

## 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**

Phone: + 91 (33) 4488 0043

E- mail: kishan.gupta@cdequi.com

## 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    |

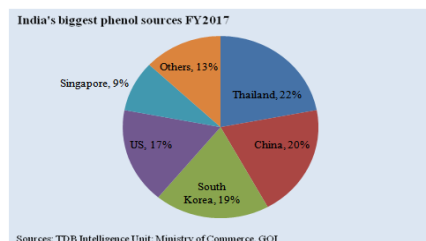
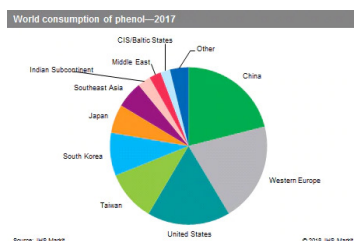
\*includes Rs 70.48 crs profit on sale of land and surrender of leasehold rights; \*\* calculated on weighted average equity.

## 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.

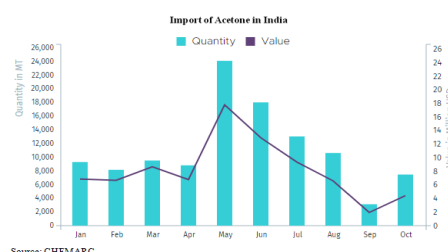
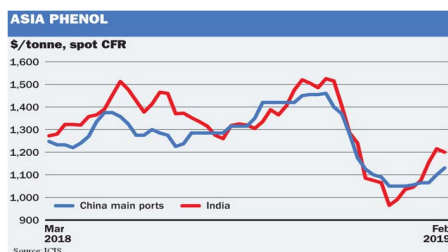


Asia Pacific continues to dominate the global sweepstakes propelled by growing demand production and consumption of phenol in China. Demand for phenol also got a leg up from rise in purchasing power of consumers that has escalated investments in chemical, automotive and construction industries. For phenol,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

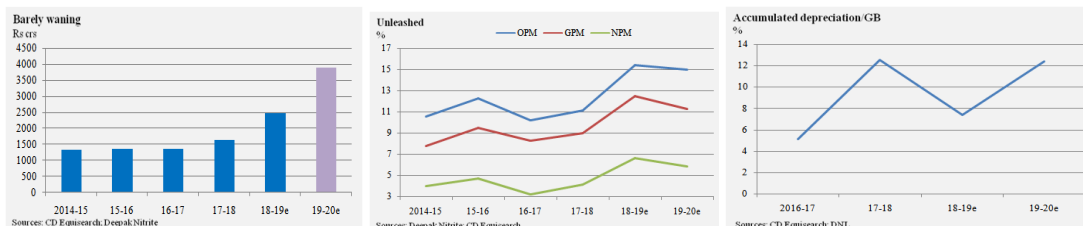
Surprisingly, volume growth would barely account for most of the growth in phenol market as global volumes are estimated to grow by 2.1-3.3% annually during 2017-2023 periods. Yet overall phenol market is forecast to remain in a state of oversupply over the next few years not least due to some large 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.

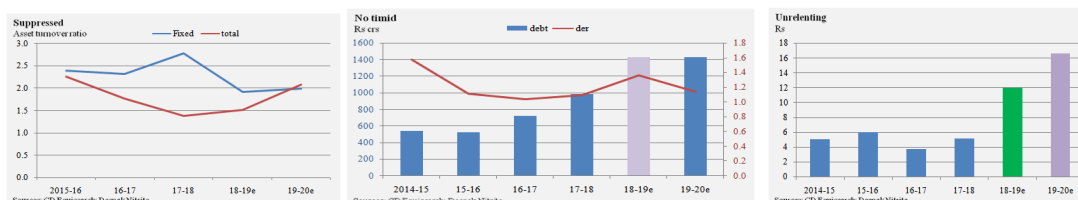


Enthused by uptick in its basic chemicals and FSC businesses, Deepak invested some Rs 70 crs early this fiscal to augment capacities of some major products. Its basic chemicals business has barely struggled in last few quarters all thanks to demand - supply disruptions and capacity closures in China 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

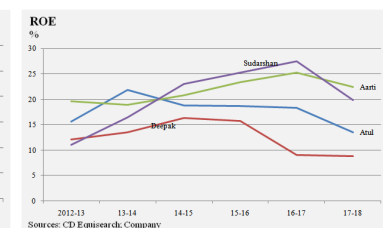
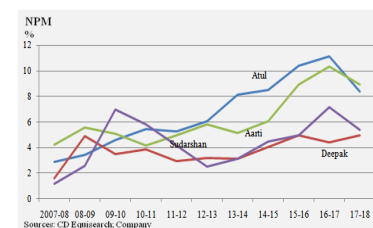
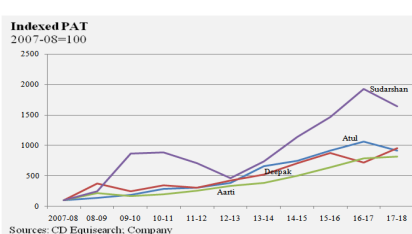
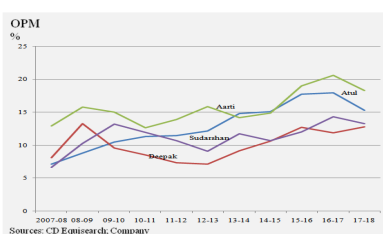
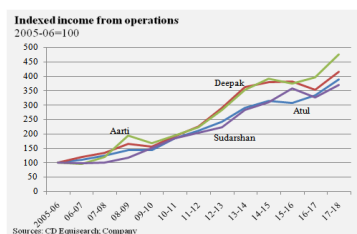
| Company        | Equity (Rs crs) | CMP (Rs crs) | Mcap (Rs crs) | Inc. from ops. (Rs crs) | Profit (Rs crs) | OPM (%) | NPM (%) | Int. coverage | ROE (%) | Mcap / IO | P/BV | P/E  |
|----------------|-----------------|--------------|---------------|-------------------------|-----------------|---------|---------|---------------|---------|-----------|------|------|
| 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> |
| Growth (%)                               | 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.

## Disclosure & Disclaimer

CD Equisearch Private Limited (hereinafter referred to as 'CD Equi') is a Member registered with National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange of India Limited (Formerly known as MCX Stock Exchange Limited). CD Equi is also registered as Depository Participant with CDSL and AMFI registered Mutual Fund Advisor. The associates of CD Equi are engaged in activities relating to NBFC-ND - Financing and Investment, Commodity Broking, Real Estate, etc.

CD Equi is registered under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration no INH300002274. Further, CD Equi hereby declares that –

- No disciplinary action has been taken against CD Equi by any of the regulatory authorities.
- CD Equi/its associates/research analysts do not have any financial interest/beneficial interest of more than one percent/material conflict of interest in the subject company(s) (*kindly disclose if otherwise*).
- CD Equi/its associates/research analysts have not received any compensation from the subject company(s) during the past twelve months.
- CD Equi/its research analysts has not served as an officer, director or employee of company covered by analysts and has not been engaged in market making activity of the company covered by analysts.

This document is solely for the personal information of the recipient and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved) and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. CD Equi or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. CD Equi has not independently verified all the information contained within this document. Accordingly, we cannot testify nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document.

While, CD Equi endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory compliance or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. Neither, CD Equi nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

CD Equisearch Private Limited (CIN: U67120WB1995PTC071521)

Registered Office: 37, Shakespeare Sarani, 3<sup>rd</sup> Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, Dinshaw Wachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

buy: >20%    accumulate: >10% to ≤20%    hold: ≥-10% to ≤10%    reduce: ≥-20% to <-10%    sell: <-20%

### 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.