

Deepak Nitrite | BUY

Large capex provides long-term growth visibility

Deepak Nitrite's 3QFY24 earnings print was weaker than our and consensus expectations. This miss was primarily on account of sustained weakness in the advanced intermediates business and lower-than-anticipated jump in phenolic spreads. Although demand recovery is likely to be fragile, the company expects a better performance 4QFY24 onwards in advanced intermediates. Besides this, we believe the commissioning of capex worth INR 20bn in CY24 (likely one project every quarter with full benefit in FY26) should bode well for growth in FY25E-27E. Further, INR 140bn worth of projects getting commissioned by end-CY27 should augur well for growth starting FY28E. Accounting for 3QFY24 results and management commentary, we cut our FY24E EBITDA/EPS estimates by 2%/3%; our FY25E/26E estimates are largely unchanged. We maintain BUY with an unchanged Mar'25 TP of INR 2,565/share (based on 27x Mar'26E EPS) as we like the company's concrete growth plans over the next 5-7 years although execution of such large projects remains a key risk.

- Phenolics spread jump lower than anticipated:** Deepak Nitrite's 3QFY24 consolidated gross profit came in 1% above JMFe at INR 6.4bn (up 4% QoQ while down 2% YoY) as revenue came in 11% above JMFe at INR 20.0bn (up 1%/13% QoQ/YoY) offsetting sequential gross margin decline to 31.7% (vs. JMFe of 34.7% and 34.4% in 2QFY24). During the quarter, other expenses were higher than anticipated at INR 2.4bn (vs. JMFe of INR 2.3bn). As a result, EBITDA was 3%/7% below JMFe/consensus and stood at INR 3.0bn (up 1% QoQ while 3% down YoY). Further, PAT came in 6%/8% below JMFe/consensus at INR 2.0bn (down 1%/3% QoQ/YoY). Deepak's phenolics EBIT was lower than anticipated and stood at INR 1.8bn (vs. JMFe of INR 1.9bn, up 5%/42% QoQ/YoY) as phenolics EBIT margin declined to 13.3% (vs. JMFe of 16.2% and 15.2% in 2QFY24) while revenue was above our estimates at INR 13.5bn (vs. JMFe of INR 11.8bn and INR 11.2bn in 2QFY24). This indicates that the company was able to make lower spreads compared to the rise in global benchmark based phenol-acetone spreads.
- Advanced intermediates business performance not yet recovered:** Deepak's advanced intermediates (AI) EBIT came in below our expectation at INR 937mn (vs. JMFe of INR 1.0bn and INR 1.0bn in 2QFY24); AI EBIT margin was below JMFe at 13.9% (vs. JMFe of 15.8% and 15.4% in 2QFY24) more than offsetting higher AI revenue at INR 6.7bn (4% above JMFe, up 1% QoQ while down 18% YoY).
- Estimates largely unchanged; maintain BUY:** To factor in 3QFY24 results and management commentary, we cut our FY24E EBITDA/EPS estimates by ~ 2%/3%, while our FY25E/FY26E estimates are largely unchanged. Hence, our Mar'25 TP has been kept unchanged at INR 2,565/share (based on 27x Mar'26E EPS). We maintain BUY as we see strong growth potential over the next 5 years from the commissioning of INR 140bn worth capex.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	67,651	79,721	73,534	90,748	99,355
Sales Growth (%)	56.1	17.8	-7.8	23.4	9.5
EBITDA	16,036	12,894	11,140	16,253	19,195
EBITDA Margin (%)	23.6	16.2	15.1	17.9	19.3
Adjusted Net Profit	10,666	8,520	7,002	10,557	12,763
Diluted EPS (INR)	78.2	62.4	51.3	77.4	93.5
Diluted EPS Growth (%)	37.5	-20.1	-17.8	50.8	20.9
ROIC (%)	36.9	24.5	16.6	21.5	21.9
ROE (%)	37.5	22.9	15.8	19.9	19.7
P/E (x)	29.2	36.6	44.5	29.5	24.4
P/B (x)	9.3	7.6	6.5	5.3	4.4
EV/EBITDA (x)	19.2	23.8	27.3	18.7	15.5
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 15/Feb/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,565
Upside/(Downside)	12.4%
Previous Price Target	2,565
Change	0.0%

Key Data – DN IN

Current Market Price	INR2,283
Market cap (bn)	INR311.3/US\$3.7
Free Float	44%
Shares in issue (mn)	136.4
Diluted share (mn)	136.4
3-mon avg daily val (mn)	INR956.9/US\$11.5
52-week range	2,521/1,749
Sensex/Nifty	72,050/21,911
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	-6.0	11.1	27.0
Relative*	-4.3	0.9	8.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

3QFY24 Result Review

Key takeaways from post-results conference call

- Details of INR 140bn capex:** The management highlighted that the completion timeline for this capex has been set as CY27-end. The company expects a payback period of 5 years for this project. Under this project, it will be manufacturing high grade of aniline and not the polyurethane foam grade. Currently, there is anti-dumping duty on aniline imports. The management is still exploring its fund-raising options for this capex.
- Details of INR 20bn capex:** The company will be undertaking projects such as i) polycarbonated compounding, ii) Oman phase I capex, iii) nitric acid, iv) hydrogenation, v) MIBK and MIBC, and vi) photo chlorination and fluorination. Besides this, there could be additional capex for specialty chemicals as well.
- Power plants benefits captured in phenolic spreads:** The company indicated that power plants benefits are fully captured in the current phenolic spreads. Its current capacity is around 350,000MT.
- Volume growth:** The company highlighted that annualising 9MFY24 to FY24 and comparing it with FY22 volume, on a consolidated basis volume would have seen 17-20% growth (including phenolics).

Exhibit 1. Deepak Nitrite's quarterly consolidated financial snapshot

Consolidated (INR mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24E	% YoY	% QoQ	% diff vs. JMFe
Net Sales	17,223	18,724	20,580	19,617	19,911	19,614	17,683	17,781	20,092	18,172	1%	13%	11%
COGS	10,851	11,568	13,608	13,700	13,386	12,781	12,236	11,658	13,726	11,867	3%	18%	
Gross Profit	6,372	7,156	6,972	5,917	6,525	6,832	5,447	6,122	6,366	6,306	-2%	4%	1%
Gross Margin (%)	37%	38%	34%	30%	33%	35%	31%	34%	31.7%	34.7%	-109 bps	-275 bps	
Employee expenses	655	714	812	785	811	775	842	848	891	850	10%	5%	
Employee expenses as % of sales	4%	4%	4%	4%	4%	4%	5%	5%	4%	5%	37 bps	-33 bps	
Other expenses	2,199	2,338	2,600	2,423	2,568	2,578	2,507	2,252	2,428	2,310	-5%	8%	
Other expenses as % of sales	13%	12%	13%	12%	13%	13%	14%	13%	12%	13%	-81 bps	-58 bps	
EBITDA	3,519	4,103	3,560	2,709	3,146	3,480	2,098	3,023	3,047	3,146	-3%	1%	-3%
EBITDA Margin (%)	20%	22%	17%	14%	16%	18%	12%	17%	15%	17%	-64 bps	-184 bps	
Depreciation	455	446	419	424	411	409	381	394	417	400	1%	6%	
EBIT	3,064	3,657	3,141	2,285	2,735	3,070	1,717	2,628	2,630	2,746	-4%	0%	
Other Income	258	35	96	120	134	126	319	170	136	170	1%	-20%	
Interest Cost	68	71	86	59	58	45	18	27	29	30	-50%	9%	
PBT	3,253	3,622	3,151	2,346	2,810	3,152	2,017	2,772	2,736	2,886	-3%	-1%	
Tax	829	950	805	601	720	813	518	721	715	739	-1%	-1%	
PAT	2,425	2,672	2,346	1,745	2,091	2,339	1,499	2,051	2,020	2,147	-3%	-1%	-6%
PAT Margin (%)	14%	14%	11%	9%	10%	12%	8%	12%	10%	12%	-44 bps	-148 bps	
EPS (INR)	18	20	17	13	15	17	11	15	15	16	-3%	-1%	
Tax rate	25%	26%	26%	26%	26%	26%	26%	26%	26%	26%	54 bps	13 bps	

Source: Company, JM Financial

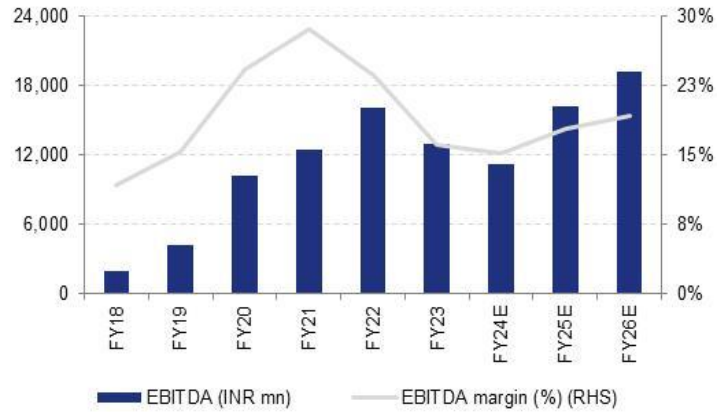
Exhibit 2. Deepak Nitrite's quarterly operational snapshot

Segmental Revenue (INR mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24E	% YoY	% QoQ	% diff vs. JMFe
Advanced intermediates	6,892	7,502	7,300	6,853	8,178	8,005	7,083	6,702	6,743	6,501	-18%	1%	4%
Phenolics	10,367	11,284	13,349	12,841	11,816	11,699	10,679	11,201	13,493	11,761	14%	20%	15%
Less: Inter segment revenue	-36	-63	-69	-77	-83	-90	-79	-123	-144	-90	73%	17%	60%
Total	17,223	18,724	20,580	19,617	19,911	19,614	17,683	17,781	20,092	18,172	1%	13%	11%
Segmental revenue contribution (%)													
Advanced intermediates	40%	40%	35%	35%	41%	41%	40%	38%	34%	36%			
Phenolics	60%	60%	65%	65%	59%	60%	60%	63%	67%	65%			
Segmental EBIT (INR mn)													
Advanced intermediates	1,470	1,928	1,327	1,384	1,475	1,365	1,149	1,034	937	1,029	-36%	-9%	-9%
Phenolics	1,836	1,759	1,877	1,027	1,270	1,770	876	1,704	1,798	1,905	42%	5%	-6%
Total	3,306	3,687	3,204	2,410	2,745	3,136	2,025	2,738	2,734	2,934	0%	0%	-7%
Segmental EBIT Margins (%)													
Advanced intermediates	21.3%	25.7%	18.2%	20.2%	18.0%	17.1%	16.2%	15.4%	13.9%	15.8%	-414bps	-153bps	-193 bps
Phenolics	17.7%	15.6%	14.1%	8.0%	10.7%	15.1%	8.2%	15.2%	13.3%	16.2%	257bps	-189bps	-288 bps
Total	19.2%	19.7%	15.6%	12.3%	13.8%	16.0%	11.5%	15.4%	13.6%	16.1%	-18bps	-179bps	-254 bps

Source: Company, JM Financial

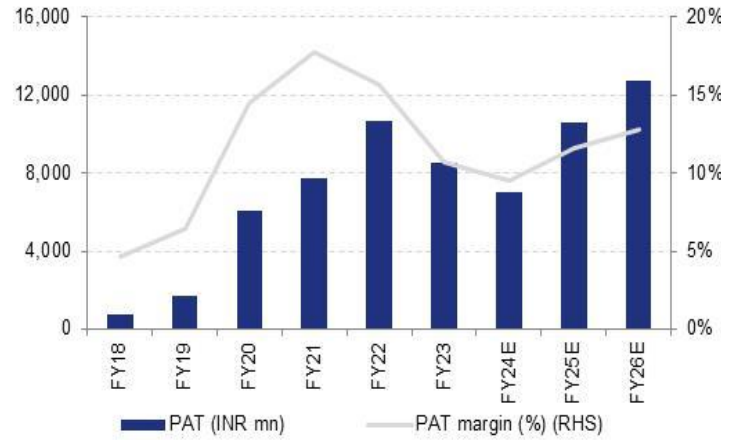
Assumptions and Estimates

Exhibit 3. Deepak’s EBITDA likely to post ~31% CAGR over FY24E-26E



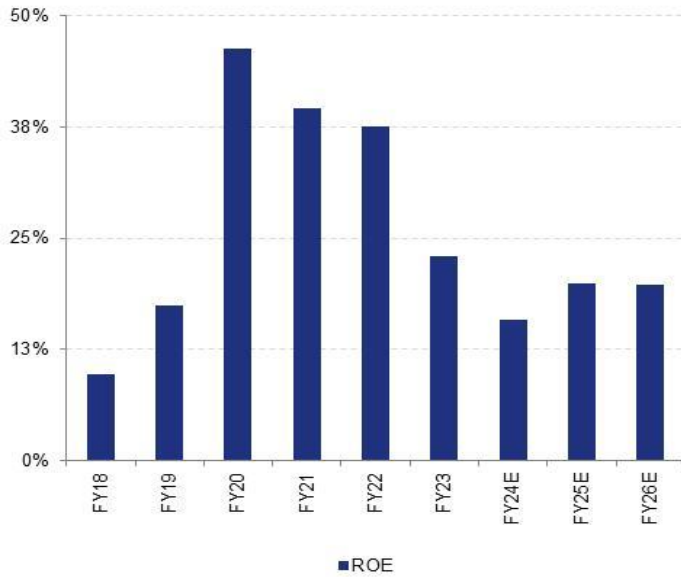
Source: Company, JM Financial

Exhibit 4. Deepak likely to post 35% PAT CAGR over FY24E-26E



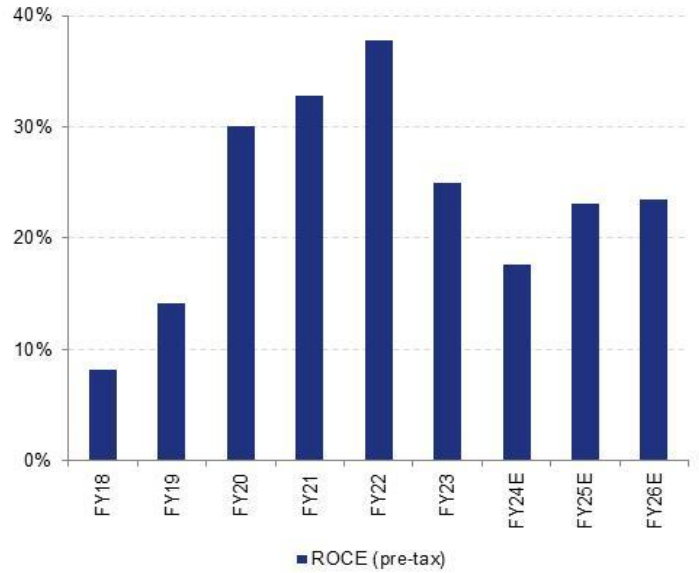
Source: Company, JM Financial

Exhibit 5. RoE to remain at ~20% in FY25E/26E



Source: Company, JM Financial

Exhibit 6. RoCE (pre-tax) to remain at ~23-24% in FY25E/26E



Source: Company, JM Financial

Valuation

Exhibit 8. Chemical companies peer valuation

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
SRF	BUY	2,350	2,665	32.2	56.9	37.1	27.4	6.7	6.1	5.3	4.5	20.6	28.5	21.3	16.4	22.9	11.3	15.3	17.9
UPL	BUY	487	650	10.0	NM	19.6	13.0	1.2	1.3	1.2	1.1	5.8	12.2	7.9	6.8	13.6	-1.5	6.3	9.0
PI Industries	HOLD	3,567	3,720	44.3	35.0	32.0	28.3	7.5	6.2	5.2	4.4	33.1	25.7	22.4	19.5	18.4	19.4	17.6	16.8
Deepak Nitrite	BUY	2,283	2,565	36.6	44.5	29.5	24.4	7.6	6.5	5.3	4.4	23.9	27.4	18.7	15.6	22.9	15.8	19.9	19.7
Clean Science	BUY	1,391	1,830	50.1	64.3	46.3	34.5	14.6	12.0	9.6	7.5	35.9	44.8	32.0	24.3	33.2	20.5	23.0	24.4
Navin Fluorine	BUY	3,126	4,105	41.3	62.7	37.3	27.0	7.1	6.4	5.7	4.9	29.3	37.9	25.6	20.6	18.6	10.8	16.1	19.4
Fine Organics	SELL	4,275	3,190	22.2	39.8	41.9	40.2	8.6	7.4	6.5	5.7	16.2	27.7	27.3	25.5	47.6	20.0	16.4	15.1
Galaxy Surfactants	HOLD	2,532	2,540	23.6	29.9	28.2	26.4	4.8	4.1	3.6	3.2	15.8	17.8	16.6	15.2	22.0	14.8	13.6	12.7
PCBL Ltd.	BUY	307	355	26.2	21.6	20.2	17.2	4.1	3.4	2.9	2.5	17.1	12.8	11.5	10.0	16.2	17.3	15.7	15.7
Aether Industries	BUY	866	1,095	82.7	89.9	53.3	39.2	8.7	5.4	4.9	4.4	57.3	59.1	34.1	25.4	16.0	7.6	9.7	11.8
Anupam Rasayan	HOLD	890	830	53.9	76.8	48.4	32.8	4.1	3.2	2.9	2.7	23.4	26.0	21.3	16.8	8.8	4.7	6.3	8.6
Archean Chemicals	BUY	631	720	18.2	21.7	13.9	11.0	4.9	4.3	3.3	2.5	11.9	14.2	8.8	6.4	45.2	22.2	27.1	26.1
Tatva Chintan Pharma Chem	HOLD	1,216	1,310	58.0	86.4	41.7	29.3	5.5	3.9	3.6	3.3	49.0	34.1	22.5	17.7	9.9	5.3	9.0	11.7

Source: Companies, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	67,651	79,721	73,534	90,748	99,355	
Sales Growth	56.1%	17.8%	-7.8%	23.4%	9.5%	
Other Operating Income	371	0	150	200	200	
Total Revenue	68,022	79,721	73,684	90,948	99,555	
Cost of Goods Sold/Op. Exp	41,144	53,475	48,704	59,822	64,420	
Personnel Cost	2,741	3,183	3,372	3,613	3,873	
Other Expenses	8,102	10,169	10,468	11,261	12,067	
EBITDA	16,036	12,894	11,140	16,253	19,195	
EBITDA Margin	23.6%	16.2%	15.1%	17.9%	19.3%	
EBITDA Growth	28.6%	-19.6%	-13.6%	45.9%	18.1%	
Depn. & Amort.	1,777	1,663	1,891	2,081	2,283	
EBIT	14,259	11,231	9,249	14,171	16,911	
Other Income	426	476	676	797	1,075	
Finance Cost	340	248	23	-2	-26	
PBT before Excep. & Forex	14,345	11,459	9,902	14,970	18,013	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	14,345	11,459	9,902	14,970	18,013	
Taxes	3,678	2,939	2,900	4,413	5,250	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	10,666	8,520	7,002	10,557	12,763	
Adjusted Net Profit	10,666	8,520	7,002	10,557	12,763	
Net Margin	15.7%	10.7%	9.5%	11.6%	12.8%	
Diluted Share Cap. (mn)	136.4	136.4	136.4	136.4	136.4	
Diluted EPS (INR)	78.2	62.4	51.3	77.4	93.5	
Diluted EPS Growth	37.5%	-20.1%	-17.8%	50.8%	20.9%	
Total Dividend + Tax	682	819	819	819	819	
Dividend Per Share (INR)	5.0	6.0	6.0	6.0	6.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	33,384	40,900	47,848	58,370	71,116	
Share Capital	273	273	273	273	273	
Reserves & Surplus	33,112	40,627	47,575	58,097	70,843	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	2,004	584	234	-116	-466	
Def. Tax Liab. / Assets (-)	1,229	1,566	1,566	1,566	1,566	
Total - Equity & Liab.	36,617	43,050	49,649	59,820	72,216	
Net Fixed Assets	21,427	23,865	30,974	37,893	43,609	
Gross Fixed Assets	29,132	30,577	40,577	50,577	58,577	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	9,498	11,161	13,052	15,133	17,416	
Capital WIP	1,793	4,449	3,449	2,449	2,449	
Investments	4,390	3,794	3,794	3,794	3,794	
Current Assets	18,487	23,629	23,237	28,177	35,828	
Inventories	5,846	8,931	7,357	8,993	9,878	
Sundry Debtors	11,291	13,095	12,048	14,698	16,155	
Cash & Bank Balances	229	376	2,598	3,250	8,557	
Loans & Advances	8	7	15	16	18	
Other Current Assets	1,115	1,220	1,220	1,220	1,220	
Current Liab. & Prov.	7,688	8,237	8,356	10,043	11,015	
Current Liabilities	7,392	7,794	7,912	9,599	10,571	
Provisions & Others	296	443	443	443	443	
Net Current Assets	10,799	15,392	14,882	18,134	24,813	
Total - Assets	36,617	43,050	49,649	59,820	72,216	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	14,345	11,459	10,806	15,892	18,954	
Depn. & Amort.	1,777	1,663	1,891	2,081	2,283	
Net Interest Exp. / Inc. (-)	362	277	23	-2	-26	
Inc (-) / Dec in WCap.	-5,150	-3,946	2,732	-2,600	-1,372	
Others	439	-353	0	0	0	
Taxes Paid	-3,535	-2,600	-2,900	-4,413	-5,250	
Operating Cash Flow	8,238	6,499	12,552	10,958	14,588	
Capex	-1,865	-3,581	-9,000	-9,000	-8,000	
Free Cash Flow	6,373	2,918	3,552	1,958	6,588	
Inc (-) / Dec in Investments	-2,401	822	0	0	0	
Others	26	-1	0	0	0	
Investing Cash Flow	-4,241	-2,761	-9,000	-9,000	-8,000	
Inc / Dec (-) in Capital	58	173	0	0	0	
Dividend + Tax thereon	-750	-955	-958	-958	-958	
Inc / Dec (-) in Loans	-2,846	-2,576	-350	-350	-350	
Others	-320	-233	-23	2	26	
Financing Cash Flow	-3,858	-3,591	-1,330	-1,306	-1,281	
Inc / Dec (-) in Cash	140	148	2,221	652	5,307	
Opening Cash Balance	89	229	376	2,598	3,250	
Closing Cash Balance	229	376	2,598	3,250	8,557	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin		15.7%	10.7%	9.5%	11.6%	12.8%
Asset Turnover (x)		2.0	2.0	1.6	1.7	1.5
Leverage Factor (x)		1.2	1.1	1.0	1.0	1.0
RoE		37.5%	22.9%	15.8%	19.9%	19.7%

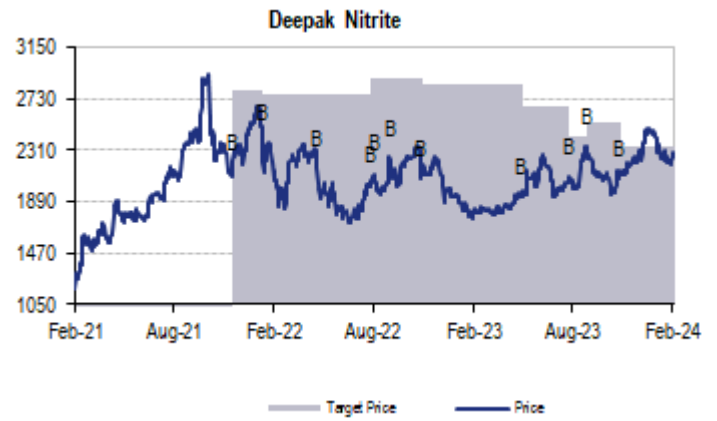
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)		244.7	299.8	350.7	427.8	521.3
ROIC		36.9%	24.5%	16.6%	21.5%	21.9%
ROE		37.5%	22.9%	15.8%	19.9%	19.7%
Net Debt/Equity (x)		-0.1	-0.1	-0.1	-0.1	-0.2
P/E (x)		29.2	36.6	44.5	29.5	24.4
P/B (x)		9.3	7.6	6.5	5.3	4.4
EV/EBITDA (x)		19.2	23.8	27.3	18.7	15.5
EV/Sales (x)		4.5	3.9	4.1	3.3	3.0
Debtor days		61	60	60	59	59
Inventory days		31	41	36	36	36
Creditor days		52	43	46	47	48

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Nov-21	Buy	2,800	
24-Jan-22	Buy	2,760	-1.4
5-May-22	Buy	2,760	0.0
11-Aug-22	Buy	2,895	4.9
17-Aug-22	Buy	2,895	0.0
15-Sep-22	Buy	2,895	0.0
10-Nov-22	Buy	2,845	-1.7
14-May-23	Buy	2,660	-6.5
8-Aug-23	Buy	2,420	-9.0
11-Sep-23	Buy	2,535	4.7
9-Nov-23	Buy	2,340	-7.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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