

Q1FY23 Result Highlights

- During Q1FY23, the company reported revenue growth of 35% yoy & 10% qoq to ₹2058Cr v/s ₹1526Cr in Q1FY22, the growth was led by advance intermediates & phenolics segment despite of unavailability of the Nandesari unit for nearly one month during Q1FY23 due to incident of fire.
- EBITDA declined by 21% yoy & 13% qoq to ₹356Cr v/s ₹452Cr, while EBITDA margin dropped to 17% v/s 30% yoy & 21% qoq on account of higher key RM prices, logistics freight cost and supply chain disruption. The company has witnessed significant change in operating environment characterized by force majeure in global gas supply contracts, rise in power cost in Europe lead to shutdown of plants and shutdown in China due to covid, it is also reason for sharp increase in global prices of inputs cost which resulted in drop in EBITDA margins.
- PAT declined by 22% yoy & 12% qoq to ₹235cr in Q1FY23 aided by lower finance cost, pass through of higher input prices and better operational performance.
 - **Advance intermediates segment** grew by 38% yoy & decline by 3% to ₹730Cr v/s ₹527Cr in Q4FY22, the growth supported by realization gain for key products. EBIT margins dropped by 600 bps to 18% v/s 24% in Q1FY22 due to increase in input cost and lag effect in passing on the prices to customers.
 - **Phenolics segment** grew by 34% yoy & 18% qoq to ₹1335Cr v/s ₹999Cr, this strong growth supported by volume gains, better capacity utilization of 129% in phenolics plant and maintaining customer wallet share across key products. EBIT & EBITDA margin dropped by 1500 bps to 14% v/s 29% & 16% v/s 31% yoy on account of exceptional increase in Acetone prices, coal prices has impacted margins.

Key Highlights

- The operations of the group have been reclassified under two business segments: Advanced Intermediates and Phenolics. Advanced Intermediates include Basic Intermediates, Fine and Specialty Chemicals, and the Performance Products segment.
- Mr. Sanjay Upadhyay has been elevated to the post of Executive Director (Finance) and Group CFO. Mr. Somsekhar Nanda has been appointed as CFO of the company in his place.
- 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 company intends to invest total ₹1500Cr capex, 1) of which ₹700Cr capex will be investing in solvent, polycarbonate, MIBC & MIBK products 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.

Important Statistics

MCAP (₹ bn)	285.73
52-week H/L (₹)	₹3,020.00/₹1,681.15
NSE Code	DEEPAKNTR
BSE Code	506401

Shareholding pattern (%)	June'22
Promoter	45.72%
FII	9.07%
DII	10.71%
Public	34.5%

Financials

Particulars	(₹ Cr)			
	FY19	FY20	FY21	FY22
Revenues	2,700	4,230	4,360	6,802
EBITDA	414	1,026	1,247	1,600
EBITDAMargin(%)	15%	24%	29%	24%
NetProfit	174	611	776	1,067
EPS(₹)	12.73	44.80	56.88	78.20
RoE(%)	16%	39%	33%	32%
RoCE(%)	17%	37%	38%	40%
P/E(x)	162	46	36	26
EV/EBITDA(x)	71	28	23	17

Source: Company, Way2Wealth

- 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 also plans to get into new chemistries like fluorination and photo chlorination.
- There was no substantial volume growth in Q1FY23 due to incident of fire and majority site was not operational. So entire growth was price driven.
- On the input cost front, the management said that the some of RM prices started softening, Ammonia & nitric acid has been significantly spike along with caustic products on account of mismatch in demand & supply which is expected to normalize soon and it will result in improvement in margin in the near to midterm.
- On June 2, 2022, an unfortunate fire took place in the warehouse section of the manufacturing facility Nandesari Gujarat. The company carried restoration steps and submitted stability certificates to government with respect to fire incident at Nandeswari plant. Gujarat Pollution Control Board has issued directions revoking the closure order and allowed the company to resume in a phased manner except for affected of Nitrite section. Post the inspection, all plants are running at full capacity except SNI/SNA which is currently running at 50% capacity and further, expected to operation at 75% by mid-September & 100% by October 2022.
- **Update on QIP** –DNL has received approval from its shareholders for fund raising through QIP route up to ₹2000Cr. The QIP proceeds will be deployed towards growth of capex as approved by BOD.

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 ₹2097 Deepak Nitrite Ltd. is trading at ~18x FY22 EV/EBITDA & 27x FY22 PE, which is at discount to its peers given other ratios and operating metrics and thus **recommend investors to ACCUMULATE the stock on dips.**

17th August 2022

CMP – ₹2,097/-

 View – **Accumulate on Dip**
Financial Performance

(₹ Cr)

Financial	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Net sales	2058	1526	35%	1872	10%
Other operating income					
Total Income	2058	1526	35%	1872	10%
Consumption of raw material	1361	820	66%	1157	18%
Employees cost	81	69	18%	71	14%
power & fuel cost	133	89	50%	129	3%
Administrative & other Expense	127	97	30%	105	21%
Total Expenditure	1702	1075	58%	1462	16%
EBITDA	356	452	-21%	410	-13%
EBITDA margins %	17%	30%		22%	
Depreciation	42	44	-4%	45	-6%
EBIT/ Operating Profit	314	408	-23%	366	-14%
Interest	9	11	-21%	7	22%
Other income	10	8	16%	4	171%
PBT	315	405	-22%	362	-13%
Provision for current tax	77	100	-22%	89	-13%
Provision for Deferred Tax	3	3	6%	6	-46%
reported PAT	235	303	-22%	267	-12%
PAT margins %	11%	20%		14%	
No. of Shares	13.64	13.64		13.64	
EPS (Basic & diluted)	17.20	22.19	-22%	19.59	-12%

Source: Company, Way2Wealth

(₹ Cr)

Segment revenue	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Advanced Intermediates	730	527	38%	750	-3%
Phenolics	1335	999	34%	1128	18%
Total	2065	1526	35%	1879	10%
Less: Inter segment revenue	7	0		6	
Net sales	2058	1526	35%	1872	10%
Segment result					
Advanced Intermediates	133	128	4%	193	-31%
EBIT margins %	18%	24%		26%	
Phenolics	188	287	-35%	176	7%
EBIT margins %	14%	29%		16%	
Total	320	415	-23%	369	-13%
Less: Interest	9	11	-21%	7	21%
Unallocated (inc/ exp (net))	3	1	135%	1	474%
total PBT	315	405	-22%	362	-13%

Source: Company, Way2Wealth

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Disclosure of Interest Statement Deepak Nitrite Ltd. as on 17th August 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	
Conflict of Interest	No
Receipt of Compensation	No
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