

# Clean Science & Technology

Estimate changes 

TP change 

Rating change 

**CMP: INR1,328**

**TP: INR1,375 (+4%)**

**Neutral**

Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	141.1 / 1.7
52-Week Range (INR)	1622 / 1275
1, 6, 12 Rel. Per (%)	1/-16/-34
12M Avg Val (INR M)	243

## Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	7.9	9.5	11.9
EBITDA	3.3	3.8	4.7
PAT	2.4	3.0	3.7
EPS (INR)	23.0	27.9	34.4
EPS Gr. (%)	-17.3	21.6	23.0
BV/Sh.(INR)	113.2	137.5	167.4

## Ratios

Net D:E	-0.0	-0.1	-0.1
RoE (%)	22.1	22.3	22.5
RoCE (%)	21.6	21.9	22.2
Payout (%)	13.1	13.1	13.1

## Valuations

P/E (x)	57.7	47.4	38.5
P/BV (x)	11.7	9.6	7.9
EV/EBITDA (x)	42.4	36.7	29.5
Div. Yield (%)	0.2	0.3	0.3
FCF Yield (%)	0.1	0.8	1.2

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	75.0	75.0	78.5
DII	5.0	5.1	4.8
FII	5.9	5.9	4.0
Others	14.1	14.0	12.8

FII Includes depository receipts

## Volume-led recovery drives beat

- CLEAN's reported EBITDA in 4QFY24 beat our estimate at INR945m (-10% YoY), with a gross margin of 65.7% (vs. 70.5% in 4QFY23). EBITDAM contracted to 41.5% from 48.5% in 4QFY23. Revenue contribution of FMCG Chemicals increased YoY, while that of Performance Chemicals and Pharma & Agro Intermediates declined YoY. PAT declined 3% YoY to INR703m.
- There was strong sequential growth in both Performance and Pharma & Agro Intermediates on the back of volume growth. The management highlighted that DCC and TBHQ, which were running at lower utilization, picked up pace in 4Q. Capacity utilization for Performance Chemicals and Pharma & Agro Intermediates stood at 70%, while it stood at 75% for FMCG Chemicals.
- Revenue share of principal products declined to 76% from 84% in 3QFY24. The management highlighted that it is on track to commercialize one product in Pharma Intermediates by 3QFY25 (capex of INR300m). Clean Fino-Chem (CFCL, tax rate for the subsidiary at 15%) was also commercialized in Mar'24 and most of the volume growth is expected to be driven by new products in FY25.
- CLEAN has a market share of 50% in the domestic market in HALS770 and is aiming for 60-70% market share. Although the product is more domestic focused, it is already being shipped to Europe and the Middle East. HALS701 is an export-oriented product, which is primarily used in water treatment. Samples are being sent to customers currently for approvals.
- We expect a CAGR of 23%/19%/22% in revenue/ EBITDA/ PAT during FY24-26, with EBITDAM declining to 39.5% on consolidated basis in FY26. CLEAN is currently trading at 38.5x FY26E EPS of INR34.4 and 29.5x FY26E EV/EBITDA. We value the stock at 40x FY26E EPS to arrive at our TP of INR1,375.

## Beat our estimates but margins decline YoY

- CLEAN reported revenue of INR2.3b (+5% YoY).
- **Gross margin stood at 65.7% (-470bp YoY).** EBITDA margin came in at 41.5% (-690bp YoY).
- EBITDA was INR945m (our est. of INR813m, -10% YoY). PAT stood at INR703m (our est. of INR568m, -13% YoY)
- **For FY24,** revenue stood at INR7.9b (-15% YoY), EBITDA at INR3.3b (-17% YoY) and PAT at INR2.4b (-17% YoY). EBITDAM stood at 42% (-100bp YoY).
- The board has declared a final dividend of INR3 per share for FY24.

## Segmental and other highlights

- The 4Q performance was driven by volume-led growth. Progressive recovery in revenue continued, while contribution from new products increased. CFCL was commercialized in Mar'24.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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

- Revenue from **Pharma Chemicals** was INR432 (+1% YoY), DCC contributed to growth. Revenue from **Performance Chemicals** was INR1.5b (-4% YoY), realization impacted the growth. Revenue from **FMCG Chemicals** was INR259m (+21% YoY), growth was volume led.
- Revenue from the domestic market stood at 36%, while the rest came from exports. In exports, China's share increased, while the share of the Americas and Europe declined.
- CLEAN incurred a total capex of INR2.4b in FY24, including INR2.2b investment in subsidiary.

#### Valuation and view

- CLEAN is actively pursuing R&D and has entered the HALS series, which has an estimated global market size of USD1b. Commercial production from CFCL has commenced and the management expects HALS utilization to reach 80% in three years.
- CLEAN is expected to generate INR2.7b in FCF during FY25-26, with a planned capex of INR4b for the same period. The company plans to finance this capex through internal accruals and is projected to maintain a net cash position in the future.
- The stock is currently trading at 38.5x FY26E EPS of INR34.4 and 29.5x FY26E EV/EBITDA. We value the stock at 40x FY26E EPS to arrive at our TP of INR1,375.

#### Consolidated - Quarterly Snapshot

Y/E March	FY23				FY24				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY23	FY24	FY24 4QE	Var. (%)
<b>Gross Sales</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>1,947</b>	<b>2,275</b>	<b>9,358</b>	<b>7,915</b>	<b>1,912</b>	<b>19%</b>
YoY Change (%)	60.0	61.6	31.3	6.0	-19.6	-26.8	-18.0	4.9	36.6	-15.4	-11.8	
Gross Margin (%)	61.0%	62.5%	67.2%	70.5%	61.4%	65.9%	66.8%	65.7%	65.2%	65.0%	66.6%	-0.8%
<b>EBITDA</b>	<b>913</b>	<b>975</b>	<b>1,082</b>	<b>1,051</b>	<b>761</b>	<b>748</b>	<b>866</b>	<b>945</b>	<b>4,021</b>	<b>3,321</b>	<b>813</b>	<b>16%</b>
Margin (%)	39.0	39.4	45.6	48.5	40.5	41.3	44.5	41.5	43.0	42.0	42.5	-1.0
Depreciation	85	87	89	101	108	111	113	127	361	459	117	
Interest	0	0	1	1	1	3	1	6	2	9	4	
Other Income	18	28	126	126	134	60	78	141	298	413	68	
<b>PBT before EO expense</b>	<b>847</b>	<b>916</b>	<b>1,118</b>	<b>1,075</b>	<b>787</b>	<b>695</b>	<b>830</b>	<b>953</b>	<b>3,956</b>	<b>3,265</b>	<b>759</b>	<b>26%</b>
<b>PBT</b>	<b>847</b>	<b>916</b>	<b>1,118</b>	<b>1,075</b>	<b>787</b>	<b>695</b>	<b>830</b>	<b>953</b>	<b>3,956</b>	<b>3,265</b>	<b>759</b>	<b>26%</b>
Tax	218	237	280	270	198	173	204	250	1,005	825	191	
Rate (%)	25.7	25.8	25.1	25.1	25.1	24.9	24.6	26.3	25.4	25.3	25.1	
<b>Reported PAT</b>	<b>629</b>	<b>679</b>	<b>838</b>	<b>805</b>	<b>589</b>	<b>522</b>	<b>626</b>	<b>703</b>	<b>2,952</b>	<b>2,440</b>	<b>568</b>	<b>24%</b>
YoY Change (%)	15.2	26.9	44.5	29.1	-6.3	-23.2	-25.3	-12.7	29.2	-17.3	-29.4	
Margin (%)	26.9	27.5	35.3	37.1	31.3	28.8	32.2	30.9	31.5	30.8	29.7	1.2
<b>Segment-wise Revenue (INR m)</b>												
Performance Chemicals	1,545	1,645	1,685	1,582	1,260	1,213	1,305	1,524	6,457	5,303	1,285	19%
Pharma & Agro Intermediates	538	432	380	428	357	344	370	432	1,778	1,504	371	16%
FMCG Chemicals	234	296	285	215	245	272	253	259	1,029	1,029	238	9%
Others	23	102	24	-56	19	-19	19	60	94	79	18	233%

4QFY24 story in charts

Exhibit 1: Revenue increased 5% YoY

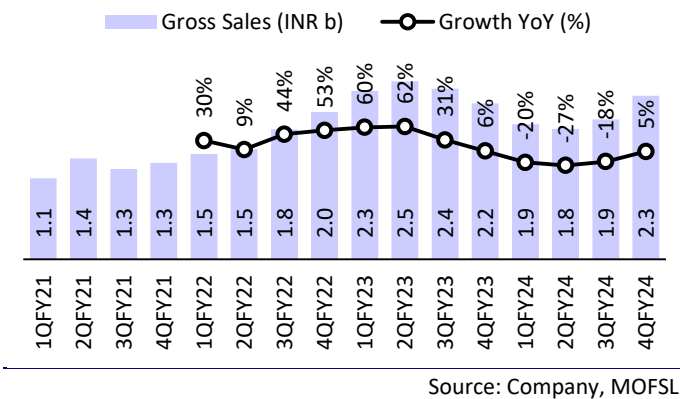


Exhibit 2: GM and EBITDAM contracted

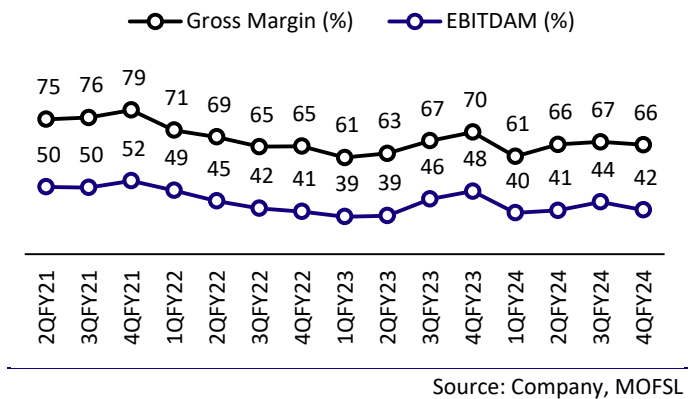


Exhibit 3: EBITDA declined 10% YoY

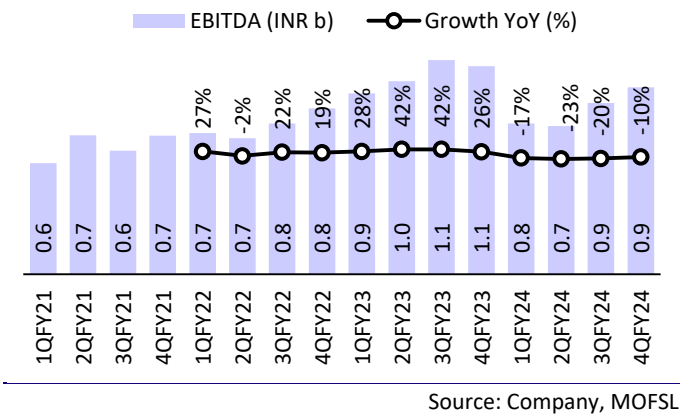


Exhibit 4: PAT was down 13% YoY

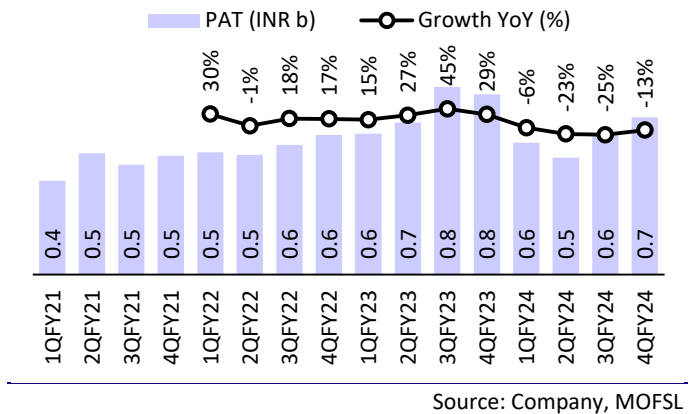


Exhibit 5: Revenue from only Pharma Chemicals declined YoY

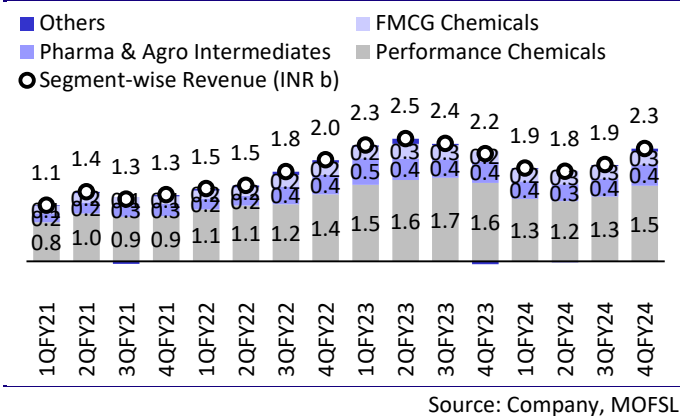
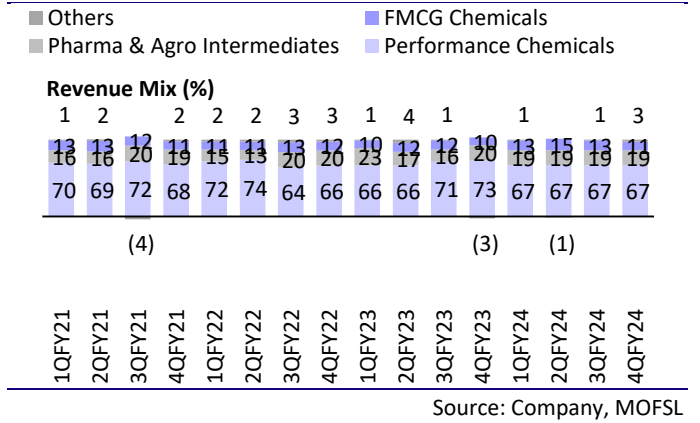
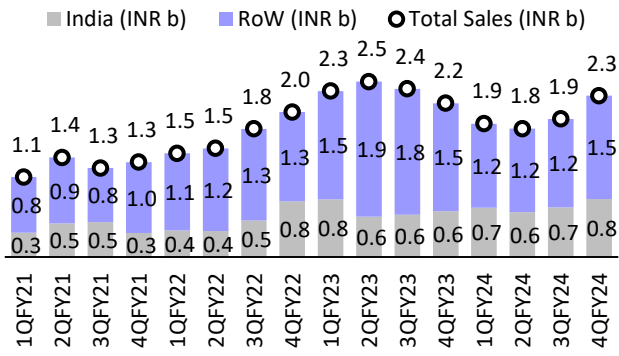


Exhibit 6: Contribution from FMCG Chemicals increased YoY

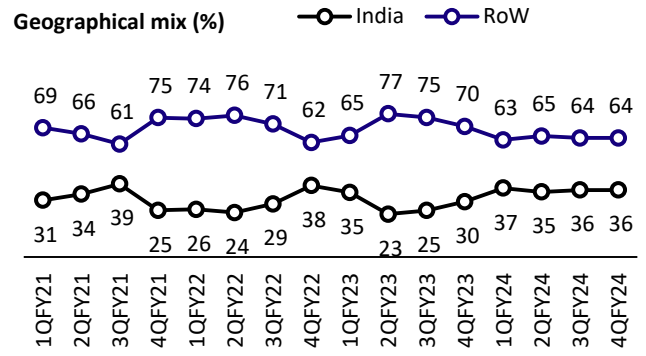


**Exhibit 7: Domestic sales increased 27% YoY**



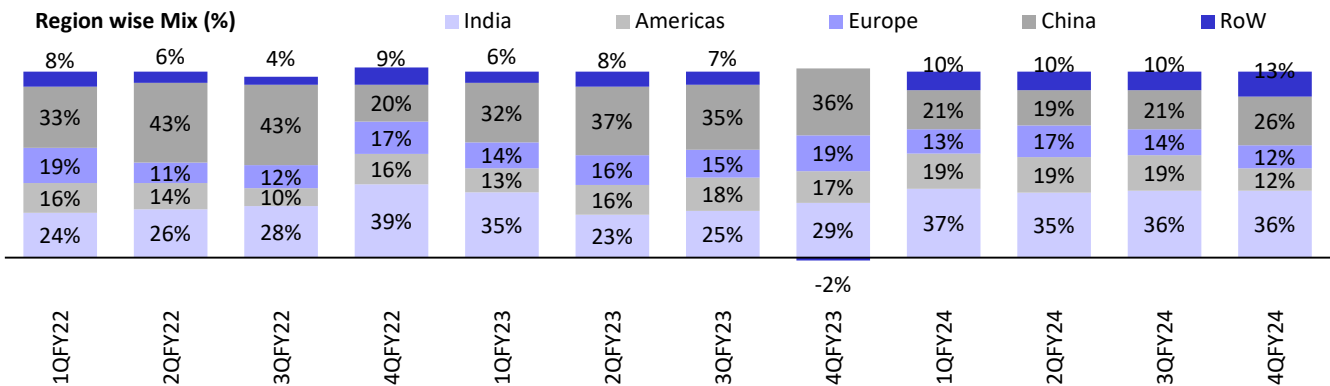
Source: Company, MOFSL

**Exhibit 8: Contribution from domestic market increased YoY**



Source: Company, MOFSL

**Exhibit 9: Contribution from RoW and India increased YoY, while it decreased for Americas, Europe and China**



Source: Company, MOSL

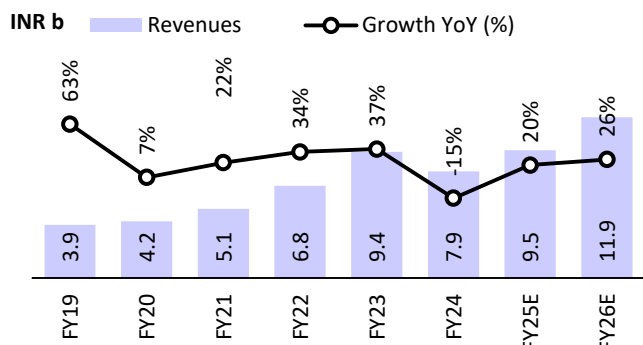


## Management concall highlights

- Revenue improvement was 23% volume-led and 7% realization-led.
- Contribution from legacy products was 76% vs. 84% in 3QFY24, while new products' contribution increased to 23% from 18.5% in 4Q.
- **Capex** of INR300m for pharma intermediate and additional INR1-1.5b for performance chemicals.
- On track to commercialize the capacity for pharma intermediates by 3QFY25.
- The company does not make long-terms contracts; It generally signs monthly or quarterly contracts.
- **Capacity utilization for 4QFY24:** Performance Chemicals-70%, Pharma and Agro Intermediates-70%, FMCG-75%; these are optimal levels of utilization.
- DCC and TBHQ, which were running at lower capacity, have picked up and are running at higher utilization.
- **HALS 770:** focus is on domestic market
  - 50% of the total market demand in India is supplied by CLEAN; targets market share expansion to 60%-70%.
  - For exports, the product is already shipped to Europe and the Middle East and is in talks with customers in North America.
  - 100-110tpm sales in India; price discount of 2.5-3% to foreign suppliers
- **HALS 701:** Export-focused product
  - Used in water treatment
  - Samples are being sent currently to customers
- HALS plants are all dedicated plant and not multipurpose, all these products have two common raw materials, which are core building blocks.
- Volume growth for FY25 will be driven by new products
- Other expenses increased majorly due to inclusion of CSR expense
- Tax rate: Clean Science 25%, Subsidiary: 15%

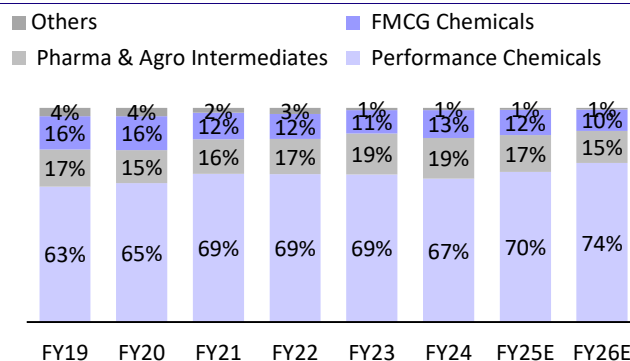
## Financial story in charts

**Exhibit 10: Expect 23% revenue CAGR over FY24-26...**



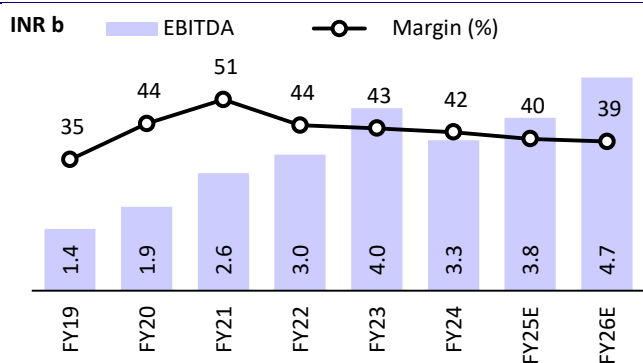
Source: Company, MOFSL

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



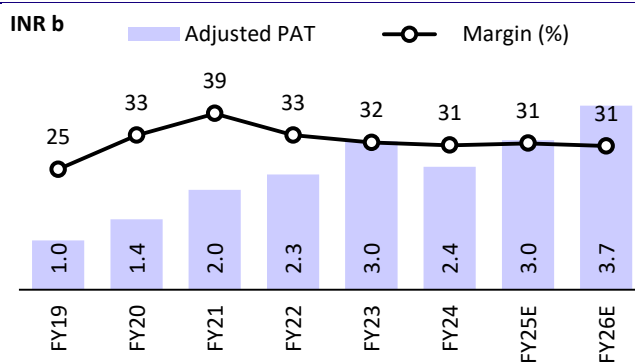
Source: Company, MOFSL

**Exhibit 12: EBITDA margin to normalize on consol basis with commissioning of HALS**



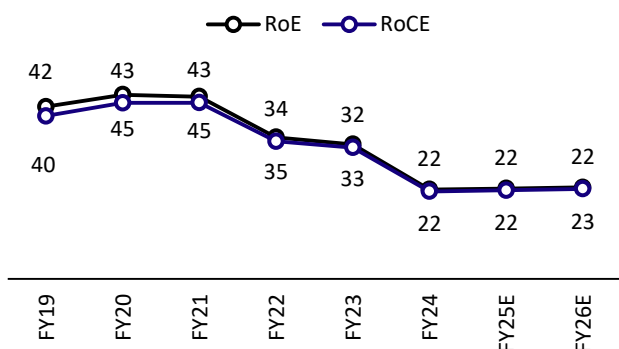
Source: Company, MOFSL

**Exhibit 13: PAT margin expected to be flat**



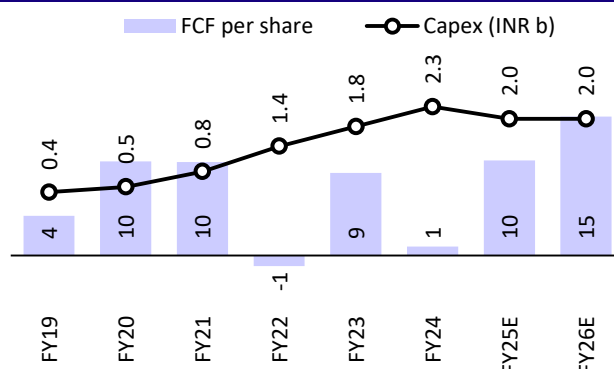
Source: Company, MOFSL

**Exhibit 14: Return profile to moderate vs. FY23**



Source: Company, MOFSL

**Exhibit 15: Expect capex of INR4b (to be funded via internal accruals) over FY25-26**



Source: Company, MOFSL

## Financials and valuations

Consolidated - Financial Snapshot								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Total Income from Operations</b>	<b>3,933</b>	<b>4,193</b>	<b>5,124</b>	<b>6,849</b>	<b>9,358</b>	<b>7,915</b>	<b>9,480</b>	<b>11,914</b>
Change (%)	63.1	6.6	22.2	33.7	36.6	-15.4	19.8	25.7
Gross Margin (%)	56.5	69.2	75.9	67.2	65.2	65.0	65.0	65.3
<b>EBITDA</b>	<b>1,363</b>	<b>1,853</b>	<b>2,590</b>	<b>2,999</b>	<b>4,021</b>	<b>3,321</b>	<b>3,811</b>	<b>4,700</b>
Margin (%)	34.7	44.2	50.5	43.8	43.0	42.0	40.2	39.5
Depreciation	110	137	172	249	361	459	505	542
<b>EBIT</b>	<b>1,253</b>	<b>1,716</b>	<b>2,417</b>	<b>2,750</b>	<b>3,660</b>	<b>2,861</b>	<b>3,306</b>	<b>4,158</b>
Int. and Finance Charges	0	1	1	1	2	9	11	13
Other Income	113	109	256	300	298	413	419	426
<b>PBT bef. EO Exp.</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>	<b>3,048</b>	<b>3,956</b>	<b>3,265</b>	<b>3,714</b>	<b>4,570</b>
<b>PBT after EO Exp.</b>	<b>1,365</b>	<b>1,823</b>	<b>2,673</b>	<b>3,048</b>	<b>3,956</b>	<b>3,265</b>	<b>3,714</b>	<b>4,570</b>
Total Tax	389	427	689	763	1,005	825	746	918
Tax Rate (%)	28.5	23.4	25.8	25.0	25.4	25.3	20.1	20.1
<b>Reported PAT</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>	<b>2,285</b>	<b>2,952</b>	<b>2,440</b>	<b>2,968</b>	<b>3,652</b>
<b>Adjusted PAT</b>	<b>977</b>	<b>1,396</b>	<b>1,984</b>	<b>2,285</b>	<b>2,952</b>	<b>2,440</b>	<b>2,968</b>	<b>3,652</b>
Change (%)	100.7	43.0	42.1	15.2	29.2	-17.3	21.6	23.0
Margin (%)	24.8	33.3	38.7	33.4	31.5	30.8	31.3	30.7

Consolidated - Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	14	13	106	106	106	106	106	106
Total Reserves	2,706	3,408	5,290	7,578	9,994	11,925	14,506	17,681
<b>Net Worth</b>	<b>2,721</b>	<b>3,421</b>	<b>5,397</b>	<b>7,684</b>	<b>10,100</b>	<b>12,032</b>	<b>14,612</b>	<b>17,788</b>
Total Loans	26	27	3	3	1	0	0	0
Deferred Tax Liabilities	139	102	176	209	234	299	299	299
<b>Capital Employed</b>	<b>2,885</b>	<b>3,550</b>	<b>5,576</b>	<b>7,897</b>	<b>10,335</b>	<b>12,331</b>	<b>14,912</b>	<b>18,087</b>
Gross Block	1,724	2,247	2,610	3,959	5,963	8,182	10,182	12,182
Less: Accum. Deprn.	454	591	752	1,001	1,362	1,821	2,326	2,869
<b>Net Fixed Assets</b>	<b>1,270</b>	<b>1,656</b>	<b>1,859</b>	<b>2,957</b>	<b>4,601</b>	<b>6,361</b>	<b>7,856</b>	<b>9,314</b>
Capital WIP	39	34	550	441	205	573	573	573
<b>Total Investments</b>	<b>752</b>	<b>1,330</b>	<b>2,321</b>	<b>1,911</b>	<b>3,531</b>	<b>3,394</b>	<b>3,394</b>	<b>3,394</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>1,213</b>	<b>1,279</b>	<b>1,870</b>	<b>3,938</b>	<b>3,181</b>	<b>3,635</b>	<b>5,041</b>	<b>7,257</b>
Inventory	370	346	529	881	1,088	1,237	1,481	1,861
Account Receivables	598	698	742	1,535	1,462	1,637	1,961	2,465
Cash and Bank Balance	95	93	157	747	125	106	814	1,945
Cash	94	92	93	579	125	104	812	1,943
Bank Balance	0	1	63	168	0	2	2	2
Loans and Advances	151	142	442	774	506	655	785	986
<b>Curr. Liability &amp; Prov.</b>	<b>390</b>	<b>749</b>	<b>1,023</b>	<b>1,350</b>	<b>1,184</b>	<b>1,632</b>	<b>1,952</b>	<b>2,451</b>
Account Payables	223	357	610	1,021	805	1,085	1,299	1,633
Other Current Liabilities	162	387	408	324	370	536	642	807
Provisions	4	5	5	5	8	12	12	12
<b>Net Current Assets</b>	<b>824</b>	<b>530</b>	<b>846</b>	<b>2,587</b>	<b>1,997</b>	<b>2,003</b>	<b>3,089</b>	<b>4,806</b>
<b>Appl. of Funds</b>	<b>2,885</b>	<b>3,550</b>	<b>5,576</b>	<b>7,897</b>	<b>10,334</b>	<b>12,331</b>	<b>14,912</b>	<b>18,087</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>9.2</b>	<b>13.1</b>	<b>18.7</b>	<b>21.5</b>	<b>27.8</b>	<b>23.0</b>	<b>27.9</b>	<b>34.4</b>
EPS Growth (%)	100.7	43.0	42.1	15.2	29.2	-17.3	21.6	23.0
Cash EPS	10.2	14.4	20.3	23.9	31.2	27.3	32.7	39.5
BV/Share	25.6	32.2	50.8	72.3	95.1	113.2	137.5	167.4
DPS	0.9	1.0	0.3	3.3	5.0	3.0	3.6	4.5
Payout (%)	9.5	7.4	1.7	15.1	18.0	13.1	13.1	13.1
<b>Valuation (x)</b>								
P/E	144.1	100.8	70.9	61.6	47.7	57.7	47.4	38.5
Cash P/E	129.5	91.8	65.3	55.5	42.5	48.5	40.5	33.6
P/BV	51.7	41.1	26.1	18.3	13.9	11.7	9.6	7.9
EV/Sales	35.8	33.5	27.4	20.4	15.0	17.8	14.8	11.7
EV/EBITDA	103.2	75.9	54.3	46.7	35.0	42.4	36.7	29.5
Dividend Yield (%)	0.1	0.1	0.0	0.2	0.4	0.2	0.3	0.3
FCF per share	4.3	10.3	10.2	-1.2	9.1	1.0	10.4	15.3
<b>Return Ratios (%)</b>								
RoE	42.5	45.5	45.0	34.9	33.2	22.1	22.3	22.5
RoCE	40.2	43.4	43.5	33.9	32.4	21.6	21.9	22.2
RoIC	51.4	64.2	77.3	56.1	48.5	29.0	28.7	29.8
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.4	2.9	2.9	2.8	2.5	1.4	1.3	1.4
Asset Turnover (x)	1.4	1.2	0.9	0.9	0.9	0.6	0.6	0.7
Inventory (Days)	34.4	30.1	37.7	47.0	42.4	57.0	57.0	57.0
Debtor (Days)	55.5	60.8	52.9	81.8	57.0	75.5	75.5	75.5
Creditor (Days)	20.7	31.1	43.4	54.4	31.4	50.0	50.0	50.0
<b>Leverage Ratio (x)</b>								
Current Ratio	3.1	1.7	1.8	2.9	2.7	2.2	2.6	3.0
Net Debt/Equity	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	-0.1

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	1,365	1,823	2,673	3,048	3,956	3,265	3,714	4,570
Depreciation	110	137	172	249	361	459	505	542
Interest Expenses	0	1	1	1	2	9	11	13
Others	-65	-67	-109	-126	-153	-313	0	0
Direct Taxes Paid	-355	-424	-659	-691	-945	-755	-746	-918
(Inc)/Dec in WC	-208	131	-149	-1,209	-428	-295	-377	-587
<b>CF from Operations</b>	<b>848</b>	<b>1,601</b>	<b>1,928</b>	<b>1,273</b>	<b>2,793</b>	<b>2,370</b>	<b>3,107</b>	<b>3,621</b>
(Inc)/Dec in FA	-388	-503	-840	-1,396	-1,831	-2,267	-2,000	-2,000
<b>Free Cash Flow</b>	<b>460</b>	<b>1,098</b>	<b>1,088</b>	<b>-123</b>	<b>962</b>	<b>103</b>	<b>1,107</b>	<b>1,621</b>
Change in Investments	-576	-563	-1,078	532	-929	380	0	0
Others	14	3	51	78	61	29	0	0
<b>CF from Investments</b>	<b>-950</b>	<b>-1,063</b>	<b>-1,867</b>	<b>-786</b>	<b>-2,698</b>	<b>-1,859</b>	<b>-2,000</b>	<b>-2,000</b>
Issue of Shares	0	0	0	0	9	9	0	0
Inc/(Dec) in Debt	20	1	-24	0	0	0	0	0
Interest Paid	0	-1	-1	-1	-1	-8	-11	-13
Dividend Paid	-128	-153	-33	0	-558	-531	-388	-477
Others	10	-386	-1	0	-1	-2	0	0
<b>CF from Fin. Activity</b>	<b>-98</b>	<b>-540</b>	<b>-59</b>	<b>-1</b>	<b>-550</b>	<b>-532</b>	<b>-399</b>	<b>-490</b>
<b>Inc/Dec of Cash</b>	<b>-200</b>	<b>-3</b>	<b>1</b>	<b>486</b>	<b>-455</b>	<b>-20</b>	<b>708</b>	<b>1,131</b>
Opening Balance	295	95	92	93	579	125	104	812
<b>Closing Balance</b>	<b>95</b>	<b>92</b>	<b>93</b>	<b>579</b>	<b>124</b>	<b>105</b>	<b>813</b>	<b>1,943</b>

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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

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