

Deepak Nitrite

Entering capex phase

Deepak Nitrite (DNL) is entering into polycarbonate (PC) manufacturing with an investment of INR50bn and further into polycarbonate compounding. This process will convert phenol and acetone into commercially valuable products. Integrated operation will equip the company to navigate the business in challenging times and boost margins. This investment will strengthen chemistry platforms and open new opportunities. It is a part of company's large capex plan of INR140bn over 4-5 years that started in FY25. PC plant shall commence operation by FY28-end and start contributing to company's revenue from FY29. We believe that the company will announce capex for setting up PC intermediate plant (Bisphenol A) and additional phenol capacity in ensuing quarters. However, balance sheet will become debt-ridden (from being debt-free) with a peak net debt to equity of 0.6x and net debt to EBITDA of 1.9x in FY28. RoCE will fall from 16% in FY24 to 13% in FY29. RoE will improve by 260bps in FY27 to 20% but will fell to 16% by FY31. The revenue from PC will start from FY29E onwards. The stock is trading at 27.5x/22.6x FY26E/27E. We maintain SELL with a target price of INR1,575.

Moving ahead in phenol value chain

Deepak Chem Tech Ltd (DCTL), a wholly owned subsidiary of DNL, has agreed to invest INR50bn in the project to manufacture polycarbonate resins. DCTL has secured a technology partnership with Trinseo PLC to license its technology to produce polycarbonate resins. Trinseo's interfacial polymerisation technology has an advantage over other processes of manufacturing PC. The reaction rate is very high, and the reaction gets completed at lower temperature. Further, products manufactured from these PC can withstand high temperature and high vacuum.

The investment of INR 50bn in this greenfield project includes 165ktpa PC plant asset, trademark, technology fee, site, and utility development cost as well. As per the Trinseo, the total value of the combined agreements is USD52.5mn. By H1CY25, it expects to receive ~USD30mn, subject to key milestones.

DNL has already entered PC compounding by acquiring OXOC chemicals in May-24. Trinseo will continue to remain invested in the intellectual property development of PC compounding. That will amplify the company's compounding facility multiple times. Access to compounding technology will allow DNL to capture value across the phenol chain and protect margins.

Polycarbonate synthesis involves Bisphenol A (BPA) and phosgene. Phenol and acetone are the starting material for manufacturing BPA. The company has Phenol and Acetone manufacturing plants based on Honeywell UOP and KBR technologies at Dahej. Deepak Phenolics (DPL) is planning to invest in Bisphenol A plant and add phenol capacity, which will require an investment of INR7bn. The company will announce this investment in the coming months. With the absorption of technology to manufacture PC and PC compounding, the company has fully integrated operation starting from oil refinery products, Benzene and propylene to PC compounding (Exhibit 1). Integrated operation to manufacture PC has a gross margin of more than 60%, higher than company's gross margins of 48.12% in 6MFY25. Thus, we expect blended margins to improve from current level.

SELL

CMP (as on 03 Feb 2025)	INR 2,330
Target Price	INR 1,575
NIFTY	23,361

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,704	INR 1,575
	FY25E	FY26E
EPS %	-	-4.3%

KEY STOCK DATA

Bloomberg code	DN IN
No. of Shares (mn)	136
MCap (INR bn) / (\$ mn)	318/3,645
6m avg traded value (INR mn)	862
52 Week high / low	INR 3,169/2,021

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.9)	(24.7)	3.6
Relative (%)	(8.8)	(20.0)	(3.5)

SHAREHOLDING PATTERN (%)

	Jun-24	Dec-24
Promoters	49.24	49.24
FIs & Local MFs	22.29	23.22
FPIs	6.69	6.60
Public & Others	21.78	20.94
Pledged Shares	0	0

Source: BSE

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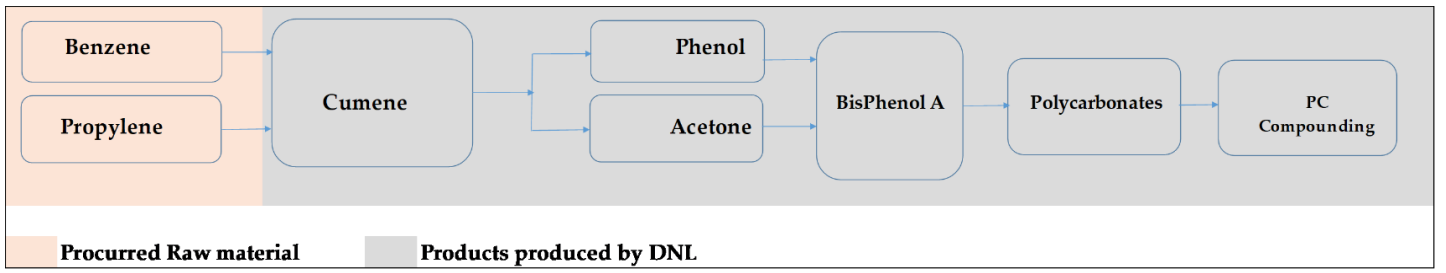
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Exhibit-1: Fully integrated polycarbonate value chain



Source: HSIE Research

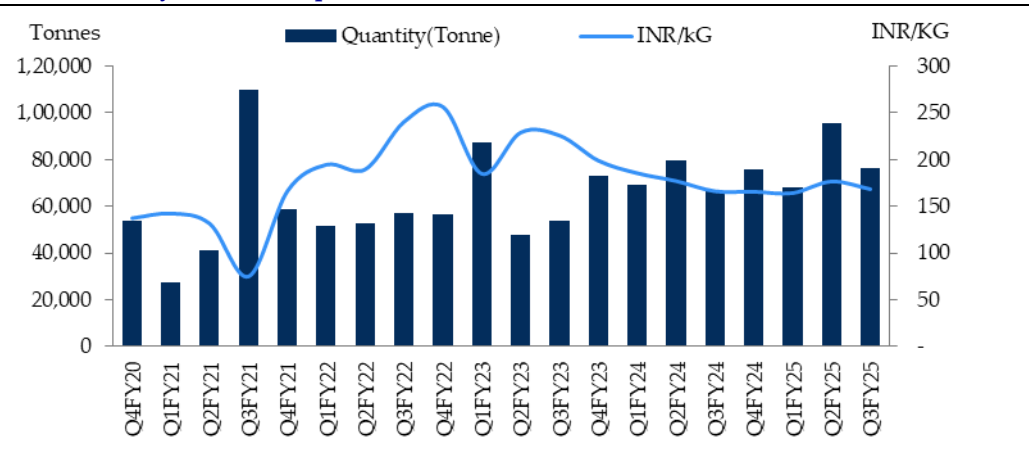
Import substitution opportunity

The acquisition of Trinseo’s manufacturing facility and licence to technology fit into the company’s strategy of high level of integration and focus on import substitution opportunity. India’s demand for polycarbonate resins was approximately 260 KTPA in FY23 and 290 KTPA in FY24. In the last four years, India’s polycarbonate demand has grown at CAGR of 7%. During the same period, average imports were nearly ~250KTPA, with a quarterly run rate of ~65 KTPA (Exhibit 2).

Demand for the PC is driven by rising consumption in the production of polycarbonate sheets, automotive components, and electrical and electronics products. It is projected to grow at a rate exceeding India’s GDP. The company is setting up the unit with production capacity well below domestic demand. In the last four years, Thailand has been one of the largest exporters to India, accounting for around 38% of these imports, followed by and South Korea at 27%.

Deepak Nitrite’s has always installed plants of capacities lower than the imported quantities. India’s imports of PC were 290KTPA in FY24, up 11% YoY, while the company is setting up the plant with a 165ktpa capacity.

Exhibit-2: Polycarbonate import trend



Source: HSIE Research, Industry data

The production capacity is set to come online by the end of FY28 and it is expected to have a limited impact on existing market players, as it will largely cater to captive use for polycarbonate compounding. Further, this capacity expansion will only partially reduce imports by ~55% at 100% capacity utilisation. Our analysis based on the five-year average prices of polycarbonate shows that the revenue potential from PC at peak utilisation will be about INR 30bn.

Expansion projects worth INR140bn on track

Exhibit-3: Projects under execution

Capex (INR bn)	Plant	Capacity	Commissioning date	Synergy	Market focus	End User	
20	Nitric Acid Plant	NA	H2FY25	Backward integration project for the improvement in margins	Captive and market sales		
	MIBK (Methyl Isobutyl Ketone) and MIBC (Methyl Isobutyl Carbinol) Plant(Derivatives of acetone)	40KT and 8KT	H1FY26	Downstream Integration	Market sales	Solvent and chemical intermediate	
	Acetophenone	NA	H1FY26	Downstream Integration	Market sales	Flavour and fragrance	
	Photochlorination Hydrogenation plant	Nitration,	NA	H2FY25	Backward and forward Integration/ To achieve self-sufficiency in raw material	Captive and market sales	
	Flourination block		NA	Q4FY24	Downstream Integration	Captive and market sales	Agrochemicals
50	Polycarbonate	165KTPA	H2FY28	Downstream Integration	Market sales	mobility, electronics, electrical, medical equipment, aerospace, packaging, and other emerging and sunrise industries	
Remaining INR 70 under MOU	Bis Phenol, additional capacity and other	Phenol	NA	Yet to decide	Downstream Integration / Backward Integration for the polycarbonate	Captive and market sales	NA

Source: HSIE Research, company

As per the MoU signed by the company with Gujarat Government, and in order to cement its position in Phenol value chain, the company is planning to invest capex of INR140bn over 4-5 years starting FY25. Of which, INR20bn is in nitric acid and other projects, INR50bn is the polycarbonate plant and remaining INR70bn will be announced where the company will add Phenol, Bisphenol A plant. For Bisphenol A plant, the company is in discussions with technology tie-ups. We expect these projects to be announced in coming quarters. The nitric acid project is expected to be commissioned in H2FY25 for which pre-commissioning activity has begun. Capacity is sufficient for current as well as for future requirements. Meanwhile, the company can sell excess material in the merchant market. Along with nitric acid plant, the company shall commission photochlorination, hydrogenation and nitration block in H2FY25.

Additionally, the R&D centre near Vadodara (Savli) is on track for commissioning in H2 FY25. This facility is expected to enhance the company's capabilities in advanced chemistries as well as deliver future growth. In H1FY26, MIBK/MIBC and acetophenone projects will be commissioned. All these projects will start contributing to revenue or add value from H2FY26 onwards. We expect this to improve the margin by 2% to 4% at EBITDA level.

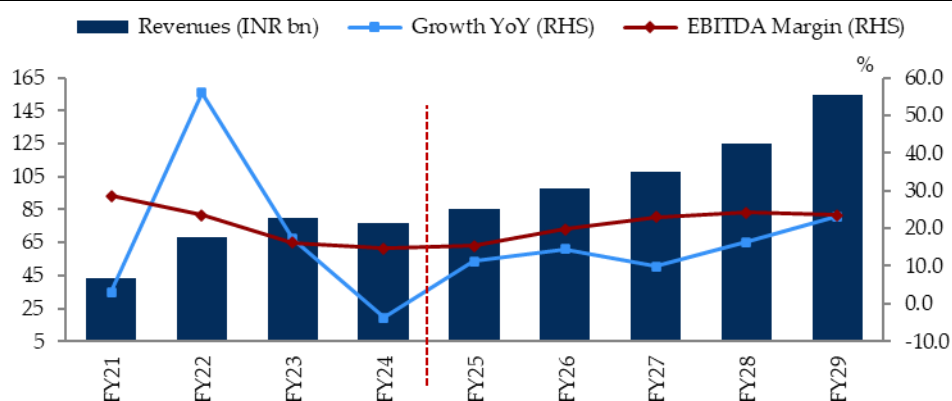
Revenue, EBITDA, APAT to grow at ~16/29/22% CAGR

We expect the DNL revenue to increase from INR 85.5bn in FY25 to INR 154bn at a 16% CAGR from FY25-29 and further to INR 229.6bn in FY33. Revenue in the near term from FY25-29 will be driven by a. sustainable growth in existing business b. revenue contribution from nitric acid and photo chlorination, hydrogenation, and nitration blocks are expected to be commissioned in the second half of FY25 c. MIBK/MIBC and acetophenone projects will be commissioned in the first half of FY26 and start contributing to revenue from 2HFY26. The polycarbonate (PC) plant is expected to commence operations by the end of FY28, which will drive revenue generation from FY29 onward.

EBITDA is expected to increase from INR 13.10bn to INR 36.25bn at a 29% CAGR over FY25-29 and further to INR 52.48bn by FY33. EBITDA margin is expected to improve by 816bps, from 15.3% to 23.5%, by FY29, driven by increased contribution from value-added projects and operating leverage from increased capacity utilization in the existing business.

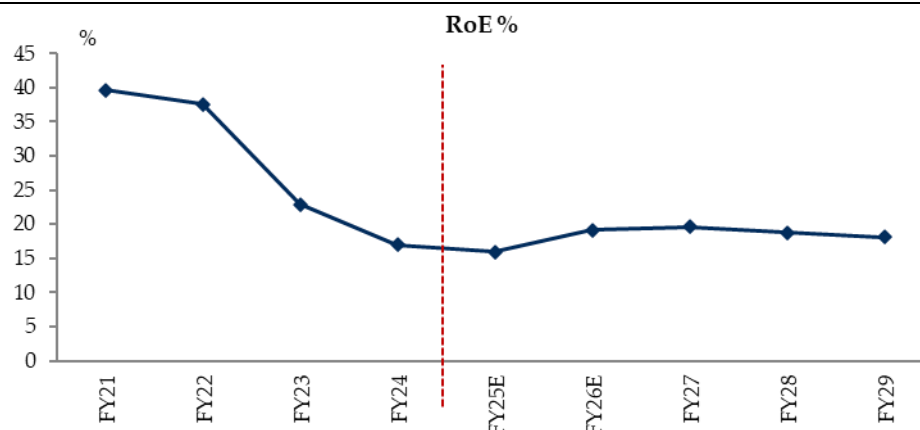
We expect RoE to increase from 15.9% to 18.1% over FY25-FY29, driven by increased APAT margin. The company will incur a capex of INR 140bn, spread over FY25-30, which will be funded partially through internal accrual and partially through external debt. Peak debt is expected to reach INR 79bn by FY30, with net debt to equity changing from 0.1x to 0.6x in FY29. We expect DNL to generate OCF of ~INR 85.5bn over FY25-29, while its FCF is expected to be INR (51bn) due to the ongoing capex cycle.

Exhibit-4 Revenue and EBITDA growth at CAGRs of 16/29% over FY25-29



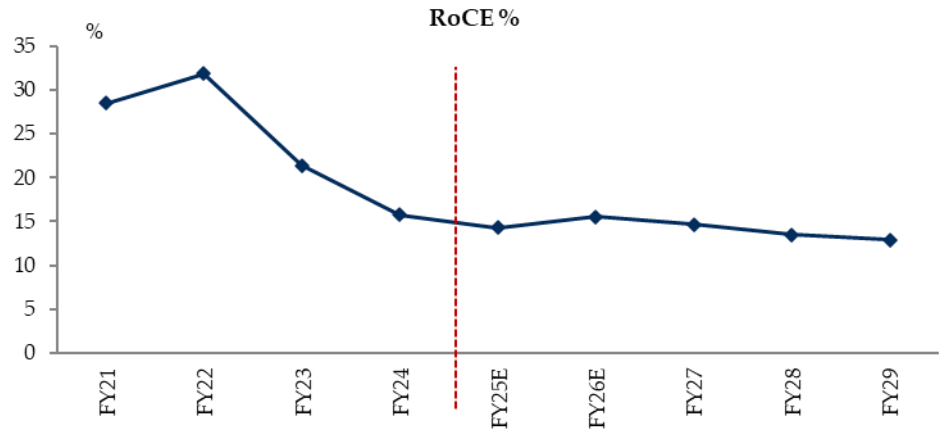
Source: HSIE Research

Exhibit-5: ROE is likely to improve from 15.9% in FY24 to 18.1% in FY29



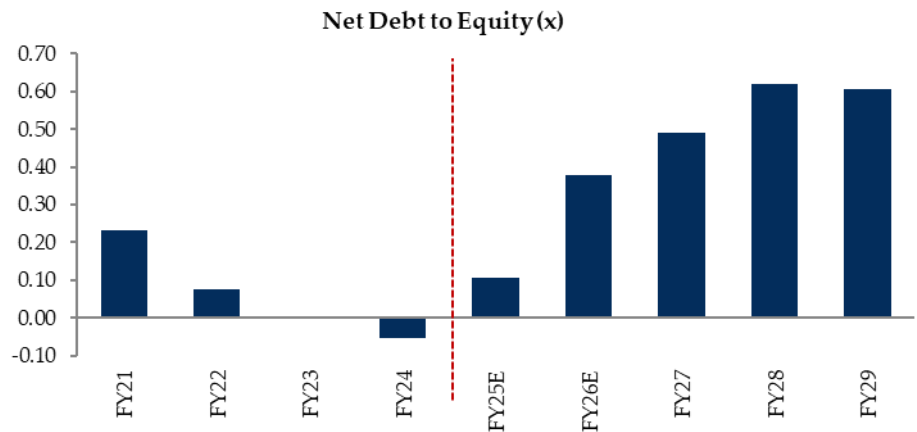
Source: HSIE Research

Exhibit-6: ROCE is expected to decrease from 14.3% to 12.9% by FY29



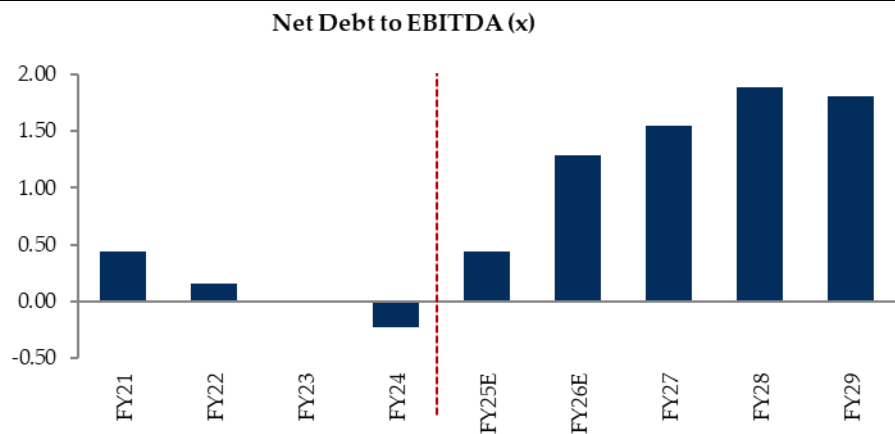
Source: HSIE Research

Exhibit-7: Net debt to equity increase from 0.1x to 0.6x due to increase in debt



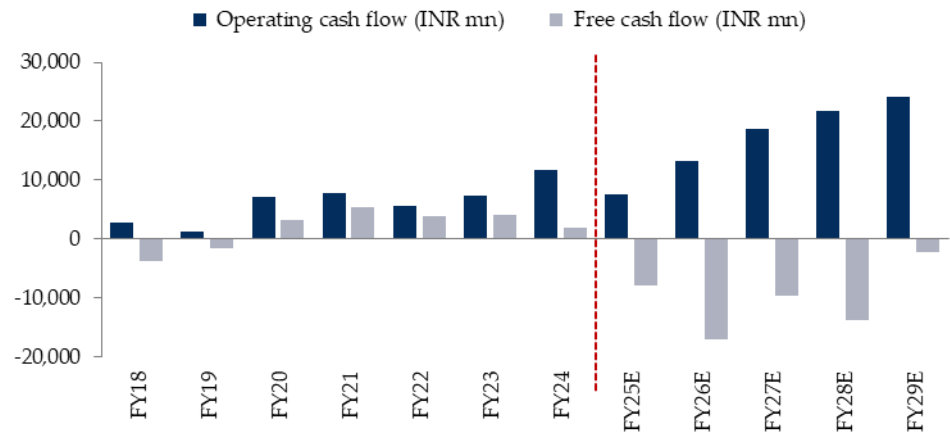
Source: HSIE Research

Exhibit-8: Net debt to EBITDA



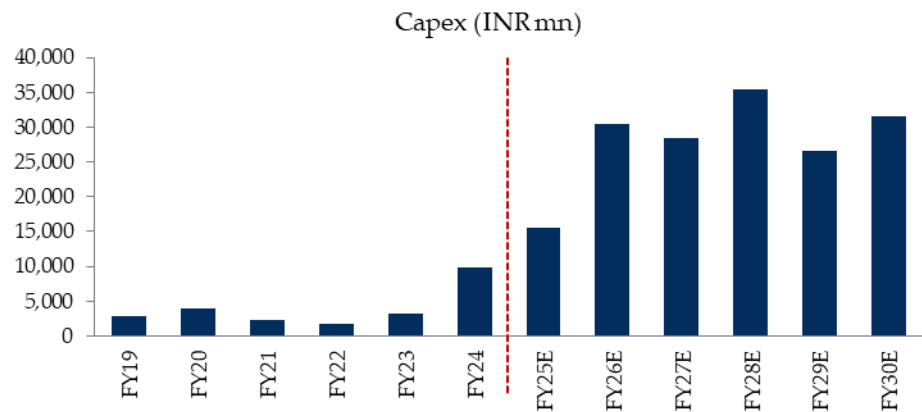
Source: HSIE Research

Exhibit-9: Negative FCF of -INR 51bn, spread over FY25-29



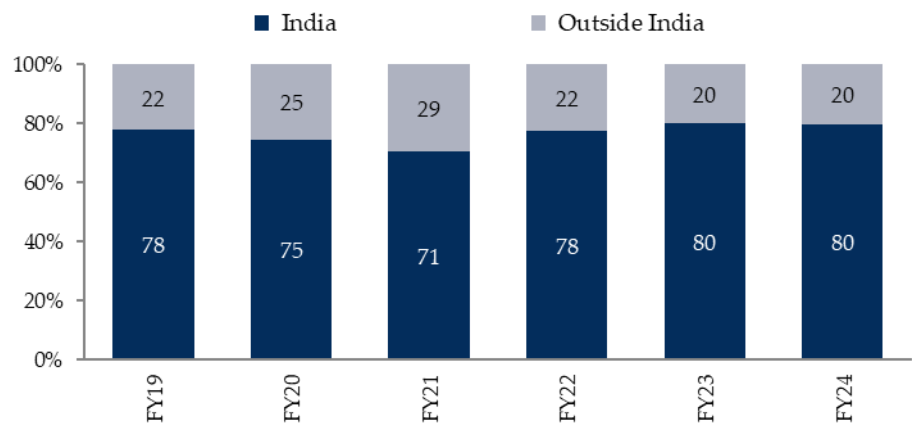
Source: HSIE Research

Exhibit-10: Capex of ~INR 168bn Spread over FY25-30



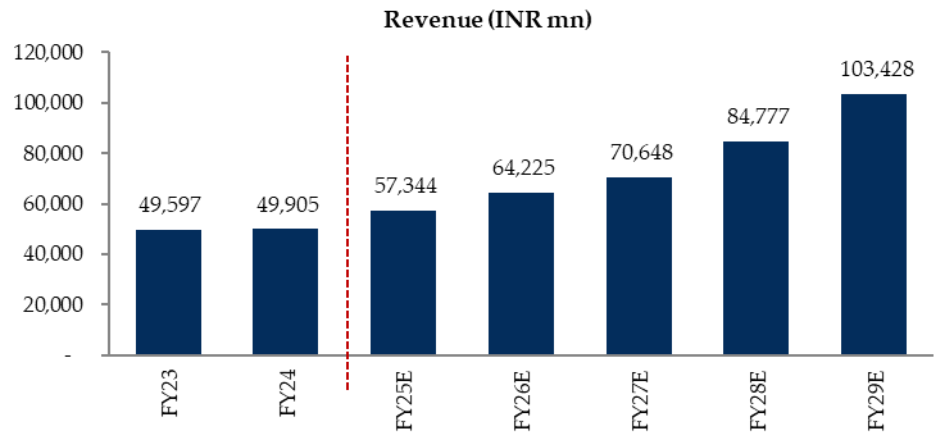
Source: HSIE Research

Exhibit-11: Domestic and export revenue split



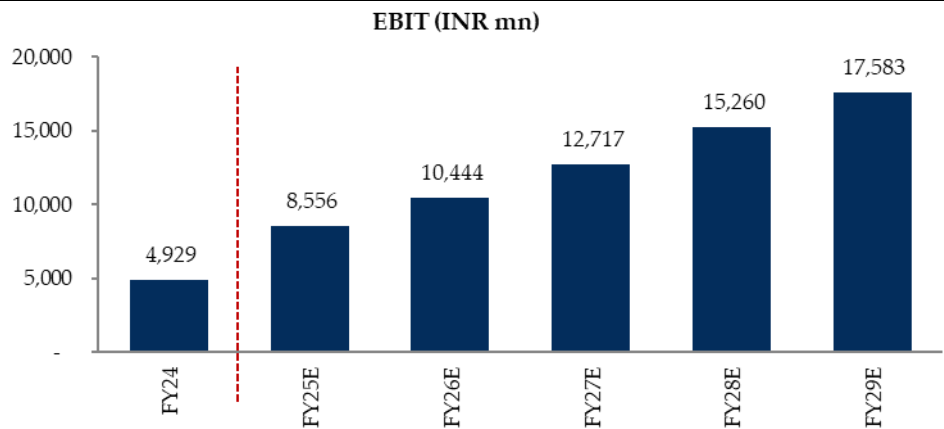
Source: HSIE Research

Exhibit-12: Revenue of Deepak Phenolics



Source: HSIE Research

Exhibit-13: EBIT of Deepak Phenolics



Source: HSIE Research

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Revenues	68,022	79,721	76,818	85,506	97,885	1,07,636	1,25,231	1,54,300
<i>Growth %</i>	56.0	17.2	(3.6)	11.3	14.5	10.0	16.3	23.2
Raw Material	41,144	53,475	52,361	58,159	62,732	65,597	75,272	94,497
Employee Cost	2,741	3,183	3,511	3,844	4,113	4,401	4,709	5,038
Other Expenses	8,102	10,169	9,714	10,394	11,746	12,916	15,028	18,516
EBITDA	16,036	12,894	11,233	13,109	19,294	24,722	30,222	36,248
<i>EBITDA Margin (%)</i>	23.6	16.2	14.6	15.3	19.7	23.0	24.1	23.5
<i>EBITDA Growth %</i>	28.6	(19.6)	(12.9)	16.7	47.2	28.1	22.2	19.9
Depreciation	1,777	1,663	1,657	2,255	3,105	3,895	5,627	7,689
EBIT	14,259	11,231	9,576	10,854	16,189	20,827	24,595	28,560
Other Income (Including EO Items)	426	476	1,559	738	760	782	806	830
Interest	340	248	118	349	1,246	2,518	3,773	4,840
PBT	14,345	11,459	11,017	11,244	15,703	19,091	21,628	24,550
Tax	3,678	2,939	2,908	3,028	4,153	5,049	5,720	6,492
RPAT	10,666	8,520	8,109	8,216	11,550	14,042	15,908	18,057
EO (Loss) / Profit (Net Of Tax)	-	-	571	1	-	-	-	-
APAT	10,666	8,520	7,538	8,215	11,550	14,042	15,908	18,057
<i>APAT Growth (%)</i>	37.5	(20.1)	(11.5)	9.0	40.6	21.6	13.3	13.5
AEPS (Rs)	78.2	62.5	55.3	61.9	84.7	103.0	116.6	132.4
<i>AEPS Growth %</i>	37.5	(20.1)	(11.5)	11.9	36.9	21.6	13.3	13.5

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
SOURCES OF FUNDS								
Share Capital	273	273	273	273	273	273	273	273
Reserves And Surplus	33,112	40,627	47,693	55,118	65,281	77,637	91,635	1,07,524
Total Equity	33,384	40,900	47,966	55,390	65,554	77,910	91,908	1,07,797
Minority Interest	-	-	261	261	261	261	261	261
Long-term Debt	1,875	430	2,170	7,126	26,092	41,065	59,543	69,525
Short-term Debt	1,132	115	-	-	-	-	-	-
Total Debt	3,007	545	2,170	7,126	26,092	41,065	59,543	69,525
Deferred Tax Liability	1,229	1,566	1,736	1,788	1,842	1,897	1,954	2,013
Long-term Provision and others	347	454	979	999	1,019	1,039	1,060	1,081
TOTAL SOURCES OF FUNDS	37,967	43,464	53,112	65,564	94,767	1,22,171	1,54,725	1,80,676
APPLICATION OF FUNDS								
Net Block	19,634	19,416	22,927	36,940	47,993	58,216	1,00,491	1,18,697
Capital WIP	1,222	3,008	7,735	6,968	23,309	37,691	25,288	25,894
Other non current assets	578	1,448	1,857	1,913	1,970	2,029	2,090	2,153
Non-current Investments	22	25	27	27	27	27	27	27
Total Non-current assets	21,457	23,897	32,546	45,847	73,299	97,963	1,27,897	1,46,771
Inventories	5,846	8,931	7,599	8,459	9,683	10,648	12,388	15,264
Debtors	11,291	13,095	12,984	15,281	16,870	17,606	20,090	25,027
Cash and Cash Equivalents	418	400	4,666	1,317	1,190	2,967	2,695	4,164
Other Current Assets	5,293	4,965	3,168	3,231	3,296	3,362	3,429	3,497
Total Current Assets	22,847	27,391	28,416	28,288	31,039	34,583	38,603	47,952
Creditors	5,117	6,618	5,823	6,481	7,419	8,158	9,492	11,696
Other Current Liabilities & Provns	1,220	1,205	2,028	2,089	2,152	2,216	2,283	2,351
Total Current Liabilities	6,337	7,823	7,851	8,570	9,571	10,375	11,775	14,047
Net Current Assets	16,510	19,568	20,565	19,718	21,468	24,208	26,828	33,906
TOTAL APPLICATION OF FUNDS	37,967	43,464	53,112	65,564	94,767	1,22,171	1,54,725	1,80,676

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR bn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Reported PBT	14,345	11,459	11,017	11,244	15,703	19,091	21,628	24,550
Non-operating & EO Items	(426)	(476)	(1,559)	(738)	(760)	(782)	(806)	(830)
Interest Expenses	340	248	118	349	1,246	2,518	3,773	4,840
Depreciation	1,777	1,663	1,657	2,255	3,105	3,895	5,627	7,689
Working Capital Change	(6,905)	(3,076)	3,269	(2,501)	(1,877)	(963)	(2,892)	(5,609)
Tax Paid	(3,528)	(2,601)	(2,738)	(2,976)	(4,099)	(4,993)	(5,663)	(6,434)
OPERATING CASH FLOW (a)	5,604	7,217	11,763	7,632	13,317	18,766	21,667	24,206
Capex	(1,792)	(3,231)	(9,895)	(15,500)	(30,500)	(28,500)	(35,500)	(26,500)
Free Cash Flow (FCF)	3,812	3,986	1,868	(7,868)	(17,183)	(9,734)	(13,833)	(2,294)
Investments	3	(3)	(2)	-	-	-	-	-
Non-operating Income	426	476	1,559	738	760	782	806	830
Others	(364)	(869)	(410)	(56)	(57)	(59)	(61)	(63)
INVESTING CASH FLOW (b)	(1,727)	(3,627)	(8,747)	(14,817)	(29,798)	(27,777)	(34,755)	(25,733)
Debt Issuance/(Repaid)	(2,769)	(2,462)	1,625	4,957	18,966	14,972	18,478	9,982
Interest Expenses	(340)	(248)	(118)	(349)	(1,246)	(2,518)	(3,773)	(4,840)
FCFE	703	1,276	3,375	(3,259)	537	2,720	872	2,848
Share Capital Issuance	1	-	-	-	-	-	-	-
Dividend	(750)	(1,023)	(905)	(1,013)	(1,387)	(1,686)	(1,910)	(2,168)
Others	66	125	649	241	20	20	21	21
FINANCING CASH FLOW (c)	(3,793)	(3,608)	1,250	3,836	16,353	10,788	12,816	2,996
NET CASH FLOW (a+b+c)	84	(18)	4,266	(3,349)	(127)	1,778	(272)	1,468
EO Items, Others								
Closing Cash & Equivalents	418	400	4,666	1,317	1,190	2,967	2,695	4,164

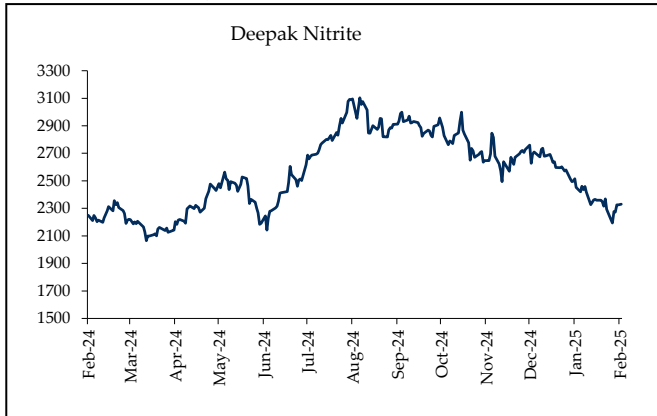
Source: Company, HSIE Research

KEY RATIOS

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
PROFITABILITY %								
Gross Margin	39.5	32.9	31.8	32.0	35.9	39.1	39.9	38.8
EBITDA Margin	23.6	16.2	14.6	15.3	19.7	23.0	24.1	23.5
EBIT Margin	21.0	14.1	12.5	12.7	16.5	19.3	19.6	18.5
APAT Margin	15.7	10.7	9.8	9.6	11.8	13.0	12.7	11.7
RoE	37.5	22.9	17.0	15.9	19.1	19.6	18.7	18.1
RoIC	33.0	21.9	16.4	16.2	18.7	20.2	17.4	15.2
RoCE	31.8	21.4	15.8	14.3	15.6	14.7	13.5	12.9
EFFICIENCY								
Tax Rate %	25.6	25.6	26.4	26.9	26.4	26.4	26.4	26.4
Fixed Asset Turnover (x)	2.8	3.0	2.6	2.1	1.8	1.5	1.2	1.1
Inventory (days)	31	41	36	36	36	36	36	36
Debtors (days)	61	60	62	65	63	60	59	59
Other Current Assets (days)	28	23	15	14	12	11	10	8
Payables (days)	45	45	41	41	43	45	46	45
Other Current Liab & Provns (days)	7	6	10	9	8	8	7	6
Cash Conversion Cycle (days)	68	73	63	66	60	54	52	53
Net Debt/EBITDA (x)	0.2	0.0	(0.2)	0.4	1.3	1.5	1.9	1.8
Net D/E	0.1	0.0	(0.1)	0.1	0.38	0.49	0.62	0.61
Interest Coverage	41.9	45.3	80.9	31.1	13.0	8.3	6.5	5.9
PER SHARE DATA (Rs)								
EPS	78.2	62.5	55.3	61.9	84.7	103.0	116.6	132.4
CEPS	91.2	74.7	67.4	78.4	107.4	131.5	157.9	188.8
Dividend	7.0	7.5	6.6	7.4	10.2	12.4	14.0	15.9
Book Value	244.8	299.9	351.7	406.1	480.6	571.2	673.8	790.3
VALUATION								
P/E (x)	29.8	37.3	42.2	37.7	27.5	22.6	20.0	17.6
P/Cash EPS (x)	25.5	31.2	34.6	29.7	21.7	17.7	14.8	12.3
P/BV (x)	9.5	7.8	6.6	5.7	4.8	4.1	3.5	2.9
EV/EBITDA (x)	20.0	24.7	28.1	24.7	17.8	14.4	12.4	10.6
EV/Revenue (x)	4.7	4.0	4.1	3.8	3.5	3.3	3.0	2.5
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.7
OCF/EV (%)	1.7	2.3	3.7	2.4	3.9	5.3	5.8	6.3
FCFE/EV (%)	1.2	1.3	0.6	(2.4)	(5.0)	(2.7)	(3.7)	(0.6)
FCFE/M Cap (%)	0.2	0.4	1.1	(1.0)	0.2	0.9	0.3	0.9

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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