

About Clean Science & Technology:

Clean Science & Technology Ltd. has established itself as a pioneer in the specialty chemicals sector, with a strong commitment to sustainability and innovation. The company's focus on eco-friendly solutions has made it a trusted partner across diverse industries, including performance chemicals, pharmaceuticals, agrochemicals, and FMCG chemicals. By leveraging its deep expertise in process innovation, Clean Science has developed a robust portfolio of products that meet the highest standards of quality and environmental responsibility. The company's global presence, with exports constituting 70% of its revenues, underscores its success in reaching international markets, including key regions like China. Through full vertical integration, Clean Science not only ensures operational efficiency but also strengthens its ability to manage costs and supply chain risks. This strategic advantage is reflected in the company's financial performance, consistently delivering best-in-class EBITDA margins exceeding 40%, positioning it as an industry leader.

➤ What We Like?

Market Leadership in Key Products: Clean Science & Technology has established itself as a dominant player in the specialty chemicals industry, particularly in the production of key active ingredients. With a portfolio of 11 major products, the company holds the number 1 or 2 position in both Indian and global markets for each of these products.

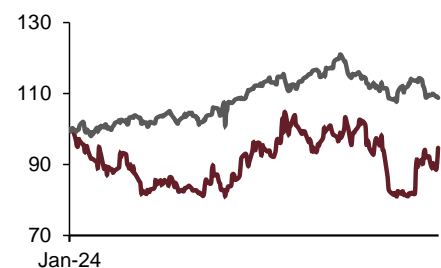
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	1,800	21

Market data

Current price	Rs	1,491
Market Cap (Rs.Bn)	(Rs Bn)	158
Market Cap (US\$ Mn)	(US\$ Mn)	1,851
Face Value	Rs	1
52 Weeks High/Low	Rs	1690 / 1243
Average Daily Volume	('000)	109
BSE Code		512,070
Bloomberg		CLEAN.IN

Source: Bloomberg

One Year Performance



— Clean Science & Technology Ltd — Nifty Index
Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	75	75
Public	25	25
Others	-	-
Total	100	100

Source: BSE

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Key Products of CSTL

Product	Usage	Position
Performance Chemicals		
MEHQ (Monomethyl Ether of Hydroquinone)	Used as polymerization inhibitor in acrylic acids, acrylic esters, super absorbent polymers (diapers and sanitary pads). Pre-cursor for agrochemical industry.	No. 1 in India & World.
BHA (Butylated Hydroxy Anisole)	Used as antioxidant in food and feed industry	No. 1 in India & World.
AP (Ascorbyl Palmitate)	Used in infant food formulations, breakfast cereals and cosmetics	No. 1 in India & World.
TBHQ (Tertiary Butyl Hydroquinone)	Stabilizer in oil industry	No. 2 in India & World.
HALS (Hindered Amine light Stabilizers)	HALS 701 is used in water treatment. HALS 770, 622, 944, 119, 783 is used for UV stabilization in a variety of polymers.	No. 1 in India.
Pharma & Agro Intermediates		
Guaiacol	Pre-cursor to manufacture APIs for cough syrup (pharma industry). Key raw material to produce Vanillin.	No. 2 in World. No. 1 in India.
DCC (Dicyclohexyl Carbodiimide)	Used as reagent in anti-retroviral	No. 2 in World. No. 1 in India.
Veratrole	Intermediate in agrochemical industry	Amongst largest in India.
p-BQ (Para Benzoquinone)	Intermediate in agrochemical industry	No. 2 in World. No. 1 in India.
FMCG Chemicals		
4-MAP (4-Methoxy Acetophenone)	Used in UV blocker in sunscreens (cosmetics industry).	No. 1 in India & World.
Anisole	Precursor to perfumes, insect pheromones, pharmaceuticals. Majority of Anisole produced is used for captive consumption	No. 1 in India & World.

Source: Company

Backward Integrated with Differentiated Manufacturing Capabilities: One of the key factors driving Clean Science & Technology's success is its fully backward-integrated manufacturing model. The company controls every stage of the production process, from raw materials to finished products, which not only improves cost efficiency but also ensures better quality control. Additionally, Clean Science employs alternative, environmentally safe manufacturing processes that align with its commitment to sustainability. These innovative production methods help reduce environmental impact and lower the risk of adverse regulatory actions from pollution control authorities, ensuring the company remains in compliance with environmental standards while maintaining a competitive edge in the marketplace.

Strong R&D Capabilities: Clean Science & Technology boasts a robust R&D engine, supported by a dedicated team of 100 professionals, including 10 PhDs. This strong research and development capability plays a pivotal role in the company's ability to innovate and create specialized products through alternative manufacturing routes. By focusing on process innovation and sustainability, the R&D team enables Clean Science to develop niche products that cater to evolving market needs while maintaining high standards of environmental safety and cost efficiency.

Strong Balance Sheet: Clean Science & Technology Ltd. boasts a strong balance sheet, with a net cash position (comprising cash and liquid investments) of ₹330 crores as of the end of FY24. This solid financial standing gives the company the ability to invest in future growth areas while enhancing its risk-taking capability. With ample liquidity, Clean Science is well-equipped to pursue strategic opportunities, including innovation, capacity expansion, and market diversification. This financial strength not only positions the company for sustainable growth but also enables it to navigate potential market fluctuations and invest in high-return projects with confidence.

New Growth Areas: The company has made substantial investments in the development of new products, including HALS (a UV-resistant performance chemical used in polymers) with a capital expenditure of ₹340 crores, a pharmaceutical intermediary product with an investment of ₹30 crores, new water treatment chemicals costing ₹150 crores, and new performance chemicals, also with a capex of ₹150 crores. By the end of Q2 FY25, five out of nine HALS products have already been commercialized. Furthermore, the pharmaceutical ingredient was commercialized in December 2024. The company plans to commercialize the new performance chemicals by June–July 2025 and the water treatment chemicals by December 2025. It expects an asset turn of 2x to 2.5x on these capital investments. While the margin profiles of the pharmaceutical ingredient, new performance chemicals, and water treatment chemicals are expected to be similar to the existing business, the company anticipates an EBITDA margin of 25% at optimal utilization levels for the HALS segment.

Lower Tax Rate: The company benefits from a lower tax rate at its subsidiary, Clean Fino Chem Ltd., through which the majority of its new business initiatives will be carried out. This, in turn, helps reduce the overall tax rate for the company.

What Can It Deliver?

We project Clean Science to achieve a revenue CAGR of 33% over the next two years, driven by new product launches in Pharma Intermediates, Performance Chemicals, and Water Treatment Chemicals during FY25 and FY26, as well as a ramp-up in HALS sales over the next two years. EBITDA is expected to grow at a CAGR of 32%, although margins may contract by 129 bps due to a shift in the product mix towards HALS, which carries lower margins. PAT is forecasted to grow at a CAGR of 30.6%, supported by robust EBITDA growth and a lower tax rate at the subsidiary, though partially offset by higher depreciation from new production facilities. With strong growth prospects and superior return ratios, we expect the stock to deliver solid returns to shareholders over the next three years, enhanced by the potential from new molecules under development.

Key Risks

Increased competitive intensity: An increase in competitive poses a potential risk to Clean Science's growth outlook, as the company has a higher concentration of products. Any rise in competition within its existing product categories or in new products could impact market share, pricing power, and overall revenue growth. This heightened competition could cloud the company's ability to maintain its growth trajectory, introducing uncertainty that may affect investor sentiment and pose a risk to the stock's performance.

Execution Risk: It a notable concern for Clean Science, given the company's ambitious capital expenditure plan of approximately ₹330 crores for new product development. Any delays, cost overruns, or challenges in executing this large-scale investment could negatively impact the company's financial performance and growth prospects.

Valuations & Outlook

Clean Science and Technology presents a strong long-term investment opportunity, driven by promising growth prospects from its new molecules in the performance chemicals and water treatment chemicals sectors. The ongoing research into an additional molecule further boosts the company's future potential. Although the stock may seem pricey at a 42x 1-year forward P/E ratio, we believe the company's robust growth trajectory and the value embedded in its innovative pipeline justify the premium. We expect the stock to generate favorable risk-adjusted returns over the long term, making it an appealing option for investors seeking to tap into Clean Science's growth potential. Our valuation places the company at 53x 1-year forward earnings, setting a target price of ₹1,800, which suggests a 21% upside. With limited downside risk from current levels, we recommend accumulating the stock for the long-term.

Financials

Income Statement

	FY20	FY21	FY22	FY23	FY24	FY25 E	FY26 E	FY27 E
Revenues	419	512	685	936	791	1,002	1,360	1,869
EBITDA	185	259	300	402	332	406	534	760
Depreciation	14	17	25	36	46	64	81	95
Other Income	11	26	30	30	41	22	25	30
PBT	182	267	305	396	327	363	478	695
Tax	43	69	76	100	82	91	113	151
PAT	140	198	228	295	244	273	365	545
EPS	11	19	22	28	23	26	34	51
DPS	-	-	3	5	5	6	8	10

Balance Sheet

	FY20	FY21	FY22	FY23	FY24	FY25 E	FY26 E	FY27 E
Equities & Liabilities								
Equity	342	540	768	1,010	1,203	1,412	1,692	2,130
Current Liabilities	77	102	135	116	160	199	266	344
Non-Current Liabilities	11	18	21	26	33	33	33	33
Total Equities & Liabilities	430	660	925	1,152	1,396	1,645	1,991	2,507
Assets								
Current Assets	257	395	570	630	660	805	1,052	1,635
Non-Current Assets	173	265	354	521	737	840	939	872
Total Assets	430	660	925	1,152	1,396	1,645	1,991	2,507

Ratios

	FY20	FY21	FY22	FY23	FY24	FY25 E	FY26 E	FY27 E
Gross Margin	69	76	67	65	65	62	60	60
EBITDA Margins	44	51	44	43	42	41	39	41
PAT Margins	33	39	33	32	31	27	27	29
Effective Tax Rate	23	26	25	25	25	25	24	22
Revenue Growth	7	22	34	37	-15	27	36	37
ROE	46	45	35	33	22	21	24	29
ROCE	54	53	41	40	25	26	29	34

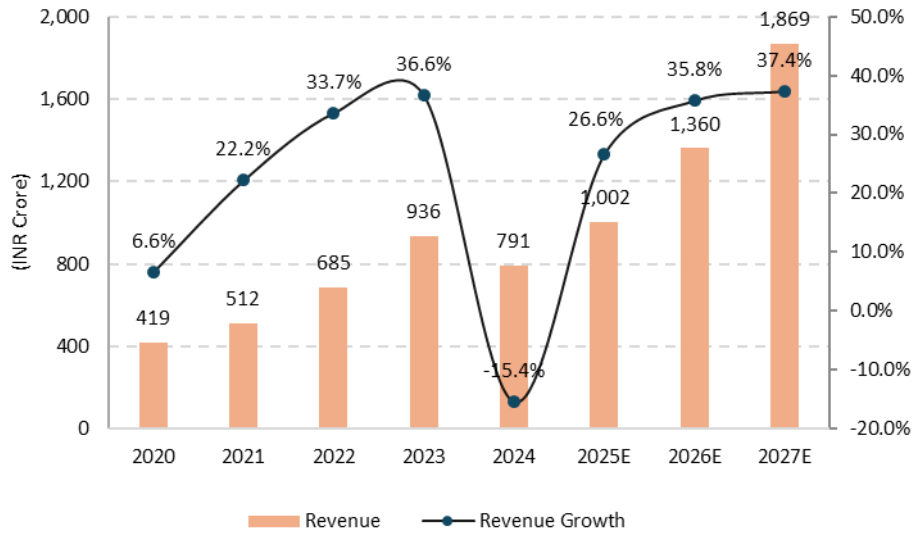
Du - Pont Analysis

	FY20	FY21	FY22	FY23	FY24	FY25 E	FY26 E	FY27 E
Net Profit Margin	33.30%	38.70%	33.40%	31.50%	30.80%	27.20%	26.80%	29.10%
Total Asset Turnover	1.11	0.94	0.86	0.9	0.62	0.66	0.75	0.83
Financial Leverage	1.23	1.24	1.21	1.17	1.15	1.16	1.17	1.18
ROE	45.50%	45.00%	34.90%	33.20%	22.10%	20.90%	23.50%	28.50%

Source: Company, Dalal & Broacha Research

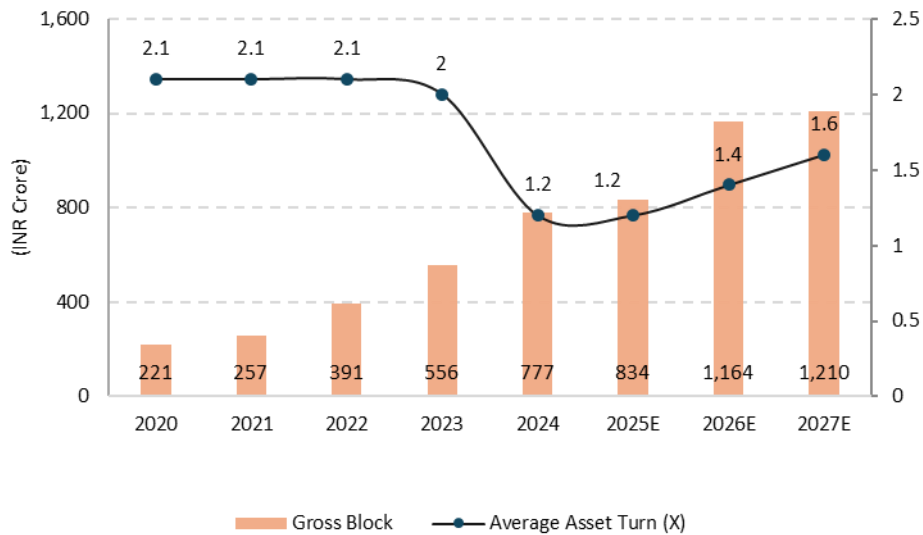
Story in Charts

CSTL's Revenues are expected to grow at a CAGR of 33.2% over FY24-27e



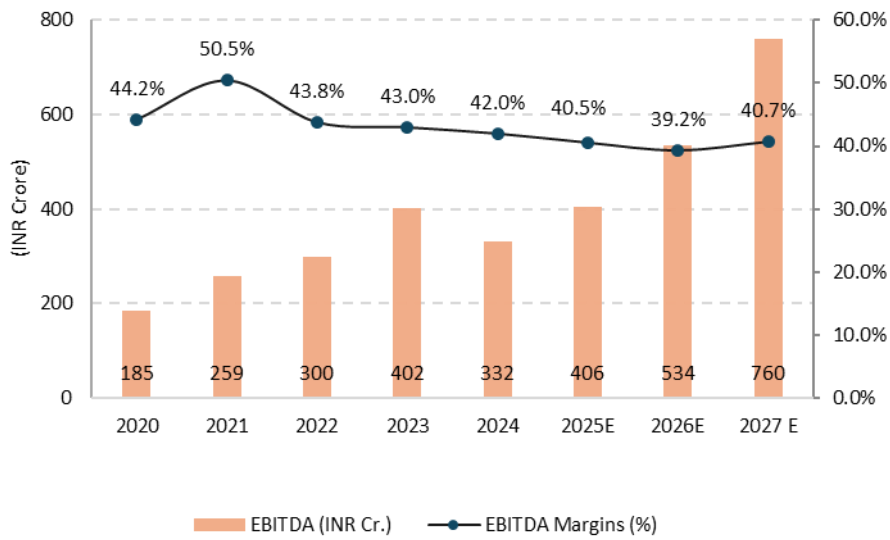
Source: Company, Dalal & Broacha Research

Capacity Additions And Improved Utilizations To Drive Revenue Growth



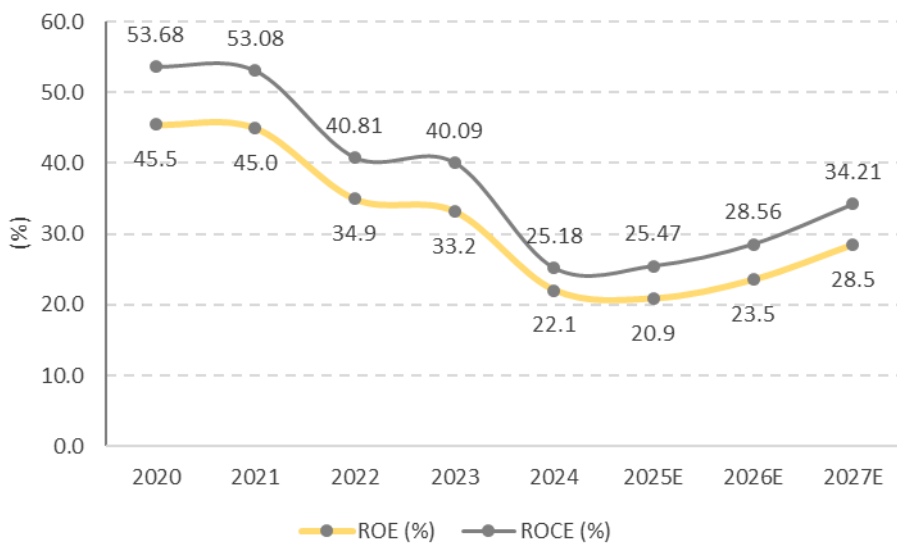
Source: Company, Dalal & Broacha Research

CSTL's EBITDA Is Expected To Grow At A CAGR Of 32% Over FY24-27e



Source: Company, Dalal & Broacha Research

Return Ratios Are Expected To Improve Going Forward



Source: Company, Dalal & Broacha Research

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