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May 27, 2024

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

Dear Sir,

**Stock Symbol: DEEPAKNTR**

**Sub: Submission of earnings conference call Transcript**

We enclose herewith the transcript of the earnings conference call of the Q4 & FY 2024 held on May 22, 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

**ARVIND BAJPAI**
Company Secretary

Encl.: as above

# Deepak Nitrite Limited
# Q4 & FY24 Earnings Conference Call

**May 22, 2024**

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| **MANAGEMENT:** | **MR. MAULIK MEHTA –** EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – DEEPAK NITRITE LIMITED<br>**MR. SANJAY UPADHYAY –** DIRECTOR, FINANCE AND GROUP CHIEF FINANCIAL OFFICER – DEEPAK NITRITE LIMITED<br>**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 Deepak Nitrite's Q4 & FY24 Earnings Conference Call.

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. Should you need assistance during this conference call, please signal the operator by pressing star then zero on your touchtone phone. 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. The results document has also been shared with you earlier and has been posted on the company's website.

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

**Ranjit Cirumalla:** Good afternoon everyone and thank you for joining us on Deepak Nitrite's Q4 & 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, Mr. Maulik Mehta will share his 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 conference call.

As we entered FY24, we faced a multitude of headwinds such as low-price dumping from countries such as China, continued recessive trends in the EU zone, a crisis that continues in the Red Sea area which affects geopolitics as well as freight, and a general weakness in certain parts of the market due to an uncertain future caused by many of these tensions at these points. In addition to this, demand for products relating to agrochemicals remained soft.

Despite these obstacles, we successfully navigated the complexities and maintained a steady supply of products for our clients. We also maintained or in many cases improved our wallet share. If there is one thing that the team at Deepak understands, it is the business landscape that is challenging rather than conducive, and we are prepared to apply ourselves to adapt and to innovate in order to navigate through the variables of this macro backdrop.

As we have demonstrated over the past 50 plus years, we strive to deliver a steady performance and enable and ensure a reliable supply to our clients, regardless of the external pressures we face. We have responded to recent business headwinds by implementing the following tactical initiatives over the last 12 months.

One, we leveraged our strong brand and market position, prioritizing our most important strategic relationships, enabling us to achieve growth in sales volumes.

Two, we have put in a lot of work to optimize our assets and enhance efficiencies, which has led to debottlenecking opportunities and record production for key intermediates. This has elevated our competitive position in a situation of abundant supply and will continue to serve us well as the market sentiment improves.

And third, additionally, our initiative in process efficiency and cost optimization have resulted in savings in areas such as yield enhancement and power and fuel costs, providing some counter to the margin pressure from the current business landscape.

With this backdrop, I will outline our performance for the fourth quarter and the financial year ending March 31st, 2024, as well as our strategic plan for the coming year. Following this overview, Mr. Upadhyay will delve into the details of our financial performance and position. We will then open the floor for a Q&A session to address any questions that you may have.

Deepak reported consolidated annual revenues of Rs.7,758 crore, a resilient performance across business lines driven by increased volumes. This was enabled by improved plant efficiency and our teams have been able to deliver record volumes in several products. FY24 production volumes have been increased by 13% year-on-year.

We have improved our market share despite the moderate environment characterized by lower sales prices. This performance was anchored by strong gains in the Phenolics segment, which witnessed continued volume growth owing to enhanced operational efficiency and debottlenecking efforts.

Revenue performance was maintained in the Advanced Intermediates segment on a sequential basis despite subdued pricing trajectory amid a benign RM price environment.

We have reported an EBITDA of Rs.1,199 crore in FY24, lower by 11% reflecting this moderate realization. This does not include the insurance claim of Rs. 80 crore received during the quarter, which is classified as an exceptional item.

Favorable product mix management coupled with increased volumes in the AI and Phenol segments have helped us safeguard profitability. The operating leverage gains helped maintain the quarter-on-quarter EBITDA performance in an environment that was marked by a steep decline in realization for several products, even sharper than the raw material price decline.

Our teams have done a commendable job given this macroeconomic backdrop. Taking cognizance of this achievement, the board declared a dividend of Rs. 7.5 per equity share, which is 375% on a face value of Rs. 2 each for the Financial Year 2023-2024.

In our strategic business units, the Advanced Intermediate segment experienced little pressure on revenue, though the volumes have been higher by 16%, propelled by resilient demand from both domestic and international markets.

While agrochemicals-focused products are still witnessing demand headwinds, other applications relating to pharma as well as discretionary sectors like dyes, textiles, paper, home care, glass, among others, are seeing a gradual volume-led recovery. In this business environment, the company has, as I mentioned, either maintained or increased its market share across nearly all its products.

Deepak Phenolics achieved a healthy topline performance, driven by plant efficiency improvements, with the highest production during the year ended notably in Phenol, Acetone, Cumene, and IPA. While profitability saw a dip due to subdued realization, prospects continue to remain optimistic, with a stabilizing demand-supply scenario and planned forward integration projects. Continued efforts to enhance plant efficiency and optimize assets are expected to further strengthen DNL's position in the market and drive future growth.

The strategic de-bottlenecking endeavor was pivotal for Deepak Phenolics, catapulting the Phenol production in FY24. Moreover, various initiatives carried out to improve operational efficiency and product excellence amplified Phenolics' competitive edge in the market.

As a general practice, the company continues to interface with third-party experts who audit the plant's safety and reliability in these conditions as well. Future performance is anticipated to be buoyed by multi-year contracts, successful pilots, and new product introductions, along with new formulation introductions.

While some segments experienced subdued demand recovery, others, such as construction and infrastructure, will continue to show healthy growth prospects, prompting a focus on wallet share and de-bottlenecking initiatives to optimize operations.

In terms of geographic split in our standalone operations, we improved the share of exports from 43% in FY23 to 47% in FY24. On a consol basis, the proportion of domestic and export revenue of 80:20 remains unchanged.

Coming to our ongoing projects, the Photo-chlorination one is being commissioned, and we expect regular operations imminently. Our solvent project is progressing as scheduled and will be commissioned on time. The Acid Unit has also made significant progress, with manufacturing expected to begin in the next quarter or so.

We are also advancing other expansion projects, such as hydrogenation and nitration, which will be rolled out in phases starting the Q2 FY25. Also, we are constructing a state-of-the-art research and development center in Savli, Vadodara, targeted for completion within the financial year.

Our subsidiary, Deepak Chem Tech Limited, is actively bolstering its workforce, recruiting adept professionals across project management, procurement, and support domain. Deepak's substantial infusion of over Rs. 709 crore in DCTL underscores its steadfast financial backing for the subsidiary's flourishing journey ahead.

In FY24, several growth initiatives have come to fruition, and I am thrilled to share some key developments occurring across the group. Deepak has commissioned production of its fluorination asset in Dahej.

These developments strengthen Deepak's backward integration for crucial agrochemicals, enhancing the company's supply chain resilience, as well as being able to participate in various contract manufacturing opportunities because of the addition of fluorination in its technical competency basket. These will serve on supporting the domestic market first, underscoring the importance of meeting local needs and demands before expanding onto the international markets.

DNL's board has approved increasing of stake in Deepak Oman Industries FZC LLC (DOIL) to 51%, effectively making DOIL the subsidiary of DNL. The strategic acquisition aligns with our goal of strengthening our market position and expanding our operational capabilities. Further, cementing this growth trajectory, Deepak Chem Tech signed two memorandums with the Gujarat Government, totaling about Rs. 14,000 crore, which also, includes a previous commitment we have made. To facilitate these projects, we are strengthening our balance sheet and maintaining favorable credit ratings.

During FY24, we secured a long-term supply agreement with Petronet LNG to ensure a steady supply and mitigate project risks.

Additionally, an ESOP plan has been approved by shareholders to reward performing employees and retain key talent, aligning their efforts with the company's long-term success.

Lastly, the construction of our state-of-the-art R&D center is progressing well, which will allow us to enhance our ability to parallelly innovate for the entirety of Deepak Group.

In conclusion, our dedication to improving operational efficiency and maximizing asset utilization has driven us to establish new production standards in critical intermediates. India's flourishing economy presents global prospects for the chemical industry, and we are eager to be a cornerstone in creating this ecosystem for India's future as a global chemical player.

Our targeted investments, notably in the downstream of phenol and acetone, in operational excellence and integration, as well as in specialty chemicals, are positioned to seize these opportunities, guaranteeing growth, value, sustainability, with a highly valuable right to win, well integrated into our strategy.

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

**Sanjay Upadhyay:** Thank you, Maulik. Good afternoon everyone and thank you for joining this call today. I will walk you through the highlights of the financial results for the quarter and year ended.

In FY24, the global chemical industry grappled with significant headwinds such as leaner inventory by customers, dumping and destocking by Chinese producers, pockets of geo-political instability, and reduced consumption due to inflationary pressures.

Despite these challenges, our company demonstrated resilience by focusing on retaining market share, in fact growing market share also, cost optimization, calibration of product mix and strategic procurement of raw materials.

Importantly, the near-term volatility did not distract us from our medium-term and long-term objectives of de-risking our business model. As a result, there has been considerable progress during the financial year on further solidifying our balance sheet, assured supply of critical inputs, waste management and by-product optimization as well as moving ahead of growth capex to enable value addition.

In the backdrop of volatile raw material prices and impediments to logistics, Deepak Nitrite delivered a resilient performance in FY24, increasing market share particularly in phenolics and driving overall revenue growth across segments. These operational efficiencies translated into an impressive 23% return on capital employed, which has been maintained at a high level. Both business segments witnessed strong improvements fueled by improved demand and product realization, contributing to robust consolidated revenue growth.

Coming to our financial performance, on the operating front, our domestic business revenue stood at Rs. 1,712 crore and Rs. 6,135 crore in Q4 and FY24, respectively. Export revenue were Rs. 414 crore in Q4 and Rs. 1,547 crore in FY24. On a consolidated level, domestic to export ratio stood at 80:20.

In FY24, on a consolidated basis, revenue stood at Rs. 7,758 crore compared to Rs. 8,020 crore in FY23. EBITDA stood at Rs. 1,199 crore in FY24 compared to Rs. 1,337 crore in FY23. Margins were stable at 15% FY24. PBT and PAT came at Rs. 1,102 crore and Rs. 811 crore, respectively.

In Q4 FY24, on a consolidated basis, revenue came in at Rs. 2,145 crore as compared to Rs. 2,023 crore in Q3 FY24. On a Q-on-Q basis, EBITDA came in at Rs. 320 crore from Rs. 318 crore in Q3 FY24. PBT and PAT stood at Rs. 349 crore and Rs. 254 crore, respectively.

The company's profitability mirrored its operational performance influenced by a review triggered by inflationary pressures in raw materials and utilities. However, improvements are anticipated in the coming quarters. Basic and diluted EPS for Q4 FY24 stood at Rs. 18.61 per share and that of FY24 was Rs. 59.45 per share.

In an update following the fire incident, the company received an insurance claim of Rs. 79.80 crore, which was recognized under exceptional item in the statement of profit and loss for the year ended March 2024.

I am pleased to share that ICRA has reaffirmed DNL's and DPL's long-term rating at ICRA AA and short-term rating at ICRA A1+ for the bank facilities with positive outlooks. Additionally, Deepak Chem Tech Ltd. has been assigned long-term and short-term ratings of ICRA A and ICRA A2+ respectively for bank facilities with a stable outlook. These ratings underscore our solid financial position and optimistic prospects.

Moving to the segmental performance, in the Advanced Intermediates segment, revenue came in at Rs. 671 crore in Q4 FY24 versus Rs. 674 crore in Q3 FY24, while EBIT grew 43% quarter-on-quarter at Rs. 134 crore during the quarter under review. In FY24, revenue came in at Rs. 2,724 crore. EBIT came in at Rs. 446 crore translating into a margin of 16.4% despite the current environment and challenging circumstances.

Deepak Phenolics delivered encouraging performance where revenue growth at 9% quarter-on-quarter to Rs. 1,466 crore in Q4 FY24 versus Rs. 1,349 crore in Q3 FY24, while EBIT stood at Rs. 206 crore higher by 15% quarter-on-quarter and EBIT margin was 14% for the quarter. In FY24, revenue was Rs. 5,003 crore and EBIT of Rs. 644 crore translating into a margin of 13%.

Our cash flow generation remains sturdy with net operating cash flow of Rs. 878 crore recorded in FY24 driven by improved working capital and operational gains. In investing activities, resources were allocated to diverse new projects, initiatives, and essential materials. Meanwhile, financing activities involved a disbursement of dividend interest payment totaling Rs. 112 crore.

Lastly, on the balance sheet front, company's financial position is significantly enhanced, and the company continues to maintain net zero-debt position with net worth of Rs. 4,822 crore on consolidated basis thereby strengthening the balance sheet for the future expansion.

Moving to our investments in capex plan, DNL invested Rs. 709 crore into its wholly owned subsidiary Deepak Chem Tech Limited with Rs. 54 crore infused in Q4 FY24, while its total investment in Deepak Oman Industries FZC LLC securing 51% stake stands at Rs. 27 crore including Rs. 11 crore in Q4 FY24. Additionally, DNL has invested Rs. 5 crore in DPMC, that is Deepak Projects Limited.

During the year, DPL paid off long-term loans, achieving debt-free status with Rs. 306 crore in liquid investments. DPL implemented SAP in November 2023 followed by DCTL and DNL enhancing the operational efficiency and aligning with industry standards. The synchronized integration ensures streamlined processes across all subsidiaries, optimizing performance and fostering collaboration.

Further, approved projects are progressing well as planned, including the construction of a new specialty chemical plant. Our R&D unit is innovating new products, supporting the expansion of specialty chemical facilities. A new plant will enhance autonomy in raw materials and increase profitability. A state-of-the-art R&D hub near Vadodara will strengthen our expertise and accelerate expansion efforts.

Additionally, the company has implemented strategies to improve operational efficiency including process optimization, yield enhancements and reduction in power and waste consumption cost. DNL has also adopted product pricing to more rapidly transmit increase in input prices resulting in improved margin performance despite fluctuation in profits demonstrating a proactive approach to preserving profitability amid market challenges.

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

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

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

**Nirav Jimudia:** Congratulations on the good set of numbers. I have two questions. The first is on the Advanced Intermediates business. So, what portion of our raw material will be secured once the backward integration project start operations? And when can we see the benefits of this backward integration project start reflecting meaningfully in our operating profits?

**Maulik Mehta:** So, Nirav, thanks so much. First of all, dependence on this particular raw material is about 20%. Now, we are also increasing our capacity for the consumption of this product. So, over the future, this might increase, and it will start to show meaningful impact on our bottom line, in the group

I am saying, over I think the second half of the year. So, maybe from mid Q3 onwards and then next year, full year of course after that it will normalize. But we will continue to also keep investing and hence we will have a great right to win in the products that we are already well entrenched.

**Nirav Jimudia:** So, this would again be extended towards the newer capexes which we will be doing for which we already signed the MoU. So, this is what you are trying to say on this particular raw material?

**Maulik Mehta:** The MoU that we have signed in December and January of FY24 envisaged a significantly large consumption of these raw materials. But the capital investment for those has also been factored into what we have announced as our investment plan for the next three years. These investments are expected to be commissioned within this financial year and we will have next year as a full year of operations. We will also be expanding in existing businesses. So, what we have announced, you would be well aware we don't really get into micro details of the capital investment that we put in existing products. The strategic new investments for new products, those are the ones that we have announced and those will have a level of a backward-forward integration as required.

**Nirav Jimudia:** Second question is on the fluorination complex or the fluorination part, which we started operations on. So, once those products are used for our captive consumption for the agro-intermediate which you have highlighted in our investor presentation, is the market big enough for those products to be sold or we need to further create the downstream products to utilize these capacities?

**Maulik Mehta:** So, while there is already an existing market in India also and in abroad also that is available to Deepak, we need to go into development of new molecules. However, we have also consciously up-engineered part of the asset to be able to manufacture products which would be more contract manufacturing opportunities, maybe high pressure, high temperature, different kinds of throughputs and metallurgies which would allow us to do these things as the opportunity presents while we are discussing with some strategic customers. So, we will have this level of flexibility either to service intermediates which we are making in the whole plant or to utilize a significant part of the plant for those and the rest of the plant for contract manufacturing.

**Nirav Jimudia:** So, before this plant got started, were we importing those intermediates for our finished products or was it available in the domestic market and we were getting those materials domestically?

**Maulik Mehta:** I mean, we do both. On a normalized basis, we look at what is the best for our strategic growth. So, we are happy to buy domestically and happy to import also, idea is to be beneficial, and stable prices for long-term views.

**Nirav Jimudia:** And, with the given two, three months of our operations in the fluorination space, how has been our experience in terms of running the plant and how we are able to differentiate ourselves given there are a lot of existing players also on the fluorination side?

**Maulik Mehta:** Fair enough. So, first of all, I will be very candid. I will say that we are not able to differentiate ourselves on fluorination, but it is heartening to know that within three months, based on the combined experience that has come into the company as well as our experience of operating, we believe that we have very clear visibility towards being able to manage fluorination assets using HF, like many of these players who have been in it for decades now. It is a matter of time and right now, I believe that we are manufacturing what we are making as well as anybody else in the world, even ones who have been in it for 15, 20 and 30 years. So, that is a good start for us. We are not seeking to be the best, but our first aim is to be as good as. As we grow our own confidence and our own talent pipeline, you can be rest assured that we will apply the same filter we do for our core chemistry.

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

**Vivek Rajamani:** Two questions from me. On the advanced intermediates, could you give us a bit more color from an FY25 perspective, how should we think about the pathway of recovery over the course of fiscal year 2025 from a demand and pricing perspective? And this maybe is an extension to that, given that you now have some of these backward integration facilities which will be coming through. Do you think the fiscal year 2023 Earnings for advanced intermediates could be a good benchmark to look at for fiscal year 2025? That was the first one.

And the second question was with respect to your more medium-term capex plans. On the larger Rs. 90 billion MoU where you are targeting polycarbonates, MMA, etc. could you maybe give a bit more color in terms of the timelines or funding plans or maybe any color on what kind of capacities you would be targeting?

**Maulik Mehta:** So, on the first question, I will give a perspective and then I will request Mr. Upadhyay to also share his. And then, of course, we can answer your second one.

So, on the first part, I think what's ending up happening is that we are seeing the year divided into two. So, the first half of the year where we are seeing a volume-led improvement in most of the segments except for some key ones like agrochemicals, and even there it is not a uniform downturn. But there are certain regions which are more critically affected than other regions in terms of demand. So, in the first half of the year, whether this is because of demand or overstocking or over-dumping, whatever you want to call it, we expect that there will be some volatility. The second half of the year will be characterized by more even improvement in the business outlook across industries and it will be further supported by the commissioning of many of these projects that will come on stream at various points. So, I think that the second half of the year would be meaningfully better than the first half because both factors would be different.

So, while I remain very optimistic about the kind of investments that we have made, as they come on stream, we are also starting to see the situation improve. So, if I was to look at the later part of the year and whether that would correspond well with FY23, there I would have a greater degree of confidence. Of course, a lot of things can go right and wrong in the meanwhile. But I think that the first half of the year continues to be something where one must be very conscious that the situation is still on an improving trend.

I request Mr. Upadhyay also to share his perspective on the same thing.

**Sanjay Upadhyay:** See, I will just share with you, our products. Around 30-35% of our products goes in agro. Now agro segment, it has not done well, but it is a good segment to be in. And we are seeing some signs of revival, but as Maulik rightly pointed out in first quarter and early 2nd quarter also, we will find agro is still weak as compared to other segments. So, revival will take place after maybe around mid of the 2nd quarter. Other segments are performing steady, the dyes and pigments and textiles where we have around 20% and other home care and pharma is around 10 to 15%. So, those things are doing well. And overall if you see, there is a sign of revival, but destocking and everybody is now wondering that how long this destocking will continue or hold this destocking whichever way, but the prices were abnormally low in the last year and there has to be a change in the prices. In fact, the volumes are going up. We are expanding our market share also. It's a matter of time once the realization starts going up, things will change. So, I personally feel that mid of the 2nd quarter or around end of the 2nd quarter, things will start changing and improving. And we are, in fact, that way Deepak Nitrite has a sound business model where Phenolics is doing well. Phenol products are finding applications, and the demands are also growing. Our team is performing exceedingly well in Phenolics. So, overall, if you see the model what we have is phenol, pharma, textiles dyes and pigments also. So, it's a well spread business model created, and it will balance out each other. So, performance will certainly be resilient next year also. We are very confident.

**Maulik Mehta:** You had a second question also about the timeline. I think there is a level of flexibility which we have alluded to before. But we have also categorically said that by and large, everything needs to be in line, online by mid, I think, 2027.

**Sanjay Upadhyay:** Around 2027 end.

**Maulik Mehta:** Around 2027 end. So, whether you do one group first or second group first, or whether you do them in a combined manner and things like that, that will all be on the basis of how well we are able to exploit the opportunities that are made available. We will do it in a strategic manner, but as we have highlighted right from, I think, about two quarters or three quarters ago, there is a very clear end date, which is almost publicly available. These are the things that we need to get done within this period of time.

**Sanjay Upadhyay:** Today, if you are referring to those announcements, we are actively working on technology discussions, because these are the products where we need a sound and very good technology, so that, as you have seen how we have done well in phenol, if you have good technology, if you have good understanding about the process and design, it helps in a big way. Phenol also, whatever debts were committed, we have commissioned the project on time. Here also, our endeavor is to start production latest by 2028-29 beginning, and we have tied up our raw material also with the announcement with Petronet LNG, you must have seen that. So, things are progressing well. Our technology team is working very hard on this technology thing. So, once those things are tied up, the projects will start, it will go at the ground level. Before that, it needs lot of discussions with the team. It needs lot of discussion with the engineering people also. So, those things are in progress currently.

**Maulik Mehta:** I will just add one point that it is characteristic of us to not go into a great level of detail. But while we are demurring on that, you can be rest assured that the quality of the conversations we are having in all these things, including the technology, partnership, and all that, is at an extremely advanced and at a crucial stage. So, while we are doing that, we are also actively working on ensuring that our compounds, our products, which are not the intermediates, but which are finally formulated compounds for specific applications are gaining significant traction and acceptance by international players already. So, these things will also accelerate once we start manufacturing it. Hence, we will be solution providers rather than just suppliers of intermediate chemicals. I think these are strategic initiatives well on track and please keep in mind that when we give a strong commitment out, it is backed by everything signed off including raw material supply, including timeline, including technology, partnerships, customer, acceptance, all those things. And until those things have happened, we think that it is in the best interest of shareholders to not overcommit and underdeliver.

**Sanjay Upadhyay:** In fact, as a part of strategy, since we are discussing that, let me tell you that we have started PC compounding. You must have seen that. So, that is a step taken to understand, because see ultimately these are all end-to-end, very well integrated projects and all projects must deliver. So, if you have the PC compounding, where it consumes polycarbonate per se, if you have that in your kitty and where your polycarbonate is consumed locally, captively, that is a very big step, I will say, the company is taking. We are progressing well on PC compounding. In fact, some people must be wondering what this OXOC is, but that is precisely the step we have taken for PC compounding. PC compounding also needs different applications and there are different types of compounding where some are common which we had already started, and some are specialized applications. We need some technical support for specialized applications. So, those things are progressing well where we are talking to the various technology suppliers on this also. So, those things are progressing. The capex will start on PC compounding at the earliest. That is the first capex to start in fact. And then once that is established, parallelly we are working on PC and other products. So, it is all integrated and well-planned execution of the entire investments what we have announced.

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

**Ankur Periwal:** To start with, just one clarification. On the tech part, which you just highlighted, the technology for PC compounding and the specialized applications, last part of tech is in-house, or we are open to have a global tie-up as well, when you were saying, the work on tech etc. is ongoing?

**Sanjay Upadhyay:** We are working on various options. It will be too premature or early to tell you anything about it. But yes, we are discussing with technology suppliers also. I mean in what way, which way we do that is a different thing, which we will let you know at an appropriate time. But it's under very advanced and active discussion.

**Maulik Mehta:** I think rest assured we will have significant updates on this question over the forthcoming quarter.

**Ankur Periwal:** And just in between you mentioned that the customer feedback etc. is very positive on the products. That reference goes towards the AI part of the business or towards the compounding part itself, wherein probably we would have already started some dialog there.

**Maulik Mehta:** The compounding.

**Ankur Periwal:** That's helpful. Secondly, on the overall macro here, we have been hearing a lot about China adding capacities in commodity chemicals and hence the pricing pressures. But at the same time as you alluded, pricing have stopped correcting further and probably is more stable now. If you could share your thoughts on the overall demand supply balance in the phenol, acetone value chain globally?

**Sanjay Upadhyay:** Globally, China is actually not supplying to the world. They have added facility, but it's largely integrated and for captive only. There are some plants which are closed down also. So, today it is at a stage where it's balanced. No new capacity is coming up in the near future. And we are actually doing very well domestically. If you see our market share and in fact, our whatever extra production, it's all going in the market. In fact, we are now today running at a full capacity, even more than that. You must have seen that, and our team is capable of actually further capacity expansion also. So, today there is no worry in the global market as such on the Phenol product.

**Maulik Mehta:** I will just add that there is investment also, there are new plants coming up in China. Most of them, however, seem to be also downstream integrated into this Phenol and largely seem to be targeting the captive, I mean within China, consumption of the upstream as well as the downstream. But China normally has been a net importer and over the last couple of years has stopped being a net importer. But that has very little to do with India's growth, which is not only in phenol but also in the downstream of phenol that Deepak is getting into. I think we are confident that whether it is the existing capacity which will be de-bottlenecked further, or it is any expanded capacity, the opportunity for domestic consumption and growth remains significantly more than what another geography like China or Europe or anywhere else might see. So, as being incumbent, I think we will have a good chance to succeed and continue to succeed in our investments.

**Ankur Periwal:** And just lastly in that background, how has been the demand outlook or let's say the margin etc. for our AI portfolio there, whether it is Delta or on the specialty chemical's part? You did highlight the slowdown in agro, but I was more keen on the overall business growth there in terms of pricing correction or in terms of demand updates.

**Maulik Mehta:** Yes, thank you for not forgetting the AI part of it. But in the Advanced Intermediates segment, I think there is a good volume-led recovery, which seems to be relatively sustainable and consistent when it comes to applications in dyes and pigments, in fuel additives, in glass, in home and personal care. So, these improvements are largely because one, the situation bottomed out, but the second is also that there is an improvement in demand and an improvement in expectation of this demand continuing. So, our buyers are actively engaging with us, not just for like a short-term opportunity, but more consistently, three months, six months, the quality of conversations that we used to have with them a couple of years ago. And that's great. Of course, there will be pricing pressure when you are facing these kinds of macroeconomic headwinds. But it's heartening to know that we can service this with our expanded capacity as well. Now, all these things are good but will hopefully get better as things normalize. In agrochemicals, it is somewhat the same, but maybe two quarters behind, because that's the kind of logjam that has been clogging up the system, whether it is at the shop floor level, or whether at our customers' end or whether it is at the shop level of our customers' customer, at the B2C level. So, this kind of logjam, as well as this dumping of cheap intermediates in order to push the supply chains more will start to even out. We are starting to see some signs of that. But it will take a couple of quarters. As I have also alluded that agrochemical is not across the board negative headwind. There are spots of it where things are marginally better than other spots and we are seeing that the situation will eventually come back to a normalized trend, but maybe in the second half of the year. So, I just want to also highlight one thing that while we say that prices are soft right now and raw material prices are soft, some of the key raw materials that Deepak buys which are benzene, toluene, xylene, they are largely governed by artificial constraints that crude oil manufacturers put. And hence those prices along with crude prices remain range-bound at a high end, not actually reflective of the kind of demand that the world is seeing, but more reflective of the kind of supply constraints that are artificially being applied. So, while some of our raw material basket has certainly improved in its pricing position, a large part of it, especially ones linked to petrochemicals, have not improved at the same level. I guess, this is a normal situation for anybody who buys these kinds of benzene, xylene, toluene kinds of raw materials.

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

**Arun Prasath:** My first question is on the Phenolics supply side situation. We saw a couple of large plants that started recently in the last year and in the early part of this year. So, is the phenol spread sufficiently reflecting this new supply and are they completely rammed up? And going forward, what kind of capacity is coming for the rest of the year 2024?

**Sanjay Upadhyay:** No, I just answered that question. See this new capacity is all fully absorbed. So the spread what you are seeing is after all those capacities. That has started in early 2024. And now what you are finding is some capacity in Japan has closed down also when you are saying the capacity has added.

**Maulik Mehta:** I think he is referring to the upstream or to phenol and acetone production itself.

**Arun Prasath:** So, phenol and acetone itself.

**Sanjay Upadhyay:** So this spread is after all these capacity addition as well as closing out of capacities. Now today, it is a market where no further additions are taking place, at least in the near future.

**Maulik Mehta:** But I can also point out that the spreads in the last quarter have been some of the lowest that we have seen since we commenced operations. Just to give you an example, benzene is the raw material for phenol and the price of benzene is the same as the price of phenol. So, we buy the raw material, and we sell the finished product at the same price. It is as good as a negative margin as you can imagine. So, the situation is seeming to improve. Whether it improves a little bit or it improves in a more meaningful way is yet to be seen. But quarter four did see some of the most suppressed spreads between RM and FG.

**Arun Prasath:** And Maulik, you also mentioned that even many Chinese capacities are integrated, but obviously the plants or capacities or companies which were supplying to China, they will have surplus and either they need to shut or need to dump elsewhere. So, it affects our spread also. So, from that perspective, what happens to those suppliers? Have they shut the plant or are they waiting for the spreads to rebound and start supplying to the rest of the world? What is your thought process on that?

**Maulik Mehta:** So, the easy answer gets compounded because of these issues like the geopolitical crisis and the Red Sea crisis which causes freight to spiral out of control. But generally before anyone considers shutting down, they start by reducing the run rate of their plants. So, most plants in this region are seeming to operate around the 60% to 70% utilization. I think Deepak might be the only one which is pushing higher and higher. I think now we are close to about 150%. But generally, when you operate at such a low-capacity utilization like 60%, 65%, 70%, your production also reflects that kind of inefficiency when the costing is done. And that further degrades the margin profile that many of these companies have to operate under. Some of these will fold. For example, there have been recent announcements both in Japan as well as in Korea of companies that are choosing to stop production in the forthcoming year or quarter or whatever it is. And somewhere you will have some manufacturers will say, we were making in three lines. Now we will only make in two lines, and we will mothball the third line. Maybe the situation will improve over a period of time. So, these are all geopolitically affected exigencies. And how this will affect the crack is a difficult question to quantify because generally benzene prices are better governed by not just phenol, but a lot of other downstream including things like styrene, including things like MDI, as well as including things like gasoline demand, as well as upstream crude prices. So, there are many, many factors that govern the price of products like benzene and propylene. And phenol and its downstream seem to be a mino in terms of being able to dictate.

**Arun Prasath:** And secondly, globally, the Acetone prices are surprisingly holding strong. So, probably that is also giving some support to the spreads. What in your assessment is happening there in this market, especially now that there is a surplus situation in the MMA side and there are alternate routes also there for MMA? So, what is happening in the acetone market?

**Maulik Mehta:** So, we supply to the Indian downstream application of acetone as well as IPA. India does not manufacture Methacrylates.

**Arun Prasath:** But global acetone prices are influenced by these supply demand at the global level. We are NAV derived. The prices are derived. Of course, I agree volume is not affected, but prices get impacted as well.

**Maulik Mehta:** Correct. And there are many routes to manufacturing Methacrylates. Of course, acetone is one of the largest in terms of the number of plants that are available there. So, yes, there is a strong flow that is generally the case when run rates are low for the first co-product, there is generally a firmness in the second co-product. And how this affects the downstream is I feel more for non-integrated players to worry about. As Deepak invests and it invests downstream, it will invest in level of integration, which will allow it like how we are right now doing with IPA. It will allow it to remain flexible whether to sell more of acetone or more of IPA. And this is the advantage of integration as well as knowledge about how to manage co-products.

**Arun Prasath:** Just finally one book-keeping question. The most of the capex that is assets we are building are already in the final stages. All the capex is done or how much more is likely to go this year plus for our MoU of our Rs. 9,000 crore, is there any significant amount that will go out in this year?

**Sanjay Upadhyay:** So, we have Rs. 9,000 crore whatever we had announced and that will go maybe towards the end of this year, some portion will start. But out of the earlier announcement, we are already completing around Rs. 1,800 to 2,000 crore capex during the year. The annualized full results will be seen from the next year onwards because some are starting in Q3, some are starting early Q4. So, those will be like our backward integration. It is starting in the second half of the year. So, those things we will see, I mean if you have to really assess the performance, than full year operation will be the next year for all those things. Balance on phenol, phenol downstream and our mega plant, as I earlier mentioned, we are working on technology, you will see the investment, some investment in compounding this year. We have already acquired a portion of land for compounding in the process of acquiring other and that you will definitely see this year because that is the starting point of our investments.

**Moderator:** The next question is from line of Abhijit Akella from Kodak Securities.

**Abhijit Akella:** Just a couple. So, one is on the Phenolics segment. This quarter we have seen about a 9% quarter-on-quarter increase in revenues. Is that entirely volume driven? And if so, can we expect this same level of capacity utilization to sustain through fiscal year 2025 going forward?

**Sanjay Upadhyay:** Yes, yes, I believe so. In fact, it can be a little higher also. Why same level.

**Maulik Mehta:** No, it is entirely volume driven. But I think in the first quarter and the second quarter while debottlenecking activities continue to remain ongoing, I don't know what the schedule is. I mean, every year we have some schedules that we keep in place with regards to shut down, clean up, restart, those things. I don't know whether that is in Q1 or Q2, but certainly we can come back to you on that front.

**Abhijit Akella:** That's helpful. And the other one was on the Advanced Intermediates segment. If I adjust for this insurance benefit of about Rs. 80 crore, the margins seem to have compressed quite significantly somewhere to about 9% or so, 8-9%. So, from the first half perspective for next year, should we expect similar margins before they sort of start to come back towards mid-teens in the second half of the year? Is that how we should think about it?

**Maulik Mehta:** Yes, you are right that the exceptional item has played a role here. I don't know how you come to 8%, 9% because that is much, much under what I think.

**Sanjay Upadhyay:** You are talking about EBITDA margin, which margin you are saying, Abhijit?

**Abhijit Akella:** EBIT margin, Sanjay. So, if I take this Rs. 134 crore EBIT and subtract Rs. 80 crore, I end up with about Rs. 50-55 crore or so, which implies about 8%.

**Maulik Mehta:** Let us come back to you on that point, but no, it should not be at 8%, 9%. Anyways, the question that you are asking is about whether it is representative of the year in general. No, I would not say that it is representative of FY25. There have been challenges in Q4. Some of those, for example, were more regarding things like overdue payments and these things which are not normal, not usual, which took place. I would prefer to say that I think, as I mentioned earlier, the first half of the year will be soft with marginal improvement and the second half of the year will be substantially better because also of our backward integration, forward integration and expansion that will come on line. So, I know that you are asking a pointed question. It is very hard for me to unpeel it for you.

**Abhijit Akella:** No, sure. I understand. Thanks for that. And just the last thing was on the capex outlook. So, fiscal year 2024, we have shown about Rs. 700 crore of cash outflow towards capex on the cashflow statement. For fiscal year 2025, is there a number we can work with? I know we are capitalizing about Rs. 2,000 crore of investment. But in terms of cash outflows, how much could we expect for the year?

**Sanjay Upadhyay:** Cash outflow for last year was somewhere around Rs. 800 to 900 crore and this year it will be around Rs. 1,000 to 1,200 crore cash outflow and most of the projects will be capitalized in the current year except maybe one. So, that is the total for these capexes.

**Maulik Mehta:** And EBIT excluding exceptional items in Q4 for the standalone was I think around 12%. Just a point to highlight that the investment that Mr. Upadhyay mentioned, there may be an aspect to the tail end of the year which may have some incurrence from the further growth of capexes that we have announced. There may be some participation in that which is not included.

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

**Rohit Nagraj:** First question is again on Advanced Intermediates. This is the portion where we have categorically mentioned about the Chinese dumping. So, is that only the inventory which are getting de-stocked in the system or there have been some capacities which have come and that are again giving some issues from our, I mean we have been able to grow, but on a margins front, those capacities are impacting the margin. So, your thoughts on this.

**Maulik Mehta:** I am just thinking as you ask this question, Rohit. I don't think that there is any new capacity anywhere in the world that has been announced for most of the products that the standalone company makes. Correct me if I am wrong, but I don't think that is the case. However, there has been a stockpiling of many of these feedstocks, many of these intermediates that are kind of getting unleashed over the last four quarters onto the global landscape. And partially, this has also been to show that there is a production and sale because the domestic market in China, which would otherwise have been significant, has played a little bit of a spoilsport. So, as these things kind of get depleted, the situation of course improves and we are seeing that, as I mentioned earlier, that there is a volume-led improvement. I do not believe that there are any plans for new investments to be announced in the same segment that the standalone entity Deepak Nitrite plays in. There may be some, in the medium term, there may be some consolidations on the other hand, but other than some capacities in India which have been either announced or commissioned in China or in Europe, no.

**Rohit Nagraj:** That's helpful. Second question again, apologies for hopping on Phenolics. So, the Q4 performance in terms of volume growth and the margins where they are, can we take it as a quarterly performance in terms of the profitability for this segment for the next foreseeable future, unless we are going for further de-bottlenecking, or the margin situation further improves? Would that be a reasonable assumption?

**Maulik Mehta:** Difficult to say. Because it is highly affected by feedstock price and these things, but Q4 as we mentioned was some of the worst that we have seen since we commissioned the plant. We are seeing that there is an improvement in the spread, but I think the only thing that we can guide as of now is that this existing quarter and perhaps the next quarter would be relatively reflective of Q4. We are working to debottleneck also, but let's see when that fruition. Today, I think Q4, Q1, Q2, by and large, one can look at it on an even keel.

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

**Rohan Gupta:** My first question is on the fluorination plant, which we have just commissioned. Just wanted to have more views on that. You mentioned slightly, but just wanted to understand in fluorination what are the product pipeline which we have, like apart from the specialty salts which you have mentioned that how we plan to ramp it up. What are customers' initial feedback on the product sampling which we have done? And what are the most product pipelines that are expected out of this plant in fluorination whether forward integration or backward over next one year?

**Maulik Mehta:** It's a very good plant. You should come and see it.

**Rohan Gupta:** Definitely we will seize that opportunity to see. But just wanted to understand the customer feedback and the product development and sampling which we have been doing so far.

**Maulik Mehta:** No, so the customer feedback is positive. So, Deepak itself also sells to select external customers. So, the product matches global standards and specifications for impurities. So, I think from the product quality perspective, this was always flag on the ground that will not change. That we have to match it. It's part of the hygiene factor. Now, it allows us to participate in opportunities which we missed out on earlier, even though we had significant competencies for things like nitration reduction, even things like chlorination and all that, because we did not have fluorination. Now, it will allow us to participate in many of these. Like tomorrow, for example, one of the reasons why we have high pressure, different metallurgy in half of our assets is because it allows us to also engage tomorrow, for example, in something like pyridine fluorination. I am not saying that is the target, but that's the kind of spread that we should be able to have. And this advanced metallurgy will also be able to operate on a campaign basis, separate to the rest of the assets, which may operate more on a consistent annualized way. So, we are actively engaged with customers and potential customers as we are supporting these products with their help. These will all start to see value in an intermittent manner over the next financial year.

**Rohan Gupta:** Any product which has been approved or I mean, that's what I was trying to understand that any product which has already been or closer to the approval stage in formulation which requires this fluorination chemistry. I was looking at it more from that point of view that are we nearing approval from the customers and which can become a formulated product for us in the near term?

**Maulik Mehta:** I think you have two separate points. One is when we have engaged in the manufacture and formulation of products that go into the solar industry, the heat treatment salts, that is one segment. And at the moment that has nothing to do with fluorination. Although in the future it might, today this is for the heat transfer salts, and this is a formulation. On the other hand, you are talking about the fluorination asset as it was commissioned and that manufactured products which are currently also being imported by many of these CDMO companies which are well-known, well-regarded and they have accepted our products in the same assets which will be of higher value which may kind of replace the original product or it may add on to them and those are also approved, but how we schedule them, how we develop our long-term agreements, those are all being negotiated and talked about with customers.

**Rohan Gupta:** The second question in terms of the technology development especially on the PC side and even you also mentioned in some other products also you are in talks with multiple technology suppliers globally. Just a little bit more clarification on this front. It's all related to the phenol-phenol chain on which we are working and looking for the technology suppliers from globally and it will be only on the technology front, or we are also expecting some kind of capital infusion also from these players going forward? What kind of arrangement we are seeking or exploring right now?

**Maulik Mehta:** First of all, Aniline has nothing to do with phenol or acetone. And neither do the down streams of Aniline. So, that is one thing to keep on the side. And we also have announced investments. We are also working on executing projects, which will go into specialty chemicals, again have very little to do with phenol. There will be products which will be made by Deepak Nitrite, Deepak Chem Tech which may have phenol as a raw material, but which will have the kind of application and the margin profile and those things which are similar to Deepak Nitrite standalone. The polycarbonate manufacturing along with its upstream all the way to phenol and the second phenol plant, those are the one place. Along with that, I think the Methacrylate, which will have acetone as a consumption, those are the two products which are directly linked to the phenol value chain. But the customer profile and all those things are also entirely different from the way that phenol is sold in India right now, which is largely to the chemical, plywood laminates and pharma spaces.

**Sanjay Upadhyay:** Rohan, see the technology what we are saying is on phenol and phenol downstream also, carbonate and this, we are discussing with them. Capital and this is, I mean too early to talk like this. I mean it's nowhere near in our mind also today about that capital, there are other technologies also in PC compounding which needs a specialized technology and specialized recipes and all these things where again we are working actively involving technology partners. So, those details can be shared at an appropriate time, not today, because we ourselves are working on various options and projects. So, too premature to talk about this, but yes, we are discussing technology with others, because we have to see that around Rs. 14,000 crore investment whatever we have announced must come by 2027 end, 2028 beginning, that has to happen. So, those things are what we are actively actually pursuing and working on that. We will come back on details later as and when we ourselves are finalizing.

**Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to the management for closing comments.

**Sanjay Upadhyay:** Thank you all for participating on Deepak Nitrite's Concall. In case you have any further questions or queries, please get in reach with our investor relations team Somsekhar Nanda and Gopal Thakkar. Thank you all once again.

**Maulik Mehta:** Thank you very much. Have a great day.

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