

DEEPAK NITRITE LTD

STOCK ANALYSIS

UPDATED ON

04 July 2022

Our Investment Mantra

Look for Companies that consistently grow their Revenue, Profits & Free Cash Flow by maintaining a stable or increasing Profit Margin & ROCE with a manageable amount of Debt.



Product B

Product C

FINVEZTO

Product	Y1	Y2	Y3
Product B	10	15	20
Product C	75	100	125

Column Chart

Stacked Column

Product 1 Product 2 Product 3

Y1 Y2 Y3

Y1 Y2 Y3

Y1 Y2

Analysis Methodology



Analysis Methodology

The 3 Checks



1 Quality



2 Safety



3 Value





01 Quality

- Growth
- Profitability
- Efficiency
- Cash Flow Assessment
- Quality Assessment of Revenue and Profits
- Pricing power & Competitive Advantage Assessment
- Is the Business Creating “Value” for Shareholders?
- Dividend Payout Assessment





02 Safety

- Debt & Leverage
- Liquidity
- Red Flags & Suspicious Activities Checklist

FINVEZTO

03 Value



- Intrinsic Value
- Intrinsic Value Growth Rate
- Future Growth already accounted for in Share Price
- Margin of Safety (Quantitative & Qualitative)
- Mind Value of Investors

Let's start with 01. Quality Check

\$81,725

Quality - Dashboard

Revenue & EBIT in ₹Cr



EBIT Margin %



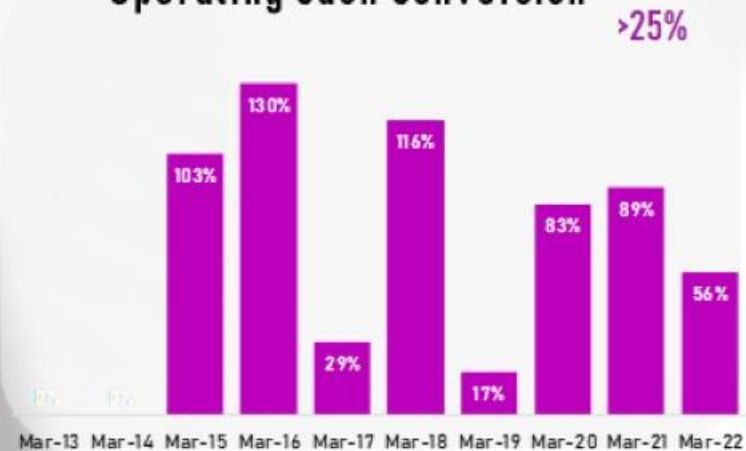
Return on Capital Employed ROCE %



FCFF & FCFE



Operating Cash Conversion

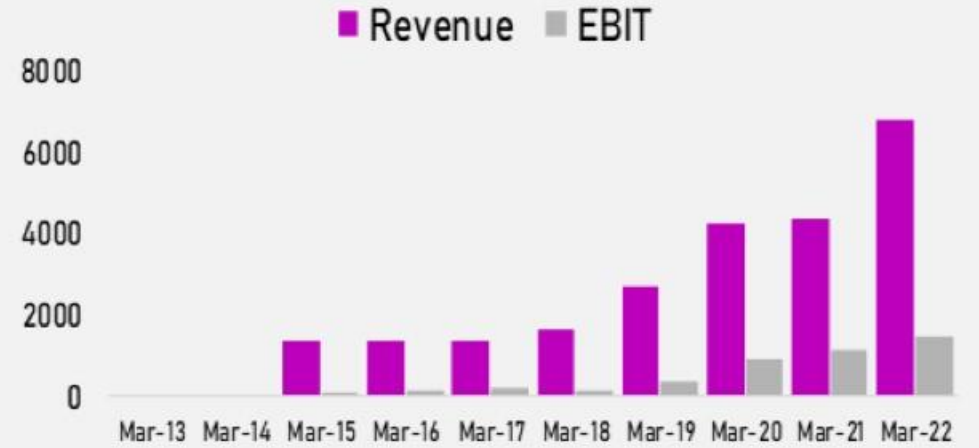


Revenue & EBIT Growth

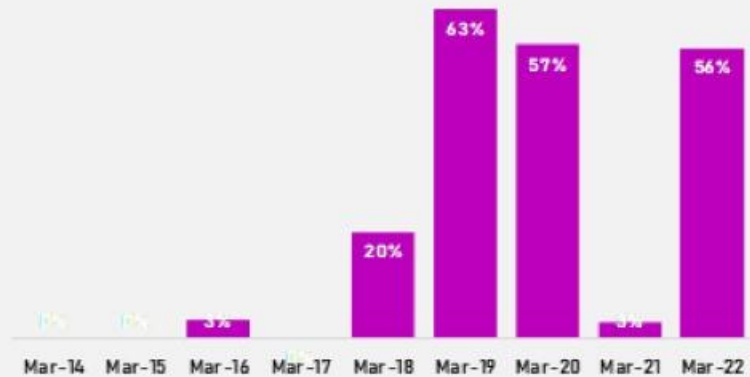
- ✓ The first indicator of quality is consistency in growth of Revenue & EBIT
- ✓ The graph on the right shows the last 10-Years Revenue and EBIT of this company
- ✓ Look for a consistent rising trend in Revenue & EBIT
- ✓ Poor Revenue Growth could indicate lack of demand for the company's products due to declining quality, lack of skills of the company personnel etc.

ALERT: When you read the Annual report, check if the Revenue growth has come through more Volumes sold or an Increase in Price.

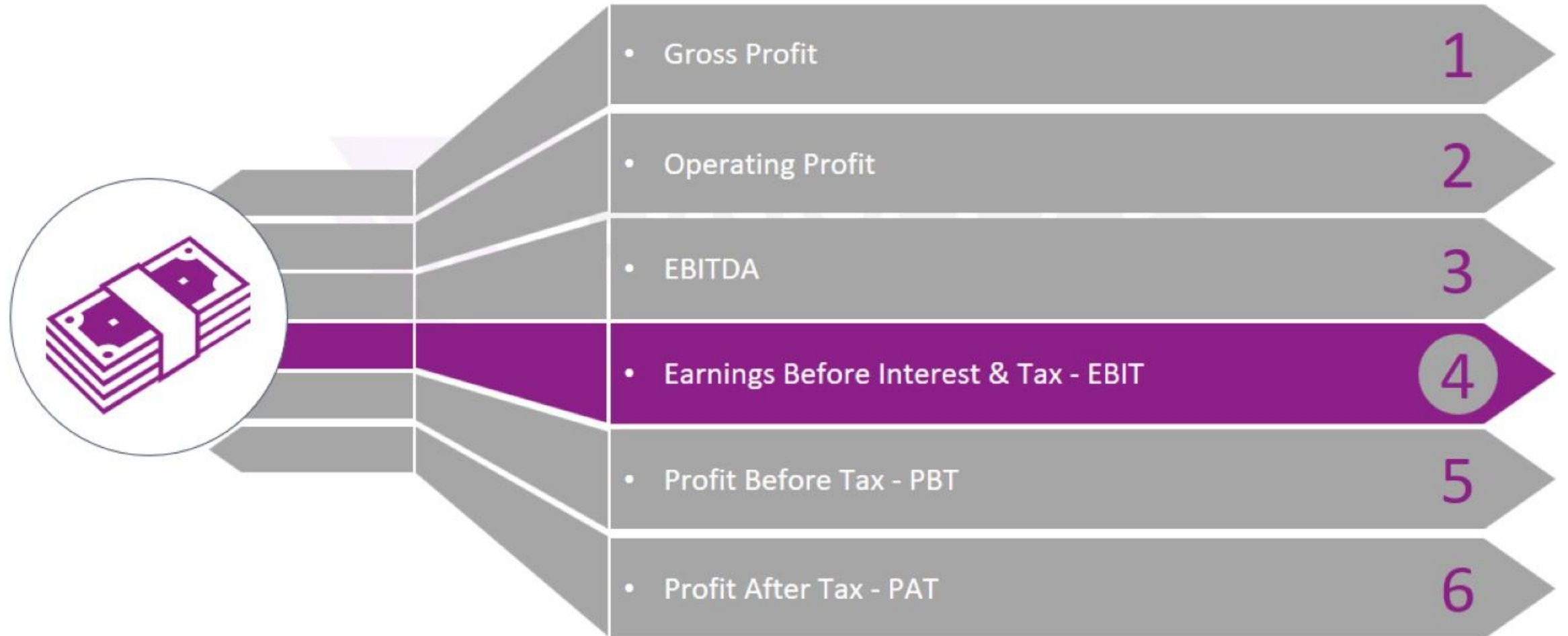
Revenue & EBIT in ₹Cr



Revenue Change %



Note: There are 6 Profit Measures. But, we prefer to use EBIT in most of our calculations. EBIT is the core business profit before reducing the financing expenses. It is a cleaner number than Profit After Tax and helps in gauging the business better.



EBIT Margin %

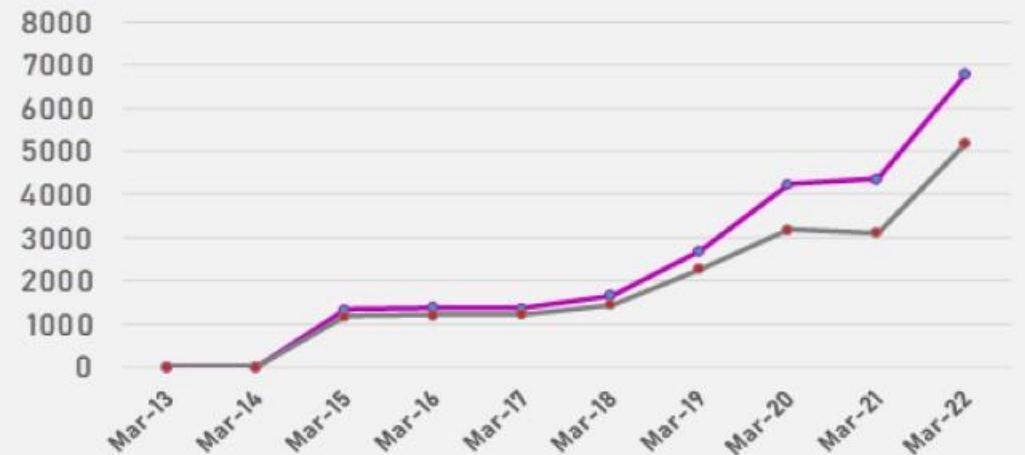
- ✓ The graph on the right shows the last 10-Years EBIT Margin% during the different economic cycles.
- ✓ Look for Stable or Increasing Margins.
- ✓ If a company can maintain its margins for several years, it indicates pricing power & competitive advantage.
- ✓ Fluctuations in the Margin could indicate a Cyclical business. We usually avoid investing in such stocks.
- ✓ Look for Businesses with an Average EBIT Margin of at least 10%
- ✓ EBIT margin will vary across sectors. Please compare it with peers.

ALERT: Check if the EBIT margin has grown because of increasing revenues or reducing costs. If it is mainly because of reducing costs, then protecting future margins might not be possible. You should stay away from such companies.

EBIT Margin %



Revenue Expenses



Factors affecting EBIT Margin

Price

Higher Product Prices boost Margin.
It is the ability of the company to command a premium in the market.

Cost Structure

Companies with high fixed costs see an increase in margins when revenue increases.

Revenue Mix

Some products are more profitable than other products that the company sells.

Volumes Sold

Increase in the volume of products sold by the company.

Operational Leverage

Increase in Sales elevating the Profit Margins. Typical to Manufacturing Businesses.

ROCE

- ✓ $ROCE = EBIT / \text{Average Capital Employed}$
- ✓ The graph on the right shows the last 10-Years ROCE
- ✓ ROCE indicates the profits the company is generating using the capital available. It indicates if the borrowed debt and shareholders' capital is being put to good use or not.
- ✓ It is also indicative of how well the management is allocating capital.
- ✓ ROCE should be stable and increasing. Check if the ROCE is at least 10% or above.

Return on Capital Employed ROCE %



ROCE - DuPont Analysis

$$\frac{EBIT}{Capital\ Employed} = \frac{EBIT}{Sales} * \frac{Sales}{Capital\ Employed}$$

- ✓ ROCE can also be thought of as a product of EBIT Margin and Capital Turnover
- ✓ EBIT Margin % = EBIT / Sales
- ✓ Capital Turnover = Sales / Capital Employed
- ✓ Capital Turnover spots how effectively a company is using its capital to produce sales
- ✓ DuPont ROCE tells us whether the ROCE is increasing because of EBIT Margin or Capital Turnover or both.



Factors affecting Capital Turnover

New Products Sale

New Brands and products boosting Sales.

Capital Employed

A Reduction in Capital Invested could boost Capital Turnover.

Working Capital

Lesser Inventory; Collecting Customer payments quickly; Paying Suppliers late.

Reduction in New Assets

Company focuses on improving efficiency rather than creating new assets

Getting Rid of old assets

Companies get rid of their underperforming assets that have low capital turnover or ROCE.

Why ROCE is high for some Businesses?

- ✓ Some companies such as Hindustan Unilever have very high ROCE (More than 100%)
- ✓ Also, few retail store chains, airlines etc have high ROCE.
- ✓ One of the main reasons is that these companies are not owning the retail outlets. Rather, they have rented the retail outlet, or they operate on a franchise model or dealership model.
- ✓ If the stores are owned (asset side), it will create a parallel entry in the liability side of the balance sheet. The Capital Employed will shoot up and it will reduce the ROCE.
- ✓ Hence, don't get carried away by the high ROCE value.
- ✓ You should calculate an adjusted ROCE if sales from rented outlets is a significant part of the business.
- ✓ This is one of the reasons why Capital-Intensive Businesses have a low ROCE.

FREE CASH FLOW (FCF)

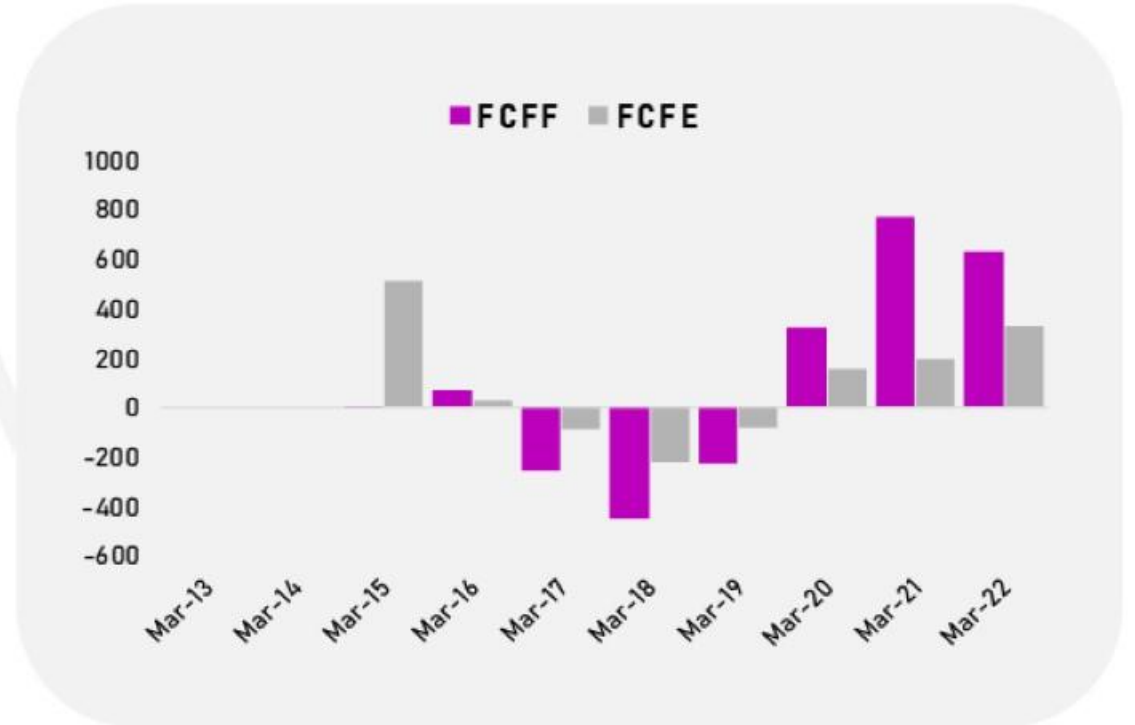
- ✓ $FCF = \text{Cash Flow from Operations} - \text{Capex}$
- ✓ The graph on the right shows the last 10-Years FCF
- ✓ Check if the FCF is growing year after year
- ✓ FCF growth is an indication of a very high-quality company
- ✓ FCF indicates that the business is profitable and that it is also converting its profits into operating cash flow.
- ✓ FCF also indicates that the business, after making the necessary CAPEX, still has money in hand to take further actions such as Dividends, Buybacks, Debt repayments, Acquisitions etc.

Free Cash Flow in ₹Cr



FCF_F & FCF_E

- ✓ Free Cash Flow to the Firm and Equity
- ✓ The graph compares the Free Cash Flow available to the firm and the Free Cash Flow available to the Shareholders (Equity).
- ✓ If you are an investor, you want the FCFE and FCFF to be almost the same.
- ✓ Free Cash flow to Equity is calculated after subtracting interest and debt payments by the firm.
- ✓ If the gap between FCFF and FCFE is huge, it might be because of the debt burden.
- ✓ It is alright if the FCFE is lower than the FCFF in 1 or 2 years. But, if it is consistently below the FCFF by a big margin, then you should avoid such stocks.

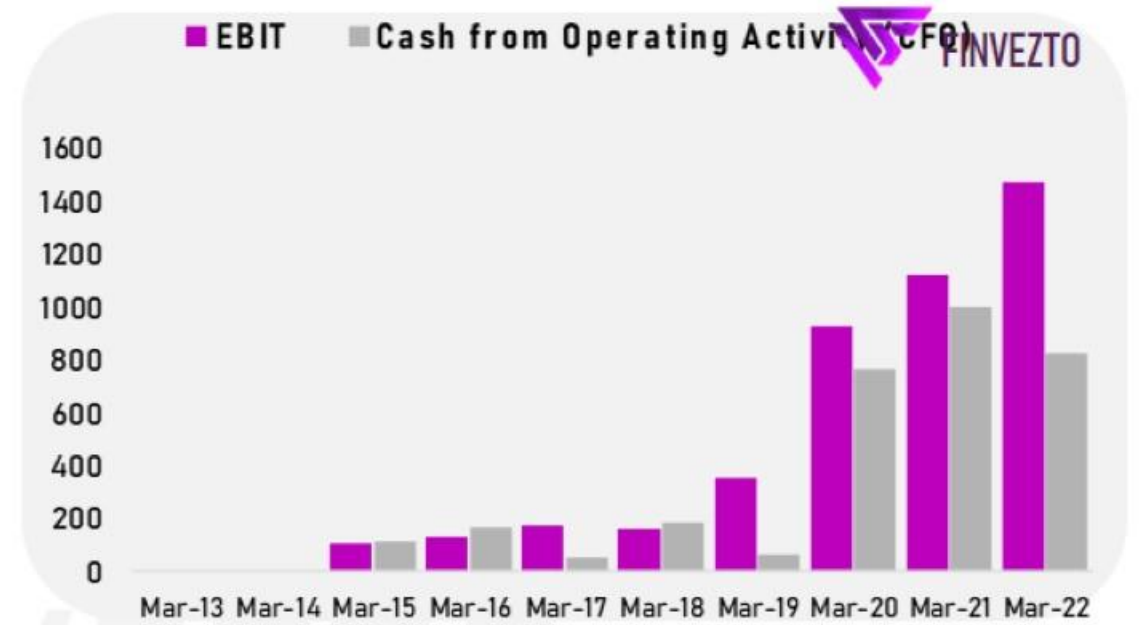


Operating Cash Conversion

- ✓ We need to look for companies turning most of its operating profits (EBIT) into operating cash flow (CFO).
- ✓ Operating Cash Conversion = $CFO / EBIT$
- ✓ Check if the average Operating Cash Conversion Ratio given below is at least above 50%

Average

71%



Operating Cash Conversion



Depreciation as a % of CFO

- ✓ Some Manufacturing Business inherently have high Operating Cash Conversion as depreciation is a part of CFO.
- ✓ While checking for companies with high Operating Cash Conversion, also check for companies with low Depreciation as a percentage of CFO.
- ✓ Typically, we look for companies with a Depreciation percentage of below 35%.
- ✓ The reason being that the company must spend the same amount (35%) from the Cash Flow towards maintenance of the depreciating assets.

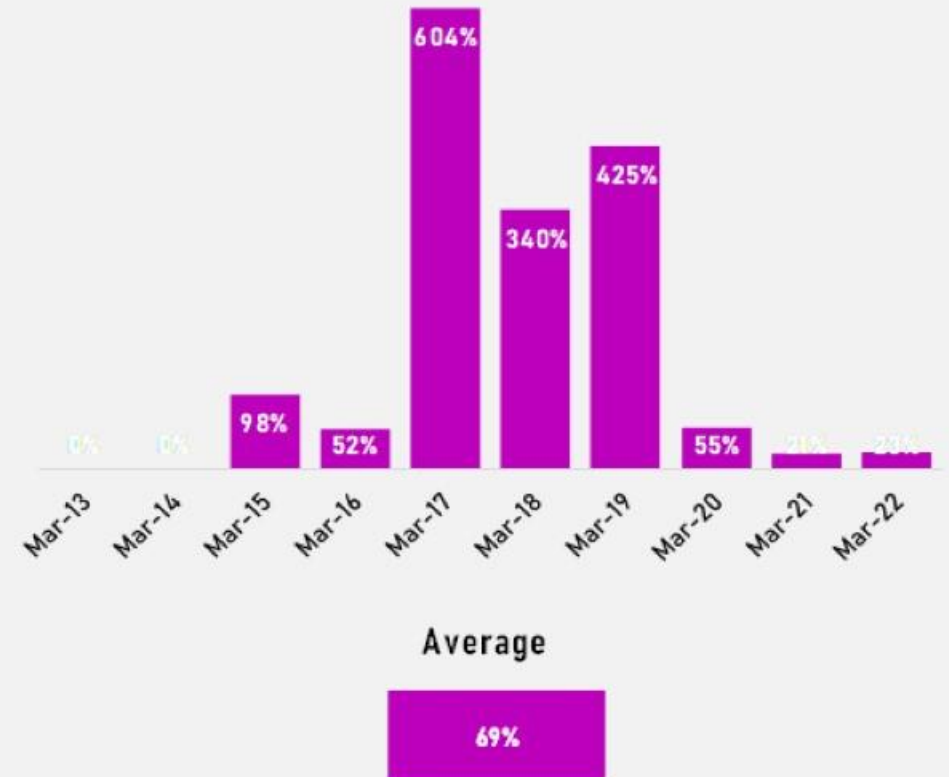
Depreciation as a % of CFO



CAPEX Ratio (CAPEX/CFO)

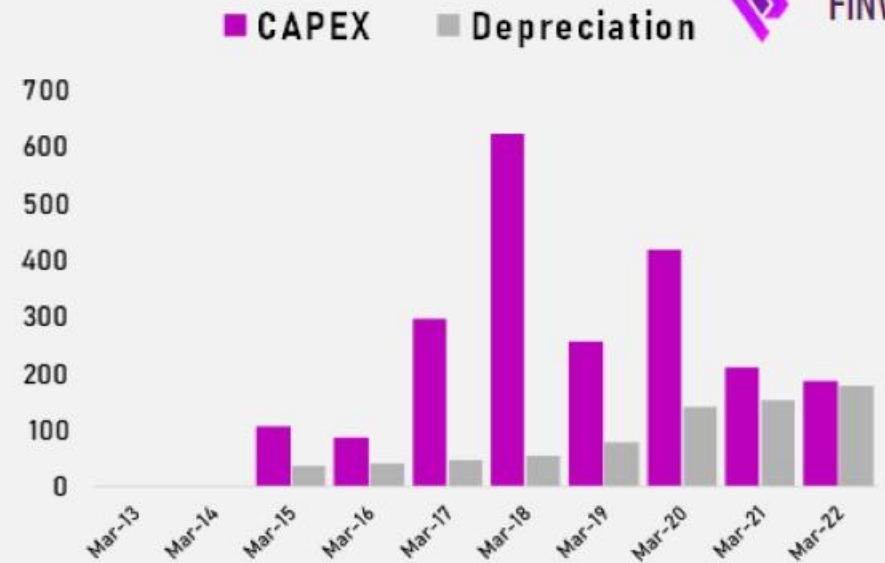
- ✓ We want businesses to grow without having the need to shell out Capex year after year.
- ✓ The graph shows the CAPEX ratio of the business over the past 10 years.
- ✓ It is an indication of how capital intensive the business is.
- ✓ If the average CAPEX ratio is above 50%, then the business is capital intensive.
- ✓ Companies allocating CAPEX year after year tend to have a lower ROCE.
- ✓ Typically, we look for companies with an average CAPEX ratio of less than 35%.

Capex / CFO (Capex Ratio)

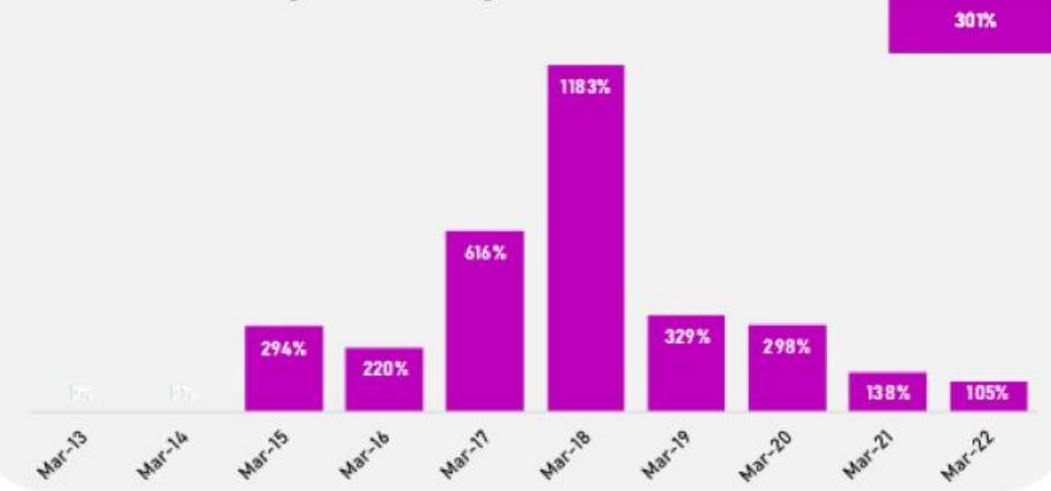


Is the CAPEX enough?

- ✓ Check if the company is spending more on CAPEX than the depreciation and amortization of its assets
- ✓ If the CAPEX is too low, the company may not be able to sustain its cash flows in the future.
- ✓ If the CAPEX spend is more than the Depreciation, then the company is spending just enough to maintain its competitive advantage.
- ✓ Compare with other peer companies as well.
- ✓ Check how the CAPEX has changed during the economic downturns. If the company has cut CAPEX during testing times, then it might affect their future cash flows.
- ✓ Sometimes, in software-based companies, the CAPEX might be consistently lower than the Amortization expenses. Hence, CAPEX spend should be linked to the industry that you are evaluating.

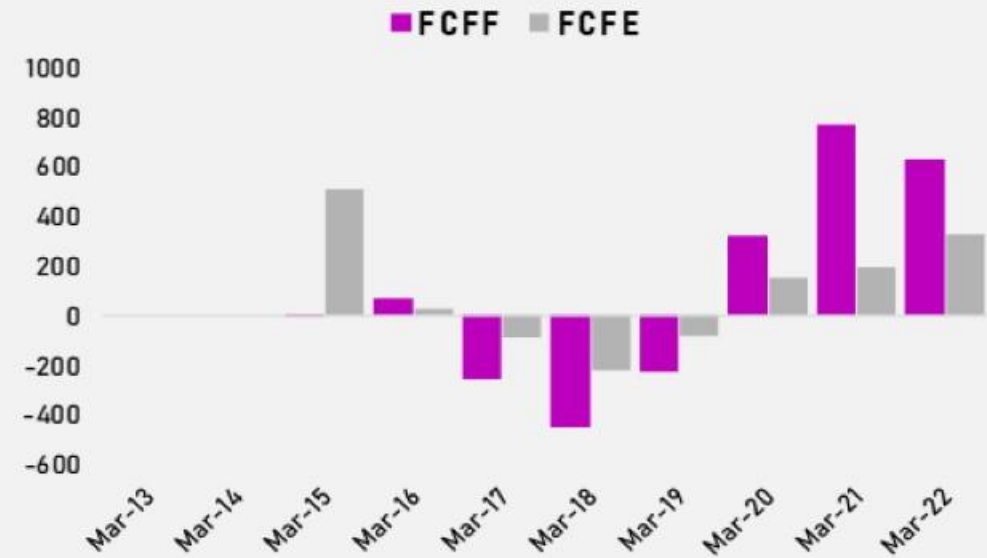
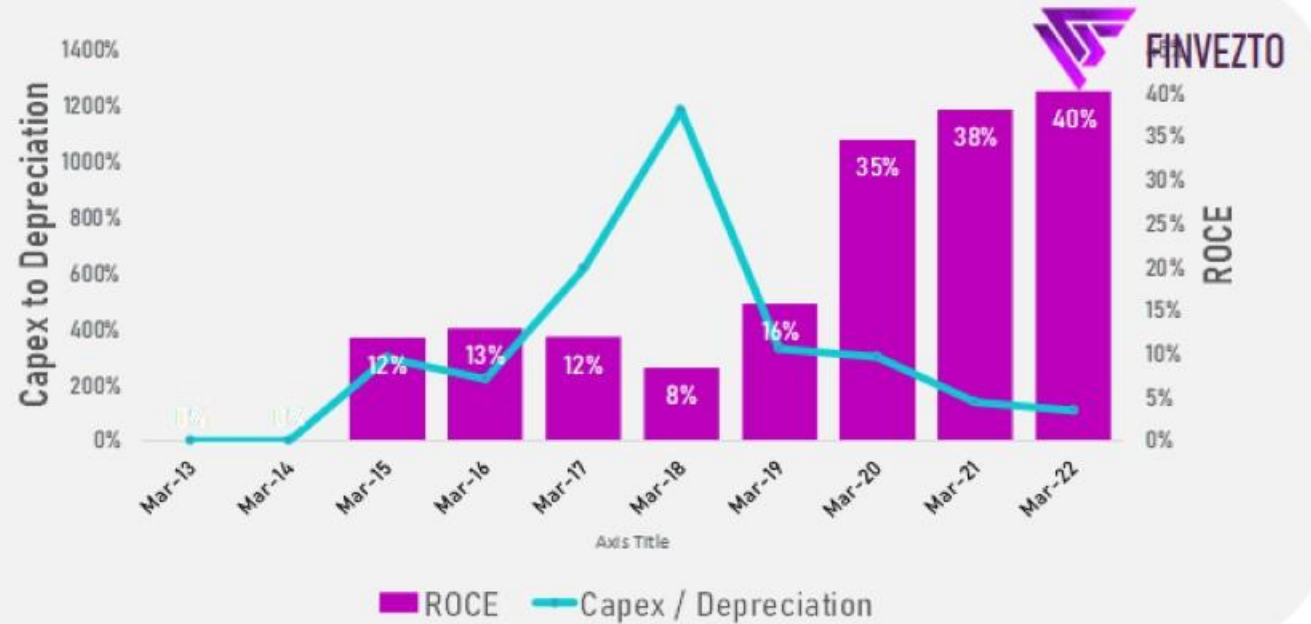


Capex / Depreciation %



CAPEX vs ROCE vs FCF

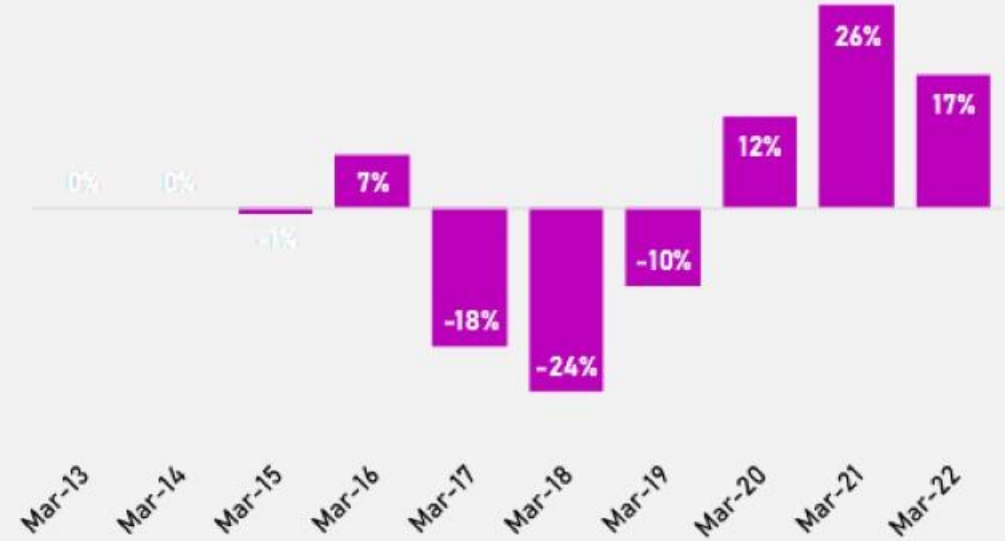
- ✓ Sometimes the FCF might be negative for a few years. It could mean that the company is investing heavily in CAPEX.
- ✓ The CAPEX investment could bring in future cash flows.
- ✓ Hence, one should look at ROCE along with CAPEX and FCF.
- ✓ If the ROCE is stable or increasing as the CAPEX increases, we can expect future cash flows to increase.
- ✓ Check for Stable or Reducing Capex to Depreciation; Check for Increasing or Stable ROCE; Check for Increasing Cash Flow. If a company satisfies all 3 conditions above, it is of the highest quality.



CROCI

- ✓ $CROCI = FCFF / \text{Capital Employed}$
- ✓ This indicates the Free cash flow generated by the business on the capital employed or invested.
- ✓ The Average CROCI Value should preferably be greater than 8%
- ✓ CROCI should be consistent over the years.

$CROCI = FCFF / \text{Capital Employed}$

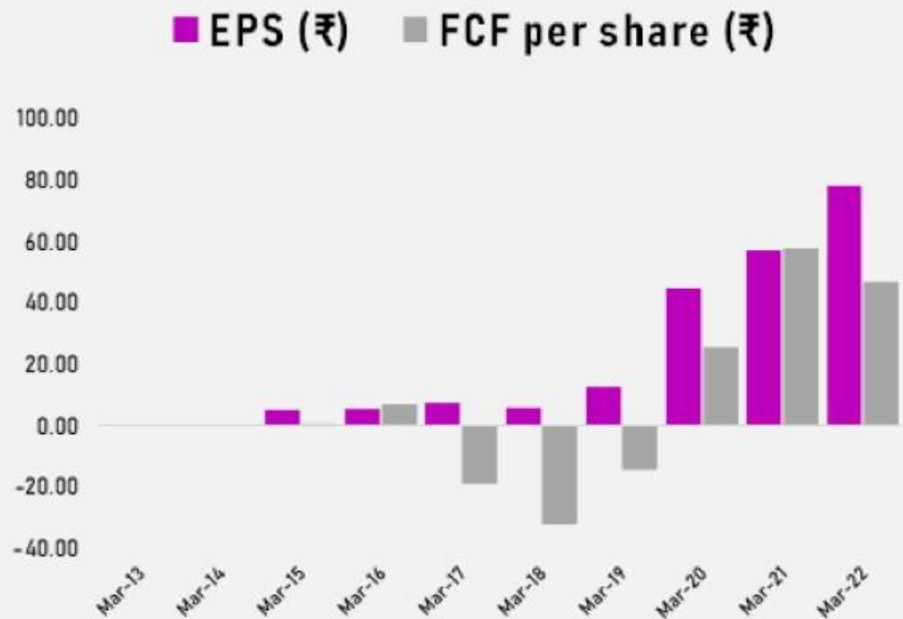


Average

5%

FCF per share vs EPS

- ✓ Indicates Quality of Earnings and the cash left for the shareholders.
- ✓ Wise investors focus on FCFPS more than EPS.
- ✓ If FCF per share is significantly lower than EPS, then you should avoid the stock.



- ✓ If FCFPS percentage is below 25% or negative, avoid the stock.
- ✓ If FCFPS is above 75%, then add the stock to the watchlist blindly.
- ✓ If FCFPS is above 25% with ROCE rising, add to watchlist.

FCFPS / EPS

Average



If FCFPS is significantly lower than EPS...

✓ **Low Operating Cash Conversion**

Company might be struggling to convert the profits into free cash flow. The company might be selling more on credit. There could also be a lot of inventory stuck within the company.

✓ **High Capex to Depreciation**

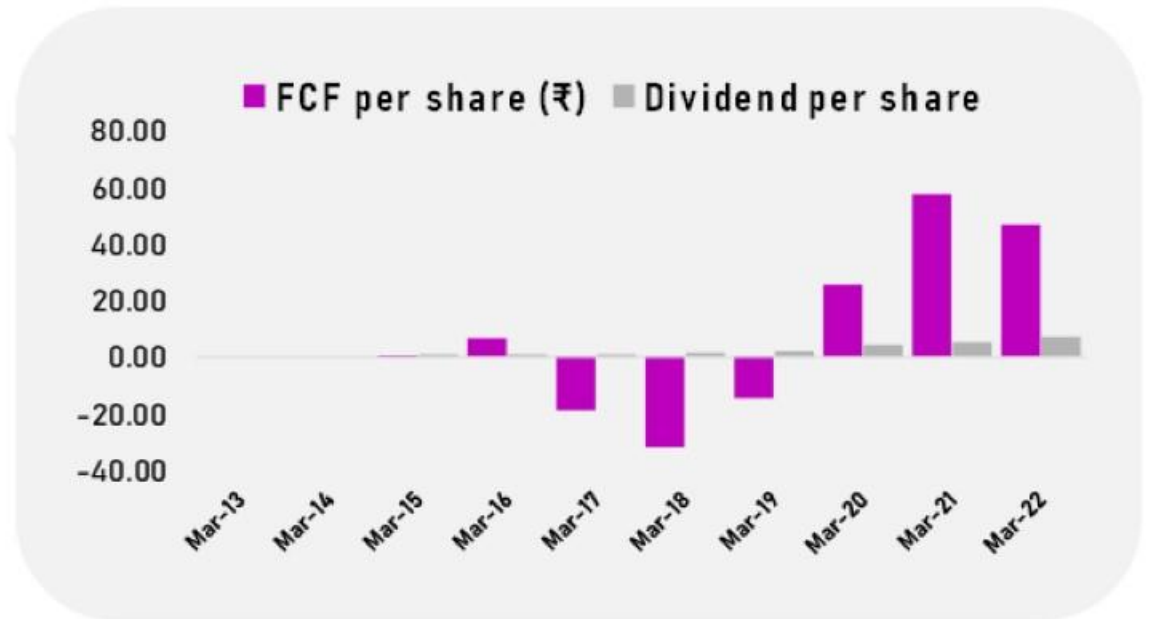
The company could be constantly investing in new assets to maintain their position in the market. You need to be doubtful about Companies which need to allocate CAPEX year after year consistently. If the company is allocating CAPEX, then you need to check for ROCE and the company's ability to generate Free Cash Flows in the future.

✓ **Profit Manipulation**

A significantly lower FCFPS could also mean that the company is manipulating its earnings to show a higher EPS.

Will the company continue to pay Dividends?

- ✓ Compare FCF per share with Dividend per share.
- ✓ This will give you an idea of whether the company can continue to pay dividends to shareholders.
- ✓ The FCF per share needs to be consistently higher than the Dividend per share.



Diving Deeper into Free Cash Flows

- ✓ When it comes to real estate companies, the FCF per share might be negative or consistently lower than Dividend per share. That is because of the nature of the business. Sale of Assets is not considered part of the cash flow from operations. Hence, the FCF might be low. You need to add the Sale of Assets back to the CFO to get a true measure of the FCFPS.
- ✓ Sometimes, what needs to be considered as CFO is often hidden inside Cash flow from Investing (CFI) Activities. Some companies, mainly education or consulting companies, grow through acquisitions. Acquisitions are accounted in CFI and not in CFO. It might seem like these companies are generating FCF to shareholders. But, in reality, they might be growing through acquisitions with lesser FCF to shareholders.

Manipulating the Cash Flow

Ignoring the Long Term

- ✓ Sometimes companies boost their Cash flows in the short term through certain actions.
- ✓ Delaying Payments to Suppliers is one way to boost cash flows. But, in the long term it brings down supplier loyalty.
- ✓ Reducing the CAPEX. It might not be needed in the short term, but the company might lose its edge in the long term if appropriate investments aren't made.
- ✓ Some Companies also grow through acquisitions (related and unrelated) rather than building their own assets or efficiencies. They show increased profits and cash flows in the short term. In the long term, very few acquisitions have proved to be create value for shareholders.

Quality of Sales & Profits

A Low, Falling or Stable Receivables to Revenue ratio indicates **High Quality Sales**

Receivables / Revenue



A Rising or Stable Operating Cash Conversion (>75%) indicates **High Quality Profits**

Operating Cash Conversion



Working Capital Cycle and Cash Conversion

ACTIVITY, EFFICIENCY & WORKING CAPITAL RATIOS										
Net Working Capital	0.00	0.00	308.29	303.30	314.18	248.93	521.18	651.15	708.34	1201.61
Net Working Capital Turnover			4.30	4.53	4.36	6.63	5.18	6.50	6.15	5.66
Net Working Capital Days			85	81	84	55	70	56	59	64
Trade Receivable Days			86	83	96	91	78	53	63	61
Trade Receivable Turnover			4.27	4.38	3.80	4.01	4.70	6.90	5.76	6.02
Inventory Days			39	45	60	100	73	54	54	46
Inventory Turnover			9.37	8.18	6.08	3.66	4.97	6.81	6.72	7.95
Trade Payable Days			40	48	76	149	83	49	61	40
Trade Payable Turnover			9.14	7.57	4.78	2.45	4.41	7.53	5.98	9.08
Cash Conversion Cycle or Working Capital Cycle			85	80	80	41	68	58	57	66
Net Fixed Assets Turnover			2.42	2.31	2.34	2.81	1.57	2.31	2.34	3.43

- ✓ The lower the Cash Conversion cycle, the better. If the Cash conversion is negative, it is even better. It means that the business is making use of Supplier's Capital & Time to run the business.

SUMMARY – Quality Checklist

- ✓ Consistent Increasing trend in Revenue, EBIT and Free Cash Flow over 5+ years
- ✓ Stable or Increasing EBIT Margin (>10%)
- ✓ Stable or Increasing ROCE (>10%)
- ✓ The FCF to Firm and Equity should be more or less equal
- ✓ Operating Cash Conversion should be at least 50%
- ✓ Depreciation Ratio and Capex Ratio should be less than 35%
- ✓ Check if the CAPEX is more than the Depreciation
- ✓ CROCI should be more than 8%
- ✓ FCF per share should be closer to the EPS
- ✓ Compare the Dividend per share with Free Cash flow per share to check the ability of the company to pay Dividends
- ✓ Low Cash Conversion Cycle

02. Safety Check

Let us evaluate if the company is safe or risky

Safety - Dashboard

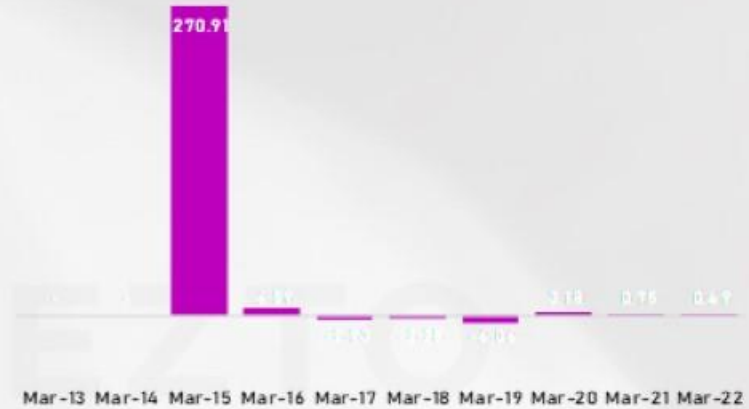
D/CFO (Debt to CFO)

<5



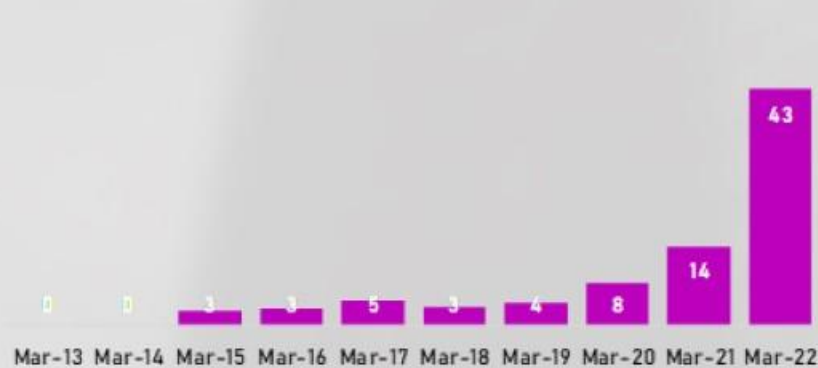
D/FCF (Debt to Free Cash Flow)

<10



Interest Coverage Ratio

>5



Debt to Assets

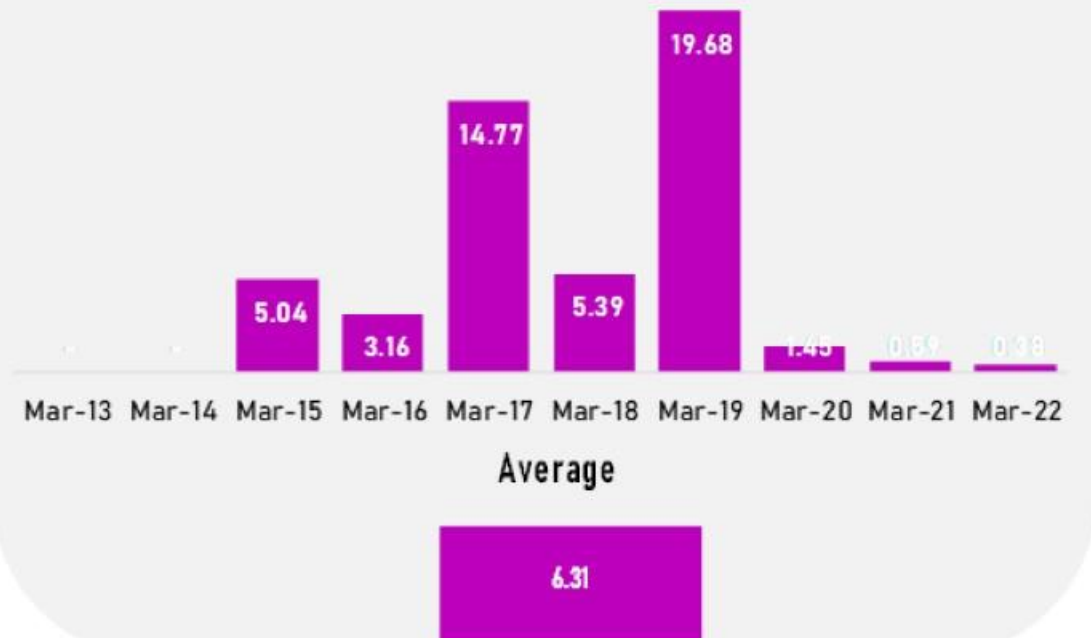
<50%



Debt to CFO

- ✓ This indicates the number of years the company will take to repay its debt if it stops making any new investments.
- ✓ We would avoid companies which will take more than 5 Years to repay the loans with their CFO.
- ✓ In the graph on the right, check if the average Debt to CFO is less than 5.
- ✓ A falling trend is a good sign.
- ✓ If the CFO is negative, then the graph might show a negative value. It means the company is not generating free cash flow and still has some debt to pay off.

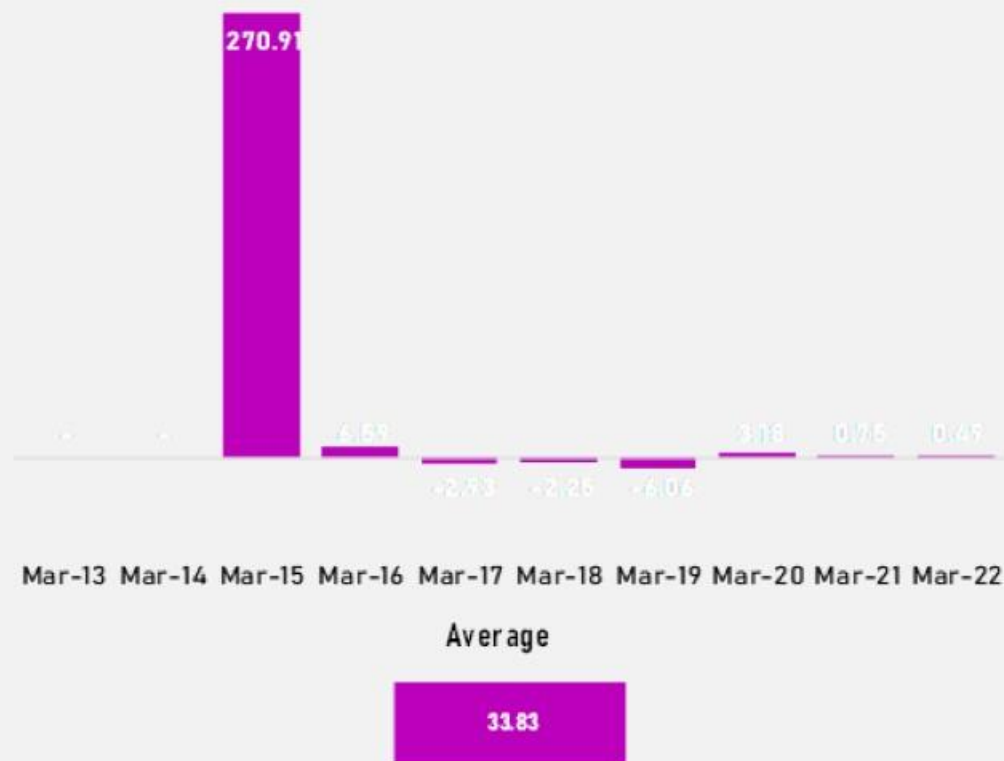
D/CFO (Debt to CFO)



Debt to Free Cash Flow

- ✓ This indicates the number of years the company will take to repay its debt after making the required investments to stay competitive.
- ✓ We would avoid companies which will take more than 10 Years to repay the loans with their Free Cash Flow.
- ✓ In the graph on the right, check if the average Debt to CFO is less than 10.
- ✓ A falling trend is a good sign.
- ✓ If the FCF is negative, then the graph might show a negative value. It means the company is not generating free cash flow and still has some debt to pay off. In those cases, you might want to look at the average.

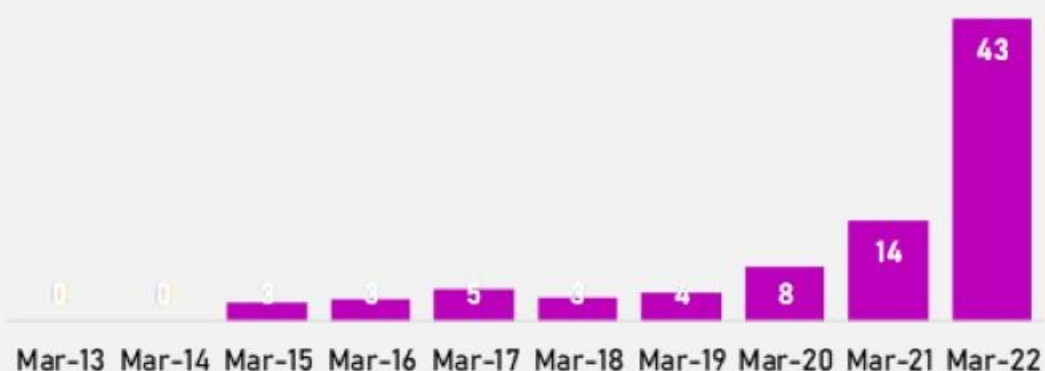
D/FCF (Debt to Free Cash Flow)



Interest Coverage Ratio

- ✓ This indicates the company's ability to repay interest.
- ✓ Generally, we look for an average interest coverage ratio > 5 to add the stock to the watchlist.
- ✓ For the stock to enter the portfolio, we look for an average interest coverage >10.

Interest Coverage Ratio



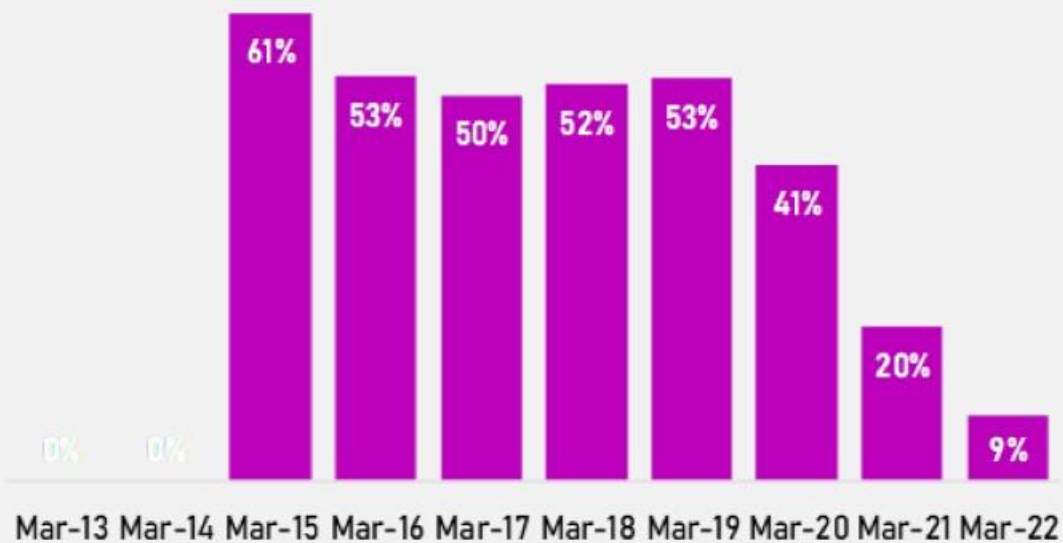
Average

10

Debt to Assets

- ✓ This indicates the % of assets that have been built through debt.
- ✓ We generally look for a Debt to Asset ratio of less than 50%.
- ✓ A Falling Trend is better.

Debt to Assets



Average

42%

Red Flags – Areas of Suspicion

- Receivables Days; Receivables as a % of Revenue
- Low Tax Rate year after year; What is the Reason?
- Depreciation Rate Volatility; Aggressive accounting in Depreciation?
- Large cash outflows to Creditors = Creditors demanding faster payment = Power of Company Diluting
- Check if company needs High Capex Ratio year after year
- Check if there are any obligations that the company might have to fulfil in the coming years such as Contingent Liabilities, Employee Pension etc.
- Is Other Expenses a big chunk of expenses? Avoid such stocks.
- Goodwill and Intangibles as a % of Total Assets. If it is higher than 20%, avoid the stock.
- Is there any write off in Trade receivables and Equity Reserves? You can find it in the Auditor's report. Avoid such stocks.
- Check if Other Expenses is increasing as a percentage of Sales. Avoid.
- Check if the interest rates on debt are fixed or floating. We generally prefer fixed interest rate loans as it gives the management some level of certainty.
- Sales to Subsidiaries and Related Parties as a total % of Revenue; Avoid companies with too many related party transactions.
- Contingent Liabilities as a % of Book Value or Market Cap.
- Huge Cash lying in Current Account, Cheques, Foreign Banks etc.
- One time Income dominating the company Revenues consistently
- Check if the Accumulated Depreciation is inline with the Increase in Gross Block.
- Check if the company is having too much idle cash in bank.
- Check if the Employee cost and Sales per employee is on par with that of the industry.

Red Flags Checklist

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Red Flags List

	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Trend	Check
Revenue Change YoY%				3%	0%	20%	63%	57%	3%	56%		Check for Consistency
COGS Change				1%	2%	18%	77%	31%	-3%	88%		Check if it is inline with Revenue Change
COGS/ Revenue			62%	61%	62%	61%	66%	55%	51%	62%		Check if it is inline with Revenue
Receivables Change				1%	15%	14%	40%	7%	23%	49%		Check if it is inline with Revenue Change
Payables Change				21%	62%	128%	-4%	-23%	20%	17%		Sharp rise is bad. Leads to future cash outflows.
Inventory Change				15%	37%	94%	28%	-4%	-3%	50%		Rising inventory is bad. Possible inventory write-off in future.
Receivables / Revenue			23%	23%	26%	25%	21%	14%	17%	17%		Rising levels indicate poor sales quality.
Depreciation / Revenue			3%	3%	4%	3%	3%	3%	4%	3%		Volatility in depreciation % indicates aggressive accounting.
Dividend Payout %			20%	22%	16%	22%	16%	10%	10%	9%		Intention to reward shareholders.
Cash as a % of Total Assets			0%	1%	1%	2%	1%	1%	1%	1%		Decline in cash is bad.
Fixed Assets %			49%	46%	33%	23%	58%	57%	52%	45%		Sharp rise or fall is bad.
Self Sustainable Growth			12%	10%	11%	7%	14%	35%	30%	29%		Ability to grow with own reserves without taking any more Equity or Debt
Other Expenses %			2%	2%	2%	2%	2%	1%	2%	5%		Rising is bad.
Return on Cash & Investments			16%	0%	60%	9%	38%	85%	9%	9%		How much is the company earning from their Cash in Bank & Investments? Is it more than 4%?

VALUE

03. Value Check



Why P/E Ratio is not a useful Valuation measure?

- ✓ EPS or Earnings Per Share is the denominator in P/E Ratio
- ✓ The Earnings and EPS of a company are subject to manipulations.
- ✓ A company can boost its earnings by aggressive accounting policies. For example, a manufacturing company might increase the life of its useful assets which will lead to a lower depreciation expense and eventually magnified profits.
- ✓ EPS of a company can also be increased through buyback of shares by the company. Sometimes, buybacks are performed even when the stock is expensively priced. That is a warning signal for investors.
- ✓ EPS also does not indicate the quality of profits earned unlike the Free Cash Flow per share.
- ✓ P/E Ratio can be used while doing peer comparisons. But, it does not help us arrive at the intrinsic valuation of a company.
- ✓ We will follow a different approach to value companies.

Valuation – What we look at?

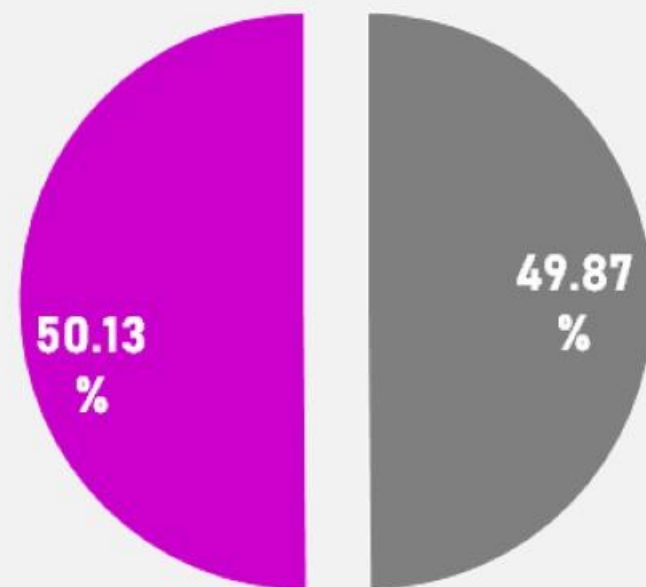
1. How much of the Future Growth is already accounted in the current market price?
2. What is the Intrinsic Value of the Stock?
3. What is the Intrinsic Value Growth Rate (Compounding Rate) of the Stock?
4. Margin of Safety
5. What is the Mind Value that other investors have associated with this stock?

Note: We have a different framework for Banks & Financial Services⁴.

Future Growth % already discounted in Price

- ✓ We look at the price as 2 parts.
- ✓ One, which tells us how the market is valuing the current ability of the company to keep generating profits.
- ✓ Two, which tells us how the market is valuing the future growth prospects of the firm
- ✓ If the market values the future growth at more than 50% of the current stock price, we will avoid buying the stock. This means the stock must perform significantly well to provide good returns at the current price. However, the stock will remain in our watchlist.
- ✓ Future Growth % is indicated in Purple.

Future Growth



Intrinsic Value

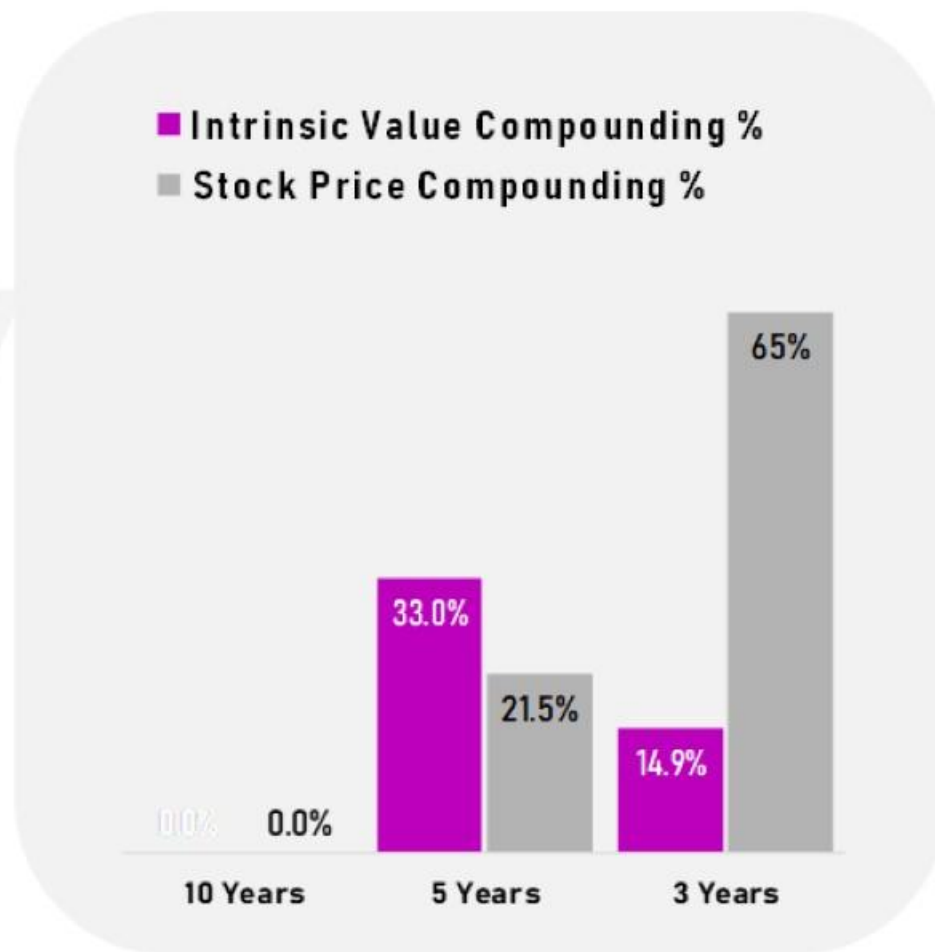
- ✓ The Intrinsic value is the computed fair value of the company arrived at after discounting all its future cash flows and growth.
- ✓ If the current price of the stock is below its intrinsic value, then the stock is undervalued.
- ✓ If the current price of the stock is higher than the intrinsic value, then the stock is overvalued.
- ✓ A discount rate of 9% is assumed while calculating Intrinsic Value.

Intrinsic Value vs Market Price



Intrinsic Value Compounding Rate

- ✓ The rate at which the company is growing its intrinsic value.
- ✓ We have observed that over the years, the share price growth is always higher than the Intrinsic Value growth rate of the Company.
- ✓ The market always gives a premium to companies which can compound their intrinsic value at attractive rates.



Margin of Safety (MOS)

- ✓ Margin of Safety indicates the % difference between the Intrinsic Value and the Current market price.
- ✓ Ideally, you want the current market price below the intrinsic value.
- ✓ If the Price is above Intrinsic Value, then there is no margin of safety.
- ✓ If the Margin of Safety is 50%, it means the stock is trading 50% below the Intrinsic Value.

Price is above Intrinsic Value

Note: Please remember that the above is only a **Quantitative** definition of Margin of Safety. We prefer to look at it qualitatively as well. Companies with consistent growth and capable management have a **Qualitative Margin of Safety**. The consistency of companies indicate that the management can adapt to changes. They are either way ahead of the game or they have the luxury of time to react to external changes. Management might also be pardoned for some wrong decisions they have made over time. The nature of business itself ensures the management minimizes error in decision making. Even if management commits a mistake, it is not penalized heavily. This is how we look at Margin of Safety. That is why we have Quality and Safety as the first 2 checks and valuation as the 3rd check.



Other Checks & Tests

Earnings Retention Test

DEEPAK NITRITE LTD											
Market Value Added - Earnings Retention Test											
₹Cr	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Current
Retained Earnings	0	0	42	49	81	61	146	550	701	971	
Market Capitalization	0	0	716	791	1715	3381	3739	5252	22595	30605	23626
One Rupee Test - Market Value Added for every 1 Rupee of Retained Earnings											
	Earnings Retained		Change in Market Cap		Market Value added per Rupee of Retained Earnings						
Last 10 Years	2601.12		23625.98		9.08						
Last 5 Years	2429.27		20244.624		8.33						
Last 3 Years	2221.6		18373.898		8.27						

- ✓ Earnings Retention Test checks if the company is adding ₹1 in Market Cap for every ₹1 of its Retained Earnings. If the number is more than 1 over the last 3 or 5 or 10 years, then it is good.

Economic Value Added

Economic Value Added										
₹Cr	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
WACC (Cost of Capital) % Assumption	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
ROIC			9%	9%	9%	6%	10%	26%	28%	30%
Capital Employed	0	0	890.74	1001.68	1438.75	1908.68	2258.1	2678.75	2936.39	3653.47
Cost of Capital (₹Cr)	0.00	0.00	106.89	120.20	172.65	229.04	270.97	321.45	352.37	438.42
NOPAT			82.92	90.92	122.48	112.81	229.75	700.42	833.40	1091.95
Economic Value Added = NOPAT - Cost of Capital			-23.97	-29.28	-50.17	-116.23	-41.22	378.97	481.03	653.54
ROIC - WACC			↓ -3%	↓ -3%	↓ -3%	↓ -6%	↓ -2%	↑ 14%	↑ 16%	↑ 18%

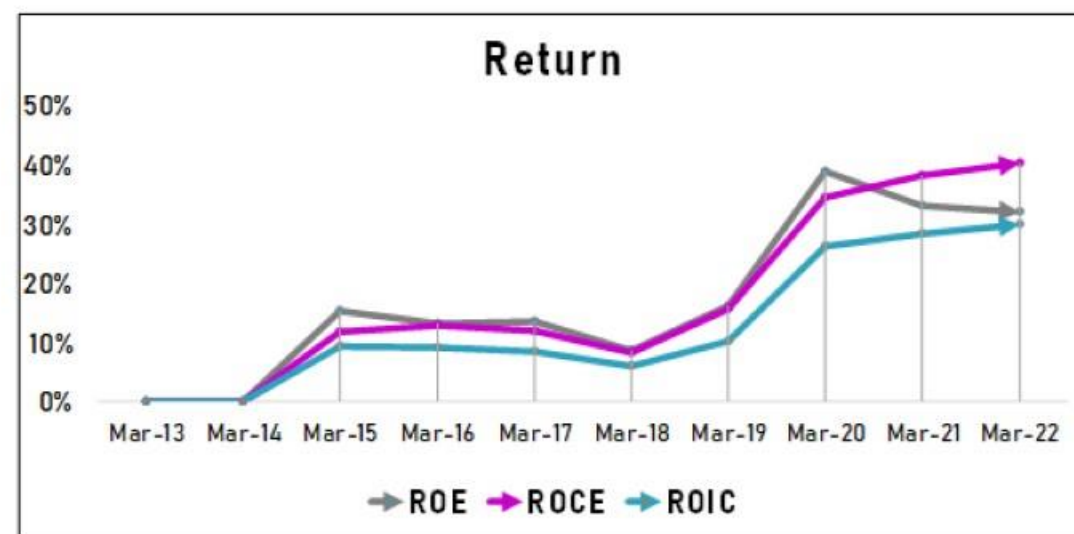
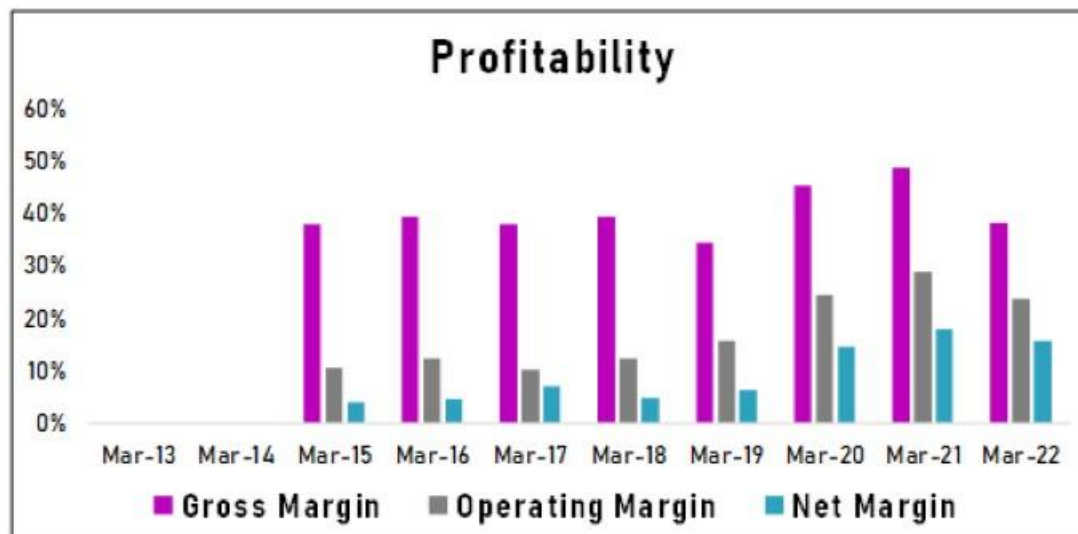
- ✓ Economic Value Added checks if the company is making more returns than the Cost of Capital. If the Economic Value Added is positive and increasing over the years, it is a good sign.

Pricing Power Assessment

DEEPAK NITRITE LTD

COMPETITIVE EDGE - Margin Protection & Pricing Power

Profitability		Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Gross Margin				38%	39%	38%	39%	34%	45%	49%	38%
Operating Margin				11%	12%	10%	12%	16%	24%	29%	24%
Net Margin				4%	5%	7%	5%	6%	14%	18%	16%
Return		Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
ROE				15%	13%	13%	9%	16%	39%	33%	32%
ROCE				12%	13%	12%	8%	16%	35%	38%	40%
ROIC				9%	9%	9%	6%	10%	26%	28%	30%



Note : In the previous pricing power assessment slide, check if the company has been able to maintain its margins above 15% over the years while maintaining its ROE, ROCE & ROIC above 15%. If it holds true, then the company might have a strong pricing power & competitive advantage. Identify what it is from the Annual Report. It could be brand, distribution network, switching costs, network effects etc.

DuPont Analysis

DuPont Return on Equity

Du Pont Analysis										
Financial Year	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
ROE (Return on Equity) DuPont			15%	13%	13%	9%	16%	39%	33%	32%
Net Profit Margin			4%	5%	7%	5%	6%	14%	18%	16%
x Asset Turnover Ratio			1.18	1.06	0.77	0.64	0.92	1.31	1.22	1.54
x Financial Leverage			3.25	2.74	2.50	2.81	2.74	2.05	1.52	1.33

- ✓ DuPont Return on Equity is a product of Net Profit Margin, Asset Turnover Ratio and Financial Leverage of the company.
- ✓ The strength of the purple color indicates which out of the 3 factors has contributed most to the ROE over the years.



Financial Statements

P&L Statement

P&L Statement



(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	TTM
Revenue	0	0	1327.16	1372.93	1370.71	1651.45	2699.92	4229.71	4359.75	6802.19	6,802.19
Revenue Change %				3%	0%	20%	63%	57%	3%	56%	
Expenses	0	0	1187	1204	1231	1447	2278	3194	3108	5199	5,201.97
Cost of Goods Sold	0	0	824	832	850	1004	1774	2315	2240	4211	
Power and Fuel Cost	0	0	116	118	102	120	207	285	265	439	
Employee Cost	0	0	100	119	122	136	180	219	250	274	
Selling & General Expenses	0	0	45	52	82	76	111	158	180	0	
Other Expenses	0	0	89	89	101	101	160	191	183	372	
Gross Profit	0	0	503	541	521	648	926	1914	2120	2591	
Gross Profit Margin			38%	39%	38%	39%	34%	45%	49%	38%	
Operating Profit	0	0	140	169	139	204	421	1035	1252	1604	1600
Operating Profit Margin			11%	12%	10%	12%	16%	24%	29%	24%	24%
Other Income	0	0	1	0	80	7	11	29	20	43	46
Depreciation	0	0	36	40	48	53	78	140	153	178	178
EBITDA	0	0	141	168	219	211	432	1064	1272	1646	1646
EBITDA Margin %			11%	12%	16%	13%	16%	25%	29%	24%	24%
EBIT	0	0	105	129	171	158	355	924	1119	1468	1468
EBIT Margin %			8%	9%	12%	10%	13%	22%	26%	22%	22%
Interest	0	0	38	40	37	47	87	118	77	34	34
Profit Before Tax (PBT)	0	0	67	89	135	111	268	806	1042	1434	1434
Tax	0	0	14	26	38	32	94	195	266	368	368
Tax Rate			21%	29%	28%	29%	35%	24%	26%	26%	26%
Net Profit	0	0	53	63	96	79	174	611	776	1067	1067
Net Profit Margin			4%	5%	7%	5%	6%	14%	18%	16%	16%

Common Size P&L

DEEPAK NITRITE LTD

Common Size P&L

(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Raw Material Cost			62%	61%	62%	61%	66%	55%	51%	62%
Power and Fuel			9%	9%	7%	7%	8%	7%	6%	6%
Other Mfg Expenses			5%	4%	5%	5%	4%	3%	3%	0%
Employee Cost			8%	9%	9%	8%	7%	5%	6%	4%
SGA Expenses			3%	4%	6%	5%	4%	4%	4%	0%
Other Expenses			2%	2%	2%	2%	2%	1%	2%	5%
Operating Profit			11%	12%	10%	12%	16%	24%	29%	24%
Other Income			0%	0%	6%	0%	0%	1%	0%	1%
Depreciation			3%	3%	4%	3%	3%	3%	4%	3%
Interest			3%	3%	3%	3%	3%	3%	2%	1%
Profit Before Tax			5%	6%	10%	7%	10%	19%	24%	21%
Tax			1%	2%	3%	2%	3%	5%	6%	5%
Net Profit			4%	5%	7%	5%	6%	14%	18%	16%

DEEPAK NITRITE LTD



BALANCE SHEET

(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Equity Share Capital	-	-	21	23	26	27	27	27	27	27
Reserves	-	-	325	450	689	895	1,044	1,545	2,319	3,311
Borrowings	-	-	545	529	724	987	1,187	1,107	590	315
Other Liabilities	-	-	235	295	350	684	677	538	630	777
Trade Payables	-	-	110	133	215	490	472	364	437	512
Total Liabilities	0	0	1125	1296	1789	2592	2935	3217	3567	4430
Net Fixed Assets	0	0	549	594	586	588	1716	1832	1864	1982
Capital Work in Progress	0	0	44	36	349	955	34	172	220	104
Investments	0	0	3	87	118	32	2	2	189	439
Other Assets	0	0	530	580	736	1018	1183	1210	1293	1906
Inventory	0	0	107	123	169	327	418	402	389	585
Trade Receivables	0	0	311	313	360	412	575	613	756	1129
Cash Equivalents	0	0	3	6	14	48	26	31	33	42
Total Assets	0	0	1125	1296	1789	2592	2935	3217	3567	4430
Working Capital	-	-	295	285	386	335	506	672	663	1,129
Trade Receivables	-	-	311	313	360	412	575	613	756	1,129
Inventory	-	-	107	123	169	327	418	402	389	585

Balance Sheet

Common Size Balance Sheet

DEEPAK NITRITE LTD										
Common Size Balance Sheet										
(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Equity Share Capital			2%	2%	1%	1%	1%	1%	1%	1%
Reserves			29%	35%	38%	35%	36%	48%	65%	75%
Borrowings			48%	41%	40%	38%	40%	34%	17%	7%
Other Liabilities			21%	23%	20%	26%	23%	17%	18%	18%
Total Liabilities			100%	100%	100%	100%	100%	100%	100%	100%
Net Fixed Assets			49%	46%	33%	23%	58%	57%	52%	45%
Capital Work in Progress			4%	3%	20%	37%	1%	5%	6%	2%
Investments			0%	7%	7%	1%	0%	0%	5%	10%
Other Assets			47%	45%	41%	39%	40%	38%	36%	43%
Total Assets			100%	100%	100%	100%	100%	100%	100%	100%
(As % of Total Assets)										
Receivables			28%	24%	20%	16%	20%	19%	21%	25%
Inventory			10%	9%	9%	13%	14%	13%	11%	13%
Cash & Bank			0%	1%	1%	2%	1%	1%	1%	1%

DEEPAK NITRITE LTD

CASH FLOW STATEMENT

₹Cr	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Cash from Operating Activity (CFO)	0	0	108	167	49	183	60	765	999	824
Cash from Investing Activity (CFI)	0	0	-89	-169	-353	-525	-163	-428	-396	-424
Cash from Financing Activity (CFF)	0	0	-22	4	305	345	96	-338	-596	-386
Net Cash Flow	0	0	-3.4	2.23	1.07	3.59	-6.46	-0.82	6.75	13.97
CAPEX			106	87	296	622	256	417	210	187
Free Cash Flow	-	-	2	80	-247	-439	-196	348	789	637
Capex / CFO (Capex Ratio)			98%	52%	604%	340%	425%	55%	21%	23%
Average Capex Ratio	69%	69%	69%	69%	69%	69%	69%	69%	69%	69%
Interest Expense	0	0	38	40	37	47	87	118	77	34
Tax Rate			21%	29%	28%	29%	35%	24%	26%	26%
Tax Benefit from Interest			8.07	11.69	10.38	13.62	30.46	28.58	19.74	8.73
FCF _F			-6	69	-257	-453	-226	319	769	628
- Interest	0.00	0.00	37.99	39.71	36.54	47.42	86.55	117.97	77.33	34.04
+ Tax Benefit from Interest			8.07	11.69	10.38	13.62	30.46	28.58	19.74	8.73
- Debt Repaid		0.00	0.00	15.71	0.00	0.00	0.00	79.67	517.10	274.71
+ New Debt Taken		0.00	544.52	0.00	195.08	262.65	199.97	0.00	0.00	0.00
FCF _E			509	25	-88	-224	-82	150	195	328

Quarterly Results – Last 10 Quarters

DEEPAK NITRITE LTD Recent 10 Quarters Results

₹Cr	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Revenue	1,119.86	1,055.54	674.49	987.34	1,234.69	1,463.23	1,526.22	1,681.35	1,722.27	1,872.35
Revenue Change QoQ%		-6%	-36%	46%	25%	19%	4%	10%	2%	9%
Revenue Change YoY%					10%	39%	126%	70%	39%	28%
Expenses	861.61	793.46	492.86	711.64	899.65	1,008.57	1,074.72	1,294.81	1,370.42	1,462.02
Operating Profit	258.25	262.08	181.63	275.70	335.04	454.66	451.50	386.54	351.85	410.33
Operating Profit Margin	23%	25%	27%	28%	27%	31%	30%	23%	20%	22%
Other Income	14.74	2.20	6.75	3.95	4.88	5.94	8.25	8.43	25.75	3.54
EBITDA	272.99	264.28	188.38	279.65	339.92	460.60	459.75	394.97	377.60	413.87
Depreciation	35.14	36.23	31.01	31.24	33.92	56.46	43.56	44.05	45.47	44.62
EBIT	237.85	228.05	157.37	248.41	306.00	404.14	416.19	350.92	332.13	369.25
Interest	26.96	27.20	24.73	19.57	15.70	14.20	10.94	9.24	6.80	7.06
Profit before tax	210.89	200.85	132.64	228.84	290.30	389.94	405.25	341.68	325.33	362.19
Tax	54.18	28.55	33.69	58.65	73.74	99.83	102.62	87.34	82.87	94.98
Net Profit	156.71	172.30	98.95	170.19	216.56	290.11	302.63	254.34	242.46	267.21
Net Profit Margin	14%	16%	15%	17%	18%	20%	20%	15%	14%	14%

That's All Folks!