



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

Deepak Nitrite

17 February 2025

Headwinds persist; Maintain HOLD

RESULT UPDATE

Sector: Chemicals Rating: HOLD

CMP: Rs 1,890 Target Price: Rs 2,179

Stock Info

Sensex/Nifty	76,021/ 22,970
Bloomberg	DN IN
Equity shares (mn)	136.4
52-wk High/Low	3,169/1,809
Face value	Rs 2
M-Cap	Rs 259bn/ USD 3bn

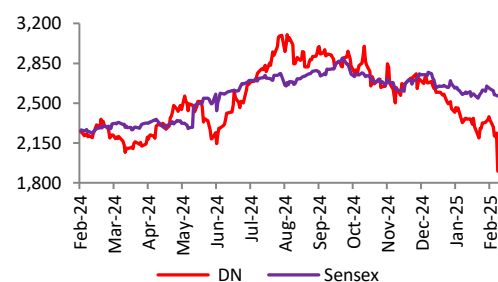
Financial Snapshot (Rs mn)

Y/E Mar	FY25E	FY26E	FY27E
Net sales	83,538	1,00,299	1,20,525
EBITDA	10,359	15,045	20,489
PAT (adj.)	6,629	9,720	13,511
EPS (adj.) (Rs)	48.6	71.3	99.1
PE (x)	39.1	26.6	19.2
P/B (x)	4.8	4.2	3.5
EV/EBITDA (x)	25.3	17.5	12.8
RoE (%)	13.0	16.8	19.9
RoCE (%)	16.5	20.9	24.9
D/E (x)	0.07	0.08	0.06
OPM (%)	12.4	15.0	17.0
DPS (Rs)	6.8	10.0	13.9
Dividend payout (%)	14	14	14

Shareholding Pattern (%)

	Dec'24	Sep'24	Jun'24
Promoter	49.2	49.2	49.2
-Pledged	-	-	-
FII	6.6	6.7	6.9
DII	23.2	22.3	21.2
Others	20.9	21.8	22.7

Stock Performance (1-year)



Deepak Nitrite's (DN) 3QFY25 result missed estimates, dragged by multi-year low margins in Advanced Intermediates (AI) and weak phenol spreads in the Phenolics segments. Consolidated revenue at Rs 19bn (-5% YoY, -6% QoQ) was broadly in line, but gross margin contracted by sharp 487bps YoY and 516bps QoQ to 26.8%, (estimate of 33%). EBITDA plummeted 45% YoY and 43% QoQ to Rs 1.7bn (38% below estimate), as margin shrunk 631bps YoY and 579bps QoQ to 8.9% due to cyclical factors (agrochemical destocking, China oversupply) and transient costs (plant shutdowns). Revenue in the AI segment (~29% of revenue) fell 18% YoY, with EBIT margin hitting a multi-year low of 3.1%, down 1,084bps YoY, due to subdued agrochemical demand and transient increase in feedstock price. Phenolics (~71% of revenue) posted modest 1% YoY revenue growth, but EBIT fell 33% YoY, causing margin to compress 445bps YoY to 8.9%, due to higher input prices and maintenance shutdown costs. Higher interest expenses (+109% YoY) and 51% YoY/49% QoQ decline in PAT to Rs 981mn underscored the weakness during the quarter. While we expect demand to normalize in agrochemicals and operations to improve in the Phenolics segment during 4Q, DN's earnings volatility could persist near term, as both segments continue to face challenges.

We maintain HOLD but have slashed our target price to Rs 2,179 (earlier Rs 2,689) based on 22x FY27E P/E (25x earlier), which reflects a derated multiple, amid structural margin risks. We have cut FY25E/FY26E/FY27E revenue by ~7% each on segment-wide volume weakness. We have thus effected steeper EBITDA and PAT cuts of ~21%/13%/7% and ~23%/14%/8%, respectively, as we expect pricing power to erode and a lag in fixed cost absorption. While recovery in Phenolics is on track (import substitution, restarting of plant), pricing pressure from Chinese imports, sticky input costs (benzene/propylene), and delayed debottlenecking benefits (full margin rebound pushed to FY26E) justify caution. AI, though buoyed by recovery in agrochem demand, faces raw material swings and anti-dumping overhang. Execution delays in polycarbonate resin and high-margin projects (nitric acid, MIBK/MIBC) add near-term pressure, offsetting structural wins in cost optimization (ammonia sourcing, hydrogenation). We await concrete traction in ROCE (DN expects 17%-18%), pricing power, and smooth Rs 140bn capex execution (critical watch: AI stabilization, demand normalization, project ramp-up, interest cost levers) to turn bullish; we have prudently derated valuations until visibility improves. Key risks: sustained weakness in AI, potential capex delay/cost overruns, continued volatility in RM.

Phenolics (~71% of revenue; ~88% of EBIT): Revenue was up mere 1% YoY to Rs 13.7bn but fell 5% QoQ, in line with estimate. Higher input costs and a 7–10-day maintenance shutdown compressed margins, slashing EBIT margin by 445bps YoY to 8.9% and driving EBIT down 33% YoY (44% QoQ) to Rs 1.2bn. Post shutdown, the company managed to raise throughput by 5–7% to achieve 350,000 MT annualized capacity, through debottlenecking. We expect margins to improve from March, as imports phase out and domestic demand expands. Domestic demand for phenol now aligns with expanded supply, with 10% higher utilization likely to aid margin recovery by FY26. Long-term hydrogenation contracts are secured, supporting import phase-outs, while steady automotive, pharma, and construction demand underpins import substitution plans from March 2025. Despite sticky benzene/propylene prices, phenol faces pricing pressure from imports; maintenance is due in 18 months.

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AI segment (~29% of revenue, ~12% of EBIT): Revenue declined 18% YoY and 9% QoQ to Rs 5.5bn, in line with estimates. EBIT slipped 82% YoY (64% QoQ) to Rs 169mn, with margins contracting sharply to 3.1% (down 1,084bps YoY). Weakness stemmed from agrochemical destocking and margin pressure: intermediates faced competition from Chinese imports (anti-dumping probe initiated for DASDA), while pricier feedstocks hit AI margins. Management expects demand to normalize with a rebound in international agro demand, causing orders to drive sequential EBIT recovery via volume/mix gains from 4QFY25. We expect margins to improve, led by a) four new products during the 3Q, b) expanded low-cost capacities in intermediates, and upcoming non-agrochem revenue shifts (personal care, solvents), supported by government anti-dumping probes and forex adjustments. Margins remain strained by raw material costs, but price normalization, delayed price hikes to retain market share, and domestic/EU demand revival (from late 3Q) are expected to aid recovery.

Update on ongoing projects

- **Nitric acid plant** in advanced pre-commissioning, expected to be operational by the end of current quarter.
- **MIBK/MIBC project:** Engineering and procurement complete; commissioning targeted for 1HFY26.
- **Nitration and hydrogenation projects** on track for 2HFY25 commissioning.
- **Acetophenone project** anticipated to be operational by 1HFY26.
- **R&D centre in Savli** (Rs 1.1bn capex) **85% complete as of Jan 2025**, set for full operations by Mar 2025.

Polycarbonate resin initiative – Next leg of growth engine

- **Ambition:** Target production of 160KTPA (India imports 300KTPA); expects to replace ~100% imports by Dec 2027. Import substitution opportunity of Rs 100bn.
- **Progress:** Small-scale production underway; customer trials in electronics, EV batteries, and medical devices. Positive feedback from domestic customers.
- **Collaborations:** Partnering with European firms for tech/offtake; global partner secured to prioritize high-value compounds aligned with India's self-reliance goals.
- **Market strategy:** Shift focus from basic resin to advanced compounds (e.g., automotive glazing, medical devices) to enhance margins.

Concall highlights

- **Geographic sales breakdown (9MFY25):** ~84% domestic and ~16% exports
- **Strategic initiatives and growth drivers**
 - Advanced Intermediates:**
 - o Commissioning of nitric acid plant (1QFY26) to reduce dependency on imports and save Rs 700–800mn annually.
 - o New products from existing assets (e.g., nitration derivatives) to boost margins.

Phenolics:

- o Long-term contracts for benzene and propylene locked in at competitive rates.
- o Focus on displacing imports (India's phenol imports down to <5% of demand vs. 25% earlier).

- **Backward Integration:**

- o **MIBK/MIBC (Methyl Isobutyl Ketone/Methyl Isobutyl Carbinol):** Capacity expansion for solvents used in paints, pharma, and energy sectors.
- o **Acetophenone:** Forward integration into polymers and fragrances.

- **Market outlook and recovery catalysts**

Agrochemicals:

- o Global destocking to phase out by 1QFY26; Domestic demand to rebound post rabi harvest.
- o Exports to EU/US revived in late 3QFY26; full recovery expected in 4QFY26.

- **Phenolics:**

- o **Domestic demand:** Auto (polycarbonate glazing), construction (plywood resins), and pharma (acetone) to grow at 8–10% CAGR.
- o **Imports:** Anti-dumping duties and forex volatility to make imports unviable and thus boost DN's market share.
- o **3Q impact:** Production loss of 12,000–15,000 MT due to shut down; imports filled the gap.
- o **4Q/1Q recovery:** Margins to normalize, as imports phase out and domestic demand grows (7–8% CAGR).

- **Margins**

- o **AI:** Raw material costs (e.g., aniline, ammonia) to stabilize by 1QFY26.
- o **Phenolics:** Spreads to recover, as benzene/propylene prices soften, and phenol realizations improve.
- o **Nitric acid plant and cost-optimization initiatives** (e.g., ammonia storage, process tweaks) to drive **200–250 bps margin expansion** in FY26.
- o **3Q margin pressure:** Aggressive pricing due to Chinese dumping (e.g., DASDA) and agrochemical destocking.
- o **Recovery timeline - 4Q:** Partial recovery with improved demand (export orders resumed in late 3Q). **1Q/2QFY26:** Full normalization, as raw material costs stabilize and anti-dumping duties take effect.

- **Ammonia sourcing strategy**

- o Domestic sourcing share increased to **60%** (vs. 40% earlier); balance via imports tied to Middle East benchmarks.
- o **Storage infrastructure:** Added **~15,000 MT** capacity to hedge against supply disruptions.

- **Global phenol market dynamics**

- o **China/SE Asia:** Operating at **60–65% utilization** due to weak demand and high feedstock costs.

- o **Europe:** Energy costs and recessionary fears keep utilization at <70%, favoring India as a growth hub.
- **Non-integrated capacity and project timelines**
 - o **Non-integrated global phenol capacity:** Management acknowledged challenges for non-integrated players but did not provide a specific percentage.
 - o All polymer value chain projects (polycarbonate resin, BPA, etc.) to be **fully integrated** and commissioned **by FY28**.
 - o **Polycarbonate resin:** Likely commissioned earlier (phased approach) with intermediate feedstock secured at competitive rates.
 - o **Bisphenol A (BPA) project:** Technology partner not finalized; discussions ongoing with multiple parties.
- **Other points**
 - o **Self reliance:** Full backward integration in phenol-acetone chain by FY27.
 - o **Global expansion:** Targeting **20–25% revenue from exports by FY28** (vs. 15% now), led by solvents and resins.
 - o Long term **RoCE target of 17-18%** for the standalone business.
 - o **Hydrochloric acid:** Secured via domestic suppliers and imported ISO tanks.
 - o **Import dynamics:** Anti-dumping probes and forex volatility to discourage phenol imports by 1QFY26.

Change in estimates

We cut FY25E/FY26E/FY27E revenue by ~7% each, reflecting persistent volume softness and pricing headwinds in advanced materials. EBITDA margins are pared by 215bps/100bps for FY25/FY26E to 12.4%/15.0% (FY27E unchanged at 17.0%), respectively, as input cost inflation and muted high-margin product demand could offset efficiency gains. Resultantly, EPS has been chopped by 23%/14%/8% for FY25E/FY26E/FY27E, with higher depreciation/interest costs further pressuring PAT. We have cut our target price to Rs 2,179 (from Rs 2,689) and now value the stock at 22x FY27E P/E (25x earlier). With limited near-term catalysts and structural margin risks, we reiterate HOLD.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	89,635	1,07,817	1,29,775	83,538	1,00,299	1,20,525	(6.8)	(7.0)	(7.1)
EBITDA	13,041	17,251	22,062	10,359	15,045	20,489	(20.6)	(12.8)	(7.1)
EBITDA margin (%)	14.5	16.0	17.0	12.4	15.0	17.0	(215)bps	(100)bps	0bps
Adjusted PAT	8,577	11,351	14,673	6,629	9,720	13,511	(22.7)	(14.4)	(7.9)
EPS (Rs)	62.9	83.2	107.6	48.6	71.3	99.1	(22.7)	(14.4)	(7.9)
Target price			2,689			2,179			(19.0)

Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly financials

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net sales	19,034	20,092	(5.3)	20,320	(6.3)	61,022	55,556	9.8
Raw material cost	13,931	13,726	1.5	13,823	0.8	42,755	37,621	13.6
Employees cost	982	891	10.1	971	1.1	2,906	2,582	12.5
Power cost	1,089	1,088	0.1	1,220	(10.7)	3,491	3,443	1.4
Other expenses	1,347	1,340	0.5	1,331	1.2	4,118	3,745	10.0
Operating expenses	17,349	17,046	1.8	17,345	0.0	53,270	47,390	12.4
% of sales	91	85	631bps	85	579bps	87	85	200bps
EBITDA	1,685	3,047	(44.7)	2,975	(43.4)	7,753	8,167	(5.1)
EBITDA margins (%)	8.9	15.2	(631)bps	14.6	(579)bps	12.7	14.7	(200)bps
Other income	210	136	54.9	213	(1.3)	611	625	(2.2)
Finance cost	61	29	108.5	63	(3.0)	182	74	144.7
Depreciation	482	417	15.7	485	(0.5)	1,441	1,192	20.9
Exceptional item	(798)	-	-	-	-	-	-	-
PBT	2,150	2,736	(21.4)	2,640	(18.6)	6,740	7,525	(10.4)
Tax	371	715	(48.2)	698	(46.9)	1,792	1,955	(8.3)
Effective tax rate (%)	17	26	(34)bps	26	(35)bps	27	26	2bps
Reported PAT	981	2,020	(51.4)	1,942	(49.5)	4,949	5,570	(11.2)
NPM (%)	5.2	10	(490)bps	10	(440)bps	8.1	10.0	(192)bps
Adjusted PAT	981	2,020	(51.4)	1,942	(49.5)	4,949	5,570	(11.2)
No. of equity shares	136	136	-	136	-	136	136	-
Adj. EPS (Rs)	7.2	14.8	(51.4)	14.2	(49.5)	36.3	40.8	(11.2)

Source: Company, Systematix Institutional Research

Exhibit 3: Key ratios

(% of revenues)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Raw material cost	73	68	487bps	68	516bps	70	68	235bps
Staff costs	5	5	47bps	5	6bps	15	14	170bps
Other expenses	7	7	4bps	7	9bps	22	20	196bps
Effective tax rate	17	26	(891)bps	26	(921)bps	27	26	60bps
Gross margin	26.8	31.7	(487)bps	32.0	(516)bps	29.9	32.3	(235)bps
OPM	8.9	15.2	(631)bps	14.6	(579)bps	12.7	14.7	(200)bps
NPM	5.2	10.1	(490)bps	9.6	(440)bps	8.1	10.0	(192)bps

Source: Company, Systematix Institutional Research

Exhibit 4: Segment-wise details

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Advanced intermediates	5,517	6,743	(18)%	6,060	(9)%	18,734	20,528	(9)%
Phenolics	13,657	13,493	1%	14,435	(5)%	42,728	35,373	21%
Less: Intersegment	(140)	(144)	(3)%	(175)	(20)%	(440)	(345)	27%
Net sales	19,034	20,092	(5)%	20,320	(6)%	61,022	55,556	10%
Sales mix:								
Advanced intermediates	29%	33%	(14)%	30%	(3)%	30%	37%	(17)%
Phenolics	71%	67%	7%	70%	1%	70%	63%	10%
EBIT								
Advanced intermediates	169	937	(82)%	475	(64)%	1,308	3,120	(58)%
Phenolics	1,212	1,798	(33)%	2,149	(44)%	5,436	4,378	24%
Dif. adj.	(28)	1	(2,136)%	80	(136)%	116	28	321%
Total EBIT	1,352	2,736	(51)%	2,703	(50)%	6,861	7,525	(9)%
EBIT (%)								
Advanced intermediates	3.1%	13.9%	(1,084)bps	7.8%	(477)bps	7.0%	15.2%	(821)bps
Phenolics	8.9%	13.3%	(445)bps	14.9%	(601)bps	12.7%	12.4%	35bps

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenues	79,721	76,818	83,538	1,00,299	1,20,525
Revenue growth (%)	17.2	(3.6)	8.7	20.1	20.2
- Op. expenses	66,827	65,586	73,179	85,254	1,00,035
EBITDA (Excl. OI)	12,894	11,233	10,359	15,045	20,489
EBITDA margins (%)	16.2	14.6	12.4	15.0	17.0
- Interest expenses	248	118	281	365	395
- Depreciation	1,663	1,657	1,940	2,636	3,164
+ Other income	476	761	821	1,003	1,205
- Tax	2,939	2,908	2,329	3,327	4,624
Effective tax rate (%)	26	28	26	26	26
Reported PAT	8,520	7,311	6,629	9,720	13,511
+/- Extraordinary items	-	(798)	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	8,520	8,109	6,629	9,720	13,511
EPS (Rs/share)	62.5	59.5	48.6	71.3	99.1

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	273	273	273	273	273
Reserves & Surplus	40,627	47,693	53,395	61,755	73,375
Networth	40,900	47,966	53,668	62,028	73,648
Minority interest	-	261	261	261	261
Total debt	729	2,861	3,592	4,792	4,292
Def. tax liab. (net)	1,566	1,736	1,736	1,736	1,736
Capital employed	43,194	52,824	59,257	68,817	79,937
Net fixed assets	22,424	30,662	42,358	48,788	55,657
Investments	3,794	1,219	1,219	1,219	1,219
Net working capital	16,577	16,288	15,527	18,650	22,411
Cash and bank balance	400	4,655	153	160	651
Capital deployed	43,194	52,824	59,257	68,817	79,937
Net debt	329	(1,794)	3,439	4,632	3,642
WC (days)	71	70	66	66	66
DE (x)	0.02	0.06	0.07	0.08	0.06

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	8,520	8,109	6,629	9,720	13,511
+ Non cash items	2,001	1,827	1,940	2,636	3,164
Cash profit	10,521	9,936	8,570	12,356	16,675
- Incr/(Decr) in WC	4,478	(289)	-762	3,123	3,761
Operating cash flow	6,042	10,224	9,331	9,233	12,914
- Capex	3,231	9,894	13,636	9,066	10,033
Free cash flow	2,811	330	(4,305)	167	2,881
- Dividend	955	1,023	928	1,360	1,890
+ Equity raised	0	-	(0)	-	-
+ Debt raised	(2,422)	2,132	732	1,200	(500)
- Investments	(597)	(2,575)	-	-	-
- Misc. items	50	(241)	-	-	-
Net cash flow	(18)	4,255	(4,501)	7	490
+ Opening cash	418	400	4,655	153	160
Closing cash	400	4,655	153	160	651

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	30.4	31.9	39.1	26.6	19.2
P/BV (x)	6.3	5.4	4.8	4.2	3.5
EV/EBITDA (x)	29.9	34.1	25.3	17.5	12.8
RoE (%)	22.9	18.2	13.0	16.8	19.9
RoCE (%)	28.9	21.5	16.5	20.9	24.9
Fixed asset turnover (x)	3.0	2.7	2.1	2.2	2.7
DPS (Rs)	7.0	7.5	6.8	10.0	13.9
Dividend (%)	350	375	340	499	693
Dividend yield (%)	0.4	0.4	0.4	0.5	0.7
Dividend payout (%)	11	14	14	14	14
Debtor days	60	62	60	60	60
Creditor days	30	28	30	30	30
Inventory days	41	36	36	36	36
Revenue growth (%)	17	(4)	9	20	20
EBITDA growth (%)	(20)	(13)	(8)	45	36
PAT growth (%)	(20)	(5)	(18)	47	39

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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