

November 7, 2024

## Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		HOLD	
Target Price	1,526		1,561	
Sales (Rs. m)	11,011	12,426	10,891	11,771
% Chng.	1.1	5.6		
EBITDA (Rs. m)	4,569	5,157	4,683	5,061
% Chng.	(2.4)	1.9		
EPS (Rs.)	31.3	35.0	32.1	34.3
% Chng.	(2.5)	2.0		

### Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	7,915	9,247	11,011	12,426
EBITDA (Rs. m)	3,321	3,745	4,569	5,157
Margin (%)	42.0	40.5	41.5	41.5
PAT (Rs. m)	2,440	2,698	3,325	3,722
EPS (Rs.)	23.0	25.4	31.3	35.0
Gr. (%)	(17.3)	10.6	23.2	11.9
DPS (Rs.)	5.0	5.5	6.8	7.6
Yield (%)	0.3	0.4	0.5	0.5
RoE (%)	22.1	20.6	21.5	20.5
RoCE (%)	25.9	24.6	25.7	24.4
EV/Sales (x)	19.9	17.0	14.3	12.6
EV/EBITDA (x)	47.4	42.0	34.3	30.3
PE (x)	64.6	58.4	47.4	42.3
P/BV (x)	13.1	11.1	9.4	8.0

### Key Data

CLEA.BO | CLEAN IN

52-W High / Low	Rs.1,690 / Rs.1,243
Sensex / Nifty	79,542 / 24,199
Market Cap	Rs.158bn / \$ 1,868m
Shares Outstanding	106m
3M Avg. Daily Value	Rs.289.03m

### Shareholding Pattern (%)

Promoter's	74.97
Foreign	5.83
Domestic Institution	4.77
Public & Others	14.43
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.5)	14.0	8.7
Relative	0.4	5.4	(11.2)

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## HALS still at <20% utilization

### Quick Pointers:

- Pharma intermediate on track to be commercialized during the quarter
- Rs1.5bn capex announced for a water-treatment performance chemical to be commercialized in Dec'25

**Clean Science and Technology (CLEAN) reported Q2FY25 revenue of Rs2.38bn, up 31.5% YoY and 6.3% QoQ. This YoY increase was driven by higher volumes, especially within the Performance Chemicals segment. However, due to rising raw material costs, the company experienced margin compression, despite stable product realization, which is expected to remain steady in the next few quarters. HALS sales reached 135t per month, with the plant operating at under 20% capacity utilization. Recently launched HALS products are anticipated to support revenue growth sequentially. On the capex front, the company has announced investment in a water-treatment chemical project, expected to commence operations by Dec'25, with an estimated peak revenue potential of ~Rs3bn. Additionally, the pharma intermediate plant is on schedule and is slated for commercialization within this quarter. Going ahead, we anticipate these new capex projects to drive revenue growth. However, margins may face downward pressure, as some of the new products have lower margins compared to the company's legacy offerings. Currently, the company trades at 42x FY27 EPS. We maintain 'Hold' rating with a target price of Rs1,526, valuing the company at 46x FY26/FY27 EPS.**

- Volume-led YoY growth in revenue:** Performance Chemicals segment witnessed strong volume-led growth, resulting in Rs2,381mn consolidated revenue, 31.5% YoY/ 6.3% QoQ (PLe: Rs2,325mn, Consensus: Rs2,394mn). H1FY25 revenue was 25.2% higher than H1FY24. HALS sales volume and product mixing also improved during the quarter. Gross margin contracted due to increase in RM prices.
- EBITDA declined 460bps sequentially:** EBITDA stood at Rs897mn, 19.8% YoY/ -5.3% QoQ (PLe: Rs976mn, Consensus: Rs1,023mn), and EBITDA margin came in at 37.7%, down 460bps QoQ (vs 41.3% in Q2FY24 and 42.3% in Q1FY25) due to increase in overhead costs. Reported PAT was Rs587mn, 12.6% YoY/-10.8% QoQ. PAT margins were at 25% vs 29% in Q2FY24 and Q1FY25.
- Concall takeaways:** (1) Revenue contribution: Performance Chemicals: 69%, Pharma and Agro Intermediate: 18%, FMCG: 14%. (2) Domestic:International: 30%:70%. (3) MEHQ market share of the company: 55%-60%. (4) Capacity utilization for the parent company at 70%. (5) Incurred total capex of ~Rs1.55bn during H1FY25 primarily towards investment in subsidiary CFCL. (6) Pharma intermediate to be launched this quarter, will have peak revenue potential of Rs800-900mn. (7) Capex of Rs1.5bn for a performance chemical announced in last quarter will start in Jun-Jul'25; it has multiple applications. (8) Additional capex of Rs1.5bn has been announced in Oct'24 for a water-treatment performance chemical, to be commercialized in Dec'25; peak revenue will be ~Rs3bn. (9) Tax rate increased due to other gains, a one-off case.

**Exhibit 1: Q2FY25 Result Overview - Consolidated (Rs mn)**

Consolidated	Q2FY25	Q2FY24	YoY gr.	Q2FY25E	% Var.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
<b>Net Sales</b>	<b>2,381</b>	<b>1,811</b>	<b>31.5%</b>	<b>2,325</b>	<b>2.4%</b>	<b>2,240</b>	<b>6.3%</b>	<b>4,621</b>	<b>3,692</b>	<b>25.2%</b>
Gross Profit	1,486	1,193	24.6%	1,511	-1.7%	1,465	1.4%	2,952	2,348	25.7%
Margin (%)	62.4%	65.9%		65.0%		65.4%		63.9%	63.6%	
<b>EBITDA</b>	<b>897</b>	<b>748</b>	<b>19.8%</b>	<b>976</b>	<b>-8.2%</b>	<b>947</b>	<b>-5.3%</b>	<b>1,843</b>	<b>1,510</b>	<b>22.1%</b>
Margin (%)	37.7%	41.3%		42.0%		42.3%		39.9%	40.9%	
Other Income	111	60		86		99		210	194	8.0%
Depreciation	175	111	57.3%	132	32.2%	158	10.9%	333	219	51.8%
<b>EBIT</b>	<b>832</b>	<b>697</b>	<b>19.4%</b>	<b>930</b>	<b>-10.5%</b>	<b>888</b>	<b>-6.3%</b>	<b>1,721</b>	<b>1,485</b>	<b>15.9%</b>
Interest	0	3	-82.3%	2		1		2	3	-50.2%
<b>PBT before excep</b>	<b>832</b>	<b>695</b>	<b>19.8%</b>	<b>927</b>	<b>-10.3%</b>	<b>887</b>	<b>-6.2%</b>	<b>1,719</b>	<b>1,482</b>	<b>16.0%</b>
Total Tax	245	173	41.6%	223	9.9%	228	7.2%	473	370	27.6%
ETR (%)	29.4%	24.9%		24.0%		25.7%		27.5%	25.0%	
<b>Adj. PAT</b>	<b>587</b>	<b>522</b>	<b>12.6%</b>	<b>705</b>	<b>-16.6%</b>	<b>659</b>	<b>-10.8%</b>	<b>1,246</b>	<b>1,111</b>	<b>12.2%</b>
Exceptional Items	0	0		0		0		0	0	
<b>PAT</b>	<b>587</b>	<b>522</b>	<b>12.6%</b>	<b>705</b>	<b>-16.6%</b>	<b>659</b>	<b>-10.8%</b>	<b>1,246</b>	<b>1,111</b>	<b>12.2%</b>

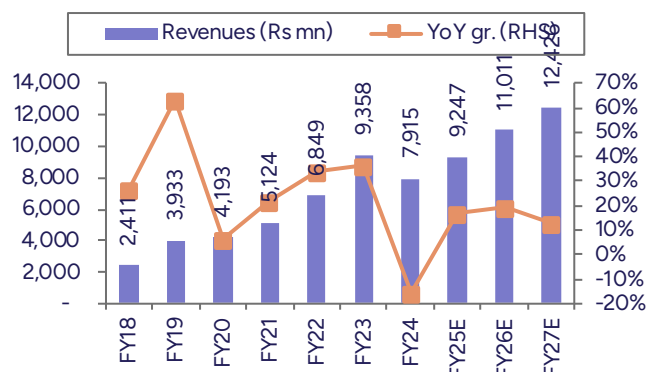
Source: Company, PL

**Exhibit 2: Segmental Revenue (Rs mn)**

Y/e March	Q2FY25	Q2FY24	YoY gr.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Performance Chemicals	1,570	1,213	29.4%	1,570	0.0%	3,189	2,474	28.9%
Pharma & Agro Intermediates	410	344	19.0%	410	0.0%	832	702	18.6%
FMCG Chemicals	319	254	25.6%	296	7.7%	647	498	29.9%
<b>Total</b>	<b>2,298</b>	<b>1,811</b>	<b>26.9%</b>	<b>2,275</b>	<b>1.0%</b>	<b>4,668</b>	<b>3,673</b>	<b>27.1%</b>

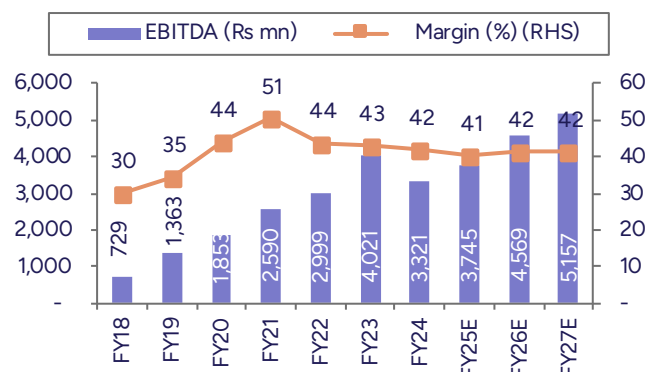
Source: Company, PL

**Exhibit 3: Revenue to rise to Rs12bn by FY27**



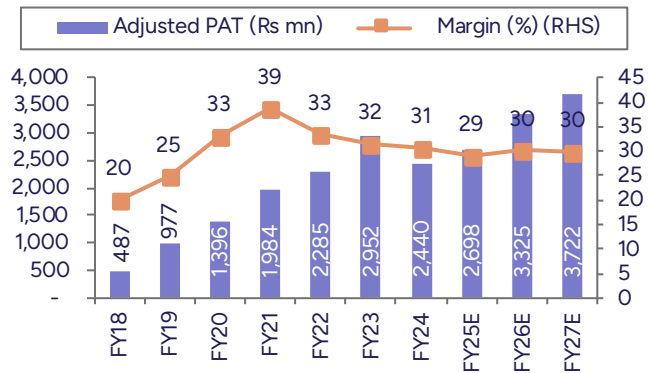
Source: Company, PL

**Exhibit 4: EBITDAM to reach 42% in FY27**



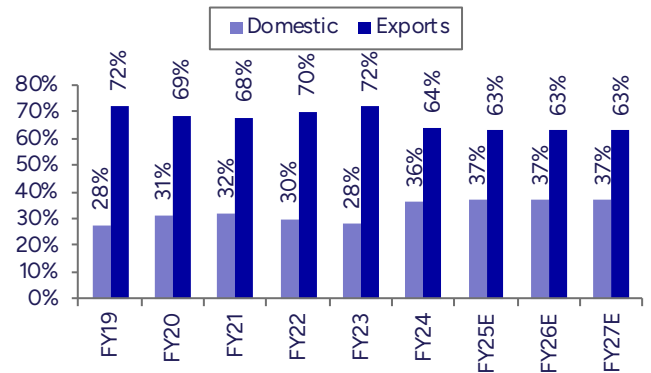
Source: Company, PL

**Exhibit 5: PAT margins to reach 30% by FY27E**



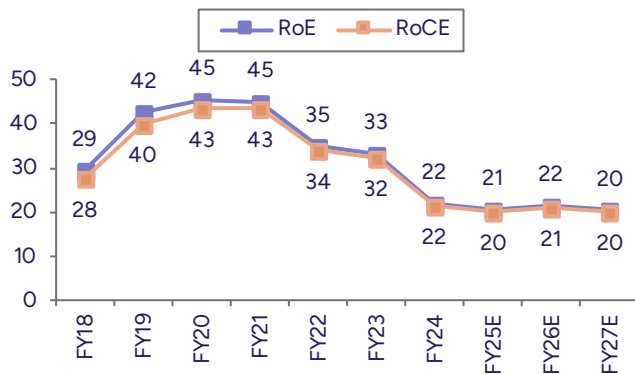
Source: Company, PL

**Exhibit 6: Domestic market share to increase to 37%**



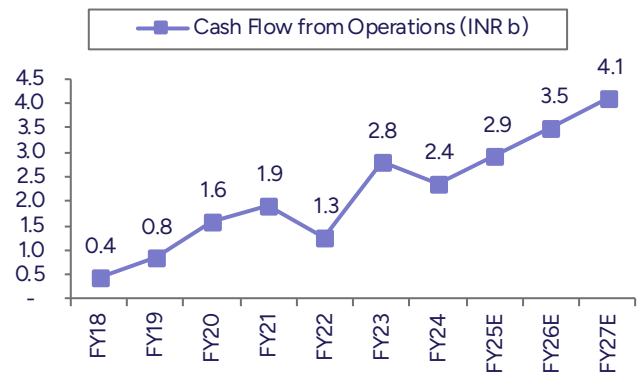
Source: Company, PL

**Exhibit 7: Return ratios to be at ~21%**



Source: Company, PL

**Exhibit 8: Strong cash flow**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>7,915</b>	<b>9,247</b>	<b>11,011</b>	<b>12,426</b>
YoY gr. (%)	(15.4)	16.8	19.1	12.8
Cost of Goods Sold	2,771	3,375	4,019	4,535
Gross Profit	5,144	5,872	6,992	7,890
Margin (%)	65.0	63.5	63.5	63.5
Employee Cost	487	555	661	746
Other Expenses	1,337	1,572	1,762	1,988
<b>EBITDA</b>	<b>3,321</b>	<b>3,745</b>	<b>4,569</b>	<b>5,157</b>
YoY gr. (%)	(17.4)	12.8	22.0	12.8
Margin (%)	42.0	40.5	41.5	41.5
Depreciation and Amortization	459	530	594	710
<b>EBIT</b>	<b>2,861</b>	<b>3,216</b>	<b>3,976</b>	<b>4,446</b>
Margin (%)	36.2	34.8	36.1	35.8
Net Interest	9	6	6	6
Other Income	413	340	405	457
<b>Profit Before Tax</b>	<b>3,265</b>	<b>3,550</b>	<b>4,375</b>	<b>4,898</b>
Margin (%)	41.3	38.4	39.7	39.4
Total Tax	825	852	1,050	1,175
Effective tax rate (%)	25.3	24.0	24.0	24.0
<b>Profit after tax</b>	<b>2,440</b>	<b>2,698</b>	<b>3,325</b>	<b>3,722</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,440</b>	<b>2,698</b>	<b>3,325</b>	<b>3,722</b>
YoY gr. (%)	(17.3)	10.6	23.2	11.9
Margin (%)	30.8	29.2	30.2	30.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,440</b>	<b>2,698</b>	<b>3,325</b>	<b>3,722</b>
YoY gr. (%)	(17.3)	10.6	23.2	11.9
Margin (%)	30.8	29.2	30.2	30.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,440	2,698	3,325	3,722
<b>Equity Shares O/s (m)</b>	<b>106</b>	<b>106</b>	<b>106</b>	<b>106</b>
<b>EPS (Rs)</b>	<b>23.0</b>	<b>25.4</b>	<b>31.3</b>	<b>35.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>8,182</b>	<b>9,469</b>	<b>11,362</b>	<b>13,559</b>
Tangibles	8,182	9,469	11,362	13,559
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,821</b>	<b>2,351</b>	<b>2,944</b>	<b>3,655</b>
Tangibles	1,821	2,351	2,944	3,655
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,361</b>	<b>7,118</b>	<b>8,418</b>	<b>9,904</b>
Tangibles	6,361	7,118	8,418	9,904
Intangibles	-	-	-	-
Capital Work In Progress	573	1,287	1,893	2,197
Goodwill	-	-	-	-
Non-Current Investments	3,394	3,394	3,394	3,394
Net Deferred tax assets	(299)	(299)	(299)	(299)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,237	1,445	1,720	1,941
Trade receivables	1,637	1,913	2,278	2,570
Cash & Bank Balance	106	425	695	1,476
Other Current Assets	654	765	910	1,027
<b>Total Assets</b>	<b>13,963</b>	<b>16,346</b>	<b>19,308</b>	<b>22,510</b>
<b>Equity</b>				
Equity Share Capital	106	106	106	106
Other Equity	11,925	14,036	16,637	19,549
<b>Total Networth</b>	<b>12,032</b>	<b>14,142</b>	<b>16,743</b>	<b>19,655</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,085	1,267	1,509	1,703
Other current liabilities	547	637	757	852
<b>Total Equity &amp; Liabilities</b>	<b>13,963</b>	<b>16,346</b>	<b>19,308</b>	<b>22,510</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	3,265	3,550	4,375	4,898
Add. Depreciation	459	530	594	710
Add. Interest	9	6	6	6
Less Financial Other Income	413	340	405	457
Add. Other	(313)	-	-	-
Op. profit before WC changes	3,420	4,086	4,975	5,614
Net Changes-WC	(295)	(321)	(425)	(341)
Direct tax	(755)	(852)	(1,050)	(1,175)
<b>Net cash from Op. activities</b>	<b>2,371</b>	<b>2,912</b>	<b>3,500</b>	<b>4,097</b>
Capital expenditures	(2,323)	(2,000)	(2,500)	(2,500)
Interest / Dividend Income	29	-	-	-
Others	435	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(1,859)</b>	<b>(2,000)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(531)	(587)	(724)	(810)
Interest paid	(8)	(6)	(6)	(6)
Others	7	-	-	-
<b>Net cash from Fin. activities</b>	<b>(532)</b>	<b>(593)</b>	<b>(730)</b>	<b>(816)</b>
<b>Net change in cash</b>	<b>(20)</b>	<b>319</b>	<b>270</b>	<b>781</b>
Free Cash Flow	48	912	1,000	1,597

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Per Share(Rs)</b>				
EPS	23.0	25.4	31.3	35.0
CEPS	27.3	30.4	36.9	41.7
BVPS	113.2	133.1	157.6	185.0
FCF	0.5	8.6	9.4	15.0
DPS	5.0	5.5	6.8	7.6
<b>Return Ratio(%)</b>				
RoCE	25.9	24.6	25.7	24.4
ROIC	19.5	19.1	20.3	19.7
RoE	22.1	20.6	21.5	20.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	83	83	83	83
<b>Valuation(x)</b>				
PER	64.6	58.4	47.4	42.3
P/B	13.1	11.1	9.4	8.0
P/CEPS	54.4	48.8	40.2	35.6
EV/EBITDA	47.4	42.0	34.3	30.3
EV/Sales	19.9	17.0	14.3	12.6
Dividend Yield (%)	0.3	0.4	0.5	0.5

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
<b>Net Revenue</b>	<b>1,947</b>	<b>2,275</b>	<b>2,240</b>	<b>2,381</b>
YoY gr. (%)	(18.0)	4.9	19.1	31.5
Raw Material Expenses	646	780	775	895
Gross Profit	1,301	1,495	1,465	1,486
Margin (%)	66.8	65.7	65.4	62.4
<b>EBITDA</b>	<b>866</b>	<b>945</b>	<b>947</b>	<b>897</b>
YoY gr. (%)	(20.0)	(10.1)	24.3	19.8
Margin (%)	44.5	41.5	42.3	37.7
Depreciation / Depletion	112	127	158	175
<b>EBIT</b>	<b>754</b>	<b>818</b>	<b>789</b>	<b>722</b>
Margin (%)	38.7	36.0	35.2	30.3
Net Interest	-	6	1	-
Other Income	75	141	99	111
<b>Profit before Tax</b>	<b>829</b>	<b>953</b>	<b>887</b>	<b>832</b>
Margin (%)	42.6	41.9	39.6	34.9
Total Tax	203	250	228	245
Effective tax rate (%)	24.5	26.3	25.7	29.4
<b>Profit after Tax</b>	<b>626</b>	<b>703</b>	<b>659</b>	<b>587</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>626</b>	<b>703</b>	<b>659</b>	<b>587</b>
YoY gr. (%)	(25.3)	(12.7)	11.8	12.6
Margin (%)	32.2	30.9	29.4	24.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>626</b>	<b>703</b>	<b>659</b>	<b>587</b>
YoY gr. (%)	(25.3)	(12.7)	11.8	12.6
Margin (%)	32.2	30.9	29.4	24.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>626</b>	<b>703</b>	<b>659</b>	<b>587</b>
Avg. Shares O/s (m)	106	106	106	106
<b>EPS (Rs)</b>	<b>5.9</b>	<b>6.6</b>	<b>6.2</b>	<b>5.5</b>

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-24	Hold	1,561	1,579
2	21-Sep-24	Hold	1,548	1,477
3	02-Aug-24	Hold	1,516	1,562
4	04-Jul-24	Hold	1,489	1,482
5	16-May-24	Hold	1,383	1,328
6	09-Apr-24	Hold	1,386	1,335
7	04-Feb-24	Hold	1,425	1,461
8	08-Jan-24	Hold	1,368	1,572

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	512	551
2	Ashok Leyland	Accumulate	257	222
3	Bajaj Auto	Hold	11,859	11,617
4	Bharat Forge	Accumulate	1,369	1,437
5	Bharat Petroleum Corporation	Hold	316	310
6	Bharti Airtel	Accumulate	1,782	1,637
7	CEAT	Hold	3,063	2,973
8	Clean Science and Technology	Hold	1,561	1,579
9	Deepak Nitrite	Reduce	2,582	3,000
10	Divgi Torqtransfer Systems	Hold	633	591
11	Eicher Motors	BUY	5,416	4,668
12	Endurance Technologies	Accumulate	2,569	2,182
13	Exide Industries	Hold	520	481
14	Fine Organic Industries	Accumulate	5,568	5,142
15	GAIL (India)	Hold	204	209
16	Gujarat Fluorochemicals	Reduce	3,770	4,158
17	Gujarat Gas	Hold	646	596
18	Gujarat State Petronet	Hold	422	411
19	Hero Motocorp	Accumulate	5,906	5,495
20	Hindustan Petroleum Corporation	Accumulate	412	372
21	Indian Oil Corporation	Hold	156	147
22	Indraprastha Gas	Hold	402	417
23	Jubilant Ingrevia	Hold	695	682
24	Laxmi Organic Industries	Reduce	240	270
25	Mahanagar Gas	Accumulate	1,627	1,497
26	Mahindra & Mahindra	BUY	3,458	3,060
27	Mangalore Refinery & Petrochemicals	Sell	128	173
28	Maruti Suzuki	BUY	14,586	11,046
29	Navin Fluorine International	Accumulate	3,523	3,307

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

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

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