DNL/140/NSE/1384/2023
May 19, 2023

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 Q4 & FY 2023 held on May 12, 2023 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
Date: 2023.05.19 14:39:34 +05'30'

ARVIND BAJPAI
Company Secretary

Encl.: as above

"Deepak Nitrite Limited
Q4 & FY2023 Earnings Conference Call"
May 12, 2023

MANAGEMENT: **MR. MAULIK MEHTA – EXECUTIVE DIRECTOR & CHIEF EXECUTIVE OFFICER, DEEPAK NITRITE LIMITED**

MR. SANJAY UPADHYAY – DIRECTOR, FINANCE & GROUP CHIEF FINANCIAL OFFICER, DEEPAK NITRITE LIMITED

MR. SOMSEKHAR NANDA – CHIEF FINANCIAL OFFICER, DEEPAK NITRITE LIMITED

ANALYST: **MR. AKUL BROACHWALA – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 & 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 may be forward looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier. 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. Akul Broachwala from IIFL Securities Limited.

Akul Broachwala: Good afternoon, everyone and thank you for joining us on Deepak Nitrite's Q4 and FY2023 Earnings Conference Call. Apologies for the delay. Today we have with us Mr. Maulik Mehta – Executive Director & CEO, Mr. Sanjay Upadhyay – Director, Finance & Group CFO and Mr. Somsekhar Nanda – CFO. To begin, Mr. Maulik Mehta will share his views on operating performance and the growth plans of the company followed by Mr. Sanjay Upadhyay, who shall take us through the financial and segmental performance.

I now invite Mr. Mehta to share his opening comments.

Maulik Mehta: Good day everyone and a warm welcome to Deepak Nitrite's Q4 and FY2024 earnings conference call. I hope you had an opportunity to go through our results documents that was shared earlier.

We entered 2023 with a very challenging business landscape characterized by diverse internal and external factors. The Russia Ukraine war has served to fracture the global supply chain for crude, fertilizers, petro-chemical derivative and specialty chemical. It led to large rises in input prices across the board resulting in a secular inflationary pressure unlike anything witnessed in the recent past. The cascading effects of central banks across the globe, raising interest rates rapidly leading to a higher cost for capital even if forex volatility rose and risk spread expanded. Internally we were faced with a shutdown of our Nandesari plant for more than 40 days due to a fire in June. There were challenges and constraints to logistics coupled with a rise in utility cost. Amidst this volatility in spot prices both customers and suppliers were seeking to capitalize on short-term opportunities even as they sought assured supply and purchase agreements. Notwithstanding these adversaries, we were able to navigate our schedules and fulfill all our supply obligations while maintaining wallet shares with all customers hence guaranteeing a dependable and stable supply of products to all our clients.

In this backdrop I will give you a brief rundown of our performance for the fourth quarter and the financial year ended March 31st, 2023, and the plans and strategic approach for the upcoming financial year. Mr. Upadhyay will then provide you with granular insights into our financial performance and position. We are pleased to share that Deepak Nitrite has displayed agility in achieving growth while maintaining the high quality and adhering to the safety standards that are expected of us. Diversification across products, end-user segments, customers, geographies has been a bedrock of our strategy, which allowed us to be nimble and seek out more remunerative pockets of opportunity amidst operational and macroeconomic challenges. This has allowed us to maintain a strong and resilient business model. Leveraging off a solid foundation, incremental investments are tactically utilized to increase capacity and sustain demand from end-user industries, and this has enabled us to drive a healthy top line growth of 17% year on year and set a new benchmark of exceeding Rs. 8,000 crore on annual revenue which is the first for our group. Despite the recent cooling off in input prices, they continue to remain at elevated level and more than that at volatile level compared to the previous year. While profitability for the year is lower than that of the prior year, EBITDA, and PAT in Q4 have grown in double digits compared to Q3 indicating that operations are progressing in the right direction as we enter the New Year.

Coming to the performance of strategic business units, the advanced intermediates unit delivered an impressive revenue growth on the back of resilient demand from end-user industry, and we actively pursued opportunities with both domestic and international customers during the period. We expect this segment to continue performing well given the shift in the global supply chain towards Asia and positive demand trends. However, it is worth noting that challenges around logistics and high raw material cost due to internal product transfers at market prices with a time lag before prices have passed on. Future performance will be driven by several new multiyear contracts, successful pilots, and new product introductions in our basket.

Deepak Phenolics witnessed a healthy top line performance with some contribution from pricing, but largely driven by the continued increase in plant efficiency. Our phenol plant recorded an average utilization of more than 120% for the quarter and achieved the highest ever quarterly domestic sales in Q4 along with the highest daily phenol production. It seems sequentially phenolics has improved in volume and profitability significantly. This was due to healthy demand and improved product acceptance resulting in a significant increase in revenue realization for both phenol and acetone compared to the previous quarter. Profitability in the business was lower than last year due to normalized realizations this year compared with the previous period’s unusually high realizations. The phenolics business has been using more of acetone in its downstream products and it is going to increase further upon the commissioning of projects under implantation such as MIBC and MIBK which are solvents. We are optimistic about the prospects for the business in the future.

FY2023 has also been a year in which a lot of our growth initiatives have taken concrete shape. In a key development, debottlenecking is a crucial development for Deepak Phenolics as it enables the company to increase its production. This is expected to come on stream within this quarter itself. Additionally, the company has approved the implantation of an advanced process control project which is expected to be operational from the next quarter. That project is expected to enhance the operational efficiency of DPL and improve the quality of its product. These developments are expected to further strengthen DPL’s position in the market and enhance its competitiveness. In addition to our current project, we are making strides towards expanding our business through several other ongoing initiatives. We have successfully commissioned the installation of our SAC unit, which significantly improves our sustainability in Nandesari and we are planing to commission the photochlorination and chlorination project in the third quarter followed by the acid project in the fourth quarter which will take care of current and future needs. In the first quarter of FY2025 we are scheduled to commission our MIBK and MIBC plants, both of which as I mentioned are derivatives of acetone. Additionally, our hydrogenation and multipurpose distillation facility has been approved marking further progress in our expansion plans. During the period under review, we have achieved significant de-risking of business through an assured supply of critical raw material and paying down debt to strengthen the balance sheet.

Additionally, with Nandesari plant back to full operation, and other plants running at a high utilization, we are working with good momentum. With multiple plants underway to be commissioned in coming quarters, we are poised to deliver growth and create value for all our shareholders. Recognizing this, the board of directors has announced a final dividend of Rs.7.5 per equity share which is 375% with a face value of Rs. 2 each for FY2022-23 in view of the company's steady performance.

Before I conclude, I would also like to make a point that DNLs Dahej facility received an unprecedented score of 100 upon 100 in Together for Sustainability Audit. I just want to point out that TFS is very similar, it is the European counterpart to responsible care which is an American institution. TFS is also recognized and highly valued by every single large European company and many large Japanese and American companies. This is the first time ever in the history of TFS that a company has received a perfect score in its first try. We are confident that this achievement is also going to catalyze many more such.

I would now like to hand the call over to our Director of Finance, Mr. Sanjay Upadhyay, to address this forum and take you through the financial performance during the period. Thank you.

Sanjay Upadhyay: Thank you Maulik. Good afternoon, everyone and thank you for joining this call today. I will walk you through highlights for the financial results for the period during March 2023.

During the period under review, Deepak achieved positive top line performance despite facing macroeconomic challenges. In FY2023, revenue stood at Rs.8,020 crore which is significant as compared to Rs.6,845 in FY2022 higher by 17%. This growth was attributable to stable demand and high plant efficiency. While EBITDA stood at Rs.1,337 crore against last year, it is lower by 19% on a year-on-year basis because last year's base was very high. PAT stood at Rs.852 crore in FY2023 versus Rs.1,067 crore last year. The results have been impacted due to war and resultant high input prices and resultant inflationary pressures. There is also an impact on the several external and internal factors as summarized by Maulik in his comments. Both business segment showed solid improvements contributing to strong revenue growth on a consolidated basis. The increase in demand and relation for our key products had the growth, despite the challenging environment, DNL remains focused on driving growth and expanding its operations to capture new opportunities.

Further it is worth noting DNL subsidiary DCTL has been actively expanding its team by hiring key personnel in various departments such as projects management, procurement, and support functions. DNL has invested Rs.400 crore in DCTL towards part funding of the groups ongoing capital projects.

On the operating front, our domestic business revenue stood at Rs.1,512 crore and Rs.6,410 crore in Q4 and FY2023 higher by 22% year on year, respectively. Export revenues were Rs.449 crore in Q4 FY2023 and Rs.1,562 crore in FY2023. On a consolidated basis, domestic our revenue and the mix is 77:23 for Q4 FY2023. During the quarter on a consolidated basis, revenues grew by 5% at Rs.1,974 crore as compared to Rs.1,876 crore in Q4 FY2022. The impressive top line performance was fueled by high production volumes in several key products. EBITDA came in at Rs.361 crore as compared to Rs.414 crore in Q4 FY2022. In Q4 FY2023, PAT stood at Rs.234 crore versus Rs.267 crore of last year. Profitability is lower on a year-on-year basis due to the high base in the previous year, but the company has significantly improved profitability on a quarter on quarter in line with the operational performance.

Moving to our segmental performance, in our advance intermediate segment, revenue grew by 7% to Rs.810 crore in Q4 FY2023 versus Rs.759 crore in Q4 FY2022. The growth is owing to sustained healthy demand from key customers. EBIT was Rs.137 crore with the margin at 17%. As Maulik mentioned growth in EBIT is not kept with the pace with revenue growth due to significant increase in input cost compared to the previous year. In FY2023, revenue grew by 21% to Rs.3,074 crore and EBIT came at Rs.555 crore achieving a margin of 18% despite the current environment and challenging circumstances.

Deepak Phenolics delivered an encouraging performance with a revenue growth of 4% to Rs.1,173 crore in Q4 FY2023 versus Rs.1,131 crore last year. The company has operated all plants except for Nandesari unit at high utilization rate. The phenol plant has clocked an average utilization of more than 120% but even higher for the quarter and achieved the highest ever quarterly domestic sales and highest production per day of phenol. EBIT stood at Rs. 177 crore and EBIT margin came at 15% in the quarter. In FY2023, revenue stood at Rs.4,986 crore and EBIT came at Rs.594 crore translating into margin of 12%.

While DNL has no debt, DPL has prepaid the term loan of an amount of Rs.61 crore in the fourth quarter. For the full year FY2023 the prepayment of term loan by DPL was Rs. 161 crore leading to a saving in interest cost. This has reduced the net debt to equity ratio to almost zero, that is 0.03 as compared to last year’s 0.20. On a consolidated basis, DNL remains debt free on a net debt basis with a net worth of Rs.4,090 crore . In 2006, Rs.25 crore of our balance sheet has adequate headroom to raise growth capital for further expansions. Cash flows remains robust and we have reported operating cash flow of Rs.650 crore in FY2023. When evaluated against EBITDA our OCF/EBITDA ratio has been 0.49.

We are entering FY2024 with a de-risk business model a very robust balance sheet and pipeline of projects line up for commissioning. We are highly excited about growth prospects and look forward to building our performance momentum.

Before I conclude, I would like to provide an update on the fire incident on Nandesari facility that occurred on 2nd June 2022. Against our insurance claim for loss of material damage, we have received an interim payment of Rs.11 crore in March 2023 and further Rs.14 crore in April 2023 as an interim payment. We hope to receive the balance in the coming quarter.

Thank you for taking out the time to join our earning call. With that, I would now request the moderator to open the forum for Q&A session.

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

We have the first question from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: Congratulations on a very good set of numbers. Sir I have two questions so one is when we see our performance in FY2020, vis-à-vis what we have delivered in FY2023 for the standalone business, I think our gross margins have remained at the similar levels like at around close to Rs.1,370 crore but this has come with close to 32% higher turnover when we compared FY2023 with FY2020, so this could be a combination of volume growth plus some raw material cost inflation which you just eluded in your opening remarks, so my question is with the brownfield expansion and debottlenecking, what we are undertaking in the standalone business how much of the volume growth can we expect for FY2024 and though some of the raw material prices have corrected predominantly the ammonia prices which have corrected close to two third of the prices what they were in the month of December, how much of our current turnover of Rs.3,000 crore in the standalone business has a scope for margin expansion on a per kg basis so if you can just answer to this I can add up on one more question?

Maulik Mehta: Okay so first of all you are right that there has been a lot of volatility including in ammonia however India continues to remain the most expensive buyer of ammonia in the world if I look at the index. Nonetheless it has certainly come down from its peaks last year. Now what has happened over a period of time also is that the FG prices will automatically correct as they adjust. Nonetheless, we have been able to maintain a reasonably healthy margin on a per kilo basis and as we expand, in FY2021, we had a plant which was about 15% less in terms of its capacity than we have now so on a stable year you can expect sodium nitrite and its associated nitrate volumes to increase by about 15% to 18%. How this results with regards to topline growth is difficult to say because the market continues to be volatile. We continue to maintain reasonably healthy margins which have been as they were when ammonia prices were low as well as they were when ammonia prices were high.

Nirav Jimudia: So because you rightly said that turnover is difficult to predict because it all depends upon the selling prices of the products, but if we see FY2020 we were close to Rs.800 crore of operating profit when the ammonia prices were lower as last year also we were at around Rs.680 crore so this year would have seen some cost inflation on the operating cost side also because the plant was not running full and several other factors. So, what could be the fair assumption based on the volume growth you just eluded upon what could be the figure we should look upon because there could be some benefits coming to us in terms of some pockets of the raw material prices as well as reduction in the operating cost?

Maulik Mehta: So Nirav I would expect that FY2024 and FY2021 one reason why they should not be compared is because one of the key raw materials which we used to get as a large volume in a formula linked price which was linked to ammonia prices. Now we are forced to buy it in the spot market at far higher prices and we have to see how we can de-risk our supply chain itself. So, for this year I would say that one can expect a performance which is in Deepak Nitrite similar to what it was last year if we had not faced the impact of the fire and I think between 40 to 60 days of lost production.

Nirav Jimudia: So, we could be closer to FY2022 performance in terms of our absolute EBITDA numbers right?

Sanjay Upadhyay: Nirav let me interrupt here. You are comparing this with 2019-2020 am I right.

Nirav Jimudia: Correct, Sir correct in 2019-2020 we were at Rs.800 crore ?

Sanjay Upadhyay: Yes, but you are just seeing the absolute number 2019-2020 had a very abnormal year for DASDA. If you go back to our previous concall or see the previous transcript, you will know that because of DASDA the numbers were abnormally high and that is why the percentage is high. You cannot just pick up one period and then compare it with that.

Nirav Jimudia: No Sir, even FY2022 also I think we were close to Rs.680 crore so I just wanted some clarity.

Sanjay Upadhyay: The point is it is not going down. It was one single product whereas what you are seeing now is overall across all the products and despite several challenges which the industries facing outside. It is very difficult to compare the 2019-2020 period which was completely different and what we are facing now, the world is facing now is completely different. Numbers can be analyzed by anyone but to compare you must see the outside environment also when you are comparing this.

Nirav Jimudia: Correct. Sir the second question is on like one of our competitor is also expanding on the NT side so how we are placed in terms of our existing utilization here because I think one of the monomer of NT is doing well because of the downstream agrochemicals is doing well so if you can just help us explain our exposure of sales to the agrochemicals out of our standalone business and are our sales more prone to the niche generic or the patented agrochemical products where we supply those intermediates?

Maulik Mehta: Okay so first of all one thing I can correct here is I do not believe that there are any patents in agrochemical intermediates. The other thing that I can say is that we are running our plant at full utilization. We will also be looking at expanding that. We will also be in our own manner significantly improving the resilience of the value chain and we are already also going downstream. We have piloted several downstream products which come out of this chain. Those have been accepted by the customer with regards to quality and now we are at an advanced stage of discussions for volumes and long-term contracts.

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

Vivek Rajamani: Thank you so much for the presentation. Two questions from my side. Could you give some color on the demand trends that you have been witnessing for your key end segments in the month of April and May? If I believe in the last quarter, you did say you have started to see some green shoots so it will be great to get an update on that by segment if it is possible and the second question was you have been mentioning that the share of exports has been rising in your portfolio in the last two quarters? I just wanted to understand what is the margin profile for these export markets vis-à-vis the domestic markets and if there is a difference what could be differential?

Maulik Mehta: Okay so first of all thanks for the question and interesting that you should mention color and green, but one thing that I can tell you is that our products which are intermediate are spread over multiple end applications. You can add the same product which goes into different end application. However right now dyes and pigment is seeing a nadir in that sense with regards to demand and with regards to the inventory levels even at customers and consumer end. The segments which are doing better comparatively are oil and gas, explosives, personal care, food, rubber and infrastructure and the segments which are relatively neutral are pharma and agro. Now when I say neutral, I am talking about it with regards to volume. Prices may go up or down but in most cases we are protected by volume contracts with pass through clauses so when I spoke earlier about exporting more that is because in Q2 and Q3 the Indian demand for textiles when it comes to dyes and other intermediates was very, very poor whereas the export need was higher because Europe had curtailed its available supply and finally when oil prices were nearer to $120, there was a flurry of activity coming into oil and gas exploration and as we are intermediates, we were able to pivot away from supplying to a low demand domestic market which prioritizes textiles towards a high demand export market which prioritize things like water treatment and oil chemicals. Now this is where we are able to remain nimble. In India many of these segments have started showing a certain improvement and hence we have been pivoting back towards India to an extent. Our export market continues to remain served by us. The margin profile on a net back basis I would say are relatively similar for two reasons. One is that the freight rates have normalized compared to the highs of last year and second is that there is a duty on our product when it is supplied to the US so I am talking about net back rates which also addresses the duty element, so our rates were not lower or higher compared to our domestic rates and hence in both cases we are okay. We have adequate opportunities to grow in this segment and we have the ability to pivot depending on end segment demand. This year we will have higher productivity and higher production. We are hopeful that we will be able to cater to the growing demand without needing to lose wallet share from one end segment to another. I hope that answered your question.

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

Rohit Nagraj: Congratulations on a perfect score during the TfS audit. My first question is on phenol capacity so when we talk about 120% what is the base we are taking? Is it 200 or 250 and we have again mentioned that we will be debottlenecking further by 10% so what will be the final capacity that will be on stream in Q1?

Sanjay Upadhyay: So base is 200 KT and when we say we have said it is above 120 so it is higher than that and the debottlenecking in this we are expecting 50% increase in the capacity from the base of 200 KT.

Rohit Nagraj: Right got it. Thanks for that clarification. Sir, second question is in terms of the domestic demand, so exports demand has been very dynamic. What is our understanding in terms of domestic demand for the products which are further being exported by the converters or the downstream players?

Maulik Mehta: For which segment are you talking? Are you talking about phenol and acetone?

Rohit Nagraj: No, for the standalone segment.

Maulik Mehta: No, it does not matter, whether you are exporting it or you are giving it to a domestic converter who is exporting it because the domestic converter has a contractual agreement with an international client. It is essentially the same thing, and it depends on product to product because in the dye segment there is not much of this. However, this is much more prevalent when it comes to agrochemicals. As I mentioned earlier, in most of our cases, if not for all of our cases in agrochemicals, we have medium and long term contracts, some are annual and some are multiyear contracts. So the volumes are relatively protected. As and when we are able to debottleneck and make a little additional volume, we do have customers, who we are able to supply that on a spot basis at a spot price.

Rohit Nagraj: Sure, got it. Sir just one last clarification in our presentation you had mentioned that there are Rs.2,500 crore projects currently which are undergoing so what is the completion timeline and capex for FY2024 and FY2025?

Maulik Mehta: What I have mentioned earlier is that the fluorination and photochlorination project will be commissioned in Q3. The phenol debottlenecking will finish to a certain extent in Q1 and with the advanced process control which will further improve on our already global standard quality will start to get realized by Q2 and our upstream project will be commissioned in Q4 and downstream derivative of acetone which is also a solvent will be commissioned in Q1 of next year. Meanwhile, as I had also alluded to hydrogenation, multipurpose distillation, and a certain amount of difficult challenging nitration this will all be commissioned over the end of the second half of the year all the way to the end of the Q1 of the next year. The project which we have announced finally one last one which I forget to mention the polycarbonate compounding facility will be commissioned over the next 18 months.

Moderator: The next question is from the line of Chetan Thacker from ASK Investment Managers Limited.

Chetan Thacker: Just two questions, one was if you can throw some light on the domestic demand for MIBK and MIBC and what is the capacity that we are putting up and how do we see that ramping up and second was on the Rs.2,500 crore capex if you can let us know how much is into backward integration and what is the growth capex and what kind of IRR should we expect on the backward integration projects?

Maulik Mehta: Okay so first of all MIBK and MIBC we are targeting for the entire volume of both products to be consumed in the domestic market. We will take the opportunity to export if we think that the realization is better, but the domestic market has significant scope for it and when we are talking about volumes, we are taking about 40 KT for MIBK and about 8 KT for MIBC. Both of these projects will be commissioned pretty much together. With regards to upstream and downstream integration, I would not consider that to be a crucial question. The upstream integration will be able to significantly add to our bottom line no doubt but while we are doing it we are also confidently expanding our consumption capacities which will therefore add to the top line and though the expansions come at a fraction of the capex that the upstream these projects require. So net, net I will look at even upstream integration to be able to generate growth with minimum investment in debottlenecking of our existing products. And as usual we do not get into a lot of detail about the capex involved when we are talking about debottlenecking of products.

Chetan Thacker: Got it and sir just to get a sense the domestic total volume for MIBK and MIBC? 40 and 8 is what we are setting up or 40 and 8 is the domestic consumption?

Maulik Mehta: Both of these are the same. We are confident of being able to take 100% of the requirement. Let us also keep in mind that the requirement is growing at a healthy CAGR so we hope to apply our self to seeing how we can debottleneck this in short order after commissioning, but we are confident that we should be able to take as close to a 100% of the consumption demand.

Sanjay Upadhyay: Today it is 100% imported which is in the same range so that is what we will be able to supply to the market, substitute the import.

Chetan Thacker: Got it and on the Rs.2,500 crore of the total capex that is there is it fair to assume that since we are moving up the value chain our payback time should be anywhere between three to four years for these projects which is essentially faster than what it would have otherwise been?

Sanjay Upadhyay: Yes, you are right.

Maulik Mehta: This is a correct assumption. Just I will highlight that when we count payback, we are only considering the incremental value that we get.

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

Abhijit Akella: Sir, first of all on this government incentives that you have mentioned in Q3 of the results, I am referring to footnote three of the results, there is a table showing the government incentive income, it is about Rs.59 crore for the year compared to only Rs.1.6 crore the previous year so just wanted to check if this is the usual export incentive or it is a one off item or is this a recurring item going forward?

Sanjay Upadhyay: It is a recurring item going forward. This is an incentive given by the government for setting up the project and I believe this will continue for the next five to six years.

Abhijit Akella: Okay is this Deepak Chem Tech or Deepak Phenolics?

Sanjay Upadhyay: It is Deepak Phenolics.

Abhijit Akella: Okay so we should expect the same number to sort of continue for the next five to six years?

Sanjay Upadhyay: The numbers may vary up and down, there are various parameters on which the incentive is given, you can roughly take the same amount year-on-year not an issue. It can be a little higher also.

Abhijit Akella: Sure understood. Thank you. Second thing was just on the polycarbonate compounding capacity it will be helpful if could please guide us a little bit on what sort of value addition we should expect between the compounding the products versus the base polycarbonate that we will eventually produce so in terms of may be the price variants or the difference in margins? How much roughly would we expect on that?

Sanjay Upadhyay: See this is rather than looking at this facility as an EBITDA increase or something like that more important is that we are setting a base for polycarbonate. When you are going as a polycarbonate if you go with just for polycarbonate without knowing the market then it will not be right. In fact, we want to go further one step beyond not just polycarbonate but little polycarbonate derivatives also so that we have edge over the normal. There are various poly applications of polycarbonate which application makes sense for us, where to go, where the strength lies and while the demand growing these are all parameters will test by getting into poly compounding facility first for which we have sanctioned Rs.250 crore and we are actively working on that. Parallelly, we will start work on polycarbonate but this has to happen first. This is a precursor to the polycarbonate. It will certainly when you select the right application your EBITDA is bound to go up than normal polycarbonate. I will refrain from giving any numbers now because we are ourselves studying but the whole idea is to make your product more I would say not commoditized product but somewhere it is getting a color of value addition.

Maulik Mehta: I will just add one point here. This is what you will consider as seed marketing because customer approvals especially for high value compounds it takes anywhere from like six months to a year and a half so our goal is to make sure that we put our foot in the door there. Now of course it is a cherry on the top that the financials they do look attractive in any way when we are talking about the compounding facility, but the purpose of investing these few hundred crore is so that we can fast track the approval and validation process with the customers and in the meanwhile we work to see how we can connect between our current product portfolio and the manufacturing over a period of time so that we are end to end completely integrated.

Abhijit Akella: That is helpful. The next question I just had was on the volume of contracted arrangement in the business? The presentation mentions that there is contracted supply of products from both the segments which provides high visibility for continued growth so just sort of wondering if you could share what percentage of the business might be contracted in both the businesses and what sort of pricing agreements do we normally have? Is it on a quarterly basis for these contracts or is it a longer term?

Sanjay Upadhyay: I will answer on the pricing first because see pricing it is always formula based. In today's world nobody gives you a fixed price unless it is only a couple of months or maximum for a quarter so there is no fixed pricing arrangement in most of the cases. In the finer specialty segment yes there will be a few contracts where it is fixed pricing, but the margins are certainly in our control and that way. In DNL, this volume should be in the range of around 25% to 30% whereas DPL is in the range of 20% to 25%, the contracted business, but by and large we have the same set of suppliers. In DNL and DPL also and they have been with us for years. DPL also we are supplying to most of the large consumers, and they are continuing with us. In today's market nobody enters into a long-term contract which you also know.

Abhijit Akella: Sure thank you so much. That is really helpful. Just one last quick clarification and I will get back in the queue. On slide seven we have shared some volumes so for example sales of inorganic intermediates of 7,600 tonnes and hydrogenation volumes just wanted to clarify are these for the quarter or for the full year?

Maulik Mehta: We will come back to you with this. I am so sorry about that.

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

Rohan Gupta: Sir, I was asking on this ammonia and for our phenol production first how do you see that and you had mentioned that changes have been there already in place for the cost structure what we incurred as we are going forward now so with the falling prices globally and also in India how do we see that our ammonia cost will come down and how the phenol spread in your view is going to move in the near future if you can just give some sense on that?

Maulik Mehta: So, both of these are challenging questions to answer with this volatility. One thing that I can say is that right now while the gas prices are temporally subdued especially in the summer season in Europe what we will end up having is compared to last year an increase in the production of ammonia. Meanwhile, most places have large inventories stockpiles of urea so there will I believe be more ammonia available for chemical companies such as Deepak. There will also be an increase in the new capacities that come in with regards to ammonia production which I hope will give at least some level of consistency with regards to price and availability. Now beyond that with regards to the spread between phenol, acetone, and their upstream these are linked to some extent to crude but the one thing that has happened over the last two years is that very easily linkage where you were able to derive some sort of a regression analysis that has broken because even the consumption has been affected. Styrene monomer which is a benzene downstream is doing reasonably okay compared to before, but polyurethane in fact are not at the current time. In the mean while paraxylene is not doing well therefore there is lower production of benzene. Some refineries are down because they do not want to manufacture at a volatile crude price so this has currently affected that easy predictability, or I can definitely say is that benzene currently is exhibiting some level of resilience. Propylene is getting softer. We will see how this goes as more plants either tone down their production or increase depending on availability of crude so very difficult question to answer given the current circumstances but one thing is for sure, I think everybody whether it is a manufacture or whether it is a consumer, everyone expected that even this year would be business as usual and I do not understand why because the second largest player in the chemical space which is China it came back with a bang from January onwards with huge stockpiles of manufactured products which they had not earlier moved out of the country for reasons of labor and unavailability and some such. So of course you are going to have a short term situation where there is glut in the market for certain products simply because they need to exhaust their inventory levels as well. The situation will normalize what that means is difficult to answer but you must look at the last quarter and the current quarter keeping this brand-new dark horse also in mind. The largest player coming back disrupts the entire supply chain.

Rohan Gupta: So, Sir it means that with the China situation and that you said that the way the Chinese production is coming in market and since we have just started coming in the market there may be high supplies of phenol in the market where you see that going forward or in the near-term phenol prices can further come down?

Maulik Mehta: No, absolutely this is not what I am saying. Let me reiterate. First of all we have not in the past and we do not in the present or in the near term in the future next year or whatever it is, expect to have competition coming from Chinese phenol. We have had phenol coming from other countries, but not China and at least I can assure you that when it comes to phenol, acetone, and IPA your company remains resilient with regards to its wallet share and most of it or if not all of it is dedicated to domestic consumption which is also on an improving trend so you do not need to be worried about China coming into India with value destructive prices in phenol and acetone.

Rohan Gupta: But Sir, still a large part of the domestic market is fed from the phenol import. As I understand the phenol business, we may have control on domestic consumption and the volumes we are not worried about but prices will be determined by global prices.

Maulik Mehta: China is a large producer as well as a very large consumer of phenol so China generally speaking is a producer and a consumer, and it will focus on increasing and maintaining its consumption activities within China itself. China has never in the past been a global player when it comes to the export of phenol. It is self sufficient just like it is in the alkali industry. It is the largest producer of caustic chlorine but it does not affect the global trade flows in any way.

Rohan Gupta: Regarding our further phenol extension, do we have any further future plans or in the near term any further plan on expansion of the phenol plant.

Sanjay Upadhyay: Rohan this question is again linked to your earlier question also. Frankly, with China or without China, India today imports around 2 lakh tonnes of phenol because demand is growing significantly and it is not a surprise that you people giving higher correction, higher numbers than what you people have expected. It is not only the price, what will happen if China comes or goes, there are other things also. Like in the first commentary we said that we are digitalizing our systems and processes which is going to improve our efficiency that you do not know what the impact is quite large by doing those things, operational efficiency. On top of it we have other products which are also equally doing well like AMA, acetone and IPA. Let us not read too much into China remarks. We are very confident that this year we will also give you a good result, do not worry on that. There is a room for one player I must tell you because India is growing significantly in phenol and yes at an appropriate time, we may also come to the market but you need to wait for that.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sunlife AMC.

Naushad Chaudhary: If I remember it correctly earlier we have indicated the project in phenolics resin I think it was ventil phenol about which we were talking. What is the status currently of this project? What kind of investment we are planning and by when should it be commercialized?

Maulik Mehta: No this was a conjecture. We are not looking at this ventilated phenol.

Sanjay Upadhyay: Where we have announced it. I do not think we have ever made any announcement about this**.**

Naushad Chaudhary: Okay and secondly Sir on the investment pipeline of Rs.2,500 crore as of FY2023 closing on a base of Rs.1,300 crore of EBITDA with this investment of Rs.2,500 crore how much EBITDA it could contribute?

Maulik Mehta: Let me just give some light here. Over the next four to five years we are planning as a group to double the revenue that we have had in FY2023 and the products that we are getting into a mix between downstream of Deepak Nitrite and downstream of phenolics. The margin mix will be similar so this is what we are putting into motion over the next four years.

Naushad Chaudhary: And doubling of revenue and doubling of gross profit as EBITDA should we take it the same way?

Maulik Mehta: As I mentioned the margin profile is similar. I hope you are not asking about the percentage margin.

Naushad Chaudhary: Understood so Rs.1,300 crore of EBITDA and Rs.2,600 crore of gross profit should be doubling early with the kind of investments we are doing.

Maulik Mehta: I am just reiterating the margin profile is similar to the current margin profile in a normalized year, FY2023 was slightly suboptimal in that sense. If it were a normal year we would be talking about doubling of the revenue and a similar margin profile over the next four years.

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

Krishan Parwani: Two or three clarification, so one is on the photo chlorination so just wanted to understand is it for side chain reaction of toluene or xylene as well and is chlorination being done for reducing the import dependency?

Maulik Mehta: So photo chlorination what we have put up as an asset is an up engineered asset and you are right that it can done toluene but it can also do others like xylene. The asset itself will start off with a base chemical and then we will be looking at utilizing part of the asset which is actually broken down into multiple plants. We are talking about photo chlorination but it is done in multiple train so we will be able to dedicate individual trains to different products as we require them. The balancing equipment is all that will be required which is minor and which can be executed very quickly and with regards to the fluorination this is in a similar fashion up engineered when it comes to the MOCs, the pressure, the temperature that it can handle so while it may make one product to start off with which will reduce our volatility and increase our ability to deliver higher value intermediate. It is also designed with the intention of manufacturing products which use this platform but are not directly connected to any existing value chain. We will also be able to operate individually in individual trains.

Krishan Parwani: So on the phenolics side can we also think of adding diacetone alcohol or glycerin glycol because they also are imported into India and there is a high demand so just wondering about that.

Maulik Mehta: These are all very good idea. Certainly, we can talk about them later because they are being worked on whether they should be worked on with a higher priority or low priority again the question is what is going to get us to as I mentioned earlier doubling of our revenue in the next four years, is it going to be a better substitute to something else that we may working on it is worth considering.

Krishan Parwani: Understood and just a last bit on the capex front, I think you mentioned about the commercialization schedule etc. but I am sorry if I missed out so can you just give the capex break up of 2024 and 2025 and the commercial schedule once again sorry.

Maulik Mehta: The capex breakup I will not give you because these are all in process because the capex breakup might include capexes which we are not yet announced so that we can achieve our four-year target, five-year target. Okay, if you are only talking about the Rs.2,500 crore which we have already announced very quickly we have the phenol debottlenecking happening in Q1, the APC happening in Q2, we have photo chlorination and fluorination happening in Q3, we have the up stream integration happening in Q4 and we have the acetone derivative happening in Q1 of next year and between Q4 to Q1 we will also be commissioning our expanded hydrogenation multipurpose distillation and multipurpose nitration.

Sanjay Upadhyay: So whatever we have announced with the Rs. 2,500 crore capex, quarter-on-quarter you will find one or other project getting materialized and the numbers itself with speak for itself. So project wise details you can consider all this coming up in the next two years, with the Rs.2,500 capex and the doubling of revenue over four years there are different plans.

Krishan Parwani: Understood so this Rs.2,500 crore is for 2024 and 2025 combined for whatever you have announced, 2025 could be higher depending on whether you announce that project or not correct.

Sanjay Upadhyay: You are right.

Maulik Mehta: Last one that I forgot to mention is the compounding facility which will be commissioned over the next 18 months.

Krishan Parwani: Understood. I am sorry. I think I missed one point, the reason for higher phenolics spread this quarter on a gross level that is before power, fuel and other expenses so that is the last one for me.

Maulik Mehta: In Q4 actually compared to sequentially in Q3 we had rather unfortunate incident out of our control when the largest supplier of one of the feedstock had an extended shutdown longer than that was originally announced and hence we were forced to buy the intermediate 'cumin' from the global market at prices which would be much higher than what we would have manufactured at ourselves and this has impacted our Q3 numbers. Of course, in Q4 we did not need to do that and our supply of raw material was steady as was our phenol and acetone to customers.

Moderator: The next question is from the line of Nitin Tiwari from Yes Securities.

Nitin Tiwari: I am sorry if you have already answered the question and just wanted to clarify what is the purchase of finished goods reported in this quarter of about Rs.122 crore?

Sanjay Upadhyay: I think that is 'cumin'.

Nitin Tiwari: So as Mr. Mehta was just mentioning this 'cumin' purchases was for this quarter or was it for the last quarter? I mean I did not get that.

Sanjay Upadhyay: It will be Q3 largely.

Nitin Tiwari: But Q3 also had a small figure of about Rs.16 crore and in Q4 we are still looking at a figure of Rs.122 crore so there is a large purchase in Q4 as well of 'cumin'.

Maulik Mehta: The regular shutdown that we have which is for catalyst replacement and maintenance activities along with minor activities that were done for some expansion resulted in a period where we did purchase a little bit.

Nitin Tiwari: Understood and on the phenol expansion I just wanted to get some clarification, also right now we have operating capacity at 250,000 tonnes per annum is it or the name plate is still 2 lakh per annum.

Maulik Mehta: Forget about the name plate. What I can tell you is that normal most chemical manufacturing plants especially ones which are continuous in nature which requires cooling and chilling, the plant throughput is higher in winter because of cooler environment and lower in the summer and hence we have actually touched much higher numbers in winter, the debottlenecking activities will allow us to manufacture at much higher rate through the entire year maybe possibly try to squeeze out a couple of more tonnes in winter possible to increase our throughout even in summer months.

Nitin Tiwari: So when we say 120% utilization that is 120% of 200,000 as we had alluded in June last year that we now have operational capacity to work at 250,000 so is it 120% of 250,000 or 200,000 is what I am trying to understand.

Sanjay Upadhyay: Nitin, what we have said is above 120%. We have not given you exact 120% it is more than that.

Nitin Tiwari: But 120% of what.

Sanjay Upadhyay: So, it is more than 120% and with this debottlenecking let us not do too much of maths 120 of 240 or 260 because that will keep on varying. This is what our capacity will touch 50% higher than 2 lakh that is the base.

Nitin Tiwari: All right so we will be roughly at 300 after debottlenecking.

Sanjay Upadhyay: Yes.

Nitin Tiwari: Understood and Sir my last question if I may. So, how do we look at the phenolics pricing so as you mentioned our 30% roughly it is contracted so is this understanding correct that rest 70% business in phenol is spot market related so is that right understanding and secondly if that is the case then how do we see the pricing for us because if we look at the March quarter as far as the Asian prices are concerned we did see some weakness in phenol and acetone prices and such so how do we basically foresee our traction pricing in the backdrop of how Asian price would be so if you can throw some light on that.

Sanjay Upadhyay: This is contracted then you have not heard my view because I said it is always a short-term contract and a formula we try. We are not contracting anything on a long-term basis because neither the customer would want it nor we will want that. Prices keep on fluctuating in Deepak Nitrite you will have fine specialty business at a price for maybe six months, nine months but not in phenol. There are no fixed prices contracts in phenol.

Nitin Tiwari: So, the pricing contracts are short term or either spot is what you are saying.

Sanjay Upadhyay: Yes, but volumes are tied up.

Nitin Tiwari: Volumes are tied up and on the pricing front how do we try and understand the pricing that we have vis-à-vis the Asian pricing if you can just help us understand that a little bit because there is a contrast in the way Asian prices have behaved in the quarter and the way our margins have been.

Sanjay Upadhyay: But you are linking why the prices is margin. You do not consider our other things which I repeat, there are efficiencies there are other products. You answer very honestly whether it was better that what you expected it or no.

Nitin Tiwari: Sir 100% better than what I was expecting and that is why I am curious to know to how we see that going forward.

Sanjay Upadhyay: Every quarter we have been surprising you. Every quarter you ask me kya break hai, kyon isa hata hai, acha dehta hai tho be you question.

Nitin Tiwari: Nai nai sir aise bath nahe hai samajne ki koshish kar rahi hai bas.

Sanjay Upadhyay: Koshish mein nahi kar rah ahu tum kyu kar rahi ho. I must tell you repeatedly we are doing very well. I mean there are several steps we are taking. There is a product called AMS which was earlier going to China where our realization were very low, now we are going to Europe with that. That is also adding to the phenol margins this things are never ever considered by your people. Like Maulik was mentioning in 'cumin' there is definitely an impact of that so when you consider with that vis-à-vis and this year we are going to do better as against last year also so there are several improvements which we keep on doing. We cannot, ab hey China mein kay hua wapas aisa kya hua if we think like this then we will not be able to run our business but we are taking so many steps to strengthen our business and make our base sound which gives the numbers and this is what we are precisely doing, doubling the capacity. This is all there but then first you make your business solid that is what we try to do. Like Abhijit ka question tha that was the export for the quarter, our exports was really well for this year so these are thing we continue to do and which will strengthen our bottom line and business.

Moderator: The next question is from the line of Janakiraman Rengaraju from Franklin Mutual Fund.

Janakiraman R.: Congrats to you and your team for a very creditable performance so Mr. Mehta mentioned that China's return to the chemical industry is a big event for this year and in that context while Deepak's Phenol business may be immune to that development, will the other operating segments be impacted by that either on the raw material side or on the finished goods either positive or adverse impacts.

Maulik Mehta: China currently operates as a wild card. What we believe influences our performance in DNL standalone more is the volatility in the consumer buying behavior. We maintain very very high valet shares with our customers and our customers have been gracious enough to always give us our premium over whatever way the prices are in China are. Let me also reiterate that in 2020 and in 2021 China was operating at full scale. In 2022 did it go into a partial or total shutdown, so while the rest of a world did have a COVID induced lockdown and scarce in 2020 and 2021 we were competing head on with China in every one of our products and we were able to maintain strong performance so while China is there customer continue to prefer to buy from Deepak regardless of whatever happens we are always confident that our operational efficiencies are as good as China if not better in every one of our products. In most of the products we actually have to compete in European markets with giants like BASF and Lanxess as well. While they are not Chinese companies they have a home market advantage which we have to be able to match so when we have global scale we have the capability and the experience to match that so I will only say that what I am cautious about is inflation and consumer buying behavior while they continue to buy the same volumes from us they remain more focused on what will happen over the next three months and six months. Nonetheless every one of our customer who has an annual or multiyear contract with us has reiterated multiple times in the last couple of months that the entirety of the contracts is to be honored both by Deepak as well as by them. They recognize that volatilities are there. They are there in the short term but they are expecting us to honor those commitments just as much as we are expecting them those relationships continue to grow and we are looking at expanding the amount of business even in new products that we have with the same customers even with these are products which are new extension to our existing product basket and value chain.

Janakiraman R.: Got it and again from a broader perspective the last three, four years the kind of ROCE that Deepak has generated is fairly impressive in light of this and the fact that you will be committing a large amount of capex over the next two years can we sustain these levels of mid 20% ROCE?

Maulik Mehta: Mid 20 is easier to sustain. Right now, we have been operating at high 30s and the low 40s, so mid 20s sounds doable.

Moderator: The next question is from the line of Meet Vora from Axis Capital.

Meet Vora: I just wanted to understand the dynamics of phenol acetone plant so for example we have setup a plant with nameplate capacity of 2 lakh tonnes now we are debottlenecking at 50% and taking it to 3 lakh tonnes for example if our requirement of phenol acetone increases going further how much we can debottleneck further till the time where there is a need for setting up another capacity.

Maulik Mehta: There is a need for setting up another capacity. This is something we are actively working on because the amount of easy headroom is limited after 3 lakh tonnes. It is still possible but takes more effort and after that it will start coming with certain possible down sides when we are making 150% we are confident of being able to do it without any impact whatsoever with regards to the reliability and the maintenance of the plant anything beyond that and we start having to take comprises we are not willing to so we do need to actively work to see how we can maintain and grow our wallet share.

Sanjay Upadhyay: But here also I will add to what Maulik has said. Our technical team have always surprised us. We used to believe that we could not cross 250. We have crossed 250, then 275, now 3 lakhs so people are giving us surprises. They are saying there is no capacity. It is more to do with the competency and I will not be surprised if they give me 5 to 10,000 more beyond 3 lakh also so let us keep our finger crossed but then there is a need for one more plant now that is for sure.

Meet Vora: Sure Sir and also if you can highlight the capex that we need to do. For example, we did a capex of around Rs.1,400 crore for our original 2 lakh tonne now how much capex would we have spent on this additional 1 lakh tonne debottlenecking that we did over and about the 2 lakh capacity.

Maulik Mehta: Less than Rs. 100 crore.

Sanjay Upadhyay: Have you seen anything in the balance sheet showing higher capex. You must appreciate this.

Meet Vora: So we have done hardly any capex on the additional 1 lakh tonne.

Maulik Mehta: Actually the only capex that we did were on IPA and the power plant.

Meet Vora: Okay that is great and the second question, if you can share any update on the sodium nitrite project in Oman that we have announced in the last quarter.

Maulik Mehta: So that is going on track. See you have to remember it is a different country which has its own challenges but we are targeting between 24 to 30 months for commissioning. As I mentioned earlier this is in line with that.

Moderator: The next question is from the line of Anika Mittal from Nvest Research.

Anika Mittal: I have two questions. My first question is why there is a delay in the commissioning of the project. What factors have contributed to this delay in commissioning and how has it impacted?

Sanjay Upadhyay: Which project was delayed?

Anika Mittal: In the Q3FY23 presentation, a delay of one quarter in MIBK and MIBC plants, according to your presentation it was written that it will be commissioned by Q4 2024 financial year but in this quarters presentation its written it will be commissioned by Q1 FY2025.

Maulik Mehta: There were certain challenges when it came to technology, supplier, and some part of the engineering. This is partially also owing to some challenges that they have faced from their own sub-contractors in Europe. These are actually very large and complicated assets especially the column, and they have significant amount of engineering required. Nonetheless I hope that the problem is behind us so we should have a better chance of sticking to the schedule that we have announced. We see what best we can do or try to bring forward but what we are telling you is something that we are willing to commit to.

Anika Mittal: Alright. My second questions is we are expanding the business in downstream and upstream products which are more profitable, and value added than the current offering. We have more than double revenue from Rs.2,700 crore in 2019 to Rs.6800 crore in 2022 however the margins have been affected by the fluctuations and commodity pricing which makes us look like a commodity driven company rather than a value-added company. We are not saying that we can avoid the volatility of the industry should we believe that our margins can improve with our end products so my first question is when we can be recognized as a value-added company rather than a pure play commodity one.

Maulik Mehta: We are neither a pure play commodity company nor we are a CDMO company. We are a diversified chemical manufacturing company which has significant operational excellence and a wide basket of operational platforms that we can put into play. Now when you see on your things like margin, pressure. If you look at Deepak Nitrite, we had a fire incident I touched that and that has resulted in impact with regards to out percentages but over the last three years every quarter you will see a remarkably stable margin profile for the company as a whole and that is because of the length and the breadth of our value chain. Now when it comes to phenolics, yes of course there is a nature of commodity margins creeping in and that is one of the reason why there are certain projects which are more focused on downstream rather than upstream in phenolics. DNL has investment but in upstream as well as downstream. Phenolics has only investment in downstream and those investments will have margin profile which are similar to Deepak Nitrite standalone and hence between then will help to elevate the margin profile of what you consider the phenolics business to something which is somewhere between its current profile and Deepak Nitrite so please do not make the mistake of treating us a purely commodity again let me highlight we are a diversified chemical manufacturing company. We prioritize on intermediates because this is where we believe we can play a great role with regards to operational capabilities. Our ROCE please find companies in commodity space or in what you would call the CDMO or the specialty space which have consistently over 14 quarters been able to deliver higher than 35% ROCE while also making new investments for growth.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you Sir.

Sanjay Upadhyay: Thank you all for joining this call. In case you have any further questions, you can write to us or get in touch with Mr. Somsekhar Nanda, Mr. Gopal Thakkar. Thank you all. Thank you once again.
