

14<sup>th</sup> February 2023

CMP – ₹1,763/-

View – Accumulate on Dip

## Q3FY23 Result Update

- During Q3FY23, the company reported revenue growth of 16% yoy & flattish growth sequentially to ₹1991Cr v/s ₹1722Cr in Q3FY23, the growth led by strong volume in both segments. EBITDA declined by 11% and grew by 16% qoq to ₹315Cr v/s ₹352Cr yoy on account of correction in RM prices slightly but it is still remain elevated level compared to last year. EBITDA margin declined by 400 bps to 16% v/s 20% yoy and slightly improved by 200 bps sequentially. PAT declined by 14% yoy & grew by 20% to ₹209Cr in Q3FY23 v/s ₹242Cr in Q3FY22.

- Advance intermediates segment** grew by 19% yoy & qoq to ₹818Cr v/s ₹689Cr in Q3FY22, the growth supported by higher demand for key products. EBIT margins dropped by 300 bps to 18% v/s 21% in Q3FY22 due to increase in input cost and lag effect in passing on the prices to customers. The company recorded highest ever production of DASDA and OBA in Q3FY23.
- Phenolics segment** declined by 31% yoy & up by 24% qoq to ₹127Cr v/s ₹184Cr, led by over 100% capacity utilization of the plants in Q3FY23. EBIT margins dropped to 11% v/s 18% yoy, owing to moderation in prices of products.

### Key Highlights:

- The company is investing total ₹1500Cr capex which includes 1) investment in Solvent, MIBC & MIBK plant, it is downstream project of Acetone (MIBK & MIBC) and expected to be commissioned in Q4FY24 with the de-bottlenecking of Phenol likely in Q4FY23 (raise capacity by 50ktpa). 2) Backward integration projects are on track and expected to be commissioned in 2HFY24. 3) Investing in agro chemical expansion and Sulfuric Acid Concentration (SAC) plant which will be commissioned in Q4FY23, this will be for captive consumption and assured supply as well as reduced procurement from the open market. 4) Ongoing project of backward integration in fluorination space and acid plant is expected to commission in 2HFY24.
- Apart from ₹1500Cr capex, the BOD has approved additional capex of ₹1000Cr for 3 projects 1) polymer compounding, 2) Hydrogenation and multipurpose distillation capacity and 3) Sodium Nitrite project in Oman (expected to come up in next 2 years).
- The management said that Advance intermediates segment's reported good growth due to healthy demand from key customers and also witnessed sharp increase in export during Q3FY23, however, the company was unable to pass on the hike in input cost to customers. Going ahead, the growth momentum will sustain in AI segment given its competitive position along with assured supply of key inputs.
- The company has recorded the highest ever production of DASDA and achieved the highest ever sales volume and turnover for OBA. All the plants are operated at high utilization rates except for the Nandesari plant.
- The demand trajectory remains solid in phenolics segment, the company is well poised to realize incremental gains through introducing downstream derivative products of phenol and acetone. The fluorination and photochlorination chemistries will pave the way to tap agrochemical and pharma customers.

## Important Statistics

<b>MCAP (₹ bn)</b>	~240
<b>52-week H/L (₹)</b>	₹2,391.00/₹1,681.15
<b>NSE Code</b>	DEEPAKNT
<b>BSE Code</b>	506401

Shareholding pattern (%)	Dec'22
<b>Promoter</b>	45.72%
<b>FII</b>	8.72%
<b>DII</b>	13.75%
<b>Public</b>	31.81%

## Financials

	(₹ Cr)				
Particulars	FY20	FY21	FY22	FY23E	FY24E
Revenues	4,230	4,360	6,802	8,082	9,338
EBITDA	1,026	1,247	1,600	1,359	1,868
EBITDA Margin (%)	24%	29%	24%	17%	20%
NetProfit	611	776	1,067	898	1,281
EPS(₹)	44.80	56.88	78.20	65.87	93.89
RoE(%)	39%	33%	32%	20%	22%
RoCE(%)	37%	38%	40%	25%	28%
P/E(x)	40	31	23	27	19
EV/EBITDA (x)	25	20	15	18	13

Source: Company, Way2Wealth

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**View**

- The Company reported strong CAGR of 38% in revenue, 63% in EBITDA and 62% PAT over FY17-FY22. Over the years, company has successfully diversified into different business segments, newer geographies and new clients, thus providing competitive edge over peers. In its next leg of growth, the company expects to introduce downstream products and complex chemistry platforms for which it is already investing a capex of ₹1500Cr, stretched over the next 2 years.
- Going ahead, We believe that the company aim to become largest player in solvent through investing in value added downstream derivatives of phenol and acetone including, brownfield expansion of existing product line, adding new chemistry platforms of photo chlorination & fluorination and backward integration of key inputs which will enhance margins.
- **At CMP of ₹1763 Deepak Nitrite Ltd. is trading at ~13x FY24E EV/EBITDA & 19x FY24E PE, which is at discount to its peers given other ratios and operating metrics and thus recommend investors to ACCUMULATE the stock on dips.**

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### Quarterly Financial Performance

Financial	Q3FY23	Q3FY22	YoY % change	Q2FY23	QoQ % change	9MFY23	9MFY22	YoY % change
<b>Net sales</b>	<b>1991</b>	<b>1722</b>	<b>16%</b>	<b>1962</b>	<b>1%</b>	<b>6011</b>	<b>4930</b>	<b>22%</b>
<b>Total Income</b>	<b>1991</b>	<b>1722</b>	<b>16%</b>	<b>1962</b>	<b>1%</b>	<b>6011</b>	<b>4930</b>	<b>22%</b>
COGS	1339	1085	23%	1370	-2%	4165	3024	38%
Employees cost	81	65	24%	79	3%	241	203	19%
power & fuel cost	134	119	12%	145	-8%	412	310	33%
Administrative & other Expense	123	101	22%	97	27%	347	270	28%
<b>Total Expenditure</b>	<b>1676</b>	<b>1370</b>	<b>22%</b>	<b>1691</b>	<b>-1%</b>	<b>5069</b>	<b>3740</b>	<b>36%</b>
<b>EBITDA</b>	<b>315</b>	<b>352</b>	<b>-11%</b>	<b>271</b>	<b>16%</b>	<b>941</b>	<b>1190</b>	<b>-21%</b>
<b>EBITDA margins %</b>	<b>16%</b>	<b>20%</b>		<b>14%</b>	14%	<b>16%</b>	<b>24%</b>	
Depreciation	41	45	-10%	42	-3%	125	133	-6%
<b>EBIT/ Operating Profit</b>	<b>273</b>	<b>306</b>	<b>-11%</b>	<b>228</b>	<b>20%</b>	<b>816</b>	<b>1057</b>	<b>-23%</b>
Interest	6	7	-14%	6	-1%	20	27	-25%
Other income	13	26	-48%	12	11%	35	42	-17%
<b>PBT</b>	<b>281</b>	<b>325</b>	<b>-14%</b>	<b>235</b>	<b>20%</b>	<b>831</b>	<b>1072</b>	<b>-23%</b>
Provision for current tax	65	79	-18%	57	14%	200	263	-24%
Provision for Deferred Tax	7	4	76%	3	148%	13	9	34%
<b>PAT</b>	<b>209</b>	<b>242</b>	<b>-14%</b>	<b>174</b>	<b>20%</b>	<b>618</b>	<b>799</b>	<b>-23%</b>
<b>reported PAT</b>	<b>209</b>	<b>242</b>	<b>-14%</b>	<b>174</b>	<b>20%</b>	<b>618</b>	<b>799</b>	<b>-23%</b>
<b>PAT margins %</b>	<b>10%</b>	<b>14%</b>		<b>9%</b>	<b>18%</b>	<b>10%</b>	<b>16%</b>	
EPS (Basic & diluted)	15.33	17.78	-14%	12.79	20%	45.32	58.61	-23%

Source: Company, Way2Wealth

Segment Revenue	Q3FY23	Q3FY22	YoY % change	Q2FY23	QoQ % change	9MFY23	9MFY22	YoY % change
Advanced Intermediates	818	689	19%	685	19%	2233	1761	27%
Phenolics	1182	1037	14%	1284	-8%	2619	2138	22%
<b>Total</b>	<b>1999</b>	<b>1726</b>	<b>16%</b>	<b>1969</b>	<b>2%</b>	<b>4034</b>	<b>3210</b>	<b>26%</b>
Less: Inter segmt rev.	8	4	129%	8		15	2	516%
<b>Net sales</b>	<b>1991</b>	<b>1722</b>	<b>16%</b>	<b>1962</b>	<b>1%</b>	<b>4020</b>	<b>3208</b>	<b>25%</b>
<b>Segment result</b>								
Advanced Intermediates	147	147	0%	138	7%	271	256	6%
EBIT margins %	18%	21%		20%		12%	15%	
Phenolics	127	184	-31%	103	24%	290	508	-43%
EBIT margins %	11%	18%		8%		11%	24%	
<b>Total</b>	<b>274</b>	<b>331</b>	<b>-17%</b>	<b>241</b>	<b>14%</b>	<b>561</b>	<b>764</b>	<b>-26%</b>
Less: Interest	6	7	-14%	6	-1%	14	20	-28%
Unallocated (inc/ exp (net))	<b>12</b>	<b>2</b>	<b>697%</b>	<b>-1</b>	<b>-2524%</b>	<b>3</b>	<b>4</b>	<b>-22%</b>
<b>total PBT</b>	<b>281</b>	<b>325</b>	<b>-14%</b>	<b>235</b>	<b>20%</b>	<b>550</b>	<b>747</b>	<b>-26%</b>

Source: Company, Way2Wealth

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**Financial Performance**

(₹ Cr)

Financial	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	2700	4230	4360	6802	8082	9338
growth %		57%	3%	56%	19%	16%
Total Income	2700	4230	4360	6802	8082	9338
COGS	1594	2374	2264	4114	5452	6070
Employees cost	180	217	247	274	322	374
power & fuel cost	207	285	265	439	522	560
other Expense	252	328	337	375	427	467
Total Expenditure	2286	3204	3113	5202	6723	7470
EBITDA	414	1026	1247	1600	1359	1868
EBITDA margins %	15%	24%	29%	24%	17%	20%
Depreciation	78	140	153	178	168	170
EBIT/ Operating Profit	336	886	1094	1423	1191	1698
Interest	83	115	74	34	30	30
Other income	15	35	22	46	42	40
PBT	268	806	1042	1434	1202	1708
Provision for current tax	61	192	240	353	298	427
Provision for Deffered Tax	34	3	26	15	6	
PAT	174	611	776	1067	898	1281
reported PAT	174	611	776	1067	898	1281
PAT margin %	6%	14%	18%	16%	11%	14%
EPS (Basic & dilluted)	12.73	44.80	56.88	78.20	65.87	93.89

Source: Company, Way2Wealth

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## Disclosure of Interest Statement Deepak Nitrite Ltd. as on 13<sup>th</sup> February 2023

Name of the Security	Deepak Nitrite Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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