DEEPAK NITRITE

nuvama institutional equities

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	2,038
12 month price target (INR)	2,073
52 Week High/Low	3,169/1,781
Market cap (INR bn/USD bn)	278/3.3
Free float (%)	55.0
Avg. daily value traded (INR mn)	471.0

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	49.28%	49.24%	49.24%
FII	6.64%	6.59%	6.68%
DII	22.22%	22.22%	22.30%
Pledge	0%	0%	0%

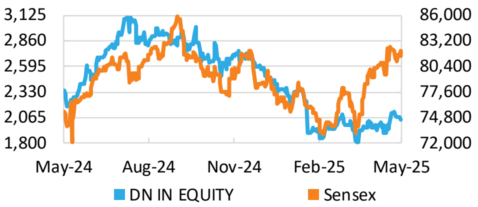
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	76,818	82,819	89,169	97,108
EBITDA	11,233	10,918	13,404	16,246
Adjusted profit	7,311	6,974	8,339	9,427
Diluted EPS (INR)	53.6	51.1	61.1	69.1
EPS growth (%)	(14.2)	(4.6)	19.6	13.1
RoAE (%)	16.5	13.7	14.5	14.4
P/E (x)	39.2	41.1	34.3	30.4
EV/EBITDA (x)	24.4	25.7	21.1	18.5
Dividend yield (%)	0.4	0.4	0.4	0.4

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	89,169	97,108	1.8	1.8
EBITDA	13,404	16,246	-4.6	-13.3
Adjusted profit	8,339	9,427	7.3	-0.9
Diluted EPS (INR)	61.1	69.1	7.3	-0.9

PRICE PERFORMANCE



Effervescence: One-off drives rebound

Deepak Nitrite's adjusted 4QFY25 performance is poorer than expected. Reported revenue increased 14.5% QoQ to INR21.79bn and EBITDA rose 5.1% YoY to INR3.16bn buoyed by strong volume growth in the phenolics segment and excess government incentives (INR1.61bn). Adjusting for the government incentives, the Phenolics business actually missed our estimates. PAT decreased 20.2% YoY to INR2.02bn due to higher depreciation and interest expenses.

Improvement in Deepak's sales and profitability shall be gradual, in tandem with its pace of capex, the bulk of which is scheduled for FY28E. Accordingly, near-term weakness and a lofty valuation impel us to retain 'HOLD' with a revised TP of INR2,073 (earlier INR1,997).

Advanced intermediates continues to struggle

The Advanced Intermediates segment continued to face margin pressure, though some recovery in volumes—particularly in dyes and pigments—was visible by the end of Q3FY25. Pricing pressure persisted in DASDA and select agrochemical intermediates, with demand for the latter expected to remain muted for a few more quarters. The company is launching high-value, low-volume products across pharma, personal care, industrial solvents, and energy applications, leveraging existing infrastructure with minimal capex. De-bottlenecking of OBA capacity and new SKUs in at-risk segments have expanded application breadth and deepened engagement with key accounts.

Phenolics business profitability optically higher

The Phenolics segment logged strong volume growth driven by de-bottlenecking and process efficiencies. Despite import pressure in Q3FY25, Deepak regained and expanded domestic market share in Q4FY25. Full utilisation of phenol and acetone capacity is likely within six–eight months. To meet long-term demand, particularly in PC resins, Deepak Chemtech approved INR35bn capex for 300KTA phenol, 185KTA acetone and 100KTA IPA, taking the total PC project outlay to INR85bn. Over half the output will go towards high-value derivatives such as bisphenols and polycarbonates. Management expects improved crack spreads and margins in Q1FY26E.

New projects remain on track

Integration projects remain on track with nitration, hydrogenation, MIBK/MIBC and nitric acid plants scheduled for commissioning through FY26E. The operational compounding facility is handling pilot orders in EVs, switches and medical devices, with customer approvals underway and ammonia feedstock secured via pipeline.

Financials

Year to March	Q4FY25	Q4FY24	% Change	Q3FY25	% Change
Net Revenue	21,797	21,262	2.5	19,034	14.5
EBITDA	3,165	3,011	5.1	1,685	87.8
Adjusted Profit	2,024	2,538	(20.3)	982	106.2
Diluted EPS (INR)	14.8	18.6	(20.3)	7.2	106.2

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	76,818	82,819	89,169	97,108
Gross profit	24,457	24,940	29,098	32,949
Employee costs	3,511	3,922	4,993	5,050
Other expenses	9,714	10,101	10,700	11,653
EBITDA	11,233	10,918	13,404	16,246
Depreciation	1,657	1,954	2,312	3,098
Less: Interest expense	118	275	823	1,428
Add: Other income	761	839	850	850
Profit before tax	10,219	9,528	11,119	12,570
Prov for tax	2,908	2,554	2,780	3,142
Less: Other adj	0	0	0	0
Reported profit	7,311	6,974	8,339	9,427
Less: Excp.item (net)	0	0	0	0
Adjusted profit	7,311	6,974	8,339	9,427
Diluted shares o/s	136	136	136	136
Adjusted diluted EPS	53.6	51.1	61.1	69.1
DPS (INR)	7.5	7.5	7.5	8.0
Tax rate (%)	28.5	26.8	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	273	273	273	273
Reserves	47,693	53,614	60,930	69,266
Shareholders funds	47,966	53,887	61,203	69,539
Minority interest	261	360	360	360
Borrowings	2,170	11,705	12,505	29,505
Trade payables	5,823	5,218	5,887	6,416
Other liabs & prov	3,764	4,690	5,160	5,429
Total liabilities	60,962	77,177	86,432	112,567
Net block	22,431	24,002	36,690	63,592
Intangible assets	496	570	570	570
Capital WIP	7,735	16,491	12,491	10,491
Total fixed assets	30,662	41,063	49,750	74,652
Non current inv	27	30	30	30
Cash/cash equivalent	5,846	9,145	7,431	6,542
Sundry debtors	12,984	12,738	14,267	15,537
Loans & advances	21	20	20	20
Other assets	11,422	14,182	14,934	15,786
Total assets	60,962	77,177	86,432	112,567

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Basic chem growth(%)	(10.0)	(12.0)	5.0	5.0
FSC growth(%)	(10.0)	(15.0)	8.0	12.0
Phenolics growth(%)	0.7	16.0	5.0	5.0
EBITDA margin (%)	14.6	13.2	15.0	16.7
Net profit margin (%)	9.5	8.4	9.4	9.7
Revenue growth (% YoY)	(3.6)	7.8	7.7	8.9
EBITDA growth (% YoY)	(12.9)	(2.8)	22.8	21.2
Adj. profit growth (%)	(14.2)	(4.6)	19.6	13.1

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	8,109	6,974	8,339	9,427
Add: Depreciation	1,657	1,954	2,312	3,098
Interest (net of tax)	118	275	823	1,428
Others	542	(427)	0	0
Less: Changes in WC	3,257	(5,215)	(1,142)	(1,324)
Operating cash flow	13,683	3,561	10,333	12,630
Less: Capex	(9,895)	(12,354)	(11,000)	(28,000)
Free cash flow	3,789	(8,794)	(667)	(15,370)

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.5	6.5	6.5	6.5
Repo rate (%)	5.3	5.3	5.3	5.3
USD/INR (average)	75.0	75.0	75.0	75.0
Basic chem margins(%)	10.0	6.0	12.0	14.0
FSC Margins(%)	25.0	6.0	12.0	14.0
Phenolic margins(%)	11.1	12.8	11.4	0
Performance growth (%)	(11.1)	(12.0)	7.0	7.0
Performance margins(%)	5.0	6.0	12.0	14.0
Income tax rate(%)	25.0	25.0	25.0	25.0

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	16.5	13.7	14.5	14.4
RoCE (%)	22.5	16.9	17.1	16.1
Inventory days	58	53	57	57
Receivable days	62	57	55	56
Payable days	43	35	34	35
Working cap (% sales)	21.6	23.1	22.8	22.3
Gross debt/equity (x)	0	0.2	0.2	0.4
Net debt/equity (x)	(0.1)	0	0.1	0.3
Interest coverage (x)	80.9	32.6	13.5	9.2

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	39.2	41.1	34.3	30.4
Price/BV (x)	6.0	5.3	4.7	4.1
EV/EBITDA (x)	24.4	25.7	21.1	18.5
Dividend yield (%)	0	0	0	0

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	(14.2)	(4.6)	19.6	13.1
RoE (%)	16.5	13.7	14.5	14.4
EBITDA growth (%)	(12.9)	(2.8)	22.8	21.2
Payout ratio (%)	10.0	0	0	0

Source: Company and Nuvama estimates

Exhibit 1: Quarterly financial snapshot (INR mn)

Year to March	Q4FY25	Q4FY24	% change	Q3FY25	% change	FY25	FY26E	FY27E
Revenue	**21,797**	21,262	2.5	19,034	14.5	82,819	89,169	97,108
Raw material costs	**15,124**	14,740	2.6	13,931	8.6	57,879	60,071	64,159
Gross profit	**6,673**	6,522	2.3	5,103	30.8	24,940	29,098	32,949
Employee costs	**1,016**	929	9.4	982	3.5	3,922	4,993	5,050
Other expenses	**2,492**	2,582	(3.5)	2,436	2.3	10,101	10,700	11,653
Total operating expenses	**3,508**	3,511	(0.1)	3,418	2.6	14,023	15,694	16,703
EBITDA	**3,165**	3,011	5.1	1,685	87.8	10,918	13,404	16,246
Depreciation	**513**	465	10.3	482	6.3	1,954	2,312	3,098
EBIT	**2,653**	2,547	4.2	1,203		8,964	11,092	13,148
Less: Interest Expense	**93**	44	111.8	61	52.9	275	823	1,428
Add : Other Income	**228**	191	19.1	210	52.9	839	850	850
Add: Prior Period items								
Profit Before Tax	**2,787**	2,694	3.5	1,352	106.1	9,528	11,119	12,570
Less: Provision for Tax	**762**	953	(20.1)	371	105.6	2,554	2,780	3,142
Reported Profit	**2,024**	2,539	(20.3)	981	106.4	6,974	8,339	9,427
Diluted EPS	**14.8**	18.6	(20.3)	7.2	106.4	51.1	61.1	69.1
As % of revenues								
COGS	**69.4**	69.3		73.2		69.9	67.4	66.1
Gross profit	**30.6**	30.7	(6)	26.8	380	30.1	32.6	33.9
Employee costs	**4.7**	4.4		5.2		4.7	5.6	5.2
Other expenses	**11.4**	12.1		12.8		12.2	12.0	12.0
Total operating expenses	**16.1**	16.5		18.0		16.9	17.6	17.2
EBITDA	**14.5**	14.2	36	8.9	567	13.2	15.0	16.7
Net profit	**9.3**	8.2	110	5.2	413	8.4	9.4	9.7

Source: Company, Nuvama Research

Exhibit 2: Segmental information

Revenues (INR mn)	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**
Advance Intermediates	7,083	6,700	6,743	6,711	7,157	6,060	5,517	6,539
Phenolics	10,679	11,201	13,493	14,661	14,636	14,435	13,657	15,323
Sub-Total	17,762	17,901	20,236	21,372	21,793	20,495	19,174	21,862
Less: Inter segment revenue	79	123	144	110	125	175	140	65
Total revenue from operations	**17,683**	**17,779**	**20,092**	**21,262**	**21,668**	**20,320**	**19,034**	**21,797**
EBIT (INR mn)								
Advance Intermediates	1,149	1,034	937	1,339	665	475	169	449
Phenolics	876	1,704	1,798	2,061	2,076	2,149	1,212	2,393
Sub-Total	2,025	2,738	2,734	3,400	2,741	2,623	1,381	2,842
Less: Finance cost	18	27	29	44	58	63	61	93
Other unallocable expenditure(net of Unallocable income)	-10	-61	-31	-136	-65	-80	-33	-38
Total profit before tax	**2,017**	**2,772**	**2,736**	**3,492**	**2,748**	**2,640**	**1,352**	**2,787**

Source: Company, Nuvama Research

Q4FY25 conference call takeaways

- FY25 remained a challenging year due to global slowdown in demand and pricing pressure from aggressive Chinese competition. However, domestic demand offered some stability, showing signs of recovery.
- Deepak Nitrite focused on niche applications, process recalibration and cost efficiency, which led to record production volumes in several key products.
- Growth in FY25 was volume-driven supported by de-bottlenecking efforts and capacity augmentation. Pricing remained under pressure through the year.
- Domestic sales constituted 82% of Q4FY25 revenue while exports were at 18%.
- Government incentives amounted to INR1.61bn in FY25, higher than the usual INR600–700mn, due to past accruals and verification clearances.
- The company expects 60% of its energy consumption to shift to renewable sources by end-FY26, helping lower carbon emissions and costs.
- Cash capex for FY26 is guided at INR12–INR15bn; net debt remains under control supported by cash balance.

Advanced Intermediates

- The segment saw margin pressure, but some recovery in volumes.
- Dyes and pigments showed volume recovery from Q3FY25 end, though pricing pressure persisted. The Agrochemicals segment demand remained weak and is expected to stay subdued for a few more quarters.
- Strategic focus includes launching new high-value, low-volume products using existing assets with minimal capex. These products will target pharma, personal care, industrial solvents and energy segments.
- In personal care products, the company added a brand new chemistry—the Friedel-Crafts chemistry (German origin)–to their product portfolio.
- These products will support future polycarbonate resin applications and downstream value addition.
- Pricing pressure continues in DASDA and specific agrochemical intermediates.
- OBA manufacturing capacity has been de-bottlenecked, with new SKUs launched, including in segments previously seen to be at risk.
- The company is now able to service a wider range of applications and is actively working with key customers to increase wallet share.
- Management expects normalised margins to be higher than current levels, but will materialize on a full-year basis rather than immediately.

Phenolics

- Strong volume growth during the quarter was supported by de-bottlenecking and process efficiency gains.
- Despite increased imports during the Q3FY25 shutdown, Deepak regained and even grew its market share in Q4FY25.
- Domestic market remains strong and stable; exports continue to face pressure.

- The company expects to achieve full utilisation of its phenol/acetone capacity within the next six–eight months and is advancing a greenfield expansion to support rising demand and polycarbonate production.
- **Capex update**- Deepak Chemtech has approved an INR35bn investment to set up 300KTA of phenol, 185KTA of acetone, and 100KTA of IPA capacities, integrated with polycarbonate resin production.
- With total project investment now at ~INR85bn, Deepak is set to become one of the world's largest single-location producers of phenol and acetone, with over half the capacity directed toward high-value derivatives such as bisphenols and polycarbonate resins.
- **Guidance**: Management mentioned that they expect Q1FY26 to be better than Q4FY25 in terms of both crack spreads and operating margins.

Project updates

- **Nitration & Hydrogenation:** These upstream integration projects are targeted for commissioning by Q4FY26E.
- **MIBK and MIBC:** Expected to go live by H2FY26E. These are downstream derivatives of acetone and will enhance integration and support value-added growth.
- **Compounding Facility:** Operational and serving pilot-scale orders in EVs, switches and medical devices.
- Customer approvals are underway to support full-scale commercialisation. Approval cycles may range from 6–36 months depending on application.
- **Nitric Acid plant:** Commissioning expected by Q1–Q2FY26. Deepak will source ammonia externally through established pipelines.

Company Description

Deepak Nitrite was founded in 1970 by Mr. C K Mehta. Over the years, it has grown into one of India's major chemicals companies with leading market positions in several niche product segments. To be precise, it is now a multi-division and multiproduct chemical intermediates company, which manufactures over 100 products with applications ranging across industries such as agrochemicals, rubber, pharmaceuticals, paper, textiles, detergent, colourants, petrochemicals and FSC. The company's business is divided into the following strategic business units (SBUs).

Investment Theme

Leadership across product verticals

Deepak Nitrite (DN) has entrenched itself as the leader across its product basket, including sodium nitrate, sodium nitrite, DASDA, OBA, phenol, acetone and IPA, which are perceived as commodity chemicals. These products are widely used across end-user industries such as pharma, agrochemicals, laminates, paints, etc and serve as building blocks / key raw materials for further processing into various other speciality chemicals or end-user industries. Given its cost leadership (backward and forward integration, economies of scale) along with locational advantage (proximity to customers as well as key basic raw material suppliers in Gujarat), DN boasts a sustainable and growth-oriented business model in the chemicals industry.

Ambitious phenol capex a big game changer

We believe that DN's ambitious phenol-acetone plant with capex of ~INR14bn (2x its gross block) in FY19 by leveraging its balance sheet and multiple fund raisings was a game changer for the company—and its scale. Successful commissioning of the plant and a favourable industry scenario boosted its profitability from the phenol plant and significantly reduced its payback period.

Aggressive investment in value-added altering dynamics

DN has identified various value-added products in phenol and acetone base derivatives with initial capital outlay of INR7bn for the near term. Since DN enjoys a clear leadership in phenol/acetone in India, wherein demand for many of its derivatives is met through imports, it has a significant edge.

Key Risks

Phenol-Acetone spread: Profitability in the acetone-phenol business is closely linked to the spread between global prices of acetone-phenol and benzene propylene. Hence, any major fluctuation in the spreads may impact our financial forecasts for the business. Additionally, this is a spot business with negligible contract-based hedging.

Delay in capex execution: DN is embarking on capex of nearly INR15bn over the next two years; any deferment or delay in commissioning of the planned facilities might undermine growth prospects.

Additional Data

Management

CEO	Maulik Mehta
CFO	Sanjay Upadhyay
Chairman	Deepak Mehta
Auditor	DELOITTE HASKINS & SELLS LLP

Holdings – Top 10*

	% Holding		% Holding
Kotak Mahindra	3.17	Blackrock Inc	0.82
Franklin resour	2.50	Canara Robeco A	0.77
Mirae asset Fi	2.18	Dimensaional Fu	0.76
Vanguard group	2.00	Norges Bank	0.55
Nippon life ind	1.42	Sundaram asset	0.54

**Latest public data*

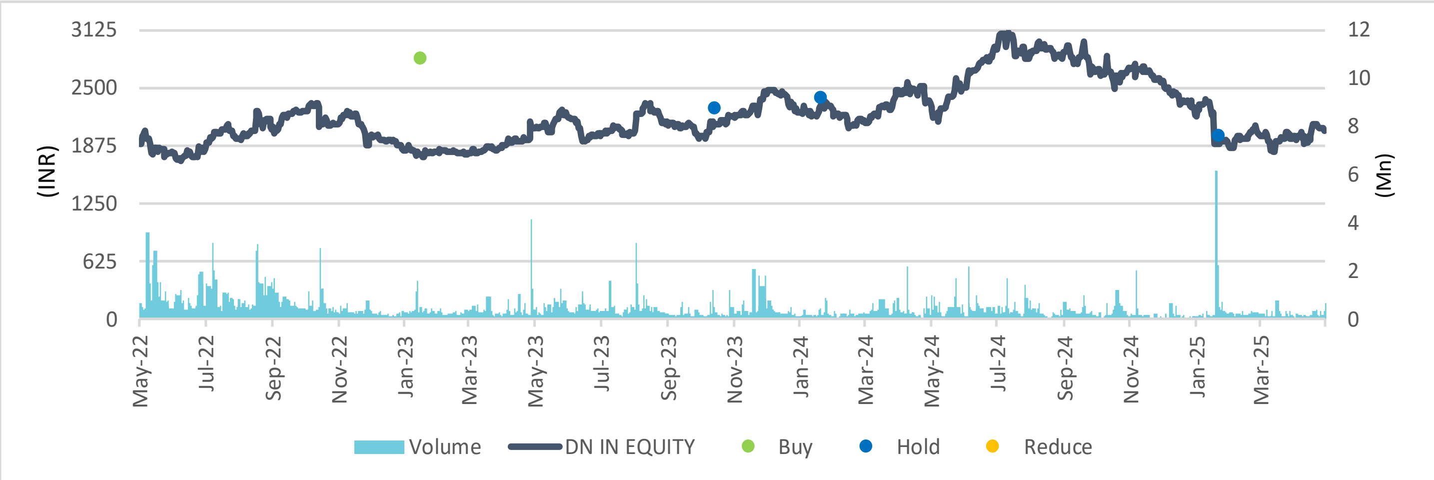
Recent Company Research

Date	Title	Price	Reco
17-Feb-25	Margins nosedive; to recover gradually; *Result Update*	1,898	Hold
14-Nov-24	Near-term concerns; long-term intact ; *Result Update*	2,494	Hold
08-Aug-24	Capex to catalyse long-term growth; *Result Update*	3,055	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
27-May-25	Gujarat Fluorochemicals	Steady quarter; *Result Update*
20-May-25	PI Industries	Near-term growth plateaus; *Result Update*
19-May-25	Galaxy Surfactants	Gradually moving towards growth; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	204
Hold	<15% and >-5%	63
Reduce	<-5%	34

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