

# Clean Science and Technology | BUY



In FY25, Several new projects kicking in

Clean Science's 2QFY24 earnings print was weaker than our and consensus expectations. During the quarter, reported EBITDA was ~6% lower than JMFe and consensus on account of lower realisation (15% realisation decline QoQ) across a majority of products due to overproduction in China. Despite higher contribution (~25%) from non-flagship products, the company was able to make >41% EBITDA margin in 2QFY24. This is in line with our thesis (click [here](#)) that despite new product addition, margin contraction would not be as high as the Street is fearing. The company has indicated that commercial production from its new facility (at a capex of INR 3.0bn) will commence from 4QFY24. Further, from the incremental INR 2.0bn capex that the company had announced, it has finalised INR 300mn worth of capex for one pharma intermediate (coming on stream in 9 months) for the domestic market, which could generate INR 1.0bn revenue. Hence, although demand recovery is gradual, the long-term growth trajectory looks promising as the company expands its non-flagship product portfolio. Factoring in 2QFY24 results and commentary, we lower our FY24E/FY25E/FY26E EBITDA estimates by 17%/14%/14% while accounting for higher tax rate; our EPS estimates are lowered by 20%/15%/15%. As a result, our Dec'24 TP is revised to INR 1,790 (from Sep'24 TP of INR 1,995 earlier). We maintain BUY as we look beyond near-term weaknesses and focus on the long-term growth trajectory.

- **EBITDA miss on account of higher other expenses:** Clean Science's 2QFY24 consolidated gross profit was in line with JMFe at INR 1.2bn (up 3%/ down 23% QoQ/YoY) despite revenue coming in 5% below JMFe (on account of lower realisation) and stood at INR 1.8bn (down 4%/27% QoQ/YoY) as gross margin was higher than anticipated at 65.9% (vs. JMFe of 63.0% and 61.4% in 4QFY23). During the quarter, other expenses was higher at INR 326mn (vs. JMFe of INR 280mn and INR 277mn). As a result, EBITDA came in 6% below JMFe at INR 748mn (down 2%/23% QoQ/YoY) while PAT was 15% below JMFe and consensus, on account of lower other income, and stood at INR 522mn (down 11%/ 23% QoQ/YoY).
- **Intention to take HALS sales to ~200/300MT per month by end-FY24/25:** During the quarter, the management indicated that there was realisation pressure in all of its three verticals. The pharma segment offtake was under pressure as recent product recalls of cough syrups continues to lead to reduced demand for Guaiacol. The management, however, expects that Guaiacol demand to bounce back in a quarter as domestic players regain market shares. Currently, the company has been selling ~40-50MT per month of HALS series of products. The management intends to take this run-rate to ~200MT per month by end-FY24 and ~300 MT per month by end-FY25. The company still hasn't achieved economies of scale in HALS for thinking about backward integration to sebamic acid.
- **Estimates lowered; maintain BUY:** Factoring in a gradual recovery over the next couple of quarters, we lower our FY24E/FY25E/FY26E EBITDA and EPS estimates by 17%/14%/14% and 20%/15%/15% respectively. As a result, we maintain BUY with a revised Dec'24 TP of INR 1,790 (from Sep'24 TP of INR 1,995 earlier).

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## Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,790
Upside/(Downside)	30.3%
Previous Price Target	1,995
Change	-10.3%

## Key Data – CLEAN IN

Current Market Price	INR1,374
Market cap (bn)	INR146.0/US\$1.8
Free Float	25%
Shares in issue (mn)	106.2
Diluted share (mn)	106.2
3-mon avg daily val (mn)	INR206.4/US\$2.5
52-week range	1,620/1,227
Sensex/Nifty	64,081/19,133
INR/US\$	83.3

## Price Performance

%	1M	6M	12M
Absolute	-2.5	-6.5	-13.8
Relative*	-0.3	-10.7	-18.2

\* To the BSE Sensex

## Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	6,849	9,358	8,265	11,714	15,449
Sales Growth (%)	33.7	36.6	-11.7	41.7	31.9
EBITDA	2,999	4,021	3,439	4,826	6,115
EBITDA Margin (%)	43.8	43.0	41.6	41.2	39.6
Adjusted Net Profit	2,285	2,952	2,490	3,452	4,547
Diluted EPS (INR)	21.5	27.8	23.4	32.5	42.8
Diluted EPS Growth (%)	15.2	29.2	-15.6	38.7	31.7
ROIC (%)	51.8	46.6	29.7	35.1	37.8
ROE (%)	34.9	33.2	22.0	24.3	25.1
P/E (x)	63.9	49.4	58.6	42.3	32.1
P/B (x)	19.0	14.5	11.7	9.2	7.2
EV/EBITDA (x)	47.7	35.4	41.1	29.0	22.4
Dividend Yield (%)	0.2	0.2	0.0	0.1	0.1

Source: Company data, JM Financial. Note: Valuations as of 02/Nov/2023

JM Financial Institutional Securities Limited

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## 2QFY24 Result Review

## Exhibit 1. Clean Science's quarterly financial snapshot

Consolidated (INR mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY24E	% QoQ	% YoY	% difference
Net Sales	2,046	2,341	2,475	2,374	2,169	1,881	1,811	1,900	-4%	-27%	-5%
COGS	712	913	927	779	641	726	618	703	-15%	-33%	
<b>Gross Profit</b>	<b>1,334</b>	<b>1,427</b>	<b>1,548</b>	<b>1,595</b>	<b>1,528</b>	<b>1,155</b>	<b>1,193</b>	<b>1,197</b>	<b>3%</b>	<b>-23%</b>	<b>0%</b>
Gross margin	65.2%	61.0%	62.5%	67.2%	70.5%	61.4%	65.9%	63.0%	449 bps	335 bps	288 bps
Employee cost	93	100	106	118	128	117	119	125	1%	12%	
Employee cost as % of sales	5%	4%	4%	5%	6%	6%	7%	7%	33 bps	227 bps	
Other expenditure	405	414	467	396	349	277	326	280	18%		
Other expenditure as % of sales	20%	18%	19%	17%	16%	15%	18%	15%	331 bps	-85 bps	
<b>EBITDA</b>	<b>837</b>	<b>913</b>	<b>975</b>	<b>1,081</b>	<b>1,051</b>	<b>761</b>	<b>748</b>	<b>792</b>	<b>-2%</b>	<b>-23%</b>	<b>-6%</b>
EBITDA margin	41%	39%	39%	46%	48%	40%	41%	42%	85 bps	193 bps	-37 bps
Depreciation	70	85	87	89	101	108	111	110	3%	28%	
EBIT	767	829	888	992	950	653	637	682	-2%	-28%	
Interest expense	1.3	0.0	0.0	0.6	1.3	0.5	2.5	1.0			
Other income	74	18	28	126	126	134	60	135			
PBT	839	847	916	1,117	1,075	787	695	816	-12%	-24%	
Tax	215	218	237	280	270	198	173	204			
<b>PAT</b>	<b>624</b>	<b>629</b>	<b>679</b>	<b>837</b>	<b>805</b>	<b>589</b>	<b>522</b>	<b>612</b>	<b>-11%</b>	<b>-23%</b>	<b>-15%</b>
PAT margin	30%	27%	27%	35%	37%	31%	29%	32%	-252 bps	136 bps	-340 bps
Basic EPS (INR)	5.87	5.92	6.40	7.88	7.58	5.55	4.91	5.76			
Tax rate	25.7%	25.7%	25.8%	25.1%	25.1%	25.1%	24.9%	25.0%			

Source: Company, JM Financial

## Exhibit 2. Clean Science's segment-wise revenue break-up

INR mn	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY24E	%QoQ	%YoY
Performance chemicals	1,530	1,660	1,699	1,568	1,260	1,213	1,320	-4%	-27%
Pharma and agro intermediates	530	440	396	412	357	344	330	-4%	-22%
FMCG chemicals	230	300	261	239	245	272	250	11%	-9%
<b>Total</b>	<b>2,341</b>	<b>2,475</b>	<b>2,374</b>	<b>2,169</b>	<b>1,881</b>	<b>1,811</b>	<b>1,900</b>	<b>-4%</b>	<b>-27%</b>
<b>% of overall revenues</b>									
Performance chemicals	65%	67%	72%	72%	67%	67%	69%		
Pharma and agro intermediates	23%	18%	17%	19%	19%	19%	17%		
FMCG chemicals	10%	12%	11%	11%	13%	15%	13%		
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial

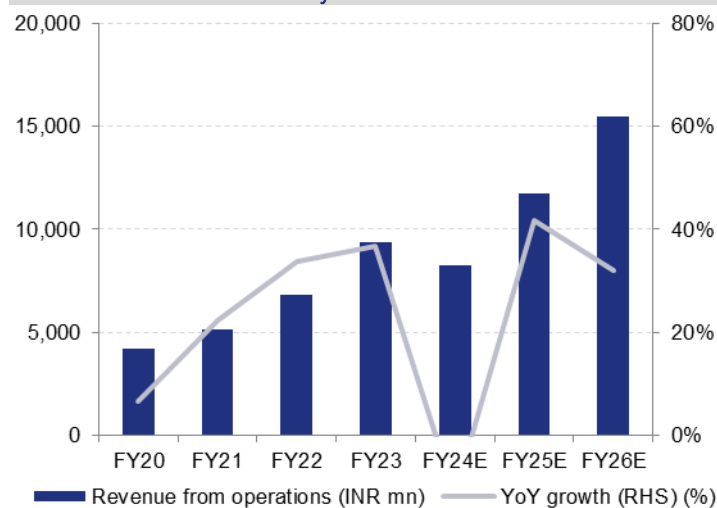
## Exhibit 3. Clean Science's revenue contribution from Europe jumped to 17% in 2QFY24

%	4QFY22***	1QFY23	2QFY23****	3QFY23^	4QFY23^^	1QFY24	2QFY24
India	40%	35%	23%	26%	28%	37%	37%
Americas	16%	13%	17%	18%	16%	19%	19%
Europe	17%	14%	16%	15%	19%	13%	17%
China	20%	32%	38%	35%	35%	21%	19%
RoW	6%	6%	6%	6%	2%	10%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>102%</b>

Source: \*\*\*based on 9MFY22-1HFY22 &amp; FY22, \*\*\*\*based on 1HFY23-1QFY23, ^ based on 9MFY23-1HFY23, ^^ based on 9MFY23-1HFY23 &amp; FY23, ^^ based on 1HFY24-1QFY24

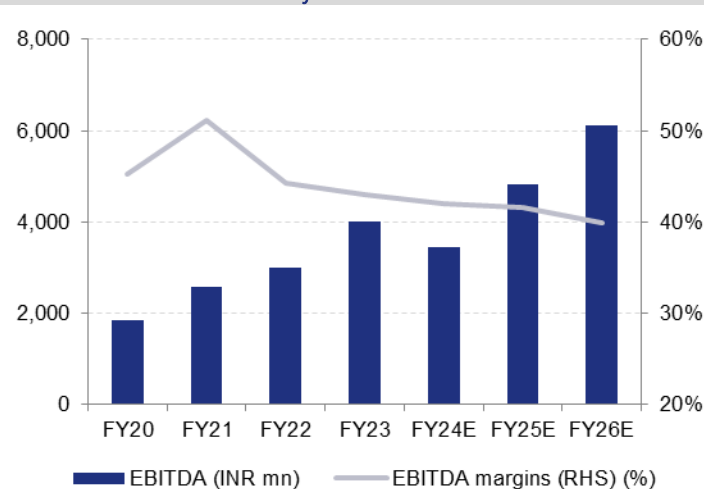
## Assumptions and Estimates

Exhibit 4. Clean's revenue likely to witness 18% CAGR over FY23-26E



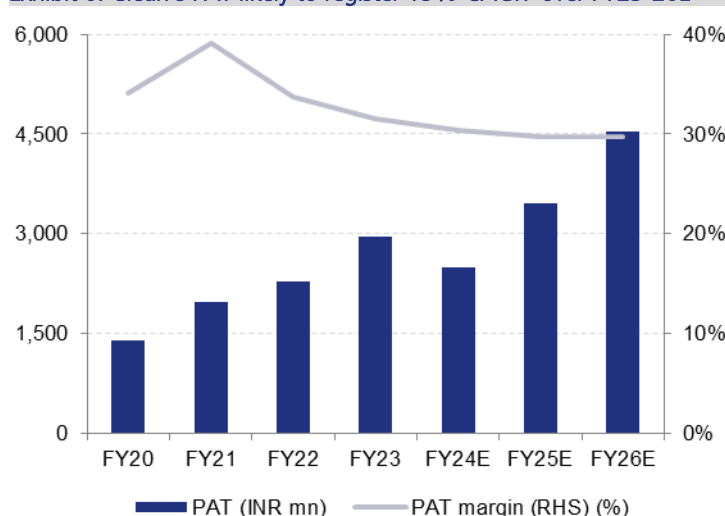
Source: Company, JM Financial

Exhibit 5. Clean's EBITDA likely to see 15% CAGR over FY23-26E



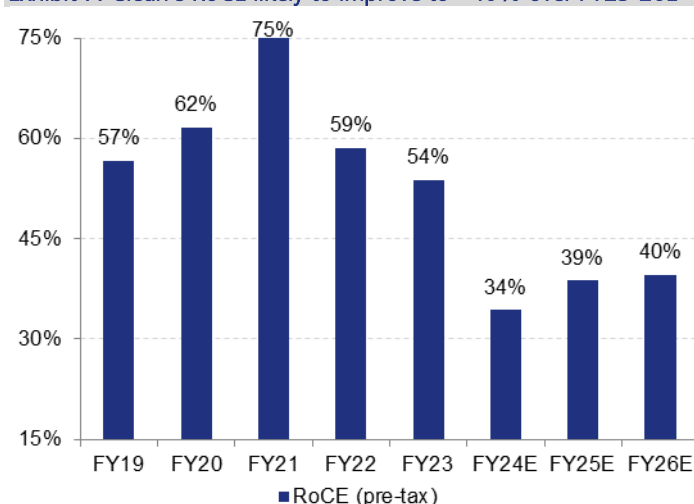
Source: Company, JM Financial

Exhibit 6. Clean's PAT likely to register 15% CAGR over FY23-26E



Source: Company, JM Financial

Exhibit 7. Clean's RoCE likely to improve to ~40% over FY23-26E



Source: Company, JM Financial

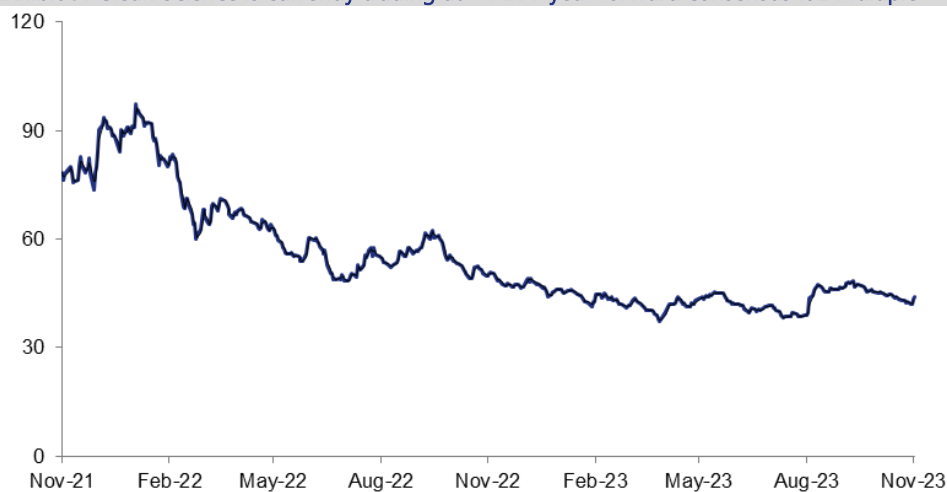
Exhibit 8. Change in estimates

	New	Old	Change
<b>Revenue (INR Mn)</b>			
FY24	8,265	9,840	-16.0%
FY25	11,714	13,512	-13.3%
FY26	15,449	17,860	-13.5%
<b>EBITDA (INR Mn)</b>			
FY24	3,439	4,168	-17.5%
FY25	4,826	5,630	-14.3%
FY26	6,115	7,153	-14.5%
<b>PAT (INR Mn)</b>			
FY24	2,490	3,113	-20.0%
FY25	3,452	4,078	-15.3%
FY26	4,547	5,361	-15.2%
<b>EPS (INR)</b>			
FY24	23.4	29.3	-20.0%
FY25	32.5	38.4	-15.3%
FY26	42.8	50.5	-15.2%

Source: JM Financial

## Valuation

Exhibit 9. Clean Science is currently trading at ~44x 1-year forward consensus P/E multiple



Source: Bloomberg

Exhibit 10. Chemical companies peer valuation

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
SRF	BUY	2,238	3,040	29.9	37.0	28.2	22.4	6.3	5.4	4.6	3.9	19.2	21.3	16.8	13.5	22.9	15.7	17.8	19.0
UPL	BUY	541	800	11.1	15.2	10.7	8.9	1.4	1.3	1.2	1.1	6.2	6.7	5.9	5.4	13.6	8.8	11.5	12.6
PI Industries	BUY	3,411	4,250	42.1	35.0	29.3	24.5	7.1	5.9	4.9	4.1	31.3	24.4	20.2	16.6	18.4	18.5	18.4	18.3
Deepak Nitrite	BUY	2,000	2,535	34.2	34.4	24.8	20.5	7.1	5.9	4.8	3.9	22.3	22.0	15.9	13.1	22.9	18.8	21.3	20.9
Clean Science	BUY	1,374	1,790	49.4	58.6	42.3	32.1	14.4	11.7	9.2	7.2	35.4	41.1	29.0	22.5	33.2	22.0	24.3	25.1
Navin Fluorine	BUY	3,477	4,725	45.4	45.0	32.1	23.4	7.8	6.9	5.9	4.9	32.1	31.1	23.4	18.4	18.6	16.2	19.7	22.8
Fine Organics	SELL	4,225	3,185	22.4	36.2	42.1	40.3	8.7	7.3	6.4	5.7	16.4	23.4	26.2	24.4	47.6	22.0	16.3	15.1
Galaxy Surfactants	HOLD	2,821	2,685	24.2	26.4	25.8	24.6	4.9	4.1	3.6	3.1	16.3	16.9	15.9	14.7	22.0	17.0	14.8	13.5
Aether Industries	BUY	884	1,130	84.0	73.0	48.7	36.0	8.8	5.4	4.9	4.3	58.3	46.3	31.2	23.5	16.0	9.4	10.6	12.7
Anupam Rasayan	HOLD	907	1,080	52.3	37.2	27.7	21.2	4.0	3.6	3.1	2.7	21.3	18.3	14.5	11.5	8.8	10.1	12.0	13.8
Archean Chemicals	BUY	526	735	16.8	14.8	10.5	8.6	4.5	3.7	2.8	2.1	10.9	9.5	6.3	4.6	45.2	28.9	30.2	27.5
Tatva Chintan Pharma Chem	HOLD	1,439	1,530	68.6	72.4	40.8	30.2	6.5	6.0	5.3	4.6	57.6	36.0	24.6	19.6	9.9	8.7	13.9	16.3
India Pesticides	HOLD	296	200	23.2	27.4	24.5	21.2	4.3	3.7	3.3	2.8	16.6	18.3	16.1	13.8	20.3	14.6	14.2	14.3

Source: Bloomberg, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	6,849	9,358	8,265	11,714	15,449	
Sales Growth	33.7%	36.6%	-11.7%	41.7%	31.9%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>6,849</b>	<b>9,358</b>	<b>8,265</b>	<b>11,714</b>	<b>15,449</b>	
Cost of Goods Sold/Op. Exp	2,247	3,260	3,058	4,627	6,257	
Personnel Cost	345	452	467	557	735	
Other Expenses	1,258	1,625	1,302	1,704	2,342	
<b>EBITDA</b>	<b>2,999</b>	<b>4,021</b>	<b>3,439</b>	<b>4,826</b>	<b>6,115</b>	
EBITDA Margin	43.8%	43.0%	41.6%	41.2%	39.6%	
EBITDA Growth	15.8%	34.1%	-14.5%	40.3%	26.7%	
Deprn. & Amort.	249	361	500	653	805	
EBIT	2,750	3,660	2,939	4,173	5,310	
Other Income	300	298	399	369	519	
Finance Cost	1	2	0	0	0	
PBT before Excep. & Forex	3,048	3,957	3,337	4,543	5,829	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	3,048	3,957	3,337	4,543	5,829	
Taxes	763	1,005	847	1,090	1,282	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,285	2,952	2,490	3,452	4,547	
<b>Adjusted Net Profit</b>	<b>2,285</b>	<b>2,952</b>	<b>2,490</b>	<b>3,452</b>	<b>4,547</b>	
Net Margin	33.4%	31.5%	30.1%	29.5%	29.4%	
Diluted Share Cap. (mn)	106.2	106.2	106.2	106.2	106.2	
<b>Diluted EPS (INR)</b>	<b>21.5</b>	<b>27.8</b>	<b>23.4</b>	<b>32.5</b>	<b>42.8</b>	
Diluted EPS Growth	15.2%	29.2%	-15.6%	38.7%	31.7%	
Total Dividend + Tax	345	319	67	91	117	
Dividend Per Share (INR)	3.3	3.0	0.6	0.9	1.1	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	3,048	3,957	3,337	4,543	5,829	
Deprn. & Amort.	249	361	500	653	805	
Net Interest Exp. / Inc. (-)	-20	-3	-5	-5	-5	
Inc (-) / Dec in WCap.	-1,210	-428	159	-638	-691	
Others	-104	-148	0	0	0	
Taxes Paid	-691	-945	-847	-1,090	-1,282	
<b>Operating Cash Flow</b>	<b>1,272</b>	<b>2,794</b>	<b>3,144</b>	<b>3,462</b>	<b>4,656</b>	
Capex	-1,397	-1,834	-2,001	-2,001	-2,001	
Free Cash Flow	-124	960	1,143	1,461	2,655	
Inc (-) / Dec in Investments	532	-1,410	-1,100	-1,100	-1,100	
Others	79	546	5	5	5	
<b>Investing Cash Flow</b>	<b>-786</b>	<b>-2,698</b>	<b>-3,096</b>	<b>-3,096</b>	<b>-3,096</b>	
Inc / Dec (-) in Capital	0	-1	0	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	0	0	-1	0	0	
Others	-1	-549	-67	-91	-117	
<b>Financing Cash Flow</b>	<b>-1</b>	<b>-550</b>	<b>-67</b>	<b>-91</b>	<b>-117</b>	
<b>Inc / Dec (-) in Cash</b>	<b>485</b>	<b>-455</b>	<b>-19</b>	<b>275</b>	<b>1,444</b>	
Opening Cash Balance	94	579	124	105	381	
Closing Cash Balance	579	124	105	381	1,824	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	7,684	10,100	12,523	15,885	20,315	
Share Capital	106	106	106	106	106	
Reserves & Surplus	7,578	9,994	12,417	15,779	20,209	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	3	1	0	0	0	
Def. Tax Liab. / Assets (-)	209	257	257	257	257	
<b>Total - Equity &amp; Liab.</b>	<b>7,897</b>	<b>10,358</b>	<b>12,781</b>	<b>16,142</b>	<b>20,572</b>	
Net Fixed Assets	3,399	4,806	6,307	7,655	8,851	
Gross Fixed Assets	3,909	5,561	7,561	9,561	11,561	
Intangible Assets	10	13	14	14	15	
Less: Deprn. & Amort.	991	1,345	1,845	2,498	3,303	
Capital WIP	441	205	205	205	205	
Investments	2,079	3,276	4,376	5,476	6,576	
Current Assets	3,769	3,436	3,098	4,306	6,759	
Inventories	881	1,088	952	1,350	1,781	
Sundry Debtors	1,535	1,462	1,279	1,814	2,392	
Cash & Bank Balances	579	125	106	381	1,825	
Loans & Advances	0	0	0	0	0	
Other Current Assets	773	761	761	761	761	
Current Liab. & Prov.	1,350	1,160	1,001	1,295	1,614	
Current Liabilities	1,021	805	704	999	1,318	
Provisions & Others	329	355	296	296	296	
Net Current Assets	2,419	2,276	2,098	3,011	5,145	
<b>Total - Assets</b>	<b>7,897</b>	<b>10,358</b>	<b>12,781</b>	<b>16,142</b>	<b>20,572</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	33.4%	31.5%	30.1%	29.5%	29.4%	
Asset Turnover (x)	1.0	1.0	0.7	0.8	0.8	
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0	
RoE	34.9%	33.2%	22.0%	24.3%	25.1%	

Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	72.3	95.1	117.9	149.5	191.3	
ROIC	51.8%	46.6%	29.7%	35.1%	37.8%	
ROE	34.9%	33.2%	22.0%	24.3%	25.1%	
Net Debt/Equity (x)	-0.3	-0.3	-0.4	-0.4	-0.4	
P/E (x)	63.9	49.4	58.6	42.3	32.1	
P/B (x)	19.0	14.5	11.7	9.2	7.2	
EV/EBITDA (x)	47.7	35.4	41.1	29.0	22.4	
EV/Sales (x)	20.9	15.2	17.1	11.9	8.9	
Debtor days	82	57	56	57	57	
Inventory days	47	42	42	42	42	
Creditor days	97	55	53	53	52	

Source: Company, JM Financial

## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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