REDUCE Deepak Nitrite

In-line quarter, though headwinds persist

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Specialty Chemicals ▸ Result Update ▸ **August 16, 2025**

CMP (Rs): 1,831 | TP (Rs): 1,800

Deepak Nitrate's Q1FY26 EBITDA at Rs1.7bn (down 44% YoY; up 11% QoQ) was in line with our estimate, albeit below consensus estimate. The AI segment saw muted global demand and delayed offtake of agchem intermediates (expected to normalize in ensuing quarters). The Phenolics business saw steady demand with better realization, buoyed by capacity augmentation; however, spreads have been under pressure since the last 3 quarters. The mgmt expects FY26 capex at Rs8-10bn (vs 12-15bn earlier) and plans to incur capex of Rs100bn by FY28 to set up an integrated phenol-BPA-polycarbonate plant. We cut FY26E/27E/28E EBITDA by 27%/23%/28%, factoring in lower spreads in the phenolics business in the medium term due to capacity adds in China and cheaper imports leading to sustained pressure on spreads. We retain REDUCE, while cutting our SoTP-based TP by 10% to Rs1,800 (from Rs2,000 earlier).

Advanced intermediates business faces slower agri demand

Advanced Intermediates (AI) segment revenue was down 15% YoY/7% QoQ at Rs6.1bn, owing to slow demand for agrochemical intermediates. Meanwhile, demand for dyes, pigments, detergents, glass, and home personal care was stable. The management is focusing on diversifying its customers base and reducing dependency on large customers. EBIT margin declined to 5.9% in Q1FY26 (9.3% in Q1FY25/6.9% in Q4FY25), on operating deleverage. The company is working on backward integration projects, and streamlining of operations should yield improvement of 200-300bps in margin. The company is creating an attractive pipeline of new products through various agreements.

Phenolics business sees marginal improvement in spreads

The phenolics segment posted adj revenue of Rs12.9bn (down 12% YoY/6% QoQ), owing to pricing headwinds and volatile feedstock costs. Adj EBIT margin improved to 7.8% sequentially in Q1FY26 (5.7% QoQ/14.2% YoY), largely due to better spreads. Variable cost optimization resulted in better profitability. The company recorded government incentive income (GII) of ~Rs170mn in Q1FY26. The management commented on debottlenecking certain capacities in Q1FY26 which led to volume expansion.

Certain projects to commission in H2; Phenol-2 capex to commission in FY28

The company is running trial production for the concentrated nitric acid plant, while commissioning activities are under way for weak nitric acid with technology partner on site. The management highlighted that MIBK, MIBC, and nitration plants are expected to be commissioned in the next quarter. Also, the R&D center near Vadodara is expected to commission soon. The management gave capex guidance of Rs8-10bn in FY26 (Rs12-15bn earlier), while FY27 should see capex of Rs30bn and the balance thereafter. They expect the new phenol-BPA-polycarbonate plant (total outlay of Rs85-100bn) to have a payback of 5-5.5 years at an IRR of 16-18%. We believe that the current limited scope for volume growth in phenolics, coupled with pricing pressure, has led to earnings cut.

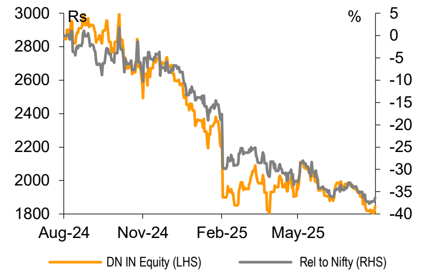
Target Price – 12M	Jun-26
Change in TP (%)	**(10.0)**
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(1.7)

Stock Data	**DN IN**
52-week High (Rs)	3,095
52-week Low (Rs)	1,775
Shares outstanding (mn)	136.4
Market-cap (Rs bn)	250
Market-cap (USD mn)	2,852
Net-debt, FY26E (Rs mn)	5,809.1
ADTV-3M (mn shares)	0
ADTV-3M (Rs mn)	442.5
ADTV-3M (USD mn)	5.1
Free float (%)	50.7
Nifty-50	24,631.3
INR/USD	87.6
Shareholding,Jun-25	
Promoters (%)	49.3
FPIs/MFs (%)	0.2/29.1

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	(6.8)	(7.5)	(35.7)
Rel. to Nifty	(5.1)	(7.4)	(36.9)

1-Year share price trend (Rs)



Deepak Nitrite: Financial Snapshot (Consolidated)					
Y/E March (Rs mn)	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Revenue	76,434	81,208	79,237	88,104	95,692
Adj. EBITDA	10,848	9,306	8,705	11,465	13,945
Adj. PAT	7,470	6,974	5,346	6,509	7,189
Adj. EPS (Rs)	54.8	51.1	39.2	47.7	52.7
Adj. EBITDA margin (%)	14.2	11.5	11.0	13.0	14.6
Adj. EBITDA growth (%)	(11.8)	(14.2)	(6.5)	31.7	21.6
Adj. EPS growth (%)	(12.3)	(6.6)	(23.3)	21.8	10.5
RoE (%)	16.8	13.7	9.6	10.7	10.8
RoIC (%)	18.4	13.7	10.0	10.8	9.7
P/E (x)	30.8	35.8	46.7	38.4	34.7
EV/EBITDA (x)	22.7	26.4	28.3	21.5	17.6
P/B (x)	5.2	4.6	4.3	3.9	3.6
FCFF yield (%)	(0.5)	(2.5)	(0.8)	(8.9)	(3.8)

Source: Company, Emkay Research

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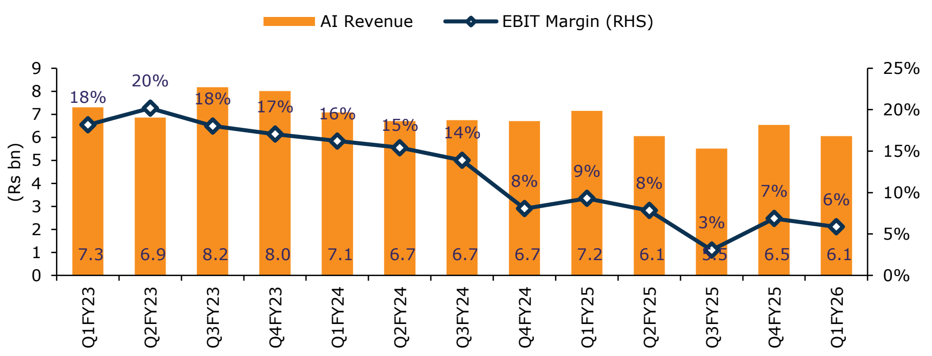
Exhibit 1: Deepak Nitrate – Q1FY26 result update

P&L (Rs mn)	Reported					Emkay estimate		Full-year ended		
	Q1FY25	Q5FY25	Q1FY26	YoY (%)	QoQ (%)	Q1FY26	vs Est (%)	FY25	FY24	YoY (%)
Net revenue	**21,668**	**20,185**	**18,727**	**-14**	**-7**	**20,330**	**-8**	**81,208**	**76,434**	**6**
Raw Material cost	(15,002)	(15,124)	(13,607)	-9	-10	(15,157)	-10	(57,879)	(52,361)	11
Gross Profit	**6,667**	**5,062**	**5,119**	**-23**	**1**	**5,173**	**-1**	**23,329**	**24,073**	**-3**
Gross margin (%)	**30.8**	**25.1**	**27.3**	**-343 bps**	**226 bps**	**25.4**	**189 bps**	**28.7**	**31.5**	**-277 bps**
Employee cost	(953)	(1,016)	(1,065)	12	5	(1,016)	5	(3,922)	(3,511)	12
Other overheads	(2,621)	(2,492)	(2,332)	-11	-6	(2,562)	-9	(10,101)	(9,769)	3
Total expenses	**(18,577)**	**(18,632)**	**(17,003)**	**-8**	**-9**	**(18,735)**	**-9**	**(71,902)**	**(65,641)**	**10**
EBITDA	**3,092**	**1,553**	**1,723**	**-44**	**11**	**1,595**	**8**	**9,306**	**10,793**	**-14**
EBITDA margin (%)	**14.3**	**7.7**	**9.2**	**-507 bps**	**150 bps**	**7.8**	**135 bps**	**11.5**	**14.1**	**-267 bps**
Other income	188	228	246	31	8	210	17	839	816	3
Interest	(58)	(93)	(81)	41	-13	(94)	-14	(275)	(118)	132
Depreciation	(475)	(513)	(513)	8	0	(488)	5	(1,954)	(1,657)	18
GII/EO Item	-	1,612	172		-89	-		1,612	1,183	36
PBT	**2,748**	**2,787**	**1,547**	**-44**	**-44**	**1,222**	**27**	**9,527**	**11,017**	**-14**
Tax	(723)	(762)	(425)	-41	-44	(318)	34	(2,554)	(2,908)	-12
Adj PAT	**2,025**	**2,025**	**1,123**	**-45**	**-45**	**904**	**24**	**6,974**	**7,470**	**-7**
EO Item	-	-	-			-		-	638	(100)
Reported PAT	**2,025**	**2,025**	**1,123**	**-45**	**-45**	**904**	**24**	**6,974**	**8,109**	**-14**
EPS (Rs)	**14.8**	**14.8**	**8.2**	**-45**	**-45**	**6.6**	**24**	**51.1**	**59.4**	**-14**
Cost, as a % of sales										
Raw Material cost	69.2	74.9	72.7	342 bps	-227 bps	74.6	-190 bps	71.3	68.5	276 bps
Employee cost	4.4	5.0	5.7	128 bps	65 bps	5.0	68 bps	4.8	4.6	23 bps
Other overheads	12.1	12.3	12.5	35 bps	10 bps	12.6	-15 bps	12.4	12.8	-35 bps
Income tax rate	26.3	27.3	27.5	115 bps	11 bps	26.0	145 bps	26.8	26.4	40 bps

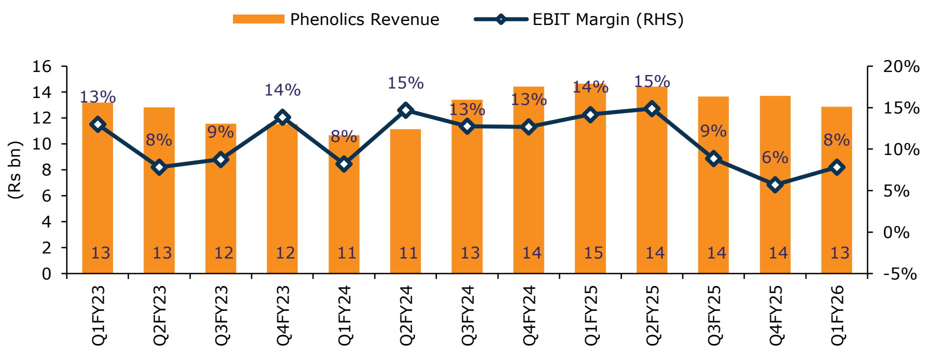
Source: Company, Emkay Research

Exhibit 2: AI business improved on incremental volumes from various initiatives



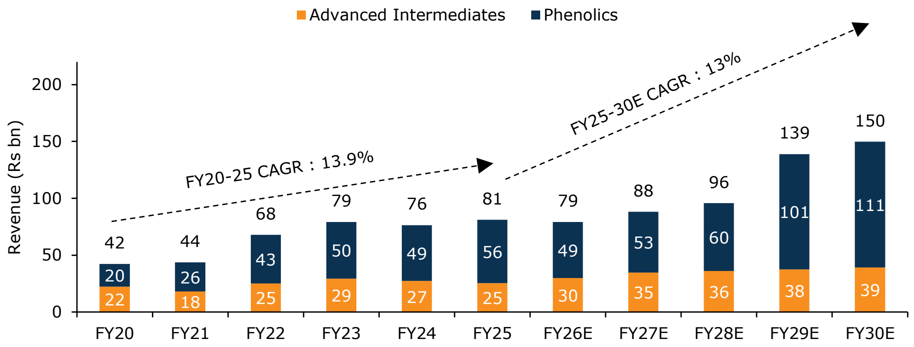
Source: Company, Emkay Research

Exhibit 3: Phenolics business de-grew 12% YoY/6% QoQ due to weaker pricing



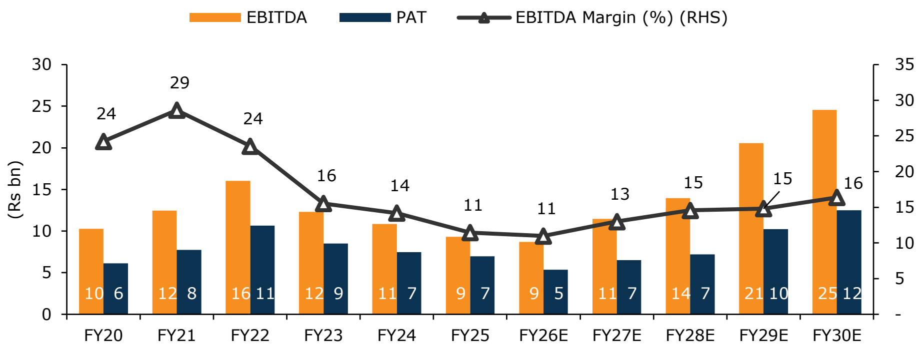
Source: Company, Emkay Research

Exhibit 4: DCTL's revenue (phenolics segment) to rise FY28 onward



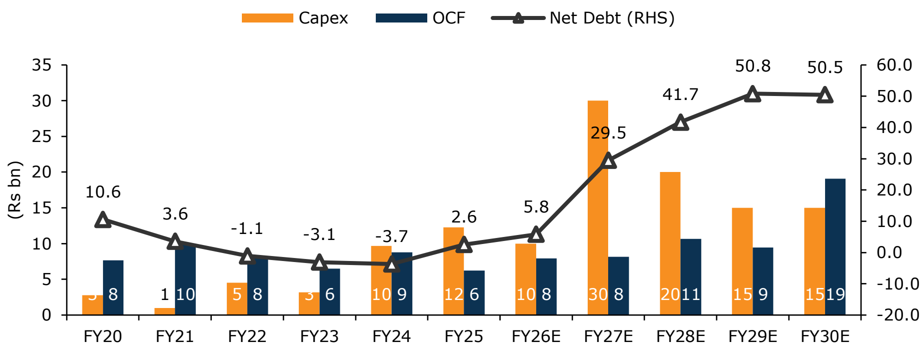
Source: Company, Emkay Research

Exhibit 5: FY25-30E EBITDA CAGR expected at 21%, along with margin expansion



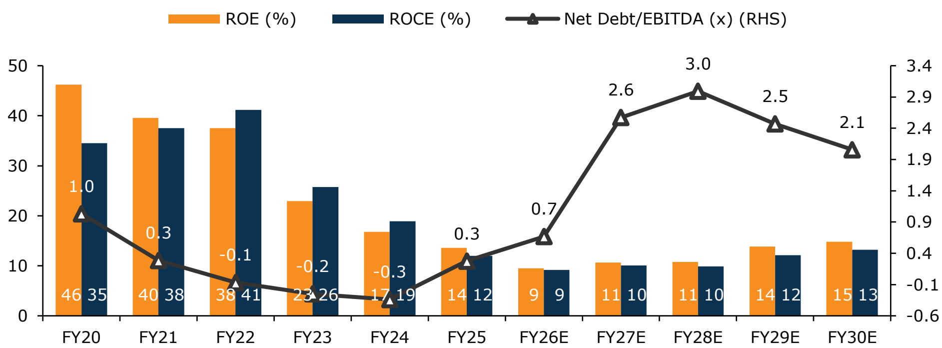
Source: Company, Emkay Research

Exhibit 6: OCF generation to be steady, with peak debt of ~Rs50bn



Source: Company, Emkay Research

Exhibit 7: Return ratios to grow steadily, while net debt would be a concern



Source: Company, Emkay Research

Exhibit 8: We cut our FY26/27/28 EBITDA estimates by 27%/23%/28%, to factor in lower spreads in the phenolics business in the medium term due to capacity additions in China and cheaper imports leading to sustained pressure on spreads

Particulars (Rs mn)	FY26E			FY27E			FY28E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	79,237	91,065	-13	88,104	1,04,610	-16	95,692	1,31,824	-27
EBITDA	8,705	11,921	-27	11,465	14,874	-23	13,945	19,315	-28
EBITDA margin (%)	11.0	13.1	-211 bps	13.0	14.2	-121 bps	14.6	14.7	-8 bps
PAT	5,346	7,629	-30	6,509	8,893	-27	7,189	11,277	-36
EPS (Rs)	39	56	-30	48	65	-27	53	83	-36

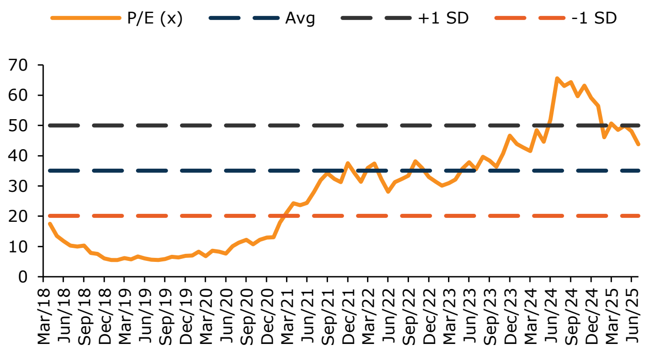
Source: Emkay Research

Exhibit 9: SoTP-based TP stands at Rs1,800

Particulars (Rs mn)	FY27E	FY28E
DNL - Standalone EBITDA	4,958	5,808
EV/EBITDA Target Multiple (x)	18	18
Target Enterprise Value (A)	**89,247**	**1,04,552**
DPL - Discounted FY30E EBITDA	12,017	13,519
EV/EBITDA Target multiple (x)	15	15
Target Enterprise Value (B)	**1,80,258**	**2,02,790**
Total Enterprise Value (A+B)	**2,69,505**	**3,07,342**
Net Debt	29,485	41,729
Total Equity Value	**2,40,021**	**2,65,613**
No of shares outstanding (mn)		136
Jun-26E Target Price (Rs)		**1,800**
CMP (Rs)		1,831
Upside (%)		-2%

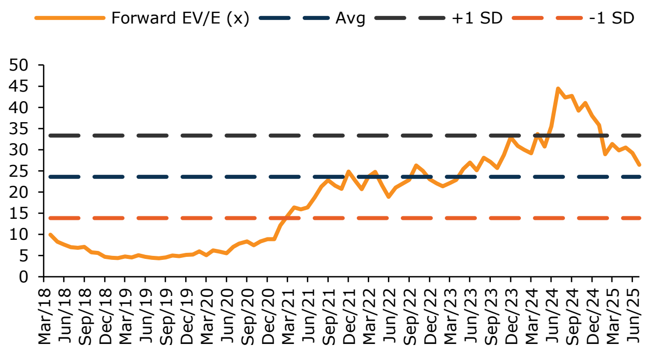
Source: Emkay Research

Exhibit 10: One-year forward P/E



Source: Company, Bloomberg, Emkay Research

Exhibit 11: One-year forward EV/EBITDA



Source: Company, Bloomberg, Emkay Research

Deepak Nitrite: Consolidated Financials and Valuations

Profit & Loss

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**76,434**	**81,208**	**79,237**	**88,104**	**95,692**
Revenue growth (%)	(3.4)	6.2	(2.4)	11.2	8.6
EBITDA	**10,848**	**9,306**	**8,705**	**11,465**	**13,945**
EBITDA growth (%)	(11.8)	(14.2)	(6.5)	31.7	21.6
Depreciation & Amortization	1,657	1,954	2,125	2,761	3,261
EBIT	**9,192**	**7,352**	**6,580**	**8,704**	**10,684**
EBIT growth (%)	(13.6)	(20.0)	(10.5)	32.3	22.8
Other operating income	-	-	-	-	-
Other income	761	839	881	925	971
Financial expense	118	275	837	1,550	2,669
PBT	**9,834**	**7,916**	**6,624**	**8,079**	**8,986**
Extraordinary items	1,023	1,612	600	600	600
Taxes	2,908	2,554	1,878	2,170	2,396
Minority interest	-	-	-	-	-
Income from JV/Associates	0	0	0	0	0
Reported PAT	**8,109**	**6,974**	**5,346**	**6,509**	**7,189**
PAT growth (%)	(6.8)	1.1	(30.7)	19.6	9.6
Adjusted PAT	**7,470**	**6,974**	**5,346**	**6,509**	**7,189**
Diluted EPS (Rs)	**54.8**	**51.1**	**39.2**	**47.7**	**52.7**
Diluted EPS growth (%)	(12.3)	(6.6)	(23.3)	21.8	10.5
DPS (Rs)	**7.5**	**7.5**	**8.8**	**8.8**	**8.8**
Dividend payout (%)	**12.6**	**14.7**	**22.5**	**18.5**	**16.7**
EBITDA margin (%)	14.2	11.5	11.0	13.0	14.6
EBIT margin (%)	12.0	9.1	8.3	9.9	11.2
Effective tax rate (%)	26.4	26.8	26.0	25.0	25.0
NOPLAT (pre-IndAS)	**6,765**	**5,381**	**4,869**	**6,528**	**8,013**
Shares outstanding (mn)	136	136	136	136	136

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	273	273	273	273	273
Reserves & Surplus	47,693	53,614	57,755	63,060	69,046
Net worth	**47,966**	**53,887**	**58,028**	**63,333**	**69,319**
Minority interests	261	360	360	360	360
Non-current liab. & prov.	1,715	2,011	2,011	2,011	2,011
Total debt	**2,170**	**11,705**	**12,211**	**32,067**	**44,190**
Total liabilities & equity	**53,090**	**69,281**	**73,928**	**99,089**	**117,197**
Net tangible fixed assets	22,190	23,761	40,127	45,366	82,105
Net intangible assets	737	784	784	784	784
Net ROU assets	0	0	0	0	0
Capital WIP	7,735	16,491	8,000	30,000	10,000
Goodwill	0	27	27	27	27
Investments [JV/Associates]	27	30	30	30	30
Cash & equivalents	**5,846**	**9,145**	**6,402**	**2,583**	**2,461**
Current assets (ex-cash)	22,877	24,001	23,664	26,292	28,542
Current Liab. & Prov.	7,851	7,779	7,927	8,814	9,573
NWC (ex-cash)	**15,026**	**16,222**	**15,737**	**17,478**	**18,969**
Total assets	**53,090**	**69,281**	**73,928**	**99,089**	**117,197**
Net debt	(3,677)	2,561	5,809	29,485	41,729
Capital employed	53,090	69,281	73,928	99,089	117,197
Invested capital	**37,953**	**40,794**	**56,675**	**63,655**	**101,885**
BVPS (Rs)	351.7	395.1	425.4	464.3	508.2
Net Debt/Equity (x)	(0.1)	-	0.1	0.5	0.6
Net Debt/EBITDA (x)	(0.3)	0.3	0.7	2.6	3.0
Interest coverage (x)	84.1	29.8	8.9	6.2	4.4
RoCE (%)	**21.5**	**14.1**	**10.9**	**11.6**	**11.1**

Source: Company, Emkay Research

Cash flows

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	9,073	7,077	5,743	7,154	8,015
Others (non-cash items)	(627)	(560)	(881)	(925)	(971)
Taxes paid	(2,665)	(2,152)	(1,883)	(2,149)	(2,379)
Change in NWC	1,194	(899)	485	(1,741)	(1,490)
Operating cash flow	**8,781**	**6,247**	**7,912**	**8,154**	**10,658**
Capital expenditure	(9,894)	(12,354)	(10,000)	(30,000)	(20,000)
Acquisition of business	(2)	(3)	0	0	0
Interest & dividend income	761	839	881	925	971
Investing cash flow	**(7,218)**	**(14,913)**	**(9,119)**	**(24,075)**	**(19,029)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	1,068	9,536	506	19,857	12,122
Payment of lease liabilities	469	263	0	0	0
Interest paid	(118)	(275)	(837)	(1,550)	(2,669)
Dividend paid (incl tax)	(1,023)	(1,023)	(1,204)	(1,204)	(1,204)
Others	40	(440)	-	-	-
Financing cash flow	**435**	**8,062**	**(1,536)**	**17,103**	**8,249**
Net chg in Cash	1,998	(605)	(2,743)	1,181	(122)
OCF	8,781	6,247	7,912	8,154	10,658
Adj. OCF (w/o NWC chg.)	7,587	7,146	7,427	9,895	12,148
FCFF	(1,114)	(6,107)	(2,088)	(21,846)	(9,342)
FCFE	(471)	(5,544)	(2,044)	(22,472)	(11,040)
OCF/EBITDA (%)	80.9	67.1	90.9	71.1	76.4
FCFE/PAT (%)	(5.8)	(79.5)	(38.2)	(345.2)	(153.6)
FCFF/NOPLAT (%)	**(16.5)**	**(113.5)**	**(42.9)**	**(334.7)**	**(116.6)**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	30.8	35.8	46.7	38.4	34.7
EV/CE(x)	4.9	3.7	3.5	2.6	2.2
P/B (x)	5.2	4.6	4.3	3.9	3.6
EV/Sales (x)	3.2	3.0	3.1	2.8	2.6
EV/EBITDA (x)	22.7	26.4	28.3	21.5	17.6
EV/EBIT(x)	26.8	33.5	37.4	28.3	23.0
EV/IC (x)	6.5	6.0	4.3	3.9	2.4
FCFF yield (%)	(0.5)	(2.5)	(0.8)	(8.9)	(3.8)
FCFE yield (%)	(0.2)	(2.2)	(0.8)	(9.0)	(4.4)
Dividend yield (%)	0.4	0.4	0.5	0.5	0.5
DuPont-RoE split					
Net profit margin (%)	9.8	8.6	6.7	7.4	7.5
Total asset turnover (x)	1.6	1.3	1.1	1.0	0.9
Assets/Equity (x)	1.1	1.2	1.3	1.4	1.6
RoE (%)	**16.8**	**13.7**	**9.6**	**10.7**	**10.8**
DuPont-RoIC					
NOPLAT margin (%)	8.9	6.6	6.1	7.4	8.4
IC turnover (x)	2.1	2.1	1.6	1.5	1.2
RoIC (%)	**18.4**	**13.7**	**10.0**	**10.8**	**9.7**
Operating metrics					
Core NWC days	71.8	72.9	72.5	72.4	72.4
Total NWC days	**71.8**	**72.9**	**72.5**	**72.4**	**72.4**
Fixed asset turnover	2.6	2.4	1.8	1.5	1.2
Opex-to-revenue (%)	17.3	17.3	20.1	20.0	19.6

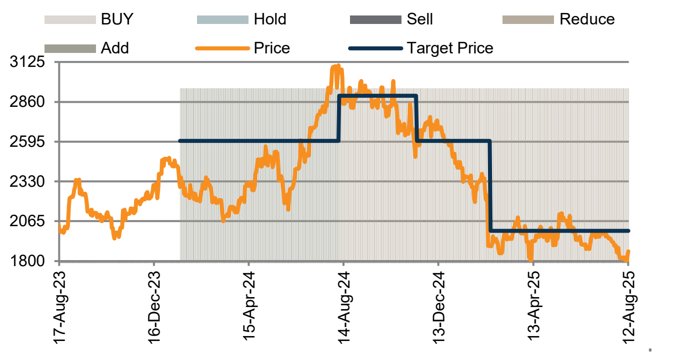
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-Jul-25	1,976	2,000	Reduce	Meet Vora
29-May-25	2,100	2,000	Reduce	Meet Vora
06-Apr-25	1,929	2,000	Reduce	Meet Vora
17-Feb-25	1,899	2,000	Reduce	Meet Vora
15-Nov-24	2,639	2,600	Reduce	Meet Vora
27-Aug-24	2,870	2,900	Reduce	Meet Vora
08-Aug-24	3,055	2,900	Reduce	Meet Vora
14-Jul-24	2,775	2,600	Add	Meet Vora
07-Jun-24	2,282	2,600	Add	Meet Vora
22-May-24	2,464	2,600	Add	Meet Vora
07-Apr-24	2,220	2,600	Add	Meet Vora
26-Feb-24	2,284	2,600	Add	Meet Vora
15-Feb-24	2,283	2,600	Add	Meet Vora
18-Jan-24	2,293	2,600	Add	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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