-22.3	25.0	22.7
Margin (%)	24.8	33.3	38.7	33.4	31.5	30.1	28.9	28.6

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	14	13	106	106	106	106	106	106
Total Reserves	2,706	3,408	5,290	7,578	9,994	11,873	14,223	17,105
Net Worth	2,721	3,421	5,397	7,684	10,100	11,980	14,329	17,211
Total Loans	26	27	3	3	1	1	1	1
Deferred Tax Liabilities	139	102	176	209	234	234	234	234
Capital Employed	2,885	3,550	5,576	7,897	10,335	12,214	14,564	17,446
Gross Block	1,724	2,247	2,610	3,959	5,963	7,065	8,617	10,392
Less: Accum. Deprn.	454	591	752	1,001	1,362	1,811	2,266	2,727
Net Fixed Assets	1,270	1,656	1,859	2,957	4,601	5,254	6,350	7,665
Capital WIP	39	34	550	441	205	1,102	1,551	1,776
Total Investments	752	1,330	2,321	1,911	3,531	3,531	3,531	3,531
Curr. Assets, Loans&Adv.	1,213	1,279	1,870	3,938	3,181	3,292	4,382	6,024
Inventory	370	346	529	881	1,088	886	1,151	1,427
Account Receivables	598	698	742	1,535	1,462	1,191	1,546	1,917
Cash and Bank Balance	95	93	157	747	125	803	1,150	2,016
Cash	94	92	93	579	125	803	1,150	2,016
Bank Balance	0	1	63	168	0	0	0	0
Loans and Advances	151	142	442	774	506	412	535	664
Curr. Liability & Prov.	390	749	1,023	1,350	1,184	965	1,251	1,550
Account Payables	223	357	610	1,021	805	656	852	1,056
Other Current Liabilities	162	387	408	324	370	302	392	486
Provisions	4	5	5	5	8	8	8	8
Net Current Assets	824	530	846	2,587	1,997	2,327	3,131	4,474
Appl. of Funds	2,885	3,550	5,576	7,897	10,334	12,214	14,564	17,446

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	9.2	13.1	18.7	21.5	27.8	21.6	27.0	33.1
EPS Growth (%)	100.7	43.0	42.1	15.2	29.2	-22.3	25.0	22.7
Cash EPS	10.2	14.4	20.3	23.9	31.2	25.8	31.2	37.4
BV/Share	25.6	32.2	50.8	72.3	95.1	112.8	134.9	162.0
DPS	0.9	1.0	0.3	3.3	5.0	3.9	4.9	6.0
Payout (%)	9.5	7.4	1.7	15.1	18.0	18.0	18.0	18.0
Valuation (x)								
P/E	159.0	111.2	78.3	67.9	52.6	67.7	54.2	44.2
Cash P/E	142.8	101.2	72.0	61.3	46.9	56.6	46.8	39.1
P/BV	57.1	45.4	28.8	20.2	15.4	13.0	10.8	9.0
EV/Sales	39.5	37.0	30.3	22.6	16.6	20.3	15.6	12.5
EV/EBITDA	113.8	83.7	59.9	51.5	38.6	47.9	38.7	31.7
Dividend Yield (%)	0.1	0.1	0.0	0.2	0.3	0.3	0.3	0.4
FCF per share	4.3	10.3	10.2	-1.2	10.0	10.3	8.2	14.2
Return Ratios (%)								
RoE	42.5	45.5	45.0	34.9	33.2	20.8	21.8	22.3
RoCE	40.2	43.4	43.5	33.9	32.4	20.4	21.5	22.0
RoIC	51.4	64.2	77.3	56.1	48.5	31.4	34.9	35.5
Working Capital Ratios								
Fixed Asset Turnover (x)	3.4	2.9	2.9	2.8	2.5	1.5	1.7	1.8
Asset Turnover (x)	1.4	1.2	0.9	0.9	0.9	0.6	0.7	0.7
Inventory (Days)	34.4	30.1	37.7	47.0	42.4	42.4	42.4	42.4
Debtor (Days)	55.5	60.8	52.9	81.8	57.0	57.0	57.0	57.0
Creditor (Days)	20.7	31.1	43.4	54.4	31.4	31.4	31.4	31.4
Leverage Ratio (x)								
Current Ratio	3.1	1.7	1.8	2.9	2.7	3.4	3.5	3.9
Net Debt/Equity	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,365	1,823	2,673	3,048	3,956	3,052	3,829	4,697
Depreciation	110	137	172	249	361	449	455	461
Interest Expenses	0	1	1	1	2	8	9	11
Others	-65	-67	-109	-126	-153	0	0	0
Direct Taxes Paid	-355	-424	-659	-691	-945	-760	-964	-1,182
(Inc)/Dec in WC	-208	131	-149	-1,209	-428	349	-457	-477
CF from Operations	848	1,601	1,928	1,273	2,793	3,098	2,872	3,510
(Inc)/Dec in FA	-388	-503	-840	-1,396	-1,727	-2,000	-2,000	-2,000
Free Cash Flow	460	1,098	1,088	-123	1,067	1,098	872	1,510
Change in Investments	-576	-563	-1,078	532	-1,410	0	0	0
Others	14	3	51	78	439	0	0	0
CF from Investments	-950	-1,063	-1,867	-786	-2,698	-2,000	-2,000	-2,000
Issue of Shares	0	0	0	0	9	0	0	0
Inc/(Dec) in Debt	20	1	-24	0	0	0	0	0
Interest Paid	0	-1	-1	-1	-1	-8	-9	-11
Dividend Paid	-128	-153	-33	0	-558	-412	-516	-633
Others	10	-386	-1	0	0	0	0	0
CF from Fin. Activity	-98	-540	-59	-1	-550	-420	-525	-644
Inc/Dec of Cash	-200	-3	1	486	-454	678	347	866
Opening Balance	295	95	92	93	579	125	803	1,150
Closing Balance	95	92	93	579	125	803	1,150	2,016

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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