

DN's Q2FY25 EBITDA at Rs3bn (-2% YoY/-4% QoQ) was in line with estimates. Revenue grew 14% YoY (-6 QoQ), on strong growth in the phenolics business, which offset the weak performance in the AI segment. We expect AI business to be strained in the near term, given pricing as well as margin pressure, while the phenolics business is likely to continue posting a steady performance. The company has signed an agreement for acquiring assets and license the technology for manufacturing Polycarbonate (PC) resins from Trinseo PLC; it has committed capex of Rs50bn for the project, with commissioning expected in FY28 (165,000ton). We cut FY25E/26E/27E EPS by 4-6%, to factor-in the weak near-term demand and have built-in gradual ramp up in PC volumes in FY30E numbers; maintain REDUCE and cut TP to Rs2,600 (from Rs2,900).

Deepak Nitrite: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	79,721	76,818	84,462	97,039	109,803
EBITDA	12,894	11,233	11,897	15,568	18,666
Adj. PAT	8,520	7,311	7,978	10,412	11,557
Adj. EPS (Rs)	62.5	54.8	58.5	76.3	84.7
EBITDA margin (%)	16.2	14.6	14.1	16.0	17.0
EBITDA growth (%)	(19.6)	(12.9)	5.9	30.9	19.9
Adj. EPS growth (%)	(20.1)	(12.3)	6.8	30.5	11.0
RoE (%)	22.9	16.5	15.5	17.5	16.7
RoIC (%)	24.3	18.3	17.2	17.7	15.3
P/E (x)	42.2	49.2	45.1	34.6	31.1
EV/EBITDA (x)	27.7	31.7	30.3	23.6	20.4
P/B (x)	8.8	7.5	6.6	5.6	4.8
FCFF yield (%)	0.9	(0.3)	(1.0)	(1.7)	(3.0)

Source: Company, Emkay Research

AI demand environment remains challenging; phenol business steady

Advanced Intermediates (AI) segment revenue was down 11% YoY/15% YoY, owing to order deferments from EU customers because of high inventory levels due to weak agrochemical demand and muted realizations. We believe that the agrochemical demand will be muted in the next two quarters, leading to volatility in this business. The Phenolics segment saw stable QoQ performance on the back of a favorable demand environment and realizations. Phenol-acetone capacities are running at nearly full capacity, thereby limiting volume growth for subsequent quarters, till derivatives start contributing. Phenol-acetone spreads volatility will keep absolute EBITDA range-bound.

Polycarbonate resins to drive growth beyond FY27

Deepak Chem Tech (DCTL) approved capex of Rs50bn for manufacturing polycarbonate resins as a greenfield project. It will be funded via a balanced mix of debt and equity, contingent on detailed engineering. For this, DCTL has signed agreements for tech and asset transfer with Trinseo Plc, for USD52.5mn. DCTL will acquire Trinseo's German assets with 165KTPA capacity and targets commissioning in H1FY28 (FY23 domestic demand: 240KTPA; growing more than India's GDP growth rate). Trinseo will support the transfer and commissioning of this facility in Dahej and during the initial offtake to itself and its customers. This tech and asset transfer will help DN reduce its project timeline by 12M. Capex for phenol-BPA will be announced at an appropriate time by the mgmt. BPA for polycarbonate will be sourced externally, in absence of captive capacities.

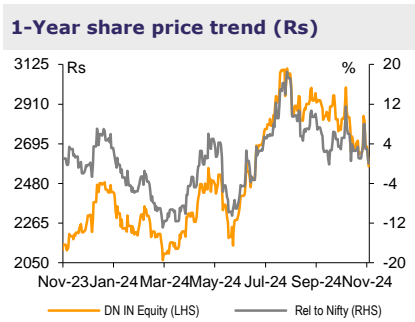
New project commissioning in next 6 months; MIBK/MIBC project delayed

We build in capex of Rs11/16/24bn for FY25/26/27E; DN's spends as of H1FY25 (largely in subsidiaries) stand at Rs4.8bn. DN's nitration block will commence in H2FY25, while photo-chlorination and hydrogenation will commence simultaneously in H2. MIBK/MIBC is delayed for commissioning, and will now be commissioned in H1FY26, with major ramp up expected from FY27. Acetophenone plant will commission by H1FY26. Such capex will aid backward integration-led improvement in margins from FY26/27.

Target Price – 12M	Sep-25
Change in TP (%)	(10.4)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(1.5)
CMP (14-Nov-24) (Rs)	2,638.5

Stock Data	Ticker
52-week High (Rs)	3,169
52-week Low (Rs)	2,021
Shares outstanding (mn)	136.4
Market-cap (Rs bn)	360
Market-cap (USD mn)	4,264
Net-debt, FY25E (Rs mn)	331
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	959.1
ADTV-3M (USD mn)	11.4
Free float (%)	-
Nifty-50	23,533
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	49.2
FPIs/MFs (%)	6.7/22.3

Price Performance			
(%)	1M	3M	12M
Absolute	(7.4)	(7.3)	24.8
Rel. to Nifty	(1.1)	(4.9)	3.2



Meet Vora

meet.vora@emkayglobal.com
+91 22 6624 2474

Meet Gada

meet.gada@emkayglobal.com
+91 22 6612 1235

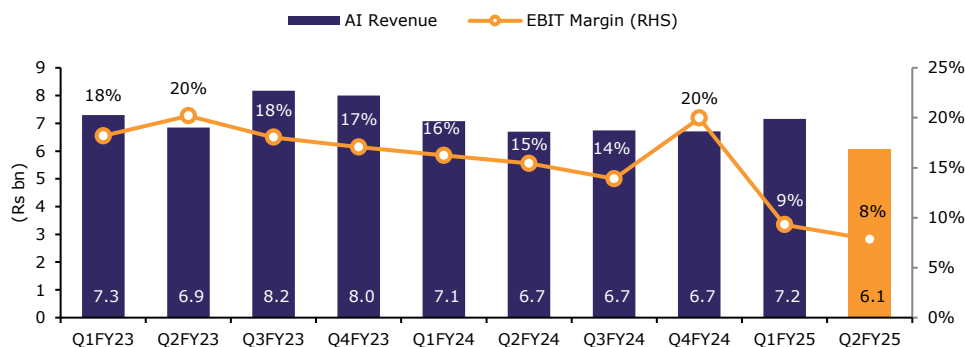
Exhibit 1: Result update

P&L (Rs mn)	Reported					Emkay Est		Half year ended		
	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	Q2FY25	vs Est (%)	H1FY25	H1FY23	YoY (%)
Net revenue	17,781	21,668	20,320	14	-6	21,935	-7	41,988	35,464	18
Raw Material cost	(11,658)	(15,002)	(13,823)	19	-8	(15,025)	-8	(28,825)	(23,895)	21
Gross Profit	6,122	6,667	6,497	6	-3	6,910	-6	13,164	11,569	14
Gross margin (%)	34.4	30.8	32.0	-246 bps	120 bps	31.5	47 bps	31.4	32.6	-128 bps
Employee cost	(848)	(953)	(971)	14	2	(965)	1	(1,924)	(1,690)	14
Other overheads	(2,252)	(2,621)	(2,551)	13	-3	(2,676)	-5	(5,173)	(4,759)	9
Total expenses	(14,758)	(18,577)	(17,345)	18	-7	(18,666)	(7)	(35,921)	(30,344)	18
EBITDA	3,023	3,092	2,975	-2	-4	3,269	-9	6,067	5,120	18
EBITDA margin (%)	17.0	14.3	14.6	-236 bps	37 bps	14.9	-26 bps	14.4	14.4	1 bps
Other income	170	188	213	25	13	171	24	401	489	-18
Interest	(27)	(58)	(63)	135	10	(58)	8	(121)	(45)	168
Depreciation	(394)	(475)	(485)	23	2	(479)	1	(959)	(775)	24
EO Items	-	-	-	-	-	-	-	-	-	-
PBT	2,772	2,748	2,640	-5	-4	2,903	-9	5,388	4,789	13
Tax	(721)	(723)	(698)	-3	-3	(755)	(7)	(1,421)	(1,240)	15
Adj PAT	2,051	2,025	1,942	-5	-4	2,148	-10	3,967	3,550	12
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	2,051	2,025	1,942	-5	-4	2,148	-10	3,967	3,550	12
EPS (Rs)	15.0	14.8	14.2	-5	-4	15.7	-10	29.1	26.0	12
Cost, as a % of sales										
Raw Material cost	65.6	69.2	68.0	245 bps	-121 bps	68.5	-48 bps	68.6	67.4	127 bps
Employee cost	4.8	4.4	4.8	0 bps	37 bps	4.4	37 bps	4.6	4.8	-19 bps
Other overheads	12.7	12.1	12.6	-11 bps	45 bps	12.2	35 bps	12.3	13.4	-111 bps
Income tax rate	26.0	26.3	26.4	42 bps	14 bps	26.0	44 bps	26.4	25.9	49 bps

Source: Company, Emkay Research

Exhibit 2: AI business witnessing declining volumes at lower realizations

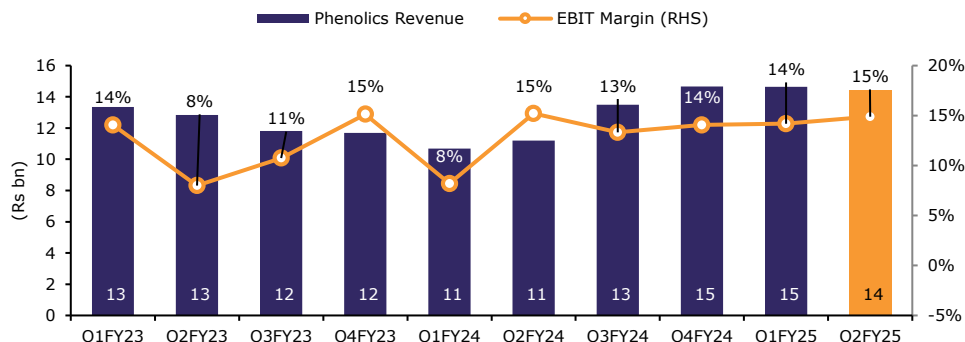
EBIT margin of the AI business fell to a 12-quarter low



Source: Company, Emkay Research

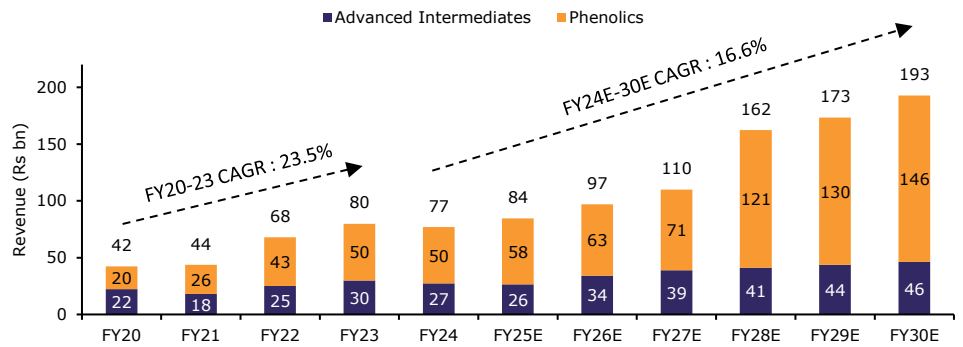
Exhibit 3: The Phenolics business grew 29% YoY/was flat QoQ

The Phenolics segment maintained its volume, while pricing uptick in phenol was negated by falling acetone prices



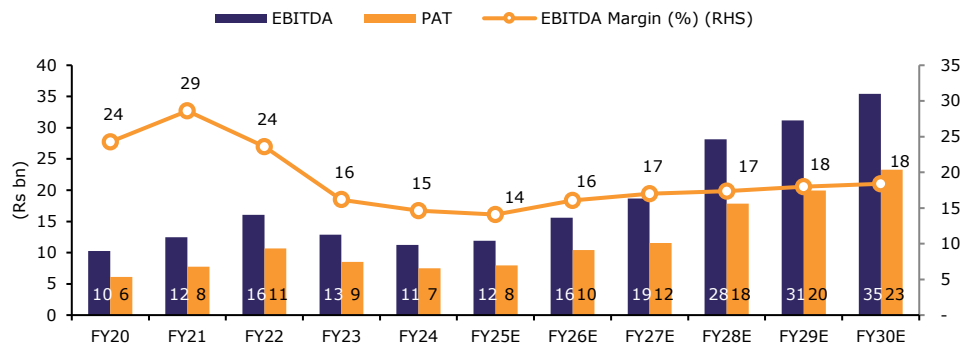
Source: Company, Emkay Research

Exhibit 4: DCTL's revenue (phenolics) to rise, as it incurs most of the upcoming capex



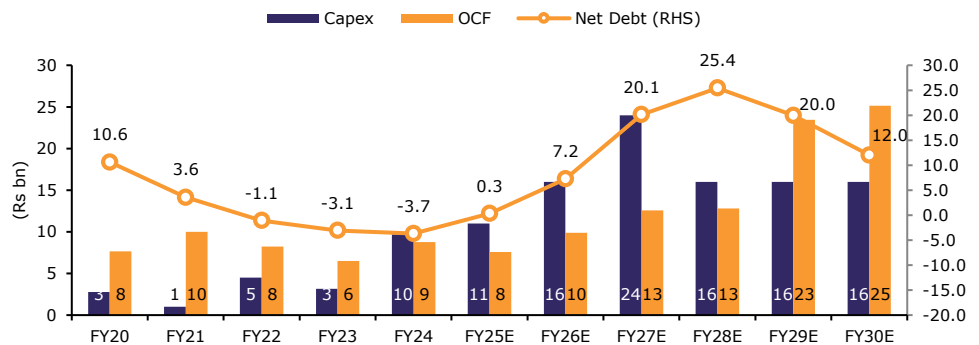
Source: Company, Emkay Research

Exhibit 5: EBITDA CAGR expected at 21% over FY24-30E, along with margin expansion



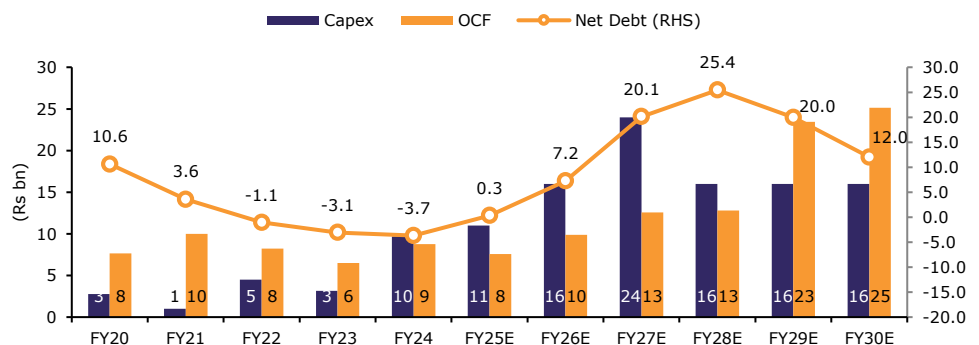
Source: Company, Emkay Research

Exhibit 6: Strong OCF generation to aid funding and pare debt



Source: Company, Emkay Research

Exhibit 7: Return ratios to largely remain healthy over the next few years



Source: Company, Emkay Research

Exhibit 8: We cut FY25E/26E/27 EPS by 4-6%, to factor-in the weak near term environment

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	84,462	88,705	-5	97,039	100,211	-3	109,803	112,638	-3
EBITDA	11,897	12,570	-5	15,568	16,251	-4	18,666	19,274	-3
EBITDA margin (%)	14.1	14.2	-9 bps	16.0	16.2	-18 bps	17.0	17.1	-12 bps
PAT	7,978	8,473	-6	10,412	10,931	-5	11,557	12,019	-4
EPS (Rs)	58	62	-6	76	80	-5	85	88	-4

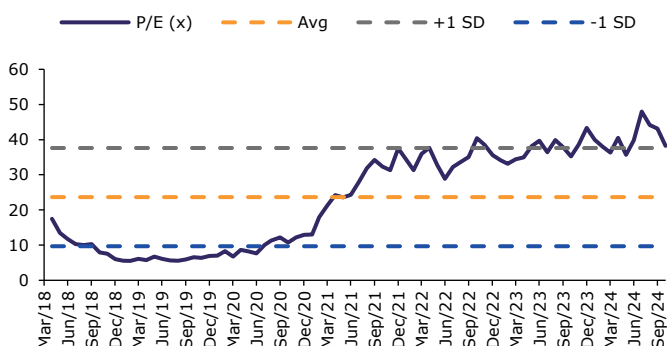
Source: Emkay Research

Exhibit 9: SoTP-based TP stands at Rs2,600

Particulars (Rs mn)	FY26E	FY27E
DNL - Standalone EBITDA	6,063	7,584
EV/EBITDA Target Multiple (x)	18	18
Target Enterprise Value (A)	109,134	136,516
DPL - Discounted FY30E EBITDA	15,512	17,451
EV/EBITDA Target multiple (x)	15	15
Target Enterprise Value (B)	232,676	261,761
Total Enterprise Value (A+B)	341,810	398,277
Net Debt	7,239	20,125
Total Equity Value	334,572	378,152
No of shares outstanding (mn)	136	136
Sep-26E Target Price (Rs)		2,600
CMP (Rs)		2,639
Upside		-1%

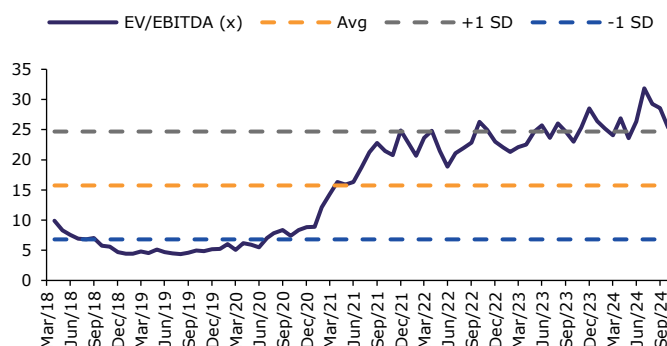
Source: Emkay Research

Exhibit 10: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 11: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Deepak Nitrite: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	79,721	76,818	84,462	97,039	109,803
Revenue growth (%)	17.2	(3.6)	10.0	14.9	13.2
EBITDA	12,894	11,233	11,897	15,568	18,666
EBITDA growth (%)	(19.6)	(12.9)	5.9	30.9	19.9
Depreciation & Amortization	1,663	1,657	1,683	2,294	3,207
EBIT	11,231	9,576	10,214	13,275	15,459
EBIT growth (%)	(21.2)	(14.7)	6.7	30.0	16.5
Other operating income	0	0	0	0	0
Other income	476	761	799	839	881
Financial expense	248	118	174	414	1,134
PBT	11,459	10,219	10,840	13,700	15,206
Extraordinary items	0	0	0	0	0
Taxes	2,939	2,908	2,861	3,288	3,649
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	8,520	7,470	7,978	10,412	11,557
PAT growth (%)	(20.1)	(12.3)	6.8	30.5	11.0
Adjusted PAT	8,520	7,311	7,978	10,412	11,557
Diluted EPS (Rs)	62.5	54.8	58.5	76.3	84.7
Diluted EPS growth (%)	(20.1)	(12.3)	6.8	30.5	11.0
DPS (Rs)	7.0	7.5	8.8	8.8	8.8
Dividend payout (%)	11.2	13.7	15.1	11.6	10.4
EBITDA margin (%)	16.2	14.6	14.1	16.0	17.0
EBIT margin (%)	14.1	12.5	12.1	13.7	14.1
Effective tax rate (%)	25.6	28.5	26.4	24.0	24.0
NOPLAT (pre-IndAS)	8,350	6,851	7,518	10,089	11,749
Shares outstanding (mn)	136.4	136.4	136.4	136.4	136.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	11,459	10,219	10,840	13,700	15,206
Others (non-cash items)	(246)	(627)	(799)	(839)	(881)
Taxes paid	(2,600)	(2,665)	(2,844)	(3,259)	(3,621)
Change in NWC	(3,945)	1,523	(1,465)	(2,410)	(2,446)
Operating cash flow	6,499	8,781	7,571	9,871	12,570
Capital expenditure	(3,231)	(9,894)	(11,000)	(16,000)	(24,000)
Acquisition of business	(3)	(2)	0	0	0
Interest & dividend income	476	761	799	839	881
Investing cash flow	(2,761)	(7,218)	(9,701)	(15,161)	(23,119)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,618)	1,068	0	6,000	12,000
Payment of lease liabilities	0	0	0	0	0
Interest paid	(248)	(118)	(174)	(414)	(1,134)
Dividend paid (incl tax)	(955)	(1,023)	(1,204)	(1,204)	(1,204)
Others	229	508	0	0	0
Financing cash flow	(3,591)	435	(1,378)	4,382	9,662
Net chg in Cash	148	1,998	(3,507)	(908)	(886)
OCF	6,499	8,781	7,571	9,871	12,570
Adj. OCF (w/o NWC chg.)	2,554	10,303	6,107	7,461	10,124
FCFF	3,268	(1,114)	(3,429)	(6,129)	(11,430)
FCFE	3,496	(471)	(2,803)	(5,704)	(11,682)
OCF/EBITDA (%)	50.4	78.2	63.6	63.4	67.3
FCFE/PAT (%)	41.0	(6.3)	(35.1)	(54.8)	(101.1)
FCFF/NOPLAT (%)	39.1	(16.3)	(45.6)	(60.8)	(97.3)

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	273	273	273	273	273
Reserves & Surplus	40,627	47,693	54,467	63,675	74,028
Net worth	40,900	47,966	54,740	63,948	74,301
Minority interests	0	0	0	0	0
Deferred tax liability (net)	1,565	1,715	1,715	1,715	1,715
Total debt	1,101	2,170	2,170	8,170	20,170
Total liabilities & equity	43,566	51,850	58,624	73,832	96,185
Net tangible fixed assets	18,895	22,223	31,275	44,981	65,774
Net intangible assets	522	704	704	704	704
Net ROU assets	0	0	0	0	0
Capital WIP	3,008	7,735	8,000	8,000	8,000
Goodwill	0	0	0	0	0
Investments [JV/Associates]	25	27	27	27	27
Cash & equivalents	4,168	5,846	1,839	931	44
Current assets (ex-cash)	24,669	24,405	26,651	30,346	34,096
Current Liab. & Prov.	7,720	8,830	9,611	10,896	12,201
NWC (ex-cash)	16,948	15,575	17,040	19,450	21,896
Total assets	43,566	52,111	58,885	74,093	96,445
Net debt	(3,067)	(3,677)	331	7,239	20,125
Capital employed	43,566	51,850	58,624	73,832	96,185
Invested capital	36,364	38,503	49,019	65,135	88,374
BVPS (Rs)	299.9	351.7	401.3	468.8	544.7
Net Debt/Equity (x)	(0.1)	(0.1)	0.0	0.1	0.3
Net Debt/EBITDA (x)	(0.2)	(0.3)	0.0	0.5	1.1
Interest coverage (x)	0.0	0.0	0.0	0.0	0.1
RoCE (%)	28.6	21.7	19.9	21.3	19.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	42.2	49.2	45.1	34.6	31.1
P/CE(x)	35.3	40.1	37.3	28.3	24.4
P/B (x)	8.8	7.5	6.6	5.6	4.8
EV/Sales (x)	4.5	4.6	4.3	3.8	3.5
EV/EBITDA (x)	27.7	31.7	30.3	23.6	20.4
EV/EBIT(x)	31.8	37.2	35.3	27.7	24.6
EV/IC (x)	9.8	9.3	7.3	5.6	4.3
FCFF yield (%)	0.9	(0.3)	(1.0)	(1.7)	(3.0)
FCFE yield (%)	1.0	(0.1)	(0.8)	(1.6)	(3.2)
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3
DuPont-RoE split					
Net profit margin (%)	10.7	9.5	9.4	10.7	10.5
Total asset turnover (x)	1.9	1.6	1.5	1.5	1.3
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.2
RoE (%)	22.9	16.5	15.5	17.5	16.7
DuPont-RoIC					
NOPLAT margin (%)	10.5	8.9	8.9	10.4	10.7
IC turnover (x)	2.3	2.1	1.9	1.7	1.4
RoIC (%)	24.3	18.3	17.2	17.7	15.3
Operating metrics					
Core NWC days	77.6	74.0	73.6	73.2	72.8
Total NWC days	77.6	74.0	73.6	73.2	72.8
Fixed asset turnover	3.0	2.6	2.2	1.9	1.5
Opex-to-revenue (%)	16.7	17.2	17.8	18.4	18.5

Source: Company, Emkay Research

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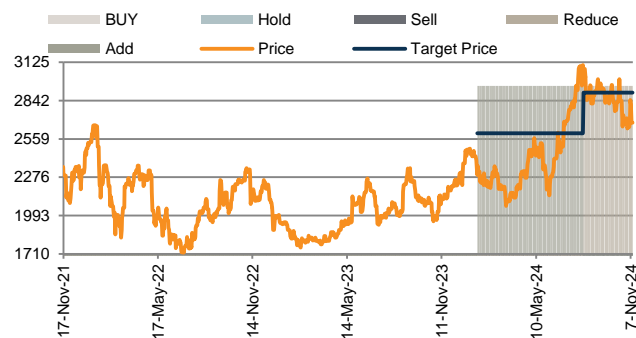
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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