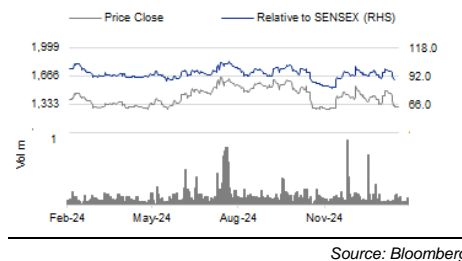




India

REDUCE (no change)

Consensus ratings*:	Buy 8	Hold 4	Sell 2
Current price:		Rs1,306	
Target price:	▲	Rs683	
Previous target:		Rs665	
Up/downside:		-47.7%	
InCred Research / Consensus:		-56.9%	
Reuters:			
Bloomberg:	CLEAN IN		
Market cap:	US\$1,597m		
	Rs138,778m		
Average daily turnover:	US\$3.0m		
	Rs261.6m		
Current shares o/s:	106.3m		
Free float:	25.0%		
*Source: Bloomberg			



Price performance	1M	3M	12M
Absolute (%)	(8.4)	0.6	(6.2)
Relative (%)	(7.7)	2.3	(10.6)

Major shareholders	% held
Promoter & Promoter Group	75.0
Axis ELSS fund	1.2
Public	13.6

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Clean Science and Technology

Dreams are baked in share price; REDUCE

- MEHQ & BHA can only achieve low single-digit growth, with BHA deriving the highest value when blended with TBHQ, which is not case with Clean Science.
- Unlike rivals like ADEKA Corporation, Clean Science lacks diversification in HALS offerings, making its entry into this segment less impactful.
- Clean Science has struggled to grow its EPS due to the slow nature of MEHQ & HALS. At 15x FY25F sales, its valuation is just too high. Maintain REDUCE.

Legacy products (MEHQ, BHA etc.) can, at best, grow in single digits

Monomethyl ether of hydroquinone or MEHQ is used as an anti-polymerization agent, and its growth remains in low single digits. Butylated hydroxyanisole or BHA can be used as an antioxidant; however, the highest value is derived when it is blended with tertiary butylhydroquinone or TBHQ. While Clean Science and Technology (Clean Science) has started producing TBHQ, it's important to note that the blends business has a long gestation period. It will take at least four-to-five years for Clean Science to make any significant advancement in this segment.

Clean Science is taking baby steps in HALS

While competitors like ADEKA Corporation manufacture multiple hindered amine light stabilizers (HALS) for various applications, Clean Science is focused on producing HALS 770, a widely available product that can be supplied by at least 400 different manufacturers and traders globally. Bis (1,2,2,6,6-pentamethyl-4-piperidyl) sebacate (HALS 770) was first commercialized in the late 1970s by Swiss chemical company Ciba-Geigy, which is now a part of BASF. Ciba-Geigy was a pioneer in the development and introduction of HALS technology in the late 1970s and early 1980s. We have previously published multiple reports on this subject [IN: Clean Science and Technology - HALS - much ado about nothing \(REDUCE -\)](#) and [IN: Clean Science and Technology - HALS - much ado about nothing-II \(REDUCE - Maintained\)](#).

Clean Science has not been able to show EPS growth

For the past several quarters, EPS growth has remained anaemic. This is largely due to the nature of MEHQ, which is a slow-growing product primarily used as an anti-polymerization agent. While 4-TBC can serve the same purpose, MEHQ is preferred in most applications. Meanwhile, HALS has been a very slow starter, as we have highlighted in our previous reports. Clean Science's HALS 770 (Clean Stab 770) is an old, legacy commodity HALS, first invented in the 1970s. It has the lowest atomic weight among HALS products, which limits its pricing power and value proposition in the market.

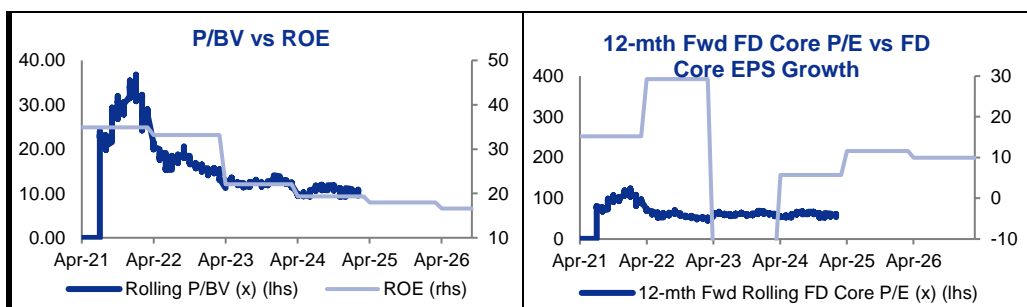
Notwithstanding the narrative, there is nothing to justify its valuation

Clean Science has an exceptional consensus-generated narrative which shapes investor perception. At the time of its initial public offer, the market believed it had a unique, cost-efficient method for manufacturing MEHQ; however, the decline in MEHQ prices ultimately debunked that narrative. Now, the same story is unfolding with HALS. We value the stock at 25x FY27F EPS to arrive at a new target price of Rs683 (Rs665 earlier). Maintain REDUCE rating on it.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	9,358	7,915	9,430	10,090	10,796
Operating EBITDA (Rsm)	4,021	3,321	3,834	4,051	4,241
Net Profit (Rsm)	2,952	2,440	2,579	2,879	3,164
Core EPS (Rs)	27.8	23.0	24.3	27.1	29.8
Core EPS Growth	29.2%	(17.3%)	5.7%	11.6%	9.9%
FD Core P/E (x)	47.03	56.89	53.82	48.22	43.87
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	33.68	40.86	34.68	32.12	29.93
P/FCFE (x)	1,455.47	271.04	51.21	48.44	43.89
Net Gearing	(33.7%)	(26.0%)	(40.0%)	(49.8%)	(57.5%)
P/BV (x)	13.74	11.54	9.50	7.94	6.72
ROE	33.2%	22.1%	19.4%	17.9%	16.6%
% Change In Core EPS Estimates			(0.04%)	0.10%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	9,358	7,915	9,430	10,090	10,796
Gross Profit	6,098	5,144	6,035	6,458	6,910
Operating EBITDA	4,021	3,321	3,834	4,051	4,241
Depreciation And Amortisation	(361)	(459)	(699)	(710)	(730)
Operating EBIT	3,660	2,861	3,135	3,341	3,511
Financial Income/(Expense)	(2)	(9)	(1)	(1)	(1)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	298	413	314	509	720
Profit Before Tax (pre-EI)	3,956	3,265	3,448	3,849	4,230
Exceptional Items					
Pre-tax Profit	3,956	3,265	3,448	3,849	4,230
Taxation	(1,005)	(825)	(869)	(970)	(1,066)
Exceptional Income - post-tax					
Profit After Tax	2,952	2,440	2,579	2,879	3,164
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,952	2,440	2,579	2,879	3,164
Recurring Net Profit	2,952	2,440	2,579	2,879	3,164
Fully Diluted Recurring Net Profit	2,952	2,440	2,579	2,879	3,164

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	4,021	3,321	3,834	4,051	4,241
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(428)	(295)	32	(123)	(132)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(153)	(313)			
Other Operating Cashflow	300	422	314	509	720
Net Interest (Paid)/Received	(2)	(9)	(1)	(1)	(1)
Tax Paid	(945)	(755)	(869)	(970)	(1,066)
Cashflow From Operations	2,794	2,371	3,311	3,466	3,763
Capex	(1,834)	(2,323)	(600)	(600)	(600)
Disposals Of FAs/subsidiaries	3	56			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(867)	408			
Cash Flow From Investing	(2,698)	(1,859)	(600)	(600)	(600)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(558)	(531)			
Preferred Dividends					
Other Financing Cashflow	7	(1)			
Cash Flow From Financing	(550)	(532)			
Total Cash Generated	(455)	(20)	2,711	2,866	3,163
Free Cashflow To Equity	95	512	2,711	2,866	3,163
Free Cashflow To Firm	97	521	2,712	2,867	3,164

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	3,401	3,130	5,841	8,707	11,870
Total Debtors	1,462	1,637	1,473	1,576	1,686
Inventories	1,088	1,237	1,085	1,161	1,242
Total Other Current Assets	352	593	593	593	593
Total Current Assets	6,303	6,596	8,991	12,036	15,390
Fixed Assets	4,800	6,927	6,828	6,718	6,588
Total Investments	255	370	370	370	370
Intangible Assets					
Total Other Non-Current Assets	160	69	69	69	69
Total Non-current Assets	5,215	7,366	7,267	7,157	7,027
Short-term Debt	1				
Current Portion of Long-Term Debt					
Total Creditors	805	1,085	801	857	917
Other Current Liabilities	349	516	516	516	516
Total Current Liabilities	1,155	1,600	1,316	1,372	1,432
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	23	23	23	23	23
Total Non-current Liabilities	23	23	23	23	23
Total Provisions	240	308	308	308	308
Total Liabilities	1,418	1,931	1,647	1,704	1,764
Shareholders Equity	10,100	12,032	14,611	17,490	20,654
Minority Interests					
Total Equity	10,100	12,032	14,611	17,490	20,654

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	36.6%	(15.4%)	19.1%	7.0%	7.0%
Operating EBITDA Growth	34.1%	(17.4%)	15.5%	5.6%	4.7%
Operating EBITDA Margin	43.0%	42.0%	40.7%	40.1%	39.3%
Net Cash Per Share (Rs)	31.99	29.45	54.95	81.91	111.66
BVPS (Rs)	95.01	113.19	137.45	164.53	194.30
Gross Interest Cover	1,876.95	309.01	3,522.70	3,753.56	3,945.06
Effective Tax Rate	25.4%	25.3%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Accounts Receivables Days	58.46	71.46	60.19	55.14	55.14
Inventory Days	110.26	153.11	124.81	112.85	112.85
Accounts Payables Days	102.25	124.47	101.36	83.29	83.29
ROIC (%)	52.1%	31.9%	26.5%	28.6%	30.0%
ROCE (%)	40.2%	25.2%	23.0%	20.4%	18.1%
Return On Average Assets	28.4%	19.2%	17.1%	16.2%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.