

Deepak Nitrite

BSE SENSEX
81,921

S&P CNX
25,041

CMP: INR2,969

TP: INR3,060 (+3%)

Neutral



Stock Info

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	405 / 4.8
52-Week Range (INR)	3169 / 1922
1, 6, 12 Rel. Per (%)	-6/23/2
12M Avg Val (INR M)	1008
Free float (%)	50.8

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	76.8	88.1	92.1
EBITDA	11.2	13.4	16.4
PAT	7.5	8.9	10.4
EPS (INR)	55.1	65.3	76.4
EPS Gr. (%)	-11.7	18.5	17.0
BV/Sh.(INR)	351.7	408.7	475.5

Ratios

Net D:E	-0.1	0.0	0.1
RoE (%)	16.9	17.2	17.3
RoCE (%)	16.0	15.8	15.1
Payout (%)	12.6	12.6	12.6

Valuations

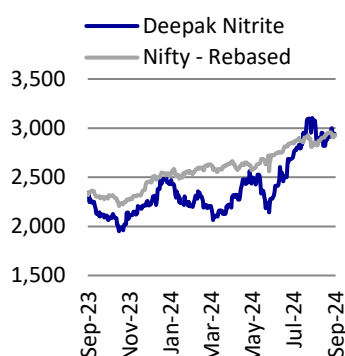
P/E (x)	53.9	45.5	38.9
P/BV (x)	8.5	7.3	6.2
EV/EBITDA (x)	35.9	30.3	25.1
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	0.3	-0.9	-0.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	49.2	49.1	49.1
DII	21.2	19.3	15.6
FII	6.9	6.7	8.1
Others	22.7	24.9	27.2

FII Includes depository receipts

Stock performance (one-year)



Optimistic about future opportunities

- DN is investing INR22b in integration projects, including MIBK/MIBC and Photochlorination plants, set for phased commissioning by FY25. It has also committed INR140b through Deepak Chem Tech to expand into specialty chemicals and polymers, aiming for market leadership in India.
- DN is also optimizing processes, shifting to high-margin products, and improving efficiency to boost profitability. Cost reduction, backward integration, and a supply deal with Petronet LNG would ensure a steady supply of raw materials and cut logistics emissions by 75%.
- It aims to become the largest player in solvents with a focus on import substitution and is pursuing aggressive integration to de-risk and diversify its business. We believe the current valuation at ~39x FY26E EPS seems expensive for a commodity chemical company, hence we maintain our Neutral rating with a TP of INR3,060.

Import substitution at play with various projects underway

- DN is currently undertaking a capex of INR22b for various backward and forward (value-added products) integration projects that it plans to commission in phases in FY25. MIBK/MIBC projects are expected to be commissioned in 4QFY25, which would be a forward integration of Acetone. The Photochlorination, solvent, nitration and hydrogenation plants are also slated to be commissioned in 2HFY25.
- DN has already completed the debottlenecking of its Phenol and Acetone plant in FY24 and also commissioned its fluorination plant in Mar'24. This is backward integration for agrochemical products of DN. Advanced process control (APC) has also been deployed in DPL, which has resulted in a notable increase in production of Phenol, Acetone and IPA, driving sales and value. An R&D center in Savli, Vadodara, is also slated to be commissioned in Mar'25, which would feature advanced laboratories and pilot plants.
- Moreover, DN has also committed a capex of INR140b (through its wholly owned subsidiary Deepak Chem Tech or DCTL) over the next five years to expand its capacity in strategic areas such as speciality chemicals, phenol, acetone, and Bisphenol-A. This is an MoU signed with the Government of Gujarat.
- DCTL also plans to manufacture new polymers such as Polycarbonate Resins & Compounds (PC), Methyl Methacrylate (MMA), Poly Methyl Methacrylate (PMMA) Resins & Compounds and Aniline at its new facilities in Dahej. They would be import substitution products and give DN the first-mover advantage, establishing the company as the market leader in India.

Focusing on sustainable growth

- DN is focusing currently on product and process optimization and improving efficiency of various plants and facilities, which would help it to sustainably increase its margin. It is shifting toward high-margin, value-added products by leveraging its strong market position in specialty chemicals and advanced intermediates to enhance profitability.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

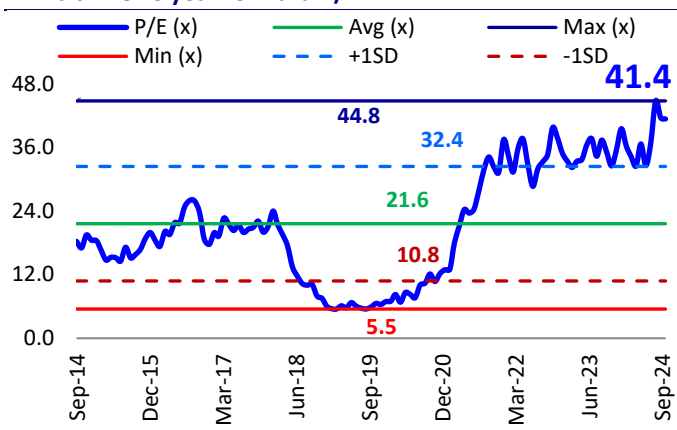
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- It is also trying to reduce costs through continuous process optimization, productivity improvements, and energy conservation efforts. These initiatives include asset fungibility improvements to match customer demands, which would ultimately boost operating margins on a sustainable basis. Backward integration into Nitric Acid and Benzo-Tri-Fluoride (BTF) will add sustainable resilience to these businesses.
- The execution of the binding term sheet with Petronet LNG in FY24 for the supply of raw materials (DPL will procure 250ktpa of Propylene and 11ktpa of Hydrogen via pipeline) from its proposed facility at Dahej mitigates long-term project risks and ensures steady supply. All the above-mentioned projects are also expected to reduce carbon emission by more than 75% in logistics movements.

Valuation and view

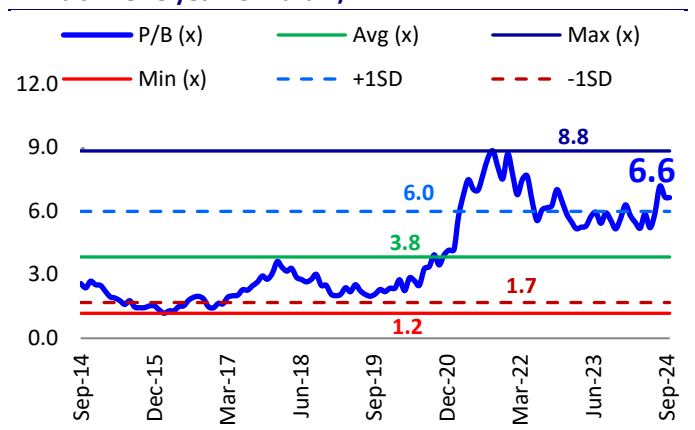
- The company aims to become the largest player in solvents, with a play on import substitution. It is foraying into Methyl Isobutyl Ketone (MIBK, 40ktpa), Methyl Isobutyl Carbinol (MIBC, 8ktpa), and Sodium Nitrite/ Nitrate, among other products. These products are taking shape and would be commissioned as per the plan. Some other previously announced capex projects have already been commissioned (fluorination plant, specialty salts unit).
- DN is aggressively pursuing both backward and forward integration projects in order to de-risk its business model and expand its product portfolio. However, its entire product portfolio consists of commodities.
- The stock trades at ~39x FY26E EPS of INR76.4 and ~25x FY26E EV/EBITDA, which we believe is expensive. We reiterate our Neutral rating with a TP of INR3,060 (40x FY26E EPS).

Exhibit 1: One year forward P/E



Source: MOFSL

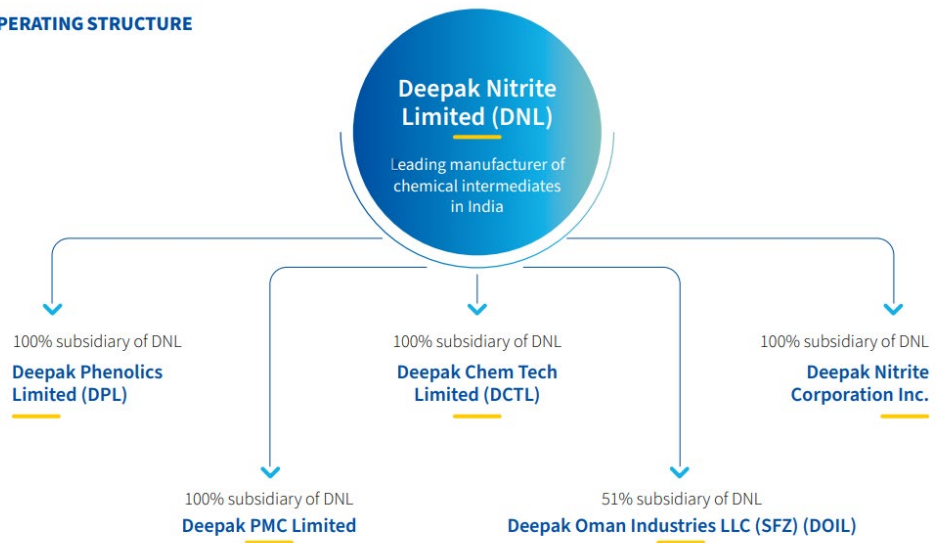
Exhibit 2: One year forward P/B



Source: MOFSL

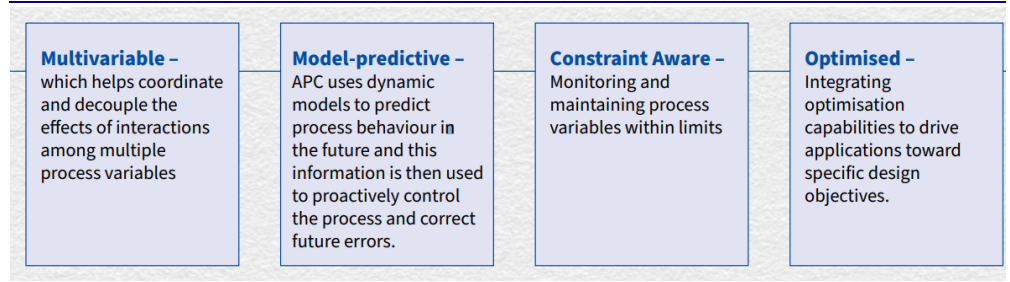
Exhibit 3: Current operating structure of DN

OPERATING STRUCTURE



Source: Company, MOFSL

Exhibit 4: Advanced Process Control (APC) has four significant features



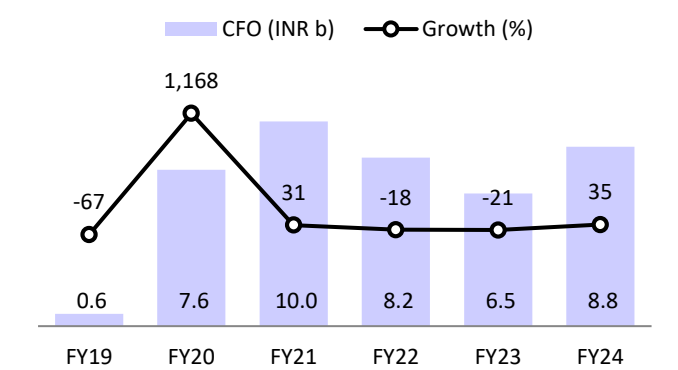
Source: Company, MOFSL

Exhibit 5: Key benefits achieved after APC implementation at Phenol & Cumene Plant at DPL

Parameters	Key benefit
Increase in production	2.0 – 3.5%
Reduction in chemicals, energy consumption & material loss	1.0 – 10%
Significant reduction in standard deviations	2.0 – 70%
Sustained quality at different plant loads Reduction in operator intervention	> 50%
Enhanced green index	>625 tons of CO2 reduction

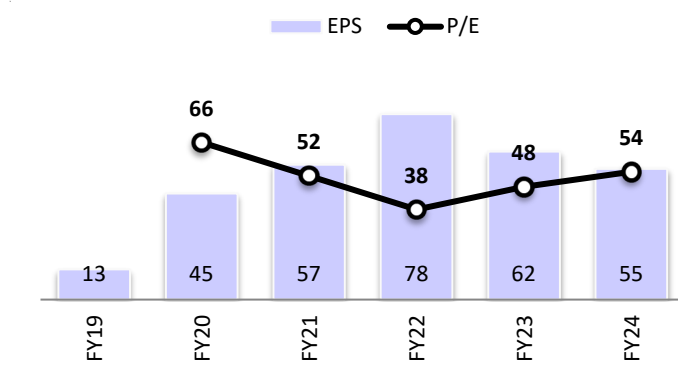
Source: Company, MOFSL

Exhibit 6: Strong cash flow generation from operations



Source: Company, MOFSL

Exhibit 7: Valuation still rich with EPS decline in FY24



Source: Company, MOFSL

Exhibit 8: DN has been investing aggressively in its R&D

R&D Expenditure (INR m)	FY19	FY20	FY21	FY22	FY23	FY24
Capital Expenditure	19	31	49	74	41	91
Recurring Expenditure	81	104	103	149	167	203
Total Expenditure	100	135	152	223	207	295
Total R&D expenditure as % of total turnover	0.37%	0.32%	0.35%	0.33%	0.26%	0.38%

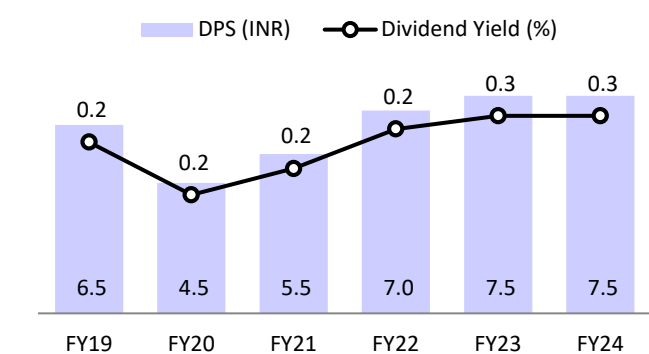
Source: Company, MOFSL

Exhibit 9: R&D expenses and capex in specific technologies to total R&D and capex

% R&D and capex investments to total R&D and capex investments	FY23	FY24	Improvements in environmental and social impacts
R&D	6%	6%	Efficiency improvement, emission reduction, energy conservation, improved effluent treatment.
Capex	5%	5%	Reduction in usage of non-renewable energy, increased water recovery recycling capacity, improved organic reduction efficiency.

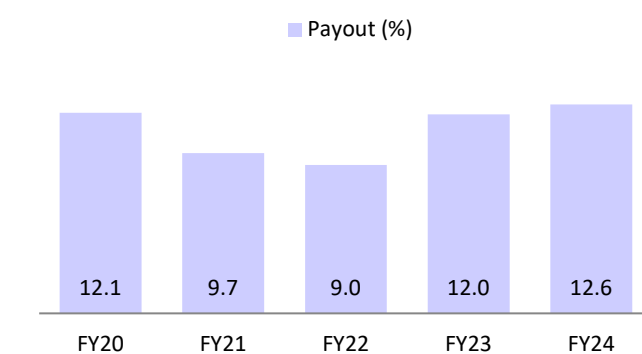
Source: Company, MOFSL

Exhibit 10: Higher dividend declared in FY24



Source: Company, MOFSL

Exhibit 11: Higher payout ratio in FY24



Source: Company, MOFSL

Exhibit 12: Cash conversion cycle at 70 days in FY24

Cash conversion cycle (year-end basis) FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22 FY23 FY24											
Days											
Inventory		28	30	42	71	56	34	32	31	41	36
Debtor		80	78	90	90	78	53	63	61	60	62
Creditor		28	33	54	130	64	31	37	27	30	28
Cash conversion cycle		80	75	79	31	69	55	59	64	71	70

Source: Company, MOFSL

Exhibit 13: Peer comparison for our coverage universe

Spec Chemical	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Alkyl Amines	Neutral	1,955	29.1	41.5	55.8	78.0	54.6	40.6	9.2	8.3	7.3	45.2	32.3	25.1	12.2	15.9	19.0
Atul	Buy	9,100	103.4	160.8	214.4	76.3	49.1	36.8	4.5	4.2	3.8	37.5	26.5	21.4	6.2	8.9	10.9
Clean Science	Neutral	1,440	23.0	27.5	36.1	66.0	55.1	42.0	13.4	11.1	9.0	48.0	39.7	31.4	22.1	22.0	23.6
Deepak Nitrite	Neutral	3,060	55.1	65.3	76.4	53.1	44.9	38.3	8.3	7.2	6.2	36.2	30.6	25.4	16.9	17.2	17.3
Fine Organic	Sell	4,095	120.0	119.2	116.9	45.2	45.5	46.4	8.9	7.6	6.6	32.1	31.7	31.4	21.8	18.0	15.2
Galaxy Surfact.	Buy	3,450	85.0	97.7	115.0	35.9	31.3	26.6	5.0	4.4	4.0	22.1	18.5	15.9	14.8	15.0	15.8
Navin Fluorine	Neutral	3,450	46.1	60.3	86.2	71.5	54.7	38.2	6.9	6.3	5.6	44.9	33.9	25.8	10.0	12.0	15.5
NOCIL	Neutral	315	7.9	9.4	12.6	37.9	31.8	23.7	3.0	2.8	2.6	25.4	21.4	16.2	8.1	9.0	11.4
P I Industries	Buy	5,200	110.6	113.8	137.5	41.7	40.5	33.6	8.0	6.8	5.7	32.1	27.3	22.4	21.1	18.2	18.6
SRF	Neutral	2,130	47.5	52.6	74.0	52.9	47.7	33.9	6.5	5.9	5.2	30.8	26.5	20.6	13.0	13.0	16.4
Tata Chemicals	Neutral	980	36.1	29.6	49.4	29.2	35.6	21.4	1.2	1.2	1.1	11.2	12.1	9.5	4.4	3.4	5.5
Vinati Organics	Buy	2,425	31.2	42.7	53.9	61.8	45.2	35.8	8.1	7.1	6.2	41.8	31.1	25.1	13.8	16.8	18.5

Source: Company, MOFSL

Story in charts

Exhibit 14: : Revenue contribution from Phenol to remain higher...

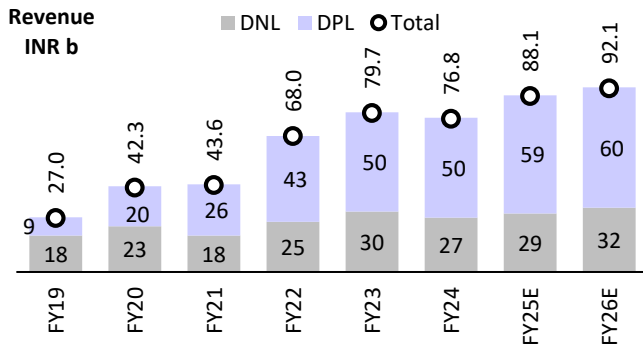


Exhibit 15: ...with focus on domestic market as a play on import substitution

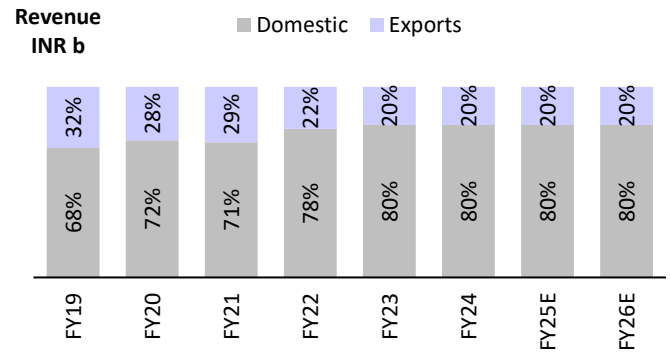


Exhibit 16: Segmental EBIT break up of DN...

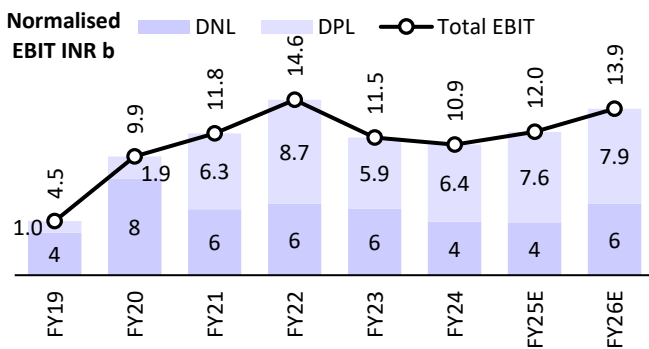


Exhibit 17: ...with AI still enjoying a higher EBIT margin

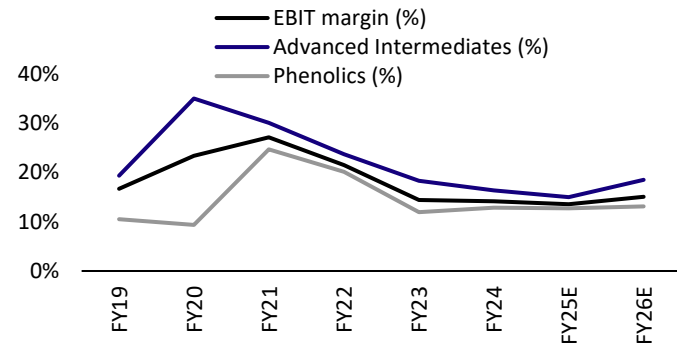


Exhibit 18: EBITDA margin to normalize from FY22 levels

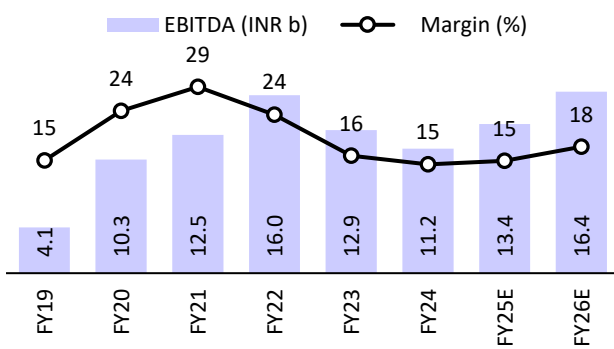


Exhibit 19: Expect ~18% PAT CAGR over FY24-26

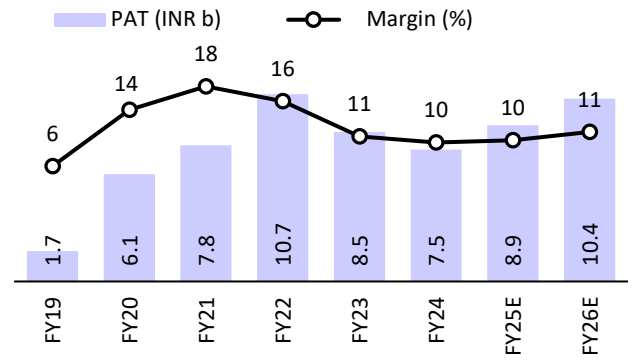


Exhibit 20: Capex to be incurred by DN

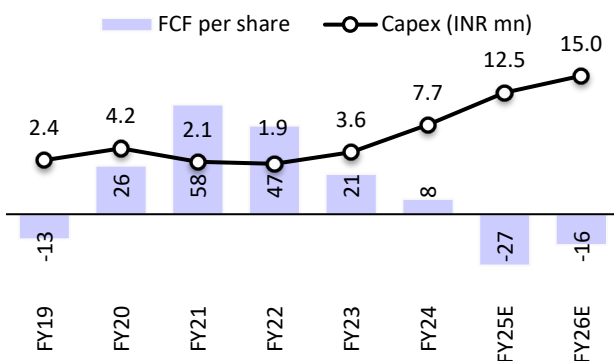
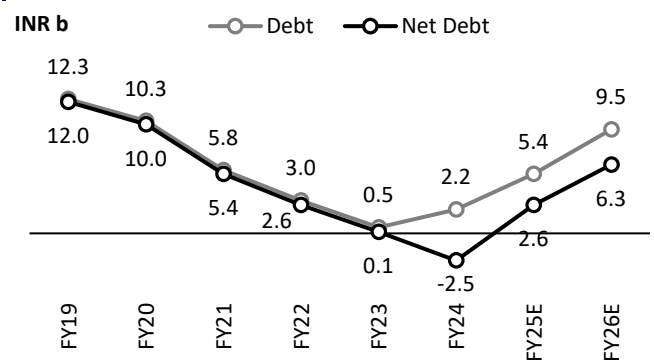


Exhibit 21: Debt profile of DN



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	26,999	42,297	43,598	68,022	79,721	76,818	88,131	92,059
<i>Change (%)</i>	61.1	56.7	3.1	56.0	17.2	-3.6	14.7	4.5
<i>Gross Margin (%)</i>	39.0	43.9	48.1	39.5	32.9	31.8	32.2	34.7
EBITDA	4,139	10,258	12,470	16,036	12,894	11,233	13,448	16,373
<i>Margin (%)</i>	15.3	24.3	28.6	23.6	16.2	14.6	15.3	17.8
Depreciation	778	1,397	1,526	1,777	1,663	1,657	1,914	2,939
EBIT	3,361	8,861	10,944	14,259	11,231	9,576	11,534	13,434
Int. and Finance Charges	832	1,149	742	340	248	118	266	149
Other Income	151	352	215	426	476	761	639	649
PBT bef. EO Exp.	2,680	8,064	10,417	14,345	11,459	10,219	11,907	13,934
EO Items	0	0	0	0	0	798	0	0
PBT after EO Exp.	2,680	8,064	10,417	14,345	11,459	11,017	11,907	13,934
Total Tax	943	1,954	2,659	3,678	2,939	2,908	2,997	3,507
<i>Tax Rate (%)</i>	35.2	24.2	25.5	25.6	25.6	26.4	25.2	25.2
Reported PAT	1,737	6,110	7,758	10,666	8,520	8,109	8,910	10,427
Adjusted PAT	1,737	6,110	7,758	10,666	8,520	7,522	8,910	10,427
<i>Change (%)</i>	119.8	251.9	27.0	37.5	-20.1	-11.7	18.5	17.0
<i>Margin (%)</i>	6.4	14.4	17.8	15.7	10.7	9.8	10.1	11.3

Consolidated - Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	273	273	273	273	273	273	273	273
Total Reserves	10,443	15,446	23,194	33,112	40,627	47,693	55,479	64,591
Net Worth	10,716	15,719	23,467	33,384	40,900	47,966	55,752	64,863
Total Loans	12,286	10,279	5,775	3,007	545	2,170	5,424	9,492
Deferred Tax Liabilities	775	796	1,078	1,229	1,566	1,736	1,736	1,736
Capital Employed	23,776	26,794	30,320	37,620	43,011	52,133	63,173	76,352
Gross Block	17,749	20,460	22,441	25,263	26,523	31,690	44,190	59,190
Less: Accum. Deprn.	743	2,140	3,666	5,443	7,106	8,763	10,677	13,616
Net Fixed Assets	17,006	18,320	18,774	19,820	19,416	22,927	33,513	45,575
Capital WIP	339	1,723	2,068	1,037	3,008	7,735	7,735	7,735
Total Investments	24	24	1,893	4,390	3,794	1,219	1,219	1,219
Curr. Assets, Loans, and Adv.	11,910	12,019	12,868	19,057	25,069	29,081	30,786	32,146
Inventory	4,107	3,945	3,827	5,846	8,931	7,599	8,653	8,769
Account Receivables	5,750	6,127	7,563	11,291	13,095	12,984	14,895	15,559
Cash and Bank Balance	258	314	334	418	400	4,655	2,830	3,215
Cash	30	21	89	229	376	2,380	555	940
Bank Balance	228	293	245	189	23	2,275	2,275	2,275
Loans and Advances	1,795	1,633	1,144	1,503	2,644	3,844	4,407	4,602
Curr. Liability and Prov.	5,502	5,292	5,283	6,684	8,277	8,829	10,080	10,323
Account Payables	4,724	3,643	4,367	5,117	6,618	5,823	6,630	6,719
Other Current Liabilities	587	1,385	640	1,272	1,216	2,476	2,841	2,967
Provisions	191	264	276	296	443	531	609	636
Net Current Assets	6,408	6,727	7,585	12,373	16,792	20,252	20,706	21,824
Appl. of Funds	23,776	26,794	30,320	37,620	43,011	52,133	63,173	76,352

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	12.7	44.8	56.9	78.2	62.5	55.1	65.3	76.4
EPS Growth (%)	120%	252%	27%	37%	-20%	-12%	18%	17%
Cash EPS	18.4	55.0	68.1	91.2	74.7	67.3	79.4	98.0
BV/Share	78.6	115.2	172.0	244.8	299.9	351.7	408.7	475.5
DPS	6.5	4.5	5.5	7.0	7.5	7.5	8.2	9.6
Payout (%)	61.6	12.1	9.7	9.0	12.0	12.6	12.6	12.6
Valuation (x)								
P/E	233.4	66.3	52.3	38.0	47.6	53.9	45.5	38.9
Cash P/E	161.2	54.0	43.7	32.6	39.8	44.2	37.5	30.3
P/BV	37.8	25.8	17.3	12.1	9.9	8.5	7.3	6.2
EV/Sales	15.5	9.8	9.4	6.0	5.1	5.2	4.6	4.5
EV/EBITDA	100.9	40.5	32.9	25.4	31.5	35.9	30.3	25.1
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
FCF per share	-13.3	25.6	57.8	46.8	21.3	8.0	-27.0	-16.3
Return Ratios (%)								
RoE	17.4	46.2	39.6	37.5	22.9	16.9	17.2	17.3
RoCE	10.5	27.6	29.1	32.1	21.6	16.0	15.8	15.1
RoIC	13.5	28.0	32.1	36.7	24.7	19.0	19.2	17.4
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.4	2.4	3.5	4.1	3.6	3.1	2.3
Asset Turnover (x)	1.1	1.6	1.4	1.8	1.9	1.5	1.4	1.2
Inventory (Days)	56	34	32	31	41	36	36	35
Debtor (Days)	78	53	63	61	60	62	62	62
Creditor (Days)	64	31	37	27	30	28	27	27
Leverage Ratio (x)								
Current Ratio	2.2	2.3	2.4	2.9	3.0	3.3	3.1	3.1
Interest Coverage Ratio	4.0	7.7	14.7	41.9	45.3	80.9	43.4	90.1
Net Debt/Equity ratio	1.1	0.6	0.2	0.1	0.0	-0.1	0.0	0.1

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INR m)								
OP/(Loss) before Tax	2,680	8,064	10,417	14,345	11,459	11,017	11,907	13,934
Depreciation	778	1,397	1,526	1,777	1,663	1,657	1,914	2,939
Others	829	1,262	852	295	63	-509	266	149
Direct Taxes Paid	-561	-1,985	-2,365	-3,535	-2,600	-2,665	-2,997	-3,507
(Inc.)/Dec. in WC	-3,123	-1,092	-412	-4,643	-4,085	-720	-2,278	-733
CF from Operations	603	7,647	10,019	8,239	6,499	8,781	8,811	12,782
(Inc.)/Dec. in FA	-2,410	-4,160	-2,140	-1,862	-3,599	-7,685	-12,500	-15,000
Free Cash Flow	-1,808	3,487	7,879	6,377	2,900	1,096	-3,689	-2,218
Change in Investments	299	3	-1,854	-2,401	816	427	0	0
Others	486	-122	33	22	22	40	0	0
CF from Investments	-1,626	-4,279	-3,961	-4,241	-2,761	-7,218	-12,500	-15,000
Issue of Shares	0	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	2,033	-1,088	-5,246	-2,812	-2,523	1,625	3,254	4,068
Interest Paid	-841	-1,134	-736	-320	-233	-98	-266	-149
Dividend Paid	-213	-1,060	-4	-750	-955	-1,023	-1,124	-1,315
Others	-20	-94	-5	24	120	-68	0	0
CF from Fin. Activity	958	-3,376	-5,990	-3,858	-3,591	435	1,864	2,603
Inc./Dec. in Cash	-64	-8	68	139	148	1,998	-1,825	385
Opening Balance	94	30	22	90	229	377	2,380	556
Closing Balance	30	22	90	229	377	2,380	556	941

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Explanation of Investment Rating	
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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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