

Company Background

Established in 1970s, Deepak Nitrite Limited ("DNL") manufactures phenol based derivatives and enjoys leading market position in most of its products in the domestic as well as global markets. DNL is global player for several niche chemical products like Xylidines, Cumidines, Oximes & Colour Intermediates and caters to several industries - Colorants, Petrochemicals, Agrochemicals, Rubber, Pharmaceuticals, Paper, Textile, Detergents, etc. It has 4 business segments namely basic chemicals segment, fine & speciality segment, performance products and phenol-acetone business each contributing 17.5%, 17.5%, 7% and 58% to the top-line respectively as of FY21.

Why we like Deepak Nitrite Ltd?

- Diversified business model lowers dependence on one end user
- Fine and Specialty Chemicals to drive growth for DNL
- Long-standing relationships with clients
- Healthy balance sheet and strong return ratios provides us comforts us

Important Statistics

MCAP (₹ Cr)	₹29,432.25
52 Week H/L (₹)	3,020.00/785.85
NSE Code	DEEPAKNTR
BSE Code	506401

Shareholding Pattern	Sep `21
Promoter	45.7
MFs	10.6
FIIIs	10.9
Others	32.9

Investment Thesis
Diversified business model – lowers dependence on any one end user

- Over the past decade, DNL has diversified its revenue profile by expanding its product offerings, adding new customers in varied end-user segments, and increasing its share of exports.
- A diversified portfolio mix also enables DNL to leverage on export demand, especially in the FSC and PP segments, which explains the company's significant ~30% export contribution to total revenues in FY21

Financials

Particulars	FY21	FY20	FY19
Total Revenue	43,598	42,297	26,999
EBITDA	12,470	10,255	4,139
PAT	7,758	6,079	1,708
EPS (₹)	56.9	44.8	12.7
P/E (x)	36.9	46.8	164.7
EV/ EBITDA (x)	23.3	28.9	72.0
RoE (%)	39.6%	46.2%	17.4%
ROCE (%)	29.4	27.6%	10.5%
Net Debt/Equity(x)	0.2	0.6	1.1

Fine and Specialty Chemicals to drive growth for DNL

- This division registered 19.5% revenue and 42% EBIT CAGR over FY17-21, led by strong export demand and new product commercialisations. Benefits accruing from cost efficiency and backward integration initiatives further boosted performance in this division. DNL expects to launch 2 new products in FY22E (one for pharma and one for agrochemical).
- Management has indicated commercialisation of 5 new molecules over the next 2-3 years. DNL is looking to consistently launch new value-added intermediates every year with investment in new technology platforms and target new customers in newer geographies.

Long-standing relationships with clients given high switching costs

- DNL has been able to enhance its customer base by strictly adhering to product specifications and delivery timelines. It has been satisfactorily supplying its wide range of 100+ products to global and domestic customers
- DNL's marquee clients include domestic companies like UPL, Sun Pharma, Reliance Industries, etc. and international customers like Bayer Cropscience, Lanxess, BASF etc.

Healthy balance sheet and strong return ratios provides us comforts us

- DNL's revenues grew at 34% CAGR over FY17-21, largely driven by its Phenolics division. While EBITDA grew at CAGR of 74% with margins improving from 10% in FY17 to 28.6% in FY21, led by operating leverage benefits, rise in key product prices, coupled with high-value product launches in the FSC division.
- During FY15-19, Company's FCF turned negative due to heavy capex. However, given its strong operational performance, FCF turned positive in FY20, with the company generating substantial ₹8700mn FCF over FY20-21. DNL used these cash flows to pare debt in FY21. Net debt to EBITDA reduced significantly from 4.2x to 0.4x over FY17-21.

Q2FY22 – subdued show on margin front, long term story remains intact

- Revenues were up 70%Y-o-Y & 10% Q-o-Q led by scaled up performance in its business segments benefiting from operating leverage and demand improvement. EBITDA Margins stood at 23% compared to 28% in Q2FY21 on account of higher input prices and power && logistics cost. PAT was `2,543mn in Q2FY22, up by 49% led by strong operational performance and reduction in finance costs.
- In the Phenolics business, revenues grew by 143% to `21,450mn in H1FY22 as compared to `8820mn in H1FY21. Capacity utilization stood at ~120% supported by favorable demand trends and attractive pricing for both Phenol and Acetone. EBITDA was higher by 147% to `5610mn in H1FY22 and EBITDA margin stood at 26% in H1FY22.
- Higher input prices hurt margins in Q2FY22 however management guided of price hikes in Q3FY22 and would adopt formula based pricing henceforth. Apart from this, capacity addition for Agrochemical intermediate at new site in Dahej and capacity addition in IPA of 30,000 MT and new 29 MW power plant (will be commercialised in Q3FY22) are expected to boost company's performance.

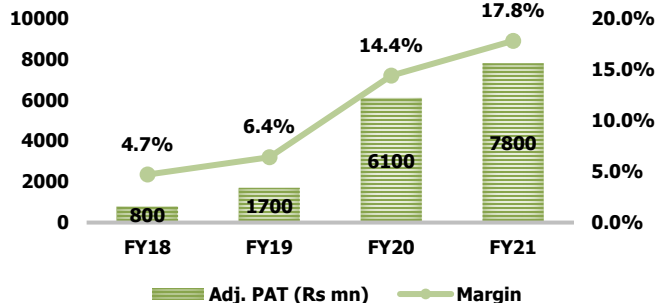
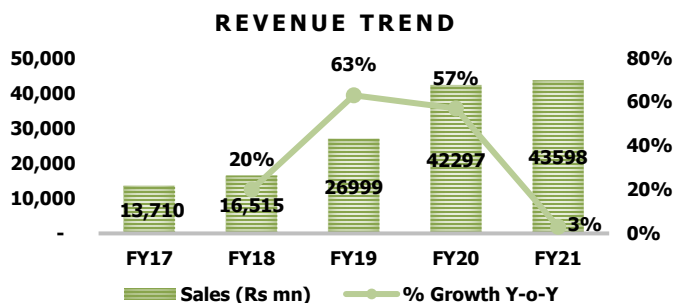
Key Risks

- **Adverse movement in raw material prices** – Raw material price volatility directly impacts prices of end-products as they form a major component of the entire chemical process. However, DNL ensures that a majority of its products are contracted with pass through clauses, thereby minimising the adverse impact from raw material variation.
- **Technological advancements could cannibalize older products** – Established products are always prone to the risk of obsolescence, due to introduction of new technologies and processes. Thus, discovery of new products with more effective processes for manufacturing chemical compounds may put at risk the viability of some of the product lines.
- **Fall in phenol-acetone spreads** – A significant portion of DNL's FY21 profitability was from increase in the phenol-acetone spread. A fall in the spread could hamper the company's margins in the near term.

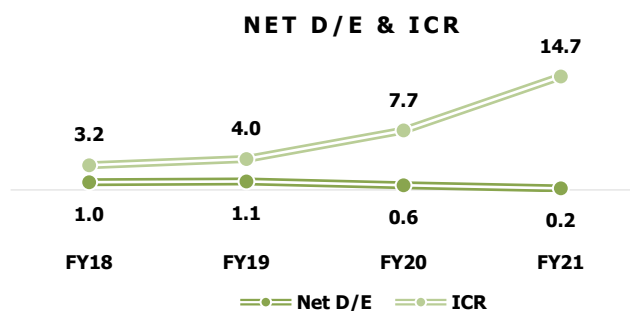
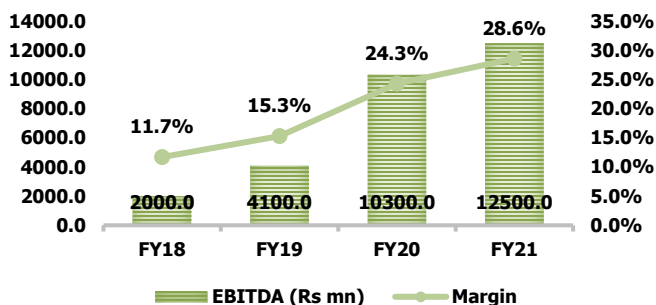
Valuation

Company reported strong CAGR of 33.5% in revenue, 74% in EBITDA and 134% PAT over FY17-FY21. Over the years, company has successfully diversified into different business segments, newer geographies and new clients, thus providing competitive edge over peers. In its next leg of growth, the company expects to introduce downstream products and complex chemistry platforms for which it is already incurring a capex of ~`11000mn, stretched over the next 2-3 years. We believe company's long term strong to play out with growth drivers such as commissioning of IPA expansion and the captive power plant (expected by Q3FY22), entry into solvents business, launch of phenol acetone derivatives and the multiyear contract agreement with global player. **At CMP of ₹2087 Deepak Nitrite Ltd. is trading at ~23-25x FY21 EV/EBITDA (18 TTM EV/EBITDA & 27 TTMP/E) which is at discount to its peers given other ratios and operating metrics and thus recommend investors to ACCUMULATE the stock on dips.**

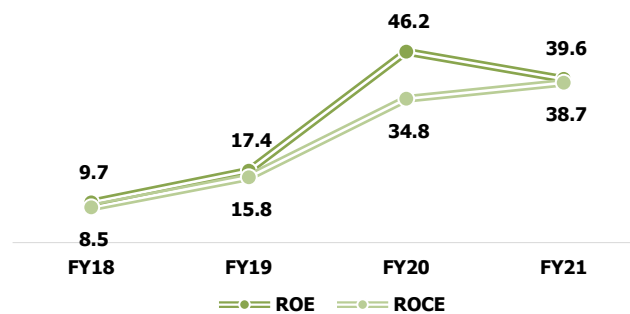
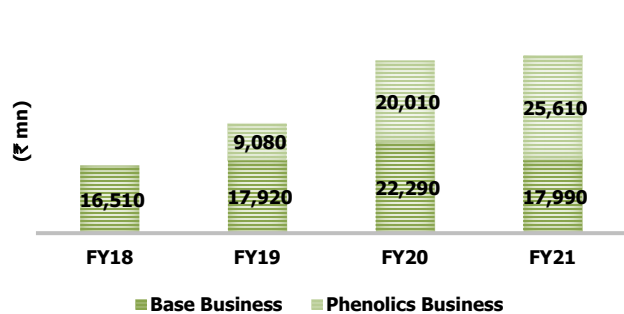
Key Financial Charts



Source: Company Data, Way2Wealth Research



Source: Company Data, Way2Wealth Research



Source: Company Data, Way2Wealth Research

Financials

	(₹ mn)			
Income Statement	FY18	FY19	FY20	FY21
Total Income from Operations	16,762	26,999	42,297	43,598
YoY (%)	15.2	61.1	56.7	3.1
Gross Margin (%)	38%	39%	43.9%	48.1%
EBITDA	1,963	4,139	10,258	12,470
EBITDA Margin (%)	11.7%	15.3%	24.3%	28.6%
Depreciation	530	778	1,397	1,526
EBIT	1,437	3,361	8,861	10,944
EBIT Margin (%)	8.6	12.4	20.9	25.1
Int. and Finance Charges	451	832	1,149	742
Other Income	123	151	352	215
PBT after EO Exp.	1,109	2,680	8,064	10,417
Total Tax	318	943	1,954	2,659
Adjusted PAT	790	1,737	6,110	7,758
PAT Margin (%)	4.7%	6.4%	14.4%	17.8%
EPS(₹)	6.4	12.7	44.8	56.9

Ratios	FY18	FY19	FY20	FY21
Basic EPS (₹)	6.4	12.7	44.8	56.9
Dividend Payout (%)	27	61.6	12.1	9.7
Valuation (x)				
P/E	362	164.7	46.8	36.9
P/BV	31	26.7	18.2	12.2
EV/Sales	17.6	11	7	6.7
EV/EBITDA	150.5	72	28.9	23.3
Return Ratios (%)				
RoE	9.7	17.4	46.2	39.6
RoCE	6.5	10.5	27.6	29.4
Fixed Asset Turnover (%)	2.9	2.4	2.4	2.4
Inventory (Days}	71	56	34	32
Debtor (Days)	90	78	53	63
Creditor (Days)	130	64	31	37
Leverage Ratio (x)				
Current Ratio	1.6	2.2	2.3	2.2
Interest Coverage Ratio	3.2	4	7.7	14.7
Net Debt/Equity	1	1.1	0.6	0.2

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Disclosure of Interest Statement Deepak Nitrite Limited as on 30th November 2021

Name of the Security	Deepak Nitrite Limited
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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