

Clean Science and Technology

Balancing revenue stream

Clean Science and Technology (CSTL) is launching two performance chemicals and a pharma intermediary over the next year. It has introduced four new Hindered Amine Light Stabilisers (HALS) in 1HFY25. The ramp-up in these new products not only drives revenue but also mitigates product concentration risk for the company. CSTL has an import substitution opportunity in HALS. CSTL's return ratios during FY19-23 were best in class (RoE 33-45% and RoCE 32-44%); EPS CAGR over FY19-23 was 32%. The stock was trading at 1-year forward P/E multiple of 55x. RoE/RoCE fell to 22/21% in FY24 owing to lower asset turnover and margin contraction. We expect RoE to remain between 22-25% and EPS CAGR of 20% over FY24-29E. The margin of HALS and upcoming products is much lower than the existing product basket. The company is investing INR3.3bn (~40% of FY24 gross block) over FY25-26E, which will keep asset turnover lower. We believe the valuation is contextually high at 45/37/33x FY25E/26E/27E EPS. We maintain SELL on Clean Science and Technology (CSTL) with a price target of INR 1,106.

Expanding HALS basket but pricing pressure persists

- In HALS 770, the company has rapidly gained domestic market share and currently its market share has reached 50-60%. During Q2FY25 company stabilised another plant of HALS 770 in its subsidiary Clean Fino Chem Ltd (CFC). It has started commercial dispatch of HALS 622, HALS 944, HALS 783, and HALS 119 as well. Now, the company has a wider range of product portfolio in HALS to offer to its customers. The company is facing challenges owing to first-time entry into new products. Besides, customer approval process taking time which has resulted in optimal utilisation of plant at 10-15% in 1HFY25.
- In H1FY25, CSTL's HALS production improved to 140 tonnes/month from 40 tonnes/month in Q3FY24. We estimate that revenue from HALS in 1HFY25 was INR 400mn, while cumulative production was 800 tonnes. HALS exports were approximately INR 80mn (20% of HALS revenue), and export volumes were 230 tonnes during 1HFY25. The export was primarily driven by HALS 770 and supported by HALS 701 in the latter part of H1FY25. Additionally, the company also started the export of HALS 622 and HALS 944 in 1HFY25.
- During H1FY25, total HALS imports to India were approximately 2,000 tonnes (compared to approximately 1,700 tonnes in 1HFY24). The majority of HALS are imported from China and Germany. India mainly imports HALS 770 and HALS 944. The company is tapping into this huge import substitution opportunity. However, pricing pressure persisted in both of these HALS products. The prices of these two HALS declined by approximately 16% YoY in 1HFY25 compared to 1HFY24. Competition from global suppliers of HALS 770 and 944 is expected to remain in the ensuing quarters. We expect the realisation of HALS 770/701/622 to remain in the range of INR 350-450 per kg, while HALS 944 is expected to have a realisation in the range of INR 750-800 per kg.
- We expect that the launch of a series of HALS will bring balance to revenue streams. Currently, the revenue contribution of MEHQ is approximately 40%. Margins in HALS are much lower than in MEHQ, which will lower the overall margins for the company. We expect EBITDA margins to decrease from 37.7% in Q2FY25 to ~34% in FY29.

SELL

CMP (as on 19 Dec 2024)	INR1,482
Target Price	INR1,106
NIFTY	23,952

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,037	INR 1,106
EPS %	FY25E 1.8%	FY26E -1.3%

KEY STOCK DATA

Bloomberg code	CLEAN IN
No. of Shares (mn)	106
MCap (INR bn) / (\$ mn)	157/1,851
6m avg traded value (INR mn)	363
52 Week high / low	INR 1,690/1,243

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.4)	6.3	(2.2)
Relative (%)	0.4	3.9	(13.1)

SHAREHOLDING PATTERN (%)

	June-24	Sept-24
Promoters	74.98	74.97
FIs & Local MFs	4.55	4.77
FPIs	6.06	5.83
Public & Others	14.42	14.43
Pledged Shares	0	0.00

Source: BSE

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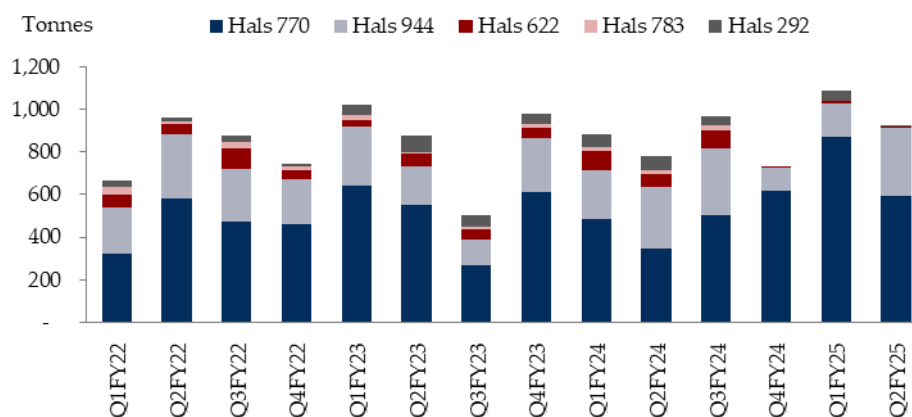
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Exhibit-1: Applications of HALS

HALS Name	End-user industries
HALS 701	Water Treatment Chemicals
HALS 770	Industrial, solvent borne, adhesive and sealant
HALS 944	Automotive, industrial, solvent borne, adhesive, sealant, powder coating
HALS 622	Industrial, solvent borne, adhesive, sealant, powder coating
HALS 119	Automotive, industrial, solvent borne, powder coating
HALS 783	Industrial, powder coating
HALS 292	Automotive, industrial, printing & packaging, solvent borne, wood industry, construction industry
HALS 111	Automotive, industrial, solvent borne, powder coating
HALS 2020	Adhesive, sealant
HALS 791	Automotive
HALS 123	Automotive, industrial, printing & packaging, solvent borne, wood industry, construction industry

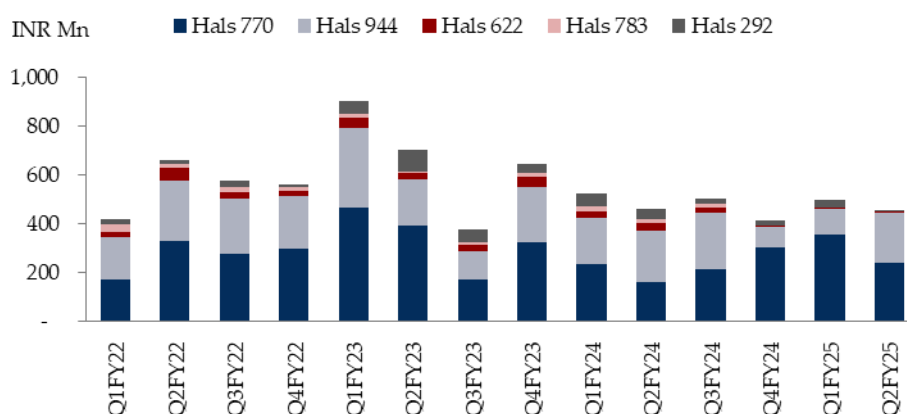
Source: Company, HSIE Research

Exhibit-2: Imports of HALS 770 has increased in H1FY25



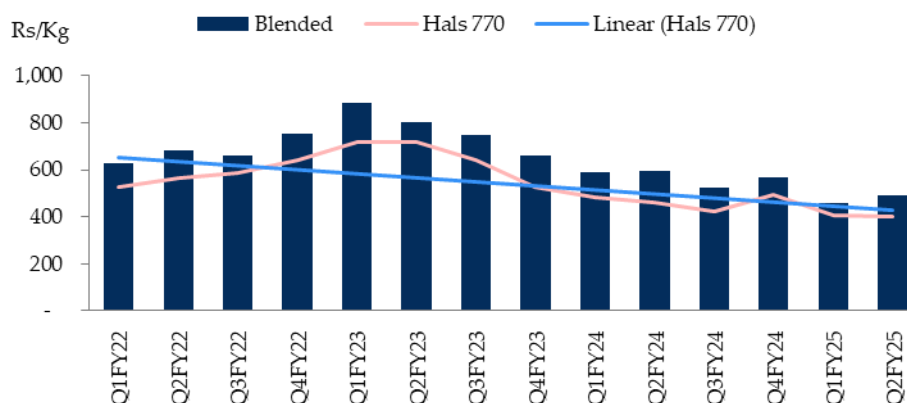
Source: Volza.com, HSIE Research

Exhibit-3: Quarterly HALS* import trend in INR mn



Source: HSIE Research, Volza.com

*For HALS 770,944,622,783,and 292

Exhibit-4: Realisations of imported HALS* have fallen 21% YOY in H2FY25

Source: Volza.com, HSIE Research,
 *For HALS 770,944,622,783,and 292

INR3.3bn capex to drive growth for non-HALS business

CSL will incur a capex of INR 3.3bn spread over FY25 to FY27. This capex will be incurred by its subsidiary, CFC. Capex will be focused on two performance chemical molecules and one pharma intermediates.

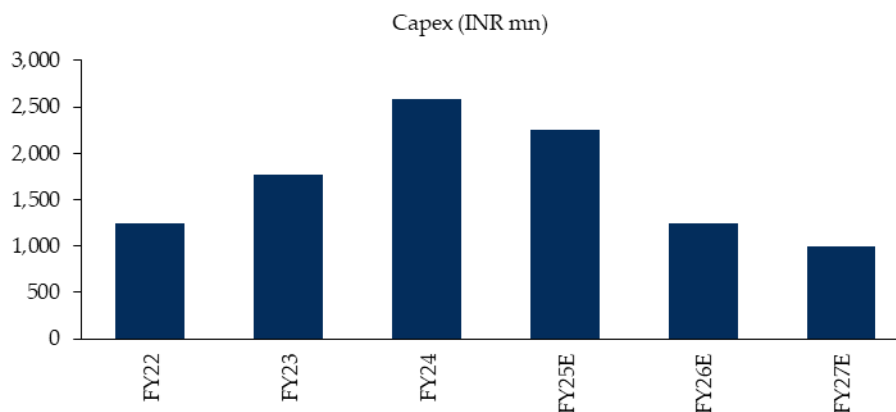
During FY25, it will incur a capex of INR 2.8bn of which a. INR 0.3bn will be for the pharma intermediary b. INR 1.5bn for performance chemicals c. INR 1bn for another performance chemical water treatment chemical production block, which will be commissioned in FY26. The company will incur a capex of INR 0.5bn in FY26, which will be for the remaining part of the capex on water treatment chemical.

(a) Pharma intermediate: CFC will incur a capex of INR 0.3bn. It has started construction of the facility and it is expected to commercialise in H2FY25. It has a revenue potential of INR 0.8-0.9bn at peak capacity utilisation. It will be sold primarily in the domestic market with import substitution opportunity. Currently, the chemical is being imported from China. It is primarily used in antiretroviral therapies.

We expect revenue from pharma intermediate molecule to accrue from Q4FY25, subject to product validation and approvals from customers. Additionally, the company has another project in the pipeline for pharma intermediate, which is currently under the pilot stage.

(b) Performance chemical: CFC designed a novel process for organically designed performance chemical molecules which has led to a positive outcome in pilot run. The company will incur a capex of INR 1.5bn for the production block. It has application as stabiliser, inhibitor. CFC will commercialise this plant in Q2FY26. It has a revenue potential of ~INR 3.5- 4bn at peak plant capacity utilisation.

CFC will invest further INR 1.5bn on the water chemical performance chemical. It will commercialise this plant in Q4FY26 and it has revenue potential of ~INR 3bn at peak utilisation.

Exhibit-5: Capex of INR 3.3bn spread over FY25-27

Source: HSIE Research

Revenue, EBITDA to grow at ~26/24% CAGR

We expect revenue to increase by a CAGR of ~26.5% from INR 7,915mn in FY24 to INR 25,663mn in FY29. The growth will be driven by the existing business and the addition of new molecules into the subsidiary, CFC. The contribution from total HALS and upcoming new molecules (2 performance chemicals and 1 pharma intermediate) in the business is expected to reach 31% of revenue by FY29.

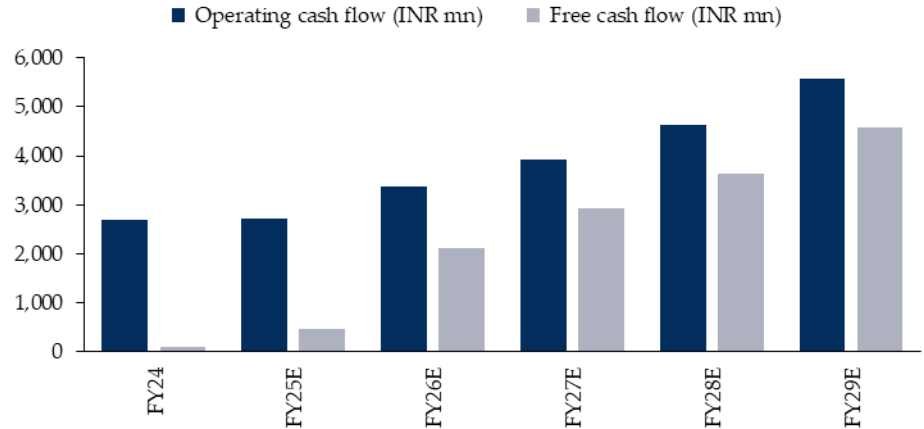
The performance chemicals segment is expected to grow from INR 5,018mn to INR 16,349mn from FY24 to FY29, with a CAGR of ~27%, driven by growth in MEHQ, BHA, TBHQ, and the addition of two new performance chemicals. Pharma and agro intermediates are expected to increase from INR 1,504mn to INR 3,650mn over FY24-29, with a CAGR of ~19.4%, led by growth in Guaiacol, DCC, and BHQ, and the addition of a new pharma molecule.

Revenue from FMCG chemicals is expected to grow from INR 1,029mn to INR 2,160mn, with a CAGR of ~16%. We estimate that the revenue from HALS was INR 285mn in FY24. It is expected to reach INR 3,504mn in FY29, with a CAGR of ~65%, due to the addition of new HALS in the product basket.

We expect EBITDA to increase from INR 3,321mn in FY24 to INR 8,760mn in FY29. EBITDA margin is likely to reduce by 782 bps, from 42% in FY24 to 34% in FY29. The reduction in margin is due to the increase in contribution from lower-margin new molecules. We expect RoE to increase during FY24-FY26, owing to an increase in asset turnover driven by revenue growth in HALS, while RoE will decrease during FY26-29 as margins reduce.

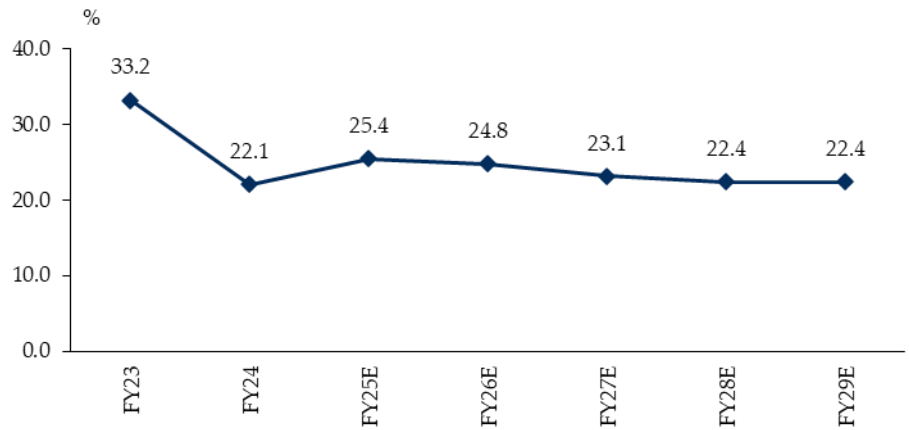
The company will incur capex of INR 3.3bn spread over FY25-27. The capex will be funded through internal accruals. We expect CSTL to generate OCF and FCF of ~INR 20.3bn and ~INR 13.7bn, spread over FY25-29, which marks the company's prudent financial management.

Exhibit-6: OCF and FCF of ~INR 20.3bn and ~INR 13.7bn spread over FY25 -29



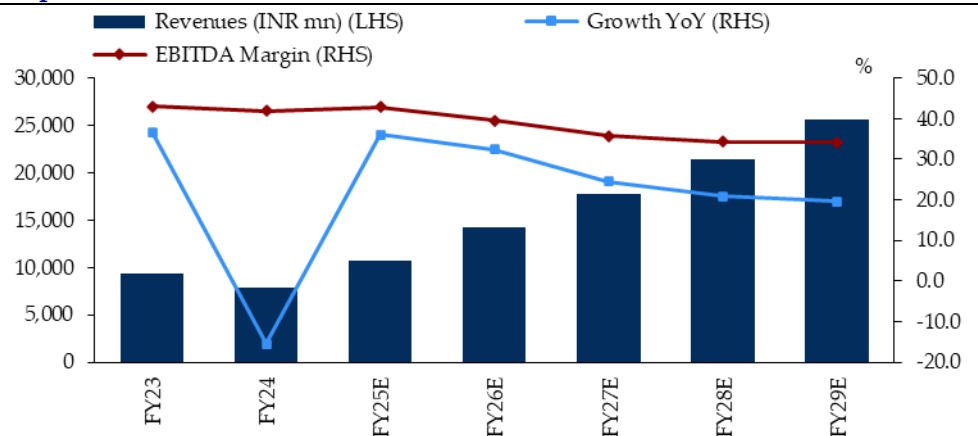
Source: HSIE Research

Exhibit-7: ROE to remain above 25% until FY25, then fall 300bps by FY29



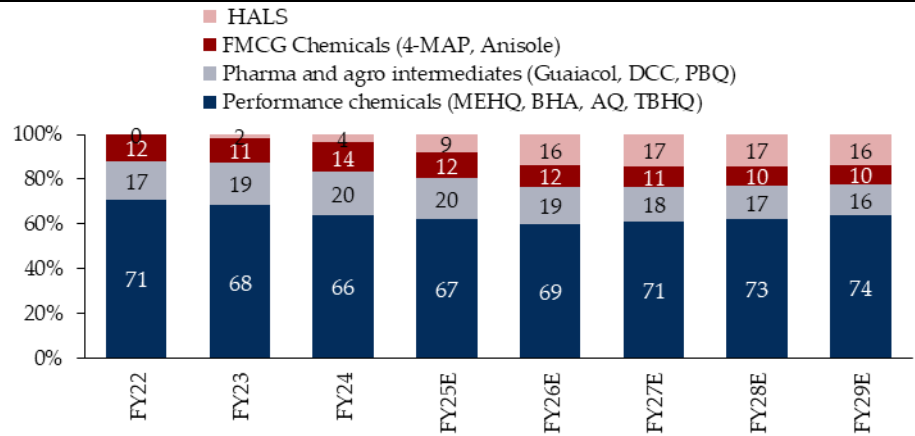
Source: HSIE Research

Exhibit-8: Revenue CAGR of ~26.5% over FY24-29E while EBITDA margin falls by 781bps



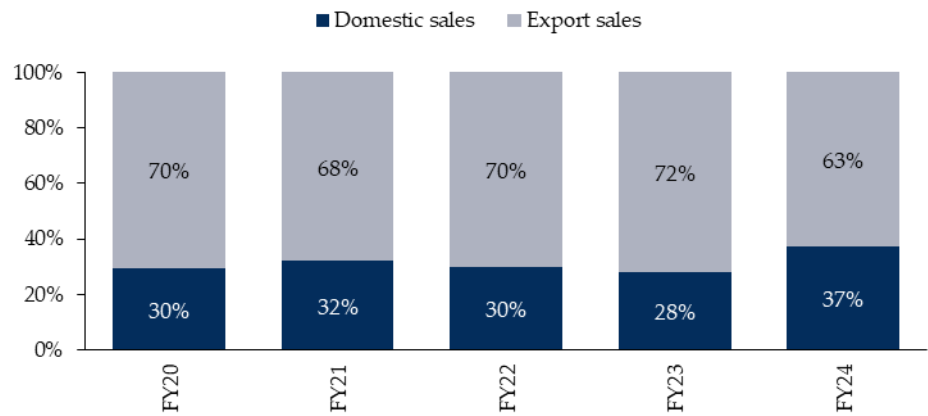
Source: HSIE Research

Exhibit-9: Increased contribution from new molecules*



Source: HSIE Research; *HALS, Two Performance chemicals, One Pharma Intermediate

Exhibit-10: Export domestic revenue break-up trend



Source: HSIE Research

Financial summary (consolidated)

INR mn	2QFY25	1QFY25	QoQ (%)	2QFY24	YoY (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	2,381	2,240	6.3	1,811	31.5	6,849	9,358	7,915	10,764	14,253
EBITDA	897	947	(5.3)	748	19.8	2,999	4,021	3,321	4,607	5,627
APAT	587	659	(10.9)	522	12.6	2,285	2,952	2,440	3,394	4,030
AEPS (INR)	5.5	6.2	(10.9)	4.9	12.6	21.5	27.8	23.0	31.9	37.9
P/E (x)						68.9	53.3	64.5	46.4	39.1
EV/EBITDA(x)						52.3	39.1	47.4	34.1	27.6
RoE (%)						34.9	33.2	22.1	25.4	24.8

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	4,621	4,607	(0.3)	5,699	5,627	(1.3)
Adj. EPS (INR/sh)	31.4	31.9	1.8	38.4	37.9	(1.3)

Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Revenues	6,849	9,358	7,915	10,764	14,253	17,739	21,445	25,663
<i>Growth %</i>	33.7	36.6	(15.4)	36.0	32.4	24.5	20.9	19.7
Raw Material	2,247	3,260	2,771	3,983	5,701	7,628	9,650	11,677
Employee Cost	345	452	487	560	644	740	800	864
Other Expenses	1,258	1,625	1,337	1,615	2,280	3,016	3,646	4,363
EBITDA	2,999	4,021	3,321	4,607	5,627	6,355	7,350	8,760
<i>EBITDA Margin (%)</i>	43.8	43.0	42.0	42.8	39.5	35.8	34.3	34.1
<i>EBITDA Growth %</i>	15.8	34.1	(17.4)	38.7	22.2	12.9	15.6	19.2
Depreciation	249	361	459	484	662	724	781	838
EBIT	2,750	3,660	2,861	4,123	4,966	5,631	6,568	7,922
Other Income (Including EO Items)	300	298	413	421	430	438	447	456
Interest	1	2	9	3	3	3	3	3
PBT	3,048	3,956	3,265	4,541	5,393	6,067	7,013	8,375
Tax	763	1,005	825	1,147	1,362	1,533	1,771	2,116
PAT	2,285	2,952	2,440	3,394	4,030	4,535	5,241	6,260
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	2,285	2,952	2,440	3,394	4,030	4,535	5,241	6,260
Share from associates	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Consolidated APAT	2,285	2,952	2,440	3,394	4,030	4,535	5,241	6,260
<i>Consolidated APAT Growth (%)</i>	15.2	29.2	(17.3)	39.1	18.8	12.5	15.6	19.4
AEPS	21.5	27.8	23.0	31.9	37.9	42.7	49.3	58.9
<i>AEPS Growth %</i>	15.2	29.2	(17.3)	39.1	18.8	12.5	15.6	19.4

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
SOURCES OF FUNDS								
Share Capital	106	106	106	106	106	106	106	106
Reserves And Surplus	7,578	9,994	11,925	14,581	17,734	21,281	25,381	30,279
Total Equity	7,684	10,100	12,032	14,687	17,840	21,387	25,488	30,385
Minority Interest	-	-	-	-	-	-	-	-
Long-term Debt	3	-	-	-	-	-	-	-
Short-term Debt	1	1	-	1	1	1	1	1
Total Debt	3	1	-	1	1	1	1	1
Deferred Tax Liability	209	234	299	299	299	299	299	299
Long-term Provision and others	1	29	32	32	32	32	32	32
TOTAL SOURCES OF FUNDS	7,898	10,364	12,363	15,019	18,172	21,719	25,819	30,717
APPLICATION OF FUNDS								
Net Block	2,957	4,601	6,361	6,320	8,820	9,198	9,442	9,610
Capital WIP	441	205	573	2,380	469	367	342	335
Other non-current assets	145	154	62	62	62	62	62	62
Non-current Investments	-	255	370	370	370	370	370	370
Total Non-current assets	3,544	5,215	7,366	9,132	9,720	9,997	10,215	10,377
Inventories	881	1,088	1,237	1,682	2,227	2,771	3,350	4,009
Debtors	1,535	1,462	1,637	2,227	2,948	3,670	4,436	5,309
Cash and Cash Equivalents	747	125	106	260	1,940	4,325	7,267	10,944
Other Current Assets	2,540	3,629	3,614	3,722	3,834	3,949	4,067	4,190
Total Current Assets	5,703	6,303	6,594	7,890	10,949	14,715	19,121	24,451
Creditors	1,021	805	1,085	1,475	1,953	2,431	2,939	3,517
Other Current Liabilities & Provns	327	349	514	529	545	561	578	595
Total Current Liabilities	1,348	1,155	1,598	2,004	2,498	2,992	3,517	4,112
Net Current Assets	4,355	5,149	4,996	5,886	8,451	11,723	15,604	20,339
TOTAL APPLICATION OF FUNDS	7,898	10,364	12,362	15,019	18,172	21,719	25,819	30,717

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Reported PBT	3,048	3,956	3,265	4,541	5,393	6,067	7,013	8,375
Non-operating & EO Items	(300)	(298)	(413)	(421)	(430)	(438)	(447)	(456)
Interest Expenses	1	2	9	3	3	3	3	3
Depreciation	249	361	459	484	662	724	781	838
Working Capital Change	(833)	(1,416)	134	(737)	(885)	(887)	(940)	(1,058)
Tax Paid	(729)	(980)	(760)	(1,147)	(1,362)	(1,533)	(1,771)	(2,116)
OPERATING CASH FLOW (a)	1,436	1,625	2,696	2,723	3,381	3,936	4,639	5,586
Capex	(1,239)	(1,768)	(2,588)	(2,250)	(1,250)	(1,000)	(1,000)	(1,000)
Free Cash Flow (FCF)	197	(143)	108	473	2,131	2,936	3,639	4,586
Investments	-	(255)	(115)	-	-	-	-	-
Non-operating Income	300	298	413	421	430	438	447	456
Others	95	(9)	92	-	-	-	-	-
INVESTING CASH FLOW (b)	(845)	(1,734)	(2,198)	(1,829)	(820)	(562)	(553)	(544)
Debt Issuance/(Repaid)	-	(3)	(1)	1	-	-	-	-
Interest Expenses	(1)	(2)	(9)	(3)	(3)	(3)	(3)	(3)
FCFE	195	(148)	98	471	2,128	2,933	3,636	4,584
Share Capital Issuance	-	0	-	-	-	-	-	-
Dividend	-	(531)	(531)	(739)	(877)	(987)	(1,141)	(1,363)
Others	0	23	25	(0)	0	0	0	(0)
FINANCING CASH FLOW (c)	(1)	(513)	(516)	(741)	(880)	(990)	(1,143)	(1,365)
NET CASH FLOW (a+b+c)	590	(622)	(18)	153	1,680	2,384	2,942	3,677
EO Items, Others								
Closing Cash & Equivalents	747	125	107	259	1,940	4,325	7,267	10,944

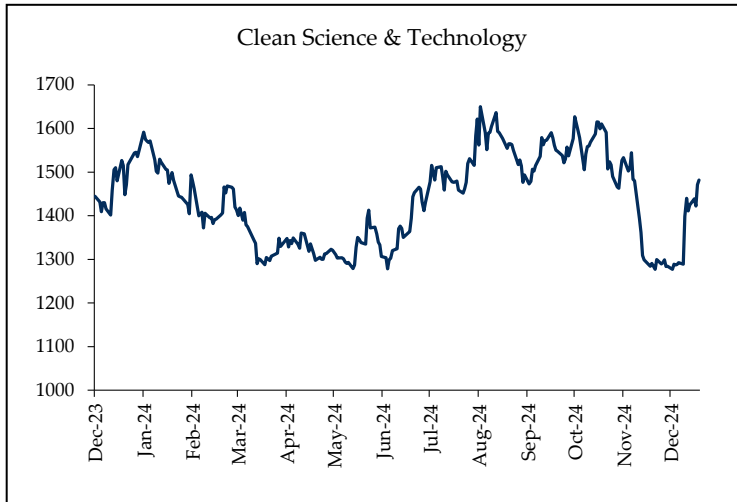
Source: Company, HSIE Research

KEY RATIOS

	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
PROFITABILITY %								
Gross Margin	67.2	65.2	65.0	63.0	60.0	57.0	55.0	54.5
EBITDA Margin	43.8	43.0	42.0	42.8	39.5	35.8	34.3	34.1
EBIT Margin	40.1	39.1	36.2	38.3	34.8	31.7	30.6	30.9
APAT Margin	33.4	31.5	30.8	32	28	26	24	24.4
RoE	34.9	33.2	22.1	25.41	24.78	23	22	22.4
RoIC	35.6	33.1	20.3	26	27	26	28	32.1
RoCE	33.9	32.3	21.5	25	24	23	22	22.2
EFFICIENCY								
Tax Rate %	25.0	25.4	25.3	25	25	25	25	25.3
Fixed Asset Turnover (x)	2.1	1.9	1.1	1.3	1.4	1.4	1.6	1.8
Inventory (days)	47	42	57	57	57	57	57	57
Debtors (days)	82	57	76	76	76	76	76	76
Other Current Assets (days)	135	142	167	126	98	81	69	60
Payables (days)	166	90	143	135	125	116	111	110
Other Current Liab & Provns (days)	17	14	24	18	14	12	10	8
Cash Conversion Cycle (days)	81	137	133	106	92	86	81	74
Net Debt/EBITDA (x)	(0.2)	(0.0)	(0.0)	(0)	(0)	(1)	(1)	(1.2)
Net D/E	(0.1)	(0.0)	(0.0)	(0)	(0)	(0)	(0)	(0.4)
Interest Coverage	1,870.5	1,876.9	309.0	1,641	1,976	2,241	2,614	3,153.1
PER SHARE DATA (INR)								
EPS	21.5	27.8	23.0	32	38	43	49	58.9
CEPS	23.9	31.2	27.3	37	44	49	57	66.8
Dividend	3.3	5.0	5.0	7	8	9	11	12.8
Book Value	72.3	95.1	113.2	138	168	201	240	286.0
VALUATION								
P/E (x)	68.9	53.3	64.5	46	39	35	30	25.2
P/Cash EPS (x)	62.1	47.5	54.3	41	34	30	26	22.2
P/BV (x)	20.5	15.6	13.1	11	9	7	6	5.2
EV/EBITDA (x)	52.3	39.1	47.4	34	28	24	20	16.7
EV/Revenue (x)	22.9	16.8	19.9	14.6	10.9	8.6	7.0	5.7
Dividend Yield (%)	0.2	0.3	0.3	0.5	0.6	0.6	0.7	0.9
OCF/EV (%)	0.9	1.0	1.7	1.7	2.2	2.6	3.1	3.8
FCFE/EV (%)	0.1	(0.1)	0.1	0.3	1.4	1.9	2.4	3.1
FCFE/M Cap (%)	0.1	(0.1)	0.1	0.3	1.4	1.9	2.3	2.9

Source: Company, HSIE Research

1 Yr Price movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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