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Q2 & H1 FY2022 – INVESTOR COMMUNICATION

Deepak Nitrite reports a steady performance amidst a challenging operating scenario

For Q2 FY22 (Consolidated):

*Revenues at Rs. 1,690 crore, up by 70% Y-o-Y
EBITDA at Rs. 395 crore, higher by 41% Y-o-Y
PAT, at Rs. 254 crore, rises 49% on a Y-o-Y basis*

For H1 FY22 (Consolidated):

*Revenues at Rs. 3,224 crore, up by 93% Y-o-Y
EBITDA at Rs. 855 crore, higher by 83% Y-o-Y
PAT, at Rs. 557 crore, rises 107% on a Y-o-Y basis
EPS of Rs. 40.84 per share, higher by 107% Y-o-Y*

Vadodara, Oct 27, 2021: Deepak Nitrite Limited ('DNL'), one of India's leading chemical intermediates company announced its financial results for the second quarter and half year ended 30th September, 2021.

The second quarter of FY22 was witness to significant volatility in market demand and supply. While the human impact of the second wave of the pandemic moderated by June, demand uncertainty receded only by the end of the quarter. The first half of FY22 therefore offered contrasting business environments- robust demand in the beginning gave way to sharp increases in costs of raw materials, utilities and logistics. In this backdrop, DNL's efforts to double down on supply chain challenges and operational excellence opportunities helped mitigate the worst of the volatility and will yield sustainable advantages as we move to elevated demand scenarios. The company has worked to maintain margins where possible while keeping or growing its market share across businesses.

Domestic requirements for chemical intermediates are on an upswing, presenting new opportunities for companies like DNL. Moreover, international customers are reinforcing their supply chains and are seeking a strategic shift from a philosophy of 'just in time' to 'just in case' - a move that benefits the company's wide portfolio of key intermediates.

In line with the global shift in supply chains, the Basic Chemicals (BC) SBU has been renamed Basic Intermediates (BI) to realign toward a model of providing security of supply of high-quality intermediates to strategic customers.

<i>Rs. in crore</i>	<i>Consolidated</i>			<i>Consolidated</i>		
	<i>Q2 FY22</i>	<i>Q2 FY21</i>	<i>%</i>	<i>H1 FY22</i>	<i>H1 FY21</i>	<i>%</i>
Revenue	1,690	991	70%	3,224	1,673	93%
EBITDA	395	280	41%	855	468	83%
EBITDA (%)	23%	28%		27%	28%	
PBT	342	229	49%	747	361	107%
PAT	254	170	49%	557	269	107%
EPS (Rs. Per share)	18.65	12.48	49%	40.84	19.73	107%

- Though H1 FY22 had challenges such as the severe second wave, the performance in H1 FY21 is not comparable due to impact of the nation-wide lockdown as well as more severe pandemic-led impact then.
- While H1 FY22 witnessed a more normalized macro environment with economic activity rebounding, challenges emerged from sharply rising input prices as well as constraints in availability of inputs, disruption in global trade due to container shortages as well as higher costs for utilities and domestic logistics. The Company undertook significant efforts to ensure adequate availability of inputs in order to operate manufacturing plants at high utilization levels, enabling it to achieve appreciable revenue growth and deliver new benchmarks of profitability.
- Production volumes have improved and the Company is operating at high utilization levels and demand remains buoyant across all SBUs and product categories.
- Assessing the market situation, the Company deployed a dynamic strategy this quarter which involved focusing on preserving market share for leadership products while driving pricing for some other products. In some cases, cost increases have been passed on to end customers, while in others it is being done with a brief time lag. This has ensured balanced growth in revenues and profitability this quarter
- The Net Debt to Equity has reduced to 0.03x as of Sept 30, 2021 compared to 0.37x as of Sept 30, 2020.

Financial Highlights (Consolidated)

H1 FY2022 Vs. H1 FY2021 (y-o-y)

- Revenues were up 93% at Rs. 3,224 crore in H1 FY22 compared to Rs. 1,673 crore in H1 FY21. Overall, the Company has been highly responsive in order to optimise opportunities from the improved operating environment. In addition, the growth has been led by incremental gains in the BI SBU as well as the Phenolics business.
- EBITDA of Rs. 855 crore in H1 FY22 compared to Rs. 468 crore in H1 FY21, up by 83%. The improved operating performance in the current year-to-date has driven EBITDA growth. EBITDA margin has been largely stable on a y-o-y basis at 27% in H1 FY22 despite unprecedented rise in input prices.

- PAT grew by 107% at Rs. 557 crore in H1 FY22 compared to Rs. 269 crore in H1 FY21. All functions of the Company have contributed towards attaining newer benchmark of profitability in the first half.
- EPS for H1 FY22 was Rs. 40.84 per share (of face value of Rs. 2 each) as compared to Rs. 19.73 per share in H1 FY21.

Q2 FY2022 vs. Q2 FY2021 (y-o-y)

- Revenues were up 70% at Rs. 1,690 crore in Q2 FY22 compared to Rs. 991 crore in Q2 FY21. SBUs of BI, PP and Phenolics delivered scaled up performance during the quarter benefiting from operating leverage on account of better operating environment. The FSC segment delivered stable volumes according to business plan despite constraints to availability of inputs and challenges with respect to logistics.
- EBITDA was Rs. 395 crore in Q2 FY22 compared to Rs. 280 crore in Q2 FY21, higher by 41% on a y-o-y basis. The EBITDA Margin was 23% compared to 28% in the same quarter of corresponding year due to combination of higher input prices as well as increased cost of power and logistics
- PAT was Rs. 254 crore in Q2 FY22 compared to Rs. 170 crore in Q2 FY21, higher by 49%. In addition to the strong operational performance, PAT performance was enhanced by the reduction in finance costs.
- EPS for Q2 FY22 was Rs. 18.65 per share (of face value of Rs. 2 each) as compared to Rs. 12.48 per share in Q2 FY21.

CMD's Message

Commenting on the performance, **Mr. Deepak C. Mehta, Chairman & Managing Director**, said,

"I'm glad to see the best of DNL once again brought to the fore in the face of challenges ranging from COVID, raw material and freight fluctuation and energy costs. This is a testament to the kind of systems and people we have in place to deliver sustainable results.

We are embarking on the next phase of our transformation into a diversified chemical company that has the dual capability to maintain its leadership position in its existing value chain while applying itself to innovative new platforms and products. I anticipate a deeper partnership between Deepak and its strategic customers as significant volumes of our current and future products are supplied as part of long term, formula linked arrangements. In the meanwhile, the company will continue to place a high degree of importance to the twin pillars of process intensification and operational excellence in a responsible and sustainable manner.

Growth going forward will be driven by planned expansion initiatives across SBUs and tactical introduction of several downstream chemicals and complex chemical platforms. We remain focused on our agility enabling us to capitalise on opportunities that emerge from rapid shifts across the industry landscape. Our entry into newer solvents will diversify our product portfolio, expand our client base, and increase the percentage of complex, high-margin products in the mix, thereby enhancing our business proposition."

Performance Highlights

Segmental Performance – H1 FY2022 Vs. H1 FY2021 (y-o-y)

- **Basic Intermediates:** BI segment reported revenues of Rs. 516 crore in H1 FY22 as against Rs. 319 crore in H1 FY21, higher by 62%. Despite constraints around logistics and input cost pressures, the Company prioritized strategic opportunities to pass on increased costs while maintaining growth in market share. The performance was also supported by favorable demand scenario augmented by shift towards India by global customers due to supply chain challenges.
- **Fine & Specialty Chemicals:** In the FSC segment, revenues stood at Rs. 405 crore in H1 FY22 as compared to Rs. 350 crore in H1 FY21, a growth of 16%. In spite of several challenges on ground as well as reversion of product realisations to normal levels, the Company was able to demonstrate resilience and supply its planned volume commitments to customers. Also, performance of H1 FY22 has to be seen in light of high base of same period last year which was exceptional as there was a sharp spillover of volumes from April-May 2020 to Aug-Sept 2020. Moving ahead, the Company is strategically tying up more business in multi-year formula kind of contracts with quarterly pass through mechanism to insulate from the volatility in RM prices. In a significant development, the Company entered into medium term contract with one of the world's leading agrochemical majors, which will result in business sustainability and volume spurt for agrochemical intermediates that will aid in growth of the BU.
- **Performance Products:** In the PP segment, revenues grew by 55% to Rs. 198 crore in H1 FY22 vs. Rs. 128 crore in H1 FY21. Supply challenges in China have resulted in customers purchasing more than usual quantities of both OBA and DASDA, which will aid the prices going forward. With key end-user industries of paper and textiles are expected to be doing better, the volume and margin momentum is expected to further accelerate.

Deepak Phenolics: In the Phenolics business, revenues grew by 143% to Rs. 2,145 crore in H1 FY22 as compared to Rs. 882 crore in H1 FY21. The plants registered average capacity utilization of around 120% supported by favorable demand trends and attractive pricing for both Phenol and Acetone. While EBITDA soared by 147% from Rs. 226 crore in H1 FY21 to Rs. 561 crore in H1 FY22, the EBITDA margin stood at 26% in H1 FY22.

Key Developments

- Deepak Phenolics has prepaid Rs. 100 crore of project loan during the quarter without any prepayment penalty.
- 100% of the employees received at least 1st dose of vaccine; 65% of corporate and plant employees were fully vaccinated.
- The Indian Chemical Council (ICC) bestowed Deepak Nitrite with “The Best Compliant Company for the Codes Under Responsible Care”.
- Deepak Nitrite was conferred with Times CSR Award 2021 for Project Sangaath, by Deepak Foundation.
- Divya Bhaskar presented Deepak Nitrite with Divya Bhaskar Pride of Gujarat (The Most Responsible Company)

Outlook

Given its diverse business approach and proven track record of delivering mega-scale commercial projects with best-in-class process management capabilities, Deepak Nitrite is uniquely positioned to ride on the growing demand trajectory from overseas customers as well as profit from significant expansion in the domestic chemicals market.

Performance in the BI segment is expected to be sustained in forthcoming quarters given the current trend of dual-control policy in China. FSC segment will benefit from expected uptick in volumes of agrochemical products, resulting in and better business visibility. PP segment is expected to ride on improved demand from end user industries of Textiles and Paper post severe second wave impact. De-bottlenecking initiatives are being implemented at existing facilities which will improve capacity in the established SBUs of BI and FSC.

The Phenolics business is set to benefit from higher proportion of captive consumption of its output as the next phase of greenfield expansions are implemented through the deployment of Rs. 1100 crores of growth capital earmarked for this purpose. There will be an increase in value addition from the development of additional downstream chemical intermediates and complex chemical platforms.

About Deepak Nitrite Limited

Ranked among Fortune India Next 500 and Forbes Asia (under Billion) Top 200, Deepak Nitrite Limited (DNL) is one of the fastest growing chemical intermediates with diversified portfolio that caters to the dyes and pigments, agrochemical, pharmaceutical, plastics, textiles, paper and home and personal care segments and petro-derivates intermediates- phenolics, acetone and IPA in India and overseas. Its products are manufactured in six plants across five locations, which are all accredited by Responsible Care.

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Safe Harbour

Some of the statements in this document that are not historical facts are forward-looking statements. These forward-looking statements include our financial and growth projections as well as statements concerning our plans, strategies, intentions and beliefs concerning our business and the markets in which we operate. These statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements. These risks include, but are not limited to, the level of market demand for our services, the highly-competitive market for the types of services that we offer, market conditions that could cause our customers to reduce their spending for our services, our ability to create, acquire and build new businesses and to grow our established businesses, our ability to attract and retain qualified personnel, currency fluctuations and market conditions in India and elsewhere around the world, and other risks not specifically mentioned herein but those that are common to industry.

Details to the Consolidated Results (Rs. Crore)

Revenues

Particulars	Q2 FY22	Q2 FY21	%	Q1 FY22	%	H1 FY22	H1 FY21	%
Basic Intermediates	267	172	55%	249	7%	516	319	62%
Fine & Speciality Chemicals	197	210	-6%	207	-5%	405	350	16%
Performance Products	105	67	57%	93	13%	198	128	55%
Phenolics	1,137	545	109%	999	14%	2,136	876	144%
Total	1,707	994	72%	1,548	10%	3,255	1,672	95%
Inter Segment	25	7	257%	22	14%	47	10	370%
Total Revenue from Operations	1,681	987	70%	1,526	10%	3,208	1,662	93%

Note: 1. Other Income not included in the above

Expenditure Analysis

Particulars	Q2 FY22	Q2 FY21	%	Q1 FY22	%	H1 FY22	H1 FY21	%
Employee Costs	68	60	13%	69	-1%	137	122	12%
Interest	9	20	-55%	11	-18%	20	44	-55%
Depreciation	44	31	42%	44	-	88	62	42%

Profitability Analysis

Particulars	Q2 FY22	Q2 FY21	%	Q1 FY22	%	H1 FY22	H1 FY21	%
PBT	342	229	49%	405	-16%	747	361	107%
PAT	254	170	49%	303	-16%	557	269	107%
EPS (Rs.)	18.65	12.48	49%	22.19	-16%	40.84	19.73	107%

Statement of Borrowings

Secured Loan & Net Debt/Equity as on 30th September, 2021

Particulars	Q2 FY22		Q2 FY21	
	Standalone	Consolidated	Standalone	Consolidated
Rupee Term Loan	-	376	-	690
Other Loan Funds (Includes CC)	9	18	30	35
Total Loan Funds	9	394	30	725
Less: Bank Balances & Investments	-189	-295	(1)	(42)
Net Debt	0	99	29	682
Total Equity	2,000	2,828	1,646	1,840
Debt/Equity Ratio	0.00	0.03	0.02	0.37

Capital Employed

<i>Particulars</i>	<i>Q2 FY22</i>	<i>Q2 FY21</i>	<i>Q2 FY22</i>	<i>Q2 FY21</i>
	<i>Standalone</i>		<i>Consolidated</i>	
Capital Employed from Operations	1,318	1,153	3005	2525
Less : Capital Work in Progress	93	121	267	171
Net Capital Employed from Operations (excl. DPL)	1,225	1,032	2738	2354