

Rationale:

- Established in 1970s by Mr. C.K. Mehta (Founder & Chairman), Deepak Nitrite Limited (“DNL”) is an Indian chemical manufacturing company. Enjoying a leading market position in most of its products in the domestic as well as global markets.
- DNL is one of the leading global player for several niche chemical products and caters to several industries- Colorants, Petrochemicals, Agrochemicals, Rubber, Pharmaceuticals, Paper, Textile, Detergents, Fine & Specialty Chemicals, etc.
- DNL currently operates its businesses with four main SBUs namely Bulk Chemicals, Fluorescent & whitening agents, Fine & speciality and Phenolics through its 100% subsidiary Deepak Phenolics Ltd. each contributing about 17%, 7%, 17% and 58% to the revenues respectively.
- During the latest quarterly results ending Jun-21 the company has reported consolidated revenues of ₹15,262 million as against ₹6,745 million, a growth 126.3%. The growth excluding phenolics business was 55% YoY which was mainly due to lower base last year and on QoQ basis the growth was 2%. The Phenolics business registered a growth of 7% QoQ.
- On profitability front, the company’s consolidated EBITDA margins stood 29.6% at ₹4,515 million in Q1-FY22 as against 26.9% at ₹1,816 million and its PAT margins stood 19.8% at ₹3,023 million as against 14.7% at ₹988 million in Q1-FY21. The overall performance was seen improving for the company in latest quarter however various segments continue to witness covid related impact like lower demand, logistic disruptions etc.
- The company’s Phenolics business has seen strong bounce back post covid and is currently operating at 110% utilisation levels despite constrained movement
 - of manpower and materials during the peak of the second wave allowing the 350
 - Company to capitalize on favourable demand trends and attractive pricing for both Phenol and Acetone.
- Going ahead, the company has announced new capex plans of ₹10,000 million (₹3000 million in DNL standalone business and ₹7,000 million in its Phenolics business. This capex is for addition of new products to its existing business including downstream products for its phenolics business.
- The company has begun implementing some debottlenecking in expansions in existing capacities which should be complete by Q3-FY22.
- With successful operations and commercialisation of its phenolics business the company now eyes to enter in more complex chemistries which should be more value added and is expected to improve its financial performance. We re-iterate **BUY** rating on the stock with a target price of **₹2,551 per share**.

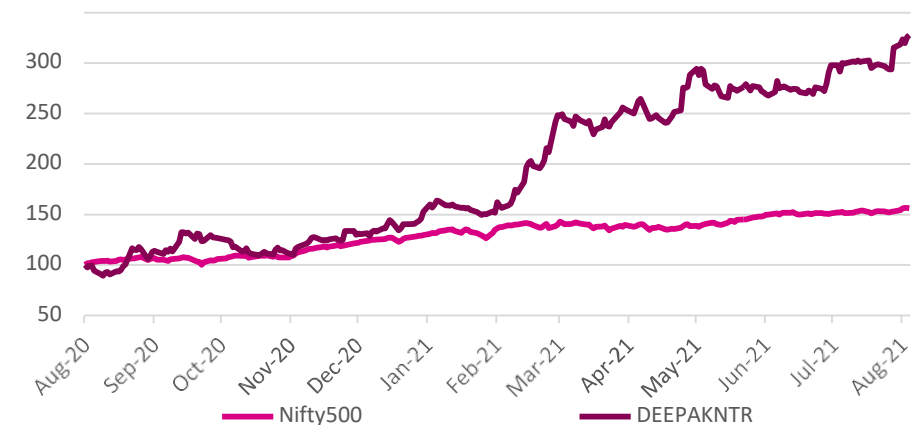
Research Team

52 Week Low / High	567 / 2156
Avg. Daily Volume (3M) ('000)	1,346
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	136.39 / 2,89,215
Shareholding (Promoters/Institutional/Others)	45.7% / 21.8% /32.5%

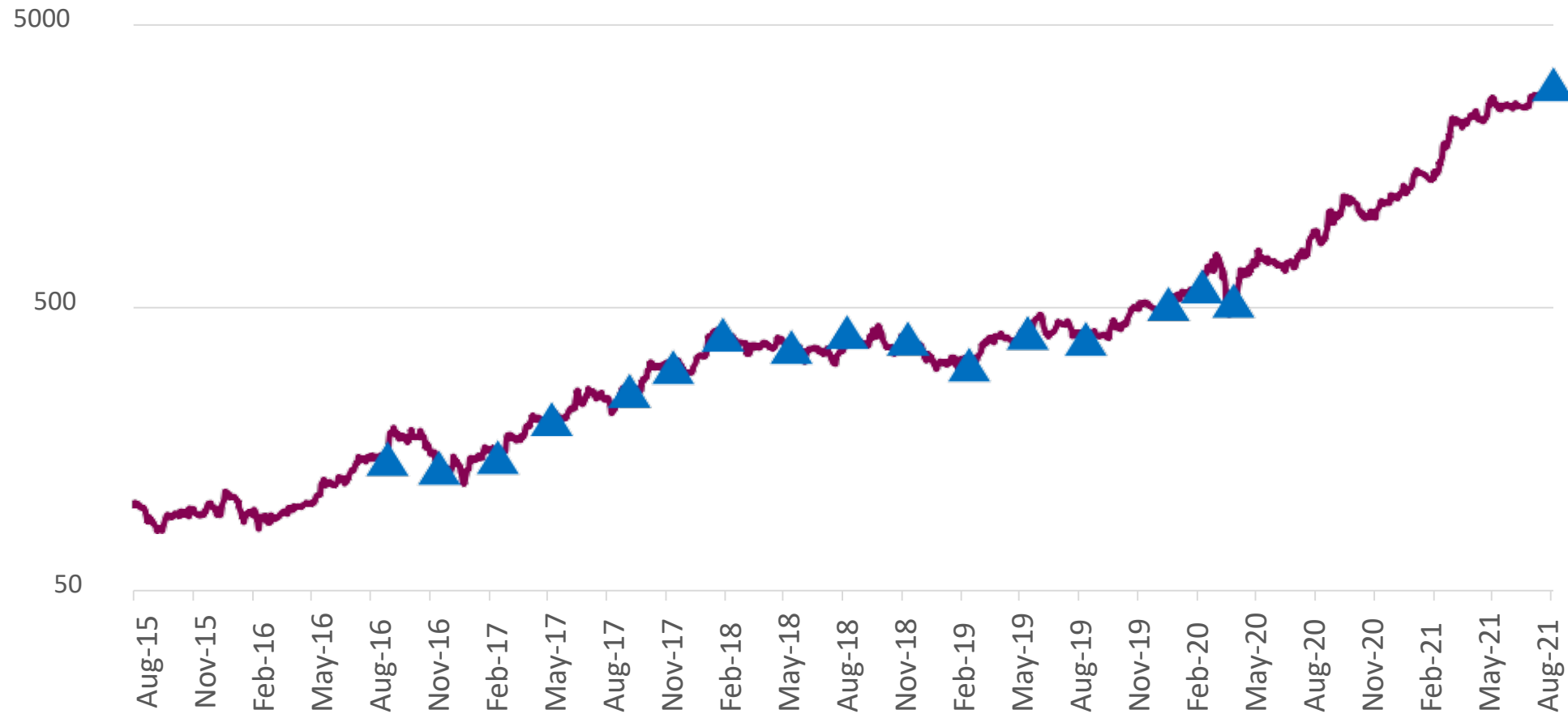
(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	42,297	43,598	59,293	67,594
EBITDA	10,285	12,446	16,305	18,183
EBITDA Margin	24.3%	28.5%	27.5%	26.9%
PAT	6,110	7,758	10,695	12,064
PAT Margin	14.4%	17.8%	18.0%	17.8%
EPS (₹)	44.8	56.9	78.4	88.5
P/E (x)	47.3	37.3	27.0	24.0

Source: Company, Estimates. Note: Prices are as on 8-Aug-21

Price Performance (Aug'20=100)



DEEPAKNTR rating history & price chart (Log scale)



NOTE: Up arrows denotes a BUY rating and down arrows denote a SELL rating.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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