

August 4, 2023

Q1FY24 Result Update

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	6,849	9,358	8,340	9,172
EBITDA (Rs. m)	2,999	4,021	3,478	3,834
Margin (%)	43.8	43.0	41.7	41.8
PAT (Rs. m)	2,285	2,952	2,431	2,669
EPS (Rs.)	21.5	27.8	22.9	25.1
Gr. (%)	15.2	29.2	(17.6)	9.8
DPS (Rs.)	3.3	5.0	-	-
Yield (%)	0.3	0.4	-	-
RoE (%)	34.9	33.2	21.9	20.2
RoCE (%)	42.0	41.2	27.2	25.3
EV/Sales (x)	20.0	14.7	16.4	14.9
EV/EBITDA (x)	45.7	34.3	39.4	35.6
PE (x)	60.3	46.7	56.7	51.6
P/BV (x)	17.9	13.6	11.4	9.7

Key Data

CLEA.BO | CLEAN IN

52-W High / Low	Rs.1,980 / Rs.1,227
Sensex / Nifty	65,241 / 19,382
Market Cap	Rs.138bn/ \$ 1,666m
Shares Outstanding	106m
3M Avg. Daily Value	Rs.312.14m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	5.84
Domestic Institution	6.41
Public & Others	12.77
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.5)	(12.9)	(22.0)
Relative	(7.6)	(18.8)	(30.2)

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Clean Science and Technology (CLEAN IN)

Rating: HOLD | CMP: Rs1,298 | TP: Rs1,206

HALS Execution to be key driver

Quick Pointers:

- Inventory destocking along with subdued demand dragged volumes and price realizations.
- HALS (Hindered Amine Light Stabilizers) capacity commissioning to be a key driver amidst sluggish demand.

Clean Science & Technology (CLEAN) reported 20%YoY/13%QoQ revenue decline to Rs 1.8b during the quarter, due to weak demand scenario across performance chemicals and pharma/agro segments. In the performance segment, two-third of the decline was due to volume while rest from lower price realization. While we remain positive on long term growth prospects given near-term demand headwinds, we expect EPS decline from Rs27.8 in FY23 to Rs22.9 in FY24 before recovering to Rs25.1 in FY25. We also remain apprehensive on margins as most raw materials are crude derivatives that may rise along with crude oil prices. The company is trading at 51.7x FY25 EPS. We recommend 'Hold' rating on the stock with TP of Rs1,206 valuing at 48x FY25 EPS.

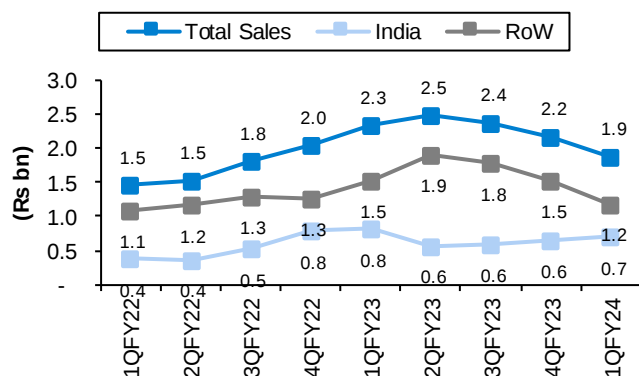
- Topline subdued YoY & QoQ:** Revenue dropped 20% & 13% YoY/QoQ to Rs 1.8bn primarily on account of drop in realizations across its key business segments. Management indicated that realization drop was on account of lower demand. Volume drop seen in the quarter reflects subdued demand and inventory destocking by its user industries.
- Margins recovered QoQ led by better product mix:** The company reported lower EBITDA (Rs 760mn) YoY & QoQ in Q1FY24 due to lower topline. Company's EBITDA margins for the quarter stood at 40.5% (v/s 39.0% in Q1FY23) led by better product mix, however, it declined from 48.5% in Q4FY23. Other Income for the quarter grew 632% YoY & 6% QoQ due to foreign exchange and treasury income gains.
- Segmental Performance:** While FMCG business exhibited growth, Pharma & Agro Intermediates and Performance Chemicals both were weaker 18%/33% YoY & 20%/17% QoQ in Q1FY24. FMCG chemicals grew by 6%YoY/14%QoQ majorly on account of volume growth than realizations growth. Management expects its pharmaceutical as well as performance chemicals segments to recover by Q4FY24.
- Capex expansion to drive topline:** Company incurred total capex of Rs 900mn, including investment of Rs 850mn in its subsidiary (Clean Fino-Chem Ltd) in the current quarter. Three additional products under HALS are expected to be launched by CY23 end.
- Concall takeaways:** (1) Topline de-growth majorly due to lower volumes led by inventory destocking and poor demand; (2) Other expenses down due to lower P&F and absence of abnormally high CSR expenses in Q1FY24 (3) Management expects its pharmaceutical and performance chemicals segments to recover by Q4FY24 (4) Currently HALS facility running at <50% capacity utilizations, full utilization expected by Q4FY24 (5) (6) Management expects realizations to bounce back as RM prices inch higher.(7) Clean Fino Chem, construction work on track. (8) FMCG chemicals segment reported revenue growth of 6% YoY and 14% QoQ driven by higher volumes.

Exhibit 1: Q1FY24 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.	FY23	FY22	YoY gr.
Net Revenue	1,881	2,341	-20%	2,169	-13%	9,358	6,849	37%
Material Cost	726	913	-20%	641	13%	3,260	2,247	45%
Gross Profit	1,155	1,427	-19%	1,528	-24%	6,098	4,602	33%
<i>Gross Margin (%)</i>	<i>61.4%</i>	<i>61.0%</i>		<i>70.5%</i>		<i>65.2%</i>	<i>67.2%</i>	
Employee expenses	117	100	17%	128	-9%	452	345	31%
Other operating expenses	277	414	-33%	349	-21%	1,625	1,258	29%
EBITDA	761	913	-17%	1,051	-28%	4,021	2,999	34%
<i>EBITDA margin (%)</i>	<i>40.5%</i>	<i>39.0%</i>		<i>48.5%</i>		<i>43.0%</i>	<i>43.8%</i>	
Depreciation	108	85	28%	101	7%	361	249	45%
EBIT	653	829	-21%	950	-31%	3,660	2,750	33%
Other income	134	18	632%	126	6%	298	300	-1%
Interest cost	1	0		1	-61%	2	1	33%
PBT	787	847	-7%	1,075	-27%	3,956	3,048	30%
Tax	198	218	-9%	270	-27%	980	729	34%
PAT	589	629	-6%	805	-27%	2,952	2,285	29%
Adjusted PAT	589	629	-6%	805	-27%	2,952	2,285	29%
<i>Adj. PAT margin (%)</i>	<i>31.3%</i>	<i>26.9%</i>		<i>37.1%</i>		<i>31.5%</i>	<i>33.4%</i>	
No. of shares (mn)	106	106	0%	106	0%	106	106	0%
Adj. EPS (Rs.)	5.5	5.9	-6%	7.6	-27%	27.8	21.5	29%

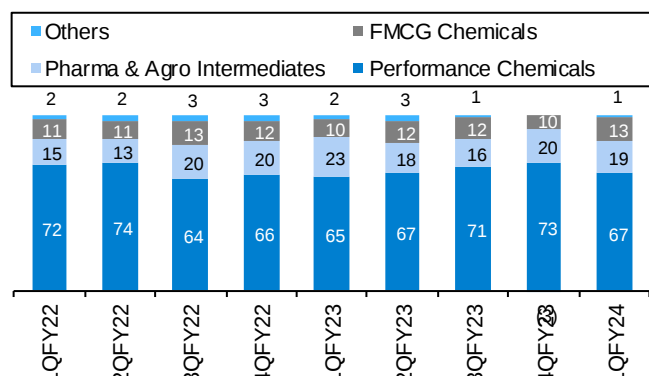
Source: Company, PL

Exhibit 2: QoQ revenue gr. led by domestic sales



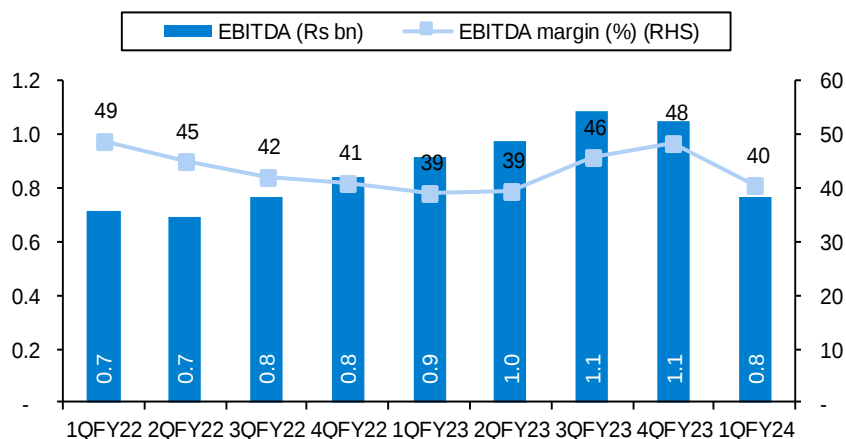
Source: Company, PL

Exhibit 3: Segmental Revenue Mix



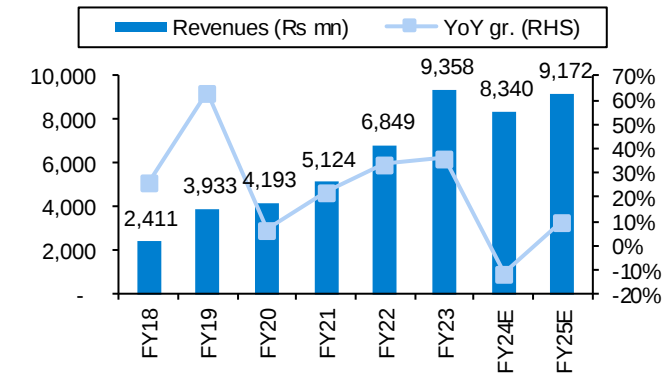
Source: Company, PL

Exhibit 4: EBITDA Margins expanded QoQ led by better product mix



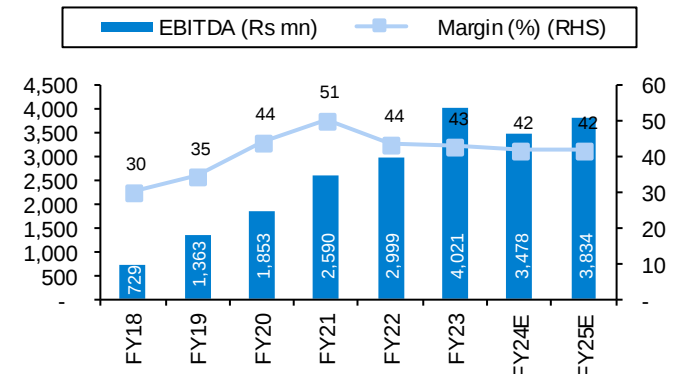
Source: Company, PL

Exhibit 5: Rev to grow at (FY23-25E)



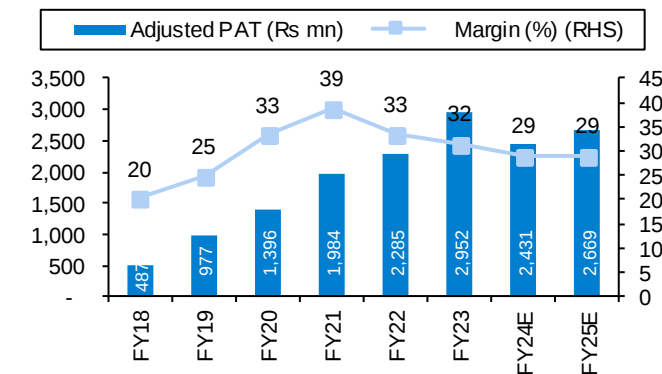
Source: Company, PL

Exhibit 6: EBITDA margin to normalize with HALS rampup



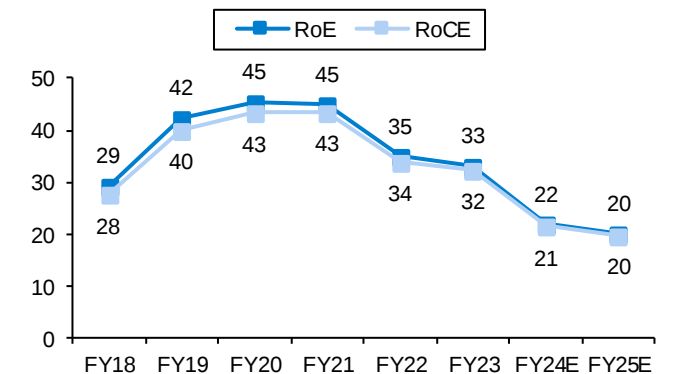
Source: Company, PL

Exhibit 7: Margins to moderate



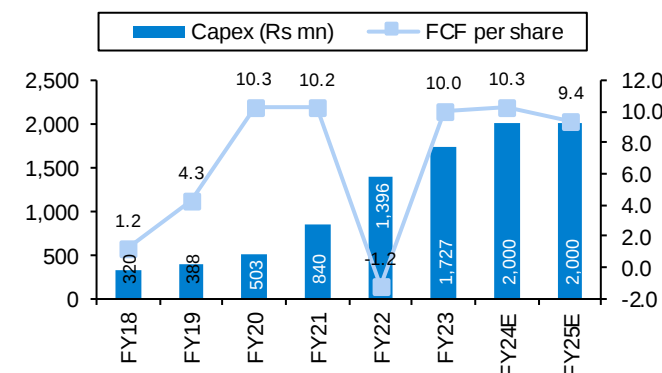
Source: Company, PL

Exhibit 8: Return Ratios to moderate due to capex addition



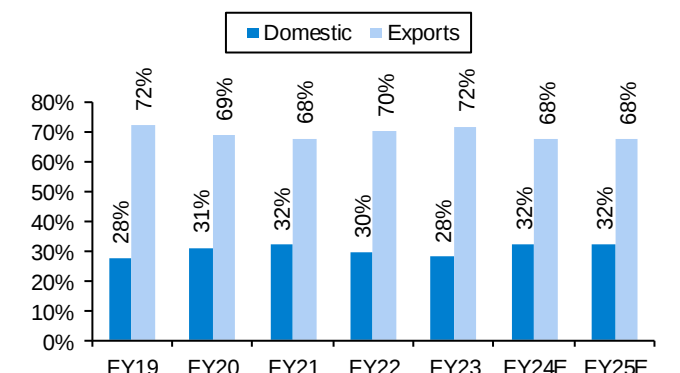
Source: Company, PL

Exhibit 9: Steady profits with negligible capex to boost FCF



Source: Company, PL

Exhibit 10: Regional Mix



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	6,849	9,358	8,340	9,172
YoY gr. (%)	33.7	36.6	(10.9)	10.0
Cost of Goods Sold	2,247	3,260	2,961	3,256
Gross Profit	4,602	6,098	5,380	5,916
Margin (%)	67.2	65.2	64.5	64.5
Employee Cost	345	452	400	431
Other Expenses	1,258	1,625	1,501	1,651
EBITDA	2,999	4,021	3,478	3,834
YoY gr. (%)	15.8	34.1	(13.5)	10.2
Margin (%)	43.8	43.0	41.7	41.8
Depreciation and Amortization	249	361	456	494
EBIT	2,750	3,660	3,022	3,340
Margin (%)	40.1	39.1	36.2	36.4
Net Interest	1	2	2	2
Other Income	300	298	229	229
Profit Before Tax	3,048	3,956	3,249	3,567
Margin (%)	44.5	42.3	39.0	38.9
Total Tax	763	1,005	818	898
Effective tax rate (%)	25.0	25.4	25.2	25.2
Profit after tax	2,285	2,952	2,431	2,669
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,285	2,952	2,431	2,669
YoY gr. (%)	15.2	29.2	(17.6)	9.8
Margin (%)	33.4	31.5	29.2	29.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,285	2,952	2,431	2,669
YoY gr. (%)	15.2	29.2	(17.6)	9.8
Margin (%)	33.4	31.5	29.2	29.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,285	2,952	2,431	2,669
Equity Shares O/s (m)	106	106	106	106
EPS (Rs)	21.5	27.8	22.9	25.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	3,959	5,963	7,065	8,617
Tangibles	3,959	5,963	7,065	8,617
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,001	1,362	1,818	2,312
Tangibles	1,001	1,362	1,818	2,312
Intangibles	-	-	-	-
Net fixed assets	2,957	4,601	5,247	6,305
Tangibles	2,957	4,601	5,247	6,305
Intangibles	-	-	-	-
Capital Work In Progress	441	205	1,102	1,551
Goodwill	-	-	-	-
Non-Current Investments	1,911	3,531	3,531	3,531
Net Deferred tax assets	(209)	(234)	(234)	(234)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	881	1,088	970	1,066
Trade receivables	1,535	1,462	1,303	1,433
Cash & Bank Balance	747	125	780	1,295
Other Current Assets	774	506	451	496
Total Assets	9,247	11,518	13,384	15,678
Equity				
Equity Share Capital	106	106	106	106
Other Equity	7,578	9,994	11,988	14,177
Total Network	7,684	10,100	12,094	14,283
Non-Current Liabilities				
Long Term borrowings	3	1	1	1
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,021	805	718	789
Other current liabilities	329	378	338	371
Total Equity & Liabilities	9,247	11,518	13,384	15,678

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	3,048	3,956	3,249	3,567
Add. Depreciation	249	361	456	494
Add. Interest	1	2	2	2
Less Financial Other Income	300	298	229	229
Add. Other	(126)	(153)	-	-
Op. profit before WC changes	3,173	4,166	3,707	4,063
Net Changes-WC	(1,209)	(428)	205	(167)
Direct tax	(691)	(945)	(818)	(898)
Net cash from Op. activities	1,273	2,793	3,094	2,998
Capital expenditures	(1,396)	(1,727)	(2,000)	(2,000)
Interest / Dividend Income	30	61	-	-
Others	580	(1,033)	-	-
Net Cash from Invt. activities	(786)	(2,698)	(2,000)	(2,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	-	(558)	(438)	(480)
Interest paid	(1)	(1)	(2)	(2)
Others	-	9	-	-
Net cash from Fin. activities	(1)	(550)	(440)	(482)
Net change in cash	486	(455)	654	516
Free Cash Flow	(123)	1,067	1,094	998

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	21.5	27.8	22.9	25.1
CEPS	23.9	31.2	27.2	29.8
BVPS	72.3	95.1	113.8	134.4
FCF	(1.2)	10.0	10.3	9.4
DPS	3.3	5.0	-	-
Return Ratio(%)				
RoCE	42.0	41.2	27.2	25.3
ROIC	33.8	32.3	21.2	20.6
RoE	34.9	33.2	21.9	20.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	(0.1)	(0.1)
Net Working Capital (Days)	74	68	68	68
Valuation(x)				
PER	60.3	46.7	56.7	51.6
P/B	17.9	13.6	11.4	9.7
P/CEPS	54.4	41.6	47.7	43.6
EV/EBITDA	45.7	34.3	39.4	35.6
EV/Sales	20.0	14.7	16.4	14.9
Dividend Yield (%)	0.3	0.4	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	2,475	2,374	2,169	1,881
YoY gr. (%)	61.6	31.3	6.0	(19.6)
Raw Material Expenses	927	778	641	726
Gross Profit	1,548	1,596	1,528	1,155
Margin (%)	62.5	67.2	70.5	61.4
EBITDA	975	1,082	1,051	761
YoY gr. (%)	41.8	42.1	25.5	(16.6)
Margin (%)	39.4	45.6	48.5	40.5
Depreciation / Depletion	87	89	101	108
EBIT	888	993	950	653
Margin (%)	35.9	41.8	43.8	34.7
Net Interest	-	1	1	1
Other Income	28	126	126	134
Profit before Tax	916	1,118	1,075	787
Margin (%)	37.0	47.1	49.6	41.8
Total Tax	237	280	270	198
Effective tax rate (%)	25.8	25.1	25.1	25.1
Profit after Tax	679	838	805	589
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	679	838	805	589
YoY gr. (%)	26.9	44.5	29.1	(6.3)
Margin (%)	27.5	35.3	37.1	31.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	679	838	805	589
YoY gr. (%)	26.9	44.5	29.1	(6.3)
Margin (%)	27.5	35.3	37.1	31.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	679	838	805	589
Avg. Shares O/s (m)	106	106	106	106
EPS (Rs)	6.4	7.9	7.6	5.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
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Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Gujarat Gas	Accumulate	516	455
2	Hindustan Petroleum Corporation	Hold	264	276
3	NOCIL	Hold	230	228

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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