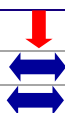


# Clean Science & Technology

## Estimate changes

TP change

Rating change



Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USD\$)	171.1 / 2.1
52-Week Range (INR)	2698 / 1441
1, 6, 12 Rel. Per (%)	-15/-19/-17
12M Avg Val (INR M)	435

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	6.8	9.3	12.7
EBITDA	3.0	3.7	5.5
PAT	2.3	2.9	4.2
EPS (INR)	21.5	26.9	39.7
EPS Gr. (%)	15.2	24.8	47.9
BV/Sh.(INR)	72.3	95.2	128.9
<b>Ratios</b>			
Net D:E	(0.1)	(0.2)	(0.2)
RoE (%)	34.9	32.1	35.4
RoCE (%)	33.9	31.3	34.8
Payout (%)	15.1	15.0	15.0
<b>Valuations</b>			
P/E (x)	75.0	60.1	40.6
P/BV (x)	22.3	17.0	12.5
EV/EBITDA (x)	56.9	45.4	30.7
Div. Yield (%)	0.2	0.2	0.4
FCF Yield (%)	(0.1)	0.9	1.3

## Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	78.5	78.5	78.5
DII	4.7	4.5	4.7
FII	4.4	4.4	3.9
Others	12.4	12.6	12.9

FII Includes depository receipts

CMP: INR1,610

TP: INR1,589 (-1% )

Neutral

## Remains confident in the new series of products

- CLEAN reported a beat on our EBITDA estimate, while gross margin expanded to 62.5% (est. 59.2%). EBITDAM was flat at 39.4% (v/s 39% in 1QFY23). The Performance and FMCG Chemicals segment performed better QoQ, led by increased realizations across all products.
- Input prices remain volatile and a short-term concern for the company. The prices of some raw materials have fallen, while for some it still remains near the peak as compared to last fiscal.
- The management announced that the commercialization of Phase I of Unit IV is expected in Dec'23. The company is undertaking a capex of INR3b, which will be funded via internal accruals. **Production of HALS (HALS701 and HALS770 series) will start from Nov'22 (earlier guidance of Dec'22), with all facilities nearing completion.**
- 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%/35%/36% over FY22-24.** Considering the current headwinds, we cut our FY23 EBITDA/EPS estimate by 12% each, leaving our FY24 estimates unchanged for now.
- Given its market domination and ability to sustain a higher margin in the industry, **we value CLEAN at 40x FY24 EPS** (it commands a ROIC of ~56% in FY22) to arrive at our TP of INR1,589/share.

## Beat on EBITDA with PAT in line; gross margin expands sequentially

- CLEAN reported an in line revenue at INR2.5b (up 62% YoY and 6% QoQ).
- Gross margin grew 160bp QoQ to 62.5% v/s 61%/68.6% in 1QFY23/2QFY22.**
- EBITDA margin stood at 39.4% (v/s 44.9%/39% in 2QFY22/1QFY23), with EBITDA at INR975m (9% higher than our estimate, up 42% YoY and 7% QoQ).
- PAT stood in line at INR679m, up 27% YoY and 8% QoQ.
- In 1HFY23, revenue/EBITDA/PAT grew 61%/35%/21% YoY to INR4.8b/INR1.9b/INR1.3b.**
- EBITDAM stood at 39.2% in 1HFY23 v/s 46.8% in 1HFY22 (down 760bp YoY).

## Segmental highlights

- Revenue from **Pharma Chemicals** stood at INR440m (5% higher than our estimate; up 123% YoY, but down 17% QoQ).
- Increased volume offtake across products was seen, with strong growth in DCC and Guaiacol.
- Revenue from **Performance Chemicals** was in line at INR1.7b (up 47% YoY and 8% QoQ).
- Increased realizations and volume growth were seen across all products.
- Revenue from **FMCG Chemicals** stood at INR300m (11% higher than our estimate; up 75% YoY and 30% QoQ).
- The segment saw strong growth in 4-MAP.

Swarnendu Bhushan – Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

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

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

**Other highlights**

- CLEAN incurred a cash capex of INR620m in 1HFY23, with investments of INR650m in its subsidiary in 1HFY23.
- **Input prices remain volatile and a short-term concern.**
- The company has continued de-risking of geographical revenue, aided by new customer additions.

**Valuation and view**

- Continuing its R&D pursuit, CLEAN forayed into the Hindered Amine Light Stabilizers (HALS) series (estimated global market size of USD1b). It is the first company in India to develop the HALS series.
- **Unit III will be the company's first production line dedicated to the HALS series (to be commercialized in Nov'22),** 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.
- CLEAN is likely to generate an FCF of INR3.7b 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 as well.
- The stock is trading at 41x FY24E P/E, with an EPS of INR39.7 and 31x FY24E EV/EBITDA. We value the company at 40x FY24E EPS to arrive at our TP of INR1,589/share.

**Consolidated quarterly snapshot**

Y/E March	(INR m)											
	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
<b>Gross Sales</b>	<b>1,463</b>	<b>1,532</b>	<b>1,808</b>	<b>2,046</b>	<b>2,341</b>	<b>2,475</b>	<b>2,337</b>	<b>2,194</b>	<b>6,849</b>	<b>9,347</b>	<b>2,410</b>	<b>3%</b>
Change (YoY %)	29.6	9.2	44.2	52.8	60.0	61.6	29.2	7.3	33.7	36.5	57.3	
Gross Margin (%)	71.2%	68.6%	65.0%	65.2%	61.0%	62.5%	64.1%	64.5%	67.2%	63.0%	59.2%	3.3%
<b>EBITDA</b>	<b>713</b>	<b>687</b>	<b>761</b>	<b>837</b>	<b>913</b>	<b>975</b>	<b>936</b>	<b>915</b>	<b>2,999</b>	<b>3,739</b>	<b>892</b>	<b>9%</b>
Margin (%)	48.8	44.9	42.1	40.9	39.0	39.4	40.1	41.7	43.8	40.0	37.0	2.4
Depreciation	58	61	60	70	85	87	85	71	249	328	84	
Other Income	65	86	75	74	18	28	100	255	300	402	130	
<b>PBT before EO expense</b>	<b>721</b>	<b>712</b>	<b>776</b>	<b>839</b>	<b>847</b>	<b>916</b>	<b>951</b>	<b>1,098</b>	<b>3,048</b>	<b>3,812</b>	<b>939</b>	<b>-2%</b>
<b>PBT</b>	<b>721</b>	<b>712</b>	<b>776</b>	<b>839</b>	<b>847</b>	<b>916</b>	<b>951</b>	<b>1,098</b>	<b>3,048</b>	<b>3,812</b>	<b>939</b>	<b>-2%</b>
Tax	175	177	196	215	218	237	240	265	763	959	237	
Rate (%)	24.2	24.9	25.3	25.7	25.7	25.8	25.2	24.1	25.0	25.2	25.2	
<b>Reported PAT</b>	<b>546</b>	<b>535</b>	<b>580</b>	<b>624</b>	<b>629</b>	<b>679</b>	<b>711</b>	<b>833</b>	<b>2,285</b>	<b>2,852</b>	<b>702</b>	<b>-3%</b>
Change (YoY %)	30.3	-1.4	18.2	17.4	15.2	26.9	22.6	33.5	15.2	24.8	31.2	
Margin (%)	37.3	34.9	32.1	30.5	26.9	27.5	30.4	37.9	33.4	30.5	29.1	-1.7

**Highlights from the management interaction**

- Commercialization of Phase I of Unit IV is expected by Dec'23. The capex of INR3b will be funded via internal accruals.
- Of this, INR1b will be utilized in building common facilities (creation of utilities, construction of an administration building, ETP, etc.) and INR2b will go towards building a complete range of its HALS facilities.
- The production of HALS701 and HALS770 Unit III is on track to begin production in Nov'22, with all facilities nearing completion.

- The prices of some RMs are still near peak levels and remain high as compared to last fiscal, while for some prices have marginally decreased.
- Continued inflationary pressures affected its operating performance in 2QFY23.
- The top priority for the management is to launch a new series of products, build a strong R&D pipeline, and focus on diversifying its product portfolio and operations in various geographies, while improving yields.
- The decline of the INR against the USD puts CLEAN in a sweet spot with respect to HALS770 as it is majorly imported into India from BASF, SI group, and from a player in China.
- Therefore, it falls more attractive for Indian buyers to buy from CLEAN. Buyers also do have to incur an 8% custom duty on imports.
- Looking at the current market prices, yields are looking attractive for CLEAN.
- New products are not focused on the Chinese market. For instance, the 770 series of HALS is India focused. It is the product mix that is affecting the change in geographical mix.
- The management's guidance for 3QFY22 is soft as customers across the globe are managing their inventory.
- Demand is expected to pick up from 4QFY23.
- New contracts from Nov'22 will be for the short term instead of the long term.
- The management is focusing on new products in Agro Intermediates and Pharma, where molecules will be developed on a long term sustainable basis.
- CLEAN's PBQ capacity stands at is 70-80t/month after the doubling of capacity, with Indian demand also at similar levels.
- The management is not expecting an immediate 100% switch from customers as it will take time to gain the customers' trust.
- PBQ is dependent on RM prices. Since RM prices have fallen, PBQ prices have also come down to USD16/mt prices at present from USD30/mt.

## 2QFY23 story in charts

Exhibit 1: Revenue grew 6% QoQ and 62% YoY in 2QFY23...

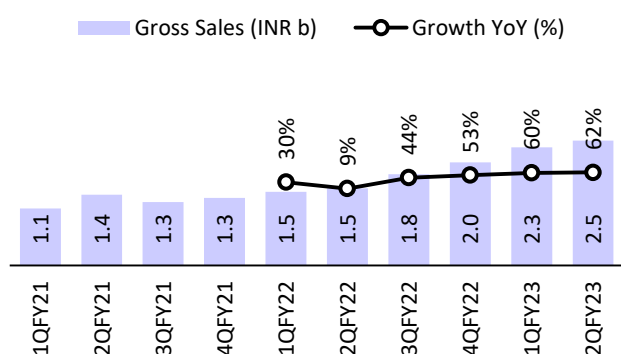
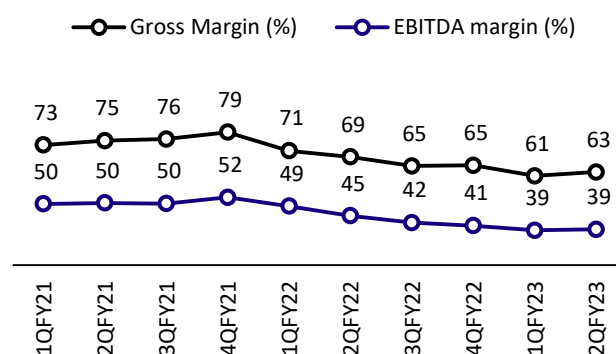
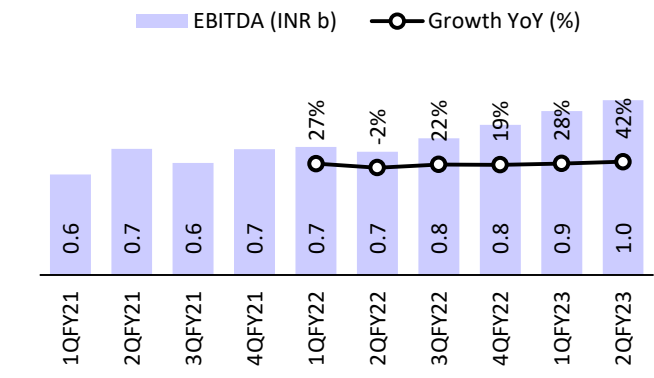
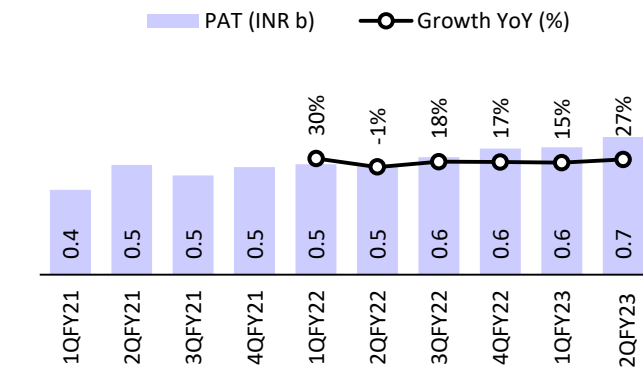
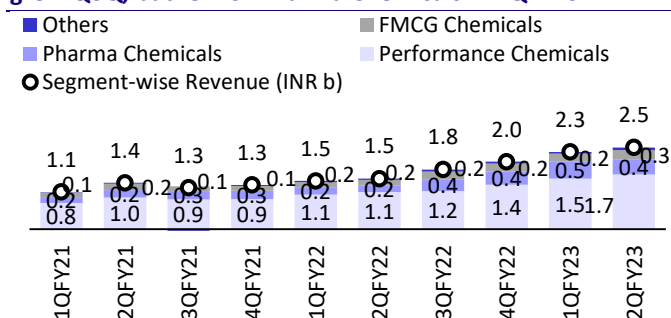
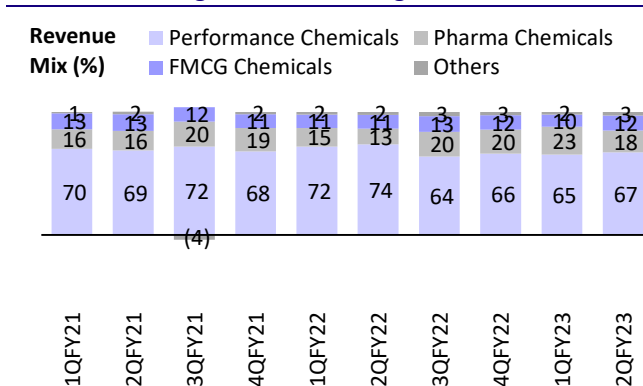
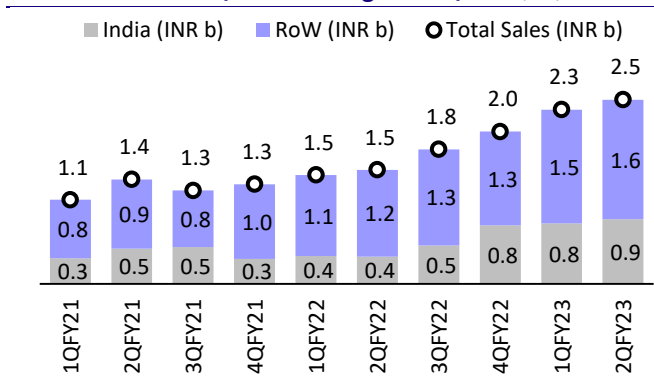
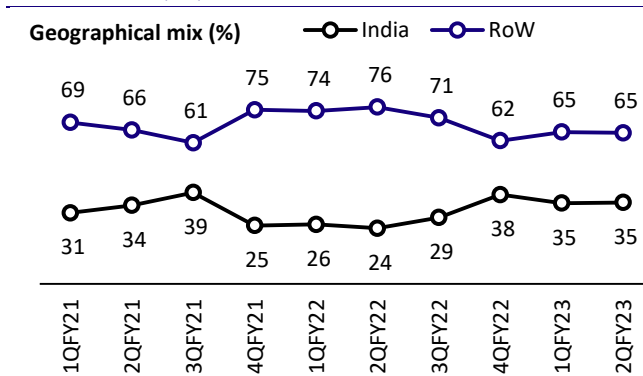


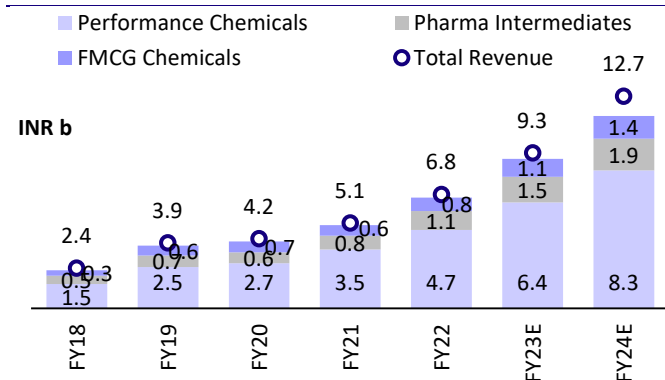
Exhibit 2: ...with GM expanding and EBITDAM remaining flat



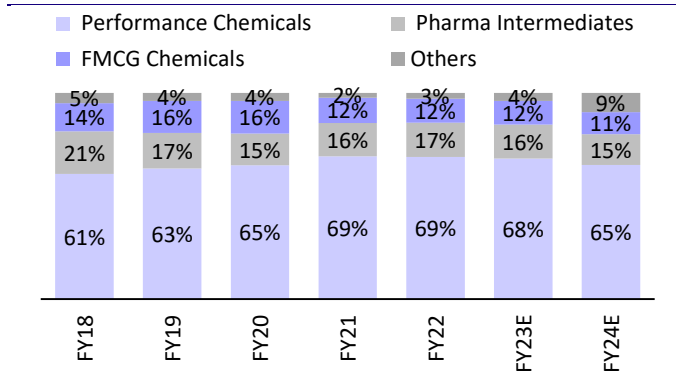
**Exhibit 3: EBITDA grew 7%QoQ and 42% YoY in 2QFY23****Exhibit 4: PAT grew 27% YoY and 8% QoQ in 2QFY23****Exhibit 5: Revenue from Performance and FMCG Chemicals grew QoQ, but fell for Pharma Chemicals in 2QFY23...****Exhibit 6: ...with the share of Pharma Chemicals in the overall mix falling to 18%, but rising for the other two****Exhibit 7: Domestic/ RoW sales grew 7%/5% QoQ****Exhibit 8: Contribution from domestic and export markets remains flat QoQ**

## Financial story in charts

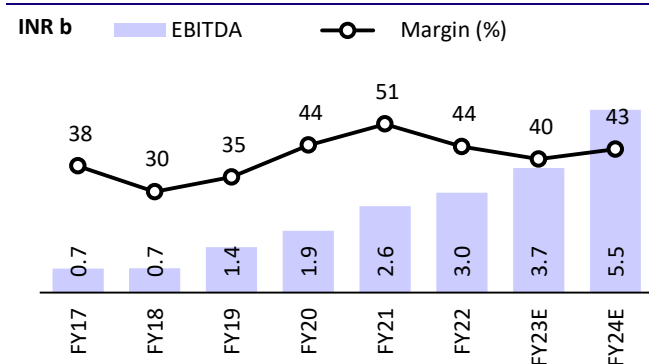
**Exhibit 9: Expect 36% revenue CAGR over FY22-24...**



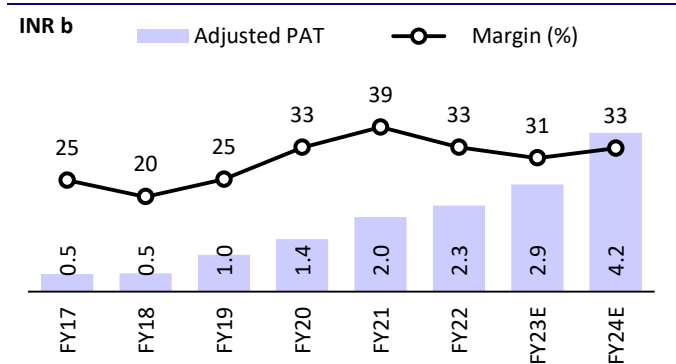
**Exhibit 10: ...due to contribution from Performance Chemicals**



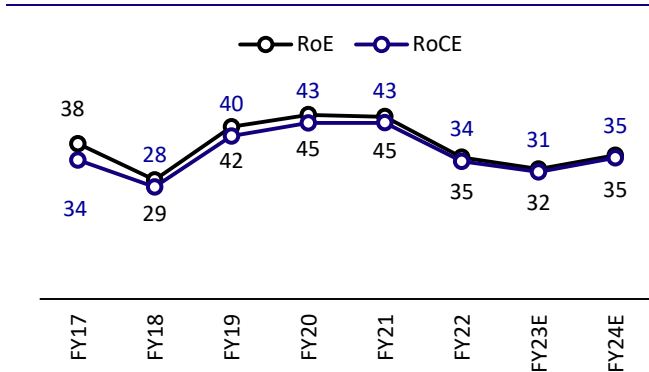
**Exhibit 11: Expect EBITDA margin to stay robust as CLEAN improves yields of its products and processes...**



**Exhibit 12: ...with capacity additions in FY23 and a range of new products from unit IV (over the next two fiscals)**

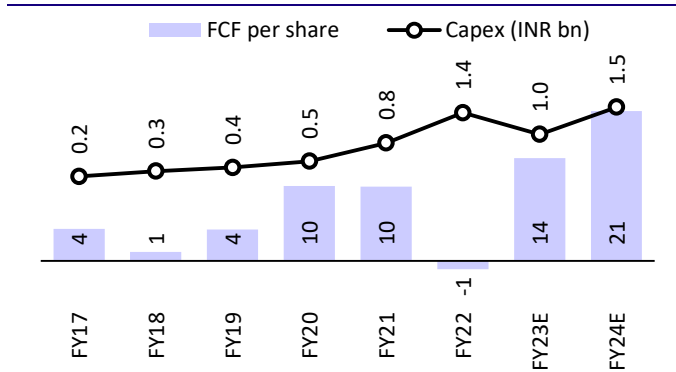


**Exhibit 13: Expect return profile to moderate from FY21 levels due to capacity additions (at unit III and IV)...**



Source: Company, MOFSL

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



Source: Company, MOFSL

## Financials and valuations

### Consolidated Financial Snapshot

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>1,905</b>	<b>2,411</b>	<b>3,933</b>	<b>4,193</b>	<b>5,124</b>	<b>6,849</b>	<b>9,347</b>	<b>12,747</b>
Change (%)	31.6	26.5	63.1	6.6	22.2	33.7	36.5	36.4
Gross Margin (%)	64.3	53.0	56.5	69.2	75.9	67.2	63.0	67.0
<b>EBITDA</b>	<b>723</b>	<b>729</b>	<b>1,363</b>	<b>1,853</b>	<b>2,590</b>	<b>2,999</b>	<b>3,739</b>	<b>5,481</b>
Margin (%)	37.9	30.3	34.7	44.2	50.5	43.8	40.0	43.0
Depreciation	64	76	110	137	172	249	328	397
<b>EBIT</b>	<b>659</b>	<b>654</b>	<b>1,253</b>	<b>1,716</b>	<b>2,417</b>	<b>2,750</b>	<b>3,411</b>	<b>5,084</b>
Int. and Finance Charges	4	1	0	1	1	1	1	1
Other Income	42	46	113	109	256	300	402	555
<b>PBT bef. EO Exp.</b>	<b>697</b>	<b>699</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>	<b>3,048</b>	<b>3,812</b>	<b>5,637</b>
<b>PBT after EO Exp.</b>	<b>697</b>	<b>699</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>	<b>3,048</b>	<b>3,812</b>	<b>5,637</b>
Total Tax	229	212	389	427	689	763	959	1,419
Tax Rate (%)	32.8	30.4	28.5	23.4	25.8	25.0	25.2	25.2
<b>Reported PAT</b>	<b>468</b>	<b>487</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>	<b>2,285</b>	<b>2,852</b>	<b>4,218</b>
<b>Adjusted PAT</b>	<b>468</b>	<b>487</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>	<b>2,285</b>	<b>2,852</b>	<b>4,218</b>
Change (%)	72.1	3.9	100.7	43.0	42.1	15.2	24.8	47.9
Margin (%)	24.6	20.2	24.8	33.3	38.7	33.4	30.5	33.1

### 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	10,003	13,588
<b>Net Worth</b>	<b>1,440</b>	<b>1,875</b>	<b>2,721</b>	<b>3,421</b>	<b>5,397</b>	<b>7,684</b>	<b>10,109</b>	<b>13,694</b>
Total Loans	4	1	26	27	3	3	3	3
Deferred Tax Liabilities	108	100	139	102	176	209	209	209
<b>Capital Employed</b>	<b>1,551</b>	<b>1,976</b>	<b>2,885</b>	<b>3,550</b>	<b>5,576</b>	<b>7,897</b>	<b>10,321</b>	<b>13,907</b>
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
<b>Net Fixed Assets</b>	<b>771</b>	<b>1,024</b>	<b>1,270</b>	<b>1,656</b>	<b>1,859</b>	<b>2,957</b>	<b>3,350</b>	<b>4,064</b>
Capital WIP	23	15	39	34	550	441	721	1,110
<b>Total Investments</b>	<b>319</b>	<b>181</b>	<b>752</b>	<b>1,330</b>	<b>2,321</b>	<b>1,911</b>	<b>1,911</b>	<b>1,911</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>675</b>	<b>1,137</b>	<b>1,213</b>	<b>1,279</b>	<b>1,870</b>	<b>3,938</b>	<b>6,180</b>	<b>9,330</b>
Inventory	307	290	370	346	529	881	1,203	1,640
Account Receivables	214	397	598	698	742	1,535	2,095	2,858
Cash and Bank Balance	65	295	95	93	157	747	1,825	3,392
Cash	0	0	94	92	93	579	1,657	3,224
Bank Balance	0	295	0	1	63	168	168	168
Loans and Advances	89	155	151	142	442	774	1,056	1,441
<b>Curr. Liability and Prov.</b>	<b>238</b>	<b>380</b>	<b>390</b>	<b>749</b>	<b>1,023</b>	<b>1,350</b>	<b>1,841</b>	<b>2,508</b>
Account Payables	135	264	223	357	610	1,021	1,394	1,901
Other Current Liabilities	101	113	162	387	408	324	442	603
Provisions	2	3	4	5	5	5	5	5
<b>Net Current Assets</b>	<b>437</b>	<b>756</b>	<b>824</b>	<b>530</b>	<b>846</b>	<b>2,587</b>	<b>4,339</b>	<b>6,822</b>
<b>Appl. of Funds</b>	<b>1,551</b>	<b>1,976</b>	<b>2,885</b>	<b>3,550</b>	<b>5,576</b>	<b>7,897</b>	<b>10,321</b>	<b>13,907</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
EPS	4.4	4.6	9.2	13.1	18.7	21.5	26.9	39.7
EPS Growth (%)	72.1	3.9	100.7	43.0	42.1	15.2	24.8	47.9
Cash EPS	5.0	5.3	10.2	14.4	20.3	23.9	29.9	43.5
BV/Share	13.6	17.7	25.6	32.2	50.8	72.3	95.2	128.9
DPS	0.3	0.2	0.9	1.0	0.3	3.3	4.0	6.0
Payout (%)	7.3	4.7	9.5	7.4	1.7	15.1	15.0	15.0
<b>Valuation (x)</b>								
P/E ratio	366	352	176	123	86	75	60.1	40.6
Cash P/E ratio	322	305	158	112	80	68	54	37
P/BV ratio	119	91	63	50	32	22	17	13
EV/Sales ratio	90	71	44	41	33	25	18	13
EV/EBITDA ratio	237	235	126	92	66	57	45	31
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.0	0.2	0.2	0.4
FCF per share	4	1	4	10	10	-1	14	21
<b>Return Ratios (%)</b>								
RoE	38	29	42	45	45	35	32.1	35.4
RoCE	34	28	40	43	43	34	31	35
RoIC	39	35	51	64	77	56	48	57
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	2.7	2.7	3.4	2.9	2.9	2.8	3.0	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
<b>Leverage Ratio (x)</b>								
Current Ratio	2.8	3.0	3.1	1.7	1.8	2.9	3.4	3.7
Net Debt/Equity ratio	0.0	-0.2	0.0	0.0	0.0	-0.1	-0.2	-0.2

### 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	3,812	5,637
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	-959	-1,419
(Inc.)/Dec. in WC	143	-89	-208	131	-149	-1,209	-673	-916
<b>CF from Operations</b>	<b>690</b>	<b>449</b>	<b>848</b>	<b>1,601</b>	<b>1,928</b>	<b>1,273</b>	<b>2,508</b>	<b>3,700</b>
(Inc.)/Dec. in FA	-222	-320	-388	-503	-840	-1,396	-1,000	-1,500
<b>Free Cash Flow</b>	<b>468</b>	<b>129</b>	<b>460</b>	<b>1,098</b>	<b>1,088</b>	<b>-123</b>	<b>1,508</b>	<b>2,200</b>
Change in Investments	-302	144	-576	-563	-1,078	532	0	0
<b>CF from Investments</b>	<b>-524</b>	<b>-175</b>	<b>-950</b>	<b>-1,063</b>	<b>-1,867</b>	<b>-786</b>	<b>-1,000</b>	<b>-1,500</b>
Inc./(Dec.) in Debt	-116	1	20	1	-24	0	0	0
Dividend Paid	-34	-51	-128	-153	-33	0	-428	-633
<b>CF from Fin. Activity</b>	<b>-148</b>	<b>-44</b>	<b>-98</b>	<b>-540</b>	<b>-59</b>	<b>-1</b>	<b>-429</b>	<b>-634</b>
<b>Inc./Dec. in Cash</b>	<b>19</b>	<b>230</b>	<b>-200</b>	<b>-3</b>	<b>1</b>	<b>486</b>	<b>1,079</b>	<b>1,566</b>
Opening Balance	46	65	295	95	92	93	579	1,657
<b>Closing Balance</b>	<b>65</b>	<b>294</b>	<b>95</b>	<b>92</b>	<b>93</b>	<b>579</b>	<b>1,658</b>	<b>3,224</b>

## 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

\*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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