

## Chemicals | Q4FY23 Result Update

- Deepak Nitrite Q4FY23 numbers were broadly in line with our estimates. Sales grew by 4.8% YoY to Rs 19.6bn (D.est : Rs 20.4bn) (down 1.5% sequentially).
- EBITDA de-grew by 15.2% YoY to Rs 3.5bn (up 10.6% QoQ) (D.est : Rs 3.6bn) impacted by higher Opex cost (up 22.4% YoY).
- PAT saw a de-growth of 12.5% YoY (up 11.9% QoQ) to Rs 2.3bn (D.Est : Rs 2.4bn).

## Healthy outlook for Phenolics Business over FY24/FY25

Phenolic business registered a healthy performance in Q4FY23 with growth of 39.4% QoQ in revenues while EBIT margins also saw an uptick of ~440bps sequentially. Plants operated at high utilisation levels throughout the year with the Phenol plant clocking in an average rate of ~120% over FY23. This momentum is expected to continue over FY24 on the back of robust domestic demand. With further debottlenecking of its Phenol plant which is expected to increase the capacity by ~50% and addition of new downstream products the growth prospects remain healthy.

## Capex of ~Rs 25bn over FY23-FY25 to drive future growth

DN has set out an extensive capex plan of ~Rs25bn which will be a mix of growth projects plus backward intergration activities. Its large scale investment plan will help it to broaden its product offerings with addition of new value-added downstreams, forward integration projects and new chemistry platforms and shall drive its future growth.

## Outlook and Valuation

Timely execution of its capex projects and their speedy ramp up will remain a key to its growth in the near to medium term. We believe that entry into value added downstream derivatives, advanced chemistries and forward integration into Polycarbonates will help the company to subside the cyclicalities in its business. We however remain cautious of the near term recessionary trends and thus have downward revised our estimates marginally. We have downgraded our rating to Accumulate with a revised target price of Rs 2,266 (22x FY25E EPS).

## Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	19,614	18,724	4.8	19,911	(1.5)
Total Expense	16,134	14,620	10.4	16,765	(3.8)
EBITDA	3,480	4,103	(15.2)	3,146	10.6
Depreciation	409	446	(8.3)	411	(0.4)
EBIT	3,070	3,657	(16.0)	2,735	12.3
Other Income	126	35	255.1	134	(5.9)
Interest	45	71	(36.8)	58	(23.5)
EBT	3,152	3,622	(13.0)	2,810	12.1
Tax	813	950	(14.4)	720	12.9
RPAT	2,339	2,672	(12.5)	2,091	11.9
APAT	2,339	2,672	(12.5)	2,091	11.9
			(bps)		(bps)
Gross Margin (%)	34.8	38.2	(338)	32.8	206
EBITDA Margin (%)	17.7	21.9	(417)	15.8	194
NPM (%)	11.9	14.3	(235)	10.5	142
Tax Rate (%)	25.8	26.2	(43)	25.6	18
EBIT Margin (%)	15.7	19.5	(388)	13.7	192

CMP	Rs 1,934
Target / Upside	Rs 2,266 / 17%
NIFTY	18,315

## Scrip Details

Equity / FV	Rs 273mn / Rs 2		
Market Cap	Rs 264bn		
	USD 3.2bn		
52-week High/Low	Rs 2,357/ 1,681		
Avg. Volume (no)	319,078		
Bloom Code	DN IN		
Price Performance	1M	3M	12M
Absolute (%)	3	10	(3)
Rel to NIFTY (%)	1	7	(20)

## Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	45.7	49.1	4913.0
MF/Banks/FIs	10.0	15.1	1506.0
FIs	8.8	7.7	772.0
Public / Others	35.5	28.1	2809.0

## Valuation (x)

	FY23P	FY24E	FY25E
P/E	31.0	23.2	18.8
EV/EBITDA	20.5	15.7	12.5
ROE (%)	22.9	24.7	24.4
RoACE (%)	21.6	23.6	23.5

## Estimates (Rs bn)

	FY23P	FY24E	FY25E
Revenue	79.7	88.6	102.3
EBITDA	12.9	16.8	21.0
PAT	8.5	11.4	14.0
EPS (Rs.)	62.5	83.4	103.0

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## Segmental Performance

- Advanced Intermediates business registered a growth of 6.7% YoY to Rs 8bn. EBIT was down by 29.2% YoY to Rs 1.4bn registering an EBIT margin contraction of 865bps YoY to 17.1%.
- Phenolics business grew by 3.7% YoY to Rs 11.7bn. EBIT was flat at Rs 1.8bn translating into EBIT margin contraction of 45 bps YoY to 15.1%.

### Exhibit 1: Actual vs Estimated

Particulars (Rs Mn)	Actual	Estimated	Variance (%)	Comments
Revenue	19,614	20,431	(4.0)	In-Line
EBITDA	3,480	3,601	(3.4)	
EBITDA Margin (%)	17.7	17.6	12bps	
PAT	2,339	2,395	(2.4)	

Source: DART

### Exhibit 2: Change in estimates

(Particulars (Rs Mn))	FY24E			FY25E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	88,609	89,598	(1.1)	1,02,318	99,479	2.9
EBITDA	16,813	17,506	(4.0)	21,020	21,918	(4.1)
EBITDA Margin(%)	19.0%	19.5%	(2.9)	0.2	0.2	(6.8)
PAT	11,378	11,694	(2.7)	14,046	14,560	(3.5)
EPS(Rs)	83.4	85.7	(2.7)	103.0	106.7	(3.5)

Source: DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
<b>Revenue</b>	<b>68,022</b>	<b>79,721</b>	<b>88,609</b>	<b>102,318</b>
<b>Total Expense</b>	<b>51,986</b>	<b>66,827</b>	<b>71,796</b>	<b>81,298</b>
COGS	45,530	58,894	62,531	70,751
Employees Cost	2,741	3,183	3,564	3,992
Other expenses	3,715	4,750	5,700	6,555
<b>EBIDTA</b>	<b>16,036</b>	<b>12,894</b>	<b>16,813</b>	<b>21,020</b>
Depreciation	1,777	1,663	2,059	2,726
<b>EBIT</b>	<b>14,259</b>	<b>11,231</b>	<b>14,754</b>	<b>18,295</b>
Interest	340	248	49	49
Other Income	426	476	500	525
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>14,345</b>	<b>11,459</b>	<b>15,205</b>	<b>18,770</b>
Tax	3,678	2,939	3,827	4,724
RPAT	10,666	8,520	11,378	14,046
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>10,666</b>	<b>8,520</b>	<b>11,378</b>	<b>14,046</b>

### Balance Sheet

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	273	273	273	273
Minority Interest	0	0	0	0
Reserves & Surplus	33,112	40,627	50,982	63,800
<b>Net Worth</b>	<b>33,384</b>	<b>40,900</b>	<b>51,254</b>	<b>64,073</b>
Total Debt	3,225	845	845	845
Net Deferred Tax Liability	1,253	1,565	1,566	1,566
<b>Total Capital Employed</b>	<b>37,862</b>	<b>43,309</b>	<b>53,665</b>	<b>66,483</b>

### Applications of Funds

Net Block	20,213	20,862	29,811	37,086
CWIP	1,222	3,008	4,000	4,000
Investments	22	25	25	25
<b>Current Assets, Loans &amp; Advances</b>	<b>22,847</b>	<b>27,391</b>	<b>28,544</b>	<b>34,165</b>
Inventories	5,846	8,931	8,955	10,341
Receivables	11,291	13,095	14,070	16,246
Cash and Bank Balances	418	400	554	2,612
Loans and Advances	4	4	4	4
Other Current Assets	5,289	4,961	4,961	4,961
<b>Less: Current Liabilities &amp; Provisions</b>	<b>6,442</b>	<b>7,977</b>	<b>8,715</b>	<b>8,792</b>
Payables	5,117	6,618	7,355	7,933
Other Current Liabilities	1,325	1,360	1,360	860
<i>sub total</i>				
Net Current Assets	16,405	19,414	19,829	25,373
<b>Total Assets</b>	<b>37,862</b>	<b>43,309</b>	<b>53,665</b>	<b>66,483</b>

E – Estimates

### Important Ratios

Particulars	FY22A	FY23P	FY24E	FY25E
<b>(A) Margins (%)</b>				
Gross Profit Margin	33.1	26.1	29.4	30.9
EBIDTA Margin	23.6	16.2	19.0	20.5
EBIT Margin	21.0	14.1	16.7	17.9
Tax rate	25.6	25.6	25.2	25.2
Net Profit Margin	15.7	10.7	12.8	13.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	66.9	73.9	70.6	69.1
Employee	4.0	4.0	4.0	3.9
Other	5.5	6.0	6.4	6.4
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	41.9	45.3	300.9	373.1
Inventory days	31	41	37	37
Debtors days	61	60	58	58
Average Cost of Debt	7.4	12.2	5.8	5.8
Payable days	27	30	30	28
Working Capital days	88	89	82	91
FA T/O	3.4	3.8	3.0	2.8
<b>(D) Measures of Investment</b>				
AEPS (Rs)	78.2	62.5	83.4	103.0
CEPS (Rs)	91.2	74.7	98.5	123.0
DPS (Rs)	7.0	7.0	7.5	9.0
Dividend Payout (%)	9.0	11.2	9.0	8.7
BVPS (Rs)	244.8	299.9	375.8	469.7
RoANW (%)	37.5	22.9	24.7	24.4
RoACE (%)	32.2	21.6	23.6	23.5
RoAIC (%)	42.2	28.0	30.7	31.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1934	1934	1934	1934
P/E	24.7	31.0	23.2	18.8
Mcap (Rs Mn)	263,716	263,716	263,716	263,716
MCap/ Sales	3.9	3.3	3.0	2.6
EV	266,523	264,161	264,007	261,948
EV/Sales	3.9	3.3	3.0	2.6
EV/EBITDA	16.6	20.5	15.7	12.5
P/BV	7.9	6.4	5.1	4.1
Dividend Yield (%)	0.4	0.4	0.4	0.5
<b>(F) Growth Rate (%)</b>				
Revenue	56.0	17.2	11.1	15.5
EBITDA	28.6	(19.6)	30.4	25.0
EBIT	30.3	(21.2)	31.4	24.0
PBT	37.7	(20.1)	32.7	23.4
APAT	37.5	(20.1)	33.5	23.4
EPS	37.5	(20.1)	33.5	23.4

E – Estimates

## Cash Flow

Particulars	FY22A	FY23P	FY24E	FY25E
<b>Profit before tax</b>	<b>14,345</b>	<b>11,459</b>	<b>15,205</b>	<b>18,770</b>
Depreciation & w.o.	1,777	1,663	2,059	2,726
Net Interest Exp	340	248	49	49
Direct taxes paid	(3,529)	(2,678)	(3,826)	(4,724)
Change in Working Capital	(4,367)	(3,604)	(261)	(3,485)
Non Cash	0	0	0	0
<b>(A) CF from Operating Activities</b>	<b>8,565</b>	<b>7,088</b>	<b>13,226</b>	<b>13,335</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,792)	(3,231)	(12,000)	(10,000)
<b>Free Cash Flow</b>	<b>6,774</b>	<b>3,857</b>	<b>1,226</b>	<b>3,335</b>
(Inc.)/ Dec. in Investments	(2,497)	597	0	0
Other	(353)	(798)	0	0
<b>(B) CF from Investing Activities</b>	<b>(4,642)</b>	<b>(3,432)</b>	<b>(12,000)</b>	<b>(10,000)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(2,769)	(2,462)	0	0
Interest exp net	(340)	(248)	(49)	(49)
Dividend Paid (Incl. Tax)	955	955	1,023	1,228
Other	(1,685)	(1,919)	(2,046)	(2,455)
<b>(C) CF from Financing</b>	<b>(3,840)</b>	<b>(3,674)</b>	<b>(1,072)</b>	<b>(1,277)</b>
Net Change in Cash	84	(18)	154	2,059
<b>Opening Cash balances</b>	<b>334</b>	<b>418</b>	<b>400</b>	<b>554</b>
<b>Closing Cash balances</b>	<b>418</b>	<b>400</b>	<b>554</b>	<b>2,612</b>

E – Estimates

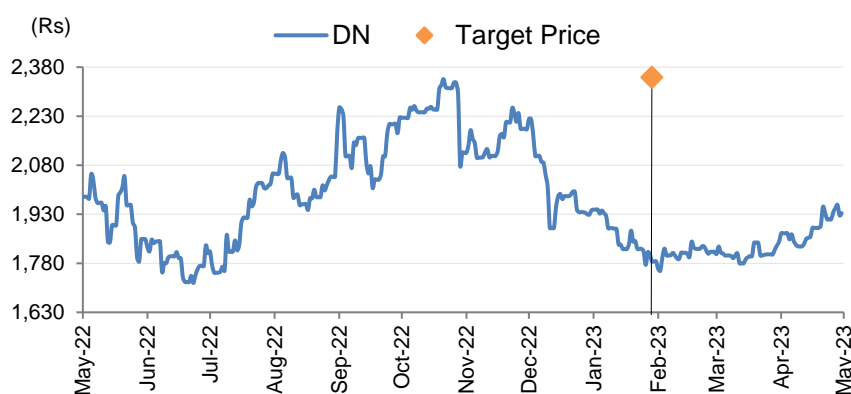
## Notes

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-23	BUY	2,349	1,786

\*Price as on recommendation date

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