

Deepak Nitrite

Estimate changes



TP change



Rating change



Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USD\$b)	294.8 / 3.9
52-Week Range (INR)	3020 / 1712
1, 6, 12 Rel. Per (%)	0/1/-1
12M Avg Val (INR M)	2477

Financials & Valuations (INR bn)

Y/E March	FY22	FY23E	FY24E
Sales	68.0	68.6	68.7
EBITDA	16.0	16.9	18.1
PAT	10.7	11.5	12.2
EPS (INR)	78.2	84.0	89.2
EPS Gr. (%)	37.5	7.4	6.3
BV/Sh.(INR)	245	316	392

Ratios

Net D:E	0.1	(0.0)	(0.1)
RoE (%)	37.5	29.9	25.2
RoCE (%)	32.1	27.6	23.9
Payout (%)	9.0	15.0	15.0

Valuations

P/E (x)	27.7	25.8	24.3
P/BV (x)	8.8	6.8	5.5
EV/EBITDA (x)	18.6	17.4	16.0
Div. Yield (%)	0.3	0.6	0.6
FCF Yield (%)	2.2	2.0	2.4

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	45.7	45.7	45.7
DII	10.0	10.7	11.6
FII	8.8	8.8	11.9
Others	35.5	34.7	30.8

FII Includes depository receipts

CMP: INR2,162
TP: INR2,320 (+7%)
Neutral

Margins sustain due to higher volumes and realization

- Deepak Nitrite (DN) reported a beat on our estimates. EBITDA came in 32% higher than our estimate at INR4.1b, while EBITDA margin, at 21.9%, was also higher than our estimate of 16.9% – albeit, at a multi-quarter low. **FSC segment revived, while Basic Intermediates and the Performance Products segments performed well in 4QFY22. EBIT margin in the Phenolics business stood at 16%. However, the same expanded in the Basic Intermediates segment.**
- EBIT mix for Basic Intermediates/Fine and Specialty Chemicals improved to 25%/20% from 19%/15% in 3QFY22, with the contribution from Phenolics at 45% (down from an average of 64% in 1HFY22). The contribution from Performance Products decreased to 10% in 4QFY22 from 13% in 3QFY22, although volumes and sales realization improved significantly in 2HFY22.
- DN has maintained its highest ever utilization rate of 120% in the Phenolics business in 4QFY22, leaving limited growth in this segment from volume accretion. The company commissioned its new captive power plant along with its second IPA plant (capacity of 30ktpa). This would help DN with a stable supply of power without running the risk of maintenance shutdowns.
- Domestic: exports revenue mix stood at 80:20 on 4QFY22 for the group company.** Volume growth for several products during 4QFY22 enabled DN deliver traction in revenues. Formula-based pricing, increase in wallet share with large customers and addition of newer customers and geographies supported the growth momentum.
- The company has committed a capital investment of INR15b over the next two years** in new upstream/ downstream products besides debottlenecking projects in existing product line bolstered by strong end-use demand, expanding Indian economy and China+1 strategy. **Upstream projects are likely to come online in the next 18-24 months with specialty projects expected in the next 9-12 months.**
- The stock trades at 26x/24x FY23E/FY24E EPS. With the pricing environment remaining volatile and with limited earnings growth opportunities till the time Greenfield expansions get commissioned (phenol downstream products would result in captive phenol consumption of 35-40%), we **maintain our Neutral** rating. We value the stock at 26x FY24E EPS to arrive at a TP of INR2,320.

Performance Products segment continues to surprise in 4QFY22

- Deepak Nitrite (DN)'s revenue was in line with estimate at INR18.7b (+28% YoY, +9% QoQ), driven by Basic Intermediates and Performance Products segments. EBITDA was 32% higher than estimate at INR4.1b (-10% YoY, +17% QoQ). EBITDAM stood at 21.9% (v/s 20.4% in 3QFY22) – still at a multi-quarter low. Gross margin was at 38% (flat v/s 3QFY22), while conversion cost was at 16% (v/s 17% in 3QFY22). PAT stood at INR2.7b (-8% YoY, +10% QoQ), translating into an EPS of INR19.6.

Swarnendu Bhushan- Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

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.

- Phenolics accounted for 59% of total revenue in 4QFY22, with Basic/Fine and Specialty Chemicals' mix at 21%/12%. **EBIT mix for Basic Intermediates/Fine & Specialty Chemicals improved to 25%/20% QoQ in 4QFY22 from 19%/15%, respectively.** Contribution from Phenolics stood at 45% (v/s 52% in 3QFY22).
- **For FY22**, revenue stood at INR68b (+56% YoY), while EBITDA was at INR16b (+28% YoY) and PAT at INR10.7b (+37% YoY). EBITDAM declined to 24% from 29% in FY21.

Retain Neutral on volatile pricing environment and limited earnings growth

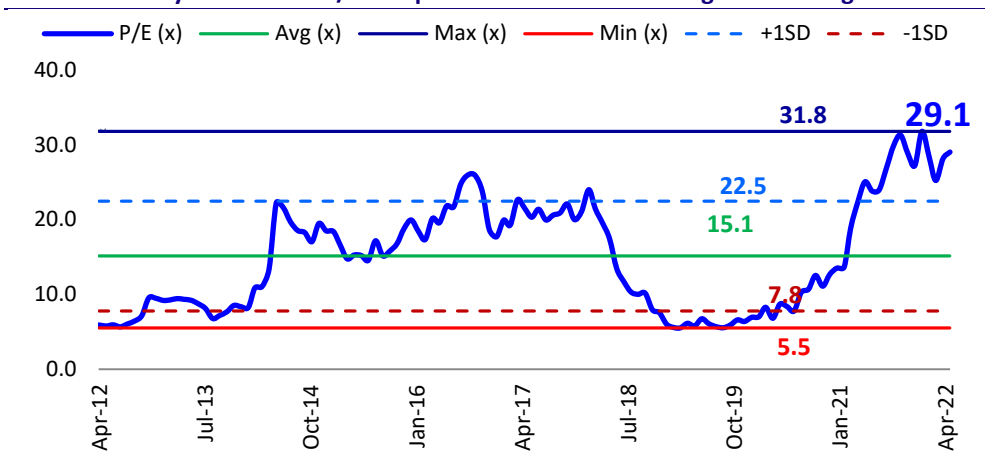
- The management's vision is to become the largest player in Solvents, with a play on import substitution. It will continue to focus on bringing additional products under the Fine and Specialty Chemicals segment and keep closing the value chain gaps by manufacturing these products.
- The management's increased focus on advanced/high-value products would aid margin expansion and sustainability of the company, which investors are most wary of. It could also result in a multiple re-rating for the stock as the mix of Specialty/Complex Chemistry products increase.
- Despite a capex of INR15b over the next two years, DN is expected to turn net cash positive by FY23, with FCF generation of INR12.9b over FY23-24. We value DN at 26x FY24 EPS and reiterate our Neutral rating with a TP of INR2,320.
- **Risk to our call:** Sustained improvement in Fine and Specialty Chemicals segment and higher Phenolics margin would drive product prices higher.

Consolidated - Quarterly Snapshot

Y/E March	(INR m)											
	FY21				FY22				FY21	FY22	FY22	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Gross Sales	6,745	9,873	12,347	14,632	15,262	16,814	17,223	18,724	43,598	68,022	18,419	2%
YoY Change (%)	-35.8	-1.6	10.3	38.6	126.3	70.3	39.5	28.0	3.1	56.0	25.9	
Gross Margin (%)	51%	51%	45%	48%	46%	37%	37%	38%	48%	40%	33%	
EBITDA	1,816	2,757	3,350	4,547	4,515	3,865	3,519	4,103	12,470	16,002	3,110	32%
Margin (%)	26.9	27.9	27.1	31.1	29.6	23.0	20.4	21.9	28.6	23.5	16.9	5.0
Depreciation	310	312	339	565	436	441	455	446	1,526	1,777	461	
Interest	247	196	157	142	109	92	68	71	742	340	62	
Other Income	68	40	49	59	83	84	258	35	215	460	84	
PBT before EO expense	1,326	2,288	2,903	3,899	4,053	3,417	3,253	3,622	10,417	14,345	2,670	36%
PBT	1,326	2,288	2,903	3,899	4,053	3,417	3,253	3,622	10,417	14,345	2,670	36%
Tax	337	587	737	998	1,026	873	829	950	2,659	3,678	672	
Rate (%)	25.4	25.6	25.4	25.6	25.3	25.6	25.5	26.2	25.5	25.6	25.2	
Reported PAT	990	1,702	2,166	2,901	3,026	2,543	2,425	2,672	7,758	10,666	1,998	34%
YoY Change (%)	-24.8	13.2	38.2	68.4	205.8	49.4	12.0	-7.9	27.0	37.5	-31.1	
Margin (%)	14.7	17.2	17.5	19.8	19.8	15.1	14.1	14.3	17.8	15.7	10.8	3.4
Segmental EBIT (INR m)												
Basic Intermediates	364	409	469	707	851	625	687	966	1,949	3,128	688	40%
Fine & Specialty Chemicals	619	1,012	910	797	674	601	532	767	3,337	2,575	680	13%
Performance Products	67	48	82	31	21	96	470	398	226	985	141	183%
Phenolics	691	1,229	1,738	2,668	2,873	2,204	1,836	1,759	6,326	8,671	1,923	-9%
Segmental EBIT Margins (%)												
Basic Chemicals	25	24	24	29	34	23	20	24	26	25	25	-1
Fine & Specialty Chemicals	44	48	43	39	33	30	26	33	44	30	29	3
Performance Products	11	7	9	4	2	9	28	25	7	19	11	14
Phenolics	21	23	23	28	29	19	18	16	25	20	17	-2

BI and PP segments perform better; Fine & Specialty Chemical recovers

- **EBIT margin in the Phenolics segment came in line with our estimate at INR18.3/kg (down from INR19.1/kg in 3QFY22), with EBIT at INR1.8b.** The utilization rate was flattish at 120% in 4QFY22 (similar to 3QFY22 levels). DN commissioned its new captive power plant along with its second IPA plant (capacity of 30ktpa)
- **Fine and Specialty Chemicals' EBIT margin recovered, after a dip in the past five consecutive quarters, to 33% (from 26% in 3QFY22), with an EBIT of INR767m.** Prices of finished products were abnormally high during FY22 that have now normalized and the benefit of price pass through should occur in the coming quarters. DN is also likely to gain from multi-year contracts with leading customers, with cost pass-through mechanisms in place.
- **Basic Intermediates' EBIT margin stood at 24% (v/s 20% in 3QFY22), with EBIT at INR966m.** De-bottlenecking and capacity augmentation in key products enable DN to increase volumes in 2HFY22, led by realization gains. The sharp rise in input prices was managed well by most of the rise being passed on.
- **Performance Products' EBIT margin was at 25% (v/s 28% in 3QFY22), with EBIT at INR398m.** Demand for key products improved significantly during the year that resulted in rise in volumes accompanied by improved sales realization. However, management expects the prices to normalize in the coming quarters resulting in normalized margin in the segment.

Exhibit 1: One-year forward P/E at a premium of 93% to its long term average

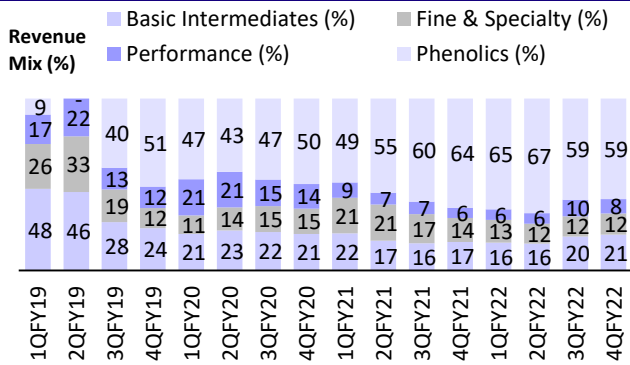
Source: Company, MOFSL

Highlights from the management commentary

- DN faced logistics challenges, sky rocketing coal and energy prices which impacted cost of utilities and lifetime high input prices for several key raw materials
 - Alternate supply networks are being looked at by the management and DN is well placed to source its raw material from integrated players in the logistics business
- Volume growth for several products during 4QFY22 enabled the company to deliver traction in revenue
 - Formula-based pricing, increase in wallet share with large customers and addition of newer customers and geographies supported the growth momentum
 - Domestic: exports revenues stood at 80:20 on 4QFY22 for the group company
- In Fine and Specialty Chemicals, DN would gain from new multi-year contracts with leading customers, with cost pass-through mechanisms in place
- Performance Products segment EBIT is expected to normalize as there is tepid demand in the European markets which are experiencing highest energy prices
 - Robust performance in 4QFY22 was due to the sharp increase in demand, which led to volume increase accompanied by improved sales realization
 - DN also forayed into new export markets that were untapped before
- Phenolic business – utilization was around 118% for the quarter
 - The company commissioned its new captive power plant along with its second IPA plant (capacity of 30ktpa)
 - The captive power plant would serve with a stable power source and supply without running the risk of shutdown of the plants for maintenance
- The management has increased its focus on annual and multiyear contracts with customers- from which it shied away earlier
 - Most contracts are built with price review clause on calendar year basis.
- Capex of INR15b that would enhance operations in all the segments
 - Projects are on track with a timeline of 18-24 months for the upstream products and 9-12 months for the specialty chemicals products
- Demand remains robust but for a couple of products customers' demand visibility is lower than before
 - This is mainly happening in Europe escalated by the Russia-Ukraine war
- Phenolic business presents opportunities to improve the EBIT margin going forward
 - Demand for the product is good but is significantly affected by the prices of petrochemicals and energy prices as of now

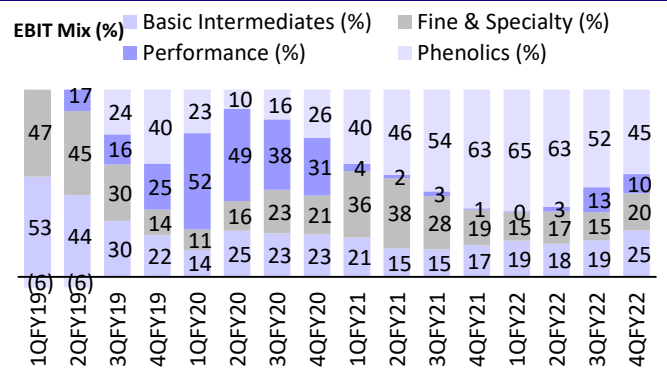
4QFY22 story in charts

Exhibit 2: Contribution of Phenolics in total revenue flat at 59% in 4QFY22 QoQ...



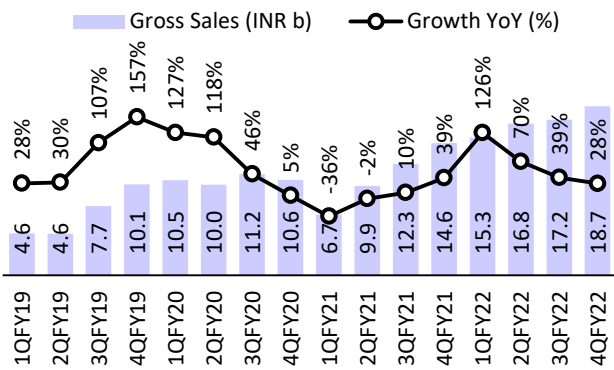
Source: Company, MOFSL

Exhibit 3: ...with Phenolics contribution to EBIT mix declining to 45% QoQ from 52% in 3QFY22



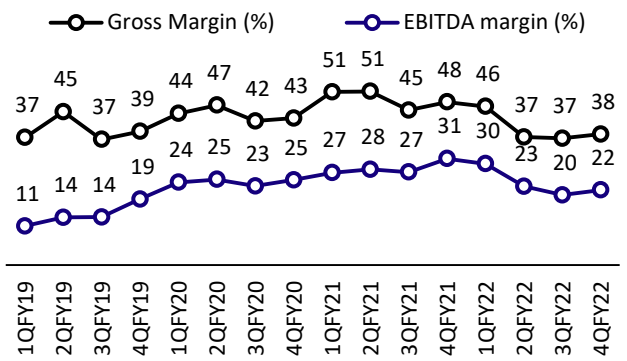
Source: Company, MOFSL

Exhibit 1: Sales rose 9% QoQ, led by BI and PP businesses



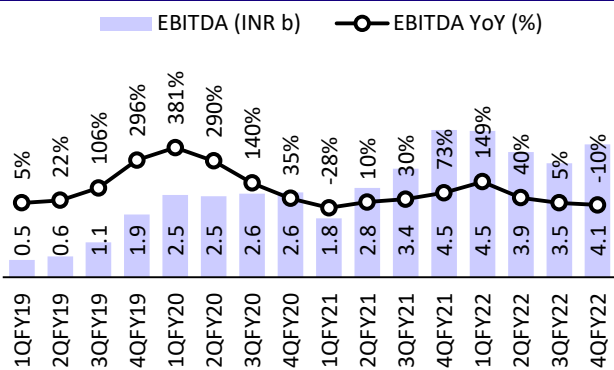
Source: Company, MOFSL

Exhibit 2: Ability to sustain margins in a tough environment



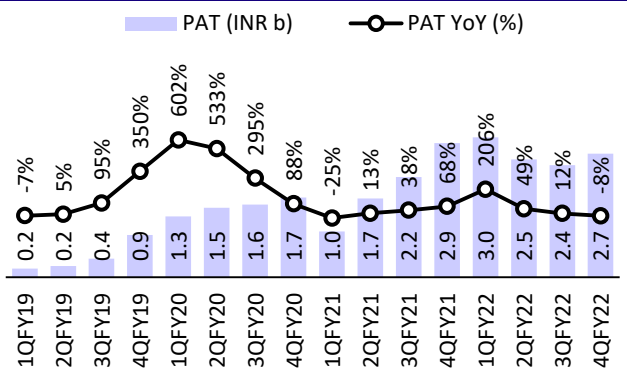
Source: Company, MOFSL

Exhibit 3: EBITDA grew 17% QoQ (margin at 21.9%)



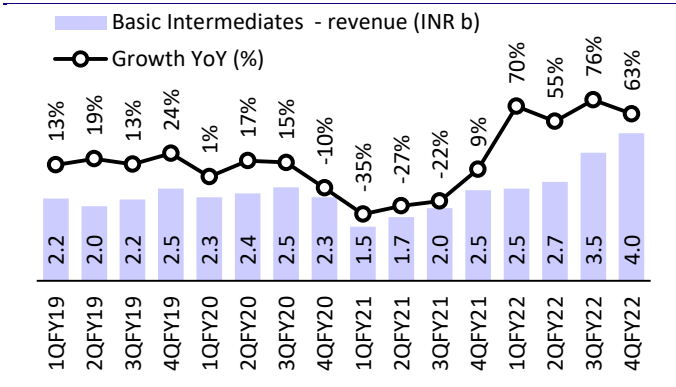
Source: Company, MOFSL

Exhibit 4: PAT grew 10% QoQ (margin at 14.3%)



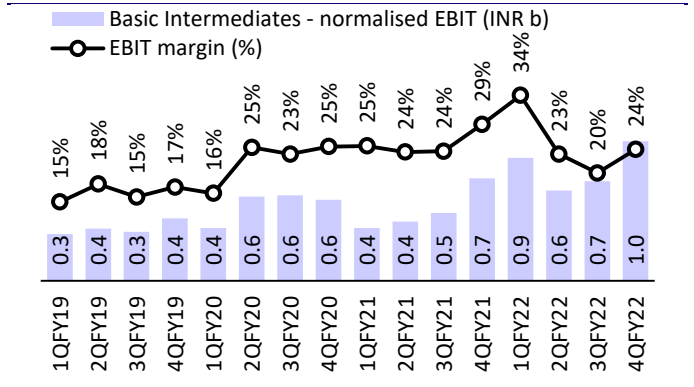
Source: Company, MOFSL

Exhibit 5: Revenue from Basic Intermediates rose 15% QoQ...



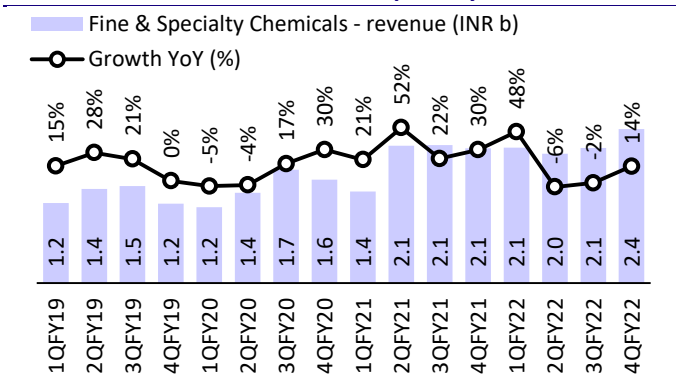
Source: Company, MOFSL

Exhibit 6: ...with an expansion (+400bp) in EBIT margin



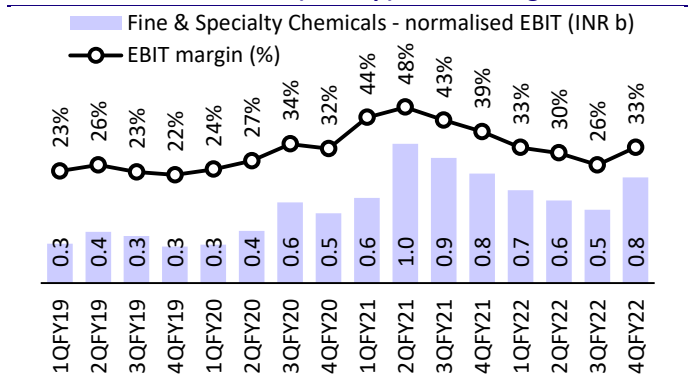
Source: Company, MOFSL

Exhibit 7: Revenue from Fine and Specialty rose 14% QoQ...



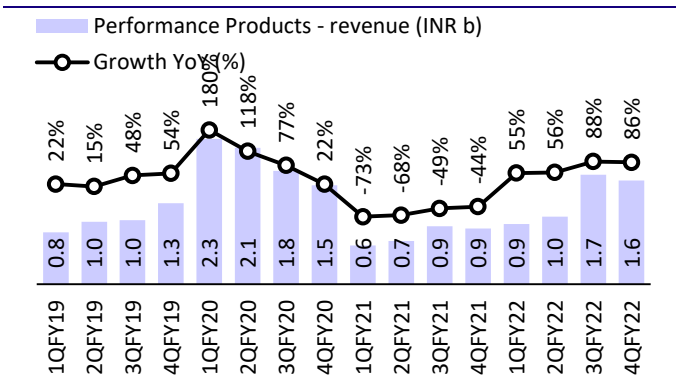
Source: Company, MOFSL

Exhibit 8: ...with a revival (+700bp) in EBIT margin



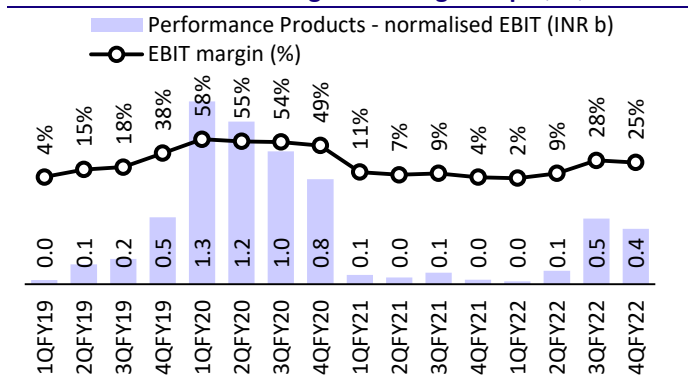
Source: Company, MOFSL

Exhibit 9: Revenue of Performance Products declined 5%...



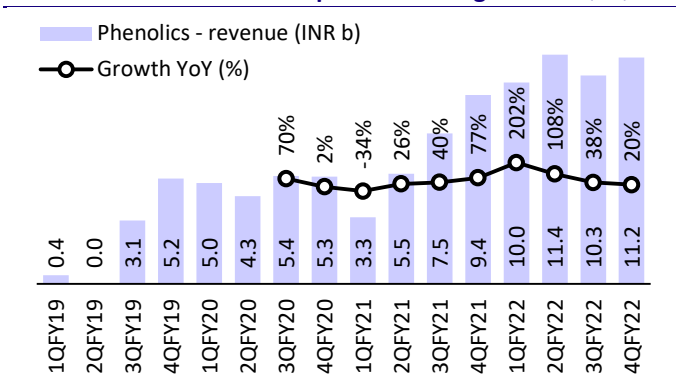
Source: Company, MOFSL

Exhibit 10: ...with EBIT margin declining 300bp QoQ



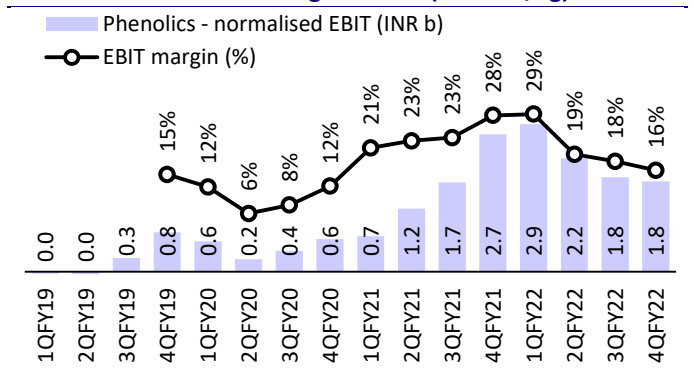
Source: Company, MOFSL

Exhibit 11: Revenue for Deepak Phenolics grew 9% QoQ...



Source: Company, MOFSL

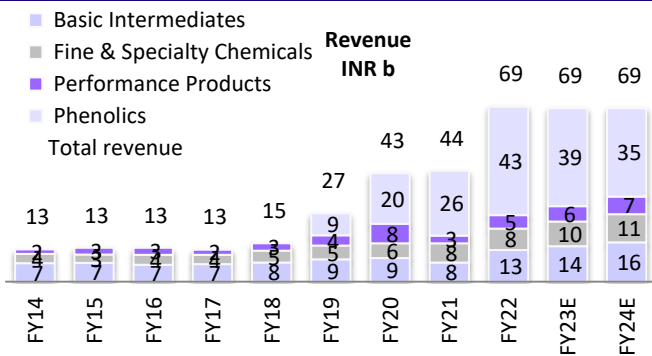
Exhibit 12: ...with EBIT margin at 16% (INR18.3/kg)



Source: Company, MOFSL

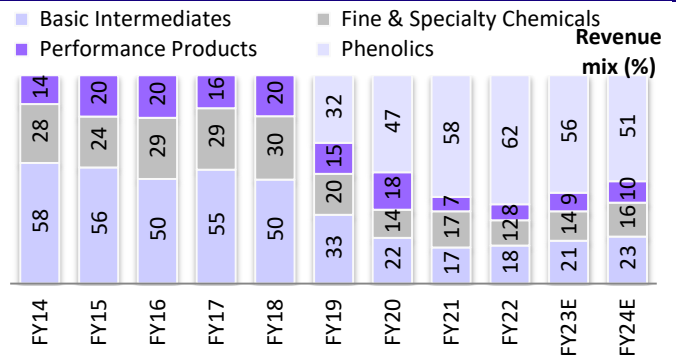
Financial story in charts

Exhibit 13: Revenue growth peaked as product prices in DPL normalizes going forward...



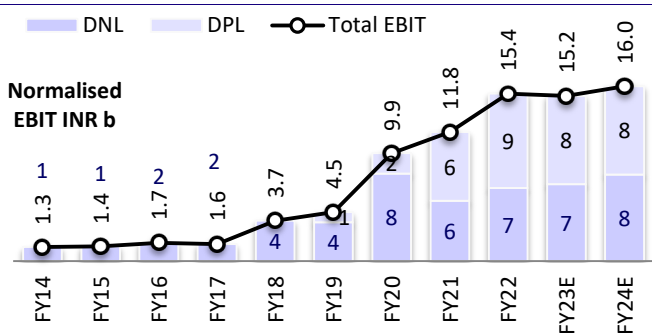
Source: MOFSL

Exhibit 14: ...resulting in a lower contribution from DPL in the total revenue mix



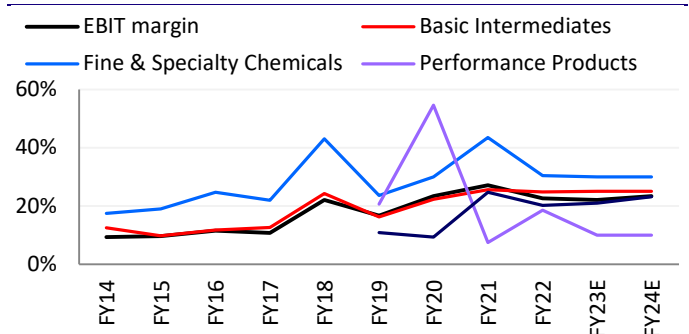
Source: Company, MOFSL

Exhibit 15: Expect normalized EBIT margin to stabilize at ~15-16% levels...



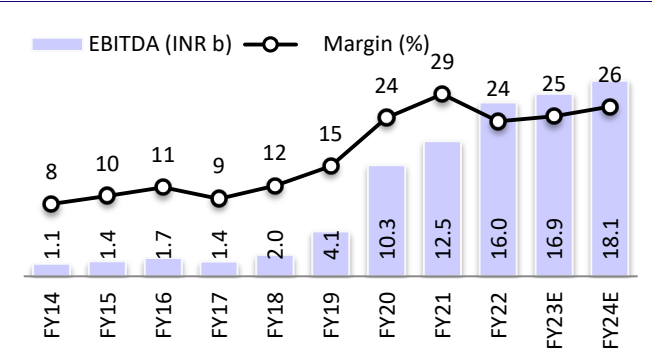
Source: Company, MOFSL

Exhibit 16: ...with Fine and Specialty Chemicals still enjoying the highest EBIT margin (estimate ~30%)



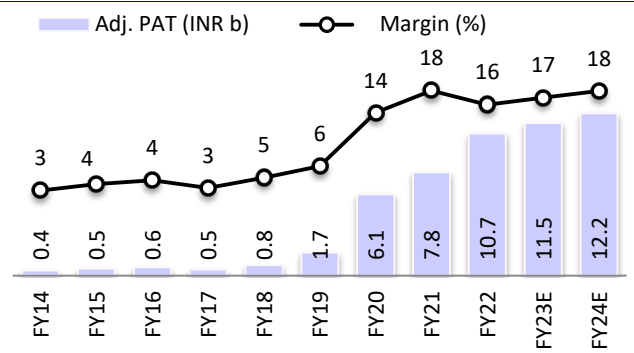
Source: Company, MOFSL

Exhibit 17: EBITDA margin to normalize from FY21 levels



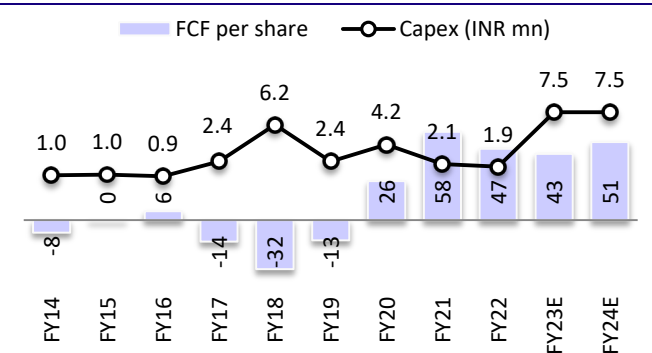
Source: Company, MOFSL

Exhibit 18: Expect ~7% PAT CAGR over FY21-24



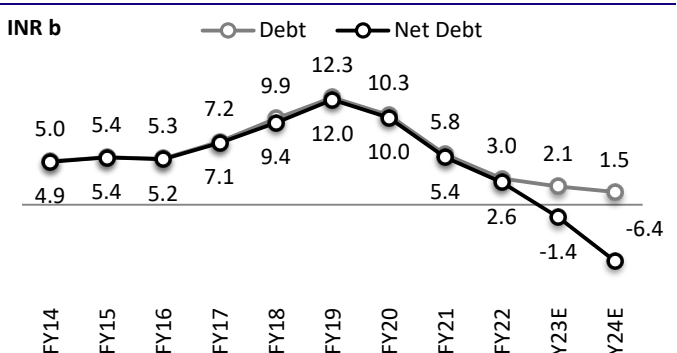
Source: Company, MOFSL

Exhibit 19: DN to incur ~INR15b capex over FY23-24E...



Source: Company, MOFSL

Exhibit 20: ...but is likely to turn net cash positive in FY23E



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	14,547	16,762	26,999	42,297	43,598	68,022	68,581	68,686
Change (%)	-0.2	15.2	61.1	56.7	3.1	56.0	0.8	0.2
Gross Margin (%)	41.9	38.0	39.0	43.9	48.1	39.5	40.0	42.3
EBITDA	1,355	1,963	4,139	10,258	12,470	16,036	16,852	18,059
Margin (%)	9.3	11.7	15.3	24.3	28.6	23.6	24.6	26.3
Depreciation	480	526	778	1,397	1,526	1,777	1,840	2,152
EBIT	874	1,437	3,361	8,861	10,944	14,259	15,012	15,907
Int. and Finance Charges	341	451	832	1,149	742	340	204	143
Other Income	109	123	151	352	215	426	501	501
PBT bef. EO Exp.	642	1,109	2,680	8,064	10,417	14,345	15,308	16,265
EO Items	705	0	0	0	0	0	0	0
PBT after EO Exp.	1,347	1,109	2,680	8,064	10,417	14,345	15,308	16,265
Total Tax	382	318	943	1,954	2,659	3,678	3,853	4,094
Tax Rate (%)	28.4	28.7	35.2	24.2	25.5	25.6	25.2	25.2
Reported PAT	963	790	1,737	6,110	7,758	10,666	11,455	12,171
Adjusted PAT	458	790	1,737	6,110	7,758	10,666	11,455	12,171
Change (%)	-26.9	72.4	119.8	251.9	27.0	37.5	7.4	6.3
Margin (%)	3.2	4.7	6.4	14.4	17.8	15.7	16.7	17.7

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	261	273	273	273	273	273	273	273
Total Reserves	6,887	8,949	10,443	15,446	23,194	33,112	42,848	53,194
Net Worth	7,149	9,221	10,716	15,719	23,467	33,384	43,121	53,467
Total Loans	7,239	9,866	12,286	10,279	5,775	3,007	2,105	1,473
Deferred Tax Liabilities	391	454	775	796	1,078	1,229	1,229	1,229
Capital Employed	14,778	19,541	23,776	26,794	30,320	37,620	46,455	56,169
Gross Block	6,106	6,403	17,749	20,460	22,441	25,263	32,763	40,263
Less: Accum. Deprn.	306	528	743	2,140	3,666	5,443	7,284	9,435
Net Fixed Assets	5,801	5,875	17,006	18,320	18,774	19,820	25,480	30,828
Capital WIP	3,492	9,545	339	1,723	2,068	1,037	1,037	1,037
Total Investments	1,181	318	24	24	1,893	4,390	4,390	4,390
Curr. Assets, Loans, and Adv.	7,385	10,167	11,910	12,019	12,868	19,057	22,220	26,480
Inventory	1,671	3,272	4,107	3,945	3,827	5,846	5,817	5,693
Account Receivables	3,603	4,118	5,750	6,127	7,563	11,291	11,383	11,401
Cash and Bank Balance	145	482	258	314	334	418	3,505	7,869
Cash	58	94	30	21	89	229	3,315	7,679
Bank Balance	87	388	228	293	245	189	189	189
Loans and Advances	1,965	2,296	1,795	1,633	1,144	1,503	1,515	1,518
Curr. Liability and Prov.	3,097	6,364	5,502	5,292	5,283	6,684	6,672	6,566
Account Payables	2,146	5,953	4,724	3,643	4,367	5,117	5,092	4,983
Other Current Liabilities	832	280	587	1,385	640	1,272	1,282	1,284
Provisions	119	132	191	264	276	296	298	298
Net Current Assets	4,288	3,803	6,408	6,727	7,585	12,373	15,548	19,914
Appl. of Funds	14,762	19,541	23,776	26,794	30,320	37,620	46,455	56,169

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	3.4	5.8	12.7	44.8	56.9	78.2	84.0	89.2
EPS Growth (%)	-27%	72%	120%	252%	27%	37%	7%	6%
Cash EPS	6.9	9.6	18.4	55.0	68.1	91.2	97.5	105.0
BV/Share	52.4	67.6	78.6	115.2	172.0	244.8	316.1	392.0
DPS	1.1	1.3	6.5	4.5	5.5	7.0	12.6	13.4
Payout (%)	19.6	27.0	61.6	12.1	9.7	9.0	15.0	15.0
Valuation (x)								
P/E	644.2	373.7	170.0	48.3	38.1	27.7	25.8	24.3
Cash P/E	314.6	224.4	117.4	39.3	31.8	23.7	22.2	20.6
P/BV	41.3	32.0	27.6	18.8	12.6	8.8	6.8	5.5
EV/Sales	20.8	18.2	11.4	7.2	6.9	4.4	4.3	4.2
EV/EBITDA	223.2	155.2	74.3	29.8	24.1	18.6	17.4	16.0
Dividend Yield (%)	0.1	0.1	0.3	0.2	0.3	0.3	0.6	0.6
FCF per share	-14.1	-32.1	-13.3	25.6	57.8	46.8	43.3	51.1
Return Ratios (%)								
RoE	7.7	9.7	17.4	46.2	39.6	37.5	29.9	25.2
RoCE	5.6	6.5	10.5	27.6	29.1	32.1	27.6	23.9
RoIC	6.5	10.7	13.5	28.0	32.1	36.7	32.4	29.6
Working Capital Ratios								
Fixed Asset Turnover (x)	2.5	2.9	2.4	2.4	2.4	3.5	3.0	2.4
Asset Turnover (x)	1.0	0.9	1.1	1.6	1.4	1.8	1.5	1.2
Inventory (Days)	42	71	56	34	32	31	31	30
Debtor (Days)	90	90	78	53	63	61	61	61
Creditor (Days)	54	130	64	31	37	27	27	26
Leverage Ratio (x)								
Current Ratio	2.4	1.6	2.2	2.3	2.4	2.9	3.3	4.0
Interest Coverage Ratio	2.6	3.2	4.0	7.7	14.7	41.9	73.4	111.1
Net Debt/Equity ratio	1.0	1.0	1.1	0.6	0.2	0.1	0.0	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,347	1,109	2,680	8,064	10,417	14,345	15,308	16,265
Depreciation	480	528	778	1,397	1,526	1,777	1,840	2,152
Others	-403	481	829	1,262	852	295	204	143
Direct Taxes Paid	-162	-279	-561	-1,985	-2,365	-3,535	-3,853	-4,094
(Inc.)/Dec. in WC	-772	-9	-3,123	-1,092	-412	-4,643	-89	-2
CF from Operations	490	1,830	603	7,647	10,019	8,239	13,411	14,464
(Inc.)/Dec. in FA	-2,412	-6,206	-2,410	-4,160	-2,140	-1,862	-7,500	-7,500
Free Cash Flow	-1,922	-4,376	-1,808	3,487	7,879	6,377	5,911	6,964
Change in Investments	-296	906	299	3	-1,854	-2,401	0	0
Others	-817	53	486	-122	33	22	0	0
CF from Investments	-3,526	-5,247	-1,626	-4,279	-3,961	-4,241	-7,500	-7,500
Issue of Shares	1,464	1,463	0	0	0	0	0	0
Inc./(Dec.) in Debt	2,160	2,626	2,033	-1,088	-5,246	-2,812	-902	-631
Interest Paid	-342	-450	-841	-1,134	-736	-320	-204	-143
Dividend Paid	-167	-188	-213	-1,060	-4	-750	-1,718	-1,826
Others	-69	2	-20	-94	-5	24	0	0
CF from Fin. Activity	3,046	3,453	958	-3,376	-5,990	-3,858	-2,825	-2,600
Inc./Dec. in Cash	10	36	-64	-8	68	139	3,086	4,364
Opening Balance	47	58	94	30	22	90	229	3,316
Closing Balance	58	94	30	22	90	229	3,316	7,680

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