Deepak Nitrite

30 May 2025

Execution remains the key; Maintain HOLD

RESULT UPDATE

Sector: Chemicals	**Rating: HOLD**
CMP: Rs 2,096	**Target Price: Rs 2,217**

Stock Info

Sensex/Nifty	81,614/ 24,836
Bloomberg	DN IN
Equity shares (mn)	136.4
52-wk High/Low	3,169/1,782
Face value	Rs 2
M-Cap	Rs 278bn/ USD 3.3bn

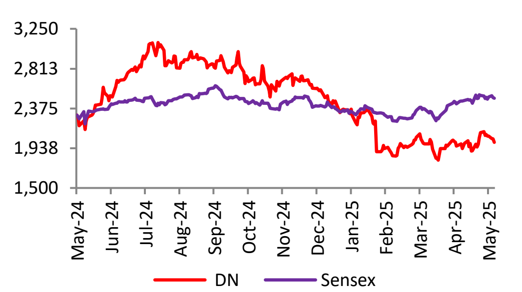
Financial Snapshot (Rs mn)

Y/E Mar	FY25	FY26E	FY27E
Net sales	82,819	98,350	1,18,646
EBITDA	10,918	14,261	19,577
PAT (adj.)	6,974	8,717	12,097
EPS (adj.) (Rs)	51.1	63.9	88.7
PE (x)	41.1	32.9	23.7
P/B (x)	5.3	4.7	4.0
EV/EBITDA (x)	27.0	21.1	15.3
RoE (%)	13.7	15.1	18.2
RoCE (%)	16.1	16.9	20.4
D/E (x)	0.23	0.23	0.21
OPM (%)	13.2	14.5	16.5
DPS (Rs)	7.2	8.9	12.4
Dividend payout (%)	14	14	14

Shareholding Pattern (%)

	Mar'25	Dec'24	Sep'24
Promoter	49.3	49.2	49.2
–Pledged	-	-	-
FII	6.6	6.6	6.7
DII	23.2	23.2	22.3
Others	20.8	20.9	21.8

Stock Performance (1-year)



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Deepak Nitrite's (DN) 4QFY25 result beat estimates, driven by sharp sequential recovery in the Phenolics segment and overall robust volumes. Consolidated revenue of Rs 21.8bn (+3% YoY, +15% QoQ) was 11% above our estimate. Gross margin, although flat YoY, expanded by sharp 380bps QoQ to 30.6% (estimate of 30%). EBITDA surged 88% QoQ and 5% YoY to Rs 3.2bn (50% above estimate), with EBITDA margin expanding 567bps QoQ and 36bps YoY to 14.5% on improved operational performance. DN's Advanced Intermediates (AI) segment revenue fell 3% YoY but rose 19% QoQ to Rs 6.5bn, although EBIT margin contracted by 1,20bps YoY, but was up 381bps QoQ to 6.9%. Phenolics posted 5%/12% YoY/QoQ revenue growth, with EBIT jumping 16% YoY, causing significant 156bps YoY expansion in margin to 15.6%, as the company produced higher volumes. Interest expenses soared 112% YoY and 53% QoQ to Rs 93mn. RPAT fell 20% YoY but was up 106% QoQ (56% above our estimate of Rs 1.3bn) to Rs 2.0bn due to the high base; the company had recorded an exceptional gain of Rs 798mn in 4QFY24. Excluding exceptional items, APAT rose 16% YoY. Even though the company has recovered sharply, its major investment pipeline of ~Rs 85bn into polycarbonate and other downstream products would decide its future trajectory.

We reiterate HOLD with a slightly raised target price of Rs 2,217 (Rs 2,179 earlier). We have increased our valuation to 25x FY27E P/E (from 22x), to acknowledge the structural re-rating potential from the company's move to higher-value, higher-margin polycarbonate business. However, near-term uncertainties surrounding the tariff regime/geopolitical fluctuations and Chinese overcapacity have prompted us to chop EPS by 10% for FY26E/FY27E each. We await meaningful pickup in project execution and definitive price recovery in its core AI business to turn constructive on the stock. Key risks: Sustained weakness in AI, potential capex delays/cost overruns, continued volatility in raw material prices.

Phenolics (~70% of revenue; ~84% of EBIT): The segment recorded strong operational performance to generate Rs 15.3bn revenue (+5% YoY, +12% QoQ), outperforming our estimate by 10%. The outperformance was entirely volume-led, as the company's recent debottlenecking initiatives boosted production and sales in phenol, acetone and isopropyl alcohol (IPA), enabling the company to successfully navigate a challenging market. While aggressive imports continued to suppress realizations, the impact was cushioned by softening input costs. Consequently, robust volumes and favorable input costs more than offset the weak pricing, driving EBIT higher by an impressive 16% YoY and 97% QoQ to Rs 2.4bn; EBIT margin expanded 156bps YoY and 675bps QoQ to 15.6%.

AI segment (~30% of revenue, ~16% of EBIT): The segment is seeing signs of nascent recovery. Revenue beat our estimate by 13% on the back of strong 19% QoQ rebound to Rs 6.5bn, driven by proactive management initiatives, including product mix optimization towards high-demand variants and incremental volumes from debottlenecking. However, the segment continues to face significant cyclical headwinds, evident from the 3% YoY decline in revenue and 1,20bps YoY contraction in EBIT margin to 6.9%. Despite the severe annual pressure, a 381bps QoQ expansion in margin is the bright spot, suggesting that internal efficiencies are aiding in driving profitability.

Update on ongoing projects

- R&D center at Sabli, Vadodara, Gujarat, to be commissioned by 2QFY26.
- DN commissioned a compounding facility that will complement polycarbonate resin manufacturing for applications in electric switches, EVs, and medical devices.
- Management expects to commission a nitric acid unit towards the end of 1QFY26. It believes this would improve reliability, reduce costs, and enhance sustainability.
- It is set to commission expansion projects in nitration and hydrogenation, building on the fluorination block commissioned in 4QFY24.
- MIBK and MIBC projects (downstream derivatives of acetone) are expected to be commissioned by 2HFY26.
- DN's plan to manufacture polycarbonate resin is also taking shape; the board of Deepak Chemtech Ltd (DCTL) has recently approved investments to manufacture 300 KTPA of Phenol, 185 KTPA of Acetone and 100 KTPA of IPA. It intends to also incur a greenfield infrastructure aggregate capex of ~Rs 35bn, in addition to the present manufacturing capacities of these products; the new of Phenol and Acetone capacities would be ultimately integrated to produce Polycarbonate Resins. Hence, this and a previous ~Rs 50bn approval to manufacture PC Resins stretch the aggregate investment pipeline for the PC Resin project to ~Rs 85bn.

Concall highlights

- **New products and capex:** The company is strategically leveraging its existing manufacturing assets to launch a range of high-value products with minimal additional capex. This ***"asset valorization"*** approach leverages flexible batch plants for specialized, high-margin product campaigns targeting downstream agrochemicals, personal care, and pharma, while high-efficiency continuous plants maintain the base load for intermediates production. A key part of this initiative is the introduction of a new Friedel-Crafts chemistry platform, which is expected to serve multiple high-value segments. This allows the company to enhance its product mix and profitability without the need for significant new capital investment beyond minor balancing equipment.
- **Agrochemical market and margins:** The agrochemical segment continues to face significant margin pressure, with management acknowledging that 4QFY25 profitability was softer than it should have been. Management attributed this to intense competition being driven by two key factors (1) significant structural overcapacity in China and (2) temporary increase in the number of competitors, following patent expires on key molecules. While this subdued demand may persist for another couple of quarters, management believes the agrochemical downcycle is "petering over to the end". Citing geopolitical uncertainties, the company is withholding short-term quarterly guidance but is confident of its ability to return to a higher and more normalized level of profitability in FY26.
- **Nitric acid plant and ammonia sourcing:** DN's new nitric acid plant, set for commissioning around the end of 1Q or early 2QFY26, is a critical upstream integration project designed to meet internal consumption rather than be used for third-party sales. Management has framed this as a strategic "make-or-buy" decision, driven by its goal to secure an assured supply, enable pipeline transfer, and achieve lower cost as against depend on the market for its purchase of nitric acid. The company is not benchmarking against nitric acid producers with captive ammonia; instead, it aims to gain a competitive advantage over other nitric acid

consumers. This strategy is supported by the company's 54-year-old history of robust sourcing of ammonia and new investments in expanded storage for both nitric acid and ammonia. This is slated to become operational during the year and ensure a de-risked supply chain.

- **Input prices and outlook on Diamino Stilbene Disulfonic Acid (DASDA) and Optical Brightening Agent (OBA):** Prices of petrochemicals like benzene and toluene seem to have softened. Product prices are adjusted based on contractual agreements with pass-through clauses, which can be monthly or quarterly. Prices of optical brighteners (OBA) are linked to market and not directly to toluene prices. DN has de-bottlenecked its OBA manufacturing capacity and launched new SKUs for new segments. The company aims to increase wallet share with customers due to upstream integration and strong value chain components.
- **AI segment strategy:** Volume-led uptake seen in dyes & pigments. Margins in the segment have started to improve. Price pressure is significant on products like DASDA and some agrochemicals, while those of others are improving and on track. The company is optimizing costs, considering downstream partnerships, and ensuring asset fungibility for applications in pharma and personal care.
- **Polycarbonate Compounding (PC) facility and revenue traction:** The compounding facility is considered an R&D center, though capable of larger throughput. The company has started generating revenue from this facility from FY24 and believes it will continue to do so in FY25. However, the revenue currently comes from ‘piloted products’ to build customer confidence. The goal is to start the approval cycle for compounds (significantly higher priced with good margin, but strict approval cycles) before the main PC plant comes up; the purpose is to reduce sales of resin and increase those of compounds. Approval cycles for some products (e.g., medical devices) could range from 6-36 months.
- **Government incentives:** Government incentives are expected to accrue at Rs 600-700mn annually until December 2028. The amount of Rs 1.6bn that DN received in 4QFY25 includes current year accrual and accumulated ~20% withheld from previous years, pending final verification. Further investments would qualify for new incentives under mega project schemes.
- **Capex justification:** The company’s Rs 85bn capex for backward and forward integrations (compounding, nitric acid, polycarbonate) is a well-thought-out strategy that would create a resilient business, notwithstanding the market uncertainties. The company believes it has the best investment thesis in the Indian chemical industry and is well placed to handle global geopolitical situations.
- **Polycarbonate and greener materials:** As the world is moving towards greener solutions, polycarbonate products would be essential to house these cleaner processes (e.g., in electric vehicles and their batteries). The core product would be retained and would be made adaptable to different physical properties for varied end users, with improved sustainability.
- **Phenol plant capacity:** The company has stopped providing specific capacity figures due to licensing agreements. Their focus is to maintain and grow domestic market share through optimization and a new greenfield plant to service the polycarbonate asset and the market.
- **Interest cost and debt:** Even though the company held cash of Rs 9bn, it increased its gross debt to Rs 10bn by March 2025. The borrowing was meant to manage cash flows, even while testing its borrowing capabilities; it has also partially capitalized interest costs.

- **Capital work in progress (CWIP):** As of March 2025 DN had Rs 16bn of CWIP, majority of which would be capitalized in FY26. This is because all of its previously announced projects (Rs 20-22bn) would be commissioned in FY26.
- **Renewable hybrid power arrangement:** Gaining benefits from renewable hybrid power arrangements, aiming for ~60-70% of total consumption, resulting in a ~60% reduction in carbon emissions.

Change in estimates

We have cut FY26E/FY27E revenue by ~2% each with EBITDA margin pared by 50bps each for FY26E/FY27E to 14.5%/16%, respectively, as input cost inflation and muted demand for high margin products could offset efficiency gains. EPS has been cut by 10% for FY26E/FY27E each, with higher depreciation/interest costs further pressuring PAT. We have raised our target price to Rs 2,217 (from Rs 2,179) and value the stock at 25x FY27E P/E (22x P/E 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 (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Net sales	1,00,299	1,20,525	98,350	1,18,646	(1.9)	(1.6)
EBITDA	15,045	20,489	14,261	19,577	(5.2)	(4.5)
EBITDA margin (%)	15.0	17.0	14.5	16.5	(50)bps	(50)bps
Adjusted PAT	9,720	13,511	8,717	12,097	(10.3)	(10.5)
EPS (Rs)	71.3	99.1	63.9	88.7	(10.3)	(10.5)
Target price		**2,179**		**2,217**		**1.8**

Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly financials

(Rs mn)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	FY25	FY24	YoY (%)
Net sales	**21,797**	**21,262**	**2.5**	**19,034**	**14.5**	**82,819**	**76,818**	**7.8**
Raw material cost	15,124	14,740	2.6	13,931	8.6	57,879	52,361	10.5
Employees cost	1,016	929	9.4	982	3.5	3,922	3,511	11.7
Power cost	1,145	1,129	1.4	1,089	5.1	4,635	4,571	1.4
Other expenses	1,348	1,453	(7.3)	1,347	0.0	5,466	5,198	5.2
Operating expenses	**18,632**	**18,251**	**2.1**	**17,349**	**7.4**	**71,902**	**65,641**	**9.5**
% of sales	85	86	(36)bps	91	(567)bps	87	85	137bps
EBITDA	**3,165**	**3,011**	**5.1**	**1,685**	**87.8**	**10,918**	**11,178**	**(2.3)**
EBITDA margins (%)	**14.5**	**14.2**	**36bps**	**8.9**	**567bps**	**13.2**	**14.6**	**(137)bps**
Other income	228	191	19.1	210	8.6	839	816	2.8
Finance cost	93	44	111.8	61	52.9	275	118	132.5
Depreciation	513	465	10.3	482	6.3	1,954	1,657	17.9
Exceptional item	-	(798)		-		-	(798)	
PBT	**2,787**	**3,492**	**(20.2)**	**1,352**	**106.1**	**9,527**	**11,017**	**(13.5)**
Tax	762	953	(20.1)	371	105.6	2,554	2,908	(12.2)
Effective tax rate (%)	27	27	-	27	-	27	26	2bps
Reported PAT	**2,025**	**2,538**	**(20.2)**	**981**	**106.4**	**6,974**	**8,109**	**(14.0)**
NPM (%)	9.3	12	(265)bps	5	413bps	8.4	10.6	(214)bps
Adjusted PAT	**2,025**	**1,741**	**16.3**	**981**	**106.4**	**6,974**	**7,311**	**(4.6)**
No. of equity shares	136	136		136		136	136	
Adj. EPS (Rs)	**14.8**	**18.6**	**(20.2)**	**7.2**	**106.3**	**51.1**	**59.4**	**(14.0)**

Source: Company, Systematix Institutional Research

Exhibit 3: Key ratios

(% of revenues)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	FY25	FY24	YoY (%)
Raw material cost	69	69	6bps	73	(380)bps	70	68	172bps
Staff costs	5	4	40bps	5	16bps	18	16	189bps
Other expenses	6	7	(48)bps	6	bps	25	24	123bps
Effective tax rate	27	27	4bps	27	(7)bps	27	26	41bps
Gross margin	30.6	30.7	(6)bps	26.8	380bps	30.1	31.8	(172)bps
OPM	14.5	14.2	36bps	8.9	567bps	13.2	14.6	(137)bps
NPM	9.3	11.9	(265)bps	5.2	413bps	8.4	10.6	(214)bps

Source: Company, Systematix Institutional Research

Exhibit 4: Segment-wise details

(Rs mn)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	FY25	FY24	YoY (%)
Advanced intermediates	6,539	6,711	(3)%	5,517	19%	25,273	27,239	(7)%
Phenolics	15,323	14,661	5%	13,657	12%	58,051	50,035	16%
Less: Intersegment	(65)	(110)	(41)%	(140)	(54)%	(505)	(455)	11%
Net sales	**21,797**	**21,262**	3%	**19,034**	15%	**82,819**	**76,818**	8%
Sales mix:								
Advanced intermediates	30%	31%	(5)%	29%	4%	30%	35%	(14)%
Phenolics	70%	69%	2%	71%	(2)%	70%	65%	8%
EBIT								
Advanced intermediates	449	541	(17)%	169	166%	1,757	3,661	(52)%
Phenolics	2,393	2,061	16%	1,212	97%	7,830	6,439	22%
Dif. adj.	(55)	91	(160)%	(28)	93%	61	119	(49)%
Total EBIT	**2,787**	**2,694**	3%	**1,352**	106%	**9,648**	**10,219**	(6)%
EBIT (%)								
Advanced intermediates	6.9%	8.1%	(120)bps	3.1%	381bps	7.0%	13.4%	(649)bps
Phenolics	15.6%	14.1%	156bps	8.9%	675bps	13.5%	12.9%	62bps

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Net revenues	**79,721**	**76,818**	**82,819**	**98,350**	**1,18,646**
Revenue growth (%)	17.2	(3.6)	7.8	18.8	20.6
- Op. expenses	66,827	65,586	71,902	84,089	99,069
EBITDA (Excl. OI)	**12,894**	**11,233**	**10,918**	**14,261**	**19,577**
EBITDA margins (%)	16.2	14.6	13.2	14.5	16.5
- Interest expenses	248	118	275	475	519
- Depreciation	1,663	1,657	1,954	2,829	3,674
+ Other income	476	761	839	984	1,186
- Tax	2,939	2,908	2,554	3,224	4,474
Effective tax rate (%)	26	28	27	27	27
Reported PAT	8,520	7,311	6,974	8,717	12,097
+/- Extraordinary items	-	(798)	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	**8,520**	**8,109**	**6,974**	**8,717**	**12,097**
EPS (Rs/share)	62.5	59.5	51.1	63.9	88.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	273	273	273	273	273
Reserves & Surplus	40,627	47,693	53,614	61,111	71,515
Networth	40,900	47,966	53,887	61,384	71,788
Minority interest	-	261	360	360	360
Total debt	729	2,861	12,670	14,143	15,143
Def. tax liab. (net)	1,566	1,736	2,128	2,128	2,128
Capital employed	**43,194**	**52,824**	**69,045**	**78,015**	**89,419**
Net fixed assets	22,424	30,662	41,063	52,300	57,660
Investments	3,794	1,219	5,109	5,109	5,109
Net working capital	16,577	16,288	18,807	20,436	24,653
Cash and bank balance	400	4,655	4,066	170	1,997
Capital deployed	**43,194**	**52,824**	**69,045**	**78,015**	**89,419**
Net debt	329	(1,794)	8,605	13,973	13,146
WC (days)	71	70	74	74	74
DE (x)	0.02	0.06	0.23	0.23	0.21

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
PAT	8,520	8,109	6,974	8,717	12,097
+ Non cash items	2,001	1,827	2,345	2,829	3,674
Cash profit	10,521	9,936	9,319	11,545	15,770
- Incr/(Decr) in WC	4,478	(289)	2,519	1,629	4,217
Operating cash flow	**6,042**	**10,224**	**6,800**	**9,917**	**11,553**
- Capex	3,231	9,894	12,354	14,066	9,033
Free cash flow	**2,811**	**330**	**(5,554)**	**(4,149)**	**2,520**
- Dividend	955	1,023	976	1,220	1,693
+ Equity raised	0	-	-	(0)	-
+ Debt raised	(2,422)	2,132	9,809	1,473	1,000
- Investments	(597)	(2,575)	3,890	-	-
- Misc. items	50	(241)	(22)	-	-
Net cash flow	**(18)**	**4,255**	**(589)**	**(3,896)**	**1,827**
+ Opening cash	418	400	4,655	4,066	170
Closing cash	400	4,655	4,066	170	1,997

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25	FY26E	FY27E
P/E (x)	33.6	35.3	41.1	32.9	23.7
P/BV (x)	7.0	6.0	5.3	4.7	4.0
EV/EBITDA (x)	29.9	34.1	27.0	21.1	15.3
RoE (%)	22.9	18.2	13.7	15.1	18.2
RoCE (%)	28.9	21.5	16.1	16.9	20.4
Fixed asset turnover (x)	3.0	2.7	2.5	2.6	3.1
DPS (Rs)	7.0	7.5	7.2	8.9	12.4
Dividend (%)	350	375	358	447	620
Dividend yield (%)	0.3	0.4	0.3	0.4	0.6
Dividend payout (%)	11	14	14	14	14
Debtor days	60	62	56	56	56
Creditor days	30	28	23	23	23
Inventory days	41	36	41	41	41
Revenue growth (%)	17	(4)	8	19	21
EBITDA growth (%)	(20)	(13)	(3)	31	37
PAT growth (%)	(20)	(5)	(14)	25	39

Source: Company, Systematix Institutional Research

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