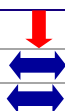


Clean Science & Technology

Estimate changes

TP change

Rating change



Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	146 / 1.8
52-Week Range (INR)	1620 / 1227
1, 6, 12 Rel. Per (%)	0/-12/-20
12M Avg Val (INR M)	182

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	9.4	7.9	10.7
EBITDA	4.0	3.3	4.4
PAT	3.0	2.3	3.2
EPS (INR)	27.8	22.0	29.8
EPS Gr. (%)	29.2	-20.8	35.3
BV/Sh.(INR)	95.1	113.1	137.5

Ratios

Net D:E	-0.0	-0.1	-0.1
RoE (%)	33.2	21.1	23.8
RoCE (%)	32.4	20.8	23.4
Payout (%)	18.0	18.0	18.0

Valuations

P/E (x)	49.5	62.5	46.2
P/BV (x)	14.5	12.2	10.0
EV/EBITDA (x)	36.3	44.6	32.9
Div. Yield (%)	0.4	0.3	0.4
FCF Yield (%)	0.7	0.8	0.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	75.0	75.0	78.5
DII	5.2	6.4	4.7
FII	6.0	5.8	4.4
Others	13.8	12.8	12.4

FII Includes depository receipts

CMP: INR1,374
TP: INR1,340 (-2%)
Neutral

Challenges continue to outweigh benefits

- Clean Science (CLEAN) missed our 2QFY24 EBITDA estimate, with a gross margin of 65.9% (vs. expected 59.2%). EBITDAM expanded to 41.3% (vs. 39.4% in 2QFY23) with moderation in RM prices and improved profitability from newer products. FMCG Chemicals grew QoQ in 2QFY24, while Performance Chemicals and Pharma & Agro Intermediates declined.
- Management highlighted that the over production in China led to aggressive price of products, which hurt realizations of CLEAN in 2Q. De-stocking continued in 2Q as demand in the US was unusually low. Improved sales volumes were offset by declining prices as the overall market was a buyers' market rather than a sellers' market.
- Management highlighted that sales from non-flagship products contributed 25% of overall revenues and expects it to be at a higher number with no capacity enhancements being implemented currently in the flagship products. TBHQ and DCC sales were higher with Guaiacol sales lower because of ongoing issues in the cough syrup market.
- The company announced a capex of INR300m (out of the INR2b) dedicated to a pharma intermediate molecule. This single product will have dedicated production line and is expected to generate INR1b in revenue, primarily catering to the Indian market (to come online in the next nine months). HALS expansion in CFCL is ongoing and on track to be commissioned by Mar'24 (earlier guidance of Dec'23), but would take 2-3 years to reach optimal utilization level.
- We anticipate continued weakness in performance of the company in the coming quarters. Consequently, we have revised down our revenue/EBITDA/PAT estimate by -11%/-10%/-10% for FY24. CLEAN is currently trading at 46x FY25E with EPS of INR 29.8 and 33x FY25E EV/EBITDA. Our target price is INR 1,340, based on 45x FY25E EPS. We reiterate our Neutral rating on the stock.

Miss led by lower sales and higher other expenses

- The company reported revenue below our estimates at INR1.8b (our est. of INR2b, down 27% YoY). It was adversely impacted by lower realization.
- **Gross margin stood at 65.9% (up 330bp YoY).** EBITDA margin was at 41.3% (up 190bp YoY). Moderation in RM prices and improved profit contribution from relatively newer products led to higher margin.
- EBITDA was at INR748m (our est. at INR805m, down 23% YoY). PAT came in at INR522m (our est. at INR564m, down 23% YoY)
- **For 1HFY24,** revenue stood at INR3.7b (down 23% YoY), EBITDA at INR1.5b (down 20%) while PAT stood at INR1.1b (down 15%)
 - EBITDAM stood at 40.9% (up 170bp YoY). 1HFY24 EBITDA stood at 42% of our full year estimate.

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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, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Segmental and other highlights

- Revenues from **Pharma Chemicals** stood at INR344m (down 26% YoY) with the same for **Performance Chemicals** at INR1.2b (down 26% YoY). Revenues from **FMCG Chemicals** was at INR272m (down 8% YoY).
- Revenue from the domestic segment stood at 35%, while the rest was exports. The share from Europe increased in overall revenues.
- CLEAN incurred a total capex of INR750m in 2QFY24 (INR1.7b in 1HFY24 and INR1.9b in FY23) with Clean Fino-Chem Ltd. construction work on track. Investment in subsidiary includes INR700m.

Valuation and view

- CLEAN is actively pursuing R&D and has entered the HALS series, which has an estimated global market size of USD 1b. Additionally, the company has declared a capex of INR 2b for new products- one product capex worth INR300m announced and the rest would be announced over the next couple of quarters.
- CLEAN is expected to generate INR 2.2b in FCF during FY24-25, 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 46x FY25E P/E with an EPS of INR 29.8 and 33x FY25E EV/EBITDA. Our target price is INR1,340, based on 45x FY25E EPS. We reiterate our Neutral rating on the stock.

Consolidated - Quarterly Snapshot

Y/E March									(INR m)			
	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Gross Sales	2,341	2,475	2,374	2,169	1,881	1,811	1,991	2,180	9,358	7,863	2,012	-10%
YoY Change (%)	60.0	61.6	31.3	6.0	-19.6	-26.8	-16.1	0.5	36.6	-16.0	-18.7	
Gross Margin (%)	61.0%	62.5%	67.2%	70.5%	61.4%	65.9%	65.3%	65.3%	65.2%	64.5%	59.2%	6.7%
EBITDA	913	975	1,082	1,051	761	748	837	909	4,021	3,255	805	-7%
Margin (%)	39.0	39.4	45.6	48.5	40.5	41.3	42.0	41.7	43.0	41.4	40.0	1.3
Depreciation	85	87	89	101	108	111	114	116	361	449	113	
Interest	0	0	1	1	1	3	2	2	2	8	1	
Other Income	18	28	126	126	134	60	65	67	298	326	62	
PBT before EO expense	847	916	1,118	1,075	787	695	786	857	3,956	3,124	754	-8%
PBT	847	916	1,118	1,075	787	695	786	857	3,956	3,124	754	-8%
Tax	218	237	280	270	198	173	198	218	1,005	786	190	
Rate (%)	25.7	25.8	25.1	25.1	25.1	24.9	25.2	25.4	25.4	25.2	25.2	
Reported PAT	629	679	838	805	589	522	588	639	2,952	2,338	564	-7%
YoY Change (%)	15.2	26.9	44.5	29.1	-6.3	-23.2	-29.9	-20.7	29.2	-20.8	-17.0	
Margin (%)	26.9	27.5	35.3	37.1	31.3	28.8	29.5	29.3	31.5	29.7	28.0	0.8
Segment-wise Revenue (INR m)												
Performance Chemicals	1,545	1,645	1,685	1,582	1,260	1,213	1,312	1,463	6,457	4,912	1,389	-13%
Pharma & Agro Intermediates	538	432	380	428	357	344	361	381	1,778	1,240	354	-3%
FMCG Chemicals	234	296	285	215	245	272	278	283	1,029	795	246	11%
Others	23	102	24	-56	19	-19	41	53	94	70	22	-185%



Management concall highlights

- Market continued to be a buyers' market rather than a sellers' market in 2Q.
- Overproduction in China has led to aggressive pricing of products.
 - This has adversely impacted the prices of the company's products
- Demand in the US was unusually low.
- Strong recovery in demand was not seen in 2Q
- Improved sales volumes were offset by weaker prices
 - The company experienced a 15% decline in realization, but there was an 11% growth in volume during the quarter
 - On a YoY basis, decline was 50% each because of volume and realization
 - Destocking continued to happen in 2Q.
- Sales of non-flagship contributed to 25% of overall revenues
 - TBHQ and DCC sales included in the above
 - Product and geographical diversification has started to reflect in the performance
- Limited impact of negative operating leverage
- Pharma lower sales of Guaiaicol because of ongoing issues in the cough syrup market
 - Would take another quarter for the demand to return to normal levels
- HALS770 and 701- progressive improvement in the products
 - 40-50tpd being sold right now (HALS770)
 - First European container order received today (HALS770) – the first Indian company to do so.
- HALS701: got first order from China
- The commercial production in the subsidiary is scheduled to commence in 4QFY24
 - Asset turn would be 2.5-2.8x and optimal utilization of 80% should be reached in 2-3 years
- State-of-the-art pilot facility in the next four weeks
- Capex of INR2b would be in Agro & Pharma Intermediates that was announced in the last quarter
 - The company is investing INR300m in capex for establishing a dedicated production line for a single product. This initiative is currently underway.
 - Would generate revenue of INR1b and would cater to the Indian market
 - Pharma product and has multiple applications (in pharma itself) and expected to come online in the next nine months
- There are still lingering issues in P-BQ
- Projects worth INR1.7b are expected to be announced in the next couple of quarters.
 - The company has INR 2.5b in cash reserves on its books.

2QFY24 story in charts

Exhibit 1: Revenue declined 27% YoY

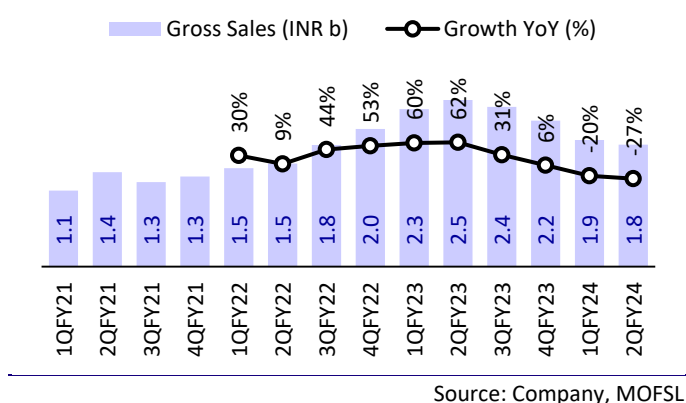


Exhibit 2: ...with GM and EBITDAM expanding

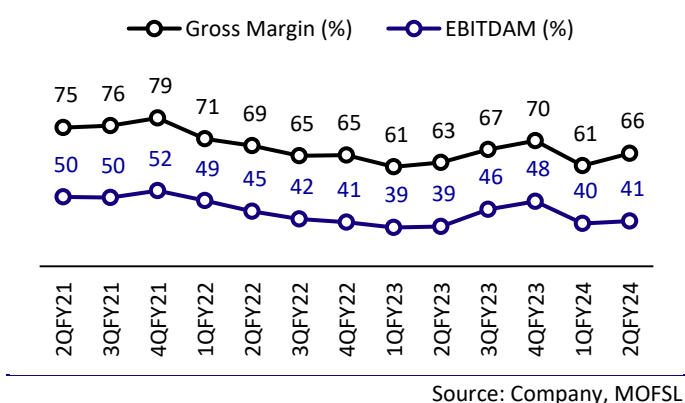


Exhibit 3: EBITDA declined 23% YoY

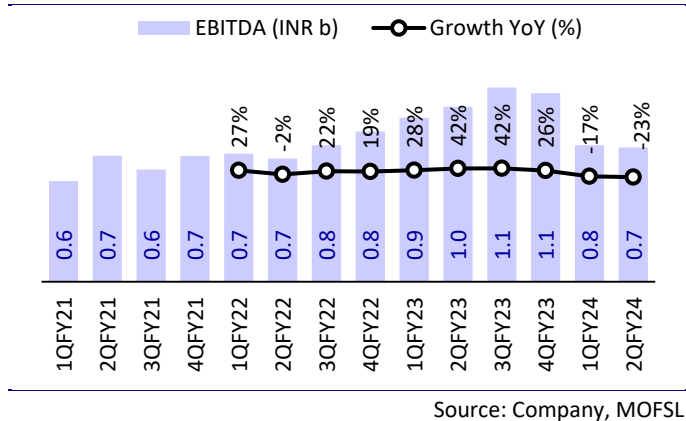


Exhibit 4: PAT declined 23% YoY

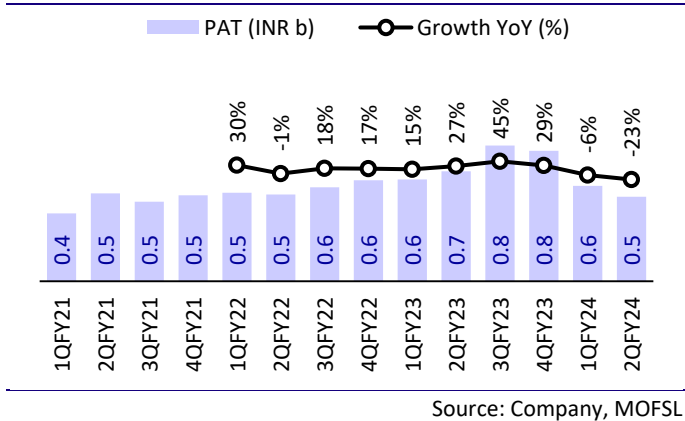


Exhibit 5: Revenue from all segments declined YoY

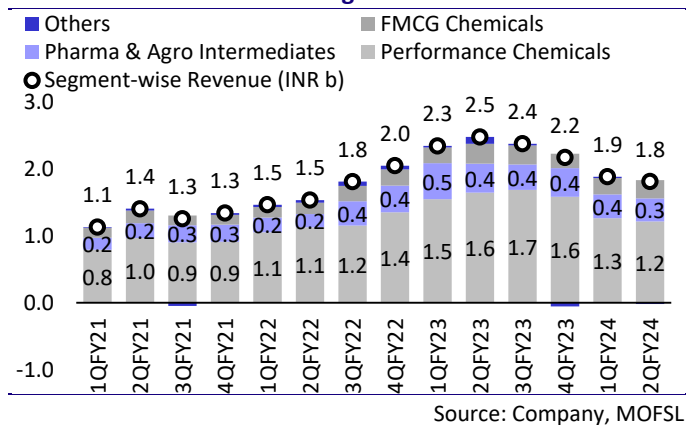


Exhibit 6: Contribution from segments remain fairly stable

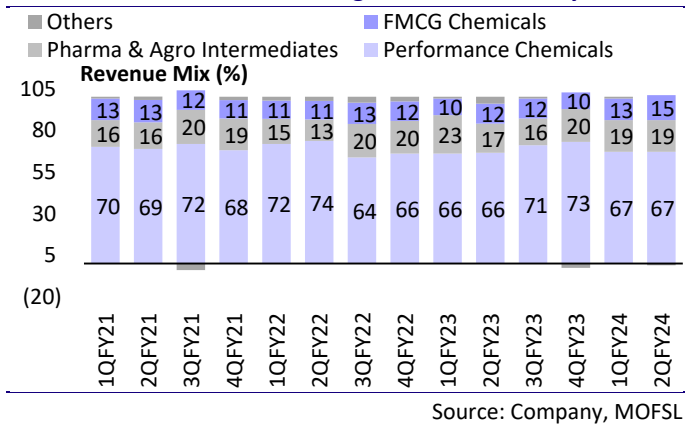
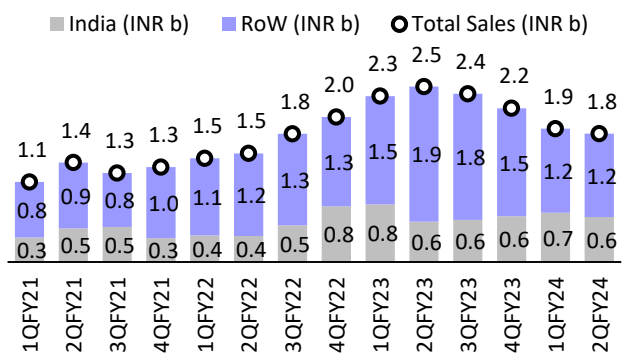
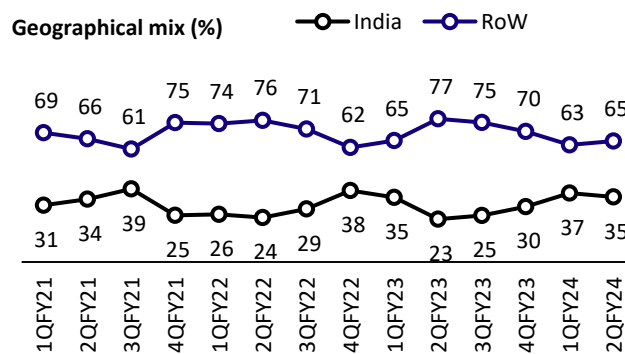
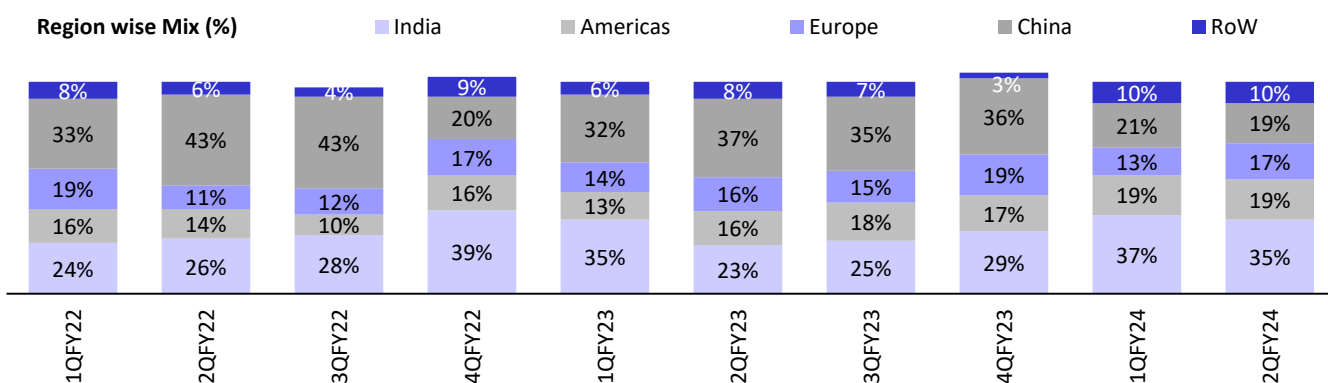


Exhibit 7: Domestic sales increased 11% YoY

Source: Company, MOFSL

Exhibit 8: Contribution from domestic market increased YoY

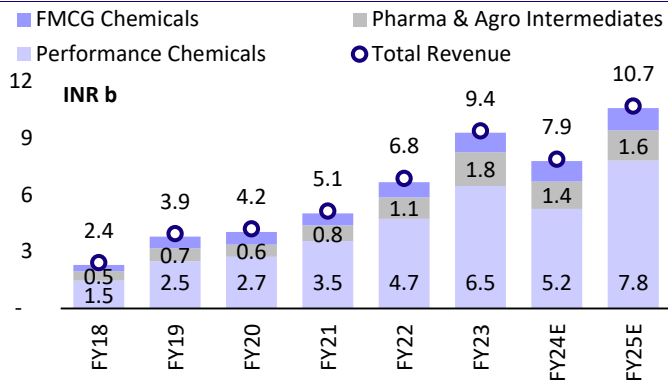
Source: Company, MOFSL

Exhibit 9: Contribution from Europe increased while the same declined from China

Source: Company, MOSL

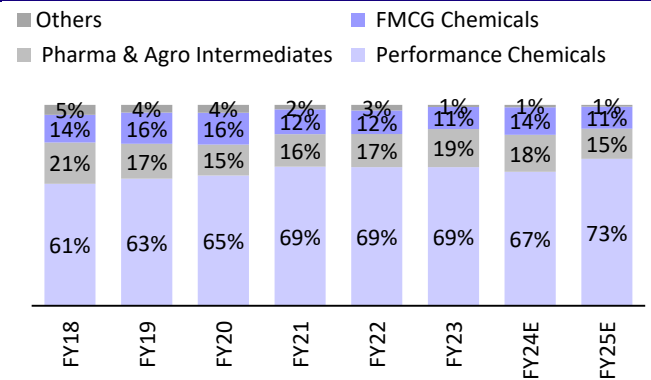
Financial story in charts

Exhibit 10: Expect 16% revenue CAGR over FY23-25...



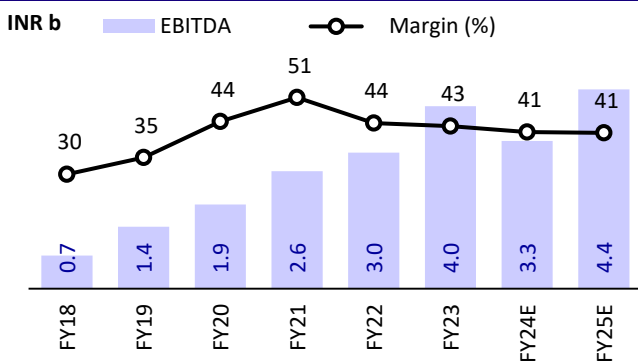
Source: Company, MOFSL

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



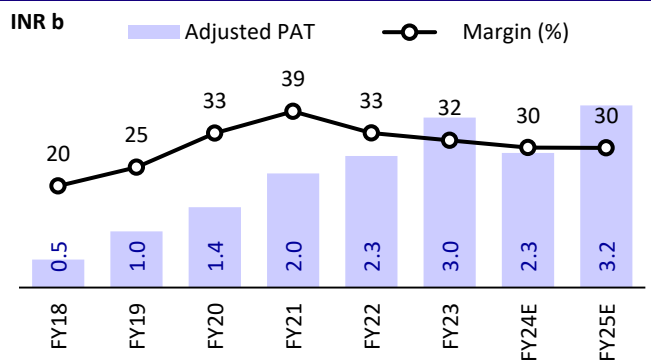
Source: Company, MOFSL

Exhibit 12: EBITDA margin to normalize with commissioning of HALS and capacity rampup of the same...



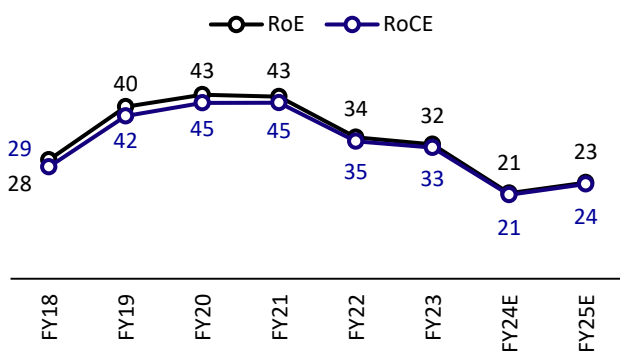
Source: Company, MOFSL

Exhibit 13: ...PAT margin also expected to normalize



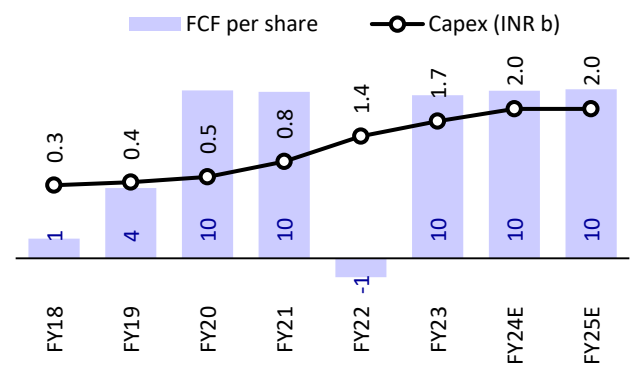
Source: Company, MOFSL

Exhibit 14: Return profile to moderate vs. FY21 due to capacity additions



Source: Company, MOFSL

Exhibit 15: ...and capex of INR4b (to be funded via internal accruals) over FY24-25



Source: Company, MOFSL

Financials and valuations

Consolidated - Financial Snapshot

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	2,411	3,933	4,193	5,124	6,849	9,358	7,863	10,662
Change (%)	26.5	63.1	6.6	22.2	33.7	36.6	-16.0	35.6
Gross Margin (%)	53.0	56.5	69.2	75.9	67.2	65.2	64.5	65.0
EBITDA	729	1,363	1,853	2,590	2,999	4,021	3,255	4,393
Margin (%)	30.3	34.7	44.2	50.5	43.8	43.0	41.4	41.2
Depreciation	76	110	137	172	249	361	449	494
EBIT	654	1,253	1,716	2,417	2,750	3,660	2,806	3,899
Int. and Finance Charges	1	0	1	1	1	2	8	9
Other Income	46	113	109	256	300	298	326	339
PBT bef. EO Exp.	699	1,365	1,823	2,673	3,048	3,956	3,124	4,228
PBT after EO Exp.	699	1,365	1,823	2,673	3,048	3,956	3,124	4,228
Total Tax	212	389	427	689	763	1,005	786	1,064
Tax Rate (%)	30.4	28.5	23.4	25.8	25.0	25.4	25.2	25.2
Reported PAT	487	977	1,396	1,984	2,285	2,952	2,338	3,164
Adjusted PAT	487	977	1,396	1,984	2,285	2,952	2,338	3,164
Change (%)	3.9	100.7	43.0	42.1	15.2	29.2	-20.8	35.3
Margin (%)	20.2	24.8	33.3	38.7	33.4	31.5	29.7	29.7

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	14	14	13	106	106	106	106	106
Total Reserves	1,861	2,706	3,408	5,290	7,578	9,994	11,911	14,505
Net Worth	1,875	2,721	3,421	5,397	7,684	10,100	12,017	14,612
Total Loans	1	26	27	3	3	1	1	1
Deferred Tax Liabilities	100	139	102	176	209	234	234	234
Capital Employed	1,976	2,885	3,550	5,576	7,897	10,335	12,252	14,846
Gross Block	1,375	1,724	2,247	2,610	3,959	5,963	7,065	8,617
Less: Accum. Deprn.	351	454	591	752	1,001	1,362	1,811	2,305
Net Fixed Assets	1,024	1,270	1,656	1,859	2,957	4,601	5,254	6,311
Capital WIP	15	39	34	550	441	205	1,102	1,551
Total Investments	181	752	1,330	2,321	1,911	3,531	3,531	3,531
Curr. Assets, Loans&Adv.	1,137	1,213	1,279	1,870	3,938	3,181	3,360	4,800
Inventory	290	370	346	529	881	1,088	914	1,240
Account Receivables	397	598	698	742	1,535	1,462	1,228	1,666
Cash and Bank Balance	295	95	93	157	747	125	792	1,318
Cash	0	94	92	93	579	125	792	1,318
Bank Balance	295	0	1	63	168	0	0	0
Loans and Advances	155	151	142	442	774	506	425	577
Curr. Liability & Prov.	380	390	749	1,023	1,350	1,184	996	1,347
Account Payables	264	223	357	610	1,021	805	677	917
Other Current Liabilities	113	162	387	408	324	370	311	422
Provisions	3	4	5	5	5	8	8	8
Net Current Assets	756	824	530	846	2,587	1,997	2,364	3,453
Appl. of Funds	1,976	2,885	3,550	5,576	7,897	10,334	12,252	14,846

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	4.6	9.2	13.1	18.7	21.5	27.8	22.0	29.8
EPS Growth (%)	3.9	100.7	43.0	42.1	15.2	29.2	-20.8	35.3
Cash EPS	5.3	10.2	14.4	20.3	23.9	31.2	26.2	34.4
BV/Share	17.7	25.6	32.2	50.8	72.3	95.1	113.1	137.5
DPS	0.2	0.9	1.0	0.3	3.3	5.0	4.0	5.4
Payout (%)	4.7	9.5	7.4	1.7	15.1	18.0	18.0	18.0
Valuation (x)								
P/E	300.0	149.5	104.6	73.6	63.9	49.5	62.5	46.2
Cash P/E	259.6	134.3	95.2	67.7	57.6	44.1	52.4	39.9
P/BV	77.9	53.7	42.7	27.1	19.0	14.5	12.2	10.0
EV/Sales	60.4	37.1	34.8	28.5	21.2	15.6	18.5	13.6
EV/EBITDA	199.8	107.1	78.8	56.3	48.4	36.3	44.6	32.9
Dividend Yield (%)	0.0	0.1	0.1	0.0	0.2	0.4	0.3	0.4
FCF per share	1.2	4.3	10.3	10.2	-1.2	10.0	10.3	10.4
Return Ratios (%)								
RoE	29.4	42.5	45.5	45.0	34.9	33.2	21.1	23.8
RoCE	27.6	40.2	43.4	43.5	33.9	32.4	20.8	23.4
RoIC	34.6	51.4	64.2	77.3	56.1	48.5	31.6	38.2
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	3.4	2.9	2.9	2.8	2.5	1.6	1.8
Asset Turnover (x)	1.2	1.4	1.2	0.9	0.9	0.9	0.6	0.7
Inventory (Days)	44.0	34.4	30.1	37.7	47.0	42.4	42.4	42.4
Debtor (Days)	60.0	55.5	60.8	52.9	81.8	57.0	57.0	57.0
Creditor (Days)	40.0	20.7	31.1	43.4	54.4	31.4	31.4	31.4
Leverage Ratio (x)								
Current Ratio	3.0	3.1	1.7	1.8	2.9	2.7	3.4	3.6
Net Debt/Equity	-0.2	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	699	1,365	1,823	2,673	3,048	3,956	3,124	4,228
Depreciation	76	110	137	172	249	361	449	494
Interest Expenses	1	0	1	1	1	2	8	9
Others	-18	-65	-67	-109	-126	-153	0	0
Direct Taxes Paid	-219	-355	-424	-659	-691	-945	-786	-1,064
(Inc)/Dec in WC	-89	-208	131	-149	-1,209	-428	300	-562
CF from Operations	449	848	1,601	1,928	1,273	2,793	3,096	3,105
(Inc)/Dec in FA	-320	-388	-503	-840	-1,396	-1,727	-2,000	-2,000
Free Cash Flow	129	460	1,098	1,088	-123	1,067	1,096	1,105
Change in Investments	144	-576	-563	-1,078	532	-1,410	0	0
Others	0	14	3	51	78	439	0	0
CF from Investments	-175	-950	-1,063	-1,867	-786	-2,698	-2,000	-2,000
Issue of Shares	0	0	0	0	0	9	0	0
Inc/(Dec) in Debt	1	20	1	-24	0	0	0	0
Interest Paid	-1	0	-1	-1	-1	-1	-8	-9
Dividend Paid	-51	-128	-153	-33	0	-558	-421	-569
Others	6	10	-386	-1	0	0	0	0
CF from Fin. Activity	-44	-98	-540	-59	-1	-550	-429	-579
Inc/Dec of Cash	230	-200	-3	1	486	-454	667	526
Opening Balance	65	295	95	92	93	579	125	792
Closing Balance	294	95	92	93	579	125	792	1,318

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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