

# Clean Science and Technology | BUY

Prices have largely stabilised; focus on new product launches



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Clean Science's 3QFY24 earnings print was better than our and consensus expectations. During the quarter, reported EBITDA was ~6%/3% higher than JMFe and consensus on account of robust volume growth. Looking at the current quarter's performance, we believe that prices of most of Clean's products have largely stabilised. Hence, going forward, volume-led growth is likely to continue as there are a lot of new projects kicking in. In 4QFY24, we believe there could be higher one-time expenses for plant commercialisation. However, FY25 onwards, the company's growth trajectory looks promising as it expands its non-flagship product portfolio. We highlight that, in FY25, the company's capex of INR 3.6bn (~INR 3.3bn for HALS and INR 300mn for pharma intermediate) will start contributing to the topline along with recovery in volume in its existing products. For FY26, besides higher utilisation of the HALS unit, growth levers will be two pharma intermediates' capex of INR 1.0bn each (with likely commercialisation in Apr'25 and Aug'25). Factoring in 3QFY24 results and commentary, we have lowered our FY24E/FY25E/FY26E EBITDA and EPS estimates by ~1-2%. As a result, our Mar'25 TP is revised to INR 1,805 (from INR 1,830 earlier). We estimate that Clean will register 36% EPS CAGR over FY24E-26E. Any delay in new product approvals could be a downside risk to our estimates. We maintain BUY.

- EBITDA miss on account of higher other expenses:** Clean Science's 3QFY24 consolidated gross profit was 2% ahead of JMFe at INR 1.3bn (up 9% QoQ while down 18% YoY) on account of higher-than-anticipated gross margin of 66.8% (vs. JMFe of 66.5% and 65.9% in 2QFY24) while revenue was largely in line at INR 1.9bn (up 8% QoQ while down 18% YoY). During the quarter, other expenses was lower at INR 319mn (vs. JMFe of INR 340mn and INR 326mn in 2QFY24). As a result, EBITDA came in 6% above JMFe at INR 866mn (up 16% QoQ while down 20% YoY) and PAT was 7% ahead of JMFe at INR 626mn (up 20% QoQ while down 25% YoY).
- Unit 4 commercialisation in Feb'24; INR 2.3bn worth pharma intermediates' capex on top of HALS:** During the quarter, sequential revenue growth was on account of higher volumes. Moreover, despite higher contribution of newer products (~25% of overall sales) and domestic sales, the company was able to make better gross margin. For HALS 701, the company has received approvals from multinational company in the EU and has already started exporting to China and Korea. For 770, domestic acceptance is increasing. The company intends to take the run-rate of these products to ~200MT per month by end-FY25. Besides this, the company will be commercialising the remaining HALS series of products in Feb'24 under its subsidiary CFCL for which it has spent INR 3.35bn including the utilities. Further, the company intends to incur additional INR 2.3bn capex in FY25.
- Estimates lowered marginally; maintain BUY:** Factoring in lower margins for new products getting launched in 4QFY24 and higher depreciation in FY25/26 due to higher capex, we lower our FY24E/FY25E/FY26E EBITDA and EPS estimates by ~1-2%. As a result, we maintain BUY with a revised Mar'25 TP of INR 1,805 (from INR 1,830 earlier).

## Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,805
Upside/(Downside)	23.5%
Previous Price Target	1,830
Change	-1.3%

## Key Data – CLEAN IN

Current Market Price	INR1,461
Market cap (bn)	INR155.3/US\$1.9
Free Float	25%
Shares in issue (mn)	106.2
Diluted share (mn)	106.2
3-mon avg daily val (mn)	INR272.4/US\$3.3
52-week range	1,622/1,227
Sensex/Nifty	72,086/21,854
INR/US\$	82.9

## Price Performance

%	1M	6M	12M
Absolute	-6.9	12.6	-1.9
Relative*	-7.0	2.7	-17.2

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	6,849	9,358	7,685	11,120	14,862
Sales Growth (%)	33.7	36.6	-17.9	44.7	33.6
EBITDA	2,999	4,021	3,199	4,459	5,794
EBITDA Margin (%)	43.8	43.0	41.6	40.1	39.0
Adjusted Net Profit	2,285	2,952	2,299	3,191	4,280
Diluted EPS (INR)	21.5	27.8	21.6	30.0	40.3
Diluted EPS Growth (%)	15.2	29.2	-22.1	38.8	34.1
ROIC (%)	51.8	46.6	27.9	32.0	34.3
ROE (%)	34.9	33.2	20.5	23.0	24.4
P/E (x)	67.9	52.6	67.5	48.6	36.3
P/B (x)	20.2	15.4	12.6	10.0	7.9
EV/EBITDA (x)	50.8	37.7	47.1	33.6	25.5
Dividend Yield (%)	0.2	0.2	0.0	0.1	0.1

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

## 3QFY24 Result Review

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

Consolidated (INR mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24E	% QoQ	% YoY	% difference
Net Sales	2,341	2,475	2,374	2,169	1,881	1,811	1,947	1,920	8%	-18%	1%
COGS	913	927	779	641	726	618	646	643	5%	-17%	
<b>Gross Profit</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>1,301</b>	<b>1,277</b>	<b>9%</b>	<b>-18%</b>	<b>2%</b>
Gross margin	61.0%	62.5%	67.2%	70.5%	61.4%	65.9%	66.8%	66.5%	92 bps	-38 bps	30 bps
Employee cost	100	106	118	128	117	119	116	120	-2%	-1%	
Employee cost as % of sales	4%	4%	5%	6%	6%	7%	6%	6%	-58 bps	100 bps	
Other expenditure	414	467	396	349	277	326	319	340	-2%	-19%	
Other expenditure as % of sales	18%	19%	17%	16%	15%	18%	16%	18%	-165 bps	-31 bps	
<b>EBITDA</b>	<b>913</b>	<b>975</b>	<b>1,061</b>	<b>1,051</b>	<b>761</b>	<b>748</b>	<b>866</b>	<b>817</b>	<b>16%</b>	<b>-20%</b>	<b>6%</b>
EBITDA margin	39%	39%	46%	48%	40%	41%	44.5%	42.5%	316 bps	-107 bps	193 bps
Depreciation	85	87	89	101	108	111	113	115	2%	27%	
EBIT	829	888	992	950	653	637	753	702	18%	-24%	
Interest expense	0.0	0.0	0.6	1.3	0.5	2.5	0.5	3.0	-79%	-13%	
Other income	18	28	126	126	134	60	78	80	30%	-38%	
PBT	847	916	1,117	1,075	787	695	830	779	20%	-26%	
Tax	218	237	280	270	198	173	204	195	18%	-27%	
<b>PAT</b>	<b>629</b>	<b>679</b>	<b>837</b>	<b>805</b>	<b>589</b>	<b>522</b>	<b>626</b>	<b>584</b>	<b>20%</b>	<b>-25%</b>	<b>7%</b>
PAT margin	27%	27%	35%	37%	31%	29%	32.2%	30.4%	335 bps	-310 bps	174 bps
Basic EPS (INR)	5.92	6.40	7.88	7.58	5.55	4.91	5.90	5.50	20%	-25%	
Tax rate	25.7%	25.8%	25.1%	25.1%	25.1%	24.9%	24.6%	25.0%	-29 bps	-50 bps	

Source: Company, JM Financial

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

INR mn	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24E	%QoQ	%YoY	% diff vs JMFe
Performance chemicals	1,660	1,699	1,568	1,260	1,213	1,304	1,280	7%	-23%	2%
Pharma and agro intermediates	440	396	412	357	344	370	350	7%	-7%	6%
FMCG chemicals	300	261	239	245	272	216	290	-21%	-17%	-25%
<b>Total</b>	<b>2,475</b>	<b>2,374</b>	<b>2,169</b>	<b>1,881</b>	<b>1,811</b>	<b>1,947</b>	<b>1,920</b>	<b>8%</b>	<b>-18%</b>	<b>1%</b>
<b>% of overall revenues</b>										
Performance chemicals	67%	72%	72%	67%	67%	67%	67%	-2bps	-459bps	
Pharma and agro intermediates	18%	17%	19%	19%	19%	19%	18%	-1bps	231bps	
FMCG chemicals	12%	11%	11%	13%	15%	11%	15%	-394bps	11bps	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>0bps</b>	<b>0bps</b>	

Source: Company, JM Financial

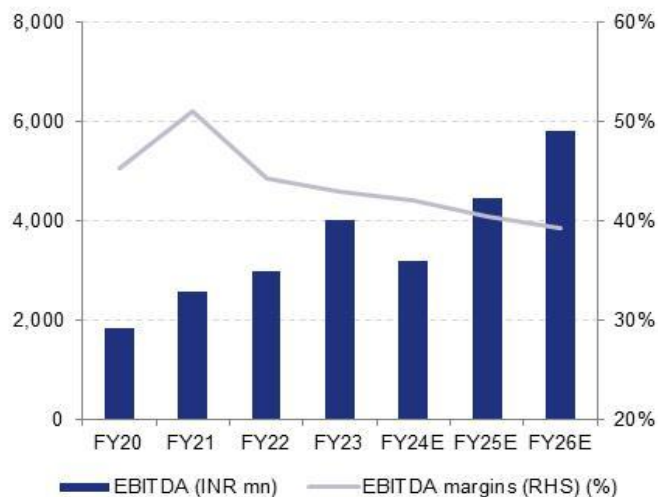
## Assumptions and Estimates

**Exhibit 3. Clean's revenue likely to witness 39% CAGR over FY24E-26E**



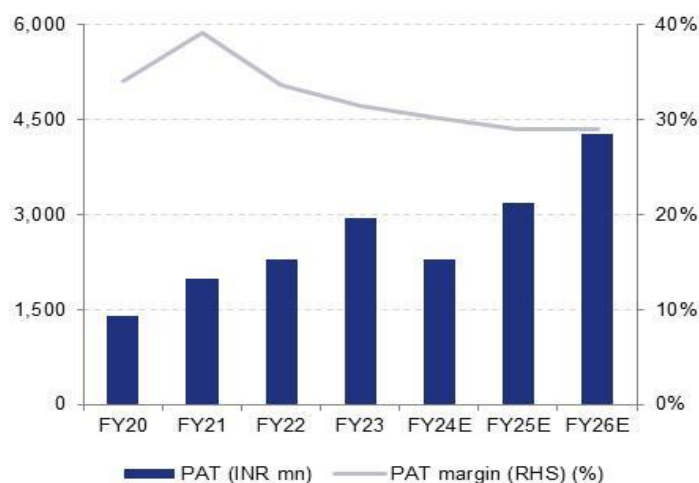
Source: Company, JM Financial

**Exhibit 4. Clean's EBITDA likely to see 35% CAGR over FY24E-26E**



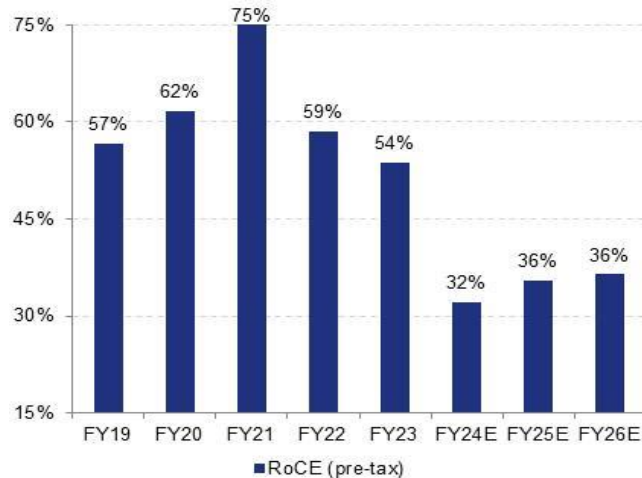
Source: Company, JM Financial

**Exhibit 5. Clean's PAT likely to register 36% CAGR over FY24E-26E**



Source: Company, JM Financial

**Exhibit 6. Clean's RoCE likely to improve to ~36% in FY26E**



Source: Company, JM Financial

**Exhibit 7. Change in estimates**

	New	Old	Change
<b>Revenue (INR Mn)</b>			
FY24	7,685	7,837	-1.9%
FY25	11,120	11,120	0.0%
FY26	14,862	14,862	0.0%
<b>EBITDA (INR Mn)</b>			
FY24	3,199	3,262	-1.9%
FY25	4,459	4,526	-1.5%
FY26	5,794	5,808	-0.3%
<b>PAT (INR Mn)</b>			
FY24	2,299	2,351	-2.2%
FY25	3,191	3,265	-2.2%
FY26	4,280	4,359	-1.8%
<b>EPS (INR)</b>			
FY24	21.6	22.1	-2.2%
FY25	30.0	30.7	-2.2%
FY26	40.3	41.0	-1.8%

Source: JM Financial

## Valuation

## Exhibit 8. Clean Science is currently trading at ~51x 1-year forward consensus P/E multiple



Source: Bloomberg, JM Financial

## Exhibit 9. 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	2,319	2,665	31.8	56.2	36.6	27.1	6.7	6.0	5.3	4.5	20.4	28.2	21.0	16.2	22.9	11.3	15.3	17.9
UPL	BUY	533	650	11.0	NM	21.5	14.3	1.4	1.4	1.3	1.2	6.1	12.9	8.4	7.2	13.6	-1.5	6.3	9.0
PI Industries	HOLD	3,376	3,710	42.0	33.6	30.6	26.9	7.1	5.9	4.9	4.2	31.2	24.7	21.3	18.4	18.4	19.2	17.5	16.8
Deepak Nitrite	BUY	2,250	2,565	36.9	43.6	29.9	24.8	7.7	6.5	5.4	4.4	24.1	27.1	19.0	15.9	22.9	16.2	19.7	19.6
Clean Science	BUY	1,461	1,805	52.6	67.5	48.6	36.3	15.4	12.6	10.0	7.9	37.7	47.2	33.6	25.6	33.2	20.5	23.0	24.4
Navin Fluorine	BUY	3,325	4,730	43.9	49.5	34.4	24.9	7.5	6.7	5.8	4.9	31.1	33.8	24.9	19.6	18.6	14.4	18.2	21.5
Fine Organics	SELL	4,668	3,220	24.2	42.0	45.4	43.5	9.4	8.0	7.0	6.2	17.7	29.0	29.1	27.2	47.6	20.6	16.5	15.2
Galaxy Surfactants	HOLD	2,623	2,605	24.4	31.5	28.7	26.7	4.9	4.3	3.7	3.3	16.4	18.5	16.9	15.3	22.0	14.5	13.9	13.0
PCBL Ltd.	BUY	320	355	27.3	22.5	21.1	18.0	4.3	3.6	3.1	2.6	17.7	13.3	11.9	10.4	16.2	17.3	15.7	15.7
Aether Industries	BUY	846	1,095	80.8	87.8	52.1	38.3	8.5	5.3	4.8	4.3	56.0	57.6	33.2	24.8	16.0	7.6	9.7	11.8
Anupam Rasayan	HOLD	950	990	56.3	67.8	42.9	29.3	4.3	3.5	3.2	2.9	22.8	24.3	18.2	14.3	8.8	5.8	7.7	10.3
Archean Chemicals	BUY	619	700	17.9	22.0	14.1	11.1	4.8	4.3	3.3	2.5	11.7	14.2	8.9	6.4	45.2	21.6	26.3	25.8
Tatva Chintan Pharma Chem	HOLD	1,331	1,310	63.4	94.6	45.7	32.1	6.0	4.3	4.0	3.6	53.5	37.4	24.6	19.4	9.9	5.3	9.0	11.7

Source: Companies, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	6,849	9,358	7,685	11,120	14,862	
Sales Growth	33.7%	36.6%	-17.9%	44.7%	33.6%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>6,849</b>	<b>9,358</b>	<b>7,685</b>	<b>11,120</b>	<b>14,862</b>	
Cost of Goods Sold/Op. Exp	2,247	3,260	2,728	4,504	6,093	
Personnel Cost	345	452	434	540	722	
Other Expenses	1,258	1,625	1,325	1,617	2,253	
<b>EBITDA</b>	<b>2,999</b>	<b>4,021</b>	<b>3,199</b>	<b>4,459</b>	<b>5,794</b>	
EBITDA Margin	43.8%	43.0%	41.6%	40.1%	39.0%	
EBITDA Growth	15.8%	34.1%	-20.5%	39.4%	29.9%	
Depn. & Amort.	249	361	459	610	771	
EBIT	2,750	3,660	2,739	3,849	5,023	
Other Income	300	298	343	350	465	
Finance Cost	1	2	0	0	0	
PBT before Excep. & Forex	3,048	3,957	3,082	4,199	5,488	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	3,048	3,957	3,082	4,199	5,488	
Taxes	763	1,005	783	1,008	1,207	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,285	2,952	2,299	3,191	4,280	
<b>Adjusted Net Profit</b>	<b>2,285</b>	<b>2,952</b>	<b>2,299</b>	<b>3,191</b>	<b>4,280</b>	
Net Margin	33.4%	31.5%	29.9%	28.7%	28.8%	
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>21.6</b>	<b>30.0</b>	<b>40.3</b>	
Diluted EPS Growth	15.2%	29.2%	-22.1%	38.8%	34.1%	
Total Dividend + Tax	345	319	62	84	110	
Dividend Per Share (INR)	3.3	3.0	0.6	0.8	1.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	3,048	3,957	3,082	4,199	5,488	
Depn. & Amort.	249	361	459	610	771	
Net Interest Exp. / Inc. (-)	-20	-3	-5	-5	-5	
Inc (-) / Dec in WCap.	-1,210	-428	266	-635	-692	
Others	-104	-148	0	0	0	
Taxes Paid	-691	-945	-783	-1,008	-1,207	
<b>Operating Cash Flow</b>	<b>1,272</b>	<b>2,794</b>	<b>3,020</b>	<b>3,161</b>	<b>4,354</b>	
Capex	-1,397	-1,834	-2,001	-2,301	-2,301	
Free Cash Flow	-124	960	1,019	860	2,053	
Inc (-) / Dec in Investments	532	-1,410	-500	-500	-1,100	
Others	79	546	5	5	5	
<b>Investing Cash Flow</b>	<b>-786</b>	<b>-2,698</b>	<b>-2,496</b>	<b>-2,796</b>	<b>-3,396</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	-62	-84	-110	
<b>Financing Cash Flow</b>	<b>-1</b>	<b>-550</b>	<b>-62</b>	<b>-84</b>	<b>-110</b>	
<b>Inc / Dec (-) in Cash</b>	<b>485</b>	<b>-455</b>	<b>462</b>	<b>281</b>	<b>849</b>	
Opening Cash Balance	94	579	124	586	868	
Closing Cash Balance	579	124	586	867	1,716	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	7,684	10,100	12,338	15,445	19,616	
Share Capital	106	106	106	106	106	
Reserves & Surplus	7,578	9,994	12,232	15,339	19,510	
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>12,595</b>	<b>15,703</b>	<b>19,873</b>	
Net Fixed Assets	3,399	4,806	6,347	8,038	9,568	
Gross Fixed Assets	3,909	5,561	7,561	9,861	12,161	
Intangible Assets	10	13	14	14	15	
Less: Depn. & Amort.	991	1,345	1,805	2,414	3,185	
Capital WIP	441	205	205	205	205	
Investments	2,079	3,276	3,776	4,276	5,376	
Current Assets	3,769	3,436	3,423	4,632	6,492	
Inventories	881	1,088	885	1,281	1,713	
Sundry Debtors	1,535	1,462	1,189	1,722	2,301	
Cash & Bank Balances	579	125	587	868	1,716	
Loans & Advances	0	0	0	0	0	
Other Current Assets	773	761	761	761	761	
Current Liab. & Prov.	1,350	1,160	951	1,244	1,564	
Current Liabilities	1,021	805	655	948	1,267	
Provisions & Others	329	355	296	296	296	
Net Current Assets	2,419	2,276	2,471	3,388	4,928	
<b>Total - Assets</b>	<b>7,897</b>	<b>10,358</b>	<b>12,595</b>	<b>15,703</b>	<b>19,873</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	33.4%	31.5%	29.9%	28.7%	28.8%	
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%	20.5%	23.0%	24.4%	

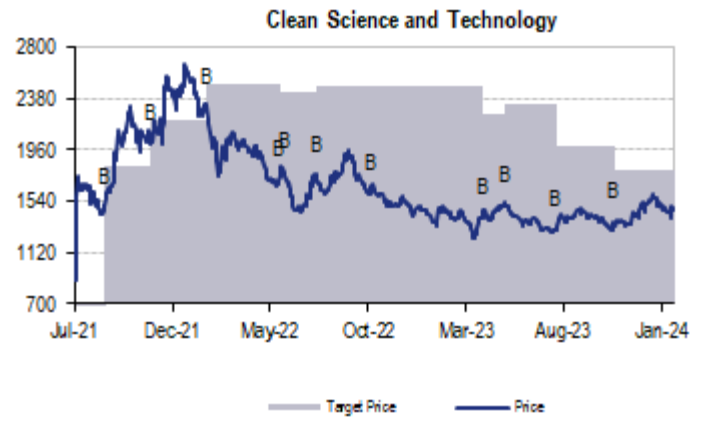
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	72.3	95.1	116.2	145.4	184.7	
ROIC	51.8%	46.6%	27.9%	32.0%	34.3%	
ROE	34.9%	33.2%	20.5%	23.0%	24.4%	
Net Debt/Equity (x)	-0.3	-0.3	-0.4	-0.3	-0.4	
P/E (x)	67.9	52.6	67.5	48.6	36.3	
P/B (x)	20.2	15.4	12.6	10.0	7.9	
EV/EBITDA (x)	50.8	37.7	47.1	33.6	25.5	
EV/Sales (x)	22.2	16.2	19.6	13.5	9.9	
Debtor days	82	57	56	57	57	
Inventory days	47	42	42	42	42	
Creditor days	97	55	53	52	51	

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
1-Sep-21	Buy	1,820	
11-Nov-21	Buy	2,195	20.6
7-Feb-22	Buy	2,500	13.9
30-May-22	Buy	2,425	-3.0
7-Jun-22	Buy	2,425	0.0
27-Jul-22	Buy	2,485	2.5
20-Oct-22	Buy	2,485	0.0
11-Apr-23	Buy	2,255	-9.2
18-May-23	Buy	2,325	3.1
4-Aug-23	Buy	1,995	-14.2
2-Nov-23	Buy	1,790	-10.3

**Recommendation History**



## 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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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