



DEEPAK NITRITE STOCK ANALYSIS

A DIVERSIFIED CHEMICAL COMPANY

School of Intrinsic Compounding



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- DISCLOSURE: The authors hold a tracking position in the stock.





TOPICS COVERED

 BUSINESS HISTORY

 BASIC CHEMICALS & PERFORMANCE PRODUCTS DIVISION

 FINE & SPECIALITY CHEMICAL DIVISION

 DEEPAK PHENOLICS

 WALKING THE TALK

 THEISIS POINTERS VS ANTI-THESIS POINTERS

 VALUATIONS



**"Investing is an act
of arrogance"
-Seth Klarman**

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WHAT IS ON THE OTHER SIDE OF THE BET ?

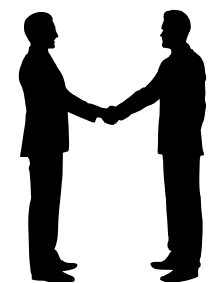




BUSINESS HISTORY

YEAR	EVENTS
1970	Incorporation
1971	Listed on the BSE
1979	Promoted Deepak Fertilisers and Petrochemicals Corporation Limited
1984	Acquisition of Sahyadri Dyestuffs & Chemicals unit from Mafatlal Industries
2000	Acquisition of management and control of Aryan Pesticides Limited
2006	Rights issue of equity shares
2009	Turnover crosses ₹ 500 crores
2010	Commencement of manufacture of fuel additives
2011	Listing on the NSE
2012	Accredited for Best Compliant Company for the pollution prevention code under “Responsible Care” by Indian Chemical Council Accredited with Business World FICCI CSR Award 2011-12 in the category I-b- Large Enterprises by FICCI
2013	(a) Turnover crosses ₹ 1,000 crores; (b) Brownfield expansion for manufacturing inorganic salts at Nandesari.
2014	(a) Dahej facility, for the manufacture of florescent brightening agent, fully commissioned; (b) Face value of the Equity Shares was split to ₹ 2 per Equity Share and bonus issue of Equity Shares at the ratio of 1:1. (c) Chairman receives “Lifetime Achievement Award” from “Indian Chemical Council”
2015	Received supplier excellence award from Bayer Crop Science
2016	Raised funds by way of QIP Received corporate social responsibility award for category I, women empowerment for the year 2015-16
2017	Raised funds by way of QIP





3 MAJOR ACQUISITIONS

1984: Acquisition of Sahyadri Dyestuffs & Chemicals unit from Mafatlal Industries.

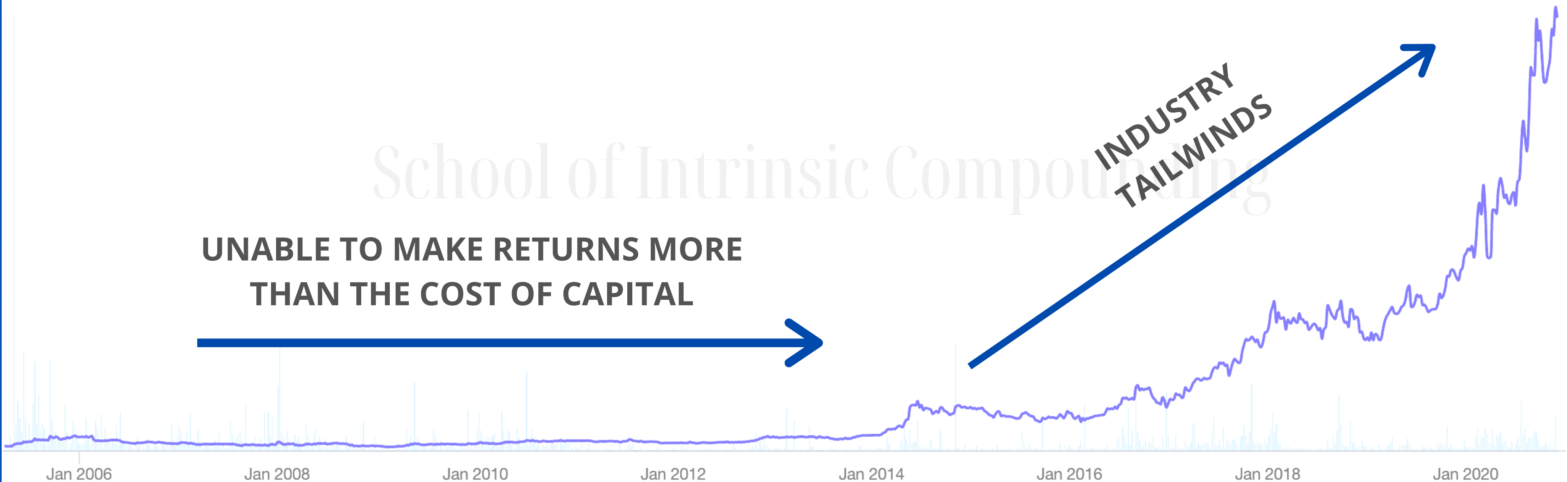
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2000: Acquisition of management & control of Aryan Pesticides Limited.

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2006: Acquisition of Vasant Chemicals for DASDA.

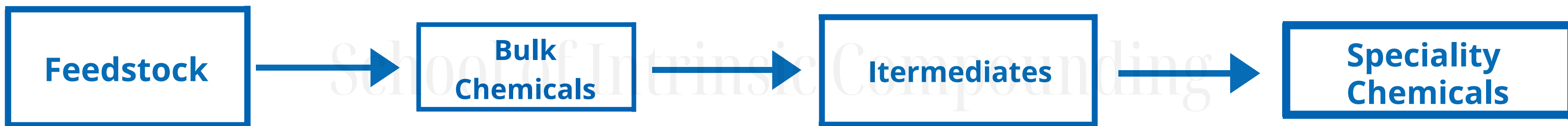
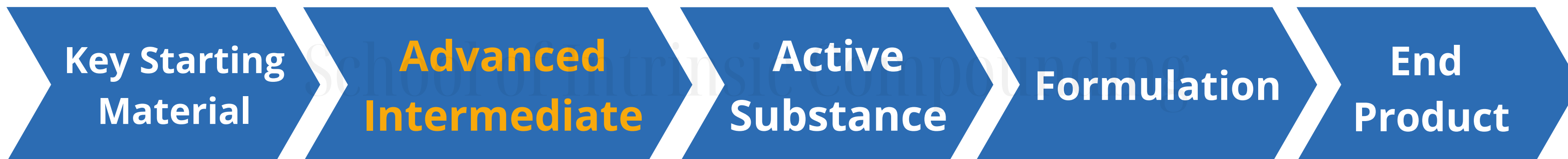




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WHERE DOES DEEPAK OPERATE?





WHAT ARE INTERMEDIATES ?

- An intermediate is a molecule that is formed from two or more reactants and then reacts further to give products. Most chemical reactions require more than one step, and an intermediate is the product of each step, except for the last one, after which the final products are produced.
- Intermediates very rarely remain in the product mixture due to the short time that they exist. They are seldom isolated, and so usually end up reacting with other chemicals in the reaction to eventually produce the final products. An example of a chemical reaction would be $A+B = C+D$. In reality, the reaction is more likely to be something like this; $A+B = X^*$, $X^* = C+D$, in which X^* is the intermediate.
- An example of an intermediate in the chemical industry is cumene. The term intermediate in the chemical industry usually means a product of a reaction that is only beneficial when used as a precursor chemical for another industry. Cumene is made from benzene and propylene, and is then used to produce acetone. Cumene, without additional reactions, has very little value and no real use, which makes it an intermediate instead of a useful chemical product





WHAT ARE BASIC CHEMICALS ?

These chemicals are sold in high-volumes with greater price sensitivity. These chemicals are typically manufactured in standard specifications.

Basic Chemicals find application in:

- Colorants
- Rubber chemicals
- Explosives
- Dyes
- Pigments
- Food colors
- Pharmaceuticals
- Petrol & Diesel Blending
- Agrochemicals

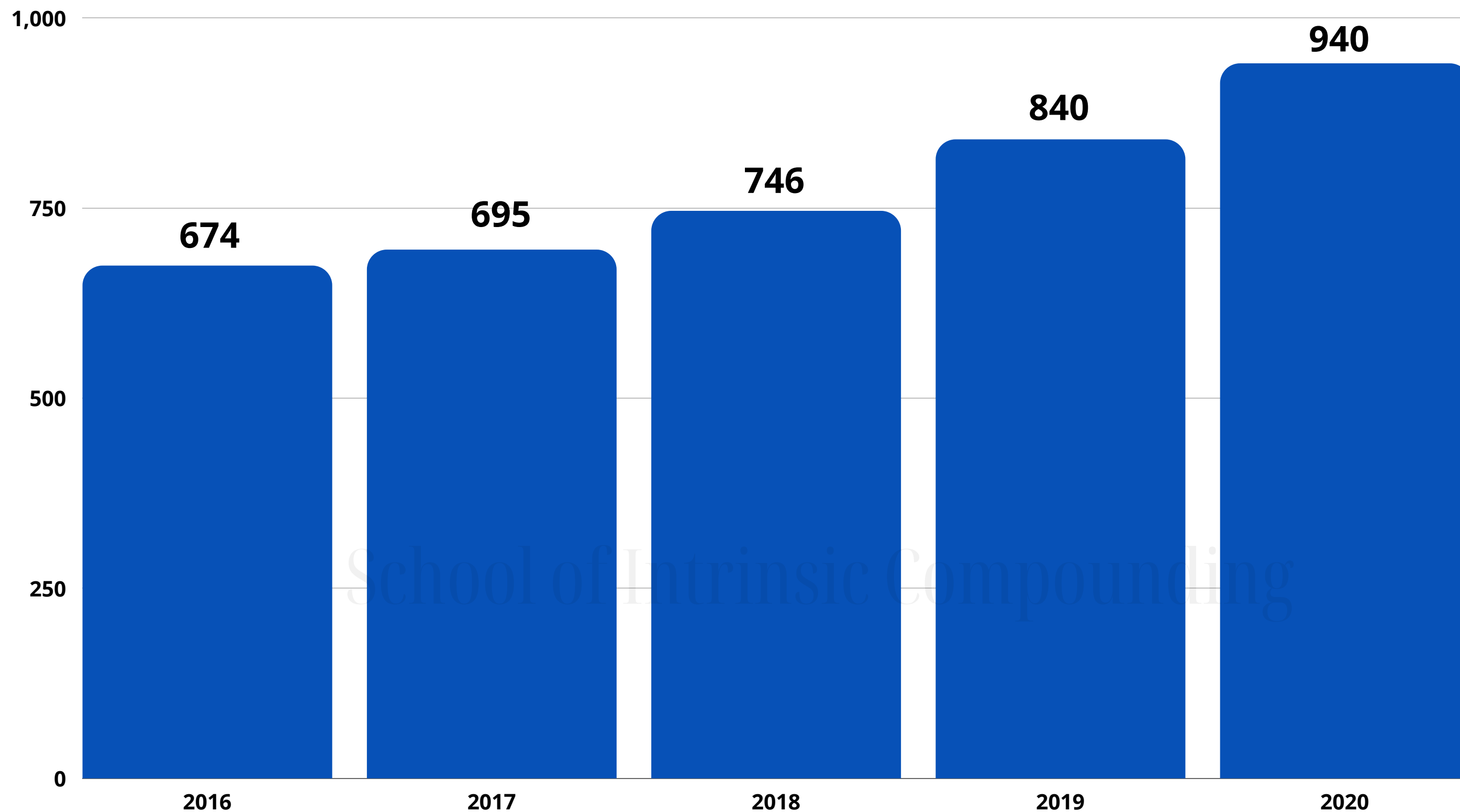
In the basic chemical business, the group is the largest player in India for supplying sodium nitrite/nitrate (market share of 80%), fuel additives (75%), and nitro-toluene (50%).

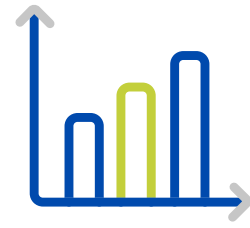




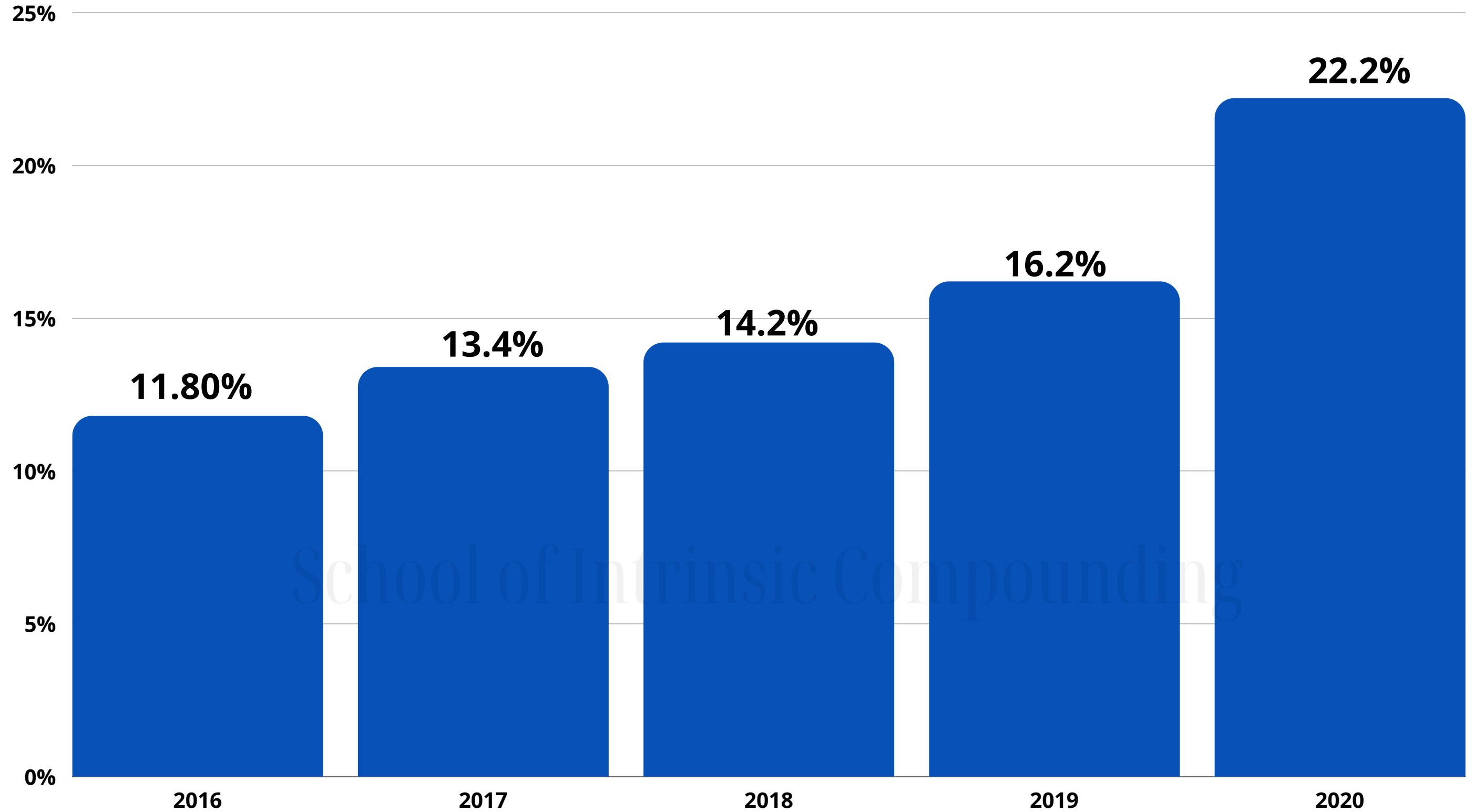
BASIC CHEMICALS REVENUES

(In crores)





BASIC CHEMICALS EBIT MARGINS






KEY CLIENTS

Lonza

syngenta

 **ISOICHEM**

 **SFCHEM**
SWISS LEADING CHEMICALS

 **Clariant**

LANXESS
Energizing Chemistry

 **MITSUI & CO.**

Ciba 

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Reliance
Industries Limited


इंडियनऑयल
IndianOil


MICRO INKS

ESSAR 

BASF
The Chemical Company

SunChemical®


Bayer CropScience

GOODYEAR

kemira


allessachemie

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MARKET DEMAND IN INDIA

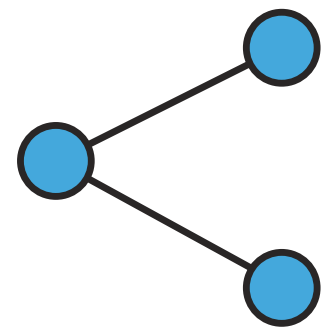


PHENOL: 350 KTPA

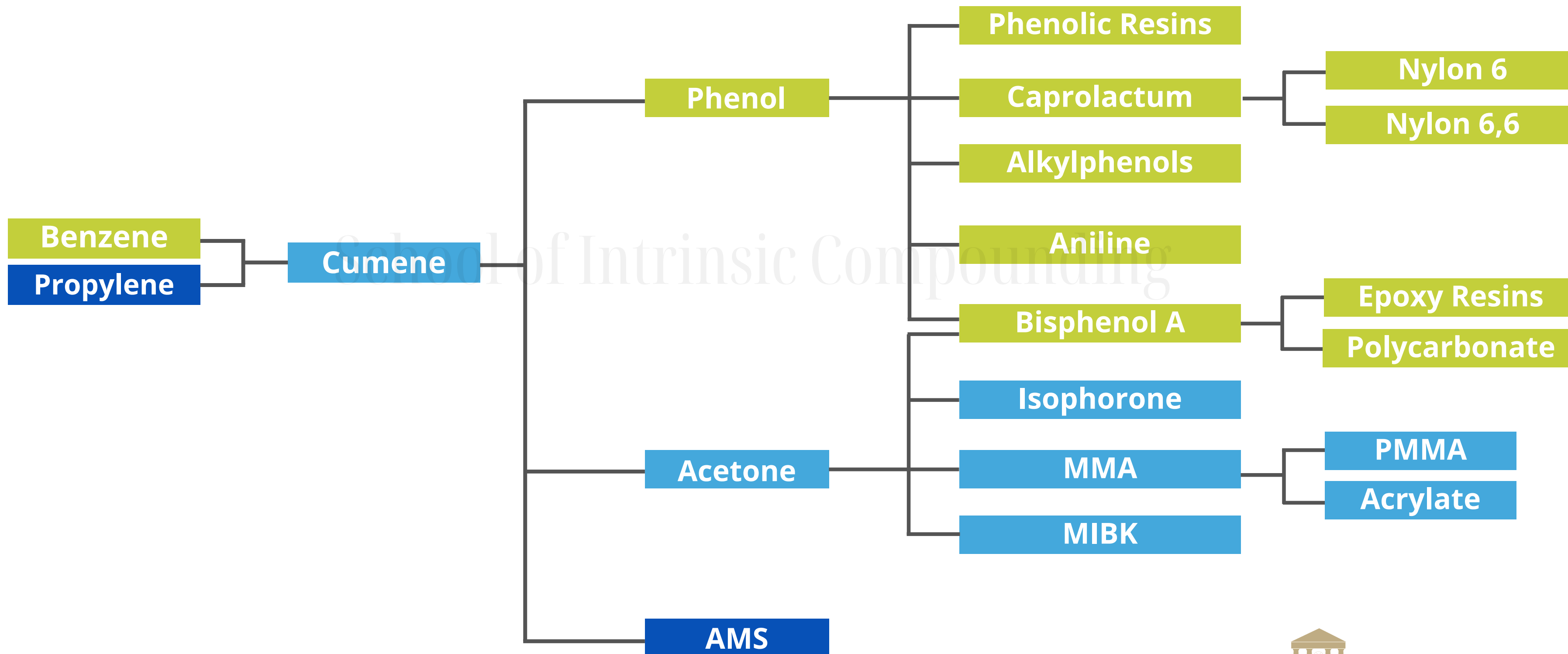
ACETONE: 180 KTPA

Growing at 8%-10% per annum



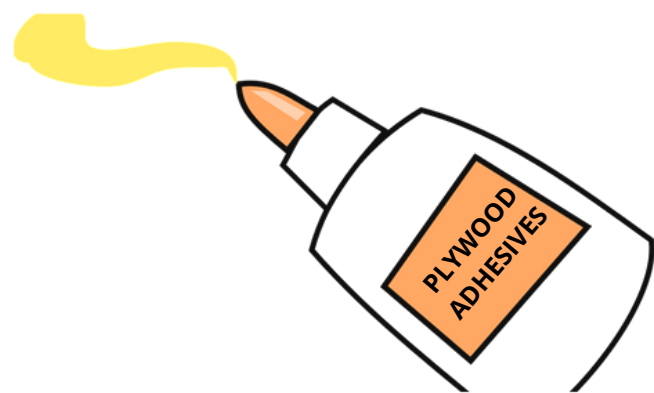


VALUE CHAIN





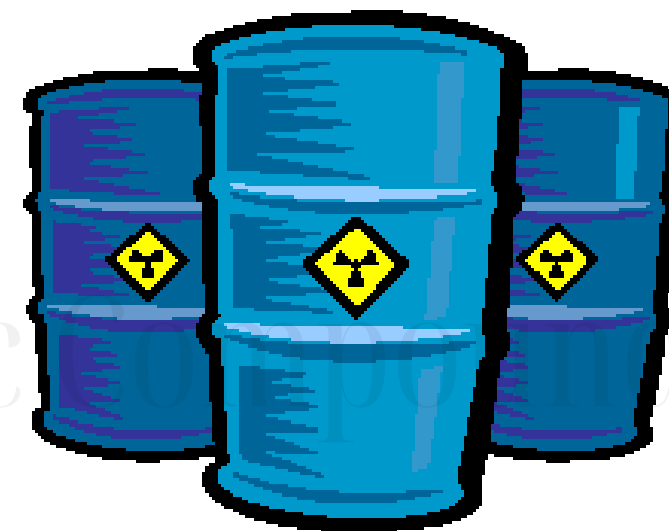
APPLICATION OF PHENOLS & ACETONE



PLYWOOD ADHESIVES



LAMINATE



OTHER CHEMICALS



NYLON FIBRE



PHARMACEUTICALS



SANITIZERS



PAINTS



PLASTIC





DOMESTIC COMPETITION

SI GROUP



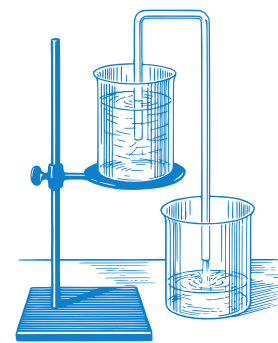
36,000 tonnes/year of phenol and 20,000 tonnes/year of acetone

HINDUSTAN ORGANIC CHEMICALS



The installed capacity is 40,000 TPA of Phenol and 24640 TPA of Acetone.

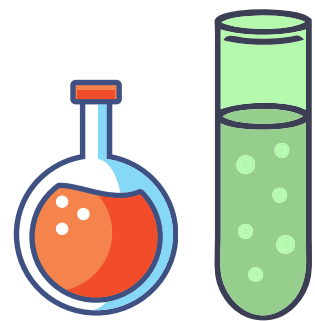




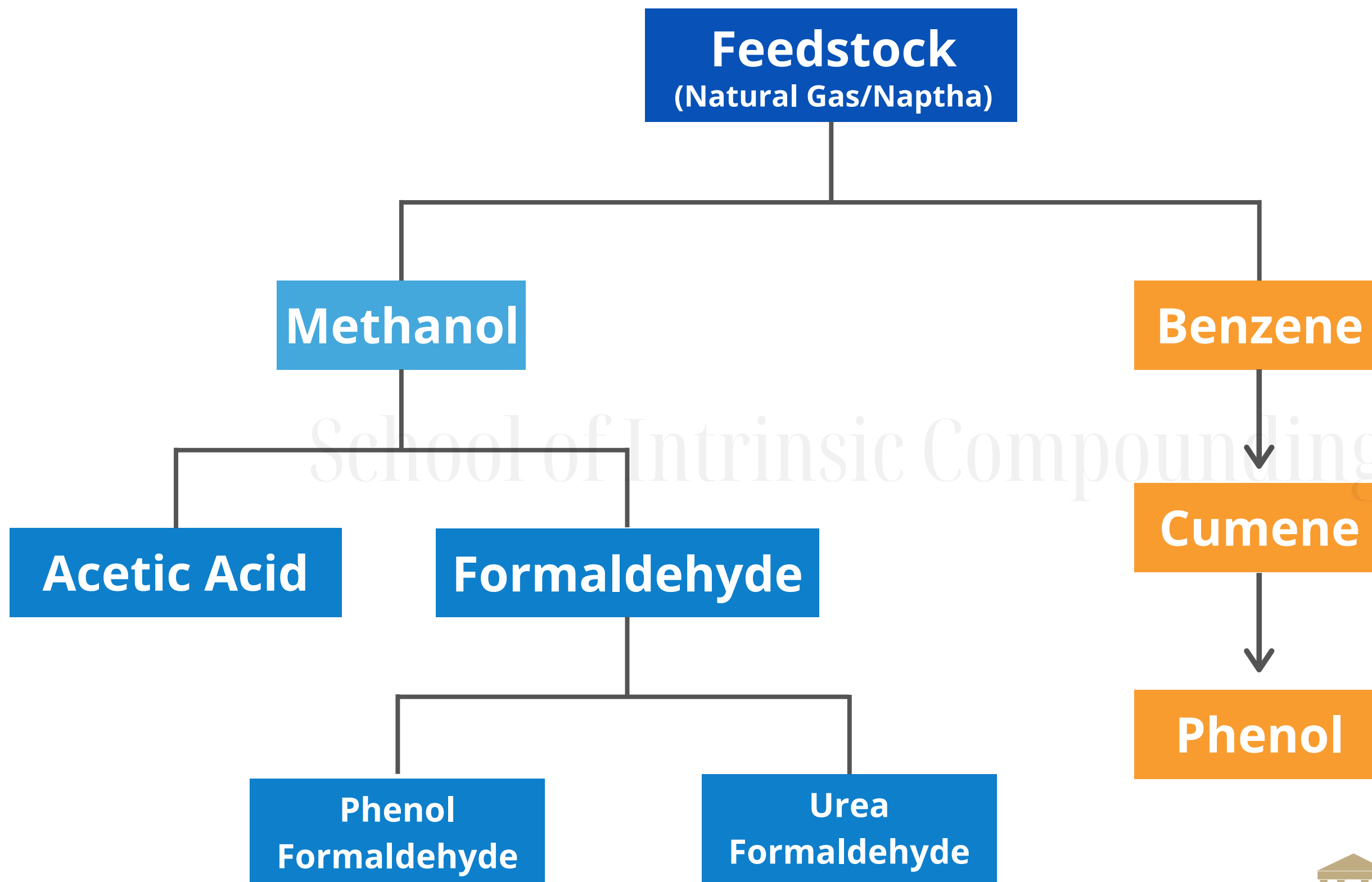
REASONS FOR GETTING INTO PHENOL

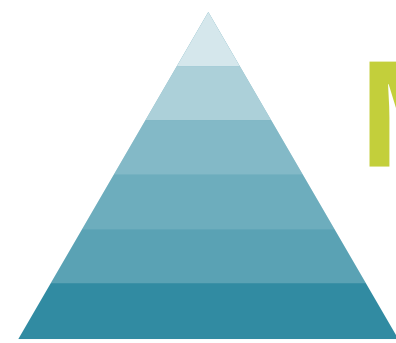
- The Indian Phenol market growing at 8%-10%.
- Import substitution opportunity. For instance, purchasers of phenol ended up reducing working capital.
- Almost the entire demand of India was being met through imports.
- Saving on transportation cost for domestic customers.





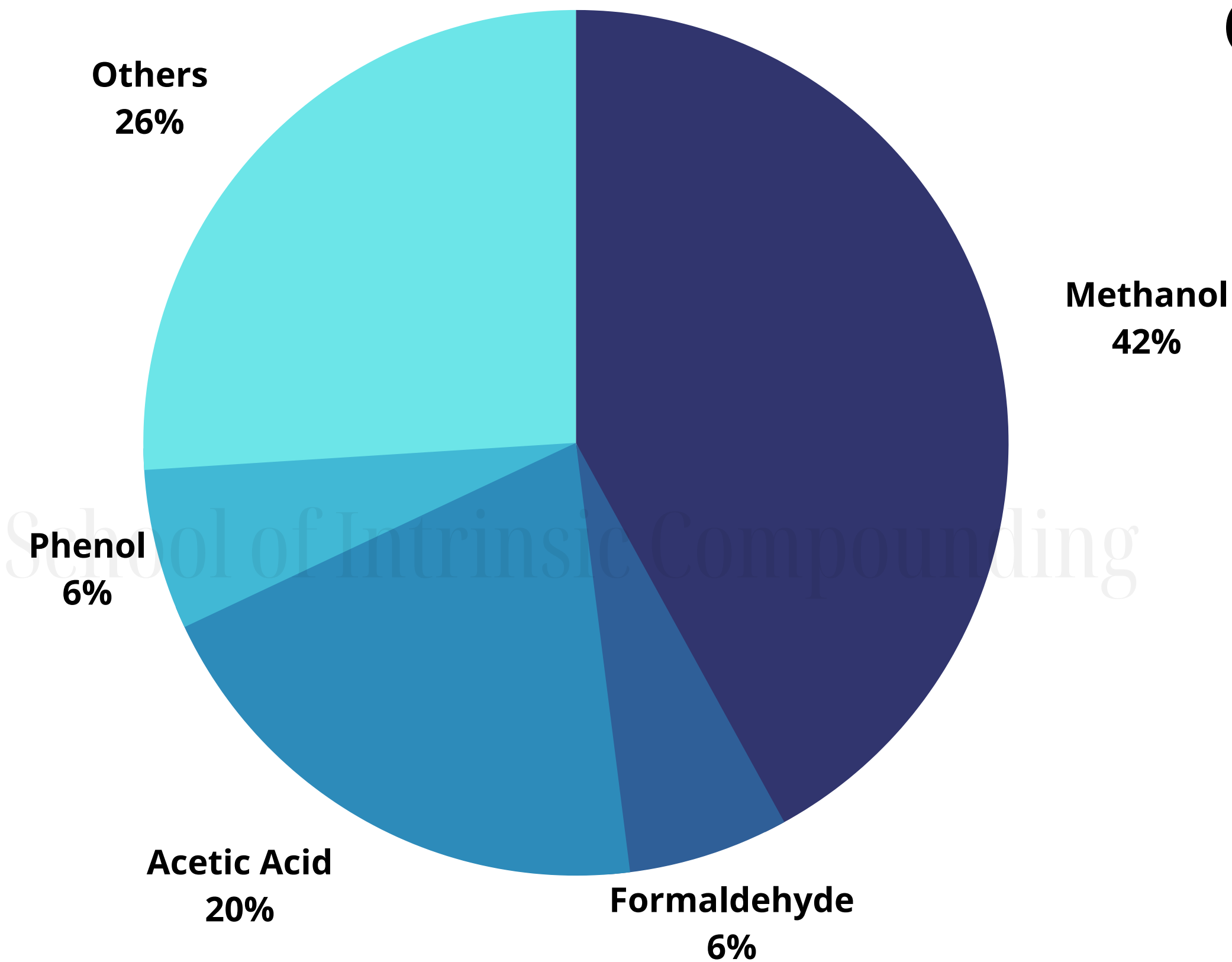
MAJOR ORGANIC CHEMICALS





MAJOR ORGANIC CHEMICALS MARKET SHARE

(IN FY15)





WALKING THE TALK

Before the commencement of the phenol plant, Deepak Nitrite's management mentioned that they will ramp up the capacity utilization to 75% in the first year, 85% in the second year & 95% in the third year.

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WHAT HAPPENED?

- The capacity utilization of 85% in the first year of operations & 100% in the second year.





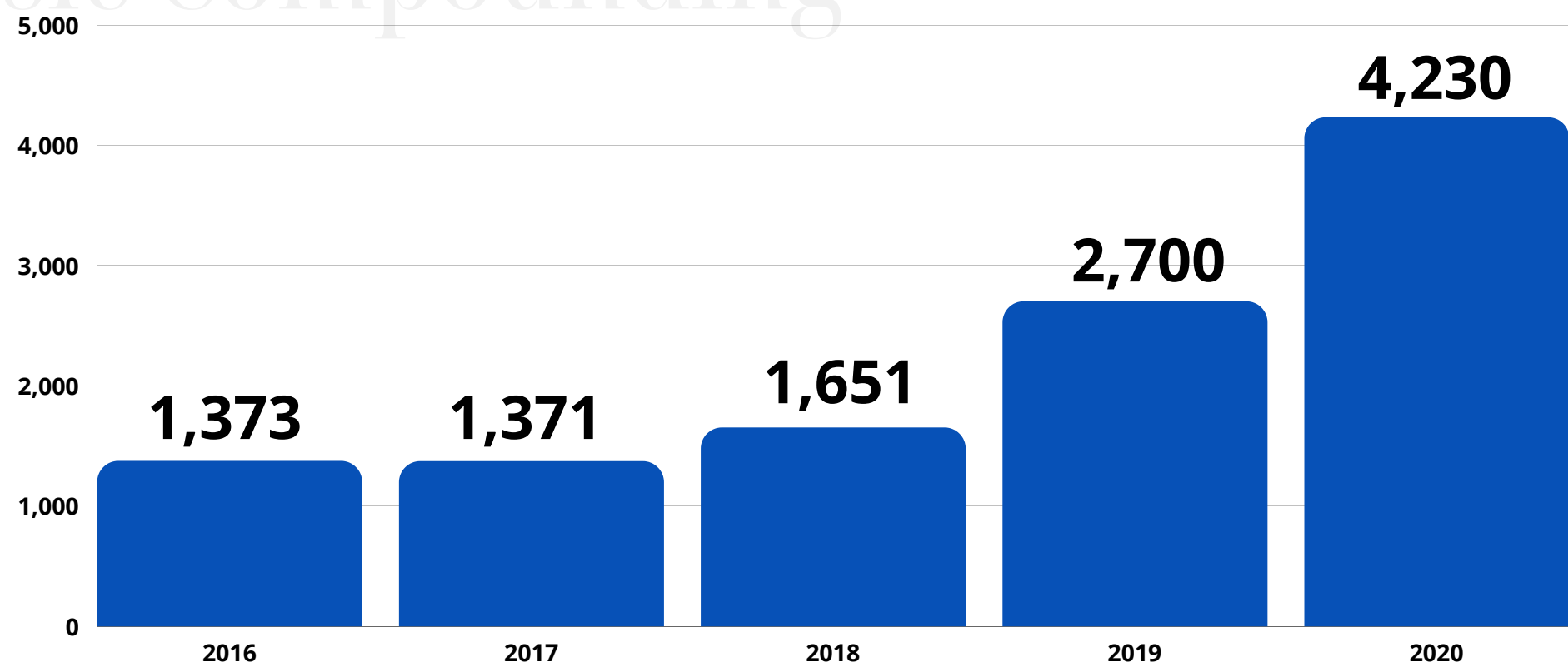
WALKING THE TALK

"We will triple our revenues in the next 3 to 4 years"

-Deepak C. Mehta

(Interview in 2016)

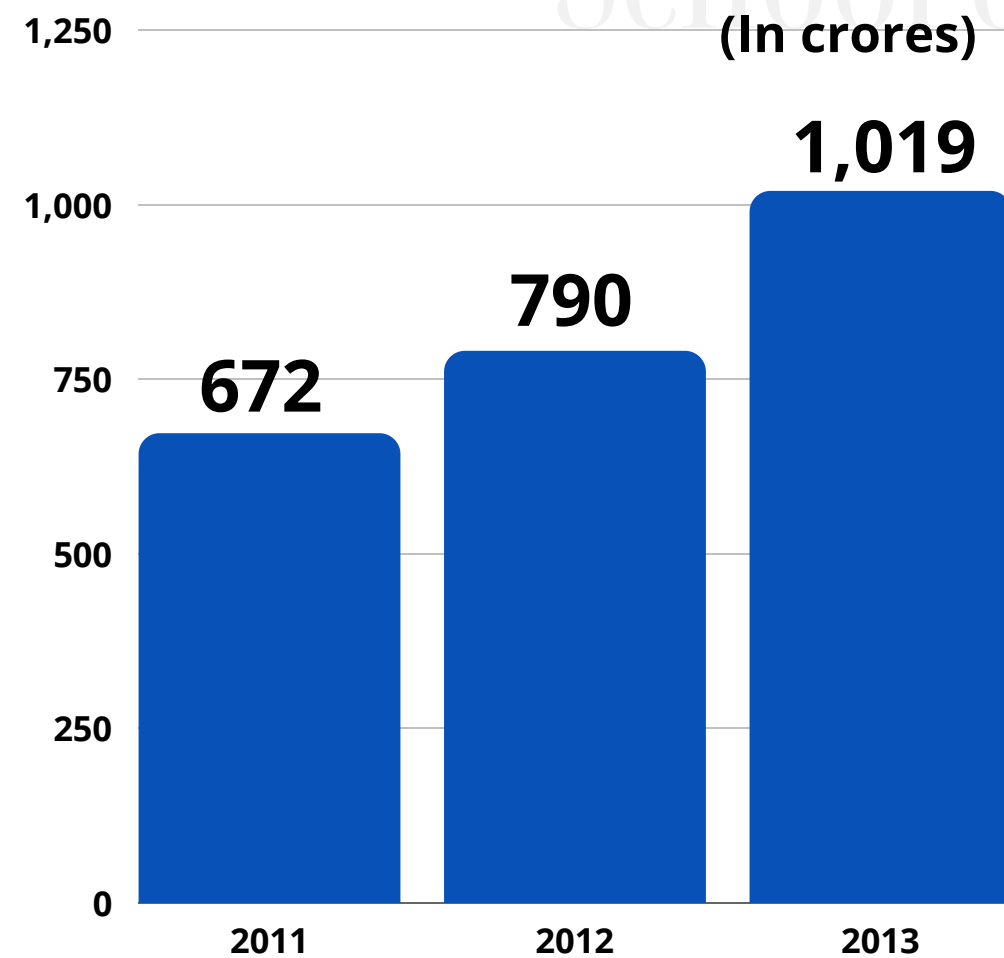
Consic Compounding





WALKING THE TALK

I can proudly say that your company is on course to exceed revenue earnings of Rs.1,000 within the next three years. - **Annual Report 2011**



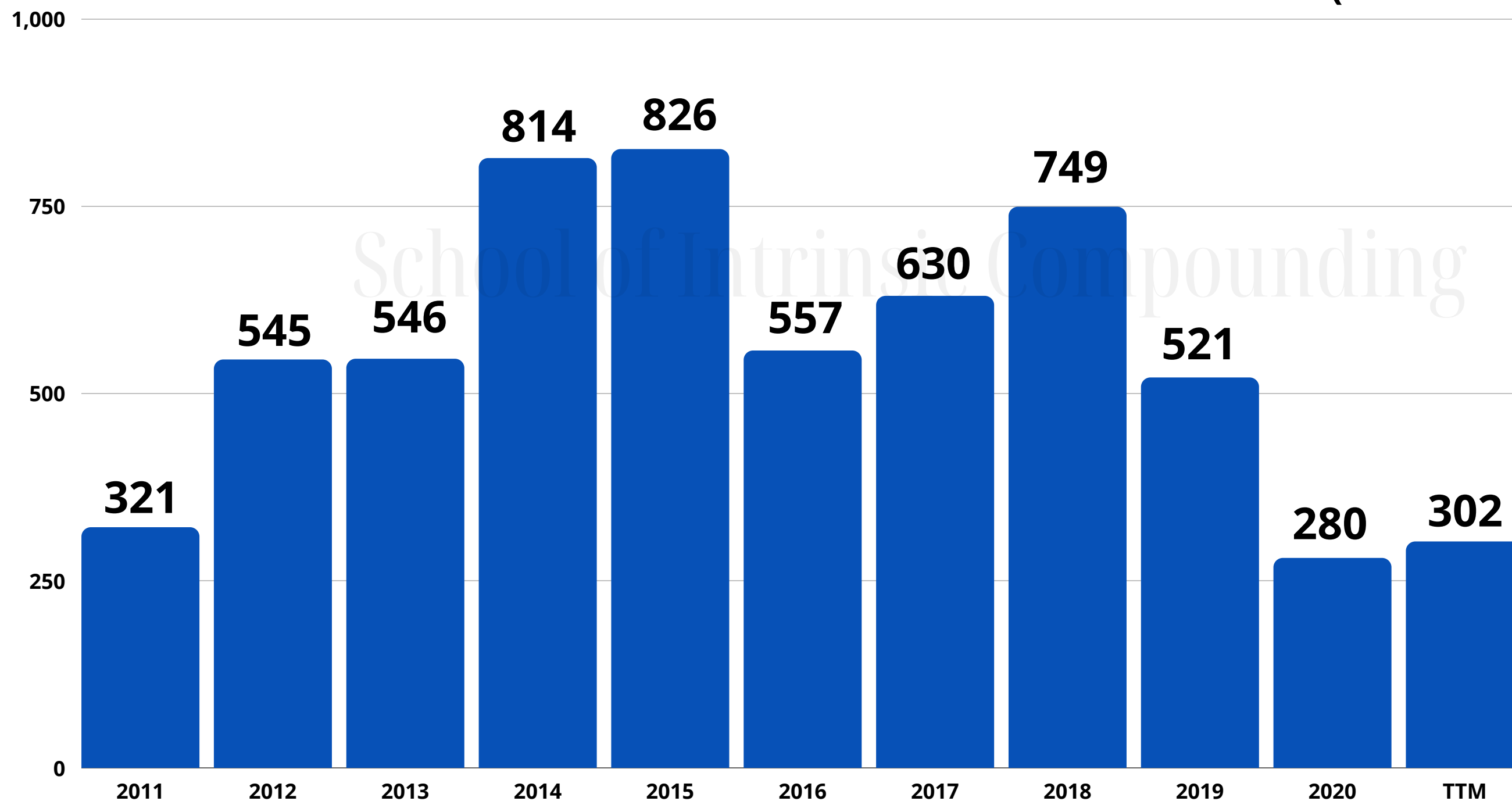


WALKING THE TALK

THE ACETONE OPPORTUNITY

ACETONE IMPORTS:

(In crores)



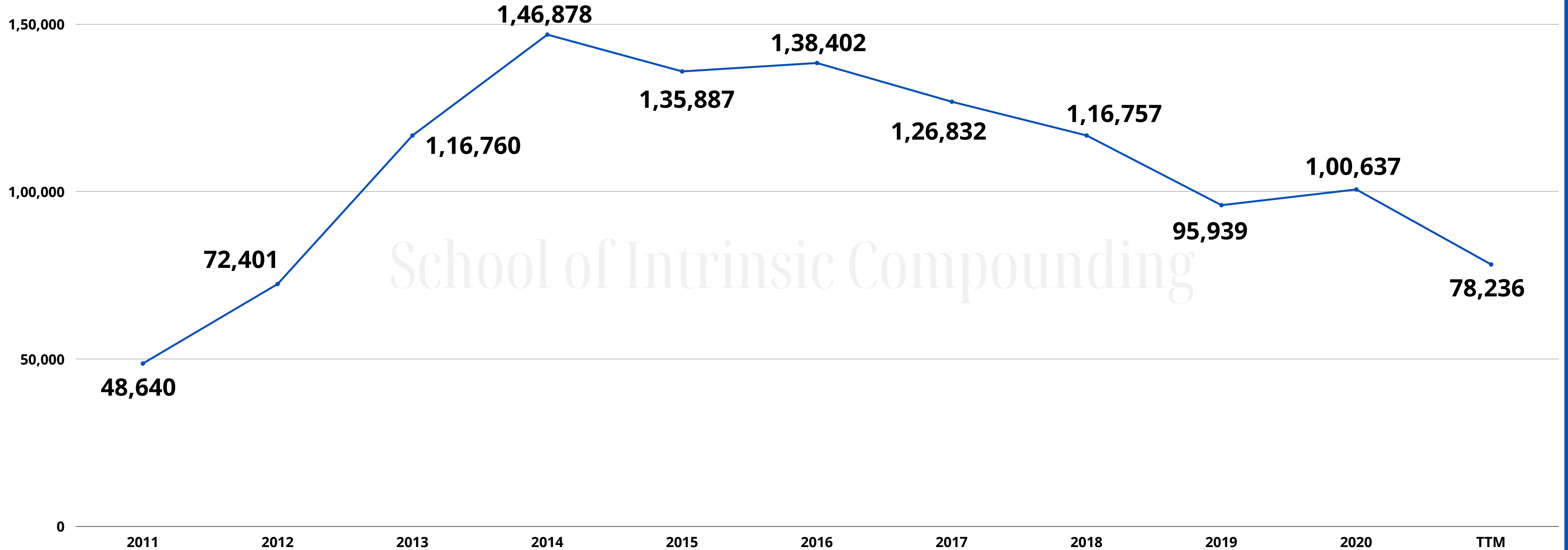


WALKING THE TALK

THE ACETONE OPPORTUNITY

ACETONE IMPORTS:

(In MT)



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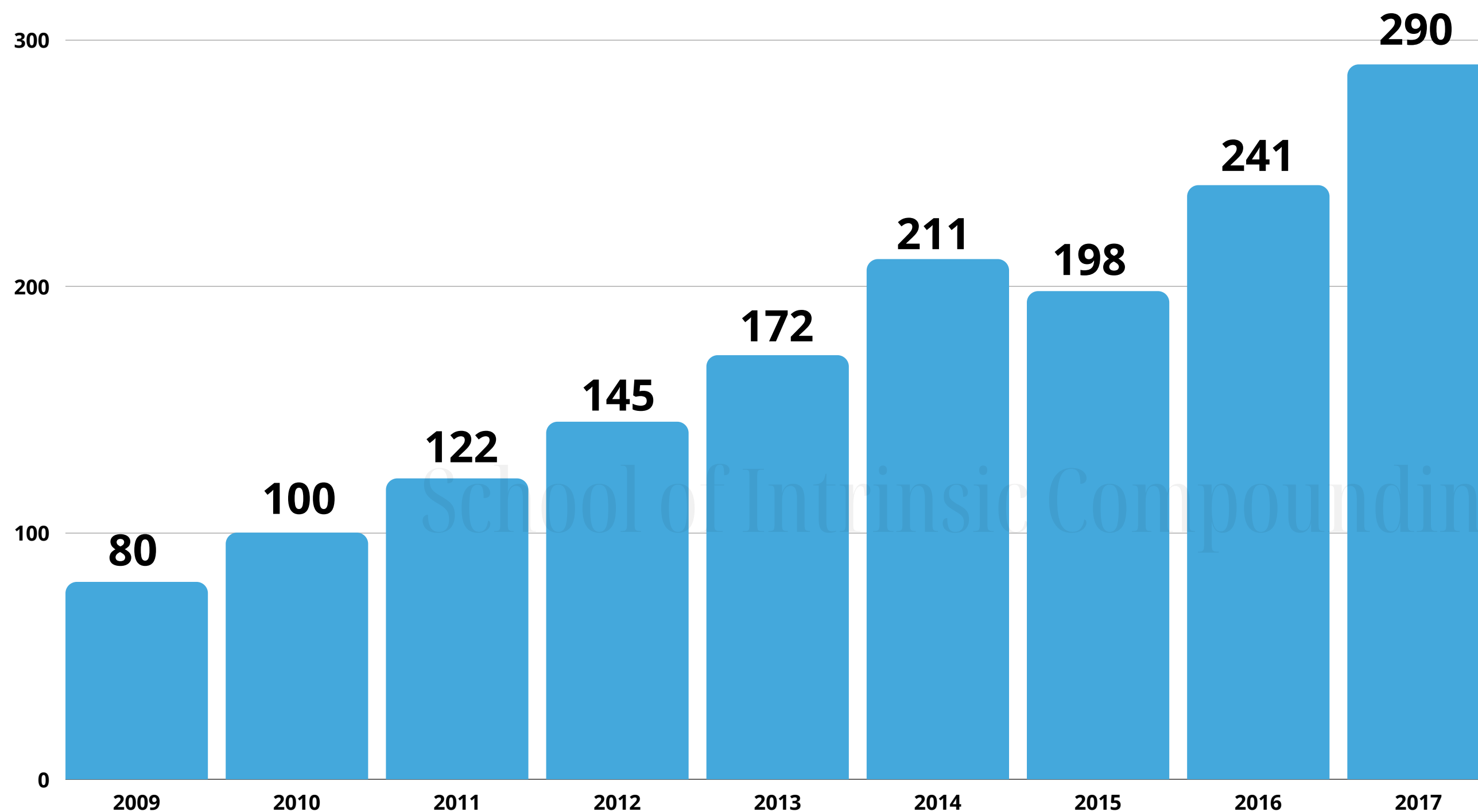


WALKING THE TALK

THE PHENOL OPPORTUNITY

PHENOL IMPORTS:

(In MT 000)



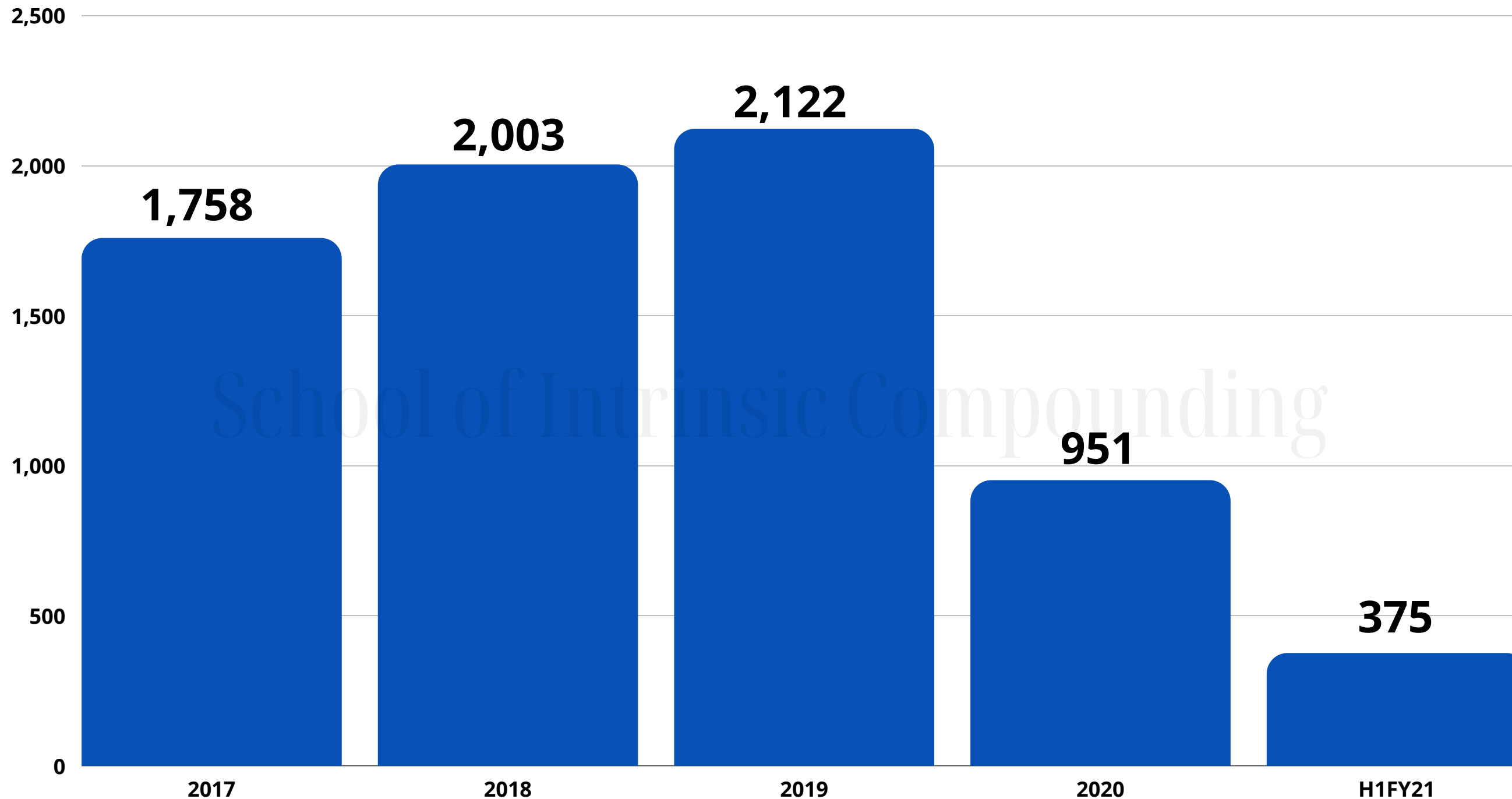


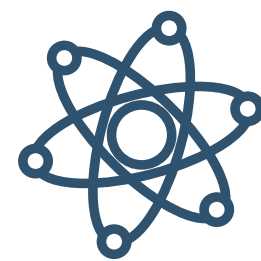
WALKING THE TALK

SUCCESSFULLY REPLACING IMPORTS

REPLACING IMPORTS

(In crores)





THE DERIVATIVES OPPORTUNITY

DERIVATIVES



OPPORTUNITY

Bisphenol A

Used in Epoxy Resins

Caprolactam

Used in packaging, clothing, carpets

Cyclohexanone

Used in Nylon 6 fiber, EP / film

Polycarbonate

Used in automobile, construction, electronics

Diacetone Alcohol

Used in paint industry

Isophorone

Used in printing & disinfectant, fertilisers / pesticides

Methyl Isobutyl Ketone

Used in paints & coatings, rubber solvent, adhesive

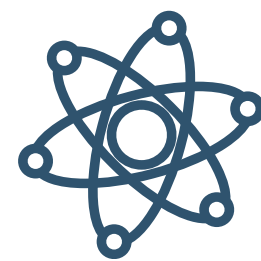
Methyl Isobutyl Carbinol

Used in lubricant additives

Methyl Methacrylate

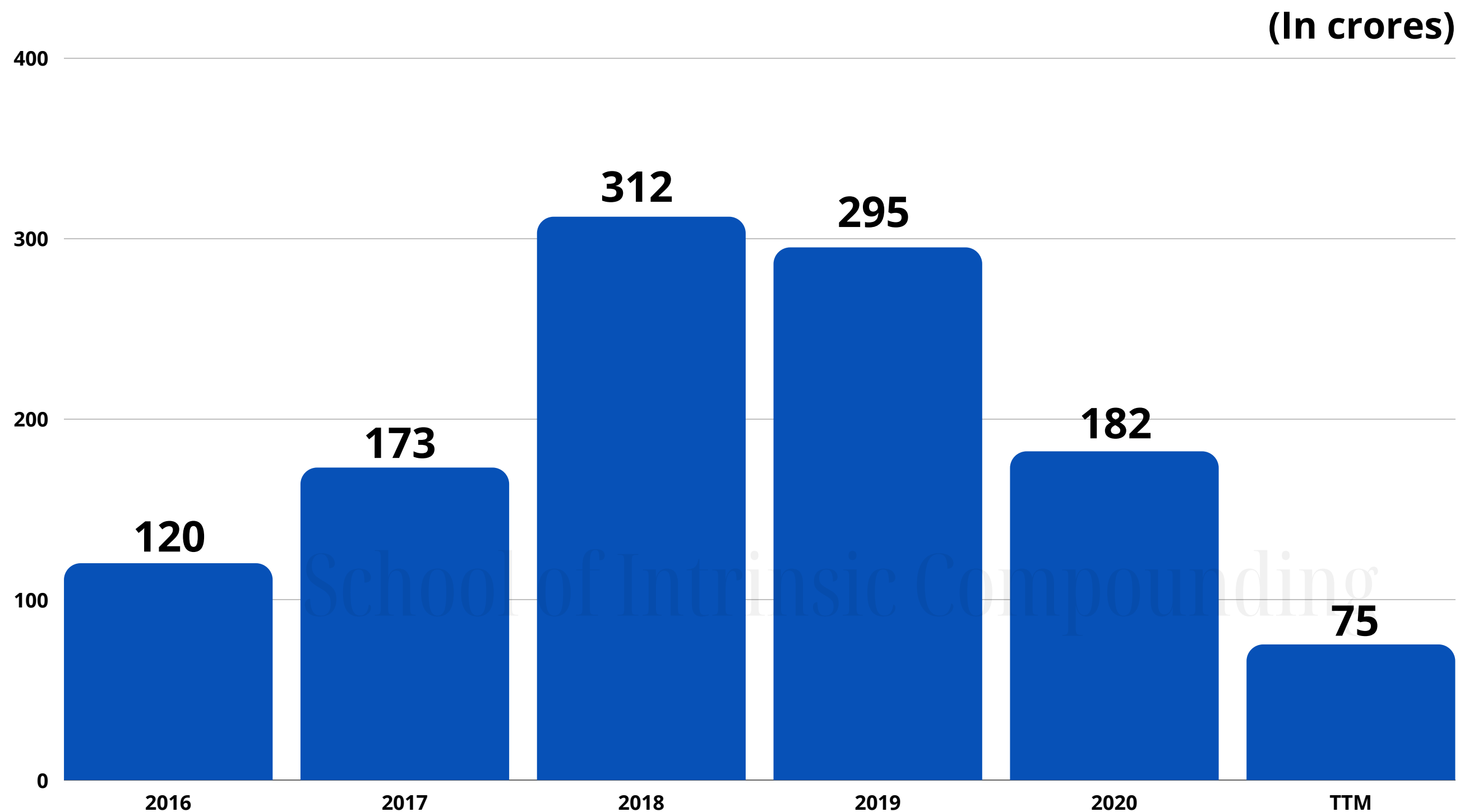
Used in automobile industry, construction





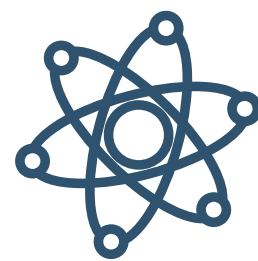
THE DERIVATIVES OPPORTUNITY

MTHYL ISOBTYL KETONE:



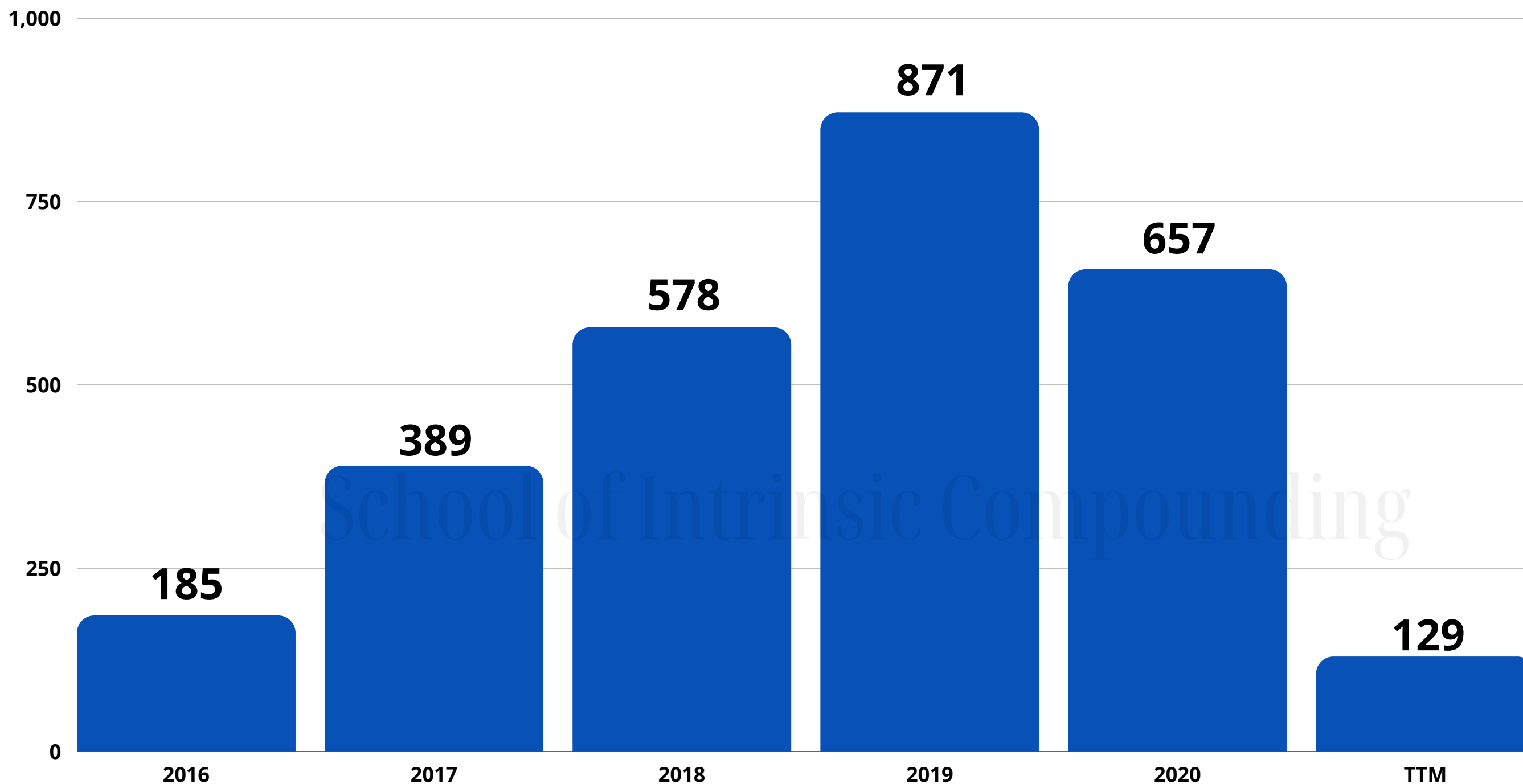
Market Size in Volumes
= 26,000 MTPA

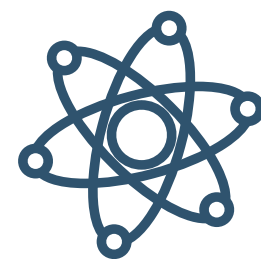




THE DERIVATIVES OPPORTUNITY

BISPHENOL A:





THE DERIVATIVES OPPORTUNITY

ISOPROPYL ALCOHOL

FY ▼	Value	Quantity KGS	Realisation	Value Growth %	Volume Growth %	Realisation Growth %
FY21	₹675 Cr	70,561,320	₹96	-9%	-50%	81%
FY20	₹740 Cr	140,684,340	₹53	-14%	11%	-22%
FY19	₹858 Cr	126,379,370	₹68	38%	29%	8%
FY18	₹620 Cr	98,150,280	₹63	28%	14%	13%
FY17	₹483 Cr	86,297,300	₹56	80%	60%	12%
FY16	₹268 Cr	53,961,090	₹50	0%	0%	0%





EXPANDING HORIZONS

1,2,4 TRIAZINONE
(METRIBUZIN)



2,3-DICHLORO
PINACOLONE



PINACOLONE



ACETONE

UNDER
DEVELOPMENT





ASIA PHENOL CAPACITY

(In Tonnes per year)

ASIA PHENOL CAPACITY		
Company	Location	Capacity
Kumho P&B Chemicals	Yeosu, South Korea	680
PTT Phenol	Map Ta Phut, Thailand	500
Formosa Chemicals and Fibres	Mailiao, Taiwan	400
Taiwan Prosperity Chemical	Kaohsiung, Taiwan	360
Mitsui Phenols	Pulau Sakra, Singapore	300
Chang Chun Chemical	Changshu, China	300
LG Chem	Yeosu, South Korea	300
LG Chem	Daesan, South Korea	300
Chang Chun Plastics	Kaohsiung, Taiwan	300
Mitsubishi Chemical	Kashima, Japan	250
Deepak Phenolics	Dahej, India	200

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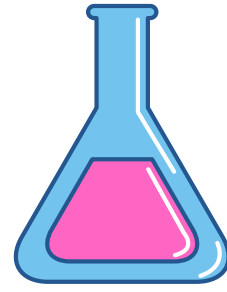


VINATI ORGANICS GETTING INTO BUTYL PHENOLS

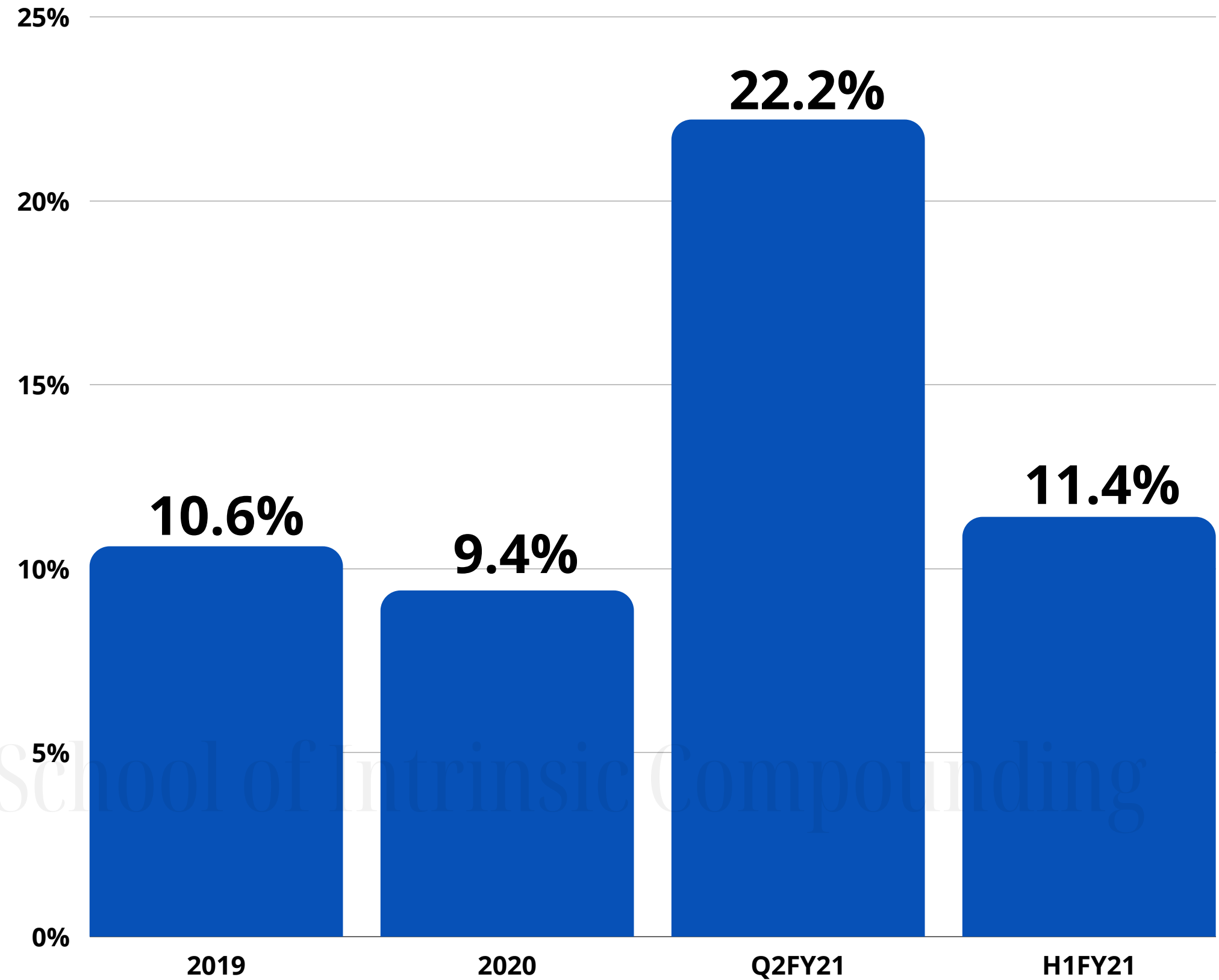
VINATI ORGANICS CON-CALL EXTRACT

Vinati Saraf Mutreja: For butylated phenol, we need about for every kilo of that approximately two-thirds phenol and one-third isobutylene and phenol is readily available in our country by manufacturers as well as imported, so we will source it mostly locally.





PHENOLICS EBIT MARGINS





LET'S SEE WHAT MR. SANJOY BHATTACHARYA HAS TO SAY ABOUT LOW VOLUME & HIGH MARGIN PRODUCTS

Contract manufacturing in a number of places. **This whole idea when you have to Manufacture in very small lots, but a very wide variety.** It doesn't make sense for very big guys to do it. To make 10 kgs or 20 kgs of a particular thing. You take Balkrishna industries, you have massive variety but problem is inventory. **The guy who can handle this challenge of Manufacturing in very small batches** and preserve the confidentiality of the client. That guy can charge a **fantastic price**, since buyer is not at all price sensitive.





FINE & SPECIALITY CHEMICALS

- These are low volume & high margin products.
- These products are specially customized as per the clients' needs & require competency in handling complex reactions.
- These intermediates find application in agrochemicals, pharmaceuticals, pigments & personal care products.



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KEY
CLIENTS

syngenta

LANXESS
Energizing Chemistry

Lonza

L'ORÉAL

 **MITSUI & CO.**

BASF





CON CALL EXTRACT Q4FY16

Umesh Asaikar:

Fine & Specialty Chemicals requires outstandingly close intimate relationship with customers. You need to engage customers on the technology and technical front, you need to design the products to attain to customers requirement of the intermediate, and you should be process strong chemical process to be able to win the customer's confidence, this is point no. 1. Point no. 2 is, all these customers are basically in Agro and Pharmaceutical field. So they come and do very severely strong audit of our manufacturing facilities. Based on this, we are very hopeful of building up Fine & Specialty Chemicals segment to more than double what it is there today in 3-4-years time. It will not be appropriate, Mr. Janakiraman, I think you will pardon me for this to disclose what kind of product intermediates we are working on.





CON CALL EXTRACT Q4FY16

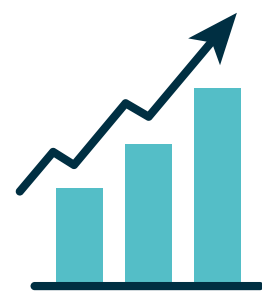
Abhijit Akella:

For this Pharma and Personal Care Intermediates, have we put in place CGMP manufacturing facilities? What is the exact competitive advantage that Deepak Nitrite has over other companies that might be targeting the same customers?

Umesh Asaikar:

CGMP grade facilities are required for pharmaceutical formulations and to some extent they are required for chemical FDA approval at active stage. We do not manufacture Agrochemical or Pharmaceutical Actives. So that is the API game. We are not in API game; we are N-1 or N-2, we supply Intermediates which the customer buys from us and will convert that into an API. For example, we would have a product which we give even to Chinese customers and Indian customers, from there they would manufacture an analgesic anti-inflammatory kind of API active called Methanoic Acid for example, so for Methanoic Acid and its formulations you require CGMP facilities, not for N-1 or N-2 of Methanoic Acid. We all heard about Crocin. It is basically Paracetamol (P-Acetyl-Aminophenol) That is the active name. We do not manufacture Paracetamol, but we would give N-1 or N-2 of Paracetamol, we sell Intermediates.

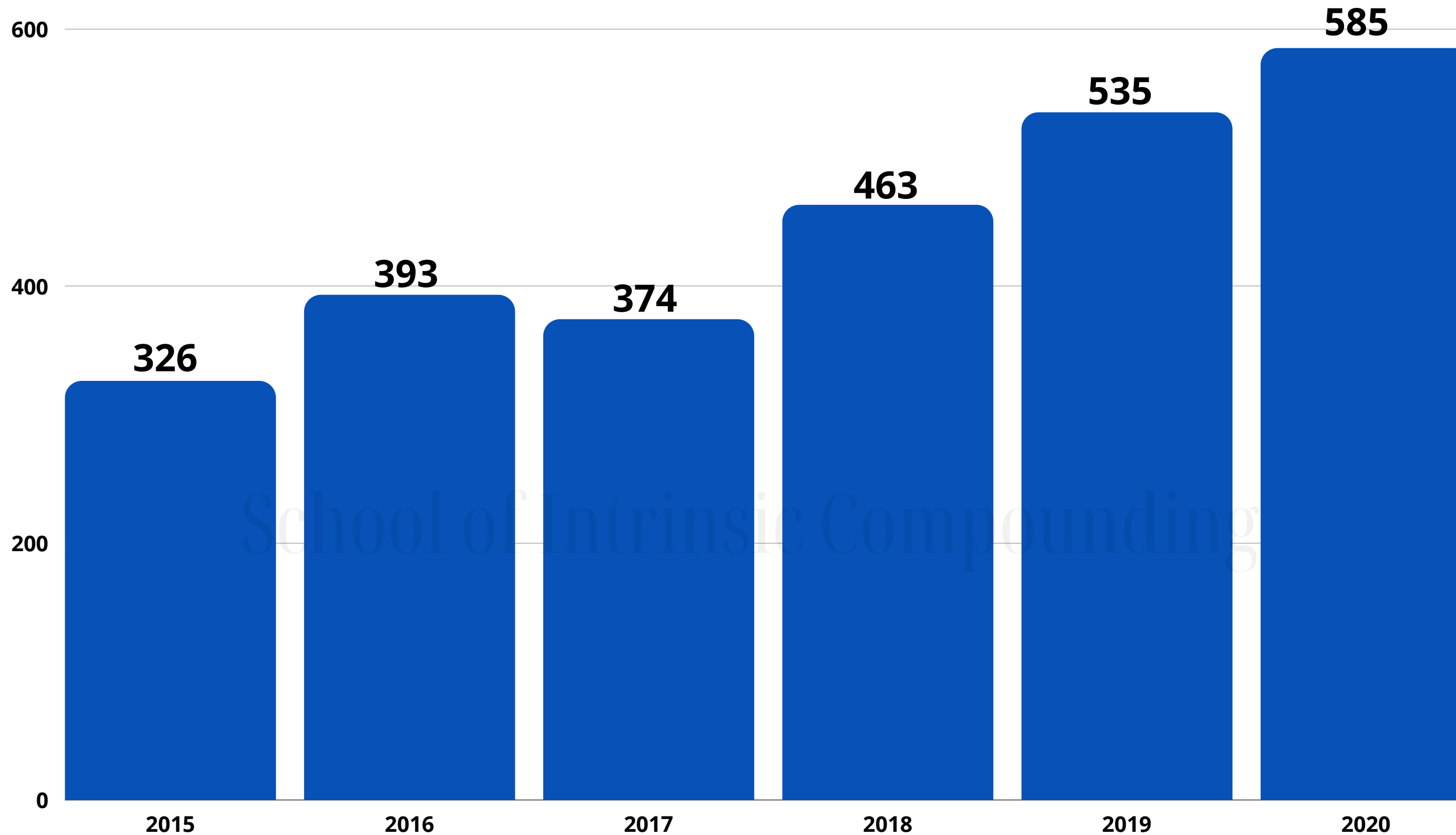


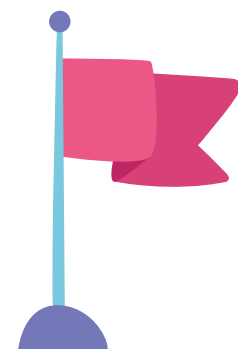


FINE & SPECIALITY CHEMICALS

(In crores)

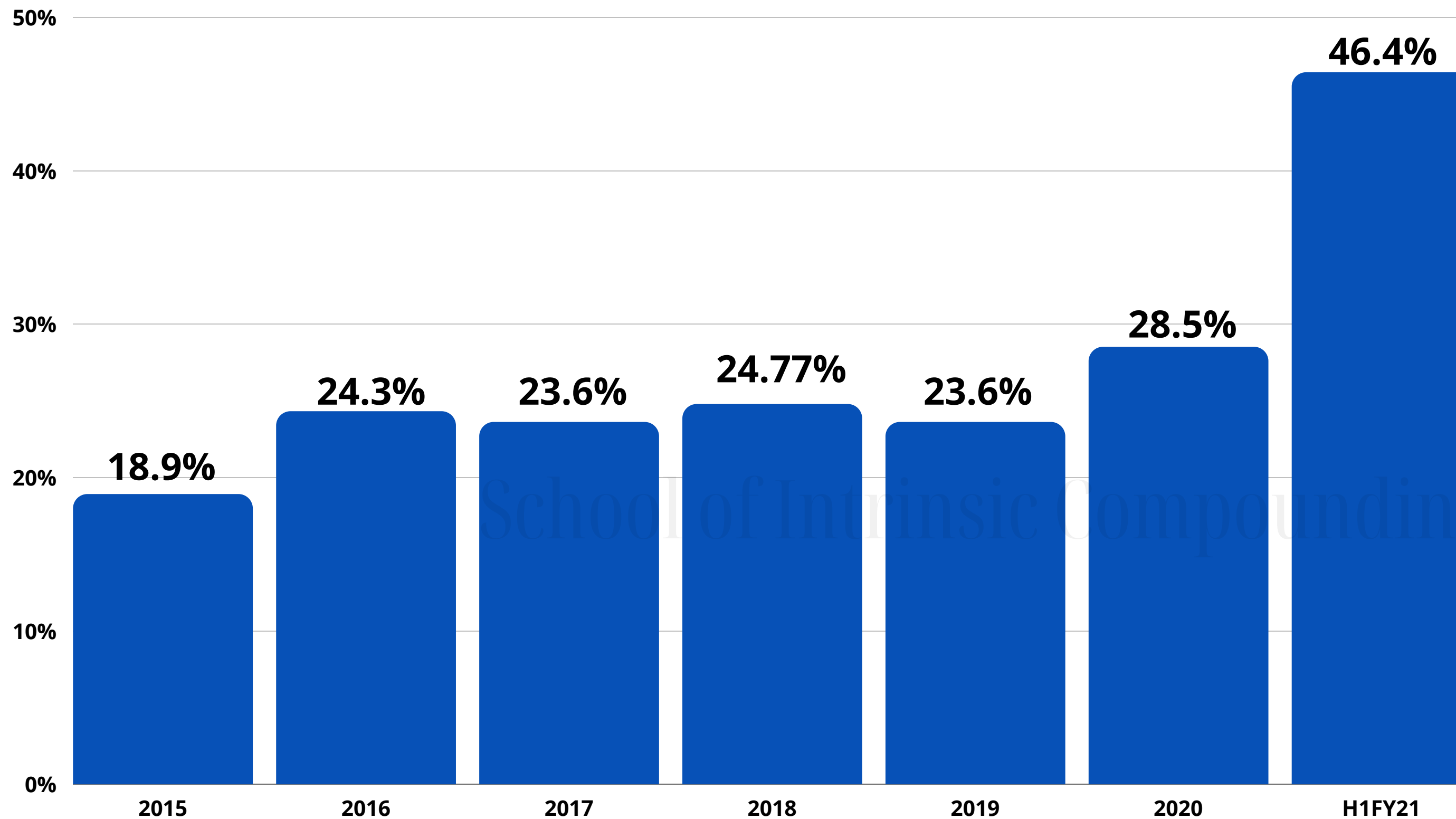
SALES GROWTH IN F&S

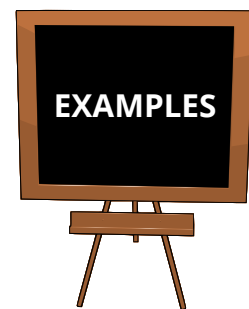




FINE & SPECIALITY CHEMICALS

EBIT MARGINS





EXAMPLES

PHARMACEUTICAL INTERMEDIATES:

Sodium Nitrite

Protecto FX (Yellow Colour)

MCB (Mono Chloro Benzene)

MT(m-Toluidine)

MNT(3- Nitrotoluene)

PNT(4- Nitrotoluene)

ONT(2- Nitrotoluene)

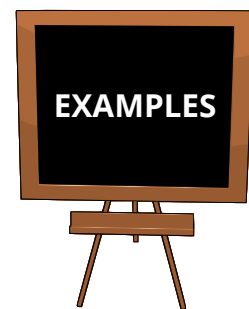
2,3-Xylidine

2,6-Xylidine

TFMAP

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EXAMPLES

AGROCHEMICAL INTERMEDIATES:

Protecto FX (Yellow Colour)

Protecto B+ (Brown Colour)

Protecto GLP (Yellow Colour)

MCB (Mono Chloro Benzene)

MT(m-Toluidine)

MNT(3- Nitrotoluene)

PNT(4- Nitrotoluene)

ONT(2- Nitrotoluene)

3-NOX

4-NOX

2,6-Xylidine

2,4-Xylidine

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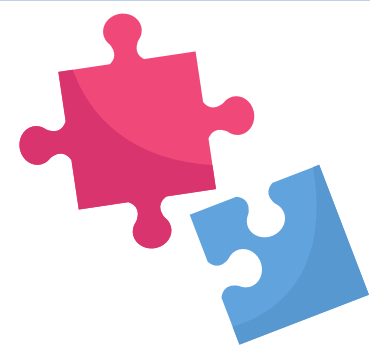




WHAT ARE PERFORMANCE PRODUCTS ?

- Fluorescent Whitening Agents are brighteners commonly used in industries like paper, detergents, textiles, coating applications in printing, and photographic paper.
- These products have strict requirements in terms of performance and technical specifications.
- Deepak fully integrated manufacturer of OBA which is backward integrated up to the feedstock of Toluene to PNT and further into DASDA and OBA.
- Depending on the customer's need, the active chemical of OBA is blended with other formulations, either in liquid or solid form
- DASDA is used as an intermediate in the manufacturing of optical whitening agents and dyestuffs.





OBA MANUFACTURING VALUE CHAIN





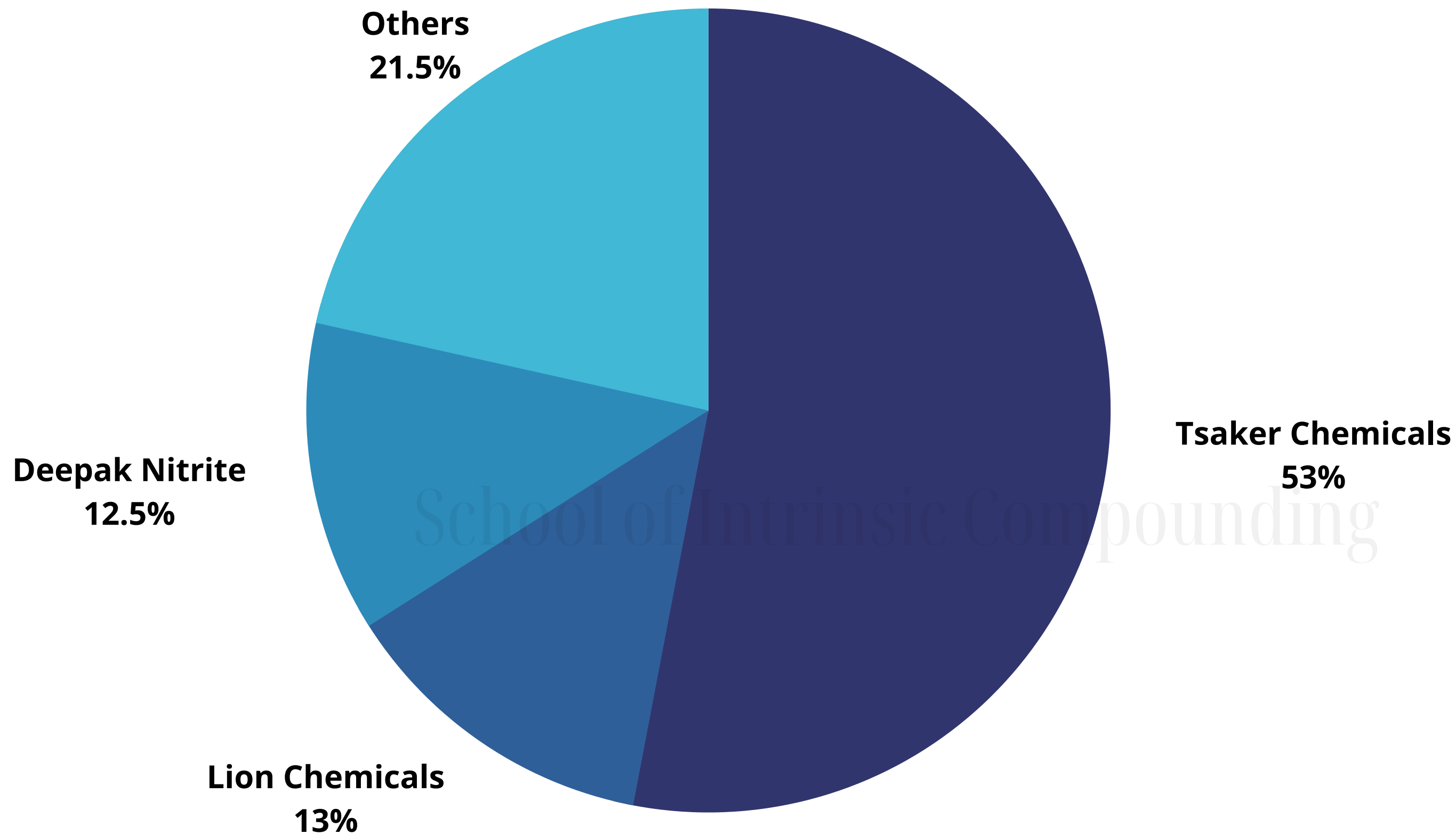
DISRUPTION IN CHINESE SUPPLY

- On April 18, 2018, a programme titled “when shall illegal pollution discharge be stopped” in 30 minutes in Business News was broadcast on CCTV Economic Channel, covering the environmental pollution issues of Guanhekou Chemical Industrial Park.
- The second day, the local government of Guanyun County commenced rectifying Lingang Chemical Industrial Park and Lion Chemical was shut down.





MARKET SHARE IN DASDA

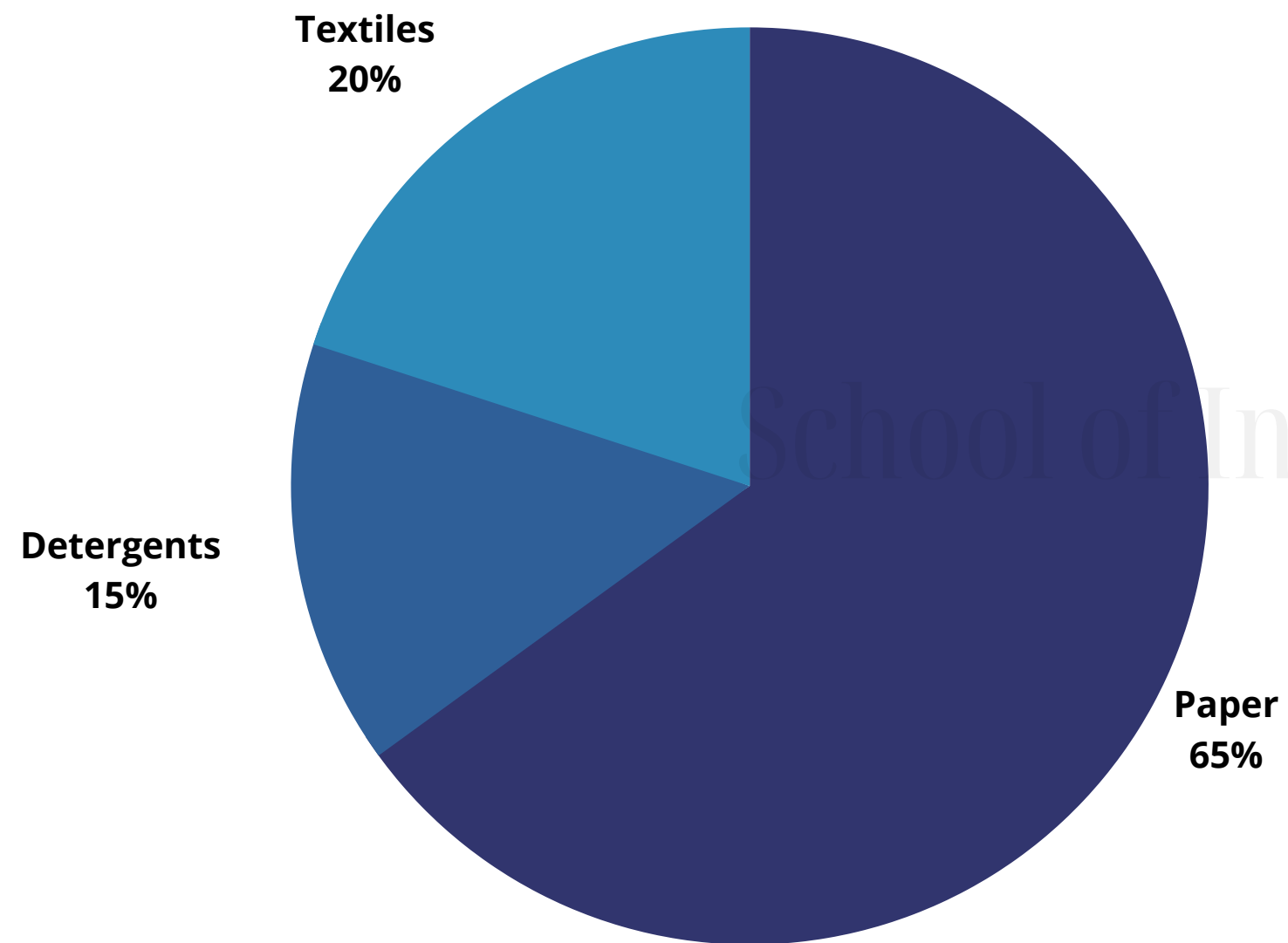




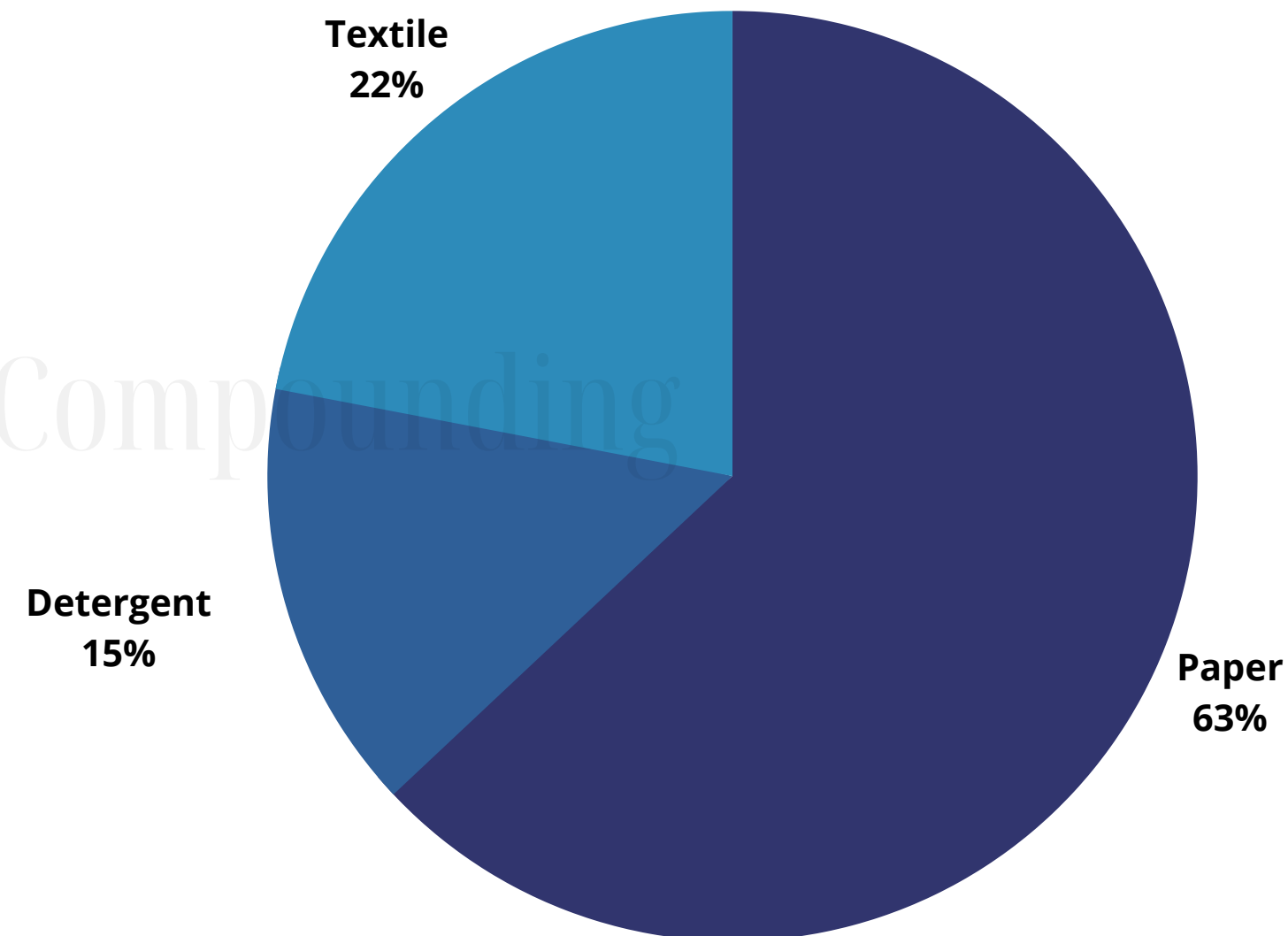
OBA END USAGE



GLOBAL

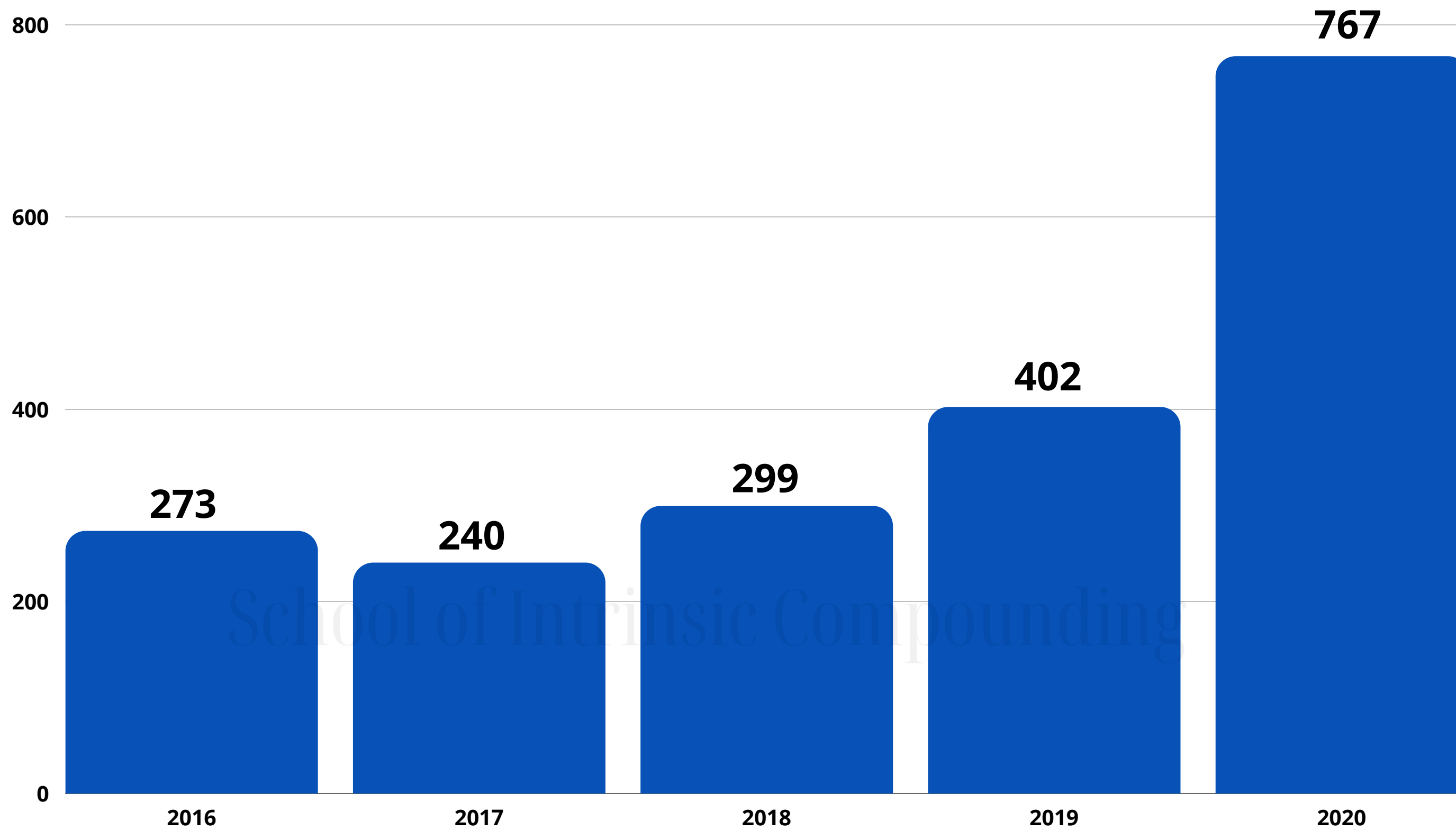


INDIA



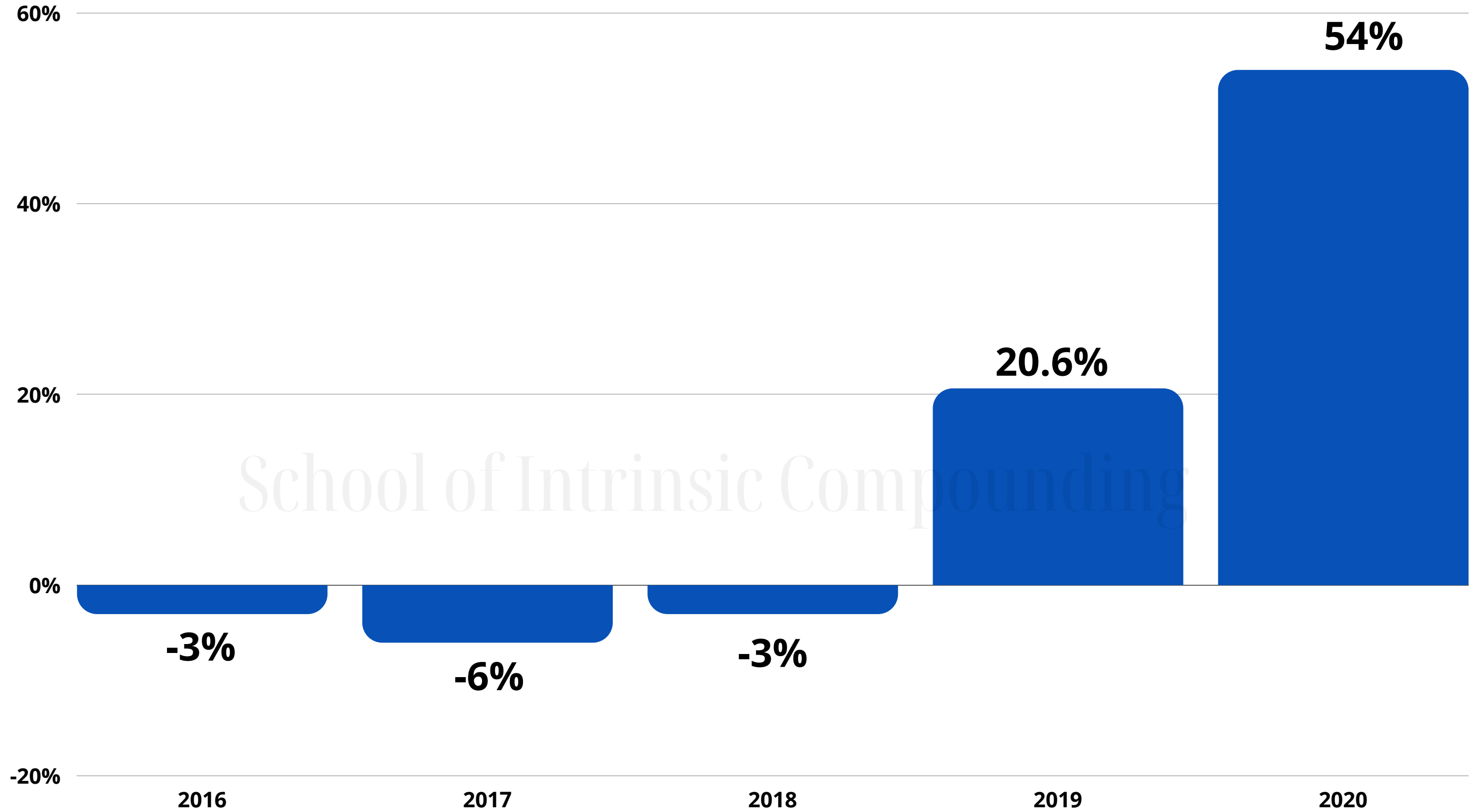


OBA REVENUES





OBA EBIT MARGINS





KEY CLIENTS



Himatsingka

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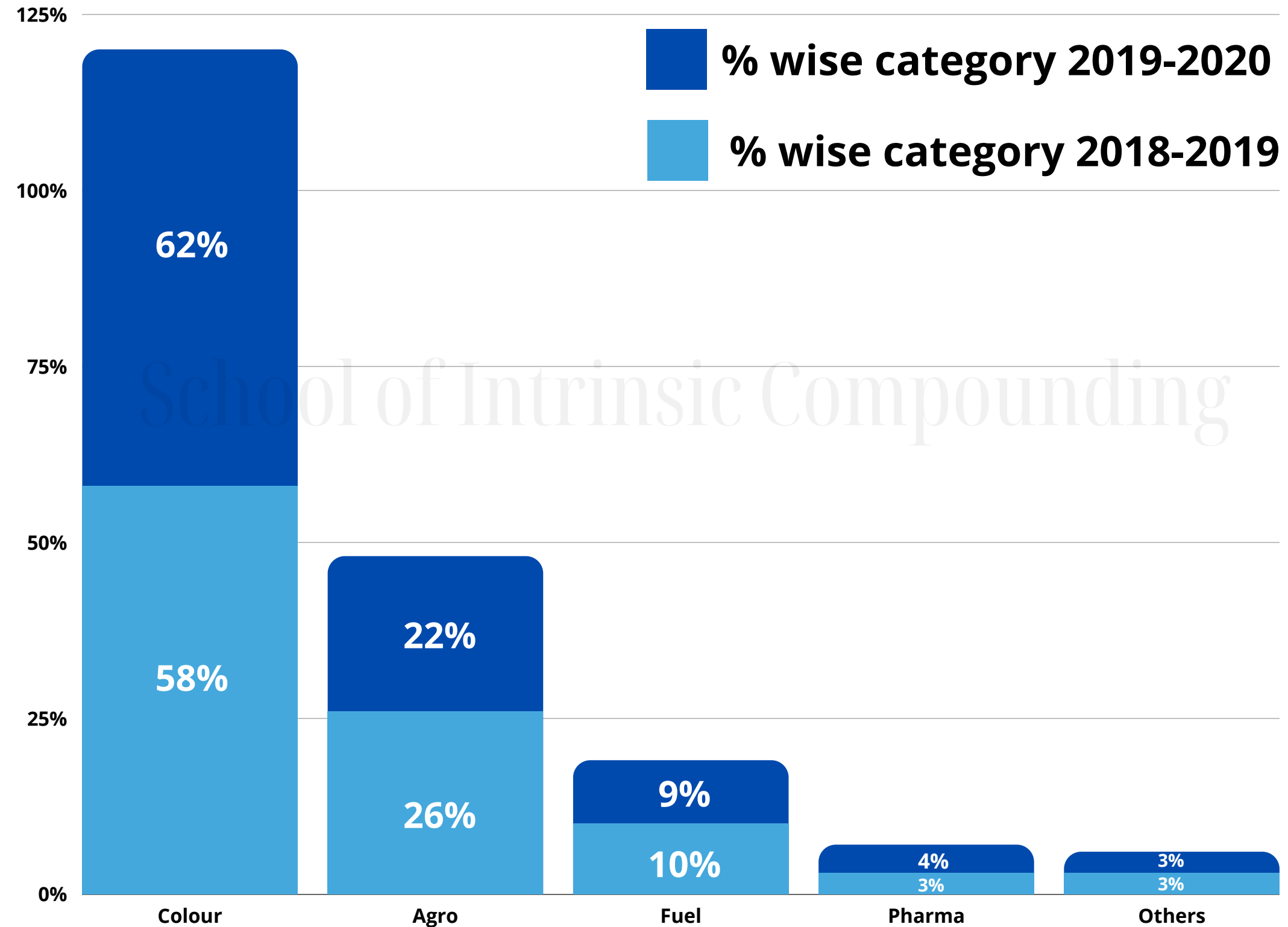
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REVENUE MIX BY APPLICATION

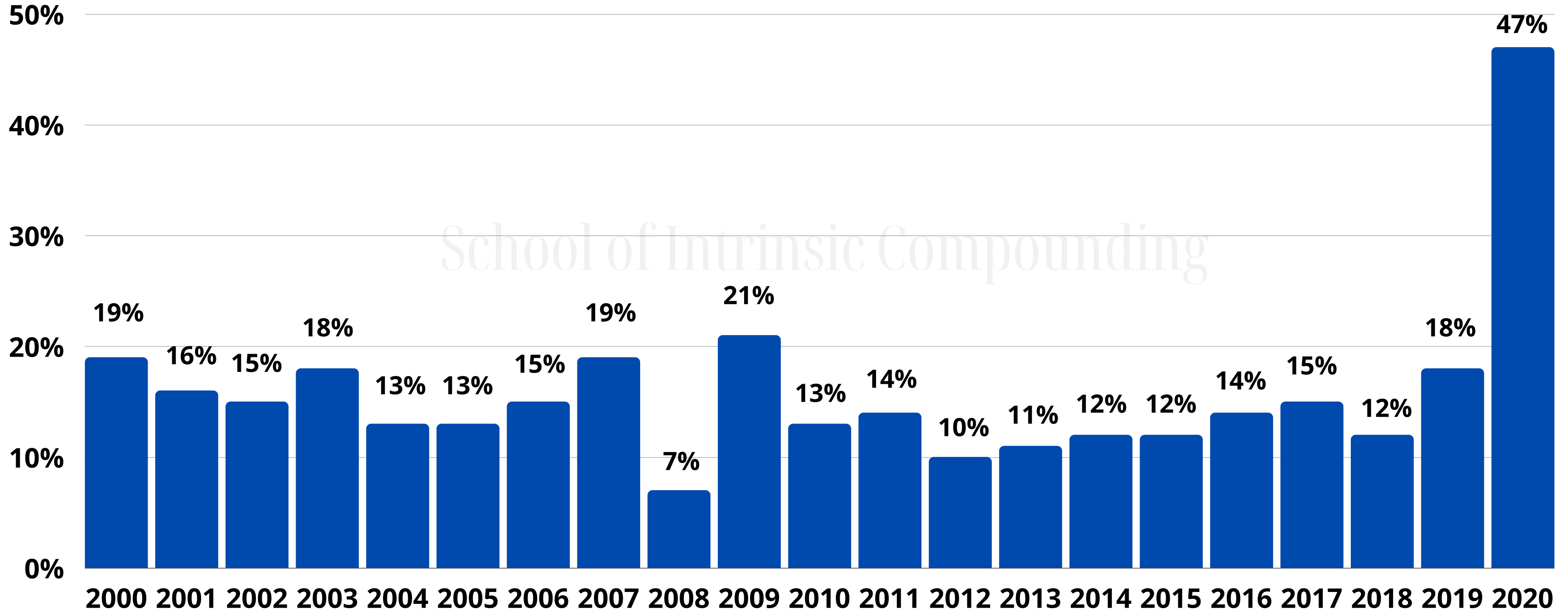




RETURN ON CAPITAL EMPLOYED



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VALUATIONS



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**DHARAMSI MORAJI
CHEMICALS**



BODAL CHEMICALS



DEEPAK NITRITE



NAVIN FLUORINE



VINATI ORGANICS

**DHARAMSI MORAJI
CHEMICALS CO: P/E = 7**

BODAL CHEMICALS: P/E = Below 10

DEEPAK NITRITE: P/E = 15+

NAVIN FLUORINE: P/E = 50+

VINATI ORGANICS: P/E = 30+

THESIS POINTERS



**PRODUCT
MIX CHANGE**

**IMPORT
SUBSTITUTION**



**PHENOL DERIVATIVES +
KNOWLEDGE INTENSIVE
PRODUCTS**

TAILWINDS

MANAGEMENT

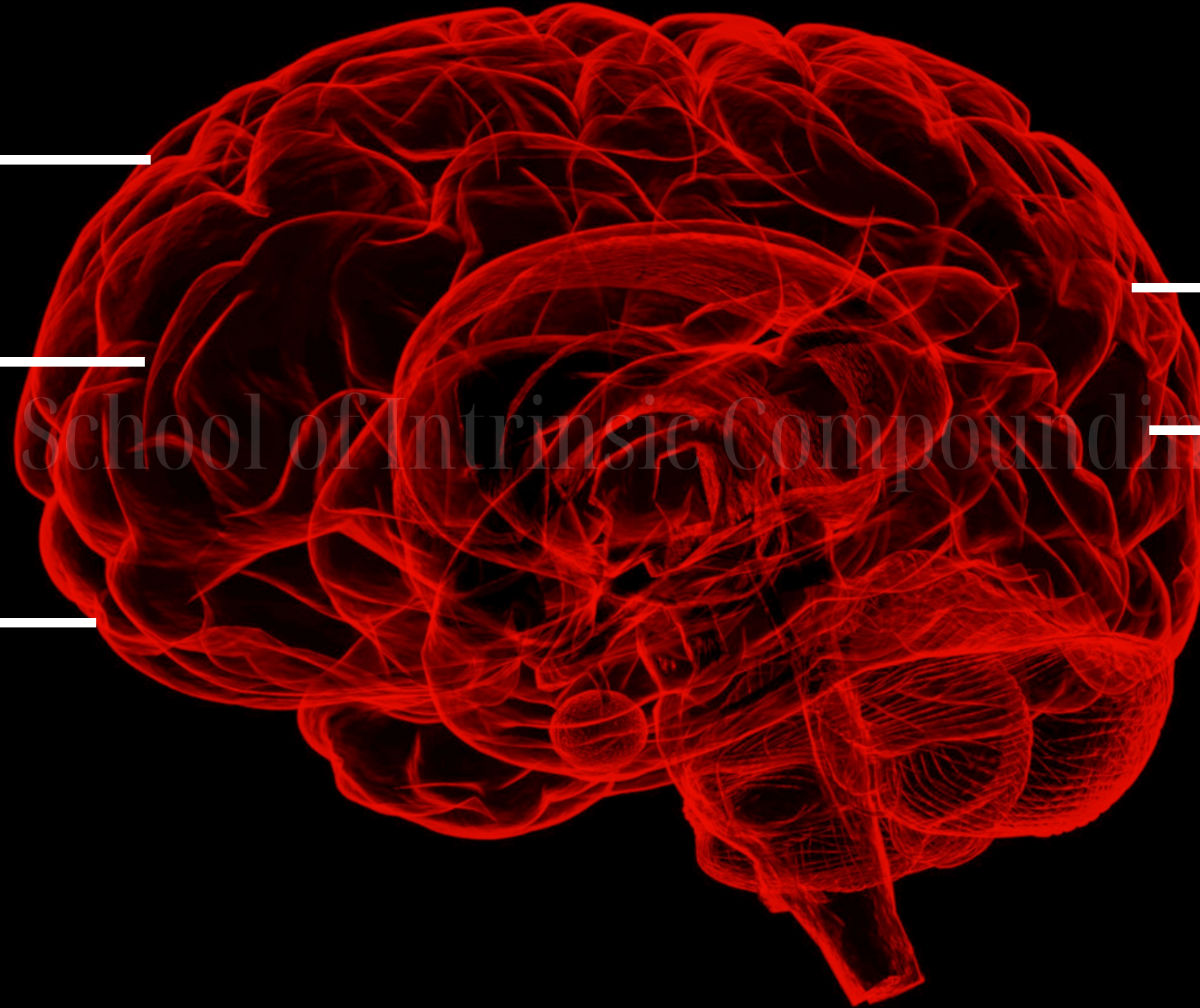


ANTI-THESIS POINTERS

MARGIN VOLATILITY

**SOME DERIVATIVES
ARE COMMODITISED**

**EXHAUSTION OF
GROWTH IN BASIC
CHEMICALS**



RISK OF FIRE

**MARGIN VOLATILITY
/PRICE TAKER**

School of Intrinsic Compounding

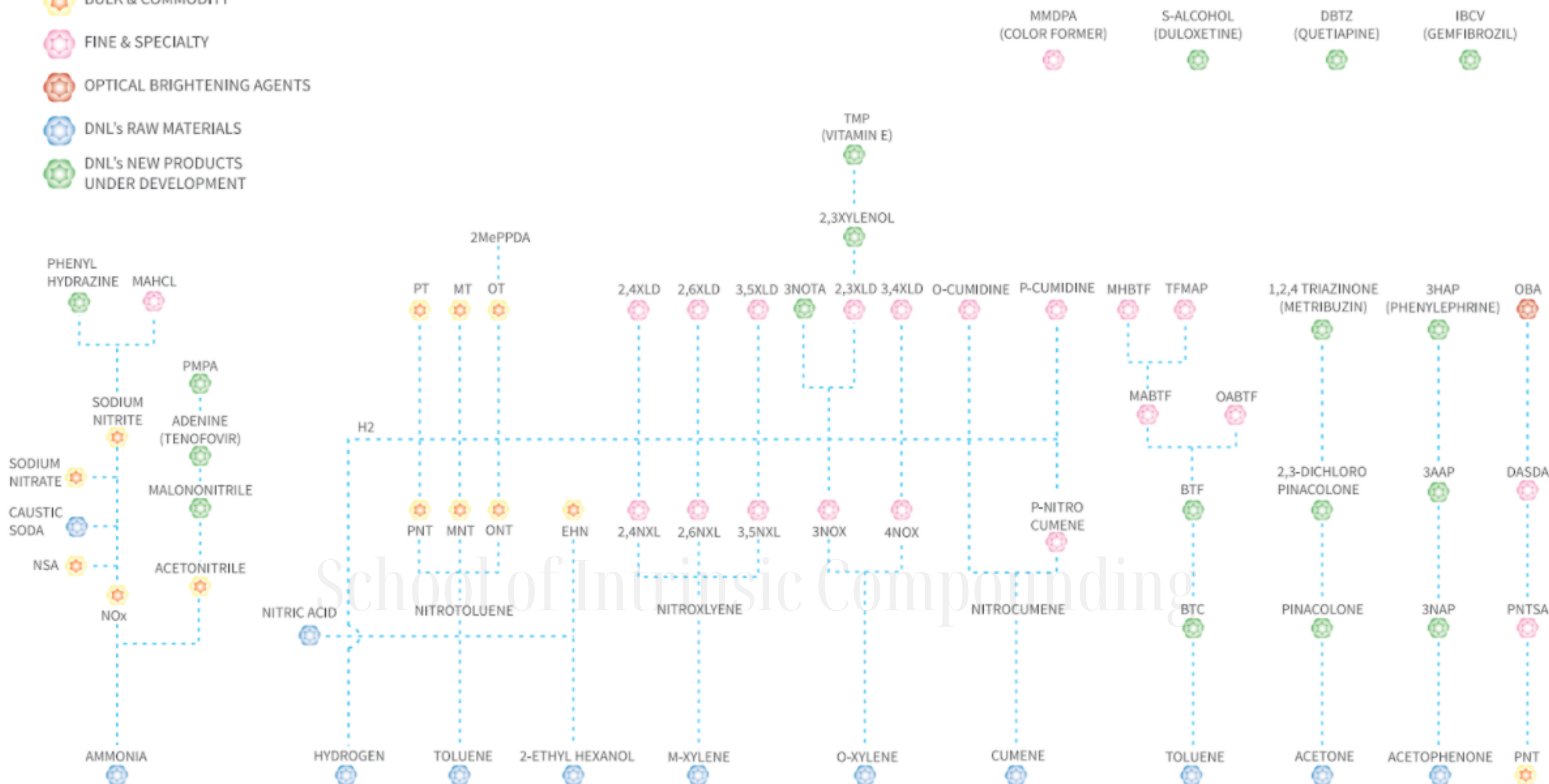


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VALUE CHAIN OF PRODUCTS

- BULK & COMMODITY
- FINE & SPECIALTY
- OPTICAL BRIGHTENING AGENTS
- DNL's RAW MATERIALS
- DNL's NEW PRODUCTS UNDER DEVELOPMENT



MASTERCLASS WITH SOIC

DEEP DIVE IN THE **INDIAN** CHEMICAL INDUSTRY



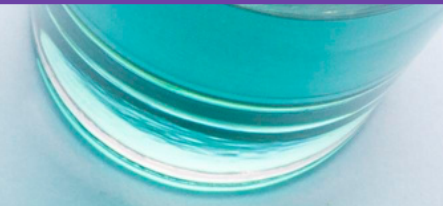
**SOIC SPECIALITY
CHEMICALS WEBINAR**



SPEAKER: ISHMOHIT ARORA



DATE: 27TH DECEMBER 2020



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