

Deepak Nitrite

Estimate change



TP change



Rating change



CMP: INR2,076

TP: INR2,130 (+3%)

Neutral

Decent performance in a challenging macro environment

- Deepak Nitrite (DN) delivered an overall beat in 2QFY24, led by a stronger-than-expected performance in the Phenolic segment, partially offset by weakness in the Advanced Intermediate (AI) segment. EBITDA at INR3b beat our estimate by 9%, while PAT was at INR.1b (estimate of INR1.4b). Margin also improved substantially on YoY basis.
- The strong performance in the Phenolic segment was driven by a sharp increase in volumes of Phenol, Acetone and IPA and improvement in capacity utilization to 137% 2QFY24 (vs. 129% in 2QFY23). Spreads were also stable or higher owing to operating leverage benefits. Domestic contribution partially mitigated the impact of subdued demand in the EU and USA.
- Performance of the AI segment was impacted by subdued demand across key end markets like Agrochemicals, Dyes & Pigments and Textiles. The management intends to expand to new customer segments while seeking to improve the wallet share for core products. Though, some industries, like glass, paper and homecare, are witnessing some demand revival.
- The management is taking strategic measures to elevate its growth momentum in the long run through several backward and forward integration projects, which would be commissioned over the next 1-1.5 years. The company is also making efforts to de-risk its business model by expanding its product portfolio.
- Due to the outperformance in 2QFY24, we have increased our FY24 EPS estimate by 11% while keeping our FY25 estimates broadly unchanged. The stock trades at ~24x FY25E EPS of INR85.2 and at ~17x FY25E EV/EBITDA. We reiterate our Neutral rating, valuing the stock at 25x FY25E EPS to arrive at a TP of INR2,130.

Beat led by lower-than-expected RM costs and other expenses

- 2QFY24 revenue stood at INR17.8b (our est. INR19.4b, down 9% YoY).
- EBITDA stood at INR3b (our est. of INR2.4b, up 12% YoY). Gross margin was at 34.4% (up 430bp YoY). EBITDAM for the quarter stood at 17% (vs. 13.8% in 2QFY23).
- PAT stood at INR2.1b (our est. of INR1.4b, up 18% YoY).
- **For 1HFY24**, revenue stood at INR35.5b (down 12% YoY), EBITDA at INR5.1b (down 18% YoY) and PAT at INR3.5b (down 13% YoY). EBITDAM stood at 14.4% (down 120bp YoY).
 - 1HFY24 EBITDA was at 40% of our full-year estimate
 - Phenolics EBIT stood at INR2.9b (down 11% YoY) with margin at 11.8% (up 70bp YoY). EBIT in the AI segment stood at INR2.2b (down 19% YoY) with margin at 15.8% (down 330bp YoY).

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	283.2 / 3.4
52-Week Range (INR)	2373 / 1730
1, 6, 12 Rel. Per (%)	1/0/-17
12M Avg Val (INR M)	889

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	79.7	76.9	89.8
EBITDA	12.9	12.6	17.4
PAT	8.5	8.8	11.6
EPS (INR)	62.5	64.8	85.2
EPS Gr. (%)	-20.1	3.7	31.6
BV/Sh.(INR)	299.9	356.8	431.8

Ratios

Net D:E	0.0	0.1	0.1
RoE (%)	22.9	19.7	21.6
RoCE (%)	21.6	18.4	19.6
Payout (%)	12.0	12.0	12.0

Valuations

P/E (x)	33.3	32.1	24.4
P/BV (x)	6.9	5.8	4.8
EV/EBITDA (x)	22.0	22.8	16.6
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	1.0	-0.5	-0.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	49.1	49.1	45.7
DII	18.0	15.6	12.0
FII	6.5	8.1	8.5
Others	26.4	27.2	33.8

FII Includes depository receipts

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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 details

- Phenolics EBIT margin stood at 15.2%, with EBIT at INR1.7b. AI EBIT margin stood at 15.4%, with EBIT at INR1b.
- Revenue mix of Phenolics stood at 63% in 2QFY24, with AI share at 37%.
- EBIT mix for AI stood at 38% in 2QFY24 vs. 57% in 2QFY23. Contribution from Phenolics stood at 62% (vs. 43% in 2QFY23).

Other highlights

- During the quarter, DN acquired a 31.7% equity stake in Deepak Oman Industries (SFZ) LLC for a consideration of INR166m. Deepak Oman was treated as an associate of DN in 2QFY24.
- The board also approved the appointment of Mr. Anant Pande as the Chief Manufacturing Officer (CMO) w.e.f. 23rd Nov'23 for a term of two years.

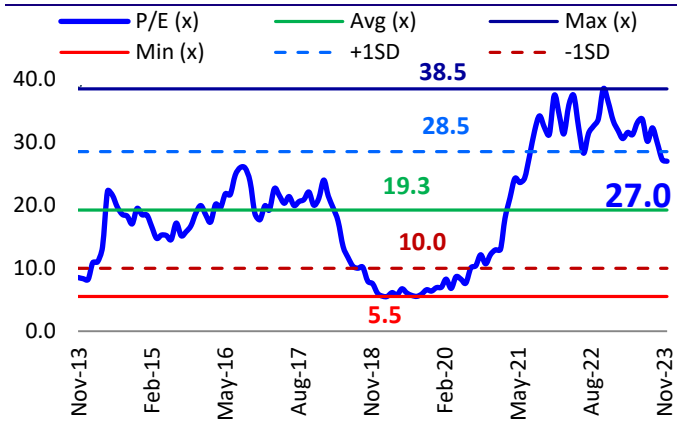
Valuation and view

- The company aims to become the largest player in solvents, with a play on import substitution. It has already announced its foray into MIBK (40ktpa), MIBC (8ktpa), and Polycarbonate compounding. These projects are taking shape and would be commissioned as per the plan.
- DN is aggressively pursuing both backward and forward integration projects in order to de-risk its business model and expand its product portfolio. However, its entire product portfolio consists of commodities. The current valuation appears expensive.
- The stock trades at ~24x FY25E EPS of INR85.2 and at ~17x FY25E EV/EBITDA. We reiterate our Neutral rating, valuing the stock at 25x FY25E EPS to arrive at a TP of INR2,130.

Consolidated - Quarterly Snapshot

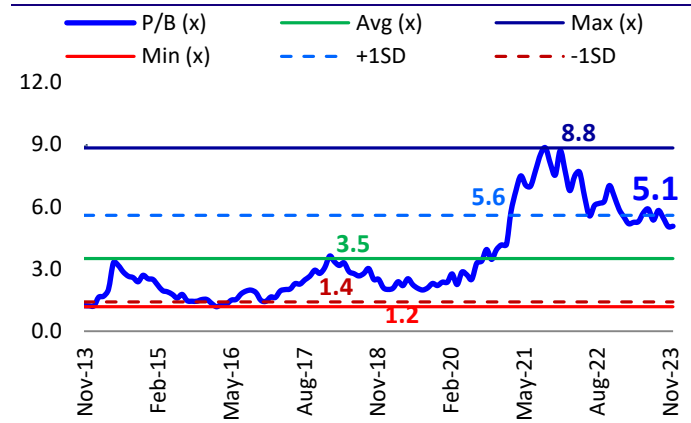
Y/E March	FY23				FY24				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY23	FY24E	FY24	Var. (%)
Gross Sales	20,580	19,617	19,911	19,614	17,683	17,781	20,018	21,455	79,721	76,937	19,389	-8%
YoY Change (%)	34.8	16.7	15.6	4.8	-14.1	-9.4	0.5	9.4	17.2	-3.5	-1.2	
Gross Margin (%)	33.9%	30.2%	32.8%	34.8%	30.8%	34.4%	34.4%	33.8%	32.9%	33.4%	29.8%	4.6%
EBITDA	3,560	2,709	3,146	3,480	2,098	3,023	3,612	3,860	12,894	12,592	2,350	29%
Margin (%)	17.3	13.8	15.8	17.7	11.9	17.0	18.0	18.0	16.2	16.4	12.1	4.9
Depreciation	419	424	411	409	381	394	411	427	1,663	1,613	516	
Interest	86	59	58	45	18	27	34	56	248	135	76	
Other Income	96	120	134	126	319	170	228	244	476	962	153	
PBT	3,151	2,346	2,810	3,152	2,017	2,772	3,395	3,621	11,459	11,805	1,911	45%
Tax	805	601	720	813	518	721	854	878	2,939	2,971	484	
Rate (%)	25.5	25.6	25.6	25.8	25.7	26.0	25.2	24.2	25.6	25.2	25.3	
Reported PAT	2,346	1,745	2,091	2,339	1,499	2,051	2,541	2,743	8,520	8,834	1,428	44%
YoY Change (%)	-22.5	-31.4	-13.8	-12.5	-36.1	17.5	21.5	17.3	-20.1	3.7	-18.2	
Margin (%)	11.4	8.9	10.5	11.9	8.5	11.5	12.7	12.8	10.7	11.5	7.4	4.2
Segmental Revenue (INR m)												
Advanced Intermediates	7,300	6,853	8,178	8,005	7,083	6,702	7,091	7,488	30,336	23,036	7,949	-16%
Phenolic	13,349	12,841	11,816	11,699	10,679	11,201	13,007	14,005	49,705	36,356	11,520	-3%
Segmental EBIT (INR m)												
Advanced Intermediates	1,327	1,384	1,475	1,365	1,149	1,034	1,135	1,221	5,551	4,224	1,320	-22%
Phenolic	1,877	1,027	1,270	1,770	876	1,704	1,891	1,969	5,945	4,067	969	76%
Segmental EBIT Margin (%)												
Advanced Intermediates	18.2%	20.2%	18.0%	17.1%	16.2%	15.4%	16.0%	16.3%	18.3%	18.3%	16.6%	-1.2%
Phenolic	14.1%	8.0%	10.7%	15.1%	8.2%	15.2%	14.5%	14.1%	12.0%	11.2%	8.4%	6.8%

Exhibit 1: One-year forward P/E



Source: Company, MOSL

Exhibit 2: One-year forward P/B



Source: Company, MOSL

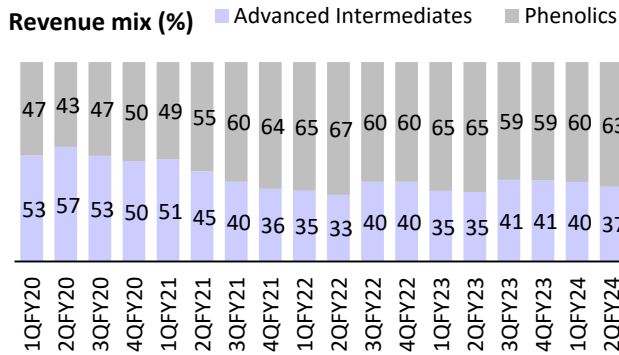


Management concall highlights

- Demand for AI remained intact, with stable market share remaining.
- Positive uptick in sales volumes in AI segment
- Seeing many announcements from end-user industries to increase investments in debottlenecking of capacities in Indian and Asian capacities outside China
- ✓ DASDA performance has bottomed out and would start to see uptick going ahead
- PNT: significant correlation with DASDA and goes mainly into dyes and pigments. Situation will not get worse from here but how fast it would improve is the question.
- Sodium Nitrite: would continue to be the market leader with new capacities being added in Oman
- Uptick in phenol production led by robust demand
- Increase volumes, improvement in margin owing to the advanced process controls put in place
- Gradual improvement in demand
- Higher utilization continues to be a key factor
- Had three weeks of low production in DPL in 1Q, which affected EBITDA % and on absolute terms as well
- Downstream demand of Phenol, Acetone and IPA to remain robust, as per the management
- Normalized performance in 4QFY24
- Domestic demand and consumption remain intact
- All projects are progressing well and would be commissioned over the next few months
- All brownfield expansions to be completed within next six months
- ✓ Hydrogenation brownfield project to be commissioned in the next eight months
- MoUs signed with the Gujarat government are for specific products and technology and are progressing well.
- To be invested over the next four years

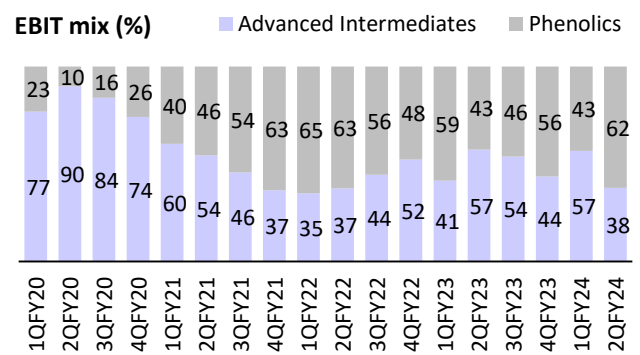
2QFY24 in charts

Exhibit 3: Contribution of Phenolics in total revenue stood steady at 63% in 2QFY24



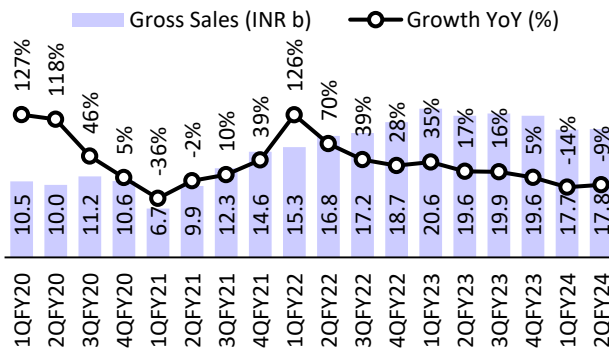
Source: Company, MOFSL

Exhibit 4: Phenolics contribution to EBIT mix increased to 62% from 43% YoY



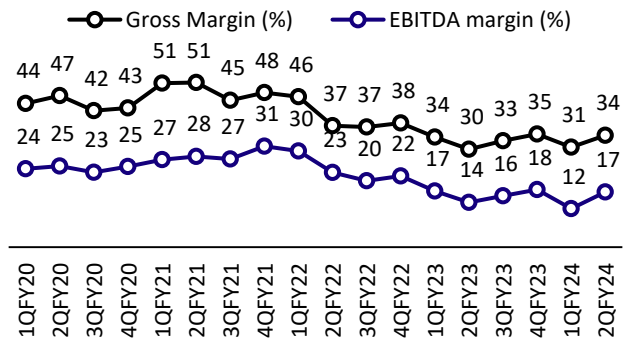
Source: Company, MOFSL

Exhibit 5: Sales declined 9% YoY



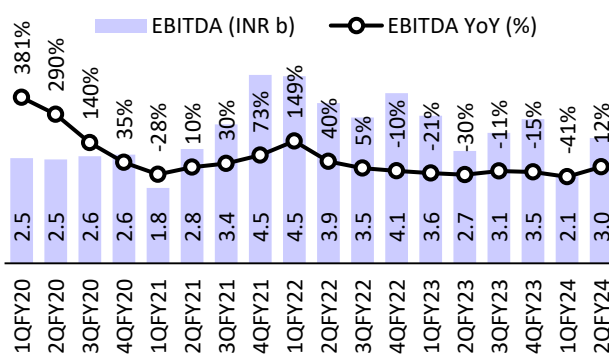
Source: Company, MOFSL

Exhibit 6: Margins expanded YoY



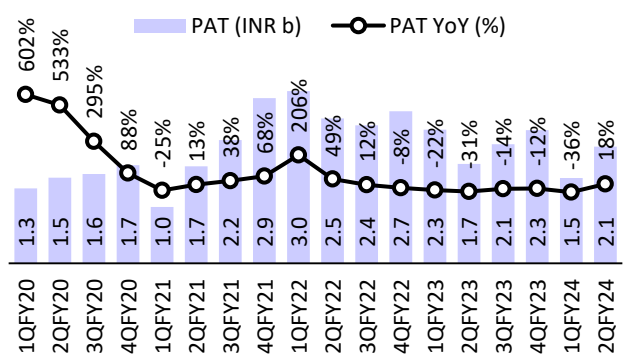
Source: Company, MOFSL

Exhibit 7: EBITDA up 12% YoY

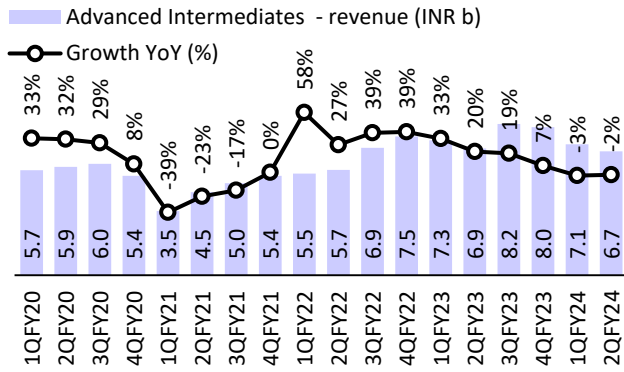


Source: Company, MOFSL

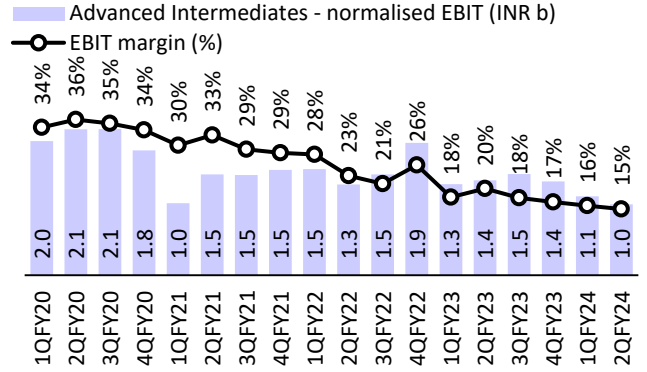
Exhibit 8: PAT up 18% YoY



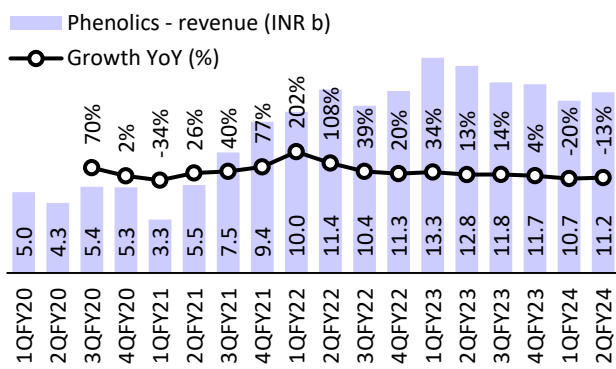
Source: Company, MOFSL

Exhibit 9: Revenue from AI declined 2% YoY...

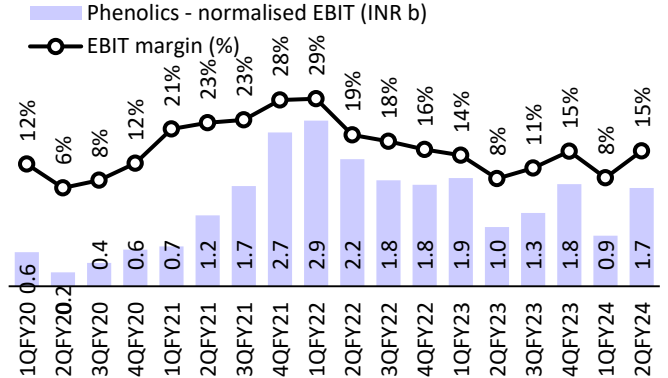
Source: Company, MOFSL

Exhibit 10: ...with a 480bp decline in EBITM

Source: Company, MOFSL

Exhibit 11: Revenue for Deepak Phenolic declined 13% YoY...

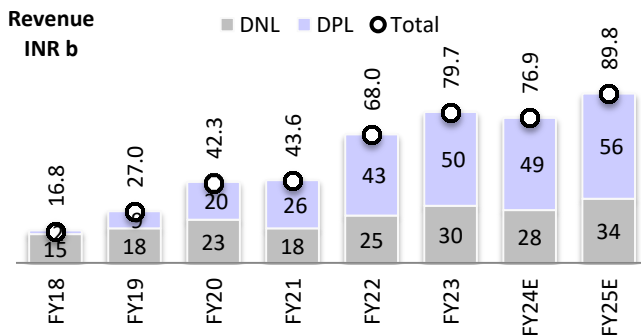
Source: Company, MOFSL

Exhibit 12: ...with EBIT margin at 15.2% (up 720bp YoY)

Source: Company, MOFSL

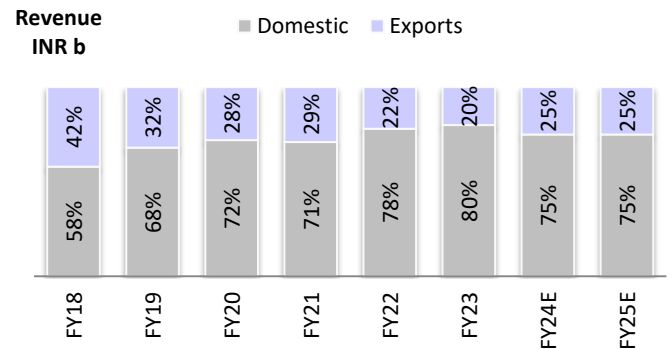
Financial story in charts

Exhibit 13: Revenue contribution from Phenol to remain higher...



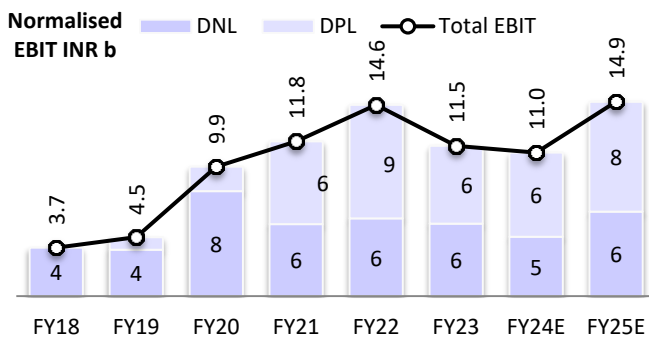
Source: MOFSL

Exhibit 14: ...with focus on domestic market as a play on import substitution



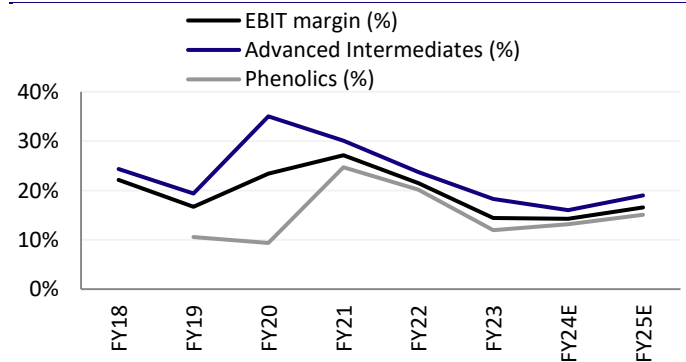
Source: Company, MOFSL

Exhibit 15: Segmental EBIT break up of DN...



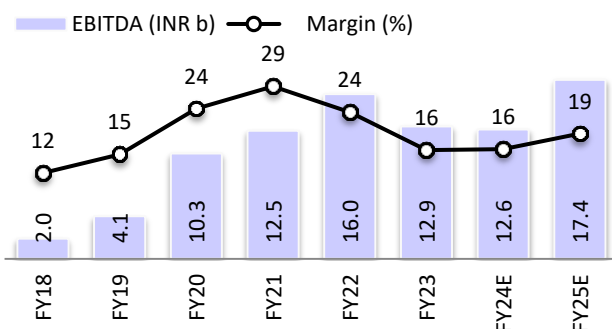
Source: Company, MOFSL

Exhibit 16: ...with Advanced Intermediates still enjoying a higher EBIT margin



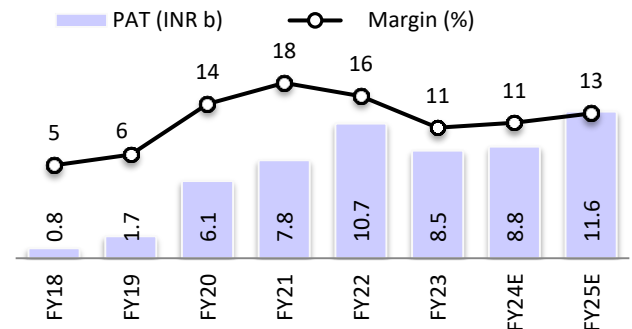
Source: Company, MOFSL

Exhibit 17: EBITDA margin to normalize from FY22 levels



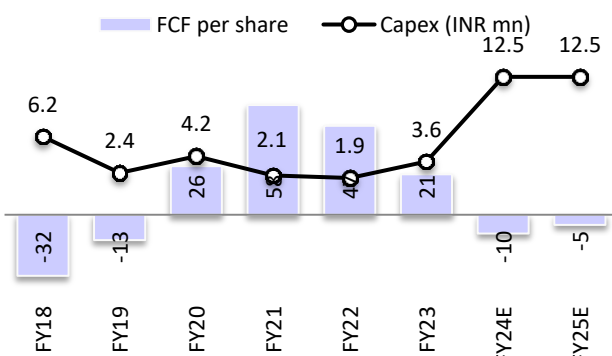
Source: Company, MOFSL

Exhibit 18: Expect ~17% PAT CAGR over FY23-25



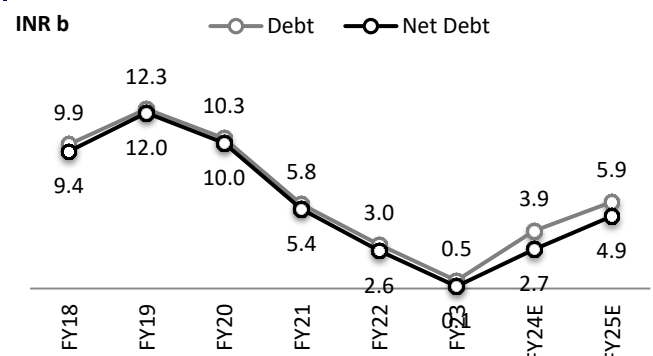
Source: Company, MOFSL

Exhibit 19: DN to incur ~INR25b on capex over FY24-25



Source: Company, MOFSL

Exhibit 20: Debt profile of DN



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	16,762	26,999	42,297	43,598	68,022	79,721	76,937	89,829
Change (%)	15.2	61.1	56.7	3.1	56.0	17.2	-3.5	16.8
Gross Margin (%)	38.0	39.0	43.9	48.1	39.5	32.9	33.4	36.0
EBITDA	1,963	4,139	10,258	12,470	16,036	12,894	12,592	17,433
Margin (%)	11.7	15.3	24.3	28.6	23.6	16.2	16.4	19.4
Depreciation	526	778	1,397	1,526	1,777	1,663	1,613	2,566
EBIT	1,437	3,361	8,861	10,944	14,259	11,231	10,978	14,867
Int. and Finance Charges	451	832	1,149	742	340	248	135	148
Other Income	123	151	352	215	426	476	962	808
PBT bef. EO Exp.	1,109	2,680	8,064	10,417	14,345	11,459	11,805	15,527
PBT after EO Exp.	1,109	2,680	8,064	10,417	14,345	11,459	11,805	15,527
Total Tax	318	943	1,954	2,659	3,678	2,939	2,971	3,908
Tax Rate (%)	28.7	35.2	24.2	25.5	25.6	25.6	25.2	25.2
Reported PAT	790	1,737	6,110	7,758	10,666	8,520	8,834	11,619
Adjusted PAT	790	1,737	6,110	7,758	10,666	8,520	8,834	11,619
Change (%)	72.4	119.8	251.9	27.0	37.5	-20.1	3.7	31.5
Margin (%)	4.7	6.4	14.4	17.8	15.7	10.7	11.5	12.9

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	273	273	273	273	273	273	273	273
Total Reserves	8,949	10,443	15,446	23,194	33,112	40,627	48,400	58,624
Net Worth	9,221	10,716	15,719	23,467	33,384	40,900	48,673	58,897
Total Loans	9,866	12,286	10,279	5,775	3,007	545	3,950	5,925
Deferred Tax Liabilities	454	775	796	1,078	1,229	1,566	1,566	1,566
Capital Employed	19,541	23,776	26,794	30,320	37,620	43,011	54,189	66,388
Gross Block	6,403	17,749	20,460	22,441	25,263	26,705	39,205	51,705
Less: Accum. Deprn.	528	743	2,140	3,666	5,443	7,106	8,720	11,286
Net Fixed Assets	5,875	17,006	18,320	18,774	19,820	19,599	30,485	40,419
Capital WIP	9,545	339	1,723	2,068	1,037	2,826	2,826	2,826
Total Investments	318	24	24	1,893	4,390	3,794	3,794	3,794
Curr. Assets, Loans, and Adv.	10,167	11,910	12,019	12,868	19,057	25,069	25,057	28,387
Inventory	3,272	4,107	3,945	3,827	5,846	8,931	8,599	9,675
Account Receivables	4,118	5,750	6,127	7,563	11,291	13,095	12,638	14,756
Cash and Bank Balance	482	258	314	334	418	400	1,268	977
Cash	94	30	21	89	229	376	1,246	955
Bank Balance	388	228	293	245	189	23	23	23
Loans and Advances	2,296	1,795	1,633	1,144	1,503	2,644	2,552	2,979
Curr. Liability and Prov.	6,364	5,502	5,292	5,283	6,684	8,276	7,973	9,038
Account Payables	5,953	4,724	3,643	4,367	5,117	6,618	6,372	7,169
Other Current Liabilities	280	587	1,385	640	1,272	1,215	1,173	1,370
Provisions	132	191	264	276	296	443	428	500
Net Current Assets	3,803	6,408	6,727	7,585	12,373	16,793	17,084	19,349
Appl. of Funds	19,541	23,776	26,794	30,320	37,620	43,011	54,189	66,388

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	5.8	12.7	44.8	56.9	78.2	62.5	64.8	85.2
EPS Growth (%)	72%	120%	252%	27%	37%	-20%	4%	32%
Cash EPS	9.6	18.4	55.0	68.1	91.2	74.7	76.6	104.0
BV/Share	67.6	78.6	115.2	172.0	244.8	299.9	356.8	431.8
DPS	1.3	6.5	4.5	5.5	7.0	7.5	7.8	10.2
Payout (%)	27.0	61.6	12.1	9.7	9.0	12.0	12.0	12.0
Valuation (x)								
P/E	359.4	163.5	46.5	36.6	26.6	33.3	32.1	24.4
Cash P/E	215.8	112.9	37.8	30.6	22.8	27.9	27.2	20.0
P/BV	30.8	26.5	18.1	12.1	8.5	6.9	5.8	4.8
EV/Sales	17.5	11.0	6.9	6.6	4.2	3.6	3.7	3.2
EV/EBITDA	149.4	71.5	28.7	23.2	17.9	22.0	22.8	16.6
Dividend Yield (%)	0.1	0.3	0.2	0.3	0.3	0.4	0.4	0.5
FCF per share	-32.1	-13.3	25.6	57.8	46.8	21.3	-9.8	-5.3
Return Ratios (%)								
RoE	9.7	17.4	46.2	39.6	37.5	22.9	19.7	21.6
RoCE	6.5	10.5	27.6	29.1	32.1	21.6	18.4	19.5
RoIC	10.7	13.5	28.0	32.1	36.7	24.6	20.0	21.2
Working Capital Ratios								
Fixed Asset Turnover (x)	2.9	2.4	2.4	2.4	3.5	4.0	3.1	2.5
Asset Turnover (x)	0.9	1.1	1.6	1.4	1.8	1.9	1.4	1.4
Inventory (Days)	71	56	34	32	31	41	41	39
Debtor (Days)	90	78	53	63	61	60	60	60
Creditor (Days)	130	64	31	37	27	30	30	29
Leverage Ratio (x)								
Current Ratio	1.6	2.2	2.3	2.4	2.9	3.0	3.1	3.1
Interest Coverage Ratio	3.2	4.0	7.7	14.7	41.9	45.3	81.4	100.4
Net Debt/Equity ratio	1.0	1.1	0.6	0.2	0.1	0.0	0.1	0.1

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	1,109	2,680	8,064	10,417	14,345	11,459	11,805	15,527
Depreciation	528	778	1,397	1,526	1,777	1,663	1,613	2,566
Others	481	829	1,262	852	295	63	135	148
Direct Taxes Paid	-279	-561	-1,985	-2,365	-3,535	-2,600	-2,971	-3,908
(Inc.)/Dec. in WC	-9	-3,123	-1,092	-412	-4,643	-4,085	578	-2,556
CF from Operations	1,830	603	7,647	10,019	8,239	6,499	11,160	11,777
(Inc.)/Dec. in FA	-6,206	-2,410	-4,160	-2,140	-1,862	-3,599	-12,500	-12,500
Free Cash Flow	-4,376	-1,808	3,487	7,879	6,377	2,900	-1,340	-723
Change in Investments	906	299	3	-1,854	-2,401	816	0	0
Others	53	486	-122	33	22	22	0	0
CF from Investments	-5,247	-1,626	-4,279	-3,961	-4,241	-2,761	-12,500	-12,500
Issue of Shares	1,463	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	2,626	2,033	-1,088	-5,246	-2,812	-2,523	3,405	1,975
Interest Paid	-450	-841	-1,134	-736	-320	-233	-135	-148
Dividend Paid	-188	-213	-1,060	-4	-750	-955	-1,061	-1,395
Others	2	-20	-94	-5	24	120	0	0
CF from Fin. Activity	3,453	958	-3,376	-5,990	-3,858	-3,591	2,209	432
Inc./Dec. in Cash	36	-64	-8	68	139	148	869	-291
Opening Balance	58	94	30	22	90	229	377	1,246
Closing Balance	94	30	22	90	229	377	1,246	955

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SELL	< - 10%
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