

# Deepak Nitrite

Estimate changes

TP change

Rating change



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Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	267.8 / 3.4
52-Week Range (INR)	3020 / 1682
1, 6, 12 Rel. Per (%)	4/-15/-15
12M Avg Val (INR M)	2297

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	68.0	74.1	74.2
EBITDA	16.0	16.2	17.4
PAT	10.7	11.0	11.7
EPS (INR)	78.2	80.6	85.8
EPS Gr. (%)	37.5	3.0	6.4
BV/Sh.(INR)	245	313	386

## Ratios

Net D:E	0.1	(0.0)	(0.1)
RoE (%)	37.5	28.9	24.5
RoCE (%)	32.1	26.6	23.3
Payout (%)	9.0	15.0	15.0

## Valuations

P/E (x)	25.1	24.4	22.9
P/BV (x)	8.0	6.3	5.1
EV/EBITDA (x)	16.9	16.5	15.1
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	2.4	1.7	2.4

## Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	45.7	45.7	45.7
DII	10.7	10.0	10.4
FII	9.1	8.8	11.4
Others	34.5	35.5	32.5

FII Includes depository receipts

CMP: INR1,964

TP: INR1,887 (-4%)

Neutral

## Margin pressure persists in a volatile inflationary environment

- DN reported a miss on our estimates. EBITDA came in 12% lower than our estimate at INR3.6b. EBITDA margin, at 17.3%, was also below our estimate of 20.5% – the lowest since 3QFY19. **The miss was largely led by the Advanced Intermediates segment. EBIT margin declined to 18% in the Advanced Intermediates segment.**
- The operations of the group have been reclassified under two business segments: Advanced Intermediates and Phenolics. Advanced Intermediates include Basic Intermediates, Fine and Specialty Chemicals, and the Performance Products segment. **Mr. Sanjay Upadhyay has been elevated to the post of Executive Director (Finance) and Group CFO.** Mr. Somsekhar Nanda has been appointed as CFO of the company in his place.
- EBIT mix for the Advanced Intermediates segment fell to 41% from 55% in 4QFY22, with the contribution from Phenolics at 59% (up from an average of 56% in FY22). **In the revenue mix, the share of Advanced Intermediates declined to 35% from 41% in 4QFY22, while the share of Phenolics stood at 65% (up from an average of 62% in FY22).**
- The prices of all petrochemical building blocks were high in 1QFY23, with benzene prices crossing USD1,400/t in 1QFY23. Prices of other key raw materials like nitric acid rose 2.5-3x in 1QFY23. Its performance was also affected by the fire incident at its Nandesari plant. **We raise our FY23/FY24 revenue estimate by 8% due to expected strength in phenol prices.**
- **The company has committed to a capital investment of INR15b over the next two years** in new upstream/downstream products (MIBK, MIBC, and polycarbonate), besides debottlenecking projects at its existing product lines, bolstered by strong end-use demand, an expanding Indian economy, and a China+1 strategy. **It also plans to get into new chemistries like fluorination and photo chlorination.**
- The stock trades at 24x/23x FY23E/FY24E EPS. With the pricing environment remaining volatile and limited earnings growth opportunities till the time greenfield expansions get commissioned (phenol downstream products will result in a captive phenol consumption of 35-40%), we maintain our Neutral rating. Valuing the stock at 22x FY24E EPS, we arrive at our TP of INR1,887.

## Miss on EBITDA as margin remains suppressed

- Revenue was in line at INR20.6b, up 35% YoY and 10% QoQ, **led by the Phenolics business.** EBITDA fell 21% YoY and 13% QoQ to INR3.6b, 12% lower than our estimate. **EBITDAM stood at 17.3% (v/s 21.9% in 4QFY22) – the lowest since 3QFY19.** Gross margin fell 430bp QoQ to 33.9%, while the **conversion cost stood at 17% (v/s 16% in 4QFY22).** PAT fell 22% YoY and 12% QoQ to INR2.3b, **translating into an EPS of INR17.2.**

- The EBIT margin in Phenolics stood at 14% (v/s 16% in 4QFY22), with EBIT at INR1.9b. The EBIT margin in Advanced Intermediates stood at 18% (below 20% for the first time since 3QFY19) v/s 27% in 4QFY22, with EBIT at INR1.3b.
- In the revenue mix, the share of Phenolics/Advanced Intermediates stood at 65%/35% in 1QFY23. EBIT mix for Advanced Intermediates fell to 41% from 55% in 4QFY22. Contribution from Phenolics stood at 59% from 45% in 4QFY22.

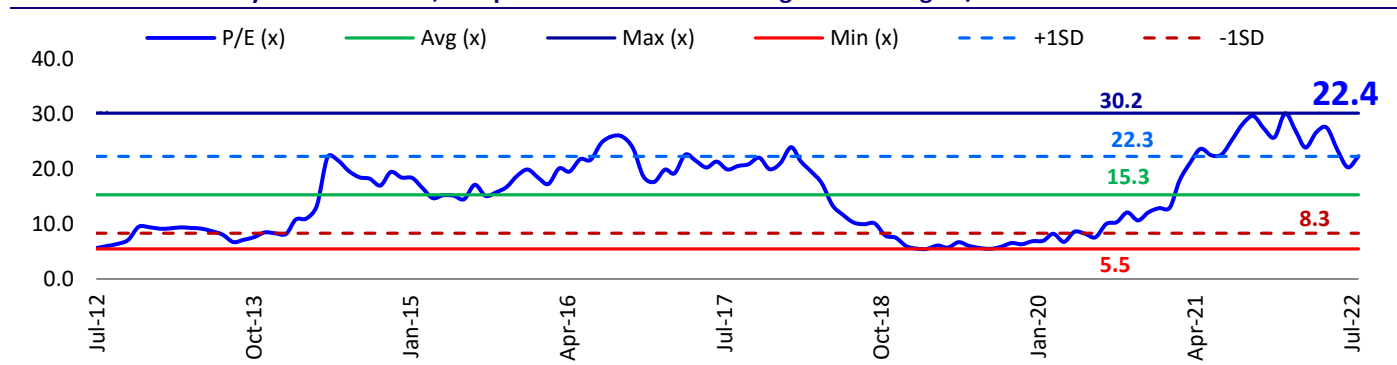
#### Valuation and view – maintain our Neutral rating

- The management aims to become the largest player in Solvents, with a play on import substitution.
- Despite a capex of INR15b over the next two years, it is expected to turn net cash positive by FY23, with a FCF generation of INR10.9b over FY23-24.
- However, the management's focus remains on commodities, rather than Specialty products or Complex Commodities, as of now. We value DN at 22x FY24E EPS and reiterate our Neutral rating with a TP of INR1,887.

#### Consolidated - Quarterly Snapshot

Consolidated - Quarterly Snapshot											(INR m)	
Y/E March	FY22				FY23				FY22	FY23E	FY23	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		
Gross Sales	15,262	16,814	17,223	18,724	20,580	17,973	17,752	17,795	68,022	74,101	19,717	4%
YoY Change (%)	126.3	70.3	39.5	28.0	34.8	6.9	3.1	-5.0	56.0	8.9	29.2	
Gross Margin (%)	46.3%	37.4%	37.0%	38.2%	33.9%	38.3%	40.8%	35.4%	39.5%	37.0%	34.8%	-1.0%
EBITDA	4,515	3,865	3,519	4,103	3,560	4,385	4,365	3,880	16,002	16,190	4,050	-12%
Margin (%)	29.6	23.0	20.4	21.9	17.3	24.4	24.6	21.8	23.5	21.8	20.5	-3.2
Depreciation	436	441	455	446	419	472	483	467	1,777	1,840	460	
Interest	109	92	68	71	86	56	51	11	340	204	66	
Other Income	83	84	258	35	96	128	203	114	460	541	81	
PBT	4,053	3,417	3,253	3,622	3,151	3,986	4,034	3,516	14,345	14,687	3,604	-13%
Tax	1,026	873	829	950	805	1,003	1,017	872	3,678	3,697	907	
Rate (%)	25.3	25.6	25.5	26.2	25.5	25.2	25.2	24.8	25.6	25.2	25.2	
Reported PAT	3,026	2,543	2,425	2,672	2,346	2,983	3,017	2,644	10,666	10,990	2,697	-13%
YoY Change (%)	205.8	49.4	12.0	-7.9	-22.5	17.3	24.4	-1.1	37.5	3.0	-10.9	
Margin (%)	19.8	15.1	14.1	14.3	11.4	16.6	17.0	14.9	15.7	14.8	13.7	-2.3
Segmental Revenue (INR m)												
Advanced Intermediates	5,491	5,697	7,224	7,953	7,300	7,485	7,485	7,671	26,365	29,941	7,485	-2%
Phenolics	9,990	11,370	10,331	11,221	13,349	10,488	10,267	10,056	42,912	44,160	9,660	38%
Segmental EBIT (INR m)												
Advanced Intermediates	1,546	1,322	1,690	2,131	1,327	1,765	1,765	2,202	6,688	7,059	1,765	-25%
Phenolics	2,873	2,204	1,836	1,759	1,877	1,748	1,840	1,895	8,671	7,360	2,024	-7%
Segmental EBIT Margins (%)												
Advanced Intermediates	28%	23%	23%	27%	18%	24%	24%	29%	25%	24%	24%	-5%
Phenolics	29%	19%	18%	16%	14%	17%	18%	19%	20%	17%	21%	-7%

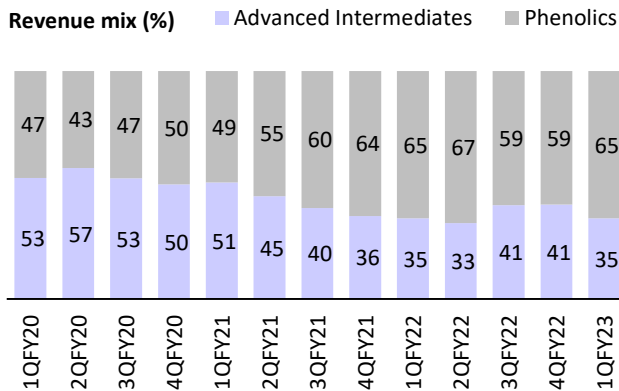
#### Exhibit 1: DN currently trades at 22.4x, at a premium of 46% to its long term average P/E



Source: MOFSL

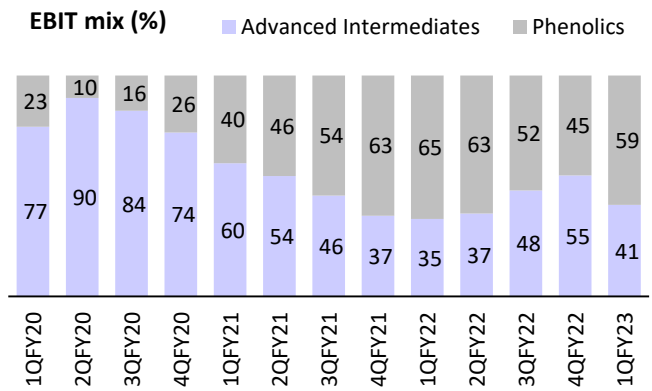
## 1QFY23 in charts

**Exhibit 2: Contribution of Phenolics in total revenue grew to 65% in 1QFY23 QoQ...**



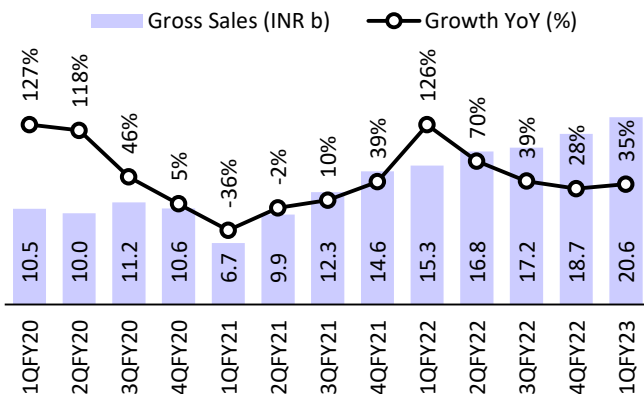
Source: Company, MOFSL

**Exhibit 3: ...with Phenolics contribution to EBIT mix also increased to 59% QoQ from 45% in 4QFY22**



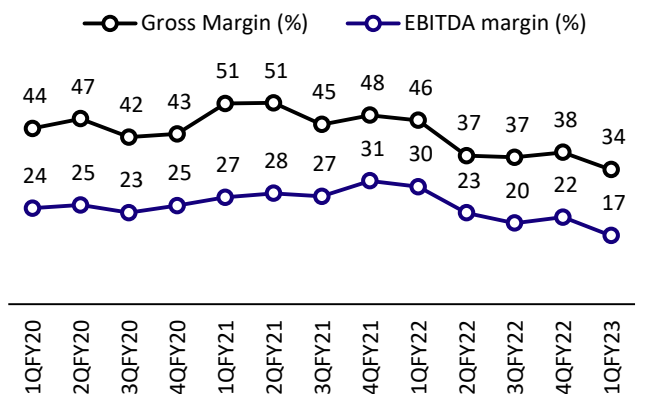
Source: Company, MOFSL

**Exhibit 1: Sales rose 10% QoQ, led by Phenolics business**



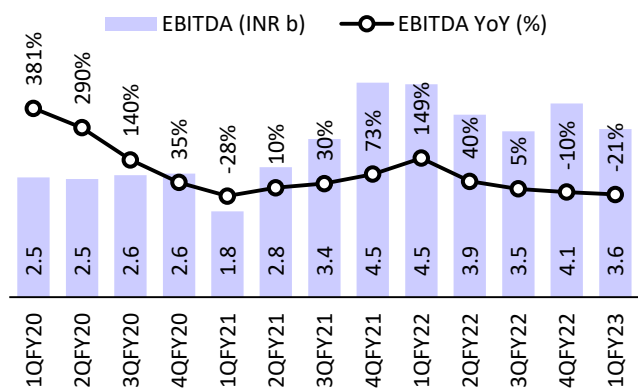
Source: Company, MOFSL

**Exhibit 2: Margins declined in tough environment**



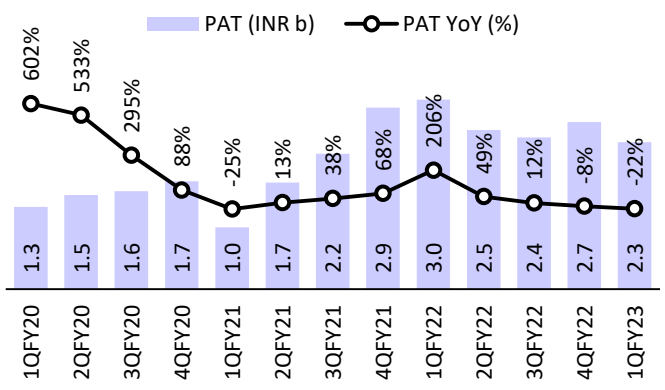
Source: Company, MOFSL

**Exhibit 3: EBITDA declined 13% QoQ (margin at 17.3%)**

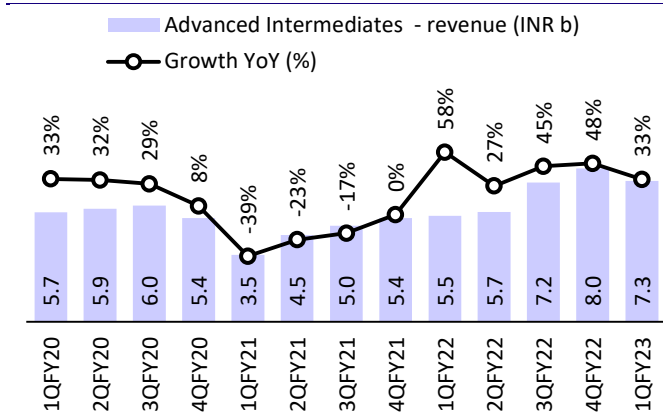


Source: Company, MOFSL

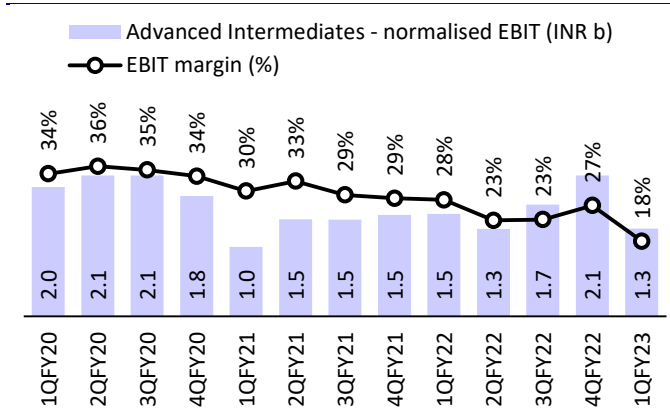
**Exhibit 4: PAT declined by 12% QoQ (margin at 11.4%)**



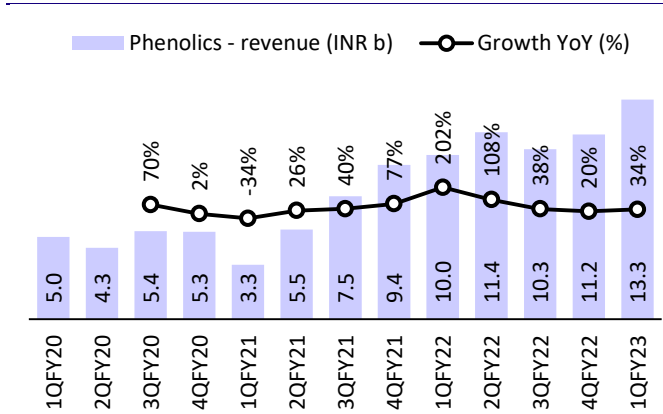
Source: Company, MOFSL

**Exhibit 5: Revenue from Advanced Intermediates declined 8% QoQ...**

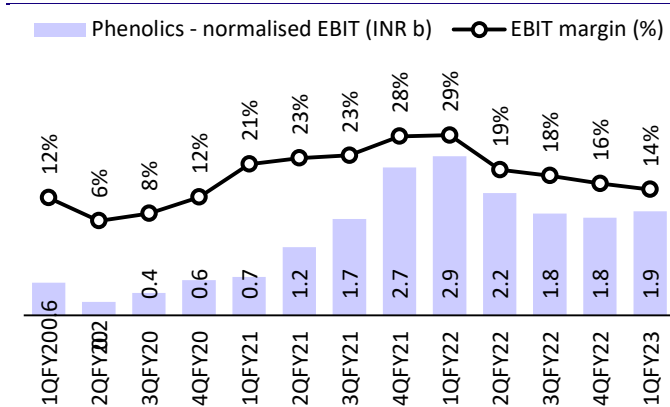
Source: Company, MOFSL

**Exhibit 6: ...with a decline (-900bp) in EBIT margin**

Source: Company, MOFSL

**Exhibit 7: Revenue for Deepak Phenolics grew 19% QoQ...**

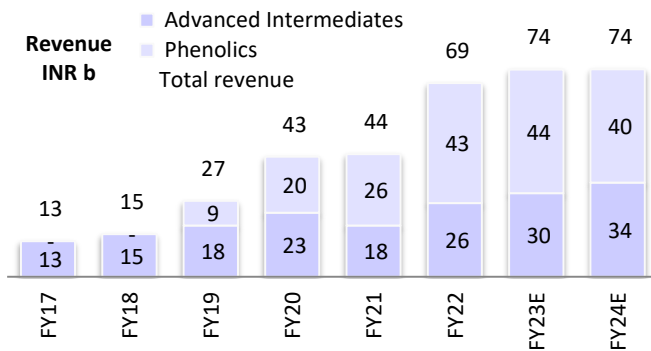
Source: Company, MOFSL

**Exhibit 8: ...with EBIT margin at 14% (INR19.6/kg)**

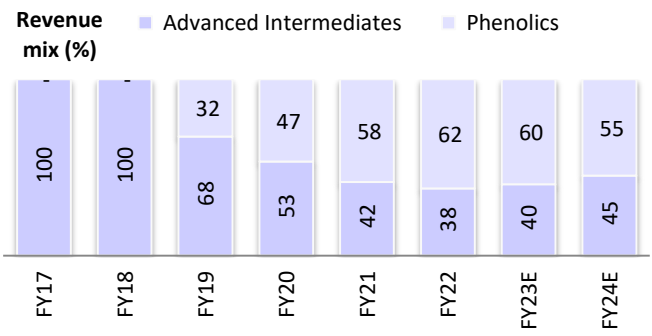
\*Assuming utilization maintained at 120% Source: Company, MOFSL

## Financial story in charts

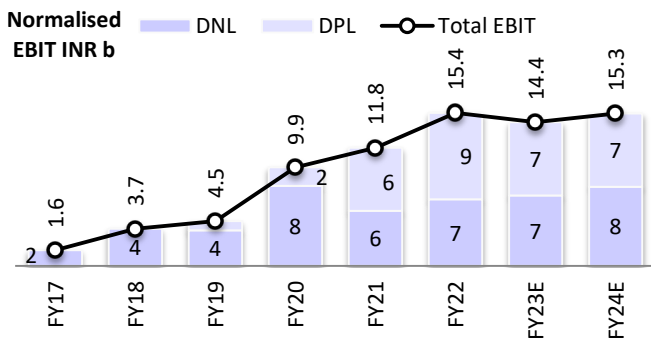
**Exhibit 9: Revenue growth peaked as product prices in DPL normalizes going forward...**



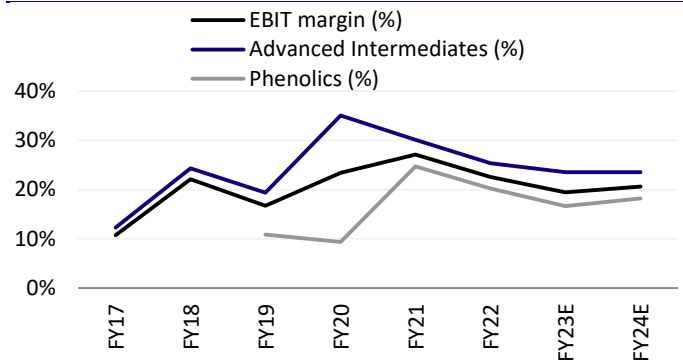
**Exhibit 10: ...resulting in a lower contribution from DPL in the total revenue mix**



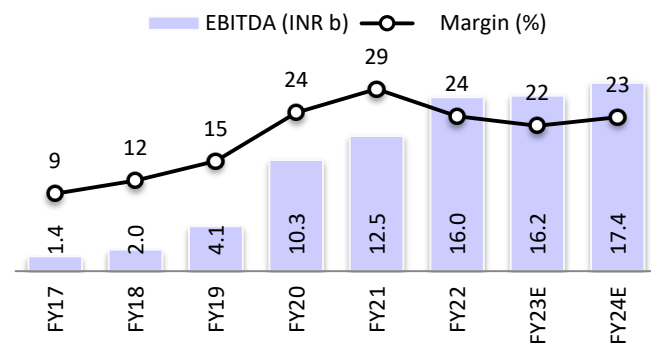
**Exhibit 11: Expect normalized EBIT margin to stabilize at ~15%**



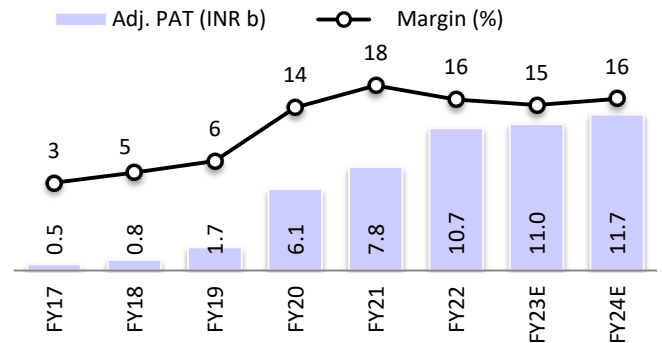
**Exhibit 12: ...with Advanced Intermediates still enjoying a higher EBIT margin (estimate ~24%)**



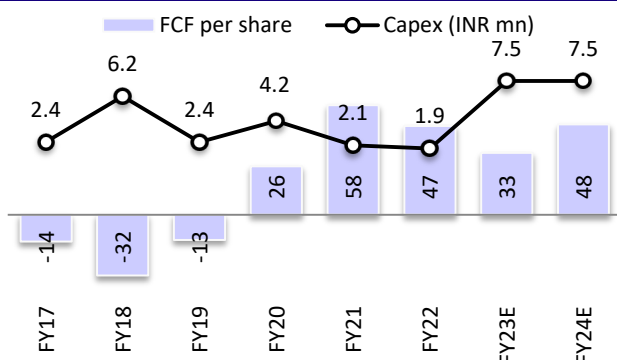
**Exhibit 13: EBITDA margin to normalize from FY21 levels**



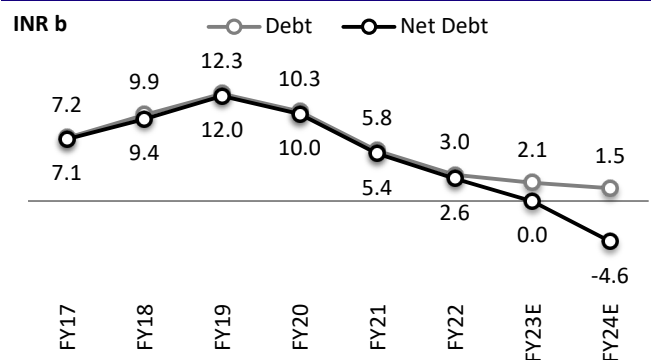
**Exhibit 14: Expect ~5% PAT CAGR over FY22-24E**



**Exhibit 15: DN to incur ~INR15b on capex over FY23-24E...**



**Exhibit 16: ...but is likely to turn net cash positive in FY23E**



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>14,547</b>	<b>16,762</b>	<b>26,999</b>	<b>42,297</b>	<b>43,598</b>	<b>68,022</b>	<b>74,101</b>	<b>74,206</b>
Change (%)	-0.2	15.2	61.1	56.7	3.1	56.0	8.9	0.1
Gross Margin (%)	41.9	38.0	39.0	43.9	48.1	39.5	37.0	39.1
<b>EBITDA</b>	<b>1,355</b>	<b>1,963</b>	<b>4,139</b>	<b>10,258</b>	<b>12,470</b>	<b>16,036</b>	<b>16,190</b>	<b>17,384</b>
Margin (%)	9.3	11.7	15.3	24.3	28.6	23.6	21.8	23.4
Depreciation	480	526	778	1,397	1,526	1,777	1,840	2,152
<b>EBIT</b>	<b>874</b>	<b>1,437</b>	<b>3,361</b>	<b>8,861</b>	<b>10,944</b>	<b>14,259</b>	<b>14,350</b>	<b>15,232</b>
Int. and Finance Charges	341	451	832	1,149	742	340	204	143
Other Income	109	123	151	352	215	426	541	542
<b>PBT bef. EO Exp.</b>	<b>642</b>	<b>1,109</b>	<b>2,680</b>	<b>8,064</b>	<b>10,417</b>	<b>14,345</b>	<b>14,687</b>	<b>15,631</b>
EO Items	705	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>1,347</b>	<b>1,109</b>	<b>2,680</b>	<b>8,064</b>	<b>10,417</b>	<b>14,345</b>	<b>14,687</b>	<b>15,631</b>
Total Tax	382	318	943	1,954	2,659	3,678	3,697	3,934
Tax Rate (%)	28.4	28.7	35.2	24.2	25.5	25.6	25.2	25.2
<b>Reported PAT</b>	<b>963</b>	<b>790</b>	<b>1,737</b>	<b>6,110</b>	<b>7,758</b>	<b>10,666</b>	<b>10,990</b>	<b>11,697</b>
<b>Adjusted PAT</b>	<b>458</b>	<b>790</b>	<b>1,737</b>	<b>6,110</b>	<b>7,758</b>	<b>10,666</b>	<b>10,990</b>	<b>11,697</b>
Change (%)	-26.9	72.4	119.8	251.9	27.0	37.5	3.0	6.4
Margin (%)	3.2	4.7	6.4	14.4	17.8	15.7	14.8	15.8

### 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	42,453	52,395
<b>Net Worth</b>	<b>7,149</b>	<b>9,221</b>	<b>10,716</b>	<b>15,719</b>	<b>23,467</b>	<b>33,384</b>	<b>42,726</b>	<b>52,668</b>
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
<b>Capital Employed</b>	<b>14,778</b>	<b>19,541</b>	<b>23,776</b>	<b>26,794</b>	<b>30,320</b>	<b>37,620</b>	<b>46,059</b>	<b>55,370</b>
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
<b>Net Fixed Assets</b>	<b>5,801</b>	<b>5,875</b>	<b>17,006</b>	<b>18,320</b>	<b>18,774</b>	<b>19,820</b>	<b>25,480</b>	<b>30,828</b>
Capital WIP	3,492	9,545	339	1,723	2,068	1,037	1,037	1,037
<b>Total Investments</b>	<b>1,181</b>	<b>318</b>	<b>24</b>	<b>24</b>	<b>1,893</b>	<b>4,390</b>	<b>4,390</b>	<b>4,390</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>7,402</b>	<b>10,167</b>	<b>11,910</b>	<b>12,019</b>	<b>12,868</b>	<b>19,057</b>	<b>22,560</b>	<b>26,418</b>
Inventory	1,671	3,272	4,107	3,945	3,827	5,846	6,512	6,389
Account Receivables	3,603	4,118	5,750	6,127	7,563	11,291	12,300	12,317
Cash and Bank Balance	145	482	258	314	334	418	2,112	6,072
Cash	58	94	30	21	89	229	1,922	5,882
Bank Balance	87	388	228	293	245	189	189	189
Loans and Advances	1,982	2,296	1,795	1,633	1,144	1,503	1,637	1,640
<b>Curr. Liability and Prov.</b>	<b>3,097</b>	<b>6,364</b>	<b>5,502</b>	<b>5,292</b>	<b>5,283</b>	<b>6,684</b>	<b>7,408</b>	<b>7,303</b>
Account Payables	2,146	5,953	4,724	3,643	4,367	5,117	5,700	5,593
Other Current Liabilities	832	280	587	1,385	640	1,272	1,385	1,387
Provisions	119	132	191	264	276	296	322	322
<b>Net Current Assets</b>	<b>4,305</b>	<b>3,803</b>	<b>6,408</b>	<b>6,727</b>	<b>7,585</b>	<b>12,373</b>	<b>15,153</b>	<b>19,115</b>
<b>Appl. of Funds</b>	<b>14,779</b>	<b>19,541</b>	<b>23,776</b>	<b>26,794</b>	<b>30,320</b>	<b>37,620</b>	<b>46,059</b>	<b>55,370</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>3.4</b>	<b>5.8</b>	<b>12.7</b>	<b>44.8</b>	<b>56.9</b>	<b>78.2</b>	<b>80.6</b>	<b>85.8</b>
<b>EPS Growth (%)</b>	<b>-27%</b>	<b>72%</b>	<b>120%</b>	<b>252%</b>	<b>27%</b>	<b>37%</b>	<b>3%</b>	<b>6%</b>
Cash EPS	6.9	9.6	18.4	55.0	68.1	91.2	94.1	101.5
BV/Share	52.4	67.6	78.6	115.2	172.0	244.8	313.2	386.1
DPS	1.1	1.3	6.5	4.5	5.5	7.0	12.1	12.9
Payout (%)	19.6	27.0	61.6	12.1	9.7	9.0	15.0	15.0
<b>Valuation (x)</b>								
P/E	584.3	339.0	154.3	43.8	34.5	25.1	24.4	22.9
Cash P/E	285.4	203.5	106.5	35.7	28.9	21.5	20.9	19.3
P/BV	37.5	29.1	25.0	17.0	11.4	8.0	6.3	5.1
EV/Sales	18.9	16.5	10.4	6.6	6.3	4.0	3.6	3.5
EV/EBITDA	203.0	141.2	67.6	27.1	21.9	16.9	16.5	15.1
Dividend Yield (%)	0.1	0.1	0.3	0.2	0.3	0.4	0.6	0.7
FCF per share	-14.1	-32.1	-13.3	25.6	57.8	46.8	32.6	47.6
<b>Return Ratios (%)</b>								
RoE	7.7	9.7	17.4	46.2	39.6	37.5	28.9	24.5
RoCE	5.6	6.5	10.5	27.6	29.1	32.1	26.6	23.3
RoIC	6.5	10.7	13.5	28.0	32.1	36.7	30.6	27.7
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	2.5	2.9	2.4	2.4	2.4	3.5	3.3	2.6
Asset Turnover (x)	1.0	0.9	1.1	1.6	1.4	1.8	1.6	1.3
Inventory (Days)	42	71	56	34	32	31	32	31
Debtor (Days)	90	90	78	53	63	61	61	61
Creditor (Days)	54	130	64	31	37	27	28	28
<b>Leverage Ratio (x)</b>								
Current Ratio	2.4	1.6	2.2	2.3	2.4	2.9	3.0	3.6
Interest Coverage Ratio	2.6	3.2	4.0	7.7	14.7	41.9	70.2	106.4
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	14,687	15,631
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	-3,697	-3,934
(Inc.)/Dec. in WC	-772	-9	-3,123	-1,092	-412	-4,643	-1,086	-2
<b>CF from Operations</b>	<b>490</b>	<b>1,830</b>	<b>603</b>	<b>7,647</b>	<b>10,019</b>	<b>8,239</b>	<b>11,948</b>	<b>13,990</b>
(Inc.)/Dec. in FA	-2,412	-6,206	-2,410	-4,160	-2,140	-1,862	-7,500	-7,500
<b>Free Cash Flow</b>	<b>-1,922</b>	<b>-4,376</b>	<b>-1,808</b>	<b>3,487</b>	<b>7,879</b>	<b>6,377</b>	<b>4,448</b>	<b>6,490</b>
Change in Investments	-296	906	299	3	-1,854	-2,401	0	0
Others	-817	53	486	-122	33	22	0	0
<b>CF from Investments</b>	<b>-3,526</b>	<b>-5,247</b>	<b>-1,626</b>	<b>-4,279</b>	<b>-3,961</b>	<b>-4,241</b>	<b>-7,500</b>	<b>-7,500</b>
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	-1,649	-1,755
Others	-69	2	-20	-94	-5	24	0	0
<b>CF from Fin. Activity</b>	<b>3,046</b>	<b>3,453</b>	<b>958</b>	<b>-3,376</b>	<b>-5,990</b>	<b>-3,858</b>	<b>-2,755</b>	<b>-2,529</b>
<b>Inc./Dec. in Cash</b>	<b>10</b>	<b>36</b>	<b>-64</b>	<b>-8</b>	<b>68</b>	<b>139</b>	<b>1,693</b>	<b>3,960</b>
Opening Balance	47	58	94	30	22	90	229	1,923
<b>Closing Balance</b>	<b>58</b>	<b>94</b>	<b>30</b>	<b>22</b>	<b>90</b>	<b>229</b>	<b>1,923</b>	<b>5,883</b>

## NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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