

25th August 2023

₹2,030/-

View – Accumulate on Dip

Q1FY24 Result Update

- During Q1FY24, Deepak Nitrite Ltd (DNL) posted soft performance amid industry headwinds such as additional supply from china, global destocking of inventory and a slow-down in Eurozone. However, in order to mitigate this impact, management has undertaken few initiatives such as exploring new opportunities, optimization of procurement processes, evaluation of valorization opportunities of byproducts in addition to focus on improving operational parameters.
- In Q1FY24, DNL's revenue came at ₹1,768Cr down -14% YoY/-10% QoQ primarily on account of soft realizations and lower volume offtake by customers.
- Impact of subdued realizations was visible as gross profit fell -22% YoY/-20% QoQ to ₹545Cr with Gross Profit Margin contracting -307bps YoY/-403 bps QoQ to 30.8%. While power and fuel costs declined during the quarter, rise in employee and other expenses led to a -41% YoY/-40% QoQ fall in EBITDA to ₹210Cr. Resultantly, EBITDA margins slipped -544bps YoY/-588QoQ to 11.9%.
- Aided by the surge in other income and lower depreciation charges, net profit was down -36% YoY/QoQ to ₹150Cr.
 - Amid inventory destocking by the customers which impacted product realization, **Advanced Intermediates** segment's revenues were down -3% YoY/-12% QoQ to ₹708Cr. However, the company was able to maintain margins as it remains fairly stable at 16.2% -196bps YoY/-83bps QoQ and the segmental profit coming at '115cr down -13% YoY/-16% QoQ.
 - **Phenolics** business revenue witnessed fall of -20% YoY/-9% QoQ to ₹1,068Cr in Q1FY24, primarily on account of lower volumes as the plant was shut for maintenance for 15 days. Segmental results were down -53% YoY/-51% QoQ to '88cr as Phenol spreads contracted sharply due to excessive supply coming in from opening up of China. Resultantly, margins contracted -586bps YoY/-693bps QoQ to 8.2%.
- **Update on project** – Construction activity of Photo-halogenation and Halex plant is progressing well as per the plan, which is expected to commence operations by H2FY24. Commissioning of these plants, will enable the company to secure in-house supply of critical raw materials. Ongoing brownfield expansion projects are developing on the expected lines and would be completed by end-FY24.
- Plans to set up MIBK and MIBC (Derivatives of acetone) capacities have seen significant development in terms of engineering works and equipment ordering. This plant will source acetone captively and enable production of downstream value-add products post its commencement in H1FY25.
- In Q1FY24, the Phenol plant operated at an average capacity utilization of 135%. The debottlenecking activity undertaken at the phenol facility is completed which will result in 10% incremental capacity over FY23.

Important Statistics

MCAP (₹ bn)	~275
52-week H/L (₹)	₹2,356.60/₹1,730.00
NSE Code	DEEPAKNTR
BSE Code	506401

Shareholding pattern (%)	Jun'23
Promoter	49.13%
FII	08.09%
DII	15.61%
Public & Others	27.17%

Financials

Particulars	(₹ Cr)			
	FY22	FY23	FY24E	FY25E
Revenues	6,802	7,972	8,068	9,375
Gross Profit	2,688	2,624	2,678	3,309
Gross Profit Margin	40%	33%	33%	35%
EBITDA	1,600	1,289	1,291	1,683
EBITDA Margin	24%	16%	16%	18%
Net Profit	1,066	852	847	1,125
EPS (₹)	78.2	62.5	62.1	82.5
P/E (x)	26	32	33	25
RoE (%)	38%	23%	19%	20%

Source: Company, Way2Wealth

Prasad Hase

 prasadhase@way2wealth.com
 91-22-4019 2908

View

- Deepak Nitrite Ltd. posted soft performance this quarter amid challenging external environment leading to subdued demand and realizations. However, we believe that these headwinds are transient in nature and with improvement in market situation of key end-user industries, volumes as well as realizations would recover, likely in H2FY24. With many of the capex projects including brownfield expansion as well as backward integration, are expected to commercialize in next 6 to 8 months, incremental contribution coming in from these projects would drive the topline growth along-with profitability improvement.
- Historically, DNL has successfully navigated through such difficult situations and recovered its business performance via implementing innovative solutions.
- **Thus we believe, at CMP of ₹2,030, Deepak Nitrite Ltd. is fairly valued at 25x FY25E P/E and with multiple growth levers in play for an all-round performance in FY25, we recommend investors to BUY this stock.**

25th August 2023

₹2,030/-

View – Accumulate on Dip

Quarterly Financial Performance

(₹ Cr)

Particulars	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %	FY23	FY22	YoY%
Net sales	1,768	2,058	-14%	1,961	-10%	7,972	6,802	17%
COGS	1,224	1,361	-10%	1,278	-4%	5,348	4,114	30%
Gross Profit	545	697	-22%	683	-20%	2,625	2,688	-2%
Gross Profit Margin	30.8%	34%	-307 bps	35%	-403 bps	33%	40%	-659 bps
Employees Expense	84	81	4%	77	9%	318	274	16%
Power & Fuel Expense	117	133	-12%	129	-9%	542	439	24%
Other Expense	133	127	5%	128	4%	475	372	28%
EBITDA	210	356	-41%	348	-40%	1,289	1,604	-20%
EBITDA margins %	11.9%	17%	-544 bps	18%	-588 bps	16%	24%	-740 bps
Depreciation	38	42	-9%	41	-7%	166	178	-6%
EBIT	172	314	-45%	307	-44%	1,123	1,426	-21%
Interest Expense	2	9	-79%	4	-59%	25	34	-27%
Other income	32	10	232%	13	154%	48	43	12%
PBT	202	315	-36%	315	-36%	1,146	1,434	-20%
Tax Expense	52	81	-36%	81	-36%	294	368	-20%
PAT	150	235	-36%	234	-36%	852	1,067	-20%
PAT margins %	8%	11%	-292 bps	12%	-345 bps	11%	16%	-499 bps
EPS (Basic & diluted)	11.0	17.2	-36%	17.2	-36%	62.5	78.2	-20%

Source: Company, Way2Wealth

(₹ Cr)

Segment revenue	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %	FY23	FY22	YoY%
Advanced Intermediates	708	730	-3%	801	-12%	3034	2511	21%
Phenolics	1,068	1,335	-20%	1,170	-9%	4970	4303	16%
Total	1,776	2,065	-14%	1,970	-10%	8004	6814	17%
Less: Inter seg. Rev.	8	7		9		32	12	
Net sales	1,768	2,058	-14%	1,961	-10%	7972	6802	17%
Segment result								
Advanced Intermediates	115	133	-13%	137	-16%	555	596	-7%
EBIT margins %	16.2%	18%	-196 bps	17%	-83 bps	18%	24%	-668 bps
Phenolics	88	188	-53%	177	-51%	594	867	-31%
EBIT margins %	8.2%	14%	-586 bps	15%	-693 bps	12%	20%	-502 bps
Total	203	320	-37%	314	-35%	1150	1463	-21%
Less: Interest	2	9		4		25	34	
Unallocated (inc/ exp (net))	-1	-3		-6		21	6	
Total PBT	202	315	-36%	315	-36%	1146	1434	-20%

Source: Company, Way2Wealth

25th August 2023

₹2,030/-

View – Accumulate on Dip

Financial Performance

Particulars	₹ Cr)				
	FY21	FY22	FY23	FY24E	FY25E
Net sales	4,360	6,802	7,972	8,068	9,375
COGS	2,264	4,114	5,348	5,389	6,065
Gross Profit	2,096	2,688	2,624	2,678	3,309
Gross Profit Margin %	48%	40%	33%	33%	35%
Employees cost	247	274	318	351	412
Power and Fuel Costs	265	439	542	536	619
Other Expense	337	375	475	500	595
Total Expenditure	3,113	5,202	6,683	6,777	7,692
EBITDA	1,247	1,600	1,289	1,291	1,683
EBITDA margins %	28.6%	23.5%	16.2%	16.0%	18.0%
Depreciation	153	178	166	177	206
EBIT/ Operating Profit	1,094	1,422	1,123	1,113	1,477
Interest	74	34	25	34	42
Other income	22	46	48	60	80
PBT	1,042	1,434	1,146	1,139	1,514
Provision for current tax	266	368	294	293	389
PAT	776	1,066	852	847	1,125
PAT margin %	18%	16%	11%	10%	12%
EPS (Basic & diluted)	57	78	62	62	82

Source: Company, Way2Wealth

Disclaimer

Analyst Certification: I, Prasad Hase, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Prasad Hase, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement Deepak Nitrite Ltd. as on 25th August 2023

Name of the Security	Deepak Nitrite Ltd.
Name of the analyst	Prasad Hase
Analysts' ownership of any stock related to the information contained	
Financial Interest	
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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.