ADD

CMP: **INR 1,933** Target Price: **INR 2,120** ▲ 10%

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15 April 2025

India | Equity Research | Initiating Coverage

Deepak Nitrite

Speciality Chemicals

The chemistry of value

We initiate coverage on Deepak Nitrite (DN) with an **ADD** rating, and a TP of INR 2,120, valuing it at 30x FY27E PE. While DN generates strong operating cashflow, it has embarked on large capex into import substitution products – to be the crux of its sustained value creation in the medium term. Despite DN's large portfolio of bulk chemicals, we assign a higher multiple given its: 1) prowess in executing large projects and achieving lowest-cost manufacturing efficiency while capturing dominant market share; and 2) ability to identify good import substitution opportunities, and cater to the swiftly growing Indian market. We expect DN's revenue/EBITDA/PAT to grow at CAGR of 15%/21%/22% over FY25–27E; FY28 onwards, the financials will likely leapfrog with DN's foray into polycarbonate-integrated facility.

An impressive track record

DN has a history of significant discipline in capital allocation, and has been smartly increasing capacities through de-bottlenecking – sodium nitrite, optical brighteners (OBA) and phenol are a few such examples. Consequently, it has steadily grown volumes profitably. The company took a bold call to foray into phenol, a global bulk chemical, and DPL (subsidiary), not only executed it well but also has increased capacity through de-bottlenecking, and optimisation to 150% of base capacity. Also, it has been running the plant at full utilisation – set against the backdrop of the global average being 65–70%. Thus, DPL has achieved cost advantage, and now can withstand a tougher competition scenario.

Further, DN has identified opportunities in backward and forward integration of operations – this brings multiple advantages such as increased resilience of its operation, capital allocation into area within control; thereby, maximising returns, opportunity to optimise cost structure and increase product base. Therefore, the company is able to command dominant market share in nitration, hydrogenation, and now phenol. DN entered phenol only a few years ago, and has recently expanded into isopropyl alcohol (IPA), and acetopheone. The company also plans to foray into bisphenol-A (BPA) and polycarbonate (PC). Therefore, capturing value from the entire ecosystem.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	76,818	83,792	1,00,714	1,11,234
EBITDA	11,233	10,141	13,544	14,861
EBITDA Margin (%)	14.6	12.1	13.4	13.4
Net Profit	7,311	6,440	8,610	9,638
EPS (INR)	53.6	47.2	63.1	70.7
EPS % Chg YoY	(4.8)	(20.6)	33.7	11.9
P/E (x)	32.5	40.9	30.6	27.4
EV/EBITDA (x)	23.1	25.7	20.0	19.8
RoCE (%)	14.9	11.3	13.1	10.5
RoE (%)	16.4	12.7	15.0	14.8

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Market Data	
Market Cap (INR)	264bn
Market Cap (USD)	3,062mn
Bloomberg Code	DN IN
Reuters Code	DPNT.BO
52-week Range (INR)	3,169 /1,781
Free Float (%)	50.0
ADTV-3M (mn) (USD)	8.1

Price Performance (%)	3m	6m	12m
Absolute	(20.1)	(31.7)	(15.9)
Relative to Sensex	(17.2)	(24.0)	(16.0)

ESG Score	2022	2023	Change
ESG score	50.8	64.7	13.9
Environment	19.7	42.1	22.4
Social	36.0	65.7	29.7
Governance	79.3	81.7	2.4

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

DN standalone – dominance, and new product launches

In DN's standalone, top-10 products contribute ~90% of revenue; and it has strong dominance in these products. DN's standalone revenue/EBITDA have grown at CAGRs of 8.3%/13.7% over FY15–24 with FY24 being a challenging year for chemicals in general. DN standalone plans for more product launches in agro and performance chemicals over next two years, which should help drive higher growth in addition to steady volume growth in the existing products. DN's standalone margins may remain in the range of 15–16% for forecasted period. Therefore, we forecast DN's standalone revenue/EBITDA to grow at CAGRs of 13.8%/30% over FY25–27E, also aided by an easy base. The company is also expanding its sodium nitrite production in Oman by FY27E, and would likely enjoy the benefit of favourable prices for two key inputs – ammonia and power; it would also likely benefit from the access to western markets. This should drive faster growth in the advance intermediate segment compared to DN standalone.

DPL – close to growth saturation

DPL's capacity is close to achieving saturation in FY25 with its phenol capacity expanding to 350ktpa (vs. starting capacity of 200ktpa) – commendable efficiency extraction with minimal investment of INR 1bn. The company has also expanded its IPA capacity to 80kpta, which has helped captive consumption of acetone; implies higher spreads for its phenolic operations too. In the process, DPL has grabbed >50% India market share in phenol and IPA. DPL now plans to add value to by-product acetepheone, which should help extract more value. However, we are slightly concerned about the rising capacity addition in China, which can create a supply glut in phenol until it is completely integrated with downstream and absorbed by the market. We assume blended spreads to be at USD 300/te for DPL (despite higher value-addition) vs. phenol spread of USD 400 in the past 10 years. DPL's revenue/EBITDA would likely grow at CAGRs of 6.1%/9.9% over FY25–27E.

DCTL – new growth avenues

The company has signed two large investment MoUs with Gujarat's government for a total outlay of INR 140bn towards expansion in bulk, specialty chemicals and phenolic value-chain. DCTL is nearing commission two projects in near term 1) nitric acid plant (a key backward integration) – potential to add INR 800–900mn to EBITDA; 2) MIBK/MIBC – acetone-based solvents, which should help cater to import substitution demand. A large investment is planned in phenol/acetone-BPA-PC-integrated production, which should open new, large and fast-growing import substitution opportunities by end-CY27. DCTL has already signed an agreement for the transfer of technology and license with Trinseo, and to shift its German PC plant to India. DCTL is in the process of finalising its technology partner for the phenol and BPA plants. These investments planned provide comfort on medium-term earnings growth visibility and place DN among the best within our chemical coverage universe.

Financials – near-term growth steady; medium-term to leapfrog

DN is in the process of commissioning a few large projects that would help it see revenue/EBITDA/PAT CAGRs of 15%/21%/22% over FY25–27E; and FY28 onwards, growth is expected to leapfrog with its foray into PC. The next three years would be marked by a jump in capex investment – of over INR 100bn and likely stressed FCF; leverage may rise to INR 65bn at peak (from net cash). Reported return ratios are also likely to optically remain depressed at 14% in FY27; however, underlying RoCE may remain healthy.

Risks

Downside: 1) Delay in execution of projects; and 2) unfavourable spreads.

Upside: 1) Higher-than-expected demand from end-application, and winning higher market share; and 2) favourable spreads in phenolic value chain.

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DN – good portfolio; dominant market share

We have divided DN's standalone business into four buckets –

Bucket 1: Sodium nitrite (starting from ammonia)

Bucket 2: Nitro toluidine (nitration)

Bucket 3: Nitration with other organic chemicals such as xylenes, cumenes etc.

Bucket 4: Other value chains such as benzene and EHN

A deep dive into DN's standing in each bucket

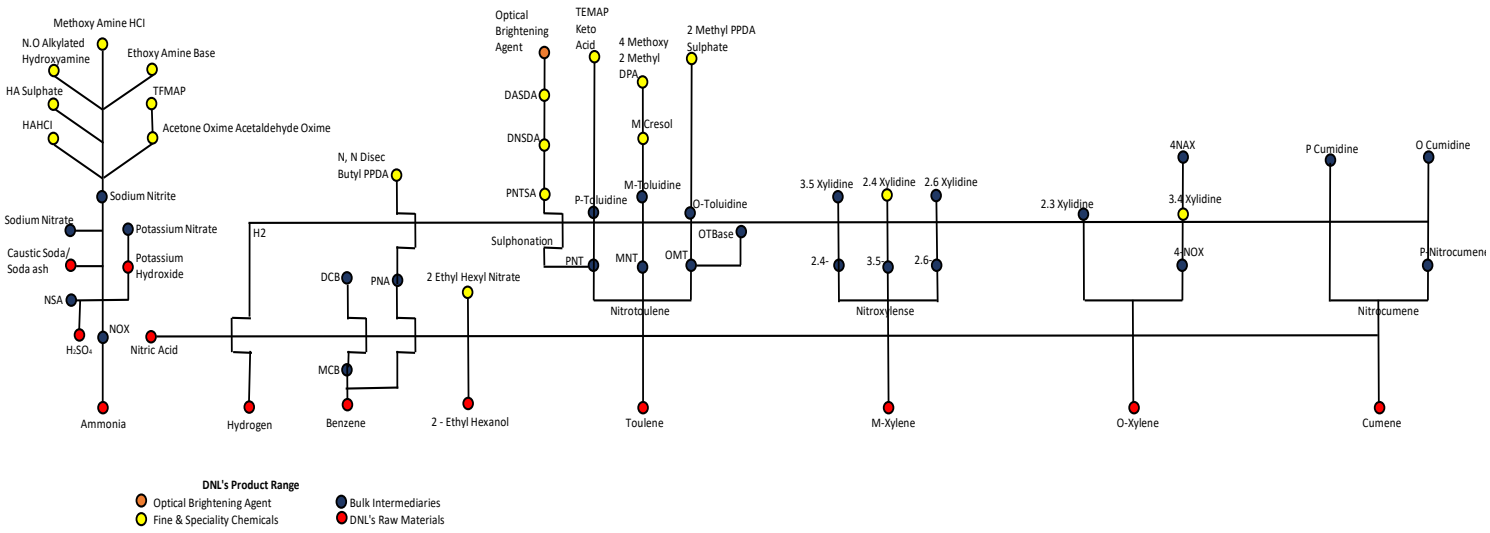
Bucket 1: The company enjoys dominant position in sodium nitrite and sodium nitrate; and over the years, it has significantly backward and forward integrated to achieve cost competitiveness. It has been growing volumes thanks to underlying demand growth in India, and expansion of exports market. The products find application in dyes and pigments, life science (agro-chemical and pharmaceuticals) and preservatives. The forward branches also include some of DN's large products such as MAHCL, and TFMAP. Among the top-10 products for DN's standalone, which contributed to 91% to revenue, four products with 39% of standalone revenue in FY24 came from this bucket.

Bucket 2: Nitro toluidine is the next large branch of chemistry for DN's standalone. This segment includes some large products – nitro-toluidine, DASDA and OBA (optical brightening agent). These three products are among the top-10 for DN's standalone with 34% contribution to total revenue. DASDA is used primarily as feedstock for OBA and production of dyes. OBA is a whitening agent for fabrics, papers etc.

Bucket 3: It includes nitration on xylene and cumene; and includes products such as 4-NOX, and cumidines. These two products are among top-10 for DN standalone with 11% contribution to total revenue. 4-NOX (4-Nitro O-Xylene) is used as intermediate in organic chemistry; and cumidines is used in production of dyes and pigments, life sciences and fine chemicals.

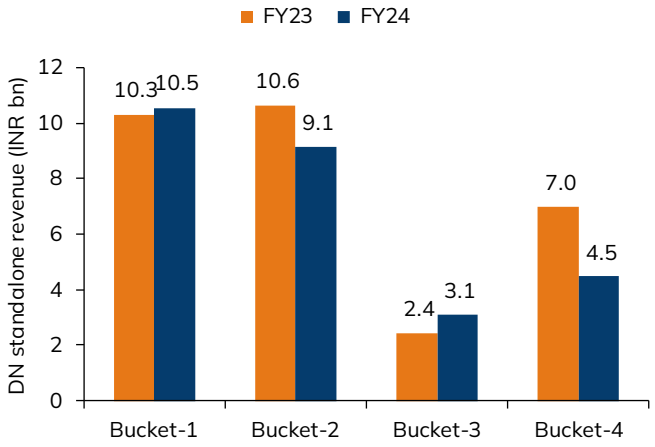
Bucket 4: It includes large products such as EHN, which is used as an additive in fuel. The product contributed 7% to total revenue in FY24.

Exhibit 1: Deepak Nitrite standalone: product value-chain



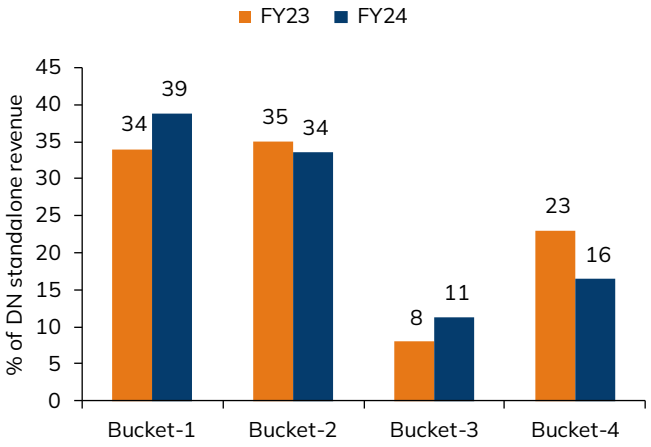
Source: I-Sec research, Company data

Exhibit 2: DN (standalone) key segments revenue...



Source: I-Sec research, Company data; Note: Bucket-1 (Na nitrite/ nitrate, MAHCL & TFMAP); Bucket-2 (Nitro-toluidine, DASDA & OBA); Bucket-3 (Nitro-xylene, cumene); Bucket-4 (Others incl EHN). For FY23, Na nitrate and cumidine is part of Others.

Exhibit 3: ...and its contribution to total revenue



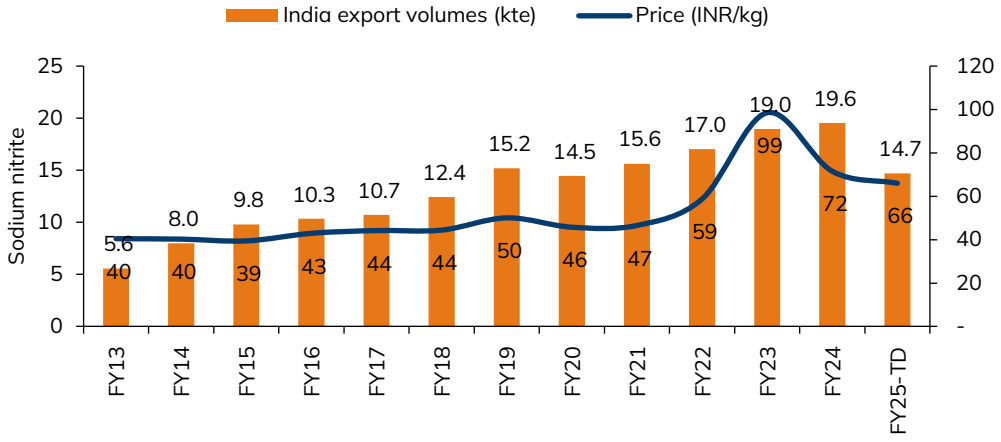
Source: I-Sec research, Company data; Note: Bucket-1 (Na nitrite/ nitrate, MAHCL & TFMAP); Bucket-2 (Nitro-toluidine, DASDA & OBA); Bucket-3 (Nitro-xylene, cumene); Bucket-4 (Others incl EHN). For FY23, Na nitrate and cumidine is part of Others.

Bucket 1: Oman expansion in sodium nitrite; agro-chem demand revival to drive growth

Sodium nitrite demand significantly comes from dyes and pigments with volumes growth of mid-to-high single digit in India; and DN already has a dominant market share here. We expect DN to grow at an industry rate, and additional growth will likely come from the exports market for applications such as preservatives for meat; and life science intermediate.

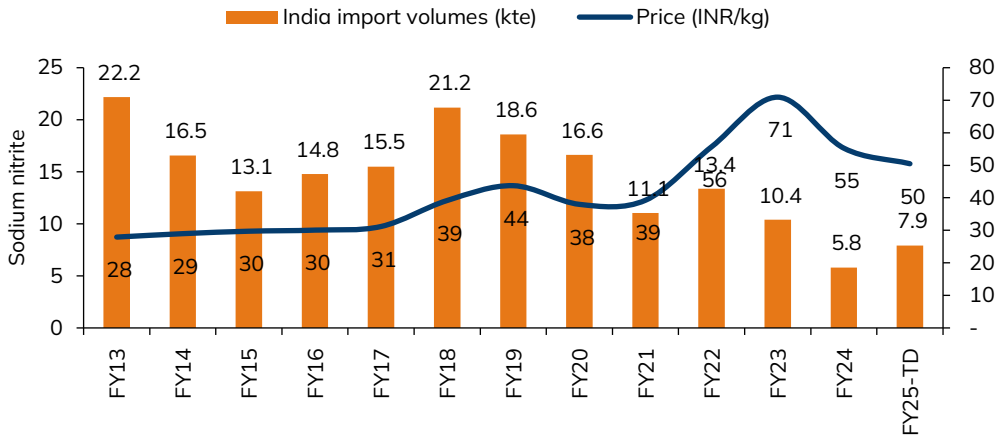
India exports of sodium nitrite, largely by DN, has grown at a CAGR of 9.4% over FY14–24. This is higher than global demand, pointing to DN's rising market share. DN's domestic volume has grown faster than the India market due to a fall in import volumes, which has decline at ~10% p.a. over FY14–24.

Exhibit 4: India sodium nitrite export volumes saw a CAGR of 9.4% over FY14–24



Source: I-Sec research, Commerce ministry

Exhibit 5: India sodium nitrite import volumes dipped ~10% p.a. over FY14–24

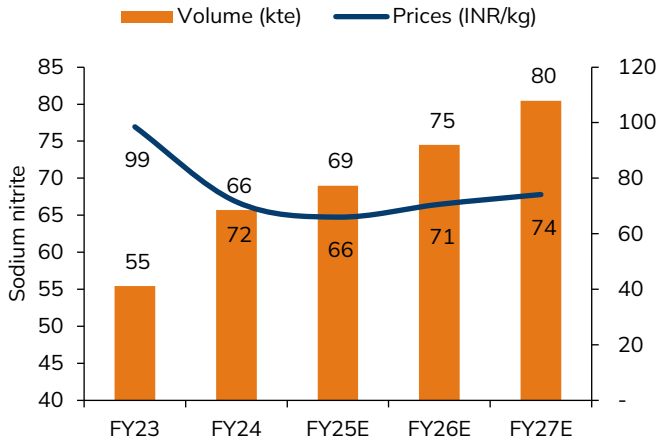


Source: I-Sec research, Commerce ministry

Sodium nitrite demand is derived from the underlying demand for dyes and pigment and agro-chemicals, which have been under pressure for the past two years; and prices have also normalised. We expect volumes to start growing FY26E onwards, as the destocking pain is behind, and volumes should resume growing as well. We forecast sodium nitrite volumes to grow at an 8% CAGR over FY25–27E, and revenue to grow at a CAGR of 14.5% to INR 6bn in the same period.

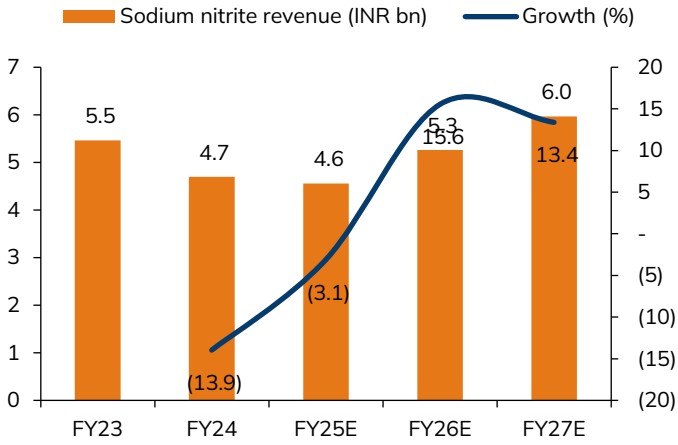
Our standalone business sodium nitrite volume forecast is lower than historical average as DN will likely start servicing part of its export demand, particularly in developed market, from its Oman facility. The facility is expected to start production FY27 onwards with sodium nitrite capacity of 60–70ktpa (housed under Deepak Oman Industries) with an investment of INR 5bn (asset turnover of 1x). The facility offers a two-fold advantage – 1) enough availability of affordable input (ammonia), and lower power cost; with tax holiday for 30years; and 2) access to US/EU markets. US' annual demand is 40kte; and BASF in Europe with 30ktpa capacity is the largest player. Also, Oman and US have a trade agreement. We are factoring in addition revenue of INR 2.4bn for Deepak Oman in FY27E.

Exhibit 6: We expect FY25–27E volume CAGR of 8%...



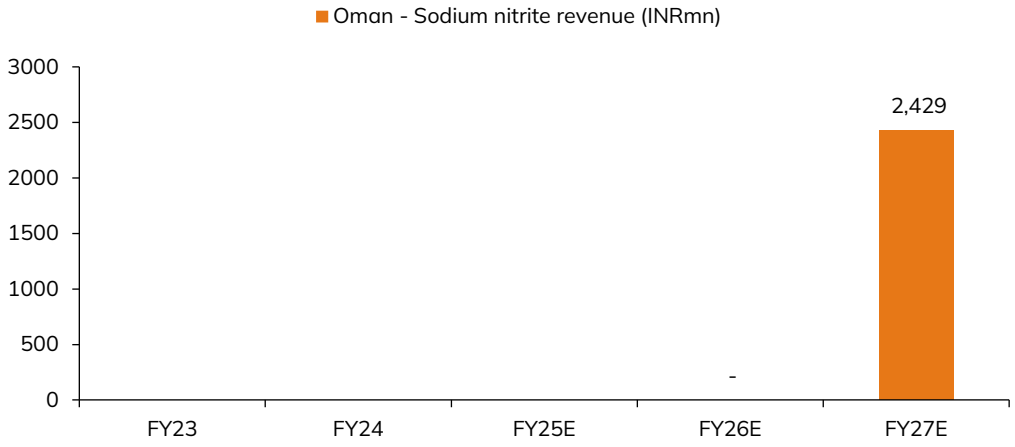
Source: I-Sec research, Company data

Exhibit 7: ...driving sodium nitrite revenue growth of 14.5% over the same period



Source: I-Sec research, Company data

Exhibit 8: Deepak Oman revenue to add INR 2.4bn to advance intermediates segment in FY27E

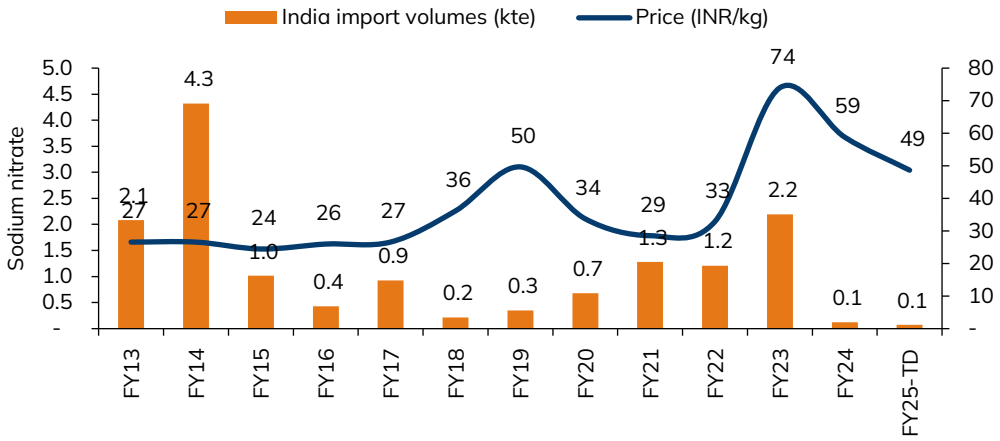


Source: I-Sec research, Company data

Sodium nitrate is produced by oxidization of sodium nitrite or neutralisation of nitric acid with sodium carbonate/sodium hydroxide. For DN, sodium nitrate is produced (~30% of sodium nitrite) as a co-product in the manufacturing process. It is used as fertiliser, oxidizing agent for explosives and preservatives for meat. India has a miniscule export share here – has remained negligible for many years; however, India does some imports of sodium nitrate, but import volumes have also collapsed in FY24.

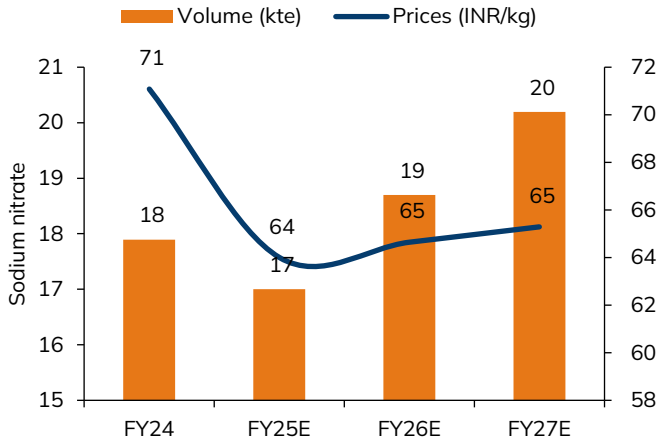
DN's standalone has seen a drop in sodium nitrate volume/revenue in FY25; but we estimate revenue CAGR of 10.1% to INR 1.3bn over FY25–27E. Notable, DN Oman also includes sales of sodium nitrate (25–30% of total Oman revenue).

Exhibit 9: India sodium nitrate import volumes have collapsed since FY24



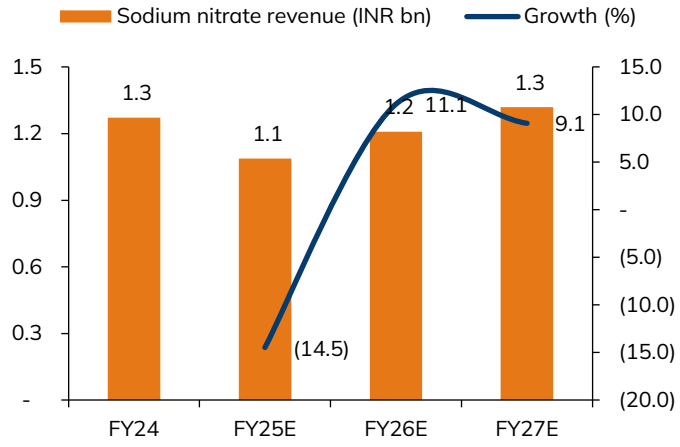
Source: I-Sec research, Commerce ministry

Exhibit 10: We expect DN's sodium nitrate volumes to grow at CAGR of 9% over FY25-27E...



Source: I-Sec research, Company data

Exhibit 11: ...and drive revenue growth of 10.1% in same period



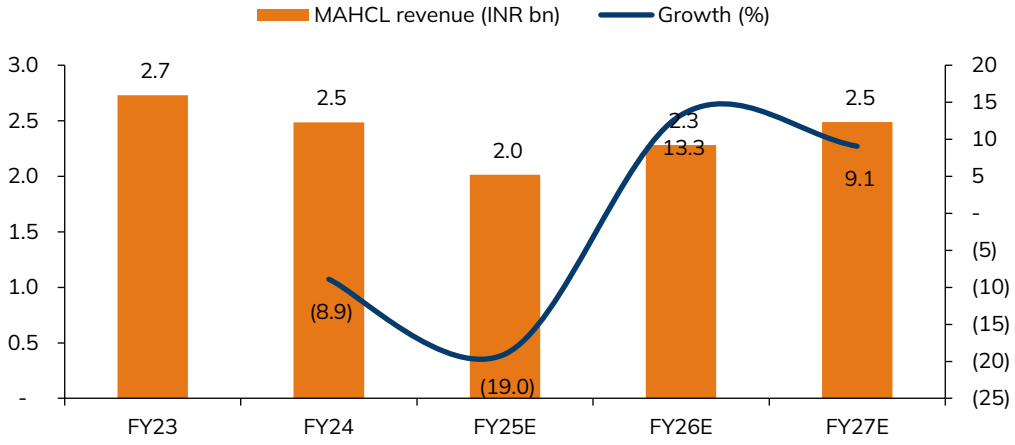
Source: I-Sec research, Company data

The other two products in Bucket-1 are: 1) MAHCL (Methoxylamine Hydrochloride), which is used as intermediate in life science, selective reduction of ketones, and reducing agent in organic synthesis. 2) TFMAP (3'-(Trifluoromethyl)acetophenone) is an intermediate for preparation of Trifloxystrobin.

Trifloxystrobin is a strobilurin fungicide that works by inhibiting mitochondrial respiration in plant pathogenic fungi, effectively preventing fungal spore germination and mycelial growth.

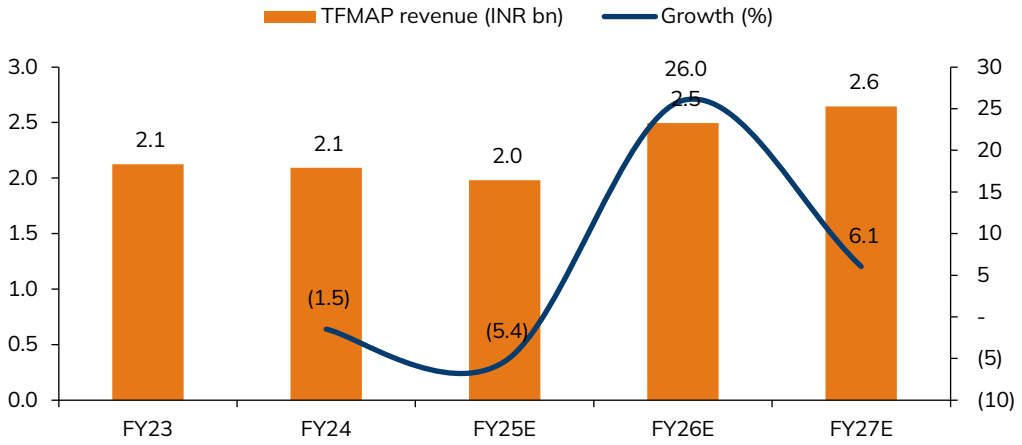
We expect MAHCL and TFMAP revenues to grow at CAGRs of 11.2%/15.6% over FY25-27E; partly aided by favorable base. For TFMAP, DN standalone has backward integrated into fluorination for manufacturing of benzo-tri-fluoride and recent capacity expansion of TFMAP should allow DN to expand its supplies to China.

Exhibit 12: MAHCL revenue to grow at a CAGR of 11.2% over FY25-27E – after decline in FY24/FY25E



Source: I-Sec research, Company data

Exhibit 13: TFMAP to start growing revenue from FY25 with destocking behind in agrochemicals; and debottlenecking add capacities for geographical expansion



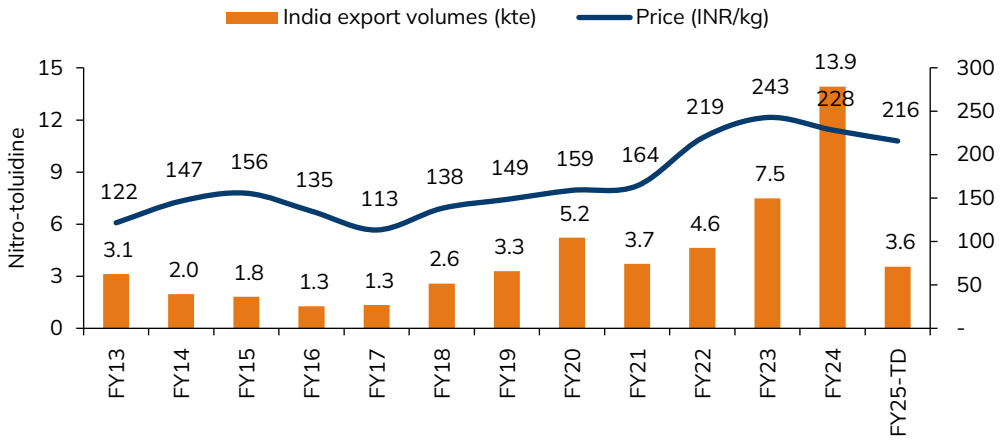
Source: I-Sec research, Company data

Bucket 2: OBA and DASDA hurt from downcycle and lower competitiveness in exports from higher freight cost. Major issues behind, the segment to grow again

Nitro-toluidine is the largest product for DN standalone. Nitro-toluidine refers to compounds where a nitro group (NO2) is attached to a toluidine molecule, with various isomers existing depending on the nitro group's position (para, meta and ortho). These compounds are used as intermediates in the production of dyes and pigments.

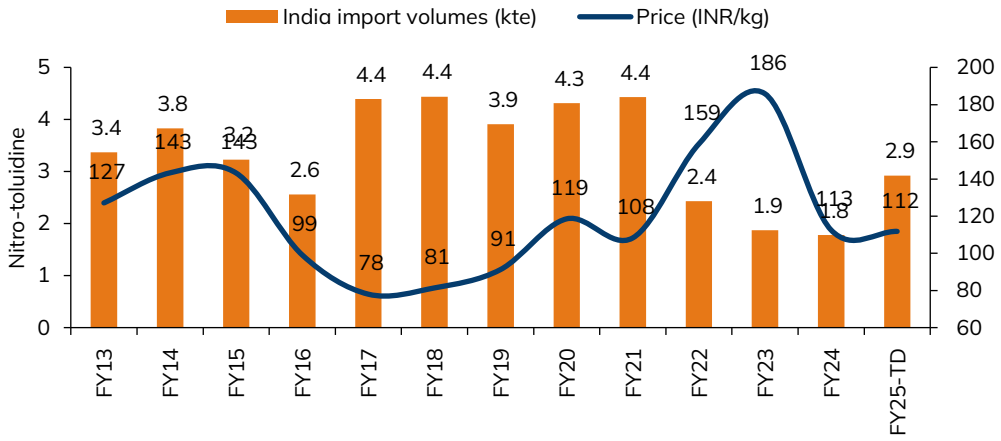
Considering large application and family of products, nitro-toluidine is having both enough export and imports. India nitro-toluidine exports' volumes have grown at a CAGR of 16% over FY14-23; while FY24 saw a sharp jump. While India imports' volumes of nitro-toluidine have dipped to 7.4% p.a. over FY14-24, India textile industry is expected to benefit from the turmoil at Bangladesh, and can help grow revenue slightly faster.

Exhibit 14: India nitro-toluidine export volumes have grown at CAGR of 16% over FY14-23



Source: I-Sec research, Commerce ministry

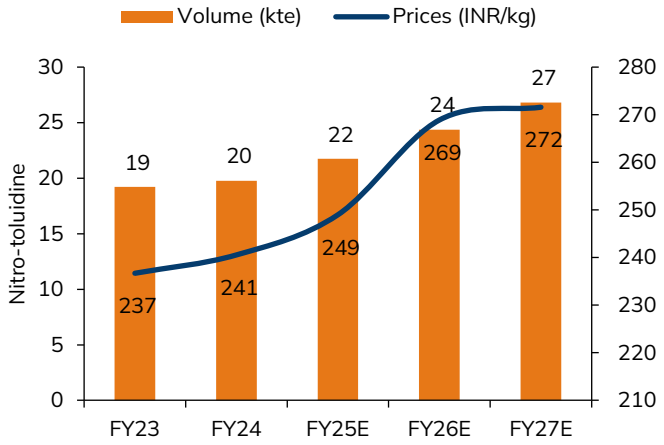
Exhibit 15: India nitro-toluidine import volumes dipped 7.4% p.a. over FY14-24



Source: I-Sec research, Commerce ministry

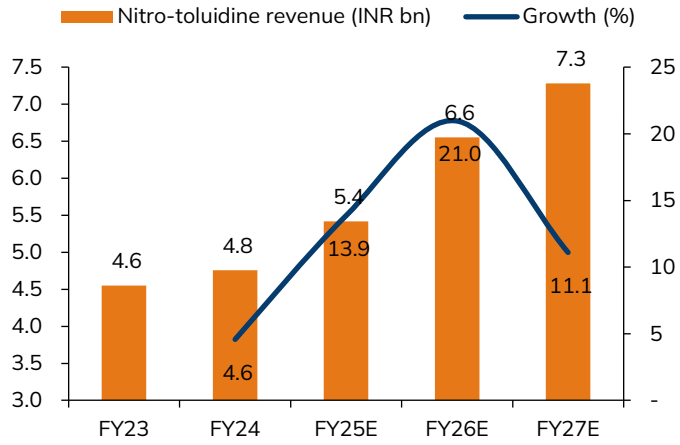
We expect nitro-toluidine volumes to grow at a CAGR of 11% over FY25-27E; and has large competition such as Aarti Industries. Our nitro-toluidine revenue is likely to grow at a CAGR of 15.9% over FY25-27E.

Exhibit 16: We expect nitro-toluidine volumes to grow at CAGR of 11% over FY25-27E...



Source: I-Sec research, Company data

Exhibit 17: ...and drive revenue growth of 15.9% in same period

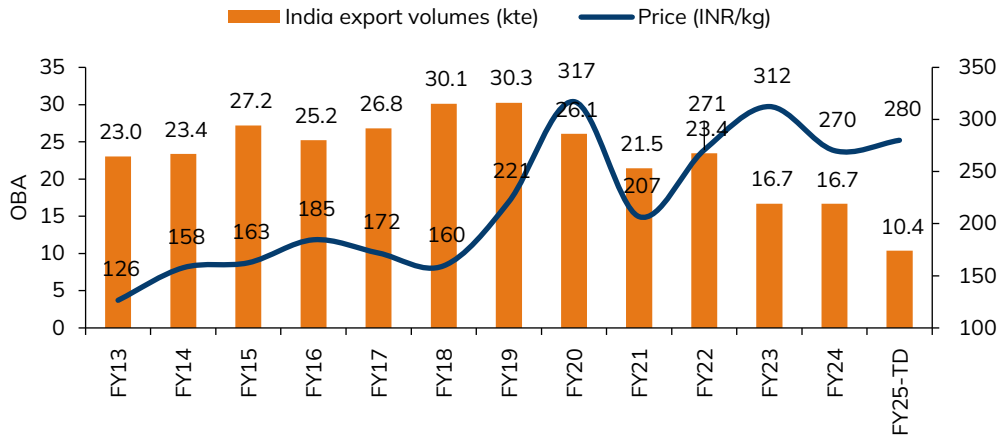


Source: I-Sec research, Company data

OBA are used as detergent whitener, paper brightening, fiber whitening in plastic materials, textile whitening and color-correcting or brightening additives in advanced cosmetic formulas (shampoos, conditioners, eye makeup, etc.). DN standalone enjoys strong positioning in OBA with its backward integrated operation; and strong positioning globally. It caters to 75% of domestic demand where markets continue to grow while product is declining in developed markets. Overall, OBA is expected to grow 1–2% globally. In the exports market, DN's standalone competitiveness is also determined by shipping freight as majority (two-thirds of volumes) is consumed in diluted form with water mix at 70% and OBA is 30%.

India export volumes of OBA have declined by 3.3% p.a. over FY14-24 due to falling demand in the exports market. However, India continues to grow faster; this implies DN standalone has been capturing higher incremental market share in OBA market.

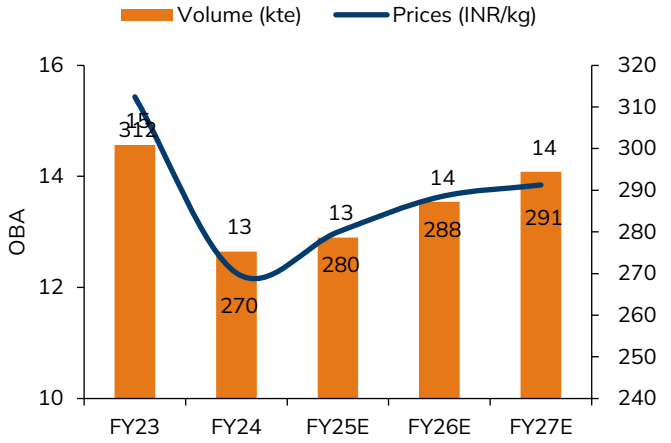
Exhibit 18: India OBA exports volumes dipped 3.3% p.a. over FY14-24



Source: I-Sec research, Commerce ministry

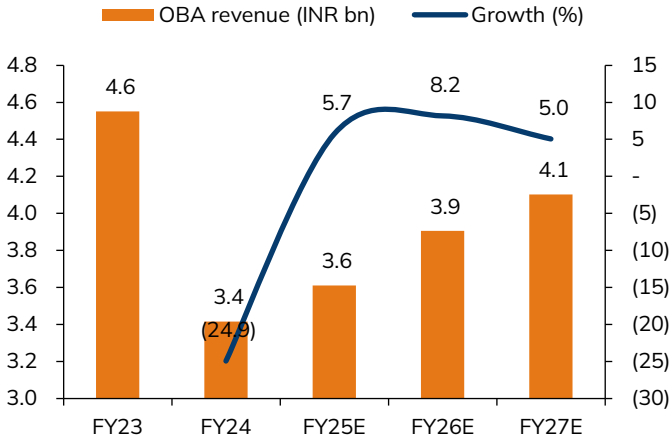
We expect OBA volumes to grow at a CAGR of 4.5% over FY25-27E, largely driven by the domestic market, wherein demand continues to grow, and DN standalone has dominant share. OBA revenue is likely to grow at a CAGR of 6.6% over FY25-27E.

Exhibit 19: We expect OBA volumes to grow at CAGR of 4.5% over FY25-27E...



Source: I-Sec research, Company data

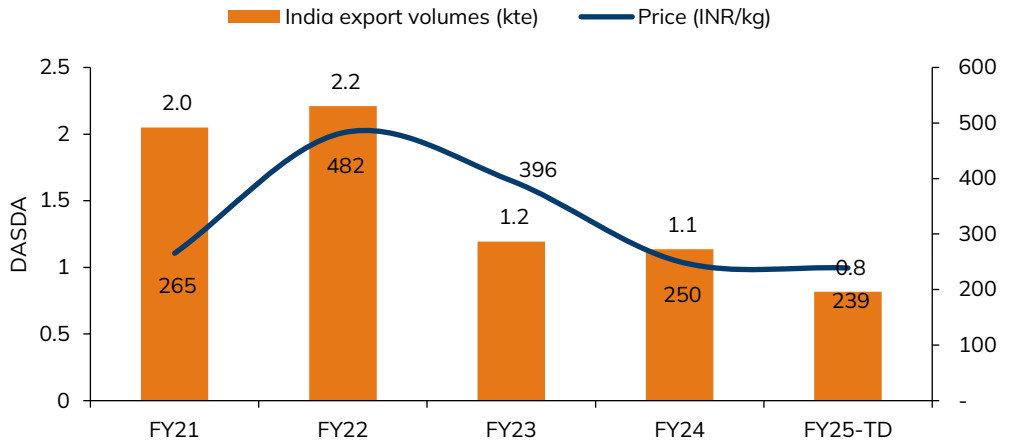
Exhibit 20: ...and drive revenue growth of 6.6% in same period



Source: I-Sec research, Company data

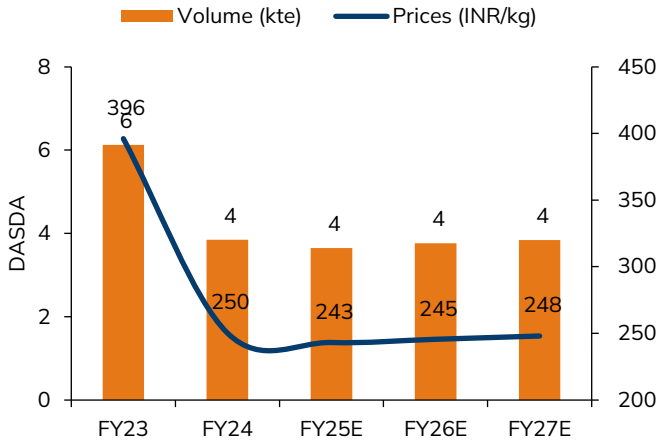
DASDA is majorly used as feedstock for OBA; and also has application as intermediate in dye production. DASDA exports data is available from FY21 has been flattish to decline. We expect DASDA volumes to grow at CAGR of 2.5%; and revenue CAGR of 3.5% to INR 1bn over FY25-27E.

Exhibit 21: India DSDA export volumes are flattish to decline trend



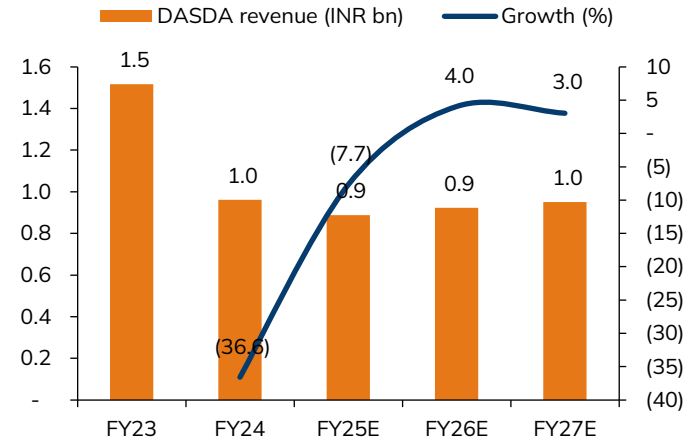
Source: I-Sec research, Commerce ministry

Exhibit 22: We expect DASDA volume to grow at CAGR of 2.5% over FY25-27E...



Source: I-Sec research, Company data

Exhibit 23: ...and drive revenue growth of 3.5% in same period



Source: I-Sec research, Company data

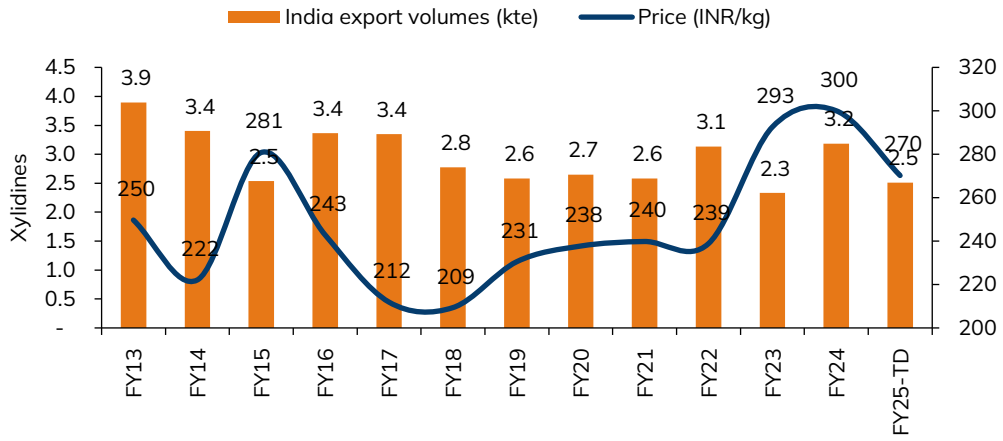
Bucket 3: Nitration on xylene and cumene

Xylidines are a group of six isomeric amino derivatives of xylene used as intermediates in organic synthesis and for dyes. 4-NOX is among top-10 products for DN Standalone which is used as intermediate for agrochemicals and pharmaceuticals.

India's xylidines export volumes have remained flattish over FY14-24. Separately, India imports only a small quantity of xylidine, which has not grown as well.

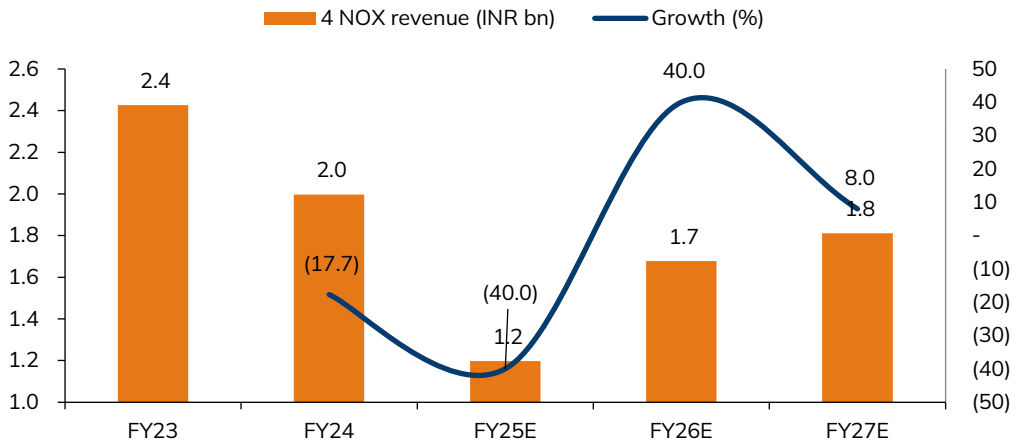
We have factored in 4-NOX revenue to grow at a CAGR of 23% over FY25-27E on a low base; and rising demand for agro/pharmaceuticals intermediate.

Exhibit 24: India xylidines export volumes flattish since a decade



Source: I-Sec research, Commerce ministry

Exhibit 25: DN standalone 4-NOX revenue to grow at CAGR of 23% over FY25-27E

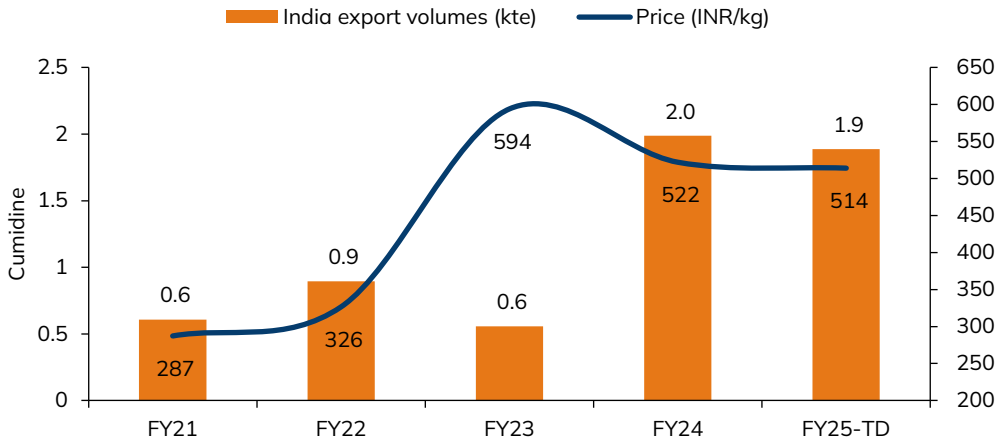


Source: I-Sec research, Company data

Cumidine is another family of products coming from nitration of cumene. It finds application in dye and pigment manufacturing, pharmaceutical and agrochemicals; chemicals such as stabilisers, surfactants, and corrosion inhibitors; and rubber and plastic additives. The largest product in the family for DN standalone is p-cumidine.

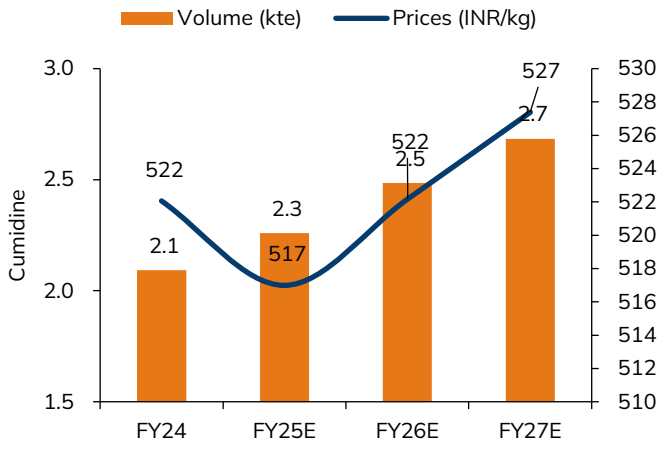
India cumidine exports have a short history, but has grown sharply from FY24. India cumidine imports are negligible. We expect para-cumidine revenue to grow at a CAGR 10.1% over FY25-27E largely driven by volumes.

Exhibit 26: India's cumidine export volumes have grown sharply in FY24



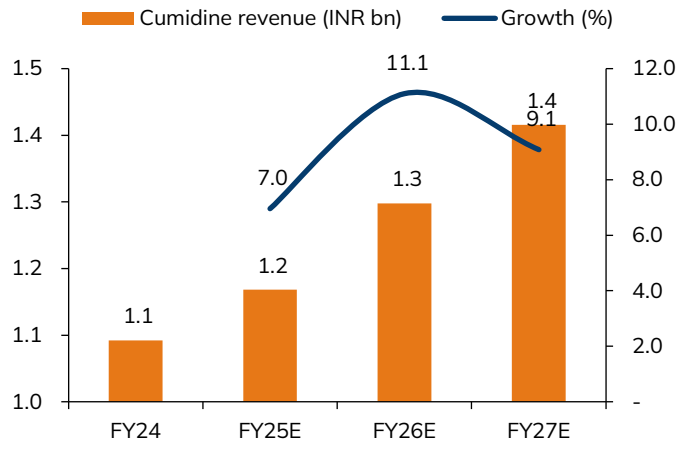
Source: I-Sec research, Commerce ministry

Exhibit 27: We expect p-cumidine volumes to grow at CAGR of 9% over FY25-27E...



Source: I-Sec research, Company data

Exhibit 28: ...and drive revenue growth of 10.1% in same period

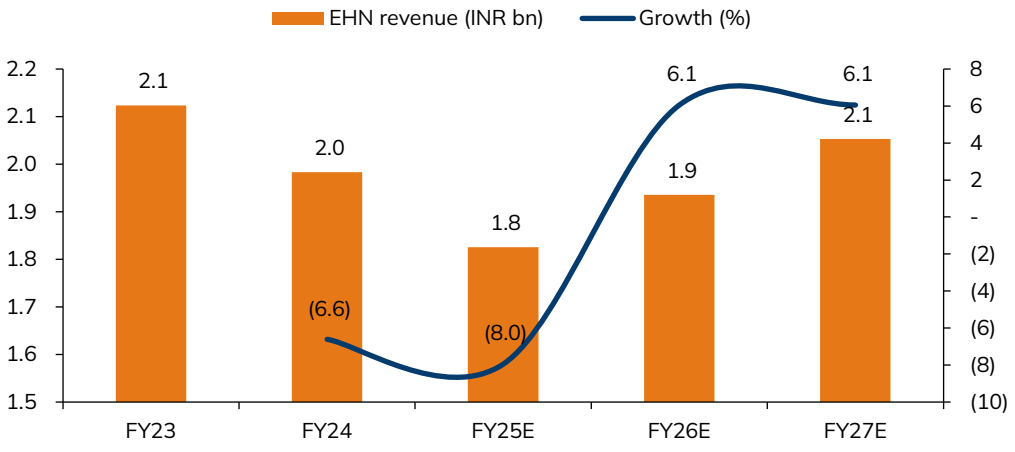


Source: I-Sec research, Company data

Bucket 4: Others

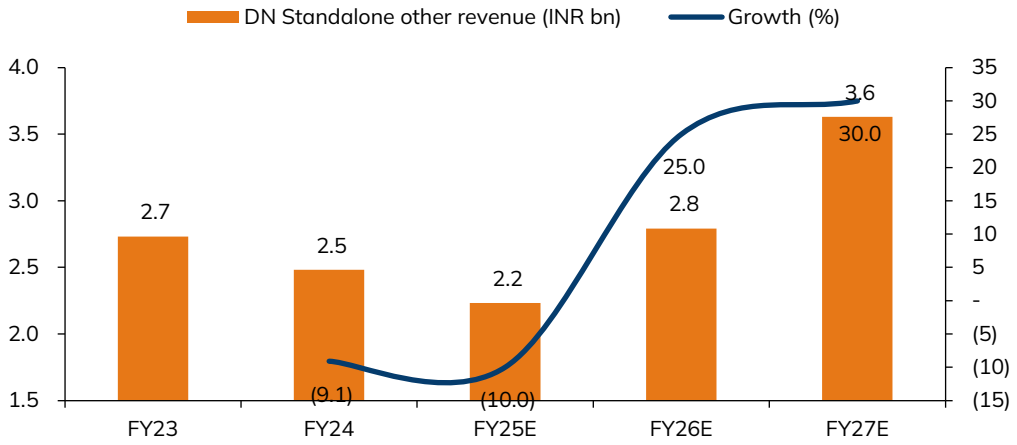
EHN is among the top-10 products that find application as a fuel additive. DN standalone has a strong moat in nitration, hydrogenation and other chemistries. It also intends to grow product categories that would keep driving growth for future.

Exhibit 29: DN standalone EHN revenue to grow at CAGR of 6.1% over FY25-27E



Source: I-Sec research, Company data

Exhibit 30: DN standalone specialisation to help add products, grow revenue faster; DN has been expanding capacities for new agro/performance product to accelerate growth



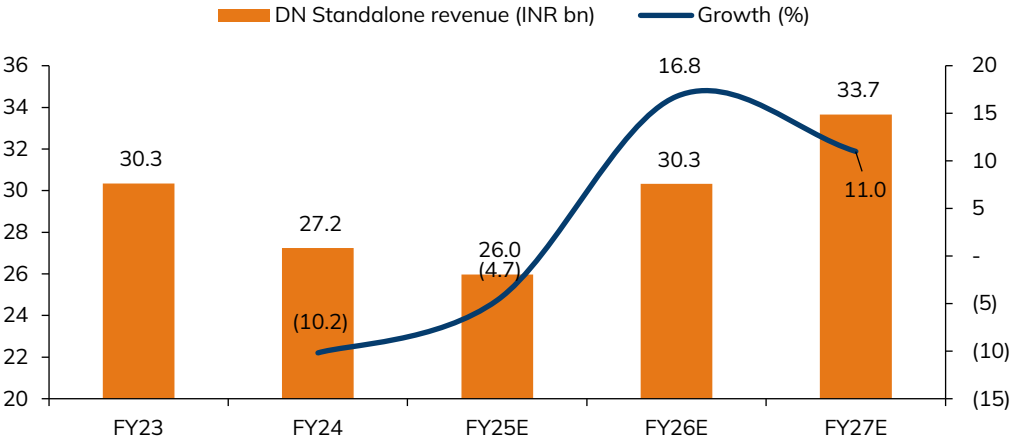
Source: I-Sec research, Company data

Conclusion

DN's standalone revenue to grow at a CAGR of 13.8% over FY25–27E; this in comparison to ~12.5% over FY15–23. That said, FY24 and FY25 have been challenging years due to drop in prices and weak demand for chemicals. DN's standalone EBITDA may grow at a rapid 30% CAGR over FY25-27E on normalisation of margin. EBITDA margin in FY25 is expected to dip to 12.2%, which is its lowest since FY15. Median EBITDA margin for DN's standalone was 17.1% over FY16–24; and margin structurally should be higher, considering investments in backward and forward integration achieved in past few years.

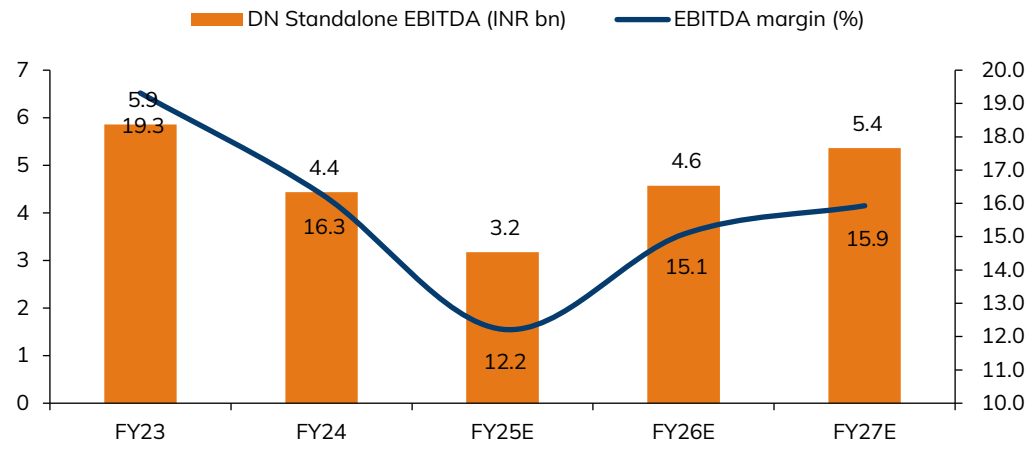
Moreover, in FY26E, DN is expected to commission a nitric acid plant with a capacity of 10ktpa. This should help increase EBITDA structurally by INR 800–900mn with backward integration (which has been captured in DCTL). Our FY27 EBITDA margin estimate is 17.2%, which is close to its long-term median. Further, benefit of backward integration should help cushion any near-term volatility.

Exhibit 31: DN's standalone revenue to grow at CAGR of 13.8% over FY25-27E



Source: I-Sec research, Company data

Exhibit 32: However, EBITDA to grow at CAGR of 30% as margin normalised; median EBITDA margin was 17.1% over FY16-24

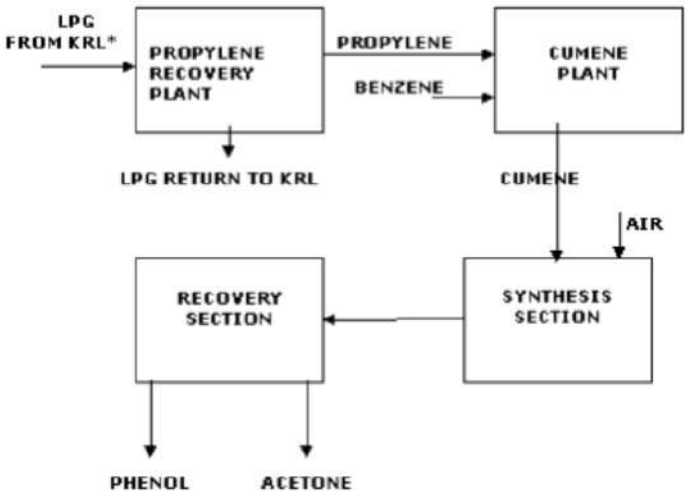


Source: I-Sec research, Company data

Deepak Phenolics – credible execution in phenol biz; again, efficiency helping maximise profitability

Deepak Phenolics is a wholly-owned subsidiary of DN. It started a greenfield phenol plant in Nov'18 with a capacity of 200ktpa for phenol, 120ktpa acetone, and 260ktpa of intermediate cumene. Phenol plant was built at a capex of INR 14bn, and with technology from KBR and Honeywell. At that point, India was largely dependent on phenol from imports with operational capacity from Hindustan Organics, which now has 40ktpa phenol and 24.6ktpa acetone capacity; and small capacity with ion chemicals.

Exhibit 33: Phenol production process



Source: Company data, (link)

For phenol production benzene and propylene is used in ratio of 90: 50 which helps produce intermediate cumene; and further process yield phenol and acetone in ratio of 100: 60. It also produce by-product alpha methyl styrene. The largest application is BPA, which finally help produce PC and epoxy. The other large application is phenolic resin. Acetone is used as solvent, production of IPA and MIBK. It is also used for production of MMA which indeed is used to produce PMMA.

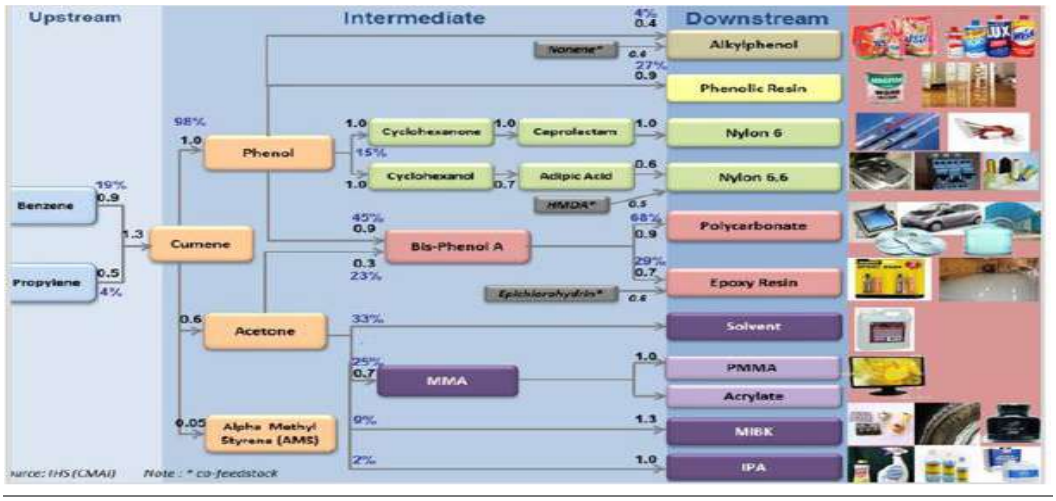
Key applications of phenol

1. ***BPA***: 1) Used for production of PC, and epoxy resins. 2) BPA formaldehyde is used for production of high-pressure laminates.
2. ***Phenolic resins***: 1) Used for a number of applications, such as bakelite, molding powders, laminating resins, adhesives, binders, surface coatings, billiard balls etc. 2) Finds extensive use in the rubber industries.
3. ***Alkylphenols*** used in: 1) the production of lubricating oil additives, laundry and dish detergents, emulsifiers, and solubilizers; and 2) hair care products, as additives in plastics, and as antioxidants.

Key application of acetone

1. ***IPA***: 1) Mixed with water for use as a rubbing-alcohol antiseptic. 2) Used in aftershave lotions, hand lotions, and other cosmetics. 3) Used as an inexpensive solvent for cosmetics, drugs, shellacs, and gums, as well as for ethyl alcohol.
2. ***MIBK***: 1) Solvent in factories that produce paints, rubber products, chemicals, and machinery.

Exhibit 34: Phenol value-chain

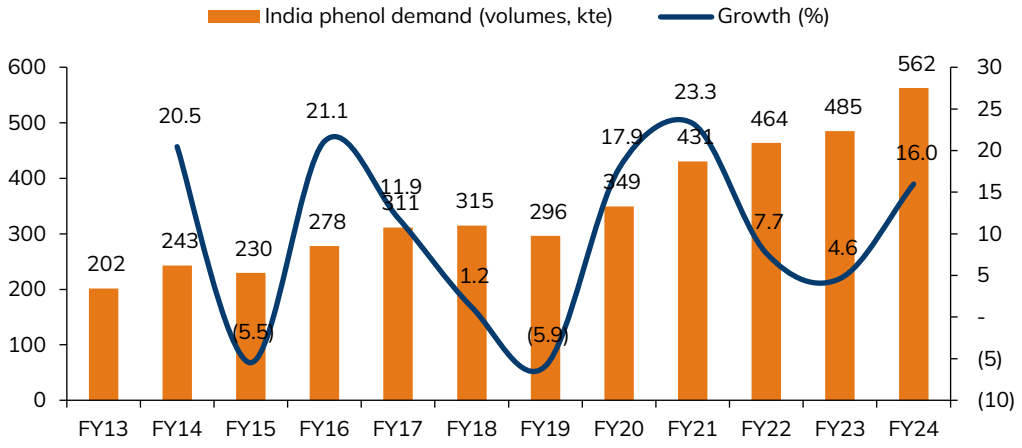


Source: Industry

India phenol demand is estimated at 560kte in FY24; and it has grown at a CAGR of 8.8% over FY14-24; and surged at a CAGR of 13.7%, post greenfield production by DPL. Local production supports development of multiple application and chemical production. Notably, India still imports largest end-product PC, and with start of PC production in India, it can support much faster rise in demand for phenol.

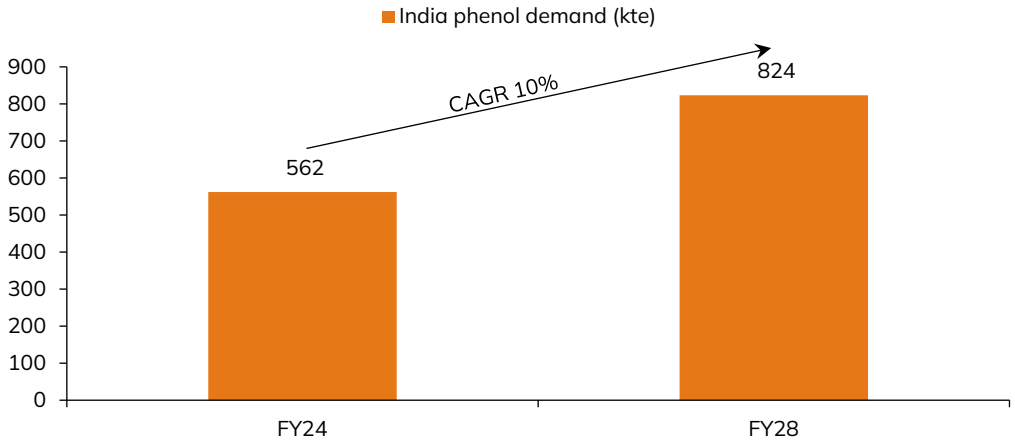
Notably, India's demand calculated = imports + DPL production + HOC production (assumed flat 30kte pa). India's phenol demand is expected to grow at least at CAGR of 10% over FY24–28, taking total domestic demand to 820kte in our view.

Exhibit 35: India phenol demand grew at CAGR of 8.8% over FY14-24; 13.7% from FY19-24 supported by domestic production



Source: I-Sec research, Commerce ministry, Company data

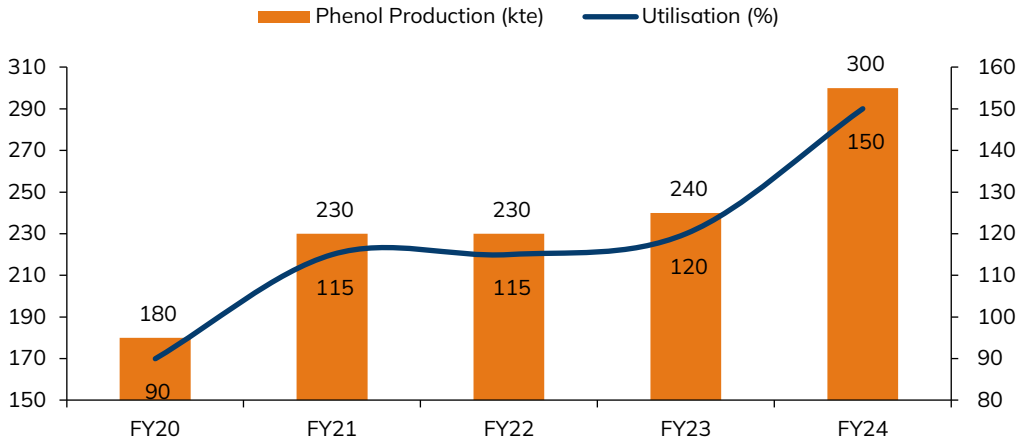
Exhibit 36: India phenol demand expected to grow at CAGR 10% over FY24-28 to 820kte



Source: I-Sec research

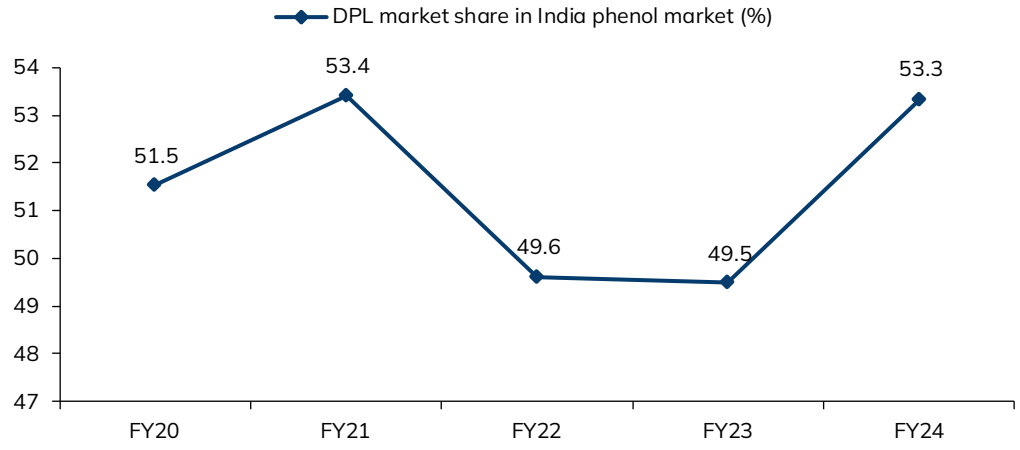
DPL started phenol production with capacity of 200ktpa, and achieved utilisation of 90% in FY20, which is the first full year of operations. Since then, it has been increasing capacity regularly with de-bottlenecking, and optimising processes. In fact, in FY24, DPL achieved capacity utilisation of 150%. The entire incremental capacity addition came at an investment of just INR 1bn. This helped DPL grow its phenol volumes at a CAGR of 13.6% over FY20-24; and maintain its India market share at 53%.

Exhibit 37: DPL has grown phenol volumes at CAGR of 13.6% over FY20-24 supported by smart capacity addition with minimal investment



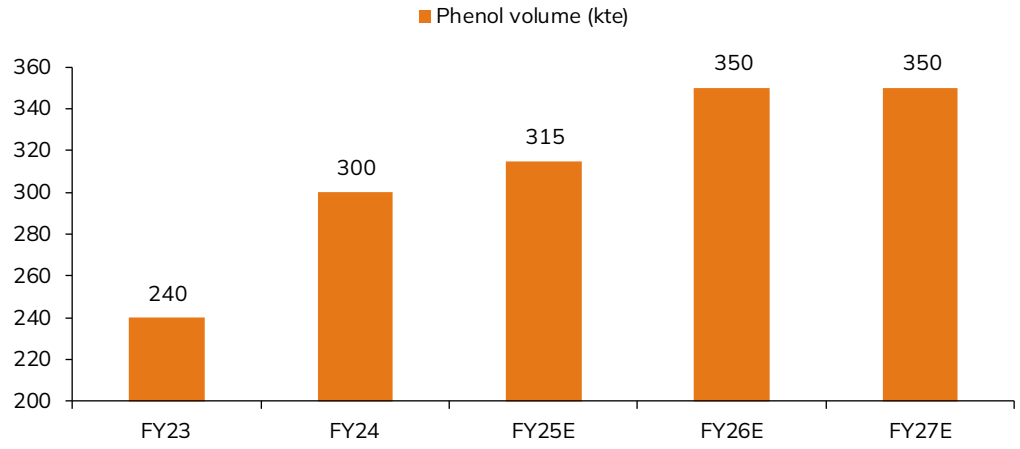
Source: I-Sec research, Company data

Exhibit 38: DPL has held its India phenol market share at 53%



Source: I-Sec research, Company data

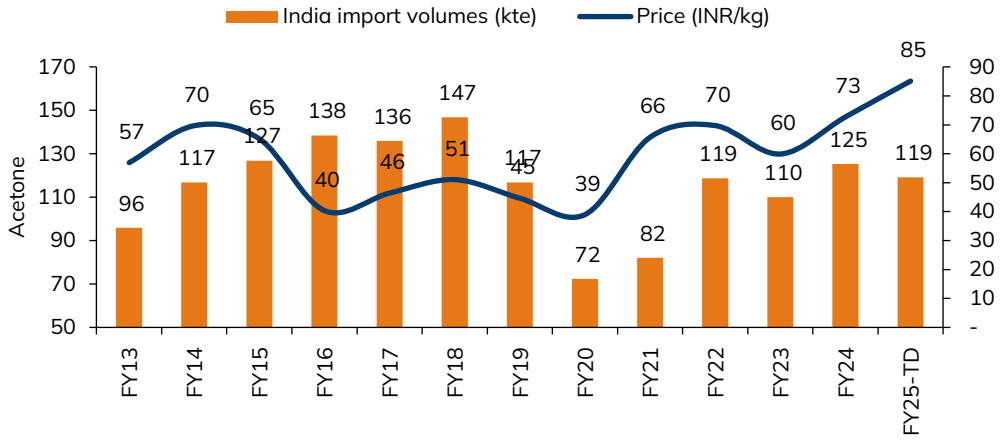
Exhibit 39: DPL's phenol volumes to grow at CAGR of 5.4% over FY25-27E



Source: I-Sec research, Company data

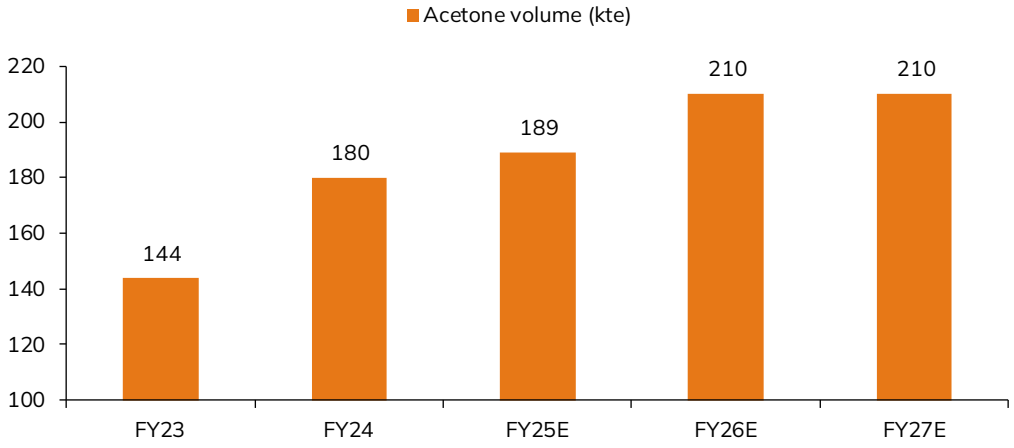
Acetone import has grown at a CAGR of 0.7% over FY14-24 despite DPL's production rising to 180kte in FY24. However, DPL has started consuming acetone as feedstock for production of IPA and is likely to consume more for MIBK and MIBC. The company aim to consume 50% of acetone internally.

Exhibit 40: India acetone imports volumes grew at CAGR of 0.7% over FY14-24 despite sharp rise in production from DPL



Source: I-Sec research, Commerce ministry

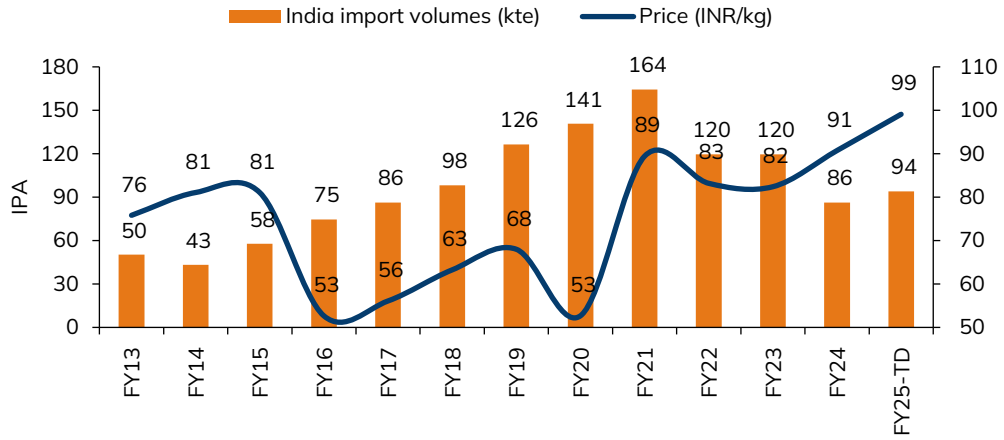
Exhibit 41: Acetone is co-product with phenol production; likely to increase together. DPL expects to consume 50% of acetone as feedstock in next few years



Source: I-Sec research, Company data

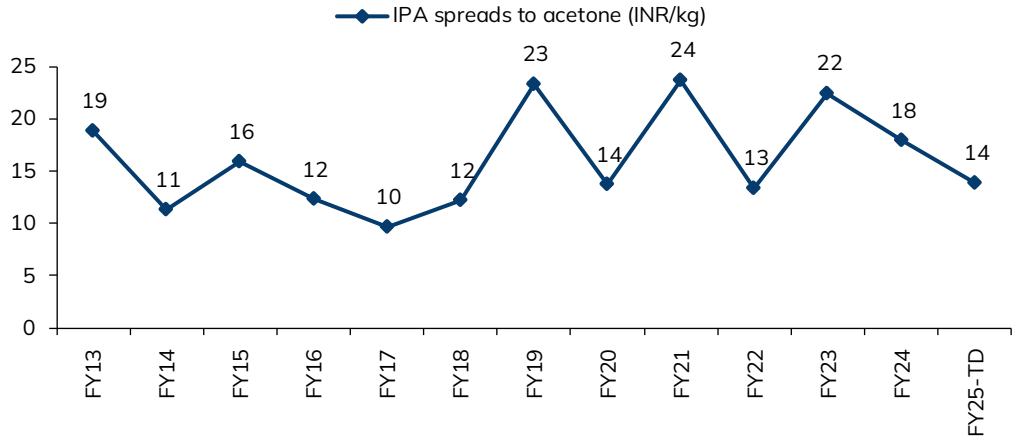
DPL has started IPA production (forward integration of acetone. IPA economics: 1kg IPA = 1kg acetone) in FY21, and scaled to consume 30-40% of acetone internally for IPA. IPA import volumes have grown at a CAGR of 7.1% over FY14-24 despite production from DPL. IPA production is helping DPL improve its spreads for the phenolic plant.

Exhibit 42: India IPA imports volumes grew at CAGR of 7.1% over FY14-24 despite sharp rise in production from DPL



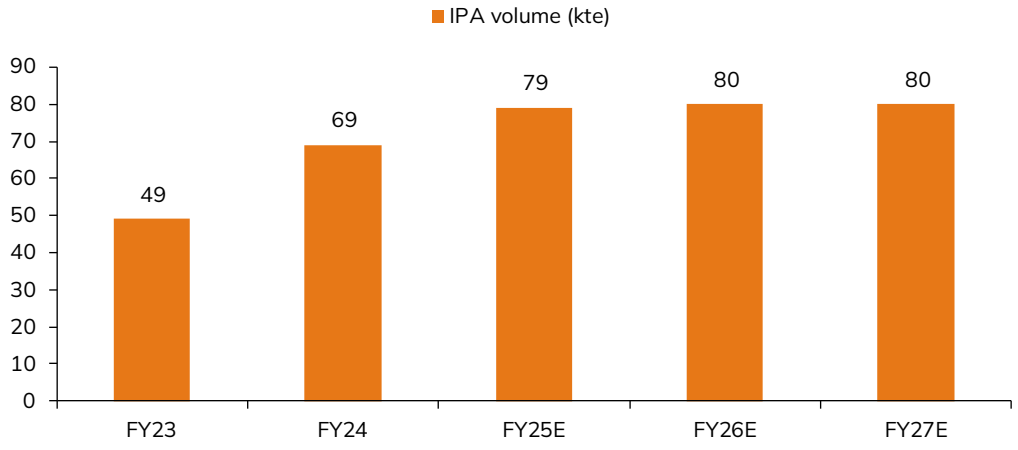
Source: I-Sec research, Commerce ministry

Exhibit 43: IPA spreads to acetone (long-term median is INR 14/kg)



Source: I-Sec research, Commerce ministry

Exhibit 44: Acetone is consumed for production of IPA; in the process of helping improve spreads for DPL

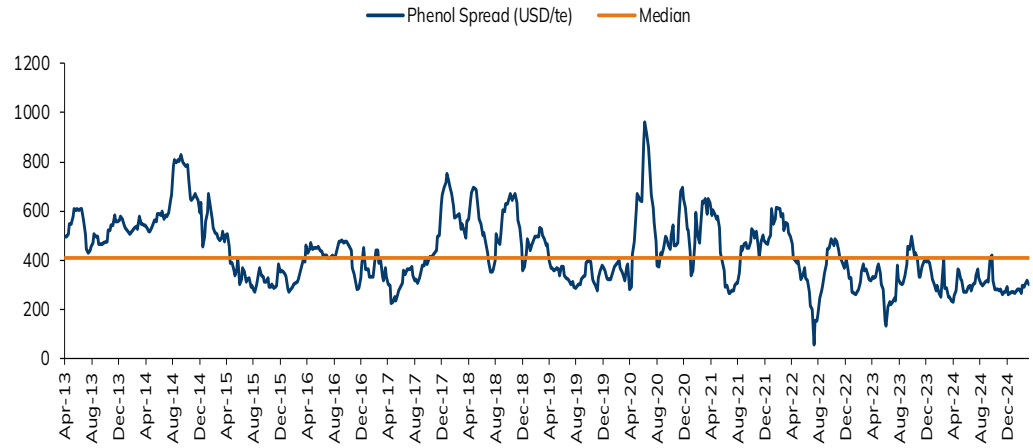


Source: I-Sec research, Company data

DPL benefitted from phenol spreads, which were strong in the initial phase of production between FY19 to FY22 and helped DPL generate addition cashflow. Consequently, allowing the company to quickly deleverage its balance sheet. Further, DPL kept on adding capacity, which helped improve operating leverage. Globally, phenol plants run at utilisation of 65-70%; in comparison, DPL's plant's utilisations touched 150%. Further, DPL has forward integrated into production of IPA, which adds to the spreads.

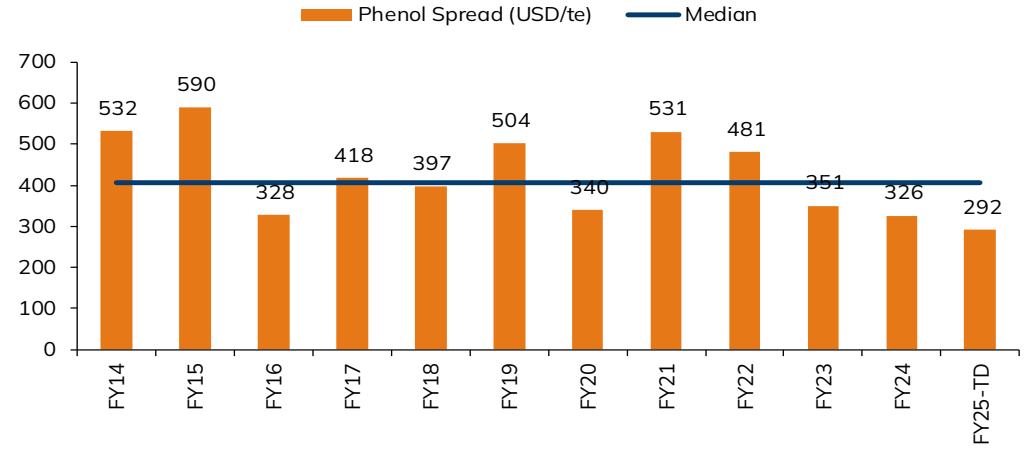
Phenol median spreads (calculated in the ratio: phenol + acetone - benzene - propylene) stood at USD 400/te over FY14-25. However, spreads have weakened in FY24 and dipped further in FY25-TD. In FY25-TD, phenol spreads slipped to USD 300/te (28% below long-term median). We are not expecting significant improvement in spreads in the next few years in our estimates.

Exhibit 45: Phenol spreads over FY14-25TD; and spreads are now trending significantly lower



Source: I-Sec research, Bloomberg

Exhibit 46: Phenol annual median spreads (long-term median is USD 400/te)



Source: I-Sec research, Bloomberg

Phenol spreads weakened in CY24, and continue to remain depressed due to large capacity commissioned in China, and weak demand in local Chinese market. As per S&P (link), '...China adds more than 1.1mn mt/year of phenol capacity by early 2024, despite chain integration across some companies like Hengli, additional supply of phenol and acetone will be introduced into the market, as downstream BPA and other plants may take time to come online, said a source. This supply will also need to be digested by either the Chinese or wider Asian markets.'

As per latest report (link), China is likely to add phenol capacity of 1.74mn tpa during CY24-28 from six projects. Hainan Huasheng New Material Technology Company Dongfang phenol plant and Rongsheng New Materials Taizhou phenol plant shall commission capacity of 400ktpa each in CY26. Other major capacity additions are Shiyou Chemical Yangzhou phenol plant-2 and SABIC Fujian Petrochemical Zhangzhou phenol plant with capacity of 280ktpa and 250ktpa, respectively.

China is largest market for plastics and epoxy resins and capacities are required to meet growing demand, but bunched-up capacity addition does disrupt prices/ spreads until completely absorbed.

Even in India, Haldia Petrochemicals (HPL) has announced greenfield phenol plant with capacity of 300-345ktpa with investment of INR 50bn. HPL has signed a license agreement with Lummus Technology; and facility includes on-purpose propylene plant using olefins conversion technology (OCT), which Lummus would supply as well. HPL aims to complete the project by FY26. HPL supply should help India improve domestic production share of phenol, and maintain imports at current levels.

We have outlined the unit economics for DPL; which in our view, is conservative, as we expect EBITDA/kg to remain stable at lower levels despite further de-bottlenecking and consumption of acetone for value-added products. This is due to rising capacity addition in phenol globally; thus, ascribing limited credit to the company's ability to steer things favourably.

Exhibit 47: DPL unit economics is conservative factoring in rising risk of supply glut

INR/kg	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	70	117	129	104	116	117	117
COGS	41	79	96	78	90	91	91
Gross profit	**29**	**38**	**34**	**26**	**26**	**26**	**26**
GPM (%)	*41.7*	*32.6*	*25.9*	*24.8*	*22.1*	*22.1*	*22.5*
Employee	1.8	2.1	2.3	2.0	2.3	2.2	2.3
P&F	3.8	6.5	8.5	5.3	5.0	4.6	4.8
Other expenses	4.1	3.5	4.6	4.3	4.4	4.1	4.2
Total expenses	**9.7**	**12.1**	**15.4**	**11.6**	**11.8**	**11.0**	**11.4**
EBITDA	**19.3**	**26.1**	**18.1**	**14.3**	**13.8**	**14.9**	**15.1**
EBITDA margin (%)	*27.7*	*22.3*	*14.0*	*13.7*	*12.0*	*12.7*	*12.8*
D&A	2.3	2.9	2.3	1.6	1.5	1.3	1.2
EBIT	**17.0**	**23.2**	**15.8**	**12.7**	**12.4**	**13.6**	**13.8**

Source: I-Sec research, Company data

Deepak Chem-Tech Ltd – leapfrog in scale of operations

Deepak Chem-Tech Ltd (DCTL) is a wholly-owned subsidiary of DN, which is visioned to take the company's scale to new heights. It also aims to introduce more large productions that have good import substitution opportunities. DCTL has signed two MoUs with the Gujarat government – 1) INR 50bn, which would comprise of capex for many products, including nitric acid, MIBK/MIBC, life science intermediates and performance chemicals. 2) MoU of INR 90bn, which comprises of INR 50bn for PC resins and compounds, and INR 40bn for BPA and phenol.

The company expects to start production of 70ktpa capacity plant of nitric acid (backward integration for DN standalone operations) in Q1FY26, and MIBC (8ktpa)/ MIBK (40ktpa) in H2FY26, which are forward integration for acetone.

DCTL is preparing for backward integrated operation of its first PC plant in India. As a requirement for backward integration, the company also plans to set-up a phenol plant, and BPA. It has already started setting-up a PC compound plant, which would be forward integration, and help develop application in India ahead of its commencement of PC production.

1. Nitric acid – shall cater to entire DN standalone demand

DCTL is expected to start nitric acid plant soon, and this plant should help meet entire demand of DN standalone. The capacity expected is 70ktpa with an investment of INR 6bn. This plant may not add much to revenue, but should help increase profits by INR 800–900mn; therefore, providing payback of seven years.

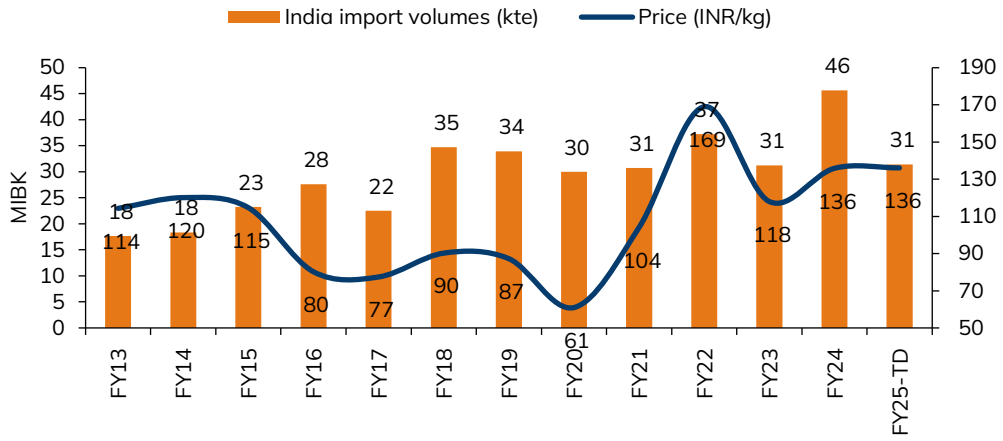
2. MIBK (methyl isobutyl ketone)

DCTL is in process of setting of 40ktpa capacity of MIBK in H2FY26 (project has got delayed by a few quarters) with total investment of INR 6bn. This forward integration of acetone would help take acetone captive consumption to over 50%.

MIBK is a clear, colourless liquid with a characteristic ketone odour; it is slightly soluble in water and is miscible with most organic solvents. MIBK is used as a solvent in cellulose-based and resin-based coatings and adhesives. It is also an extraction solvent for antibiotics and other pharmaceuticals, and is employed in rare-metal extraction as a solvent for metal separation. MIBK is also a chemical intermediate that is used to produce target molecules such as rubber anti-ozonants (used in the production of tyres) and acetylenic diol compounds.

India demand for MIBK is largely driven by paints, varnishes, rubber compounds, and tire manufacturing. India is negligible production for MIBK, and entire demand is met through imports. India imports volumes of MIBK have grown at CAGR of 9.6% over FY14-24 to 46ktpa; and our understanding suggests domestic production drives faster demand for basic chemicals.

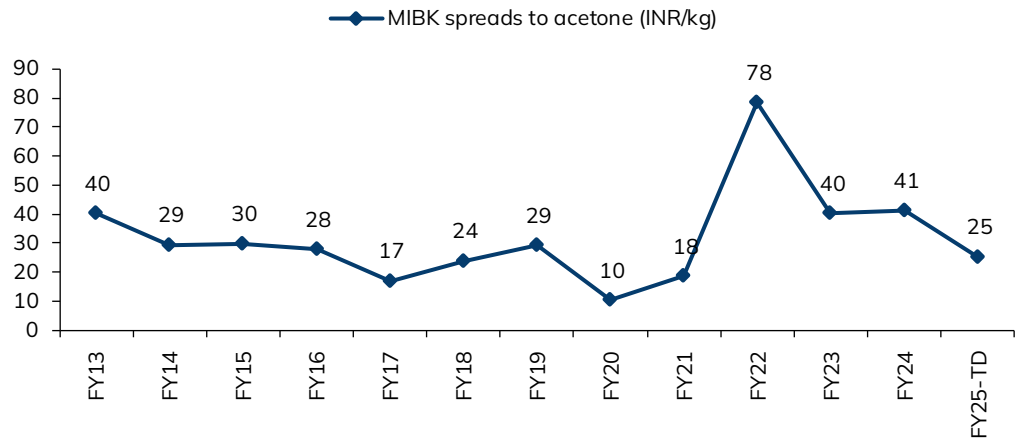
Exhibit 48: India MIBK import volumes have grown at CAGR of 9.6% over FY14-24



Source: I-Sec research, Commerce ministry

MIBK economics: 1kg of MIBK = 1.3kg of acetone. We have put out long-term median spreads of MIBK to acetone.

Exhibit 49: MIBK spreads to acetone (long-term median is INR 29/kg)



Source: I-Sec research, Commerce ministry

3. MIBC (methyl isobutyl carbinol)

DCTL is in the process of setting up 8ktpa capacity of MIBC in H2FY26. MIBC is used as a solvent in manufacturing of paints, coatings, and adhesives. In mining, it functions as a frother to enhance mineral flotation processes, enabling efficient separation of valuable ores. Also, MIBC is used in the personal care sector for cosmetic formulations and in the automotive industry for lubricants and additives. It also serves as an intermediate in the production of fragrances, detergents, and resins.

India annual demand is estimated at ~20ktpa and is likely growing at high single digits. Cetex Petrochemicals was in the process of adding MIBC capacity of 5ktpa in FY22. Therefore, a significant demand again is catered through imports.

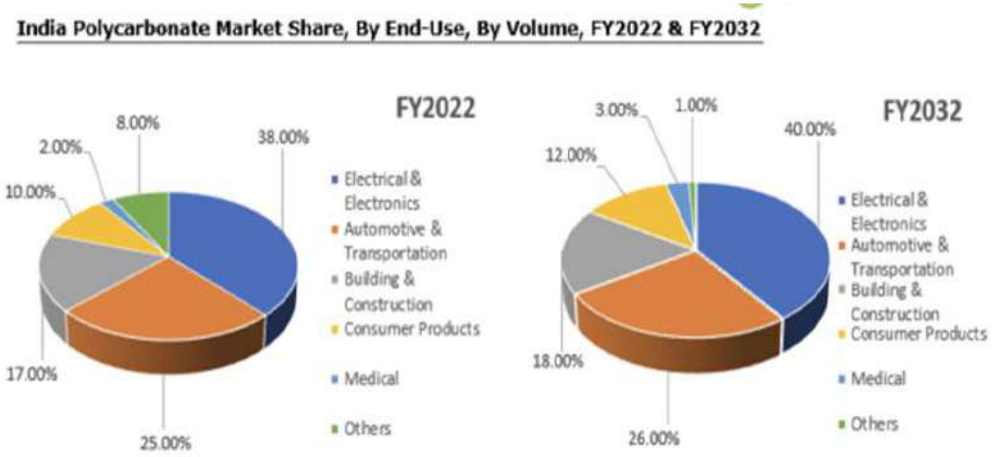
4. PC resin and compounds

Polycarbonates are a group of thermoplastic polymers that are widely used due to their unique combination of properties. PC is produced by a polymerization reaction between bisphenol A and phosgene. Key characteristics are: 1) highly transparent which makes it excellent substitute for glass; 2) maintains a toughness value between -20°C to 140°C; virtually unbreakable; 3) tough and resistant to impact therefore used in safety and protective gear; 4) lightweight makes it easy to handle and install; 5)

good resistance to heat and can withstand high temperatures without deforming; and 6) easy to mold, cut, and thermoform, making it versatile for various designs.

PC and its blends (termed as compounds) have various applications across industries – 1) consumer appliances; 2) automotive – enhances vehicle efficiency by reducing weight without affecting durability and improving aerodynamics of a vehicle; 3) construction – suitable alternative to glass in various glazing applications; 4) many consumer products such as safety goggles, ophthalmic lenses, large-volume water bottles, etc.; 5) medical applications include surgical instruments, drug delivery systems, hemodialysis membranes, blood reservoirs, blood filters etc.; 6) applications for direct contact with foods and beverages; and con be conveniently used in a refrigerator or microwave; and 7) mobile phone housings, street lamp covers, anti-vandal glazing, food processors, protect sports gear etc.

Exhibit 50: PC application in India



Source: I-Sec research, Industry

Globally, PC market is fairly consolidated with the top five companies grabbing 67.5% of market share. The major players in this market are Covestro AG, Lotte Chemical, Mitsubishi Chemical Corp, SABIC and Teijin Ltd. Other important companies include Formosa Plastics, Hainan Huasheng New Material Technology, Luxi Group, Sinopec SABIC Tianjin Petrochemical Company (SSTPC), and Trinseo.

India is completely dependent on import despite PC being one of the fastest-growing engineering polymers. DCTL is in process of setting-up PC compound plant in India immediately to develop application for Indian users.

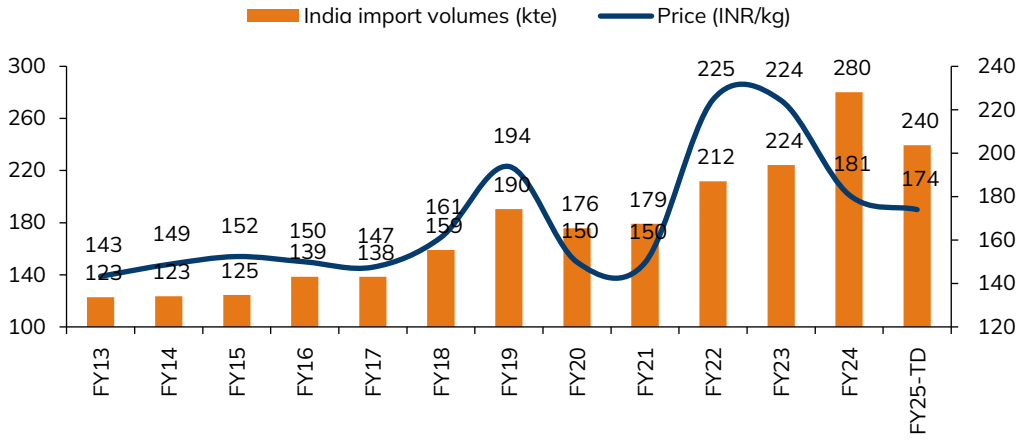
DCTL has secured a technology partnership by entering into an agreement with affiliates of Trinseo to license its technology for the production of PC resins. Trinseo's technology is highly regarded by leading customers for its quality and consistency. Additionally, DCTL will acquire Trinseo's assets, including all proprietary equipment with capacity of 165ktpa, currently located in Stade, Germany. This agreement also grants access to Trinseo's globally recognized CALIBRE resins and trademark. DCTL expects to re-establish uprooted German plant in India by CY27; and we understand that the German plant has already stopped production for the preparation of the entire pant to be exported to India. As per Trinseo (link), total value of the combined agreements is USD 52.5mn.

PC needs two key feedstocks – BPA (forward integration of phenol and acetone) and phosgene. Company plans to set-up a separate phenol, and BPA plant in DCTL catering its requirement for production of PC resin.

India PC import has grown at CAGR of 8.5% to 280kte over FY14-24; this does not include direct components which are imported. Therefore, we believe, underlying

demand for PC resin is higher than imports; and increased local availability, and development of India-centric applications should drive higher demand for PC resins. Further, DCTL will likely benefit from transfer of certain customer who were serviced by Trinseo from Germany. Similar to phenol, for DCTL, PC resin plant's utilisation should quickly achieve optimal utilisation – in the first few quarters of commencing production.

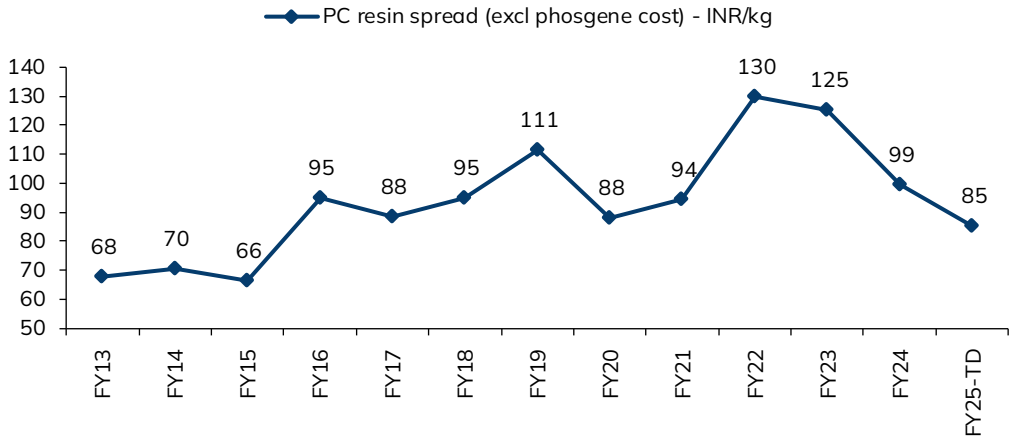
Exhibit 51: PC volumes demand in India has grown at CAGR of 8.5% over FY14-24



Source: I-Sec research, Commerce ministry

The economics of PC: 1kg of PC resin = 0.9kg of BPA + 0.1kg of phosgene; and 1kg of BPA = 0.85kg of phenol + 0.27kg of acetone. Below is the spread of PC resin for phenolic prices, and currently spreads are lower than long-term median. China is in the process of adding large phenol capacity, and likely more PC resin capacity is/to follow; therefore, keeping PC resin spreads depressed. However, DCTL capacities is likely to come only in FY28, and it is not adding any systemic new capacity therefore, we remain optimistic on DCTL's PC business economics.

Exhibit 52: PC resin spreads (long-term median is INR 95/kg)



Source: I-Sec research, Commerce ministry

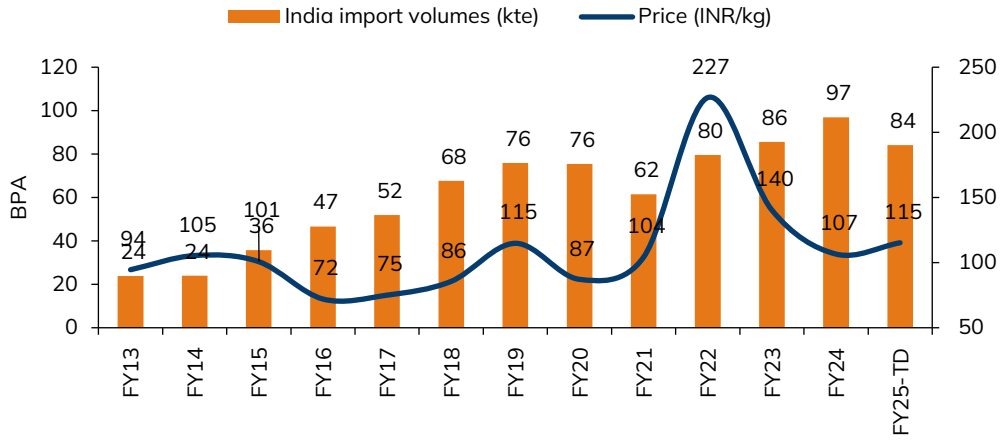
5. BPA

BPA is used in the manufacturing of various plastics. It is a colourless solid, soluble in most common organic solvents. BPA is produced by the condensation reaction of phenol and acetone. BPA's largest application is in the production of PC, which accounts for 65–70% of all BPA production. The manufacturing of epoxy resins and vinyl ester resins account for 25–30% of BPA. The remaining 5% is used as a major component of several high-performance plastics, and as a minor additive in PVC,

polyurethane, thermal paper, and several other materials. It is also used for production of most popular brominated flame retardant (TBBA).

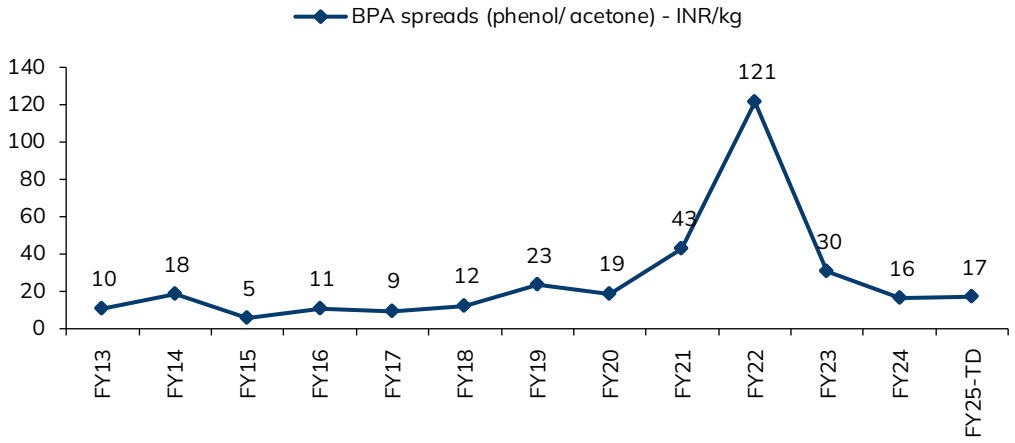
DCTL plans to set-up capacity of 250ktpa of BPA while it needs 150ktpa for captive use in production of PC resin, and remaining 100ktpa shall be sold as import substitution. India imported 100kte of bisphenol-A in FY24; and volumes has grown at a CAGR of 15% over FY14-24. DCTL is yet to sign a technology license agreement for BPA and phenol plant.

Exhibit 53: BPA volume demand in India has grown at CAGR of 15% over FY14-24



Source: I-Sec research, Commerce ministry

Exhibit 54: BPA spreads (long-term median is INR 18/kg)



Source: I-Sec research, Commerce ministry

6. Phenol plant

DCTL is also planning to add phenol plant (DPL plant is completely consumed, and likely to saturated in FY26). DCTL require phenol and acetone for production of BPA, and eventually PC resin. The company plans to add a 350ktpa phenol plant (also produce 210ktpa of acetone); it is yet to complete a technology tie-up. DPL's plant was built from technology transfer from KBR/Honeywell. The company has budgeted for a capex of INR 40bn for phenol and BPA.

DPL has agreed to procure 250ktpa of propylene and 11ktpa of hydrogen via pipeline from Petronet LNG from their proposed propane dehydrogenation facility being set up at Dahej, Gujarat; thus, enabling access to crucial feedstock for uninterrupted production processes. This would help DCTL secure key feedstock for its phenol project.

DCTL requires 210ktpa of phenol and 70ktpa of acetone for production of BPA; and remaining phenol and acetone will be sold in domestic market.

Exhibit 55: DCTL's financial likely to see major jump from FY29 with commencement of PC resin, BPA and phenol plant

(INR mn)	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue	5,544	10,043	10,671	63,000	67,721
EBITDA	**682**	**2,251**	**2,326**	**18,834**	**19,568**
EBITDA margin (%)	*12.3*	*22.4*	*21.8*	*29.9*	*28.9*
D&A	518	518	518	6,458	6,566
EBIT	**164**	**1,733**	**1,807**	**12,375**	**13,002**
Finance cost	604	604	604	5,965	5,224
PBT	(440)	1,129	1,203	6,410	7,778
PAT	**(329)**	**844**	**900**	**4,795**	**5,818**

Source: I-Sec research

DN capex and leverage

DCTL has signed two MoUs with Gujarat government with investment of INR 50bn for bulk and specialty; and INR 90bn for PC (incl phenol and BPA). The company has already announced capex of INR 30bn; and signed PC plant purchase from Trinseo.

In INR 50bn of investment, the company has completed BTF/BTC capacity. It is also in the process of commissioning nitric acid, MIBK/MIBC and DN Oman; and investment into specialty for agro/pharma intermediate.

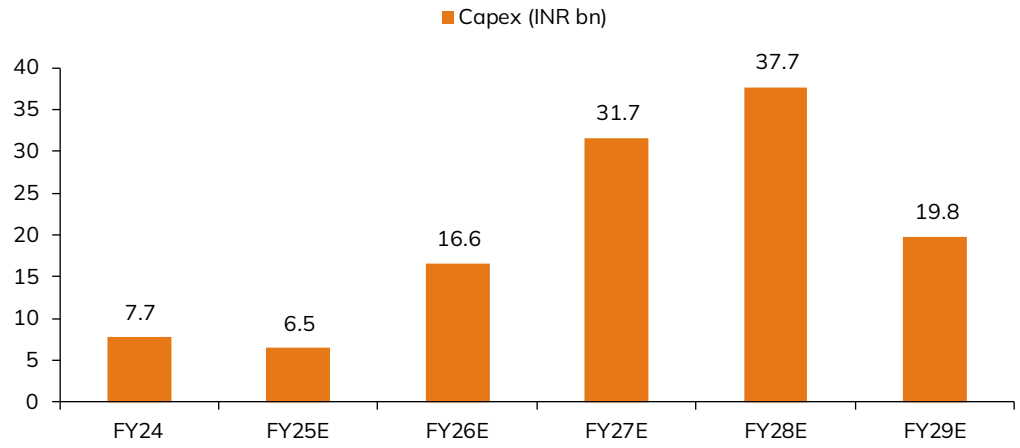
In INR 90bn of investment, the company has finalised its PC plant, which it bought from Trinseo. It is yet to finalise the technology license for phenol and BPA.

Exhibit 56: Details of capex announced, and progress

INR bn	Capex	Remarks
INR 50 MOU with Gujarat government		
Large products	**35.0**	
Nitric acid	*6.0*	*Commission by Q1FY26*
MIBK/ MIBC	*6.0*	*Commission by H2FY26*
DN Oman	*5.0*	*Commission by end-FY26*
Total	**17.0**	
Other investment & pending	*18.0*	*Spent partly on utilities and R&D*
Specialty	**15.0**	
BTF/ BTC	*2.5*	*Commissioned*
Agro-intermeidate	*6.0*	*Commission by end-FY26*
Performance	*3.0*	*Commission by end-FY26*
Total	**11.5**	
Investment pending	*3.5*	
INR 90 MOU with Gujarat government		
Polycarbonate	**50.0**	*Commission by CY27*
Trinseo plant purchase		
Compound plant		
Phenol + BPA	**40.0**	*Commission by CY27*
Phenol		*Yet to sign technology license*
BPA		*Yet to sign technology license*

Source: I-Sec research, Company data

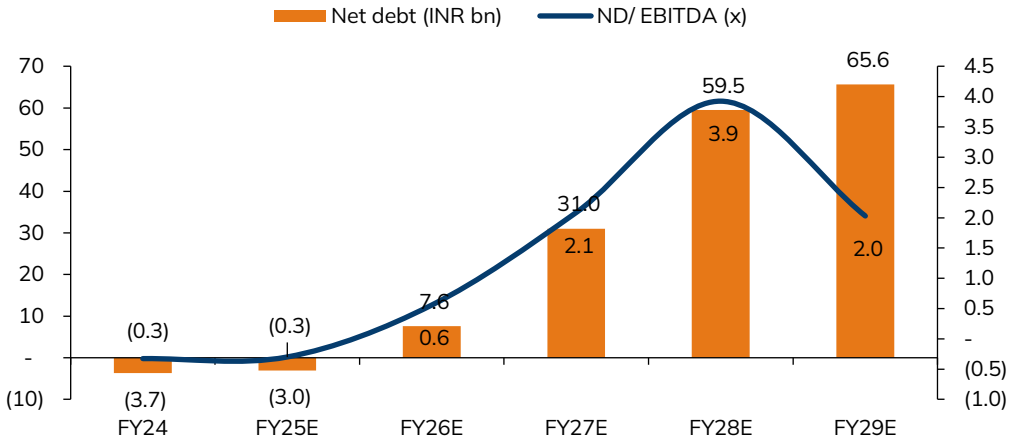
Exhibit 57: Capex to accelerate in FY27E and FY28E



Source: I-Sec research, Company data

As per our estimate, DN is likely to generate >INR 50bn in cashflow from operation (post tax & WC) over the next five years; and net debt is expected to rise and peak at INR 65bn. Earlier, the company has taken an enabling resolution to raise equity of INR 20bn.

Exhibit 58: DN to reach peak net debt at ~INR 65bn in FY29E



Source: I-Sec research, Company data

Financials

Exhibit 59: DN's revenue to grow at CAGR of 15% over FY25–27E; post FY27E, new capex to drive speedy growth

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
Segmental performance								
Revenue								
Advanced Intermediates	18,309	26,365	30,336	27,239	25,976	30,331	36,092	17.9
Growth (%)	*(20.1)*	*44.0*	*15.1*	*(10.2)*	*(4.6)*	*16.8*	*19.0*	
Phenolics	25,605	42,912	49,705	50,035	58,315	70,987	75,813	14.0
Growth (%)	*28.0*	*67.6*	*15.8*	*0.7*	*16.6*	*21.7*	*6.8*	
Total	**43,598**	**68,022**	**79,721**	**76,818**	**83,792**	**1,00,714**	**1,11,234**	**15.2**
Growth (%)	*3.1*	*56.0*	*17.2*	*(3.6)*	*9.1*	*20.2*	*10.4*	
EBITDA								
Advanced Intermediates	6,112	7,344	6,312	5,339	4,535	4,981	5,731	12.4
Growth (%)	*(30.2)*	*20.2*	*(14.1)*	*(15.4)*	*(15.1)*	*9.8*	*15.0*	
Phenolics	7,186	9,725	6,845	7,215	7,160	8,833	8,652	9.9
Growth (%)	*188.4*	*35.3*	*(29.6)*	*5.4*	*(0.8)*	*23.4*	*(2.0)*	
Total	**12,470**	**16,036**	**12,894**	**11,233**	**10,141**	**13,544**	**14,861**	**21.1**
Growth (%)	*21.6*	*28.6*	*(19.6)*	*(12.9)*	*(9.7)*	*33.6*	*9.7*	
EBITDA (%)								
Advanced Intermediates	33.4	27.9	20.8	19.6	17.5	16.4	15.9	
Phenolics	28.1	22.7	13.8	14.4	12.3	12.4	11.4	
Total	**28.6**	**23.6**	**16.2**	**14.6**	**12.1**	**13.4**	**13.4**	

Source: I-Sec research, Company data

Exhibit 60: DN's standalone EBITDA to grow at CAGR of 30% over FY25–27E on low base

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
DN Standalone								
Revenue	18,091	25,111	30,336	27,244	25,976	30,331	33,663	13.8
COGS	7,709	12,213	16,697	15,025	14,261	16,500	18,313	
Gross profit	**10,383**	**12,897**	**13,639**	**12,218**	**11,715**	**13,831**	**15,350**	**14.5**
GMP (%)	*57.4*	*51.4*	*45.0*	*44.8*	*45.1*	*45.6*	*45.6*	
Growth (%)	*(22.6)*	*24.2*	*5.8*	*(10.4)*	-	-	-	
Employee cost	1,811	1,967	2,296	2,504	2,779	3,057	3,363	10.0
% of revenue	*10.0*	*7.8*	*7.6*	*9.2*	*10.7*	*10.1*	*10.0*	
P&F	1,340	2,060	2,426	2,228	2,339	2,573	2,779	9.0
% of revenue	*7.4*	*8.2*	*8.0*	*8.2*	*9.0*	*8.5*	*8.3*	
Other expenses	1,871	2,416	3,057	3,050	3,423	3,628	3,846	6.0
% of revenue	*10.3*	*9.6*	*10.1*	*11.2*	*13.2*	*12.0*	*11.4*	
Total expenses	5,022	6,444	7,779	7,782	8,541	9,258	9,987	8.1
EBITDA	**5,361**	**6,454**	**5,860**	**4,436**	**3,175**	**4,573**	**5,363**	**30.0**
EBITDA (%)	*29.6*	*25.7*	*19.3*	*16.3*	*12.2*	*15.1*	*15.9*	
Growth (%)	*(32.7)*	*20.4*	*(9.2)*	*(24.3)*	*(28.4)*	*44.1*	*17.3*	
D&A	669	725	762	868	1,020	1,018	1,021	0.1
EBIT	**4,692**	**5,728**	**5,098**	**3,569**	**2,155**	**3,556**	**4,342**	**42.0**
Growth (%)	*(34.7)*	*22.1*	*(11.0)*	*(30.0)*	*(39.6)*	*65.0*	*22.1*	
Other income	135	708	1,016	1,237	1,361	408	367	(48.0)
Finance cost	41	16	16	21	21	21	21	
PBT	**4,786**	**6,420**	**6,098**	**4,785**	**3,495**	**3,943**	**4,689**	**15.8**
Growth (%)	*(32.2)*	*34.1*	*(5.0)*	*(21.5)*	*(27.0)*	*12.8*	*18.9*	
Tax expenses	1,239	1,558	1,405	1,248	629	994	1,182	37.1
ETR (%)	*25.9*	*24.3*	*23.0*	*26.1*	*18.0*	*25.2*	*25.2*	
PAT	**3,547**	**4,862**	**4,694**	**4,334**	**2,866**	**2,949**	**3,507**	**10.6**
Growth (%)	*(34.8)*	*37.1*	*(3.5)*	*(7.7)*	*(33.9)*	*2.9*	*18.9*	

Source: Company data, I-Sec research

Exhibit 61: DPL EBITDA to grow steady at 9.9% CAGR over FY25-27E; spreads to remain steady at lower levels

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
Deepak Phenolics								
Revenue	25,635	43,034	49,705	50,035	58,315	65,443	65,770	6.2
COGS	14,956	28,988	36,834	37,606	45,409	50,959	50,959	
Gross profit	**10,679**	**14,047**	**12,871**	**12,429**	**12,906**	**14,483**	**14,811**	**7.1**
GMP (%)	*41.7*	*32.6*	*25.9*	*24.8*	*22.1*	*22.1*	*22.5*	
Growth (%)	*106.6*	*31.5*	*(8.4)*	*(3.4)*	*3.8*	*12.2*	*2.3*	
Employee cost	660	773	875	966	1,179	1,249	1,312	5.5
% of revenue	*2.6*	*1.8*	*1.8*	*1.9*	*2.0*	*1.9*	*2.0*	
P&F	1,414	2,391	3,256	2,522	2,522	2,597	2,701	3.5
% of revenue	*5.5*	*5.6*	*6.5*	*5.0*	*4.3*	*4.0*	*4.1*	
Other expenses	1,494	1,289	1,772	2,064	2,229	2,296	2,365	3.0
% of revenue	*5.8*	*3.0*	*3.6*	*4.1*	*3.8*	*3.5*	*3.6*	
Total expenses	3,567	4,453	5,902	5,552	5,929	6,143	6,378	3.7
EBITDA	**7,112**	**9,594**	**6,969**	**6,877**	**6,977**	**8,341**	**8,433**	**9.9**
EBITDA (%)	*27.7*	*22.3*	*14.0*	*13.7*	*12.0*	*12.7*	*12.8*	
Growth (%)	*211.0*	*34.9*	*(27.4)*	*(1.3)*	*1.5*	*19.6*	*1.1*	
D&A	861	1,055	901	777	735	712	693	(2.9)
EBIT	**6,251**	**8,539**	**6,068**	**6,100**	**6,241**	**7,629**	**7,740**	**11.4**
Growth (%)	*275.4*	*36.6*	*(28.9)*	*0.5*	*2.3*	*22.2*	*1.5*	
Other income	82	149	153	410	183	492	220	9.5
Finance cost	702	325	232	96	-	-	-	
PBT	**5,632**	**8,364**	**5,989**	**6,415**	**6,425**	**8,122**	**7,960**	**11.3**
Growth (%)	*463.1*	*48.5*	*(28.4)*	*7.1*	*0.2*	*26.4*	*(2.0)*	
Tax expenses	1,420	2,120	1,536	1,675	1,619	2,047	2,006	11.3
ETR (%)	*25.2*	*25.3*	*25.6*	*26.1*	*25.2*	*25.2*	*25.2*	
PAT	**4,212**	**6,244**	**4,453**	**4,739**	**4,806**	**6,075**	**5,954**	**11.3**
Growth (%)	*531.9*	*48.2*	*(28.7)*	*6.4*	*1.4*	*26.4*	*(2.0)*	

Source: Company data, I-Sec research

Exhibit 62: DCTL to start commencing sizeable operations from FY26; major jump to come in FY28

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
Deepak Chem Tech (DCTL)								
Revenue						5,544	10,043	
COGS						3,326	6,026	
Gross profit						**2,218**	**4,017**	
GMP (%)						*40.0*	*40.0*	
Growth (%)							*81.2*	
Employee cost						312	359	
% of revenue						*5.6*	*3.6*	
P&F						649	747	
% of revenue						*11.7*	*7.4*	
Other expenses						574	660	
% of revenue						*10.4*	*6.6*	
Total expenses						1,536	1,766	
EBITDA						**682**	**2,251**	
EBITDA (%)						*12.3*	*22.4*	
Growth (%)							*230.1*	
D&A						518	518	
EBIT						**164**	**1,733**	
Growth (%)							*959.0*	
Other income						-	-	
Finance cost						604	604	
PBT						**(440)**	**1,129**	
Growth (%)							*(356.3)*	
Tax expenses						(111)	284	
ETR (%)						*25.2*	*25.2*	
PAT						**(329)**	**844**	
Growth (%)								

Source: Company data, I-Sec research

Exhibit 63: DN consolidated EBITDA/ PAT to grow at CAGR of 21%/ 22% over FY25-27

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
DN Consolidated								
Revenue	43,598	68,022	79,721	76,818	83,792	1,00,714	1,11,234	15.2
COGS	22,643	41,144	53,475	52,361	59,371	70,424	78,002	
Gross profit	**20,955**	**26,878**	**26,246**	**24,457**	**24,421**	**30,290**	**33,232**	**16.7**
GMP (%)	*48.1*	*39.5*	*32.9*	*31.8*	*29.1*	*30.1*	*29.9*	
Growth (%)	*12.9*	*28.3*	*(2.4)*	*(6.8)*	*(0.1)*	*24.0*	*9.7*	
Employee cost	2,470	2,741	3,183	3,511	3,958	4,619	5,174	14.3
% of revenue	*5.7*	*4.0*	*4.0*	*4.6*	*4.7*	*4.6*	*4.7*	
P&F	2,647	4,386	5,419	4,571	4,678	5,637	6,189	15.0
% of revenue	*6.1*	*6.4*	*6.8*	*6.0*	*5.6*	*5.6*	*5.6*	
Other expenses	3,367	3,715	4,750	5,143	5,644	6,490	7,008	11.4
% of revenue	*7.7*	*5.5*	*6.0*	*6.7*	*6.7*	*6.4*	*6.3*	
Total expenses	8,485	10,843	13,352	13,225	14,280	16,746	18,371	13.4
EBITDA	**12,470**	**16,036**	**12,894**	**11,233**	**10,141**	**13,544**	**14,861**	**21.1**
EBITDA (%)	*28.6*	*23.6*	*16.2*	*14.6*	*12.1*	*13.4*	*13.4*	
Growth (%)	*21.6*	*28.6*	*(19.6)*	*(12.9)*	*(9.7)*	*33.6*	*9.7*	
D&A	1,526	1,777	1,663	1,657	2,141	2,248	2,232	2.1
EBIT	**10,944**	**14,259**	**11,231**	**9,576**	**8,000**	**11,296**	**12,629**	**25.6**
Growth (%)	*23.5*	*30.3*	*(21.2)*	*(14.7)*	*(16.5)*	*41.2*	*11.8*	
Other income	215	426	476	761	799	839	881	5.0
Finance cost	742	340	248	118	189	625	625	
PBT	**10,417**	**14,345**	**11,459**	**10,219**	**8,610**	**11,510**	**12,885**	**22.3**
Growth (%)	*29.2*	*37.7*	*(20.1)*	*(10.8)*	*(15.7)*	*33.7*	*11.9*	
Tax expenses	2,659	3,678	2,939	2,908	2,170	2,901	3,247	22.3
ETR (%)	*25.5*	*25.6*	*25.6*	*28.5*	*25.2*	*25.2*	*25.2*	
PAT	**7,758**	**10,666**	**8,520**	**8,109**	**6,440**	**8,610**	**9,638**	**22.3**
Growth (%)	*27.0*	*37.5*	*(20.1)*	*(4.8)*	*(20.6)*	*33.7*	*11.9*	
EPS (INR)	**57**	**78**	**62**	**54**	**47**	**63**	**71**	**22.3**

Source: Company data, I-Sec research

Exhibit 64: Return ratios to drop; leverage to rise on large investments in DCTL for future growth

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
Capital productivity								
Gross block	**22,502**	**25,174**	**26,550**	**31,422**	**38,587**	**40,162**	**41,816**	**4.1**
Revenue/GB (x)	*1.94*	*2.70*	*3.00*	*2.44*	*2.17*	*2.51*	*2.66*	
EBITDA/GB (x)	*0.55*	*0.64*	*0.49*	*0.36*	*0.26*	*0.34*	*0.36*	
Capex	**2,096**	**1,868**	**3,609**	**7,717**	**6,500**	**16,575**	**31,654**	
Intensity (% of revenue)	*4.8*	*2.7*	*4.5*	*10.0*	*7.8*	*16.5*	*28.5*	
D&A/capex (x)	*0.7*	*1.0*	*0.5*	*0.2*	*0.3*	*0.1*	*0.1*	
Capital employed	29,242	37,103	41,444	50,396	55,762	73,244	1,06,698	38.3
pre-tax ROCE (%)	39.1	43.0	28.6	20.9	15.1	17.5	14.0	
ROE (%)	39.6	37.5	22.9	16.4	12.7	15.0	14.8	
Leverage								
Net debt	(3,573)	1,067	3,623	3,677	3,040	(7,559)	(31,022)	
ND/EBITDA (x)	*(0.3)*	*0.1*	*0.3*	*0.3*	*0.3*	*(0.6)*	*(2.1)*	
Cash conversion								
Inventory days	32	31	41	36	37	38	39	
Debtor days	63	61	60	62	63	64	65	
Creditor days	37	27	30	28	29	30	31	
Cash conversion	**59**	**64**	**71**	**70**	**71**	**72**	**73**	
WC as % of revenue	*16.1*	*17.7*	*19.3*	*19.2*	*19.5*	*19.8*	*20.0*	

Source: Company data, I-Sec research

Exhibit 65: DCTL capex to remain high till FY28; post which, deleverage cycle shall resume

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-27E
Ops CF (after tax)	10,431	12,882	10,585	9,501	7,971	10,643	11,614	20.7
% of EBITDA	*83.6*	*80.3*	*82.1*	*84.6*	*78.6*	*78.6*	*78.2*	
Chg. of WC	(441)	(4,643)	(4,085)	(720)	(1,644)	(3,753)	(2,495)	
CFO	**9,990**	**8,238**	**6,499**	**8,781**	**6,328**	**6,890**	**9,119**	**20.0**
% of revenue	*22.9*	*12.1*	*8.2*	*11.4*	*7.6*	*6.8*	*8.2*	
Capex (incl. acquisition)	(2,096)	(1,868)	(3,609)	(7,717)	(6,500)	(16,575)	(31,654)	
FCF	**7,895**	**6,370**	**2,891**	**1,064**	**(172)**	**(9,685)**	**(22,535)**	**1,043.7**
% of revenue	*37.7*	*23.7*	*11.0*	*4.4*	*(0.7)*	*(32.0)*	*(67.8)*	
Finance cost	(736)	(320)	(233)	(98)	(189)	(625)	(625)	
FCFE	**7,159**	**6,050**	**2,658**	**966**	**(361)**	**(10,310)**	**(23,160)**	**700.5**

Source: Company data, I-Sec research

Initiating coverage with ADD rating and TP of INR 2,120

We initiate coverage on DN with target price of INR 2,120 valuing at 30x FY27E P/E. The stock is trading at valuation of 27.4x FY27E P/E; 19.8x of FY27E EV/ EBITDA. DN generates strong operating cashflow, and company has embarked on large capex into import substitution products which should ensure medium term earning growth.

Despite DN's large portfolio of bulk chemicals, we assign a higher multiple due to two factors: 1) The company's prowess of executing large projects, and its ability to achieve lowest-cost manufacturing efficiency; consequently, capturing dominant market share. It has done well in the past, and we have no reason to believe otherwise. 2) Its ability to identify good import substitution opportunities, and cater to among the fastest growing markets (India).

In the past, DN has been very disciplined in capital allocation, and has smartly increased capacity through de-bottlenecking – nitration, sodium nitrite and phenol are among a few examples. Phenol, a global bulk chemical, DPL has increased capacity through de-bottlenecking, and optimisation to 150% of base capacity; and has been running its plant at full utilization - this is set against the backdrop of the global average utilisation being 65–70%. Therefore, DPL has achieved cost advantage, and can likely withstand tougher competition scenarios.

Further, DN has identified opportunities in backward and forward integration of operations. This brings multiple advantages to the table such as increased resilience of its operation, capital allocation into areas within control, thereby, maximising returns, opportunity to optimise cost structure and increase product base. The company entered into phenol in a few years ago, and has expanded into IPA and acetopheone. Now it is foraying into BPA and PC. Therefore, capturing value from entire ecosystem.

DN has the largest capex plan among our specialty chemical coverage universe of INR 140bn over the next 3–4 years; therefore, providing strong visibility for earnings growth. Further, most of the new products will cater India market which has relatively lower competitive intensity; and better economics.

Exhibit 66: Indian chemical peers – snapshot

INR mn	CMP (INR)	Mcap	Revenue			CAGR (%) FY25-27E	EPS (INR)			CAGR (%) FY25-27E
			FY25E	FY26E	FY27E		FY25E	FY26E	FY27E	
SRF	2,744	8,13,495	1,46,277	1,70,503	1,90,280	14%	44.3	65.6	80.6	35%
Navin Fluorine	3,979	1,97,179	23,778	31,332	36,687	24%	62.6	91.2	112.3	34%
Gujarat Fluoro	3,685	4,04,814	49,355	60,849	71,593	20%	50.6	89.4	108.0	46%
Atul Ltd	5,810	1,71,155	55,246	64,473	72,649	15%	169.6	227.5	268.8	26%
Deepak Nitrite	1,933	2,63,641	83,792	1,00,714	1,11,234	15%	47.2	63.1	70.7	22%
Chemplast	418	66,094	45,206	53,193	56,972	12%	(3.3)	16.9	21.8	
Galaxy	2,084	73,894	40,787	44,642	48,410	9%	82.6	106.1	115.3	18%
Rossari	687	37,934	20,372	22,824	25,300	11%	24.3	29.6	31.7	14%
EPL	181	57,754	42,020	47,354	52,338	12%	11.0	14.5	16.5	22%
Sudarshan	961	66,525	28,050	32,144	35,025	12%	24.6	36.7	41.5	30%
Tatva Chintan	649	15,188	3,925	6,003	7,810	41%	5.1	37.5	48.8	209%
Clean Science	1,145	1,21,624	9,961	13,036	16,017	27%	25.1	33.1	40.1	26%
BlueJet Healthcare	626	1,08,598	9,778	12,384	15,071	24%	15.2	18.5	22.1	20%
Archean Chemical	578	71,311	10,361	17,431	20,001	39%	20.2	38.9	45.1	49%
PCBL	398	1,50,302	86,383	93,707	1,00,906	8%	16.2	17.1	22.1	17%
Himadri	409	2,01,299	48,243	58,421	71,642	22%	12.7	14.9	17.2	16%
Median						**15%**				**26%**

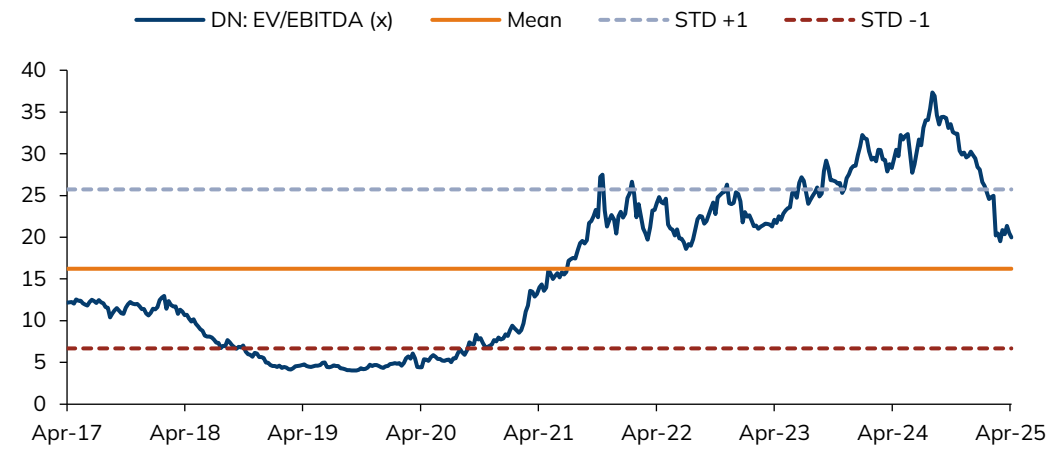
Source: Company data, I-Sec research

Exhibit 67: Indian chemical peers – snapshot

INR mn	PE (x)		EV/EBITDA (x)		ROCE (post-tax)		GB turnover (x)		Capex	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
SRF	41.8	34.0	23.3	19.6	11.7	12.8	0.8	0.8	25,379	24,404
Navin Fluorine	43.6	35.4	25.9	21.9	12.1	13.4	0.9	0.9	4,000	4,200
Gujarat Fluoro	41.2	34.1	23.0	19.6	12.1	13.0	0.8	0.8	9,174	10,091
Atul Ltd	25.5	21.6	13.7	11.6	10.4	11.2	1.3	1.4	3,000	2,700
Deepak Nitrite	30.6	27.4	20.0	19.8	17.5	14.0	2.5	2.7	16,575	31,654
Chemplast	24.7	19.2	12.0	10.4	10.1	10.6	1.1	1.1	2,817	2,958
Galaxy	19.6	18.1	11.9	10.7	13.9	13.7	2.3	2.3	1,500	1,650
Rossari	23.2	21.7	12.4	11.5	12.7	12.4	2.7	2.8	800	840
EPL	12.5	11.0	5.9	5.0	16.1	16.2	1.0	1.1	3,500	3,500
Sudarshan	26.2	23.1	13.5	11.8	14.9	14.8	1.5	1.6	1,000	1,000
Tatva Chintan	17.3	13.3	11.1	8.5	10.3	11.5	0.9	0.9	1,500	1,534
Clean Science	34.6	28.6	23.4	19.6	21.7	22.7	1.2	1.3	1,350	1,485
BlueJet Healthcare	33.8	28.4	25.0	20.6	25.7	26.2	1.7	1.8	2,000	1,000
Archean Chemical	14.9	12.8	9.2	7.4	20.4	19.6	1.0	1.1	1,000	1,100
PCBL	23.3	18.0	11.9	9.7	9.5	11.1	1.7	1.7	6,000	6,000
Himadri	27.5	23.8	19.9	17.3	17.1	16.6	2.0	1.7	5,500	11,500
Median	**25.9**	**22.4**	**13.6**	**11.7**	**13.3**	**13.5**	**1.3**	**1.3**		

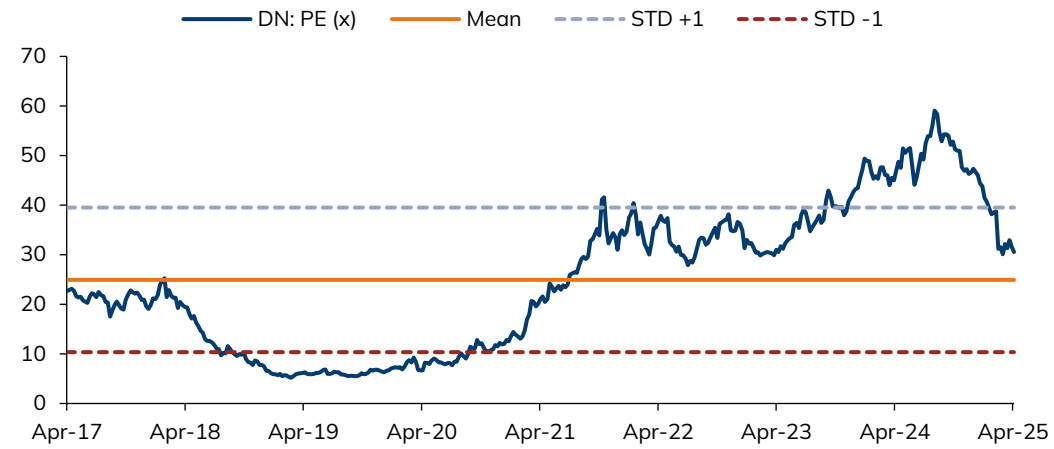
Source: Company data, I-Sec research

Exhibit 68: DN one-year forward EV/EBITDA



Source: Bloomberg, I-Sec research

Exhibit 69: DN one-year forward PE



Source: Bloomberg, I-Sec research

Exhibit 70: Shareholding pattern

%	Sep'24	Dec'24	Mar'25
Promoters	49.2	49.2	49.3
Institutional investors	29.0	29.9	29.9
MFs and others	11.4	12.3	12.2
FIs/Banks	0.0	0.0	0.0
Insurance	10.1	10.0	10.0
FIIs	7.5	7.6	7.7
Others	21.8	20.9	20.8

Source: Bloomberg, I-Sec research

Exhibit 71: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 72: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**76,818**	**83,792**	**1,00,714**	**1,11,234**
Operating Expenses	65,586	73,651	87,170	96,373
EBITDA	**11,233**	**10,141**	**13,544**	**14,861**
EBITDA Margin (%)	14.6	12.1	13.4	13.4
Depreciation & Amortization	1,657	2,141	2,248	2,232
EBIT	9,576	8,000	11,296	12,629
Interest expenditure	118	189	625	625
Other Non-operating Income	761	799	839	881
Recurring PBT	**10,219**	**8,610**	**11,510**	**12,885**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	2,908	2,170	2,901	3,247
PAT	8,109	6,440	8,610	9,638
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**8,109**	**6,440**	**8,610**	**9,638**
Net Income (Adjusted)	**7,311**	**6,440**	**8,610**	**9,638**

Source Company data, I-Sec research

Exhibit 73: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	28,416	30,271	35,488	40,870
of which cash & cash eqv.	4,655	4,018	3,419	4,956
Total Current Liabilities & Provisions	7,851	8,790	10,881	12,324
Net Current Assets	**20,565**	**21,481**	**24,608**	**28,546**
Investments	1,219	1,219	1,219	1,219
Net Fixed Assets	30,166	34,525	48,853	78,274
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,735	7,070	22,070	52,070
Total Intangible Assets	496	496	496	496
Other assets	1,814	1,996	2,195	2,415
Deferred Tax Assets	22	22	22	22
Total Assets	**60,962**	**67,359**	**87,109**	**1,22,134**
Liabilities				
Borrowings	**2,170**	**2,170**	**12,170**	**37,170**
Deferred Tax Liability	**1,736**	**1,736**	**1,736**	**1,736**
Provisions	356	392	431	474
Other Liabilities	623	679	817	902
Equity Share Capital	273	273	273	273
Reserves & Surplus	47,693	53,059	60,541	68,995
Total Net Worth	**47,966**	**53,332**	**60,814**	**69,268**
Minority Interest	261	261	261	261
Total Liabilities	**60,962**	**67,359**	**87,109**	**1,22,134**

Source Company data, I-Sec research

Exhibit 74: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	21,262	21,668	20.320	19,034
% growth (YOY)	8.4	22.5	14.3	(5.3)
EBITDA	3,011	3,092	2,975	1,685
Margin %	14.2	14.3	14.6	8.9
Other Income	191	188	213	210
Extraordinaries	798	0	0	0
Adjusted Net Profit	1,741	2,025	1,942	981

Source Company data, I-Sec research

Exhibit 75: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**9,501**	**7,971**	**10,643**	**11,614**
Working Capital Changes	(720)	(1,644)	(3,753)	(2,495)
Capital Commitments	(7,717)	(6,500)	(16,575)	(31,654)
Free Cashflow	**1,096**	**(172)**	**(9,685)**	**(22,535)**
Other investing cashflow	**466**	**799**	**839**	**881**
Cashflow from Investing Activities	466	799	839	881
Issue of Share Capital	-	-	-	-
Interest Cost	(98)	(189)	(625)	(625)
Inc (Dec) in Borrowings	1,625	-	10,000	25,000
Dividend paid	(1,023)	(1,074)	(1,128)	(1,184)
Others	(68)	-	-	-
Cash flow from Financing Activities	435	(1,263)	8,247	23,191
Chg. in Cash & Bank balance	**2,003**	**(637)**	**(599)**	**1,537**
Closing cash & balance	2,380	4,018	3,419	4,956

Source Company data, I-Sec research

Exhibit 76: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	59.4	47.2	63.1	70.7
Adjusted EPS (Diluted)	53.6	47.2	63.1	70.7
Cash EPS	71.6	62.9	79.6	87.0
Dividend per share (DPS)	7.5	7.5	7.5	7.5
Book Value per share (BV)	353.6	392.9	447.8	509.7
Dividend Payout (%)	12.6	15.9	11.9	10.6
Growth (%)				
Net Sales	(3.6)	9.1	20.2	10.4
EBITDA	(12.9)	(9.7)	33.6	9.7
EPS (INR)	(4.8)	(20.6)	33.7	11.9
Valuation Ratios (x)				
P/E	32.5	40.9	30.6	27.4
P/CEPS	27.0	30.7	24.3	22.2
P/BV	5.5	4.9	4.3	3.8
EV / EBITDA	23.1	25.7	20.0	19.8
EV/SALES	3.4	3.1	2.7	2.6
Dividend Yield (%)	0.4	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	31.8	29.1	30.1	29.9
EBITDA Margins (%)	14.6	12.1	13.4	13.4
Effective Tax Rate (%)	30.9	25.2	25.2	25.2
Net Profit Margins (%)	9.5	7.7	8.5	8.7
NWC / Total Assets (%)	24.1	24.2	23.0	18.3
Net Debt / Equity (x)	(0.1)	(0.1)	0.1	0.4
Net Debt / EBITDA (x)	(0.3)	(0.3)	0.6	2.1
Profitability Ratios				
RoCE (%)	14.9	11.3	13.1	10.5
RoE (%)	16.4	12.7	15.0	14.8
RoIC (%)	16.7	12.6	14.2	11.2
Fixed Asset Turnover (x)	2.5	2.4	2.0	1.4
Inventory Turnover Days	36.1	37.1	38.1	39.1
Receivables Days	61.7	62.7	63.7	64.7
Payables Days	27.7	28.7	29.7	30.7

Source Company data, I-Sec research

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