

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR251
Target Price	: INR325
Potential Return	: 30%

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Market data

Sensex	:	35,149
Sector	:	Specialty Chem.
Market Cap (INRbn)	:	34.5
Market Cap (USDbn)	:	0.510
O/S Shares (m)	:	136.4
52-wk HI/LO (INR)	:	299/132
Avg Daily Vol ('000)	:	205
Bloomberg	:	DN IN

Source: Bloomberg

Valuation (consolidated)

	FY18	FY19e	FY20e
EPS (INR)	5.8	12.5	21.8
P/E	43.3	20.2	11.5
P/BV	3.7	3.2	2.6
EV/EBITDA	22.1	9.7	6.9
Dividend Yield (%)	0.5	0.5	0.6

Source: Bloomberg

Returns (%)

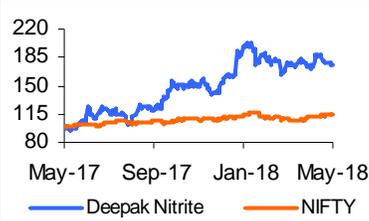
	1m	3m	6m	12m
Absolute	3	(2)	19	75
Relative	1	(5)	13	53

Source: Bloomberg

Shareholding pattern

Promoters	:	47%
Public	:	53%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty

Source: Bloomberg Indexed to 100

4QFY18 RESULT REVIEW

Deepak Nitrite Limited

Earning momentum continues; Maintain BUY

Deepak Nitrite (DN) reported a PAT of INR 203mn (+18% YoY) primarily driven by a strong Fine and Specialty (FSC) segment. Key Highlights: a) Bulk chemical segment revenue increased by 15% YoY, however the EBIT margin stood lower at 14% (4QFY17: 16%), on account of higher raw-material (RM) cost b) The FSC segment reported a revenue growth of 23% YoY, leading to a robust 106% YoY increase in segment EBIT to INR 300mn and c) PP segment remained a laggard, reporting a loss of INR 28.3mn at EBIT, however management expects turn around in FY19. The green-field phenol project at Dahej (Deepak Phenolics) is under pre-commissioning and is expected to start operations between 15th and 30th July 2018. We reiterate our BUY rating on DN with a TP of INR 325/sh (Mar'19).

Robust FSC segment contributes to growth in earnings

The revenue during the 4Q increased by 21% YoY, driven primarily by 23% YoY revenue growth in the FSC segment. While a part of growth in FSC segment is explained by base effect (4QFY17, was impacted by fire at Roha plant), a significant portion of growth also resulted from demand traction in both domestic and international markets. In addition supply disruptions in China, has led to increased dependence on Indian Chemical companies, some of which are key clients for DN's intermediates, leading to stronger revenue visibility for the company. The total revenue for the FY18, as a result, clocked-in a growth of 18% YoY despite challenges in 1HFY18 viz. a) lingering effects of demonetization, b) headwinds related to GST and c) resumption (post fire) of operation at Roha plant only after May'18.

With the strong growth in demand expected, DN has planned a capex of INR 600mn over FY19 to de-bottleneck and expand capacity, as most of company's facilities are running at close to 100% utilization. In addition DN intends to invest ~ INR 700mn in pharma intermediates over FY20.

The PP segment, is witnessing a shift in strategy with marketing focus being diversified geographically (away from N.America) and also in terms of target consumer industries (into detergents and textiles). The shift has shown initial results and further improvement is expected over FY19.

Phenol Project under pre-commissioning; to start operation in July 2018

The Phenol & Acetone project is under pre-commissioning, with commissioning expected between 15th and 30th Jul'18. DPL's leadership team is already in place and the marketing team has commenced customer outreach program. Not only is demand for phenol growing at stronger pace of 9-10% (vs 7-8% expectation), but the phenol-acetone spread over benzene-propylene has also improved since the project was conceived.

Valuation and View

Maintain BUY with a TP of INR 325/sh as we a) estimate consolidated earnings CAGR of ~90% over FY18-20e, b) pharma and personal care intermediates driving incremental earnings in FSC, and b) expect further stabilization of PP segment.

Key financials (Consolidated)

Year ended March (INRm)	FY16	FY17	FY18	FY19e	FY20e
Revenues(INRm)	13729.3	13604.4	16514.6	32124.4	39312.9
EBITDA(INRm)	1647.3	1382.5	1962.2	4889.0	6736.9
EBITDA Margin (%)	12.0	10.2	11.9	15.2	17.1
PAT(INRm)	629.0	436.8	790.5	1698.6	2968.2
PAT growth (%)	18.7	(30.6)	81.0	114.9	74.7
EPS (INR)	4.6	3.2	5.8	12.5	21.8
EPS growth (%)	18.7	(30.6)	81.0	114.9	74.7
P/E(x)	54.4	78.4	43.3	20.2	11.5
P/BV(x)	7.2	4.8	3.7	3.2	2.6
EV/EBITDA(x)	23.4	29.2	22.1	9.7	6.9

Source: Company, Antique

Earnings snapshot

(Rs mn)	4QFY18	4QFY7	% Chg YoY	3QFY18	% Chg QoQ	FY18	FY17	% Chg YoY
Revenue	3,929.5	3,254.4	20.7	3,711.4	5.9	14,380.9	12,256.2	17.3
Expenditure	3,440.0	2,861.0	20.2	3,190.7	7.8	12,524.5	10,801.9	15.9
Operating profit	489.5	393.4	24.4	520.7	(6.0)	1,856.5	1,454.3	27.7
Other income	64.5	3.0	2,036.4	6.3	921.7	103.8	39.8	160.8
Interest	111.3	83.0	34.1	90.2	23.4	403.4	308.9	30.6
Depreciation	133.8	106.7	25.4	129.7	3.1	519.5	435.2	19.4
Extraordinary Item	-	42.0	NA	-	NA	183.3	749.7	(75.6)
PBT	309.0	248.8	24.2	307.2	0.6	1,220.6	1,499.7	(18.6)
Tax	105.8	41.2	156.8	103.7	2.0	386.3	385.8	0.1
Reported PAT	203.2	207.6	(2.1)	203.4	(0.1)	834.3	1,113.9	(25.1)
Adjusted PAT	203.2	172.6	17.8	203.4	(0.1)	693.2	589.1	17.7
EBITDA margin (%)	12%	12%	3.1	14%	(11.2)	12.9%	11.9%	8.8
FDEPS (Rs)	1.6	1.3	17.8	1.6	(0.1)	6.3	8.5	(25.9)

Source: Company, Antique

Segmental Performance

(INRmn)	4QFY18	4QFY7	% Chg YoY	3QFY18	% Chg QoQ	FY18	FY17	% Chg YoY
Revenue								
Basic Chemicals	1,975	1,837	7.5	1,892	4.3	7,470	6,652	12.3
Fine & Speciality Chemicals	1,211.9	988.6	22.6	1,223.9	(1.0)	4,446.1	3,699.7	20.2
Performance Products	819.7	750.9	9.2	673.6	21.7	2,993.1	2,486.6	20.4
EBIT								
Basic Chemicals	284.9	284.9	0.0	283.5	0.5	1,066.5	896.2	19.0
% margin	14%	16%		15%		14%	13%	
Fine & Speciality Chemicals	300.6	145.6	106.5	270.9	11.0	964.6	840.3	14.8
% margin	25%	15%		22%		22%	23%	
Performance Products	(28.3)	(6.5)	nm	(12.9)	nm	(80.8)	(140.1)	nm
% margin	-3%	-1%		-2%		-3%	-6%	
Capital Employed								
Basic Chemicals	2,345.9	2,837.5	(17.3)	2,883.1	(18.6)	2,863.8	2,506.4	14.3
Fine & Speciality Chemicals	3,539.0	2,926.9	20.9	3,639.8	(2.8)	3,478.5	2,840.3	22.5
Performance Products	3,013.0	3,552.0	(15.2)	3,179.2	(5.2)	3,059.6	3,666.8	(16.6)
ROCE								
Basic Chemicals	11%	11%		9%		9%	9%	
Fine & Speciality Chemicals	8%	5%		8%		7%	7%	
Performance Products	-1%	0%		0%		-1%	-1%	

Source: Company, Antique

Valuation and View

Maintain BUY with a TP of INR 325/sh

Maintain BUY with a TP of INR 325/sh as we a) estimate consolidated earnings CAGR of ~90% over FY18-20e, b) pharma and personal care intermediates driving incremental earnings in FSC, and b) expect further stabilization of PP segment. The stock at CMP is trading at an attractive P/E of 12x FY20e, compared to 15x implied by our target price.

INR mn	EBITDA -FY20	Multiple	
Extant Business	2582.4	11.5	29697
Phenol Project	2306.6	12	27679
Total EV			57377
Net Debt			13065
Equity			44311
Equity per share			325

Source: Antique

Financials

Profit and loss account (INRm)

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
Net Revenue		13,729	13,604	16,515	32,124	39,313
Op. Expenses		12,082	12,222	14,552	27,235	32,576
EBITDA		1,647	1,382	1,962	4,889	6,737
Depreciation		395	427	526	1,034	1,114
EBIT		1,252	955	1,436	3,855	5,623
Other income		16	49	124	58	65
Interest Exp.		376	341	451	1,487	1,448
Extra Ordinary Items-gain/(loss)			705	-	-	-
Reported PBT		891	1,368	1,109	2,427	4,240
Tax		262	388	318	728	1,272
Reported PAT		629	980	790	1,699	2,968
Net Profit		629	980	790	1,699	2,968
Adjusted PAT		629	437	790	1,699	2,968
Adjusted EPS (INR)		4.6	3.2	5.8	12.5	21.8

Balance sheet (INRm)

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
Share Capital		233	261	273	273	273
Reserves & Surplus		4,496	6,909	8,949	10,401	13,123
Networth		4,729	7,171	9,221	10,674	13,396
Debt		5,288	7,437	9,927	14,953	13,753
Net deferred Tax liabilities		566	657	454	454	454
Capital Employed		10,583	15,266	19,603	26,081	27,603
Gross Fixed Assets		8,990	9,180	9,676	21,421	23,021
Accumulated Depreciation		3,013	3,275	3,801	4,835	5,949
Capital work in progress		319	3,493	9,545	-	-
Net Fixed Assets		6,297	9,398	15,420	16,586	17,072
Investments		866	1,166	318	318	318
Non Current Investments		28	27	23	23	23
Current Investments		838	1,139	294	294	294
Current Assets, Loans & Adv.		5,779	7,484	10,167	13,999	15,770
Inventory		1,210	1,358	3,254	2,612	3,124
Debtors		3,132	3,603	4,118	7,481	9,155
Cash & Bank balance		65	145	482	1,593	1,178
Loans & advances and others		1,372	2,378	2,313	2,313	2,313
Current Liabilities & Prov.		2,358	2,783	6,303	4,822	5,558
Liabilities		2,108	2,664	6,188	4,708	5,443
Provisions		251	119	115	115	115
Net Current Assets		3,421	4,701	3,864	9,177	10,213
Application of Funds		10,583	15,266	19,602	26,081	27,603

Per share data

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
No. of shares (m)		116.3	130.7	136.4	136.4	136.4
Diluted no. of shares (m)		136.4	136.4	136.4	136.4	136.4
BVPS (INR)		34.7	52.6	67.6	78.3	98.2
CEPS (INR)		7.5	10.3	9.7	20.0	29.9
DPS (INR)		0.0	0.0	1.2	1.3	1.5

Source: Company, Antique

Cash flow statement (INRm)

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
PBT		891	1,368	1,109	2,427	4,240
Depreciation & amortisation		395	427	526	1,034	1,114
Interest expense		376	341	451	1,487	1,448
(Inc)/Dec in working capital		(722)	(1,201)	1,174	(4,201)	(1,451)
Tax paid		(159)	(298)	(522)	(728)	(1,272)
CF from operating activities		783	638	2,739	18	4,079
Capital expenditure		(765)	(3,529)	(6,548)	(2,200)	(1,600)
Inc/(Dec) in investments		(836)	(300)	848	-	-
CF from investing activities		(1,601)	(3,829)	(5,700)	(2,200)	(1,600)
Inc/(Dec) in share capital		24	29	11	-	-
Inc/(Dec) in debt		592	2,149	2,490	5,026	(1,200)
Dividend Paid		(168)	(189)	(213)	(246)	(246)
Others		782	1,623	1,462	-	-
CF from financing activities		853	3,271	3,298	3,293	(2,894)
Net cash flow		34	80	338	1,111	(415)
Opening balance		31	65	145	482	1,593
Closing balance		65	145	482	1,593	1,178

Growth indicators (%)

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
Revenue(%)		3.4	(0.9)	21.4	94.5	22.4
EBITDA(%)		19.7	(16.1)	41.9	149.2	37.8
Adj PAT(%)		18.7	(30.6)	81.0	114.9	74.7
Adj EPS(%)		18.7	(30.6)	81.0	114.9	74.7

Valuation (x)

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
P/E		54.4	78.4	43.3	20.2	11.5
P/BV		7.2	4.8	3.7	3.2	2.6
EV/EBITDA		23.4	29.2	22.1	9.7	6.9
EV/Sales		2.8	3.0	2.6	1.5	1.2
Dividend Yield (%)		0.0	0.0	0.5	0.5	0.6

Financial ratios

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
RoE (%)		15.4	7.3	9.6	17.1	24.7
RoCE (%)		13.2	7.8	8.9	17.1	21.2
Asset/T.O (x)		1.5	1.1	1.0	1.4	1.5
Net Debt/Equity (x)		0.9	0.9	1.0	1.2	0.9
EBIT/Interest (x)		3.4	2.9	3.5	2.6	3.9

Margins (%)

Year-ended	March 31	FY16	FY17	FY18	FY19e	FY20e
EBITDA Margin(%)		12.0	10.2	11.9	15.2	17.1
EBIT Margin(%)		9.1	7.0	8.7	12.0	14.3
PAT Margin(%)		4.6	3.2	4.8	5.3	7.5

Source: Company Antique

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