



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

DEEPAK NITRITE

WHAT WE LIKE

LONG TRACK RECORD & MARKET LEADER

Deepak Nitrite has been a **leading intermediates company** in the Indian chemical industry for over **five decades** now. They are **market leader** in the domestic market for **inorganic intermediates (sodium nitrite), nitro toluene and fuel additives**. Amongst **top 3 global players** for products like **xylydines, cumidines and oximes**.

PRODUCT PORTFOLIO & PRESTIGIOUS CUSTOMERS

The company provides Basic chemicals, Fine & Specialty Chemicals and Performance Products to



PRODUCT APPLICATION DIVERSITY

The company's products have a very wide range of applications and are used in many industries such as **Pharmaceuticals, Agrochemicals, Resins, Personal Care, Petrochemicals, Adhesives, Dyes & Pigments, Paper, Coatings, Fuel Additives, Detergents, Adol Chemicals, etc.** Thus the company's products are used in almost all of the chemical industry products as additives.

STRONG FINANCIALS & IMPORT SUBSTITUTION TAILWINDS

Last 3 years, Sales: **25% CAGR** Profits: **40% CAGR** ROE improving steadily due to improving operating margin. Significant capex done & underway to scale up and cater to untapped demand.

It's Make-In-India-aligned Phenol and Acetone plant, had commenced production in FY19. **Making these chemicals locally available, offers significant advantages to Indian chemical makers including reduce the time-lag with zero import costs.** The company is also looking to explore further opportunities in downstream derivatives as well.

WHAT WE DON'T LIKE

RAW MATERIAL PRICE RISK

Chemical industry is impacted by volatility in prices of raw materials, as **this is directly linked to the prices of end-products and comprises of a major component in the chemical process.** However the company ensures that a majority of the products are contracted with **pass through clauses** thereby **minimizing** adverse impact from raw material fluctuation.

FOREIGN EXCHANGE RISK

Company exports a wide range of products to various geographies, there is a perennial currency risk that is pro-actively managed by hedging of exposure. **However, being a net exporter, Deepak Nitrite can benefit from depreciation in rupee against foreign currencies.**

HIGH DEBT FOR EXPANSION

Deepak Nitrite has more than **Rs 1000 Cr of debt** on its books. Hence, it is exposed to the risk related to its ongoing Capex projects and subsequent growth expected from those projects. **If there is any delay in execution, the Balance Sheet can become stretched.**

OBSOLESCENCE OF PRODUCTS & PROCESSES

With the advent of new technologies and new materials, there are risks to established products of the company. **Discovery of newer, more efficient processes to manufacture chemical compounds can also threaten the viability of some of its product lines.** Furthermore, **the obsolescence of products owing to lack of demand or import substitution can also disrupt the growth path.** However, it has a diversified portfolio of products which helps it **mitigate these risks by shifting its manufacturing resources towards alternate products.** It also **constantly upgrades** its processes through technical improvements brought in by its in-house R&D team.

