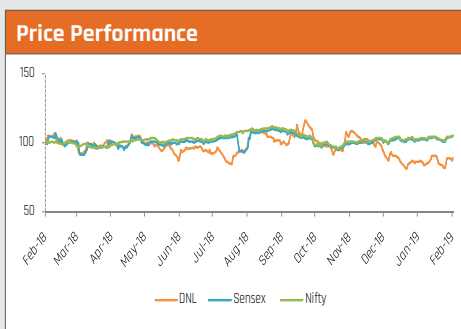


Recommendation	BUY
CMP as of 6th Feb 2019 (Rs)	227
Target Price (Rs)	288
Potential Return	27%

Stock Details	
Sector	Chemicals
Bloomberg Code	DN IN
Reuters Code	DPNT BO
52 week high/low	305/205.5
No of shares (O/S) mn	136.4
Market Cap (Rs mn)	30,999
Daily Average Volume (BSE+NSE) - 1 year	2,96,870
Sensex/Nifty	36,975/11,062

Shareholding Pattern (%)			
	Dec-18	Sep-18	Jun-18
Promoters	44.6	44.6	44.6
MFs	14.0	13.5	13.1
FPIs	10.7	9.9	10.5
FIs/Banks	0.0	0.5	0.5
Others	30.7	31.4	31.4



Data Source: ACE Equity
Rebased to a scale of 100

Deepak Nitrite Ltd

Phenomenal performance

Key highlights of Q2FY19 results

- DNL reported its Q3FY19 numbers with standalone Revenue/EBITDA/PAT YoY grew by ~21.9%/26.8%/59.9%. vs ACMIIL est variance ~2.3%/1.9%/18.5%.
- Realization improvement in key product segments and high teen operating margin in Performance Products (PP) led to YoY ~57 bps jump in standalone EBITDA margins.
- Other income came in at Rs.54.9 mn against Rs 4.7 mn in Q3FY18.
- EPS during the quarter was reported at Rs. 2.32 per share.

YoY segment performance:

- Basic Chemicals (BC): Revenue up 16%, Margins up ~40 bps.
- Fine & Specialty Chemicals (FSC): Revenue up 21.2%, Margins up ~90 bps.
- Performance Products (FC): Revenue up 25%, Margins 18.2% vs (1.9%) in Q3FY18.

Phenol/Acetone performance:

- Reported topline of Rs 3,212 mn during Q3FY19 vs ACMIIL est. of ~Rs.2,400-2,500 mn.
- Operating utilizations stood at 85%/90% for Nov/Dec 2018 period.
- Faster ramp up led to EBITDA/PBT of Rs 370/120 mn in Q3FY19 i.e 11.5%/2.8% margins respectively.

Result highlights and investment rationale

Topline momentum continues, PP divisions margin proliferate:

With 15.9% YoY topline growth (ex Phenol), DNL continues its stellar operational performance aided by improved realizations (Gross margins YoY +325bps) and sustained ~90% utilization across divisions (except PP division i.e ~45%). Going forward, DNL is looking at topline growth of 15% CAGR supported by incremental capacity addition via de-bottlenecking & superior pricing in key products.

Management's aim in PP division to reduce exposure towards low margin exports business and serve premium customer which provides better pricing, has catapulted margins to high teen levels i.e 18.2% vs 14.6% in Q2FY19. Predominantly, the growth is on the back of excellent performance of DASDA supported by OBA. Also, there is marginal improvement in utilization (~45% vs 40% - expected to move towards ~50% by FY20E).

Phenol/Acetone delivers:

Initial 2 months witnessed robust ~85%/90% utilization, registering topline of Rs 3,210 mn. The performance is exceptional on several parameters as it managed to achieved the guided utilization before time and generating EBITDA/PBT margins to the tune of 11.5%/2.8%.

The strong performance has been delivered on account of a) faster ramp up within 2 months of commencement i.e. ~85/90%. b) better than estimated CRACK spread i.e. ~USD 600 per ton. Management expects to continue this momentum and is further dwelling on producing phenol derivatives products as an extension to leverage the market potential. Also, it expects the division to clock 16%/18% RoCe going by the current CRACKS and utilization levels.

Analyst

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Exhibit 1

Actual versus estimates table							
Particulars (Rs mn)	Q3FY18	Q2FY19	Q3FY19	YoY	QoQ	Q3FY19E	Variance
Net Sales	3,711.4	4,327.1	4,523.1	21.9%	4.5%	4,419.7	2.3%
Expenditure	3,189.0	3,641.2	3,860.9	21.1%	6.0%	3,770.0	2.4%
EBITDA	522.4	685.9	662.2	26.8%	-3.5%	649.7	1.9%
EBITDA Margin ^	14.1%	15.9%	14.6%	67 bps	(115) bps	14.7%	(6) bps
Depreciation	129.7	131.8	133.2	2.7%	1.0%	137.0	-2.8%
EBIT	392.7	554.1	529.1	34.7%	-4.5%	512.7	3.2%
EBIT Margin	10.6%	12.8%	11.7%	106 bps	(120) bps	11.6%	10 bps
Interest	90.2	116.8	103.5	14.8%	-11.4%	123.8	-16.4%
Other income	4.7	3.3	54.9	1080.8%	1553.6%	8.8	521.4%
PBT	307.2	440.6	480.5	56.4%	9.0%	397.8	20.8%
Exceptional items	-	-	-	NM	NM	-	NM
Tax	103.7	160.0	164.3	58.4%	2.7%	135.2	21.5%
Tax Rate	33.8%	36.3%	34.2%	NA	NA	34.0%	NA
Other comprehensive income	(4.0)	1.2	(3.6)	NM	NM	1.2	NM
PAT*	195.5	281.9	312.6	59.9%	10.9%	263.7	18.5%
PAT Margin	5.3%	6.5%	6.9%	70 bps	(55) bps	6.0%	94 bps
EPS (Rs)	1.6	2.1	2.3	48.7%	12.6%	1.9	20.0%

Data Source: ACMIIL Institutional Research, Company
Adjusted for Rs 34.8 mn provision towards Fire incident at Roha facility

Outlook & Valuation:

We revise our consolidated topline CAGR estimates for FY20E by 0.5% (35.1% vs 34.6%) on the back of incremental capacity addition augmented by improved pricing and faster ramp up of the Phenol/Acetone project. The exemplary turnaround of PP division has strengthened our conviction further and thus, we adjust our consolidated margins expectation upwards by 330bps (300 bps earlier) by FY20E. With an estimated FY20E EPS of Rs 18 at 16x, we upgrade our rating to "BUY" (vs HOLD), arriving at a TP of Rs 288 per share (implied upside of 27%).

Conference call Key takeaways:

- Growth in the domestic business stood at 29% YoY, while exports stood at 10% YoY
- Within the PP division, DASDA performance has been excellent and it is likely to continue in Q4FY19. Company consumes 1/3rd of DASDA internally.
- Do not see any shortage of raw material, have long term supply contracts with vendors
- Consolidated Debt as on 31st December 2018 stood at Rs 12.75/13 bn, D/E stands at 1.32x
- Not expecting any reversal in China trend atleast for another year with respect to DNL product portfolio
- India has witnessed reduction in phenol imports due to domestic availability. DNL is currently supplying Phenol to Ply and laminates industry largely.
- The company is currently producing and selling Pharma grade Acetone too.
- Current CRACK spreads are hovering around USD 800 per ton.
- Ratio of Phenol to Acetone production stands at 1.6x and will more or less at this levels in future.
- Management also denied any sort of rumors or speculation on management change.

FINANCIAL STATEMENTS

Income Statement (Consolidated)

Particulars (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	10,194	12,696	13,272	13,357	13,707	16,515	28,196	40,695
YoY Growth	29.1%	24.5%	4.5%	0.6%	2.6%	20.5%	70.7%	44.3%
EBITDA	722	1,140	1,397	1,683	1,355	1,962	4,004	6,186
EBITDA Margin	7.1%	9.0%	10.5%	12.6%	9.9%	11.9%	14.2%	15.2%
Depreciation	189	296	360	395	480	526	809	1,361
EBIT	532	844	1,037	1,289	874	1,436	3,195	4,824
Interest	114	280	380	391	341	451	1,150	1,329
Other income	107	18	21	15	109	124	141	163
Exceptional items	-	-	-	-	703	-	-	-
PBT	526	582	677	913	642	1,109	2,186	3,658
Tax	148	198	143	262	382	318	656	1,207
Tax Rate	28.1%	34.1%	21.1%	28.7%	28.4%	28.7%	30.0%	33.0%
PAT	378	383	534	651	939	799	1,530	2,451
PAT Margin	3.7%	3.0%	4.0%	4.9%	6.9%	4.8%	5.4%	6.0%
EPS (Rs)	3.6	3.7	5.1	6.1	7.2	5.9	11.2	18.0
Adjusted EPS	2.8	2.8	3.9	4.8	3.2	5.9	11.2	18.0

Data Source: ACMIL Institutional Research, Company

Balance Sheet (Consolidated)

Particulars (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share capital	105	105	209	233	261	273	273	273
Reserves & Surplus	2,701	2,971	3,259	4,681	6,887	8,949	10,288	12,534
Net worth	2,806	3,075	3,468	4,913	7,149	9,221	10,561	12,807
Long term debt	2,393	2,713	2,386	1,586	2,184	5,505	5,305	4,605
Short term debt	707	1,907	2,310	2,685	3,766	3,316	5,859	5,559
Total Debt	3,101	4,620	4,696	4,271	5,951	8,820	11,163	10,163
Current liabilities & Provisions	2,689	2,457	2,529	3,286	4,307	7,160	8,911	13,174
Others	291	414	543	385	469	704	1,128	1,606
Total Liabilities	8,887	10,566	11,236	12,856	17,875	25,906	31,763	37,751
Net Block	4,430	5,324	5,867	6,303	9,351	15,421	15,458	15,317
Non- current investments	13	31	172	37	37	23	18	13
Cash	95	64	27	65	145	482	2,841	2,995
Inventories	1,044	1,300	1,050	1,340	1,671	3,254	4,635	7,247
Debtors	2,423	2,922	3,110	3,125	3,603	4,118	6,180	8,919
Other current assets	28	13	76	498	804	1,594	1,551	2,035
Short term loans & advances	634	660	520	75	139	187	226	407
Current investments	-	-	-	844	1,143	294	194	94
Current assets	4,223	4,959	4,784	5,948	7,506	9,929	15,626	21,697
Others	221	251	413	568	980	533	660	723
Total Assets	8,887	10,566	11,236	12,856	17,875	25,906	31,763	37,751

Data Source: ACMIL Institutional Research, Company

Q3FY19 Update

Institutional Equities

Cash Flow (Consolidated)

Particulars (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PAT	378	383	534	651	939	799	1,530	2,451
Depreciation	189	296	360	395	480	526	809	1,361
Inc/Dec in working capital	(364)	(1,205)	(214)	171	(770)	(16)	(1,857)	(1,862)
Others	39	383	372	455	(159)	521	420	406
CF from Operating activity	243	(142)	1,052	1,673	490	1,830	903	2,356
Inc/Dec in Fixed assets & CWIP	(1,578)	(965)	(832)	(865)	(2,412)	(6,212)	(846)	(1,221)
Inc/Dec in investments	-	-	-	(838)	(296)	906	100	100
Others	22	(6)	(34)	9	(817)	59	5	5
CF from Investment activity	(1,556)	(971)	(866)	(1,694)	(3,526)	(5,247)	(741)	(1,116)
Inc/Dec in share capital	-	-	-	807	1,464	1,463	-	-
Inc/Dec in debt	647	1,432	274	(254)	2,160	2,626	2,343	(1,000)
Dividends paid	(63)	(83)	(104)	(104)	(139)	(156)	(191)	(205)
Others	(112)	(267)	(393)	(406)	(439)	(479)	45	119
CF from Financing activity	473	1,082	(223)	43	3,046	3,453	2,197	(1,086)
Inc/Dec in cash	(840)	(31)	(37)	22	11	35	2,359	154
Opening balance	935	95	64	31	48	58	482	2,841
Closing balance	95	64	27	65	58	94	2,841	2,995

Data Source: ACMIL Institutional Research, Company

Ratios								
Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Profitability Ratios								
RoE	13.5%	12.5%	15.4%	13.3%	13.1%	8.7%	14.5%	19.1%
RoCE	8.5%	10.3%	11.6%	12.6%	6.1%	7.5%	14.1%	20.2%
RoA	4.3%	3.6%	4.8%	5.1%	5.3%	3.1%	4.8%	6.5%
Valuation Ratios								
P/E	7.3	11.7	13.4	11.2	15.7	39	20	13
P/BV	1.0	1.5	2.1	1.7	2.4	3.4	2.9	2.4
EV/EBITDA	8.3	8.1	8.9	7.1	15.9	20.6	10.1	6.3
EV/Sales	0.6	0.8	1.0	0.9	1.6	2.4	1.4	1.0
Per share								
EPS (Rs)	3.6	3.7	5.1	6.1	7.2	5.9	11.2	18.0
DPS (Rs)	0.8	1.0	1.0	1.2	1.2	1.3	1.4	1.5
Book value (Rs)	26.8	29.4	33.2	42.3	54.7	67.6	77.4	93.9
Capital structure ratios								
D/E (x)	1.2	1.7	1.6	1.1	1.0	1.1	1.1	0.9
Current ratio (x)	1.5	2.0	1.9	1.8	1.7	1.4	1.8	1.6
Quick ratio (x)	1.2	1.5	1.5	1.4	1.4	0.9	1.2	1.1
Turnover ratios								
Fixed asset turnover (x)	2.3	2.4	2.3	2.1	1.5	1.1	1.8	2.7
Debtor days	87	84	86	85	96	91	80	80
Inventory days	37	37	29	37	45	72	60	65
Payable days	79	45	34	54	63	121	95	95

Data Source: ACMIL Institutional Research, Company

Notes:

Asit C. Mehta

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Our Rating Scale

Buy: Expected return greater than 20% within the next 12-18 months.

Accumulate: Expected return greater than 10% but less than 20% within the next 12-18 months.

Hold: Expected return of upto 10% within the next 12-18 months.

Reduce: Expected return of upto (-) 10% within the next 12-18 months.

Sell: Expected return of over (-) 10% within the next 12-18 months.

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