Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

February 15, 2024

Q3FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	1,985		1,881	
Sales (Rs. m)	82,181	91,307	78,693	87,295
% Chng.	*4.4*	*4.6*		
EBITDA (Rs. m)	14,546	16,186	14,346	16,106
% Chng.	*1.4*	*0.5*		
EPS (Rs.)	68.3	76.3	67.2	75.2
% Chng.	*1.5*	*1.5*		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	79,721	76,406	82,181	91,307
EBITDA (Rs. m)	12,894	12,175	14,546	16,186
Margin (%)	*16.2*	*15.9*	*17.7*	*17.7*
PAT (Rs. m)	8,520	8,261	9,309	10,414
EPS (Rs.)	62.5	60.6	68.3	76.3
Gr. (%)	*(20.1)*	*(3.0)*	*12.7*	*11.9*
DPS (Rs.)	7.5	7.3	8.2	9.2
Yield (%)	*0.3*	*0.3*	*0.4*	*0.4*
RoE (%)	*22.9*	*18.6*	*17.8*	*17.1*
RoCE (%)	*28.9*	*22.2*	*21.3*	*20.7*
EV/Sales (x)	3.9	4.1	3.8	3.4
EV/EBITDA (x)	24.2	25.5	21.6	19.4
PE (x)	36.5	37.7	33.4	29.9
P/BV (x)	7.6	6.5	5.5	4.8

Key Data	DPNT.BO | DN IN
52-W High / Low	Rs.2,521 / Rs.1,749
Sensex / Nifty	72,050 / 21,911
Market Cap	Rs.311bn/ $ 3,749m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.956.91m

Shareholding Pattern (%)

Promoter's	49.13
Foreign	6.48
Domestic Institution	18.87
Public & Others	25.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.0)	11.1	27.0
Relative	(4.3)	0.9	8.0

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Deepak Nitrite (DN IN)

Rating: REDUCE | CMP: Rs2,283 | TP: Rs1,985

Phenol utilization remains high

Quick Pointers:

- MoU worth Rs90bn with the Government of Gujarat on January 31, 2024; adding to the previous MoU worth Rs50bn as of May 23, 2023 for an aggregate of ~Rs140bn

- Phenolics plant utilization at 140-150% for Q3FY24

Deepak Nitrite (DN) topline grew 13% QoQ anchored by solid growth in the Phenolics segment, driven by robust volume growth and improved realization. Advanced Intermediates segment experienced subdued demand recovery in agrochemicals, textiles and dyes & pigments segment. The company has announced plans for large scale capex including brownfield and greenfield expansion and expects to commence all the projects before 2027. The stock is currently trading at 30x FY26E EPS and 19x FY26E EV/EBITDA. We anticipate ~7% EPS CAGR over FY23-26E. We value the stock at 26x P/E at FY26 EPS and retain 'Reduce' rating with TP of Rs1,985(earlier Rs1,935).

- **Segmental Performance:** Advanced intermediates revenue -17.5%/0.6% YoY & QoQ to Rs6.7bn, while EBIT margins stood at 14% for the quarter. Phenolics division showed impressive volume growth with revenue up by 14.2%/20.5% YoY & QoQ to Rs13.4bn. Phenolics plant operated at a utilization of approximately 140%.

- **Consolidated revenue** stood at Rs 20bn (1% YoY/ 13% QoQ; PLe: 17.3bn), driven by 14% YoY/20% QoQ increase in Phenolics division revenue to Rs13.5bn. For 9MFY24, topline declined by 7.6% to Rs55.5bn from Rs60bn, while EBITDA & PAT margins remained flat at 32.3%/10% respectively.

- **Gross profit margin** was at 31.7% (vs 34.4% in Q2FY24 and 32.8% in Q3FY23; PLe: 32.9), inline with the actual margin.

- E**ven though topline improved 13% QoQ, EBITDA came in flat at Rs3bn** (vs Rs3.1bn in Q3FY23 and Rs3bn in Q2FY24), due to significant increase in raw material cost. EBITDA margin came at 15.2% (vs 15.8% in Q3FY23 and 17% in Q2FY24). 9MFY24 EBITDA stood at Rs8.1bn, 13% down YoY.

- **Reported PAT came in flat at Rs2bn** (-3.4% YoY/ 1.5% QoQ), while margins were at 10% in Q3FY24 vs 10.5% & 11.5% in Q3FY23 & Q2FY24 respectively.

- **Concall takeaways:** Global chemical industry continues to witness adverse conditions **(2)** Chinese suppliers taking steps to destock the inventory of intermediates **(3) Segmental Performance:** Phenolic segment showed robust growth, driven by volume gains and improved realizations, subdued demand recovery in industries such as agrochemicals, textiles and dyes, and pigment, healthy demand for construction infrastructure and home care **(4)** Ongoing projects such as photohalogenation, high pressure fluorination, acid unit and others are progressing well and are expected to be commissioned as planned **(5)** High pressure fluorination, acid unit commissioning is anticipated in this quarter **(5)** Expansion projects such as MIBK, MIBC and hydrogenation going as per plan **(6)** Additional MoU worth Rs90bn signed with Gujrat government, which leads to total MoU of Rs140bn for manufacturing of polycarbonate resins, methyl methacrylate MMA, polymethyl methacrylate, PMMA resins, all projects to be completed by 2027, Rs20bn worth investment to be commissioned in coming quarter **(7)** Domestic : Export revenue mix came in at 15.72 : 4.51bn **(8)** The company is net debt free **(9)** DNL has invested Rs170mn in Deepak, Oman Industries to acquire 32% stake **(10)** For Agrochemicals Q4FY24 is expected to be better than Q3FY24 **(11)** All new projects which are expected to be commissioned in CY24 are expected to reach optimal level in FY26 **(12)** Phenol plant, which is operating at 140%-150% capacity, operated at 88000 tons for Q3FY24, total yearly capacity is around 350,000 tons **(13)** Phenol total volume growth is around 17% to 20% in cumulative in 9MFY24 **(14)** New investments to add 2% to 3% over current EBITDA margins **(15)** Fragile recovery is expected for Advanced intermediate segment.

Exhibit 1: Q3FY24 Result Overview - Consolidated (Rs mn)

Y/e March	Q3FY24	Q3FY23	*YoY gr. (%)*	Q3FY24E	*% Var.*	Q2FY24	*QoQ gr. (%)*	9MFY24	9MFY23	*YoY gr. (%)*
Net Sales	**20,092**	**19,911**	***0.9***	**17,384**	***15.6***	**17,781**	***13.0***	**55,556**	**60,107**	***(7.6)***
Gross Profit	6,366	6,525	*(2.4)*	5,714	*11.4*	6,122	*4.0*	17,935	19,413	*(7.6)*
Margin (%)	*31.7*	*32.8*		*32.9*	*(3.6)*	*34.4*		*32.3*	*32.3*	
EBITDA	**3,047**	**3,146**	***(3.2)***	**2,846**	***7.0***	**3,023**	***0.8***	**8,167**	**9,414**	***(13.3)***
Margin (%)	*15.2*	*15.8*		*16.4*	*(7.4)*	*17.0*		*14.7*	*15.7*	
Other Income	136	134	*1.4*	166	*(18.4)*	170	*(20.5)*	625	350	*78.4*
Depreciation	417	411	*1.4*	445	*(6.4)*	394	*5.7*	1192	1254	*(4.9)*
EBIT	**2,765**	**2,869**	***(3.6)***	**2,567**	***7.7***	**2,799**	***(1.2)***	**7,599**	**8,511**	***(10.7)***
Interest	29	58	*(49.7)*	40	*(26.3)*	27	*9.3*	74	203	*(63.5)*
PBT before exp	**2,736**	**2,810**	***(2.6)***	**2,527**	***8.3***	**2,772**	***(1.3)***	**7,525**	**8,307**	***(9.4)***
Total Tax	715	720	*(0.6)*	704	*1.6*	721	*(0.8)*	1,955	2,126	*(8.0)*
ETR (%)	*26.1*	*25.6*		*27.9*	*(6.1)*	*26.0*		*26.0*	*25.6*	
Adj. PAT	**2,020**	**2,091**	***(3.4)***	**1,823**	***10.8***	**2,051**	***(1.5)***	**5,570**	**6,181**	***(9.9)***
Exceptional Items	0	0	-	0	-	0		0	0	-
PAT	**2,020**	**2,091**	***(3.4)***	**1,823**	***10.8***	**2,051**	***(1.5)***	**5,570**	**6,181**	***(9.9)***

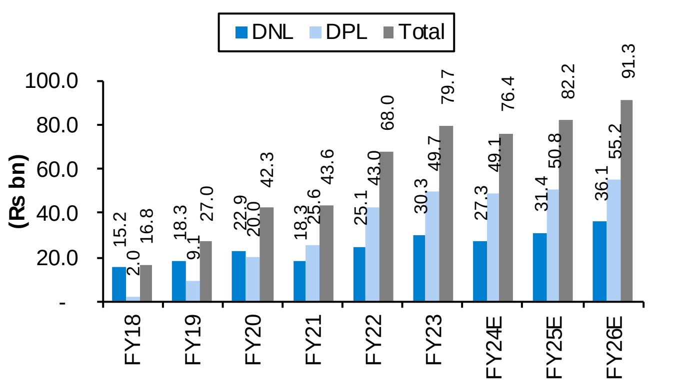
Source: Company, PL

Exhibit 2: Q3FY24 - Segmental Performance (Rs mn)

Y/E March	Q3FY24	Q3FY23	YoY gr.	Q2FY24	QoQ gr.	9MFY24	9MFY23	YoY gr.
Advaned Intermediates	6,743	8,178	-17.5%	6,702	0.6%	20,528	22,331	-8.1%
Phenolics	13,493	11,816	14.2%	11,201	20.5%	35,373	38,006	-6.9%
Intersegment	144	83	73.3%	123	17.3%	345	230	50.4%
Total Revenue	**20,092**	**19,911**	0.9%	**17,781**	13.0%	**55,556**	**60,107**	-7.6%
Advaned Intermediates	937	1,475	-36.5%	1,034	-9.4%	3,120	4,185	-25.5%
Phenolics	1,798	1,270	41.5%	1,704	5.5%	4,378	4,174	4.9%
Interest	29	58	-49.7%	27	9.3%	74	203	-63.5%
Other unallocable expenses	(31)	(124)	-75.1%	(61)	-49.6%	(102)	(151)	-32.5%
Total EBIT	**2,736**	**2,810**	-2.6%	**2,772**	-1.3%	**7,525**	**8,307**	-9.4%
EBIT Margins								
Advaned Intermediates	13.9%	18.0%		15.4%		15.2%	18.7%	
Phenolics	13.3%	10.7%		15.2%		12.4%	11.0%	

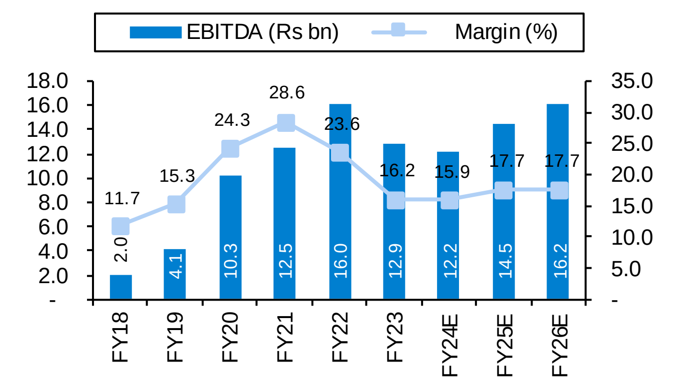
Source: Company, PL

Exhibit 3: Rev to grow at 6% CAGR (FY23-26E)



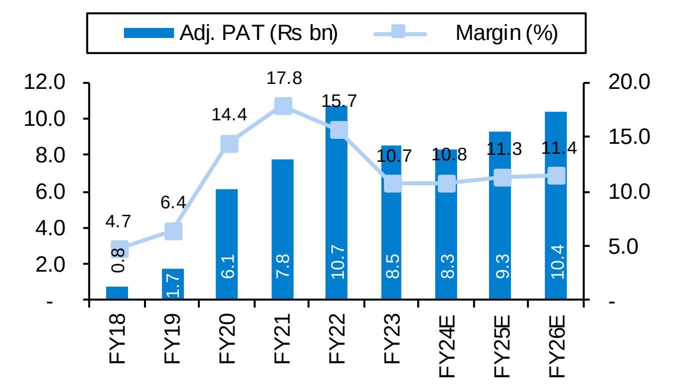
Source: Company, PL

Exhibit 4: Stable margin on spread normalization



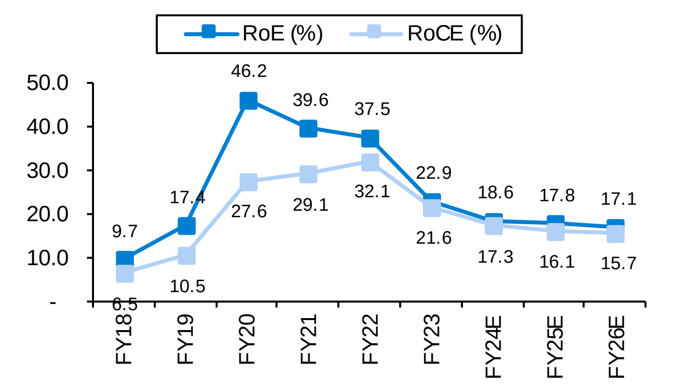
Source: Company, PL

Exhibit 5: PAT margins at 12%



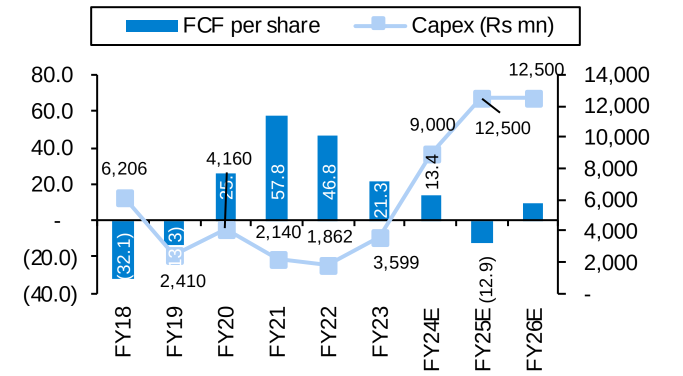
Source: Company, PL

Exhibit 6: Return Ratios to hover around 18-20%



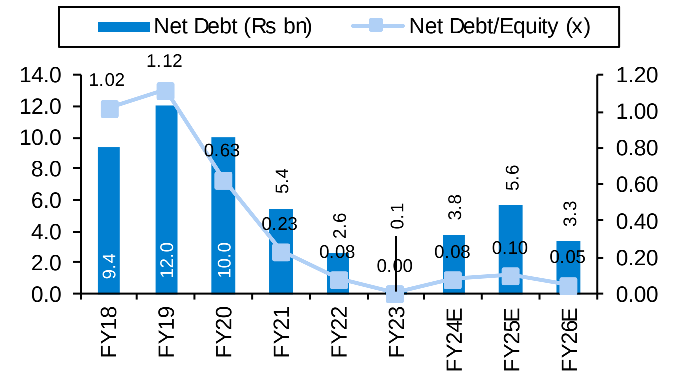
Source: Company, PL

Exhibit 7: Strong FCF despite capex



Source: Company, PL

Exhibit 8: Net Debt/Equity at 0.1x



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**79,721**	**76,406**	**82,181**	**91,307**
YoY gr. (%)	*17.2*	*(4.2)*	*7.6*	*11.1*
Cost of Goods Sold	53,475	51,179	53,923	60,384
Gross Profit	26,246	25,227	28,258	30,922
Margin (%)	*32.9*	*33.0*	*34.4*	*33.9*
Employee Cost	3,183	3,501	3,851	4,236
Other Expenses	10,169	9,551	9,862	10,500
EBITDA	**12,894**	**12,175**	**14,546**	**16,186**
YoY gr. (%)	*(19.6)*	*(5.6)*	*19.5*	*11.3*
Margin (%)	*16.2*	*15.9*	*17.7*	*17.7*
Depreciation and Amortization	1,663	1,781	2,323	2,540
EBIT	**11,231**	**10,394**	**12,222**	**13,646**
Margin (%)	*14.1*	*13.6*	*14.9*	*14.9*
Net Interest	248	114	250	250
Other Income	476	764	468	520
Profit Before Tax	**11,459**	**11,044**	**12,441**	**13,917**
Margin (%)	*14.4*	*14.5*	*15.1*	*15.2*
Total Tax	2,939	2,783	3,131	3,503
Effective tax rate (%)	*25.6*	*25.2*	*25.2*	*25.2*
Profit after tax	**8,520**	**8,261**	**9,309**	**10,414**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**8,520**	**8,261**	**9,309**	**10,414**
YoY gr. (%)	*(20.1)*	*(3.0)*	*12.7*	*11.9*
Margin (%)	*10.7*	*10.8*	*11.3*	*11.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**8,520**	**8,261**	**9,309**	**10,414**
YoY gr. (%)	*(20.1)*	*(3.0)*	*12.7*	*11.9*
Margin (%)	*10.7*	*10.8*	*11.3*	*11.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,520	8,261	9,309	10,414
Equity Shares O/s (m)	**136**	**136**	**136**	**136**
EPS (Rs)	**62.5**	**60.6**	**68.3**	**76.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**26,705**	**35,705**	**48,205**	**60,705**
Tangibles	26,705	35,705	48,205	60,705
Intangibles	-	-	-	-
Acc: Dep / Amortization	**7,106**	**8,888**	**11,211**	**13,751**
Tangibles	7,106	8,888	11,211	13,751
Intangibles	-	-	-	-
Net fixed assets	**19,599**	**26,817**	**36,994**	**46,954**
Tangibles	19,599	26,817	36,994	46,954
Intangibles	-	-	-	-
Capital Work In Progress	2,826	2,826	2,826	2,826
Goodwill	-	-	-	-
Non-Current Investments	3,794	3,794	3,794	3,794
Net Deferred tax assets	(1,566)	(1,566)	(1,566)	(1,566)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	8,931	8,584	9,039	10,039
Trade receivables	13,095	12,551	13,499	12,508
Cash & Bank Balance	400	4,580	3,457	1,281
Other Current Assets	2,644	2,534	2,726	3,028
Total Assets	**51,287**	**61,685**	**72,334**	**80,429**
Equity				
Equity Share Capital	273	273	273	273
Other Equity	40,627	47,896	56,088	65,251
Total Networth	**40,900**	**48,169**	**56,361**	**65,524**
Non-Current Liabilities				
Long Term borrowings	545	4,000	6,000	4,000
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,618	6,361	6,698	7,439
Other current liabilities	1,659	1,590	1,710	1,900
Total Equity & Liabilities	**51,287**	**61,685**	**72,334**	**80,429**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	11,459	11,044	12,441	13,917
Add. Depreciation	1,663	1,781	2,323	2,540
Add. Interest	309	114	250	250
Less Financial Other Income	476	764	468	520
Add. Other	(246)	-	-	-
Op. profit before WC changes	13,185	12,939	15,014	16,707
Net Changes-WC	(4,085)	675	(1,138)	620
Direct tax	(2,600)	(2,783)	(3,131)	(3,503)
Net cash from Op. activities	**6,499**	**10,831**	**10,745**	**13,824**
Capital expenditures	(3,599)	(9,000)	(12,500)	(12,500)
Interest / Dividend Income	22	-	-	-
Others	816	-	-	-
Net Cash from Invt. activities	**(2,761)**	**(9,000)**	**(12,500)**	**(12,500)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,523)	3,455	2,000	(2,000)
Dividend paid	(955)	(992)	(1,118)	(1,250)
Interest paid	(233)	(114)	(250)	(250)
Others	120	-	-	-
Net cash from Fin. activities	**(3,591)**	**2,350**	**632**	**(3,500)**
Net change in cash	**148**	**4,181**	**(1,123)**	**(2,177)**
Free Cash Flow	2,900	1,831	(1,755)	1,324

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	**19,614**	**17,683**	**17,781**	**20,092**
YoY gr. (%)	*4.8*	*(14.1)*	*(9.4)*	*0.9*
Raw Material Expenses	12,781	12,236	11,658	13,726
Gross Profit	6,832	5,447	6,122	6,366
Margin (%)	*34.8*	*30.8*	*34.4*	*31.7*
EBITDA	**3,480**	**2,098**	**3,023**	**3,047**
YoY gr. (%)	*(15.2)*	*(41.1)*	*11.6*	*(3.2)*
Margin (%)	*17.7*	*11.9*	*17.0*	*15.2*
Depreciation / Depletion	409	381	394	417
EBIT	**3,070**	**1,717**	**2,628**	**2,630**
Margin (%)	*15.7*	*9.7*	*14.8*	*13.1*
Net Interest	45	18	27	29
Other Income	126	319	170	136
Profit before Tax	**3,152**	**2,017**	**2,772**	**2,736**
Margin (%)	*16.1*	*11.4*	*15.6*	*13.6*
Total Tax	813	518	721	715
Effective tax rate (%)	*25.8*	*25.7*	*26.0*	*26.1*
Profit after Tax	**2,339**	**1,499**	**2,051**	**2,020**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**2,339**	**1,499**	**2,051**	**2,020**
YoY gr. (%)	*(11.8)*	*(36.1)*	*17.7*	*(3.3)*
Margin (%)	*11.9*	*8.5*	*11.5*	*10.1*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**2,339**	**1,499**	**2,051**	**2,020**
YoY gr. (%)	*(11.8)*	*(36.1)*	*17.7*	*(3.3)*
Margin (%)	*11.9*	*8.5*	*11.5*	*10.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**2,339**	**1,499**	**2,051**	**2,020**
Avg. Shares O/s (m)	136	136	136	136
EPS (Rs)	**17.2**	**11.0**	**15.1**	**14.9**

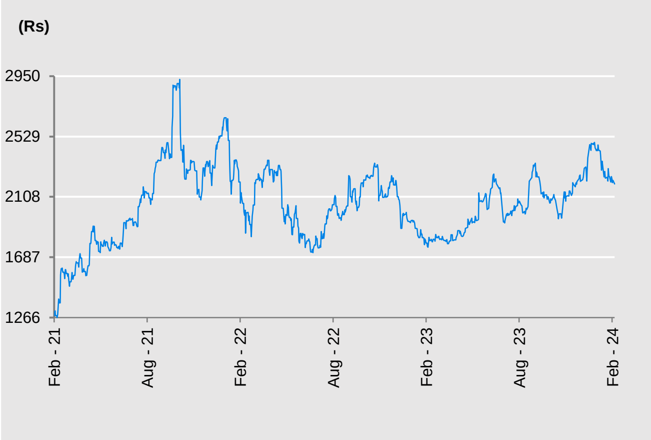
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	62.5	60.6	68.3	76.3
CEPS	74.7	73.6	85.3	95.0
BVPS	299.9	353.1	413.2	480.4
FCF	21.3	13.4	(12.9)	9.7
DPS	7.5	7.3	8.2	9.2
Return Ratio(%)				
RoCE	28.9	22.2	21.3	20.7
ROIC	21.7	17.5	17.2	16.1
RoE	22.9	18.6	17.8	17.1
Balance Sheet				
Net Debt : Equity (x)	-	0.0	0.0	0.0
Net Working Capital (Days)	71	71	70	60
Valuation(x)				
PER	36.5	37.7	33.4	29.9
P/B	7.6	6.5	5.5	4.8
P/CEPS	30.6	31.0	26.8	24.0
EV/EBITDA	24.2	25.5	21.6	19.4
EV/Sales	3.9	4.1	3.8	3.4
Dividend Yield (%)	0.3	0.3	0.4	0.4

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Reduce	1,881	2,451
2	10-Nov-23	Reduce	1,935	2,076
3	17-Oct-23	Reduce	1,854	2,125
4	09-Oct-23	Reduce	1,803	2,108
5	09-Aug-23	Reduce	1,803	2,092

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	599	663
2	Bharat Petroleum Corporation	Sell	381	504
3	Bharti Airtel	Accumulate	1,225	1,134
4	Clean Science and Technology	Hold	1,425	1,461
5	Deepak Nitrite	Reduce	1,881	2,451
6	Fine Organic Industries	Hold	4,575	4,496
7	GAIL (India)	Reduce	157	172
8	Gujarat Fluorochemicals	Hold	3,727	3,616
9	Gujarat Gas	Hold	548	562
10	Gujarat State Petronet	Accumulate	402	353
11	Hindustan Petroleum Corporation	Sell	284	432
12	Indian Oil Corporation	Sell	100	143
13	Indraprastha Gas	Hold	382	405
14	Jubilant Ingrevia	Hold	433	439
15	Laxmi Organic Industries	Sell	221	271
16	Mahanagar Gas	Reduce	1,124	1,345
17	Mangalore Refinery & Petrochemicals	Sell	106	134
18	Navin Fluorine International	Accumulate	3,727	3,262
19	NOCIL	Reduce	254	270
20	Oil & Natural Gas Corporation	Hold	262	258
21	Oil India	Accumulate	538	499
22	Petronet LNG	Sell	212	268
23	Reliance Industries	Accumulate	2,912	2,735
24	SRF	Reduce	2,127	2,320
25	Vinati Organics	Reduce	1,626	1,613

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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