

Clean Science & Technology

Estimate changes



TP change



Rating change



Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	160.3 / 1.9
52-Week Range (INR)	1979 / 1227
1, 6, 12 Rel. Per (%)	5/0/-23
12M Avg Val (INR M)	161

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	9.4	10.9	12.2
EBITDA	4.0	4.6	5.1
PAT	3.0	3.3	3.7
EPS (INR)	27.8	31.0	34.5
EPS Gr. (%)	29.2	11.5	11.3
BV/Sh.(INR)	95.1	120.5	148.8

Ratios

Net D:E	-0.0	-0.1	-0.1
RoE (%)	33.2	28.8	25.6
RoCE (%)	32.4	28.2	25.2
Payout (%)	18.0	18.0	18.0

Valuations

P/E (x)	54.4	48.8	43.8
P/BV (x)	15.9	12.5	10.2
EV/EBITDA (x)	39.9	35.0	31.1
Div. Yield (%)	0.3	0.4	0.4
FCF Yield (%)	0.7	0.9	1.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	78.5	78.5	78.5
DII	4.8	4.7	4.0
FII	4.0	4.0	5.2
Others	12.8	12.9	12.3

FII Includes depository receipts

CMP: INR1,509

TP: INR1,380 (-9%)

Neutral

Capacity additions to bear fruit in a couple of years

- Clean Science (CLEAN) reported an in-line EBITDA in 4QFY23, while its gross margin expanded to 70.5% (v/s our expectation of 66.9%), primarily due to lower raw material costs. EBITDAM stood at 48.5% (v/s 45.6% in 3QFY23). While Pharma & Agro Intermediates exhibited growth, Performance Chemicals and FMCG Chemicals were weaker QoQ in 4QFY23.
- The company commercialized its HALS701 and HALS770 in Dec'22 and begun supplying commercial orders to its customers in 4QFY23. Management said it would focus on increasing sales and making inroads in the export market as well with an aim to capture 30% of the domestic market share in these two products. Demand from the agrochemical industry was soft and CLEAN has unused capacities of PBQ currently with expectation of a recovery by 3QFY24.
- The total capex envisaged for the HALS expansion in UNIT IV is INR1.8b, which is likely to be commissioned by Dec'23-Mar'24. Post this, the total capacity of HALS would be 15ktpa (including 2ktpa in Unit III). The company has also announced INR2b worth of capex for new products that is expected to come online by end-1HFY25.
- Management projects stiffer competition as the global economy opens up with some short-term demand pressures to sustain. Subsequently, we have not materially revised our estimates as of now due to the commentary being largely same with respect to ongoing capex. **We model a revenue/EBITDA/ EPS CAGR of 21%/19%/17% over FY23-25.**
- The stock is trading at 44x FY25E P/E, EPS of INR34.5, and 31x FY25E EV/EBITDA. **We value the company at 40x FY25E EPS to arrive at our TP of INR1,380. Maintain Neutral.**

EBITDA in line; margins expand

- The company reported lower-than-estimated revenue at INR2.2b (-9% est., +6% YoY, -9% QoQ). **Revenue missed consensus by 11% during 4QFY23.**
- **Gross margin stood at 70.5% (+320bp QoQ, was at 67.2%/65.2% in 3QFY23/ 4QFY22) during the quarter.**
 - EBITDA margin was at 48.5% (v/s 45.6% in 3QFY23 and 40.9% in 4QFY22).
- EBITDA was at INR1.1b (our est. at INR1.1b, +26% YoY/-3% QoQ); **missed consensus by 6%.**
- PAT came in at INR805m (our est. at INR811m, +29% YoY, -4% QoQ).
- **For FY23, revenue was up 37% to INR9.4b, EBITDA was up 34% to INR4b, while PAT was at INR3b (+29% YoY)**
 - EBITDAM contracted YoY to 43% from 43.8%
- **The Board has declared a final dividend of INR3/share.**

Segmental Highlights

- Revenue from **Pharma Chemicals** was at INR428m (+7% YoY, +13% QoQ); aided by new product launches and increased volumes.

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

- Revenue from **Performance Chemicals** was at INR1.6b (+17% YoY, -6% QoQ); aided by new product launches and increased volumes. **It received its maiden order for HALS770 and started recording revenue from 4QFY23.**
- Revenue from **FMCG Chemicals** was at INR215m (-11% YoY, -25% QoQ).

Other highlights

- Revenue from the domestic market stood at 30% while the rest was exports.
- CLEAN incurred a capex of INR210m in 4QFY23 (INR1.9b in FY23) with Clean Fino-Chem Ltd's construction work on track
- **Contribution from new products stood at 9% in FY23.**

Valuation and view

- Continuing with its R&D pursuit, CLEAN has forayed into the HALS series (estimated global market size of USD1b). It is the first company to develop the HALS series in India, along with other products in its R&D pipeline. It has also announced INR2b in capex for newer products, the contours of which will be announced later in FY24E.
- CLEAN is likely to generate an FCF of INR3.3b over FY24-25, with a capex of INR4b 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 FY25E P/E, EPS of INR34.5, and 31x FY25E EV/EBITDA. **We value the company at 40x FY25E EPS to arrive at our TP of INR1,380. Maintain Neutral.**

Consolidated - Quarterly Snapshot

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	1,463	1,532	1,808	2,046	2,341	2,475	2,374	2,169	6,849	9,358	2,396	-9%
YoY Change (%)	29.6	9.2	44.2	52.8	60.0	61.6	31.3	6.0	33.7	36.6	17.1	
Gross Margin (%)	71.2%	68.6%	65.0%	65.2%	61.0%	62.5%	67.2%	70.5%	67.2%	65.2%	66.9%	3.6%
EBITDA	713	687	761	837	913	975	1,082	1,051	2,999	4,021	1,084	-3%
Margin (%)	48.8	44.9	42.1	40.9	39.0	39.4	45.6	48.5	43.8	43.0	45.3	3.2
Depreciation	58	61	60	70	85	87	89	101	249	361	91	
Interest	0	0	0	1	0	0	1	1	1	2	1	
Other Income	65	86	75	74	18	28	126	126	300	298	92	
PBT before EO expense	721	712	776	839	847	916	1,118	1,075	3,048	3,956	1,084	-1%
PBT	721	712	776	839	847	916	1,118	1,075	3,048	3,956	1,084	-1%
Tax	175	177	196	215	218	237	280	270	763	1,005	273	
Rate (%)	24.2	24.9	25.3	25.7	25.7	25.8	25.1	25.1	25.0	25.4	25.2	
Reported PAT	546	535	580	624	629	679	838	805	2,285	2,952	811	-1%
YoY Change (%)	30.3	-1.4	18.2	17.4	15.2	26.9	44.5	29.1	15.2	29.2	30.0	
Margin (%)	37.3	34.9	32.1	30.5	26.9	27.5	35.3	37.1	33.4	31.5	33.8	3.3
Segment-wise Revenue (INR m)												
Performance Chemicals	1,050	1,126	1,151	1,350	1,530	1,660	1,685	1,582	4,677	6,457	1,794	-12%
Pharma & Agro Intermediates	220	197	363	400	530	440	380	428	1,180	1,778	298	44%
FMCG Chemicals	160	171	231	240	230	300	285	215	802	1,029	265	-19%



Highlights from the management interaction

Operational highlights

- Good response from the domestic market seen in HALS
- Good volume growth and increased realization across all products in FY23
- New products contributed 9% in FY23 whereas the same was 4% in FY22
- Lot of the customers were holding onto inventory due to fear of another lockdown a couple of quarters back
- Current quarter saw a lot of destocking and with RM prices also softening, it had an adverse effect on the total sales.

Outlook

- Focus to increase sales gradually in coming months and make inroads in export market as well
- Stiffer competition to be seen with global economy opening up
- No competitor is adding capacities with focus on consolidation in FY24
- Management confident of capturing 30% of domestic market share in HALS
- CLEAN has started supplying in tonnages too
- Also started to talk to customers in Europe and has got an order from an MNC
- Contribution from agrochem industry is on the slower side and therefore it has unused capacities in p-BQ
- Volume growth guidance to be back on track from 3QFY24

Capex updates

- A majority of the capex is going to HALS and upgrading of existing equipment for efficient functioning of all the plants
- As all capex continues to be funded through internal accruals
- Management implemented all projects on time until now and is confident that in future also the trend would continue.
- There is maintenance capex in parent company and INR1.8b capex is primarily for HALS in subsidiary, a majority of which would be spent in FY24.
- Total capacity of HALS in Unit IV would be of 13ktpa with 2ktpa in parent company at Site III, taking the total capacity of HALS to 15ktpa

Other highlights

- CLEAN remains net debt free even after huge capex undertaken in FY23
- Continues to improve share of renewable energy as a new 5MW solar plant was commissioned in 4QFY23 with total capacity now at 17.4MW
- HALS701 is not a domestic market product while HALS770 is a domestic market-focused product
- New products would be in the Performance chemicals category while some might go into water treatment and some into pharma as well
- These would not specifically go into polymers usage

4QFY23 story in charts

Exhibit 1: Revenue declined 9% QoQ and grew 6% YoY...

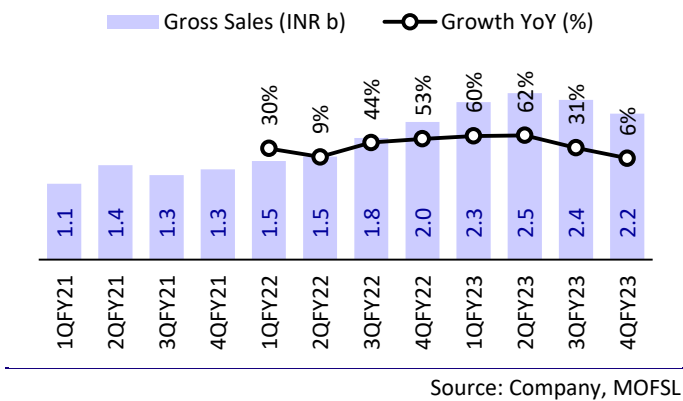


Exhibit 2: ...with GM and EBITDAM expanding

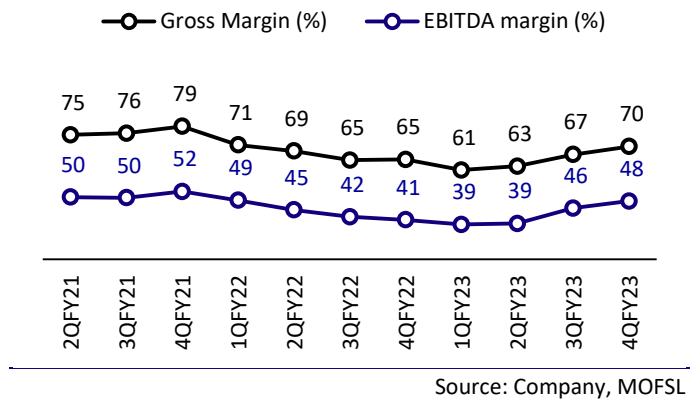


Exhibit 3: EBITDA declined 3% QoQ and grew 26% YoY

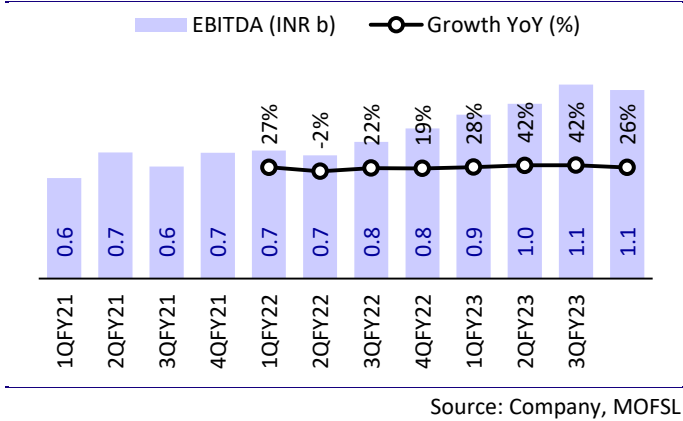


Exhibit 4: PAT grew 29% YoY and declined 4% QoQ

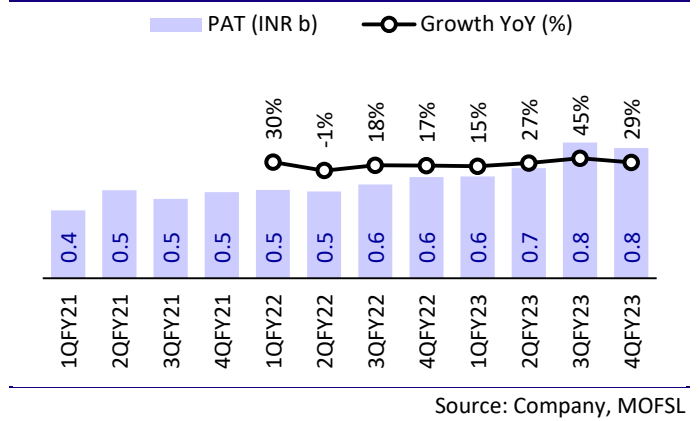


Exhibit 5: Revenue from Pharma & Agro Chemicals grew QoQ while it declined for Perf. and FMCG Chemicals in 4Q...

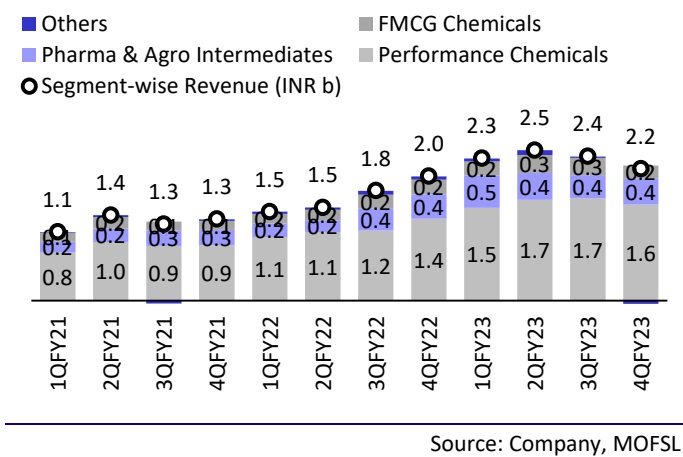


Exhibit 6: ...with the share of Performance Chemicals in the overall mix improving to 73% and declining for FMCG

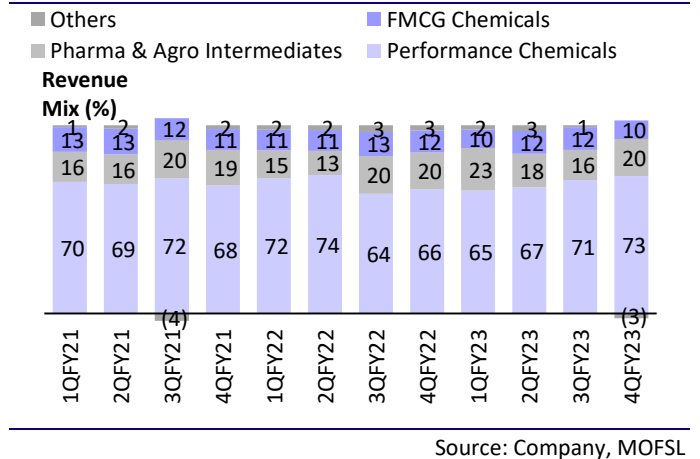
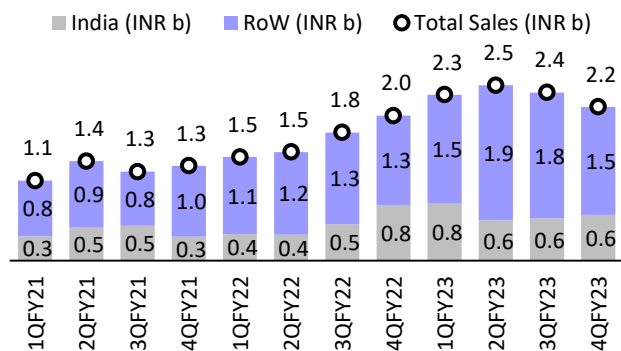
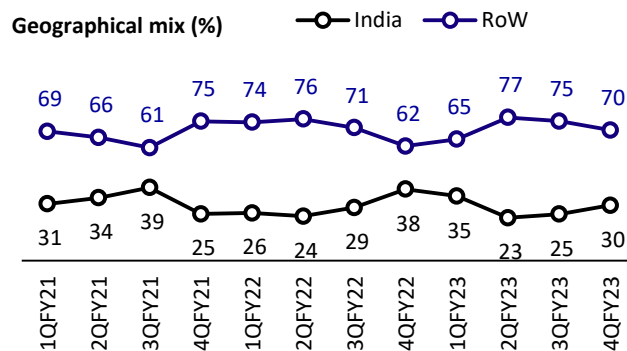
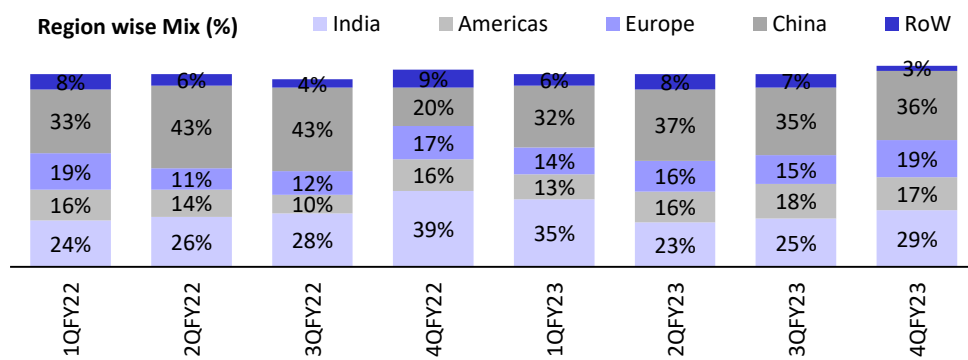


Exhibit 7: Domestic sales declined 18% YoY and grew 21% for RoW

Source: Company, MOFSL

Exhibit 8: Contribution from domestic market increased

Source: Company, MOFSL

Exhibit 9: Contribution from India & Europe increased while it declined for RoW QoQ

Source: Company, MOSL

Financial story in charts

Exhibit 10: Expect 21% revenue CAGR over FY23-25...

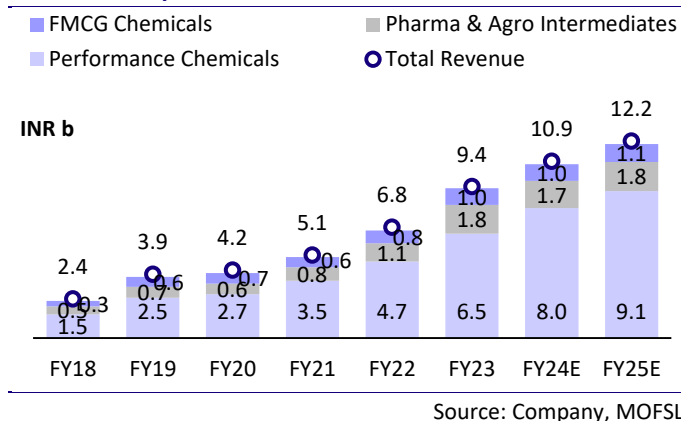


Exhibit 11: ...driven by contribution from Performance Chemicals

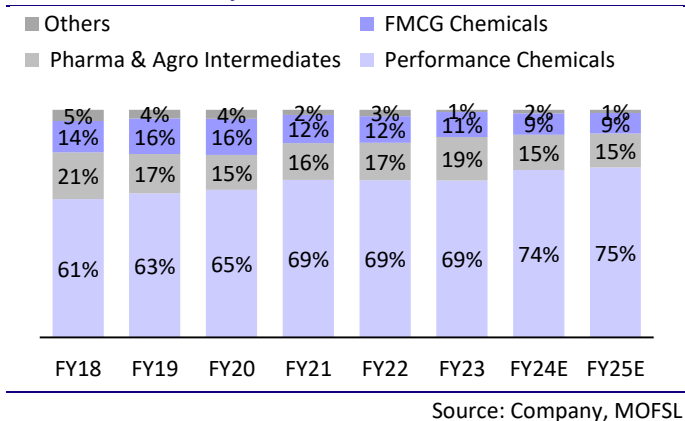


Exhibit 12: EBITDA margin to normalize with commissioning of HALS and capacity ramp up of the same...

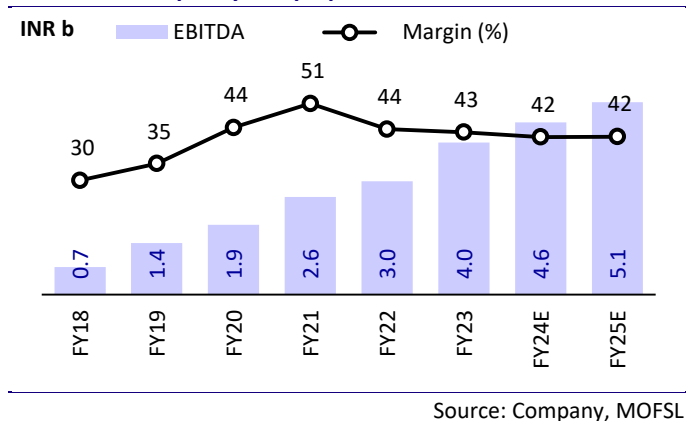


Exhibit 13: ...and commissioning of new products by end-1HFY25 in the subsidiary CFCL

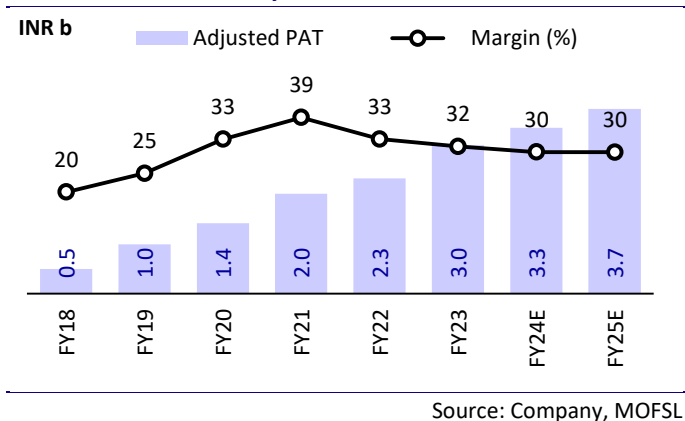


Exhibit 14: Return profile to moderate v/s FY21 due to capacity additions (at unit III and IV)...

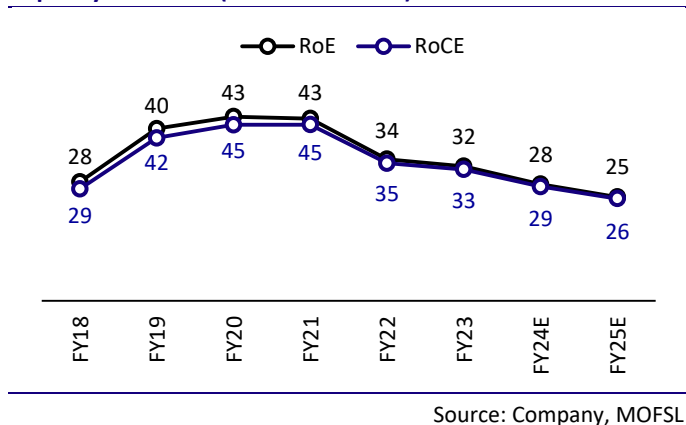
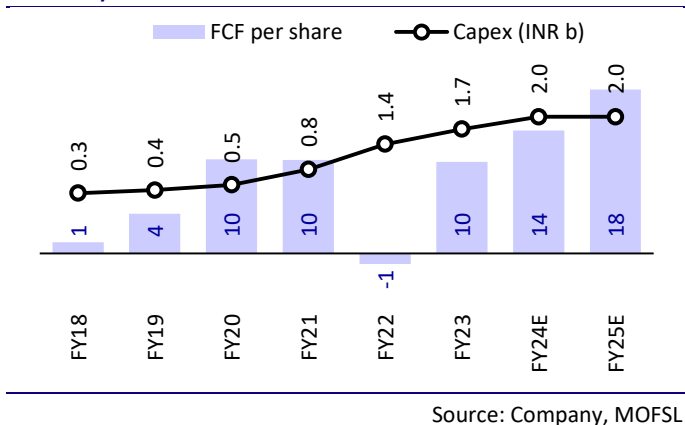


Exhibit 15: ...and capex of INR4b (to be funded via internal accruals) over FY24-25



Financials and valuations

Consolidated - Financial Snapshot

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	2,411	3,933	4,193	5,124	6,849	9,358	10,929	12,173
Change (%)	26.5	63.1	6.6	22.2	33.7	36.6	16.8	11.4
Gross Margin (%)	53.0	56.5	69.2	75.9	67.2	65.2	64.5	64.5
EBITDA	729	1,363	1,853	2,590	2,999	4,021	4,557	5,088
Margin (%)	30.3	34.7	44.2	50.5	43.8	43.0	41.7	41.8
Depreciation	76	110	137	172	249	361	456	494
EBIT	654	1,253	1,716	2,417	2,750	3,660	4,101	4,595
Int. and Finance Charges	1	0	1	1	1	2	2	2
Other Income	46	113	109	256	300	298	301	304
PBT bef. EO Exp.	699	1,365	1,823	2,673	3,048	3,956	4,400	4,897
PBT after EO Exp.	699	1,365	1,823	2,673	3,048	3,956	4,400	4,897
Total Tax	212	389	427	689	763	1,005	1,107	1,233
Tax Rate (%)	30.4	28.5	23.4	25.8	25.0	25.4	25.2	25.2
Reported PAT	487	977	1,396	1,984	2,285	2,952	3,293	3,664
Adjusted PAT	487	977	1,396	1,984	2,285	2,952	3,293	3,664
Change (%)	3.9	100.7	43.0	42.1	15.2	29.2	11.5	11.3
Margin (%)	20.2	24.8	33.3	38.7	33.4	31.5	30.1	30.1

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	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	9,994	12,694	15,699
Net Worth	1,875	2,721	3,421	5,397	7,684	10,100	12,800	15,805
Total Loans	1	26	27	3	3	1	1	1
Deferred Tax Liabilities	100	139	102	176	209	234	234	234
Capital Employed	1,976	2,885	3,550	5,576	7,897	10,335	13,035	16,040
Gross Block	1,375	1,724	2,247	2,610	3,959	5,963	7,065	8,617
Less: Accum. Deprn.	351	454	591	752	1,001	1,362	1,818	2,312
Net Fixed Assets	1,024	1,270	1,656	1,859	2,957	4,601	5,247	6,305
Capital WIP	15	39	34	550	441	205	1,102	1,551
Total Investments	181	752	1,330	2,321	1,911	3,531	3,531	3,531
Curr. Assets, Loans&Adv.	1,137	1,213	1,279	1,870	3,938	3,181	4,535	6,190
Inventory	290	370	346	529	881	1,088	1,271	1,415
Account Receivables	397	598	698	742	1,535	1,462	1,707	1,902
Cash and Bank Balance	295	95	93	157	747	125	965	2,214
Cash	0	94	92	93	579	125	965	2,214
Bank Balance	295	0	1	63	168	0	0	0
Loans and Advances	155	151	142	442	774	506	591	658
Curr. Liability & Prov.	380	390	749	1,023	1,350	1,184	1,381	1,537
Account Payables	264	223	357	610	1,021	805	940	1,047
Other Current Liabilities	113	162	387	408	324	370	432	482
Provisions	3	4	5	5	5	8	8	8
Net Current Assets	756	824	530	846	2,587	1,997	3,154	4,653
Appl. of Funds	1,976	2,885	3,550	5,576	7,897	10,334	13,035	16,040

Financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	4.6	9.2	13.1	18.7	21.5	27.8	31.0	34.5
EPS Growth (%)	3.9	100.7	43.0	42.1	15.2	29.2	11.5	11.3
Cash EPS	5.3	10.2	14.4	20.3	23.9	31.2	35.3	39.1
BV/Share	17.7	25.6	32.2	50.8	72.3	95.1	120.5	148.8
DPS	0.2	0.9	1.0	0.3	3.3	5.0	5.6	6.2
Payout (%)	4.7	9.5	7.4	1.7	15.1	18.0	18.0	18.0
Valuation (x)								
P/E	330	164	115	81	70	54	48.8	43.8
Cash P/E	286	148	105	74	63	48	43	39
P/BV	86	59	47	30	21	16	13	10
EV/Sales	66	41	38	31	23	17	15	13
EV/EBITDA	220	118	87	62	53	40	35	31
Dividend Yield (%)	0.0	0.1	0.1	0.0	0.2	0.3	0.4	0.4
FCF per share	1	4	10	10	-1	10	14	18
Return Ratios (%)								
RoE	29	42	45	45	35	33	29	26
RoCE	28	40	43	43	34	32	28	25
RoIC	35	51	64	77	56	48	44	43
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	3.4	2.9	2.9	2.8	2.5	2.2	2.1
Asset Turnover (x)	1.2	1.4	1.2	0.9	0.9	0.9	0.8	0.8
Inventory (Days)	44	34	30	38	47	42	42	42
Debtor (Days)	60	55	61	53	82	57	57	57
Creditor (Days)	40	21	31	43	54	31	31	31
Leverage Ratio (x)								
Current Ratio	3.0	3.1	1.7	1.8	2.9	2.7	3.3	4.0
Net Debt/Equity	-0.2	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1

Consolidated - Cash Flow Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	699	1,365	1,823	2,673	3,048	3,956	4,400	4,897
Depreciation	76	110	137	172	249	361	456	494
Interest Expenses	1	0	1	1	1	2	2	2
Others	-18	-65	-67	-109	-126	-153	0	0
Direct Taxes Paid	-219	-355	-424	-659	-691	-945	-1,107	-1,233
(Inc)/Dec in WC	-89	-208	131	-149	-1,209	-428	-316	-250
CF from Operations	449	848	1,601	1,928	1,273	2,793	3,435	3,910
(Inc)/Dec in FA	-320	-388	-503	-840	-1,396	-1,727	-2,000	-2,000
Free Cash Flow	129	460	1,098	1,088	-123	1,067	1,435	1,910
Change in Investments	144	-576	-563	-1,078	532	-1,410	0	0
Others	0	14	3	51	78	439	0	0
CF from Investments	-175	-950	-1,063	-1,867	-786	-2,698	-2,000	-2,000
Issue of Shares	0	0	0	0	0	9	0	0
Inc/(Dec) in Debt	1	20	1	-24	0	0	0	0
Interest Paid	-1	0	-1	-1	-1	-1	-2	-2
Dividend Paid	-51	-128	-153	-33	0	-558	-593	-659
Others	6	10	-386	-1	0	0	0	0
CF from Fin. Activity	-44	-98	-540	-59	-1	-550	-594	-661
Inc/Dec of Cash	230	-200	-3	1	486	-454	840	1,249
Opening Balance	65	295	95	92	93	579	125	965
Closing Balance	294	95	92	93	579	125	965	2,214

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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