



## Deepak Nitrite Ltd (DNL)

### Background & Business

Deepak Nitrite Limited (DNL) was founded in 1970 by Mr. C. K. Mehta and is now run by his son Mr. Deepak Mehta. DNL is one of India's leading chemical companies. DNL manufactures almost a hundred products across three major categories: i) bulk and commodity chemicals, ii) fine and specialty chemicals, and iii) optical brightener agents. DNL holds strong market positions in India in several of its chosen niches within the chemical industry. DNL is one of the leading global players for several niche chemical products like Xylidines, Cumidines, Oximes & Colour Intermediates and caters to several industries - Colorants, Petrochemicals, Agrochemicals, Rubber, Pharmaceuticals, Paper, Textile, Detergents, Fine & Specialty Chemicals, etc. The company's internal R&D has helped add new products to its line-up. DNL's global distribution network spans more than 30 countries and has helped scale up exports to nearly 40% of revenue. The company has five manufacturing plants and an R&D facility, all in India, and plans to set up a new phenol plant at Dahej.

### Investment Thesis

From : 01-02-2019  
To : 31-05-2019  
Performance : 39%  
Recommendation : OPEN

**Backward Integration Facility:** DNL has received regulatory consent for its backward integration facility at Roha and the current financial year expects to see full capacity utilisation in the FSC segment, which will further boost the margins.

**Brownfield Expansion:** DNL has planned brownfield expansion projects across all business segments entailing capital expenditure of Rs. 60cr to take advantage of the existing situation in the Chinese Chemical Industry. This is expected to improve profitability margins going forward.

**Five-year anti-dumping duty:** In August 2017, the Finance Ministry imposed a five-year anti-dumping duty on Sodium Nitrite imports from China. The duty amounts to \$72.95 per ton. We believe this will protect the domestic industry from surge in below-cost imports by providing all domestic companies with a level playing field.

**Phenol and acetone project:** In order to address the huge untapped opportunity in Phenols and Acetones, DNL floated a wholly-owned subsidiary Deepak Phenolics Limited (DPL) in FY15. The subsidiary has achieved considerable size since incorporation with revenues of Rs. 1.4bn in FY17. DPL has set up a green field plant to manufacture phenol and acetone at Dahej, Gujarat. The capacity of phenol plant is 200,000 MTPA and that of acetone is 120,000 MTPA. DPL will also be manufacturing 260,000 MTPA of cumene which is a feedstock for phenol and acetone. At a total outlay of Rs. 14bn, the project is funded through a combination of debt and equity. Technology for Phenol and Acetone has been sourced from Kellogg, Brown & Root International, Inc and technology for Cumene has been sourced from UOP Honeywell. Globally, more than 60% of Phenol project has used technology from these two giants.

### Outlook

DNL is favorably positioned to capture opportunities emerging across the chemicals and specialty chemicals landscape. The Greenfield project of the Company for manufacture of Phenol & Acetone has commenced commercial operations and has reported positive EBITDA and PAT despite commencing operations only 5 months ago and is poised to become domestic market leader for Phenol & Acetone through its subsidiary Deepak Phenolics Ltd. The outlook for Phenol remains favorable as the product is finding new applications resulting in increased local demand. Top-line guidance of US\$1bn for FY2020 through expansion of phenol project, expansion in range of performance products, demand revival in end-user industries & increasing geographical distribution, expansion of margins through increase in contribution of high-margin products like pharma, personal care & agrochemical intermediates and best-in-class board and management are some of the key reasons making DNL an ideal stock for portfolio.



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