



“Deepak Nitrite Limited’s Q2 & H1 FY2023 Earnings Conference Call Transcript”

November 10, 2022



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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 & H1 FY2023 earnings conference call of Deepak Nitrite Limited hosted by IIFL Securities Limited.

At the outset I would like to clarify that certain statements made or discussed on the conference call today maybe forward looking in the nature and the disclaimer to this effect has been included in the results presentation shared with you earlier and have also been posted on the company's website.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ranjit R. Cirumalla from IIFL Securities. Thank you, and over to you, sir.

Ranjit R. Cirumalla: Good afternoon everyone and thank you for joining us on Deepak Nitrite's Q2 & H1 FY2023 Earnings Conference Call. We have with us today Mr. Maulik Mehta – Executive Director & CEO, Mr. Sanjay Upadhyay – Director Finance & Group CFO and Mr. Somsekhar Nanda – CFO, DNL. To begin, Mr. Maulik Mehta will share his views on the operating performance and the growth plans of the company, followed by Mr. Upadhyay, who will take us through the financial and segmental performance.

I now invite Mr. Mehta to share his opening comments. Thank you, and over to you sir.

Maulik Mehta: Good afternoon everybody, and a warm welcome to you on Deepak Nitrite's Q2 and H1 FY2023 earnings conference call. I trust you had the opportunity to go through our results documents that was shared with you all earlier. I will begin by briefly taking you through the key highlights for the second quarter and the major developments and strategic approach for the coming year. Mr. Upadhyay will then present to you the financial overview during the period in progress. Following that, we will be open for question and answers.

Before we begin, a quick update on the development post the fire incident at Nandesari in Vadodara on June 2, 2022. This incident led to the damage of certain property, plant and equipment, inventory and has interrupted business for which the company has completed all the necessary actions for restoration of the facility and to restart the operations at full capacity. The company is adequately insured for reinstatement value of damaged assets and loss of profits due to business interruption. The company has lodged a claim of this incident with the insurance company and the survey is currently ongoing. We are heartened of course, to keep in mind that there is no loss of life of any sort. The Nandesari plant of the company lost 100% of production for 1 month, and



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upon receiving direction from various authorities, operations has been resumed in a phased manner from the early July period and full production capacity has been achieved in October. Hence, the results of the current period are not comparable to the previous period to that extent.

Also, I would like to highlight that for the month of July, operations at the Nandesari facility were made using the far more expensive natural gas rather than coal, which is historically the fuel of choice. While we had a well-planned and functional firefighting system in place before the incident, which contributed to zero loss of life, we have further strengthened our protective systems with incremental upgrades, not just in Nandesari but across all of our locations.

In the second quarter, we worked through challenges post the loss of production caused by the fire incident as well as a very volatile global environment. DNL has exhibited certain agilities and initiatives and adhered to its delivery commitments despite the sustained inflationary challenges in inputs as well as the higher operating costs and logistics. As global supply chains continue to get realigned, we have demonstrated to our customers that they really can depend on Deepak. As a result, our wallet share across all end user industries has either remained stable or increased in the quarter.

On a consolidated basis, revenues were up 25% at Rs. 4041 crore in H1 FY23. Despite the short-term concerns outlined, revenue growth was driven by strong volume growth in the Phenolics segment. We have operated all of our plants with the exception of Nandesari at optimal utilization rates. As conveyed, a phased restart of Nandesari during the period under question makes this quarter not equivalent to the previous quarter.

The Phenolics plant operated at a continuously high utilization throughout the entire quarter despite the regular monsoon disruptions that take place on power, thanks to the newly commissioned power plant. In the Phenolics business, we have witnessed declining pricing in the beginning of the quarter. As the global supply chains undergo realignment, one thing that we have noticed is that in Q2, Europe was more concerned with burning crude for energy rather than consuming phenol. So RM movement was not in line with finished product movement. Likewise, China saw a moderation in demand as the economy awaited the results of the CCP elections that take place once every 5 years.

Overall, volume growth has been strong in the quarter, but cost of key raw materials and utilities have been challenging for the industry in general. Further, we witnessed cost pressures in utilities, and we also incurred cost for restarting the Nandesari facility in a



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phased manner without the benefit of the corresponding revenues. Of course, this will be addressed in time via insurance loss of profit.

In Q2, FY2023 on a consolidated basis, revenues came in at Rs. 1974 crore, up by 17% year-on-year. I would also like to add that last year's base benefited from above average realizations in key products, especially in the Phenolics segment.

During the first half, revenues in Advanced Intermediates segment surged by 32% to Rs. 1434 crore. Alongside significant input price inflation, there was a wild fluctuation in exchange rates. The company met its delivery commitments and achieved a good top line performance despite these difficulties. This was also aided by gains in key product categories as a result of increased demand. The company has been successful in passing on cost increases while maintaining and growing market share. Demand for key products in the Advanced Intermediates segment remains robust.

Deepak Phenolics also delivered a strong top line performance during the first half, with revenues increasing by 22% to Rs. 2625 crore. EBITDA performance tapered due to declining realizations. However, this was partially offset by better manufacturing efficiencies and active RM and utilities management, supported by cost control initiatives. Despite external headwinds during this period, DPL continued to achieve high average plant utilization. Nonetheless, profitability has been impacted due to a reduction in price of phenol and an unprecedented rise and volatility in the rate of key raw materials like benzene. We are expecting the margins to be better in upcoming quarters as these situations return to normal and the relationship between the raw materials and the finished product is re-maintained, where both of these are used for the same purpose.

In key developments, all projects are progressing well and are being commissioned in phases. The first one was commissioned in the month of October. The entire volume for the next 5 years is tied up. All other projects that we have also clarified to the investor community are on track and will be commissioned in phases over the next 12 to 15 months.

In the current month of November, another project is expected to be commissioned. This one is margin accretive and environment-related. We have further also commissioned and as of yet, unannounced medium volume, medium-value product targeted to the EU market, which replaces a recently banned chemical. Deepak is only the second manufacturer of this product worldwide, and we expect to see robust growth over a period of time. Right now, we are bullish based on feedback received from seed marketing activities.



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Our teams have successfully overcome significant challenges to achieve results while maintaining a level of agility and responsiveness with our customer base. We continue to progress toward our goal of becoming a diversified chemical company while maintaining our strong leadership position in key existing products and processes even as we innovate to generate new value. In order to deliver scalability in volumes, we also aim to develop stronger and longer-lasting relationships with strategic customers. As we do so, we will continue to prioritize process improvement and operational excellence.

We have announced an investment into chemical manufacturing for products that use energy both as a raw material as well as utilities in the Sultanate of Oman. Since the cost of fuel-based inputs are generally lower and cleaner in the Middle East, we believe that this project will have a good future, given a sustained growth in demand for the relevant products, both in Asia as well as globally. Deepak proposes to invest 51% in equity in this business, which will manufacture products where we already have a very deep customer connect and market insight.

To conclude, we are confident that DNL with its innovative product mix and pipeline of new projects coming in and decades of manufacturing experience is an excellent candidate to lead the Indian chemical manufacturing trend. Our continued focus is on preserving a level of agility, which allows us to capture opportunities presented by sudden shifts in the industry landscape. The contributions from upcoming brownfield and Greenfield expansions with value-added forward and backward integration, we will strengthen our competitiveness and position ourselves to expand our market share to not only be globally competitive, but be leaders in our respective fields.

Thank you. I would now like to hand over the call to our Group CFO, Mr. Sanjay Upadhyay to address this forum and take you through the financial performance.

Sanjay Upadhyay: Thank you, Maulik. Good afternoon, everyone, and thank you for joining us today on Deepak Nitrite's earnings call. I will walk you through the highlights of the financial results for the quarter and half year ended September 30, 2022.

During the quarter under review, Deepak Nitrite has delivered a steady performance amidst challenging operating environment that includes sizable number of days of production while Nandesari facility came into operation in phases on the top of the prices of key raw materials and the inputs of utilities remained high. Another steep challenge has been extremely challenging interest rate and Forex market scenario, and it is all such challenges, it is hardening the company posted robust top line across business increased product share and market share, especially Phenolics, which has been constantly increasing its market share in the country.

Our business capital expenditure is something we are looking working diligently to strengthen, we made a strategic decision to use cash flows to reduce debt and reduce business risk. As a result, our operations continue to be exceptionally capital efficient with enhanced ROCE. Despite the significant increase in the working capital cost with higher input cost, we achieved 48% ROC in Q2 FY2023 and more than 30% in previous 12 reporting quarters.

Now on the financials. On the operating front, our domestic business revenue stood at Rs. 408 crore and Rs. 827 crore in Q2 and H1, higher by 28% and 32% year-on-year, respectively. Export revenues were Rs. 277 crore in Q2 and Rs. 589 crore in H1. On a consolidated level, domestic to export mix stood at 83:17.

In H1 FY2023 on a considered basis, revenues were 25% at Rs. 4041 crore compared to Rs. 3224 crore in H1 FY2022, driven by incremental gains in both advanced intermediates as well as Phenolics segment. EBITDA stood at Rs. 648 crore in H1 FY2023 compared to Rs. 855 crore in H1 FY2022. Margins came at 16% in H1 FY2023. PBT and PAT came at Rs. 550 crore and Rs. 409 crore respectively.

In Q2 FY2023 on a consolidated basis revenue grew by 17% at Rs. 1974 crore as compared to Rs. 1690 crore in Q2 FY2022. On a year-on-year basis, EBITDA came in at Rs. 283 crore from Rs. 395 crore in Q2 FY2022. Margins moderated at 14%, higher raw material costs and other utilities along with lower recovery for a few products, PBT PAT stood at Rs. 235 crore and Rs. 174 crore, respectively. Profitability was aligned with the operational performance of the company, which was impacted due to a review cleared by the inflationary pressures in RM and other utilities. In the ensuing quarters, the circumstance is anticipated to improve.

Moving to the segmental customers. As mentioned earlier, our strategic business units have been merged in accordance with Ind As 108. Due to this merger, the group's operations are now reported in 2 segments, Advanced Intermediates and Phenolics.

In the Advanced Intermediate segment revenue has increased by 26% to Rs. 685 crore in Q2 FY2023 versus Rs. 544 crore in Q2 FY2022, while EBITDA marginally grew by 1%, Rs. 149 crore during the quarter under review. In H1 FY2023, revenue grew by 32% to Rs. 1415 crore and EBITDA came in at Rs. 298 crore, translating into a margin of 21% despite the current environment and challenging circumstances.

Deepak Phenolics delivered an encouraging performance revenue growth of 13% to Rs. 1284 crore in Q2 versus Rs. 1139 crore in Q2 FY2022 while EBITDA stood at Rs. 134 crore and EBITDA margin came in at 10% in the quarter. In H1 FY2023, revenue grew by 22% to Rs. 2619 crore and EBITDA came in at Rs. 352 crore, translating into a



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margin of 13%. EBITDA has been diminished as a result of drop in sales price and however things returned to normal in the ensuing quarter.

Lastly, on the balance sheet front, company's financial position is significantly enhanced, and the company continues to maintain zero debt position with a net worth of Rs. 3651 crore on consolidated basis and Rs. 2415 crore on stand-alone, thereby strengthening its balance sheet for future expansion. With that, I would like to request moderator to open the forum for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session.

The first question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: I have two questions. Based on Maulik bhai's opening remarks, so I was just trying to understand the stand-alone business, you mentioned in detail. So when we look from 2011 to 2018, we almost doubled our sales. So from Rs. 700 crore to Rs. 1500 crore. So it took us almost 7 years to double. Then from 2018 to let us say, the first half of this financial year. If we take on an annualized basis, we again doubled our turnover, so let us say, from Rs. 1500 crore to Rs. 3000 crore, and these sales have been steadily going up even if we account for those onetime increases in the DASDA prices. So all those have been accounted for and still we have doubled our turnover from FY2018 to FY2023. So I have two questions here. So one is based on the greenfield and the brownfield expansions, what we have announced, what could be the reasonable number of years where, again, we could see our sales doubling from Rs. 3000 crore to Rs. 6000 crore, and how much money we have to put in order to achieve this sort of increased turnover. So this is one, and second is, based on the opening remarks what Mr. Maulik bhai mentioned, we have been undertaking some of the backward integration projects, adding some intermediates also for our finished products, adding some customized products, where we got some 5-year long-term contracts with the customers outside India. So how much margin reset could happen from the current levels considering the current global macro situations? Because if we see from FY2011 to FY2023 or first half of FY2023, our EBITDA margins have been from 8% to 20% before correcting from 32% to 33%. So it has come down from 32% to 20% and likely some reasons what you mentioned like some of the raw material prices have gone up or the freight costs have gone up. So if you can answer these questions, that would be helpful.

Maulik Mehta: Okay. A lot of stuff to unpack there. But first of all, I would just add that perhaps the same trajectory of revenue growth may not be there and that would only be because a lot of the new investments will not be coming into Deepak Nitrite as stand-alone, but into a new subsidiary called Deepak Chem Tech and there are different reasons for that, but the company continues to invest in high-quality growth as a group, you will see that.



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Secondly, while you have seen a moderation with regards to the margins on a percentage basis, I would like to highlight that in Deepak Nitrite the stand-alone entity, we have not seen any general trend of a reduction in gross margins. Now unfortunately, in Q2, there was a lower percentage as well, and that was because of significant cost increase when in the month of July, we used natural gas, for example, as a utility, and along with that, we had a substantially lower volume that we were able to produce and sell into the market. A lot of people, because they look at Deepak Phenolics and a large capacity that manufactures phenol and acetone underestimate the size of the throughput of various different chemicals from the Nandesari site. So in Q2, we have seen a volume drop of about 15% compared to previous quarters, and this was because we were restarting our plant and throughput in a phased and a safe manner. So in Q3 onwards, from October onwards, where all the plants are up and running in full swing, you will see, again, a volume pick up. So between the cost increases, unfortunately, due to the fire incident and the volume drop, we are seeing a severely contracted Q2. We do believe that the volatility both in RM and in FG will continue to be a factor for the ensuing quarters, but we remain bullish about our ability to have our customers understand this and maintain a growing wallet share. So even though in Q3 there is a softening of demand in certain key industries, there are customers worldwide and especially in Southeast Asia, which continue to buy a lot of Deepak's products, so mitigating pockets of moderating demand. We remain bullish about all of our products.

Nirav Jimudia:

So sir, this is about Q3 and probably the second half of FY2023. But let us say, if we take a slightly longer view of 4, 5 years where, my apologies that I did not include our newer subsidiary where we are also investing a lot of money apart from the Phenolics. So let us consider that subsidiary also is a part of the related Capex for the Advanced Intermediate business. How do we see this business shaping up over the next 3, 4 years? Because we are doing a lot of backward integration stuff. We are doing some customized products also. So possibly, from current levels, there could be some margin reset also that could happen over the next 3, 4 years. So could you share your thought process over the next 3, 4 years, how our business would look like, how our normalized EBITDA would look like based on your current assessment of the situation?

Maulik Mehta:

I would say that over the next 3 to 4 years, we should target to double our top line, and perhaps the growth in our bottom line may be a little bit faster because there is also a lot of backward integration that is taking place. So between both of these, I think the next 3 to 4 years, there is a strategic balance between both. But the company remains in a good leading position in all of its products. So it will continue to benefit from the downstream integration and brownfield expansions.

Sanjay Upadhyay:

In the order of this thing, the margin improvement will be the first thing because, as you rightly mentioned about backward integration. So that will improve EBITDA certainly,



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and the top line, of course, will grow when we are setting up new facilities and in the existing business also. See all the products and all the businesses, we are doing some debottling as Maulik mentioned there is some sales marketing then for sample sent which is a very good potential we have, and we have commissioned one more project this month, in fact. So things are moving and things are happening. One thing is that we are doing whatever right to do for the business fundamentally. Outside world, things are very volatile, we all know, in Europe and China, like for example, the textile business is certainly impacted, and so textile is impacted, dyes is impacted and parallelly then one of our stream of business. Fortunately, Deepak Nitrite is in a business where we have end applications in several industries. So fortunately, we are able to sell our product, we are able to capture our market. But in some pockets, there will be negative and in some pockets it will be positive. So this is how a resilient model is created, and we will continue to do that.

Nirav Jimudia: And sir, my second question is on the qualitative side. How much our R&D team currently comprising of, and because now we are also setting up a new R&D center. So how the team would look like once this new R&D center would be up and running?

Sanjay Upadhyay: Currently, we are having around 103 staff strength total. Although the PhDs will be in the range of 20, 25 PhDs. So it is a significant number, and they are working on a new site. Of course, it is going to take time, but they are like whatever products and Maulik was just mentioning, this is all coming out of our R&D only. So they are constantly on it. Now, so we do not have a segment, but otherwise on those fine & specialty and forward integrations further.

Moderator: The next question is from the line of Isha Agarwal from VT Capital.

Isha Agarwal: Sir, just wanted to know like for this particular quarter, what was the volume growth, and what was the growth because of the price hikes that were taken?

Maulik Mehta: In Deepak Nitrite, unfortunately, there was no real volume growth on an average simply because of the fire incident. In Deepak Phenolics, I think it would be close to about 10% in the Phenolics segment. So if it was a normalized quarter, then in Deepak Nitrite stand-alone, we would also have seen a volume growth of about 10%. So in Q3 you should see this coming in. Actually, a good representative quarter would be Q4, the Jan to March quarter of 2022 as an indicative volume because that is when we had the plant up and running, including the debottleneck capacities.

Isha Agarwal: Sir, like from past 2, 3 quarters, you were talking about the price hikes taken. So has all the price hike been realized or still the headroom is left.

- Maulik Mehta:** See, the price hikes as and when they come, they are always on a rolling quarterly basis. If the raw material prices hike, then with a quarter lag, in some cases, less in some cases about a quarter, we are able to pass the prices on in order for us to maintain a healthy margin. Now of course, this is not going to factor in when you look at it on a percentage basis because I cannot tell the customer that my cost has increased by Rs.100 so please pay me Rs.15 additional so I can maintain my percentage. Nonetheless, if the situation moderates in terms of the raw material prices, if they reduce, then of course, we pass that benefit over to our customers with a lag, and when the prices increase, the customers support us with that price increase.
- Isha Agarwal:** Sir, just another thing I wanted to understand what led us to use more of natural gas apart from the other the major crude-related derivatives that we usually use for our raw material?
- Maulik Mehta:** See, every good plant in the country is by law, needing to have what is called a standby boiler. Essentially, it is one which can be used as and when the primary generator of steam is under maintenance for whatever reason. So you take permission and you run it at that point. Now while we were going through the plant restoration, we also identified areas of improvement in the boilers, which were affected because of the significant pressure that arose from the fire incident, and therefore we addressed the safety aspects and the repairs of the boiler also, and in that period of time, the natural gas boilers that is always available as a standby this was utilized. So this is not something which is a normal case. But in order to maintain our delivery commitments and to start operating our plants in a safe manner for that period of time, it was a natural gas boiler that was used rather than the generally used coal boiler.
- Sanjay Upadhyay:** But this is covered under our LOP. So as and when LOP claim is settled, we will get back this.
- Maulik Mehta:** Absolutely.
- Moderator:** The next question is from the line of Sudharsan Nachimuthu from Prosperity Wealth Management.
- Sudharsan N:** So my question is a follow-up question on the previous gentleman. So you guided for doubling the topline growth within 3 to 4 years. Is this on a stand-alone basis? Or is this on a consolidated basis?
- Sanjay Upadhyay:** This was on stand-alone basis, consolidated cannot happen because in phenol new capacity itself takes 3 to 4 years to set up.



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Sudharsan N: Another question is on the phenol segment. So what is the price change in phenol acetone in the last quarter and the last 40 days and the same period, benzene, and propylene price corrections?

Sanjay Upadhyay: So I do not want to give you prices, but the benzene prices have gone up. In fact, if you are taking the raw material prices, the benzene prices have gone up significantly in the quarter. In fact, phenol, this quarter was a little subdued because of demand also though we are able to maintain our volumes. In fact, we have expanded, but then overall demand was down because of global situation, because of erratic monsoon also and paint industry not doing well, which they continue not to do well even today. So there was an impact of this. On top of it, benzene probably prices were higher, there was a shutdown from BPCL, which also led us to buy some cumene from the market. I mean overall, there were several issues for the quarter, and in fact there is a shutdown in October also of BPCL which is continuing. So there will be some impact. So phenol business, what you are seeing is lower demand, but we are selling our volumes on top of it, this kind of I would say, disruptions in the market.

Maulik Mehta: I will just add one point here that there are significant global disruptions. In India, however, the disruptions are of a much smaller scale, right. India has a very different kind of consumption of phenol compared to what you have in Europe, in the US, in Asia, and therefore, whatever disruption you are seeing, especially places like China in places like Europe where there is destruction rather than disruption. In India, it is a disruption, it is transient in nature, and it remains a target market where Deepak will continue to grow its wallet share, and even if in the short term, there is a slowdown, it is a slowdown to a very brisk CAGR. India's demand of phenol is quite linked to GDP growth also because it has infrastructure spending associated with it, pharma associated with it, agrochemicals associated with it. So when we speak about slowdown in India, we have to keep in perspective that it has slowed down in a very high CAGR, which is still high and will improve as the global situation also improves.

Sudharsan N: My question is on the Capex front. So recently, in October, there has been a commissioning and November you are expected to commission one plant actually. So can you just provide details on it, like in terms of capacity and products and margins, which we can expect from these commissions?

Maulik Mehta: So there are 3 initiatives, which have been commissioned in the last month and this month. One of them is for an agrochemical, which I mentioned has already got all of its volumes booked under formula contractual agreements for the next 5 to 7 years. This is a product where Deepak has a leadership position. Will continue to have a leadership position. It is a challenging chemistry, and it is, I think, maybe the second largest player, maybe the second or the third largest player in the world. The second one, which is



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being commissioned, as I have mentioned in my opening remarks, is a margin-accretive and environment-related project, and the third one, which got commissioned is a product which is targeted globally. But right now, we are prioritizing Europe simply because in Europe, it replaces another chemical, which has been banned by the agencies for its carcinogenic property. So our product replaces that has a very interesting CAGR, which is developing simply because the previous one is banned, and this was something that we had not announced earlier, and we have seen very encouraging feedback from all of the target consumers. So it is something where I would not like to give guidance. It is very early. But all I can tell you is that at the moment, the feedback has been extremely positive, and Deepak has developed the product internally. It is only the second company worldwide that manufactures this. At what scale what we will do over a period of time will come out as we see the product and its use case improving.

Sudharsan N: Seeing the benzene and phenol demand, can you just tell me that if the coming quarters will have pressures in phenol segment, margin pressures?

Maulik Mehta: So let us put it this way, that normally phenol, benzene, all of these, whether they go up or they go down, they go down more or less together with some gaps. In the last quarter because Europe was actually burning oil rather than cracking it into petrochemicals like benzene and toluene, was using it for its calorific value. This was also not a time where it was going to use phenol for its solvent application. So there was a drop in the demand for phenol and an escalation in the price of benzene, which is completely out of lock step, which it normally is. Now what has happened is owing again to more macroeconomic trends, the prices of benzene has corrected significantly. In fact, between the highs and the lows of the same quarter, quarter 2, there has been a gap of about 50% to 60% between the high and the low in the same quarter for benzene. Now phenol has not seen that much of a rise and a fall, and therefore, we expect in Q3 to be able to benefit from a price correction in benzene which is more than any price correction that we may see in phenol. So the margins, we expect to have at least some level of an improvement compared to Q2, simply because the macroeconomic trends are moderating in terms of their intensity.

Sudharsan N: So another thing is you have said like 50% increase have been in the benzene prices. So at the mid of quarter 3, is it still at this high or has it corrected?

Maulik Mehta: No, I am saying within the quarter, there has been such a volatility. But the prices for benzene are sliding. As we see right now, again, this is one of those things where it is difficult to predict what will happen 1 month from now, which new superpower is going to decide what. But at the moment, at least the general trend has been that the prices of a lot of these petrochemicals has seen some level of correction since mid-September



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onwards. This will get affected regionally based on certain startups or shutdowns as that may be.

Sudharsan N: Regarding the Rs. 1500 crore Capex so you have mentioned like MIBC and MIBK are the 2 of the products which you will be coming in. So apart from this, is there any other updates on which all the products that are actually coming in. And in terms of capacity, you have given guidance for 40000 metric ton in MIBC and 8000 in MIBK.

Maulik Mehta: So we have deliberately not announced names of products other than this, simply because the other investments that are there, other than the upstream integration, the ones which are downstream integration are actually multiproduct platforms. Fluorination, for example, chlorination and photo chlorination are multiproduct. But these are assets that we are investing in and they are up engineered assets. So while they can do one thing, they can also do a lot more things because the assets allow us to use significantly more pressure, significantly higher temperature. In some cases, instead of using a liquid, we can use a gas, vice versa. So it gives us a level of flexibility, which is not common to what we have done in the past where we put a plant with single product in mind, and therefore, it may have a range of different products that we will run in campaigns. I would not truly call them multipurpose plants, but they are certainly in that line, and the investments would be, as I mentioned, into fluorination, into photo chlorination, we will also, of course, be adding significant investments into expanding our nitration capacity, hydrogenation capacity and some other unit processes that we will announce over a period of time. But they have already passed the R&D phase. I have mentioned earlier that some of these investments which we have not announced the value yet, will be using gas liquid reactions, which will be, in that sense, downstream of what we already manufacture and targeting the pharma segment as an anchor application.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: So 2 questions from my end. Would it be possible to quantify the impact of using the natural gas instead coal for that 1 month?

Maulik Mehta: I mean, we have already done it as part of the work that is required when we file it for the insurance claim. Give me a couple of minutes, and I will give you a specific number. But if you have a follow-up question to that, you can ask it while this number comes up.

Vivek Rajamani: Sure, sir. The related question was barring the usage of natural gas and obviously, the 15% reduction in volume you saw because of the fire and the phased ramp-up. Would it be said that these 2 were the only externalities, which were affecting the quarter? Or do you see any other market-related conditions, which may have also played a part in the performance for that segment?



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Maulik Mehta: So when you are talking about the segment, you are specifically talking about Advanced Intermediates and Deepak Nitrite standalone, correct?

Vivek Rajamani: That is correct.

Maulik Mehta: So there has been a moderation as Mr. Upadhyay also mentioned in the application of the textile industry in India. However, we have taken this opportunity based on geopolitical situation to target customers in Asia and in the US who would otherwise have bought competing products from Europe. So because this opportunity has been available to us, I can say that the impact of the lower demand in this particular segment in India has been mitigated by the Deepak's marketing team. We also remain bullish about this segment recovering. But at least for the next couple of quarters, these international markets will remain extremely supportive to Deepak's products and good pricing, which allows us to maintain the same level of netback as if we had sold to the Indian textile industry. With regard to your other question, with the first question, about the impact of natural gas versus coal for a month.

Sanjay Upadhyay: Rs. 4 crore is the impact for Q2 FY23.

Maulik Mehta: Yes, the impact for Q2 FY23 was Rs. 4 crore. This is the delta, which we would have been able to gain if we had used coal instead of natural gas.

Vivek Rajamani: If I may just squeeze in one more clarification. I think you mentioned barring the Nandesari facility, you were running all your plants at optimal utilization levels. Would it be possible to give some color on what that optimal utilization rate is? Because obviously, on the phenol side, you have been able to run it north of 100% in the past. So just some color on that would also be really helpful.

Maulik Mehta: So on most of the other products, we have run them at, I guess, it is something between 90% to 100% capacity. In a couple of products, we have challenged that 100% and gone beyond that to about 108% to 110%. One thing I have to say is that it is not easy. It is more challenging to do in Deepak Nitrite because the product output might be a solid product. So it is not as easy to go beyond 100%. We have managed in a couple of cases, but it is something where there is a good amount of work required. Nonetheless, as I mentioned, we generally have targeted between 90% to 105%, 108% utilization in Deepak Nitrite's stand-alone assets.

Sanjay Upadhyay: Yes. But to answer this, we are concerned with debottlenecking see when Maulik says it means in the current state, you cannot do that. But with some debottlenecking, a little Capex, you can expand and which we have been doing continuously. It does not require same investment. So with the margin investment, you can have a higher capacity. So



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that why Deepak Nitrite's products and plants are multiproduct, multifacility barring 1 or 2.

Vivek Rajamani: Phenol would be north of 100% as per usual, right?

Sanjay Upadhyay: It is above 100%.

Vivek Rajamani: Got it sir, very helpful.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Most of my questions have been answered. Just a couple of clarifications I wanted to seek. One was with regard to the Advanced Intermediates segment; would it be fair to conclude that perhaps you are back to normal margin starting the March quarter after a period of consolidation in the December quarter going on?

Maulik Mehta: No, we will expect an improvement compared to Q2 because we had a lot of tailwinds because of the Nandesari situation.

Sanjay Upadhyay: Actually, Abhijit I would answer this. I do not know what the normal margin is because in current situation, things are so volatile, like Maulik was just mentioning about, so it affects a particular chain of products. So what is normal is very difficult to say. But we are doing better. In fact, second quarter also we had this impact of fire, where we lost production so overall, this is not a normal quarter as such. But then Q3 will have its own challenges. So frankly, nobody knows what is normal, what we are doing. I mean we have done like we started sodium nitrate on 22nd of October with full capacity. So you will see that in the third quarter, the results and when it comes.

Abhijit Akella: Also, just to clarify the comment that was made earlier, the Deepak Nitrite's stand-alone business is what we are targeting to double in terms of top line in the next 3 to 4 years? Just to make sure I understood that correctly, and if so, if you could just elaborate or just highlight the major drivers that we would have to do that in terms of the major growth?

Maulik Mehta: Deepak Nitrite, I clarified that a lot of the investments, even for downstream or upstream will come in the new subsidiaries, Deepak Chem Tech, which will house not only Deepak Nitrite's related products, but also Deepak Phenolics related products. For example, MIBK, MIBC. So let us put it this way, that the business of Deepak Nitrite will certainly see significant revenue growth over a period of time as new projects get commissioned. Whether that is housed in one company or another company as analysts and investors, you will see the value coming. Deepak Phenolics as an entity, it is not easy to double the revenue of a commodity chemical like Deepak Phenolics overnight, and that normally will happen when there is either a significant new investment that is



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coming in with a new plant or with a significant downstream investment that is coming in. So that will be a different story. Deepak Nitrite and its associated products will certainly see revenue attractive to its current business over the next 3 to 4 years in line with what you mentioned. It will be housed in another subsidiary.

Abhijit Akella: Yes. So MIBK, MIBC will come in this subsidiary Deepak Chem Tech, but possibly any other derivatives of Phenolics might come within Deepak Phenolics itself. Is that correct to understand?

Sanjay Upadhyay: As and when it comes, we will let you know about how it comes and where we are housing that.

Abhijit Akella: One last thing, just with regard to the Phenolics segment, just from the market's perspective, in terms of demand that you are seeing for India, have you seen a significant slowdown in the country's volume growth rate compared to the 10% kind of volume growth numbers we used to see earlier. Have things slowed down, and also, how are things looking at the global front, whether it be maybe in China or other important regions around the world?

Maulik Mehta: I think, Abhijit, you should not focus so much on only the last couple of months as a sample size. So if you look over the last 3 years, last 5 years, you will see that there is a remarkable consistency in the growth in consumption of phenol in India. Now the last couple of months have been very volatile, also very uncertain because of geopolitical issues, and phenol as a product is something, it is like water that it flows from the place where it is made to the place where it is consumed internationally, domestically, whatever. But in India, because it is very closely tied to the growth in GDP, barring some unforeseen circumstances, which would relatively remain in the short term, like how you have seen in the last couple of months or quarters. The growth story is intact. So is the growth story for the downstream applications of phenol where Deepak remains a very bullish investor. So I do not foresee a long-term slowdown from what we have seen in the last few years. You see in the last couple of months, but do not base your perception about the future based on the last couple of months. Such things may happen. They may happen again. But this is India. There is always more optimism here than there is in most parts of the world, even at the worst of times.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: First question is on Advanced Intermediate business, you mentioned definitely that the spillover impact was still felt in the current quarter, and we are expecting that from next quarter onwards we can expect the volume growth of close to 10%, which was not achieved in the current quarter. So this volume growth which we are expecting in the



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second half is primarily in the nitrate business or you will see that the growth will in the broad spectrum the basket of all the Advanced Intermediates in the basket?

Maulik Mehta: In the broad spectrum of Advanced Intermediates which will, of course, include basic intermediates, but which will also be seen in growth in volumes in the other segments. So you will see H2 having a broader improvement in terms of volume across all the segments.

Rohan Gupta: Sir, it is irrespective of the, you also mentioned that some of the industries are witnessing the slowdown like textiles and all, which are also the key end user industry for Advanced Intermediates so do you see the volume growth which we are targeting irrespective of some industries witnessing slowdown, whether domestically or globally?

Maulik Mehta: So we do not believe the slowdown is an endemic situation. It is here and now, and that is because of certain recessionary fears that are there worldwide. Because the Indian textile industry also supports the global textile consumption industry. Nonetheless, as I mentioned earlier, while this transient effect is there, which is leading to some consumers of our products in India being relatively cautious about the visibility that they give in the long term owing to certain geopolitical situations that we all know about that are taking place both in China and in Europe. Coincidentally, this has also opened up significant avenues for supply of our products to other countries, where normally we have had only a moderate exposure, countries like Southeast Asia, like the US etc., where we are currently able to move a lot of material compared to what we were earlier and at margins where our netback, it remains similar to what it would be if we were selling to the Indian industry, without dealing with the freight and the duty impact. So today, we are able to do it. This opportunity remains available to us over the next couple of quarters. But we also do anticipate that the domestic industry, at least the textile segment, will recover in a quarter or 2. So for us, one channel or another channel, we remain confident about the volume demand and the margin for Deepak's standalone business.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund.

Dhruv Muchhal: Against the earlier guidance of about Rs. 1500-odd crore of Capex, I believe, if I am not wrong in 18-odd months. So if I look at the 1H numbers, it is about Rs. 140-odd crore of Capex in the cash flow. It seems a bit low versus the run rate that we have probably guided. So are there some delays in the Capex? Or it is just the cash flow that is likely to accrue and probably bulk up?

Sanjay Upadhyay: Cash flow, not the delay in the project.



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Maulik Mehta: A lot of these are engineering items, and in any chemical company, there is a lot of investment that takes place when you are talking about the civil structure and things like that. So those all happen at the right time. We do not front-load any of the costs unless we have to.

Moderator: The next question is from the line of Meet Rachchh from Anubhuti Advisors.

Meet Rachchh: Sir, just on the Nandesari plant, if you can give what were the blended utilization levels for the second quarter because the plant was shut down for some part, and then we were running at lower capacity.

Maulik Mehta: So exactly that. One part of the plant, I would say, close to 50% of the volume was operated at 50% run rate for the duration of the quarter, and the remaining 50% of the plant was operated at close to about 80%, 90% run rate.

Also, I would just highlight one thing that one part of the plant was underutilized for a short period of time because it was going through hot work in order for us to expand the project that we already had announced for the agrochemical intermediates.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Sir, my question is on the Phenolics. So last quarter, we had indicated a utilization of about 129%. So just wanted to know what was in this quarter, and if you can quantify the high-cost inventory onetime impact for this particular quarter?

Maulik Mehta: The run rate was similar to what it was. It would have been less because of the multiple power trips that occur in Dahej normally during the monsoon, which we were able to avoid, thanks to the CCP. While it is also an advantage, we have to keep in mind that, unfortunately, right now, the price of coal is also so high that we were able to run it, and we were able to save the costs that would be accrued in terms of the stoppage and the start-up and the safe startup of the plant. But coal being as expensive as it is, it did not yield the material benefit to the extent where we would have wished it did. But this is for us to protect the quality of our assets as well as to maintain supply chain.

Sanjay Upadhyay: So in regard to your inventory this thing, the impact is in the same month. It is not carried forward from the earlier quarters, but in the same month, where you are importing the consignment comes late and because of the volatility in the prices, the prices can change in between, that is all beyond that nothing. So once BPCL is normal and when we have our own stream running, then this would not be that much.

Rohit Nagraj: The expanded capacity to 300,000 tonnes debottleneck capacity that will be available from Q1 FY2024 onwards. Is that right?



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- Maulik Mehta:** Yes, that is right.
- Moderator:** The next question is from the line of Karan Gupta from NYIS.
- Karan Gupta:** I want to ask one thing like you said that the textile sector is not doing well in the Indian context. So by when do you see it is coming to the right path?
- Sanjay Upadhyay:** It is difficult to say because we were expecting during Diwali festival things will normalize. It has not yet normalized. So I mean, very difficult to say.
- Karan Gupta:** So like at present also, you are not seeing any traction again, like the demand coming up?
- Sanjay Upadhyay:** No.
- Maulik Mehta:** Just to clarify. It is not like there is no demand. It is that most of the consumers for our products that happen to be in the textile space are not able to provide a medium to long-term visibility because they are waiting to get this from their end consumers, which may be in Europe or the US or wherever. So the problem is not that they are not running the plant. It is simply that they are not confident about whether 2 months from now, the capacity ramp-up will be X or Y or the demand will change from A to B. So the market is there. They are consuming subdued levels and they are also seeing how the situation develops.
- Moderator:** The next question is a follow up from the line of Sudharsan Nachimuthu from Prosperity Wealth Management.
- Sudharsan N:** Sir, any update on the QIP front, and any update on your polycarbonate product?
- Sanjay Upadhyay:** So QIP, nothing as on date. We will just wait for the right appropriate time and moment. So no update as such on QIP. Polycarbonate, we are working on polycarbonate. It is at a prefeasibility stage. Once we are ready with that, then we are going for the license application and parallelly, we will have to do other things before we go for the actual launch. So first and foremost is license.
- Sudharsan N:** So the QIP would not be used for this polycarbonate?
- Sanjay Upadhyay:** I think it depends, of course, it is for polycarbonate, but I think there are other capacity also in pipeline.
- Sudharsan N:** Then the timing from QIP is 1 year from the date of announcement. So how long is the value?



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- Sanjay Upadhyay:** Up to February, I believe.
- Sudharsan N:** So it is safe to say that polycarbonate will be finalized between that date?
- Sanjay Upadhyay:** Yes. Provided we are able to complete the prefeasibility studies and everything.
- Moderator:** The next question is from the line of Sabyasachi Mukerji from Centrum PMS.
- Sabyasachi Mukerji:** So my question is on Deepak Phenolics. So what is the stable margins we can expect both on the gross and the EBITDA margin?
- Sanjay Upadhyay:** See, there is no stable margin in the current volatile business atmosphere, right, and Deepak Phenolics is a commodity product. So you know how commodities are actually now moving in the market. So you cannot say that. But normally, you can expect around 16% to 22% that range in the Phenolics business normalized. Anything above 25%, 27% may not be sustainable, anything below 16% may not be the right margin.
- Sabyasachi Mukerji:** This is on EBITDA margin, you are saying.
- Sanjay Upadhyay:** Yes, it is the EBITDA margin.
- Sabyasachi Mukerji:** A related question sir, when we are done with the backward integration, so will there be stability in the margins as we go into more value added products?
- Sanjay Upadhyay:** Of course, more and more, you get into derivatives more and margins are stabilized.
- Maulik Mehta:** Just to clarify, the backward integration right now is in Deepak Nitrite standalone.
- Sanjay Upadhyay:** When we go for phenol ACS, of course. So whatever we consume in MIBC, or MIBK or wherever, then to that extend, yes.
- Moderator:** The next question is from the line of Meet Rachchh from Anubhuti Advisors.
- Meet Rachchh:** Sir, just a follow-up question on, I think, Phenolics. So post commissioning of MIBK and MIBC will we still sell phenol or the whole quantity will be consumed for production of these two products only, and how are margins in these products?
- Sanjay Upadhyay:** No, no, we will continue to sell in the market. We will also be consuming a good amount. In that sense, you must look at what has happened with isopropyl alcohol IPA, where there is a good amount of consumption of acetone as well as market presence for acetone. So similarly, when it comes to MIBK, MIBC, we will retain our market presence in the upstream products as well as the downstream products, and the margins will be, I



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mean, right now, the margins look very good. Let us see how they develop once we commission, but they will certainly be in addition to what margins we would get in the phenol acetone business.

- Meet Rachchh:** So basically, we will be ramping our phenol capacity over time also, correct?
- Maulik Mehta:** Yes, we will be balancing both.
- Sanjay Upadhyay:** We just said, we are expanding to 3 lakh tonnes. How are we going to consume our captive, how much market is requiring, and accordingly, these steps will be taken going ahead.
- Maulik Mehta:** In normal situation MIBK, MIBC should have about 20% to 22% EBITDA. This is on the base of a normal phenol, which will have its own like 16% to 18% EBITDA.
- Meet Rachchh:** What capacities are we building on MIBC and MIBK?
- Maulik Mehta:** We have announced in the past, but I think MIBK is about 40 kt, and MIBC is about 8 kt.
- Moderator:** Thank you. Ladies and gentlemen, as this was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Sanjay Upadhyay:** Thank you so much for joining this call of Deepak Nitrite. For further clarifications, you can get in touch with our Investor Relations team, with Mr. Somsekhar Nanda. Thank you once again.
- Maulik Mehta:** Thank you all.

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