

Deepak Nitrite Ltd: Q4FY18 Result Update

Base business steady; Acetone Phenol prospects improve

CMP INR: 250

Rating: BUY

Target Price INR: 378

Upside: 51%

Deepak Nitrite (DEN) delivered 24% topline growth (9% above our expectations) led by optimal capacity utilisation in the basic chemicals business and normalisation of operations at its Roha unit (impacted by fire accident last year). While basic chemicals and specialty businesses delivered strong operating margins, negative contribution from performance products segment led to a lower-than-expected improvement in EBITDA. Overall, performance remained strong with the company all-set to mark its entry in the fast-growing acetone-phenol industry by July, 2018. Continued buoyancy in the global acetone-phenol market has kept spreads high in the business over the past 6 months creating further upside potential in terms of profitability in the near term.

Brownfield capex to debottleneck capacity, backward integration to boost margins

DEN currently operates its basic and specialty chemical units at near optimal utilisation entailing further capex to address the growth opportunity in these segments. With a brownfield capex of INR 60 cr, the company expects to add nearly 20% to its basic chemicals capacity and some of its key specialty chemicals from as early as H2FY19. Further, having received regulatory consent for operating the backward integration facility to its specialty chemical unit at Roha, the company expects operating margin for the specialty chemicals business to expand further by 200-250 bps from the current 25% levels.

Strong surge in acetone-phenol demand might lead to faster ramp-up; Project commencement expected by July 2018

DEN is currently undertaking pre-commissioning activities at its Acetone and Phenol facility. The company expects the project to commission from July, 2018 (2-month delay from May, 2018 expected earlier) with expectation of 70%+ utilisation in the first year aided by strong demand and an successful customer outreach program.

Global demand-supply scenario over the past 6 months for phenol-acetone is moving the industry towards peak utilisation levels owing to higher captive utilisation in China (with commencement of few downstream projects) leading to lower exports from China along with a plant shut down in the US. The aforementioned factors have resulted in current output - feedstock spread to increase > 18% than our assumptions. Sustainability of such spread levels could add equivalently to our forward earnings estimates.

Revise FY19/FY20 estimates by 1%/13% respectively; Re-iterate 'BUY'

In consideration of the continued surge in acetone-phenol spreads, we have revised our estimates for the project upwards towards annual average while still maintaining margin of safety compared to current spreads. Additionally, higher growth is expected in the base business on the back of the recently announced brownfield capex. As a result of the above, our earnings estimates per share for FY19/FY20 have changed from 13.3/18.6 to 13.4/21 respectively. We value the company at 18x FY20E EPS of INR 21 and maintain our 'BUY' recommendation with a revised target price of INR 378/share.

Neha Agarwal

Research Analyst

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Bloomberg:	DN:IN
52-week range (INR):	298.00 / 132.20
Share in issue (cr):	14
M cap (INR cr):	3,417
Avg. Daily Vol. BSE/NSE :('000):	980
Promoter Holding (%)	44.65

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net sales (INR cr)	393	325	21	371	6	1,651	2,986	3,663
Growth (%)						20.5	80.8	22.7
EBITDA (INR cr)	49	39	24	52	(6)	196	483	631
Adj PAT (INR cr)	20	21	(2)	20	0	79	183	286
Growth (%)						72.7	131.3	56.6
Dil. EPS (INR)						5.8	13.4	21.0
Diluted P/E (x)						43.2	18.7	11.9
EV/EBITDA (x)						22.3	9.3	6.6
ROAE (%)						9.7	18.4	24.3

Date: 16th May 2018

Q4FY18 Result Highlights

Particulars	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Income from operations	393	325	21	371	6	1,651	2,986	3,663
Cost of goods sold	265	196	35	219	21	1,159	2,087	2,564
Employee expenses	33	29	14	35	(5)	136	185	197
Other expenses	46	61	(25)	66	(30)	297	416	468
Total operating expenses	344	286	20	319	8	1,455	2,503	3,032
EBITDA	49	39	24	52	(6)	196	483	631
Depreciation and amortization	13	11	25	13	3	53	130	131
EBIT	36	29	24	39	(9)	144	353	500
Interest expenses	11	8	34	9	23	45	100	112
Other income	6	5	-	1	-	12	6	18
PBT	31	25	24	31	1	111	259	406
Provision for tax	11	4	157	10	2	32	76	120
Core profit	20	21	(2)	20	0	79	183	286
Extraordinary items	0	4	-	0	-	0	0	0
Adjusted net profit	20	17	16	20	(2)	79	183	286
No. of shares (Cr)						14	14	14
Diluted EPS (INR)						6	13	21

Earnings sensitivity analysis to changes in utilisation levels and spreads from our current assumptions

FY20E net profits		FY20 Utilisation						
286		60%	65%	70%	75%	80%	85%	90%
Spreads in INR/kg	34	78	90	102	114	125	137	149
	38	111	125	139	154	168	183	197
	42	143	160	177	194	211	228	245
	44	159	177	196	214	233	251	270
	49	199	221	243	264	286	308	330
	52	223	247	271	295	318	342	366
	56	255	282	308	335	361	388	414
	60	287	317	346	375	404	433	462
	64	319	351	383	415	447	479	511
	68	352	386	421	455	490	524	559

Our assumption: FY20 net profits assuming 80% utilisation and trailing 12-month average spread

FY20 net profits assuming 90% utilisation and prevailing spreads

Financials

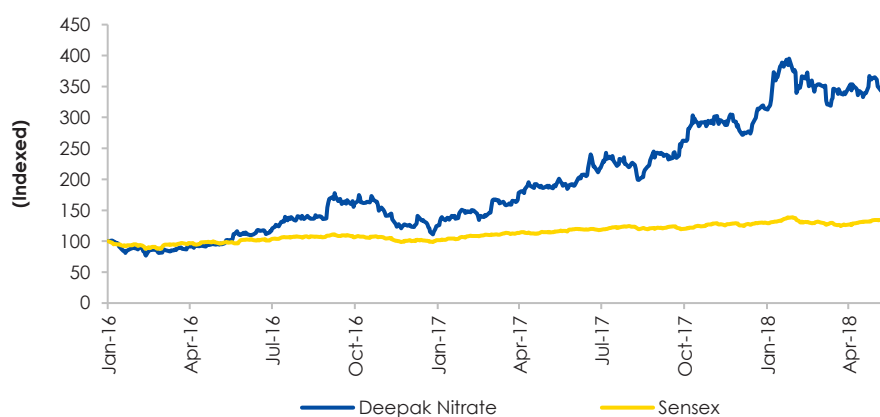
Income statement (Consolidated) (INR crs)						Balance sheet (INR cr)					
Year to March	FY16	FY17	FY18	FY19E	FY20E	As on 31st March	FY16	FY17	FY18	FY19E	FY20E
Income from operations	1,373	1,371	1,651	2,986	3,663	Equity share capital	23	26	27	27	27
Direct costs	944	948	1,159	2,087	2,564	Preference Share Capital	0	0	0	0	0
Employee costs	119	122	136	185	197	Reserves & surplus	450	689	895	1,038	1,263
Other expenses	266	287	297	416	468	Shareholders funds	473	715	922	1,066	1,290
Total operating expenses	1,209	1,235	1,455	2,503	3,032	Secured loans	465	637	889	1,118	1,030
EBITDA	164	135	196	483	631	Unsecured loans	64	87	122	153	141
Depreciation and amortisation	40	48	53	130	131	Borrowings	529	724	1,011	1,271	1,171
EBIT	124	87	144	353	500	Minority interest	0	0	0	0	0
Interest expenses	40	34	45	100	112	Sources of funds	1,002	1,439	1,933	2,336	2,461
Profit before tax	86	135	111	259	406	Gross block	899	935	986	2,376	2,396
Provision for tax	26	38	32	76	120	Depreciation	301	345	398	528	659
Core profit	60	96	79	183	286	Net block	598	590	588	1,847	1,737
Extraordinary items	1	-51	0	0	0	Capital work in progress	36	349	955	0	0
Profit after tax	61	46	79	183	286	Total fixed assets	634	939	1,542	1,847	1,737
Adjusted net profit	61	46	79	183	286	Unrealised profit	0	0	0	0	0
Equity shares outstanding (mn)	11.6	13.1	14	14	14	Investments	87	118	32	32	32
EPS (INR) basic	5.2	3.5	6	13	21	Inventories	123	169	325	344	421
Diluted shares (Cr)	11.6	13.1	14	14	14	Sundry debtors	313	360	412	834	1,024
EPS (INR) fully diluted	5.2	3.5	6	13	21	Cash and equivalents	6	14	48	193	408
Dividend per share	1.2	0.0	1	3	5	Loans and advances	57	94	178	178	178
Dividend payout (%)	23.3	0.0	22	22	22	Other current assets	0	0	0	0	0
Common size metrics- as % of net revenues (INR crs)						Total current assets	499	638	963	1,549	2,031
Year to March	FY16	FY17	FY18	FY19E	FY20E	Sundry creditors and others	208	298	601	1,086	1,333
Operating expenses	88.1	90.1	88.1	83.8	82.8	Provisions	22	6	5	5	6
Depreciation	2.9	3.5	3.2	4.4	3.6	Total CL & provisions	230	304	606	1,091	1,338
Interest expenditure	2.9	2.5	2.7	3.3	3.1	Net current assets	269	334	358	457	693
EBITDA margins	11.9	9.9	11.9	16.2	17.2	Net Deferred tax	-57	-39	-45	-45	-45
Net profit margins	4.4	3.3	4.78	6.12	7.81	Misc expenditure	73	90	45	45	45
Growth metrics (%)						Uses of funds	1,006	1,443	1,931	2,336	2,461
Year to March	FY16	FY17	FY18	FY19E	FY20E	Book value per share (INR)	41	55	68	78	95
Revenues	3.4	(0.2)	20.5	80.8	22.7	Cash flow statement (INR cr)					
EBITDA	19.4	(17.3)	44.8	146.1	30.7	Year to March	FY16	FY17	FY18	FY19E	FY20E
PBT	31.9	56.4	(17.7)	133.9	56.6	Net profit	60	96	79	183	286
Net profit	19.3	(25.0)	72.7	131.3	56.6	Add: Depreciation	40	48	53	130	131
EPS	7.2	(33.2)	66.0	131.3	56.6	Add: Misc expenses written off	-27	-17	45	0	0
Ratios						Add: Deferred tax	10	-18	6	0	0
Year to March	FY16	FY17	FY18	FY19E	FY20E	Gross cash flow	83	109	183	313	417
ROAE (%)	14.6	16.2	9.7	18.4	24.3	Less: Changes in W. C.	-23	41	-11	-45	21
ROACE (%)	12.5	6.9	8.3	16.5	21.3	Operating cash flow	107	69	194	358	396
Debtors (days)	83	96	91	102	102	Less: Capex	76	354	660	435	20
Current ratio	2.2	2.1	1.6	1.4	1.5	Free cash flow	30	-285	-465	-78	376
Debt/Equity	1.1	1.0	1.1	1.2	0.9	Valuation parameters					
Inventory (days)	33	45	72	42	42	Year to March	FY16	FY17	FY18	FY19E	FY20E
Payable (days)	55	79	133	133	133	Diluted EPS (INR)	5.2	3.5	5.8	13.4	21.0
Cash conversion cycle (days)	61	62	30	11	11	Y-o-Y growth (%)	7.2	(33.2)	66.0	131.3	56.6
Debt/EBITDA	3.2	5.3	5.2	2.6	1.9	CEPS (INR)	9	11	10	23	31
Adjusted debt/Equity	1.1	1.0	1.0	1.0	0.6	Diluted P/E (x)	47.8	71.7	43.2	18.7	11.9
Valuation parameters						Price/BV (x)	6.1	4.6	3.7	3.2	2.6
Year to March	FY16	FY17	FY18	FY19E	FY20E	EV/Sales (x)	2.5	2.9	2.6	1.5	1.1
Diluted EPS (INR)	5.2	3.5	5.8	13.4	21.0	EV/EBITDA (x)	20.9	29.4	22.3	9.3	6.6
Y-o-Y growth (%)	7.2	(33.2)	66.0	131.3	56.6	Diluted shares O/S	11.6	13.1	13.6	13.6	13.6
CEPS (INR)	9	11	10	23	31	Basic EPS	5.2	3.5	5.8	13.4	21.0
Diluted P/E (x)	47.8	71.7	43.2	18.7	11.9	Basic PE (x)	47.8	71.7	43.2	18.7	11.9
Price/BV (x)	6.1	4.6	3.7	3.2	2.6	Dividend yield (%)	0.4	0.0	0.5	1.2	1.9
EV/Sales (x)	2.5	2.9	2.6	1.5	1.1						
EV/EBITDA (x)	20.9	29.4	22.3	9.3	6.6						
Diluted shares O/S	11.6	13.1	13.6	13.6	13.6						
Basic EPS	5.2	3.5	5.8	13.4	21.0						
Basic PE (x)	47.8	71.7	43.2	18.7	11.9						
Dividend yield (%)	0.4	0.0	0.5	1.2	1.9						

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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