

29th February 2024

₹2,191/-

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Q3FY24 Result Update

Important Statistics

- During Q3FY24, Deepak Nitrite Ltd. (DNL) posted subdued performance primarily on account of weakness in Advanced Intermediate segment. Amid persistent soft demand, customers are re-evaluating the requirements, tightening inventory levels and negotiating for the best prices. Additionally, aggressive intermediate inventory destocking by Chinese players leading to increased supply in the market.
- In Q3FY24, DNL's consol. revenue came in at ₹2,009crs flat YoY/+13% QoQ led by strong growth in Phenolics segment, which witnessed robust volume growth along-with improvement in realizations.
- Subdued realizations in Advanced Intermediates segment impacted overall performance which was visible in gross profit margin fall of -109bps YoY/ -275bps QoQ to 31.7% and Gross Profit coming in at ₹637crs flat YoY/ +4% QoQ. Impact of higher employee costs and other expenses was offset by controlled power and fuel expenses. Additionally, higher volumes led operating leverage resulted in -64bps YoY/ -184bps QoQ fall in EBITDA margin to 15.2% and EBITDA stood at ₹305crs down -3% YoY/+1% QoQ.
- Tax expense during the quarter were flat at ₹72cr, resulting in profit coming at ₹202cr down -3% YoY/ flat QoQ.
 - While volume increase was reported during the quarter, subdued realization trends resulted in, **Advanced Intermediates** segment's revenues falling by -18% YoY/ flat QoQ to ₹674crs. This also led to EBIT margin fall by -414bps YoY/ -153bps QoQ to 14%. On end-use front, demand recovery in agrochemicals, textile and dyes & pigments remained subdued. On the other hand, demand from sectors such as construction, infrastructure and homecare witnessed healthy growth visibility.
 - **Phenolics** segment's revenue came in flat YoY/+13% QoQ to ₹2,024crs in Q3FY24, led by volume growth as well as improved realizations. Focused initiatives to increase operating efficiency and de-bottlenecking activities undertaken resulted in record production levels. Operating leverage at play drove +253bps YoY (-63bps QoQ) margin expansion to 9%.
- **Update on project** – Construction activity of Photo-halogenation and Halex plant is progressing well as operations and commissioning teams are actively engaged in the system handover. Commissioning of the site is expected by the end of current financial year.
- Expansion plans of other sites such as MIBK, MIBC (Derivatives of acetone) and Hydrogenation capacities are sharpening well as per the plans. During CY24, new investments worth ₹2,000crs are expected to be commissioned.
- In Jan-2024, subsidiary Deepak Chem Tech Ltd. (DCTL) signed MoU with the Govt. of India worth ₹9,000crs to establish projects to manufacture 3 new products with the aim to commence operations by 2027.

Nifty	21,951
Sensex	72,305
MCAP (₹ bn)	298.78
52-week H/L (₹)	₹2,521/₹1,762
NSE Code	DEEPAKNTR
BSE Code	506401
Bloomberg Code	DN:IN

Shareholding pattern (%)	Dec'23
Promoter	49.13
FII	6.48
DII	18.87
Public & Others	25.52

Financials

Particulars	FY22	FY23	FY24E	FY25E
Revenues	6,802	7,972	7,637	8,951
Gross Profit	2,688	2,624	2,482	3,061
Gross Profit Margin	40%	33%	33%	34%
EBITDA	1,600	1,289	1,171	1,499
EBITDA Margin	24%	16%	15%	17%
Net Profit	1,066	852	795	978
EPS	78	62	58	72
P/E (x)	29	37	40	32
RoE (%)	38%	23%	18%	18%

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
Deepak Nitrite	27%	68%	886%
Nifty 50	27%	52%	104%
SENSEX	22%	48%	102%

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- Deepak Nitrite Ltd. posted subdued performance with Advanced Intermediates witnessing realization pressures but healthy volumes and realizations resulted in robust Phenolics business. Management is taking various steps to curb the impact of sectoral challenges agrochemicals, dyes and pigments, etc. In this regard, several strategic initiatives to increase operational efficiency as well as debottlenecking activities were undertaken. This resulted in record production at the Phenolics facility.
- Leveraging the potential of strong balance sheet with net debt free and healthy cash flow generation, the management has announced strong pipeline of large project investments. It includes recently announced ₹9,000cr MoU with Govt. of Gujarat in-addition to ₹5,000cr MoU signed in May 23.
- **Thus we believe, at CMP of ₹2,191, Deepak Nitrite Ltd. is fairly valued at 22x FY26E P/E and with multiple capacities expected to be commissioned over FY25E/FY26E and anticipation of improving end-user market dynamics, we recommend investors to BUY this stock.**

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Quarterly Financial Performance

(₹ Cr)

Particulars	Q3FY24	Q3FY23	YoY % change	Q2FY23	% change	9MFY24	9MFY23	YoY% change
Net sales	2,009	1,991	1%	1,778	13%	5,556	6,011	-8%
COGS	1,373	1,339	3%	1,166	18%	3,762	4,069	-8%
Gross Profit	637	652	-2%	612	4%	1,794	1,941	-8%
Gross Profit Margin	31.7%	33%	-109 bps	34%	-275 bps	32.3%	32.3%	-1 bps
Employees Expense	89	81	10%	85	5%	258	241	7%
Power & Fuel Expense	109	134	-19%	118	-8%	344	412	-17%
Other Expense	134	123	9%	107	25%	369	347	6%
EBITDA	305	315	-3%	302	1%	822	941	-13%
EBITDA margins %	15.2%	16%	-64 bps	17%	-184 bps	15%	16%	-86 bps
Depreciation	42	41	1%	39	6%	119	125	-5%
EBIT	263	273	-4%	263	0%	703	816	-14%
Interest Expense	3	6	-50%	3	9%	7	20	-63%
Other income	14	13	1%	17	-20%	57	35	63%
PBT	274	281	-3%	277	-1%	753	831	-9%
Tax Expense	72	72	-1%	72	-1%	195	213	-8%
PAT	202	209	-3%	205	-1%	557	618	-10%
PAT margins %	10%	10%	-44 bps	12%	-148 bps	10%	10%	-26 bps
EPS (Basic & diluted)	14.8	15.3	-3%	15.0	-2%	40.8	45.3	-10%

Source: Company, Way2Wealth

(₹ Cr)

Segment revenue	Q3FY24	Q3FY23	YoY % change	Q2FY23	Q % chan	9MFY24	9MFY23	YoY% change
Advanced Intermediates								
Sales	674	818	-18%	670	1%	2052.81	2233.05	-8%
EBIT	94	147	-36%	103	-9%	311.95	418.52	-25%
EBIT margins %	14%	18%	-414 bps	15%	-153 bps	15%	19%	-332 bps
Phenolics								
Sales	2,024	1,999	1%	1,790	13%	5590.15	6033.66	-7%
EBIT	180	127	42%	170	5%	437.79	417.42	5%
EBIT margins %	9%	6%	253 bps	10%	-63 bps	8%	7%	260 bps
Phenolics	1,068	1,335	-20%	1,170	-9%	4970	4303	16%

Source: Company, Way2Wealth

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Financial Performance

	(₹ Cr)					
Financial	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	4,360	6,802	7,972	7,637	8,951	10,401
COGS	2,264	4,114	5,348	5,155	5,890	6,605
Gross Profit	2,096	2,688	2,624	2,482	3,061	3,796
Gross Profit Margin %	48%	40%	33%	33%	34%	37%
Employees cost	247	274	318	347	412	468
Power and Fuel Costs	265	439	542	466	582	645
Other Expense	337	375	475	498	568	660
Total Expenditure	3,113	5,202	6,683	6,466	7,452	8,378
EBITDA	1,247	1,600	1,289	1,171	1,499	2,023
EBITDA margins %	28.6%	23.5%	16.2%	15.3%	16.8%	19.5%
Depreciation	153	178	166	160	251	289
EBIT/ Operating Profit	1,094	1,422	1,123	1,010	1,249	1,734
Interest	74	34	25	11	17	25
Other income	22	46	48	75	84	97
PBT	1,042	1,434	1,146	1,074	1,316	1,806
Provision for current tax	266	368	294	279	338	464
PAT	776	1,066	852	795	978	1,342
PAT margin %	18%	16%	11%	10.4%	10.9%	12.9%
EPS (Basic & diluted)	57	78.2	62.5	58.3	71.7	98.4

Source: Company, Way2Wealth

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Disclosure of Interest Statement Deepak Nitrite Ltd. as on 29th February 2024

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
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