



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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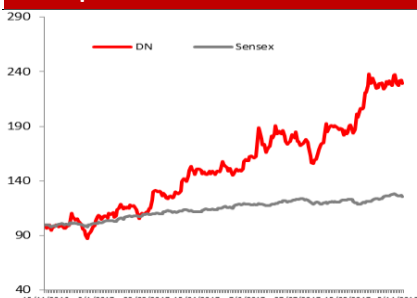
BUY

Current Price	215
Target Price	275
Upside/Downside	28%
52 Week Range	234/75.8

Key Share Data

Market Cap (Rs.bn)	28.1
Market Cap (US\$ mn)	0.43
No of o/s shares (mn)	130.7
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	387
BSE Code	506401
NSE Code	DEEPAKNTR
Bloomberg	DN IN Equity

Price performance



Deepak Nitrite (DNL) Q2FY18 results were above expectations. Traction in fine & specialty chemicals segment and fluorescent whitening agents (FWA) led to margin improvement during the quarter, with EBIT breakeven in FWA.

Robust revenue growth across segments, FWA achieves EBIT breakeven

Revenues increased 17% to Rs 3550 mn driven by a ramp up across businesses. Revenues from Basic chemicals grew 6% to Rs 1663 mn. Revenues from Fine & specialty chemicals increased 28% to Rs 1128 mn. FWA revenues grew 38% to Rs 842 mn, achieving breakeven in EBIT for the segment.

EBITDA increased 46% to Rs 525 mn. EBITDA margins improved 290 bps to 14.8%, due to better product mix and lower other expenses. PBT grew 38% to Rs 299 mn, despite higher interest costs. PAT increased 48% to Rs 228 mn due to lower taxes. EPS for the quarter was at Rs 1.74.

Key takeaways from the concall

- ✓ DNL witnessed volume growth across businesses during the quarter.
- ✓ The company benefitted from a positive business environment due to the closure of chemical units in China on environmental concerns. This led to a revival in demand for the company's products.
- ✓ EBIT margins improved 170 bps to 15.8% in Basic chemicals, declined 260 bps to 23.2% in Fine & Specialty segment and achieved breakeven in FWA.
- ✓ Deepak Phenolics, DNL's project to manufacture 2 lakh tonnes of phenols is on track and expected to commission by March'18.
- ✓ The company has tied up investments of Rs 8650 mn of the total project cost of Rs 12500 mn (excluding working capital) so far and is confident of funding the balance.
- ✓ DNL expects to receive insurance claims for the fire at its Roha factory by Q4FY18.
- ✓ DNL is in the process of implementing the revised business strategy as suggested by the BCG group in order to improve its profitability.

% Shareholding

	Sep-17	Jun-17
Promoters	46.6	46.5
FII	11.4	11.7
DII	12.8	14.1
Others	29.2	27.7
Total	100.0	100.0

Outlook & Valuation

We are positive on the developments at DNL. We believe the revised strategy for improving profitability has started yielding fruit in the last two quarters and will continue over the long term and help in achieving earnings growth. The company's investment in the manufacturing of phenols is a significant move and will scale up its business to the next level. At Rs 215, DNL trades at 15x FY19E EPS of Rs 14. **We recommend investors to BUY DNL with a target price of Rs 275.**

Key Financials

Year	Sales	% growth	EBITDA	OPM	PAT	% growth	EPS incl. Excep	EPS excl. Excep	ROE	ROCE	P/E	P/BV
FY15	13,271.6	5%	1,392.4	10.5%	529.0	38%	5.1	5.1	15.3%	11.9%	42.5	6.5
FY16	13,729.3	3%	1,668.0	12.1%	627.3	19%	5.4	5.4	13.3%	13.3%	39.8	5.3
FY17	13,604.4	-1%	1,382.4	10.2%	978.0	56%	7.5	2.1	13.6%	6.8%	28.7	3.9
FY18E	15,725.5	16%	2,286.7	14.5%	1,110.1	14%	8.5	8.5	13.7%	8.4%	25.3	3.5
FY19E	25,156.4	60%	4,196.5	16.7%	1,828.6	65%	14.0	14.0	18.7%	14.3%	15.4	2.9



Particulars (Rs in mn)	Q2FY18	Q1FY18	Q2FY17	% yoy	% qoq	FY17	FY16	% change
Revenue from operations	3550.8	3373.6	3025.7	17%	5%	13604.4	13729.3	-1%
Raw Material Cost	2008.5	1902.8	1683.7			8458.6	8254.7	
Employee Cost	329.9	314.6	293.2			1255.9	1190.8	
Power and Fuel	297.7	287.6	283.0			1024.4	1181.5	
Other expenses	389.4	363.3	405.6			1483.2	1434.4	
EBITDA (ex OI)	525.4	505.3	360.3	46%	4%	1382.4	1668.0	-17%
EBITDA Margin %	14.8%	15.0%	11.9%			10.2%	12.1%	
Depreciation & Amortization	132.6	123.4	104.7			427.2	395.4	
Other Income	13.3	19.7	10.0			49.0	15.9	
PBIT	406.0	401.6	265.6	53%	1%	1004.1	1288.5	-22%
Finance Costs	107.4	94.6	49.0			341.2	397.1	
PBT (before exceptional items)	298.6	307.1	216.6			662.9	891.3	
Exceptional items	0.0	0.0	0.0			704.8	0.0	
PBT	298.6	307.1	216.6	38%	-3%	1367.8	891.3	53%
Tax expense	70.7	106.0	62.5			388.4	262.3	
PAT	227.9	201.0	154.1	48%	13%	979.4	629.0	56%
PAT Margin %	6.4%	6.0%	5.1%			7.2%	4.6%	
EPS	1.74	1.54	1.18			7.49	5.41	
Equity	261.4	261.4	261.4			261.4	232.6	
Face Value	2	2	2			2	2	
Number of shares	130.7	130.7	130.7			130.7	116.3	



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DEEPAK NITRITE LIMITED - KEY FINANCIALS

P&L (Rs mn)	FY15	FY16	FY17	FY18E	FY19E		FY15	FY16	FY17	FY18E	FY19E
Net Sales	13,271.6	13,729.3	13,604.4	15,725.5	25,156.4	Cash Flow St. (Rs. mn)					
Raw materials	8,570.5	8,254.7	8,458.6	8,963.5	14,590.7	PAT	529.0	627.3	978.0	1,110.1	1,828.6
Employee costs	1,001.0	1,190.8	1,255.9	1,507.1	2,110.0	Add: Dep. & Amort.	360.2	395.4	427.2	486.3	1,021.1
Power & Fuel	1,159.2	1,181.5	1,024.4	1,336.7	2,138.3	Minority Interest	-	-	-	-	-
Other Expenses	1,148.6	1,434.4	1,483.2	1,631.5	2,120.9	Cash profits	889.3	1,022.7	1,405.2	1,596.4	2,849.7
Cost of sales	11,879.2	12,061.3	12,222.1	13,438.8	20,959.9	(Inc)/Dec in					
Operating Profit	1,392.4	1,668.0	1,382.4	2,286.7	4,196.5	-Sundry debtors	(190.6)	(21.9)	(471.5)	(58.8)	(2,196.3)
Depreciation	360.2	395.4	427.2	486.3	1,021.1	-Inventories	249.1	(159.8)	(148.0)	(66.2)	(894.2)
PBIT	1,032.2	1,272.6	955.1	1,800.3	3,175.4	-Loans/advances	(402.2)	(281.4)	(972.7)	(231.6)	(254.8)
Interest	379.9	397.1	341.2	399.7	695.7	Other curr. Assets	(8.2)	(7.1)	(33.2)	(6.2)	(6.8)
Other income	20.7	15.9	49.0	60.0	60.0	Other non curr assets	251.1	0.1	0.1	-	-
Profit before tax & Exceptional items	672.9	891.3	662.9	1,460.6	2,539.7	-Sundry creditors	(366.1)	235.5	170.9	(28.5)	925.0
Exceptional Items	-	-	704.8	-	-	-Provisions	(284.3)	54.8	(131.7)	16.6	79.3
Profit before tax	672.9	891.3	1,367.8	1,460.6	2,539.7	Other curr. Liab	432.2	469.4	660.4	376.5	1,677.1
Provision for tax	143.0	262.3	388.4	350.5	711.1	Other non curr Liab	(15.2)	2.4	(0.5)	2.9	3.1
Profit after tax	529.9	629.0	979.4	1,110.1	1,828.6	Change in working capite	(334.3)	292.1	(926.0)	4.7	(667.5)
Minority Interest/ Share of Profit	(0.9)	(1.7)	(1.4)	-	-	CF from Oper. activities	555.0	1,314.8	479.1	1,601.1	2,182.2
Reported PAT	529.0	627.3	978.0	1,110.1	1,828.6	CF from Inv. activities	(962.0)	(1,601.2)	(3,829.0)	(7,870.7)	(1,003.1)
BALANCE SHEET						CF from Fin. activities	373.2	320.7	3,429.9	6,408.9	(1,123.8)
Equity capital	209.1	232.6	261.4	261.4	261.4	Cash generated/(utilised)	(33.8)	34.3	80.1	139.3	55.4
Reserves	3,253.1	4,496.1	6,909.5	7,862.7	9,495.2	Cash at start of the year	64.4	30.6	64.9	145.0	284.3
Net worth	3,462.2	4,728.6	7,170.9	8,124.1	9,756.6	Cash at end of the year	30.6	64.9	145.0	284.3	339.6
Def. Tax Liab.	463.2	566.5	657.2	723.0	795.3	Ratios					
Secured loans	2,386.0	1,589.3	2,383.0	8,883.0	7,883.0	OPM	10.5%	12.1%	10.2%	14.5%	16.7%
Unsecured loans	2,310.1	2,685.2	3,766.2	3,766.2	3,766.2	NPM	4.0%	4.6%	7.2%	7.1%	7.3%
Total debt	4,696.1	4,274.4	6,149.2	12,649.2	11,649.2	Tax rate	21.2%	29.4%	28.4%	24.0%	28.0%
Other Long term	26.7	29.1	28.6	31.5	34.6	Growth Ratios (%)					
CAPITAL EMPLOYED	8,648.3	9,598.6	14,006.0	21,527.8	22,235.7	Income from Operations	5%	3%	-1%	16%	60%
Gross block	8,040.3	8,842.3	9,198.3	21,198.3	22,198.3	Operating Profit	22%	20%	-17%	65%	84%
Accumulated depreciation	2,612.2	2,924.2	3,351.4	3,837.8	4,858.9	Net Profit	38%	19%	56%	14%	65%
Net block	5,428.1	5,918.1	5,846.8	17,360.5	17,339.4	Per Share (Rs.)					
Capital WIP	429.0	319.3	3,493.1	500.0	500.0	Net Earnings (EPS)	5.1	5.4	7.5	8.5	14.0
Total fixed assets	5,857.2	6,237.4	9,339.9	17,860.5	17,839.4	EPS excl. Exceptional	5.1	5.4	2.1	8.5	14.0
Intangible Assets	69.7	59.1	58.5	61.4	64.5	Cash Earnings (CPS)	8.5	8.8	10.8	12.2	21.8
Other non current assets	0.2	0.1	-	-	-	Dividend	1.0	1.2	1.2	1.2	1.5
Investments	29.8	866.0	1,165.8	26.7	26.7	Book Value	33.1	40.7	54.9	62.2	74.6
Inventories	1,050.4	1,210.2	1,358.2	1,424.3	2,318.5	Free Cash Flow	(3.8)	(2.5)	(25.6)	(48.0)	9.0
Sundry debtors	3,109.9	3,131.9	3,603.3	3,662.1	5,858.3	Face Value	2.0	2.0	2.0	2.0	2.0
Cash & bank	30.6	64.9	145.0	284.3	339.6	Return Ratios (%)					
Loans & advances	1,062.0	1,343.4	2,316.1	2,547.7	2,802.5	ROE	15.3%	13.3%	13.6%	13.7%	18.7%
Other current assets	21.4	28.5	61.7	67.9	74.7	ROCE	11.9%	13.3%	6.8%	8.4%	14.3%
Sundry creditors	1,095.5	1,331.0	1,502.0	1,473.5	2,398.5	Valuation Ratios (%)					
Current Liabilities	1,291.7	1,761.1	2,421.5	2,798.1	4,475.1	P/E	42.5	39.8	28.7	25.3	15.4
Provisions	195.8	250.7	119.0	135.6	214.9	P/BV	6.5	5.3	3.9	3.5	2.9
Working capital	2,660.8	2,371.1	3,296.8	3,295.0	3,965.6	EV/EBITDA	22.6	18.9	22.8	13.8	7.5
CAPITAL DEPLOYED	8,648.3	9,598.6	14,006.0	21,527.8	22,235.7						



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