

Q3FY19 Result Update Deepak Nitrite Ltd

Acetone-phenol ramp up to drive earnings

Deepak Nitrite (DEN) delivered 22% revenue growth (2% above our expectations) led by strong performance in the specialty chemicals business coupled with significant improvement in the performance products business. Turnaround in the Performance Products helped register overall EBITDA margin of 14.6% up 57 bps YoY while margins declined 121bps sequentially on back of margin weakness in the specialty and basic chemical business resulting in an EBITDA of INR 66 cr. Management has highlighted that the Deepak Phenolics plant has already hit 85% utilization levels on a consistent basis and expects utilization levels to hit 90% in FY20 a year earlier than anticipated. The base business of the company is expected to grow in excess of 15% CAGR as per management estimates over the next couple of years. We believe the company's acetone and phenol plant is likely to project the company into the next growth phase as the cash flows from this business is likely to be used for capex for both downstream acetone and phenol derivatives and expansion in the specialty chemical business. We value the company at 15x FY20E EPS of INR 22.8 and maintain our 'BUY' recommendation with a revised target price of INR 342/share.

Phenol plant stabilized, Higher sales volumes to aid ramp up to optimal utilization in FY20

Management has highlighted that the acetone phenol plant operated at an average utilization of 85% for the months of November and December in the quarter. The company has been able to produce desired quality of phenol and acetone including pharma grade acetone from the plant and achieve sales of 75% of the volumes produced in the past quarter. Average spreads/cracks (excluding power and fuel expenses) came in at \$600/MT and the plant registered sales, EBITDA and PBT of INR 321 cr, INR 37 cr and INR 12 cr respectively. The company expects to operate at 90% utilization in FY20 as the production ramps up to optimal utilization.

Performance Products turnaround continues, Strong outlook for the base business

The performance products business had been a laggard for the company in its past 4 years of operations. However, focus on margin driven growth led to a 50% YoY growth and ~355 bps sequential margin increase to 18% EBIT margin in this quarter. The growth was aided by a favourable demand supply scenario which led to an uptick in realizations. The Fine and Specialty Chemicals business also registered a strong growth of 21% with capacity expansions and better realizations in select products driving the growth, however some deterioration in product mix led to a sequential margin dip of 279 bps in the segment. Basic Chemicals (BC) segment registered a growth of 13% with margins normalizing sequentially to 15.4%.

Domestic business for the company grew by 29% YoY to INR 293 cr on the back of better pricing and improved customer acceptance for the products while exports grew by 10% to INR 153 driven by a stable demand environment. Management expects a robust outlook for the base business and expects it to grow by >15% CAGR over the next few years and envisages EBITDA margin improvement of 1% every year in the base business.

Outlook and valuations

With the commencement of acetone-phenol plant and strong growth in its base business as well, DEN is all-set to benefit in terms of better ROCE and free cash flows in the medium term. Our earnings estimates per share for FY19/FY20 are 10.3/22.8 respectively. We value the company at 15x FY20E EPS of INR 22.8 and maintain our 'BUY' recommendation with a revised target price of INR 342/share.

Year to March	Q3FY19	Q3FY18	% change	Q2FY19	% change	FY18	FY19E	FY20E
Net Sales (INR cr)	452	371	22	433	5	1,651	2,523	3,936
Growth (%)						20.5	52.8	56.0
EBITDA (INR cr)	66	52	27	69	-3	196	417	665
Adj PAT (INR cr)	32	20	55	28	13	79	140	311
Growth (%)						72.7	77.3	121.8
Dil. EPS (INR)						5.8	10.3	22.8
Diluted P/E (x)						39.4	22.2	10.0
EV/EBITDA (x)						20.8	10.4	6.5
ROAE (%)						9.7	14.3	26.9

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CMP INR: 228

Rating: Maintain BUY

Target Price INR: 342

Upside: 50%

Bloomberg:	DN:IN
52-week range (INR):	305 / 205
Share in issue (cr):	14
M cap (INR cr):	3,106
Avg. Daily Vol. BSE/NSE :('000):	600
Promoter Holding (%)	44.63

Date: 7th February, 2019

Deepak Nitrite Ltd

Q3FY19 Result Highlights

Particulars	Q3FY19	Q3FY18	% Change	Q2FY19	% Change	FY18	FY19E	FY20E
Income from operations	452	371	22	433	5	1,651	2,523	3,936
Cost of goods sold	289	249	16	265	9	1,159	1,735	2,739
Employee expenses	42	35	21	40	3	136	186	220
Other expenses	56	36	57	59	-6	297	371	532
Total operating expenses	386	319	21	364	6	1,455	2,106	3,271
EBITDA	66	52	27	69	-3	196	417	665
Depreciation and amortization	13	13	3	13	1	53	130	131
EBIT	53	39	35	55	-5	144	287	534
Interest expenses	10	9	15	12	-11	45	102	107
Other income	5	0	-	0	-	12	10	5
PBT	48	31	56	44	9	111	195	432
Provision for tax	16	10	58	16	3	32	54	121
Core profit	32	20	55	28	13	79	140	311
Extraordinary items	0	0	-	0	-	0	0	0
Adjusted net profit	32	20	55	28	13	79	140	311
No. of shares (Cr)						14	14	14
Diluted EPS (INR)						6	10	23

Income statement (Consolidated)

(INR crs)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Income from operations	1,373	1,371	1651	2523	3936
Direct costs	944	948	1159	1735	2739
Employee costs	119	122	136	186	220
Other expenses	266	287	297	371	532
Total operating expenses	1,209	1,235	1455	2106	3271
EBITDA	164	135	196	417	665
Depreciation and amortisation	40	48	53	130	131
EBIT	124	87	144	287	534
Interest expenses	40	34	45	102	107
Profit before tax	86	135	111	195	432
Provision for tax	26	38	32	54	121
Core profit	60	96	79	140	311
Extraordinary items	1	-51	0	0	0
Profit after tax	61	46	79	140	311
Adjusted net profit	61	46	79	140	311
Equity shares outstanding (mn)	12	13	14	14	14
EPS (INR) basic	5.2	3.5	6	10	23
Diluted shares (Cr)	11.6	13.1	14	14	14
EPS (INR) fully diluted	5.2	3.5	6	10	23
Dividend per share	1.2	0.0	1	2	5
Dividend payout (%)	23.3	0.0	22	22	22

Common size metrics- as % of net revenues

(INR crs)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Operating expenses	88.1	90.1	88.1	83.5	83.1
Depreciation	2.9	3.5	3.2	5.2	3.3
Interest expenditure	2.9	2.5	2.7	4.1	2.7
EBITDA margins	11.9	9.9	11.9	16.5	16.9
Net profit margins	4.4	3.3	4.78	5.55	7.89

Growth metrics (%)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Revenues	3.4	(0.2)	20.5	52.8	56.0
EBITDA	19.4	(17.3)	44.8	112.6	59.5
PBT	31.9	56.4	(17.7)	75.5	121.8
Net profit	19.3	(25.0)	72.7	77.3	121.8
EPS	7.2	(33.2)	66.0	77.3	121.8

Deepak Nitrite Ltd

Financials

Balance sheet

(INR cr)

As on 31st March	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	23	26	27	27	27
Preference Share Capital	0	0	0	0	0
Reserves & surplus	450	689	895	1,005	1,249
Shareholders funds	473	715	922	1,032	1,276
Secured loans	465	637	889	1,118	1,118
Unsecured loans	64	87	122	153	153
Borrowings	529	724	1,011	1,271	1,271
Minority interest	0	0	0	0	0
Sources of funds	1,002	1,439	1,933	2,303	2,547
Gross block	899	935	986	2,376	2,396
Depreciation	301	345	398	528	659
Net block	598	590	588	1,847	1,737
Capital work in progress	36	349	955	0	0
Total fixed assets	634	939	1,542	1,847	1,737
Unrealised profit	0	0	0	0	0
Investments	87	118	32	32	32
Inventories	123	169	325	290	453
Sundry debtors	313	360	412	705	1,100
Cash and equivalents	6	14	48	25	48
Loans and advances	57	94	178	100	100
Other current assets	0	0	0	0	0
Total current assets	499	638	963	1,120	1,700
Sundry creditors and others	208	298	601	691	917
Provisions	22	6	5	5	6
Total CL & provisions	230	304	606	696	922
Net current assets	269	334	358	424	778
Net Deferred tax	-57	-39	-45	-45	-45
Misc expenditure	73	90	45	45	45
Uses of funds	1,006	1,443	1,931	2,303	2,547
Book value per share (INR)	41	55	68	76	94

Cash flow statement

(INR cr)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Net profit	60	96	79	140	311
Add: Depreciation	40	48	53	130	131
Add: Misc expenses written off	-27	-17	45	0	0
Add: Deferred tax	10	-18	6	0	0
Gross cash flow	83	109	183	270	441
Less: Changes in W. C.	-23	41	-11	89	332
Operating cash flow	107	69	194	181	110
Less: Capex	76	354	660	435	20
Free cash flow	30	-285	-465	-255	90

Ratios

Year to March	FY16	FY17	FY18	FY19E	FY20E
ROAE (%)	14.6	16.2	9.7	14.3	26.9
ROACE (%)	12.5	6.9	8.3	13.5	22.5
Debtors (days)	83	96	91	102	102
Current ratio	2.2	2.1	1.6	1.6	1.8
Debt/Equity	1.1	1.0	1.1	1.2	1.0
Inventory (days)	33	45	72	42	42
Payable (days)	55	79	133	100	85
Cash conversion cycle (days)	61	62	30	44	59
Debt/EBITDA	3.2	5.3	5.2	3.0	1.9
Adjusted debt/Equity	1.1	1.0	1.0	1.2	1.0

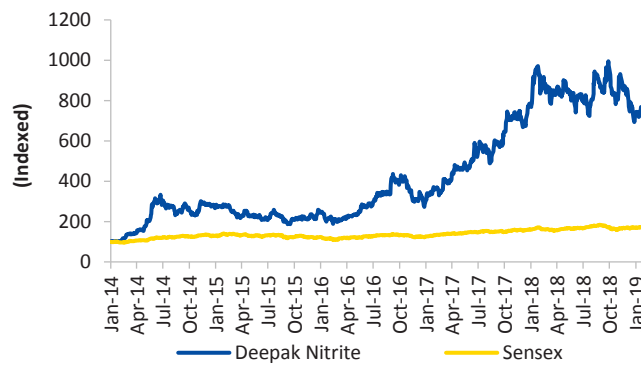
Valuation parameters

Year to March	FY16	FY17	FY18	FY19E	FY20E
Diluted EPS (INR)	5.2	3.5	5.8	10.3	22.8
Y-o-Y growth (%)	7.2	(33.2)	66.0	77.3	121.8
CEPS (INR)	9	11	10	20	32
Diluted P/E (x)	43.6	65.4	39.4	22.2	10.0
Price/BV(x)	5.6	4.2	3.4	3.0	2.4
EV/Sales (x)	2.3	2.7	2.5	1.7	1.1
EV/EBITDA (x)	19.4	27.2	20.8	10.4	6.5
Diluted shares O/S	11.6	13.1	13.6	13.6	13.6
Basic EPS	5.2	3.5	5.8	10.3	22.8
Basic PE (x)	43.6	65.4	39.4	22.2	10.0
Dividend yield (%)	0.5	0.0	0.6	1.0	2.2

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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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