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DEEPAK NITRITE

DNL/140/NSE/1523/2024
August 13, 2024

Listing Department
National Stock Exchange of India Limited,
Exchange Plaza
Bandra Kurla Complex
Bandra (E)
MUMBAI – 400 051

Dear Sir,

Stock Symbol: DEEPAKNTR

Sub: Submission of earnings conference call Transcript

We enclose herewith the transcript of the earnings conference call of the Q1 & FY 2025 held on August 8, 2024 and the same is also available on the website of the Company at the weblink https://www.godeepak.com/financial-result/.

Please take the same on your record.

Thanking you.

Yours faithfully,
For DEEPAK NITRITE LIMITED

ARVIND BAJPAI

Digitally signed by ARVIND BAJPAI
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Deepak Nitrite Limited
Q1 FY25 Earnings Conference Call

August 08, 2024

MANAGEMENT:	**MR. MAULIK MEHTA** – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER **MR. SANJAY UPADHYAY** – DIRECTOR (FINANCE) AND GROUP CFO **MR. SOMSEKHAR NANDA** – CFO
MODERATOR:	**MR. RANJIT CIRUMALLA** – IIFL SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Deepak Nitrite Limited's Q1 FY25 Earnings Conference Call hosted by IIFL Securities Limited.

I would like to clarify that certain statements made or discussed on this conference call today may be forward looking in nature, and a disclaimer to this effect has been included in the investor communication shared with you earlier. The results documents have been 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 Cirumalla from IIFL Securities. Thank you, and over to you, sir.

Ranjit Cirumalla: Good afternoon everyone. Thank you for joining us on Deepak Nitrite's Q1 FY25 Earnings Conference Call.

Today, we have with us Mr. Maulik Mehta – Executive Director & CEO, Mr. Sanjay Upadhyay – Director (Finance) and Group CFO and Mr. Somsekhar Nanda – CFO.

We will begin the call with the opening remarks from the management team followed by an interactive Q&A session.

To begin, Mr. Maulik Mehta will share views on the operating performance and the growth plans of the Company, followed by Mr. Sanjay 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 everyone. Thank you for taking the time out to join us on our earnings call.

As we step into FY24-25, the global chemical industry continues to face substantial challenges. Customers remain cautious and the inventory destocking by China is ongoing, sustaining the pressure on realization. Despite these headwinds, Deepak Nitrite has again delivered a resilient quarterly performance and achieved significant year-on-year growth. We are beginning to see early indicators of increased volume and improved customer sentiment. Even amidst persistent pricing pressure, we maintain our short-term guidance of meaningful recovery starting from latter part of Quarter 3.

In Q1, we reported a strong double-digit growth in revenue and profitability on a year-on-year basis. This includes a 21% growth in total income, 36% growth in EBITDA and PBT on a consolidated basis. Revenue growth has been driven by a combination of factors, such as favorable pricing trends in phenolics due to a strong demand backdrop. This resulted in impressive year-on-year growth of 37%.

The segment has benefited from sustained demand across various end-use applications, leading to a healthy domestic requirement for phenol, acetone and IPA. The highest quarterly sales volume of IPA further highlights the case for domestic demand. Proactive steps to penetrate new territories and grow businesses with new customers offset a weak demand environment in the traditional territories of the Western world. This aided in an improvement in the product mix in the AI segment.

While there was soft demand in agrochemicals, which is expected to recover later this year. Contributions from sectors such as dyes, pigments, paper and home care have seen some improvement. However, the potential impact of the ongoing crisis in Bangladesh is yet another black swan, whose short-term positive or negative effect is yet to be properly assessed.

In the Advanced Intermediates segment, we witnessed volume improvement in performance products and fuel additives. We have also introduced a new optical brightener to meet specific market demands. Effective debottlenecking initiatives and market migration have allowed the Company to maintain a generally high operating environment.

EBITDA growth has been driven by the Phenolics business, which witnessed a significant improvement in realization. This is in contrast to the Advanced Intermediates segment, where the pressure on realization has resulted in reduced EBITDA.

Ongoing OPEX initiatives will accommodate higher volumes with a lower carbon footprint and increased efficiency in time for an anticipated upsurge in demand. This is also well recognized by key customers who have set aggressive science-based goals. Efficiency of our sulfuric acid concentration facility at Nandesari is implemented.

We also commissioned the first industrial multi-fuel boiler in the chemical industry, which helps us in completely doing away with fossil fuels in one of our locations. Across the group, various initiatives for scoring such as TFS have resulted in extremely high scores of 95-plus in all of the audits that were carried out in the last year.

Now although global geopolitical issues remain volatile, the Company's integrated model and India's stability and consumption push provide a significant bulwark to the Company's growth fundamentals. Supportive Government initiatives with large investment plans as well as PLI and infrastructure spending are creating a favorable environment leading to expectations of double-digit recovery in the industry. We are excited to be a part of this journey, and we have outlined expansion plans which will serve as key elements of our growth trajectory. We are moving forward with our 4-year plan to enhance our capabilities and seize opportunities in both domestic and international markets, particularly in building blocks, intermediates and specialty chemicals.

You are all aware, we have signed 2 MOUs with the Government of Gujarat, which encompass an investment to the tune of about Rs. 14,000 crores towards the fulfillment of these objectives. Various projects entailing an outlay of around Rs. 2,000 crores are in the final stages of implementation, and these are being commissioned during the current financial year. They include MIBK and MIBC, nitric acid, enhanced nitration, hydrogenation and specialty chemicals.

Further, we are implementing world-scale capabilities of acetophenone, which will be used as a specialty chemical in the flavors and fragrances segment. And this will be manufactured from recovered byproduct when we make phenol. This is under implementation and is likely to be commissioned in about 12 months.

Our new R&D center in Vadodara is expected to complete in the end of the current financial year and will enhance our innovation capabilities and support our strategic growth projects. These advancements, coupled with our commitment to operational efficiency position us well for continued success and growth.

In our AGM that just concluded, the Chairman updated that we expect to have licensing agreements in place by the end of the calendar year. With this, we look forward to embarking on the creation of a brand-new chain of chemistry platforms to service India's ever-increasing demand for engineering application chemicals. This will marry our existing core competencies with new technologies that will allow us to grow in the Specialty Chemicals segment in parallel to the Commodity segment. The kind of integration that has been planned is expected to bring to India a model that has seen significant success and value creation in many other regions of the world.

To conclude, FY24-25 promises to be the start of another transformative journey for Deepak. With key projects advancing, improved customer sentiment and the conclusion of the destocking cycle in China, we anticipate a higher demand and stronger product realizations by the year-end. Our strategic investments including the new R&D center, along with our robust domestic market presence, position us well to take advantage of this positivity.

I would now like to hand the call over to Mr. Sanjay Upadhyay, who will address this forum and take you through the financial performance and key updates during the period under review.

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 1st Quarter ended June 30, 2024.

Despite persistent challenges from FY23-24 into FY24-25, including abundant Chinese supplies, export slowdowns and cautious customer sentiment due to geopolitical tensions, Deepak Nitrite has maintained focus on long-term objectives. The Company has made significant progress in strengthening its product portfolio by investing in backward and forward integration in manufacturing units. It has also made progress in strengthening its balance sheet, optimizing risk management and advancing growth investments. It is important to note that on a consolidated basis, our Q1 FY25 performance has improved sequentially as well as year-over-year.

In Q1 FY25, we achieved notable performance improvements with maintained market share, revenue growth in industry-leading regions. By leveraging our integrated business model, enhancing production yields and exploring new markets, customers and product mix, we have successfully navigated current conditions and achieved cost savings, driving stable performance amidst ongoing volatility.

Coming to our financial performance in Q1 FY25, on a consolidated basis, revenue stood at Rs. 2,186 crores compared to Rs. 1,800 crores in Q1 FY24. EBITDA grew 36% to Rs. 328 crores in Q1 FY25 compared to Rs. 242 crores in Q1 FY24. Margins have improved by 2% during the quarter. The Company's profitability was fueled by healthy operational performance and significant improvements seen out of sustainability initiatives. On a consolidated level, the domestic business revenue stood at Rs. 1,786 crores in Q1 FY25 and export revenue came in at Rs. 399 crores for the quarter.

Coming to our insurance claim, following the fire incident in Nandesari, we had submitted a claim of Rs. 127 crores, which was approved in full with the concluding payment received during the quarter. We have now received 100% of our claim amount, which is a significant achievement.

Moving on to segmental performance, in the Advanced Intermediates segment, revenues came in at Rs. 716 crores in Q1 FY25, up 7% quarter-on-quarter and 1% year-on-year, while EBIT came in at Rs. 67 crores during the quarter under review, translating into a margin of 9% due to the current environment and challenging circumstances. Deepak Phenolics delivered an encouraging performance with revenue growth at 37% year-on-year to Rs. 1,464 crores in Q1 FY25 as against Rs. 1,068 crores in Q1 FY24. DPL set a new record with quarterly IPA sales of 22,000 KT showcasing our dedication to market demand and encouraging performance. DPL's EBITDA expanded by 117%, reaching to Rs. 231 crores in Q1 FY25 compared to Rs. 107 crores in Q1 FY24. EBIT stood at Rs. 208 crores, higher by 137% year-on-year, and EBIT margin was 14% for the quarter.

Moving to our investments and capex plans, Maulik has just outlined some of the focus areas of our expansion plan and they are being commissioned during the current financial year. These projects are being funded by mix of debt and internal accruals. So, the new project funding proposition is being worked out and will be shared with you at an appropriate time. Since we have a very strong balance sheet and continuing cash generation of around Rs. 1,000 crores per annum and net worth position is around Rs. 5,000 crores, with the net debt negative, we are holding a very healthy financial position.

Further, I am pleased to share that ICRA has reaffirmed Deepak Chem Tech Limited's long-term rating at ICRA AA with a stable outlook. These ratings underscore our solid financial position and optimistic process, which is important given the investment pipeline that we have charted.

With that, I will now request the moderator to open the forum for the question-and-answer session.

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

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

Nirav Jimudia: Sir, I have two questions. One, on the initial remarks, Maulik sir mentioned about the acetophenone discovery project. So, if you can share your thought process with reference to that? Like is this a byproduct along with our 'cumin' production or it's a purification of the AMS, which comes along with our phenol and acetone. And along with it, if you can also share that whether we are currently using acetophenone as a raw material for any of our production? And with this discovery, our dependence for this raw material from the outside world will nullify.

Maulik Mehta: First of all, welcome, and thank you for starting us off with such a tough question. So, as I mentioned earlier, acetophenone will be manufactured using products which are generally considered as byproducts during the process of manufacturing of phenol. I am not commenting on which part of the manufacturing process that is. And this will obviously be a significant value add because they will be sold on spec to an industry, which values a particular purity profile as a specialty chemical. Now whether we are using it as a raw material, I will also not want to comment on that because that is one of the ongoing projects between the group companies. But nonetheless, the major focus of this will be for market sales, the significant focus of this. And it will be significantly value accretive compared to the current way in which the byproducts are valued.

Nirav Jimudia: Got it. So, let's say, if you can share something on whether this product is currently imported in India or there are some producers of it, and we will have the second mover advantage in terms of this product. So, if you can just share something on the market potential of this product, that will be very helpful, sir.

Maulik Mehta: It has a significant market potential in India, which is growing, but much more significant globally as well. So, I think internationally, the requirement for this product is currently in the excess of about 60,000, 70,000 tonnes per year. And there is a large domestic volume as well. And there is a bias in existing situation, significant bias for imports. So, we will be looking at participating in both parts, in the domestic market as well as in the export market. And as I mentioned earlier, we are talking about the feedstock being something which is much cheaper than what would be manufactured otherwise. I think you can be rest assured that this has a strong business case, and we are eminently positioned to succeed in this product and the long-term business case.

Nirav Jimudia: Absolutely, sir. And, you mentioned about one of the user industry being flavors and fragrances. So, are there any other user industries where this product finds application or just flavors and fragrance is only the industry where this product is useful?

Maulik Mehta: There's a vast number of applications. Flavors and fragrances, of course, is a large and growing segment. But it is also used as a solvent in many applications, including pharma and agrochemicals. Nowadays, agrochemicals are much maligned. But the demand pool for this particular product remains remarkably intact.

Nirav Jimudia: Got it. Sir, second question is on the DASDA and the OBA part. So, I think if we see from the annual report, DASDA has not done well in FY24 predominantly because of the user industries where it finds application. So, if you can share your outlook for FY25 with respect to these two products because I think we have also launched the newer product on the OBA side. So, if you can share your outlook on both of these products, that would be very helpful.

Maulik Mehta: See the problem with this segment, performance products, is that about two-third of the consumption of this product worldwide happens in a diluted form. So, you have about 70% water and 30% of the active optical brightener. Now when things are okay in terms of ocean freight, we are very, very competitive with anyone else. So, if we are competing with a European manufacturer for a European customer, we are perfectly fine. Today, we are in a situation where ocean freight is so high that it leads to a decreased margin profile because we have to compete with someone who is domestically catering their tankers. Now nonetheless, so the last year, the margin profile, we won't look at it in isolation of DASDA or optical brighteners. It is linked because this is the single largest consumption. The reason that we remain bullish about this product is because moving forward, the demand is growing but only at 1% or 2% points worldwide. That is in the face of international degrowth and India, especially, and also in South Asia, the growth expectation is so aggressive that it is actually covering up for and adding a percentage point or 2 to the world consumption.

So, in the last year, while the financial performance of performance products was not as good as we would like, in fact, it was our competitive disadvantage. As this demand migrates towards South Asia, it becomes a competitive advantage where suddenly you have the European and the American players completely outclassed in their competitiveness. And at that point, the market is our home advantage. In both of these products in the last year, we expanded our capacity by about 18% to 20% as well as improved our operational excellence as well as improved our carbon and water footprint. And all of these things have been well acknowledged by our customers as well. So, since we are bullish about this moving forward, I would like to highlight that like most mutual funds, past performance is not an indicator of the future.

Nirav Jimudia: Correct. So, if I read you correctly, you mentioned that we have expanded the capacities in DASDA and OBA by close to 18% to 20% in FY24. Is it correct, sir?

Maulik Mehta: Accurate, yes. We have done it while reducing our energy footprint.

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

Vivek Rajamani: First question was on the Advanced Intermediates. You spoke a lot about performance chemicals. So, in terms of the other two segments which make up advanced intermediates, could you give us some color in terms of how volumes have been behaving in this quarter? Because you mentioned you have seen some volume growth. So, any color with respect to how volumes are versus a normalized level, I don't know, Fiscal 2022 or 2023, any color with respect to that comparison would be super helpful.

Maulik Mehta: So now, since you've asked about volumes, I will answer about volumes, but also just to highlight, at the moment, as it was in the previous quarter and the quarters before, so the last 3 quarters, the price point and the realizations, margins are generally less than what are normalized for Deepak standalone AI business. Now when it comes to volumes, agrochemicals as an industry is still going through a febrile environment. But as you would have seen from the contextual con-calls of many of these companies, they are maintaining the same kind of guidance that they gave. So, we do anticipate a slight improvement moving forward and the normalization maybe from the end of Q3 onwards. Volumes in a couple of products, hence, are depressed. But in most of the other products, volume recovery seems to be well on its way. We have also taken certain steps to migrate our customer base away from locations where they are seeing a general sense of malaise or where ocean freight is playing a pivotal role in margin profiles. So, while this is happening, across the board, I think barring maybe 2 products, we have actually seen very healthy levels of volume in our demand pull. So, our wallet shares are intact and growing.

The domestic market certainly seems to be on a high industrial activity mode. And we believe that moving forward as some of these geopolitical uncertainties end, customers will be more bullish about booking long-term orders rather than shorter visibility orders like quarter-on-quarter. And that is the kind of general environment that Deepak Nitrite standalone has been used to operating in. But I will hasten to say that there are, as I mentioned, a couple of segments, for example, agrochemicals which are still soft. And as I mentioned earlier, the Bangladesh prices has not yet been fully accounted for or assessed, because it is a significant player in the garment industry.

Sanjay Upadhyay: So, Vivek to add to this, volume overall there's a growth of 5%. As Maulik mentioned about the products where there was some softness, those are export products. Whereas domestic volumes are growing and domestic volumes are doing well. Though pricing pressure, of course, is there because of China destocking. These are the reasons which we all know now. This is there, but there is no issue on volume as such.

Vivek Rajamani: Sure, sir. This is super helpful. Just one clarification on this. You mentioned 5%. That would be a year-on-year comparison for Advanced Intermediates, correct?

Sanjay Upadhyay: This is what I said as compared to Q4, not year-on-year, in the sense, not the entire year. It is higher by 5%.

Vivek Rajamani: Okay. Got it, so it's a sequential number. And sir, the second question I had was actually just a couple of clarifications on the medium-term aspirations. I think you mentioned that in the AGM, you've agreed to get the licensing agreements done by the end of the year. This is with respect to the specialty chemicals investment only or with respect to the entire line of new products that you are considering?

Sanjay Upadhyay: This was about the MOUs and expansion plans, not about the specialty end use, right. This is what our Chairman mentioned. Vivek, the Chairman was mentioning about the polycarbonate, and he had actually shared his detailed planning, our further actions on that. And there, he said that I've been mentioning this for the past couple of quarters, we are at a very advanced stage, and he expects to finalize on technology by this fourth quarter end. That's what he mentioned then. It has nothing to do with specialty chemicals as such. There are projects which are ongoing in our existing capexes, which are related to specialty chemicals. And we shall go on stream by Q3 end or Q4 beginning.

Vivek Rajamani: Got it, sir. And just lastly from my side before I rejoin the queue. Would it be fair to say that for Fiscal 2025, the focus of the management team would be on getting these Rs. 2,000 crores worth of projects up and running properly? And the more meaningful execution of the other larger MOUs would really start to pick up pace in FY26? Or do you think there is enough bandwidth to kind of keep executing the Rs. 2,000 crores as well, as well as taking some significant steps on these large MOUs over the course of this year?

Sanjay Upadhyay: See, Rs. 2,000 crores capex, by and large, it will be over by fourth quarter end. Maybe there could be some overlap of one product by, say, April, May, but then that will be over during that time. And in the meanwhile, we are progressing on the technology front and acquired land also and those things, the infrastructure development, these things are now going on. So, FY25, FY26 onward, you will find our entire focus on the new projects, which Chairman mentioned and the large projects, plus there could be some small projects also, I am not saying no. But yes, focus will be on the larger projects.

Maulik Mehta: I will just clarify on this point also that when we are tying up technology, there is work that is done after the tie up of technology. You are fine-tuning the engineering plan and the project execution strategy. Now that is done by a separate team, and the actual project execution is done by a separate team. So, while the execution team, I know it has its hands full executing the projects which we have already announced, the Rs. 2,000 crores worth, which will, by and large, be finished by the end of Q4, maybe with a little spillover, as Mr. Upadhyay mentioned. The engineering, the design and the project strategy team will be busy working on the results of the technology tie-ups, which will take place between now and, say, December. So, this is part of a normal process. And then once the project execution team is done with its current project, it will then start taking over charge of the actual execution, it's a different department working on those right now. It will be a different department that works after the technology has been tied up. And then it will be a different department that is focused on the execution. So, these are discrete stage gates for us.

Moderator: The next question is from the line of Dhara Ganatra from ValueQuest Investment Advisors.

Dhara Ganatra: I have this first question on getting some clarification on the capex done in the last 2 years, which is about Rs. 1,100 crores; Rs. 770 crores in FY24. If you can break the capex amount into how much would be backward integration projects and how much would be the revenue generating projects. If you can first help me with that?

Maulik Mehta: I think it's similar to the guidance that we have given earlier. This is a question that has been asked and colored. Generally, you can assume that the initial capex, as we have explained, has an aspect of it, which is related to the purchase of land and the development of infrastructure. So, there is an element of that also in the Rs. 2,000 crore. And the rest of it is split between about 60% going into upstream integration and 40% going into downstream after subtracting the infrastructure and land capexes. I will also mention that when we consider that something is upstream, for example, fluorination as well as photochlorination, these are assets which are engineered to give a multi-product application. So, there will be available assets also for making new products. So, there will be a level of fungibility, which gives us the opportunity to use it for upstream integration as well as for new customers and new applications. But you can assume that Rs. 2,000 crores minus land and infra, the remainder is about a 60-40, 60% upstream and 40% downstream.

Dhara Ganatra: So, if you can provide us with some number of how much would be land and infrastructure of the Rs. 2,000 crores?

Sanjay Upadhyay: Around Rs. 300 crores to Rs. 350 crores.

Maulik Mehta: So, when we say land and infrastructure, infrastructure is actually a very wide-ranging group of assets, which includes things like boiler and steam generation, effluent treatment plants etc. as well as labs. So, a lot of infrastructure is required for safe and sustainable activities. So, I hope that our answer was sufficient enough to give you some color on the questions you asked.

Dhara Ganatra: Yes, sir. I have the second question on the capex that is there for FY25, particularly, that is about Rs. 1,200 crores. If you could help me understand if this also includes the polycarbonate compounding project, and if you can provide the split between the different projects that are going to be planned with this Rs. 1,200 crore capex in FY25?

Sanjay Upadhyay: Polycarbonate compounding is a separate project, not a part of this Rs. 1,200 crores whatever you are saying. So, R&D, and then next phase is polycarbonate compounding and the larger capexes.

Maulik Mehta: I will just highlight that this polycarbonate compounding that we keep talking about is a pilot plant. And the intent of a pilot plant, I mean, it is a 30,000 tonne plant, which sounds like it should be a commercial plant. But the main intent of this is to be extremely fungible and focused, rather than only on a pure-play margin. It is critically focused on getting customer approval for the products that we make at scale. So, like I said, it has a margin, but it is not to be looked at in an operational sense as a regular manufacturing asset.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the Advanced Intermediates. 5% Q-on-Q volume growth, you did allude towards continued slowdown in ag-chem industry. But would it be fair to say that barring ag-chem, all the other end-use application, dyes, pigments, textiles, detergents, etc., there will be a decent uptick there? This will be contributing to the positive volume growth?

Maulik Mehta: So, one thing is, as I mentioned, we are yet to ascertain the potential impact of what is playing out in Bangladesh. And the textile industry is the largest consumer of the dyes and pigments industry. Now this may have a positive aspect to it. I mean, it's a social disaster, whichever way you look at it. But if I am looking at it from the business sense, there is an opportunity, so we supply to the Indian peers of a lot of Bangladeshi companies. Nonetheless, the garment industry cannot really function if core parts of its supply chain are missing in action. So, the effect of what's taking place right now is complex. And the right mature approach would be to ensure that we give a guidance once we are clear about whether the demand for our products is actually met with the availability of core products that our customers will use. So, this is very, very early.

And other than agrochemicals, what we have said is that the market sentiment with regards to volume is positive. We do continue to see some level of destocking taking place from China, and that continues. But at least the market sentiment for buying is not weak. So, that gives a general level of positivity. It has not yet resulted in a long-term confidence for customers who have been really going through a difficult time over the last couple of years. So, they are also cautious in their buying behavior. But they have shared that there are indications that the situation is coming slowly and steadily in a way which one would consider as normal operating environment.

Ankur Periwal: Sure. That's pretty elaborate, and thanks for that. Secondly, on the fine and specialty side, we have been launching newer molecules, newer products there. So, two parts to the question. One, what is the progress there in terms of adding new molecules? Or probably have we been able to add more clients, whether in India or abroad on the same bit?

Maulik Mehta: Yes to both. There is progress on adding new products as well as new molecules. Many of these products that we have added to the basket, they do have an approval cycle. Some of them are in the ag-chem space, but not all of them, some are into the advanced polymer segment. So, we are working and walking with our customers through their own validation cycles, which sometimes can be just a few months and sometimes can be up to a year. So, we are supporting them. We are interacting with them on key improvement opportunities, on impurity profiles or on other aspects, for example, things like the overall energy efficiency or where we are able to improve on our throughput. So, these are processes which will result in business, which is annualized but not immediately. By this time next year, we should have a basket of at least 4 or 5 new products made at an industrial scale supplied on contractual agreement terms with key customers.

Ankur Periwal: Sure. I was about to ask that only that what is the number of molecules we are launching, great. Just lastly, on the new R&D lab that is expected to commission at the end of this financial year. Will it be dedicatedly for polycarbonate and those value chain-led products? Or this will also be used to scale up the AI part of the business?

Maulik Mehta: It will only be for polycarbonates. While there is a very small formulation lab that will be part of this, the vast majority will be for chemical intermediates that will be used in the traditional industries that Deepak Nitrite standalone has been catering to. So, it will also house various pilot plants, which will be able to scale it up from a lab kilo scale to several hundred kg scale from where it is easy to extrapolate data for a commercial plant. So, these will be varied chemistries and platforms that will be in place, and we will have very, very little overlap with polycarbonate compounding. That will be housed in its own dedicated facility.

Moderator: The next question is from the line of Arun Prasath from Avendus Spark.

Arun Prasath: Maulik, my first question is on the phenol spreads. We have seen last couple of months, a sharp uptick in these spreads. According to you, what is driving the spreads? And is this sustainable or this may be due to the planned shutdowns? So, little bit details on this will be very helpful.

Maulik Mehta: So, as you rightly summarized, phenol and acetone are commodity chemicals. And spreads are dictated by a lot of things. So, frankly, it could be linked to the demand pressure that comes from its key raw materials of benzene and propylene. It could be because of India's robust demand.

Just to highlight that there's a very interesting situation that takes place when you look at Deepak Phenolics and Deepak Nitrite, where Deepak Nitrite suffers because of high ocean freight elements in its margin profile, this becomes an entry barrier which is advantageous to Deepak Phenolics business, where the same product when it is transported over ocean freight makes the landed import less competitive. So, here, when we have a bias in the domestic application, we are able to take advantage of the freight. Whereas when we have an export bias, it starts to eat away into our margin profiles. So, one thing that is there to be said is that India remains in a strong and enviable position when it comes to the consumption and demand for products that are made in the phenolic chain, which is phenol, acetone and IPA.

Sanjay Upadhyay: See, if you are looking at the numbers, then I must say that more than spreads, it is important to see how we are converting things, like Maulik was just mentioning about AMS, acetophenone or as we were talking about IPA, how efficiently and effectively you are using the facilities to generate both, spreads can go up and down, but numbers, if you see, and the volumes that we are growing, the debottlenecking or whatever we have done, that is contributing much more than what is actually happening to spreads in this. I think one must see in totality rather than just focusing on spread.

Arun Prasath: Right. Understood. Just on the global supply demand, is it much more stable as compared to, say, what it was last year in the phenol-acetone chain? Is it safe to assume that?

Sanjay Upadhyay: It is for us. And secondly, we are India-specific, and we are definitely finding the demand in India to be intact and growing, in fact.

Arun Prasath: Alright. Secondly, on the licensing part, you gave some details. Usually, in petrochemicals, the resins or for any product, there will be couple or more depending upon the product. And usually, it doesn't take this much time because we announced our intent to enter downstream last year, somewhere around March, Feb. And we are saying by this December or March 2025, we will be finalizing the licensor. Is this unusual delay? Or is this because we are doing this for the first time, we are taking a little bit more time in this?

Maulik Mehta: No. There's one point that you are a little bit mistaken on. The technology tie-up and the licenses are not for petrochemicals. They are for polycarbonates and methacrylates. So, those do not have a very large pool of technology partners, you are correct on that. But that requires a far more intense study and discussion with various options. For example, when we are looking at polycarbonates, there are various routes. Some routes have more flexibility, some routes have less flexibility. Some routes have more flexibility and are more relevant for an Indian context but come at a higher operating cost. And other routes may have more facility and more flexibility but may have more provisions that we have to take for things like statutory compliances. So, it is not a petrochemical license that is taking time. It did not take us time when we put up the phenol and acetone plant. It is the downstream, the polycarbonate and methacrylates licenses. And rest assured, whether it takes more time or less time is not relevant. What is far more relevant is that we take the right decision. It is not about a couple of months here or there. We are going to be manufacturing products for decades to come, and Indian demand is going to be robust enough to be able to absorb this kind of capacity we are putting in. We took a right decision, even though it took time with phenol. We will make sure that we take the right decision here. And frankly, we are at the tail end of it. So, I think maybe if you have some suggestions, we can take it offline into how we can speed up the process of identification and confirmation of technology partners.

Arun Prasath: One clarification, Maulik. My understanding is once you finalize the licenses, then basic engineering happens and then detailed engineering, is this on a sequential basis? So, this will take approximately 3 to 4 quarters, is this understanding right?

Sanjay Upadhyay: So, if you heard our Chairman sir speech during AGM, he said that we have put ourselves an end date as to when the production should start because we have committed ourselves to the propylene supply also. So, keeping all these things in mind, we are moving ahead. Now let's not get into nitty-gritties of this or that has happened or not. Things are going in parallel, to answer your question. It's not that. Because there are different molecules extensively, different teams are working on different aspects of this. So, things are working. But then it's not only one project. We are working on 2, 3 projects simultaneously, which he was mentioning in his speech. And you must have heard that how we are progressing. But then sharpening these things will be more critical and important so that you get the better yields, you get the efficiency, you get the right technology partner in this. So, those things are critical in such a large project. So, we are working on that.

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

Abhijit Akella: So, one question on the AI margins, which have been somewhat under pressure, so other than performance products, are there other parts of the segment as well that have seen any sort of pressure on margins, particularly maybe the fine and specialty chemicals?

Sanjay Upadhyay: Fine and specialty, as we are mentioning, Abhijit, that if it is exported, yes, margins and even the total demand also is down because of Europe . Because of China destocking, the other segment is also impacted. So, there is definitely volumes, we are selling, but there is definitely a lower realization as compared to earlier years. That is for sure. And that is across the industry what is going on.

Abhijit Akella: Understand. And Sanjay bhai, we have also seen an increase in the number of competitors in the fine and specialty chemicals that we produce, or is that landscape still constant?

Maulik Mehta: I think there are co-producers. I don't know whether there are more co-producers. The business landscape on those products remains more or less what it was.

Sanjay Upadhyay: In what context you are asking, Abhijit? I mean there is no change as such in that.

Maulik Mehta: We were making it before and there is someone else who is making it now and they have started. So, I won't say that there is an increase in the competition intensity. However, there has been, as Mr. Upadhyay's also mentioned, demand uncertainty. And part of it is linked to the downstream channel material movement for customers, and part of it is linked to their own issues. But what we have done in the meanwhile is we have migrated a lot of that demand into other locations. So, our material movement and production rates remain relatively high. We have significantly reduced single customer or single geography dependency. In the short term, this does come at a slight margin squeeze. There's no doubt about it. But the good thing is that our credibility with all the key customers remains intact. So, when the situation improves, as it will invariably, at that time, we will have a broader base as well as market penetration to have our choice of where to supply. One thing I will also highlight, whatever we are making, especially in agrochemicals, the customers have repeatedly qualified our product at having the best specification profile and purity profile. Now we focus on making sure that the business is running and the product quality and customer acceptance remains high.

Sanjay Upadhyay: So, to answer your question, Abhijit, specifically, there is no addition in the supplies or capacities as such, if you are asking me in this fine and specialty side.

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

Rohan Gupta: Sir, first question is on this textile dependence in our business specifically coming from Bangladesh. We are alarmed there a little bit that there can be still some uncertainty situations arising from Bangladesh. So, what is the business share coming from textile business in our case, sir?

Maulik Mehta: So, to clarify, Rohan, it's such a recent event that it is not yet fully assessed by anybody, and our team is also working hard on it. It can have a short-term positive or it can have a short-term negative. In the medium term, I think that the business fundamentals remain intact. If it's a short-term positive, of course, we will be there to take advantage. And if it is a short-term negative, we will highlight it as we see it unfolding. Now our dependence on the textile industry is to the extent of saying that we supply some critical feedstock to the dyes and pigments industry. Large application of that is in the textile and garmenting industry. So, because what we are making are intermediates, they find the home in multiple application, take sodium nitrite, for example. It is, of course, used in the manufacturing of azo dyes and a lot of other dyes. But it is just as much used as chemical and water treatment or oil and gas exploration or many others like food additives and things like that. It is difficult to quantify. We don't have any direct correlation with the ongoing crisis in terms of our customer base. Our exposure directly to Bangladesh is so miniscule, but it's important for us to just be honest with our analysts and shareholders that this is still an in-development situation. And it is possible that we will see how this unfolds over the next couple of weeks and get a better judgment in that time.

Rohan Gupta: Sir, second question is especially on the Rs. 14,000 crores capex breakup which you are talking about. If we have some clarity, I think that you are still in the middle of multiple technology tie-up and signing on that. But a clarification, if you can give that how much do you plan to invest further in phenol, BPA, polycarbonate?

Maulik Mehta: We have actually given a remarkable amount of clarity on that front. So, we have said that Rs. 14,000 crores plus/ minus will be spent in putting up another phenol and acetone plant in downstream BPA and a downstream polycarbonate plant in about 200 KT of aniline. So, we have literally clarified what we are making. We have clarified by when these things will be commissioned. Is there any further breakup that you are looking for? We never, as a practice, get into detailing out of investments into specialty chemicals. But these are the big ticket items that we have already announced and clarified, including the timeline.

Rohan Gupta: Sir, you also just mentioned that in the polycarbonate resins, though the project will be, I mean, it's a pilot project still at 30,000 tonnes as well.

Maulik Mehta: That is the compounding.

Rohan Gupta: Okay, so that is a compounding plant. And that will still be a fungible plant for later, as you consider larger opportunities for establishing a large-scale compounding facility or this is currently only at a very early pilot stage, so testing will continue as the project progresses?

Maulik Mehta: It is a pilot plant only. Rs. 14,000 crores that we have announced does not include a full large-scale compounding facility that will be over and above this. And it will be invested in at the right time. This is a pilot facility. But in these product applications, the kind of capacity that you need even for a pilot project is between 20,000 to 30,000 tonnes. It is an extremely fungible asset. But this is the kind of the viable size that the customers also need to validate.

Rohan Gupta: Sir, you want to say, as the validity is proven, and the customer acceptance is there for our polycarbonate business that itself will be completely different capex value on top of Rs. 14,000 crores capex plan, right?

Maulik Mehta: The compounding, yes. Not just the pilot compounding, but the large-scale compounding.

Rohan Gupta: Yes, large-scale compounding only I am talking about.

Sanjay Upadhyay: When Maulik says pilot compounding, it means it's a commercial plant.

Maulik Mehta: Yes, yes it's a 30,000 tonnes a year plant.

Sanjay Upadhyay: Let's not have misunderstanding on commercial and pilot. Pilot in the sense this is the plant where you can say it was seed marketing, giving it to customer, customer acceptance, but it is a commercial plant. See, we were doing such things in phenol, we were importing and selling. Here, it doesn't work. So, we will have to actually give them a compound which they require given the separate industries and trying and establishing our market presence in the compounding business, so that is a full-scale commercial plant of 30,000 tonnes.

Maulik Mehta: Also just to clarify that the country has already announced initiatives like PLI for engineering plastic, things like mobile devices and EVs and automobile and things like that. Now all of these companies, which have announced an intention to invest in India, there may be international companies and there is a domestic value-add component. So, as they invest in their capacities in

India to take advantage of the PLI, they will be using products supplied by Deepak for their BPA. Right now, this might be only to the extent of the validation process. But as those capacities and investments get commissioned, once approved, we will also have to make sure that our compounding facility gets commissioned to be able to supply that kind of needs that they have. So, it is not necessary that the compounding investment for the large-scale facility will happen only after 2027. It may have to happen in line with the kind of investments that our potential customers will be making to take advantage of the PLIs.

Moderator: The next question is from the line Krishan Parwani from JM Financial.

Krishan Parwani: Firstly, some clarification. I think you were mentioning 200 KTPA of aniline. Did you mention capacity of BPA and polycarbonate as well? I am sorry if I missed out on noting the same.

Maulik Mehta: No, we have not mentioned that. But I mean, you can stitch a couple of numbers together, where we have announced that we have tied up for X volume of propylene. We will be, for example, doubling our phenol capacity. And to that tune, you can assume that the downstream will have some level of market sale because even BPA is imported into India. And the rest of it will go downstream into the manufacturing of polycarbonate resins, most of which will go into the compounding but some of which will also be sold into the market as resins, which are also currently imported.

Krishan Parwani: Noted, Maulik bhai. So, I think I've done that work in terms of 250 KTPA that you have tied up with Petronet. So, I think basis that your phenol production could be more like 500 KTPA. So, would you be using some, let's say, 250 KTPA for your existing propylene requirement or because I think you are only mentioning phenol to be doubled. So, that is 350 KTPA additional. So, what will be the phenol capacity?

Maulik Mehta: That's all the color that we have felt comfortable sharing right now. As we move forward, I am sure that we will add more detail. I also think, there are few things that we would like to keep in our pockets.

Krishan Parwani: I can understand because of the contract agreement, no worries, I understand. So, I think Sanjay sir was mentioning that you have set up a hard deadline. So, can you please highlight the timelines at least for all this chain of projects? As in would polycarbonate get set up first? Because I think in AGM, Deepak sir also mentioned that it would be polycarbonate first and then probably bisphenol A and then doubling of phenol later. How would that be?

Sanjay Upadhyay: Yes. He also mentioned about timelines. December 2027 is the date. Maybe one quarter here and there maximum, but not beyond that, so that is the deadline.

Maulik Mehta: And in terms of the order, I think right now, we have various options. It's all actually dependent highly on the interaction that we are having with our customers. So, what needs to be done by when while ensuring that there is feedstock security, those are some of the strategic options that we are studying intensely right now. I think, frankly, all of this will be clarified in significant detail in the forthcoming quarters. I am sorry that we can't provide anything much.

Krishan Parwani: No, I understand. So, just some clarification in terms of the backward integration benefit of the new projects like fluorination and nitric acid. When could we see this flowing in the Advanced Intermediates margins?

Maulik Mehta: I think Q4 should be a good quarter with regards to many of these benefits being tangibly felt. There will be a partial boost that we will get in our Q3. But one would assume that Q4 is realistic in a key quarter.

Krishan Parwani: Noted. And just one, if I may. On acetophenol, did you mention any production volume or you didn't?

Maulik Mehta: No. I just said it is world scale. Just to clarify, I said that the global demand is 60,000 to 70,000 tonnes. This is the global demand. We will be putting up a world-scale plant.

Moderator: The next question is from the line of Tanya Kothary from AUM Capital Private Limited.

Tanya Kothary: So, just a couple of questions. One is the R&D spend in the last 10 years was around Rs. 125 crores, which is around 0.42% of your sales in FY24. But the international companies generally spend around 9% to 10% of their revenue on R&D. So, why there is difference in the investment priorities between our Company and the multinational counterparts?

Maulik Mehta: I can't answer for what the multinationals do. But if I look at FY25, as I mentioned earlier, you will see that there is a significant investment made in R&D. And generally speaking, we have intensified R&D spending over the last few years. Also, we do not really, certainly, maybe other companies consider as R&D spending, like operational excellence initiatives and energy savings. We classify them as just OPEX item. When you say 9% to 10%, these are what one will consider as “innovator companies,” where they also invest in things like intellectual property protection. They also invest in developing various formulations. And we are their suppliers. So, we make the key intermediates that go into their end products, which are then formulated. So, their R&D considers a lot of things which are not part of our R&D platform. And so, I would not compare ourselves to other good chemical manufacturing companies, who are making advanced intermediates.

Tanya Kothary: And sir, we are coming up with the R&D facility in Savli. And it is going to primarily focus on specialty applications and life sciences. Now this R&D facility is going to enhance Deepak Nitrite's competitive advantage in the domestic as well as international markets?

Maulik Mehta: I look forward to inviting you and other analysts to our facility once it's commissioned. And I think that, that will give a strong and positive indication to that question.

Tanya Kothary: Another question is on the freight expenses because actually, a lot of times the management has indicated that due to this global war and issues, we are facing some problems. So, where does this come from? Like what is the expenditure because I find just 20% growth in the freight expenses.

Sanjay Upadhyay: Tanya, we can give you the freight expenditure, but that is not going to help you because sometimes there could be FOB costs, there could be CIF costs, there could be DDA costs. So, there are different kinds of costs, but the fact remains that freight cost has gone up when you are supplying to external customers, particularly Europe and these customers. And as compared to others, Indian freight rate is higher. So, even if your basic cost or ex freight cost is the same, landed cost of the product will be higher. So, that is what Maulik was mentioning on freight. And so just by giving the freight number, you will not be able to appreciate these.

Maulik Mehta: I think one thing that I can tell you is that freight today is about 10% to 15% higher than it was last year. Just as an example, you have customer A in Europe, who is going to be bearing the cost of freight because see companies like Deepak, or another one in India or another one in China are selling it on an FOB basis. Now the customer in Europe has to essentially pay less for freight if the material is coming from China as compared to India. So, it doesn't matter where the freight is booked, the competitiveness of Deepak's FOB product will suffer a margin erosion if compared against a Chinese product of similar manufacturer. So, the customer will then choose basis this or may choose to actually buy and produce less because their downstream application is seeing a constrained margin.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Sanjay Upadhyay: Thank you all for joining this call. In case any further clarification is required, you can always write to our Investor Relations led by Mr. Nanda. Thanks once again.

Maulik Mehta: Thank you.
