

Clean Science & Technology

Estimate changes



TP change



Rating change



CMP: INR1,484

TP: INR1,430 (-4%)

Neutral

Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USD\$b)	157.7 / 1.9
52-Week Range (INR)	1690 / 1243
1, 6, 12 Rel. Per (%)	1/5/-16
12M Avg Val (INR M)	273

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	9.4	12.8	16.5
EBITDA	3.8	5.0	6.3
PAT	2.6	3.8	4.8
EPS (INR)	24.4	36.0	45.6
EPS Gr. (%)	6.2	47.7	26.6
BV/Sh.(INR)	134.4	165.8	205.4

Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	19.7	24.0	24.6
RoCE (%)	19.3	23.6	24.2
Payout (%)	13.1	13.1	13.1

Valuations

P/E (x)	60.9	41.2	32.6
P/BV (x)	11.0	9.0	7.2
EV/EBITDA (x)	41.8	30.9	24.3
Div. Yield (%)	0.2	0.3	0.4
FCF Yield (%)	0.7	1.1	1.7

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	75.0	75.0	75.0
DII	4.8	4.6	5.2
FII	5.8	6.1	6.0
Others	14.4	14.4	13.8

FII Includes depository receipts

Pressure on margin continues to hurt performance

- Clean Science (CLEAN)'s reported EBITDA in 2QFY25 was below our estimate at INR897m (+20% YoY), with a gross margin of 62.4% (vs. 65.9% in 2QFY24). EBITDAM contracted to 37.7% from 41.3% in 2QFY24. Revenue contribution of Performance Chemicals increased 2% YoY in 2QFY25, while that of Pharma & Agro Intermediates declined 1% YoY. PAT increased 13% YoY to INR587m.
- A strong YoY growth was observed across various segments, fueled by higher volumes, with the markets in the Americas and China witnessing meaningful expansion. Absolute revenue doubled in the Americas on a sequential basis as commissioning of HALS701 opened up the market for water treatment chemicals. Management highlighted that there was on average 70% capacity utilization for the standalone business, while the utilization for the HALS segment was very low due to the recent commissioning of the plant.
- CFCL has commenced production of three HALS products, namely, HALS622, HALS944, and HALS119. Management expects volumes to pick up in the next couple of quarters. At peak utilization, the HALS product segment is expected to generate a margin of 25%. Management highlighted that its focus would be on volume growth in 3QFY25 and also to capture higher market share in the legacy products while striving for improved margin.
- CLEAN expended INR1.6b in CFCL in 1HFY25 and plans to commercialize the pharma intermediate product in Nov'24. The peak revenue guidance stands at INR800-900m with a capex of INR300m. It is constructing a production block for a performance chemical with a capex of INR1.5b and peak revenue of INR3.5b. This will be ready by 1HFY26. Construction of a new water treatment chemical is likely to start in the next two weeks and will be commissioned by Dec'25. Capex stands at INR1.5b with an asset turn of ~2x.
- Due to the company's underperformance in 2QFY25, we cut our FY25 EBITDA/PAT estimates by 6%/8%, while maintaining our estimates for FY26. We account for commissioning of the aforementioned new capex and accordingly raise our revenue/EBITDA/PAT estimates by 6% each for FY27. The stock is currently trading at ~41x FY26E EPS of INR36 and ~31x FY26E EV/EBITDA. We value the stock at 35x Sep'26E EPS to arrive at our TP of INR1,430. **Reiterate Neutral.**

A miss on estimates due to higher-than-expected RM and employee costs

- CLEAN reported revenue of INR2.4b (+31% YoY). **Gross margin stood at 62.4% (-350bp YoY).** EBITDA margin was 37.7% (-370bp YoY) during the quarter.
- EBITDA was INR897m (our est. of INR1.1b, +20% YoY), with PAT of INR587m (our est. of INR776m, +13% YoY).
- **For 1HFY25**, revenue was INR4.6b (+25% YoY), EBITDA was INR1.8b (+22% YoY), and PAT was INR1.2b (+12% YoY). EBITDAM came in at 39.9% (-100bp YoY). The **implied 2HFY25** revenue/EBITDA/PAT growth is 14%/5%/1% YoY.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Segmental and other highlights

- Volume grew YoY in 2QFY25. CLEAN incurred a total capex of INR550m in 2QFY25, primarily in its subsidiary, Clean Fino Chem.
- Revenue from **Pharma Chemicals** was INR429m (+25% YoY); the growth was led by volumes.
- Revenue from **Performance Chemicals** stood at INR1.6b (+35% YoY); the growth was fueled by higher volumes and growth across segments. HALS' sales volumes and product mix have been improving.
- Revenue from **FMCG Chemicals** was INR356m (+31% YoY), led by volumes.
- Revenue from the **domestic** business stood at 31%, while the rest was exports.

Valuation and view

- CLEAN is actively pursuing R&D activities and has entered the HALS series, which has an estimated global market size of USD1b. While the commercial production from CFCL has commenced, the management expects HALS utilization to reach 80% in three years.
- The company is expected to generate INR5.6b in FCF during FY25-27, with a planned capex of INR5.9b over the same period. The stock is currently trading at ~41x FY26E EPS of INR36 and ~31x FY26E EV/EBITDA. We value the stock at 35x Sep'26E EPS to arrive at our TP of INR1,430. **Reiterate Neutral.**

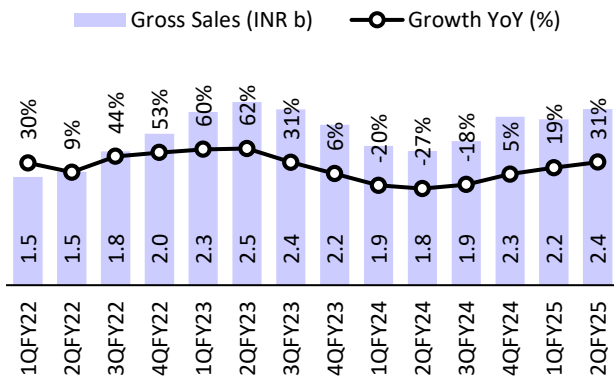
Consolidated - Quarterly Snapshot

(INR m)

Y/E March	FY24				FY25				FY24	FY25E	FY25	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Gross Sales	1,881	1,811	1,947	2,275	2,240	2,381	2,402	2,420	7,915	9,444	2,406	-1%
YoY Change (%)	-19.6	-26.8	-18.0	4.9	19.1	31.5	23.4	6.4	-15.4	19.3	32.8	
Gross Margin (%)	61.4%	65.9%	66.8%	65.7%	65.4%	62.4%	61.9%	61.4%	65.0%	62.8%	67.6%	-5.2%
EBITDA	761	748	866	945	947	897	940	970	3,321	3,754	1,078	-17%
Margin (%)	40.5	41.3	44.5	41.5	42.3	37.7	39.1	40.1	42.0	39.8	44.8	-7.2
Depreciation	108	111	113	127	158	175	180	193	459	706	162	
Interest	1	3	1	6	1	0	1	2	9	5	2	
Other Income	134	60	78	141	99	111	124	138	413	472	119	
PBT	787	695	830	953	887	832	883	913	3,265	3,516	1,032	-19%
Tax	198	173	204	250	228	245	222	230	825	925	257	
Rate (%)	25.1	24.9	24.6	26.3	25.7	29.4	25.1	25.2	25.3	26.3	24.9	
Adj. PAT	589	522	626	703	659	587	661	683	2,440	2,591	776	-24%
YoY Change (%)	-6.3	-23.2	-25.3	-12.7	11.9	12.6	5.6	-2.8	-17.3	6.2	48.6	
Margin (%)	31.3	28.8	32.2	30.9	29.4	24.7	27.5	28.2	30.8	27.4	32.2	-7.6
Segment-wise Revenue (INR m)												
Performance Chemicals	1,260	1,213	1,305	1,604	1,546	1,643	1,711	1,744	5,382	5,382	1,697	-3%
Pharma & Agro Intermediates	357	344	370	432	403	429	384	384	1,504	1,504	408	5%
FMCG Chemicals	245	272	253	259	291	356	308	245	1,029	1,029	281	27%
Others	19	-19	19	-19	0	-46	-0	46	0	0	20	PL

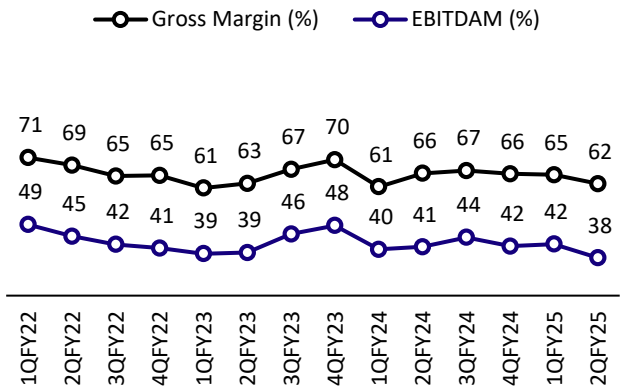
Story in charts: 2QFY25

Exhibit 1: Revenue increased 31% YoY



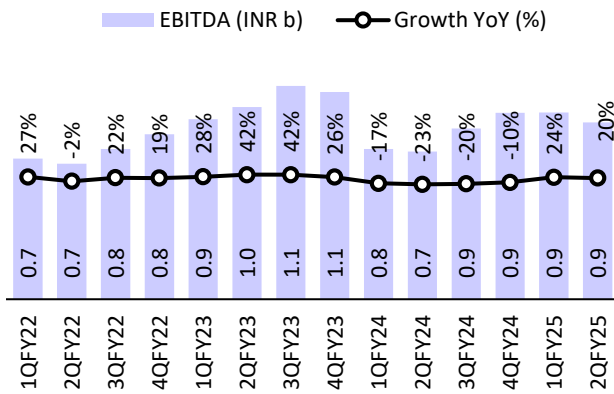
Source: Company, MOFSL

Exhibit 2: GM and EBITDAM contracted YoY



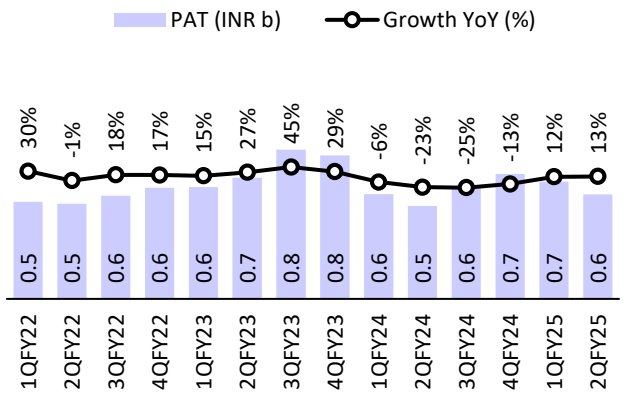
Source: Company, MOFSL

Exhibit 3: EBITDA increased 20% YoY



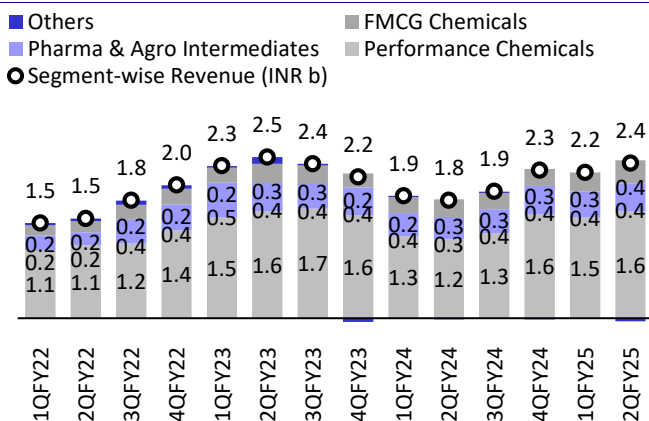
Source: Company, MOFSL

Exhibit 4: PAT was up 13% YoY



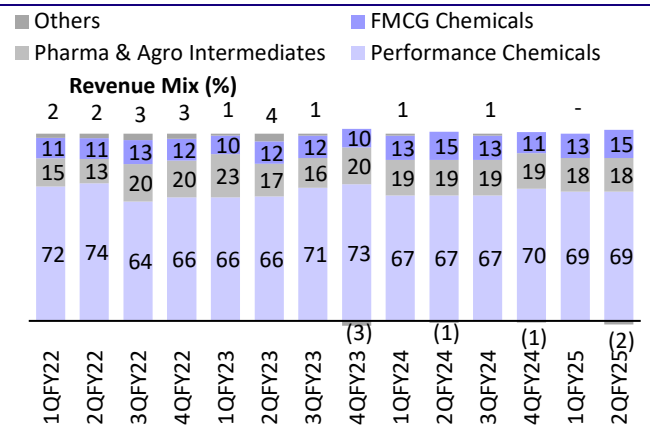
Source: Company, MOFSL

Exhibit 5: Revenue across segments rose YoY



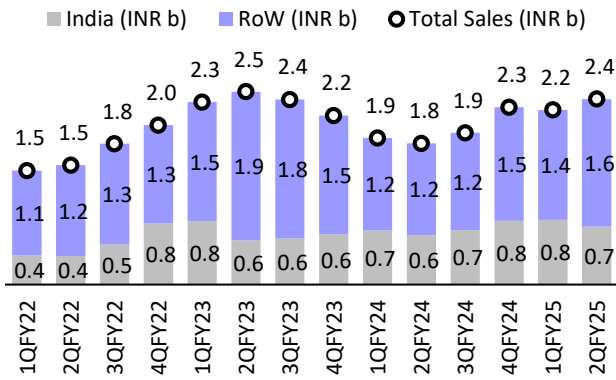
Source: Company, MOFSL

Exhibit 6: Contribution from Performance Chemicals improved YoY



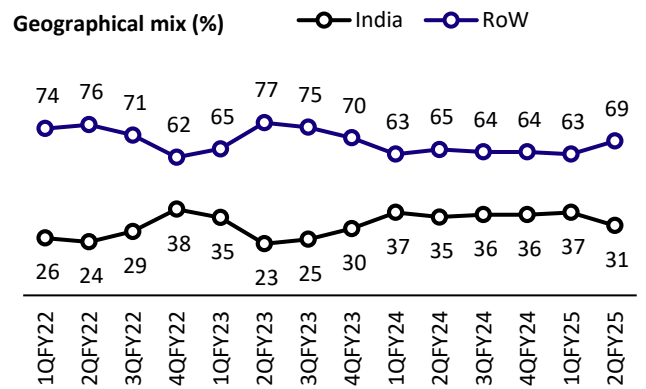
Source: Company, MOFSL

Exhibit 7: Domestic sales increased 17% YoY



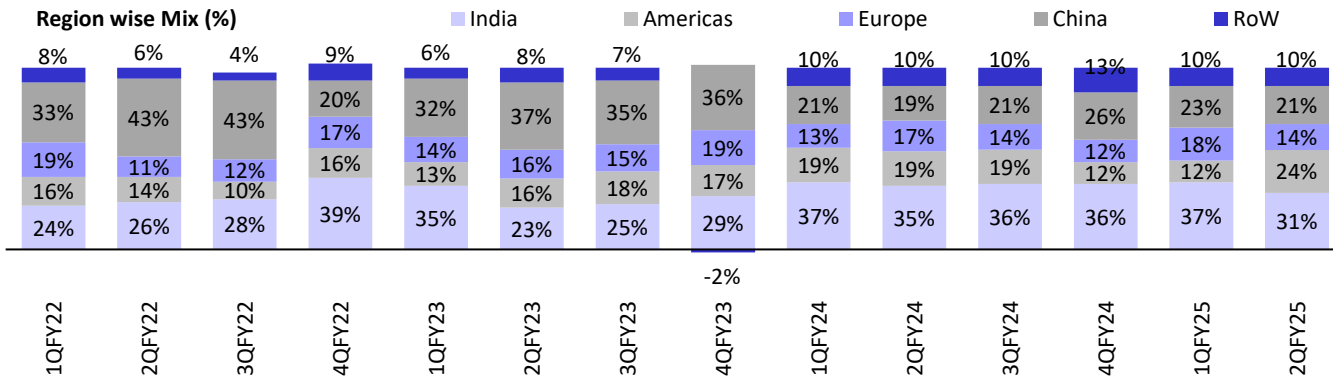
Source: Company, MOFSL

Exhibit 8: Contribution from exports improved YoY



Source: Company, MOFSL

Exhibit 9: Share of revenue from China and Americas increased YoY, while it declined for India and Europe



Source: Company, MOFSL

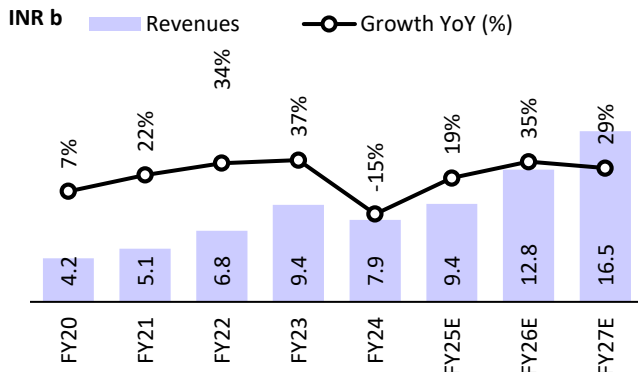


Conference call highlights

- Business environment continues to be encouraging
- Improved sales led to EBITDA growth of 20% YoY
- Launch of Pharma Intermediates on track to be commissioned in 3QFY25 (15th Nov'24)
- Capex of INR300m was primarily for domestic customers and import substitution product, with a revenue potential of INR800-900m
- Approvals still not in place, validation and approvals to take 1-3 months after commissioning
- CLEAN's capacity is 50% of Indian imports
- Revenues to start flowing from 4QFY25
- HALS would ramp up going forward
- Construction activity has started for a product in performance chemicals, which would be commissioned in Jun-Jul'25
- Capex of ~INR1.5b, with a revenue potential of INR3.5b
- Another water treatment product's capex is being undertaken and will be commercialized by Dec'25
- Peak revenue guidance of INR3.0-3.2b with an asset turn of ~2x
- Construction to start in the next two weeks
- Focus would be on volume growth in 3QFY25 in the parent business
- Water treatment chemicals market has opened up in the US because of HALS 701
- Absolute revenue is sustainable
- HALS622, HALS944, and HALS119 were successfully launched and have started receiving approvals from the customers
- Volumes to start picking up in the next couple of quarters
- MEHQ's share by capacity is 60% globally for CLEAN
- The parent company's average utilization is 70%, and for the subsidiary it is much lower because of the newly launched products

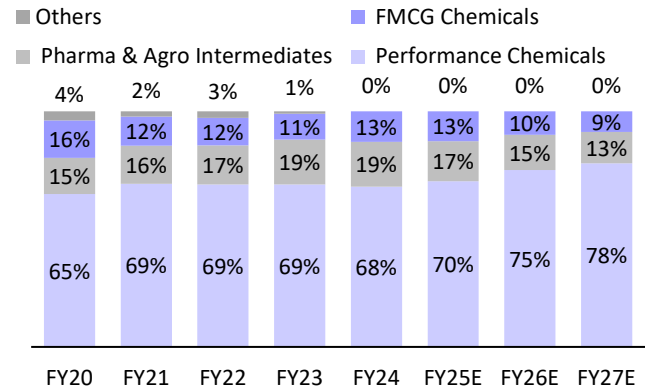
Financial story in charts

Exhibit 10: Expect 28% revenue CAGR over FY24-27...



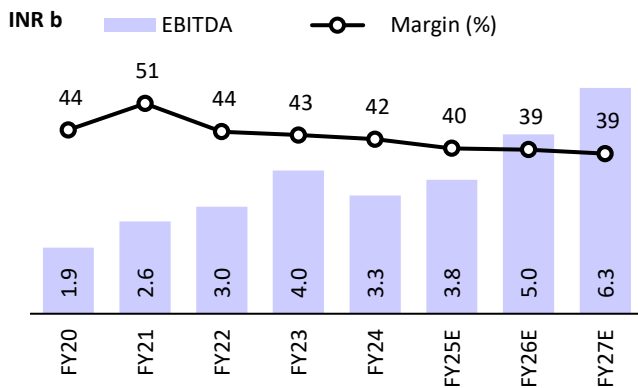
Source: Company, MOFSL

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



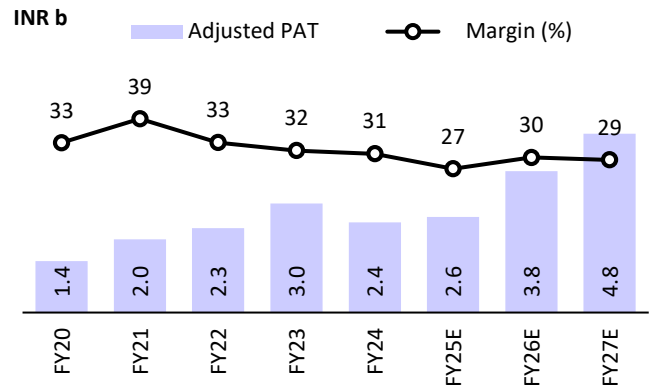
Source: Company, MOFSL

Exhibit 12: EBITDA margin to normalize on a consol. basis



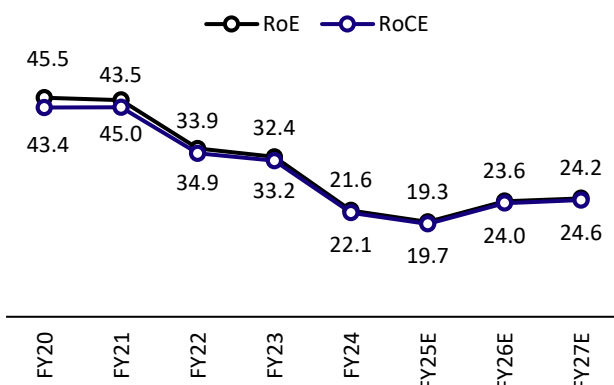
Source: Company, MOFSL

Exhibit 13: PAT margin expected to be flat



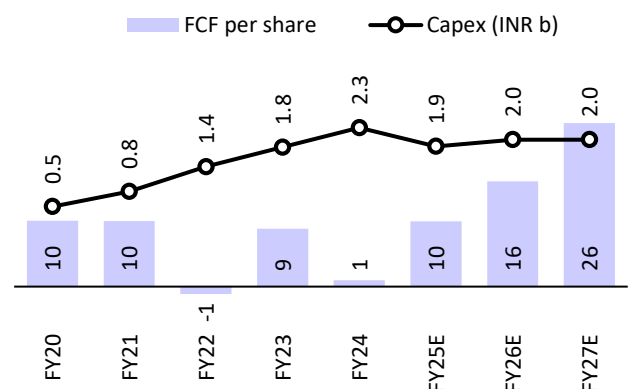
Source: Company, MOFSL

Exhibit 14: Return profile to moderate vs. FY23



Source: Company, MOFSL

Exhibit 15: Expect capex of INR5.9b over FY25-27



Source: Company, MOFSL

Financials and valuations

Consolidated - Financial Snapshot								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	4,193	5,124	6,849	9,358	7,915	9,444	12,760	16,450
Change (%)	6.6	22.2	33.7	36.6	-15.4	19.3	35.1	28.9
Gross Margin (%)	69.2	75.9	67.2	65.2	65.0	62.8	65.3	65.5
EBITDA	1,853	2,590	2,999	4,021	3,321	3,754	5,034	6,333
Margin (%)	44.2	50.5	43.8	43.0	42.0	39.8	39.5	38.5
Depreciation	137	172	249	361	459	706	717	756
EBIT	1,716	2,417	2,750	3,660	2,861	3,048	4,317	5,577
Int. and Finance Charges	1	1	1	2	9	5	6	7
Other Income	109	256	300	298	413	472	479	494
PBT bef. EO Exp.	1,823	2,673	3,048	3,956	3,265	3,516	4,790	6,064
PBT after EO Exp.	1,823	2,673	3,048	3,956	3,265	3,516	4,790	6,064
Total Tax	427	689	763	1,005	825	925	962	1,218
Tax Rate (%)	23.4	25.8	25.0	25.4	25.3	26.3	20.1	20.1
Reported PAT	1,396	1,984	2,285	2,952	2,440	2,591	3,828	4,846
Adjusted PAT	1,396	1,984	2,285	2,952	2,440	2,591	3,828	4,846
Change (%)	43.0	42.1	15.2	29.2	-17.3	6.2	47.7	26.6
Margin (%)	33.3	38.7	33.4	31.5	30.8	27.4	30.0	29.5

Consolidated - Balance Sheet								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	13	106	106	106	106	106	106	106
Total Reserves	3,408	5,290	7,578	9,994	11,925	14,178	17,506	21,719
Net Worth	3,421	5,397	7,684	10,100	12,032	14,284	17,612	21,825
Total Loans	27	3	3	1	0	0	0	0
Deferred Tax Liabilities	102	176	209	234	299	299	299	299
Capital Employed	3,550	5,576	7,897	10,335	12,331	14,584	17,911	22,125
Gross Block	2,247	2,610	3,959	5,963	8,182	10,032	12,032	14,032
Less: Accum. Deprn.	591	752	1,001	1,362	1,821	2,527	3,244	4,000
Net Fixed Assets	1,656	1,859	2,957	4,601	6,361	7,505	8,788	10,032
Capital WIP	34	550	441	205	573	573	573	573
Total Investments	1,330	2,321	1,911	3,531	3,394	3,394	3,394	3,394
Curr. Assets, Loans&Adv.	1,279	1,870	3,938	3,181	3,635	5,056	7,780	11,505
Inventory	346	529	881	1,088	1,237	1,475	1,993	2,570
Account Receivables	698	742	1,535	1,462	1,637	1,954	2,640	3,403
Cash and Bank Balance	93	157	747	125	106	846	2,091	4,170
Cash	92	93	579	125	104	844	2,089	4,168
Bank Balance	1	63	168	0	2	2	2	2
Loans and Advances	142	442	774	506	655	782	1,056	1,361
Curr. Liability & Prov.	749	1,023	1,350	1,184	1,632	1,945	2,624	3,379
Account Payables	357	610	1,021	805	1,085	1,294	1,749	2,254
Other Current Liabilities	387	408	324	370	536	639	864	1,114
Provisions	5	5	5	8	12	12	12	12
Net Current Assets	530	846	2,587	1,997	2,003	3,111	5,156	8,125
Appl. of Funds	3,550	5,576	7,897	10,334	12,331	14,584	17,911	22,125

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	13.1	18.7	21.5	27.8	23.0	24.4	36.0	45.6
EPS Growth (%)	43.0	42.1	15.2	29.2	-17.3	6.2	47.7	26.6
Cash EPS	14.4	20.3	23.9	31.2	27.3	31.0	42.8	52.7
BV/Share	32.2	50.8	72.3	95.1	113.2	134.4	165.8	205.4
DPS	1.0	0.3	3.3	5.0	3.0	3.2	4.7	6.0
Payout (%)	7.4	1.7	15.1	18.0	13.1	13.1	13.1	13.1
Valuation (x)								
P/E	113.0	79.5	69.0	53.4	64.6	60.9	41.2	32.6
Cash P/E	102.9	73.2	62.2	47.6	54.4	47.9	34.7	28.2
P/BV	46.1	29.2	20.5	15.6	13.1	11.0	9.0	7.2
EV/Sales	37.6	30.7	22.9	16.8	19.9	16.6	12.2	9.3
EV/EBITDA	85.1	60.8	52.3	39.2	47.5	41.8	30.9	24.3
Dividend Yield (%)	0.1	0.0	0.2	0.3	0.2	0.2	0.3	0.4
FCF per share	10.3	10.2	-1.2	9.1	1.0	10.2	16.5	25.6
Return Ratios (%)								
RoE	45.5	45.0	34.9	33.2	22.1	19.7	24.0	24.6
RoCE	43.4	43.5	33.9	32.4	21.6	19.3	23.6	24.2
RoIC	64.2	77.3	56.1	48.5	29.0	24.9	31.9	34.5
Working Capital Ratios								
Fixed Asset Turnover (x)	2.9	2.9	2.8	2.5	1.4	1.4	1.6	1.7
Asset Turnover (x)	1.2	0.9	0.9	0.9	0.6	0.6	0.7	0.7
Inventory (Days)	30	38	47	42	57	57	57	57
Debtor (Days)	61	53	82	57	76	76	76	76
Creditor (Days)	31	43	54	31	50	50	50	50
Leverage Ratio (x)								
Current Ratio	1.7	1.8	2.9	2.7	2.2	2.6	3.0	3.4
Net Debt/Equity	0.0	0.0	-0.1	0.0	0.0	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	1,823	2,673	3,048	3,956	3,265	3,516	4,790	6,064
Depreciation	137	172	249	361	459	706	717	756
Interest Expenses	1	1	1	2	9	5	6	7
Others	-67	-109	-126	-153	-313	0	0	0
Direct Taxes Paid	-424	-659	-691	-945	-755	-925	-962	-1,218
(Inc)/Dec in WC	131	-149	-1,209	-428	-295	-369	-800	-890
CF from Operations	1,601	1,928	1,273	2,793	2,370	2,933	3,751	4,719
(Inc)/Dec in FA	-503	-840	-1,396	-1,831	-2,267	-1,850	-2,000	-2,000
Free Cash Flow	1,098	1,088	-123	962	103	1,083	1,751	2,719
Change in Investments	-563	-1,078	532	-929	380	0	0	0
Others	3	51	78	61	29	0	0	0
CF from Investments	-1,063	-1,867	-786	-2,698	-1,859	-1,850	-2,000	-2,000
Issue of Shares	0	0	0	9	9	0	0	0
Inc/(Dec) in Debt	1	-24	0	0	0	0	0	0
Interest Paid	-1	-1	-1	-1	-8	-5	-6	-7
Dividend Paid	-153	-33	0	-558	-531	-338	-500	-633
Others	-386	-1	0	-1	-2	0	0	0
CF from Fin. Activity	-540	-59	-1	-550	-532	-343	-506	-640
Inc/Dec of Cash	-3	1	486	-455	-20	740	1,245	2,079
Opening Balance	95	92	93	579	125	104	844	2,089
Closing Balance	92	93	579	124	105	844	2,089	4,168

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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