

| | |
|------------------|----------|
| Current Reco | : BUY |
| Previous Reco | : BUY |
| CMP | : INR226 |
| Target Price | : INR410 |
| Potential Return | : 81% |

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Market data

| | | |
|----------------------|---|-----------------|
| Sensex | : | 36,975 |
| Sector | : | Specialty Chem. |
| Market Cap (INRbn) | : | 31.1 |
| Market Cap (USDbn) | : | 0.434 |
| O/S Shares (m) | : | 136.4 |
| 52-wk HI/LO (INR) | : | 305/205 |
| Avg Daily Vol ('000) | : | 185 |
| Bloomberg | : | DN IN |

Source: Bloomberg

Valuation (consolidated)

| | FY19e | FY20e | FY21e |
|--------------------|-------|-------|-------|
| EPS (INR) | 12.6 | 20.2 | 23.9 |
| P/E | 18.0 | 11.2 | 9.5 |
| P/BV | 2.9 | 2.3 | 1.9 |
| EV/EBITDA | 8.9 | 6.3 | 5.5 |
| Dividend Yield (%) | 0.6 | 0.7 | 0.9 |

Source: Bloomberg

Returns (%)

| | 1m | 3m | 6m | 12m |
|----------|-----|------|-----|------|
| Absolute | 3 | (18) | (9) | (11) |
| Relative | (0) | (22) | (7) | (18) |

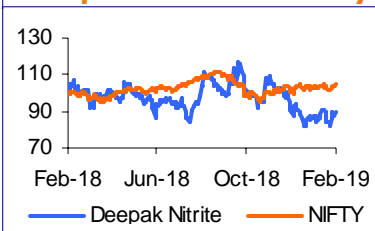
Source: Bloomberg

Shareholding pattern

| | | |
|-----------|---|-----|
| Promoters | : | 45% |
| Public | : | 55% |
| Others | : | 0% |

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg Indexed to 100

3QFY19 RESULT REVIEW

Deepak Nitrite Limited

Phenol plan tests full utilization, ahead of schedule; BUY

Deepak Nitrite (DN) reported a robust adj. PAT of INR 316mn (+55% YoY), marginally ahead of estimates due to strong growth across segments. Key highlights: (a) Basic chemical (BC) segment revenue increased by 16% YoY to INR 2.2bn; (b) the Fine & Specialty Chemical (FSC) segment reported a revenue growth of 21% YoY to 1.48bn; (c) Performance Products (PP) segment revenue grew 48% YoY to 0.99bn, as the segment continued to turn around. The EBIT margins in the BC/FSC/PP segments stood at 15%/23%/18% respectively. The greenfield phenol project at Dahej (Deepak Phenolics) is commissioned on 1 Nov 2018 and has already tested 100% utilization (on 16 Jan 2019), ahead of schedule. We reiterate our BUY rating on DN with a revised target price of INR 410/sh (Mar 2020) as we roll estimates forward to FY21e.

Extant business on a healthy earnings trajectory

The 3QFY19 earnings were again a testimonial of the underlying strength in the extant business. The EBITDA at INR 662mn (+27% YoY) stood broadly in line with estimates. Higher realization in the domestic market across all key production and cost optimization initiatives resulted in healthy earnings. The EBITDA margin at 14.6%, though a tad weaker sequentially (2Q: 15.9%), was still 60bps higher than 3QFY18. The company expects to drive ~100bps margin expansion in FY20 as well (over FY19) through continued optimization and de-bottlenecking of capacity. The performance products segments continued to improve profitability as well, reporting an EBIT of INR 181 mn (+28% QoQ) vs. a loss of INR 13mn in 3QFY18, as reorientation of focus towards end-user industries continued to bear fruit.

Phenol project, commissioned in Nov 2018, tests full utilization

The phenol project (Deepak Phenolics), which was commissioned on 1 Nov 2018, has already tested 100% utilization as of 16 Jan 2019, ahead of schedule (FY20). The plant, however, is currently operating at 85% utilization. This has resulted in additional contribution of INR 3.2bn to consolidated turnover (from manufacturing) in 3QFY19.

We recently visited the plant facility to get a better understanding of the ongoing operations. The plant facility is not only state-of-the-art but we were impressed with the staff's discipline, focus on safety, and strict compliance with procedure. Our interaction with the management team reassured us of its vision to offer reliable products with steady availability to develop the market for phenol consumption. With risk diversification as the underlying principle, the management has ensured continuous supply of raw material through various suppliers. At the same time, the management is also proactively marketing phenol and byproduct acetone, leveraging the experience it gained while trading for the products. The phenol project is likely to contribute ~ 50% to FY20e/FY21e EBITDA of INR 6.7bn/INR 7.5bn, as per our estimates.

Valuation and outlook

We maintain our BUY rating on DN with a revised target price of INR 410 (Mar 2020) as we roll estimates to FY21e. We believe that while the outlook for extant business continues to be robust, flawless execution, commissioning, and ahead of schedule ramp-up of the Phenol plant would additionally boost earnings in the coming quarters. We model for earnings CAGR of 60% (YF18-21e) and ROEs of ~ 22-23% over FY20-21e.

Key financials (Consolidated)

| Year ended March (INRm) | FY17 | FY18 | FY19e | FY20e | FY21e |
|-------------------------|--------|--------|--------|--------|--------|
| Revenues(INRm) | 14,547 | 16,762 | 29,180 | 36,654 | 40,014 |
| EBITDA(INRm) | 2,195 | 2,210 | 4,896 | 6,807 | 7,522 |
| EBITDA Margin (%) | 15.1 | 13.2 | 16.8 | 18.6 | 18.8 |
| PAT(INRm) | 422 | 790 | 1,714 | 2,759 | 3,253 |
| PAT growth (%) | (32.9) | 87.3 | 116.8 | 61.0 | 17.9 |
| EPS (INR) | 3.1 | 5.8 | 12.6 | 20.2 | 23.9 |
| EPS growth (%) | (32.9) | 87.3 | 116.8 | 61.0 | 17.9 |
| P/E(x) | 73.0 | 39.0 | 18.0 | 11.2 | 9.5 |
| P/BV(x) | 4.3 | 3.3 | 2.9 | 2.3 | 1.9 |
| EV/EBITDA(x) | 16.8 | 18.1 | 8.9 | 6.3 | 5.5 |

Source: Company, Antique

Result highlights

Comparison with estimates

| (Rs mn) | Actual | Antique | % Variance | Consensus | % Variance |
|----------------|---------|---------|------------|-----------|------------|
| Revenue | 4,523.1 | 4,650.4 | (2.7) | 4,528 | (0.1) |
| EBITDA | 662.2 | 697.6 | (5.1) | 725 | (8.7) |
| Adj net income | 316.2 | 300.7 | 5.2 | 286 | 10.6 |
| FDEPS (INR) | 2.4 | 2.3 | 5.2 | 2.2 | 10.6 |

Source: Company, Antique

Earnings snapshot

| (INR mn) | 3QFY19 | 3QFY18 | % Chg YoY | 2QFY19 | % Chg QoQ | 9MFY19 | 9MFY18 | % Chg YoY |
|-------------------------|----------------|----------------|-------------|----------------|--------------|-----------------|-----------------|-------------|
| Revenue | 4,523.1 | 3,711.4 | 21.9 | 4,327.1 | 4.5 | 13,060.5 | 10,451.4 | 25.0 |
| Expenditure | 3,860.9 | 3,190.7 | 21.0 | 3,641.2 | 6.0 | 11,151.4 | 9,084.5 | 22.8 |
| Operating profit | 662.2 | 520.7 | 27.2 | 685.9 | (3.5) | 1,909.0 | 1,366.9 | 39.7 |
| Other income | 54.9 | 6.3 | 769.4 | 3.3 | 1,552.6 | 66.2 | 39.3 | 68.6 |
| Interest | 103.5 | 90.2 | 14.8 | 116.8 | (11.4) | 329.3 | 292.1 | 12.7 |
| Depreciation | 133.2 | 129.7 | 2.7 | 131.8 | 1.0 | 391.3 | 385.7 | 1.4 |
| PBT | 480.5 | 307.2 | 56.4 | 440.7 | 9.0 | 1,254.7 | 728.3 | 72.3 |
| Tax | 164.3 | 103.7 | 58.4 | 159.9 | 2.7 | 439.9 | 280.5 | 56.8 |
| Reported PAT | 316.2 | 203.4 | 55.4 | 280.8 | 12.6 | 814.8 | 447.8 | 81.9 |
| Adjusted PAT | 316.2 | 203.4 | 55.4 | 280.8 | 12.6 | 814.8 | 511.1 | 59.4 |
| EBITDA margin(%) | 15% | 14% | 4.3 | 16% | (7.6) | 14.6% | 13.1% | 11.8 |
| FDEPS(Rs) | 2.4 | 1.6 | 55.4 | 2.1 | 12.6 | 6.2 | 3.9 | 59.4 |

Source: Company, Antique

Segmental performance

| (INR mn) | 3QFY19 | 3QFY18 | % Chg YoY | 2QFY19 | % Chg QoQ | 9MFY19 | 9MFY18 | % Chg YoY |
|----------------------------|---------|---------|-----------|---------|-----------|----------|----------|-----------|
| Revenue | | | | | | | | |
| Basic Chemicals | 2,194 | 1,892 | 15.9 | 2,017 | 8.8 | 6,437 | 5,495 | 17.1 |
| Fine & Specialty Chemicals | 1,483.5 | 1,223.9 | 21.2 | 1,437.7 | 3.2 | 4,144.9 | 3,234.3 | 28.2 |
| Performance Products | 995.4 | 673.6 | 47.8 | 968.0 | 2.8 | 2,768.5 | 2,173.4 | 27.4 |
| EBIT | | | | | | | | |
| Basic Chemicals | 338.7 | 283.5 | 19.5 | 360.5 | (6.0) | 1,022.4 | 781.6 | 30.8 |
| % margin | 15% | 15% | | 18% | | 16% | 14% | |
| Fine & Specialty Chemicals | 342.3 | 270.9 | 26.3 | 371.8 | (8.0) | 1,000.1 | 664.0 | 50.6 |
| % margin | 23% | 22% | | 26% | | 24% | 21% | |
| Performance Products | 181.0 | (12.9) | nm | 141.7 | 27.8 | 353.5 | (52.5) | nm |
| % margin | 18% | -2% | | 15% | | 13% | -2% | |
| Capital Employed | | | | | | | | |
| Basic Chemicals | 3,073.8 | 2,883.1 | 6.6 | 2,657.4 | 15.7 | 8,127.6 | 9,109.4 | (10.8) |
| Fine & Specialty Chemicals | 3,788.0 | 3,639.8 | 4.1 | 3,604.0 | 5.1 | 10,798.1 | 10,375.1 | 4.1 |
| Performance Products | 3,091.0 | 3,179.2 | (2.8) | 3,124.4 | (1.1) | 9,288.1 | 9,225.2 | 0.7 |
| ROCE | | | | | | | | |
| Basic Chemicals | 12% | 9% | | 14% | | 13% | 9% | |
| Fine & Specialty Chemicals | 9% | 8% | | 11% | | 9% | 7% | |
| Performance Products | 6% | 0% | | 5% | | 4% | -1% | |

Source: Company, Antique

Valuation and outlook

Maintain BUY with a revised target price of INR 410/sh

We maintain our BUY rating on DN with a revised target price of INR 410 (Mar 2020) as we roll estimates to FY21e. We believe that while the outlook for extant business continues to be robust, flawless execution, commissioning, and ahead of schedule ramp-up of the phenol plant would additionally boost earnings in the coming quarters. We model for earnings CAGR of 60% (YF18-21e) and ROEs of ~ 22-23% over FY20-21e.

| INR mn | EBITDA -FY20 | Multiple | |
|------------------|--------------|----------|--------------|
| Extant Business | 3717.6 | 9 | 33458 |
| Phenol Project | 3804.3 | 9 | 34239 |
| Total EV | | | 67687 |
| Net Debt | | | 12223 |
| Equity | | | 55474 |
| Equity per share | | | 407 |

Source: Antiqua

Financials

Profit and loss account (INRm)

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|----------------------------------|----------|---------------|---------------|---------------|---------------|---------------|
| Net Revenue | | 14,547 | 16,762 | 29,180 | 36,654 | 40,014 |
| Op. Expenses | | 12,352 | 14,552 | 24,284 | 29,847 | 32,492 |
| EBITDA | | 2,195 | 2,210 | 4,896 | 6,807 | 7,522 |
| Depreciation | | 480 | 526 | 871 | 1,244 | 1,334 |
| EBIT | | 1,715 | 1,684 | 4,026 | 5,563 | 6,188 |
| Other income | | 109 | 124 | 58 | 65 | 70 |
| Interest Exp. | | 341 | 451 | 1,487 | 1,448 | 1,329 |
| Extra Ordinary Items-gain/(loss) | | 705 | - | - | - | - |
| Reported PBT | | 2,187 | 1,356 | 2,597 | 4,180 | 4,929 |
| Tax | | 382 | 318 | 883 | 1,421 | 1,676 |
| Reported PAT | | 1,805 | 1,038 | 1,714 | 2,759 | 3,253 |
| Net Profit | | 1,805 | 1,038 | 1,714 | 2,759 | 3,253 |
| Adjusted PAT | | 422 | 790 | 1,714 | 2,759 | 3,253 |
| Adjusted EPS (INR) | | 3.1 | 5.8 | 12.6 | 20.2 | 23.9 |

Balance sheet (INRm)

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|---|----------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | | 261 | 273 | 273 | 273 | 273 |
| Reserves & Surplus | | 6,909 | 8,949 | 10,416 | 12,847 | 15,690 |
| Networth | | 7,171 | 9,221 | 10,689 | 13,120 | 15,963 |
| Debt | | 7,437 | 9,927 | 14,953 | 13,753 | 12,554 |
| Net deferred Tax liabilities | | 657 | 454 | 454 | 454 | 454 |
| Capital Employed | | 15,266 | 19,603 | 26,096 | 27,327 | 28,971 |
| Gross Fixed Assets | | 9,180 | 9,676 | 21,421 | 23,021 | 24,621 |
| Accumulated Depreciation | | 3,275 | 3,801 | 4,672 | 5,916 | 7,250 |
| Capital work in progress | | 3,493 | 9,545 | - | - | - |
| Net Fixed Assets | | 9,398 | 15,420 | 16,749 | 17,105 | 17,371 |
| Investments | | 1,166 | 318 | 318 | 318 | 318 |
| Non Current Investments | | 27 | 23 | 23 | 23 | 23 |
| Current Investments | | 1,139 | 294 | 294 | 294 | 294 |
| Current Assets, Loans & Adv. | | 7,484 | 10,167 | 13,386 | 14,947 | 16,650 |
| Inventory | | 1,358 | 3,254 | 2,329 | 2,862 | 3,116 |
| Debtors | | 3,603 | 4,118 | 6,795 | 8,536 | 9,318 |
| Cash & Bank balance | | 145 | 482 | 1,949 | 1,236 | 1,903 |
| Loans & advances and others | | 2,378 | 2,313 | 2,313 | 2,313 | 2,313 |
| Current Liabilities & Prov. | | 2,783 | 6,303 | 4,357 | 5,043 | 5,368 |
| Liabilities | | 2,664 | 6,188 | 4,242 | 4,928 | 5,253 |
| Provisions | | 119 | 115 | 115 | 115 | 115 |
| Net Current Assets | | 4,701 | 3,864 | 9,029 | 9,904 | 11,282 |
| Application of Funds | | 15,266 | 19,602 | 26,096 | 27,327 | 28,971 |

Per share data

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|---------------------------|----------|-------|-------|-------|-------|--------|
| No. of shares (m) | | 131 | 136 | 136 | 136 | 136 |
| Diluted no. of shares (m) | | 136 | 136 | 136 | 136 | 136 |
| BVPS (INR) | | 52.58 | 67.61 | 78.37 | 96.19 | 117.04 |
| CEPS (INR) | | 16.75 | 11.46 | 18.95 | 29.35 | 33.63 |
| DPS (INR) | | - | 1.20 | 1.30 | 1.50 | 2.00 |

Source: Company, Antique

Cash flow statement (INRm)

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|-------------------------------------|----------|----------------|----------------|----------------|----------------|----------------|
| PBT | | 1,347 | 1,109 | 2,597 | 4,180 | 4,929 |
| Depreciation & amortisation | | 480 | 526 | 871 | 1,244 | 1,334 |
| Interest expense | | 341 | 451 | 1,487 | 1,448 | 1,329 |
| (Inc)/Dec in working capital | | (1,201) | 1,174 | (3,698) | (1,588) | (711) |
| Tax paid | | (292) | (522) | (883) | (1,421) | (1,676) |
| Less: Interest/Div. Income Recd. | | - | - | - | 1 | 2 |
| Other operating Cash Flow | | - | - | - | (1) | (2) |
| CF from operating activities | | 676 | 2,739 | 373 | 3,863 | 5,205 |
| Capital expenditure | | (3,582) | (6,548) | (2,200) | (1,600) | (1,600) |
| Inc/(Dec) in investments | | (300) | 848 | - | - | - |
| Add: Interest/Div. Income Recd. | | - | - | - | 1 | 2 |
| CF from investing activities | | (3,882) | (5,700) | (2,200) | (1,600) | (1,600) |
| Inc/(Dec) in share capital | | 29 | 11 | - | - | - |
| Inc/(Dec) in debt | | 2,149 | 2,490 | 5,026 | (1,200) | (1,199) |
| Dividend Paid | | (189) | (213) | (246) | (328) | (410) |
| Others | | 1,637 | 1,462 | - | - | - |
| CF from financing activities | | 3,286 | 3,298 | 3,293 | (2,976) | (2,938) |
| Net cash flow | | 80 | 338 | 1,466 | (713) | 667 |
| Opening balance | | 65 | 145 | 482 | 1,949 | 1,236 |
| Closing balance | | 145 | 482 | 1,949 | 1,236 | 1,903 |

Growth indicators (%)

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|------------|----------|--------|------|-------|-------|-------|
| Revenue(%) | | 6.0 | 15.2 | 74.1 | 25.6 | 9.2 |
| EBITDA(%) | | 33.2 | 0.7 | 121.6 | 39.0 | 10.5 |
| Adj PAT(%) | | (32.9) | 87.3 | 116.8 | 61.0 | 17.9 |
| Adj EPS(%) | | (32.9) | 87.3 | 116.8 | 61.0 | 17.9 |

Valuation (x)

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|--------------------|----------|------|------|-------|-------|-------|
| P/E | | 73.0 | 39.0 | 18.0 | 11.2 | 9.5 |
| P/BV | | 4.3 | 3.3 | 2.9 | 2.3 | 1.9 |
| EV/EBITDA | | 16.8 | 18.1 | 8.9 | 6.3 | 5.5 |
| EV/Sales | | 2.5 | 2.4 | 1.5 | 1.2 | 1.0 |
| Dividend Yield (%) | | - | 0.5 | 0.6 | 0.7 | 0.9 |

Financial ratios

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|---------------------|----------|------|------|-------|-------|-------|
| RoE (%) | | 7.1 | 9.6 | 17.2 | 23.2 | 22.4 |
| RoCE (%) | | 14.1 | 10.4 | 17.9 | 21.1 | 22.2 |
| Asset/T.O (x) | | 1.2 | 1.0 | 1.3 | 1.4 | 1.4 |
| Net Debt/Equity (x) | | 0.9 | 1.0 | 1.2 | 0.9 | 0.6 |
| EBIT/Interest (x) | | 5.3 | 4.0 | 2.7 | 3.9 | 4.7 |

Margins (%)

| Year-ended | March 31 | FY17 | FY18 | FY19e | FY20e | FY21e |
|------------------|----------|------|------|-------|-------|-------|
| EBITDA Margin(%) | | 15.1 | 13.2 | 16.8 | 18.6 | 18.8 |
| EBIT Margin(%) | | 11.8 | 10.0 | 13.8 | 15.2 | 15.5 |
| PAT Margin(%) | | 2.9 | 4.7 | 5.9 | 7.5 | 8.1 |

Source: Company Antique

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CIN: U67120MH1994PLC079444

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