Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

August 22, 2024

## Company Update

■ Change in Estimates | ☑ Target | ■ Reco

**Change in Estimates**

| | Current | | Previous | |
|---|---|---|---|---|
| | FY25E | FY26E | FY25E | FY26E |
| **Rating** | REDUCE | | REDUCE | |
| **Target Price** | 2,717 | | 2,780 | |
| Sales (Rs. m) | 86,525 | 91,223 | 86,525 | 91,223 |
| *% Chng.* | - | - | | |
| EBITDA (Rs. m) | 12,676 | 13,964 | 12,676 | 13,964 |
| *% Chng.* | - | - | | |
| EPS (Rs.) | 59.1 | 63.2 | 59.1 | 63.2 |
| *% Chng.* | - | - | | |

**Key Financials - Consolidated**

| Y/e Mar | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Sales (Rs. m) | 79,721 | 76,818 | 86,525 | 91,223 |
| EBITDA (Rs. m) | 12,894 | 11,233 | 12,676 | 13,964 |
| *Margin (%)* | *16.2* | *14.6* | *14.7* | *15.3* |
| PAT (Rs. m) | 8,520 | 7,311 | 8,063 | 8,620 |
| EPS (Rs.) | 62.5 | 53.6 | 59.1 | 63.2 |
| *Gr. (%)* | *(20.1)* | *(14.2)* | *10.3* | *6.9* |
| DPS (Rs.) | 7.5 | 7.5 | 7.5 | 8.0 |
| *Yield (%)* | *0.3* | *0.3* | *0.3* | *0.3* |
| *RoE (%)* | *22.9* | *16.5* | *15.7* | *14.7* |
| *RoCE (%)* | *28.9* | *20.9* | *19.2* | *17.4* |
| EV/Sales (x) | 5.1 | 5.2 | 4.7 | 4.5 |
| EV/EBITDA (x) | 31.4 | 35.8 | 32.4 | 29.7 |
| PE (x) | 47.5 | 55.4 | 50.2 | 47.0 |
| P/BV (x) | 9.9 | 8.4 | 7.4 | 6.5 |

| Key Data | DPNT.BO \| DN IN |
|---|---|
| 52-W High / Low | Rs.3,169 / Rs.1,922 |
| Sensex / Nifty | 80,905 / 24,770 |
| Market Cap | Rs.405bn/ $ 4,826m |
| Shares Outstanding | 136m |
| 3M Avg. Daily Value | Rs.1367.87m |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoter's | 49.24 |
| Foreign | 6.86 |
| Domestic Institution | 21.21 |
| Public & Others | 22.69 |
| Promoter Pledge (Rs bn) | - |

**Stock Performance (%)**

| | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | 6.3 | 27.6 | 48.0 |
| Relative | 6.0 | 14.6 | 19.3 |


**Swarnendu Bhushan**
swarnendubhushan@plindia.com | 91-22-66322260

**Saurabh Ahire**
saurabhahire@plindia.com |


# Deepak Nitrite (DN IN)

## Rating: REDUCE | CMP: Rs2,970 | TP: Rs2,717

## *Venturing into an already crowded market*

**Quick Pointers:**

- Global polycarbonate utilization stood at 62-65% in CY23
- Consolidation continues in case of methyl methacrylate (MMA)

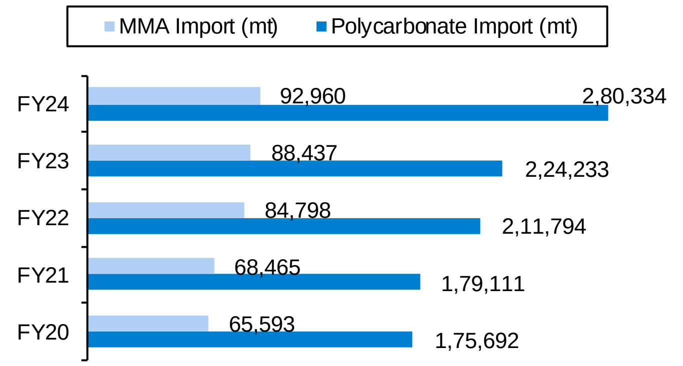
***DN is on an aggressive path towards implementing its Rs140bn capex plan for specialty products, phenol, BPA, polycarbonate resin/compound and MMA monomer. However, phenol and polycarbonate markets in particular appear to be in glut, while some consolidation is likely in MMA. As highlighted in our earlier reports, China has added significant capacities in phenol in a move towards self-sufficiency and is expected to turn into a net exporter, thereby pushing down margins structurally. Our report highlights how global polycarbonate demand has failed to keep pace with capacity, resulting in 62-65% utilization in CY23. As these products are based on import substitution, domestic sales of these products would not be hampered. But the company would continue to witness margin pressure. As a result, the current valuation appears stretched. However, any possible antidumping duty on Phenol could be a risk to our call. We expect EPS CAGR of 7% during FY24-26E (consensus: 22%). The stock is trading at 30x FY26 EV/EBITDA and 47x FY26 EPS. Valuing it at 43x FY26 EPS of Rs63 (consensus: Rs88.3), we retain 'REDUCE' rating on the stock with a target price of Rs2,717.***

- **Global polycarbonate utilization at 62-65% in CY23:** Global polycarbonate demand stood at ~5mmt in CY23. Demand grew a meagre 2.7% against capacity growth of 8.2%, resulting in poor utilization of 62-65%. Led by poor demand, some consolidation appears on the cards with Trinseo seeking board approval for closing down its 160,000mtpa plant in Germany. India imported 2,80,334mt of polycarbonate in CY23. While selling domestically may not be a challenge, margins would continue to remain poor due to the global glut.

- **MMA – consolidation underway:** The largest producer of MMA, Mitsubishi Chemical aims to shut its 107,000mtpa MMA plant in Hiroshima, which is based on the acetone-hydrogen cyanide (ACH) method, on account of shrinking domestic demand in Japan and oversupply from China. However, it intends to continue operating its 110,000mtpa MMA plant based on C4 feedstock. ACH is costlier than C4. Mitsubishi had earlier announced its intent to come up with an ethylene-based 350,000mtpa MMA plant in Louisiana. However, till Q2CY24, it has not announced final investment decision on it either.

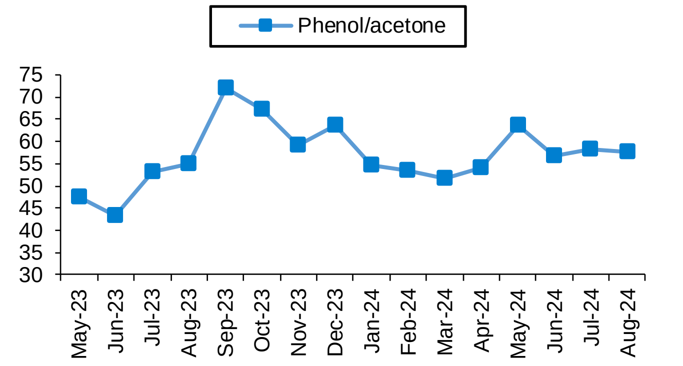
- **Reiterate negative outlook on DN:** At the end of FY24, net cash of the company stood at Rs2.4bn. We anticipate that it would generate PAT+Depr of Rs10bn/Rs10.9bn in FY25/26E. If the company is to execute projects worth Rs140bn by CY27, we believe it may strain its balance sheet. In phenol, Haldia Petrochemicals is expected to come up with a 300tmpa capacity by FY26, creating competition for DN. The company is trading at 30x FY26 EV/EBITDA and 47x FY26 EPS. We expect EPS CAGR of 7% during FY24-26E. Valuing the company at 43x FY26 EPS, we retain 'REDUCE' rating with a target price of Rs2,717.

**Exhibit 1: MMA and Polycarbonate import rising in India**



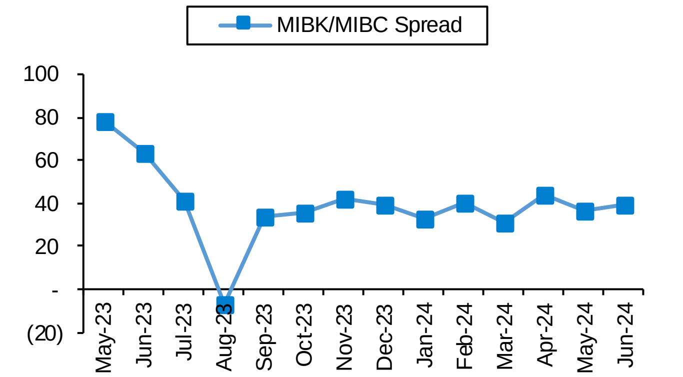

*Source: MoC, PL*

**Exhibit 2: Phenol Acetone Spread at Rs58 per kg in Aug-24**



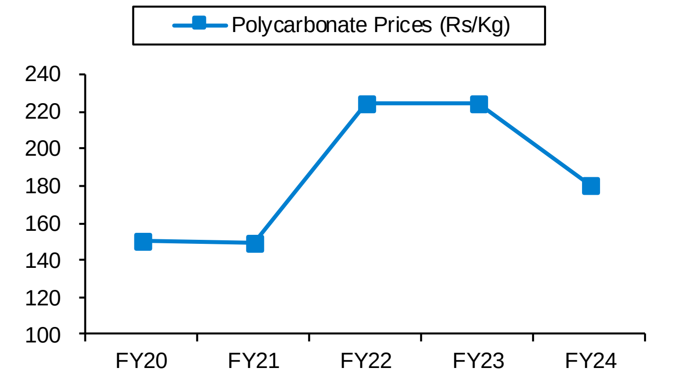

*Source: Bloomberg, PL*

**Exhibit 3: MIBK/MIBC spreads hovering around 40Rs/kg**




*Source: MoC, PL*

**Exhibit 4: Polycarbonate prices declined by 19% in FY24**




*Source: MoC, PL*

# Financials

## Income Statement (Rs m)

| Y/e Mar | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| **Net Revenues** | **79,721** | **76,818** | **86,525** | **91,223** |
| *YoY gr. (%)* | *17.2* | *(3.6)* | *12.6* | *5.4* |
| Cost of Goods Sold | 53,475 | 52,361 | 59,593 | 62,041 |
| Gross Profit | 26,246 | 24,457 | 26,931 | 29,182 |
| *Margin (%)* | *32.9* | *31.8* | *31.1* | *32.0* |
| Employee Cost | 3,183 | 3,511 | 3,872 | 4,271 |
| Other Expenses | 10,169 | 9,714 | 10,383 | 10,947 |
| | | | | |
| **EBITDA** | **12,894** | **11,233** | **12,676** | **13,964** |
| *YoY gr. (%)* | *(19.6)* | *(12.9)* | *12.8* | *10.2* |
| *Margin (%)* | *16.2* | *14.6* | *14.7* | *15.3* |
| | | | | |
| Depreciation and Amortization | 1,663 | 1,657 | 1,999 | 2,314 |
| | | | | |
| **EBIT** | **11,231** | **9,576** | **10,677** | **11,650** |
| *Margin (%)* | *14.1* | *12.5* | *12.3* | *12.8* |
| | | | | |
| Net Interest | 248 | 118 | 347 | 600 |
| Other Income | 476 | 761 | 493 | 520 |
| | | | | |
| **Profit Before Tax** | **11,459** | **10,219** | **10,823** | **11,570** |
| *Margin (%)* | *14.4* | *13.3* | *12.5* | *12.7* |
| | | | | |
| Total Tax | 2,939 | 2,908 | 2,760 | 2,950 |
| *Effective tax rate (%)* | *25.6* | *28.5* | *25.5* | *25.5* |
| | | | | |
| **Profit after tax** | **8,520** | **7,311** | **8,063** | **8,620** |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| | | | | |
| **Adjusted PAT** | **8,520** | **7,311** | **8,063** | **8,620** |
| *YoY gr. (%)* | *(20.1)* | *(14.2)* | *10.3* | *6.9* |
| *Margin (%)* | *10.7* | *9.5* | *9.3* | *9.4* |
| Extra Ord. Income / (Exp) | - | - | - | - |
| | | | | |
| **Reported PAT** | **8,520** | **7,311** | **8,063** | **8,620** |
| *YoY gr. (%)* | *(20.1)* | *(14.2)* | *10.3* | *6.9* |
| *Margin (%)* | *10.7* | *9.5* | *9.3* | *9.4* |
| | | | | |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 8,520 | 7,311 | 8,063 | 8,620 |
| **Equity Shares O/s (m)** | **136** | **136** | **136** | **136** |
| **EPS (Rs)** | **62.5** | **53.6** | **59.1** | **63.2** |

*Source: Company Data, PL Research*

## Balance Sheet Abstract (Rs m)

| Y/e Mar | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| **Non-Current Assets** | | | | |
| | | | | |
| **Gross Block** | **26,705** | **34,390** | **46,390** | **62,390** |
| Tangibles | 26,705 | 34,390 | 46,390 | 62,390 |
| Intangibles | - | - | - | - |
| | | | | |
| **Acc: Dep / Amortization** | **7,106** | **8,763** | **10,762** | **13,076** |
| Tangibles | 7,106 | 8,763 | 10,762 | 13,076 |
| Intangibles | - | - | - | - |
| | | | | |
| **Net fixed assets** | **19,599** | **25,627** | **35,627** | **49,313** |
| Tangibles | 19,599 | 25,627 | 35,627 | 49,313 |
| Intangibles | - | - | - | - |
| | | | | |
| Capital Work In Progress | 2,826 | 7,735 | 7,735 | 7,735 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 3,794 | 1,219 | 1,219 | 1,219 |
| Net Deferred tax assets | (1,566) | (1,736) | (1,736) | (1,736) |
| Other Non-Current Assets | - | - | - | - |
| | | | | |
| **Current Assets** | | | | |
| Investments | - | - | - | - |
| Inventories | 8,931 | 7,599 | 8,557 | 8,952 |
| Trade receivables | 13,095 | 12,984 | 14,624 | 12,496 |
| Cash & Bank Balance | 400 | 4,655 | 600 | 430 |
| Other Current Assets | 2,644 | 3,844 | 4,330 | 4,565 |
| **Total Assets** | **51,287** | **63,662** | **72,692** | **84,710** |
| | | | | |
| **Equity** | | | | |
| Equity Share Capital | 273 | 273 | 273 | 273 |
| Other Equity | 40,627 | 47,693 | 54,739 | 62,271 |
| **Total Networth** | **40,900** | **47,966** | **55,012** | **62,544** |
| | | | | |
| **Non-Current Liabilities** | | | | |
| Long Term borrowings | 545 | 2,170 | 6,000 | 10,000 |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| | | | | |
| **Current Liabilities** | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 6,618 | 5,823 | 6,556 | 6,859 |
| Other current liabilities | 1,659 | 3,007 | 3,387 | 3,571 |
| **Total Equity & Liabilities** | **51,287** | **60,702** | **72,692** | **84,710** |

*Source: Company Data, PL Research*

## Cash Flow (Rs m)

| Y/e Mar | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| PBT | 11,459 | 11,017 | 10,823 | 11,570 |
| Add. Depreciation | 1,663 | 1,657 | 1,999 | 2,314 |
| Add. Interest | 309 | 118 | 347 | 600 |
| Less Financial Other Income | 476 | 761 | 493 | 520 |
| Add. Other | (246) | (627) | - | - |
| Op. profit before WC changes | 13,185 | 12,165 | 13,169 | 14,484 |
| Net Changes-WC | (4,085) | (720) | (1,970) | 1,984 |
| Direct tax | (2,600) | (2,665) | (2,760) | (2,950) |
| **Net cash from Op. activities** | **6,499** | **8,781** | **8,439** | **13,518** |
| Capital expenditures | (3,599) | (7,685) | (12,000) | (16,000) |
| Interest / Dividend Income | 22 | 40 | - | - |
| Others | 816 | 427 | - | - |
| **Net Cash from Invt. activities** | **(2,761)** | **(7,218)** | **(12,000)** | **(16,000)** |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | (2,523) | 1,679 | 3,831 | 4,000 |
| Dividend paid | (955) | (1,023) | (1,017) | (1,087) |
| Interest paid | (233) | (98) | (347) | (600) |
| Others | 120 | (123) | - | - |
| **Net cash from Fin. activities** | **(3,591)** | **435** | **2,466** | **2,313** |
| **Net change in cash** | **148** | **1,998** | **(1,095)** | **(170)** |
| Free Cash Flow | 2,900 | 1,096 | (3,561) | (2,482) |

*Source: Company Data, PL Research*

## Quarterly Financials (Rs m)

| Y/e Mar | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---|---|---|---|---|
| **Net Revenue** | **17,781** | **20,092** | **21,262** | **21,668** |
| *YoY gr. (%)* | *(9.4)* | *0.9* | *8.4* | *22.5* |
| Raw Material Expenses | 11,658 | 13,726 | 14,740 | 15,002 |
| Gross Profit | 6,122 | 6,366 | 6,522 | 6,667 |
| *Margin (%)* | *34.4* | *31.7* | *30.7* | *30.8* |
| **EBITDA** | **3,023** | **3,047** | **3,011** | **3,092** |
| *YoY gr. (%)* | *11.6* | *(3.2)* | *(13.5)* | *47.4* |
| *Margin (%)* | *17.0* | *15.2* | *14.2* | *14.3* |
| Depreciation / Depletion | 394 | 417 | 464 | 475 |
| **EBIT** | **2,628** | **2,630** | **2,547** | **2,617** |
| *Margin (%)* | *14.8* | *13.1* | *12.0* | *12.1* |
| Net Interest | 27 | 29 | 44 | 58 |
| Other Income | 170 | 136 | 191 | 188 |
| **Profit before Tax** | **2,772** | **2,736** | **2,694** | **2,748** |
| *Margin (%)* | *15.6* | *13.6* | *12.7* | *12.7* |
| Total Tax | 721 | 715 | 953 | 723 |
| *Effective tax rate (%)* | *26.0* | *26.1* | *35.4* | *26.3* |
| **Profit after Tax** | **2,051** | **2,020** | **1,741** | **2,025** |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| **Adjusted PAT** | **2,051** | **2,020** | **1,741** | **2,025** |
| *YoY gr. (%)* | *17.7* | *(3.3)* | *(25.6)* | *35.1* |
| *Margin (%)* | *11.5* | *10.1* | *8.2* | *9.3* |
| Extra Ord. Income / (Exp) | - | - | - | - |
| **Reported PAT** | **2,051** | **2,020** | **1,741** | **2,025** |
| *YoY gr. (%)* | *17.7* | *(3.3)* | *(25.6)* | *35.1* |
| *Margin (%)* | *11.5* | *10.1* | *8.2* | *9.3* |
| Other Comprehensive Income | - | - | - | - |
| **Total Comprehensive Income** | **2,051** | **2,020** | **1,741** | **2,025** |
| Avg. Shares O/s (m) | 136 | 136 | 136 | 136 |
| **EPS (Rs)** | **15.1** | **14.9** | **12.8** | **14.9** |

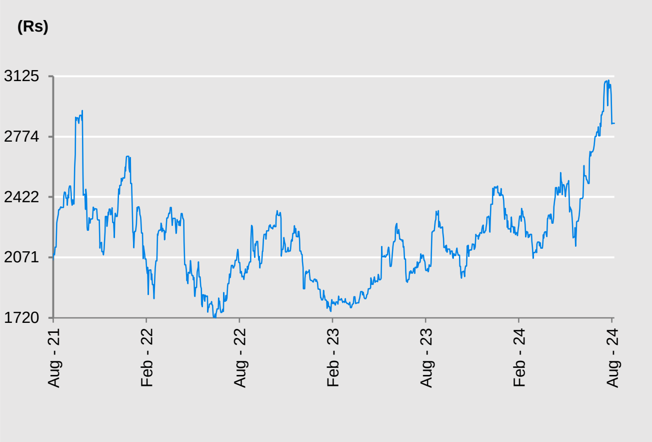
*Source: Company Data, PL Research*

## Key Financial Metrics

| Y/e Mar | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| **Per Share(Rs)** | | | | |
| EPS | 62.5 | 53.6 | 59.1 | 63.2 |
| CEPS | 74.7 | 65.7 | 73.8 | 80.2 |
| BVPS | 299.9 | 351.7 | 403.3 | 458.5 |
| FCF | 21.3 | 8.0 | (26.1) | (18.2) |
| DPS | 7.5 | 7.5 | 7.5 | 8.0 |
| **Return Ratio(%)** | | | | |
| RoCE | 28.9 | 20.9 | 19.2 | 17.4 |
| ROIC | 21.7 | 15.8 | 15.0 | 13.1 |
| RoE | 22.9 | 16.5 | 15.7 | 14.7 |
| **Balance Sheet** | | | | |
| Net Debt : Equity (x) | - | (0.1) | 0.1 | 0.2 |
| Net Working Capital (Days) | 71 | 70 | 70 | 58 |
| **Valuation(x)** | | | | |
| PER | 47.5 | 55.4 | 50.2 | 47.0 |
| P/B | 9.9 | 8.4 | 7.4 | 6.5 |
| P/CEPS | 39.8 | 45.2 | 40.3 | 37.1 |
| EV/EBITDA | 31.4 | 35.8 | 32.4 | 29.7 |
| EV/Sales | 5.1 | 5.2 | 4.7 | 4.5 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.3 | 0.3 |

*Source: Company Data, PL Research*

## Price Chart




## Recommendation History

| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|---|---|---|---|---|
| 1 | 09-Aug-24 | Reduce | 2,780 | 3,055 |
| 2 | 04-Jul-24 | Reduce | 2,268 | 2,677 |
| 3 | 22-May-24 | Reduce | 2,268 | 2,464 |
| 4 | 09-Apr-24 | Reduce | 1,985 | 2,208 |
| 5 | 15-Feb-24 | Reduce | 1,985 | 2,283 |
| 6 | 08-Jan-24 | Reduce | 1,881 | 2,451 |
| 7 | 10-Nov-23 | Reduce | 1,935 | 2,076 |
| 8 | 17-Oct-23 | Reduce | 1,854 | 2,125 |
| 9 | 09-Oct-23 | Reduce | 1,803 | 2,108 |

## Analyst Coverage Universe

| Sr. No. | CompanyName | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| 1 | Aarti Industries | Reduce | 635 | 735 |
| 2 | Ashok Leyland | Accumulate | 261 | 246 |
| 3 | Bajaj Auto | Accumulate | 10,326 | 9,718 |
| 4 | Bharat Forge | Accumulate | 1,701 | 1,605 |
| 5 | Bharat Petroleum Corporation | Reduce | 269 | 302 |
| 6 | Bharti Airtel | Accumulate | 1,593 | 1,444 |
| 7 | CEAT | Accumulate | 2,992 | 2,667 |
| 8 | Clean Science and Technology | Hold | 1,516 | 1,562 |
| 9 | Deepak Nitrite | Reduce | 2,780 | 3,055 |
| 10 | Divgi Torqtransfer Systems | Accumulate | 734 | 665 |
| 11 | Eicher Motors | BUY | 5,335 | 4,577 |
| 12 | Endurance Technologies | Accumulate | 2,696 | 2,478 |
| 13 | Exide Industries | Hold | 559 | 532 |
| 14 | Fine Organic Industries | Accumulate | 6,172 | 5,535 |
| 15 | GAIL (India) | Reduce | 211 | 241 |
| 16 | Gujarat Fluorochemicals | Reduce | 2,907 | 3,330 |
| 17 | Gujarat Gas | Accumulate | 666 | 622 |
| 18 | Gujarat State Petronet | BUY | 417 | 336 |
| 19 | Hero Motocorp | Accumulate | 5,911 | 5,072 |
| 20 | Hindustan Petroleum Corporation | Sell | 340 | 396 |
| 21 | Indian Oil Corporation | Sell | 151 | 183 |
| 22 | Indraprastha Gas | Sell | 374 | 541 |
| 23 | Jubilant Ingrevia | Hold | 592 | 586 |
| 24 | Laxmi Organic Industries | Sell | 206 | 257 |
| 25 | Mahanagar Gas | Sell | 1,492 | 1,846 |
| 26 | Mahindra & Mahindra | BUY | 3,330 | 2,908 |
| 27 | Mangalore Refinery & Petrochemicals | Sell | 135 | 218 |
| 28 | Maruti Suzuki | BUY | 15,145 | 13,116 |
| 29 | Navin Fluorine International | Accumulate | 4,144 | 3,771 |

## PL's Recommendation Nomenclature (Absolute Performance)

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

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We/I, Mr. Swarnendu Bhushan- IIT, MBA Finance, Mr. Saurabh Ahire- MBA, Passed CFA Level II Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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Amnish Aggarwal