

14th November 2022

CMP – ₹2117/-

View – Accumulate on Dip

Q2FY23 Result Update

- During Q2FY23, the company reported revenue growth of 17% yoy & decline by 5% qoq to ₹1962cr v/s ₹1681cr in Q2FY22, the growth was led by advance intermediates & phenolics segment volume growth and QoQ growth was impacted on account of loss of production due to fire incident at Nandesari unit.
- EBITDA declined by 30% yoy & 24% qoq to ₹271cr v/s ₹387cr, while EBITDA margin dropped to 14% v/s 23% yoy & 17% qoq on account of higher key RM prices, logistics freight cost and supply chain disruption. PAT declined by 31% yoy to ₹174cr in Q2FY23 v/s ₹254cr in Q2FY22.
 - **Advance intermediates segment** grew by 26% yoy & decline by 6% to ₹685cr v/s ₹544cr in Q2FY22, the growth supported by realization gain for key products. EBIT margins dropped by 400 bps to 20% v/s 24% in Q2FY22 due to increase in input cost and lag effect in passing on the prices to customers.
 - **Phenolics segment** decline by 53% yoy & 45% qoq to ₹103cr v/s ₹220cr, this strong growth supported by volume gains, better capacity utilization of 129% in phenolics plant and maintaining customer wallet share across key products. EBIT margins has dropped to 8% v/s 19% yoy, declined in realization and used of natural gas instead of coal has led drop in EBITDA & EBIT margins.

Key Highlights

- The company will be investing total ₹1500cr capex, 1) of which ₹700cr capex in solvent, MIBC & MIBK plant 2) ₹600cr in brownfield project in DNL & Phenolic debottlenecking projects and ₹210cr in Deepak Chem tech limited. This project is expected to commercialize in the next 15 months and expected EBITDA margins of 20-25%.
 - Planned capacity of MIBC 8000 tonnes & MIBK 40000 tonnes. Both these products are import substitute and MIBC is backward integration product for MIBK. The management is targeting to expand phenolic capacity to 50% of original (250000 tonnes) capacity by FY24 in phase manners.
 - The company has also proposed to add new capacities of key raw material; it will result in stable supply of key inputs as well as offer margins advantage.
 - The company has commissioned 1st project in the month of Oct 2022 and the entire volume for 5 years is tied up under agreement. 2nd project is expected to commission in November. The management said that all projects are on track and it will be commissioning in phase manner in the next 12-15 months.
- During Q2FY23, the company's overall volume dropped by 15% compare to Q2FY22, however phenolic segment maintain its volume growth and subdue price realization. Over the 3-4 years, the company aims to double topline in DPL which will be benefited from downstream and brownfield projects and backward integration will improve margins in DNL.
- On the input cost front, the management said that the price of benzene & phenol corrected significantly during Q2FY23 which will result in improvement in margin in the near to midterm.

Important Statistics

MCAP (₹ bn)	289.07
52-week H/L (₹)	₹2,690.05/₹1,681.15
NSE Code	DEEPAKNTR
BSE Code	506401

Shareholding pattern (%)	Sep'22
Promoter	45.72%
FII	8.45%
DII	12.01%
Public	33.82%

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%
Net Profit	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)	47	37	27	32	23
EV/EBITDA(x)	29	23	18	21	15

Source: Company, Way2Wealth

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- 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.
- All plants are running at full capacity and volume expected to pick growth in Q3FY23.
- Update on QIP –DNL has received approval from its shareholders for fund raising through QIP route up to ₹2000cr. The proceeds will be deployed towards growth of capex as approved by BOD.
- The BOD has approved for investment of 51% stake in DOIL (Deepak Oman Industries FZC LLC) at approximately US\$ 14.4 million. The purported investment is in the Greenfield project and the investment would be completed within a period of two to three years. Presently, DOIL is not carrying any activities and is intending to set up a Greenfield project in Salalah Free Zone, Sultanate of Oman. DOIL will be setting up a project to manufacture Sodium Nitrite, Sodium Nitrate, in Salalah Free Zone, Sultanate of Oman. This upcoming chemical manufacturing company will benefit from low cost inputs of RM & energy and also plan to serve the global markets.

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 aims to become the largest player in the 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 ₹2117 Deepak Nitrite Ltd. is trading at ~15x FY24E EV/EBITDA & 23x FY24E PE, Hence, we recommend investors to ACCUMULATE the stock on dips.**

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Quarterly Financial Performance

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
Net sales	1962	1681	17%	2058	-5%	4020	3208	25%
Total Income	1962	1681	17%	2058	-5%	4020	3208	25%
Consumption of raw material	1370	1053	30%	1361	1%	2731	1872	46%
Employees cost	79	68	15%	81	-3%	160	137	16%
Power & fuel cost	145	102	43%	133	9%	279	191	46%
Administrative & other Expense	97	72	35%	127	-23%	224	169	32%
Total Expenditure	1691	1295	31%	1702	-1%	3393	2370	43%
EBITDA	271	387	-30%	356	-24%	627	838	-25%
EBITDA margins %	14%	23%		17%	-20%	16%	26%	
Depreciation	42	44	-4%	42	1%	84	88	-4%
EBIT/ Operating Profit	228	342	-33%	314	-27%	543	750	-28%
Interest	6	9	-36%	9	-31%	14	20	-28%
Other income	12	8	43%	10	25%	22	17	30%
PBT	235	342	-31%	315	-26%	550	747	-26%
Provision for current tax	57	85	-32%	77	-26%	135	184	-27%
Provision for Deferred Tax	3	3	2%	3	-8%	6	6	4%
PAT	174	254	-31%	235	-26%	409	557	-27%
reported PAT	174	254	-31%	235	-0.26	409	557	-27%
PAT margins %	9%	15%		11%	-22%	10%	17%	
EPS (Basic & diluted)	12.79	18.65	-31%	17.20	-0.26	29.99	40.83	-27%

Source: Company, Way2Wealth

Segment Revenue	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
Advanced Intermediates	685	544	26%	730	-6%	1415	1072	32%
Phenolics	1284	1139	13%	1335	-4%	2619	2138	22%
Total	1969	1684	17%	2065	-5%	4034	3210	26%
Less: Inter segmt rev.	8	2	241%	7		15	2	516%
Net sales	1962	1681	17%	2058	-5%	4020	3208	25%

Segment result	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
Advanced Intermediates	138	128	8%	133	4%	271	256	6%
EBIT margins %	20%	24%		18%		19%	24%	
Phenolics	103	220	-53%	188	-45%	290	508	-43%
EBIT margins %	8%	19%		14%		11%	24%	
Total	241	349	-31%	320	-25%	561	764	-26%
Less: Interest	6	9	-36%	9	-31%	14	20	-28%
Unallocated (inc/ exp (net))	-1	2	-124%	3	-116%	3	4	-22%
total PBT	235	342	-31%	315	-26%	550	747	-26%

Source: Company, Way2Wealth

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Financial Performance

(₹ Cr)

Particulars	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 14th November 2022

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
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