

Estimate change

TP change

Rating change



CMP: INR3,076

TP: INR3,060 (-1%)

Neutral

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	419.6 / 5
52-Week Range (INR)	3169 / 1922
1, 6, 12 Rel. Per (%)	14/27/25
12M Avg Val (INR M)	1010

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	76.8	88.1	92.1
EBITDA	11.2	13.4	16.4
PAT	7.5	8.9	10.4
EPS (INR)	55.1	65.3	76.4
EPS Gr. (%)	-11.7	18.5	17.0
BV/Sh.(INR)	351.7	408.7	475.5

Ratios

Net D:E	-0.1	0.0	0.1
RoE (%)	16.9	17.2	17.3
RoCE (%)	16.0	15.8	15.1
Payout (%)	12.6	12.6	12.6

Valuations

P/E (x)	55.8	47.1	40.2
P/BV (x)	8.7	7.5	6.5
EV/EBITDA (x)	37.1	31.4	26.0
Div. Yield (%)	0.2	0.3	0.3
FCF Yield (%)	0.3	-0.9	-0.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	49.1	49.1	45.7
DII	15.6	15.1	10.7
FII	8.1	7.7	9.1
Others	27.2	28.1	34.5

FII Includes depository receipts

Margin pressure to persist in the near term

- Deepak Nitrite (DN) delivered a beat in 1QFY25 led by a strong performance in Deepak Phenolics (DPL) driven by improved realization. EBITDA was above our estimate by 12% in 1QFY25 and stood at INR3.1b (+47% YoY). Adj. PAT was INR2b (estimate of INR1.8b, +35% YoY). EBIT margin contracted YoY in Advanced Intermediates (AI). Management highlighted that there was continued inventory destocking while logistical challenges led to an export slowdown to the US and EU.
- In the AI segment, DN introduced a new novel OBA product to address a specific market demand. Volume growth in select products was seen led by debottlenecking initiatives coupled with yield improvement in existing products. DN maintained its market share in most of the products in 1Q. In DPL, management expects it to gain more traction with the commissioning of the downstream products. The demand pressure on Benzene and Propylene could be a factor affecting the near-term Phenol spreads.
- Margin contracted significantly in the AI segment due to the current environment and challenging circumstances. Specific to performance products, margin dipped due to high ocean freight costs (this phenomenon was opposite for DPL), making it difficult to compete with domestic manufacturers. Margin pressure would persist in the short term due to reduced single customer or single geography dependency.
- Management highlighted that while demand recovery in agrochemicals continues to be soft, various other end-user segments, including dyes & pigments, paper, homecare, etc. are indicating marginal signs of improving demand. There are multiple projects set for commissioning in FY25 for DN, and with the expectation of Chinese destocking getting over by the end of FY25, this positions DN well for sustained growth and profitability from a long-term perspective.
- Despite the outperformance, we cut our EBITDA/EPS estimates by 7%/6% for FY25 due to the management guidance of near-term margin pressure. We broadly maintain our estimates for FY26. Our EBITDAM stands at 15.3%/17.8% for FY25/26. The stock trades at ~40x FY26E EPS of INR76 and at ~26x FY26E EV/EBITDA. **We reiterate our Neutral rating**, valuing the stock at 40x FY26E EPS to arrive at our TP of INR3,060.

Beat led by better performance in DPL YoY

- Revenue was at INR21.7b (our est. INR18.6b, up 23% YoY). EBITDA was at INR3.1b (our est. of INR2.8b, up 47% YoY).
- Gross margin was 30.8% (flat YoY), while EBITDAM stood at 14.3% (v/s 11.9% in 1QFY24).
- Reported PAT stood at INR2.0b (our est. of INR1.8b, up 35% YoY).

Segmental details

- Phenolics' EBIT margin stood at 14.2%, with EBIT at INR2.1b. AI's EBIT margin came in at 9.3%, with EBIT at INR665m.
- Revenue mix of Phenolics stood at 67% in 1QFY25, with AI's share at 33%. EBIT mix for AI was 24%, down from 57% in 1QFY24. The contribution from Phenolics came in at 76% (vs. 43% in 1QFY24).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Other highlights

- In May'24, Deepak Chem Tech Ltd (DCTL) entered into a share purchase agreement with Narmada Thermal Power Pvt Ltd (NTPPL) to acquire 100% paid up share capital of NTPPL for INR617m. NTPPL has been considered a step down subsidiary of DNL in 1QFY25.

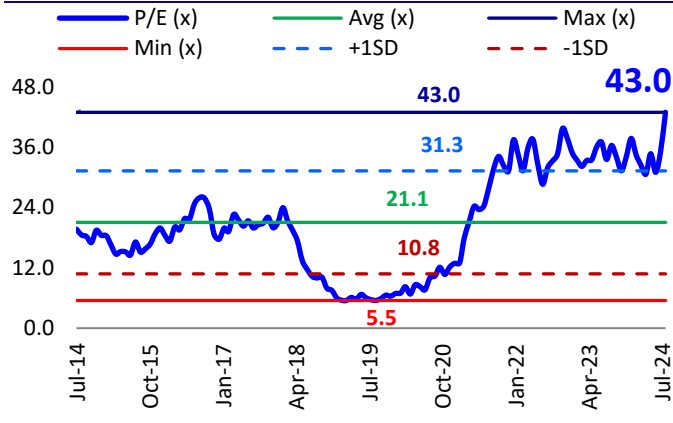
Valuation and view

- The company aims to become the largest player in Solvents, with a play on import substitution. It is foraying into Methyl Isobutyl Ketone (MIBK, 40ktpa), Methyl Isobutyl Carbinol (MIBC, 8ktpa), Sodium Nitrite/ Nitrate among other products. These are taking shape and would be commissioned as per plan. Some other previously announced capex projects have already been commissioned (fluorination plant, specialty salts unit).
- DN is aggressively pursuing both backward and forward integration projects in order to de-risk its business model and also expand its product portfolio. However, its entire product portfolio consists of commodities, and the current valuation appears expensive.
- The stock trades at ~40x FY26E EPS of INR76 and at ~26x FY26E EV/EBITDA. **We reiterate our Neutral rating**, valuing the stock at 40x FY26E EPS to arrive at our TP of INR3,060.

Consolidated - Quarterly Snapshot

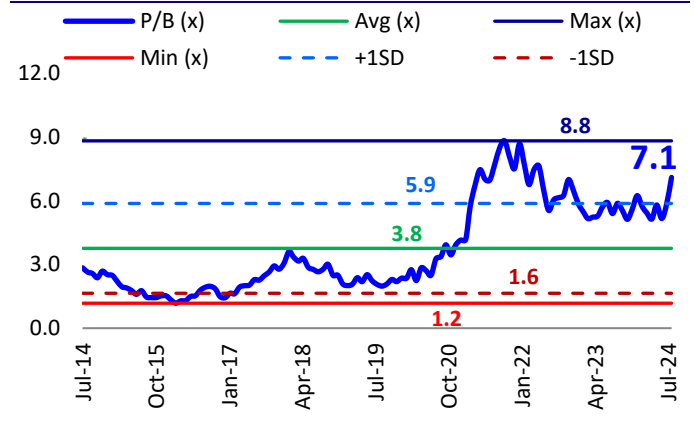
Y/E March	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		(%)
Gross Sales	17,683	17,781	20,092	21,262	21,668	21,862	21,933	22,667	76,818	88,131	18,611	16%
YoY Change (%)	-14.1	-9.4	0.9	8.4	22.5	23.0	9.2	6.6	-3.6	14.7	5.2	
Gross Margin (%)	30.8%	34.4%	31.7%	30.7%	30.8%	31.0%	31.9%	35.0%	31.8%	32.2%	32.4%	-1.7%
EBITDA	2,098	3,023	3,047	3,011	3,092	3,189	3,263	3,904	11,178	13,448	2,773	12%
Margin (%)	11.9	17.0	15.2	14.2	14.3	14.6	14.9	17.2	14.6	15.3	14.9	-0.6
Depreciation	381	394	417	465	475	477	481	482	1,657	1,914	536	
Interest	18	27	29	44	58	63	66	79	118	266	27	
Other Income	319	170	136	191	188	152	160	139	816	639	141	
PBT	2,017	2,772	2,736	3,492	2,748	2,801	2,875	3,482	11,017	11,907	2,350	17%
Tax	518	721	715	953	723	705	725	844	2,908	2,997	592	
Rate (%)	25.7	26.0	26.1	27.3	26.3	25.2	25.2	24.2	26.4	25.2	25.2	
Reported PAT	1,499	2,051	2,020	2,538	2,025	2,096	2,150	2,638	8,108	8,910	1,759	15%
Adj PAT	1,499	2,051	2,020	1,958	2,025	2,096	2,150	2,638	7,521	8,910	1,759	15%
YoY Change (%)	-36.1	17.5	-3.4	-16.3	35.1	2.2	6.4	34.7	-11.7	18.5	17.3	
Margin (%)	8.5	11.5	10.1	9.2	9.3	9.6	9.8	11.6	9.8	10.1	9.5	-0.1
Segmental Revenue (INR m)												
Advanced Intermediates	7,083	6,702	6,743	6,711	7,157	7,247	7,394	7,484	23,036	23,266	5,993	19%
Phenolic	10,679	11,201	13,493	14,661	14,636	14,742	14,668	15,306	36,356	34,194	12,744	15%
Segmental EBIT (INR m)												
Advanced Intermediates	1,149	1,034	937	1,339	665	1,153	1,208	1,366	4,224	3,989	1,146	-42%
Phenolic	876	1,704	1,798	2,061	2,076	1,985	1,890	1,610	4,067	3,917	2,232	-7%
Segmental EBIT Margin (%)												
Advanced Intermediates	16.2%	15.4%	13.9%	20.0%	9.3%	15.9%	16.3%	18.3%	18.3%	17.1%	19.1%	-9.8%
Phenolic	8.2%	15.2%	13.3%	14.1%	14.2%	13.5%	12.9%	10.5%	11.2%	11.5%	17.5%	-3.3%

Exhibit 1: One-year forward P/E



Source: Company, MOFSL

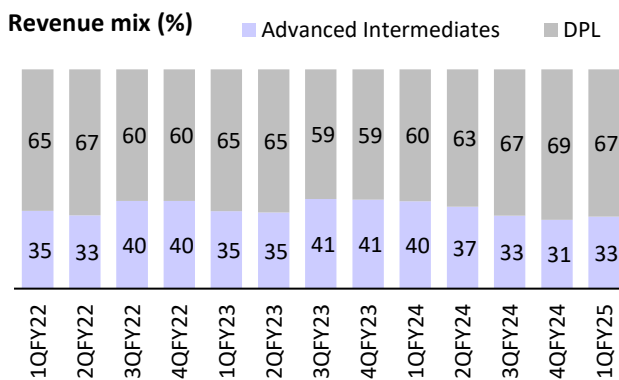
Exhibit 2: One-year forward P/B



Source: Company, MOFSL

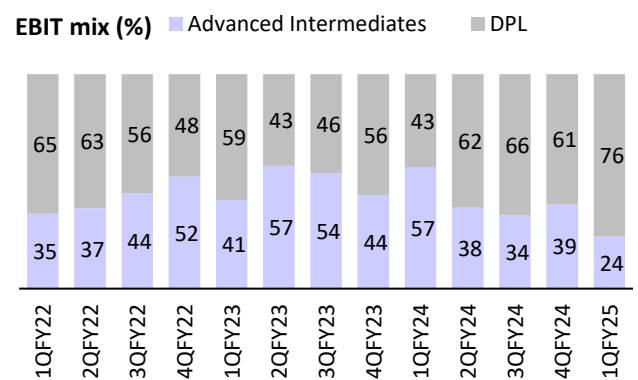
1QFY25 in charts

Exhibit 3: Contribution of Phenolics in total revenue increased to 67% in 1QFY25 from 60% in 1QFY24...



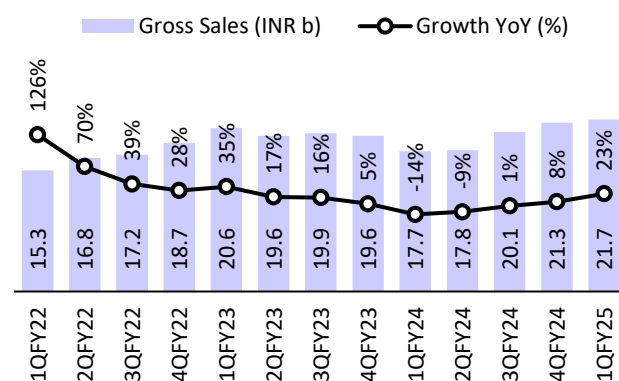
Source: Company, MOFSL

Exhibit 4: ...while Phenolics' contribution to EBIT mix was 76% from 43% in 1QFY24



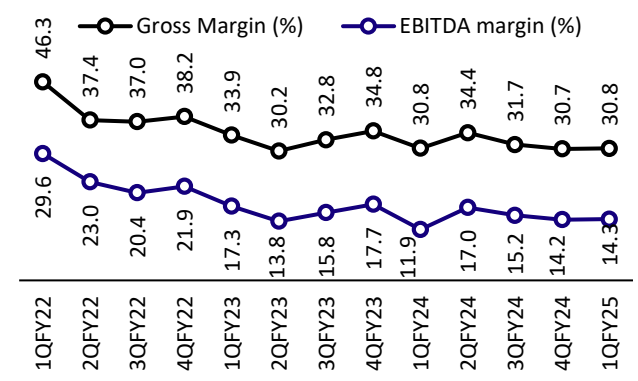
Source: Company, MOFSL

Exhibit 5: Sales increased 23% YoY



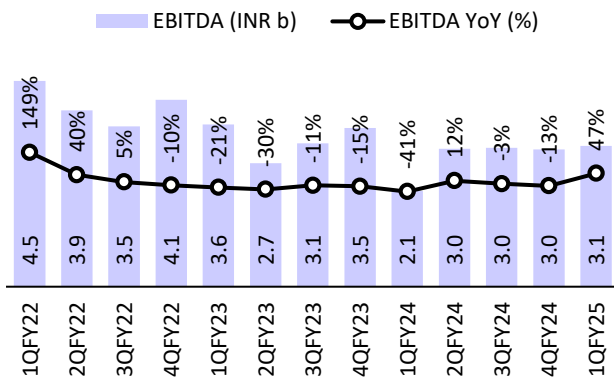
Source: Company, MOFSL

Exhibit 6: Margins expanded YoY



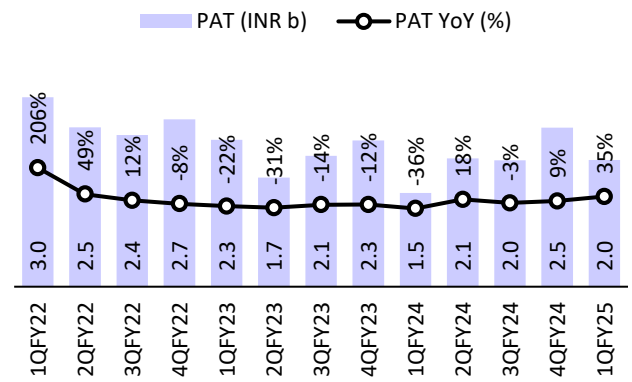
Source: Company, MOFSL

Exhibit 7: EBITDA increased 47% YoY



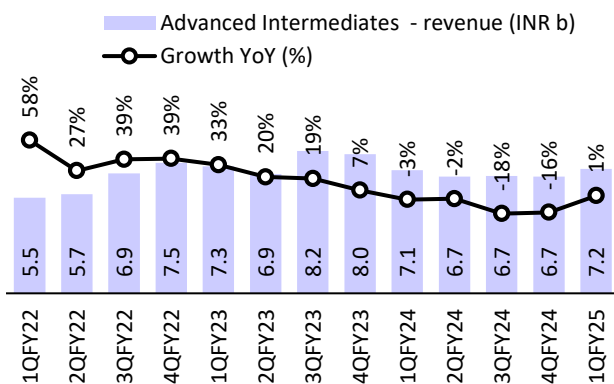
Source: Company, MOFSL

Exhibit 8: Reported PAT up 35% YoY



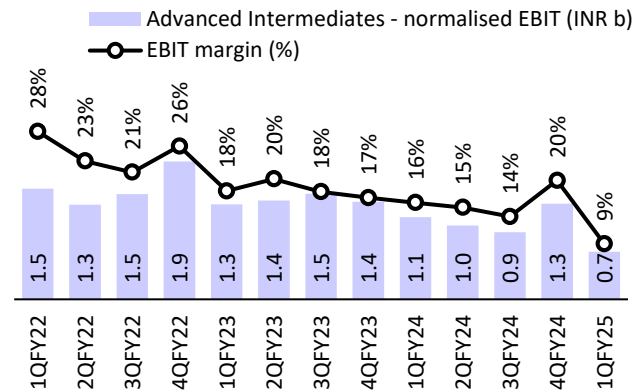
Source: Company, MOFSL

Exhibit 9: Revenue from AI increased 1% YoY...



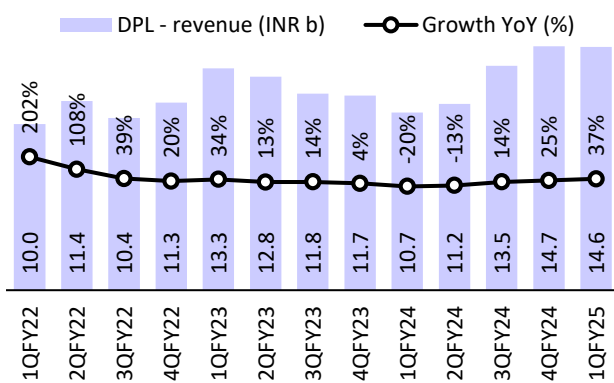
Source: Company, MOFSL

Exhibit 10: ...with a 690bp contraction in EBITM on YoY basis



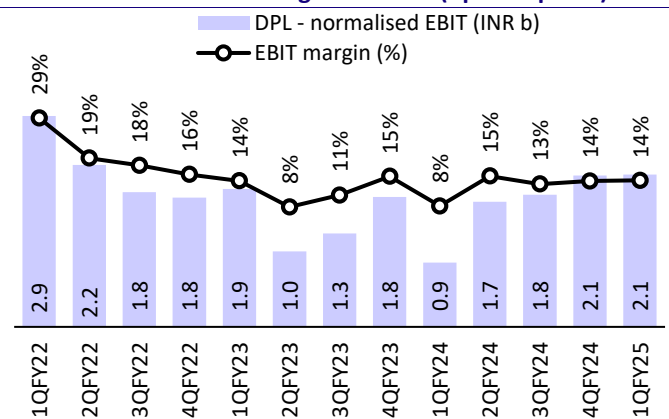
Source: Company, MOFSL

Exhibit 11: Revenue from DPL increased 37% YoY...



Source: Company, MOFSL

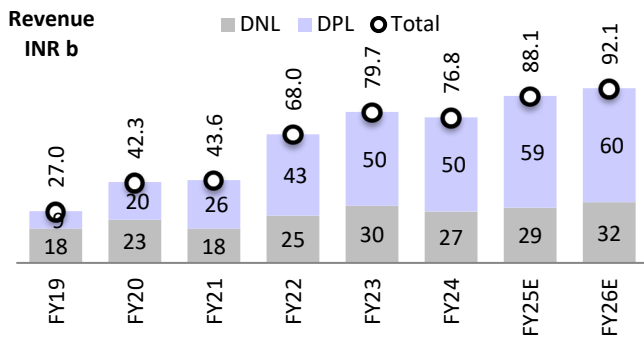
Exhibit 12: ...with EBIT margin at 14.2% (up 600bp YoY)



Source: Company, MOFSL

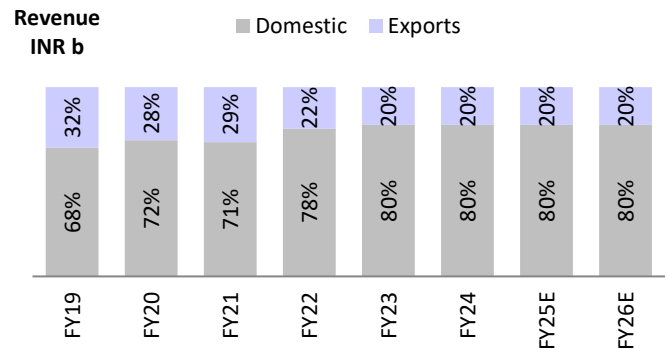
Financial story in charts

Exhibit 13: Revenue contribution from Phenol to remain higher...



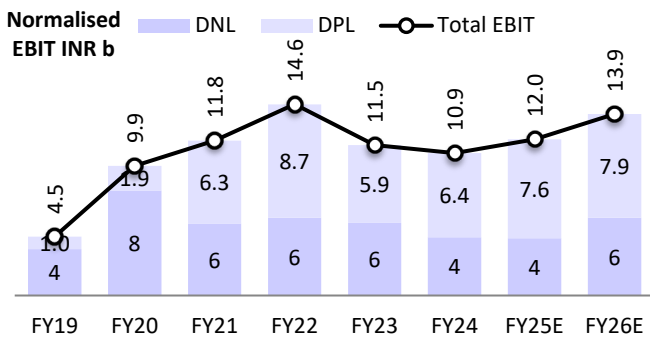
Source: MOFSL

Exhibit 14: ...with focus on domestic market as a play on import substitution



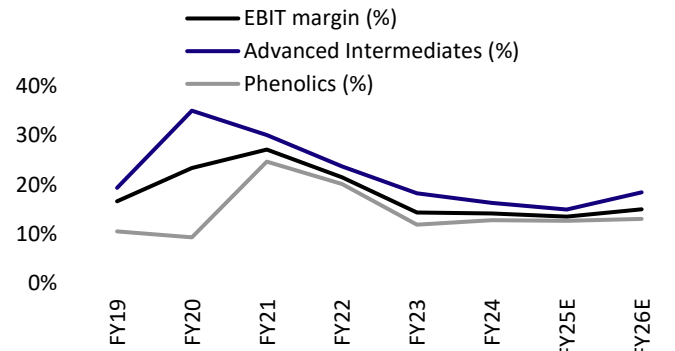
Source: Company, MOFSL

Exhibit 15: Segmental EBIT break up of DN...



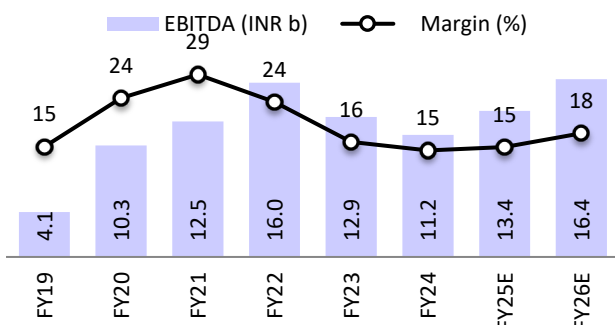
Source: Company, MOFSL

Exhibit 16: ...with AI still enjoying a higher EBIT margin



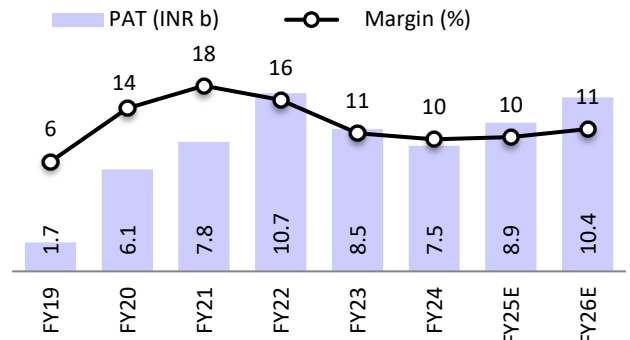
Source: Company, MOFSL

Exhibit 17: EBITDA margin to normalize from FY22 levels



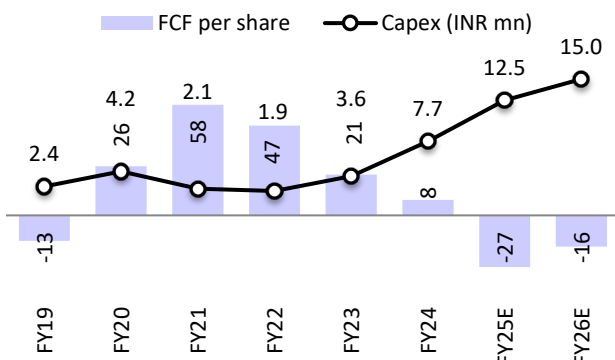
Source: Company, MOFSL

Exhibit 18: Expect ~18% PAT CAGR over FY24-26



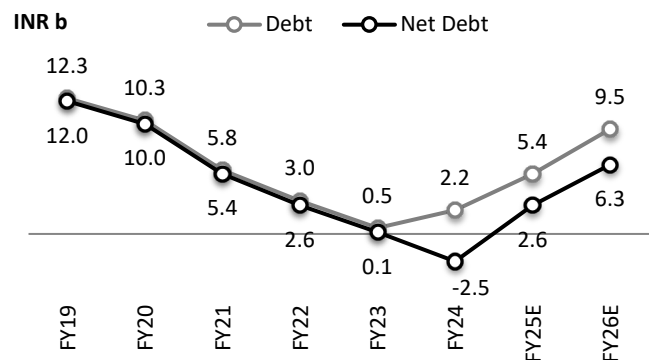
Source: Company, MOFSL

Exhibit 19: Capex to be incurred by DN



Source: Company, MOFSL

Exhibit 20: Debt profile of DN



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

	(INR m)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	26,999	42,297	43,598	68,022	79,721	76,818	88,131	92,059
Change (%)	61.1	56.7	3.1	56.0	17.2	-3.6	14.7	4.5
Gross Margin (%)	39.0	43.9	48.1	39.5	32.9	31.8	32.2	34.7
EBITDA	4,139	10,258	12,470	16,036	12,894	11,233	13,448	16,373
Margin (%)	15.3	24.3	28.6	23.6	16.2	14.6	15.3	17.8
Depreciation	778	1,397	1,526	1,777	1,663	1,657	1,914	2,939
EBIT	3,361	8,861	10,944	14,259	11,231	9,576	11,534	13,434
Int. and Finance Charges	832	1,149	742	340	248	118	266	149
Other Income	151	352	215	426	476	761	639	649
PBT bef. EO Exp.	2,680	8,064	10,417	14,345	11,459	10,219	11,907	13,934
EO Items	0	0	0	0	0	798	0	0
PBT after EO Exp.	2,680	8,064	10,417	14,345	11,459	11,017	11,907	13,934
Total Tax	943	1,954	2,659	3,678	2,939	2,908	2,997	3,507
Tax Rate (%)	35.2	24.2	25.5	25.6	25.6	26.4	25.2	25.2
Reported PAT	1,737	6,110	7,758	10,666	8,520	8,109	8,910	10,427
Adjusted PAT	1,737	6,110	7,758	10,666	8,520	7,522	8,910	10,427
Change (%)	119.8	251.9	27.0	37.5	-20.1	-11.7	18.5	17.0
Margin (%)	6.4	14.4	17.8	15.7	10.7	9.8	10.1	11.3

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	273	273	273	273	273	273	273	273
Total Reserves	10,443	15,446	23,194	33,112	40,627	47,693	55,479	64,591
Net Worth	10,716	15,719	23,467	33,384	40,900	47,966	55,752	64,863
Total Loans	12,286	10,279	5,775	3,007	545	2,170	5,424	9,492
Deferred Tax Liabilities	775	796	1,078	1,229	1,566	1,736	1,736	1,736
Capital Employed	23,776	26,794	30,320	37,620	43,011	52,133	63,173	76,352
Gross Block	17,749	20,460	22,441	25,263	26,523	31,690	44,190	59,190
Less: Accum. Deprn.	743	2,140	3,666	5,443	7,106	8,763	10,677	13,616
Net Fixed Assets	17,006	18,320	18,774	19,820	19,416	22,927	33,513	45,575
Capital WIP	339	1,723	2,068	1,037	3,008	7,735	7,735	7,735
Total Investments	24	24	1,893	4,390	3,794	1,219	1,219	1,219
Curr. Assets, Loans, and Adv.	11,910	12,019	12,868	19,057	25,069	29,081	30,786	32,146
Inventory	4,107	3,945	3,827	5,846	8,931	7,599	8,653	8,769
Account Receivables	5,750	6,127	7,563	11,291	13,095	12,984	14,895	15,559
Cash and Bank Balance	258	314	334	418	400	4,655	2,830	3,215
Cash	30	21	89	229	376	2,380	555	940
Bank Balance	228	293	245	189	23	2,275	2,275	2,275
Loans and Advances	1,795	1,633	1,144	1,503	2,644	3,844	4,407	4,602
Curr. Liability and Prov.	5,502	5,292	5,283	6,684	8,277	8,829	10,080	10,323
Account Payables	4,724	3,643	4,367	5,117	6,618	5,823	6,630	6,719
Other Current Liabilities	587	1,385	640	1,272	1,216	2,476	2,841	2,967
Provisions	191	264	276	296	443	531	609	636
Net Current Assets	6,408	6,727	7,585	12,373	16,792	20,252	20,706	21,824
Appl. of Funds	23,776	26,794	30,320	37,620	43,011	52,133	63,173	76,352

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	12.7	44.8	56.9	78.2	62.5	55.1	65.3	76.4
EPS Growth (%)	120%	252%	27%	37%	-20%	-12%	18%	17%
Cash EPS	18.4	55.0	68.1	91.2	74.7	67.3	79.4	98.0
BV/Share	78.6	115.2	172.0	244.8	299.9	351.7	408.7	475.5
DPS	6.5	4.5	5.5	7.0	7.5	7.5	8.2	9.6
Payout (%)	61.6	12.1	9.7	9.0	12.0	12.6	12.6	12.6
Valuation (x)								
P/E	241.6	68.7	54.1	39.3	49.2	55.8	47.1	40.2
Cash P/E	166.9	55.9	45.2	33.7	41.2	45.7	38.8	31.4
P/BV	39.2	26.7	17.9	12.6	10.3	8.7	7.5	6.5
EV/Sales	16.0	10.2	9.7	6.2	5.3	5.4	4.8	4.6
EV/EBITDA	104.3	41.9	34.1	26.3	32.6	37.1	31.4	26.0
Dividend Yield (%)	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3
FCF per share	-13.3	25.6	57.8	46.8	21.3	8.0	-27.0	-16.3
Return Ratios (%)								
RoE	17.4	46.2	39.6	37.5	22.9	16.9	17.2	17.3
RoCE	10.5	27.6	29.1	32.1	21.6	16.0	15.8	15.1
RoIC	13.5	28.0	32.1	36.7	24.7	19.0	19.2	17.4
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.4	2.4	3.5	4.1	3.6	3.1	2.3
Asset Turnover (x)	1.1	1.6	1.4	1.8	1.9	1.5	1.4	1.2
Inventory (Days)	56	34	32	31	41	36	36	35
Debtor (Days)	78	53	63	61	60	62	62	62
Creditor (Days)	64	31	37	27	30	28	27	27
Leverage Ratio (x)								
Current Ratio	2.2	2.3	2.4	2.9	3.0	3.3	3.1	3.1
Interest Coverage Ratio	4.0	7.7	14.7	41.9	45.3	80.9	43.4	90.1
Net Debt/Equity ratio	1.1	0.6	0.2	0.1	0.0	-0.1	0.0	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	2,680	8,064	10,417	14,345	11,459	11,017	11,907	13,934
Depreciation	778	1,397	1,526	1,777	1,663	1,657	1,914	2,939
Others	829	1,262	852	295	63	-509	266	149
Direct Taxes Paid	-561	-1,985	-2,365	-3,535	-2,600	-2,665	-2,997	-3,507
(Inc.)/Dec. in WC	-3,123	-1,092	-412	-4,643	-4,085	-720	-2,278	-733
CF from Operations	603	7,647	10,019	8,239	6,499	8,781	8,811	12,782
(Inc.)/Dec. in FA	-2,410	-4,160	-2,140	-1,862	-3,599	-7,685	-12,500	-15,000
Free Cash Flow	-1,808	3,487	7,879	6,377	2,900	1,096	-3,689	-2,218
Change in Investments	299	3	-1,854	-2,401	816	427	0	0
Others	486	-122	33	22	22	40	0	0
CF from Investments	-1,626	-4,279	-3,961	-4,241	-2,761	-7,218	-12,500	-15,000
Issue of Shares	0	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	2,033	-1,088	-5,246	-2,812	-2,523	1,625	3,254	4,068
Interest Paid	-841	-1,134	-736	-320	-233	-98	-266	-149
Dividend Paid	-213	-1,060	-4	-750	-955	-1,023	-1,124	-1,315
Others	-20	-94	-5	24	120	-68	0	0
CF from Fin. Activity	958	-3,376	-5,990	-3,858	-3,591	435	1,864	2,603
Inc./Dec. in Cash	-64	-8	68	139	148	1,998	-1,825	385
Opening Balance	94	30	22	90	229	377	2,380	556
Closing Balance	30	22	90	229	377	2,380	556	941

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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