

Deepak Nitrite Limited

CMP : ₹553.45

Target price: ₹830

HP* : Upto 3 years

Our Vriddhi pick for the month of July is Deepak Nitrite Limited. It is a multi-product company that manufactures a diversified product portfolio of basic chemicals (BC), fine and speciality chemicals (FSC) as well as performance products (PP).

Other than the domestic market, the company enjoys a significant footprint offshore, especially into Europe, USA, Japan, Latin America, South East, and Far-East Asia, an export network spanning over 30 countries.

Basic Chemicals segment-major growth driver

Under the basic chemicals segment, the company manufactures Nitrites, Nitro Toluidines and fuel additives. As these chemicals are high-margin and high-volume products, they drive growth and overall profitability for the company. These products have applications across various industries such as colorants, rubber chemicals, explosives, dyes, pigments, food colours, pharmaceuticals, petrol and diesel blending, agrochemicals etc.

In FY20, revenue from this segment grew 5.3 per cent YoY to Rs 940.32 crore. Whereas, EBIT jumped by 44.03 per cent YoY to Rs 209.32 crore. A dip in crude oil prices during the year proved beneficial to the company in improving its operating margins. EBIT margin improved in FY20 to 22.3 per cent from 16.3 per cent in FY19. Considering the current pandemic crisis, the demand from the pharmaceutical industry is expected to surge going forward. We expect this segment to continue to be a major growth driver for the company, considering the wide applications it has across multiple industries.

Fine & Speciality Chemicals segment – contributor to exports

Under the fine and speciality chemicals' segment, the company manufactures speciality chemicals such as Xylidines, Oximes, Cumidines, etc amongst others. These products are used by industries like agrochemicals, colorants, pigment, pharmaceuticals and personal wellness.

In FY20, the revenue from this segment grew by 9.3 per cent YoY to Rs 585.26 crore. EBIT grew by 38.5 per cent YoY to Rs 175.24 crore. EBIT margin improved from 23.6 per cent to Rs 29.9 per cent in FY20. Strong demand and favourable realisations in export markets resulted in healthy performance from this segment. It was also supported by benefits accruing from backward integration initiatives and capacity expansion for established products. Demand from the agrochemical industry is expected to improve, led by good monsoon expected this year.

Performance products' segment

Performance products are application chemicals, which consists of two main products- optical brightening agent (OBA) and its precursor, Diamino Stilbene Disulfonic Acid (DASDA). Deepak Nitrite is the world's only fully-integrated manufacturer of OBA, with vertical integration from Toluene

*HP : Holding Period

Company Details

Industry	Chemicals
Chairman	Deepak C Mehta
Managing Director	Deepak C Mehta
Company Secretary	Arvind Bajpai
ISIN Code	INE288B01029
Bloomberg Code	DN IN
Reuters Code	DPNT.BO

Key Market Ratio

Latest Date	14-Jul-20
Latest Price (Rs)	553.45
Previous Close (Rs)	551.75
1 Day Price Var %	-1.42
1 Year Price Var %	74.64
52 Week High (Rs)	570
52 Week Low (Rs)	256.95
Beta	1.16
Face Value (Rs)	2
Industry PE	12.93
TTM Period	202003
TTM EPS (Rs)	44.8
TTM CEPS(Rs)	55.04
Price/TTM CEPS(x)	9.53
TTM PE (x)	11.7
Price/BV(x)	4.55
EV/TTM EBITDA(x)	7.83
EV/TTM Sales(x)	1.97
Dividend Yield%	0.38
MCap/TTM Sales(x)	1.69
Latest Book Value (Rs)	115.25
Market Cap (Rs in Crores)	7152
EV (Rs)	8313
Latest no. of sharesCrores	14

Share Holding Pattern as on 202003

Promoter No of shares (Rs in Crores)	10-Jul-20
Promoter %	1.16
FII No of Shares (Rs in Crores)	2
FII %	12.93
Total No of Shares (Rs in Crores)	202003
Free Float %	44.8

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to PNT and further into DASDA and OBA. These products have applications across various industries like paper, detergents and textiles.

A turnaround in its performance was seen from H2FY19 due to a better product mix. In FY20, revenue from this segment grew by 90.4 per cent YoY to Rs 767.12 crore. EBIT grew significantly by 403 per cent to Rs 418.62 crore. EBIT margin jumped exceptionally to 54.6 per cent from 20.7 per cent. The performance of this segment is driven mainly by factors such as focussed re-orientation of customer industries and strong demand in the export market, the shutdown of capacities in China and enhanced operational performance.

Due to COVID-19 pandemic-led lockdown imposed in the country, the demand from paper and textile industry dipped, which led to a significant drop in the prices of OBA and DASDA. This segment will perform better in H2FY21 when the situation normalises thereby, bringing a recovery in demand.

Huge contribution from Deepak Phenolics

Deepak Phenolics Limited (DPL), a wholly-owned subsidiary of Deepak Nitrite Limited, had commenced commercial production at its mega greenfield facility of Phenol and Acetone plant at Dahej in Gujarat in November 2018.

The facility has an installed capacity to manufacture 2,00,000 MTPA of Phenol and 1,20,000 MTPA of Acetone. Phenol is consumed by end-use segments such as laminates, automobiles, foundry, paints, rubber, surfactants, pharma, and agro-chemicals. On the other hand, Acetone is predominantly used in the production of pharmaceuticals apart from its significant applications in paints, adhesives, and thinners.

India imports 80 per cent of its phenol and acetone requirement. With this new facility, the company has been able to cater to the growing domestic demand and is looked upon as a major import substitute. In FY20, it reached 100 per cent capacity utilisation level in its first full year of operations and gained a market share of more than 55 per cent in India. Going forward, the company plans to develop capacities to produce value-added derivatives of phenol and acetone through forward integration.

It has also commenced commercial production of Isopropyl Alcohol (IPA) at its manufacturing facility situated at Dahej, Gujarat from April 21, 2020. This facility has the capacity to manufacture 30,000 MT of IPA annually.

IPA is a solvent primarily used by pharmaceutical companies and also to manufacture sanitisers. Due to the recent COVID-19 pandemic, the demand for sanitisers surged significantly. Thus, the company grabbed this opportunity to cater to the rising demand from pharma companies. The company's management is expecting to generate revenue of Rs 300 crore from this segment in FY21.

Expansion plans and debt position

The company has acquired various parcels of land during FY20 for its expansion plans. This includes 127 acres acquired at Dahej, 1.4 acres acquired in Hyderabad, adjoining its existing facility and 1.5 acres acquired in Roha again, adjoining its existing facility. It has paid Rs 141 crore in aggregate for these land parcels, which has been capitalised during the year.

By the end of FY20, its total debt stood at Rs 1,028 crore and the debt-equity ratio stood at 0.69x. It has planned Capex of approximately Rs 375-Rs 425



Basic Chemicals segment would continue to be the growth driver considering its wide applications



Strong demand and favorable realizations in export markets boosted FSC segment



Turnaround in Performance products' segment was seen from H2FY19 due to better product mix

crore for FY21 for the capacity expansion of certain key products and other efficiency improvements Capex in DPL. However, some portion may get deferred to FY22, considering the current pandemic crisis.

Financial performance

Deepak Nitrite's consolidated revenue for the quarter (Q4FY20) came in at Rs 1,055.54 crore as against Rs 1,008.3 crore in the corresponding quarter last year, registering 4.7 per cent YoY increase. EBITDA for the quarter grew by 35.1 per cent YoY to Rs 262.08 crore as against Rs 194.04 crore in the corresponding quarter last year, with a corresponding margin expansion of 558 bps. EBITDA margin for the quarter stood at 24.8 per cent. PAT for the quarter came in at Rs 172.3 crore as against Rs 91.46 crore in the corresponding quarter last year, with a YoY increase of 88.4 per cent.

Looking at the full-year numbers i.e. for FY20, the revenue jumped by 57 per cent YoY to Rs 4,229.71 crore while, EBITDA grew by 148 per cent YoY to Rs 1,025.8 crore. Further, the company reported a net profit of Rs 611.03 crore, up by 252 per cent YoY. Over the years, it has been consistently paying dividends to its shareholders. For FY20, it paid an interim dividend of Rs 4.5 per equity share with a face value of Rs 2.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	4229.71	2699.92	1651.45	1370.70	1372.93
Total Income	4264.91	2718.13	1663.87	1383.21	1374.95
Total Expenditure	3203.91	2285.81	1453.00	1234.41	1206.56
PBIDT	1061.00	432.32	210.87	148.79	168.39
PAT	611.03	173.66	79.02	96.46	62.90
Dividend %	0.00	100.00	65.00	60.00	60.00
Adj. EPS(Rs)	44.80	12.73	5.79	7.37	5.39

Quarter On Quarter (Consolidated)

Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	1055.54	1119.86	-5.74	1008.3	4.69
Total Expenditure	793.46	861.61	-7.91	814.26	-2.55
PBIDT (Excl OI)	262.08	258.25	1.48	194.04	35.06
PAT	172.3	156.71	9.95	91.46	88.39
PBIDTM% (Excl OI)	24.83	23.06	7.68	19.24	29.05
PBIDTM%	25.04	24.38	2.71	20.07	24.76
PATM%	16.32	13.99	16.65	9.07	79.93
Adj. EPS(Rs)	12.63	11.49	9.92	6.71	88.23

Valuation

The company is trading at TTM P/E of 11.7x with TTM EPS of Rs 44.8. In FY20, it delivered ROE and ROCE of 38.8 per cent and 39.2 per cent, respectively. Agro-chemicals and pharmaceutical sectors would continue to drive the company's BC and FSC segments. Also, strong demand from export markets will boost the FSC and performance products' segments.



Management expects to generate Rs 300 cr revenue from IPA plant in FY21



It has acquired various parcels of land during FY20 for its expansion plans



The company is looked upon as import substitute for supply of Phenol & Acetone

Strong demand from some industries compensates with lower demand from other industries as the company's products have applications across multiple industries.

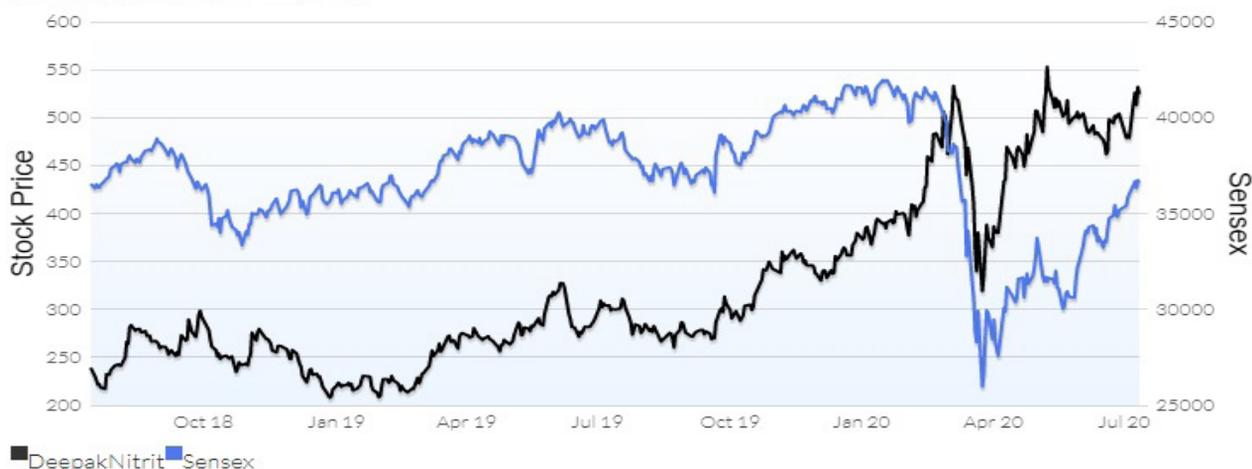
With the commencement of the Phenol and Acetone plant, the company has become an import substitute for the companies in India, depending highly on imports. The commercialisation of the IPA plant has enabled it to tap the current opportunity of satisfying demand from pharma companies. It would continue to drive its top-line in the upcoming years. Also, the extensive expansion plans made by the company will boost its growth in business, going forward. Considering all these factors, we see a potential upside of 50 per cent with a target price of Rs 830 for a period of three years.

About the company

Deepak Nitrite is the flagship of Deepak Group, which was incorporated in 1970. It began as fully-indigenous sodium nitrite and sodium nitrate manufacturer, before gradually widening its product portfolio over the years.

Currently, it enjoys a leading market position in most of its products in the domestic as well as global markets. Its manufacturing facilities are located at Nandesari and Dahej in Gujarat; Roha and Taloja in Maharashtra; and Hyderabad in Telangana. It also offers colour intermediates. The company's products cater to several industries, such as colorants, petrochemicals, agrochemicals, rubber, pharmaceuticals, paper, textile and detergents.

Stock vs. Index



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