

**Traget Price ₹ 401**
**CMP ₹ 295**
**FY22E PE 9.2X**
**Index Details**

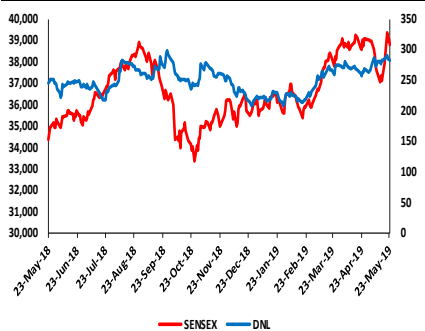
Sensex	39,435
Nifty	11,844
Industry	Chemicals

**Scrip Details**

MktCap (₹cr)	4,023
BVPS (₹)	78.6
O/s Shares (Cr)	13.63
AvVol	0.29
52 Week H/L	305/204
Div Yield (%)	0.7%
FVPS (₹)	2.0

**Shareholding Pattern**

Shareholders	
Promoters	44.85%
Public	55.15%
Total	100.00%

**Deepak Nitrite vs. Sensex**


On the back of its strong R&D capabilities, Deepak Nitrite Ltd (DNL) has a proven track record of identifying high growth new product categories and successfully scaling them up. The recent initiative to enter into the phenol acetone segment has been a game changer for the company. In only 5 months of operations, it has achieved good profitability and 100% utilization. It is also looking to undertake further capacity addition in downstream derivatives of the phenol acetone chain. Apart from its strong business fundamentals, the environmental clamp down in China which has resulted in a favorable pricing uptick and gradual migration to sourcing from India. DNL is expected to be one of the key beneficiaries.

On the back of above, we expect DNL to a clock revenue growth of 22% CAGR to INR 4,919 crore by FY22 with EBITDA and PAT growing faster at a CAGR of 26% to INR 823 crore and a CAGR of 34% to INR 421 crore respectively. Operating margins are expected to expand 140 bps to 16.7% whereas net profit margins are expected to expand by 210 bps to 8.6% by FY22. ROE and ROCE too are expected to improve to 21.6% (+420 bps) and 23% (+620 bps), respectively. With future capex to be incurred largely through internal accruals, the Free Cash Flow to the Firm (FCFF) should turn positive. On the back of sustained capex, debt in absolute terms will largely remain flat. However, Debt to Equity, Interest coverage and Debt to EBITDA are expected to improve.

We initiate coverage on Deepak Nitrite Ltd as a BUY with a price objective of INR 401, representing a potential upside of 36% from the CMP of INR 295 over a period of 30 months. We have used the PE multiple approach to value Deepak Nitrite and assigned a multiple of 13x on FY22 EPS of INR 30.8 to arrive at the target price.

**Key Financials (INR in cr)**

	Sales	EBITDA	PAT	EBITDA Margin	PAT Margin	EPS	BV	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY18	1,651	198	79	12.0	4.8	5.8	67.6	9.7	9.4	43.0	3.7	20.5
FY19	2,700	414	174	15.3	6.4	12.7	78.6	17.4	16.8	22.4	3.6	12.1
FY20E	4,313	668	307	15.5	7.1	22.5	101.1	25.1	23.4	12.7	2.8	7.7
FY21E	4,533	744	359	16.4	7.9	26.4	127.4	23.1	22.8	10.8	2.2	6.7
FY22E	4,919	823	421	16.7	8.6	30.8	158.3	21.6	23.0	9.2	1.8	6.0

### Our optimism stems from the following

- Capacity expansion, introduction of value added products, such as Malononitrile, Adenine and PMPA, will aid revenues from Bulk Chemicals. Revenue is expected to grow at a CAGR of 8% to Rs 1,135 crore by FY22.
- Newer capacities coupled with development of Toluene chain derivatives such as BTC and BTF and strong growth in end use agrochemicals industry is likely to help the Fine and Specialty segment grow at a CAGR of 11% to Rs 738 crore over the forecast period.
- Adequate capacities and sustainable margins could help the performance chemicals division to grow at a CAGR of 12% to INR 570 crore. Increasing capacities of DASDA will ensure the same.
- The full blown effect of the phenol acetone plant will be witnessed in FY20. Developing downstream derivatives will further fuel the growth. At 90% capacity utilization, the plant is expected to clock a revenue of Rs 2,538 crore by FY22.
- Strong margin profile, high return ratios and strategic decision making in product selection aided by strong R&D is expected to lead to a re-rating of the stock.
- DNL's financial performance and return ratios are in line with marquee peers such as Aarti Industries Ltd, Atul Ltd, SRF Ltd and Vinati Organics Ltd. While these players command premium valuations in the range of 17 to 23X FY21E PE, DNL is available at 10X FY21E PE thereby providing an opportunity for re-rating.

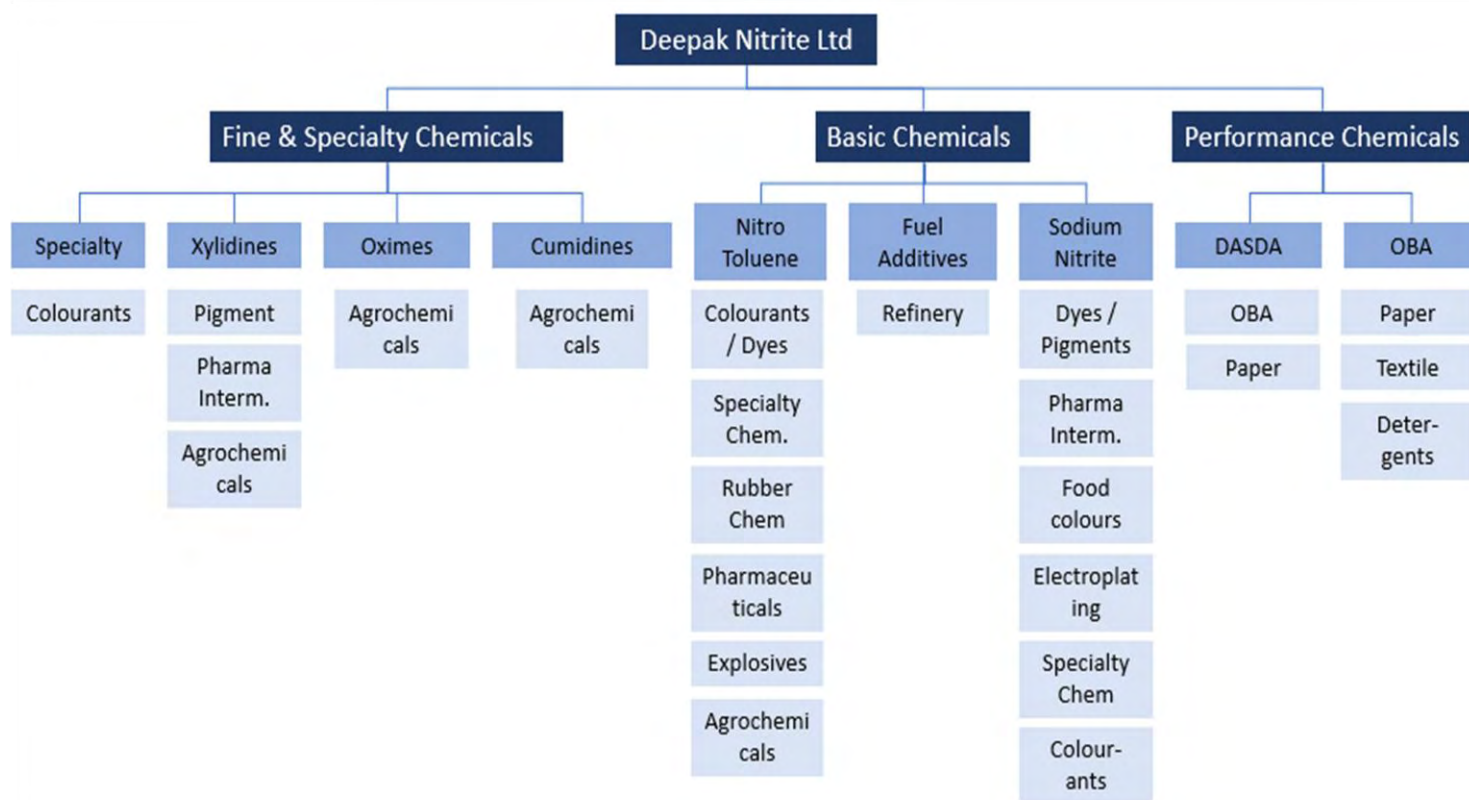
## • Company Background

From a bulk commodity products manufacturer, Deepak Nitrite Ltd. (DNL) has evolved into a specialty chemical company operating in three key division viz; Basic Chemicals, Fine and Specialty Chemicals and Performance Products with facilities located at Dahej, Nandesari, Roha, Taloja and Hyderabad. DNL has a number of credits to its name for manufacturing of chemicals:

- holds a leading position in products such as Sodium Nitrite, Nitro toluene;
- only company in India to have fully integrated OBA setup;
- sole manufacturer for thermal paper chemical in India.

The end use applications of DNL's products vary from agrochemicals, dyes and pigments to pharmaceuticals, rubber chemicals, refinery, textile and colorants.

### Deepak Nitrite - Company Overview



Source: Company, Ventura Research

DNL forayed into Phenol-Acetone production (import substitute) through its subsidiary Deepak Phenolics Ltd. DNL has setup 200K & 120K MTPA capacity in phenol-acetone at an overall capex of Rs 1,400 crore. In the first 5 months of commercialization, the plant achieved the highest utilization level of 100% and the operations are expected to standardize at 85% utilization levels.

## Manufacturing Facilities

1	<b>NANDESARI, Gujarat</b>
	<ul style="list-style-type: none"> <li>Bulk and commodity product manufacturing with on site Nitration &amp; Specialty Agrochemicals</li> </ul>
2	<b>DAHEJ, Gujarat</b>
	<ul style="list-style-type: none"> <li>Full spectrum stilbenic Optical Brightening Agents production</li> </ul>
3	<b>TALOJA, Maharashtra</b>
	<ul style="list-style-type: none"> <li>Hydrogenation &amp; noble metal catalysis specialty</li> </ul>
4	<b>ROHA, Maharashtra</b>
	<ul style="list-style-type: none"> <li>Multispecialty manufacturing facility specializing in pilot plants and scaling up activities Nitration &amp; Specialty Agrochemicals</li> </ul>
5	<b>HYDERABAD, Telangana</b>
	<ul style="list-style-type: none"> <li>Manufactures DASDA for captive use and for commercial sales</li> </ul>



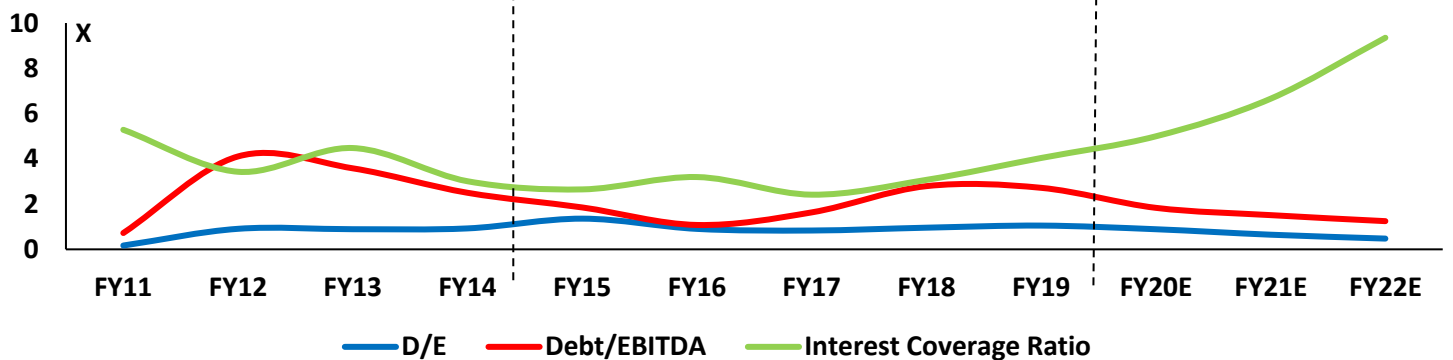
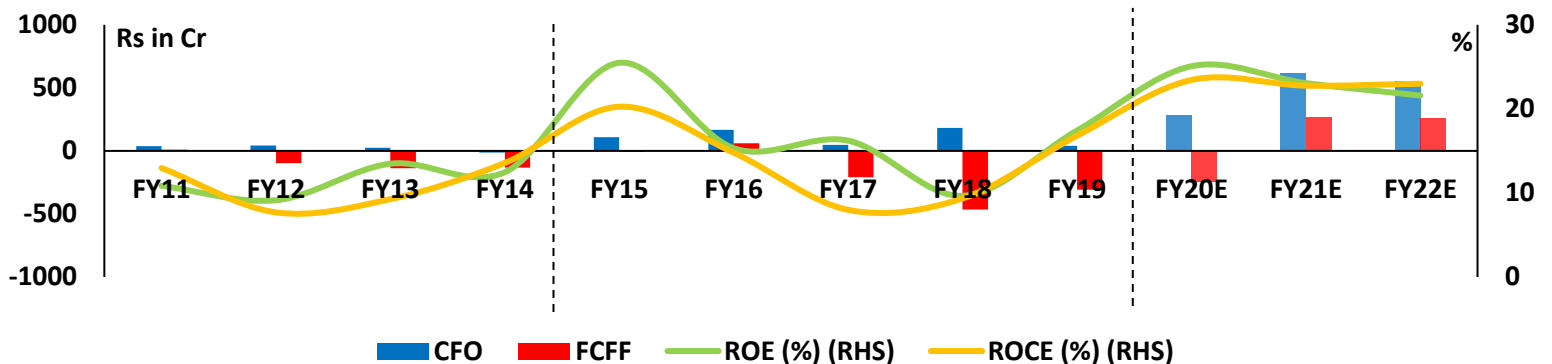
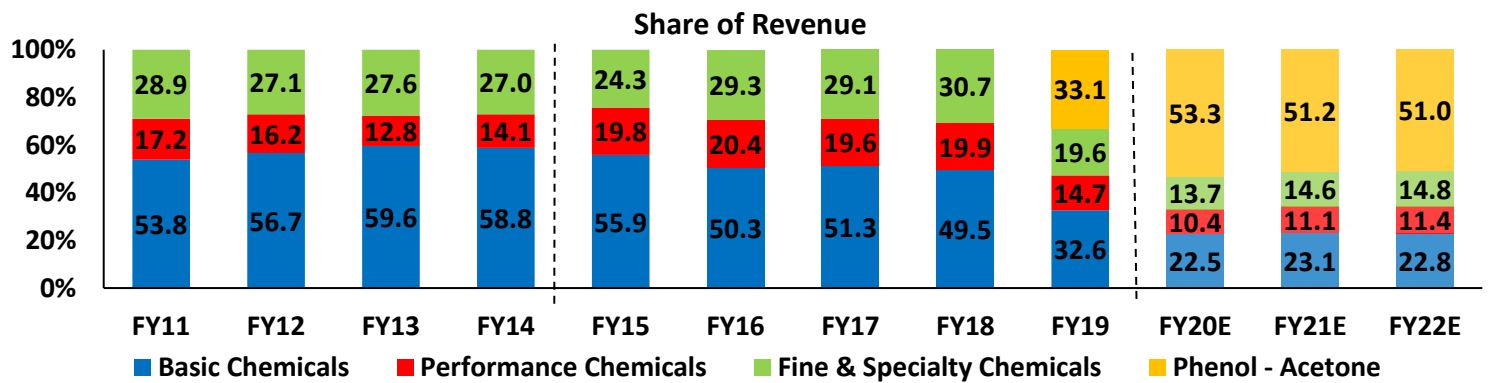
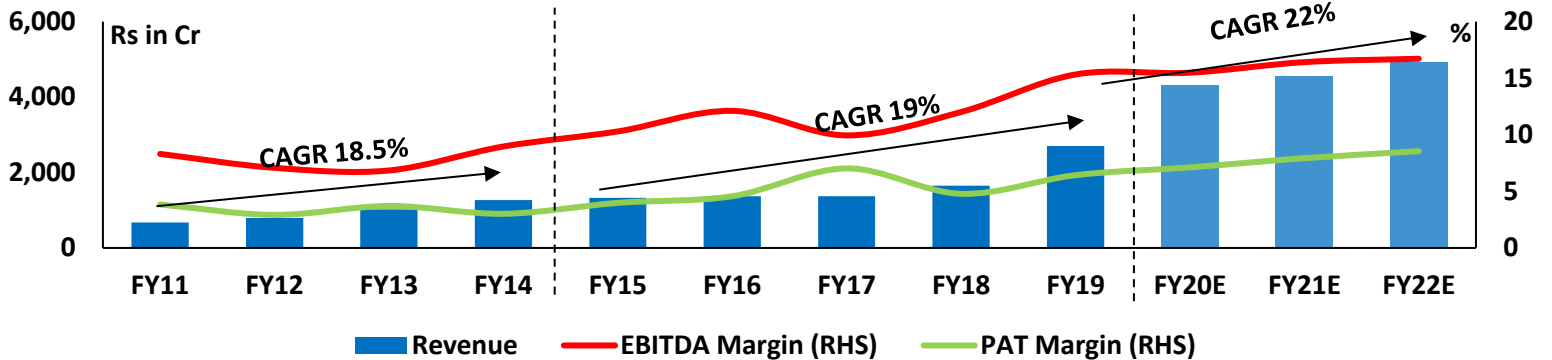
Source: Company, Ventura Research

### ❖ Key Investment Highlights

#### ➤ FY11-FY15: Derisked business model through product diversification

During the period FY11 to FY15, DNL entered into newer products in the Fine and Specialty segment, strengthened its product portfolio and beefed up its export. All these measures led to a revenue growth of 18.5% CAGR to INR 1,327 crore by FY15. Over the same period, EBITDA grew at a CAGR of 25% to INR 137 crore by FY15 and PAT reported a growth of CAGR 19.7% to INR 53 crore.

### Deepak Nitrite Financials - Strong decadal growth to continue



Source: Company, Ventura Research

➤ **FY15-FY19: Expansion of Performance Chemicals and entry into Phenol Acetone**

During FY15-19, DNL forayed into Performance Chemicals becoming the only company having a fully integrated OBA manufacturing facility [with vertical integration from toluene to para nitro toluene (PNT)]. DNL enjoy 75% market share in OBA and 60% market share in DASDA (an input RM for OBA).

DNL further started trading in Phenol Acetone products in the year 2017. Deepak Phenolics Ltd was incorporated in 2015 by DNL as a 100% subsidiary to enter into Phenol-Acetone manufacturing business (import substitute). The plant got operational in November 2018.

From FY15 to FY19, DNL's revenues grew at a 19% CAGR to INR 2,700 crore by FY19. EBITDA grew at a CAGR of 32% to INR 414 crore and PAT reported a growth of CAGR 35% to INR 174 crore.

**Deepak Nitrite - Business details at a glance**

Deepak Nitrite					
Segment	FY19 Rev / EBIT / EBIT%	Products	Capex	Capacity Utilization	Growth
Basic Chemicals	Rev: Rs 893 Cr EBIT: Rs 145 Cr EBIT %: 16%	Nitro Toluenes, Sodium Nitrite, Fuel Additives	Rs 200 – 250 Cr in FY20 for New Capacity Addition	90%	From Debottleneck, new product launch and capacity addition
Performance Chemicals	Rev: Rs 403 Cr EBIT: Rs 83 Cr EBIT %: 21%	Optical Brightening agents (OBA) and Di-amino Stilbene Di-sulphuric acid (DASDA)		45-55%	
Fine & Sp. Chem	Rev: Rs 536 Cr EBIT: Rs 127 Cr EBIT %: 24%	Xylidines, Cumidines, Oximes, Nitro Oxylene		90%	
Phenol - Acetone	Rev: Rs 908 Cr EBIT: Rs 96 Cr EBIT %: 11%	Phenol - Acetone		85%	

Source: Company, Ventura Research

➤ **FY19-FY22 Value added products, capacity expansion and Phenol-Acetone downstream chemistry expected to drive growth**

We expect revenues to grow at a 22% CAGR to INR 4,919 crore by FY22 with EBITDA and PAT growing faster at a CAGR of 26% to INR 823 crore and CAGR of 34% to INR 421 crore respectively. Operating margins are expected to expand 140 bps to 16.7% whereas net profit margins are expected to expand by 210 bps to 8.6% by FY22. ROE and ROCE too are expected to improve to 21.6% and 23% respectively. Debt to Equity is expected to come down to 0.5X from current levels of 1X.

This growth is expected to be driven by: -

- i. Growth in Bulk Chemicals segment (currently operating at 90% utilization levels) on back of capacity expansion and introduction of value added products such as Malononitrile (used in photosensitizers, acrylic fibers, dyestuffs and fuel additives), Adenine (used in Pharma Intermediates) and PMPA.
- ii. Fine and Specialty Segment is operating at 90 utilization levels and newer capacities along with development of Toluene chain with products such as BTC, BTF will help the segment move forward.
- iii. Performance chemicals have headroom to grow as existing capacities are operating at 45-50% utilization levels, and focus on key products offering sustainable margins will aid profitability. The utilization levels are expected to go up to 60-65% by FY22. Also, DNL plans to increase its DASDA capacity in FY20.
- iv. Downstream derivatives product development for Phenol - Acetone.

➤ **Basic Chemicals**

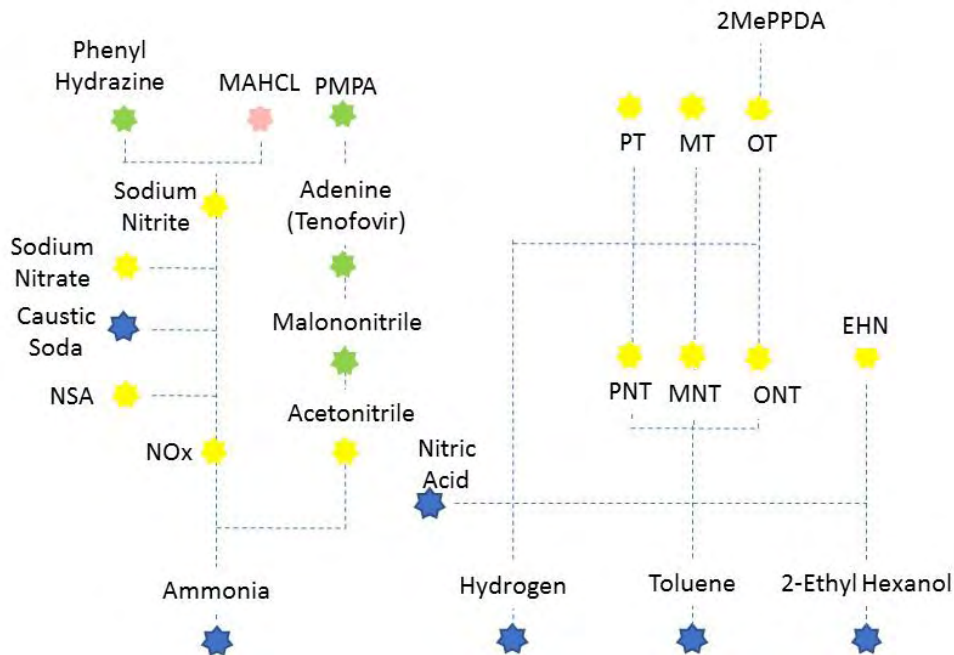
Deepak Nitrite's basic chemicals division is characterized by high volume products across organic and inorganic chemicals. The key products in Basic Chemicals segment include

- Nitro toluene which are consumed in colorants, agro-chemicals and rubber chemicals,
- fuel additives used in refinery and
- sodium nitrite consumed in dyes / pigments, pharma intermediates, food colors and colorants.

DNL dictates 80% domestic market share in sodium nitrite and 50% market share in nitro toluene. Also, nitro toluene acts as a key raw material for Performance Chemicals segment.

**Basic Chemicals product manufacturing process flow chart**

-  Raw Material
-  Bulk Chemicals
-  Fine & Specialty Chemicals
-  New Products

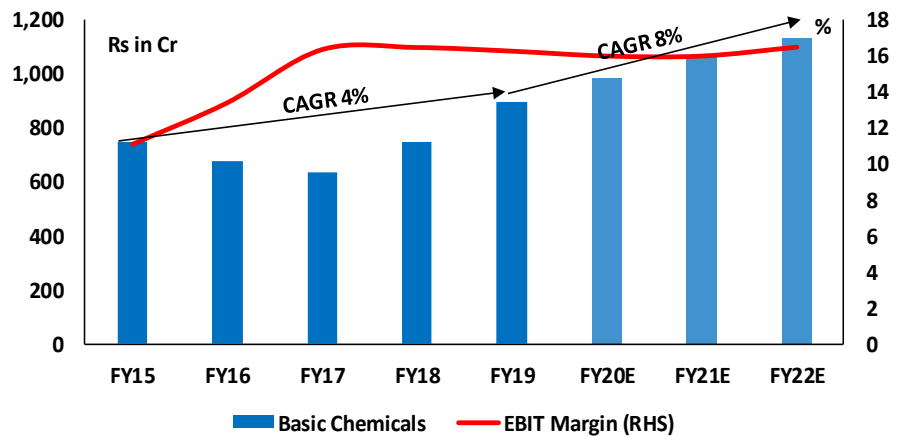


Source: Company, Ventura Research

The revenue from Basic Chemicals segment has grown at a CAGR of 4.5% to Rs 893 crore in FY19. Segment EBIT has grown at 15% CAGR to Rs 145 crore in FY19 mainly on back of margin expansion by 520 bps to 16%. The revenue share of Basic Chemicals stood at 33% in FY19.



**Basic Chemicals Sales - Strong growth on the cards**



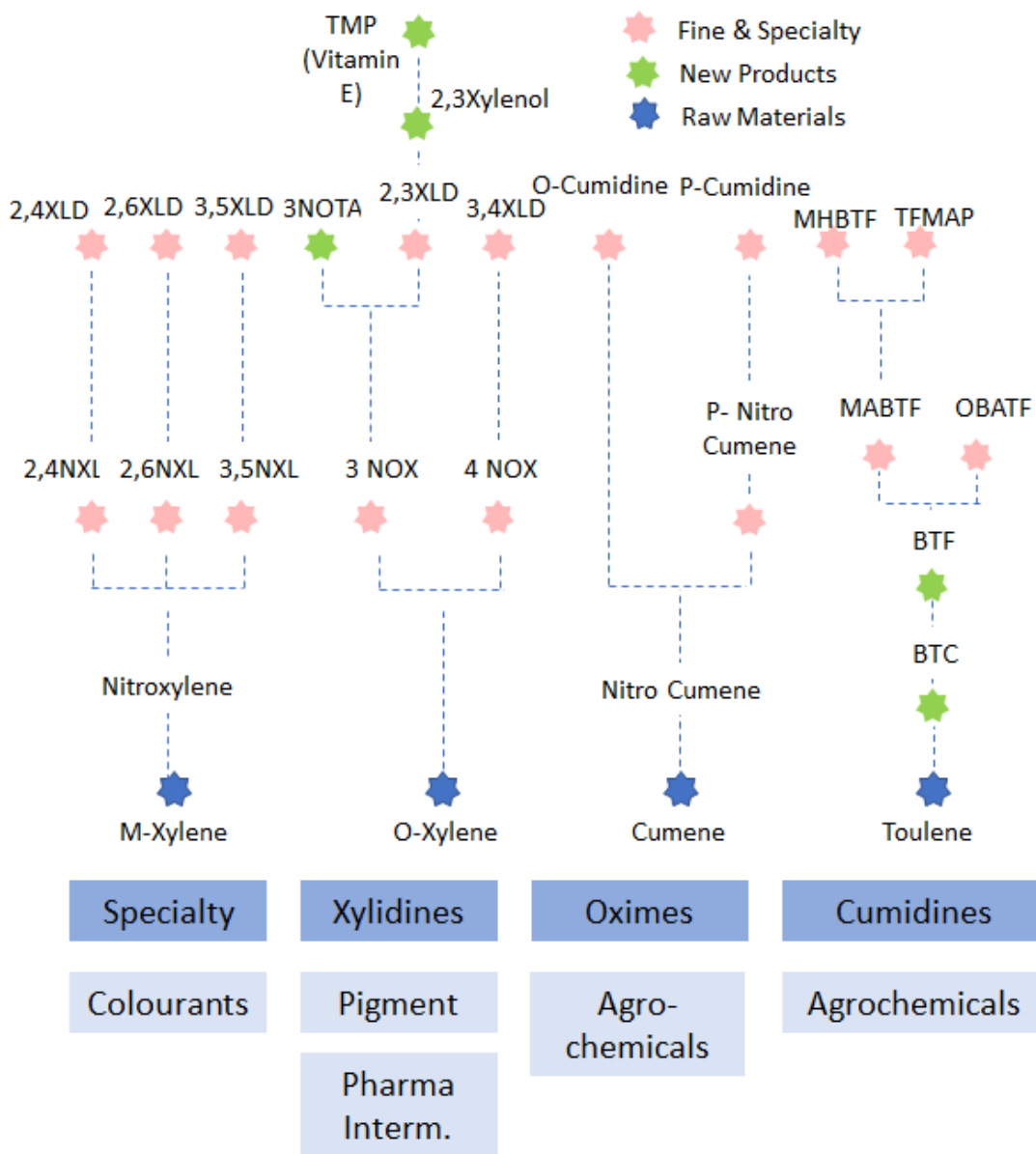
Source: Company, Ventura Research

The Basic Chemicals division is expected to clock 8% CAGR growth in revenue to Rs 1,135 crore by FY22 on back of capacity expansion. Segment EBIT is expected to stabilize in the range of 16% to 16.5%. The segment will act as a cashcow for the company and new product additions will drive value for the segment. DNL is currently operating at 90% capacity utilization level.

➤ **Fine and Specialty Chemicals**

The Fine and Specialty Chemicals division (FSC) product profile includes xylidines, cumidines, oximes, nitro oxylene, having applications in agrochemicals, pharmaceutical intermediaries and personal care sectors. Agrochemicals demand is expected to be robust as domestic and export markets are expected to grow at ~7.3% and ~8.6% CAGR respectively over 2016-2025 (Source: FICCI).

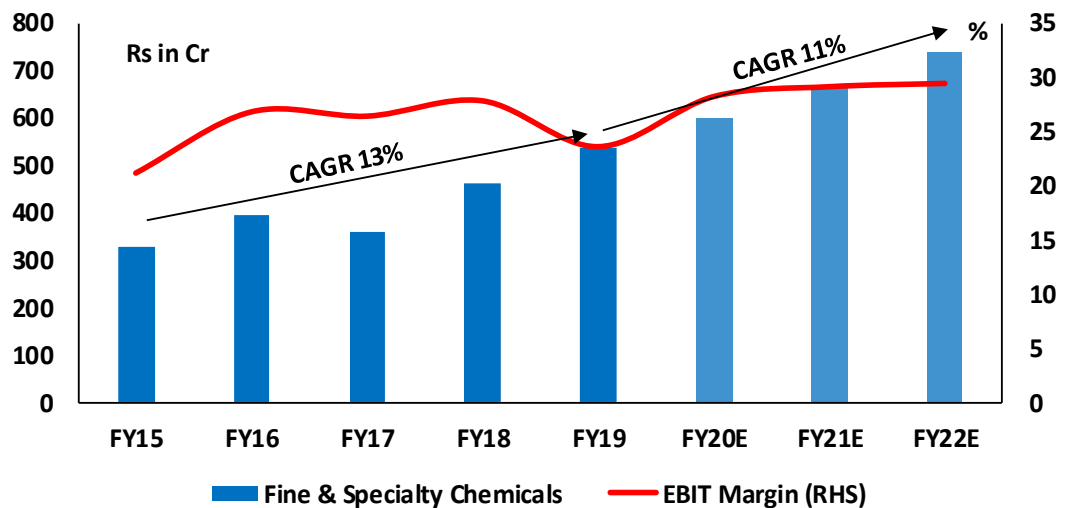
DNL is the sole manufacturer for thermal paper chemical in India. FSC is currently operating at 90% utilization levels. The company has pegged capital expenditure of INR 200-250 crore for FY20 towards capacity expansion across Bulk Chemicals and FSC segment.

**FSC product manufacturing process flow chart**


Source: Company, Ventura Research

The revenue from FSC segment has grown at a CAGR of 13% to Rs 536 crore in FY19. Segment EBIT has grown at 16% CAGR to Rs 127 crore with the margin expanding by 241 bps to 23.6% in FY19. The revenue share of FSC stands at 20% in FY19.

**Fine and Specialty sales growth trajectory to continue**



Source: Company, Ventura Research

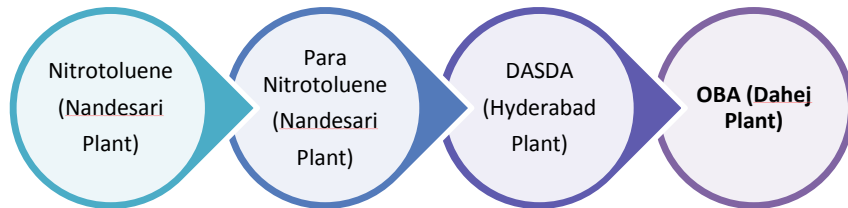
Revenue from FSC division is expected to grow at CAGR of 11% to Rs 738 crore as DNL looks to expand product offerings on back of continuous R&D, capacity expansions and growth in overall Agrochemicals sector. The segment EBIT is expected to expand 577 bps to 29% in FY22 on back of operational synergies and high margin value added products. DNL is entering in specific Pharma intermediates segment - Anti-aging segment which is growing at 12.5-15% globally.

➤ **Performance Chemicals**

The performance products division majorly consists of two products, viz., optical brightening agents (OBA) where the company enjoys 75% market share in India and Di-amino Stilbene Di-sulphuric acid (DASDA) with market share of 60% in India and 20% globally. DNL is the only fully integrated manufacturer of OBA with vertical integration from toluene to para nitro toluene (PNT) and further into DASDA and OBA. Key application area for OBA are detergents, paper and textile.

Plant shut down in China due to environmental issues led to short supply of DASDA in global markets causing an unexpected 3-4X hike in DASDA prices. DNL benefitted from the price hike which help bolster the EBIT margins to 21% (+1800 bps) in FY19. The prices are expected to stabilize in H2FY20.

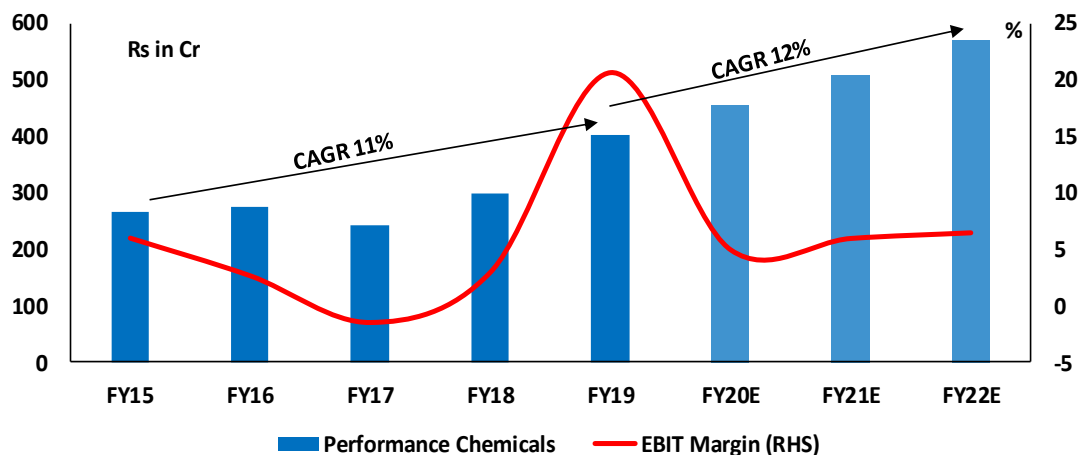
**OBA Value Chain**



Source: Company, Ventura Research

The revenue from Performance Chemicals segment has grown at a CAGR of 10% to Rs 403 crore in FY19. Segment EBIT has grown at 50% CAGR to Rs 83 crore with margins at 21%. The revenue share of Performance Chemicals stands at 15% in FY19.

**Performance Chemicals - OBA & DASDA to bouy sales growth**



Source: Company, Ventura Research

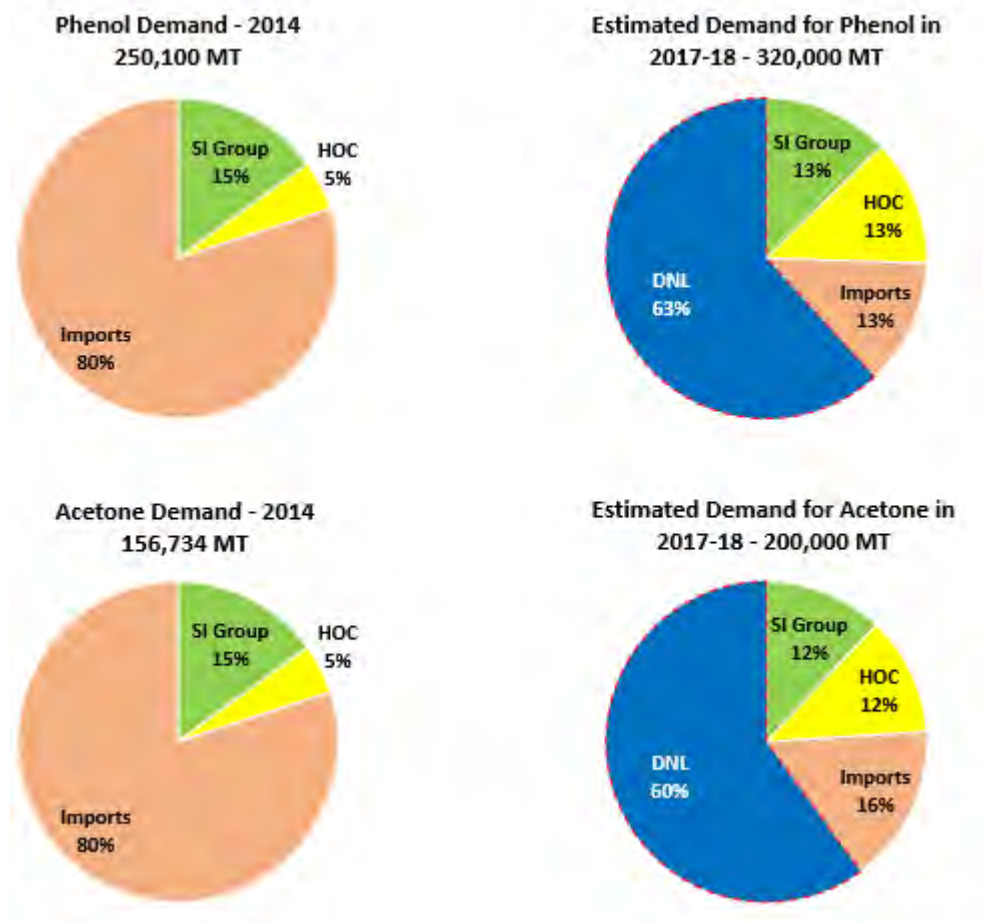
The performance chemicals segment is a key focus area of the company as DNL is targeting optimum mix of product and customers for higher margins. Capacity utilization is expected to improve from 45-50% currently to 60% going forward. DNL also plans to expand capacity in DASDA.

Revenue from Performance Chemicals segment is expected to grow at CAGR of 12% to INR 570 crore driven by improved utilizations. We have conservatively estimated segment EBIT to be at levels of 6-7%.

➤ **Phenol Acetone - Growth lever**

India is one of the major importers for phenol with ~80% of the demand being catered through imports and remaining 20% by domestic players like Hindustan Organics Ltd and Schenectady Herdillia Ltd (SI Group).

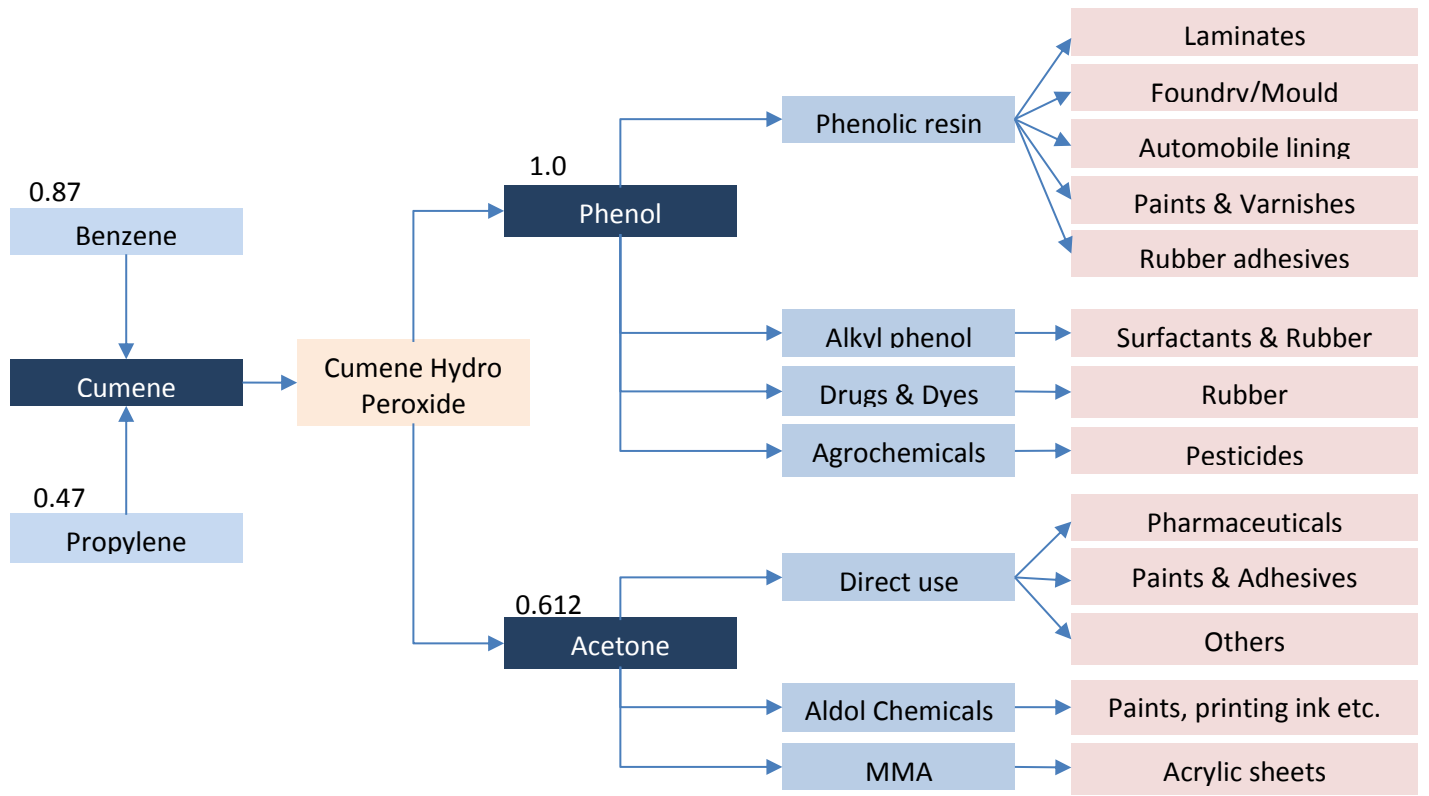
**Phenol - Acetone Market - India Dynamics**



Source: Company, Crisil, Ventura Research

With the new facility being operational, Deepak Nitrite is expected to capture 63% of total market share in phenol and 60% market in acetone. Phenol consumption is largely driven by phenolic resins (76%) while other end-user industries include pharma, dyes & agro-chemicals etc. Key consuming sectors for Acetone are pharma, paints, adhesives and thinners etc. As per the management, 65-70% acetone is consumed by the pharma industry in India.

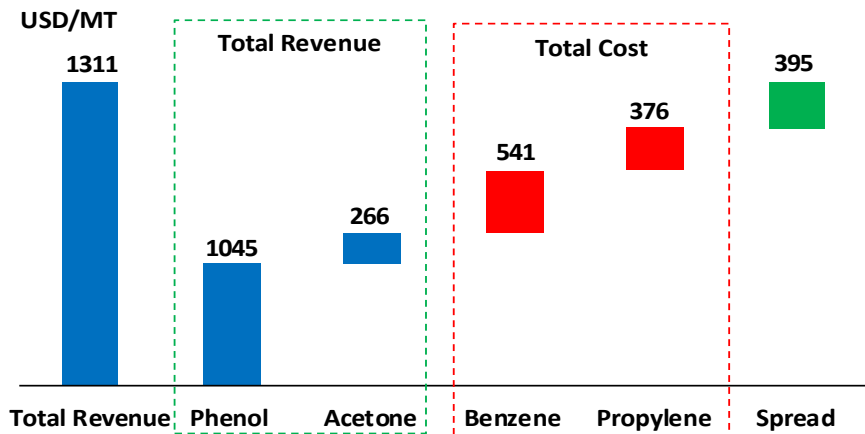
**Phenol Acetone Manufacturing Process**



Source: Company, Ventura Research

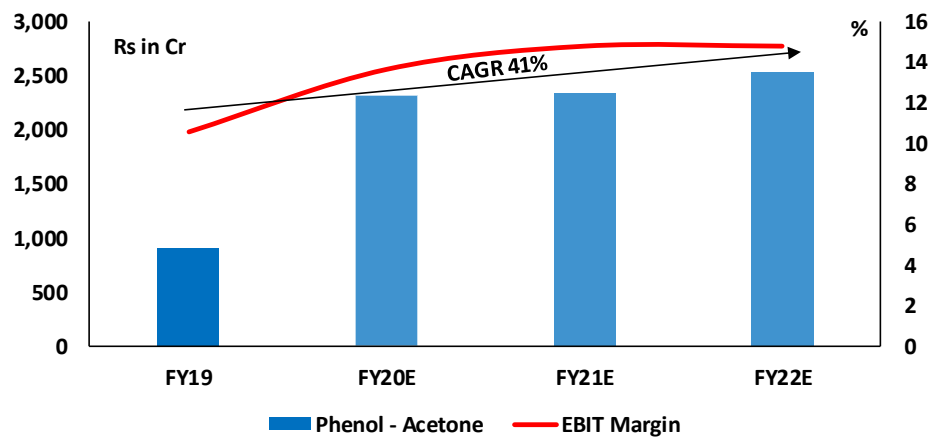
The commercial production of Phenol-Acetone started in November 2018 and has reached utilization levels of 100% in the first five months of operation. The company clocked a revenue of Rs 908 crore with Segment EBIT of Rs 96 crore. The full blown effect of this segment will be visible in FY20 when the plant has been operating for the full year.

**Phenol-Acetone Spread is ~395 USD/MT**



Source: Company, Ventura Research

### Strong revenue contribution from Phenol Acetone



Source: Company, Ventura Research

Phenol Acetone is expected to contribute 51% of the consolidated revenue of DNL by FY22. The management has been receiving positive feedback for its products. We expect DNL to operate at capacity utilization levels of 85-90%. DNL has planned capital expenditure of Rs 100-150 crore for FY20 to develop high margin downstream products in Phenol - Acetone. The new products as expected to consume 30-35% of the phenol-acetone captively. On a conservative basis, we have assumed EBIT margins of the segment to be in the range of 15% as it captures market share in the Phenol - Acetone chain.

The Phenol - Acetone segment is expected to clock revenue of Rs 2,538 crore on the back of high value phenol derivative products to be introduced. We have conservatively estimated the segment EBIT to be in the range of 14-15%.

#### ❖ Key Risk Factors

1. Adverse volatility in raw material prices can impact the margins.
2. Pricing competition from China as well as from the domestic players can adversely affect realizations.
3. Unfavorable changes in import duty norms for Phenol products could impact the growth prospects for Phenol - Acetone offtake.

## ❖ Financial Performance

In Q4FY19, DNL reported a 23.6% YoY growth in topline on a standalone basis to INR 486 crore from INR 393 crore reported in Q4FY18 on back of the 54% YoY growth in Performance Chemicals segment. The EBITDA increased by 122% YoY to INR 109 crore. The PAT stood at INR 56 crore, increasing 178% YoY. The EBITDA margin expanded 880 bps to 22.4%. DNL's efforts at running plants at optimum capacities with streamlined processes supported by the developments in the China market enriched margin profile.

During FY19, DNL's net consolidated sales stood at INR 2,700 crore, registering a growth of 63% YoY. The EBITDA grew by 109% YoY to INR 414 crore for FY19. The consolidated PAT in FY19 stood at INR 174 crore.

### Consolidated Financial performance (Rs in crores)

Description (INR Cr)	Q4FY19	Q3FY19	YoY	QoQ	Q2FY19	Q1FY19	Q4FY18	Q3FY18	Q2FY18	Q1FY18	FY19	FY18	YoY
Net Sales	486	452	23.6%	7.4%	433	421	393	371	354	337	2,700	1,651	63.5%
Total Expenditure	377	386	9.6%	-2.3%	364	365	344	319	302	287	2,286	1,453	57.3%
EBITDA (excl OI)	109	66	121.9%	64.3%	69	56	49	52	51	50	414	198	108.7%
EBITDA Margin %	22.4%	14.6%			15.9%	13.3%	12.5%	14.1%	14.5%	15.0%	15.3%	12.0%	
Depreciation	14	13	2.8%	3.2%	13	13	13	13	13	12	78	53	47.4%
EBIT (excl OI)	95	53	166.6%	79.7%	55	43	36	39	38	38	336	146	130.9%
EBIT (excl OI) Margin %	19.6%	11.7%			12.8%	10.3%	9.1%	10.6%	10.7%	11.3%	12.4%	8.8%	
Other Income	2	5	-70.2%	-65.4%	0	1	6	0	3	2	15	13	19.2%
EBIT	97	58	130.7%	66.0%	56	44	42	40	41	40	351	158	121.9%
EBIT Margin %	19.9%	12.9%			12.9%	10.5%	10.7%	10.7%	11.5%	11.9%	13.0%	9.6%	
Interest	10	10	-10.9%	-4.2%	12	11	11	9	11	9	83	47	75.6%
Exceptional Items	0	0			0	0	0	0	0	0	0	0	
PBT	87	48	181.7%	81.2%	44	33	31	31	30	31	268	111	141.7%
PBT Margin	17.9%	10.6%			10.2%	7.9%	7.9%	8.3%	8.4%	9.1%	9.9%	6.7%	
Tax	30	16	187.9%	85.4%	16	12	11	10	7	11	94	32	196.2%
Tax Rate	35.0%	34.2%			36.3%	34.7%	34.3%	33.8%	23.8%	34.5%	35.2%	28.7%	
PAT	57	32	178.4%	79.0%	28	22	20	20	23	20	174	79	119.8%
PAT Margin %	11.6%	7.0%	125.2%	66.6%	6.5%	5.2%	5.2%	5.5%	6.4%	6.0%	6.4%	4.8%	

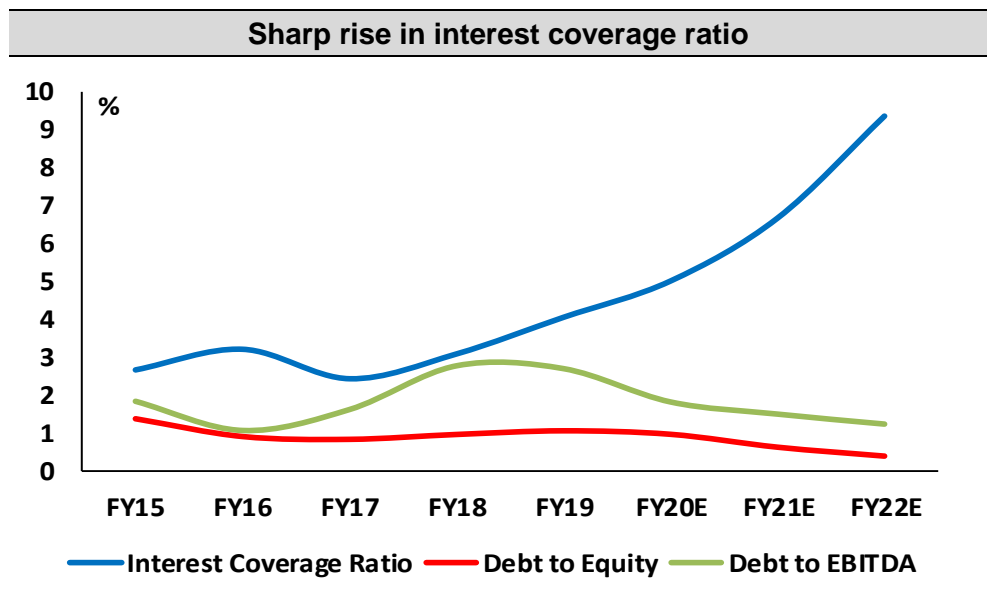
Source: Ventura Research



❖ **Outlook on Capex and Debt**

On back of robust demand for DNL’s products, the company has decided to focus on capacity expansion. A total capex of INR 350-400 crore is pegged for FY20 of which INR 200-250 crore is to be utilized for expanding capacities across Basic Chemicals, Fine & Specialty and DASDA. The balance INR 100-150 crore is to be incurred for downstream Phenol chain products and for certain energy cost savings in Deepak Phenolics (100% subsidiary of DNL).

Given the fact that DNL is in a rapid expansion phase, D/E of 1X is well within our comfort zone. Going forward, internal cash generation of INR 350-400 crore is earmarked towards capex for FY20 and hence we do not expect the debt to reduce. Beyond FY20, we expect D/E to come down to 0.5X.



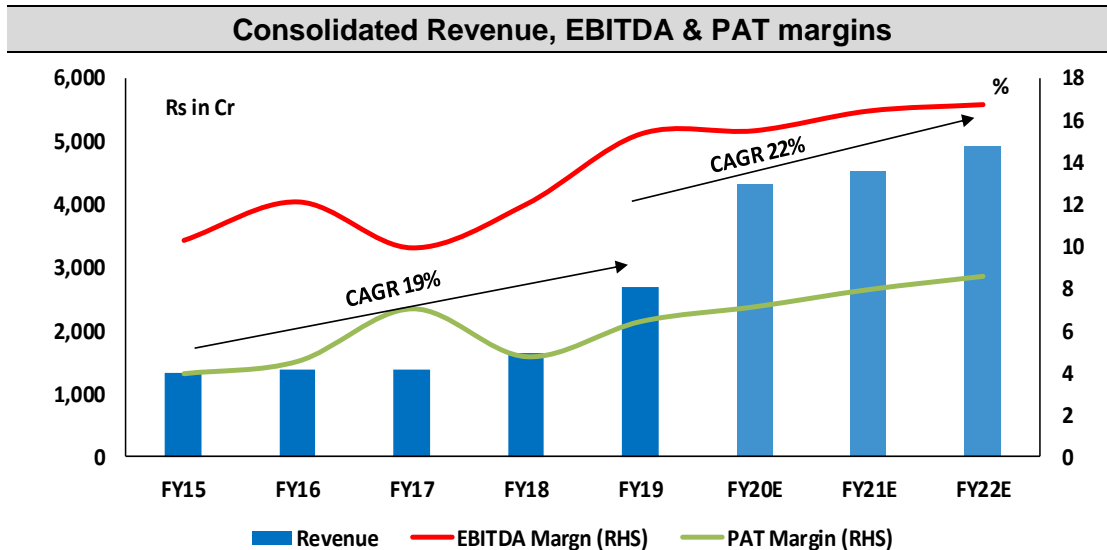
Source: Company, Ventura Research

❖ **Financial Outlook**

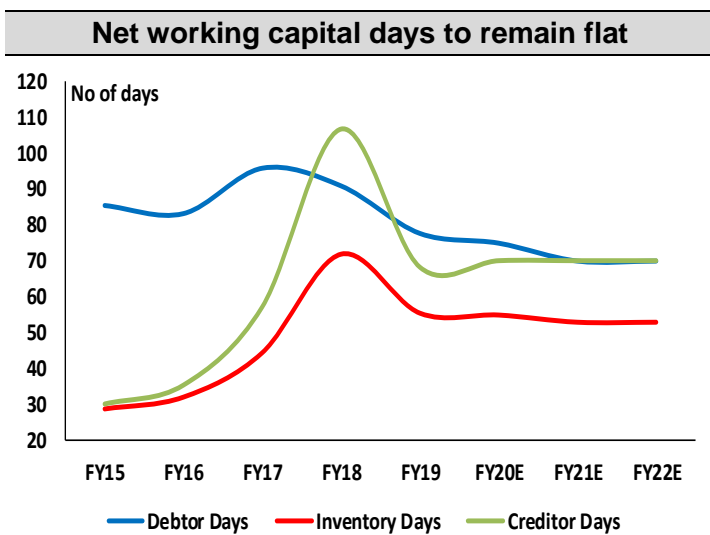
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We are upbeat about the fact that DNL has strategized its growth story on the following:

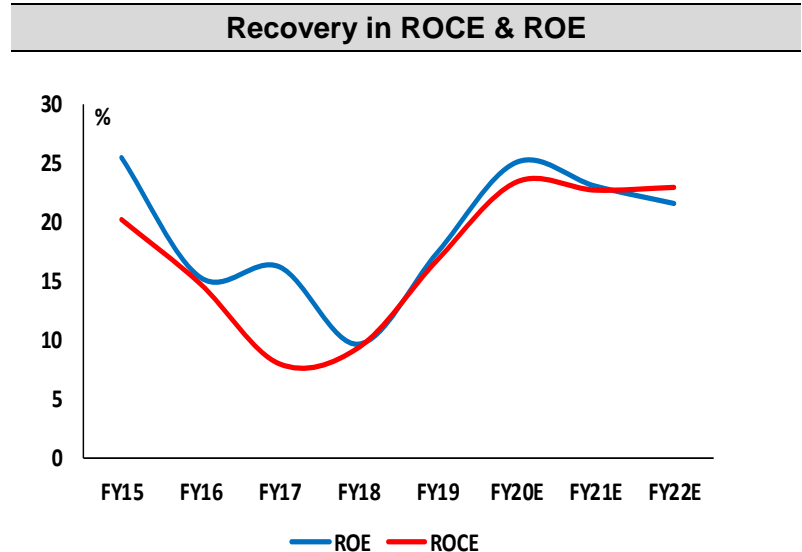
- New product expansion in Basic Chemicals and FSC segment
- Targeting optimum mix of Performance Chemical products and customers for higher margins
- Successful commissioning of Phenol Acetone plant and expansion into downstream derivative products



Source: Company, Ventura Research



Source: Company, Ventura Research



Source: Company, Ventura Research

### ❖ DNL is a top compounder compared to marquee and deserves to be re-rated

We initiate coverage on Deepak Nitrite Ltd as a BUY with a price objective of INR 401 representing a potential upside of 36% from the CMP of INR 295 over a period of 30 months. We have used the PE multiple approach to value Deepak Nitrite and assigned a multiple of 13x on FY22 EPS of INR 30.8 to arrive at the target price.

DNL's has been a steady compounder par none. Given its track record of high and sustained earnings growth, leading position in its key products and superior return ratios will lead the stock to be re-rated. DNL's rerating story is similar to the stories of stocks like Aarti Industries Ltd., Atul Ltd., SRF Ltd. and Vinati Organics Ltd. that have sustained high earnings multiple over a substantial timeline.

#### Secular compounding stories have sustained high multiples (INR Cr)

Particulars	Deepak Nitrite													CAGR (FY09-19)	CAGR (FY19-21E)
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E		
Net Sales	619	574	721	841	1,095	1,352	1,415	1,457	1,455	1,676	2,700	4,313	4,533		
EBITDA	77	50	56	56	70	114	141	168	149	211	414	668	744		
EBIDTA Margin (%)	12.4	8.8	7.7	6.7	6.4	8.4	10.0	11.6	10.2	12.6	15.3	15.5	16.4		
PAT	28	20	26	23	38	38	53	63	96	79	174	307	359	19.9%	19.9%
EPS	3.2	1.9	2.5	2.2	3.6	3.7	5.1	5.4	7.4	5.8	12.7	22.5	26.4	43.9%	43.9%
Book Value	211	208	226	240	267	293	33	41	55	68	79	101	127		
Debt to Equity	0.5	0.5	0.2	0.9	0.9	0.9	1.4	0.9	0.8	1.0	1.0	0.9	0.6		
ROE (%)	16.0	9.8	11.4	9.5	14.3	13.1	25.8	15.4	16.3	9.7	17.4	25.1	23.1		
ROCE (%)	21.0	13.1	14.5	10.6	11.3	12.0	19.8	13.6	14.0	9.5	16.8	23.4	22.8		
PE	2.6	7.2	7.2	6.6	7.3	11.7	13.4	12.6	17.8	43.0	22.4	12.7	10.8		
Dividend Payout (%)	15.9	26.1	24.3	27.2	22.1	27.3	19.8	22.2	16.3	22.4	15.7	0.0	0.0		
Market Capitalisation	73	143	185	151	277	448	710	788	1,716	3,394	3,887				
Beta	0.5	0.5	0.2	0.3	0.4	0.3	0.6	0.9	1.0	1.1	1.1				
FCFF	51	20	9	-98	-139	-132	-8	59	-207	-466	-307	-244	265		

Particulars	Aarti Industries													CAGR (FY09-19)	CAGR (FY19-21E)
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E		
Net Sales	1,461	1,301	1,453	1,673	2,096	2,632	2,908	3,007	3,163	3,806	5,014	5,766	6,908		
EBITDA	246	203	198	249	361	401	466	572	654	699	971	1,104	1,386		
EBIDTA Margin (%)	16.8	15.6	13.6	14.9	17.2	15.3	16.0	19.0	20.7	18.4	19.4	19.1	20.1		
PAT	95	82	81	103	134	162	206	257	316	333	483	567	740	17.7%	17.7%
EPS	13.0	10.7	10.6	13.1	17.0	18.3	23.2	30.8	38.5	41.0	55.8	67.0	89.2	23.8%	23.8%
Book Value	51	59	66	75	95	98	115	137	166	194	319	375	451		
Debt to Equity	1.3	1.0	1.1	1.1	1.1	1.2	1.2	1.1	1.2	1.3	0.8	0.7	0.6		
ROE (%)	25.8	16.6	13.9	16.4	19.8	18.8	20.5	24.9	23.2	21.1	17.7	17.9	19.8		
ROCE (%)	26.2	18.2	15.8	17.6	20.0	18.4	19.0	20.7	19.9	17.0	16.4	16.8	18.7		
PE	2.2	4.4	4.6	4.6	4.8	6.7	15.2	16.8	21.9	28.1	30.6	25.6	19.2		
Dividend Payout (%)	23.1	23.3	23.5	26.8	23.6	24.5	23.7	27.6	2.6	2.4	19.7	20.5	16.9		
Market Capitalisation	207	364	374	478	644	1,086	3,125	4,311	6,288	9,302	15,124				
Beta	0.4	0.7	1.1	0.7	0.7	0.3	1.1	0.9	0.5	0.6	0.6				
FCFF	66	98	-10	-11	-23	8	22	84	-88	-298	-310	-587	242		

Particulars	Atul Ltd												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	1,224	1,214	1,555	1,792	2,043	2,458	2,656	2,595	2,834	3,296	4,038	4,593	5,201
EBITDA	107	110	171	188	249	364	391	459	509	505	767	856	1,006
EBIDTA Margin (%)	8.8	9.1	11.0	10.5	12.2	14.8	14.7	17.7	18.0	15.3	19.0	18.6	19.3
PAT	40	52	90	91	120	219	241	274	323	276	436	501	595
EPS	14	17	30	31	40	74	81	92	109	93	147	169	201
Book Value	116	127	156	182	217	283	350	544	663	757	912	1,068	1,261
Debt to Equity	1.1	0.8	0.7	0.7	0.6	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
ROE (%)	12.2	14.3	21.4	19.0	21.7	29.7	24.1	20.3	16.4	12.3	16.4	15.8	15.9
ROCE (%)	12.6	15.1	22.6	20.1	22.6	30.9	27.6	26.2	23.0	19.2	24.8	24.3	22.8
PE	3.2	5.0	5.8	6.2	7.5	5.9	13.9	16.7	21.9	28.1	25.7	22.5	19.0
Dividend Payout (%)	22.2	23.0	14.8	14.7	14.9	10.2	10.5	10.8	9.2	12.9	10.2	10.5	10.6
Market Capitalisation	128	258	520	568	898	1,286	3,345	4,570	7,059	7,777	11,197		
Beta	0.5	0.8	1.2	0.9	0.6	0.8	0.8	1.0	1.0	0.6	0.4		
FCFF	76	65	-6	-45	41	7	117	-35	131	175	174	-171	34

CAGR (FY09-19) **27.0%**  
CAGR (FY19-21E) **16.8%**

Particulars	SRF Ltd												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	2,023	2,499	3,474	4,001	3,783	4,018	4,540	4,593	4,822	5,589	7,541	8,566	9,746
EBITDA	371	619	901	831	614	505	717	963	969	906	1,355	1,624	1,912
EBIDTA Margin (%)	18.4	24.8	25.9	20.8	16.2	12.6	15.8	21.0	20.1	16.2	18.0	19.0	19.6
PAT	140	324	484	379	253	162	303	430	515	462	642	795	993
EPS	23	54	80	66	44	28	53	75	90	80	112	137	170
Book Value	140	192	254	305	338	355	395	481	554	621	718	832	976
Debt to Equity	1.2	0.9	0.6	0.7	0.9	1.1	1.1	0.9	0.8	0.9	0.8	0.7	0.4
ROE (%)	16.3	32.3	35.9	23.1	13.7	8.2	14.1	17.1	16.2	13.0	15.4	16.4	17.4
ROCE (%)	16.9	27.1	33.0	24.7	13.5	7.7	12.1	14.3	14.0	11.5	13.9	14.0	16.9
PE	3.2	3.7	4.0	3.8	3.8	12.7	18.8	17.4	18.1	24.4	26.5	21.2	17.0
Dividend Payout (%)	44.7	26.1	17.5	21.2	22.7	35.3	19.0	13.4	13.4	14.9	10.7	14.5	11.9
Market Capitalisation	452	1,194	1,926	1,428	970	2,068	5,685	7,498	9,336	11,242	16,667		
Beta	0.5	0.8	1.2	0.4	0.7	0.6	0.9	1.4	1.2	1.0	1.1		
FCFF	-185	126	556	51	-315	-466	18	423	-76	-668	-148	107	1,077

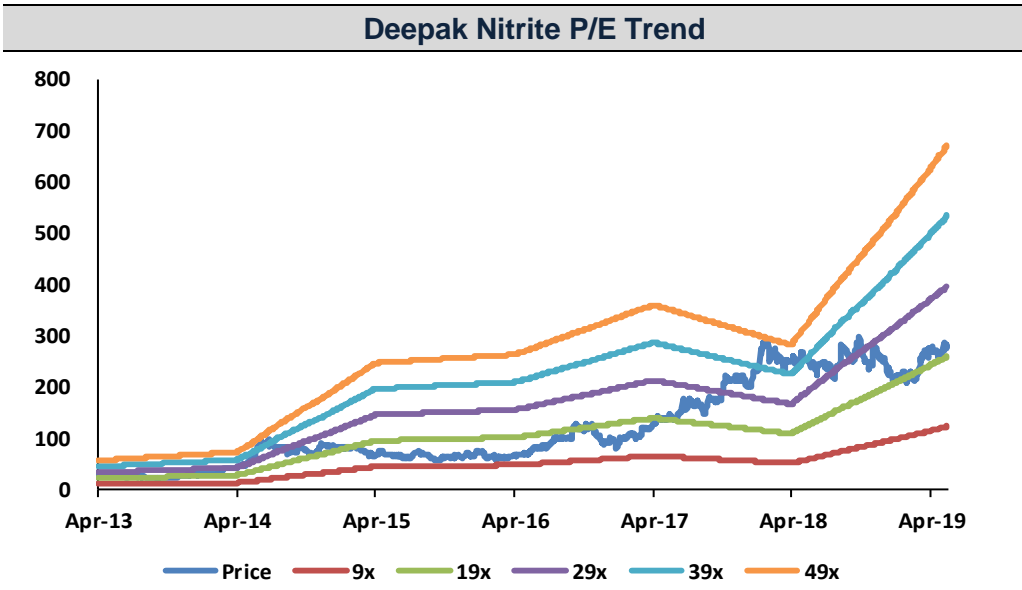
CAGR (FY09-19) **16.5%**  
CAGR (FY19-21E) **24.4%**

Particulars	Vinati Organics												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	191	232	323	447	553	696	772	631	641	743	1,108	1,412	1,769
EBITDA	34	53	70	95	120	153	192	207	218	212	404	507	612
EBIDTA Margin (%)	17.8	22.7	21.6	21.2	21.8	22.0	24.8	32.8	34.0	28.5	36.4	35.9	34.6
PAT	25	40	52	55	69	86	116	132	140	144	282	339	410
EPS	5.1	8.1	10.5	11.1	13.9	17.5	22.4	25.5	27.2	28.0	55.0	66.0	79.7
Book Value	66	20	29	38	49	63	84	105	132	155	205	250	335
Debt to Equity	0.8	0.6	0.5	0.9	1.0	0.5	0.2	0.1	0.0	0.0	0.0	0.0	-0.1
ROE (%)	46.7	48.8	42.8	33.1	32.1	31.3	31.1	27.0	20.6	18.1	27.3	26.4	23.8
ROCE (%)	37.4	40.4	36.4	31.3	27.2	30.9	37.8	35.9	33.0	27.5	40.5	40.4	34.5
PE	2.8	8.9	6.8	7.5	7.4	16.0	23.4	15.2	27.7	32.1	35.9	28.4	23.5
Dividend Payout (%)	9.8	12.3	12.4	18.0	18.0	17.2	15.6	15.7	1.8	16.1	12.7	9.4	8.9
Market Capitalisation	71	354	351	410	510	1,382	2,712	2,001	3,891	4,625	9,807		
Beta	0.5	0.7	0.5	0.2	0.3	0.2	0.5	0.7	0.9	0.9	1.1		
FCFF	16	-11	-11	-34	-82	88	68	85	4	83	11	67	191

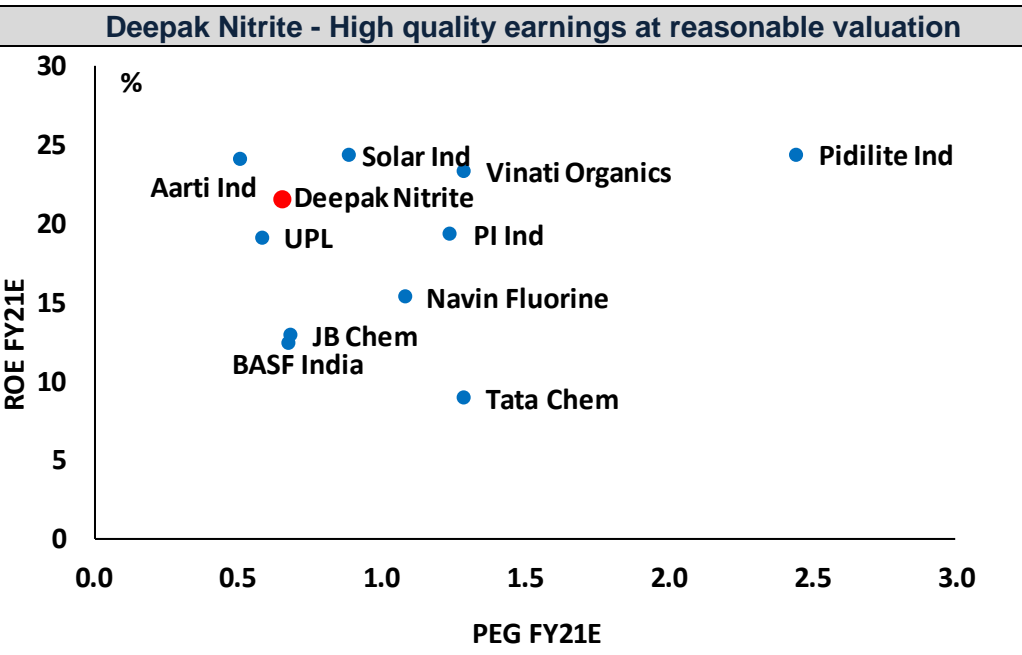
CAGR (FY09-19) **27.4%**  
CAGR (FY19-21E) **20.4%**

**Peer Comparison on Financial Parameters**

Particulars (INR Crore)	Sales	EBITDA	PAT	EBITDA Margin (%)	PAT Margin (%)	EPS (INR / Shr)	BV (INR / Shr)	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	D/E
<b>Deepak Nitrite Ltd. (CMP: INR 295 / MCAP: INR 4,022 Cr)</b>													
FY17	1,371	136	96	9.9	7.0	7.4	52.4	16.2	8.0	17.8	2.4	16.3	0.8
FY18	1,651	198	79	12.0	4.8	5.8	67.6	9.7	9.4	43.0	3.7	20.5	1.0
FY19	2,700	414	174	15.3	6.4	12.7	78.6	17.4	16.8	22.4	3.6	12.1	1.0
FY20E	4,313	668	307	15.5	7.1	22.5	101.1	25.1	23.4	12.7	2.8	7.7	0.9
FY21E	4,533	744	359	16.4	7.9	26.4	127.4	23.1	22.8	10.8	2.2	6.7	0.5
<b>Aarti Industries Ltd. (CMP: INR 1,802 / MCAP: INR 15,545 Cr)</b>													
FY17	3,163	654	328	20.7	10.4	38.5	165.8	23.2	19.9	21.9	8.4	24.0	1.2
FY18	3,806	699	346	18.4	9.1	41.0	194.1	21.1	17.0	28.1	7.2	22.4	1.3
FY19	5,014	971	483	19.4	9.6	55.8	318.7	17.7	16.4	30.6	5.0	16.9	0.8
FY20E	5,887	1,126	574	19.1	9.8	70.3	248.9	28.3	17.9	19.7	5.6	14.2	
FY21E	6,933	1,394	742	20.1	10.7	91.0	390.5	23.3	18.3	15.2	3.6	11.2	
<b>Vinati Organics Ltd. (CMP: INR 1,899 / MCAP: INR 9,832 Cr)</b>													
FY17	641	218	140	34.0	21.9	27.2	131.8	20.6	33.0	27.7	10.9	16.9	0.0
FY18	743	212	144	28.5	19.4	28.0	155.0	18.1	27.5	32.1	9.3	20.2	0.0
FY19	1,108	404	282	36.4	25.5	55.0	204.6	27.3	40.5	35.9	7.0	34.1	0.0
FY20E	1,457	465	335	31.9	23.0	65.2	252.5	25.8	33.6	22.1	5.7	29.3	
FY21E	1,799	589	398	32.7	22.1	77.4	335.2	23.1	28.4	18.6	4.3	24.1	
<b>SRF Ltd. (CMP: INR 2,873 / MCAP: INR 16,468 Cr)</b>													
FY17	4,822	969	515	20.1	10.7	89.7	554.1	16.2	14.0	18.1	4.2	11.2	0.8
FY18	5,589	906	462	16.2	8.3	80.4	620.6	13.0	11.5	24.4	3.7	14.0	0.9
FY19	7,541	1,355	642	18.0	8.5	111.6	718.4	15.4	13.9	26.5	3.2	11.5	0.8
FY20E	8,271	1,553	739	18.8	8.9	129.7	818.1	15.8	13.3	18.0	2.8	9.9	
FY21E	9,396	1,802	924	19.2	9.8	160.4	953.0	16.8	14.8	14.4	2.4	7.6	
<b>JB Chemicals &amp; Pharmaceuticals Ltd. (CMP: INR 375 / MCAP: INR 3,021 Cr)</b>													
FY17	1,368	232	184	17.0	13.5	21.7	160.8	13.5	16.9	14.2	2.0	10.5	0.0
FY18	1,414	218	139	15.4	9.8	16.6	172.5	9.6	13.7	18.9	1.9	10.2	0.0
FY19E	1,592	270	173	17.0	10.9	21.3	184.2	11.5	12.8	15.1	1.8	8.4	
FY20E	1,775	330	215	18.6	12.1	26.4	208.7	12.7	14.9	12.2	1.6	6.9	
FY21E	1,975	378	245	19.1	12.4	30.6	237.0	12.9	13.8	10.7	1.4	6.0	
<b>Atul Ltd. (CMP: INR 3,746 / MCAP: INR 11,055 Cr)</b>													
FY17	2,834	509	319	18.0	11.2	108.9	662.8	16.4	23.0	21.9	5.1	12.8	0.1
FY18	3,296	505	277	15.3	8.4	93.2	756.5	12.3	19.2	28.1	4.4	14.6	0.0
FY19	4,038	767	436	19.0	10.8	147.0	912.2	16.4	24.8	25.7	3.7	26.0	0.0
FY20E	4,634	849	497	18.3	10.7	167.8	1,066.1	15.7	21.4	20.1	3.2	21.2	
FY21E	5,151	972	576	18.9	11.2	194.6	1,260.8	15.4	22.2	17.3	2.7	18.0	



Source: Ventura Research



Source: Ventura Research

## Financials & Projections

Figures are in Rs Cr	FY18	FY19	FY20E	FY21E	FY22E	Figures are in Rs Cr	FY18	FY19	FY20E	FY21E	FY22E
<b>Profit &amp; Loss Statement</b>						<b>Per Share Data</b>					
Net Sales	1,651.5	2,699.9	4,313.3	4,533.1	4,919.5	Adjusted EPS	5.8	12.7	22.5	26.4	30.8
<i>% Change</i>	<i>20.5</i>	<i>63.5</i>	<i>59.8</i>	<i>5.1</i>	<i>8.5</i>	Adjusted Cash EPS	9.7	18.4	30.3	35.3	40.2
Total Expenditure	1,453.1	2,286.0	3,645.4	3,788.8	4,096.9	Dividend Per Share	1.3	2.0	0.0	0.0	0.0
<i>% Change</i>	<i>17.7</i>	<i>57.3</i>	<i>59.5</i>	<i>3.9</i>	<i>8.1</i>	Free Cash Flow Per Share	-36.0	-22.5	-17.9	19.4	18.8
EBITDA	198.4	413.9	667.9	744.3	822.5	Cash Yield (%)	-15.5	-9.7	-7.7	8.4	8.1
EBITDA Margin (%)	12.0	15.3	15.5	16.4	16.7	Book Value Per Share	67.6	78.6	101.1	127.4	158.3
Depreciation	52.8	77.8	105.4	122.2	127.3	<b>Capital, Liquidity &amp; Return Ratios</b>					
<b>Depreciation to Net Block</b>						Total Debt to Equity (x)	1.0	1.0	0.9	0.6	0.5
EBIT	145.6	336.1	562.5	622.1	695.2	Current Ratio (x)	0.9	1.8	1.8	1.7	1.7
EBIT Margin (%)	8.8	12.4	13.0	13.7	14.1	Return on Equity (%)	9.7	17.4	25.1	23.1	21.6
Other Income	12.7	15.1	15.6	16.0	16.5	Return on Capital Employed (%)	9.4	16.8	23.4	22.8	23.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0	<b>Valuation Ratios</b>					
Interest Expenses	47.4	83.3	112.6	93.5	74.4	P/E	40.1	22.4	12.7	10.8	9.2
Interest Coverage Ratio	3.1	4.0	5.0	6.7	9.3	P/CEPS	24.1	15.5	9.4	8.1	7.1
PBT	110.9	268.0	465.4	544.7	637.4	P/BV	3.4	3.6	2.8	2.2	1.8
Tax Provisions	31.8	94.3	158.3	185.2	216.7	EV/Sales	2.4	1.9	1.2	1.1	1.0
Tax Rate (%)	28.7	35.2	34.0	34.0	34.0	EV/EBITDA	20.3	12.1	7.7	6.7	6.0
PAT	79.0	173.7	307.2	359.5	420.7	<b>Efficiency Ratios</b>					
PAT Margin (%)	4.8	6.4	7.1	7.9	8.6	Receivable Days	91.0	77.7	75.0	70.0	70.0
Min Int & Share of Assoc	0.0	0.0	0.0	0.0	0.0	Inventory Days	71.9	55.5	55.0	53.0	53.0
Net Profit	79.0	173.7	307.2	359.5	420.7	Payable Days	106.6	68.2	70.0	70.0	70.0
Net Margin (%)	4.8	6.4	7.1	7.9	8.6	Net Working Capital Days	56.3	65.0	60.0	53.0	53.0
<b>Balance Sheet</b>						<b>Cash Flow Statement</b>					
Share Capital	27.3	27.3	27.3	27.3	27.3	Profit Before Tax	110.9	268.0	465.4	544.7	637.4
Reserves & Surplus	894.9	1,044.3	1,351.5	1,711.0	2,131.7	Adjustments	73.1	51.6	44.2	14.5	-31.5
Total Shareholders Fund	922.1	1,071.6	1,378.8	1,738.3	2,158.9	Working Capital Change	-0.9	-278.4	-224.4	54.4	-52.4
Total Debt	882.0	1,124.9	1,324.9	1,099.9	874.9	Cash Flow from Operations	183.0	41.1	285.3	613.5	553.4
Deferred Tax Liabilities	45.4	77.5	77.5	77.5	77.5	Capital Expenditure	-621.2	-246.2	-391.2	-200.0	-150.0
Other Current Liabilities	741.0	653.8	980.0	1,025.7	1,103.5	Other Investment Activities	96.4	0.0	0.0	0.0	0.0
Total Liabilities	2,590.6	2,927.8	3,761.1	3,941.4	4,214.8	Cash Flow from Investing	-524.7	-246.2	-391.2	-200.0	-150.0
Gross Block	640.3	1,846.4	2,196.4	2,396.4	2,546.4	Changes in Share Capital	146.3	0.0	0.0	0.0	0.0
Less: Accumulated D&A	52.8	130.5	236.0	358.2	485.5	Changes in Borrowings	214.6	229.3	103.0	-302.5	-282.8
Net Block	587.6	1,715.8	1,960.4	2,038.2	2,060.9	Dividend & DDT	-15.6	-27.3	0.0	0.0	0.0
Capital Work in Progress	954.5	33.9	75.0	75.0	75.0	Cash Flow from Financing	345.3	202.0	103.0	-302.5	-282.8
Non Current Investment	2.3	2.4	2.4	2.4	2.4	Net Cash Flow	33.7	-22.4	-3.0	111.1	120.6
Long Term Loans & Advances	52.9	1.4	1.4	1.4	1.4	Opening Cash Balance	14.5	48.2	25.8	22.8	133.9
Net Current Assets	-54.7	278.1	399.6	556.2	829.2	Closing Cash Balance	48.2	25.8	22.8	133.9	254.4
Other Non Current Assets	1,048.0	896.2	1,322.4	1,268.1	1,245.9						
Total Assets	2,590.6	2,927.8	3,761.1	3,941.4	4,214.8						

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## Ventura Securities Limited

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SEBI Registration No.: INH000001634



## Deepak Nitrite Ltd. (DNL)

No. of shares (m)	136.4
Mkt cap (Rs crs/\$m)	3535/512.3
Current price (Rs/\$)	259/3.8
Price target (Rs/\$)	332/4.8
52 W H/L (Rs.)	305/205
Book Value (Rs/\$)	74/1.1
Beta	1.2
Daily volume NSE (avg. monthly)	269480
P/BV (FY19e/20e)	3.4/2.8
EV/EBITDA (FY19e/20e)	13.0/8.5
P/E (FY19e/20e)	21.7/15.6
EPS growth (FY18/19e/20e)	38.4/135.2/38.8
OPM (FY18/19e/20e)	11.1/15.4/15.0
ROE (FY18/19e/20e)	8.4/16.8/19.8
ROCE(FY18/19e/20e)	6.1/9.9/12.8
D/E ratio (FY18/19e/20e)	1.1/1.4/1.1
BSE Code	506401
NSE Code	DEEPAKNT
Bloomberg	DN IN
Reuters	DPNT.NS

## Shareholding pattern

	%
Promoters	44.6
MFs / Banks / FIs	14.6
Foreign Portfolio Investors	10.7
Govt. Holding	-
Public & others	30.1
<b>Total</b>	<b>100.0</b>

As on Dec 31, 2018

## Recommendation

**BUY**

## Analyst

**KISHAN GUPTA, CFA, FRM**

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## Highlights

- Propelled by higher off take of high margin products and firm overall realizations, revenues of Deepak's basic chemicals business rose by a satisfying 14.8%, in 9MFY19, a marked improvement from 7.3% reported last fiscal. Margins rose too - 15.9% Vs 13.9% but not without discernible fluctuations in margins over the last few quarters. Deepak's seemingly most potent fine & speciality chemicals business incredibly benefitted from higher volume growth - resulting from higher utilization and backward integration initiatives - in both domestic and overseas markets. Its revenues, as a result, rose by 21.2% in 9MFY19.
- Not least surprisingly, Deepak's performance products business has seen transformation of sorts for its revenues surged by a gut-wrenching 27.4% in 9MFY19, supported by improved product mix, higher realizations and effect of full integration of value chain. EBIT as a result, jumped not unremarkably over the last few quarters - Rs 18.10 crs (\$2.5m) in Q3 Vs Rs 14.17 crs (\$2.0m) in Q2. Cumulative EBIT in 9MFY19 as a consequence with discernible gains in last few quarters rose to Rs 35.35 crs compared to loss of Rs 5.25 cr in the same period a year ago.
- With barely sketchy outcomes from most of the businesses, operating profits jumped by a dazzling 48.6%, while post tax earnings (adjusted) rose by 68.3% in 9MFY19. Despite absence of long term contracts for both phenol and acetone, this business reported EBITDA of some Rs 37 crs in Q3, partly helped by no timid capacity utilization (over 80%). Not unsurprisingly, by robust supply channels, Deepak Phenolics has succeeded in replacing bulk imports of phenol and acetone in the domestic market.
- The stock currently trades at 21.7x FY19e EPS of Rs 11.94 and 15.6x FY20e EPS of Rs 16.58. Reduced imports from China coupled with higher dependence on agro chemicals sector, largely explains the recent robustness in performance chemicals business, triggering increased output of both DASDA and OBA. Estimate of some 38.8% growth in earnings next fiscal largely hinges on seamless domestic penetration of phenol & acetone market. Chinese government's expansive crackdown on polluting industries would support domestic off take of agrochemicals, dyes and pigments; though seasonality of agro chemicals business is no small threat. On balance, we maintain our buy rating on the stock with revised target of Rs 332 (previous target: Rs 295) based on 20x FY20e earnings, over a period of 9 months.

Consolidated (Rs crs)	FY16	FY17	FY18	FY19e	FY20e
Income from operations	1372.93	1370.70	1651.45	2461.41	3883.43
Other Income	1.59	81.39*	12.40	3.11	1.71
EBITDA (other income included)	168.39	219.28	210.87	382.06	582.79
Profit after associate profit (adjusted for EO)	63.88	43.12	66.86	162.91	226.10
EPS**(Rs)	5.94	3.67	5.08	11.94	16.58
EPS growth (%)	17.3	-38.3	38.4	135.2	38.8

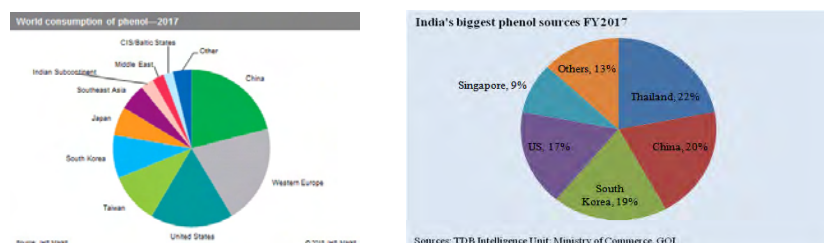
\*includes Rs 70.48 crs profit on sale of land and surrender of leasehold rights; \*\* calculated on weighted average equity.

## Outlook & Recommendation

### Phenol update

Increased construction activities in both residential and commercial domains across the globe (fueled by rapid economic growth) has boosted of take of phenol resins which find use in production of plywood, laminated beams and flooring panels. This has been aptly manifested in 3.4% CAGR growth of the global phenol market during 2011-18, reaching \$20 bn in 2018 thus. The market is estimated to grow by a further 5.2% annually during 2019-2024 according to some estimate by Research And Markets.

Over the last decade, reckons Research And Markets, efforts have been targeted at improving yield, and process costs and safety for phenol preparation in order to meet growing demand for phenolic resins. New catalysts and processes have been commercialized for manufacturing cumene via alkylation of benzene with propylene. Manufacturing of phenol by using cumene hydroperoxide route has evolved as the most preferred method.

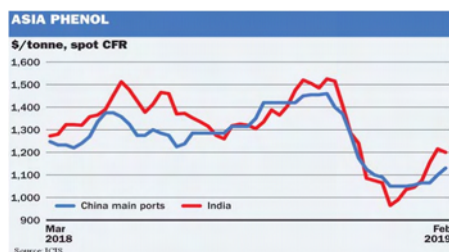


Asia Pacific continues to dominate the global sweepstakes propelled by growing demand production and consumption of phenol in China. Demand for phenol also got a leg up from rise in purchasing power of consumers that has escalated investments in chemical, automotive and construction industries. For phenol, Asia Pacific region is followed by Europe, US, Middle East and Latin America.

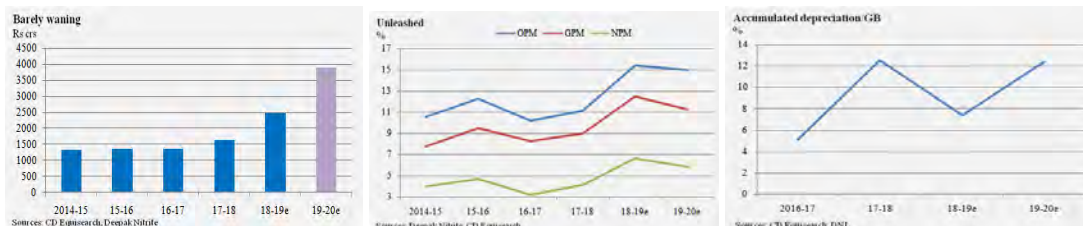
Surprisingly, volume growth would barely account for most of the growth in phenol market as global volumes are estimated to grow by 2.1-3.3% annually during 2017-2023 periods. Yet overall phenol market is forecast to remain in a state of oversupply over the next few years not least due to some large players ramping up capacities in different regions. As a matter of fact, Asia Pacific region is expected to witness the fastest increase in capacity over the medium term.

### Financials & Valuations

Setting its sights on the available phenol & acetone opportunity in the country - demand projected to grow by 7-8% over the next few years by some estimates - Deepak Phenolics - subsidiary of Deepak Nitrite - opportunely commissioned its phenol and acetone plant in November. Besides, increased domestic availability of phenol & acetone is expected to boost production of downstream intermediates, thus helping diversify product applications in India. Barring no diminishing scope of launching phenol derivatives, no great opportunity exists for value addition as yet for even pharmaceutical grade acetone is hardly sold at any premium.

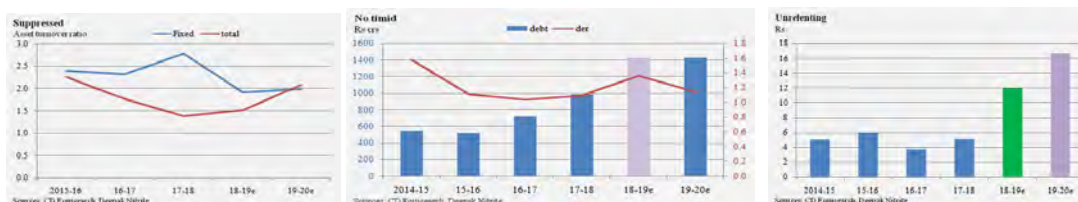


Enthused by uptick in its basic chemicals and FSC businesses, Deepak invested some Rs 70 crs early this fiscal to augment capacities of some major products. Its basic chemicals business has barely struggled in last few quarters all thanks to demand - supply disruptions and capacity closures in China to enact stricter environmental norms. Its FSC business has not been left undone by capacity rationalization in China, subtly reflected in some 300 bps expansion in EBIT margins last fiscal.



Barring some correction in phenol prices of late, prices in general has been robust partly thanks to higher of take of benzene prices in China and greater captive consumption of Chinese phenol capacity. Buoyed by no smallish increase in output of both phenol and acetone, its combined revenues would more than double next fiscal, precipitating some 58% growth in consolidated revenues next fiscal. Yet margins would not strikingly increase - OPMs projected at 15% Vs 15.4% in FY19 - thanks to innate fragility of both basic chemicals (commodity nature) and performance products (low capacity utilization).

The stock currently trades at 21.7x FY19e EPS of Rs 11.94 and 15.6x FY20e EPS of Rs 16.58. No meager gains in earnings next fiscal awaits for Deepak Phenolics aims to vociferously boost output of phenol & acetone, thus unrelentingly reducing dependence on imports. Despite improved product mix, Deepak's basic chemicals business would scarcely escape volatility in global crude oil prices. Despite depreciation of rupee last fiscal, DNL's exports grew by just 9% last fiscal. Yet sturdier utilization of productive assets would barely stymie return on capital and asset turnover ratios. On balance we maintain our buy rating on the stock with revised target of Rs 332 (previous target: Rs 295) based on 20x FY20e earnings. For more info refer to our May report



## Cross Sectional Analysis

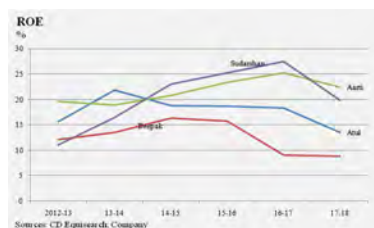
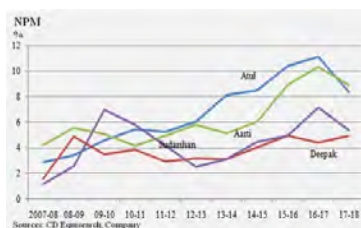
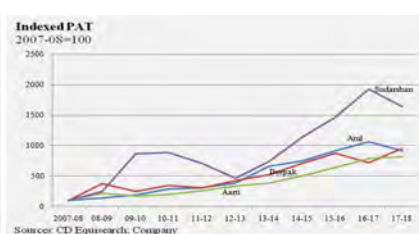
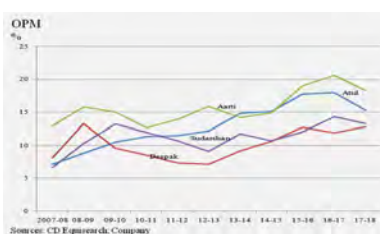
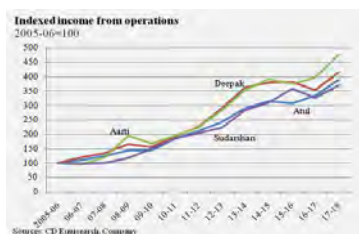
Company	Equity (Rs crs)	CMP (Rs crs)	Mcap (Rs crs)	Inc. from ops. (Rs crs)	Profit (Rs crs)	OPM (%)	NPM (%)	Int. coverage	ROE (%)	Mcap / IO	P/BV	P/E
Aarti Inds.	41	1450	11790	4676	430	18.3	9.2	4.0	25.7	2.5	6.5	27.4
Atul Ltd	30	3340	9908	3782	420	18.2	11.1	137.6	18.4	2.6	4.0	23.6
Deepak Nitrite	27	259	3535	1699	105	14.8	6.2	4.5	11.8	2.1	3.5	33.7
Sudarshan Chem	14	329	2277	1452	89.25	14.2	6.1	9.2	18.7	1.6	3.9	25.5

\*figures in crores; calculations on ttm basis; consolidated data  
Companies not truly comparable due to product dissimilarity

Sparked by higher raw material prices and by no tepid increase in employee costs (up 35.5%), operating margins tumbled to 9.7% last quarter from 14.2% in the same period a year back. Planned recruitments and additional spends towards strategic initiatives explain no modest increase in employee costs last quarter. Margins for its flagship pigments business felt the brunt for it reported some 47% drop in EBIT on modest rise in sales. Sales suffered not least due to soft demand from the plastic market and postponement of export orders.

Over the last few years Aarti's business growth has barely showed signs of relenting for its revenues jumped by a surprising 36.6% in first nine months of the current fiscal. Supported by volume growth in speciality chemicals business and favorable product mix, operating margins of Aarti expanded by 151 bps to 19.5%. Optimum capacity utilization also partly explains both sturdy increase (31%) in speciality chemicals revenues and margins (20.7% Vs 19.6%) last quarter. Recently, Aarti announced signing a multi-year speciality chemical intermediate supply deal with a global chemical conglomerate worth \$125mn, which would entail capital investment of some \$15 mn.

Fortified by no unremarkable rise in margins of both performance and other chemicals business - EBIT rose from 13.6% in Q3FY18 to 18.8% last quarter - and life science chemicals business - 15.7% Vs 11.2%, post tax earnings rose by a dazzling 77.1%. Overall OPMs expanded by some 500 bps to 20.7% backed by modest increases in employee and other operating expenses. Otherwise little stable life science chemicals business has shown consistent improvement in margins over the last few quarters resulting in over 400 bps gains in 9MFY19 on yoy basis.



## Financials

### Quarterly Results -Standalone

	Figures in Rs crs					
	Q3FY19	Q3FY18	% chg.	9MFY19	9MFY18	% chg.
<b>Income from operations</b>	<b>452.31</b>	<b>371.14</b>	<b>21.9</b>	<b>1306.05</b>	<b>1062.03</b>	<b>23.0</b>
Other Income	5.49	0.47	1080.8	2.34	5.16	-54.6
<b>Total Income</b>	<b>457.81</b>	<b>371.61</b>	<b>23.2</b>	<b>1308.39</b>	<b>1067.19</b>	<b>22.6</b>
Total Expenditure	386.09	318.90	21.1	1110.87	908.22	22.3
<b>PBIDT (other income included)</b>	<b>71.72</b>	<b>52.71</b>	<b>36.1</b>	<b>197.52</b>	<b>158.97</b>	<b>24.3</b>
Interest	10.35	9.02	14.8	32.93	29.21	12.7
Depreciation	13.32	12.97	2.7	39.13	38.57	1.4
<b>PBT</b>	<b>48.05</b>	<b>30.72</b>	<b>56.4</b>	<b>125.47</b>	<b>91.18</b>	<b>37.6</b>
Tax	16.43	10.37	58.4	44.00	28.05	56.9
<b>PAT</b>	<b>31.62</b>	<b>20.34</b>	<b>55.4</b>	<b>81.47</b>	<b>63.13</b>	<b>29.0</b>
Extraordinary Item	-	-	-	0.00	14.73	-100.0
<b>Adjusted Net Profit</b>	<b>31.62</b>	<b>20.34</b>	<b>55.4</b>	<b>81.47</b>	<b>48.40</b>	<b>68.3</b>
EPS (F.V. 2)	2.32	1.56	49.0	5.97	3.70	61.3
Equity	27.28	26.14	4.3	27.28	26.14	4.3

\*quarterly EPS on quarter end equity; yearly EPS on weighted average equity; income from operations net of GST / excise

### Segment Results

	Figures in Rs crs					
	Q3FY19	Q3FY18	% chg.	9MFY19	9MFY18	% chg.
<b>Segment Revenue</b>						
Basic Chemicals	219.39	193.34	13.5	643.69	560.49	14.8
Fine & Speciality Chemicals	148.35	122.39	21.2	414.49	342.05	21.2
Performance Products	99.54	67.36	47.8	276.85	217.34	27.4
Others				0.00	0.07	-100.0
<b>Total</b>	<b>467.28</b>	<b>383.09</b>	<b>22.0</b>	<b>1335.04</b>	<b>1119.95</b>	<b>19.2</b>
Inter segment revenue	14.96	11.94	25.3	28.99	33.67	-13.9
<b>Income from operations*</b>	<b>452.31</b>	<b>371.14</b>	<b>21.9</b>	<b>1306.05</b>	<b>1086.28</b>	<b>20.2</b>
<b>Segment EBIT</b>						
Basic Chemicals	33.87	28.35	19.5	102.24	78.16	30.8
Fine & Speciality Chemicals	34.23	27.09	26.3	100.01	84.73	18.0
Performance Products	18.10	-1.29	-1501.5	35.35	-5.25	-773.2
<b>Total</b>	<b>86.21</b>	<b>54.15</b>	<b>59.2</b>	<b>237.61</b>	<b>157.64</b>	<b>50.7</b>
Interest	10.35	9.02	14.8	32.93	29.21	12.7
Other Unallocable Exp. (net of income)	27.81	14.41	93.0	79.21	37.24	112.7
<b>PBT</b>	<b>48.05</b>	<b>30.72</b>	<b>56.4</b>	<b>125.47</b>	<b>91.18</b>	<b>37.6</b>

## Financials

### Income Statement - Consolidated

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
<b>Income from operations</b>	<b>1372.93</b>	<b>1370.70</b>	<b>1651.45</b>	<b>2461.41</b>	<b>3883.43</b>
<i>Growth (%)</i>	3.4	-0.2	18.9	51.1	57.8
Other Income	1.59	81.39	12.40	3.11	1.71
<b>Total Income</b>	<b>1374.52</b>	<b>1452.09</b>	<b>1663.85</b>	<b>2464.52</b>	<b>3885.15</b>
Total Expenditure	1206.13	1232.82	1452.98	2082.47	3302.35
<b>EBITDA (other income included)</b>	<b>168.39</b>	<b>219.28</b>	<b>210.87</b>	<b>382.06</b>	<b>582.79</b>
Interest	39.71	36.54	47.42	74.86	145.05
<b>EBDT</b>	<b>128.67</b>	<b>182.74</b>	<b>163.45</b>	<b>307.20</b>	<b>437.75</b>
Depreciation	39.54	48.04	52.60	74.47	114.75
Tax	26.23	38.25	31.84	69.82	96.90
<b>Net profit</b>	<b>62.90</b>	<b>96.46</b>	<b>79.02</b>	<b>162.91</b>	<b>226.10</b>
Profit of associate	-0.17	-0.15	-	-	-
<b>Net profit after associate profit</b>	<b>62.73</b>	<b>96.31</b>	<b>79.02</b>	<b>162.91</b>	<b>226.10</b>
Extraordinary item	-1.15	53.19	12.15	-	-
<b>Adjusted Net Profit</b>	<b>63.88</b>	<b>43.12</b>	<b>66.86</b>	<b>162.91</b>	<b>226.10</b>
EPS (Rs.)	5.94	3.67	5.08	11.94	16.58

### Segment Results

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
<b>Segment Revenue</b>					
Basic Chemicals	674.56	695.97	746.98	870.77	975.26
Fine & Speciality Chemicals	393.37	374.82	463.24	559.92	671.90
Performance Products	273.68	264.71	300.00	376.85	452.22
Others - unallocable	42.99	136.57	196.33	691.36	1823.28
<b>Total</b>	<b>1384.60</b>	<b>1472.06</b>	<b>1706.55</b>	<b>2498.90</b>	<b>3922.66</b>
Inter segment revenue	11.67	17.35	30.37	37.48	39.23
<b>Income from operations</b>	<b>1372.93</b>	<b>1454.71</b>	<b>1676.18</b>	<b>2461.41</b>	<b>3883.43</b>
<b>Segment EBIT</b>					
Basic Chemicals	79.59	88.18	106.69	136.31	151.16
Fine & Speciality Chemicals	97.19	82.36	114.79	134.91	161.26
Performance Products	-8.71	-18.45	-8.14	50.35	67.83
Unallocable	0.00	0.00	0.00	81.36	231.71
<b>Sub Total</b>	<b>168.07</b>	<b>152.10</b>	<b>213.34</b>	<b>402.93</b>	<b>611.96</b>
Interest	37.65	34.12	45.15	74.86	145.05
Other Unallocable Exp. (net of income)	41.29	-16.73	57.34	95.35	143.92
<b>PBT</b>	<b>89.13</b>	<b>134.70</b>	<b>110.85</b>	<b>232.72</b>	<b>323.00</b>

## Consolidated Balance Sheet

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
<b>SOURCES OF FUNDS</b>					
Share Capital	23.26	26.14	27.28	27.28	27.28
Reserves	468.07	688.72	894.86	1036.39	1241.11
<b>Total Shareholders Funds</b>	<b>491.33</b>	<b>714.87</b>	<b>922.14</b>	<b>1063.67</b>	<b>1268.39</b>
Long term debt	158.62	218.44	550.46	750.46	690.46
<b>Total Liabilities</b>	<b>649.95</b>	<b>933.30</b>	<b>1472.60</b>	<b>1814.13</b>	<b>1958.85</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	598.41	617.44	671.53	2142.52	2207.52
Less: Accumulated Depreciation	0.00	31.51	83.97	158.44	273.19
<b>Net Block</b>	<b>598.41</b>	<b>585.93</b>	<b>587.56</b>	<b>1984.08</b>	<b>1934.33</b>
Capital Work in Progress	31.93	349.19	954.51	10.00	20.00
Investments	88.15	118.08	31.77	2.31	2.31
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	134.04	167.15	325.42	322.61	502.48
Sundry Debtors	312.50	360.33	411.77	538.47	779.06
Cash and Bank	6.49	14.49	48.20	5.13	8.49
Other Assets	57.31	94.27	178.07	195.86	237.34
<b>Total CA &amp; LA</b>	<b>510.33</b>	<b>636.24</b>	<b>963.46</b>	<b>1062.07</b>	<b>1527.37</b>
Current liabilities	593.65	803.20	1044.06	1164.15	1406.43
Provisions	3.46	4.10	3.54	4.21	5.01
<b>Total Current Liabilities</b>	<b>597.11</b>	<b>807.30</b>	<b>1047.59</b>	<b>1168.36</b>	<b>1411.44</b>
Net Current Assets	-86.77	-171.07	-84.13	-106.29	115.93
Net Deferred Tax (net of liability)	-33.74	-39.08	-45.40	-113.33	-150.99
Other Assets (Net of liabilities)	51.96	90.24	28.29	37.36	37.27
<b>Total Assets</b>	<b>649.95</b>	<b>933.30</b>	<b>1472.60</b>	<b>1814.13</b>	<b>1958.85</b>

## Key Financial Ratios

	FY16	FY17	FY18	FY19e	FY20e
<b>Growth Ratios</b>					
Revenue (%)	3.4	-0.2	18.9	51.1	57.8
EBIDTA (%)	20.2	-11.8	29.3	97.1	52.5
Net Profit (%)	20.6	-32.5	55.1	143.6	38.8
EPS (%)	17.3	-38.3	38.4	135.2	38.8
<b>Margins</b>					
Operating Profit Margin (%)	12.3	10.2	11.1	15.4	15.0
Gross Profit Margin (%)	9.5	8.3	9.0	12.5	11.3
Net Profit Margin (%)	4.7	3.2	4.1	6.6	5.8
<b>Return</b>					
ROCE (%)	9.7	6.0	6.1	9.9	12.8
ROE (%)	15.6	7.4	8.4	16.8	19.8
<b>Valuations</b>					
Market Cap / Sales	0.6	1.3	2.1	1.4	0.9
EV/EBIDTA	7.2	15.4	22.2	13.0	8.5
P/E	11.4	35.8	49.0	21.7	15.6
P/BV	1.7	2.5	3.8	3.4	2.8
<b>Other Ratios</b>					
Interest Coverage	3.3	2.8	3.0	4.1	3.2
Debt-Equity Ratio	1.1	1.0	1.1	1.4	1.1
Current Ratio	1.0	0.9	0.9	0.9	1.1
<b>Turnover Ratios</b>					
Fixed Asset Turnover	2.4	2.3	2.8	1.9	2.0
Total Asset Turnover	2.3	1.8	1.4	1.5	2.1
Debtors Turnover	4.4	4.1	4.2	5.2	5.9
Inventory Turnover	10.1	8.2	5.9	6.4	8.0
Creditors Turnover	8.5	6.3	4.2	4.5	6.1
<b>WC Ratios</b>					
Debtor Days	82.9	89.6	86.5	70.5	61.9
Inventory Days	36.2	44.6	62.1	56.8	45.6
Creditor Days	43.0	57.6	87.9	81.6	59.4
Cash Conversion Cycle	76.1	76.6	60.7	45.6	48.1



**Cumulative Financial Data**

Figures in Rs crs	FY17-18	FY19-20e
Income from operations	2999	6345
Operating profit	321	960
EBIT	243	776
PBT	159	556
PAT	110	389
Dividends	40	44
OPM (%)	10.7	15.1
NPM (%)	3.7	6.1
Interest coverage	2.9	3.5
ROE (%)	8.0	18.1
ROCE (%)	6.0	11.9
Debt-equity ratio*	1.1	1.1
Fixed asset turnover	2.5	2.5
Debtors turnover	4.1	5.3
Inventory turnover	5.8	6.5
Creditors turnover	4.1	4.9
Debtors days	88.1	68.5
Inventory days	62.6	56.1
Creditor days	89.5	75.1
Cash conversion cycle	61.3	49.5
Dividend payout ratio (%)	22.9	11.4

FY17-18 implies two years ending fiscal 18; \*as on terminal year; consolidated data

No smallish operational transformation awaits Deepak Nitrite as it prods to push up utilization of phenol and acetone capacities of Deepak Phenolics, its subsidiary, next fiscal - though above 80% utilization has already been reported during Q3. Recent reversal in fortunes of Deepak's performance products business coupled with higher margins of basic chemicals business have added to the zing, resulting in some 68% growth in earnings in first nine months of the current fiscal - OPMs (standalone) zoomed to 14.9% Vs 12.6% in the same period last fiscal.

Propelled by massive capitalization of assets, cumulative operating profit would zoom three fold (see table) during FY19-20 compared to that in two year period ending FY18, precipitating a no weary jump in post tax earnings. Spurred by little restrained utilization of productive assets, return on capital would barely stymie- ROE estimated at 18.1% Vs 8% for two year ending FY18; though no discernible change is expected in fixed asset turnover ratio over this period. Cash conversion cycle is also estimated to improve from 61.3 days to 49.5 days during the forecast period (see table).

## Financial Summary – US dollar denominated

million \$	FY16	FY17	FY18	FY19e	FY20e
Equity capital	3.5	4.0	4.2	4.0	4.0
Shareholders funds	71.5	107.3	138.5	151.1	180.5
Total debt	79.7	111.6	151.7	206.6	206.6
Net fixed assets (incl CWIP)	95.0	144.2	237.1	289.0	283.3
Investments	13.3	18.2	4.9	0.3	0.3
Net current assets	-15.6	-29.3	-16.2	-18.5	13.5
Total assets	95.5	141.0	223.1	259.9	280.6
Revenues	209.7	204.3	252.8	356.8	562.9
EBITDA	26.0	22.3	30.1	55.4	84.5
EBDT	19.9	16.9	22.7	44.5	63.5
PBT	13.9	9.7	14.6	33.7	46.8
Profit after associate profit	9.8	6.4	10.4	23.6	32.8
EPS(\$)	0.09	0.05	0.08	0.17	0.24
Book value (\$)	0.62	0.82	1.02	1.11	1.32

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (Rs 68.99/\$). All dollar denominated figures adjusted for extraordinary items.

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### Exchange Rates Used- Indicative

Rs/\$	FY14	FY15	FY16	FY17	FY18
Average	60.5	61.15	65.46	67.09	64.45
Year end	60.1	62.59	66.33	64.84	65.04

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.