

# Clean Science & Technology

## Estimate changes

TP change

Rating change



Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USD\$)	157.4 / 1.9
52-Week Range (INR)	2359 / 1330
1, 6, 12 Rel. Per (%)	3/-13/-35
12M Avg Val (INR M)	221

## Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	9.6	12.3	14.8
EBITDA	4.0	5.1	6.2
PAT	2.9	3.6	4.4
EPS (INR)	27.6	34.1	41.2
EPS Gr. (%)	28.3	23.5	20.6
BV/Sh.(INR)	95.8	124.8	159.8

## Ratios

Net D:E	-0.1	-0.2	-0.3
RoE (%)	32.8	30.9	28.9
RoCE (%)	32.1	30.4	28.5
Payout (%)	15.0	15.0	15.0

## Valuations

P/E (x)	54.0	43.7	36.2
P/BV (x)	15.5	11.9	9.3
EV/EBITDA (x)	38.9	30.5	24.9
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	0.3	1.2	1.9

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	78.5	78.5	78.5
DII	4.7	4.7	4.3
FII	4.0	4.4	5.1
Others	12.9	12.4	12.2

FII Includes depository receipts

**CMP: INR1,481**

**TP: INR1,379 (-7%)**

**Neutral**

## Demand outlook robust with commissioning of new products

- Clean Science (CLEAN) reported a beat on our EBITDA estimates, while its gross margin expanded to 67.2% v/s our expectation of 62%. EBITDAM stood at 45.6% (39.4% in 2QFY23). While the Performance Chemicals exhibited growth albeit marginal, Pharma & Agro Intermediates and the FMCG Chemicals segments were weaker QoQ in 3QFY23.
- The management highlighted that demand for Performance and Pharma chemicals remains robust with softness to be seen in the Agrochemical Intermediates. PBQ's performance has been underwhelming with subdued volumes but the management expects it to bounce back after Mar'23.
- Commercialization of rest of the products in the HALS series is expected between Dec'23 and Mar'24 with the company undertaking a capex of INR1.5b for FY24, which would be funded through internal accruals. **HALS production (HALS701 and HALS770 series) started in early Dec'22 with CLEAN receiving its maiden order in Jan'23.**
- 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 29%/27%/24%, respectively, over FY23-25.** Due to the outperformance in 3QFY23, we raise our EBITDA/EPS estimates by 8%/13%, respectively, for FY23, keeping FY24/FY25 estimates unchanged.
- The stock is trading at 44x FY24E P/E, EPS of INR34.1, and 31x FY24E EV/EBITDA. We value the company at 35x Dec'24E EPS to arrive at our TP of INR1, 379.

## Beat led by lower-than-expected opex and higher other income

- The company reported revenue in line with our estimates at INR2.4b (up 31% YoY, down 4% QoQ)
- **Gross margin stood at 67.2% (up 470bp QoQ; v/s 62.5%/65.0% in 2QFY23/3QFY22, respectively)**
- EBITDA margin stood at 45.6% (v/s 39.4% in 2QFY23 and 42.1% in 3QFY22), with EBITDA at INR1.1b (our estimate at INR858m; up 42%/up 11% YoY/QoQ)
- PAT came in at INR838m (our estimate at INR595m, up 45% YoY, up 23% QoQ), mainly driven by higher-than-expected other income.
- **For 9MFY23**, revenue was up 50% at INR7.2b, EBITDA was up 37% at INR3.0b, while PAT stood at INR2.1b (up 29% YoY). However, EBITDAM declined to 41.3% YoY from 45.0% (in 9MFY22).
- Contribution from new products stood at 10% in 9MFY23.

## Segmental Highlights

- Revenues from **Pharma Chemicals** stood at INR427m (up 18% YoY, down 3% QoQ). This was helped by increased volume growth across products.
- Revenues from **Performance Chemicals** stood at INR1.7b (up 46% YoY, up 2% QoQ). Increased realizations and volume growth was seen across all the products.

- Revenues from **FMCG Chemicals** stood at INR261m (+13% YoY, -13% QoQ). The segment saw strong growth in 4-MAP, the largest contributor.

#### Other Highlights

- CLEAN incurred a cash capex of INR1.1b in 9MFY23 with Clean Fino-Chem Ltd. construction work on track.
- The company has declared an interim dividend of INR2.
- The board has also approved re-designation of Mr. Pratik Bora as VP, Corporate Finance (currently the CFO) and appointed Mr. Sanjay Parnerkar as CFO w.e.f. 03.02.2022.

#### Valuation and view

- Continuing its R&D pursuit, it has forayed into the Hindered Amine Light Stabilizers (HALS) series (estimated global market size of USD1b), with CLEAN being the first company to develop the HALS series in India.
- Unit III is the company's first production line dedicated to the HALS series (commercialized in Dec'22)**, while additional production lines would be installed in Unit IV (Dec'23-Mar'24). CLEAN has acquired a 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 INR5.4b over FY23-25, with a capex of INR4.8b 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 44x FY24E P/E, EPS of INR34.1, and 31x FY24E EV/EBITDA. We value the company at 35x Dec'24E EPS to arrive at our TP of INR1, 379.

#### Consolidated - Quarterly Snapshot

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
<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>2,374</b>	<b>2,460</b>	<b>6,849</b>	<b>9,650</b>	<b>2,303</b>	<b>3%</b>
YoY Change (%)	29.6	9.2	44.2	52.8	60.0	61.6	31.3	20.2	33.7	40.9	27.4	
<b>Gross Margin (%)</b>	<b>71.2%</b>	<b>68.6%</b>	<b>65.0%</b>	<b>65.2%</b>	<b>61.0%</b>	<b>62.5%</b>	<b>67.2%</b>	<b>65.2%</b>	<b>67.2%</b>	<b>64.0%</b>	<b>62.0%</b>	<b>5.2%</b>
<b>EBITDA</b>	<b>713</b>	<b>687</b>	<b>761</b>	<b>837</b>	<b>913</b>	<b>975</b>	<b>1,082</b>	<b>1,073</b>	<b>2,999</b>	<b>4,043</b>	<b>858</b>	<b>26%</b>
Margin (%)	48.8	44.9	42.1	40.9	39.0	39.4	45.6	43.6	43.8	41.9	37.3	8.3
Depreciation	58	61	60	70	85	87	89	91	249	352	89	
Interest	0	0	0	1	0	0	1	1	1	1	0	
Other Income	65	86	75	74	18	28	126	70	300	242	26	
<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>1,118</b>	<b>1,051</b>	<b>3,048</b>	<b>3,932</b>	<b>795</b>	<b>41%</b>
<b>PBT</b>	<b>721</b>	<b>712</b>	<b>776</b>	<b>839</b>	<b>847</b>	<b>916</b>	<b>1,118</b>	<b>1,051</b>	<b>3,048</b>	<b>3,932</b>	<b>795</b>	<b>41%</b>
Tax	175	177	196	215	218	237	280	265	763	1,000	200	
Rate (%)	24.2	24.9	25.3	25.7	25.7	25.8	25.1	25.2	25.0	25.4	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>838</b>	<b>786</b>	<b>2,285</b>	<b>2,933</b>	<b>595</b>	<b>41%</b>
YoY Change (%)	30.3	-1.4	18.2	17.4	15.2	26.9	44.5	26.1	15.2	28.3	2.6	
<b>Margin (%)</b>	<b>37.3</b>	<b>34.9</b>	<b>32.1</b>	<b>30.5</b>	<b>26.9</b>	<b>27.5</b>	<b>35.3</b>	<b>32.0</b>	<b>33.4</b>	<b>30.4</b>	<b>25.8</b>	<b>9.5</b>



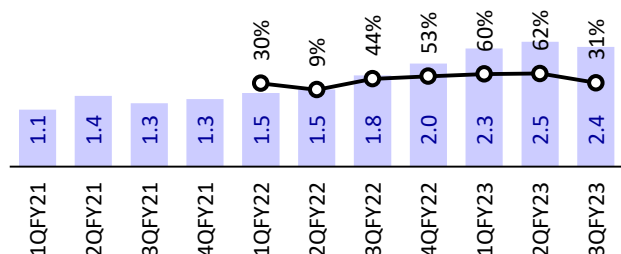
### Highlights from the management interaction

- Manufacturing plant for HALS 701 and 770 commercialized in early Dec'22.
- Product streamlined and commercial samples sent to customers in India with maiden order received in Jan'23
- Expect 50-60% utilization for both the products by Dec'23
- HALS 770 is expected to do well within the next six months with the product majorly for domestic market. CLEAN is targeting 30-35% of the Indian market. Current prices stand at USD6-6.5/kg. The management is already in talks with some of its customers in the international market for volume offtake.
- New products in HALS series is expected to be commissioned between Dec'23 and Mar'24
- Interim dividend has been announced for the first time since IPO
- Cash balance stood at INR2.8b
- Up gradation work is also being undertaken in its existing plants
- Also, the company added people in the business development team for new products
- R&D team of 80 people with growth in further few months
- More than 10 products in pipeline at any given point of time
- Continues to focus on diversifying product portfolio and geographical presence
- China opening up with full swing would help CLEAN drive growth
- PBQ's performance has been underwhelming with volumes subdued for the product.
- Expect volumes to bounce back after Mar'23
- Although volumes grew, the company had to pass on the decrease in raw material prices
- Flagship RM prices corrected 17-18% in 3QFY23
- Coal prices have come down from INR13/kg to INR11/kg in 3QFY23.
- Other income was high because of regular treasury income to the tune of INR45m and forex gain to the tune of INR27m
- Disposal of one non-core asset also helped in higher 'other income' during the quarter
- 5-6% growth in MEHQ and Guaiacol expected.
- Hydroquinone prices had already revived and are likely at ~USD7/kg currently
- 3Q is generally a subdued quarter for the company
- End product prices have sustained during the quarter
- PBQ, TBHQ, and Veratrole contributed 10% of total revenue during 9MFY23
- Capacity utilization in 3QFY23: 75% for Performance Chemicals, 65% for Pharma and Agro Intermediates, and 68-70% in FMCG Chemicals
- Capex of INR1.5b for FY24 would primarily go toward HALS products
- Demand from Performance and Pharma Chemicals remains robust with some softness in the Agrochemical segment

## 3QFY23 story in charts

**Exhibit 1: Revenue declined 4% QoQ and grew 31% YoY...**

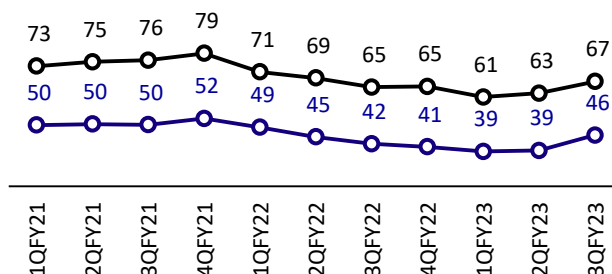
Gross Sales (INR b) Growth YoY (%)



Source: Company, MOFSL

**Exhibit 2: ...with GM and EBITDAM expanding**

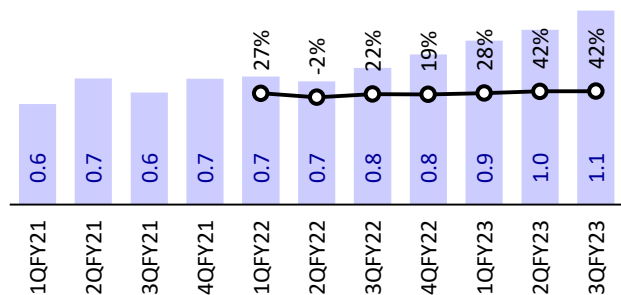
Gross Margin (%) EBITDA margin (%)



Source: Company, MOFSL

**Exhibit 3: EBITDA grew 11%QoQ and 42% YoY**

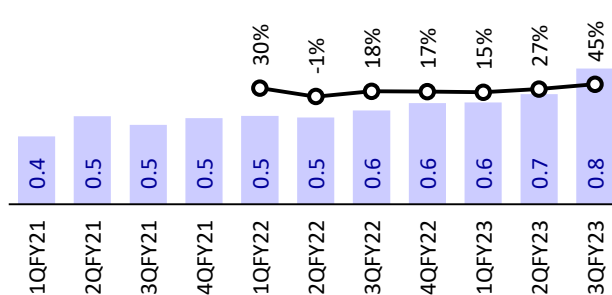
EBITDA (INR b) Growth YoY (%)



Source: Company, MOFSL

**Exhibit 4: ...with PAT growth at 45% YoY and 23% QoQ**

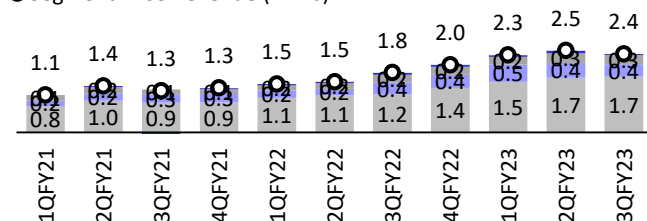
PAT (INR b) Growth YoY (%)



Source: Company, MOFSL

**Exhibit 5: Revenue from Performance Chemicals grew QoQ while it declined for Pharma and FMCG Chemicals in 3Q**

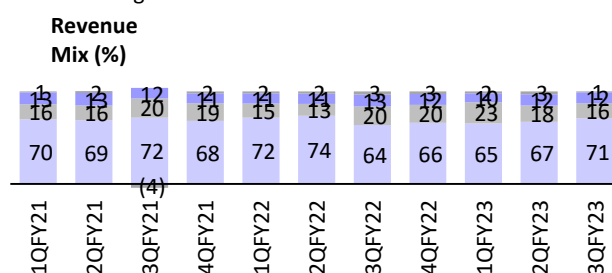
Others  
Pharma & Agro Intermediates  
FMCG Chemicals  
Performance Chemicals  
Segment-wise Revenue (INR b)



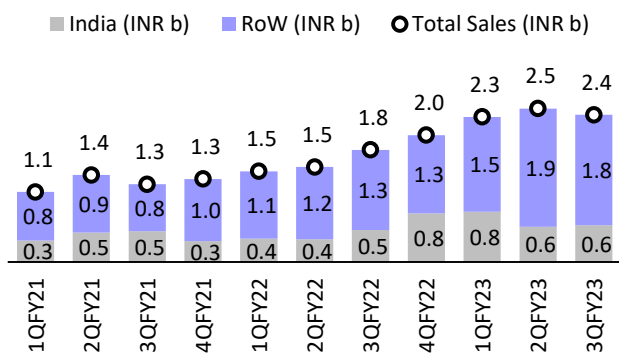
Source: Company, MOFSL

**Exhibit 6: ...with the share of Performance Chemicals in the overall mix improving to 71% and declining for Pharma**

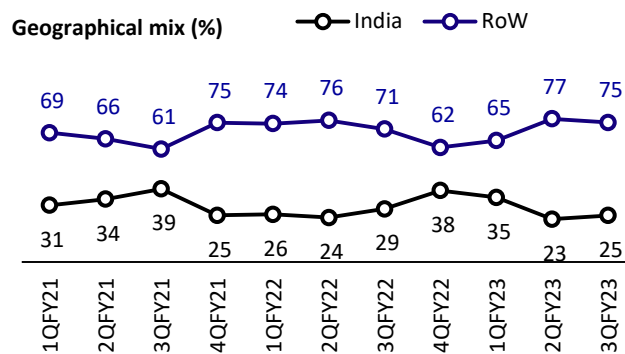
Others  
Pharma & Agro Intermediates  
FMCG Chemicals  
Performance Chemicals  
Revenue Mix (%)



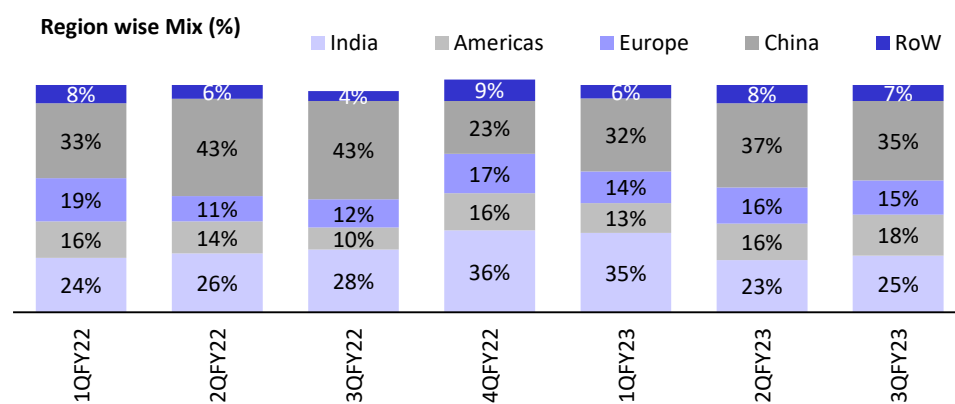
Source: Company, MOFSL

**Exhibit 7: Domestic sales grew 15% YoY and 38% for RoW**

Source: Company, MOFSL

**Exhibit 8: Contribution from domestic market increased**

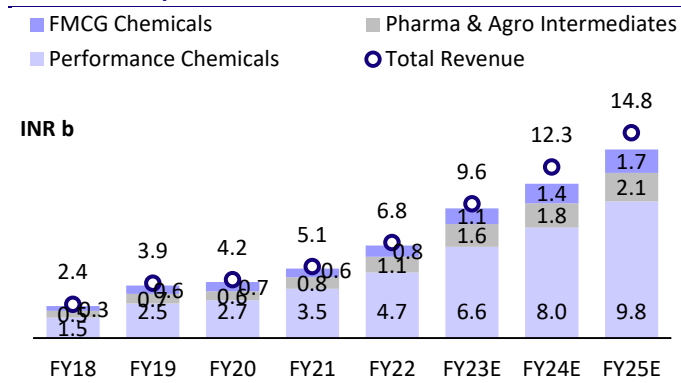
Source: Company, MOFSL

**Exhibit 9: Contribution from China and Europe declined QoQ while increasing for Americas**

Source: Company, MOSL

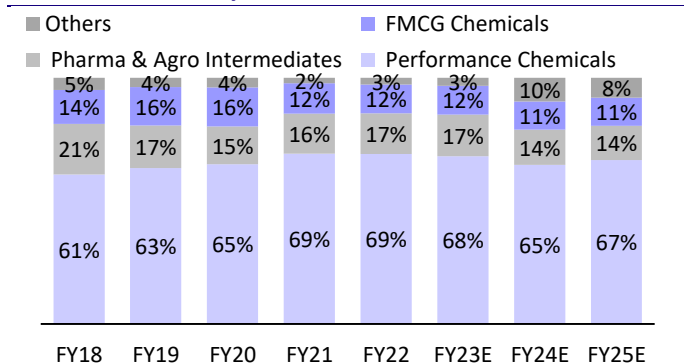
## Financial story in charts

**Exhibit 10: Expect 29% revenue CAGR over FY22-25...**



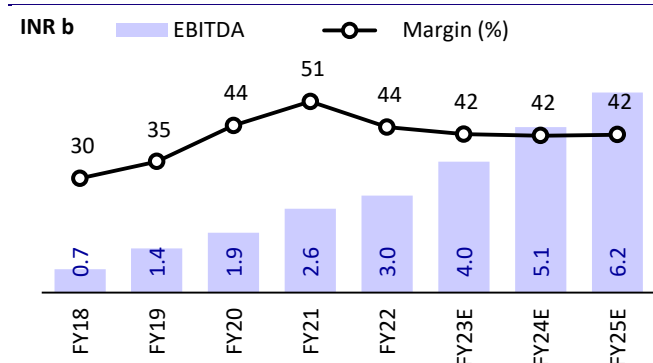
Source: Company, MOFSL

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



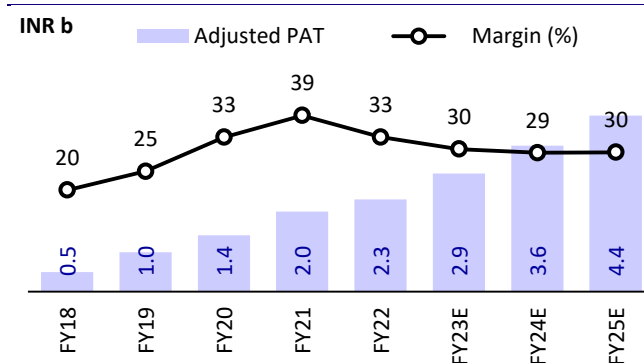
Source: Company, MOFSL

**Exhibit 12: EBITDA margin to stay robust as CLEAN continues to improve yields of its products and processes...**



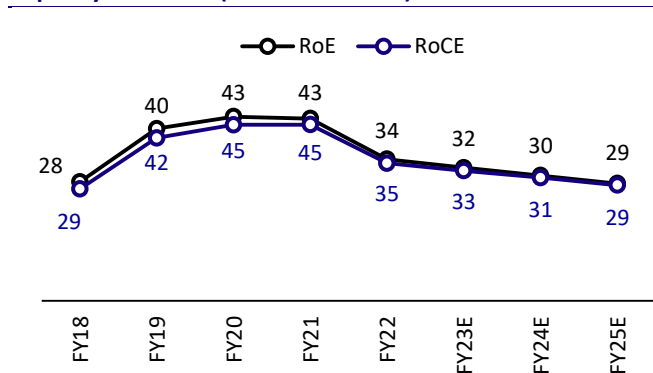
Source: Company, MOFSL

**Exhibit 13: ...with capacity additions in FY23 and new products range from unit IV (over the next two years)**



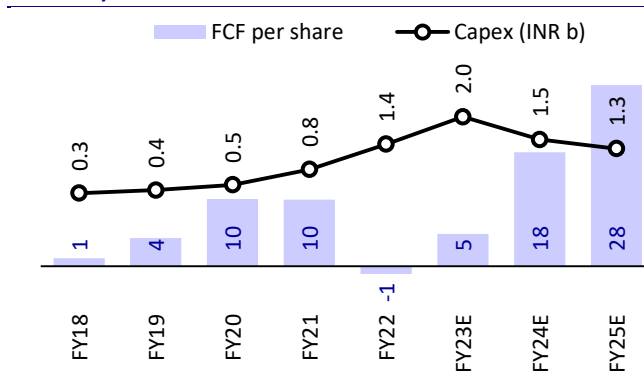
Source: Company, MOFSL

**Exhibit 14: Return profile to moderate v/s FY21 due to capacity additions (at unit III and IV)...**



Source: Company, MOFSL

**Exhibit 15: ...and capex of INR4.8b (to be funded via internal accruals) over FY23-25**



Source: Company, MOFSL

## Financials and valuations

### Consolidated - Financial Snapshot

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>2,411</b>	<b>3,933</b>	<b>4,193</b>	<b>5,124</b>	<b>6,849</b>	<b>9,650</b>	<b>12,298</b>	<b>14,776</b>
Change (%)	26.5	63.1	6.6	22.2	33.7	40.9	27.4	20.1
Gross Margins (%)	53.0	56.5	69.2	75.9	67.2	64.0	64.4	64.5
<b>EBITDA</b>	<b>729</b>	<b>1,363</b>	<b>1,853</b>	<b>2,590</b>	<b>2,999</b>	<b>4,043</b>	<b>5,110</b>	<b>6,176</b>
Margin (%)	30.3	34.7	44.2	50.5	43.8	41.9	41.6	41.8
Depreciation	76	110	137	172	249	352	451	555
<b>EBIT</b>	<b>654</b>	<b>1,253</b>	<b>1,716</b>	<b>2,417</b>	<b>2,750</b>	<b>3,691</b>	<b>4,659</b>	<b>5,621</b>
Int. and Finance Charges	1	0	1	1	1	1	1	1
Other Income	46	113	109	256	300	242	184	222
<b>PBT bef. EO Exp.</b>	<b>699</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>	<b>3,048</b>	<b>3,932</b>	<b>4,842</b>	<b>5,842</b>
<b>PBT after EO Exp.</b>	<b>699</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>	<b>3,048</b>	<b>3,932</b>	<b>4,842</b>	<b>5,842</b>
Total Tax	212	389	427	689	763	1,000	1,219	1,470
Tax Rate (%)	30.4	28.5	23.4	25.8	25.0	25.4	25.2	25.2
<b>Reported PAT</b>	<b>487</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>	<b>2,285</b>	<b>2,933</b>	<b>3,623</b>	<b>4,371</b>
<b>Adjusted PAT</b>	<b>487</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>	<b>2,285</b>	<b>2,933</b>	<b>3,623</b>	<b>4,371</b>
Change (%)	3.9	100.7	43.0	42.1	15.2	28.3	23.5	20.6
Margin (%)	20.2	24.8	33.3	38.7	33.4	30.4	29.5	29.6

### Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	14	14	13	106	106	106	106	106
Total Reserves	1,861	2,706	3,408	5,290	7,578	10,071	13,151	16,866
<b>Net Worth</b>	<b>1,875</b>	<b>2,721</b>	<b>3,421</b>	<b>5,397</b>	<b>7,684</b>	<b>10,177</b>	<b>13,257</b>	<b>16,972</b>
Total Loans	1	26	27	3	3	3	3	3
Deferred Tax Liabilities	100	139	102	176	209	209	209	209
<b>Capital Employed</b>	<b>1,976</b>	<b>2,885</b>	<b>3,550</b>	<b>5,576</b>	<b>7,897</b>	<b>10,390</b>	<b>13,469</b>	<b>17,185</b>
Gross Block	1,375	1,724	2,247	2,610	3,959	5,179	6,539	7,870
Less: Accum. Deprn.	351	454	591	752	1,001	1,353	1,804	2,359
<b>Net Fixed Assets</b>	<b>1,024</b>	<b>1,270</b>	<b>1,656</b>	<b>1,859</b>	<b>2,957</b>	<b>3,826</b>	<b>4,735</b>	<b>5,511</b>
Capital WIP	15	39	34	550	441	1,221	1,360	1,330
<b>Total Investments</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>1,911</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>1,137</b>	<b>1,213</b>	<b>1,279</b>	<b>1,870</b>	<b>3,938</b>	<b>5,332</b>	<b>7,883</b>	<b>11,340</b>
Inventory	290	370	346	529	881	1,242	1,583	1,901
Account Receivables	397	598	698	742	1,535	2,163	2,757	3,313
Cash and Bank Balance	295	95	93	157	747	836	2,153	4,456
Cash	0	94	92	93	579	668	1,985	4,288
Bank Balance	295	0	1	63	168	168	168	168
Loans and Advances	155	151	142	442	774	1,091	1,390	1,670
<b>Curr. Liability &amp; Prov.</b>	<b>380</b>	<b>390</b>	<b>749</b>	<b>1,023</b>	<b>1,350</b>	<b>1,900</b>	<b>2,420</b>	<b>2,907</b>
Account Payables	264	223	357	610	1,021	1,439	1,834	2,203
Other Current Liabilities	113	162	387	408	324	456	581	698
Provisions	3	4	5	5	5	5	5	5
<b>Net Current Assets</b>	<b>756</b>	<b>824</b>	<b>530</b>	<b>846</b>	<b>2,587</b>	<b>3,432</b>	<b>5,463</b>	<b>8,433</b>
<b>Appl. of Funds</b>	<b>1,976</b>	<b>2,885</b>	<b>3,550</b>	<b>5,576</b>	<b>7,897</b>	<b>10,390</b>	<b>13,469</b>	<b>17,185</b>



## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
EPS	4.6	9.2	13.1	18.7	21.5	27.6	34.1	41.2
EPS Growth (%)	3.9	100.7	43.0	42.1	15.2	28.3	23.5	20.6
Cash EPS	5.3	10.2	14.4	20.3	23.9	30.9	38.4	46.4
BV/Share	17.7	25.6	32.2	50.8	72.3	95.8	124.8	159.8
DPS	0.2	0.9	1.0	0.3	3.3	4.1	5.1	6.2
Payout (%)	4.7	9.5	7.4	1.7	15.1	15.0	15.0	15.0
<b>Valuation (x)</b>								
P/E	325	162	113	80	69	54.0	43.7	36.2
Cash P/E	281	146	103	73	62	48	39	32
P/BV	84	58	46	29	21	16	12	9
EV/Sales	66	40	38	31	23	16	13	10
EV/EBITDA	217	116	85	61	53	39	31	25
Dividend Yield (%)	0.0	0.1	0.1	0.0	0.2	0.3	0.3	0.4
FCF per share	1	4	10	10	-1	5	18	28
<b>Return Ratios (%)</b>								
RoE	29	42	45	45	35	32.8	30.9	28.9
RoCE	28	40	43	43	34	32	30	29
RoIC	35	51	64	77	56	49	48	48
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	2.7	3.4	2.9	2.9	2.8	2.8	2.9	2.9
Asset Turnover (x)	1.2	1.4	1.2	0.9	0.9	0.9	0.9	0.9
Inventory (Days)	44	34	30	38	47	47	47	47
Debtor (Days)	60	55	61	53	82	82	82	82
Creditor (Days)	40	21	31	43	54	54	54	54
<b>Leverage Ratio (x)</b>								
Current Ratio	3.0	3.1	1.7	1.8	2.9	2.8	3.3	3.9
Net Debt/Equity	-0.2	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.3

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	699	1,365	1,823	2,673	3,048	3,932	4,842	5,842
Depreciation	76	110	137	172	249	352	451	555
Interest Expenses	1	0	1	1	1	1	1	1
Others	-18	-65	-67	-109	-126	0	0	0
Direct Taxes Paid	-219	-355	-424	-659	-691	-1,000	-1,219	-1,470
(Inc)/Dec in WC	-89	-208	131	-149	-1,209	-755	-714	-668
<b>CF from Operations</b>	<b>449</b>	<b>848</b>	<b>1,601</b>	<b>1,928</b>	<b>1,273</b>	<b>2,531</b>	<b>3,362</b>	<b>4,260</b>
(Inc)/Dec in FA	-320	-388	-503	-840	-1,396	-2,000	-1,500	-1,300
<b>Free Cash Flow</b>	<b>129</b>	<b>460</b>	<b>1,098</b>	<b>1,088</b>	<b>-123</b>	<b>531</b>	<b>1,862</b>	<b>2,960</b>
Change in Investments	144	-576	-563	-1,078	532	0	0	0
Others	0	14	3	51	78	0	0	0
<b>CF from Investments</b>	<b>-175</b>	<b>-950</b>	<b>-1,063</b>	<b>-1,867</b>	<b>-786</b>	<b>-2,000</b>	<b>-1,500</b>	<b>-1,300</b>
Inc/(Dec) in Debt	1	20	1	-24	0	0	0	0
Interest Paid	-1	0	-1	-1	-1	-1	-1	-1
Dividend Paid	-51	-128	-153	-33	0	-440	-543	-656
Others	6	10	-386	-1	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-44</b>	<b>-98</b>	<b>-540</b>	<b>-59</b>	<b>-1</b>	<b>-441</b>	<b>-545</b>	<b>-657</b>
<b>Inc/Dec of Cash</b>	<b>230</b>	<b>-200</b>	<b>-3</b>	<b>1</b>	<b>486</b>	<b>90</b>	<b>1,317</b>	<b>2,303</b>
Opening Balance	65	295	95	92	93	579	668	1,985
<b>Closing Balance</b>	<b>294</b>	<b>95</b>	<b>92</b>	<b>93</b>	<b>579</b>	<b>669</b>	<b>1,985</b>	<b>4,288</b>



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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