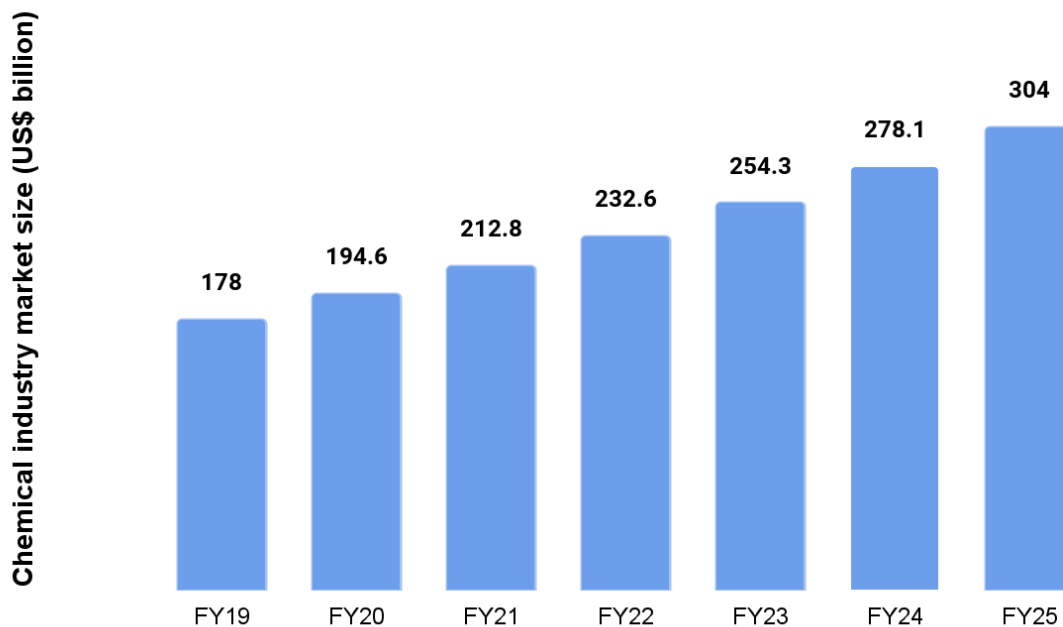


QUALITATIVE ANALYSIS

1. Sector Analysis:

- > The chemical industry of India is a major contributor to the Indian economy contributing about 7% to the GDP. India's chemical industry ranks 6th largest in the world and 3rd in Asia. The market size of the chemical and petrochemicals sector in India is worth ~\$178 bn in 2018-19. The chemical industry generates employment for about 5 million people.
- > Indian manufacturers have recorded a CAGR(Compound annual growth rate) of 11% in revenue between FY15 and FY21, increasing India's share in the global speciality chemicals market to 4% from 3%, according to the Crisil report.
- > FDI in the chemical sector reached US\$ 19.09 billion between April 2000 to December 2021.
- > Globally, India is the 3rd largest consumer of polymers, 4th largest producer of agrochemicals and 6th largest producer of chemicals.
- > Chemical Industry in India is highly diversified covering more than 80,000 commercial products. The chemical sector can be broadly classified into Bulk chemicals, Speciality chemicals, Agrochemicals, Petrochemicals, Polymers and fertilizers.
- > India is a global supplier of dye, accounting for ~16% of the global production of dyestuffs and dye intermediaries. The country exports dyes to Germany, the UK, the US, Switzerland, Spain, Turkey, Singapore and Japan. In FY22, India's dye exports totalled US\$ 3.24 billion. Insecticides share 53% of the total domestic agrochemicals market, followed by Herbicides. Agrochemicals are the key revenue component of India, which exports 50% of its total production.
- > The Indian chemicals industry makes up 3.4% of the global chemicals industry.



2. Company Analysis:

Deepak Nitrite Ltd. is an Indian chemical manufacturing company. The company was founded by Chimanlal Khimchand Mehta in 1970. The company held its Initial Public Offering (IPO) in 1971 and was oversubscribed by 20 times.

Deepak Nitrite produces a range of basic Chemicals, Fine & Speciality, Performance Products and Phenolics (Phenol, Acetone & Iso-Propyl Alcohol), The products produced by the company find application in the manufacturing of downstream products for multiple sectors. Deepak Nitrite has 6 manufacturing plants in India located out of which 3 are in Gujarat, 2 in Maharashtra and one in Telangana. They also have an R&D team which focuses on innovating new compounds / value-added products, improving the process of existing products, and recovery of products from effluents.

In the financial year, 2020-21 company's revenue increased from Rs 4265 crore in the year 2019-20 to Rs 4382 crore which is about 3% growth. Company PAT grew from Rs 611 crore to Rs 776 crore about a 27% increase from the last financial year. The company's equity decreased from 0.69 to 0.15 in 2020-21.

On a consolidated basis, the mix of Domestic Sales versus Exports has been 71:29.

3. Company Strength and Differences:

a.Design and Development: Deepak Nitrite, a company started by manufacturing sodium nitrite, sodium nitrate and other chemicals, now has a diversified portfolio which serves as a raw material for various other industries. Deepak Nitrite now has a ~75% market share in sodium nitrite, sodium nitrate, and NitroToluenes in India. The company's investment in R&D, environmentally sustainable operations, and innovation in terms of processes are the company's key differentiators.

Expansion Plan:

The company focuses on expanding its capabilities, sustainable growth, expanding product portfolio, enhancing margins and operational excellence and safety. The company will be investing around Rs. 300 Cr. into new products based on environmentally friendly technologies for agrochemical and pharmaceutical intermediate, another amount of ~Rs. 100 Cr has been committed in various brownfield expansions of existing products. It aims to add high-value solvents and has set aside ₹ 700 Crores, which is expected to be completed by FY 23-24.

b. Brand Portfolio:

- > Basic Chemicals
- > Fine and Speciality Chemicals :
- > Performance Products
- > Phenolics Products

Key Products:

Agrochemicals:

1,2,4 Triazinone

3-Amino Benzotrifluoride

2-Amino Benzotrifluoride

Pharmaceuticals:

Sodium Nitrite

3-HAP

Dyes & Pigments:

SNi

PNT

3-Hydroxy Benzotrifluoride

TFMAP

MAHCL

OT

PC

OC

3-Nitro-o-xylene

4-Nitro-o-xylene

Meta-xylene-nitration

Ortho-xylene-nitration

Petrochemicals:

2 EHN

Wood Preservatives:

Protecto B plus premium

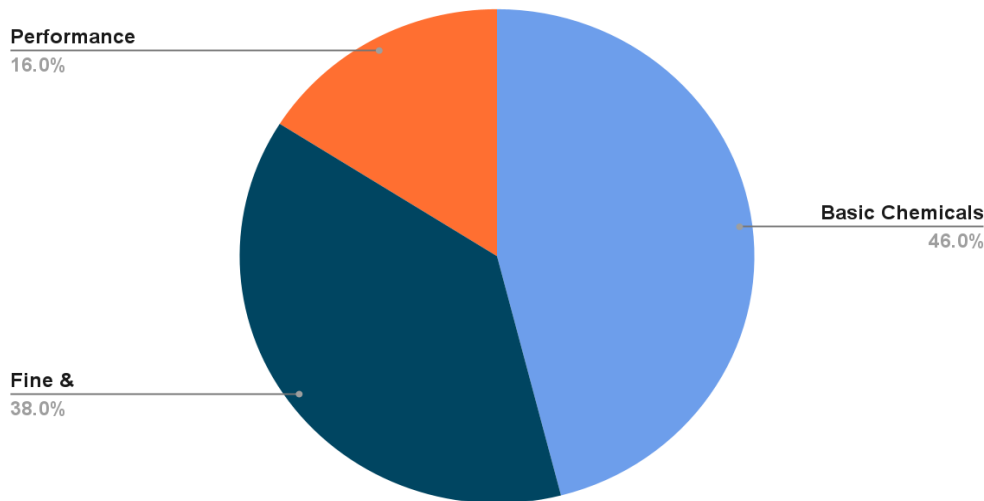
Protecto GLP plus

Protecto PFB plus

Personal Care:

MePPDA

Product Categories



The products manufactured by the company find its application in the manufacture of followings:

Agrochemicals	Detergents	HairDyes	Pharmaceutics
Dyes & Pigments	Paper	Textile	Personal Care
Industrial Explosive	Glass	Fuel Additives	Rubber

c. Manufacturing: Deepak Nitrite has 6 manufacturing plants located in three different states in India. It has also acquired land parcels as a part of its capacity expansion and growth plan in Dahej, Gujarat followed by smaller parcels of land acquired in Hyderabad and in Roha for Rs. 141 Cr.

d. Retail and Customer services: It is a B2B based company and hence delivers most of its end product to industries.

4. Company MD and CEO:

Company's MD: Mr Deepak C. Mehta

- Mr Mehta has a Bachelor of Science Degree from the University of Mumbai and subsequently joined the company as a Board Member.
- He then assumed office as the company's vice-chairman in April 2008, and subsequently became the Chairman and Managing Director in August 2016.
- Mr Mehta has been an industry force for almost 30 years and is a well-known member of the Indian chemicals industry, and an ardent voice at industry chambers FICCI and ICC.
- He is also a key contributor to policy recommendations on the government's efforts of creating special infrastructure for the chemicals industry such as chemical parks.

Company CEO: Mr Maulik D Mehta

- Mr Mehta, has a bachelor's degree from the University of Liverpool in a Bachelor of Business Administration and then proceeded to get a master's degree in industrial and organisational psychology from Columbia University.
- Mr Mehta has around 12 years of experience in Business Development, Strategy, Human Resources, Patent & Product Development and External Relations with increasing responsibilities.
- He joined the company as a Board Member in September 2016. Subsequently, he assumed office as the Executive Director in June 2020.

5. Company Business Segment:

Deepak Nitrite Limited is a chemical manufacturing company that manufactures a wide range of speciality chemicals for various industries. Some of their business segments include

1. Agrochemical Intermediates: The company produces intermediates used in the manufacturing of agrochemicals such as pesticides and herbicides.
2. Pharmaceutical Intermediates: Deepak Nitrite produces intermediates used in the production of various types of pharmaceuticals, including anti-inflammatory and anti-cancer drugs.
3. Pigments and Dyes: The company manufacture pigments and dyes for use in industries such as textiles, printing and packaging.
4. Fine Chemicals: Deepak Nitrite produces fine chemicals for use in various industries such as oil, gas, and water treatment.
5. Speciality Chemicals: The company also produces speciality chemicals for use in industries such as food, personal care, and paint.

APPLICATION DIVERSITY



6. Investment Hypothesis:

- **Government Support and Policies:**

1. Consent for 100% FDI in the chemical sector under the automatic route, redesigned the Petroleum Chemicals and Petrochemicals Investment Region (PCPIR) policy (2020-2035) which targets to attract a combined investment of US\$ 142 billion by 2025
2. A Production-Linked scheme (PLI) to boost India's manufacturing capabilities and exports, with a total outlay of Rs 18,600 crores
3. Reduction in custom-duty for various products, providing research & development support and the Make in India campaign will further benefit the sector.

- **Future Prospects:**

1. The company, which is an established manufacturer of phenol, acetone, and isopropyl alcohol through its subsidiary Deepak Phenolics, has continued to benefit from rising prices of phenol derivatives.
2. Global supply disruption for these chemicals during the year benefited the company. Having created India's largest phenol-acetone plant, the company will continue to accrue benefits from the country's growing demand and import substitutions.
3. Being a basic manufacturer, it also has a good edge over the cost competition. Deepak Nitrite's earnings over the next few years are expected to increase by 42%, indicating a highly optimistic future ahead.

- **Projects:**

1. Deepak Nitrite Ltd. is planning to invest around Rs 300 crores into new products based on environmentally friendly technologies for

agrochemical and pharmaceutical intermediates. The company is also in the process to build a Technology centre at Vadodara which will strengthen R&D and piloting capabilities.

2. The company has undertaken Capex projects which include land development at the newly acquired Dahej site, comprising 55 acres out of a total of 127 acres in the first phase. This facility will support capacity enhancement for key products in the standalone business.
3. The company has also undertaken CSR projects which focus on healthcare, education, skill building, livelihood and women empowerment.

QUANTITATIVE ANALYSIS

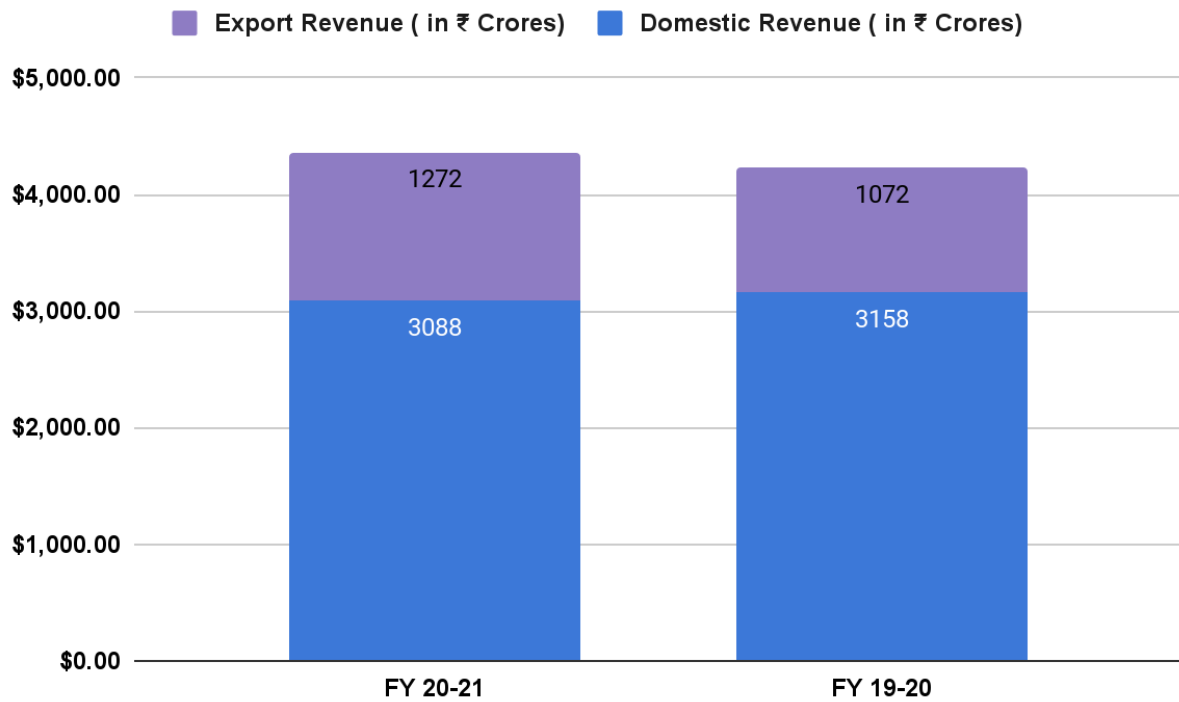
1. Financial Ratios

KEY FINANCIAL RATIOS OF DEEPAK NITRITE (in Rs. Cr.)	MAR 22	MAR 21	MAR 20	MAR 19	MAR 18
PER SHARE RATIOS					
Basic EPS (Rs.)	35.65	26.01	39.89	10.12	6.34
Diluted EPS (Rs.)	35.65	26.01	39.89	10.12	6.34
Cash EPS (Rs.)	40.96	30.91	45.60	14.00	9.93

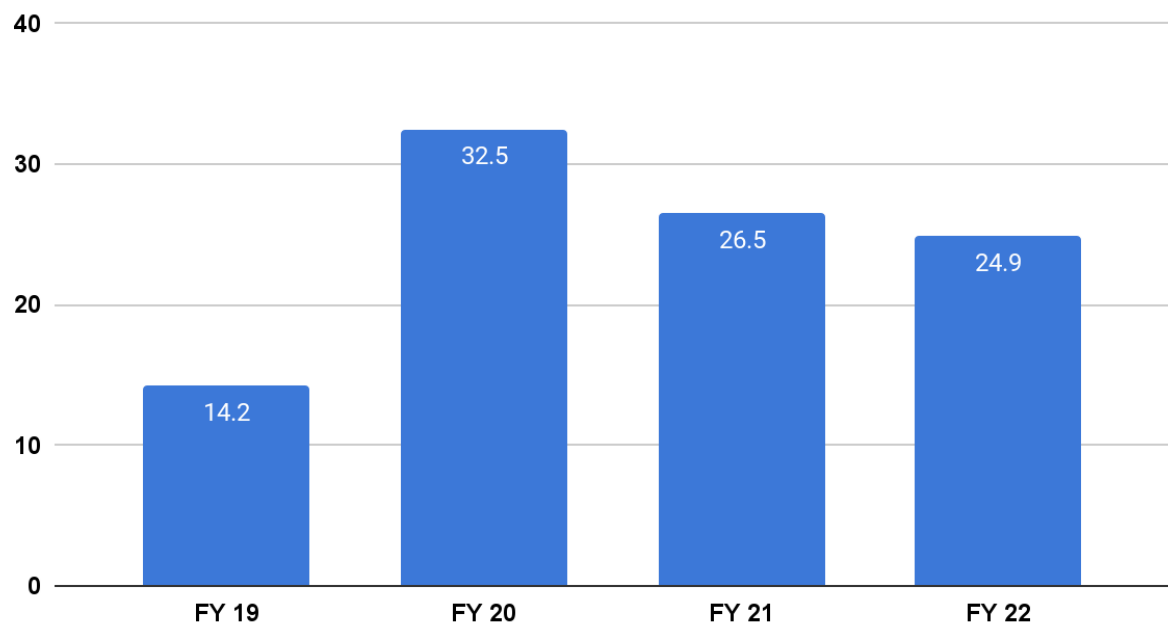
KEY FINANCIAL RATIOS OF DEEPAK NITRITE (in Rs. Cr.)	MAR 22	MAR 21	MAR 20	MAR 19	MAR 18
PER SHARE RATIOS					
Basic EPS (Rs.)	35.65	26.01	39.89	10.12	6.34
Book Value [ExclRevalReserve]/Share (Rs.)	165.40	135.25	109.34	77.56	69.20
Book Value [InclRevalReserve]/Share (Rs.)	165.40	135.25	109.34	77.56	69.20
Dividend / Share(Rs.)	7.00	5.50	4.50	2.00	1.30
Revenue from Operations/Share (Rs.)	184.09	132.63	163.46	131.38	106.68
PBDIT/Share (Rs.)	52.50	40.29	58.96	22.60	15.72
PBIT/Share (Rs.)	47.19	35.39	53.25	18.72	11.91
PBT/Share (Rs.)	47.07	35.09	51.76	15.58	8.95
Net Profit/Share (Rs.)	35.65	26.01	39.89	10.12	6.12
PROFITABILITY RATIOS					
PBDIT Margin (%)	28.51	30.37	36.07	17.20	14.73
PBIT Margin (%)	25.63	26.68	32.57	14.24	11.16
PBT Margin (%)	25.56	26.45	31.66	11.85	8.39
Net Profit Margin (%)	19.36	19.60	24.40	7.70	5.73
Return on Networth / Equity (%)	21.55	19.22	36.48	13.04	8.84

KEY FINANCIAL RATIOS OF DEEPAK NITRITE (in Rs. Cr.)	MAR 22	MAR 21	MAR 20	MAR 19	MAR 18
PER SHARE RATIOS					
Basic EPS (Rs.)	35.65	26.01	39.89	10.12	6.34
Return on Capital Employed (%)	27.55	25.19	46.54	20.81	14.80
Return on Assets (%)	18.40	16.34	26.58	7.55	4.63
Total Debt/Equity (X)	0.01	0.00	0.12	0.25	0.38
Asset Turnover Ratio (%)	1.04	0.86	108.94	98.04	80.80
LIQUIDITY RATIOS					
Current Ratio (X)	4.55	2.95	1.36	1.05	1.06
Quick Ratio (X)	3.45	2.12	0.88	0.67	0.79
Inventory Turnover Ratio (X)	5.52	4.12	9.57	7.71	7.73
Dividend Payout Ratio (NP) (%)	15.42	0.00	16.29	12.84	18.79
Dividend Payout Ratio (CP) (%)	13.42	0.00	14.25	9.28	11.58
Earnings Retention Ratio (%)	84.58	0.00	83.71	87.16	81.21
Cash Earnings Retention Ratio (%)	86.58	0.00	85.75	90.72	88.42
VALUATION RATIOS					
Enterprise Value (Cr.)	30,615.16	22,596.3	5,447.04	4,005.78	3,719.05

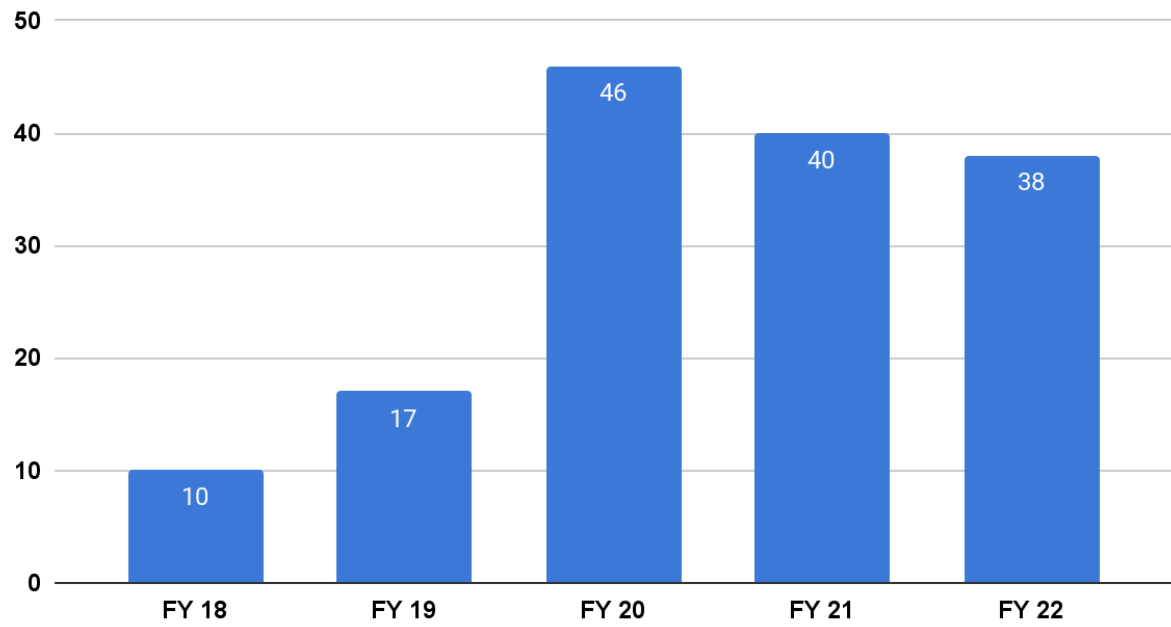
KEY FINANCIAL RATIOS OF DEEPAK NITRITE (in Rs. Cr.)	MAR 22	MAR 21	MAR 20	MAR 19	MAR 18
PER SHARE RATIOS					
Basic EPS (Rs.)	35.65	26.01	39.89	10.12	6.34
EV/Net Operating Revenue (X)	12.19	12.49	2.44	2.24	2.56
EV/EBITDA (X)	42.75	41.11	6.77	13.00	17.35
MarketCap/Net Operating Revenue (X)	12.19	12.49	2.37	2.09	2.33
Retention Ratios (%)	84.57	0.00	83.70	87.15	81.20
Price/BV (X)	13.57	12.25	3.54	3.54	3.60
Price/Net Operating Revenue	12.19	12.49	2.37	2.09	2.33
Earnings Yield	0.02	0.02	0.10	0.04	0.02



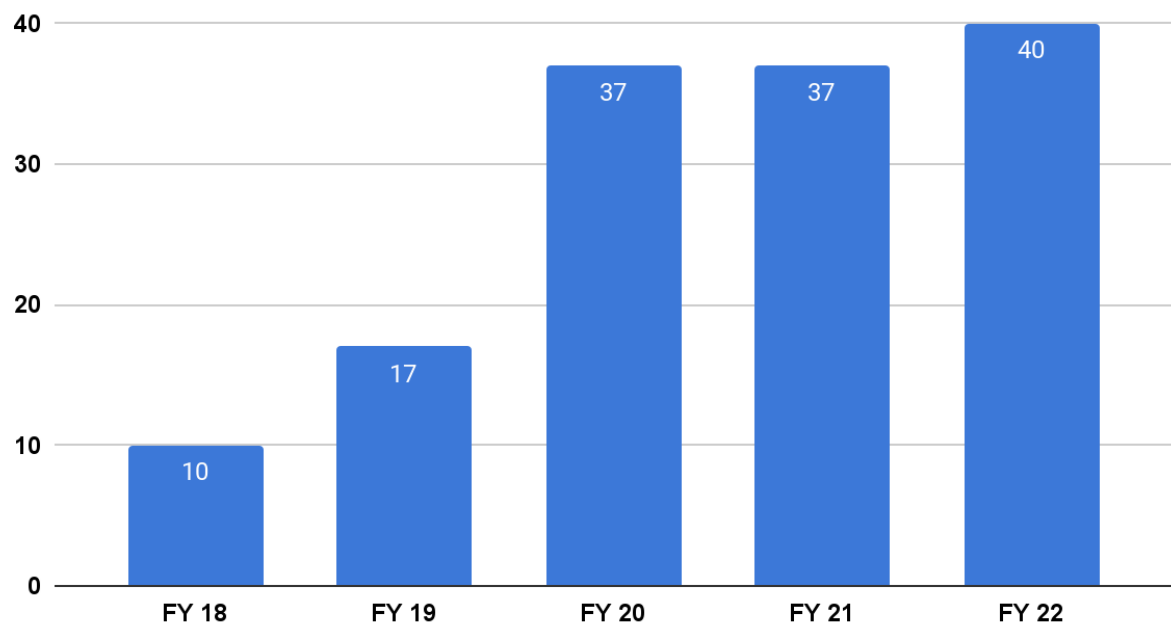
Operating Profit Margin (%)



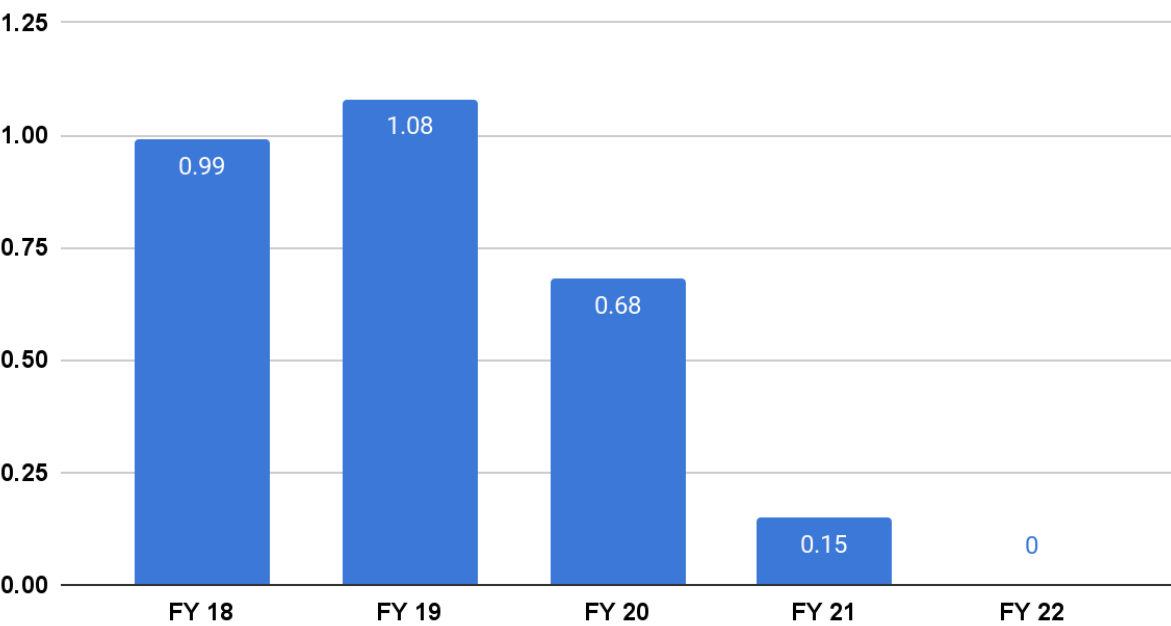
Return on Equity (%)



Return on Captial employed (%)



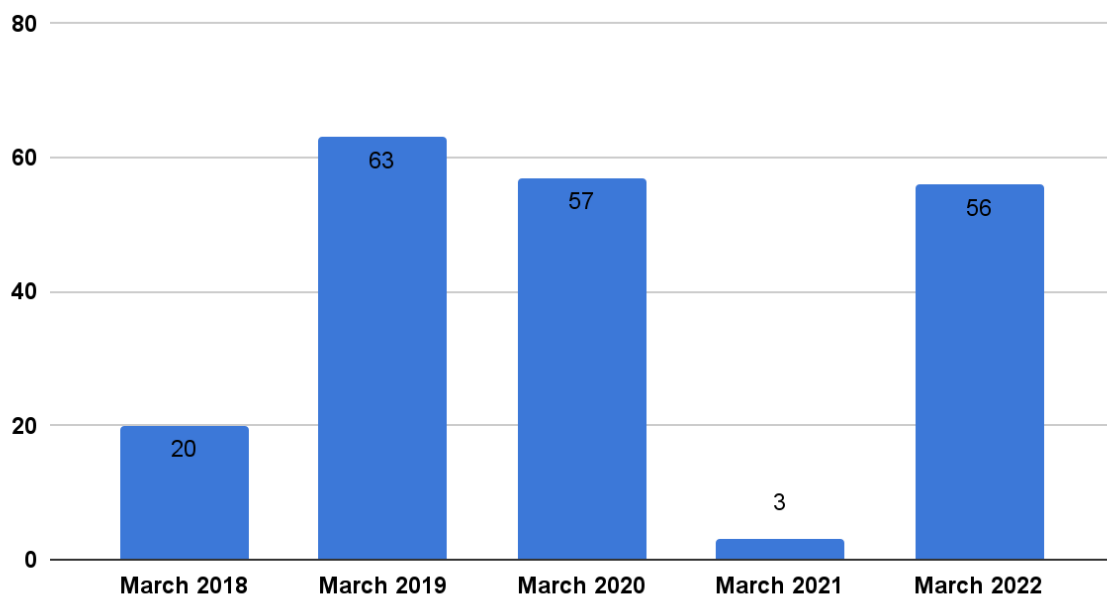
Debt to Equity Ratio



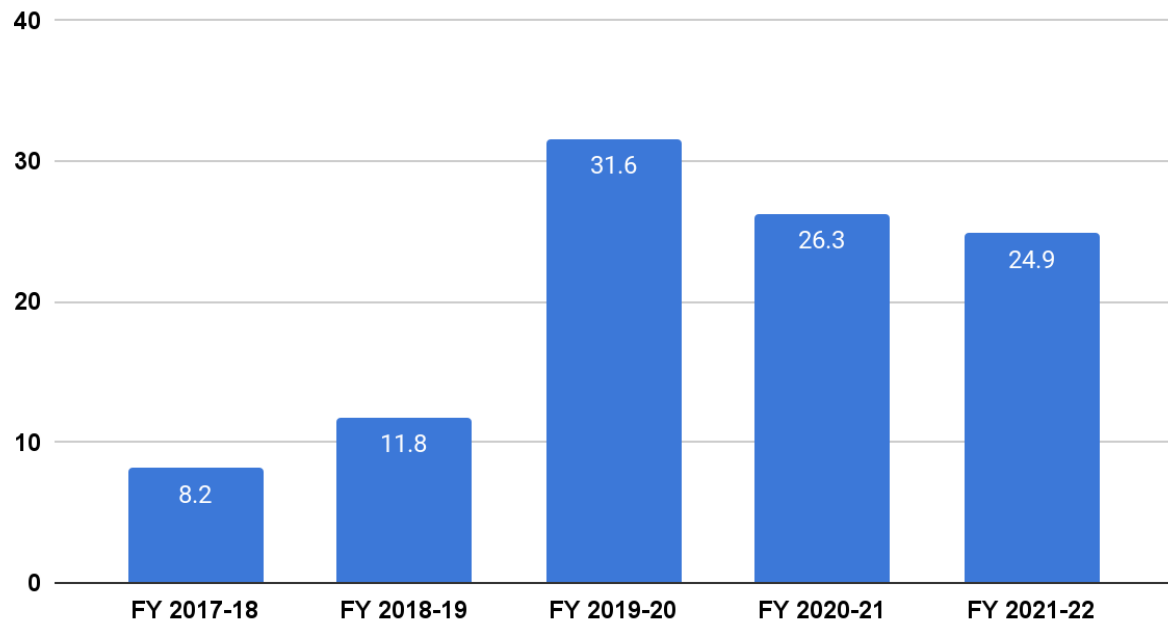
a.Sales (in Rs. Crores)

March'15	March'16	March'17	March'18	March'19	March'20	March'21	March'22
1327	1373	1371	1651	2700	4230	4360	6802

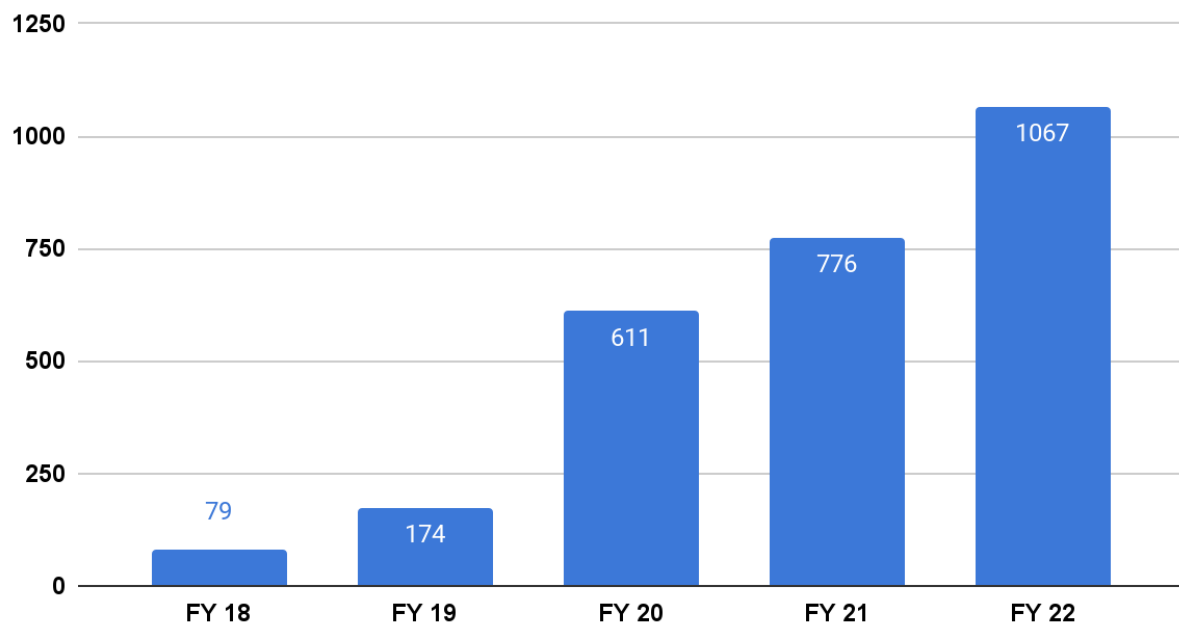
Sales Growth (in %)



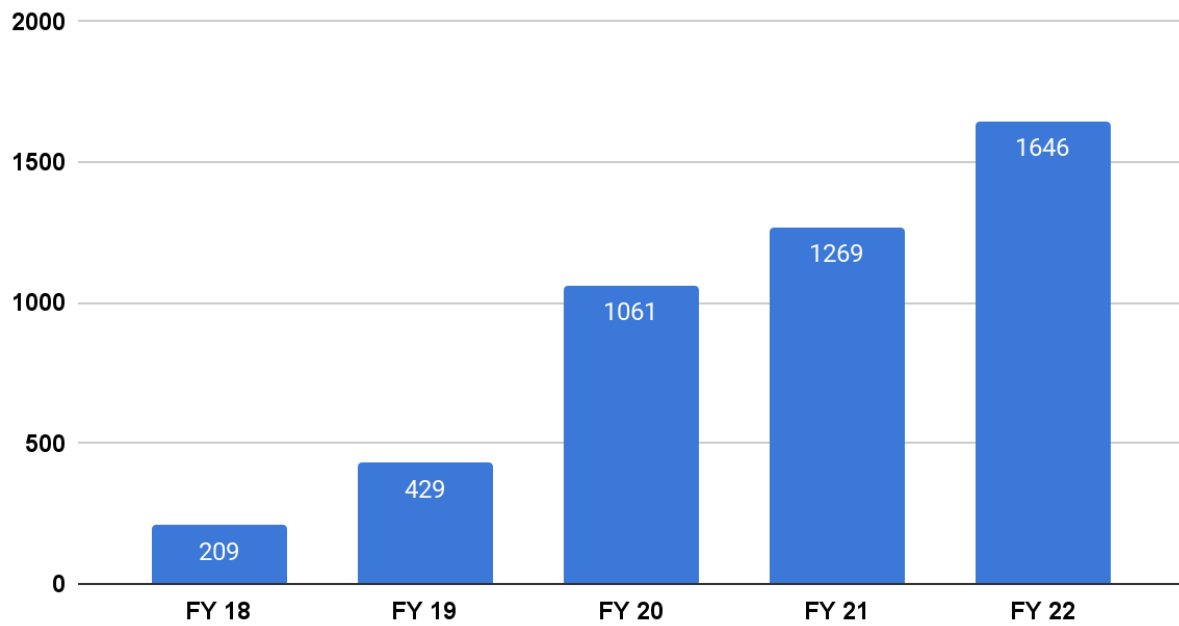
Net Profit Margin (in %)



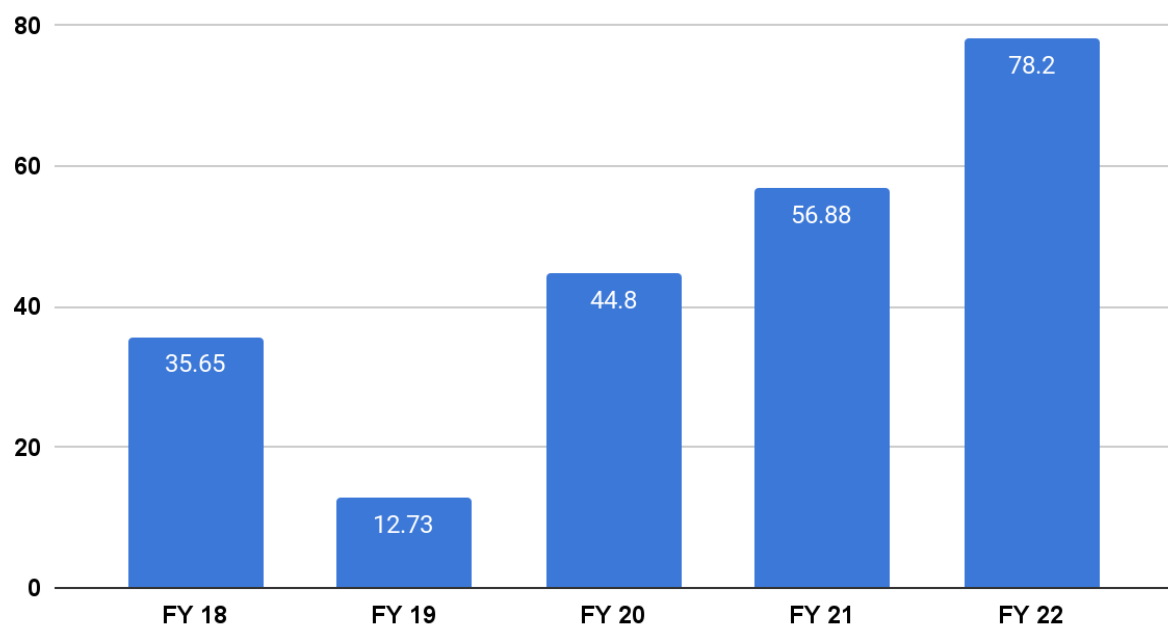
PAT (Rs crore)



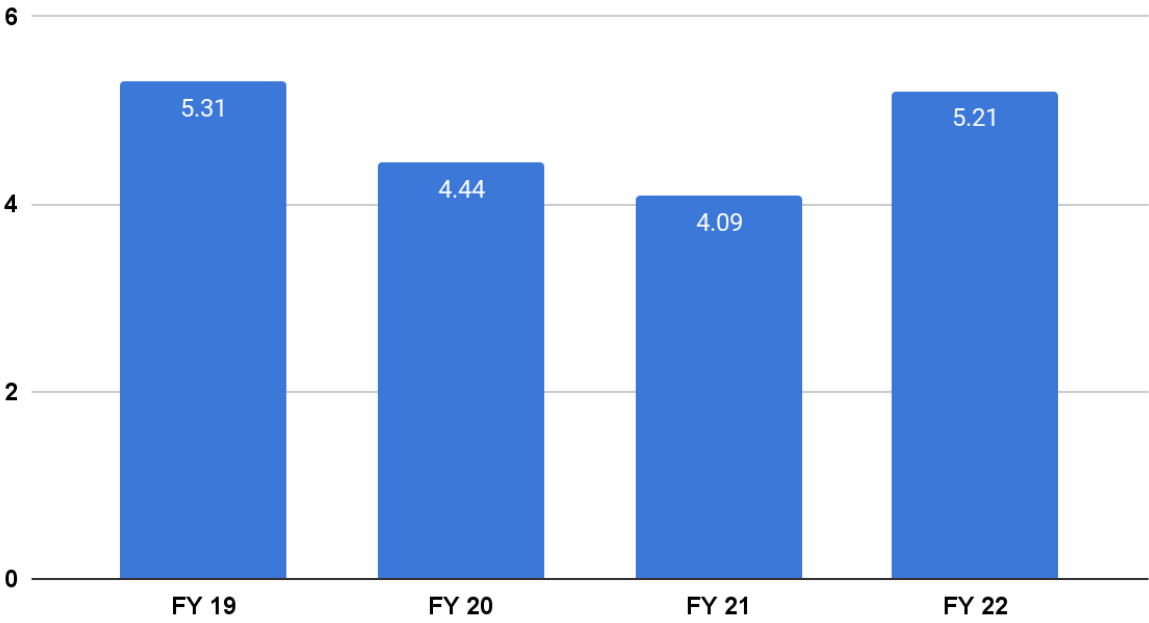
EBITDA (Rs Crore)



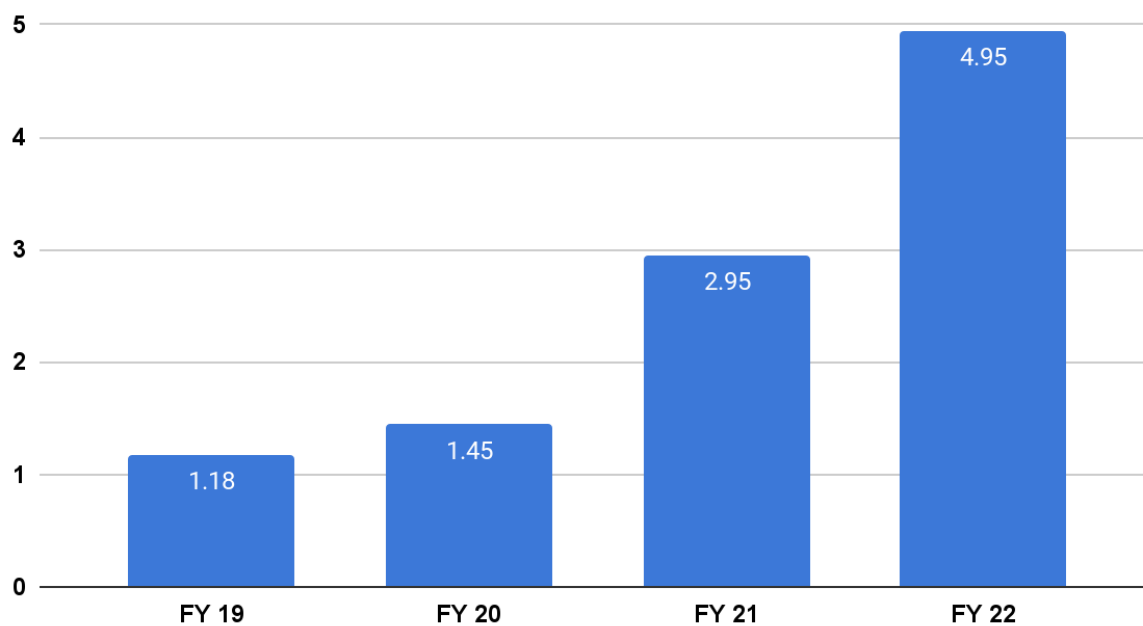
EPS (Rs)



Inventory Turnover Ratio



Current Ratio

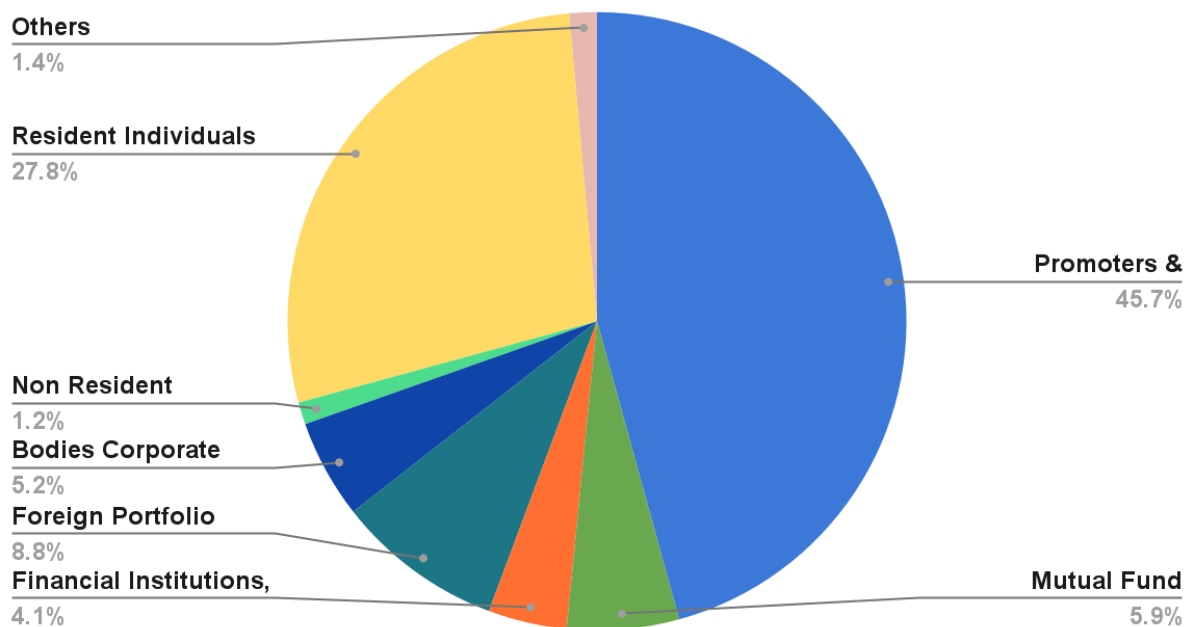


2. Shareholding pattern (detailed)

Shareholding Pattern of FY 2021-22

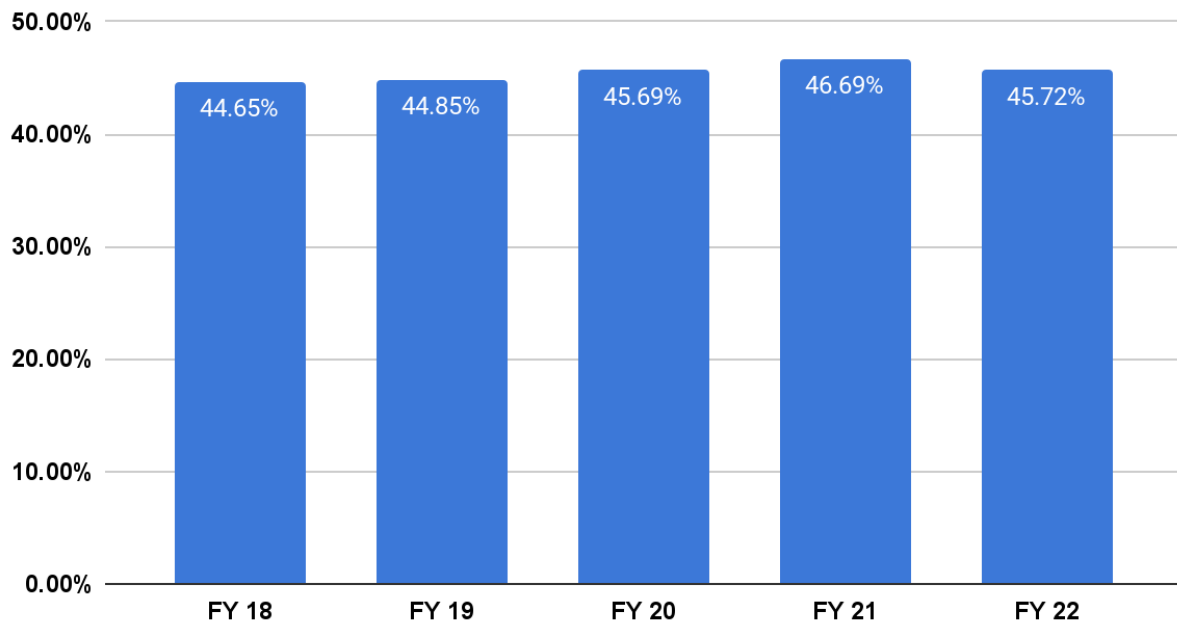
Category of Shareholders	No. of Shares
Promoters & Promoter Group	6,23,52,768
Mutual Fund	79,83,382
Financial Institutions, Banks, Insurance Companies	56,11,620
Foreign Portfolio Investor	1,19,48,256
Bodies Corporate	70,48,413
Non Resident Individuals	15,90,984
Resident Individuals	3,71,51,049
Others	27,06,569
TOTAL	13,63,93,041

Shareholding pattern (FY 2021-22)

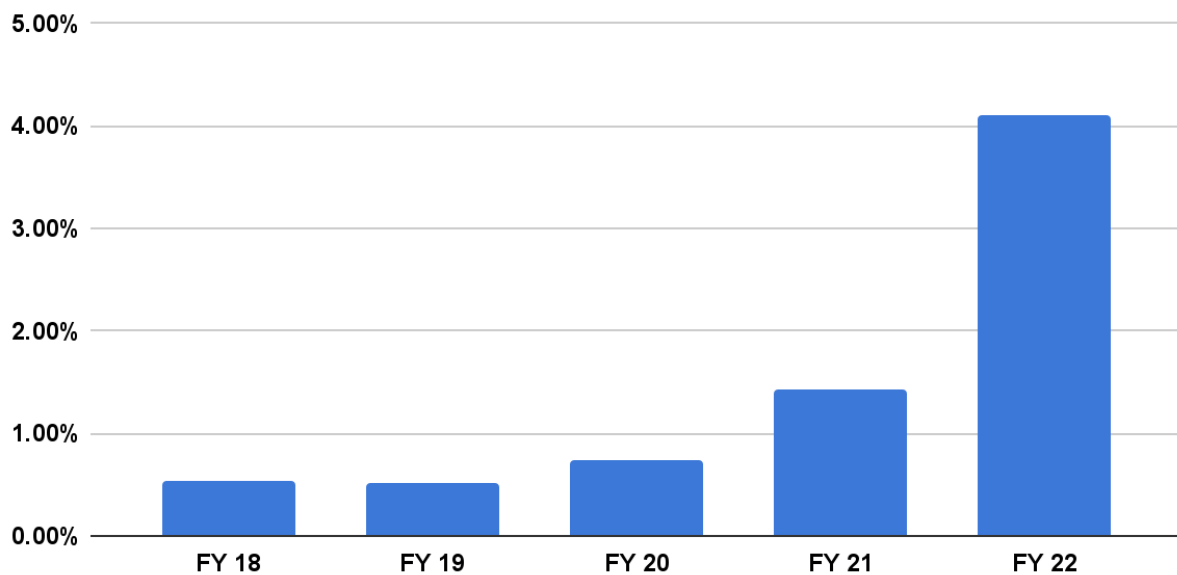


Historical Shareholding Pattern

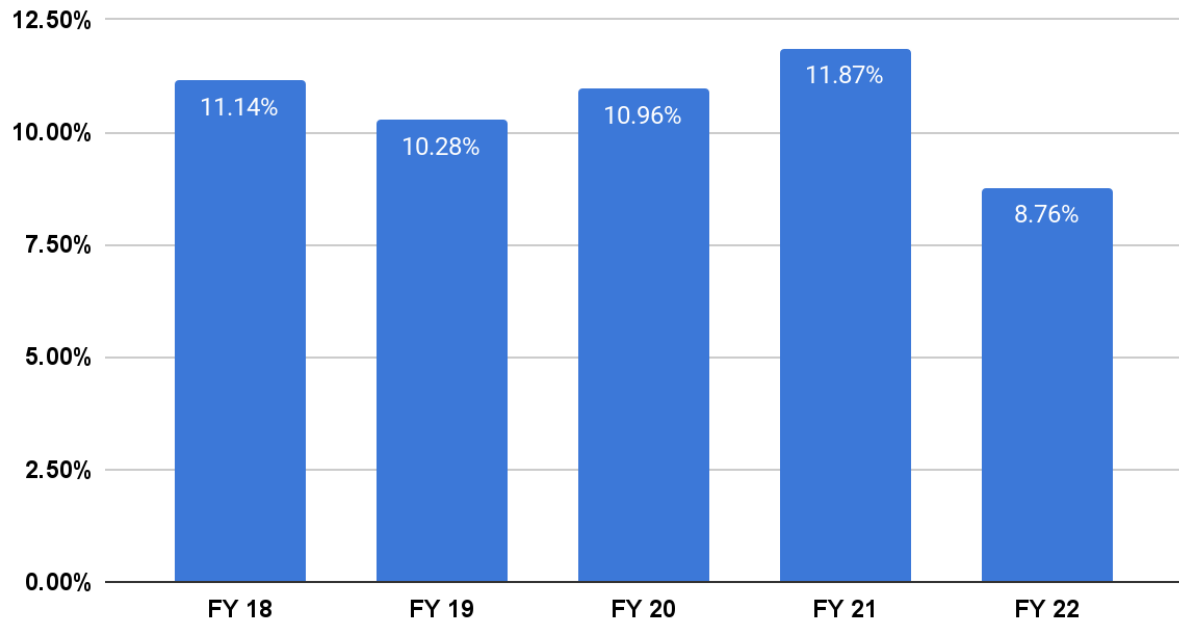
Promoters & Promoter Group (% to Equity Capital)



Financial Institutions, Banks, Insurance Companies (% to Equity Capital)



Foreign Portfolio Investor (% to Equity Capital)



ADDITIONALS

1. Peer Comparison

Company Name	Price	ROE (%)	MCap(Cr)	TT M PE	P/B	Net Profit(Rs.)	Net Sales (Rs.)	ROCE (%)	PEG Ratio	Debt/Equity
Deepak Nitrite	2,118.15	31.95	28,890.09	31.45	8.65	1,066	6,802	44.47	0.33	0.09
Solar Ind	4,146.00	23.05	37,517.18	60.85	18.62	455	3,947	25.38	3.24	0.45
Guj Alkali	810.30	9.48	5,950.59	8.66	1.01	561	3,758	13.50	0.54	0.10
Himadri Special	96.20	2.19	4,034.05	44.13	2.25	39	2,791	4.76	-4.42	0.31
NOCIL	232.00	12.18	3,865.65	19.24	2.68	176	1,571	17.6	1.50	0.00

Solar India

Revenue:

Solar Industries India Limited is engaged in the manufacturing of a complete range of industrial explosives and explosive-initiating devices. It manufactures various types of packaged emulsion explosives, bulk explosives and explosive initiating systems. The Company has also forayed into manufacturing ammunition for military applications. It has the world's largest packaged explosives manufacturing facility at a single location in Nagpur India. It has a pan-India presence with 34 manufacturing facilities. At the global level Company has a presence in more than 65 countries with manufacturing facilities in 5 countries.

Gujarat Alkali

Gujarat Alkalies and Chemicals Limited (GACL) is an Indian [chemical substance](#) manufacturing company, promoted by the [Government of Gujarat](#). Its manufacturing facilities are located at [Dahej](#) and [Vadodara](#) in [Gujarat](#).^[2] The company manufactures chemicals such as [caustic soda](#), [sodium cyanide](#), [chloromethanes](#), [sodium ferrocyanide](#), [caustic potash](#), [potassium carbonate](#), [hydrochloric acid](#), [phosphoric acid \(85%\)](#) and [hydrogen peroxide](#).^{[1][3]}

Himadri Special

Himadri Speciality Chemical Ltd formerly known as Himadri Chemicals & Industries Ltd is the flagship of Himadri Group. The Company was incorporated as a private limited company on July 28th 1987. The Company is primarily engaged in the manufacturing of carbon materials and chemicals. It has operations in India and caters to domestic and international markets. It has a wholly-owned subsidiary in India in the name of Equal Commodore Private Limited a step-down wholly-owned subsidiary in the name of AAT Global Limited incorporated in Hong Kong and another step-down subsidiary with 94% shareholding in the name of Shandong Dawn Himadri Chemical Industry Limited incorporated in China.

NOCIL

NOCIL Limited is India's largest manufacturer and supplier of rubber chemicals. The Company is known for product quality customer services and commitment to environmental care. The Company is a part of the Arvind Mafatlal Group of Industries a well-known Business House in India with diversified business interests. It has manufacturing plants at Navi Mumbai (Maharashtra) and at Dahej (Gujarat). The Company is engaged in the manufacturing and sale of rubber chemicals. The products manufactured by the Company are used by the tyre industry and other rubber processing industries.

2. Risks and Concerns

a.Related to Industry:

1. Supply Chain Instability: Many chemical companies remained resilient through the early months of the COVID-19 pandemic, figuring out ways to remain operational despite a plethora of new risks. But the supply chain challenges that started in 2020 have been complicated by current economic and geopolitical events, often leading to higher costs for essential raw materials, critical machinery, and equipment. Further, significant delivery delays have led companies to shut down plants or miss delivery deadlines outlined in their contracts.

2. Cyber Threats heighten hazard risks: Chemical companies are increasingly incorporating digital technologies to improve their processes and create an early warning mechanism for potential equipment failure. Some are creating digital twins of their plants, allowing them to carry out real-time analytics on specific pieces of equipment to help them identify potential challenges and improve their maintenance approach.

Increased touchpoints provide new access points for threat actors, raising the potential for crippling cyberattacks. Aside from the expense associated with possible ransomware and other attacks, business interruption, and recovery, threat actors could tamper with industrial control systems, potentially presenting hazards for personnel, communities, and the environment.

3. Experience Drain Due to Ageing Workforce: As many of their most skilled workers approach retirement, chemical companies face the possibility they will not be able to replace their process knowledge and experience. Filling the skills pipeline effectively is often hindered by competition from outside the industry, with younger people opting for similarly paying jobs that are less risky and less stressful.
4. New technologies, Products Pose Strategic risks: Enhanced focus on ESG issues has pushed companies to invest in new technologies to reduce carbon from the atmosphere. Aside from efforts to safely capture and store carbon dioxide, chemical companies are looking at ways to convert carbon dioxide into higher-value chemical feedstock or renewable stock, like corn or switchgrass, as sources to offset the use of traditional hydrocarbon materials.

But as chemical companies seek to produce renewable materials, they face new risks: Will the new products work the way they are supposed to? Will they produce the same results? Will there be a market for them? And if investments fail, the companies may be at risk of shareholder suits alleging violations of fiduciary duties.

b.Related to company:

1. Return vs Industry: DEEPAK NITRITE underperformed the Indian Chemicals Industry which returned 2.4% over the past year.

2. Return vs Market: DEEPAK NITRITE underperformed the Indian Market which returned 0.6% over the past year.
3. DEEPAK NITRITE is expensive based on its Price-To-Earnings Ratio (30.9x) compared to the Indian Chemicals industry average (18.8x).
4. Earnings vs Market: DEEPAK NITRITE earnings (14.5% per year) are forecast to grow slower than the Indian market (18.7% per year).
5. DEEPAK NITRITE revenue (7.3% per year) is forecast to grow slower than the Indian market (10.1% per year).
6. DEEPAK NITRITE's current net profit margins (12.1%) are lower than last year (18%).
7. Accelerating Growth: DEEPAK NITRITE has had negative earnings growth over the past year, so it can't be compared to its 5-year average.
8. Earnings vs Industry: DEEPAK NITRITE had negative earnings growth (-13.6%) over the past year, making it difficult to compare to the Chemicals industry average (15.1%).
9. Notable Dividend: DEEPAK NITRITE's dividend (0.34%) isn't notable compared to the bottom 25% of dividend payers in the Indian market (0.36%).
10. Compensation vs Earnings: Company CEO Maulik's compensation has increased by more than 20% whilst company earnings have fallen more than 20% in the past year.

3. Summing Up:

The Indian chemical platform has become very well-known internationally in recent years. The Indian chemical industry has grown and is now the focus of several other sectors, including agriculture, pharmaceuticals, food processing, and others. These chemical businesses have outperformed several industries.

Considering fundamental analysis we would recommend buying the position of Deepak Nitrite as a significant increase in profit growth of 87% CAGR and in total sales of about 56% in the FY'22 while the company's ROE is about 37%.

Deepak Nitrite continues to supply its finished goods to the following industries:

1. Dyes and Pigments

2. Agrochemicals
3. Pharmaceuticals
4. Fuel Additives
5. Rubber
6. Paper
7. Detergent
8. Personal Care

Any increased demand for the products from these industries would strongly affect the demand for finished goods from Deepak Nitrite thus leading to its growth.

While we empathize with investors who find debt concerning, you should keep in mind that Deepak Nitrite has net cash of ₹1.64b, as well as more liquid assets than liabilities. So we don't have any problem with Deepak Nitrite's use of debt. Although Deepak Nitrite has debt issues, it still manages to be a worthy investment due to its excellent past performance in the highly competitive past performance.

Deepak Nitrite also captures about 75% market share in sodium nitrite, sodium nitrate, and NitroToluenes in India thus making it a leading company in the chemical sector.