

November 10, 2023

## Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		REDUCE	
Target Price	1,935		1,854	
Sales (Rs.m)	84,976	94,272	85,886	95,319
% Chng.	(1.1)	(1.1)		
EBITDA (Rs.m)	13,615	17,517	13,779	17,726
% Chng.	(1.2)	(1.2)		
EPS (Rs.)	61.3	78.0	62.3	79.2
% Chng.	(1.5)	(1.5)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	79,721	84,976	94,272	1,04,933
EBITDA (Rs. m)	12,894	13,615	17,517	19,740
Margin (%)	16.2	16.0	18.6	18.8
PAT (Rs. m)	8,520	8,366	10,645	11,999
EPS (Rs.)	62.5	61.3	78.0	88.0
Gr. (%)	(20.1)	(1.8)	27.2	12.7
DPS (Rs.)	7.5	7.4	9.4	10.6
Yield (%)	0.4	0.4	0.5	0.5
RoE (%)	22.9	18.8	20.1	19.1
RoCE (%)	28.9	23.5	24.9	23.8
EV/Sales (x)	3.6	3.4	3.1	2.7
EV/EBITDA (x)	22.0	21.1	16.5	14.5
PE (x)	33.2	33.9	26.6	23.6
P/BV (x)	6.9	5.9	4.9	4.2

### Key Data

### DPNT.BO | DN IN

52-W High / Low	Rs.2,373 / Rs.1,730
Sensex / Nifty	64,832 / 19,395
Market Cap	Rs.283bn/ \$ 3,400m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.917.33m

### Shareholding Pattern (%)

Promoter's	49.13
Foreign	6.47
Domestic Institution	17.96
Public & Others	26.45
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.4	6.6	(9.7)
Relative	1.4	1.5	(15.0)

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## Deepak Nitrite (DN IN)

Rating: REDUCE | CMP: Rs2,076 | TP: Rs1,935

### Major growth expected post FY24

#### Quick Pointers:

- Phenolics utilization stood at 135% in Q2FY24.

**Deepak Nitrite (DN) reported sluggish numbers YoY (topline down 9%) on account of inventory destocking, slowdown in EU & other markets and dumping of products by China. Management expects Advanced Intermediates segment & phenolics division to recover only in H2FY24, however major volume growth to be seen post commercialization of downstream products. While we remain positive on the long term story, phenolics margins will remain under pressure due to capacity additions in China, in our view. We thereby forecast EPS to decline to Rs 61 in FY24 before recovering to Rs 88 in FY26. We anticipate ~12% EPS CAGR over FY23-26E. Considering large commodity nature of business, we value the stock at 22x P/E on FY26E EPS of Rs 88 and retain 'Reduce' rating with TP of Rs1,935 (earlier Rs1,803).**

- Topline performance impacted by realizations:** Revenue was at Rs17.8bn (-9% YoY/ +1% QoQ), on account of lower realizations YoY across business segments. Phenolics division impacted by 13% YoY on account of disproportionate imports from China. Inventory destocking and slowdown in EU & other markets led to lower demand across both businesses. QoQ, topline improvement of ~1% was on account of uptick in phenolics division.
- Bottomline up both YoY & QoQ driven by operational efficiency:** EBITDA came in at Rs 3bn up ~44% QoQ on account of uptick in phenol production and optimized capacity utilisations. EBITDA margin stood at 17.0% for the quarter vs 13.8%/11.9% in Q2FY23/Q1FY24 respectively. PAT stood at Rs 2.1bn (+18%/+37% YoY/QoQ), while margins stood at 11.5% vs 8.9%/8.5% in Q2FY23 & Q1FY24 respectively.
- For H1FY24, topline dropped 3% YoY to Rs 13.8bn vs Rs 14.2bn majorly led by drop of 16% in phenolics division. Margins in phenolics division for the quarter came in at 11.8% vs 11.1% same period last year.
- Segmental Performance:** Advanced intermediates revenue dropped 2%/5% YoY & QoQ to Rs 6.7bn, while EBIT margins stood at 15% for the quarter. Phenolics division was much impacted, down by 13% YoY. EBITDA margin for the business, maintained at 19% despite challenging environment and subdued demand from key industries such as agrochemicals, dyes, pigments and textiles. Phenolic's EBIT dropped due to lowest phenol-acetone spreads witnessed in the quarter.
- Segmental mix** of Phenolics stood at 55% in Q2FY24 with Advanced Intermediates share at 45%. Capacity utilization of phenolics division stands at ~135% for the quarter.

- Company has invested Rs 6bn in DCTL (wholly owned subsidiary), out of which Rs1bn was invested in Q2FY24. Also it invested approx. Rs 0.2 bn (USD 2 mn) in equity of Deepak Oman Industries; it holds 32% stake as part of financing equity to set up SNI/ SNA project at Oman.
- Concall takeaways:** (1) Phenolics margins are usually at 15-16%; expect it to be maintained at these levels (2) Domestic to Exports mix stood at 81:19 (consolidated basis) while for standalone it was 55:45 for the quarter (3) Phenol plant achieved capacity utilization of approximately 135-136% and this is expected to go up in H2FY24 (5) Commissioning of brownfield projects will be done within 6 months except for hydrogenation brownfield which will take 8 months (6) Management's guidance of doubling the turnover remains intact. (7) Phenolics margins sequentially improved, performance to be at similar levels of 15-18% going ahead. (8) According to management, company's R&D team focuses on operational excellence and better product development. (9) In fine and specialty portfolio, destocking still persists; expect recovery going ahead. (10) Also certain softness in demand is seen in agrochemicals while industries such as HPC & thermal paper also saw weak demand. (11) Capex spent for H1FY24 stands at Rs 3.1bn.

**Exhibit 1: Q2FY24 Result Overview - Consolidated (Rs mn)**

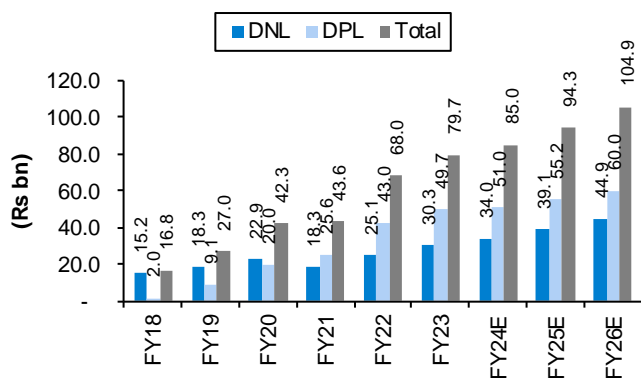
Y/e March	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
<b>Net Revenue</b>	<b>17,781</b>	<b>19,617</b>	<b>-9.4%</b>	<b>17,683</b>	<b>0.5%</b>	<b>35,464</b>	<b>40,196</b>	<b>-11.8%</b>
Material Cost	11,658	13,700	-14.9%	12,236	-4.7%	23,895	27,308	-12.5%
<b>Gross Profit</b>	<b>6,122</b>	<b>5,917</b>	<b>3.5%</b>	<b>5,447</b>	<b>12.4%</b>	<b>11,569</b>	<b>12,888</b>	<b>-10.2%</b>
Gross Margin (%)	34.4%	30.2%		30.8%		32.6%	32.1%	
Employee expenses	848	785	8.0%	842	0.7%	1,690	1,597	5.8%
Other operating expenses	2,252	2,423	-7.1%	2,507	-10.2%	4,759	5,023	-5.3%
<b>EBITDA</b>	<b>3,023</b>	<b>2,709</b>	<b>11.6%</b>	<b>2,098</b>	<b>44.1%</b>	<b>5,120</b>	<b>6,268</b>	<b>-18.3%</b>
EBITDA margin (%)	17.0%	13.8%		11.9%		14.4%	15.6%	
Depreciation	394	424	-7.0%	381	3.5%	775	843	-8.0%
<b>EBIT</b>	<b>2,628</b>	<b>2,285</b>	<b>15.0%</b>	<b>1,717</b>	<b>53.1%</b>	<b>4,345</b>	<b>5,426</b>	<b>-19.9%</b>
Other income	170	120	41.5%	319	-46.5%	489	217	125.9%
Interest cost	27	59	-54.6%	18	48.1%	45	145	-69.0%
<b>PBT</b>	<b>2,772</b>	<b>2,346</b>	<b>18.2%</b>	<b>2,017</b>	<b>37.4%</b>	<b>4,789</b>	<b>5,497</b>	<b>-12.9%</b>
Tax	721	601	20.0%	518	39.1%	1,192	1,348	-11.6%
Sh of ass. / Minority int	-	-		-		-	-	
<b>PAT</b>	<b>2,051</b>	<b>1,745</b>	<b>17.5%</b>	<b>1,499</b>	<b>36.8%</b>	<b>3,597</b>	<b>4,149</b>	<b>-13.3%</b>
Extra ordinary income/ (exp.)	-	-		-		-	-	
<b>Adjusted PAT</b>	<b>2,051</b>	<b>1,745</b>	<b>17.5%</b>	<b>1,499</b>	<b>36.8%</b>	<b>3,597</b>	<b>4,149</b>	<b>-13.3%</b>
Adj. PAT margin (%)	11.5%	8.9%		8.5%		10.1%	10.3%	
No. of shares (mn)	136	136		136		136	136	
<b>Adj. EPS (Rs.)</b>	<b>15.1</b>	<b>12.8</b>	<b>17.5%</b>	<b>11.0</b>	<b>36.8%</b>	<b>26.4</b>	<b>30.5</b>	<b>-13.3%</b>

Source: Company, PL

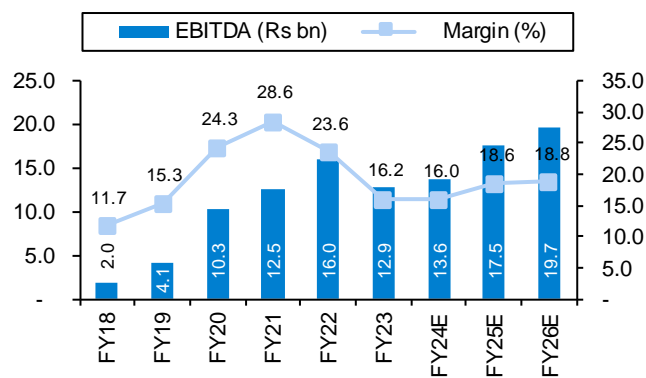
**Exhibit 2: Q2FY24 - Segmental Performance (Rs mn)**

Y/e March	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
Advanced Intermediates	6,702	6,853	-2.2%	7,083	-5.4%	13,785	14,153	-2.6%
Phenolics	11,201	12,841	-12.8%	10,679	4.9%	21,880	26,190	-16.5%
Intersegment	123	77	58.9%	79	56.4%	201	147	37%
<b>Total Revenue</b>	<b>17,781</b>	<b>19,617</b>	<b>-9.4%</b>	<b>17,683</b>	<b>0.5%</b>	<b>35,464</b>	<b>40,196</b>	<b>-11.8%</b>
Advanced Intermediates	1,034	1,384	-25.3%	1,149	-10.0%	2,183	2,711	-19.5%
Phenolics	1,704	1,027	66.0%	876	94.5%	2,580	2,904	-11.2%
Interest	27	59		18		45	145	
Other unallocable expenses	(61)	5		(10)		(71)	(28)	
<b>Total EBIT</b>	<b>2,772</b>	<b>2,346</b>	<b>18.2%</b>	<b>2,017</b>	<b>37.4%</b>	<b>4,789</b>	<b>5,497</b>	<b>-12.9%</b>
<b>EBIT Margins</b>								
Advanced Intermediates	15.4%	20.2%		16.2%		15.8%	19.2%	
Phenolics	15.2%	8.0%		8.2%		11.8%	11.1%	

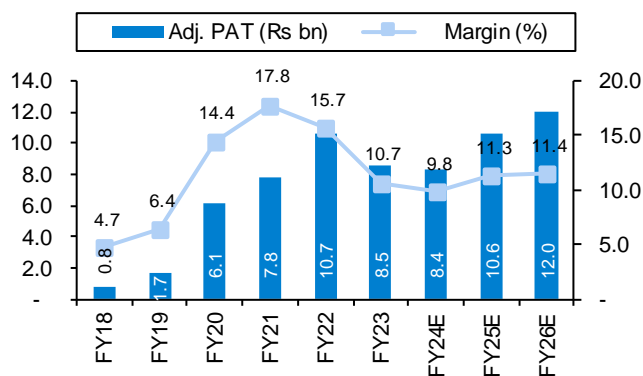
Source: Company, PL

**Exhibit 3: Rev to grow at 7% CAGR (FY23-25E) led by CU**


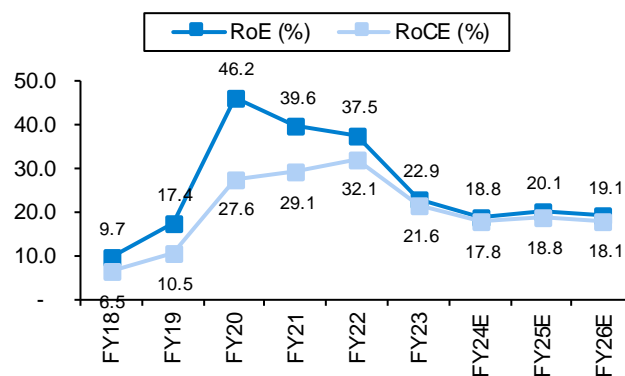
Source: Company, PL

**Exhibit 4: Stable margin on spread normalization**


Source: Company, PL

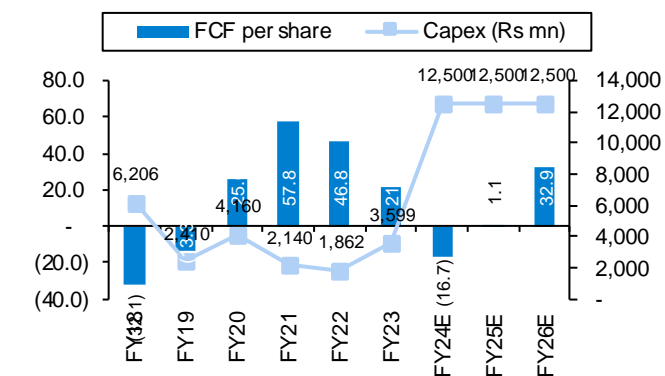
**Exhibit 5: PAT margins at 11%**


Source: Company, PL

**Exhibit 6: Return Ratios to hover around 19-20%**


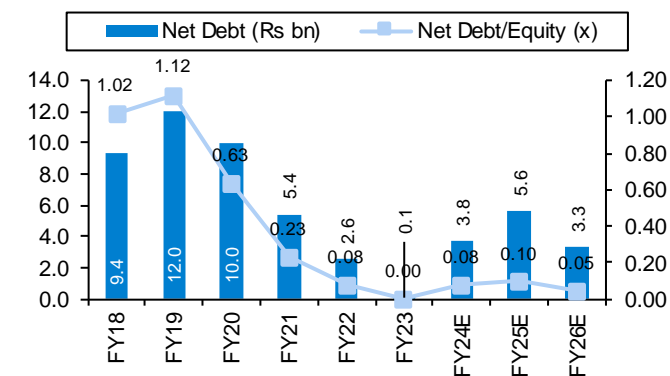
Source: Company, PL

**Exhibit 7: Steady profits with negligible capex to boost FCF**



Source: Company, PL

**Exhibit 8: Net Debt/Equity at 0.1x**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>79,721</b>	<b>84,976</b>	<b>94,272</b>	<b>1,04,933</b>
YoY gr. (%)	17.2	6.6	10.9	11.3
Cost of Goods Sold	53,475	58,319	61,152	68,145
Gross Profit	26,246	26,657	33,120	36,788
Margin (%)	32.9	31.4	35.1	35.1
Employee Cost	3,183	3,695	4,290	4,981
Other Expenses	10,169	9,347	11,313	12,067
<b>EBITDA</b>	<b>12,894</b>	<b>13,615</b>	<b>17,517</b>	<b>19,740</b>
YoY gr. (%)	(19.6)	5.6	28.7	12.7
Margin (%)	16.2	16.0	18.6	18.8
Depreciation and Amortization	1,663	2,604	3,079	3,554
<b>EBIT</b>	<b>11,231</b>	<b>11,011</b>	<b>14,438</b>	<b>16,187</b>
Margin (%)	14.1	13.0	15.3	15.4
Net Interest	248	341	750	750
Other Income	476	510	537	598
<b>Profit Before Tax</b>	<b>11,459</b>	<b>11,180</b>	<b>14,226</b>	<b>16,035</b>
Margin (%)	14.4	13.2	15.1	15.3
Total Tax	2,939	2,814	3,581	4,036
Effective tax rate (%)	25.6	25.2	25.2	25.2
<b>Profit after tax</b>	<b>8,520</b>	<b>8,366</b>	<b>10,645</b>	<b>11,999</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>8,520</b>	<b>8,366</b>	<b>10,645</b>	<b>11,999</b>
YoY gr. (%)	(20.1)	(1.8)	27.2	12.7
Margin (%)	10.7	9.8	11.3	11.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>8,520</b>	<b>8,366</b>	<b>10,645</b>	<b>11,999</b>
YoY gr. (%)	(20.1)	(1.8)	27.2	12.7
Margin (%)	10.7	9.8	11.3	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,520	8,366	10,645	11,999
<b>Equity Shares O/s (m)</b>	<b>136</b>	<b>136</b>	<b>136</b>	<b>136</b>
<b>EPS (Rs)</b>	<b>62.5</b>	<b>61.3</b>	<b>78.0</b>	<b>88.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>26,705</b>	<b>39,205</b>	<b>51,705</b>	<b>64,205</b>
Tangibles	26,705	39,205	51,705	64,205
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>7,106</b>	<b>9,710</b>	<b>12,789</b>	<b>16,343</b>
Tangibles	7,106	9,710	12,789	16,343
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>19,599</b>	<b>29,495</b>	<b>38,916</b>	<b>47,862</b>
Tangibles	19,599	29,495	38,916	47,862
Intangibles	-	-	-	-
Capital Work In Progress	2,826	2,826	2,826	2,826
Goodwill	-	-	-	-
Non-Current Investments	3,794	3,794	3,794	3,794
Net Deferred tax assets	(1,566)	(1,566)	(1,566)	(1,566)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	8,931	9,537	10,258	11,385
Trade receivables	13,095	13,958	15,485	14,374
Cash & Bank Balance	400	234	351	651
Other Current Assets	2,644	2,818	3,127	3,480
<b>Total Assets</b>	<b>51,287</b>	<b>62,662</b>	<b>74,757</b>	<b>84,372</b>
<b>Equity</b>				
Equity Share Capital	273	273	273	273
Other Equity	40,627	47,988	57,355	67,913
<b>Total Networkth</b>	<b>40,900</b>	<b>48,261</b>	<b>57,628</b>	<b>68,186</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	545	4,000	6,000	4,000
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,618	7,067	7,601	8,436
Other current liabilities	1,659	1,768	1,962	2,183
<b>Total Equity &amp; Liabilities</b>	<b>51,287</b>	<b>62,662</b>	<b>74,757</b>	<b>84,372</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	11,459	11,180	14,226	16,035
Add. Depreciation	1,663	2,604	3,079	3,554
Add. Interest	309	341	750	750
Less Financial Other Income	476	510	537	598
Add. Other	(246)	-	-	-
Op. profit before WC changes	13,185	14,124	18,054	20,338
Net Changes-WC	(4,085)	(1,085)	(1,829)	687
Direct tax	(2,600)	(2,814)	(3,581)	(4,036)
<b>Net cash from Op. activities</b>	<b>6,499</b>	<b>10,225</b>	<b>12,645</b>	<b>16,990</b>
Capital expenditures	(3,599)	(12,500)	(12,500)	(12,500)
Interest / Dividend Income	22	-	-	-
Others	816	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,761)</b>	<b>(12,500)</b>	<b>(12,500)</b>	<b>(12,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,523)	3,455	2,000	(2,000)
Dividend paid	(955)	(1,004)	(1,278)	(1,441)
Interest paid	(233)	(341)	(750)	(750)
Others	120	-	-	-
<b>Net cash from Fin. activities</b>	<b>(3,591)</b>	<b>2,110</b>	<b>(28)</b>	<b>(4,191)</b>
<b>Net change in cash</b>	<b>148</b>	<b>(165)</b>	<b>117</b>	<b>299</b>
Free Cash Flow	2,900	(2,275)	145	4,490

Source: Company Data, PL Research

## Key Financial Metrics

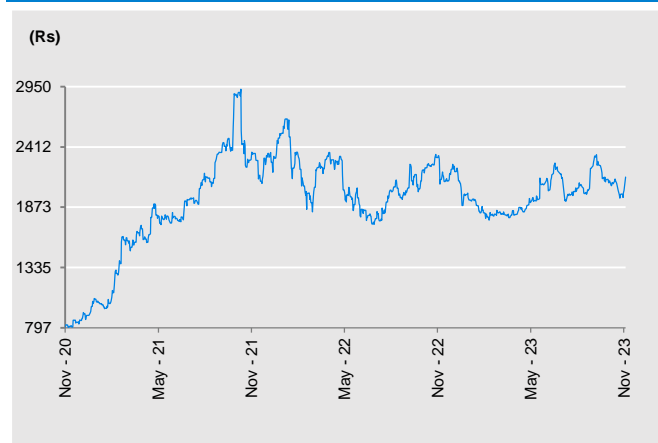
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	62.5	61.3	78.0	88.0
CEPS	74.7	80.4	100.6	114.0
BVPS	299.9	353.8	422.5	499.9
FCF	21.3	(16.7)	1.1	32.9
DPS	7.5	7.4	9.4	10.6
<b>Return Ratio(%)</b>				
RoCE	28.9	23.5	24.9	23.8
ROIC	21.7	17.7	18.7	18.0
RoE	22.9	18.8	20.1	19.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	-	0.1	0.1	0.0
Net Working Capital (Days)	71	71	70	60
<b>Valuation(x)</b>				
PER	33.2	33.9	26.6	23.6
P/B	6.9	5.9	4.9	4.2
P/CEPS	27.8	25.8	20.6	18.2
EV/EBITDA	22.0	21.1	16.5	14.5
EV/Sales	3.6	3.4	3.1	2.7
Dividend Yield (%)	0.4	0.4	0.5	0.5

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>19,911</b>	<b>19,614</b>	<b>17,683</b>	<b>17,781</b>
YoY gr. (%)	15.6	4.8	(14.1)	(9.4)
Raw Material Expenses	13,386	12,781	12,236	11,658
Gross Profit	6,525	6,832	5,447	6,122
Margin (%)	32.8	34.8	30.8	34.4
<b>EBITDA</b>	<b>3,146</b>	<b>3,480</b>	<b>2,098</b>	<b>3,023</b>
YoY gr. (%)	(10.6)	(15.2)	(41.1)	11.6
Margin (%)	15.8	17.7	11.9	17.0
Depreciation / Depletion	411	409	381	394
<b>EBIT</b>	<b>2,735</b>	<b>3,070</b>	<b>1,717</b>	<b>2,628</b>
Margin (%)	13.7	15.7	9.7	14.8
Net Interest	58	45	18	27
Other Income	134	126	319	170
<b>Profit before Tax</b>	<b>2,810</b>	<b>3,152</b>	<b>2,017</b>	<b>2,772</b>
Margin (%)	14.1	16.1	11.4	15.6
Total Tax	720	813	518	721
Effective tax rate (%)	25.6	25.8	25.7	26.0
<b>Profit after Tax</b>	<b>2,090</b>	<b>2,339</b>	<b>1,499</b>	<b>2,051</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,090</b>	<b>2,339</b>	<b>1,499</b>	<b>2,051</b>
YoY gr. (%)	(13.8)	(11.8)	(36.1)	17.7
Margin (%)	10.5	11.9	8.5	11.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,090</b>	<b>2,339</b>	<b>1,499</b>	<b>2,051</b>
YoY gr. (%)	(13.8)	(11.8)	(36.1)	17.7
Margin (%)	10.5	11.9	8.5	11.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,090</b>	<b>2,339</b>	<b>1,499</b>	<b>2,051</b>
Avg. Shares O/s (m)	136	136	136	136
<b>EPS (Rs)</b>	<b>15.4</b>	<b>17.2</b>	<b>11.0</b>	<b>15.1</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Oct-23	Reduce	1,854	2,125
2	09-Oct-23	Reduce	1,803	2,108
3	09-Aug-23	Reduce	1,803	2,092

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	584	510
2	Bayer Cropscience	Accumulate	5,920	5,193
3	Bharat Petroleum Corporation	Hold	365	347
4	Bharti Airtel	Accumulate	993	924
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,854	2,125
7	Dhanuka Agritech	BUY	1,060	883
8	Fine Organic Industries	Hold	4,252	4,303
9	GAIL (India)	BUY	139	120
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Reduce	2,413	2,780
12	Gujarat Gas	Accumulate	477	419
13	Gujarat State Petronet	BUY	328	273
14	Hindustan Petroleum Corporation	Hold	272	279
15	Indian Oil Corporation	Hold	94	92
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	600	519
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Hold	226	216
24	Oil & Natural Gas Corporation	BUY	202	181
25	Oil India	BUY	341	296
26	P.I. Industries	BUY	4,850	3,421
27	Petronet LNG	Hold	208	196
28	Rallis India	Reduce	190	217
29	Reliance Industries	BUY	2,618	2,266

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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