

Phenolics contribution peaks in medium term; downgrade to REDUCE

Specialty Chemicals ▶ Result Update ▶ August 8, 2024

TARGET PRICE (Rs): 2,900

We downgrade Deepak Nitrate (DN) to REDUCE from Add, as it has run up ahead of earnings; we raise our SoTP-based TP to Rs2,900/sh (implying 35x PER on Jun-26E). DN's Q1FY25 EBITDA at Rs3.1bn (+47% YoY/+3% QoQ) was in line with our estimate. Revenue grew 23% YoY (flat QoQ) on volume growth from the standalone business, while DN's consol. quarterly EBITDA has stayed stable at ~Rs3bn over the last 4 quarters. We believe the phenolics segment has reached maximum volume potential (excluding downstream) from the current plant, while the standalone business will see some volume growth in H2. We cut FY25E/26E EPS by 6%/8%, to factor-in the lower margins in the standalone business. We increase the phenolics business EV/EBITDA to 15x from 12x, on incremental contribution from the new downstream products going forward.

Deepak Nitrite: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	79,721	76,818	88,705	100,211	112,638
EBITDA	12,894	11,233	12,570	16,251	19,274
Adj. PAT	8,520	7,311	8,473	10,931	12,019
Adj. EPS (Rs)	62.5	54.8	62.1	80.1	88.1
EBITDA margin (%)	16.2	14.6	14.2	16.2	17.1
EBITDA growth (%)	(19.6)	(12.9)	11.9	29.3	18.6
Adj. EPS growth (%)	(20.1)	(12.3)	13.4	29.0	10.0
RoE (%)	22.9	16.5	16.4	18.2	17.1
RoIC (%)	24.3	18.3	18.1	18.4	15.8
P/E (x)	48.9	57.0	49.2	38.1	34.7
EV/EBITDA (x)	32.1	36.8	33.2	26.1	22.6
P/B (x)	10.2	8.7	7.5	6.4	5.5
FCFF yield (%)	0.8	(0.3)	(0.9)	(1.3)	(2.5)

Source: Company, Emkay Research

Standalone business witnesses volume uptick; phenol volumes nearing peak

The advanced intermediates (AI) segment saw improved domestic demand which led to volume uptick across select product categories, while realizations remained static. Debottlenecking activities were initiated, which lead to yield improvement in certain products. The Phenolics segment saw stable QoQ performance on the back of a favorable demand environment. We believe phenol-acetone capacities after debottlenecking are running at full capacity, thereby limiting volume growth for subsequent quarters. Agrochemicals demand remained soft in Q1, while contribution from other sectors such as dyes, pigments, paper, and homecare improved. The management anticipates revival of the agrochemical segment by H2FY25.

New projects under construction are on track; MIBK/MIBC project delayed

The management has guided for capex of Rs10-12bn in FY25, excl. any further growth capex during the tail-end of FY25. DN's backward integration to nitric acid will commence in early H2, while photo-chlorination and solvent projects, and progress of hydrogenation and nitration plants is on track. MIBK/MIBC project engineering is complete, and the civil work is near finalization. The company expects commissioning by Q4FY25, with substantial revenue flowing to FY26. Also, DN has announced setting-up a world scale acetophenone plant in coming 12 months (global demand: 60KT).

New capex in the phenolics business to drive growth beyond FY27

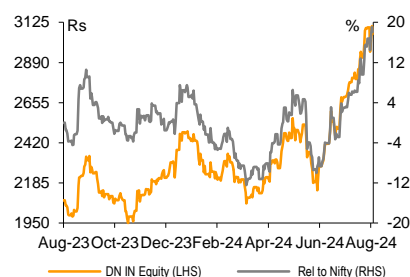
Deepak Chem Tech (DCTL) signed an MoU worth Rs90bn with the state government of Gujarat in Jan-24, taking the total value of MoUs signed to ~Rs140bn (previously signed an MoU worth Rs50bn in May-23 for MIBK, MIBC, Bisphenol-A, and Polycarbonate Compounding). The management is evaluating the overall project plan for PC compounding—from technology to EPC activities—before committing capex plans to shareholders. DN has funded Rs7.1bn to DCTL, making progress in its polycarbonate (PC) compounding facility. We believe current valuations have factored in the next leg of capex announcements and will make us constructive on the stock at lower levels.

Target Price – 12M	Jun-25
Change in TP (%)	11.5
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(5.1)
CMP (08-Aug-24) (Rs)	3,055.3

Stock Data	Ticker
52-week High (Rs)	3,169
52-week Low (Rs)	1,922
Shares outstanding (mn)	136.4
Market-cap (Rs bn)	417
Market-cap (USD mn)	4,963
Net-debt, FY25E (Rs mn)	649
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,290.0
ADTV-3M (USD mn)	15.4
Free float (%)	-
Nifty-50	24,117
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	49.2
FPIs/MFs (%)	6.9/21.2

Price Performance				
(%)	1M	3M	12M	
Absolute	13.4	22.0	46.1	
Rel. to Nifty	14.4	12.8	18.5	

1-Year share price trend (Rs)



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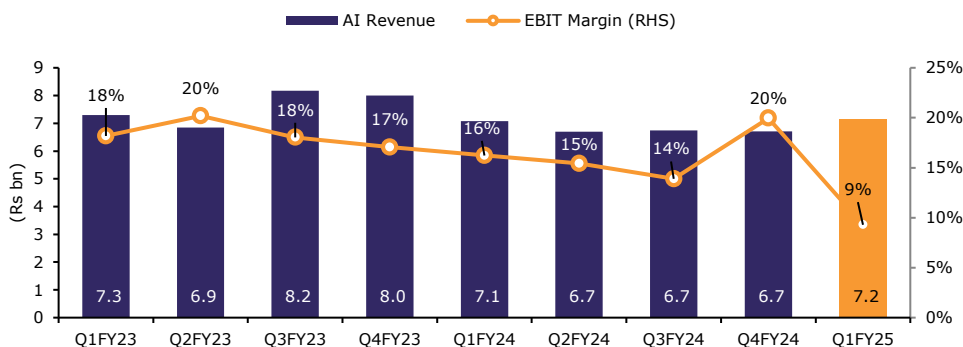
Exhibit 1: Result update

P&L (Rs mn)	Reported					Emkay Est.		Full year		
	Q1FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	Q1FY25	vs. Est. (%)	FY24	FY23	YoY (%)
Net revenue	17,683	21,262	21,668	23	2	21,892	-1	76,818	79,721	-4
Material cost	(12,236)	(14,740)	(15,002)	23	2	(15,144)	-1	(52,361)	(53,476)	-2
Gross Profit	5,447	6,522	6,667	22	2	6,748	-1	24,457	26,245	-7
Gross margin (%)	30.8	30.7	30.8	-4 bps	9 bps	30.8	-6 bps	31.8	32.9	-109 bps
Employee cost	(842)	(929)	(953)	13	3	(963)	-1	(3,511)	(3,183)	10
Other overheads	(2,507)	(2,582)	(2,621)	5	2	(2,671)	-2	(9,769)	(10,169)	-4
Total expenses	(15,586)	(18,251)	(18,577)	19	2	(18,778)	(1)	(65,641)	(66,828)	-2
EBITDA	2,098	3,011	3,092	47	3	3,114	-1	11,178	12,893	-13
EBITDA margin (%)	11.9	14.2	14.3	240 bps	10 bps	14.2	4 bps	14.6	16.2	-163 bps
Other income	319	191	188	-41	-2	204	-8	816	476	71
Interest	(18)	(44)	(58)	218	30	(45)	27	(118)	(248)	-52
Depreciation	(381)	(465)	(475)	25	2	(439)	8	(1,657)	(1,663)	0
EO Items	-	798	-	-	(100)	-	-	798	-	-
PBT	2,017	3,492	2,748	36	-21	2,834	-3	11,017	11,458	-4
Tax	(518)	(953)	(723)	39	-24	(737)	(2)	(2,908)	(2,939)	-1
Adj. PAT	1,499	2,023	2,025	35	0	2,097	-3	7,593	8,519	-11
EO Items	-	516	-	-	(100)	-	-	516	-	-
Reported PAT	1,499	2,538	2,025	35	-20	2,097	-3	8,108	8,519	-5
EPS (Rs)	11.0	18.6	14.8	35	-20	15.4	-3	59.4	62.5	-5
Costs as a % of sales										
Material cost	69.2	69.3	69.2	3 bps	-10 bps	69.2	5 bps	68.2	67.1	108 bps
Employee cost	4.8	4.4	4.4	-37 bps	3 bps	4.4	-1 bps	4.6	4.0	57 bps
Other overheads	14.2	12.1	12.1	-209 bps	-5 bps	12.2	-11 bps	12.7	12.8	-4 bps
Income tax rate	25.7	27.3	26.3	60 bps	-101 bps	26.0	29 bps	26.4	25.6	74 bps

Source: Company, Emkay Research

Exhibit 2: AI business witnessing improved volumes at lower realizations

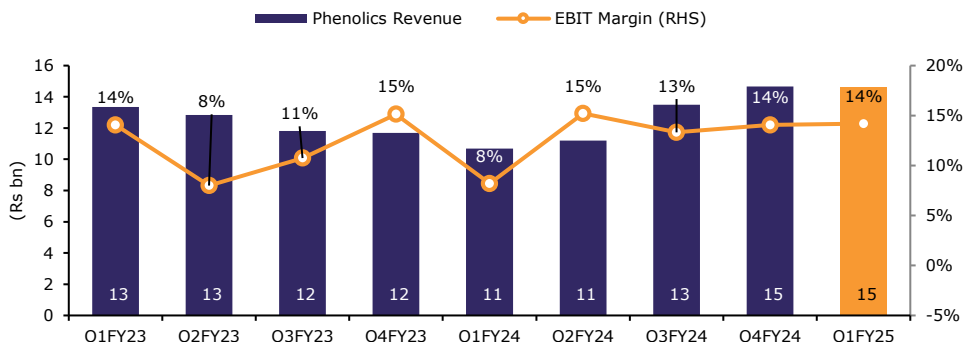
EBIT margin of the AI business fell to a 10-quarter low



Source: Company, Emkay Research

Exhibit 3: The Phenolics business grew 37% YoY/was flat QoQ

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

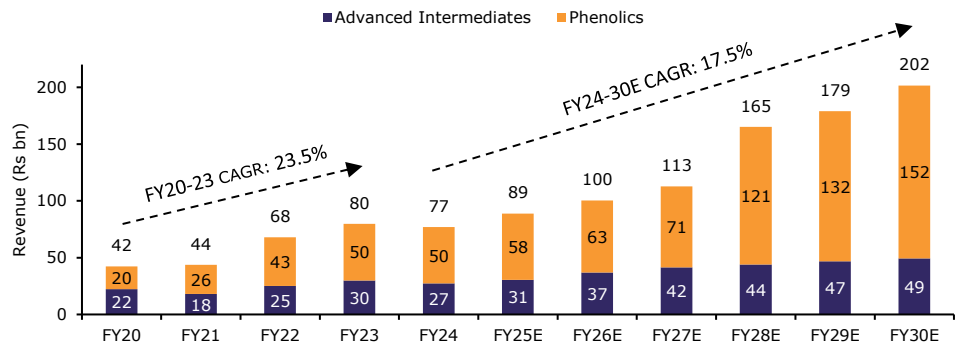


Source: Company, Emkay Research

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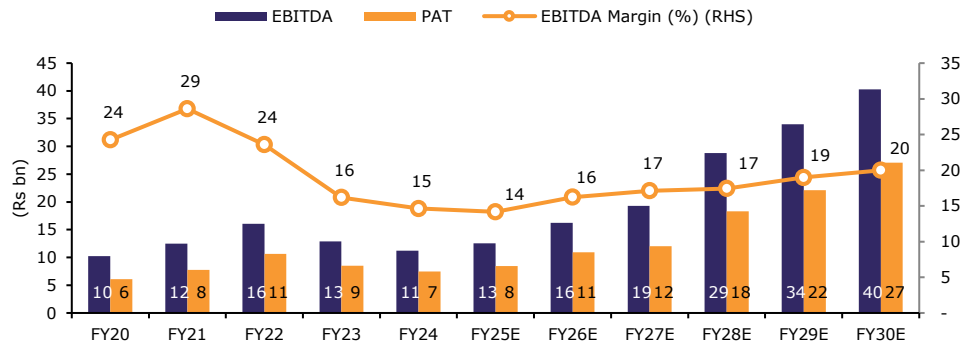
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Exhibit 4: DCTL's revenue (phenolics) to rise, as it incurs most of the upcoming capex



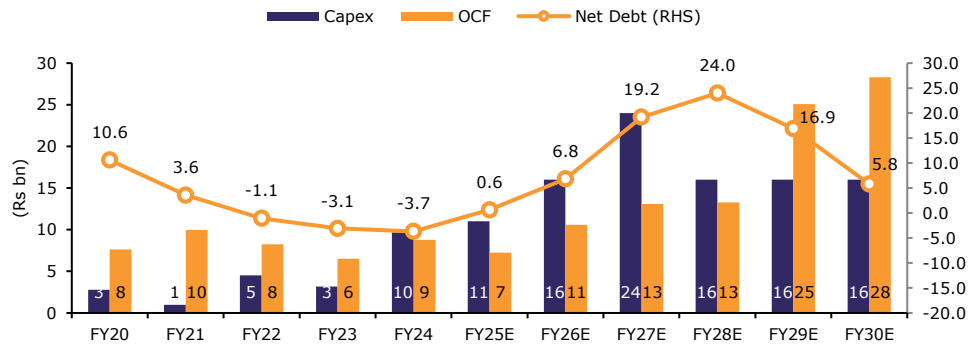
Source: Company, Emkay Research

Exhibit 5: EBITDA CAGR expected at 24% over FY24-30E, along with margin expansion



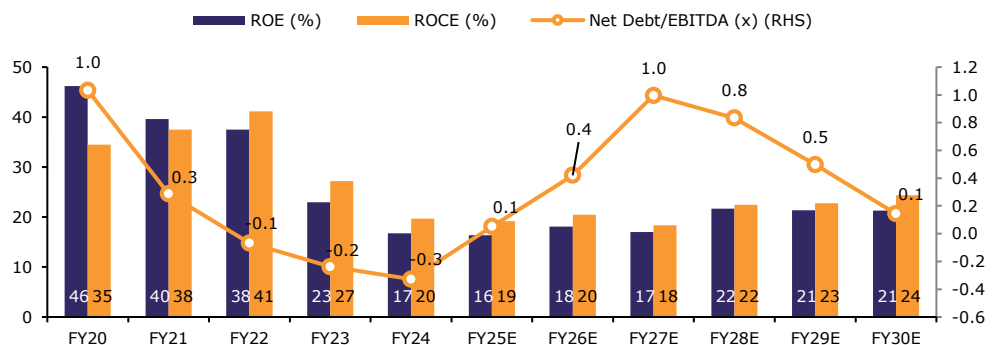
Source: Company, Emkay Research

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 FY25/26E EPS by 6%/8%, to factor-in the lower margins in the standalone business

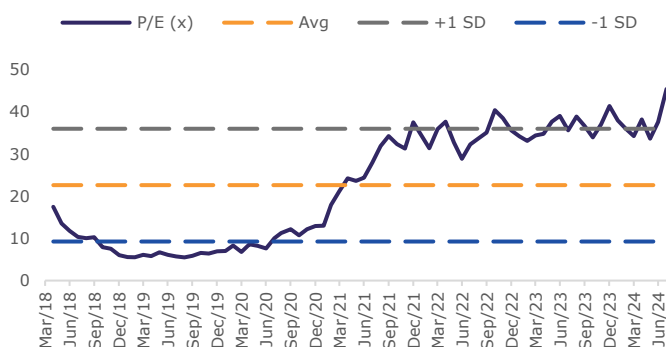
Particulars (Rs mn)	FY25E			FY26E		
	Revised	Earlier	Chg. (%)	Revised	Earlier	Chg. (%)
Revenue	88,705	79,679	11	100,211	91,658	9
EBITDA	12,570	13,327	-6	16,251	17,442	-7
EBITDA margin (%)	14.2	16.7	-256 bps	16.2	19.0	-282 bps
PAT	8,473	9,013	-6	10,931	11,832	-8
EPS (Rs)	62	66	-6	80	87	-8

Source: Emkay Research

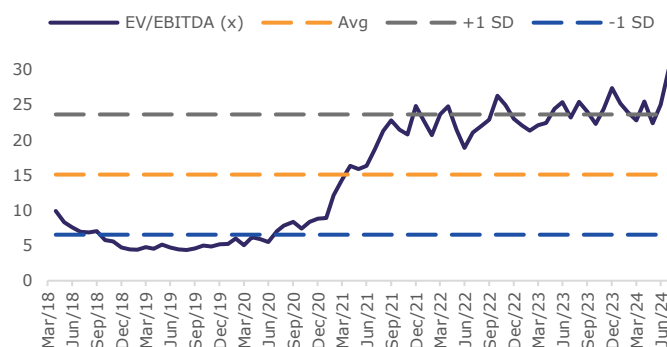
Exhibit 9: SoTP-based TP stands at Rs2,900/share

Particulars (Rs mn)	FY26E	FY27E
DNL Standalone EBITDA	6,573	8,107
EV/EBITDA Target Multiple (x)	18	18
Target Enterprise Value (A)	118,315	145,918
DPL Discounted FY30E EBITDA	18,090	20,352
EV/EBITDA Target multiple (x)	15	15
Target Enterprise Value (B)	271,355	305,274
Total Enterprise Value (A+B)	389,670	451,192
Net Debt	6,832	19,192
Total Equity Value	382,837	432,000
No. of shares outstanding (mn)	136	136
Jun-26E Target Price (Rs/share)		2,900
CMP (Rs/share)		3,055
Upside		-5.1%

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	88,705	100,211	112,638
Revenue growth (%)	17.2	(3.6)	15.5	13.0	12.4
EBITDA	12,894	11,233	12,570	16,251	19,274
EBITDA growth (%)	(19.6)	(12.9)	11.9	29.3	18.6
Depreciation & Amortization	1,663	1,657	1,683	2,294	3,207
EBIT	11,231	9,576	10,887	13,958	16,067
EBIT growth (%)	(21.2)	(14.7)	13.7	28.2	15.1
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	11,512	14,383	15,814
Extraordinary items	0	0	0	0	0
Taxes	2,939	2,908	3,039	3,452	3,795
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	8,520	7,470	8,473	10,931	12,019
PAT growth (%)	(20.1)	(12.3)	13.4	29.0	10.0
Adjusted PAT	8,520	7,311	8,473	10,931	12,019
Diluted EPS (Rs)	62.5	54.8	62.1	80.1	88.1
Diluted EPS growth (%)	(20.1)	(12.3)	13.4	29.0	10.0
DPS (Rs)	7.0	7.5	8.8	8.8	8.8
Dividend payout (%)	11.2	13.7	14.2	11.0	10.0
EBITDA margin (%)	16.2	14.6	14.2	16.2	17.1
EBIT margin (%)	14.1	12.5	12.3	13.9	14.3
Effective tax rate (%)	25.6	28.5	26.4	24.0	24.0
NOPLAT (pre-IndAS)	8,350	6,851	8,013	10,608	12,211
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	11,512	14,383	15,814
Others (non-cash items)	(246)	(627)	(799)	(839)	(881)
Taxes paid	(2,600)	(2,665)	(3,012)	(3,426)	(3,767)
Change in NWC	(3,945)	1,523	(2,278)	(2,205)	(2,381)
Operating cash flow	6,499	8,781	7,253	10,595	13,097
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	(3,825)	(184)	(359)
OCF	6,499	8,781	7,253	10,595	13,097
Adj. OCF (w/o NWC chg.)	2,554	10,303	4,976	8,390	10,716
FCFF	3,268	(1,114)	(3,747)	(5,405)	(10,903)
FCFE	3,496	(471)	(3,121)	(4,980)	(11,155)
OCF/EBITDA (%)	50.4	78.2	57.7	65.2	68.0
FCFE/PAT (%)	41.0	(6.3)	(36.8)	(45.6)	(92.8)
FCFF/NOPLAT (%)	39.1	(16.3)	(46.8)	(51.0)	(89.3)

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	54,962	64,689	75,504
Net worth	40,900	47,966	55,235	64,962	75,777
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	59,119	74,846	97,661
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	1,521	1,337	978
Current assets (ex-cash)	24,669	24,405	27,897	31,278	34,929
Current Liab. & Prov.	7,720	8,830	10,044	11,220	12,490
NWC (ex-cash)	16,948	15,575	17,853	20,058	22,439
Total assets	43,566	52,111	59,380	75,107	97,922
Net debt	(3,067)	(3,677)	649	6,832	19,192
Capital employed	43,566	51,850	59,119	74,846	97,661
Invested capital	36,364	38,503	49,832	65,743	88,917
BVPS (Rs)	299.9	351.7	404.9	476.3	555.6
Net Debt/Equity (x)	(0.1)	(0.1)	0.0	0.1	0.3
Net Debt/EBITDA (x)	(0.2)	(0.3)	0.1	0.4	1.0
Interest coverage (x)	0.0	0.0	0.0	0.0	0.1
RoCE (%)	28.6	21.7	21.1	22.1	19.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	48.9	57.0	49.2	38.1	34.7
P/CE(x)	40.9	46.5	41.0	31.5	27.4
P/B (x)	10.2	8.7	7.5	6.4	5.5
EV/Sales (x)	5.2	5.4	4.7	4.2	3.9
EV/EBITDA (x)	32.1	36.8	33.2	26.1	22.6
EV/EBIT(x)	36.8	43.1	38.3	30.3	27.1
EV/IC (x)	11.4	10.7	8.4	6.4	4.9
FCFF yield (%)	0.8	(0.3)	(0.9)	(1.3)	(2.5)
FCFE yield (%)	0.8	(0.1)	(0.7)	(1.2)	(2.7)
Dividend yield (%)	0.2	0.2	0.3	0.3	0.3
DuPont-RoE split					
Net profit margin (%)	10.7	9.5	9.6	10.9	10.7
Total asset turnover (x)	1.9	1.6	1.6	1.5	1.3
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.2
RoE (%)	22.9	16.5	16.4	18.2	17.1
DuPont-RoIC					
NOPLAT margin (%)	10.5	8.9	9.0	10.6	10.8
IC turnover (x)	2.3	2.1	2.0	1.7	1.5
RoIC (%)	24.3	18.3	18.1	18.4	15.8
Operating metrics					
Core NWC days	77.6	74.0	73.5	73.1	72.7
Total NWC days	77.6	74.0	73.5	73.1	72.7
Fixed asset turnover	3.0	2.6	2.4	2.0	1.6
Opex-to-revenue (%)	16.7	17.2	18.3	18.6	18.7

Source: Company, Emkay Research

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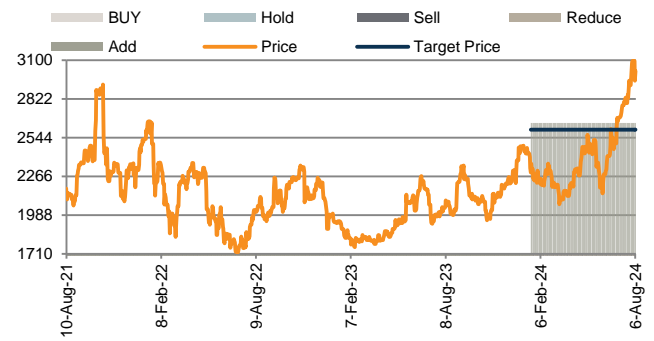
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RECOMMENDATION HISTORY - DETAILS

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