Sadhana Nitro Chem and Deepak Nitrite

Two chemical stories, two very different kinds of risk

Research checked on 12 September 2026. Prices are the 11 September close, approximately ₹2.84 for Sadhana and ₹1,588 for Deepak. Figures are in ₹ crore unless specified. This is an independent research assessment.

My conclusion first

Sadhana is an order-backed rescue possibility, not yet an attractive investment under our checklist. Deepak is a much more credible reinvestment story, but its present price does not make successful execution free.

I would not buy Sadhana simply because the plants exist, debt has fallen and the share price looks small. A substantial part of its balance sheet is tied up in old receivables, inventories and capital advances. These are precisely the assets we need to understand before calling a turnaround cheap.

I would keep Deepak higher on the research list. It has demonstrated operating capability, a functioning existing business and tangible customer qualifications for the new materials platform. But the proposed investment is large enough that margins, financing and commissioning dates can change the outcome dramatically.

Question	Sadhana Nitro Chem	Deepak Nitrite
What is the potential inflection?	Fresh equity restores operations and allows export orders to be fulfilled	Existing integration projects ramp, followed by a new polycarbonate value chain
What is genuinely encouraging?	A firm ₹108 crore Japanese supply contract over two years, debt defaults regularised by March 2026, Q1 operations recovered from the trough	Strong existing operations, commissioned integration assets, new-product qualifications, technology purchase and financing arrangements
What is not proven?	Receivable recovery, profitable PAP production, sustainable margins and cash conversion	Through-cycle returns on the new capital, full-chain cost advantage and the final consolidated funding burden
My framework classification	Early demand evidence and balance-sheet repair, cash-quality gate not passed	Existing-business operating recovery, new PC platform in execution and customer-development stage
Research status	Watch only, evidence insufficient for an attractive risk/reward conclusion	Worth further underwriting, not an established bargain at ₹1,588

These are analytical classifications, not company guidance. The distinction matters, a company can survive, recover and still deliver a disappointing return to somebody buying today.

Part I. Sadhana, can the factory turn into cash?

1. First, separate the businesses

Sadhana manufactures intermediates used by other chemical and pharmaceutical businesses. Its principal products include MAP, ODB2 and PAP. It is not one homogeneous specialty-chemicals franchise.

Product	What it does	Disclosed capacity and evidence
MAP, meta-aminophenol	Intermediate for dyes and other downstream chemistry	2,160 tonnes a year in the February 2026 rights document
ODB2, also called SND-27	A colour former used in thermal paper	2,200 tonnes a year, expanded from 550
PAP, para-aminophenol	Feedstock used to manufacture paracetamol	Rights document lists 16,000 tonnes, comprising a 6,000-tonne continuous plant and 10,000 tonnes being upgraded from batch processing
Paracetamol and other downstream products	Potential further processing of intermediates	Intent is disclosed, but I have not established a separately commissioned, commercially material paracetamol operation

ODB2 is a thermal-paper colour former, not an optical brightener. These are different products with different competitive dynamics. Capacity figures above are company disclosures, not evidence of current utilisation. Rights letter of offer, printed pages 44-46, FY26 annual report, product disclosures.

2. Has PAP been abandoned?

Commercially inactive or severely curtailed is supported by the evidence. Permanently abandoned is not established.

There are three different numbers floating around, and they must not be mixed:

- **36,000 tonnes** was the larger PLI-linked ambition.
- **16,000 tonnes** is the capacity described in the February 2026 offer document.
- Within that 16,000, only **6,000 tonnes** was described as a continuous-process plant, with another 10,000 undergoing conversion.

The December 2025 credit report says the 6,000-tonne facility was not being operated in H2 FY25 because low-priced imports made production unattractive. The FY25 annual report acknowledges Chinese pricing pressure. FY26 disclosures still discuss PAP process improvements, but this is not a dated restart announcement. Infomerics, 11 December 2025, FY25 annual report, printed page 23.

The more decisive evidence is product revenue:

Consolidated product revenue	FY25	FY26
MAP	44.22	28.93
ODB2	79.49	18.76
PAP	25.73	0.0023

FY26 PAP revenue was only **₹0.23 lakh, or ₹23,000**. That is essentially no commercial contribution. MAP and ODB2 also contracted, so PAP alone does not explain the deterioration. FY26 annual report, Note 21.1, printed page 216.

The Q1 FY27 result does not disclose a product-level revenue or utilisation split. I therefore cannot verify that PAP has restarted economically, or assign it a current utilisation percentage. The offer document's description of a plant as operating is also not proof that it ran continuously throughout the reporting period.

What PAP price makes it viable?

No defensible exact break-even selling price can be calculated from the disclosures reviewed. We need the actual nitrobenzene consumption per saleable kilogram, catalyst recovery, hydrogen and utility costs, yield, effluent-treatment expense, fixed operating costs and achievable sale price.

The correct relationship is:

Break-even price per kg = variable cost per saleable kg + annual plant fixed costs ÷ annual saleable kg.

For accounting profit, add depreciation and interest as well. For economic value, the plant must also earn a return on the capital tied up in it.

An illustrative sensitivity is useful, provided we do not pretend it is a forecast. At 6,000 tonnes of annual sales, every ₹10/kg change in contribution changes EBITDA by ₹6 crore. At 70% utilisation, the effect is ₹4.2 crore. A ₹50/kg contribution on 6,000 tonnes produces ₹30 crore **before plant fixed costs**, not ₹30 crore PAT.

This is why I would give PAP no assumed operating earnings in the cautious case. That does not assert the asset has no option value, it means its restart economics are not underwritten.

3. The strongest positive is an actual contract

On 28 May 2026, Sadhana disclosed a firm supply contract with a Japanese multinational worth approximately **₹108 crore over two years**. It also disclosed a total confirmed order book exceeding ₹200 crore. The filing says the customer is unrelated to the promoters and the transaction is not a related-party transaction. Customer identity and the product are not disclosed. Original exchange announcement.

This is materially better than an ambitious presentation. It is a genuine reason to investigate a recovery before the full profit appears.

But ₹108 crore over two years is an average **₹54 crore annual sales opportunity**, assuming even execution. It is not ₹108 crore annual profit, and the entire order book is not necessarily incremental to existing customers or executable within one year.

At an illustrative 20% EBITDA margin, ₹54 crore sales corresponds to ₹10.8 crore EBITDA. At 25%, it is ₹13.5 crore. Neither margin is disclosed for this contract. Payment terms, advances, cancellation provisions and input-price pass-through remain unknown.

The next useful evidence is shipment conversion, repeat orders and customer cash receipts. I do not need to wait for several years of perfect P&L, but I do need evidence that the contract improves the economics rather than only the revenue line.

4. Q1 FY27 is a recovery from the trough, not yet a profitable operating business

I checked the scanned exchange filing rather than using automated summaries. All figures below are consolidated.

Metric	Q1 FY26	Q4 FY26	Q1 FY27
Revenue from operations	28.10	9.11	27.22
Operating EBITDA, excluding other income, calculated	1.94	-22.82	2.32
Other income	4.48	3.34	3.71
Depreciation	4.65	4.13	2.93
Finance cost	4.01	10.72	3.19
PBT	-2.24	-34.33	-0.09
PAT	-2.12	-33.62	-0.55

Q1 FY27 exchange filing, PDF page 8.

Here is the bridge:

₹2.32 crore operating EBITDA + ₹3.71 crore other income - ₹2.93 crore depreciation - ₹3.19 crore finance cost = approximately ₹0.09 crore PBT loss.

Operating EBITDA margin is approximately **8.5%**. Adding other income to EBITDA would produce ₹6.03 crore and an apparent margin of about 22.2%, which is not the operating margin I would use to project chemical earnings.

The year-on-year improvement in PBT comes mainly from lower depreciation and finance costs, with a smaller improvement in operating EBITDA. Other income actually fell year on year. Excluding other income, Q1 FY27 PBT would be approximately **negative ₹3.80 crore**.

The positive is that operations no longer resemble the near-shutdown conditions of the March quarter. The limitation is that revenue is still below the corresponding quarter last year. The composition and recurrence of Q1 other income are not separately explained in this filing.

5. The rights issue repaired solvency, it did not create ₹263 crore of fresh growth cash

The company raised approximately ₹263.53 crore through an 8-for-1 rights issue at ₹1. The offer document explicitly identified about ₹219.16 crore for repayment of debt and loans. The June monitoring disclosures show full utilisation with no reported deviation.

Use of proceeds	₹ crore	Share of total, approximately
Repayment of inter-corporate deposits	131.98	50.1%
Repayment of promoter loans	81.00	30.7%
Term loans	6.18	2.3%
Long-term working capital	16.09	6.1%
General corporate purposes	27.00	10.2%
Issue expenses	1.28	0.5%

Rounding explains the percentage total. Approximately **83% went towards the debt-repayment objects**. The ₹131.98 crore ICD amount is repayment of funding received, not a new loan made by Sadhana to somebody else. Offer document, printed pages 36-38, June utilisation statement, Acuite monitoring report.

This is not inherently wrong. Clearing expensive liabilities can reopen the factory's working-capital cycle. Promoters also subscribed substantial sums to the issue. But debt falling through fresh equity is different from debt falling because customers are paying and the plant is producing surplus cash.

At March 2026, consolidated borrowings were ₹108.63 crore, plus ₹4.75 crore lease liabilities, against cash equivalents of ₹13.77 crore. FY25 borrowings plus leases had been approximately ₹247.38 crore. Auditors state that the reported bank defaults during FY26 were regularised by the balance-sheet date. Management says the accounts had become standard after the rights issue, while seeking a rating review. It would be inaccurate to describe the December 2025 default rating as proof of continuing missed payments today. FY26 annual report, CARO, credit-rating discussion and consolidated balance sheet.

The share count matters more than the share price

The rights issue increased shares from approximately 32.94 crore to 296.47 crore. On 7 August 2026, another 6.75 crore shares were allotted at ₹2.06, bringing issued shares to **303.2194 crore**. That later issue represents approximately ₹13.91 crore of consideration. August board outcome.

At ₹2.84, equity value is therefore approximately **₹861 crore**, not a tiny valuation because the stock costs less than three rupees. Participating pro-rata in a rights issue preserves percentage ownership but requires fresh capital. A non-participating shareholder is diluted. Old per-share prices are not directly comparable without adjusting for the rights and the extra money invested. Price reference.

6. The balance sheet is the central objection

The receivables ageing is more informative than a distorted debtor-days ratio calculated on collapsed sales.

Consolidated balance-sheet item, March 2026	₹ crore
Net trade receivables	132.79
Receivables classified as good, 1-2 years past due	93.79
Receivables classified as good, 2-3 years past due	4.39
Total allowance against receivables	4.58
Inventory	98.05
Capital advances	148.85
Capital work in progress	78.26
Of that CWIP, temporarily suspended projects	10.24
FY26 operating cash flow	-28.60
FY26 purchases of fixed assets, including advances	63.94

FY26 annual report, Notes 3, 8-10 and consolidated cash flow, PDF pages 193, 208-211.

Nearly **₹98.18 crore**, or about **72% of receivables classified as good**, was already more than a year overdue. The report describes normal credit terms of roughly 60-120 days, with a separate footnote saying 60-90. Either way, the ageing is far beyond ordinary terms.

This does not prove the money is uncollectible. It does mean that treating every rupee at book value as liquid downside protection is unsafe. The balance-sheet date is March 2026, subsequent collections could improve this picture, but the Q1 result does not supply that reconciliation.

For scale, a hypothetical 25% haircut on the ₹98.18 crore aged-good pool is ₹24.55 crore before any allowance allocation or tax effect. That would be a sensitivity, not an assertion that a write-off is required. It is large compared with the profits the current factory is generating.

Inventory did fall from ₹135.32 crore, but even after that release, cash from operations was negative. Capital advances rose from ₹98.94 crore to ₹148.85 crore. Note 8 also refers to a Vivriti equipment-financing dispute and arbitration, without separately quantifying within that note how much of the advance balance is affected. I would not describe the whole ₹148.85 crore as disputed.

Interest capitalised into CWIP was another **₹12.49 crore** in FY26. That cash cost is not visible in the current P&L interest line. As assets enter service, depreciation and the treatment of subsequent borrowing costs can change the earnings profile.

This is not the clean capex-to-cash pattern we are looking for yet. Fixed assets rising is not enough. The assets need profitable orders, and those orders need cash conversion.

7. Calchem is no longer a subsidiary growth engine

The FY25 report records the insolvency acquisition at a ₹9.50 crore cost, structured as ₹2 crore equity and the balance as a loan. It also says the entire shareholding was transferred in **May 2025**.

The FY26 report confirms a sale consideration of **₹4.3213 crore** for the shares. The related-party note identifies the buyer as **HG Partners LLP**, an entity under the control or significant influence of key management or board members. The report separately records approximately **₹8.29 crore repayment of loans or advances from Calchem**. FY25 acquisition note and directors' report, FY26 Notes 38/53 and related-party schedule.

So two tempting conclusions would both be wrong:

- We cannot add Calchem's future subsidiary profits to Sadhana's valuation.
- We cannot simply compare ₹9.50 crore acquisition cost with ₹4.32 crore share-sale proceeds and allege a loss, because the loan recovery must be considered separately.

The correct governance questions concern the independent valuation, rationale for the quick transfer, approvals, continuing use of the land or factory and the economics retained by listed shareholders. I have not established a continuing contractual integration benefit from the sold business.

The separately disclosed 130-acre Satara land parcel for renewable-energy ambitions is also not an operating cash-flow stream merely because land was acquired.

8. Management, capital allocation and the moat

There is genuine chemical-process experience and customer qualification history. The Japanese order supports the view that the business has commercially relevant capabilities. But I have not found independent evidence of sustained market-share gains or a through-cycle cost advantage strong enough to overcome Chinese pricing.

An old company is not automatically a durable compounder. Even ODB2, where the company discusses integration advantages, has faced intense price competition.

Governance items that warrant attention:

- FY26 remuneration paid or payable to Asit Javeri, Abhishek Javeri and Seema Javeri totalled **₹4.35 crore**, compared with standalone revenue of ₹40.53 crore and a ₹87.31 crore loss. It fell from ₹5.04 crore in FY25, but remains material. The auditor reports compliance with the applicable remuneration provisions, so this is a capital-allocation concern, not an allegation of illegality.

- Related-party interest paid or payable was material. For example, Asit and Abhishek together accounted for approximately ₹16.14 crore in FY26. This should not be confused with their salaries or with cash interest paid in that exact period.
- The offer document discloses litigation over invocation and sale of promoter-pledged shares, as well as the separate Vivriti financing dispute. The promoter's description of the invocation as illegal is an allegation in a dispute, not a finding I can endorse.
- Aggregate promoter ownership was about 60.91% after the rights issue and 59.55% in the August shareholding data, versus 29.97% before the rights issue in December 2025. Ownership changes must be read with the capital issues and pledge disputes, not presented as simple open-market buying or selling.

FY26 annual report, related-party notes, offer document, litigation section, shareholding cross-check.

The capital-allocation burden is not limited to the small quantified tax contingencies. Recoverability of old assets, the arbitration and how much further funding is required matter more. I have not independently resolved the litigation, current encumbrance percentage or all subsequent receivable collections.

9. Can Sadhana earn ₹50-100 crore sustainably?

Possible is not the same as probable, and the size of the required business is easy to calculate.

Assume, solely for this test:

- Sustainable operating earnings, excluding other income and asset-sale profits.
- Combined depreciation and finance costs of ₹25 crore annually, close to the rounded Q1 FY27 annualised expense base.
- A normalised 25% tax rate, ignoring temporary loss-related tax shields.
- No extra funding-related dilution.

Required EBITDA = target PAT ÷ 0.75 + ₹25 crore.

Sustainable PAT target	Required EBITDA	Sales at 15% EBITDA margin	Sales at 20%	Sales at 25%
₹50 crore	91.7	611	458	367
₹100 crore	158.3	1,056	792	633

These are reverse-engineered requirements, not forecasts. New assets or additional borrowing could increase the ₹25 crore expense assumption. At the Q1 operating margin of 8.5%, the revenue required would be substantially higher.

For context, the annualised Q1 revenue run rate is only about ₹109 crore. The Japanese contract is useful, but it does not by itself bridge the gap to a ₹50-100 crore PAT business. A sustainable ₹50 crore outcome needs a much larger, better-utilised MAP/ODB2 franchise, successful additional products or restored PAP economics. The ₹100 crore outcome needs several things to work together.

The company has enjoyed much stronger earnings historically, so I am not claiming those profits are physically impossible. I am declining to treat a past cyclical peak or unused capacity as proof of a repeatable earnings base.

What would those profits mean for a buyer at ₹2.84?

Conditional future annual PAT	Assumed exit P/E	Future price with 303.2194 crore shares	Annual price return if reached in 3 years	If reached in 5 years
25	10×	₹0.82	-33.8%	-21.9%
50	12×	₹1.98	-11.3%	-7.0%
75	15×	₹3.71	9.3%	5.5%
100	15×	₹4.95	20.3%	11.7%

Formula: future price = PAT × exit P/E ÷ shares. Return = (future price ÷ ₹2.84)^(1/years) - 1. No dividends, taxes, transaction costs or further dilution are assumed. PAT must be attributable to the listed shareholders after interest. Debt is therefore not deducted again from a P/E valuation.

These are illustrative outcomes, not an exhaustive scenario distribution. A failed recapitalisation could be materially worse than the lowest row. A genuinely durable, high-return franchise could command more than 15×, but that multiple would need to be earned.

Even ₹100 crore PAT gives only about 12% annual price appreciation if it takes five years and the exit multiple is 15×. At three years, it is about 20%. Time matters enormously.

For a 15% annual price return over five years at 15× earnings, the business needs approximately **₹115 crore sustainable PAT**. For 20%, it needs about **₹143 crore**. That is a demanding expectation for the evidence available today.

I would not manufacture a probability-weighted fair value by assigning precise odds to these rows. The largest drivers, aged collections, PAP unit economics, customer payments and future capital needs, are not disclosed well enough to support calibrated probabilities.

10. What would change my view before the market sees perfect profits?

I would look for three things together:

1. **Collections:** a dated reconciliation of March's ₹98.18 crore aged-good receivables showing actual receipts, remaining exposure and any settlements.

2. **Order economics:** export dispatches against the Japanese contract, customer advances or normal payment terms, and evidence of a stable contribution margin.
3. **Funding and asset readiness:** lender confirmation of regularisation, a reconciled capital-advance schedule and a funded plan to commission only commercially justified assets.

For PAP specifically, I would need saleable tonnes, achieved selling price and cash cost per kg, not a generic restart announcement. For paracetamol or MMDPA integration, I need a dated commissioning statement, actual output and customer acceptance before assigning profit.

That is an early-evidence approach, not a demand to wait until every uncertainty disappears. At present, the downside is not protected well enough to call this a heads-I-win, tails-I-lose-little investment.

Part II. Deepak, a better business with a much bigger cheque to write

11. Why this opportunity deserves more attention

Deepak already operates an integrated chemicals business. Its new investment is not an attempt to rescue a factory that cannot pay its lenders. The existing franchise can supply cash, process knowledge and customer relationships to the new platform.

The physical logic is approximately:

Benzene + propylene → cumene → phenol and acetone → BPA → polycarbonate resin → application-specific compounds.

Some intermediates can also be sold externally. Acetone can feed other products such as IPA and MIBK/MIBC. Internal transfers must not be counted twice when modelling consolidated revenue.

The new resin capacity is **165,000 tonnes annually**. The annual report cites Indian imports of PC and compounds of roughly 400,000 tonnes, a company estimate that needs careful product and period matching before calculating addressable share. Trinseo independently confirms the sale of technology and equipment for **US$52.5 million**. Deepak FY26 annual report, Trinseo transaction announcement.

The small technology-and-equipment acquisition price is not the cost of the completed Indian complex. Relocation, construction, feedstock integration, utilities, commissioning and working capital are separate economic obligations.

12. The latest evidence is stronger than a project announcement

The August call and subsequent ICRA report contain several tangible developments:

- Nitric-acid, nitration and hydrogenation integration assets have been commissioned.
- ICRA reports MIBK/MIBC units recently commissioned, with product approvals in progress.

- Management names Mahindra, Panasonic, Goldmedal and Tata AutoComp as examples of customers where compounds are approved. These are management disclosures, not independently obtained purchase orders.
- The technology/equipment supplier is expected to be an anchor customer for resin, according to management.
- Equipment is being relocated from Germany, with site construction and long-lead orders progressing.
- The dedicated HyCO supply arrangement is a build-own-operate arrangement. It reduces Deepak's need to own that utility infrastructure, but does not make the supplied gases free.
- Management says debt financing has been tied up, with roughly 60:40 debt/equity funding for the programme.

6 August 2026 earnings call, pages 6-19, ICRA, 27 August 2026, annual report, project updates.

This is why I would rank Deepak above Sadhana for further work. There is more evidence of an ability to execute, finance and place products with customers.

But customer approval is not the same as guaranteed resin utilisation. The qualification stage can create an emerging advantage while still leaving substantial commercial risk.

13. Commissioning dates and funding need closer examination

Timing: the August call explicitly clarifies PC commissioning as **H2 FY2028-29**, approximately October 2028 to March 2029. BPA is targeted a few months later. The earlier March 2028 date is not the latest stated target. Commissioning is also not full utilisation.

Capital outlay: management describes approximately **₹11,500 crore** for the integrated programme, with around ₹6,800 crore borrowing plus working-capital requirements and potential peak debt of approximately ₹8,000-8,500 crore. This is not a ₹5,000 crore project that investors can analyse using the old funding burden. August earnings call, pages 11 and 18.

There is a scope-reconciliation issue worth retaining, not hiding. Several passages in the annual report describe ₹11,500 crore as integrated investment, but printed page 203 also refers to an additional ₹3,500 crore for phenol, acetone and IPA. ICRA describes ₹10,500 crore spending over FY27-FY30 and a separate phase-I outlay of ₹3,016 crore. These descriptions are not automatically additive, they can mix total cost, remaining spend and project phases. Before an investment-grade DCF, management should provide one table of total cost, spend to date, remaining spend and funding by project. I use ₹11,500 crore only as an illustrative integrated-project base below, not a fully reconciled total capital commitment.

Likewise, the old ₹5,000 crore and current integrated outlay should not be described as a like-for-like cost overrun without reconciling the scope. And 60:40 project debt/equity funding does not automatically mean issuing fresh listed shares, the equity contribution can come from internal accruals and existing group resources.

14. Where is the moat, and where could it fail?

The credible advantages are integration, local logistics, customer service, product qualification and the ability to shift some intermediate sales to the best outlet. Specialised compounds can have better customer stickiness than standard resin because the customer qualifies the material for a specific application.

But being the first Indian producer does not remove competition. Imported resin is already serving the customer. The price benchmark remains internationally exposed.

Trinseo was exiting virgin PC production when it sold the technology and equipment. That does not mean Deepak cannot succeed with a different location and cost structure. It does mean we cannot use the seller's technology credentials as proof that producing PC always earns attractive returns.

The industry material in Covestro's 2026 transfer report explicitly flags Chinese capacity additions, price competition and global overcapacity. Its market discussion expects modest global volume growth rather than an unlimited shortage. That is the counterweight to the Indian import-substitution story. Covestro 2026 transfer report, polycarbonate market discussion.

My interpretation: the opportunity is to take profitable share from imports, not to assume that Indian demand growth automatically creates pricing power. A superior delivered cost and qualified-product mix must do the work.

15. What does the capital have to earn?

At 165,000 tonnes capacity, 85% utilisation and an illustrative ₹180/kg realised price:

165,000 × 85% × 1,000 × ₹180 ÷ 10,000,000 = ₹2,525 crore resin revenue.

₹180/kg is a sensitivity input, not a verified current contract price. At an illustrative 20% EBITDA margin, resin alone would produce about ₹505 crore EBITDA. That is not a forecast and cannot be compared with the entire integrated capex without adding merchant intermediate sales and integration benefits, while eliminating internal transfers.

A more useful investment test is the required return on the whole capital base:

Illustrative mature project hurdle	Annual NOPAT required on ₹11,500 crore	EBIT at 25% tax	EBITDA if annual depreciation is ₹575 crore
12% post-tax return on invested capital	1,380	1,840	2,415
15% post-tax return on invested capital	1,725	2,300	2,875

Here depreciation is an illustrative 5% of project cost, not company guidance or an accounting estimate. NOPAT is profit after operating tax but before financing, used to assess the assets independently of the debt mix. Additional working capital would raise invested capital and the required operating profit. Cash returns would also need to fund maintenance and future replacement.

For an equity-profit illustration, ₹6,800 crore of debt at 9% interest costs ₹612 crore a year. Add illustrative depreciation of ₹575 crore and the project needs about **₹1,187 crore EBITDA just to cover those two expenses**, before generating pretax equity profit. It needs materially more to create a worthwhile return. Actual interest rates, drawdown timing, capitalisation and depreciation will differ.

This is why a very large revenue opportunity can still produce ordinary shareholder returns.

16. Is ₹1,588 already pricing in success?

At roughly 13.64 crore shares, Deepak's equity value is approximately **₹21,656 crore**. FY26 PAT was about ₹551 crore. Q1 FY27 PAT was ₹345 crore, a powerful improvement but not an automatic ₹1,380 crore sustainable annual base. The August call reports ₹418 crore Phenolics EBIT versus ₹67 crore Advanced Intermediates EBIT, so current earnings remain heavily influenced by phenolics economics. Price reference, quarterly call.

For orientation, ₹900 crore annual PAT would mean about 24× earnings at today's equity value. ₹1,200 crore would mean about 18×. These are normalisation sensitivities, not FY27 guidance.

Here is the five-year payoff test:

Conditional sustainable group PAT in year five	Assumed exit P/E	Future share price	Annual price return from ₹1,588
₹1,000 crore	15×	₹1,100	-7.1%
₹1,600 crore	18×	₹2,112	5.9%
₹2,200 crore	22×	₹3,549	17.4%

These are reverse-valuation cases, not probability-weighted forecasts. Group PAT must include the new interest and depreciation burden and exclude transient gains. Shares are held constant, dividends and taxes are excluded. No second deduction of debt is made from P/E-based equity value.

For a **15% annual price return over five years**, today's valuation needs approximately:

- ₹2,420 crore sustainable PAT at an 18× exit multiple.
- ₹2,178 crore at 20×.
- ₹1,980 crore at 22×.

Could Deepak get there? Yes, that is a plausible research hypothesis for the enlarged business. But the public disclosures reviewed do not yet provide a sufficiently complete volume, spread, cost and funding bridge to call it the most likely result.

For illustration, if the existing and phase-I businesses earned ₹1,000 crore PAT, reaching approximately ₹2,180 crore group PAT would require another ₹1,180 crore. Using the illustrative new-project depreciation and interest above, that incremental profit would require approximately **₹2,760 crore project EBITDA** at a 25% tax rate. This is a demanding but useful number to test against the full integrated product mix. It is not management's target.

At ₹1,588, I do not see a sufficiently established margin of safety to call Deepak an obvious buy. I do see a more credible business to underwrite than Sadhana. In a ₹1,600 crore PAT and 18× exit case, the five-year value discounted at 15% is roughly ₹1,050 today, before interim dividends. A price like that would improve the arithmetic, but it would not substitute for checking the assumptions.

17. What would strengthen the Deepak case early?

- A reconciled all-in capex and funding schedule that removes the scope ambiguity.
- Contracted resin offtake volumes, price formulas and duration, not only customer names.
- Growth in recurring commercial compound sales after qualification.
- Cash generation from the existing business while phase-I assets ramp, without a disproportionate build-up in working capital.
- A realistic commissioning sequence for PC, BPA and upstream feedstock, including temporary sourcing costs where start dates do not match.
- Evidence of competitive delivered costs when global resin and phenol spreads are ordinary, not only during supply disruption.

The failure signals would be repeated cost escalation, delayed commissioning, weak customer conversion, additional equity raised at an unattractive price, or a stronger global supply response that prevents the assets earning their cost of capital.

Final investment judgement

Sadhana: I would pass at the current valuation under our criteria. The Japanese order means it deserves a watchlist entry, but old cash stuck in the balance sheet, related-party capital allocation and unproven PAP economics make the downside too open-ended. I cannot responsibly make ₹50-100 crore sustainable PAT the base case.

Deepak: the stronger candidate for further work. The existing business and customer-development evidence make its new investment more credible. However, India importing a product does not guarantee high returns for an Indian producer, especially when the global industry has spare capacity. At the current price, substantial profit growth is needed for a compelling five-year return.

Sadhana needs to prove that existing capital can come back as cash. Deepak needs to prove that a much larger amount of new capital can earn more than its cost.

Research limitations and next checks

This is based on the FY25/FY26 annual reports, Sadhana's February 2026 offer document, May export-order announcement, June rights monitoring, August quarterly results and allotment, Deepak's August call, external credit analysis and supplier/industry disclosures. Key scanned quarterly and receivables tables were inspected visually.

I have not spoken to management, customers or lenders. I have not verified proprietary current PAP/PC contract prices, obtained Sadhana's post-March collections ledger, or independently valued the Calchem transaction. I have not assumed a new antidumping duty or subsidy will rescue either product's margins. No precise success probabilities or perpetual-growth DCF are presented because the unresolved commercial and capital inputs dominate those calculations.