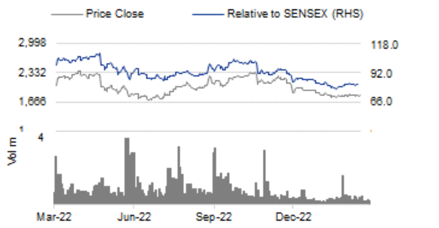
India

REDUCE *(no change)*

Consensus ratings*:	Buy 11 Hold 3 Sell 3
Current price:	Rs1,802
Target price: ▼	Rs1,460
Previous target:	Rs1,745
Up/downside:	-19.0%
InCred Research / Consensus:	-31.0%
Reuters:	DPNT.NS
Bloomberg:	DN IN
Market cap:	US$3,385m
	Rs245,821m
Average daily turnover:	US$14.2m
	Rs1028.1m
Current shares o/s:	136.4m
Free float:	54.3%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.5)	(13.7)	(19.1)
Relative (%)	4.7	(8.5)	(19.6)

Major shareholders	% held
Promoter & Promoter Group	45.7
Nippon Life India Ltd	3.3
Franklin India Smaller Companies Fund	3.2

Deepak Nitrite Ltd

Commodity capex doesn't guarantee profits

- Investors have high hopes from the proposed capex of Deepak Nitrite (DNL) as it's normally felt that gross block guarantees EBITDA & profits. We reiterate that as steel capex doesn't guarantee sales/PAT/cash flow, similarly DNL's capex doesn't guarantee cash flow.
- We assume average gross spread for all products (last 7-year average). Post expansions and 100% utilization, DNL's EBITDA ~ Rs29bn & EPS ~Rs135.
- However, we don't know the capex timeline. We feel it may take at least 5-6 years before the entire capex is done and all capacities run at 100% utilization. Currently, DNL trades at 14x in a best-case EPS scenario (timeline & certainty unknown). Retain REDUCE till it reaches single-digit P/E on a best-case EPS.

Street feels DNL's capex to lead to self-sustaining perpetual growth

Street feels there is certainty in Deepak Nitrite or DNL's earnings. It's a widely held belief that DNL's profits are only dependent on its ability to incur capex. As the cash flow from capex is certain, all incremental capex can keep funding further capex, thereby creating a virtuous self-sustaining cycle of growth. The only problem in the hypothesis is the cyclicality in earnings. In this report, we have shown that all the products currently manufactured and those that are going to be manufactured are highly cyclical in nature. Like steel, 2021 witnessed massive supply chain shocks which led to high gross profit for its phenol to IPA, methoxylamine hydrochloride, DASDA as well as other products. As the supply chain bottlenecks have eased, phenol spreads have fallen and the fall in Covid-19 cases led to the collapse of IPA's margins over acetone. If crude oil prices fall further, then IPA prices will collapse more as the alternate route of making IPA (through propylene) will keep becoming cheaper. The near-term earnings are at risk and future products are cyclical as well. We believe that if phenol prices weaken further, then DNL's ability to incur capex will also be impaired. Our analysis assumes Rs50bn capex over the next three-to-four years to achieve an EPS of Rs135 in FY28F but if the near-term cash flow weakens (which is most likely), then FY28F EPS can remain a pipe dream. Sell DNL till it reaches single-digit P/E on the expected best-case EPS.

Our analysis indicates most of its products in future are cyclical

We have proved by our gross spread over raw material analysis that MIBK (methyl isobutyl ketone), MIBC (methyl isobutyl carbinol), IPA, para tertiary butyl phenol (PTBP), iso propyl alcohol (IPA), 2,4 DTBP (2,4 di tertiary butyl phenol), salicylic acid, PF (phenol formaldehyde) resin, polycarbonates, bisphenol-A and S, benzaldehyde, benzyl alcohol, benzo trifluoride and cyclohexanone oxime are all cyclical in nature.

Upside risk is further supply chain disruption

We have retained REDUCE rating on the stock with a lower target price of Rs1,460. Further supply chain disruption because of any reason can lead to extraordinary margins, like in FY22, which will again reinforce street's belief and may lead to an upside in the share price.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	43,598	68,022	75,595	81,010	92,170
Operating EBITDA (Rsm)	12,470	16,036	12,799	13,796	15,478
Net Profit (Rsm)	7,758	10,666	8,097	8,823	9,946
Core EPS (Rs)	56.9	78.2	59.4	64.7	72.9
Core EPS Growth	27.0%	37.5%	(24.1%)	9.0%	12.7%
FD Core P/E (x)	31.69	23.05	30.36	27.86	24.72
DPS (Rs)	5.5	7.0	4.9	4.9	4.9
Dividend Yield	0.37%	0.47%	0.33%	0.33%	0.33%
EV/EBITDA (x)	19.96	15.22	19.23	17.81	15.82
P/FCFE (x)	302.79	207.24	175.28	279.21	145.93
Net Gearing	13.1%	(5.3%)	0.9%	(0.3%)	(1.5%)
P/BV (x)	10.48	7.36	6.04	5.05	4.25
ROE	39.6%	37.5%	21.9%	19.7%	18.7%
% Change In Core EPS Estimates			(18.78%)	(14.56%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Analyst(s)

Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com
Abbas PUNJANI
T (91) 22 4161 1598
E abbas.punjani@incredcapital.com

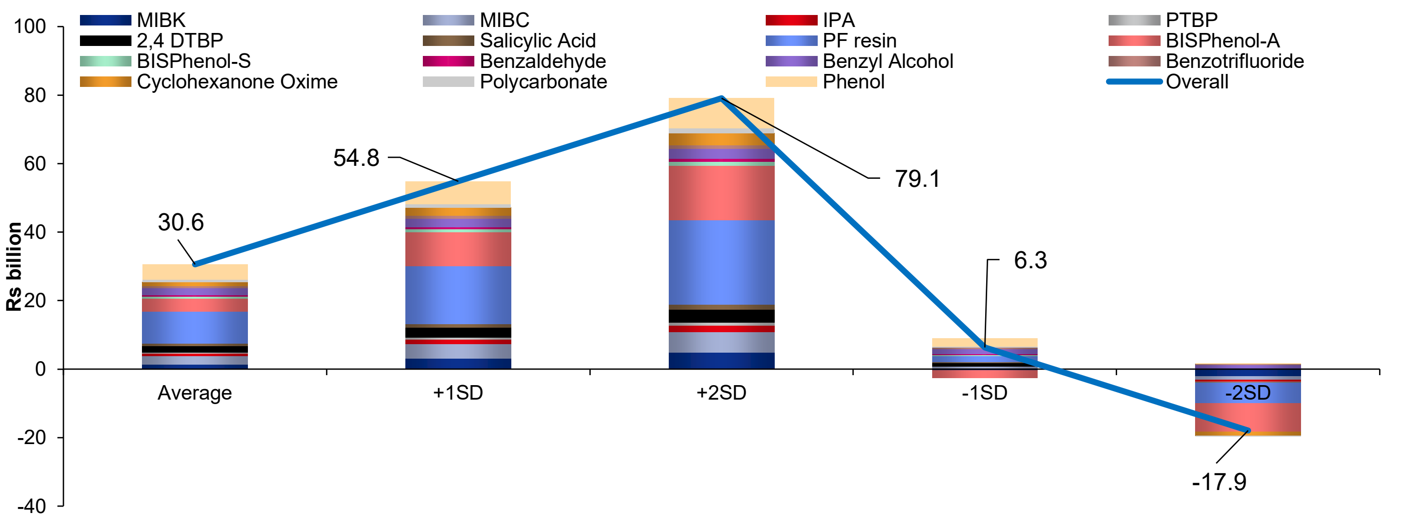
Commodity capex doesn't guarantee profits

It's indeed quite interesting how market perceives chemical capex. More often than not, market participants assume that capex guarantees revenue and profits, as if it's the birthright of Deepak Nitrite (REDUCE), SRF (REDUCE) and Gujarat Fluorochemicals (REDUCE) to make money once they have committed the capex. However, the example of steel shows that nothing can be far from the truth. Deepak Nitrite may incur capex, but its profits are driven by commodity prices and in the commodity world nothing is guaranteed.

Commodity company becoming even more commoditized

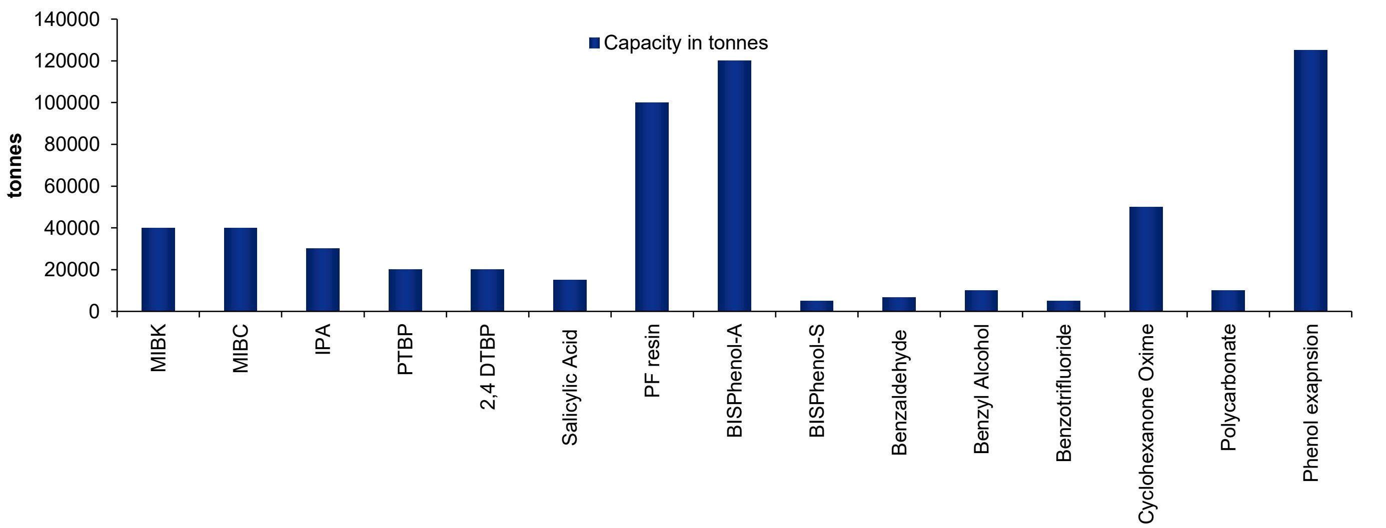
Deepak Nitrite or DNL is a commodity business and it's becoming even more commoditized as it spends its cash flow to venture into new products. We have analysed most of the products in which DNL can expand into (based on the environmental clearance or EC document and management commentary) and the summary of gross profits from these new products under different cycles is listed below.

Figure 1: Gross profit because of expansion can range from Rs31bn to -Rs18bn in different profitability scenarios; these numbers are based on historical spreads of these molecules



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Capacities in various products post expansions



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Polycarbonate is a new project - it appears that DNL will go through the bisphenol-A and DMC route to manufacture polycarbonate

The synthesis of polycarbonate using bisphenol-A (BPA) and dimethyl carbonate (DMC) typically involves two main steps: transesterification and polymerization.

The transesterification reaction involves the exchange of ester groups between BPA and DMC molecules in the presence of a catalyst, usually a metal alkoxide or a metal complex. The reaction can be represented as:

BPA + DMC ⇌ BPAC + methanol where BPAC is bisphenol-A carbonate, and methanol is a by-product of the reaction.

BPAC is then polymerized by heating it in the presence of a catalyst, typically a tertiary amine or a phosphonium salt, to produce polycarbonate. The polymerization reaction can be represented as:

nBPAC → (OC(C6H4)2) n + n methanol where (OC(C6H4)2)n is the repeating unit of the polycarbonate chain, and n is the degree of polymerization.

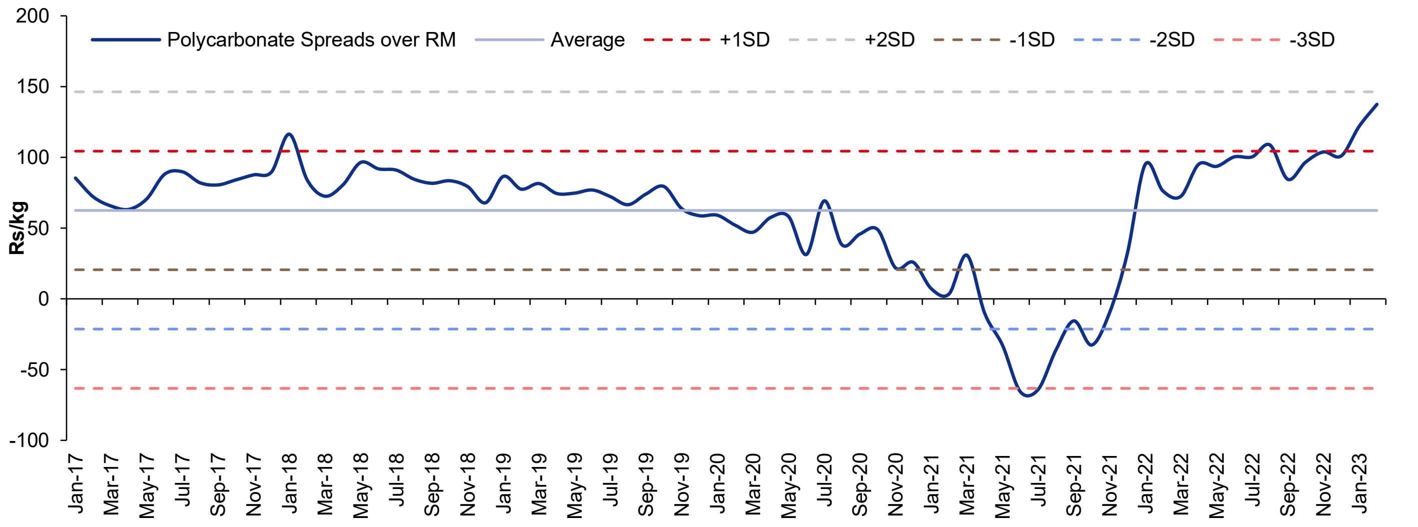
The overall reaction for the synthesis of polycarbonate from BPA and DMC can be summarized as follows:

BPA + DMC + catalyst → BPAC + methanol →BPAC + catalyst → polycarbonate + methanol

This non-phosgene route is considered to be a greener and safer alternative to the traditional phosgene-based process for polycarbonate synthesis.

The overall spread analysis indicates the highly volatile nature of polycarbonate business. In an average profitability scenario, it will generate Rs0.6bn in gross profit for DNL.

Figure 3: Most likely Deepak Nitrite will manufacture polycarbonate through the bisphenol-A and DMC route whose spreads are now higher than +2 SD of the long-term mean; in effect, the expansion is coming at a wrong time

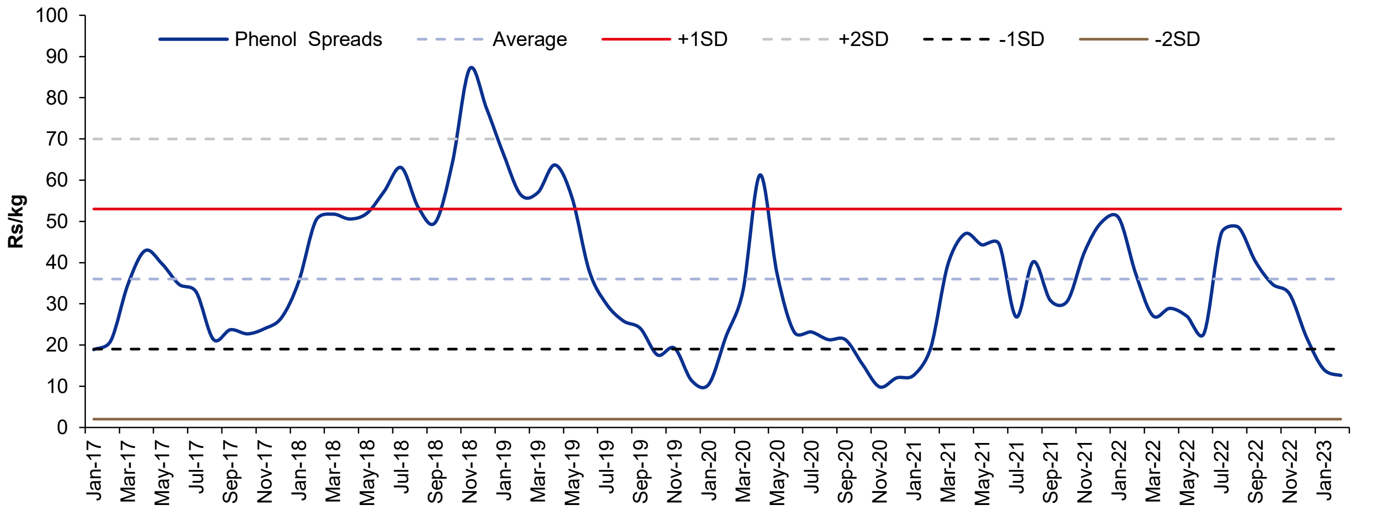


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Phenol plant expansion is around 125kt which is needed for downstream products

Barring the highs of 2018 and post Covid-19 pandemic supply chain stress, we haven't seen a sustained high spike in phenol spreads.

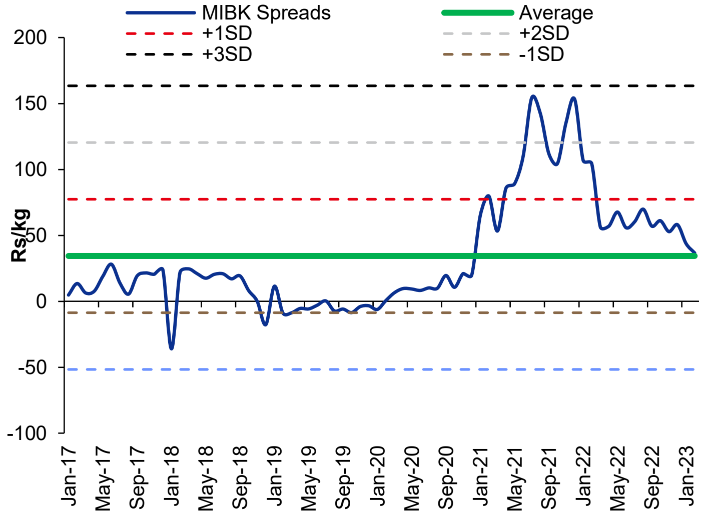
Figure 4: Uncertain global demand scenario is leading to a fall in global phenol demand and hence, the fall in spreads over raw material



SOURCE: INCRED RESEARCH, COMPANY REPORTS

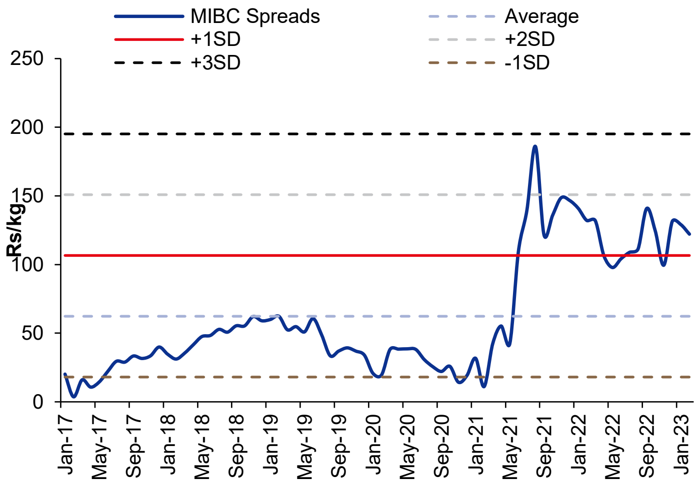
MIBK and MIBC are import substitution products but their prices are determined by international prices ➤

Figure 5: MIBK spreads have already fallen from post Covid-19 peak



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Even MIBC's spreads over raw material are falling



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Methyl isobutyl ketone (MIBK) is a solvent with a wide range of industrial applications. Here are some of its uses:

Paints and coatings: MIBK is widely used as a solvent in the production of paints, varnishes, lacquers, and other coating products. It is an excellent solvent for resins, cellulose acetate, nitrocellulose, and other polymers used in these products.

Adhesives: MIBK is used as a solvent in the manufacture of adhesives and sealants. It is particularly effective in dissolving and mixing resins used in these products.

Extraction: MIBK is used as a solvent in the extraction of rare earth metals from ores. It is also used in the extraction of certain organic compounds from plants and other natural sources.

Chemical manufacturing: MIBK is used as a starting material in the manufacture of chemicals such as methyl amyl alcohol and isophorone.

Pharmaceuticals: MIBK is used in this industry as a solvent for certain drugs and also as an ingredient in the production of pharmaceuticals.

Cleaning: MIBK is used as a cleaning agent in various industrial applications, such as electronics manufacturing.

Overall, MIBK is a versatile solvent that finds applications in many different industries and processes.

Methyl isobutyl ketone (MIBK) is a solvent with a wide range of industrial applications. Here are some of its uses:

Methyl isobutyl carbinol (MIBC) is a chemical compound that finds use in various industrial applications. Here are some of its uses:

Frother in the flotation process: MIBC is commonly used as a frother in the flotation process, which is a method used to separate minerals from ores. It helps to create a stable froth layer that allows the mineral particles to float to the surface, where they can be collected and separated.

Solvent: MIBC is a solvent that can be used in the production of coatings, paints, and varnishes. It is also used in the extraction of certain metals and as a solvent for some plastics.

Chemical intermediate: MIBC is used as an intermediate in the production of various chemicals, including methyl isobutyl ketone (MIBK) which is used as a solvent in various industries.

Cleaning agent: MIBC is used as a cleaning agent in industrial applications, including in the electronics and semiconductor industries.

Food additive: MIBC is approved as a food additive by the US Food and Drug Administration and is used as a flavouring agent in some food products.

Overall, MIBC is a versatile chemical that finds use in various industries, including mining, chemical manufacturing, electronics, and food processing.

Bisphenol-A spreads are also well past their peak

Bisphenol-A (BPA) is a chemical compound that is commonly used in the production of polycarbonate plastics and epoxy resins. Here are some of its uses:

Polycarbonate plastics: BPA is a key ingredient in the production of polycarbonate plastics which are commonly used in the manufacture of consumer products, including water bottles, food containers and eyeglasses.

Epoxy resins: BPA is used in the production of epoxy resins which have a wide range of industrial applications, including in the production of adhesives, coatings, and electrical equipment.

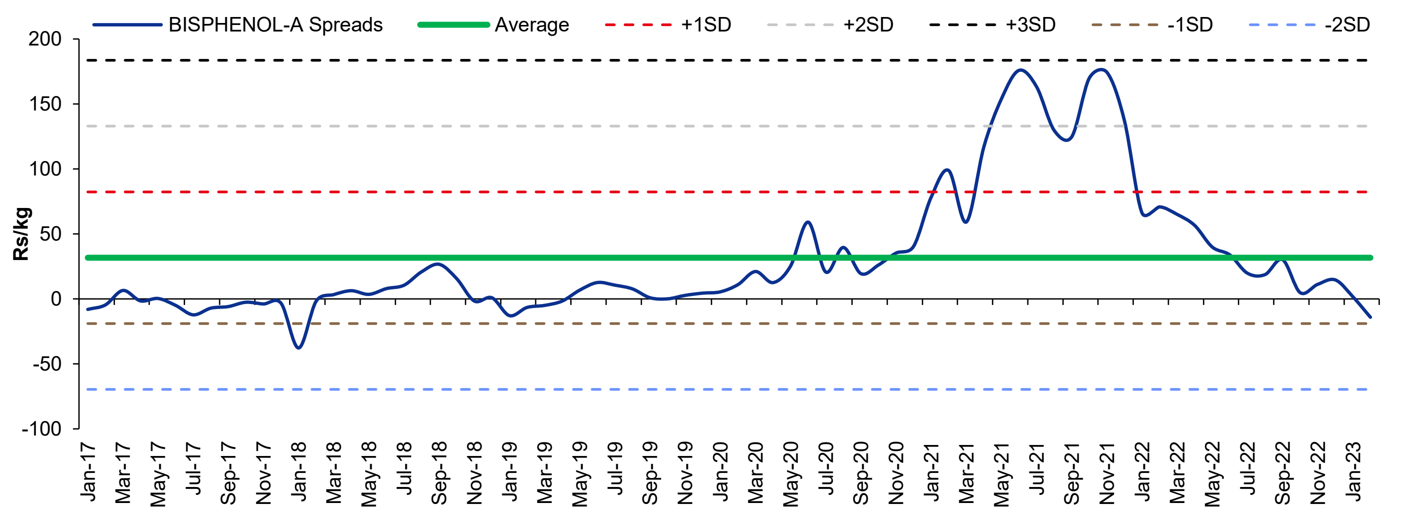
Thermal paper: BPA is used in making thermal paper which is used for printing receipts, tickets, and other documents that require heat-sensitive printing.

Dental sealants: BPA-based materials are used in the production of dental sealants and composite fillings.

Other applications: BPA is used in the production of other products, including flame retardants, water pipes, and medical equipment.

However, BPA has been linked to various health concerns, including endocrine disruption, cancer, and developmental issues, and there is rising concern over its widespread use. As a result, some countries have banned or restricted the use of BPA in certain applications, and there is a growing trend towards the development of BPA-free alternatives in many industries.

Figure 7: After rising to an all-time high in 2021 (post closure of some capacities), bisphenol-A spreads have been falling



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Cyclohexanone oxime is used to make caprolactum but as of now, cylclohexanone oxime production is unviable➤

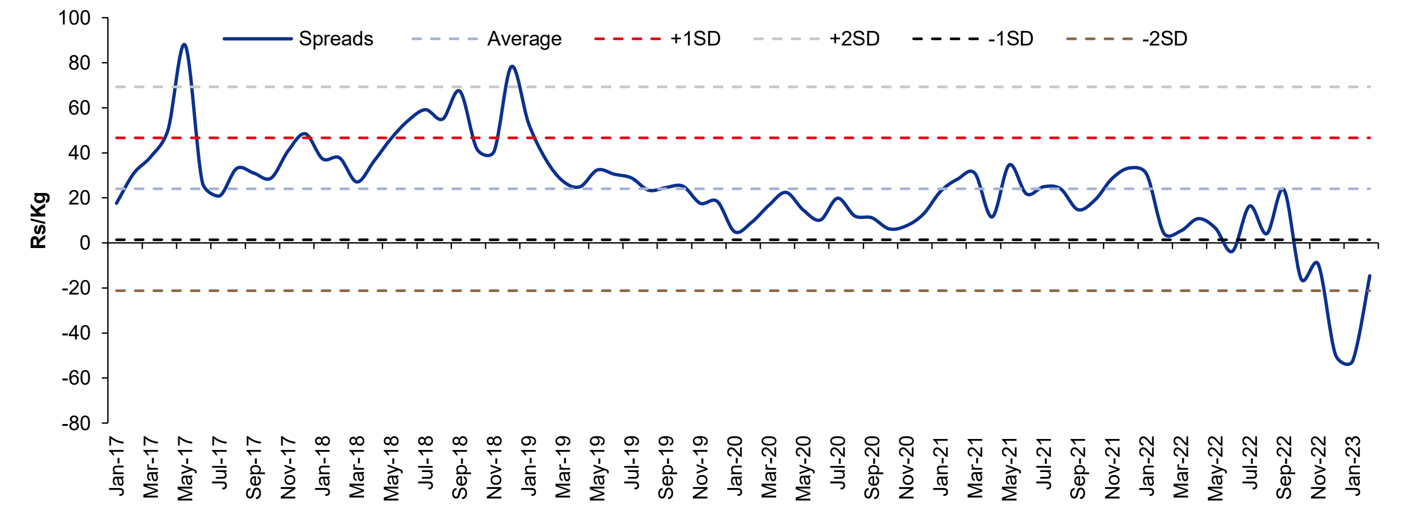
In industry, cyclohexanone oxime is used as a key intermediate in the production of caprolactam which is used to produce nylon 6. Caprolactam is produced from cyclohexanone oxime through a multi-step process which involves the following steps:

1. Hydrolysis: Cyclohexanone oxime is hydrolysed with sulfuric acid or hydrochloric acid to form cyclohexanone.
2. Oxidation: Cyclohexanone oxime is oxidized with air or oxygen to form adipic acid.
3. Amidation: Adipic acid is then reacted with ammonia to form a mixture of adipic acid diamide and caprolactam.
4. Cyclization: Adipic acid diamide and excess cyclohexanone are then heated to form caprolactam via a cyclization reaction.

The overall reaction can be represented as follows: **Cyclohexanone oxime + H2O + O2 → caprolactam**

The production of caprolactam from cyclohexanone oxime is an important industrial process as caprolactam is a key raw material for the production of nylon 6, which is widely used in the textile industry.

Figure 8: Caprolactam is coming to India at prices which make local production of cyclohexanone oxime unviable, more so after the removal of dumping duty on nylon-6



SOURCE: INCRED RESEARCH, COMPANY REPORTS

IPA has stopped making money for Deepak Nitrite as the alternate route to make IPA is more profitable

IPA can be manufactured from two routes – either through acetone or the propylene route.

Propylene route

IPA (isopropyl alcohol), also known as rubbing alcohol, can be manufactured from propylene by a process called indirect hydration. Here are the basic steps:

1. Propylene is first obtained from crude oil refining or natural gas processing.
2. Propylene is then reacted with sulfuric acid to form isopropyl sulphate: $C_3H_6 + H_2SO_4 \rightarrow (CH_3)_2CHOSO_2OH$.
3. Isopropyl sulphate is then hydrolysed with steam to produce IPA and sulfuric acid: $(CH_3)_2CHOSO_2OH + H_2O \rightarrow (CH_3)_2CHOH + H_2SO_4$.
4. The mixture of IPA and sulfuric acid is then separated, and the sulfuric acid is neutralized with an alkaline substance, such as calcium carbonate, to produce gypsum as a by-product.
5. The resulting IPA is then purified through distillation to remove any impurities.
6. Energy required to produce one tonne of IPA through the acetone route can range from 3,500 to 4,500 kilowatt-hours (kWh) of thermal energy.

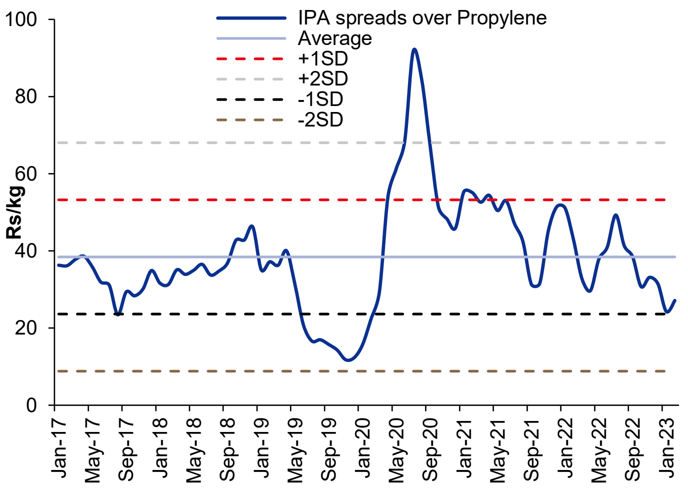
Acetone route

Isopropyl alcohol (IPA) can also be manufactured through the acetone route, which involves the following steps:

1. Acetone is first obtained from propylene via the cumene process, which involves the reaction of propylene and benzene in the presence of a catalyst to form cumene. Cumene is then oxidized to produce phenol and acetone.
2. Acetone is then hydrogenated in the presence of a catalyst, typically copper, to form isopropyl alcohol and water: $(CH_3)_2CO + 2H_2 \rightarrow (CH_3)_2CHOH + H_2O$
3. This process produces a mixture of IPA and water, which can be separated through distillation. The water can be removed from the mixture by azeotropic distillation which involves adding a small amount of a third substance, such as benzene or toluene, to the mixture to form an azeotrope. The azeotrope has a lower boiling point than IPA and water, allowing it to be easily separated from the IPA and water mixture.
4. After the distillation process, the resulting IPA is then further purified through drying and filtration to remove any remaining impurities.
5. Energy consumption for producing IPA through the propylene route is generally lower, with estimates ranging from 2,500 to 3,500 kWh per tonne of IPA produced.

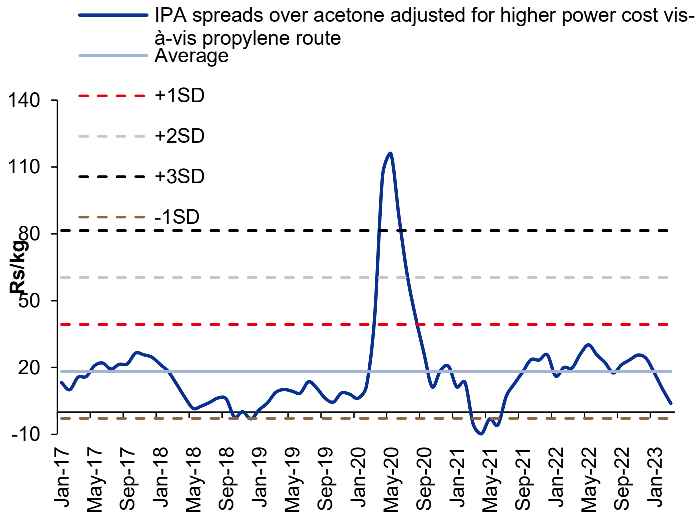
Hence, on an average, the power consumed in the acetone process is high than through the propylene process. Thus, to obtain comparable spreads, one must reduce excess power consumed to obtain the relevant spreads.

Figure 9: IPA spreads over propylene are declining…



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 10: … which is leading to a decline in IPA spreads over acetone



SOURCE: COMPANY REPORTS, INCRED RESEARCH

For Deepak Nitrite, it is pertinent to analyse the spreads over acetone as we are already capturing acetone prices in phenol spreads. As is evident in the above charts, IPA's spread over acetone are collapsing as IPA's spreads over propylene are strong.

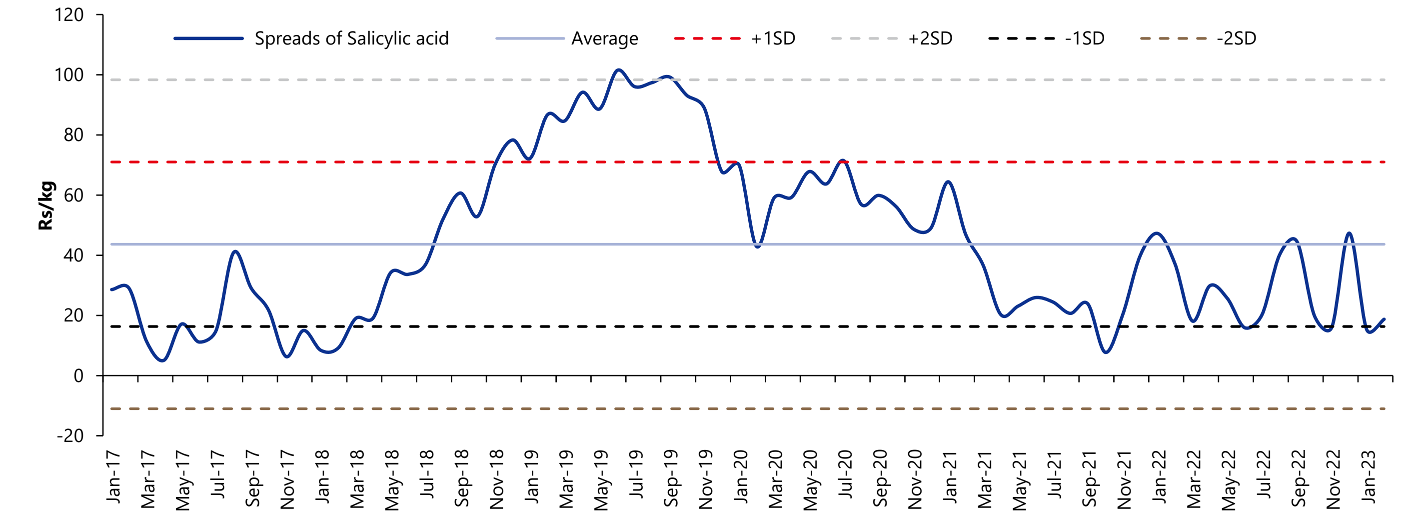
Salicylic acid spreads are on the decline as demand is on the decline

Salicylic acid is a white crystalline organic acid that is widely used in pharmaceutical, cosmetics, and food industries. It is also used in the production of other chemicals such as acetylsalicylic acid (aspirin) and methyl salicylate.

There are several methods for manufacturing salicylic acid, but the most commonly used process is the Kolbe-Schmitt reaction. This involves the reaction of sodium phenoxide (derived from phenol) with carbon dioxide to form sodium salicylate, which is then acidified with sulfuric acid to produce salicylic acid.

1. Phenol is first treated with sodium hydroxide to form sodium phenoxide.
2. Carbon dioxide is bubbled through the solution of sodium phenoxide, leading to the formation of sodium salicylate.
3. The sodium salicylate solution is then acidified with sulfuric acid, leading to the formation of salicylic acid.
4. The resulting salicylic acid solution is then purified through crystallization and filtration.

Figure 11: Consumer demand decline will show up in the demand for salicylic acid, which is waning and as a result, the spreads of salicylic acid over raw material are on the decline



SOURCE: COMPANY REPORTS, INCRED RESEARCH

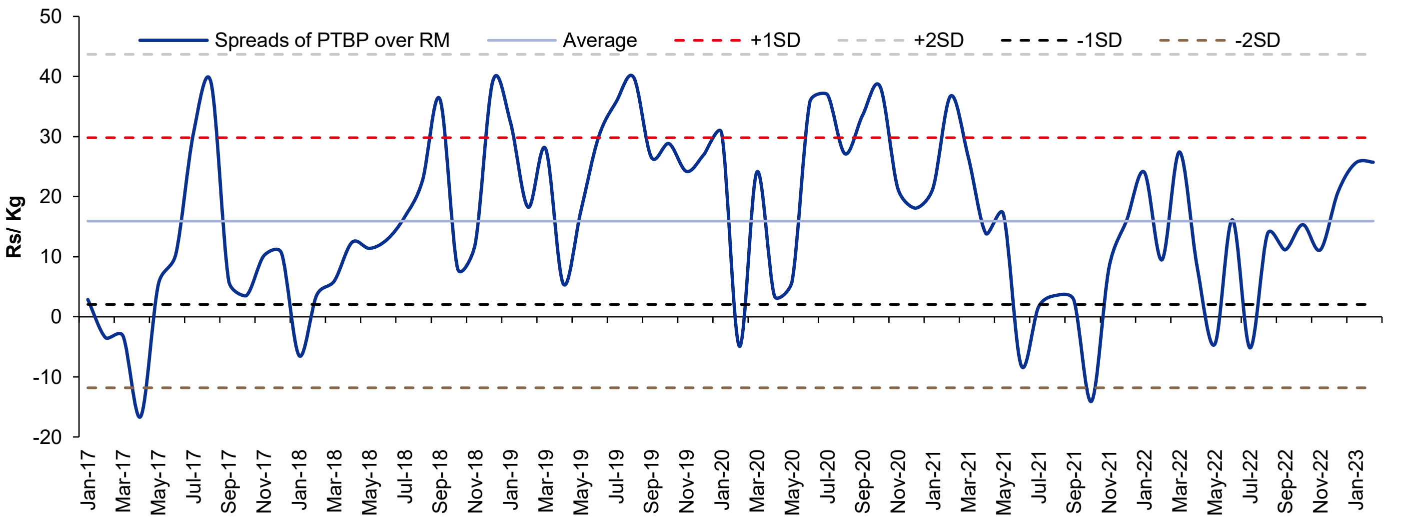
PTBP is mainly used in consumer products; the spreads, which are still strong, will decline in the near future

Para-tert butyl phenol (PTBP) is a chemical compound having various industrial uses, including:

1. **Antioxidant**: PTBP is used as an antioxidant in rubber and other polymer-based products to prevent their degradation by oxidation.
2. **Fuel and lubricant additive**: PTBP is used as an additive in fuels and lubricants to improve their stability and performance.
3. **Surfactant**: PTBP is used as a surfactant in detergents and cleaning products to reduce surface tension and improve cleaning ability.
4. **Polymerization inhibitor**: PTBP is used as a polymerization inhibitor in the production of polystyrene and other polymers to prevent uncontrolled polymerization reactions.
5. **Fragrance ingredient**: PTBP is used as a fragrance ingredient in perfumes, soaps, and other personal care products.

It's important to note that PTBP is a hazardous chemical and should be handled with care to avoid health and environmental risks.

Figure 12: PTBP demand is dependent on consumer demand and hence, its cyclicality is high



SOURCE: INCRED RESEARCH, COMPANY REPORTS

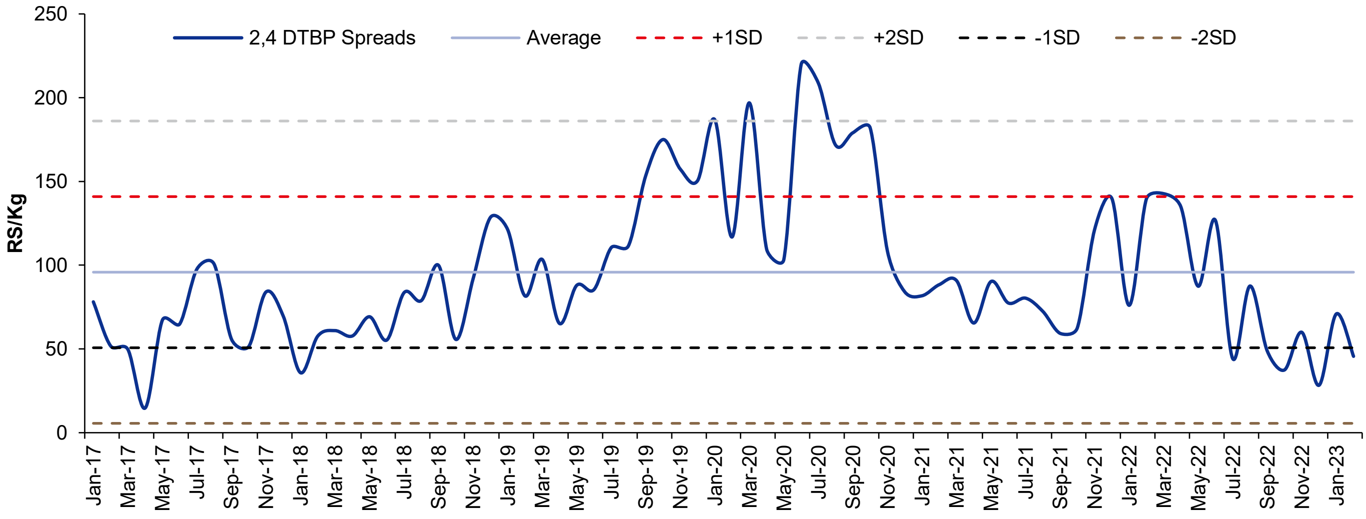
2,4 DTBP is mainly used in consumer items, the spreads of which are declining ➤

2,4-Di-tert-butylphenol (DTBP) is a chemical compound with various industrial uses, including:

1. **Antioxidant**: DTBP is used as an antioxidant in rubber and other polymer-based products to prevent their degradation by oxidation.
2. **Stabilizer**: DTBP is used as a stabilizer in fuel and lubricant formulations to improve their shelf life and performance.
3. **Inhibitor**: DTBP is used as an inhibitor in the production of various chemicals, such as polyurethane and epoxy resins to prevent uncontrolled polymerization reactions.
4. **Chemical intermediate**: DTBP is used as a chemical intermediate in the production of various chemicals such as agrochemicals and pharmaceuticals.
5. **Fragrance ingredient**: DTBP is used as a fragrance ingredient in perfumes, soaps, and other personal care products.

It's important to note that DTBP is a hazardous chemical and should be handled with care to avoid health and environmental risks.

Figure 13: 2,4 DTBP spreads are falling; its demand is directly linked to consumer demand



SOURCE: INCRED RESEARCH, COMPANY REPORTS

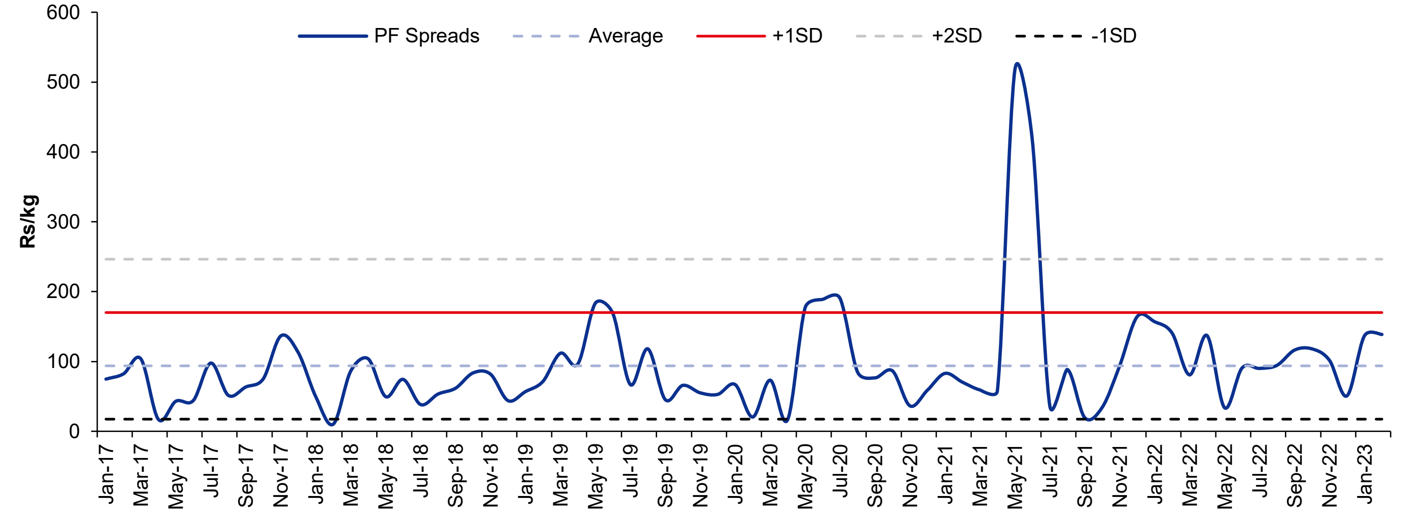
PF resins are another set of products which become input material for B2C companies. PF producers as well as B2C companies lack pricing power ➤

Phenol formaldehyde (PF) resins are synthetic polymers that are formed by the reaction between phenol and formaldehyde under acidic conditions. These resins have several industrial applications, including:

1. **Adhesives:** PF resins are used as adhesives in the production of wood-based panels, such as plywood and particleboard. The high strength and durability of PF resins make them ideal for bonding wood fibres and particles.
2. **Insulation:** PF resins are used as a binder in the production of insulation materials such as fiberglass and mineral wool. The resins provide a strong bond between the fibres, which improves the strength and thermal performance of the insulation.
3. **Electrical components:** PF resins are used as an insulating material in the production of electrical components such as circuit boards and transformers. The high thermal stability and insulating properties of PF resins make them ideal for these applications.
4. **Molding compounds:** PF resins are used as molding compounds in the production of various consumer products such as automotive parts, kitchenware, and bathroom fixtures. The resins can be molded into complex shapes and have excellent dimensional stability and mechanical properties.

It's important to note that PF resins can release formaldehyde, which is a known carcinogen, during their manufacture and use. Therefore, proper handling and ventilation are necessary to minimize the risk of exposure.

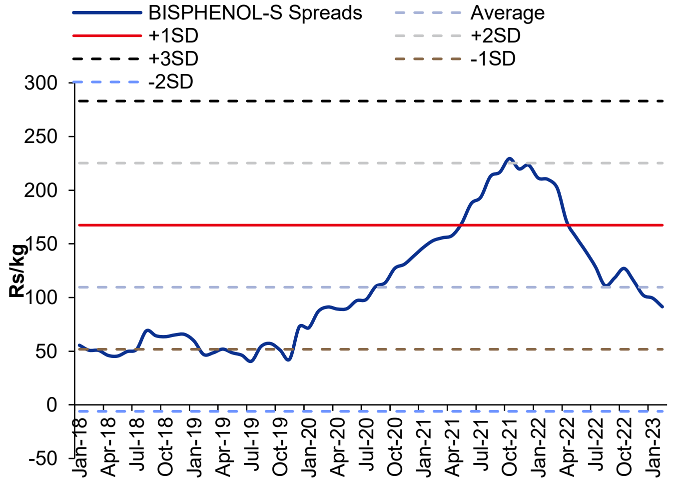
Figure 14: Inventory cycle across supply chain makes this product's margin highly volatile



SOURCE: INCRED RESEARCH, COMPANY REPORTS

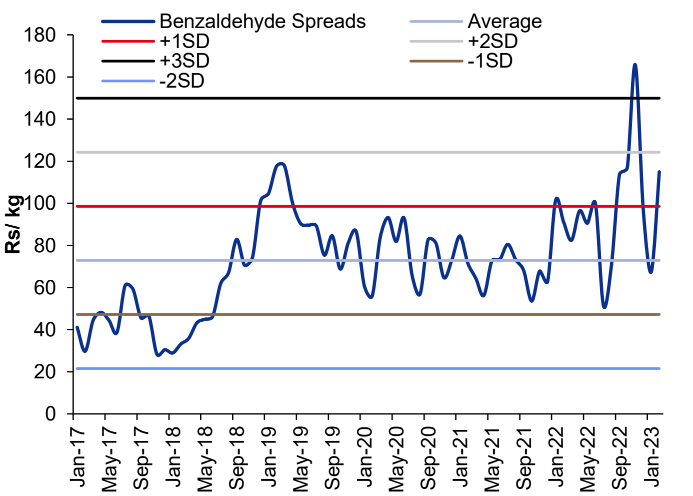
Bisphenol-S, benzaldehyde, benzyl alcohol & benzotrifluoride are small expansion projects but their spreads are usually volatile ›

Figure 15: Bisphenol-S spreads are falling



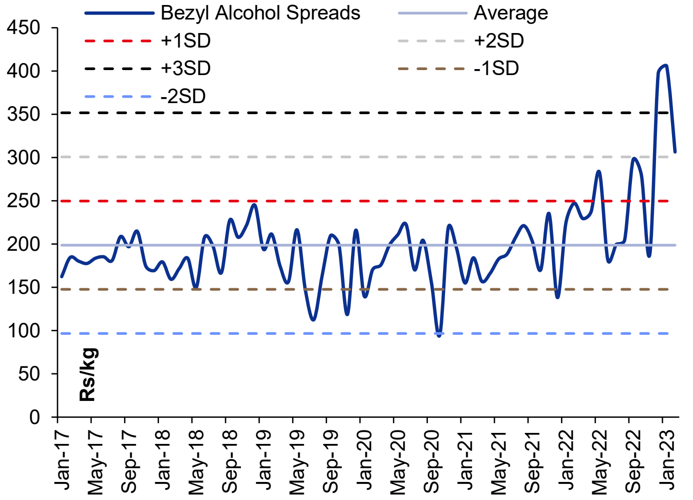
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Benzaldehyde spreads are usually volatile…



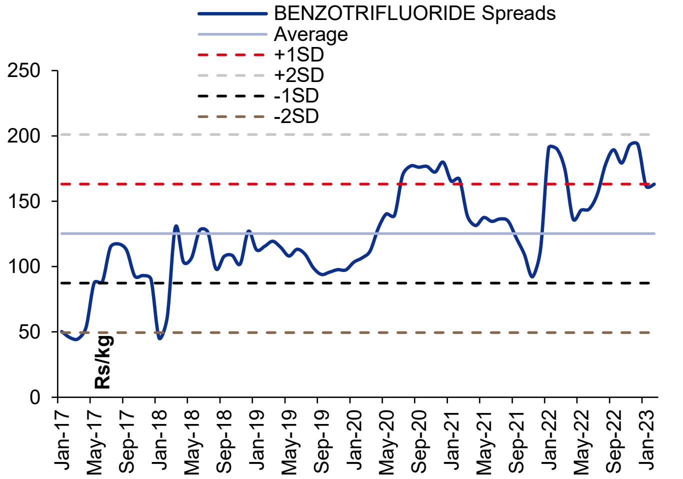
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: ...and that of benzyl alcohol...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: ...and benzo trifluoride



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Exisiting products' margins are also declining

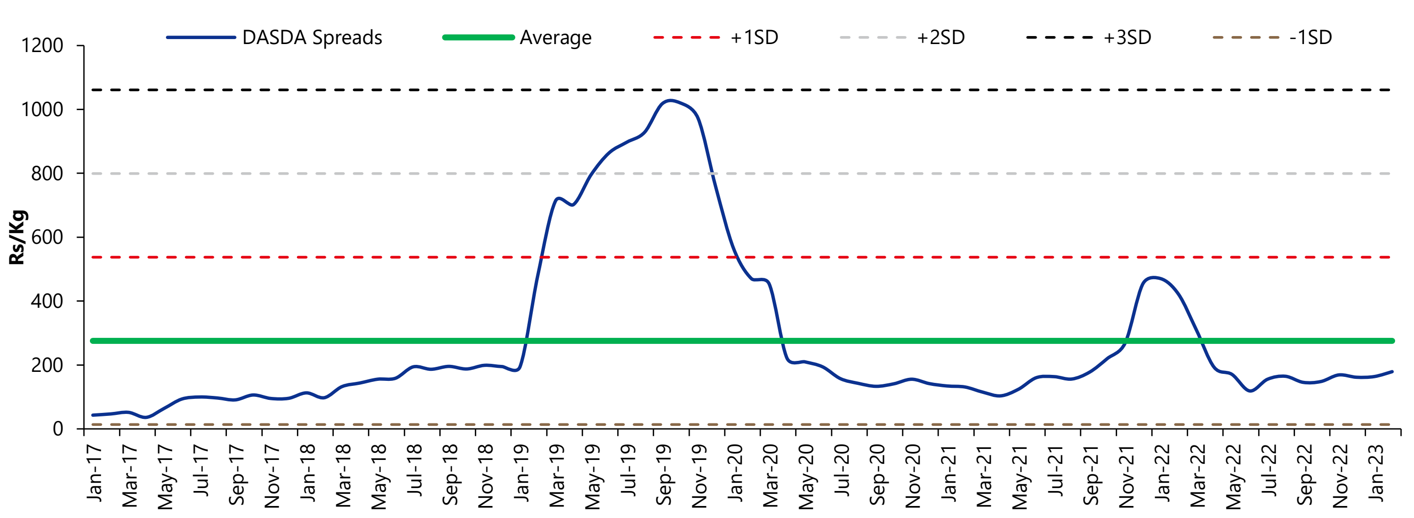
While we all know about phenol and the volatile nature of its margins, other products like DASDA (diamino stilbene disulfonic acid), 3-trifluoromethyl aceto phenone, ortho toluidine and methoxylamine hydrochloride are no better.

DASDA is a pure commodity product

DASDA is a chemical compound which is commonly used as a fluorescent whitening agent in a variety of applications. Some common uses of DASDA include:

1. **Textile industry:** DASDA is widely used in the textile industry as a whitening agent for fabrics, especially for polyester and nylon fibres.
2. **Paper industry:** DASDA is used in the paper industry to improve the brightness and whiteness of paper products.
3. **Detergent industry:** DASDA is added to some laundry detergents and soaps to enhance the whiteness and brightness of fabrics.
4. **Plastics industry:** DASDA is used as a brightening agent in some types of plastic products including packaging materials, films, and sheets.
5. **Printing inks**: DASDA is used as a fluorescent whitening agent in printing inks to improve the brightness and colour of printed materials.

Figure 19: The best time for DASDA was in 2019 and even Covid-related supply chain problems in 2020/21 could not change the fortunes of the product



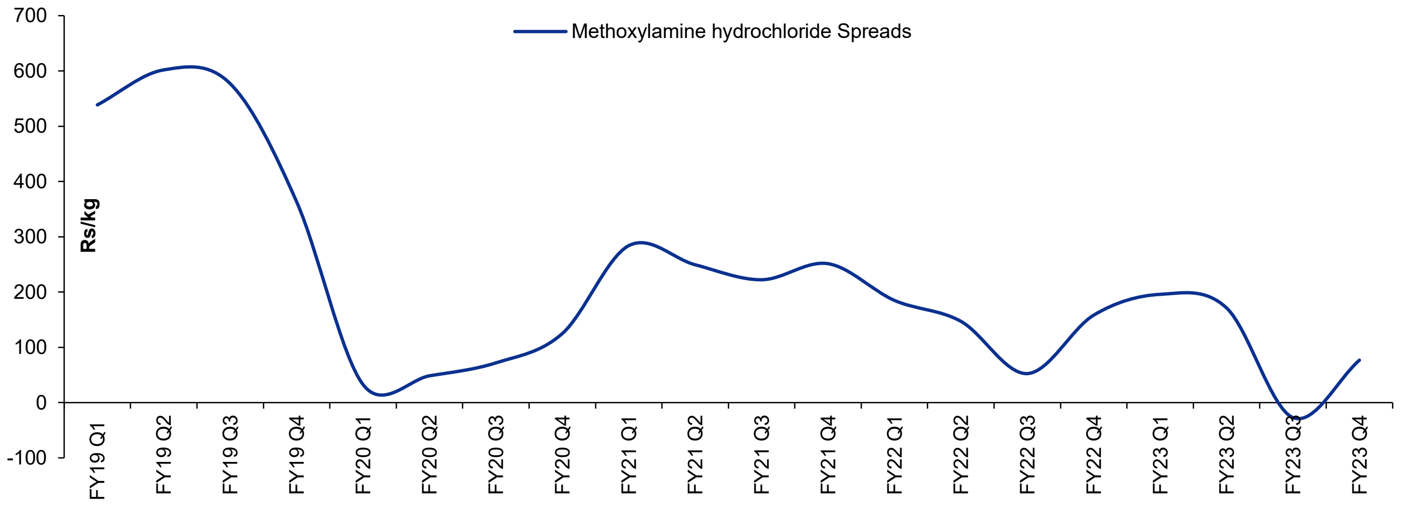
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Methoxylamine hydrochloride's fortunes also didn't change

Methoxylamine hydrochloride is a chemical compound that is used in a variety of applications including:

1. **Pharmaceutical industry:** Methoxylamine hydrochloride is used in the production of various pharmaceuticals including antibiotics, analgesics, and anti-tumour drugs.
2. **Agricultural industry:** Methoxylamine hydrochloride is used as a pesticide and herbicide in agriculture to control pests and weeds.
3. **Chemical industry:** Methoxylamine hydrochloride is used as a building block in the synthesis of various organic compounds including plastics, rubber, and dyes.
4. **Research:** Methoxylamine hydrochloride is commonly used in chemical research as a reagent in the preparation and analysis of various organic compounds.

Figure 20: Methoxylamine hydrochloride's spreads over raw material are not a sign of improvement



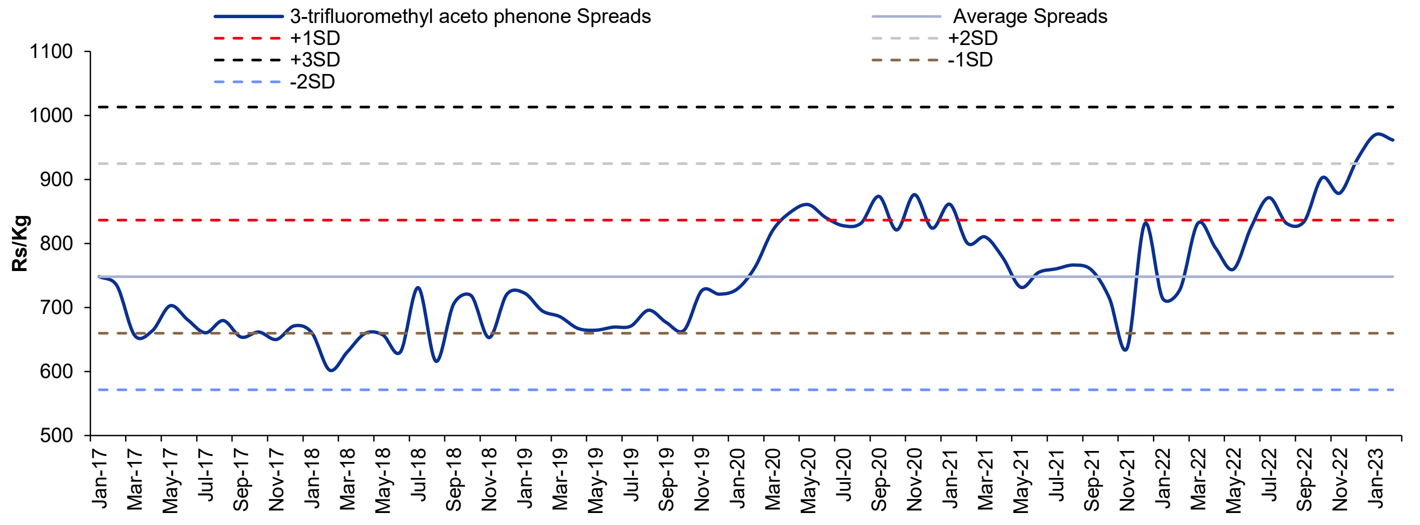
SOURCE: INCRED RESEARCH, COMPANY REPORTS

3-trifluoromethyl acetophenone is doing fine as of now but global headwinds are apparent

3-trifluoromethyl acetophenone is a chemical compound with a variety of potential uses. Here are some examples:

1. **Pharmaceutical intermediate:** 3-trifluoromethyl aceto phenone can be used as an intermediate in the synthesis of various pharmaceuticals including antifungal and antibacterial agents.
2. **Flavour and fragrance ingredient:** This compound has a unique aroma and can be used as an ingredient in perfumes and flavourings.
3. **Research chemical:** 3-trifluoromethyl aceto phenone can be used as a research chemical in the development of new drugs and other chemicals.
4. **Building block for organic synthesis:** This compound can be used as a building block in the synthesis of other organic compounds such as heterocyclic compounds and amino acids.
5. **Starting material for agrochemicals:** 3-trifluoromethyl aceto phenone can be used as a starting material for the synthesis of various agrochemicals, including herbicides and insecticides.

Figure 21: As of now, 3-trifluoromethyl acetophenone is doing wonders but it appears to be at a cyclical peak

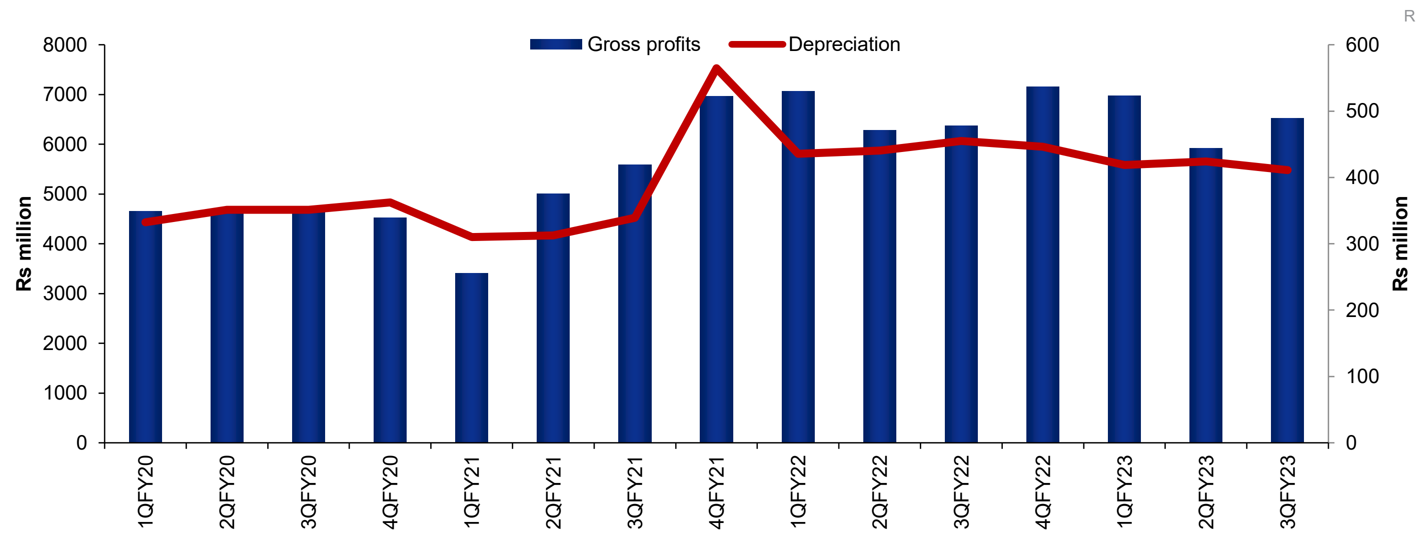


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Overall gross profit of DNL when all products come online can be ~Rs57bn and EPS at Rs135

Assuming an average spread scenario, the gross profit after all likely expansion projects, can be Rs34bn. Over the last 10 quarters, Deepak Nitrite has been operating near its capacity and its gross profit per quarter has varied between Rs 7bn to Rs5.9bn. The average and variability in gross profit has been at Rs6.6bn and Rs0.45bn, respectively.

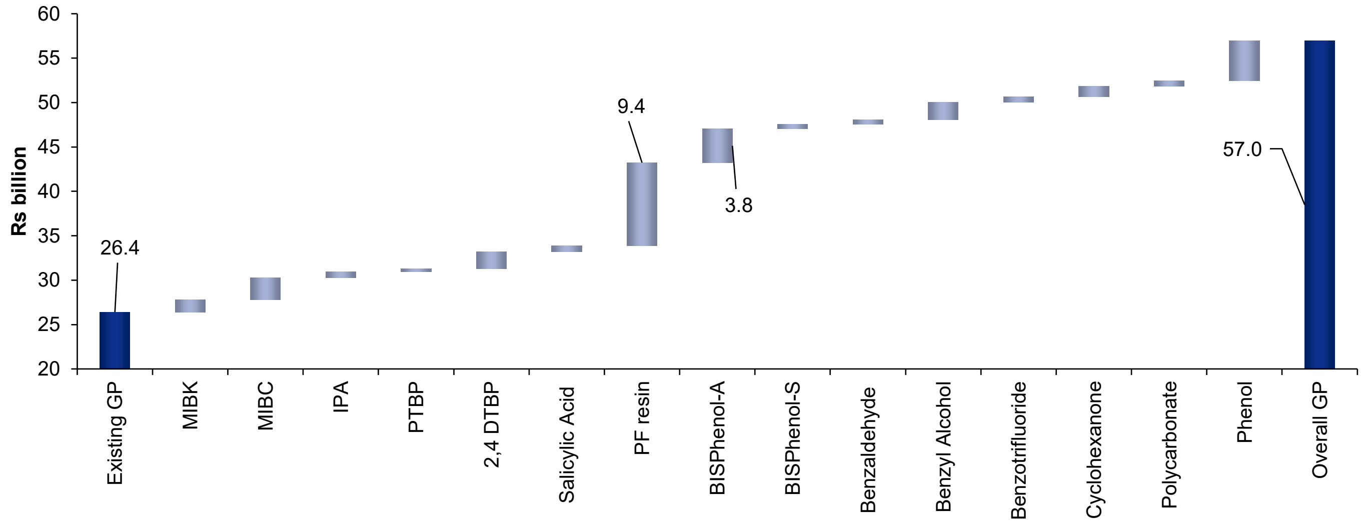
Figure 22: Deepak Nitrite is operating near its capacity since 1QFY22 and there is overall variability in gross profit



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Assuming average gross profits from expansion projects, the overall gross profit from the expansions can be ~Rs57bn, which is approximately 2x current gross profit.

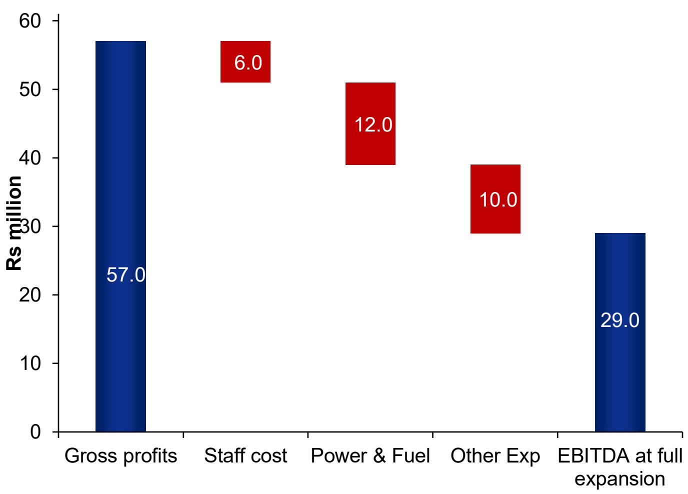
Figure 23: When total expansion comes online, overall gross profit can be around Rs57bn



SOURCE: INCRED RESEARCH, COMPANY REPORTS, GP= GROSS PROFITS

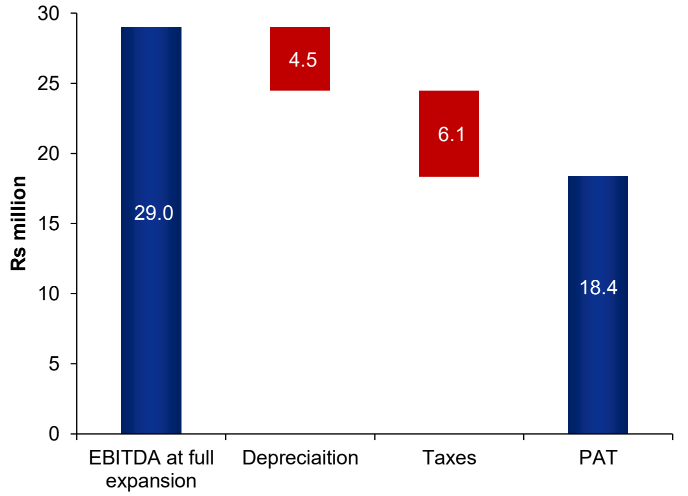
1. Current gross block of the company is around Rs27bn.
2. However, to expand its capacity, the company needs to incur capex of around Rs40-45bn over the next few years.
3. The overall gross block, when full expansion comes online, can be in the range of Rs70bn, which can generate a gross profit of Rs60bn.
4. Natural Consumer Price Index or CPI inflation (5%) as well as addition of staff can increase staff cost by 1.7x or 1.7x*3.3= Rs6bn when all expansions come online.
5. Given the production volume will increase by 150%, one can expect power and fuel cost to become at least 2x= Rs12bn.
6. Other expenses are also a function of volume but there will be operational leverage, which will work in the company's favour. Still, we believe other expenses to be around Rs10bn on full expansion.

Figure 24: EBITDA on full expansion will be near Rs35.1bn



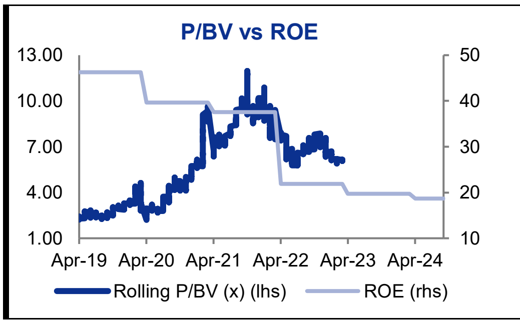
SOURCE: INCRED RESEARCH, COMPANY REPORTS

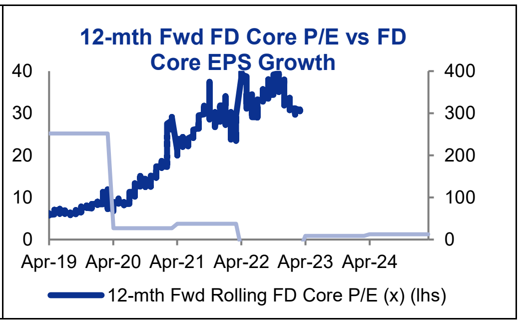
Figure 25: PAT on full expansion will be around Rs18.4bn or EPS can be Rs135



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	**43,598**	**68,022**	**75,595**	**81,010**	**92,170**
Gross Profit	**20,955**	**26,878**	**22,679**	**24,303**	**27,651**
Operating EBITDA	**12,470**	**16,036**	**12,799**	**13,796**	**15,478**
Depreciation And Amortisation	(1,526)	(1,777)	(1,790)	(1,896)	(2,038)
Operating EBIT	**10,944**	**14,259**	**11,009**	**11,900**	**13,440**
Financial Income/(Expense)	(742)	(340)	(399)	(319)	(359)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	215	426	215	215	215
Profit Before Tax (pre-EI)	**10,417**	**14,345**	**10,825**	**11,796**	**13,297**
Exceptional Items					
Pre-tax Profit	**10,417**	**14,345**	**10,825**	**11,796**	**13,297**
Taxation	(2,659)	(3,678)	(2,728)	(2,973)	(3,351)
Exceptional Income - post-tax					
Profit After Tax	**7,758**	**10,666**	**8,097**	**8,823**	**9,946**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**7,758**	**10,666**	**8,097**	**8,823**	**9,946**
Recurring Net Profit	7,758	10,666	8,097	8,823	9,946
Fully Diluted Recurring Net Profit	**7,758**	**10,666**	**8,097**	**8,823**	**9,946**

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	12,470	16,036	12,799	13,796	15,478
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(441)	(11,712)	(1,146)	(943)	(1,943)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	111	(89)			
Other Operating Cashflow	957	810	399	319	359
Net Interest (Paid)/Received	(742)	(340)	(399)	(319)	(359)
Tax Paid	(2,365)	3,535	(2,728)	(2,973)	(3,351)
Cashflow From Operations	**9,990**	**8,238**	**8,925**	**9,880**	**10,184**
Capex	(2,096)	(1,868)	(9,500)	(8,500)	(8,500)
Disposals Of FAs/subsidiaries	10	7			
Acq. Of Subsidiaries/investments	(1,854)	(2,401)			
Other Investing Cashflow	(21)	22			
Cash Flow From Investing	**(3,962)**	**(4,241)**	**(9,500)**	**(8,500)**	**(8,500)**
Debt Raised/(repaid)	(5,217)	(2,812)	1,977	(500)	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(4)	(750)	(800)	(800)	(800)
Preferred Dividends					
Other Financing Cashflow	(741)	(296)			
Cash Flow From Financing	**(5,961)**	**(3,858)**	**1,177**	**(1,300)**	**(800)**
Total Cash Generated	68	140	603	80	885
Free Cashflow To Equity	**812**	**1,186**	**1,403**	**880**	**1,685**
Free Cashflow To Firm	**6,771**	**4,338**	**(176)**	**1,699**	**2,043**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	2,202	4,786	4,635	4,611	5,352
Total Debtors	7,563	11,291	12,427	13,317	15,151
Inventories	3,827	5,846	7,249	7,768	8,838
Total Other Current Assets	1,175	1,183	1,183	1,183	1,183
Total Current Assets	**14,767**	**23,105**	**25,493**	**26,879**	**30,524**
Fixed Assets	20,596	20,857	28,703	35,307	41,769
Total Investments	25	22	22	22	22
Intangible Assets					
Total Other Non-Current Assets	214	321	321	321	321
Total Non-current Assets	**20,836**	**21,200**	**29,046**	**35,650**	**42,112**
Short-term Debt	31	1,132	2,484	2,484	2,484
Current Portion of Long-Term Debt					
Total Creditors	4,367	5,117	6,510	6,977	7,938
Other Current Liabilities	1,136	1,220	1,220	1,220	1,220
Total Current Liabilities	**5,535**	**7,469**	**10,215**	**10,681**	**11,642**
Total Long-term Debt	5,240	1,875	2,500	2,000	2,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	111	129	129	129	129
Total Non-current Liabilities	**5,352**	**2,004**	**2,629**	**2,129**	**2,129**
Total Provisions	1,250	1,447	1,015	1,015	1,015
Total Liabilities	**12,137**	**10,920**	**13,858**	**13,824**	**14,785**
Shareholders Equity	23,467	33,384	40,681	48,705	57,851
Minority Interests					
Total Equity	**23,467**	**33,384**	**40,681**	**48,705**	**57,851**

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	3.1%	56.0%	11.1%	7.2%	13.8%
Operating EBITDA Growth	21.6%	28.6%	(20.2%)	7.8%	12.2%
Operating EBITDA Margin	28.6%	23.6%	16.9%	17.0%	16.8%
Net Cash Per Share (Rs)	(22.50)	13.04	(2.56)	0.93	6.36
BVPS (Rs)	172.04	244.75	298.25	357.07	424.12
Gross Interest Cover	14.75	41.89	27.61	37.33	37.47
Effective Tax Rate	25.5%	25.6%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	11.6%	10.7%	9.9%	9.1%	8.0%
Accounts Receivables Days	57.31	50.58	57.26	57.99	56.37
Inventory Days	62.64	42.90	45.16	48.33	46.97
Accounts Payables Days	64.56	42.07	40.10	43.40	42.19
ROIC (%)	30.5%	38.0%	24.8%	21.1%	20.2%
ROCE (%)	38.7%	42.3%	26.2%	23.7%	23.0%
Return On Average Assets	24.6%	27.3%	17.0%	15.5%	15.1%

Key Drivers

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Outstanding Orderbook	N/A	N/A	N/A	N/A	N/A
Order Book Depletion	N/A	N/A	N/A	N/A	N/A
(Please link your key drivers and assumptions from EFA Sheet here) - Delete this line once done	N/A	N/A	N/A	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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