



DNL/138/BSE/782/2022  
May 11, 2022

Department of Corporate Services  
**BSE Limited**  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
MUMBAI - 400 001

Dear Sir,

Scrip Code: 506401

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

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We enclose herewith the transcript of the earnings conference call of the Q4 & FY 2022 held on May 5, 2022 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

**DEEPAK NITRITE LIMITED**

CIN: L24110GJ1970PLC001735

Registered & Corporate Office:

Aaditya-I, Chhani Road, Vadodara-390 024. Gujarat, India.

Tel: +91 265 276 5200/396 0200 | Fax: +91 265 276 5344

Investor Relations Contact: [investor@godeepak.com](mailto:investor@godeepak.com)

[www.godeepak.com](http://www.godeepak.com)



**“Deepak Nitrite Limited  
Q4 & FY2022 Earnings Conference Call”**

**May 05, 2022**



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

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

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

**MR. SOMSEKHAR NANDA – DEPUTY CHIEF FINANCIAL OFFICER - DEEPAK NITRITE LIMITED**



*Deepak Nitrite Limited*  
*May 05, 2022*

**Moderator:** Ladies and gentlemen, good day and welcome to Deepak Nitrite Limited's Q4 & FY2022 earnings conference call hosted by IIFL Securities Limited. 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 the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akul Broachwala from IIFL Securities Limited. Thank you and over to you, Sir.

**Akul Broachwala:** Good afternoon, everyone and thank you for joining us on Deepak Nitrite's Q4 & FY2022 earnings conference call. Today we have with us Mr. Maulik Mehta – Executive Director & CEO, Mr. Sanjay Upadhyay – Director, Finance & CFO and Mr. Somsekhar Nanda – Deputy CFO. We will begin the call with opening remarks from the management team followed by an interactive Q&A session.

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.

To begin with, Mr. Maulik Mehta will share his views on the operating performance and the growth plans of the Company followed by Mr. Sanjay Upadhyay who shall take us through the financial and segmental performance. The results documents have been shared with you earlier and also have been posted on Company's website.

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

**Maulik Mehta:** Good afternoon, everybody and warm welcome to you on Deepak Nitrite's Q4 & FY2022 earnings conference call. It feels pretty good to be speaking without a mask on for the time being. We have shared our results documents and I hope you have had the opportunity to glance through them.

Given the developments of the last few quarters and the Russia Ukraine conflict since February, we have witnessed an increasing amount of disruption in the global supply chain for crude oil, fertilizers and also specialty chemicals. In many cases we have seen the supply chain is not just stretched but, in some cases, broken as well. As major consumers work on building alternate supply networks, the focus is on partnering with world class players with integrated business models who are positioned with the assured supply of key inputs. Deepak is well placed in such a scenario and our outreach with the 'Depend on Deepak' message has resonated extremely well with our prospective customer base.

In this backdrop, I will give you a brief rundown of our performance during the period under review and how we are preparing ourselves for the forthcoming year. Mr. Upadhyay will then provide you with a granular detail on our financials.

Now, given the volatility brought about by these extant circumstances, DNL sought to become more nimble over the quarter and the year. The external environment is being monitored closely and every effort is being undertaken to maximize productivity. Despite the macroeconomic challenges, the Company continues to operate at high productivity levels at all of its facilities. The DNL team is delighted to inform you that the Company has reported its highest ever revenue, EBITDA and PAT despite facing the kind of challenging macroeconomic environment that you have been hearing so much about, driven by a volatile raw material environment, higher crude prices, and supply uncertainties, which have been further accelerated by the ongoing Russia-Ukraine war. We ended this year on a high note, with consolidated revenue increasing by 56% year-on-year basis accompanied by 37% year-on-year growth in PAT.

Reflecting on the Company's stellar performance, the Board of Directors declared a final dividend of Rs. 7 per equity share on face value of Rs. 2 per share. This is notably higher than dividends declared in the previous year. As a result, the benefits of sustainable growth are shared, and the focus remains on value creation for all stakeholders.

During the year, the Company delivered excellent performance on the back of a phenomenal fourth quarter performance with highest-ever quarterly revenue in its vibrant history. The profitability trajectory remains strong, and all efforts are underway to solidify this even further with expansion plans for key products. Revenue growth was driven by robust volumes for several products complemented by sharp realization gains.

On the back of continued plant efficiency by the operational team, supported with effective material handling and logistics, the Company was able to build on the present robust realizations for Deepak Phenolics product portfolio. Given the challenging external conditions, our teams and business division have been pushed to the limits, and I am pleased to say that we have evolved into a stronger, more competent enterprise with better collaborative practices between them. This growth trajectory we anticipate will be sustained across all strategic business units supported by additional capacity and buoyant demand from end-user industries.

On the operational front, we noticed growing demand for key products in the domestic market as well as specific export markets. Now, domestic business revenue stood at Rs. 440 Crore in Q4 FY22 resulting in a 47% growth year-on-year. While the export revenues came in at Rs. 310 Crore in Q4 FY22 compared to Rs. 227 Crore in the previous year, higher by 37%. On a consolidated level, domestic to export mix stood at 80:20 in Q4 FY22.

Now moving to our segmental performance. The basic intermediate segment grew by 66% driven by numerous debottlenecking exercises and capacity augmentation initiatives undertaken in key

products, which allowed us to increase volumes towards the second half of the year. This was further aided by realization gains for key products in the BI segment. On the back of sharp rises in input prices during the year, the Company was able to pass on most of the costs to customers with some time lag, resulting in sustained EBITDA without losing wallet share for all key accounts.

Fine & Specialty Chemicals segment reported 10% revenue growth. The performance was propelled by strong demand and an appealing product lineup that tailored to a broad and diverse array of applications. During the previous year, prices of finished products were high, but the raw material prices were abnormally low. These have normalized, but in many cases raw materials are at all time highs. Also, the cost of input utilities has gone up substantially in the year thereby affecting the profitability of the segment as compared to on a year-on-year basis. Since the Company has long-term contracts and, in some cases, annualized and other cases multi-year contracts wherein price negotiation is possible at a certain percentage increase in raw material costs and on a quarterly basis, we do see an improvement moving forward. This is the nature of the business, and we expect to see positive impact of this pass on in this quarter and the next. Costs of major raw materials as I mentioned have increased through the year resulting in some all-time highs in Q4 and there has been some level of EBITDA normalization. As a strategy reset, going forward the Company will increase its focus on annual and multi-year contracts signed up with leading customers who continue as I mentioned earlier to have a high dependence on Deepak and in every case as we have maintained all grown wallet shares.

Performance products segment reported healthy revenue growth at 74% in FY2022 driven by positive demand trends for key products resulting in a sharp rise in volumes accompanied by improved sales realization. This has also helped to improve the EBITDA margin, however, prices are expected to normalize in the forthcoming quarters because there is some sort of tepid demand with regards to the products in the European market, which are currently experiencing some of their highest energy and utility costs ever. Overall, the wallet shares with large customers either increased or was maintained. Further, we have also increased our foray into new export markets, which were hitherto untapped.

Deepak Phenolics (DPL) delivered an outstanding performance with revenue growth of 68%. While EBITDA expanded by 35% year-on-year translating into a PAT expansion at 48%. This was achieved despite a sharp increase in key raw materials such as Propylene and Benzene combined with skyrocketing prices of coal. Plant efficiency measures culminated in utilization level exceeding a 118% of defined capability during the quarter. As a result of healthy demand, revenue realization for both Phenol and Acetone increased substantially from the previous year.

During the quarter, DPL commissioned its new captive power plant as well as its second IPA plant, which will all contribute towards higher plant efficiencies as stable and assured power supply will enable us to plan production schedules better without running the risk of cost and repairs and maintenance coming from shutdowns. We have also commenced on the expansion

project across segments approved by the Board of Directors aggregating to some Rs. 1,500 Crore. As we had mentioned previously, there is selective debottlenecking and capacity augmentation underway in addition to this which will enhance our operations across all segments. Due to multiple projects of varied scale and complexity being undertaken, we foresee commissioning for these projects in batches with the first bit of commissioning coming in Q1 this year.

On that note, we believe that we are very well placed to exploit opportunities in end user industries as we embark on the next financial year. DNL is an excellent candidate to lead the India chemical manufacturing trend due to its diversified yet integrated product mix and decades of manufacturing excellence. We are ideally placed to increase our wallet share and create value for all stakeholders as a result of contributions coming from our forthcoming Brownfield and Greenfield development.

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

**Sanjay Upadhyay:**

Thank you, Maulik. Good afternoon, everyone and thank you for joining us today on this call. I will walk you through the highlights of the financial results for the quarter and year ended March 31, 2022.

During the quarter under review, the Company witnessed volume gains across most of the products signaling a solid recovery. Capitalizing on the uptick in business growth and strategic efforts to elevate operations, the Company reported buoyant performance. Standalone revenues expanded to Rs. 759 Crore in Q4 FY2022 while EBITDA came in at Rs. 213 Crore translating to EBITDA margin of 28%. PBT stood at Rs. 194 Crore, while PAT came at Rs. 143 Crore in Q4 FY2022.

On a consolidated basis, revenue grew by 28% to Rs. 1,876 Crore in Q4 FY2022 owing to a combination of high utilization level and focused pricing. This has enabled Company to report highest-ever annual turnover of Rs. 6,845 Crore, EBITDA was at Rs. 414 Crore in Q4 FY2022 lower by 10% year-on-year and higher by 10% quarter-on-quarter. EBITDA margin climbed to 22% as a result of enhanced productivity and increased operational leverage. Despite the continuous challenges to logistics and movement of material, the Company was able to deliver higher margins on quarter-on-quarter basis while also accounting for rise in coal and RLNG prices, which impacted the utility cost and unusually high input prices for numerous key raw materials. PBT came in at Rs. 362 Crore, while PAT stood at Rs. 267 Crore. Robust profitability was on account of strong operating results and a zero-debt position.

Moving to our segmental performance:



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Basic intermediates reported revenues of Rs. 399 Crore in Q4 FY2022, up 63% from Rs. 245 Crore in Q4 FY2021. The Company's performance was supported by debottlenecking and capacity augmentation in key products in BI segment, which enabled it to increase volumes towards the second half of the year. EBIT increased by 37% to Rs. 97 Crore with EBIT margin of 24%.

Fine & Specialty Chemicals segment revenue grew by 14% to Rs. 235 Crore in Q4 FY2022 as compared to Rs. 207 Crore in Q4 FY2021. EBIT was lower by 4% to Rs. 77 Crore with EBIT margin of 33%, this was partly because of the higher realizations which were abnormal in the last year.

Performance Products segment reported revenue of Rs. 161 Crore during the quarter under review compared to Rs. 87 Crore in Q4 FY2021 representing a growth of 85%. EBIT improved manifold to Rs. 40 Crore with EBIT margin of 25%.

Deepak Phenolics registered a solid performance where revenue grew by 20% to Rs. 1,122 Crore in Q4 FY2022 versus Rs. 938 Crore in Q4 FY2021. As a result of healthy demand, revenue realization for both phenol and acetone increased significantly over last year. During the quarter, plant productivity measures resulted in utilization level going beyond 118% of designated capability.

On the balance sheet front, the Company's financial status is very sound and progressively reducing debt through cash flows. Deepak Nitrite has not only attained debt-free status in this fiscal but also steadily built-up surplus funds of Rs. 437 Crore, which have been invested in highly secured debt fund. In the future, interest rates will be significantly reduced as a result of this. On a standalone and consolidated basis, DNL is debt free as of March 2022.

Recognizing the disciplined and improved financial position, long-term credit rating of DNL is improved from AA stable to AA positive by ICRA and the same for Deepak Phenolics' long-term credit rating which was upgraded from AA- stable to AA positive, these upgrades have been possible in less than a year's time.

We continue to sustain the improved return ratios and I am glad to report that DNL has achieved ROCE of more than 30% on a standalone basis for more than 10 quarters now.

The Company has obtained all permissions from Board of Directors, shareholders and regulators for issue of equity shares through QIP and is now evaluating the market conditions for appropriate time to launch the issue.

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



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

The first question is from the line of Naresh Vaswani from Sameeksha Capital.

**Naresh Vaswani:** Congratulations on decent set of numbers in the current environment. Two questions, first on the CAPEX of Rs. 1,500 Crore, if you can give a break-up between the projects and what are the timelines and the revenue that we expect to generate out of this over the next two years?, Secondly, can you give some color on what steps you have taken internally to mitigate the current environment especially the volatility in all the cost items which one is witnessing, so what all steps have we taken over last six months which has helped us perform reasonably well in this quarter?

**Maulik Mehta:** I can answer this question, but first of all this was also the most despondent sounding congratulations. Nonetheless, I will try to answer. Now, as we have mentioned earlier Rs. 1,500 Crore of CAPEX is what has already been announced and that is spanning across products that are into the life sciences space from Deepak Nitrite's downstreams as well as from Deepak Phenolics. So, there is some amount of investment here which will go into downstream of phenol and acetone which would go into the advanced solvent space, and Deepak Nitrite which would go into the agrochemical and pharmaceutical space. This does not include the Brownfield expansion. The capex that would be required for small projects up to Rs. 40 Crore, Rs. 50 Crore each, those will be separate, and they are not announced like this. Now, with regards to the schedule, they are broadly on track as we mentioned one of our capexes which is the capacity of which is already tied up for multi-year contracts this pass-through pricing will commission over the next month or two and the others will commission between the next 12 to 18 to 20 months as normally these Greenfield capexes are. Now by and large this is on track, in some cases the civil work has already been started and it is in full swing so that we can take certain milestones that happen before the monsoon onset.

In other places, we are at a very advanced level of tie-up with key technology suppliers, or we have finished the tie-up and we are in the process of equipment ordering. Now construction equipment ordering and delivery both happen simultaneously, so we are as excited as you about ensuring that these are completed without any undue delay. Keeping in mind also the kind of escalations that we see at the cost of commodities like cement and steel we are ensuring that what we are paying for is being done at the right time, for example if you had asked me to spend on a lot of nickel which is one of the products that we have to buy for our equipment construction and you would ask me to buy it at a \$100,000 that would not have been the best decision I could just awaited until the next day or the day after that to buy it at \$25,000. Anyway, so this happens and as we said earlier by and large the project execution is on track. Now of course you have events that can derail this, for example what we faced in the last couple of months was a semiconductor chip shortage otherwise the project that we are looking at commissioning in the next month or two months would have been commissioned as we speak.



With regards to your third question about what we are doing in order to manage our short-term and medium-term supply chain is, we are working with key suppliers not only in India but worldwide to ensure that our supplies are coming in index linked pricing with certain volume commitments coming from the hub where we are able to leverage our positive cash flows into being able to get discounts against payments made upon delivery of the raw materials. Along with this, what we are doing is we are also ensuring that at various locations we rent the kind of port facilities for storage so that we are able to buy the materials in the manner that is best suiting our consumption requirement. Like this, there are several steps that we are taking including talking to shipping lines for annualized contracts with minimum container offtake over the year and we are seeing that there is a positive demand and a sustainable demand for our products, not only in the domestic market but internationally as well. So, while these raw material price increases hurt us, the kind of relationship that we have had with the customers has allowed us to have very honest and open discussions with them. So, they certainly are accommodative at least right now, let us see how the situation unfolds as it is a competitive market space, but Deepak maintains this wallet share.

**Moderator:** The next question is from the line of Andrey Purushottam from Cogito Advisors.

**Andrey Purushottam:** First of all, a great set of numbers given the situation and a follow-up to the previous question because of the peculiar situation that inherited in the last few months, your profit growth has lagged behind your revenue growth, now if you were to give some kind of broad guidance in the future when do you think that this trend is likely to reverse, do you think it will take a couple of quarters for us before this happens, can you just give us a flavor of when operating leverage as we understand it will really kick in to give a profit?

**Maulik Mehta:** I feel this is really a situation where I do not really know what to say because even with what you call profit lagging in comparison to revenue growth, I think we have over the last couple of years set new standard with regards to the kind of EBITDA margins and bottomline as a percentage of topline and yes there will always be some movement up or down, but the reality of this is that with the kind of critical cost increases that we are seeing just to give you a couple of glimpses, ammonia which is normally being bought at Rs. 26 I remember that my procurement person came to me about six months ago and said this is really at a lifetime high we are paying Rs. 32 now. Just to give you a perspective, in Q4, ammonia prices world over were in excess of Rs. 100. Now other than that, Toluene, Benzene, and Xylene and also products like caustic, so these are commodity products which we consume to give value added intermediates to our customers. We have been seeing price increases of more than 100%, 200% over previous quarters. As I was mentioning, in many cases the customers are paying almost twice as much for Deepak's products as they were just a couple of quarters ago and they are continuing to buy the same volume, is this not a good example of resilience and their need and their ability to depend on Deepak for their feedstock which they get from us, so if I was to actually ask you this question what is the kind of margin that you would normally expect from a Company in the same space. If this is margin compression, what is the target margin that one should look at.

**Andrey Purushottam:** I am not an expert in this, I am simply asking a question of when do you think that this trend might reverse and this is not a reflection on Deepak's strength, it is more a commentary on the environment that I am asking, is this likely to continue for the next six months given the uncertainties of the Ukraine war and etc., or do you think that there will be some reversion to the norm within a quarter or two?

**Sanjay Upadhyay:** Today, we are operating in such a volatile situation. To give you an indication is extremely difficult whether you call it Deepak is seeing or in general, but, yes that is the trend and when situation gets normalized we do not know, but maybe it will take couple of quarters from now, but first of all as Maulik was mentioning we have never, actually margins can go up and down because situation is volatile, but we are not compromising on our market share, in fact we are debottlenecking the capacity, increasing the market share because this is where the Company's strength lies, we cannot control external environment, but we can control internal environment very well on the production and productivities and all these things and this is what is going to help us in future. So, we cannot comment how our revenue growth will come, certainly it is a very good indication that we have in spite of such challenges, grown so much. Margins we cannot comment today.

**Andrey Purushottam:** So, another thing that you alluded to in the presentation was the fact that you are expecting the lag in passing on the price hikes, so the customer should reduce in the light of new multi-year contracts can you explain a little bit more, do you have a higher proportion of multi-year contracts and what is there in the provision of this multi-year contract that enables you to reprice your product to the customer quicker as compared to the past?

**Maulik Mehta:** No, so let me correct that misconception. There is no improvement in the lag, the lag is a lag and normally speaking most contracts is built with a price review clause every quarter. Any of our customers, they are export customers, so they buy on a calendar year, we think of everything happening starting from April, but they think of it starting from January, so March is when normally you would have this kind of a discussion with customers. Now what I said is that we have increased our buyers towards getting into multi-year contracts which is something that we earlier shied away from. These multi-year contracts or annualized contracts whatever you call them, generally have a clause which says that if your cost of production goes up by more than 4% or 5% within a period of time, the price revision clause will automatically be invoked at the next review opportunity. Now customers are also aware that these are not situations which are unique to Deepak, for most of our raw materials that we buy today, let me tell you that we are best in class even if we compare to other producers who might buy the same raw material for other products maybe three or four times as much as we buy we are still matching or in many cases lower than the price at which they buy and this has been by and large a skill that we have developed, it is not an individual person skill but it is a culture that we have been imbibing over the last many years. So, customers are also well aware that whatever happens, Deepak will work hard to ensure that they are as reliable as anybody out there in the industry and they appreciate this.

Now, in fact, unfortunately in Q4 we have lost volumes in some of our segments because it did not matter what the price of the raw material was, there was some volume that we were just not able to mop up and therefore we have been in fact engaged with customers and telling them that do not worry moving forward we will ensure that we will work even harder, we will see what we can do to invest more in international import infrastructure if required, but we are there because they were ready to pay more, the problem is that we would not be able to deliver more than how much we did even though the requirement was more. So, this is the kind of honest transparent relationships that we have with our customers and let me tell you, Q4 I would say that this is really dedicated to the customers of Deepak, this is how much they have trusted us despite this kind of raw material volatility and other volatilities that we have been able to maintain and, in some cases, grow our market share. So, I am very, very grateful to our customers and our internal team to be able to maintain a relationship in this environment.

**Andrey Purushottam:** In any case if the focus is on retaining wallet share as you have been consistently saying over the last five years, all of us including shareholders must be prepared to take some degree of quarterly fluctuation?

**Maulik Mehta:** Let me also just point out that yes while there may be some degree of quarterly fluctuation, you can continue to bet that Deepak will be a standard by which performances are seen. We are one of the leading companies in the chemical space with really strong order books and really strong finances where we are now at even a consolidated level debt free, so our growth trajectory continues to expect this kind of fiscal prudence.

**Andrey Purushottam:** This is why we are shareholders of you, Sir.

**Maulik Mehta:** Thank you so much. Really appreciate.

**Moderator:** The next question is from the line of Nirav Jimudia from Anvil Research.

**Nirav Jimudia:** Congratulations for the healthy show. I have two questions, so first is last two years have been very eventful for us, 2021 being a demand-led problem and 2022 being a supply-led problem, but if I can ask from Deepak's point of view what were the key learnings and the opportunities with reference to probably products or the processes and the cost savings which now, we can say that it has become permanent for us and can create a base for us for our future growth so this is question number one?

**Maulik Mehta:** One thing that we have learned which I think I hope that a lot of other companies in our space are also learning is in the past, we have always focused on things like raw material costs and consumption norms and these things. Never really focusing so much on things like freight costs or packaging costs and these things, because they were always seen early on the 3%, 4%, 5%, 6% at the bottom of our total cost side whereas nowadays this has increased substantially for most chemical manufacturers and has actually become a major cost center. So we have to see what we

can do to really invest in the right kind of infrastructure and the right kind of arrangement setup whether it is on freight or whether it is on packaging material, this has been a learning for us this year and going forward we have also broad-based our options with regards to all of these things, but the value will be first felt in the level of consistency and sustainability and then perhaps over a period of time will be felt also with regards to price improvements and these things.

Second thing that we have learned is at the end of the day, utilities which has been again as I mentioned with regards to packaging and freight, it has always been something that was considered as a freight accomplice and you did not think so much about it when the cost of power was Rs. 6 and you did not think when the cost of steam was Rs. 1 and the cost of gas was whatever it was but today these have become huge problems not just for chemical companies like Deepak but also for power companies all over the country and in fact all over the world. So looking at how to optimize this, looking at how to significantly enhance the way that we consume energy, our energy footprint, our carbon footprint, these are things that we have been working hammer and tongs on in the last quarter, we have actually seen already a substantial improvement over the previous quarter with regards to our consumption norms but I can tell you that we have just managed to touch the tip of the iceberg, we have further invested into conducting audits across all of our sites energy audits, consumption audits with regards to leakages of power, steam, water and we are working to tighten all of these things that is the right thing to do for the environment but luckily for shareholders also the right thing to do with regards to the bottomline and it will yield benefits as we move forward, these will of course be sustainable, these will of course be part of the new culture of Deepak.

**Sanjay Upadhyay:**

There are many more learnings here on supply side also because dependence on one supplier is actually very difficult today because anything that happen to them. Secondly, earlier we were managing only just in time inventory, now that time has gone, we have to see that we run our production, we have enough inventory to carry because shipments are delayed, ships are cancelled, so many things there are a lot of challenges that world is facing in last two years, so a lot of learnings from all these.

**Nirav Jimudia:**

Second question is we have been alluding in almost all the presentations and the conference that our focus is on import substitution, so if I can ask what can be our addressable market out of India's \$50 billion of imports and if you can correlate it with our downstream phenol, acetone or the standalone Deepak Nitrite businesses so this is one and in addition to this, if you can relate this in context with our new R&D center which we are coming up with, so how this R&D center would help us to take a pie of this \$50 billion of imports coming to India?

**Maulik Mehta:**

See this import is coming into India anyways, but when we invested in phenol and acetone plant it was always with a plan of it being just the first step. Today if I want to expand my capacity of phenol and acetone it is at a fraction of the cost that it would be for someone to put up a Greenfield plant that is the value of the entry barrier. Now even the downstream of phenol and acetone and there are many they are being imported into India as India further develops a

significant manufacturing process for a lot of things which require solvents, epoxies and some such which are anyways part of the Government's plan to promote 'Make in India'. What our goal is every single time we look at this our first target is not just 'AtmaNirbhar Bharat' but anyways we look at 'Make in India, Make for the World' and for that we are tying up with technology suppliers in some cases, in other cases through our own internal processes, the right kind of technology that we can set up plants which will have global capacities and which will allow us to maintain a very small energy and water footprint. So, these are the right steps, and we believe that there will be opportunities not just in India but also for exports across the world. Nonetheless, the world does turn towards India more and more over the last few years as a good dependable democratic source for partnership for key raw materials in the chemical space.

**Nirav Jimudia:** Does it suffice to summarize that we are probably in terms of setting up the import substitute capacities here in India, trying to grab those market shares, further capitalize on those capacities and be cost efficient to compete with the global markets, is it fair to assume?

**Maulik Mehta:** Correct. Also one thing that we are seeing is there is a lot of international players, MNC's in many cases in the life sciences space that are looking at significantly increasing their investment and their base in India so what we may have earlier assumed, we have contracts with many of these customers we may start off with exporting to them, but then over a period of time they may also look at increasing their requirement inside of India for the same molecules which they will continue to depend on Deepak for, this is part of that discussion that we have anyways did with our customers.

**Moderator:** The next question is from the line of Rohit Nagraj from Emkay Global.

**Rohit Nagraj:** My first question is you talked about the pricing dynamics on the RM front, how about the demand dynamics, are we seeing any kind of slowdown in any of the segments now because of several issues like geopolitical issues, high energy prices, logistic cost, so is there any demand side setback that we are observing currently or how the things are moving across our segments if you could just share a broad perspective?

**Maulik Mehta:** A couple of products that we are seeing is while in general the demand is good, but for a couple of products what I can tell you is that customers are unwilling to give us long-term visibility what they would earlier give for a minimum of six months, one year now they are only giving us for like monthly or three monthly or things like that because they are seeing a severe volatility in their environment, so today the demand is good but let us remember that many of our customers also require key co-products that come from China or other parts of Europe which may be severely affected with energy cost increases. Now they are hoping for the situation to normalize but until it does not, they continue to buy from us, there is a small risk that they have shared with us that the situation could get worse although more and more it seems like Europe is becoming a little bit more resilient than it was, they are not in a position today where they can give us that level of confidence and commitment and we appreciate that they are telling us this transparently

well ahead of time. So, demand remains what it has been in Q4 but in a few products we are seeing a drop in visibility for a longer period of time.

**Sanjay Upadhyay:** In our commentary, we said 80% is our domestic sales and 20% is export sales if you see consolidated. Now, in domestic demand we do not see much of an issue we have clear visibility, this is happening in Europe as Maulik was mentioning and in that 20% and that too in some of the products. So by and large yes, most of the products are under control maybe few of the products we are finding this particularly in abroad and Europe.

**Rohit Nagraj:** Right, got it, this was really helpful. The second question is in terms of capital allocation, now we are debt free on a consolidated basis, the cash flows will be substantially higher and we also got approval for QIP, so is there any inorganic initiative which is also we are currently considering given that we are already having the Rs. 1,100 Crore of capex plan on track and there will be QIP which is coming up hopefully in the next few quarters, so are we looking at inorganic initiative?

**Maulik Mehta:** Yes, we do look at this opportunity. We are not averse of any inorganic growth also; in fact, it works faster in case we get a good opportunity. Greenfield project always takes time so yes if there are good opportunities and as you rightly said we have a very strong balance sheet so we will certainly be interested in this kind of opportunity, no doubt.

**Moderator:** The next question is from the line of Dipak Saha from Savart.

**Dipak Saha:** Congratulations to the entire team for ending the year on such a strong note with robust revenue growth and fair market share growth despite facing a challenging macro environment. My question is specifically, if you simply assume that raw material prices are going to stay limited at this point of time and at least over the medium-term do you intend to continue being largely focused on growth with some hit on margin or we intend to focus on growth in a measured manner while towards higher margin this is my first question?

**Maulik Mehta:** This answer is different for products that we are getting into which are Greenfield products and different for products which we are already well entrenched in. Raw material cost is at an all-time high right now, but at the same time, we are seeing certainly a level of improvement right now which is not on prices but which is with regards to availability and normally what we see is availability improvement precedes price improvement, nonetheless our focus will always be on ensuring that we continue the quality of relationship that we have with our key customers who have remained on this journey with us even during this kind of price escalation and we believe that margins in some cases should certainly improve in other cases they may by and large remain the same. But in this kind of volatility it is really, really even claiming safe harbor is very difficult to give you any sort of confident answer. What I can tell you is Deepak is very good at doing what it does, and it will continue to excel in doing what it does, rest assured on that. However it would not be a responsible thing for me to answer this question and tell you that

margins will substantially improve or there will be this huge new 20% addition to the ROCE, no that is not going to be the case, we have a good ROCE anyways in the organization across the board, the new products that we are adding will continue with those kinds of percentages in some cases maybe a little bit higher but as a Company we maintain the kind of philosophy that we have with regards to what we expect in terms of payback for new projects as well as Brownfield projects.

**Sanjay Upadhyay:** But to answer your question, Deepak's growth is certainly there and should be there. I said in the first remark itself that we will continue to grow margins because the availability of raw material is volatile, and it can happen, but you cannot lose your customers, you cannot lose your market share, so these are all very important for us, there could be 1% or 2% margin here and there that is a different thing, so growth remains a focus no doubt on that, but if it absolutely reduces margin that is a different thing.

**Dipak Saha:** Make sense, that is fair. My second question is on the Performance Products, so if you can share some color regarding the levers that might play out in terms of performance products segment contributing much higher to the overall revenue and some guidance regarding if the margins will sustain for our performance products because we have done really good in this segment, so, do we think that we will be able to sustain this kind of margins going ahead and then also some color on the growth front?

**Maulik Mehta:** Yes, categorically I can tell you right now that, we do not expect the same kind of margins as a percentage; however, we are increasingly looking at a higher base. Now let me tell you why the situation right now is from the perspective of Q1 we might see that it maintains a certain level of trajectory; however, our customers are facing huge cost increases when it comes to energy cost, for us it is one of the costs for them it is probably one of the top three costs. Now especially in the export market especially in Europe and in a couple of other export markets like South America and in the US, the energy costs have increased far beyond what they had originally thought likely and for them there is always going to be a much longer lag to be able to pass these prices on because they are B2C, so therefore today while demand is strong and while margins are good, moving forward we do not know whether they will be able to continue to consume product at the same rate that they have in the recent past simply because this demand resurgence that has come about in the last couple of quarters as I mentioned earlier it might be dampened if energy costs remain high, if they improve as many of them are hoping but are not willing to commit to of course we will continue to see good demand in terms of volume and as I have alluded to before, volume growth is always preceded by margin growth, but today I would say we need to be very cautious on performance products.

**Moderator:** The next question is from the line of Naushad Choudhary from Aditya Birla Asset Management.

**Naushad Choudhary:** Just one question on the phenolics business, so wanted to understand as we can see, consistently the margin of phenolics business is normalizing so just want to check if we are satisfied with the

last two quarters EBIT margin run rate or do we see any scope for improvement from here on assuming all the cost pressures gets normalized, so just wanted your comment and how do you see this margin in your phenolics business?

**Maulik Mehta:**

You are asking us if we are satisfied, I can tell you that we are always satisfied and we are never satisfied. There are opportunities to improve in this case, most of that comes from further tweaking our operational excellence that is already a very strong forte. Nonetheless, phenol as a business, the demand for the product is good, it continues to be strong, but is very significantly affected by raw material prices which are of course petrochemicals as well as energy prices which come from coal and electricity. So, while coal and electricity are challenging is there what we can tell you is that the cogen plant will allow us to have fewer shutdowns, unplanned shutdowns which create a lot of internal cost escalation for a short period of time and disruption and kind of our efficiencies of production, so once that gets normalized, I can tell you that our productivity will certainly improve. With regards to margin, there is too much rise on the cost of things like coal and benzene and propylene but demand for the end product is good.

**Naushad Choudhary:**

So, can we assume with the existing capital deployed for your phenolics business in a normal scenario, can we again do Rs. 200, Rs. 250 crore odd quarterly EBIT from this segment?

**Sanjay Upadhyay:**

See we will continue to have this turnover and our capacity is going beyond 115%, 120% so we will continue to run, we cannot comment on Rs. 250 Crore or Rs. 260 Crore because that is something which is an outcome. So, I repeat margin we cannot give you, but our effort will be to run the plant at full capacity, in fact we can further debottleneck and increase the capacity, our wallet share, these things will continue our efforts on this. Margins can be 20%, it can be 22%, it can be 18% also so we will not like to comment on this aspect of it, because there is no control over the raw material and price can move up and down, we have no control over that, so we should not answer some questions which are beyond our control.

**Moderator:**

The next question is from the line of Balkrushna Vaghasia from Axanoun Investments.

**Balkrushna Vaghasia:**

I have a couple of questions. First question is does any of our products have application in making batteries used in the e-mobility or maybe forward products or anything?

**Maulik Mehta:**

No but this industry which is nascent in India has a lot of utilization of processes which we are very competent in, for example hydrogen reduction, for example nitration and moving forward is certainly not something that we have a high level of competence in, but we will work towards developing our competence in fluorination as well, but this is still a nascent market in India and as it grows we will be looking at it with interest to see whether there is a role that Deepak can play.

**Balkrushna Vaghasia:**

With regard to epoxy (the adhesive products), how much of this demand may be attributed to large Government infrastructure spending, and how crucial is it to our market??



**Maulik Mehta:** Significant to our downstreams rather than currently phenol because phenol or acetone or IPA they go into a whole variety of downstream applications, some of which are linked to epoxies, our downstreams will have a more direct interface with these products, so I think once we are close enough to commissioning or post commissioning some of our investments, this would be a very interesting conversation to have.

**Balkrushna Vaghasia:** So, do we make BPA or its related product which are used in adhesives?

**Maulik Mehta:** We make acetone.

**Moderator:** The next question is from the line of Samir Palod from AUM Fund Advisors.

**Samir Palod:** Congratulations on a good set of numbers. My question was, given that you already have at a consolidated level a net debt free balance sheet, why would the Company consider a QIP and sort of what would be the use of proceeds that you are envisaging for that?

**Sanjay Upadhyay:** We have plans, see that is why we are waiting to let market settle down but we have definite plans, of course our balance sheet is strong, our cash flows are strong, but no harm in making it stronger so if you have a war chest as somebody was mentioning is the right opportunity of inorganic growth or is right opportunity to provide with a major expansion, you are ready you cannot go into the market when you need funds you have to have war chest ready to go and expand or set up a Greenfield facility, so this is just foray, it is so much stronger balance sheet what we are creating and in particular in our kind of products there are many opportunities, so there is nothing if you have strong balance sheet one can definitely go ahead with that at any time whenever we find an opportunity.

**Samir Palod:** You are saying you have a lot of opportunities what sort of CAPEX can we expect the Company to do other than the Rs. 1,500 Crore that is already mentioned in the presentation which will come on-stream over FY2023 and FY2024 anything over and above that, that you can guide us saying that these are the projects that you have in mind or from a quantum perspective how much would that be and for these projects what sort of fixed asset turnovers are you looking at given that they are likely to be far more downstream, etc., so are they going to be lower fixed asset turnover but much higher margin than the Company's current averages?

**Maulik Mehta:** See it will be too early to comment on this aspect now, let us first Rs. 1,500 Crore we have already shared with you we will share with you all this information at the opportune time when we get clearance from the board and other things, so today it will be premature to tell you anything on these aspects.

**Sanjay Upadhyay:** We do not share until we have tied up our technology supplier whether it is internal or external, our customer interface, our raw material supply and ensuring that we have the right team internalized, that team will be able to run it with the kind of safety and sustainability that we run

all of our plants, so until these four pillars are properly tied, it will be premature for us to announce.

**Samir Palod:** Maulik then for the Rs. 1,500 Crore that is going to come on stream starting FY2023 in the next few months given that everything is already tied up, would you be able to guide us so what sort of fixed asset turnover ratios and margins will be for these products for this first phase of capex?

**Maulik Mehta:** See there are projects which are backward integrated in that, there are certain Greenfield projects and Brownfield expansions also, normally we have asset turnover ratio of 2:1 of course backward integrated project will certainly add to our margins as people are more questioning on margin rather than topline growth, so that will certainly add to our margins. When we look at any project, it will be twist to one asset turnover and return on capital employed about 20%, 22% so that is how we select a project and payback them three to four years, so these are the numbers you can consider.

**Sanjay Upadhyay:** We have already shared that this will be our guidance for most investments that we make; these are some of our internal Lakshman Rekha where we have to answer our question about what is Deepak's right to win. So, these are some of the questions we ask ourselves and do we have payback of three, maximum four years, do we have an IRR target, do we have an asset turnover ratio which is between whatever 1.75% and 2% and what is the level of confidence that we have with regards to movement to customers, now of course that is an easy answer when the customer is Deepak itself.

**Moderator:** The next question is from the line of Saurabh Kapadia from Asian Market Securities.

**Saurabh Kapadia:** The update on the commissioning timeline for downstream project of Rs. 700 Crore as well as Rs. 300, 400 Crore of specialty chemical project, by when are these expansions to be commissioned and will it be in a phased manner?

**Maulik Mehta:** We have already addressed that question. There will be one commissioning that happens in the next month or two months. There will be more that, it will be commissioned over the next between 9 to 12 months and then there will be some more, that will be commissioned at a longer time like that maybe between 18 to 20, 24 months and in the interim, if there are opportunities and there are certain capexes that we are already executing which are smaller capexes which are more Brownfield related but the ones that I have mentioned are more Greenfield.

**Saurabh Kapadia:** Which project is immediately getting commissioning in next one quarter?

**Maulik Mehta:** It is an agrochemical intermediate, the entire production has already been tied up with multi-year contracts.

- Saurabh Kapadia:** 12 months' timeline would be for the specialty chemical and then 12 to 18 months will be for downstream, is that fair to assume?
- Maulik Mehta:** 18 to 24 months for the upstream and yes 9 to 12 months for the specialty chemical.
- Moderator:** The next question is from the line of Reena Shah from Elara Capital.
- Reena Shah:** I just wanted to ask you something on your fluorination project, do I understand this fluorination correctly, where you are targeting to enter first, will it be more in agrochemical space or in pharma space or in something else?
- Maulik Mehta:** See the bulk of the project is focused on the agrochemical space; however, there are assets included in it which are multi-purpose which will service some pharma applications; however, if we look at it, it is biased towards agrochemical, both agro and pharma form part of what we call life sciences as a space and so these are products like a lot of Deepak's products, they have multiple end applications but the fastest growing ones today certainly are agro and a little bit of pharma.
- Reena Shah:** So, by when do you expect this project to get commission, any timeline?
- Maulik Mehta:** 9 to 12 months.
- Reena Shah:** Maybe you would have said, but I would have missed any capex guidelines for next two to three years?
- Maulik Mehta:** Yes, you have not missed anything I have only announced so far about Rs 1,500 Crore, we will announce more as and when the time is right.
- Moderator:** The next question is from the line of Madhav Marda from Fidelity Investments.
- Madhav Marda:** I just had a quick question on the fluorination project that we are undertaking, given that in India there are a few players which are backward integrated in the fluorine value-chain how does our competitiveness stand versus them as they also address agrochemical as an end market in a good way, so just wanted to understand is it a different product portfolio or do we have a different kind of processed chemistry that we are doing here just wanted to understand that?
- Maulik Mehta:** No, I think we would compare quite well. So what we are looking at is manufacturing as phase one from these products are ones where we have a strong degree of competency in processes beyond fluorination and the investments that we have made, we are confident about maintaining the kind of the financial targets that we put for any other business which would not be fluorination, so if you were to invest in nitration or reduction or diazotization, etc., we would have the same kind of targets that we have here and we are confident about being able to achieve

them. So, while there are other players in the space that does not bother us too much, there are other players in the nitration space or in the hydrogenation space but I do not know whether that is a conversation that investors have with them, about whether they should invest in seeing that Deepak is already nitrating products.

**Madhav Marda:** No actually the reason I ask is because at least my better understanding is that the fluorination business having access to the raw material is a bit of a challenge, it is a fairly in concentrated sort of part of the market to get the raw material which is why I asked that question?

**Maulik Mehta:** That is a good point but it is a misconception it is absolutely available, it is available worldwide also, you can happily import it, you can buy it from domestic sources as well there is absolutely no problem with material availability, what one needs to be very careful about is with handling safety and that is one of the reasons why we took such a long time to announce that we are getting into the space because we wanted to make sure that we have the right people and the right SOPs to ensure that when we are handling this product whether transporting it or consuming it or storing it we will be able to do it in a good way seeing that we are going to be doing these processes in a site that is going to be an integrated site that will have a lot of other production. So, we have the right people and the right supply sources also, so I can assure you that availability of the raw material is not a problem.

**Madhav Marda:** We plan to use an imported source for the raw material, or it is going to be domestic source?

**Maulik Mehta:** We took a strategy to have both. We do not want to be dependent only on domestic nor do we want to be dependent only on imports, so we have both import and with domestic sources.

**Madhav Marda:** These are HF based fluorination products only or it is a broader portfolio of that?

**Maulik Mehta:** To start off with HF.

**Moderator:** Thank you very much. I now hand the conference over to Mr. Akul Broachwala for closing comments.

**Akul Broachwala:** I would like to thank the management team for taking the time to participate on this call, and I would also like to thank all the participants for joining in. Thanks again and with that, we conclude this call. Thank you so much.

**Maulik Mehta:** Thank you everybody.

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*The transcript has been edited for clarity, but it may contain some transcription errors. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.*