



DNL/140/NSE/1460/2024  
February 21, 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**

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We enclose herewith the transcript of the earnings conference call of the Q3 & 9M FY 2024 held on February 15, 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**  
Company Secretary

Encl.: as above

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# Deepak Nitrite Limited

## Q3 & 9M FY24 Earnings Conference Call

**February 15, 2024**



**MANAGEMENT:** **MR. MAULIK MEHTA** – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – DEEPAK NITRITE LIMITED  
**MR. SANJAY UPADHYAY** – DIRECTOR, FINANCE AND GROUP CHIEF FINANCIAL OFFICER – DEEPAK NITRITE LIMITED  
**MR. SOMSEKHAR NANDA** – CHIEF FINANCIAL OFFICER – DEEPAK NITRITE LIMITED

**MODERATOR:** **MR. RANJIT CIRUMALLA** – IIFL SECURITIES LIMITED

**Moderator:** Ladies and gentlemen, good day and welcome to the Deepak Nitrite Limited's Q3 & 9M FY24 Earnings Conference Call hosted by IIFL Securities Limited.

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

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 investor communication shared with you earlier.

I now hand the conference over to Mr. Ranjit Cirumalla from IIFL Securities Limited. Please go ahead. Thank you.

**Ranjit Cirumalla:** Good afternoon everyone and thank you for joining us on Deepak Nitrite's Q3 & 9M FY24 Earnings Conference Call.

Today, we have with us Mr. Maulik Mehta – Executive Director and CEO, Mr. Sanjay Upadhyay – Director (Finance) and Group CFO, and Mr. Somsekhar Nanda – CFO of Deepak Nitrite Limited. We will begin the call with opening remarks from the Management Team followed by an interactive Q&A session.

To begin with, 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 everybody. Thank you for taking the time out to join our Earnings Call.

Our results documents were shared with you earlier, and I hope you have had the opportunity to glance through them. I will now walk you through the operational highlights and strategic action during the third quarter and nine months of Financial Year 2023-24. Mr. Upadhyay will then present you with the financial overview during the period under review. Following that, we will open up the forum for a Q&A session.

The Global chemical industry continued to witness adverse conditions in the third quarter also. A combination of uneven economic growth, sustained inflationary pressures and present interest rate regime have caused fears of recessionary conditions in leading developed economy. Geopolitical tensions have added to the cost of doing business including stretched cash conversion cycle, accompanied by the cost optimization focus in many sectors. The resulting global consumption trends have been adversely impacted so far. And the flow through impact to the

chemical sector has meant that there was persistent softness in demand from certain regions as well as certain segments.

Our customers are responding to these challenges by re-evaluating the requirements, tightening their inventory levels, and negotiating for the best possible price. Amidst this, we have witnessed Chinese suppliers continue to undertake aggressive steps to destock the inventory of intermediates that have been building up.

How have we responded to this perfect storm? Firstly, we focused on optimizing our assets and driving efficiencies to enhance competitiveness. Various plants have been debottlenecked. Moving forward, Greenfield capacities will supplement with order growth where Brownfield expansion falls short.

Secondly, we have leveraged our brand equity and market position to prioritize wallet share and reliable supplies to our key strategic relationships. The improved production volumes need to be placed with customers and we have reported increased volume-led growth this quarter.

Thirdly, we continue to evaluate areas for process efficiency and cost optimization. These initiatives have provided savings in areas such as yield enhancement, reduction in power and fuel costs as well as a reduction in CO<sub>2</sub> emissions.

Deepak's broad product portfolio and versatile plant capability has allowed the Company to focus on driving volume led growth in certain pockets, which have enabled it to counterbalance subdued demand sentiment in other parts of the portfolio. As a result, this has led to a 13% quarter-on-quarter increase in topline, with provisions made for further improvement as the operating environment improves. The robust growth in the Phenolics segment, driven both by volume gains and improved realization has been a key driver for the accretive growth. Supported by focused initiatives to enhance operating efficiency and debottlenecking via software and hardware.

In terms of segmental performance, advanced intermediates have reflected subdued demand recovery in certain industries, such as agro chemicals, textiles, dyes, and pigments, while other end applications like construction, infrastructure, and homecare, continue to show healthy demand. Mixed sentiment in end user industries influenced by cautious buying behavior, and resilient petrochemical linked raw material prices have led us to prioritize wallet share. Several key intermediates recorded the highest ever quarterly sales and production following the commissioning of opex initiatives.

While prices of some key inputs have decreased, others which are petrochemical linked remain firm due to low operating rates at refineries plus war premiums on crude. We anticipate that the timing of backward integration and Brownfield capacity expansion will align with a more secular demand improvement going forward.

In our Phenolics business, we delivered a solid performance on the back of improving plant efficiency and healthy sales volume. Additionally, the implementation of advanced process control and favorable weather conditions has facilitated record production figures of Phenol and Cumene this quarter, elevating average utilization to a new benchmark.

Meanwhile, our ongoing projects such as PhotoHalogenation, High Pressure Fluorination, acid units and others are progressing well and are expected to be commissioned as planned. The operation and commissioning team are actively involved in preparing for the system handover of the high-pressure fluorination and Photochlorination project, with commissioning being anticipated within this current quarter. Regarding the acid unit, construction and equipment erection activities are at peak with most equipment deliveries completed. Other expansion projects such as MIBK, MIBC and Hydrogenation amongst others are also taking shape and are on track for commissioning as per plan. The polycarbonate compounding project is steadily progressing as well. Customers have accepted and appreciated product quality as delivered by Deepak.

In notable developments, we signed a memorandum of understanding worth Rs. 9,000 crore on January 31st, 2024, this adds to the previous MOU worth Rs. 5,000 crore on May 23, 2023, aggregating to almost Rs. 14,000 crore. Projects covered by this investment of about Rs. 9,000 crore will be completed by 2027. The projects of all the investments that have been announced will be completed by 2027. And the focus for this recent announcement will be on manufacturing three new products, Polycarbonate Resins, Methyl Methacrylate (MMA)/ Poly Methyl Methacrylate (PMMA) Resins and compounds as well as Aniline.

Additionally, we have signed a term sheet with Petronet LNG, which is based in Dahej, which de-risks our growth trajectory by ensuring critical raw material availability via pipeline. We are set to uptake 250 KTPA propylene and 11 KTPA of hydrogen over a 15-year period from the initial delivery. This long-term agreement provides Deepak with assured access to feedstock for production processes at a competitive cost. Further, considering the supply will be through pipeline, not only will it be safe and cost effective, but it will have nil environmental impact as compared to road and rail transport.

In conclusion, our steadfast focus for enhancing operational excellence, optimizing assets and solid project execution has allowed us to set new production benchmarks in several key intermediates. India's robust economic growth presents opportunities for the chemical industry at a global stage, and we are excited about not only our growth potential, but the opportunity for Deepak to be an anchor for tomorrow's India growth potential. Through strategic and substantial investments in new and Brownfield projects including those in the Phenol Acetone value chain that enable upstream and downstream integration. Our expanded capacities will enable us to serve not only the baseline growth as envisaged, but also our production migration from high cost region. In fact, our long-term plan envisages in creating one of the most integrated chemical and petrochemical complexes globally, which is sure to unlock new frontiers for Deepak and India's burgeoning chemical industry. We believe our ability to capitalize on these opportunities,

ensuring growth, value maximization and serving the nation sustainably will benefit all stakeholders.

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.

**Sanjay Upadhyay:**

Thank you, Maulik, and good afternoon everyone. Thank you for joining us on this call today. I will walk you through the highlights of the Financial Results for the Quarter and Nine Months ended December 31, 2023.

Deepak Nitrite has demonstrated stable and resilient performance this quarter in the face of challenging market conditions prevailing in the global chemical industry during the third quarter, and in fact throughout the year. We have been consistently communicating about the increased level of volatility in the industry warranting faster response times and sharper strategic initiative to capture key parts of the value chain. We have demonstrated this during the quarter as the Company successfully expanded its market share in all businesses and boosted its revenue across various business adapters. By maintaining consistent and reliable supplies, Deepak Nitrite has upheld its long-standing relationships with the customers resulting in increased volumes across key product categories and balanced mix of domestic and export sales. Consequently, the Company's operations will remain highly efficient in capital utilization reflected in an enhanced return on capital employed of 26% in Q3 FY24, continuing its streak of robust performance over the past 12 quarters.

Now coming to the financial performance in Q3 FY24, on a consolidated basis revenue came in at Rs. 2,023 crores as compared to Rs. 1,795 crores in Q2 FY24. On a quarter-on-quarter EBITDA came in at Rs. 318 crores from Rs. 319 crores almost flat in Q2. EBITDA margin was stable at 16% despite the pressure of higher raw material cost and other utilities. PAT stood at Rs. 202 crores from Rs. 205 crores in Q2. Profitability aligned with the operational performance of the Company was impacted due to lower realization and higher prices of the raw material. In the ensuing quarters, the circumstances are anticipated to improve. In nine months FY24 on a consolidated basis, revenues were at lower by 7% to Rs. 5,613 crores as compared to Rs. 6,046 crores in nine months FY23. EBITDA stood at Rs. 879 crores in nine months FY24 compared to Rs. 976 crores in nine months FY23. Margins were stable of 16% in FY24, PAT came at Rs. 557 crores as against Rs. 618 crores.

On the operating front, our domestic business revenue stood at Rs. 1,572 crores and Rs. 4,474 crores in Q3 and nine months respectively. Export revenues are Rs. 451 crores in Q3 and Rs. 1,134 in nine months. On a consolidated basis, domestic export stood at 78% and 22%.

Now moving to the segmental performance, in the advanced intermediate segment, revenue was flat at Rs. 685 crores in Q3 FY24 versus Rs. 684 crores in Q2 FY24. While EBITDA stood at Rs. 123 crores during the quarter under review. Nine months FY24 revenue came in at Rs. 2,084 crores and EBITDA came in at Rs. 390 crores, translating into a margin of 19% despite the

current environmental challenging circumstances. Deepak Nitrite has also adjusted product pricing to offset rising input costs resulting in maintaining margin performance compared to the previous period, signaling a proactive approach amidst market challenges.

Deepak Phenolics delivered an encouraging performance, grew by 20% to Rs. 1,355 crores in Q3 FY24 versus Rs. 1,124 crores in Q2. While EBITDA stood at Rs. 201 crores in EBITDA margin came in at 15% in the quarter. During the nine months, revenue de-grew by 6% to Rs. 3,558 crores and EBITDA Rs. 497 crores translating into a margin of 14%.

Last year on the balance sheet side, the Company's financial significantly enhanced and the Company continues to maintain a zero-debt position with a net worth of Rs. 4,543 crores on a consolidated basis. And Rs. 2,839 crores of standalone, thereby strengthening its balance sheet for the future expansion.

Additionally DNL has made a cumulative investment of Rs. 656 in Deepak Chem Tech Limited, its wholly owned subsidiary, with Rs. 56 crores invested in Q3 FY24. DPL prepaid its remaining balance term loan during Q3 to become debt free following the footsteps of DNL which has been debt free for several quarters now. The Group as a whole, enjoys liquid investment of Rs. 386 crore. During the quarter, DNL has invested Rs. 17 crores in Deepak Oman Industries to acquire 32% stake. The treasury gains for the quarter stands at Rs. 5.7 crores in Q3 FY24 and Rs. 22 crores in nine months of FY24.

The Group has undertaken many digitalization initiatives one of the key initiatives is the successfully implementation of SAP along with Customer Relationship Management, Ariba and logistics tools from November 2023, DCTL and DNL are set to follow sequentially.

Furthermore, the Company has implemented measures to enhance operational efficiencies through process optimization, yield improvements and cost reductions in power and water consumption. Our project pipeline remains robust and investment of around Rs. 2,000 crores are expected to be commissioned between January to December 2024. And will steadily add to the capacity, or to backward integration providing impetus to the growth.

With that, I would now request the moderator to open the forum for question and answer session. Thank you.

**Moderator:**

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

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

**Nirav Jamudia:**

So, I have two questions. So, one on the standalone, and then on the Phenolics. Sir, if you can share for Q3 and 9M FY24 what sort of volume growth we have witnessed in the standalone business. And along with if you can just share your thoughts on how much of our current capacity like including those debottleneck is currently utilized and has a scope for further utilization?

**Sanjay Upadhyay:**

Nirav, nine months our volume growth is in the range of say 17% to 20%. And as regards capacity, the capacity, we are using around 80% to 85%, some plants are having surplus capacities. But then it's not very difficult for us to debottleneck and go ahead, in any case capacity is just a word, let's not get bogged down by how much capacity is empty and all. This year we have demonstrated that one of the plants we have spent little amount and then produce additional product which was never there in our budget or never in our pipeline, the sudden demand came, and we could produce that. So, that way our plants are flexible, multi-product plants and the team is capable of delivering. But you can take around 80% to 85% capacity utilization for the nine months.

**Maulik Mehta:**

I'll just add one thing that, our debottlenecking exercises have been a mix of hardware as well as software not only in Phenolics, which we have also mentioned, also in advanced intermediates. This is also coming on the back of lesson that we learned about two years ago, when we realized that we were unable to grow our wallet share because in many places our capacity was constrained. Now we have shown with a judicious mix of our opex as well as increased assets, we have ensured that our capacity is more than the current increased volume that we are pushing out into the market. So, wherever possible, we have created headroom. As, I mentioned in my initial remarks, and where we feel like, by and large we will not be able to go much further here. We have also initiated land for large scale capex which should be Greenfield for example, Oman plant.

**Nirav Jamudia:**

Sir, let's say if we consider the backward integration projects what you mentioned, the nitric acid part. And coupled with the headroom of the capacities available with us in terms of the debottleneck and some pockets where it is currently underutilized. What's a fair assessment in terms of our quarterly EBITDA again moving to those ranges of Rs. 150 crores, which we used to do on a quarterly basis in FY23, because this quarter if we see we were at Rs. 112 crores. So, if you can just help us like what will be the combination of volume growth, as well as the benefits of backward integration facilities can help us to take that level of run rate in which of the quarters of FY25.

**Maulik Mehta:**

So, rather than getting into quarter number, what I can share is that both of these will have their own compounding value that they can give. And all of this depends significantly in terms of the improvement in the off take or the products that we make, over this period of time we have in that sense, gone through this baptizing of fire and by increasing our wallet share, at the expense of competition, so when their wallet share reduces, their operating costs also increases as our debottlenecking as well as backward integration commission it will allow us to maximize on this position that we have worked diligently to take. I won't give you an answer with a quarter, but I can tell you that, one way or another this is the direction that it will trend at, whatever numbers you are giving, either add a quarter or subtract a quarter. But when these plants come online, this is the cumulative.

**Nirav Jamudia:**

Sir any expected timelines which you can share when the nitric acid plant would be commissioned?



**Maulik Mehta:** I can just share that we have already announced by and large every quarter there will be some plant, or another being commissioned, some with upstream, some with downstream, some is in AI, some is in Phenolics, so rest assured we will see good value over a period of time being increased to the top line and the bottom line.

**Nirav Jimudia:** Got it sir. And Maulik just one question to what you mentioned like, agrochemicals, textiles dyes and pigments have been showing subdued growth. So, if you can just help us know how much of our standalone business would be or standalone revenue would be coming from these four broad segments currently?

**Maulik Mehta:** It would be a considerable amount, but what I was sharing was largely the situation that was at play into Q3, agrochemicals especially the products that we give to multinationals, they in some cases, they have had difficult years in CY2023 and as they close their books, they would also want to move forward with a minimum overhang in terms of inventory and working capital. So, Q4 is going to be incrementally better than Q3 in terms of volume. Now, in some products there is continuing to be softness in terms of demand in some places, that is largely because of the specific customers, where their balance sheets also maybe stretched. In other places, we are finding that there is a fragile improvement. Now for products where Deepak is into the dyes, the textile intermediate there also we are seeing certainly there is an improvement in demand, if I compare Q4 and Q3. But all these things at the end of the day are sequential in nature. So, I'm comparing it not to the last year, but to the previous quarter.

**Nirav Jamudia:** Got it. Sir second question is on the Phenols business, like based on the reported volumes, what we have shown in the presentation, our opex comes to closer to \$185 - \$190 if we do some rough math, so does it include the benefit of the 29 megawatt captive power plant which have been set up and if yes, going forward is there any further scope of reduction in our operating costs. Along with it, if you can just share some list of initiatives which we have taken in the Phenolics business over the last one or two years to bring down our operating costs and improve the efficiency levels?

**Sanjay Upadhyay:** Nirav, several measures are taken, this performance will not come if you are just relying on the market volatility. We must appreciate that by increasing the capacity itself, the overhead cost per tonne goes down significantly, that's the major, major advantage these people are making, and it increases the efficiency of the plant. On top of it, there are logistical improvements what we have done, increasing the size of containers, which will reduce, which will of course reduce the cost as well as ESG is beneficial, we have taken care of every advance process control management system, which is also controlling my processes and then improving the yield and production. And then valorization of products that is also helping us in a big way. So, these efforts are on, we don't stop at this, it continues. So, various measures and we have a very, very capable team of people handling this. So, don't worry about this, these people efficiencies, and the production of the phenol is absolutely I would say in well control by the team and all improvement whatever possible people are doing there on all the fronts.

- Maulik Mehta:** Including sustainability, we are continuing to reduce our carbon footprint on a kg of production. And keep in mind that we also in many cases have to take up the cost of logistics of getting the raw material, as well as in some cases giving the final product. So, when we look at improvements, we look at net of.
- Nirav Jamudia:** Sir just a small clarification here. So, does the benefit of the 29 megawatts fully capture in this quarter, or some benefit is yet to yield here?
- Sanjay Upadhyay:** The power plant benefit is fully captured.
- Moderator:** We have our next question from the line of Gagan Deep from Nvest Analytics Advisory LLP.
- Gagan Deep:** So, as you know, there has been a demand slowdown at a global level despite that, you people have sustained the performance in terms of top line and bottom line. So, two parts of question on this, whether the inventory destocking by the Chinese players is over and can we expect the things getting normalizing in FY25. And secondly, how do you see the chemical prices, specifically the Phenol and Acetones shaping up in the near term followed by in FY25?
- Maulik Mehta:** Okay. First of all, this concept about destocking, I emphasized it last time, I will just re-emphasize it again. Destocking essentially means that for whatever reason, a manufacturer believes that his cost of manufacturing tomorrow for whatever reason, may be a little bit, either the same or more and hence he is choosing to manufacture today, but if then try to push it out so that he can manufacture tomorrow. Now at the same time, the headwind is the customer's ability to take, and the customer's ability to take is linked to his ability to sell. So, destocking is not a situation which is something that happens in a transient manner. It is the rate of destocking which is the question, and the rate of destocking obviously has to slow down because the inventory level themselves get depleted as destocking is accelerated right now. So, over a period of time, you will see a slowdown in the destocking where the demand and the supply by and large start to come to a parity. Generally, this will happen over the next quarter, couple of quarters depending on the end segment. And in places where there may be geopolitical uncertainty or economic uncertainty, interest rate uncertainty, those will all play some role or another in either convincing a customer to choose to buy more regardless of whether they need it or not or buy less to maintain a low balance sheet overnight. Now, when it comes to products like phenol and acetone, these are manufactured as well as consumed in large volume. And they are made by players all over the world. And there's a significant part of it, which is also the freight component, a significant part of it which is also the ability to hold inventory. So, moving forward, it's not going to be about whether phenol price acetone prices go up or down, it's going to be about how they move in relation to their upstream and downstream price. So, when we look at our performance, it is about whether we can manage the product pricing to continue to give a sustainable margin over material. I don't care if benzene prices go up and propylene price prices go up, as long as I am able to pass it on. What I care about is, that I am focused on volume improvement, quality improvement and my domestic consumption base is continuing to show robust growth in demand, and I am there cost competitively manufacturing and supplying them

the quality they need. So, I am reasonably satisfied as long as my plant is always able to ensure whatever is being required is being manufactured.

**Moderator:** We have our next question from the line of Abhijit Akella from Kotak Securities.

**Abhijit Akella:** Sir, just on the Rs. 9,000 crore MoU signed with the Gujarat Government. There are two sets of new products mentioned within that which is the MMA and PMMA and Aniline. So, is it possible to share some further color around the breakdown of capex between these, the capacities that we plan to set up and your revenue and margin expectations that will be helpful. Thank you.

**Maulik Mehta:** So, Abhijit I don't think we need to go into the breakup of the capex because there will be lots of scope for optimization in this in terms of one whether it is with regards to land or utilizing certain assets as allocations and things like that, like boilers and things like this. Now, the reason that I feel confident, and by these are not just two products, MMA and PMMA are made using feedstock's which we are already very comfortable using feedstocks such as acetone, ammonia, etc. And what is critical here to keep in mind Abhijit, is that it will also involve a cyanation block of significant capacity. Now, this will be at a world scale as usual, when it comes to Deepak and this will be significant fundamental asset which will then be available to the Indian ecosystem, obviously for Deepak's Specialty Chemical needs and all that moving forward. So, Cyanation today generally is not performed in India maybe with some small capacity here or there. Similarly, when you are looking at polycarbonate, you are looking at process competencies, which will then be put here at a world scale, and it will allow those processes whether it is like oscillation or melt to be used for various different Specialty Chemical applications. So, today if I was to hypothetically say that I will have 100 tonnes requirement for Cyanation, I will invest in 110 tonne capacity, 120 tonne capacity, this will allow me to get into niche Specialty molecules as well as a large commodity play and most of these including the ones that we have announced like polycarbonate, this is a resin which will then go downstream into the compounding. So, the margins of all of these will be either equal to or in an accretive manner better than what you are currently seeing in Deepak Phenolics. So, on a net basis or on a consolidated basis you will see a blended EBITDA which sits comfortably between Deepak Nitrite, normalized situation where it is upstream and downstream integration as well as Deepak Phenolics EBITDA.

**Abhijit Akella:** Understand, thank you. And regarding the financing of these projects, will it primarily be debt financed. And if so, is there a sort of peak debt to EBITDA number that you have in mind going forward?

**Sanjay Upadhyay:** Abhijit, we will come back to you, on this when we crystallize our plan and thoughts, it's too premature to tell you today, going to only thing one must know that we are having a strong zero debt company and Rs. 5,000 crores networth line. So there is enough room for debt also and enough room for equity also. There is no issue as such on financing because the financing also depends on the requirements outcomes, the cash flows, year one, year two, year three, so we have time enough to run our things in a most beneficial way to all.

- Abhijit Akella:** One last thing is just on the Rs. 2,000 crores of new investments that are being commissioned during CY24. So, this would include all the projects listed on slide number #10. So, polycarbonate compounding, fluorination acid, MIBK, all these basically getting commissioned during CY24?
- Sanjay Upadhyay:** Yes, by December 2024 we are expecting.
- Maulik Mehta:** So, there will be one Specialty chemical which will reach that a little bit by in a month or two months, now of course we are still trying to see how we can optimize that.
- Abhijit Akella:** Right. FY26, you would expect all these projects to pay off optimally or it would be a slightly graded kind of ramp up for some of these?
- Maulik Mehta:** They will all go into production ramp up as we have normally done, our plan for production ramp up, which includes safety, while it also includes optimizing as quickly as possible. Asking us whether we will have a payback by 2026 is that what you are asking us?
- Abhijit Akella:** Just sort of asking about the optimal utilization, can we sort of expect most of these will be at optimal levels by FY26?
- Sanjay Upadhyay:** Yes, no doubt on that.
- Maulik Mehta:** We have accelerated ramp up; safety is the primary focus. So, if safety is kept in place, the ramp up plan in terms of customer requirements, they are saying faster, better.
- Sanjay Upadhyay:** Yes, it will be optimal utilized no issues on that.
- Moderator:** We have our next question from line of Vivek Rajamani from Morgan Stanley.
- Vivek Rajamani:** Two questions from me. Firstly sir, on the advanced intermediates side, you have mentioned to the earlier participants that, Q4 you think it's going to be better from volume perspective from Q3. My question was looking at the recovery from an FY25 standpoint, do you think it's going to be more of the case that you are seeing sequential recovery every quarter going into the next year or do you still think given, what you are seeing in the industry, it's still a situation where, you see a recovery one quarter, and then maybe a step back. Just wanted to get your thoughts more in terms of the pace and trajectory of recovery going into FY25. That was the first question.
- And the second one was in Phenolics. Just given the debottlenecking and all the initiatives that you have done and the industry spreads, I would have thought that the sequential improvement would have been much higher on the Phenolics side. Just wanted to clarify if there was something different that was happening in this quarter. Thank you so much.
- Maulik Mehta:** Thanks Vivek. I will just answer your second question first, I would be interested in seeing the data that gave you an indication that the improvement should be significantly better. From every

data point that we see that Q3 has been strong performance for Phenolics given the current macro-economic client, given the fact that there is not a single plant in pretty much in most of the world, which is into merchant sales of phenol, which is operating at anywhere close to 140% - 150% like Deepak Phenolics is, I would be curious to understand the data, and it would help me also make better estimations in the future. Nonetheless, what we can share is that the team on the ground and the technical team continues to find further headroom for improvement whether it is on capacity or efficiency that continues, and we encourage the team to be creative in looking for opportunity for growth.

Now with regards to the first question, whether the recovery will be consistent and secular in nature. This is difficult to say from where we are looking right now. It does seem like it, but it is a fragile recovery. Geopolitical economic shock seems to have become a norm over the last few years. And there is already a lot of stuff which is priced in, but escalation in any of these things remains to be seen as possible, Black Swan. We believe that more than anything else, India will continue to be a remarkably bright arc in the middle of all this uncertainty. And hence, Indian consumers and Indian customers will be the most benefited by having domestic suppliers of key raw materials, such as Deepak. So, we see how the improvement on a global scale pan out. But rest assured that, India will always be a couple of 100 bps ahead of the rest of the world in terms of rate of recovery.

**Vivek Rajamani:** Just very clear. Thank you so much for the answers. Just one book keeping question from my side. What would be the current phenol nameplate capacity after all your debottlenecking that you have done so far?

**Maulik Mehta:** We have forgotten that it used to be 200,000 tonnes when we commissioned it in 2018, I don't think anyone has asked that again.

**Moderator:** We have our next question from line of Rohit Nagraj from Centrum Broking.

**Rohit Nagraj:** Sir, my first question is on the finance front. So, have we seen any new capacities coming in China, and maybe Korea and other parts of the world. And how do we see the spread going ahead, will they continue to improve and stabilize here or probably FY25 will start qualifying when we will start, whether they will be able to go up. Thank you.

**Maulik Mehta:** There is lots of capacity that has been commissioned over the last year, especially in China and the Far East. And that was expected in any case. Now, with regards to spread again, difficult question to answer in the current situation, you see what has happened is that the Red Sea as well as what is happening currently with regards to the Panama Canal, has almost split the world into two. So, freight rates and extended cash conversion cycles are forcing customers to make very different kinds of buying decisions compared to what we would make if it was only linked to demand consumption. Now, keeping this in mind, keeping also in mind that Asia is the world's largest manufacturer of petrochemical, spreads is a very difficult point to put in place, because it is not just about the spread between phenol and benzene or propylene. But it is also about

whether the product is in what is called contango or backwardation. So, we buy our benzene in a manner in which it is N minus one and we sell our phenol at current market rates. This gives us the delta of about a month, month, and a half, where we have that breathing room and it gives us the opportunity to optimize our pricing policies with regards to feedstock availability. This visibility is key for us to make the right decisions when it comes to margin over material.

Moving forward, the spread may increase, or decrease based on whether it becomes easier to move material around the world like it was a year ago or a couple of years ago. If there continue to remain such obstacles like what is happening right now around the Suez Canal or around the Panama Canal, then that will change both seller and buyer behavior. Right now, with the current situation with crude prices as well as the geopolitical premium. There's a lot of refineries which have gone into voluntary lower run rate or voluntary shutdown, these will all come back and that will allow a significant improvement in the flow of feedstocks such as benzene. Now how this translates into phenol, it is also a matter of how it is consumed and how customers stock it. We will see, it's not a good time to crystal ball gaze and give you a perspective of the next few quarters. But what we are ensuring we are doing is maintaining a broad purchasing scope, so we don't depend on one or two suppliers, we buy from as many suppliers as possible, we tighten our purchasing rates because we are very large consumers. And we are also exactly where we need to be in terms of supplying our customers who don't want to be depending on a very long credit cycle to get there, in phenol acetone or IPA. And moving forward over the next six, eight months we will also become significant consumers of our own product, we have to ensure that our bottleneck capacity is allowing us to maintain our wallet share despite an internal consumption story also.

**Rohit Nagraj:**

Sure, sir that's helpful. Sir second question in terms of the total Rs. 14,000 crores of investment into Gujarat, just to get a perspective in terms of whether the project will come all together, or maybe some projects will come in 2026 and the rest of them will come in 2027?

**Maulik Mehta:**

So, we have clarified that about Rs. 2,000 crore out of that is in advance phases of execution and will be commissioned over a period of time, over the next few quarters. The remainder of that we are working along with technology providers to optimize which comes first, which comes second, but it's clear what needs to happen by the end of 2027. So, look at it from the perspective of knowing that for a company like Deepak, 2027 end is a very clear perspective, we have to make sure that we get our things right for which we have a good internal strength, financial strength as well as technical strength. So, if you look backwards from 2027, you will see a very clear picture emerge, well it almost becomes irrelevant, whether things are bundled together or not. What will also add a fillip to this is that one of these capacities, as we mentioned earlier, Phenol-2 or Cyanation of various processes for making the polycarbonate and the compounding come into play, it gives us a wide constellation of applications for this Tech Chem industry, which we are also keeping some amount of dry gunpowder on the side in terms of investment availability. So, 2027, we will see a marked base increase for Deepak both in the quote, unquote commodity chemicals which will be downstream with the current play, as well as what one

would qualify as Specialty Chemicals, which will be multistep including these processes, which are all not exactly for almost for the first time in India.

**Rohit Nagraj:** Just one last clarification, given that we have operated the Phenol plant at close to about 88,000 tonnes of capacity during this quarter. If I just calculate on an annual basis for four quarters, the capacity comes to about 350,000 tonnes would that calculation be right. Thank you.

**Sanjay Upadhyay:** Yes, that calculation is right. But you can't multiply because each quarter we saw some changes in quarter. But what you are saying is right, it is around that only.

**Moderator:** We have our next question from line of Pavnish Kumar from Ashwani Cars Pvt. Ltd.

**Pavnish Kumar:** So, first question is that, with the kind of projects that we have planned in upcoming two, three years, what kind of operating margins are we looking at like in last quarter we did around 15% - 15.5% operating margins. What kind of operating margins are we looking at with all the capacities coming up and running?

**Sanjay Upadhyay:** See let's understand one thing, whatever announcements we have made, as mentioned by our Chairman, Deepak will be the most integrated petrochemical plant, maybe, perhaps in the world. We will add certainly to whatever current margins you are seeing, because ultimately, we are going downstream in the product. We are going upstream also in the product. So, combination of all these things, and it puts Deepak in a different horizon altogether, so when we talk of this Rs. 9,000 crore announcement, I would answer your financial numbers, the payback should be or will be in the range of say five years, but then this depends on various uncertainty in the market, and this is the calculation, roughly one should expect 2% - 3% higher than what normal Phenol margin is, in all these projects so, you can calculate accordingly.

**Pavnish Kumar:** Okay. Second, I wanted to know in the last annual report there was a mention of a QIP that was planned for Deepak Nitrite?

**Sanjay Upadhyay:** So, we will come back to you on all these things, we will have to finance Rs. 14,000 crores project out of that Rs. 2,000 project done. But, say Rs. 10,000 crores capex is there, so we will get back, we have to sit and work it out because we are having enough room for date, we have enough cash available, we are generating this is what we are talking of 2026, hence on depending on the cash flow requirement every year, as I mentioned in my earlier remarks also, this is too early to answer your question, how are we going to, QIP will happen, and all this. We will certainly come back to you once we finalize our thought process, I don't want to jump in saying something it's very easy to say for me to say debt and equity will happen and interest accrual will happen but let us work it out and then come back to you rather than just giving numbers or figures.

**Maulik Mehta:** I just want to take this opportunity to answer your earlier question here. You need to think about, I would like you really to think about Deepak as a balanced portfolios of equities and bonds. We

like individual businesses that are counter cyclical by their natures. The most significant question that you should be asking is, whether you believe in the fundamentals of the company.

**Pavnish Kumar:** Agreed sir. Just last question sir, we have made lots of announcements recently like Rs. 9,000 crores we have promised in Gujarat, then Rs. 5,000 crores we have also promised in Gujarat. Then we have some project coming up in Oman also, just for the benefit of all the audiences can you please summarize all the projects that we are planning in next four, five years?

**Sanjay Upadhyay:** Summarize you want to make us name the products?

**Pavnish Kumar:** The capex that we are doing in the next four, five years, can you just summarize all of them?

**Maulik Mehta:** We have announced that we are getting into Specialty chemicals, upstream integration including hydrogenation, we are getting into a Greenfield expansion of phenol acetone, there will be Bisphenol A which will be as a downstream of phenol and acetone as well as an upstream of polycarbonate resin. We will also be making MMA, which as you noticed was a tongue twister for me when I was discussing, that will then also go into making of poly MMA. We will also be manufacturing Aniline, which by the way will be what one would call high-grade Aniline. So, just to be clear, it is not the average PU grade Aniline, but it is what you call an aramid grade Aniline. You also will be looking at an investment in Oman, which we have announced, and we are calling it a phase one announcement, because this will be for sodium nitrite and sodium nitrate. We will also be putting up an investment for a world class research and development center which is also by the way, progressing well and should see the light of day maybe by about 12 months from now. And over and above this, you have the infrastructure development which will house all these projects because they will need utilities and other assets online as well. The reason that we put up a separate project management company is to ensure a high degree of governance because we will be doing multiple projects at the same time in multiple geographies. And for what it's worth we do not make announcements about capex's incurred for debottlenecking Brownfield expansion, and we also do not announce capex's if they are involved in Specialty chemical products which will be delivered in Deepak basket as an additional to what we are currently developing. Those are not mentioned, not included, and not discussed. These large-scale projects, which we have announced, by and large these are all happening semi concurrently and by our internal team, some of these will have external technology suppliers who have demonstrated globally plants of a world scale capacity.

**Moderator:** We have our next question from the line of Mrunal from Axanoun Investment Management.

**Mrunal:** So, whatever the products that we are manufacturing, is there any anti-dumping duty on any of the products?

**Sanjay Upadhyay:** No, not today.



- Maulik Mehta:** Currently, there is on Aniline. We are not manufacturing, okay, are you talking about existing products?
- Mrunal:** Yes.
- Maulik Mehta:** No.
- Moderator:** We have our next question from the line of Chirag Shah from White Pine Investments.
- Chirag Shah:** There are two questions very, very basic ones. If I compare FY22 as a base and currently, if you can annualize nine months if required or how is the volume growth that we have seen in Phenolics and other than Phenolics in a very simple way if I have to ask you? For our business what has been the volume growth ballpark if you can indicate?
- Maulik Mehta:** So, across Deepak Nitrite standalone and Phenolics there has been a volume growth, you can assume that it is somewhere between 15% to 17%.
- Sanjay Upadhyay:** Around 17% to 20%.
- Chirag Shah:** Per annum basis or from point to point?
- Maulik Mehta:** You asked from a base number?
- Chirag Shah:** Yes, for point to point, okay. And it is similar for both or Phenolics would have a higher and other would have lower?
- Maulik Mehta:** So, gross volume for Phenolics is always higher.
- Chirag Shah:** Okay. And the second question is, now you have partly answered, historically you always used to maintain that our EBITDA margin guidance, broadly should be 16% to 20%, based on business cycle, product, mix, etc. Given the value addition that we are looking to do, and including downstream also in that, shouldn't this ballpark guidance actually show a significant uptick when the project stabilizes?
- Sanjay Upadhyay:** So, that's what I mentioned that yes, the guidance is right 16% to 20%. And with all this, because this is going further downstream and even somewhere it is upstream also, it should add to though it will not add to the top line if it is captive, but it should add 2% to 3% over current EBITDA margins.
- Chirag Shah:** So, it is right to look at 12 months out the project stabilization if you start a project today, you should see those benefits 12 months out that is the right way to look at it?
- Maulik Mehta:** No, it depends. Project stabilization is different for different products. If you are using a hazardous chemistry for example, you need to have a very flow scale up so that you can measure

the impact with regards to the internal equipment as well. If you are using assets which have generally a very robust manufacturing profile, you can scale up fast and in some cases the scale up is also contingent with regards to in-line with the customer's buying requirements. So, for example there are a couple of Specialty chemicals which we will be making, which will be high value but the customer himself or herself requires about six months with regards to ensuring that the product is remaining stable with regards to shelf life. So, these are depending on different products and different chemistries.

**Chirag Shah:** And last question is, you mentioned that for the new capex that you are doing, ballpark payback is five years. So, if I do a very basic math, it is ROCE dilutive as compared to what current ROCEs that we have, any thought on that side?

**Sanjay Upadhyay:** With the new capex versus today's ROCE, you are considering the depreciated assets. So, there is a big difference between the two. You can't compare today's situation with a new capex. After three or four years, whatever investments we are making once they start generating profit, you will have same ROCE but not in our initial phase.

**Chirag Shah:** That's for this, because I was wondering five-year payback generally, when you say a five year payback, the first two year payback ROCEs would be significantly lower and then it will scale up. So, that's why I was trying to understand how we are looking at this five-year payback number.

**Sanjay Upadhyay:** Okay, I answered it, this is general ballpark number, some projects will have three years, some projects will have four years so we are talking of Rs. 14,000 crores investment.

**Moderator:** We have our next question from the line of Dhara Ganatra from ValueQuest Investment Advisors.

**Dhara Ganatra:** So, one of the largest Phenol manufacturers has shut its capacity. So, are we seeing any benefits coming in terms of volumes and realization, and our wallet share increasing. And when is the resale capacity of Phenol coming in and what is the kind of timeline?

**Sanjay Upadhyay:** So, we are seeing all that already here, we are able to sell such a volume that itself shows that.

**Maulik Mehta:** If you are referring to the recent shutdown in Germany?

**Dhara Ganatra:** Yes.

**Maulik Mehta:** That is a force majeure, it did not shut down like how you have heard about in other places in Europe, which is a permanent closure. This is a force majeure, now there is it starts off with some level of sentimental buying, we don't comment on that. Sometimes it will be there, sometimes it will be more of desperation in terms of volume, pricing, those are all parts of regular business. I will not comment about the impact of any of its force majeure. And we will see how

long it pans out because they themselves are not to the best of my knowledge declared how much time it will take in line with force majeure. We remain capable of supplying increased volumes if there is a requirement and meanwhile, we are focused on ensuring that.

- Dhara Ganatra:** Okay. And if you can share the timeline for the Greenfield Phenol expansion?
- Maulik Mehta:** Before 2027, it should be commissioned, before end of 2027 that is when we will be consuming this increased amount of propylene.
- Dhara Ganatra:** And what would be the size?
- Maulik Mehta:** It can happen at that time only.
- Dhara Ganatra:** Okay. And the capacity would be?
- Maulik Mehta:** Similar by and large, maybe it will be a little bit more adventurous with regards to the capacity but assume it will be something similar to what we have currently.
- Dhara Ganatra:** Okay. And one book keeping question as you can share the Phenol volume number in the last three quarters that you have done?
- Maulik Mehta:** Sale volume, production what?
- Dhara Ganatra:** Sales, what you have done in the last three quarters if we can get that number?
- Sanjay Upadhyay:** I don't think we should share with you the numbers on the call.
- Maulik Mehta:** What is the relevance, because these numbers are inclusive of acetone of IPA, of AMF, whatever I don't know.
- Dhara Ganatra:** I just wanted to see on a standalone basis how much of the growth is led by volume?
- Maulik Mehta:** We have already mentioned that there has been 13% revenue growth, that has been volume led growth.
- Sanjay Upadhyay:** Total volume growth is around 17% to 20% in the cumulative nine months, that's what we have seen now, we don't want to give you details of each product and that will not be right for us.
- Moderator:** We have our next question from the line of Garvit Goyal from Nvest Analytics Advisory LLP.
- Garvit Goyal:** Just one question on the PhotoHalogenation and chlorination part. So, how is ramp-up going to happen and what contribution do you expect in FY25?

- Maulik Mehta:** So, with regards to the ramp up, the ramp up will be in a structured manner, the requirement is already there, partially it will be consumed internally and partially the production will be sold externally. But the same assets will also be used to manufacture the product. And that is why the assets have been what we call up-engineered. So, PhotoHalogenation product will also be sold out. The high-pressure chlorination will be downstream from the halogenation. That will also have further downstream flowing into both Deepak Nitrite's requirements, as well as our customers' requirements. On a blended basis, I would qualify that in the medium term. The margin profile is in one way similar to what you normally expect from Deepak.
- Garvit Goyal:** I was asking because of the contribution to top line.
- Maulik Mehta:** With regards to month-on-month simply because there are always new challenges, and you want to make sure that you are doing things safely first and then efficiently second.
- Garvit Goyal:** Yes, sir that I understand, can you share any number like what percent utilization do we expect in FY25?
- Maulik Mehta:** By the end of the second quarter, we should have very high utilization. Frankly speaking also just, I want to be very honest, I would say that when it comes to both of the processes. These are not easy, and these are also the first time that Deepak as a company is doing it, we are committed to doing it safely and responsibly. We also have the best talent in the country, who is going to help us, so how confidence is based on the confidence that our team has. But we are also humble enough to accept that this is a new chemistry for us. So, whatever it is we will, there on the side of caution, our people on the ground are our most valuable commodity.
- Garvit Goyal:** And sir what is the peak revenue do we expect from this chemistry?
- Maulik Mehta:** Difficult to answer, because some of these are going to be as I mentioned, products that Deepak itself will consume and sell. But some of these are also going to be used for co-development with our customers for fine chemicals. So, those will depend, the revenue coming in will depend on the kind of agreements that we have in place with our customers. Those are all covered by NDA. So, even though these are just a handful of assets, it's difficult to give you an answer because it's a blended product portfolio.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now 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. Please get in touch with our IR team led by Mr. Somsekhar Nanada. Thank you once again.
- Maulik Mehta:** Thank you and stay healthy.
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Deepak Nitrite Limited  
February 15, 2024

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