

Clean Science & Technology

Estimate changes



TP change



Rating change



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Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDdb)	186.3 / 2.3
52-Week Range (INR)	2698 / 1423
1, 6, 12 Rel. Per (%)	14/-21/-2
12M Avg Val (INR M)	649

Financials & Valuations (INR bn)

Y/E March	FY22	FY23E	FY24E
Sales	6.8	9.7	12.7
EBITDA	3.0	4.3	5.7
PAT	2.3	3.3	4.4
EPS (INR)	21.5	30.6	41.5
EPS Gr. (%)	15.2	42.3	35.4
BV/Sh.(INR)	72.3	98.4	133.6

Ratios

Net D:E	(0.1)	(0.2)	(0.3)
RoE (%)	34.9	35.9	35.7
RoCE (%)	33.9	35.1	35.1
Payout (%)	15.1	15.0	15.0

Valuations

P/E (x)	80.9	56.8	42.0
P/BV (x)	24.1	17.7	13.0
EV/EBITDA (x)	61.4	42.9	31.5
Div. Yield (%)	0.2	0.3	0.4
FCF Yield (%)	(0.1)	1.0	1.3

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	78.5	78.5	94.7
DII	4.5	4.0	0.8
FII	4.4	5.2	0.0
Others	12.6	12.3	4.6

FII Includes depository receipts

CMP: INR1,754
TP: INR1,659 (-5%)
Neutral

Margin subdued even as demand remains strong

- CLEAN reported an in line EBITDA, while gross margin declining to 61% (est. 63.5%). EBITDAM continued to decline for the fifth consecutive quarter (at 39%). The Performance and Pharma Chemicals segment performed better, led by increased realizations across all products.
- Margin was impacted in 1QFY23 as the operating leverage benefits were negated by the inflationary environment across key raw materials and energy costs, particularly coal. The management expects prices of the same to fall in 2HFY23.
- It commercialized a new plant for the manufacture of MEHQ and Guaiacol at its Unit III facility, which resulted in a 50% capacity increase. Demand from PBQ remains strong. It remains an export-oriented product for the company. **CLEAN expects the production of HALS to begin from Dec'22. Construction at its wholly-owned subsidiary (Clean Fino-Chem) should start in the next couple of months.**
- Considering the robust demand outlook for CLEAN and its plans to capture a higher market share for its products, **we build in a revenue/EBITDA/EPS CAGR of 36%/38%/39% over FY22-24.** But considering the current headwinds, we expect a gross margin of 65%/67% in FY23/FY24, with an improvement in EBITDAM to 44-45% over FY23-24.
- Given its market domination and ability to sustain a high margin in the industry, **we value CLEAN at 40x FY24E EPS** (it commands a RoIC of ~56% in FY22) to arrive at our TP of INR1,659/share.

EBITDA in line, with margin declining further; lower other income results in a PAT miss

- Revenue grew 60% YoY and 14% QoQ to INR2.3b (in line) in 1QFY23.
- Exports grew 40% YoY, with a domestic/exports ratio of 35:65 in 1QFY23.
- **Gross margin fell 420bp QoQ to 61% (v/s 71.2% in 1QFY22).**
- Volatility in raw material prices persisted in 1QFY23 as well.
- EBITDA margin shrank further to 39% (v/s 48.8%/40.9% in 1Q/4QFY22), with EBITDA up 28% YoY and 9% QoQ to INR913m (in line).
- PAT grew 15% YoY (flat QoQ) to INR629m (6% lower than our estimate).
- Lower than expected other income led to a PAT (at INR18m) miss.

Segmental Highlights

- Revenue from Pharma Chemicals grew 141% YoY and 33% QoQ to INR530m (39% higher than our estimate).
- CLEAN is steadily ramping up PBQ capacity, with strong growth in Guaiacol seen in 1QFY23.

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- Revenue from Performance Chemicals was in line at INR1.5b (up 46% YoY and 13% QoQ).
- The segment witnessed improved realizations and volume growth across all products, with a gradual ramp up in TBHQ.
- Revenue from FMCG Chemicals grew 44% YoY, but fell 4% QoQ to INR230m (15% lower than our estimate).
- This segment saw increased realizations across all products in 1QFY23.

Other highlights

- CLEAN incurred a capex of INR230m in 1QFY23.
- It also commercialized a new plant for manufacture of MEHQ and Guaiacol at its Unit III facility.
- This has resulted in capacity increase of 50%.

Valuation and view

- Continuing its R&D pursuit, it forayed into the Hindered Amine Light Stabilizers (HALS) series (estimated global market size of USD1b). CLEAN is the first company to develop the HALS series in India.
- **Unit III will be the company's first production line dedicated to the HALS series (expected to be commercialized in 2HFY23)**, while additional production lines will be installed in Unit IV. CLEAN has acquired land for Unit IV, which will focus on stabilizers and other downstream intermediates that find use in Pharma and Agro industries.
- The company is likely to generate an FCF of INR4.3b over FY23-24E, with a capex of INR2.5b planned over this period. It is funding this capex via internal accruals and will remain net cash going forward.
- The stock is trading at 42x FY24E P/E, an EPS of INR41.5, and 32x FY24E EV/EBITDA We value CLEAN at 40x FY24E EPS to arrive at our TP of INR1,659.

Consolidated quarterly snapshot

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Gross Sales	1,463	1,532	1,808	2,046	2,341	2,410	2,545	2,385	6,849	9,680	2,295	2%
Change (YoY %)	29.6	9.2	44.2	52.8	60.0	57.3	40.8	16.5	33.7	41.3	56.9	
Gross Margin (%)	71.2%	68.6%	65.0%	65.2%	61.0%	63.8%	66.7%	68.3%	67.2%	65.0%	63.5%	-2.5%
EBITDA	713	687	761	837	913	1,034	1,169	1,143	2,999	4,259	895	2%
Margin (%)	48.8	44.9	42.1	40.9	39.0	42.9	45.9	47.9	43.8	44.0	39.0	0.0
Depreciation	58	61	60	70	85	84	85	74	249	328	82	
Other Income	65	86	75	74	18	130	104	164	300	416	83	
PBT before EO expense	721	712	776	839	847	1,080	1,188	1,231	3,048	4,346	896	-5%
PBT	721	712	776	839	847	1,080	1,188	1,231	3,048	4,346	896	-5%
Tax	175	177	196	215	218	254	298	324	763	1,094	226	
Rate (%)	24.2	24.9	25.3	25.7	25.7	23.5	25.1	26.3	25.0	25.2	25.2	
Reported PAT	546	535	580	624	629	826	890	908	2,285	3,252	671	-6%
Change (YoY %)	30.3	-1.4	18.2	17.4	15.2	54.3	53.4	45.6	15.2	42.3	22.8	
Margin (%)	37.3	34.9	32.1	30.5	26.9	34.3	35.0	38.1	33.4	33.6	29.2	-2.3



Highlights from the management interaction

- The management expects the production of HALS to start from Dec'22.
- Construction at its subsidiary (Clean Fino-Chem) should begin in the next couple of months, and production will begin from CY23-end.
- CLEAN is in the process of raising its R&D personnel strength to 70 from 50 at present.
- Contract sales account for 25-30% of total revenue.
- Running contracts will benefit the company if phenol prices fall.
- Mix of volumes and higher realizations resulted in revenue growth in 1QFY23.
- CLEAN's global market share in MEHQ currently stands at 60-65%.
- Capacity utilization in the Performance Chemicals segment currently stands at 65%. The same for the Pharma and FMCG Chemicals segments stands ~70%.
- Margin was impacted as operating leverage benefits were negated by inflationary pressures across key raw materials and energy costs, particularly coal.
- Capacity for MEHQ and Guaiacol grew 50% in Apr'22 and the plants are now fully operational.
- The target is to pare down greenhouse gas emissions by 5%.
- PBQ is seeing strong demand as CLEAN is catering to Indian customers.
- The management won't be increasing product prices at present.
- A global slowdown and inflation in natural gas prices is a key risk for the company.
- Capex is pegged at INR2.5b and will be spread over the next two years.
- Phenol constitutes 40-50% of overall raw material cost. The management expects prices to fall in 2HFY22, given the current trend in crude oil prices.

1QFY23 story in charts

Exhibit 1: Revenue grew 14% QoQ and 60% YoY in 1QFY23...

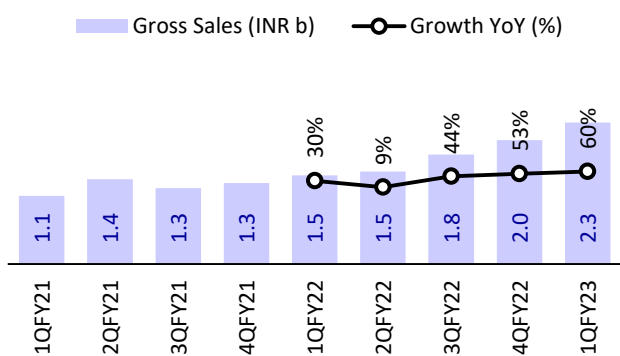


Exhibit 2: ...with both GM and EBITDAM declining further

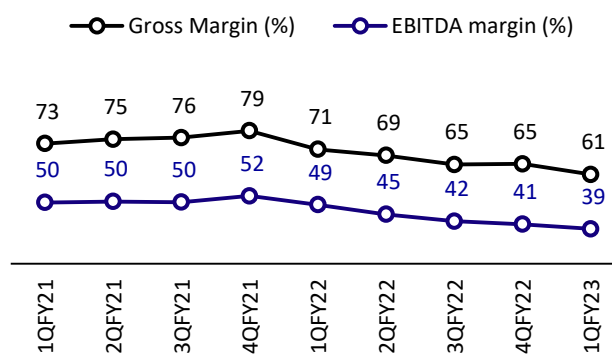


Exhibit 3: EBITDA grew 9% QoQ and 28% YoY in 1QFY23...

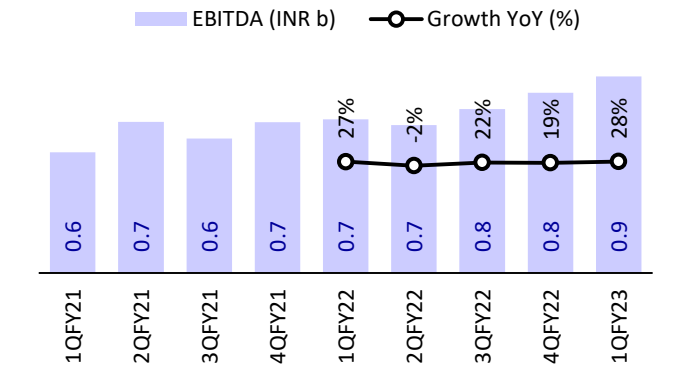


Exhibit 4: ...with PAT growth at 15% YoY and flat QoQ

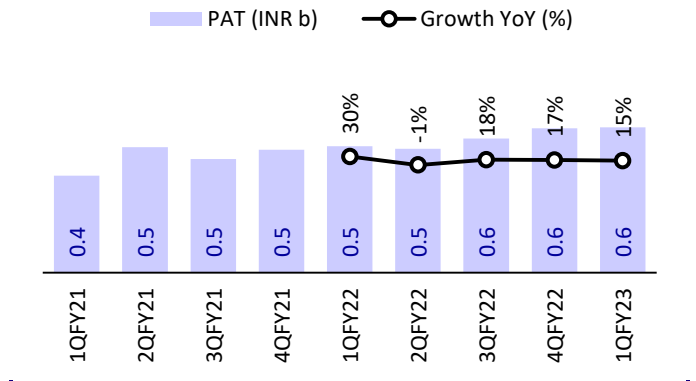


Exhibit 5: Revenue from Performance and Pharma Chemicals grew QoQ, but fell for FMCG Chemicals...

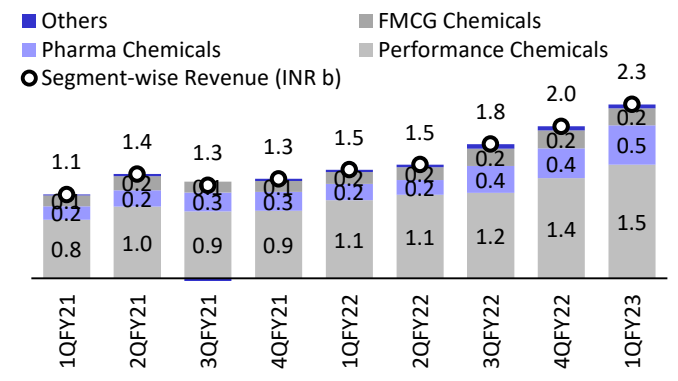


Exhibit 6: ...with the share of Pharma Chemicals in the overall mix improving to 23% and vice versa for FMCG

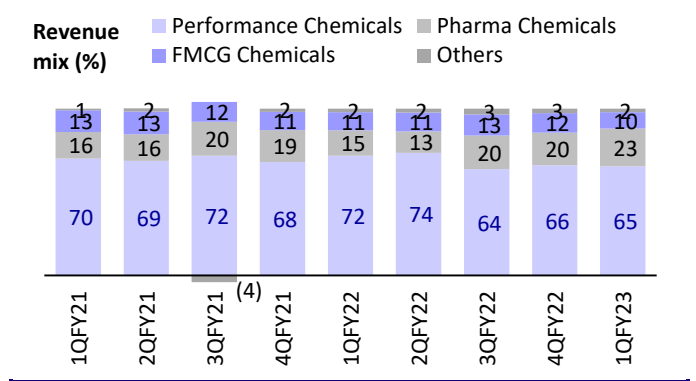


Exhibit 7: Domestic sales grew 3% QoQ, while RoW grew 21% in 1QFY23

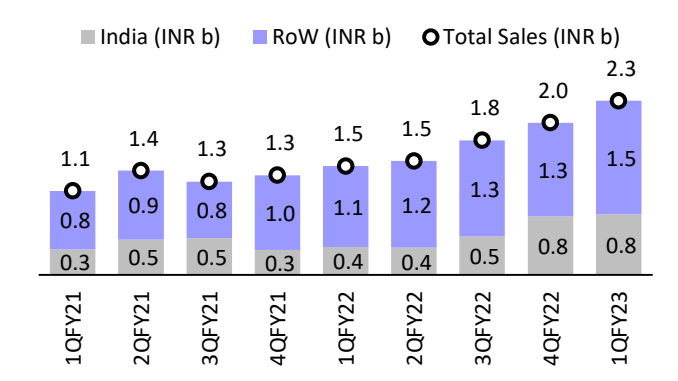
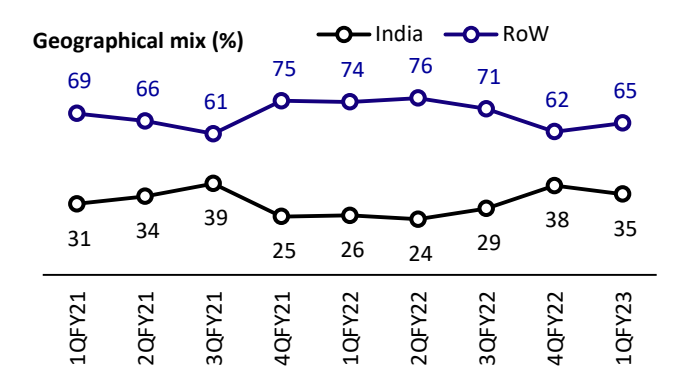


Exhibit 8: Contribution from domestic sales fell to 35% in 1QFY23 from 38% in 4QFY22



Financial story in charts

Exhibit 9: Expect 36% revenue CAGR over FY22-24...

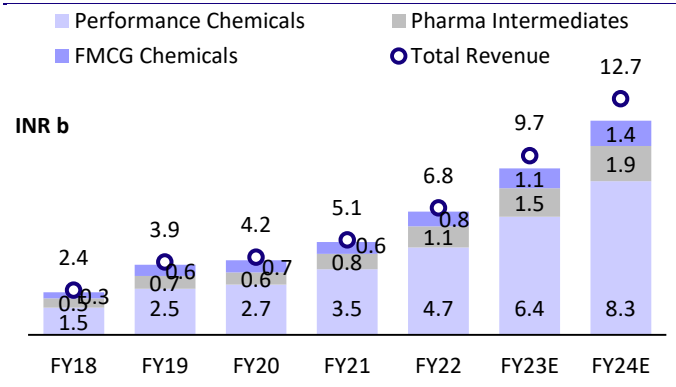


Exhibit 10: ...due to contribution from the Performance Chemicals segment

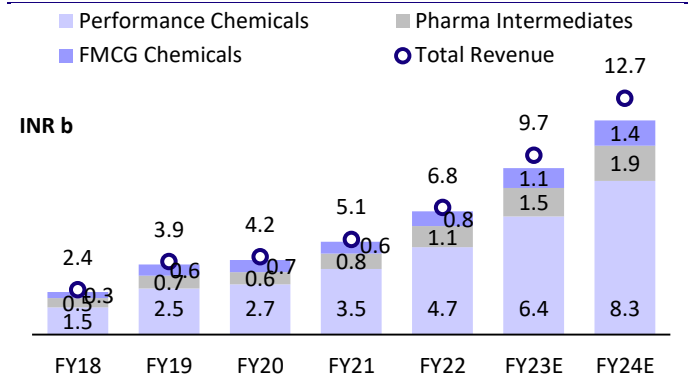


Exhibit 11: EBITDA margin to stay robust as CLEAN continues to improve yields of its products and processes...

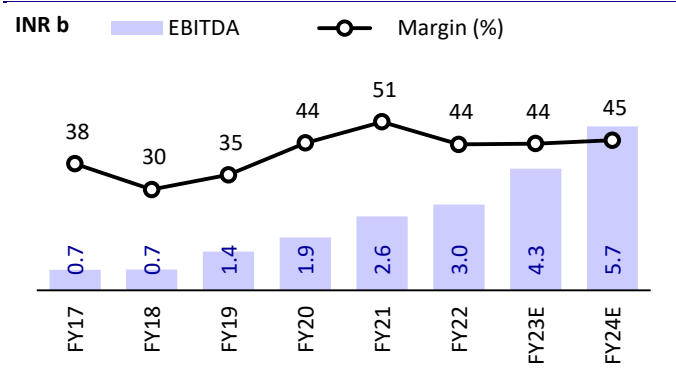


Exhibit 12: ...with capacity additions in FY23 and a new product range from unit IV (over the next two years)

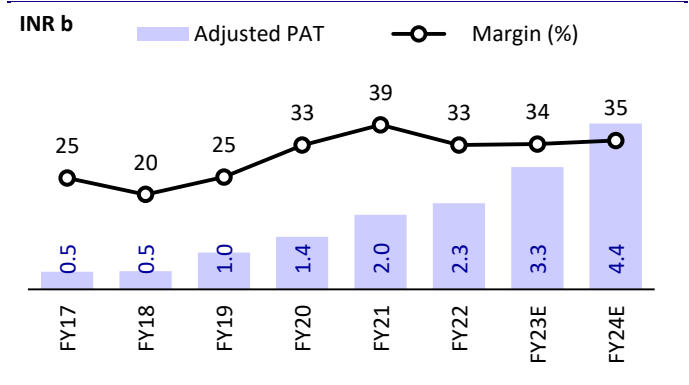


Exhibit 13: Expect return profile to moderate v/s FY21 due to capacity additions (at unit III and IV)...

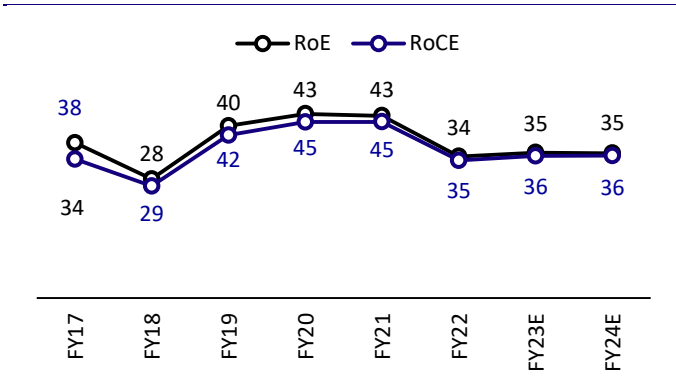
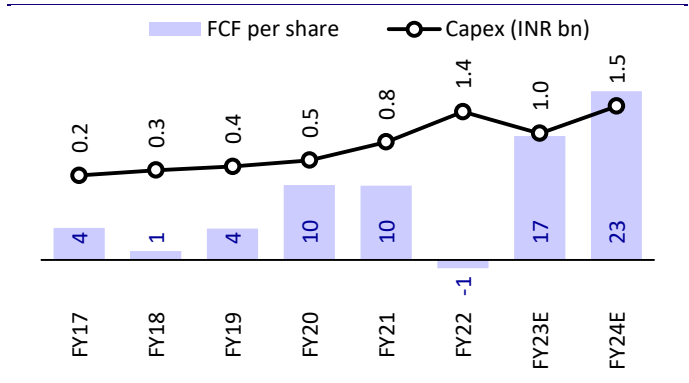


Exhibit 14: ...and capex of INR2.5b (to be funded via internal accruals) over FY23-24E



Source: Company, MOFSL

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Financials and valuations

Consolidated Financial Snapshot							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	1,905	2,411	3,933	4,193	5,124	6,849	9,680	12,747
Change (%)	31.6	26.5	63.1	6.6	22.2	33.7	41.3	31.7
Gross Margin (%)	64.3	53.0	56.5	69.2	75.9	67.2	65.0	67.0
EBITDA	723	729	1,363	1,853	2,590	2,999	4,259	5,736
Margin (%)	37.9	30.3	34.7	44.2	50.5	43.8	44.0	45.0
Depreciation	64	76	110	137	172	249	328	397
EBIT	659	654	1,253	1,716	2,417	2,750	3,932	5,339
Int. and Finance Charges	4	1	0	1	1	1	1	1
Other Income	42	46	113	109	256	300	416	548
PBT bef. EO Exp.	697	699	1,365	1,823	2,673	3,048	4,346	5,886
PBT after EO Exp.	697	699	1,365	1,823	2,673	3,048	4,346	5,886
Total Tax	229	212	389	427	689	763	1,094	1,481
Tax Rate (%)	32.8	30.4	28.5	23.4	25.8	25.0	25.2	25.2
Reported PAT	468	487	977	1,396	1,984	2,285	3,252	4,404
Adjusted PAT	468	487	977	1,396	1,984	2,285	3,252	4,404
Change (%)	72.1	3.9	100.7	43.0	42.1	15.2	42.3	35.4
Margin (%)	24.6	20.2	24.8	33.3	38.7	33.4	33.6	34.6

Consolidated Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	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	7,578	10,343	14,087
Net Worth	1,440	1,875	2,721	3,421	5,397	7,684	10,449	14,193
Total Loans	4	1	26	27	3	3	3	3
Deferred Tax Liabilities	108	100	139	102	176	209	209	209
Capital Employed	1,551	1,976	2,885	3,550	5,576	7,897	10,662	14,405
Gross Block	1,057	1,375	1,724	2,247	2,610	3,959	4,679	5,789
Less: Accum. Deprn.	286	351	454	591	752	1,001	1,329	1,726
Net Fixed Assets	771	1,024	1,270	1,656	1,859	2,957	3,350	4,064
Capital WIP	23	15	39	34	550	441	721	1,110
Total Investments	319	181	752	1,330	2,321	1,911	1,911	1,911
Curr. Assets, Loans, and Adv.	675	1,137	1,213	1,279	1,870	3,938	6,586	9,829
Inventory	307	290	370	346	529	881	1,246	1,640
Account Receivables	214	397	598	698	742	1,535	2,170	2,858
Cash and Bank Balance	65	295	95	93	157	747	2,076	3,890
Cash	0	0	94	92	93	579	1,908	3,722
Bank Balance	0	295	0	1	63	168	168	168
Loans and Advances	89	155	151	142	442	774	1,094	1,441
Curr. Liability and Prov.	238	380	390	749	1,023	1,350	1,906	2,508
Account Payables	135	264	223	357	610	1,021	1,443	1,901
Other Current Liabilities	101	113	162	387	408	324	458	603
Provisions	2	3	4	5	5	5	5	5
Net Current Assets	437	756	824	530	846	2,587	4,679	7,320
Appl. of Funds	1,551	1,976	2,885	3,550	5,576	7,897	10,662	14,405

Financials and valuations

Ratios								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	4.4	4.6	9.2	13.1	18.7	21.5	30.6	41.5
EPS Growth (%)	72.1	3.9	100.7	43.0	42.1	15.2	42.3	35.4
Cash EPS	5.0	5.3	10.2	14.4	20.3	23.9	33.7	45.2
BV/Share	13.6	17.7	25.6	32.2	50.8	72.3	98.4	133.6
DPS	0.3	0.2	0.9	1.0	0.3	3.3	4.6	6.2
Payout (%)	7.3	4.7	9.5	7.4	1.7	15.1	15.0	15.0
Valuation (x)								
P/E ratio	395	380	189	132	93	81	56.8	42.0
Cash P/E ratio	347	329	170	121	86	73	52	38
P/BV ratio	128	99	68	54	34	24	18	13
EV/Sales ratio	97	77	47	44	36	27	19	14
EV/EBITDA ratio	256	253	136	100	71	61	43	32
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.0	0.2	0.3	0.4
FCF per share	4	1	4	10	10	-1	17	23
Return Ratios (%)								
RoE	38	29	42	45	45	35	35.9	35.7
RoCE	34	28	40	43	43	34	35	35
RoIC	39	35	51	64	77	56	55	59
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	2.7	3.4	2.9	2.9	2.8	3.1	3.4
Asset Turnover (x)	1.2	1.2	1.4	1.2	0.9	0.9	0.9	0.9
Inventory (Days)	59	44	34	30	38	47	47	47
Debtor (Days)	41	60	55	61	53	82	82	82
Creditor (Days)	26	40	21	31	43	54	54	54
Leverage Ratio (x)								
Current Ratio	2.8	3.0	3.1	1.7	1.8	2.9	3.5	3.9
Net Debt/Equity ratio	0.0	-0.2	0.0	0.0	0.0	-0.1	-0.2	-0.3

Consolidated Cash Flow Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	697	699	1,365	1,823	2,673	3,048	4,346	5,886
Depreciation	64	76	110	137	172	249	328	397
Others	-14	-18	-65	-67	-109	-126	0	0
Direct Taxes Paid	-204	-219	-355	-424	-659	-691	-1,094	-1,481
(Inc.)/Dec. in WC	143	-89	-208	131	-149	-1,209	-763	-827
CF from Operations	690	449	848	1,601	1,928	1,273	2,818	3,976
(Inc.)/Dec. in FA	-222	-320	-388	-503	-840	-1,396	-1,000	-1,500
Free Cash Flow	468	129	460	1,098	1,088	-123	1,818	2,476
Change in Investments	-302	144	-576	-563	-1,078	532	0	0
CF from Investments	-524	-175	-950	-1,063	-1,867	-786	-1,000	-1,500
Inc./(Dec.) in Debt	-116	1	20	1	-24	0	0	0
Dividend Paid	-34	-51	-128	-153	-33	0	-488	-661
CF from Fin. Activity	-148	-44	-98	-540	-59	-1	-489	-662
Inc./Dec. in Cash	19	230	-200	-3	1	486	1,329	1,814
Opening Balance	46	65	295	95	92	93	579	1,908
Closing Balance	65	294	95	92	93	579	1,908	3,722

NOTES

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

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