

Deepak Nitrite Ltd.

₹ 121

Fine Chemistry!**Buy**

Oct 14, 2016

Company Background

Incorporated in 1970 Deepak Nitrite Ltd. (Deepak) is an India-based company. The Company is a manufacturer of organic, inorganic, fine and specialty chemicals, and is a business partner of chemical worldwide in pharmaceutical, agro, rubber, colorants and imaging chemicals. It also manufactures of xylidines and cumedines. The company has manufacturing facilities located at different locations in the western part of India - one at Nandesari in Gujarat and another at Pune, Talaja, Roha in Maharashtra and Hyderabad in Andhra Pradesh. The Company operates in three business segments: organic intermediates, inorganic intermediates, and fine and specialty chemicals. The Organic Intermediates segment consists of nitro aromatic plants and also multi-purpose aromatic amines plant based on catalytic hydrogenation technology. The Fine and Specialty Chemical segment produces a range of effect chemicals for the needs of speciality producers. These include colour intermediates for optical brighteners. Many of the Fortune 500 companies are amongst the clients of Deepak.

Key Highlights

- ➔ Deepak is implementing a Greenfield project to manufacture Phenol and Acetone at Dahej in the State of Gujarat through its wholly owned subsidiary, viz. Deepak Phenolics Ltd at a capital outlay of Rs 1.2 bn. The capacity of the Phenol Plant will be 200,000 MTPA and that of co-product Acetone will be 120,000 MTPA. The Company has already tied up the debt portion, while the equity funds will be raised progressively, the first QIP is already done.
- ➔ Company has built a wide portfolio of products across various chemical intermediates thereby insulating itself from sharp slowdown in a single product or category. It's ability to produce a spectrum of chemicals combined with its expertise in custom manufacturing services provides it with a competitive edge and helps cater to a host of chemical majors across the globe.
- ➔ Due to its world-class infrastructure, R&D focus, custom manufacturing expertise and global quality adherence Deepak has clients from across 21 countries including USA, the European and East European nations, South Korea, South America and the ASEAN countries.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	13,540.2	14,173.7	14,212.7
Rev. growth (%)	22.49	4.68	0.28
EBITDA (INR mn)	828.7	1,157.6	1,417.5
Net profit (INR mn)	383.3	534.4	651.5
Shares outstanding (mn)	10.5	104.6	116.3
EPS (INR)	35.0	4.9	5.4
EPS growth (%)	0.43	(85.96)	9.16
P/E (x)	1.23	13.83	12.64
RONW (%)	13.10	16.39	15.87
ROCE (%)	11.90	12.30	13.90

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Info Codes

Reuters	: DPNT.BO
Bloomberg	: DN:IN
NSE	: DEEPAKNI
BSE	: 506401

Market Data

52 Wk Range (₹)	: 62 / 114
Shares in Issue (mn)	: 116.3
Mkt. Cap (₹ bn)	: 14.04
BSE 2 Wk Avg Vol	: 45000

Share Holding Pattern (%)

Promoters Holding	: 51.95
Corporate Holding	: 00.00
Domestic Institution	: 11.26
Foreign Institution	: 02.75
Public & Others	: 34.03

Investment Theme

Headquartered in Gujarat Deepak Nitrite is a multi-division and multi-product company with 5 manufacturing facilities at Gujarat, Maharashtra and in Andhra Pradesh. Instituted as a fully indigenous sodium nitrite and sodium nitrate plant in 1970, Deepak Nitrite has today grown into a 700 million US dollar global group. By building enduring relationships with leading chemical majors across 21 countries including USA, the European and East European nations, South Korea, South America and the ASEAN countries, offering a spectrum of ingredients used for multiple applications and in multiple geographies it has slowly become their supplier of choice. The chemical slowdown in China will benefit it further. The company has been regular dividend paying one and has a low debt equity ratio. We feel growth prospects of Deepak are high.

Preferred Supplier for Fortune 500!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	12,696.3	13,271.6	4.5	13,357.2	0.6
Other Income	17.7	20.5	15.8	15.4	(24.9)
Change in Stocks	349.4	(115.3)	(133.0)	65.4	(156.7)
Raw Material Con.	8,466.4	8,244.9	(2.6)	7,719.0	(6.4)
Employee Exp.	883.5	1,001.0	13.3	1,160.8	16.0
Indirect Taxes	826.2	881.6	6.7	840.1	(4.7)
Other Exp.	1,729.6	1,631.8	(5.7)	2,019.4	23.8
Operating Exp.	11,905.7	11,759.3	(1.2)	11,739.3	(0.2)
Operating Profit	1,157.7	1,417.5	22.4	1,698.7	19.8
Total Interest	279.7	379.9	35.8	391.0	2.9
Gross Profit	878.0	1,037.6	18.2	1,307.7	26.0
Net Dep.	296.4	360.2	21.5	394.5	9.5
Total Taxation	198.3	143.0	(27.9)	261.7	83.0
Net Profit/Loss	383.3	534.4	39.4	651.5	21.9

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	6,275.4	8,225.6	8,992.8	9,786.8
Equity Share capital	104.5	104.5	209.1	232.6
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,701.4	2,970.7	3,259.2	4,526.3
Secured Loans	2,997.1	4,510.9	4,830.5	4,391.2
Unsecured Loans	472.4	639.5	694.0	636.7
USES OF FUNDS	6,275.4	8,225.6	8,992.8	9,786.8
Gross Block	5,410.0	6,987.7	8,173.8	8,983.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	2,155.8	2,374.9	2,686.6	3,012.2
Net Block	3,254.2	4,612.8	5,487.2	5,971.0
Capital Work in Progress	1,175.4	711.0	380.0	103.4
Investments	13.3	31.2	171.7	1,329.6
Current Assets	4,232.9	5,004.1	4,806.1	4,799.1
Less : Current Liabilities	2,387.4	2,037.0	1,802.1	2,254.6
Total Net Current Assets	1,845.5	2,967.1	3,004.0	2,544.5
Misc. Expenses not writtenoff	(13.0)	(96.5)	(50.1)	(161.7)
NOTE				
Book Value of Unquoted Investments	11.1	29.0	169.5	652.2
Market Value of Quoted Investments	9.9	9.4	10.1	689.3
Contingent Liabilities	188.5	367.9	419.6	449.1
Dividend (%)	60.0	100.0	50.0	60.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	3,344.5	3,137.0	3,358.3	3,101.3
Cost Of Sales	2,971.5	2,774.2	2,941.2	2,746.4
Operating Profit	373.0	362.8	417.1	354.9
Other Income	38.2	52.3	57.1	766.1
Adjusted PBDIT	411.2	415.1	474.2	1,121.0
Financial Expenses	105.8	90.7	77.8	83.7
Depreciation	98.0	99.0	102.7	105.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	207.4	225.4	293.7	932.2
Tax Charges	59.6	60.9	88.1	253.6
Reported Profit	147.8	164.5	205.6	678.6
Extra Ordinary Items	0.0	0.0	0.0	707.7
Other Non Cash Adjust	0.0	0.0	0.0	192.5
Adjusted Net Profit	147.8	164.5	205.6	163.4

52 Week Index Relative Percentage Appreciation



Deepak vs SENSEX

Risks Associated

- ➔ Being a global player, the main source of revenue is in several foreign currencies, primarily, U.S. Dollars, Euros and British Pound. Due to the difference in time between sales and receivables, the foreign exchange rate at which the sale is recorded in the books of accounts may not be the same as the foreign exchange rate at which the sale is realised.
- ➔ Since the company operates in the chemical sector the most important risk is of the Environmental Laws, Any change in the environmental laws of the state or country of the country of export would damage the current business position of the company.
- ➔ Major raw materials to the company are always under inflationary pressure this is usually due to supply and demand of the raw materials coupled with the fact that 90% of the competition is locally confined to just 2 states in India, Gujarat & Maharashtra.
- ➔ Being a global player, the main source of revenue is in several foreign currencies, primarily, U.S. Dollars, Euros and British Pound. Due to the difference in time between sales and receivables, the foreign exchange rate at which the sale is recorded in the books of accounts may not be the same as the foreign exchange rate at which the sale is realised.
- ➔ The company is constructing a Greenfield Project at Dahej with a capex of more than Rs 1.2 bn, while the company had already closed the debt portion of the project the whole financial closure is yet to be done. Further if the orders dont flow in as they are currently the interest pressure starts building in.



In a Nutshell

Headquartered in Gujarat - the chemical hub of India, Deepak Nitrite is a multi-division and multi-product company with manufacturing facilities at Nandesari and Dahej in Gujarat, Roha and Taloja in Maharashtra, and at Hyderabad in Andhra Pradesh. Instituted as a fully indigenous sodium nitrite and sodium nitrate plant in 1970, Deepak Nitrite has today grown into a 700 million US dollar global group. It is a global supplier of choice, with enduring relationships with leading chemical majors offering a spectrum of ingredients used for multiple applications and in multiple geographies. It has the capability of manufacturing high-value specialty products either based on own end products or developed especially for its users. Over the years, Deepak has built and enriched its expertise of undertaking numerous chemical processes and executes complex and hazardous chemical processes with high success rates by leveraging its experience. The overall outlook in the Chemical sector is also said to be good with an expected global growth of 11%. The Government has taken several steps to improve the productivity and efficiency in the chemical sector. Simplified procedures for FDIs with 100% permissible investments combined with tax deduction to promote Research & Development activities and formation of industrial clusters & parks will provide further impetus to the sector. A glimpse of India's emergence as a major export hub is already seen in various segments of the chemical sector. Moreover, softening of Chinese chemical exports, with environmental issues leading to a shut down and relocation of chemical plants, adds zing to India's chemical exports potential for the next couple of years.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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