



“Deepak Nitrite Limited’s
Q2 & H1 FY22 Earnings Conference Call”

October 29, 2021



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Deepak Nitrite Limited
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Moderator: Ladies and gentlemen, good day, and welcome to Deepak Nitrite Limited's Q2 & H1 FY22 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. Nishid Solanki from CDR India. Thank you and over to you, Sir.

Nishid Solanki: Good afternoon, everyone and thank you for joining us on Deepak Nitrite's Q2 & H1 FY22 earnings conference call. We have with us today 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 question and answer 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, 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 have also been posted on the Company's website and the exchanges.

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

Maulik Mehta: Good afternoon, everybody and a warm welcome to you on Deepak Nitrite's Q2 & H1 FY22 earnings conference call.

I believe you have had the opportunity to go through our results documents that were shared with you earlier. I will begin by briefly taking you through the major operational highlights for the second quarter ended September 30, 2021, and the major developments and strategic approach for the coming year. Mr. Upadhyay will then present you a financial overview during the period under review and following that we can have the forum open for Q&A session.

First of all, I want to congratulate all investors, stakeholders, and my entire team for the undaunting support extended towards the Company during an extremely turbulent macro-economic context when the Company has exhibited an exemplary performance during Q2 FY22 defying several challenges that were posed by the global event. As you know, Deepak Nitrite continues to be a forerunner in the

Indian chemical industry, particularly in harnessing import substitution opportunities. The Company's business strategy is to prioritize the development of integrated product chains over standalone products and this has led us to establishing a diversified product portfolio with a reliable supply backbone to cater to a growing demand of major corporations in India and overseas. A resilient business model is created where our products are finding applications across more than 30 end segments and hence it balances out some of the vagaries of the markets.

The second quarter actually witnessed significant volatility in market demand and supply even with marked return to normalcy in commercial and industrial operations across the country following the second wave. There was a contrasting environment at the start of a quarter and towards the end, COVID was at its peak at the end of the first quarter, but the economic downturn and the market sentiment was very low in the beginning of second quarter. Many industries adopted a wait & watch approach, they were not stocking materials, there were continued increases in the costs of raw materials, utilities and especially logistics. However, things started improving around mid quarter with a robust demand pickup and better realization in spite of many of these challenges. The Company saw to it that all its plants run efficiently at optimal capacity. The quarters saw volume growth across all the segments. Amidst this rapidly evolving backdrop, we focused on managing supply chain constraints and leveraged operational excellence to help mitigate the worst of volatility. It has been an excellent performance by our teams given the confluence of factors.

As I said, we worked hard to maintain margins where possible while keeping on growing our market share across the businesses. We believe this will yield sustainable advantages as we move to an elevated demand scenario. As mentioned earlier, our approach instead of timing the market both from RM and FG side, was focused on back-to-back formula-based arrangements with suppliers and customers both where the contracts are signed with a predetermined benchmark index on an annualized basis, which allows us to procure at the best rate possible. Parallely, with our customers also, in many cases we have formula-based pricing, whereby we are able to pass on raw material price increases after a period of time. We believe under the current situation of high volatility; this is the most optimal approach one can have.

For example, in our basic intermediates segment; we have increased our market share during the quarter. We selectively implemented price increases in Q2 FY22 to partially pass on higher cost. As a result, we have witnessed strong growth and volumes and have been able to strengthen our customer relationships. We did it strategically because we are implementing Brownfield expansion and de-bottlenecking for key products in this segment leading to an increase in capacity in Q3. After partially passing on costs in Q2, we will be further implementing price increases in Q3. So basic intermediates as a segment has done well and enjoys an excellent outlook, as it is set to witness improved price and volume momentum from the third quarter. Moreover, basic chemicals have been re-branded as basic intermediates, so the products now integrate towards a greater value addition to our existing and potential customers.

For fine and specialty chemicals segment, we were able to demonstrate resilience and supply planned volumes committed to customers despite the challenges on ground. Also, an important point to note is that last year had a high base due to a sharp spillover of volumes from the April-May month into the August-September months. Even as the input cost inflation has been observed this quarter, we are very well placed to transmit this increase in input costs through higher realization as we are entering the second half of this fiscal, which is seasonally strong for businesses like agrochemicals. The outlook for this business is positive. We have entered into multi-year agreements with leading customers for existing product. Further, we are augmenting capacity for some key agrochemical intermediate, which will come onstream in April 2022. I am happy to say that even before completion of this project, we have tied up the entire volumes. The growth outlook for fine and speciality is further enhanced by Greenfield CAPEX programs that are due for commissioning in 12 to 15 months starting Q3 next year. We anticipate further elevation in this trajectory of performance from these programs. A large majority of the new production is formula linked with pass through pricing.

Coming to performance products SBU. Here, the end customer industries have witnessed a more protracted impact from the pandemic last year and also this year. However, in Q2 the market has started improving and we witnessed positive volume growth. Given the supply situation in China, customers are procuring larger volumes of both optical brighteners and the key raw material than usual now. Since major end user segments have returned to pre-COVID levels, the performance products business is expected to witness a sharp turnaround with prices already firming up into the third quarter.

The phenol business continues to deliver a strong performance quarter-on-quarter. We witnessed volume growth in Q2. The whole approach here is to run the plant at an optimal capacity and at the highest operational efficiency. In this segment also, we have increased volume thereby enhancing our market share. The first quarter had witnessed an abnormal impact on acetone pricing due to the cyclone in the US. However, in the second quarter, pricing has normalized. Commissioning of the cogen power plant and the additional isopropyl alcohol capacity during this third quarter shall also firm up the performance.

With growth reported by every business unit and key product cluster, the business is in very good shape as we have been having superior control over all aspects of the Company including operations, marketing, procurement, technical services, project & finance. I would take this opportunity to state that at this challenging time of talent management attrition has been negligible, and the right talents are in place and motivated to work with the Company to take it to the next level. Even as we have pared debt and maintained dividends, we have been able to strategically deploy cash flow into growth projects, which will further improve the business proposition, which includes the Brownfield project and de-bottlenecking for key products in the basic intermediates toward the end of the third quarter.

There will be an enhanced capacity for hydro chemical intermediate coming on stream over the next six to eight months, new agrochemical intermediate for Rs. 300 Crore that we have already announced at our new site in Dahej, expected to be commissioned in H2 of next year and as I mentioned, we are expecting to commission IPA to manufacture 30,000 tonnes of additional capacity and 29-megawatt cogent plant during this current quarter. Over and above, the expansion program for phenol and acetone downstream products of Rs. 700 Crore will come into force as was informed earlier. All of these projects will also enable us to progress further up the value chain delivering both volume and value gain across operations. For me, the key takeaway in Q2 is how efficiently our teams have navigated through very challenging circumstances to deliver sustainable outcome having control over all aspects of business. We are moving in the right direction to become a diversified chemicals major where we maintain our stalwart position in existing products and further innovate to develop new products and platforms.

More importantly we seek to forge deeper long-term partnerships with strategic customer to deliver scale in volumes. While doing this, we will continue to focus on process intensification and operational excellence. One such example is our medium-term partnership with one of the world's largest agro chemical major for supply of a key intermediate.

As you may know, Deepak Phenol is expanding the IPA facility and enhancing its utility capabilities to add new downstream solvents. These solvents are largely employed in the life sciences, paints, and coatings industry. The Company aspires to become a world class provider of solvents that are ideally integrated with its diverse product portfolio.

In key achievements across the quarter, Deepak Nitrite was awarded "The Best Compliant Company for the Codes Under Responsible Care" by the Indian Chemical Council (ICC). Deepak Nitrite also received the Divya Bhaskar Pride of Gujarat award from Divya Bhaskar for "The Most Responsible Company." Moreover, Deepak Foundation also awarded us the Times CSR Award 2021 for Project Sangaath.

To conclude, we continue to remain focussed on maintaining our agility that enables us to seize opportunity arising from swift changes in the industry landscape. The contributions from upcoming Brownfield expansion and Greenfield projects with value added forward integration, we will reinforce our competitiveness and position across value chains.

Thank you, I would now like to hand over the call to our CFO, Mr. Sanjay Upadhyaya to address and take you through the financial performance.

Sanjay Upadhyaya:

Thank you Maulik. Good afternoon, everyone and thank you for joining us today on Deepak Nitrite's earnings call.

During the quarter under review, we have delivered a steady performance amidst challenging operating scenario. The second quarter gradually experienced a rebound to normalcy in economic and industrial activity across the country demonstrating that the country had emerged from the impact of the pandemic's severe second wave, particularly in the months of April and May 2021. From the wake of improving prices, elevated volume outlook, the business is very strongly positioned both for the immediate term and over the medium term.

In this positive backdrop, let me share the key performance of H1 FY22. On a consolidated basis revenue was up by 93% at Rs. 3224 Crore despite challenges due to the severe second wave in H1 FY22, the performance of H1 FY21 is not comparable due to the impact of nation wide lock down as well as more severe pandemic related impact in the production. EBITDA stood at Rs. 855 Crore in H1 FY22, higher the 83%. Margin maintained momentum at 27% in H1 FY22 in spite of significant rise in input cost. PBT and PAT expanded by 107% to Rs. 747 Crore and Rs. 557 Crore in H1 FY22. All in all, the Company has been extremely resourceful in order to capitalize on the enhanced operating environment benefit. In addition, incremental gains in business in different division has fueled the Company's performance. The macro environment has returned to normal during the later part of H1 FY22, challenges resulted from soaring input prices. There were supply restriction bottlenecks due to container shortage and higher cost also were observed. The Company undertook several initiatives to ensure sufficient input availability in order to operate the manufacturing units at the high level of utilization enabling it to achieve significant revenue growth and establish new profit benchmark in H1. Demand remains robust across all product categories, as production volumes have increased, the Company is currently operating at high utilization levels.

In Q2 FY22, on a consolidated basis, the revenues came in at Rs. 1690 Crore, up by 70% year-on-year basis. Continued improvement across key business sectors supported the resilient performance. Particularly the business segment units of BI segment, PP and phenolics segment significantly improved during the quarter due to increased operational leverage as a result of more favorable operating environment. Despite the challenges in input availability and logistical issues, fine & speciality segment generated constant volumes according to the business strategy. In Q2 FY22, EBITDA stood at Rs. 395 Crore higher by 41% on year-on-year basis translating into EBITDA margin of 23%. PBT grew by 49% on year-on-year basis to Rs. 342 Crore in Q2 FY22. This was largely attributed to outstanding performance in phenolics business. During the quarter, PAT came in at Rs. 254 Crore, higher by 49% as a result of improved operational and financial efficiency and also recorded higher revenues.

Overall, we ended the quarter on a strong note, and it is very volatile macroeconomic situation, and the performance was on anticipated lines. The second half of fiscal is likely to be even stronger seasonally as well. This trend is expected to continue in the foreseeable future. The other aspect that I wish to cover is the improved capital structure of the business. We used cash flow to clear down debt, derisk business and increase the operational efficiency. As a result, we saw the sharp rise in the

working capital due to increase in the operation through highly capital efficient and improved ROCE. ROCE for the past 12 months has increased significantly to 52% on a consolidated basis, as compared to 32% same time last year.

With that I would now request the moderator to open the floor for question-and-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: Good afternoon, Sir. Question to Mr. Maulik Mehta. I had one question on the business segments like basic intermediates and fine & speciality business, so like as per our current run rate in the half yearly performance, we are at almost Rs. 1800 Crore of top line combining both the business together, so how is the integration in each of these business segments, let us say if we are producing or selling the products, how much we are backwardly integrated for the intermediates, which are required for this finished products as well as the forward integrations in terms of the integration within this business segments or else if you can help us explain that in terms of the number of products what we are currently producing and selling in these two business segments, how much we are internally producing those basic intermediates and how much we are dependent on the outside world since the availability and pricing has been an issue in the latest situation currently, so this is the first question?

Maulik Mehta: This is a very detailed question; I will try to give you a flavor. In Deepak Nitrite, there is a significant amount of integration that is there between all of the BUs, there was a time just about a decade ago when there were no BUs, it was a functional organization, so BUs have been created to do a better job of taking and creating the best value in the different application segments, so what I can tell you is that whether it is in basic intermediates, whether it is in fine and speciality or whether it is in performance products, the key products, wherever we have gone downstream that intermediate happens to be a key product. Now there may be other raw materials that are imported or that are bought from the outside like acids or like petrochemicals or caustic soda, I think like hydrogen and all, but at the end of the day those are gases or acids or whatever that are used to react our upstream products, which we also sell in the market again downstream, so you will find for example, products like sodium nitrite whether it is nitrotoluene, etc., featuring as important feed stock in fine and speciality also, also in performance products, so Deepak Nitrite products has a tight integration.

Deepak Phenolics today is a standalone Company, which makes three products, moving forward into the new Company that we have already discussed earlier, there will be a tighter integration between Deepak Nitrite products in downstream, Deepak Phenolics products in downstream. I will also mention one last point, integration very often is not only about products, but also about processes and plants, so where there is a possibility of creating high level of fungibility, we have gone into developing new products so that the same plant as and when required can also be used to manufacture

something which is a different starting and ending product in a different segment, but has overlap of the process and the plant assets.

Nirav Jimudia: Sir, related question to this, in terms of the Brownfield expansions what you have been doing for the fine and specialty business as well as some of the de-bottlenecking exercise what you mentioned in your opening remarks, so the new products, which would come into the business through this exercise, how we are placed, would these products be filling up the gap in terms of the backward integration for our existing product portfolio or those products would be for the backward integration for the products what we are currently manufacturing?

Maulik Mehta: No, Brownfield expansion the way we mean it is that we are going to be making more of the same; this is what we will be doing between Q3 and Q1 of next year. The Greenfield project will have products where we are going to start manufacturing and that is not something that we have made before, that will come from H2 next year.

Nirav Jimudia: So, that is about the Rs. 350 Crore capex what you mentioned that would be for the new products what we will be launching for this division and that would be basically accompanying our backward as well as the forward integration for the products we manufacture?

Maulik Mehta: Yes, they have a tight integration, but let me also point out that they are not part of Deepak's existing table of products.

Nirav Jimudia: Sir, one last point, with these new products what we will be manufacturing, to what level our integration would further go up, if you can just share your views on that?

Maulik Mehta: See, when we choose a particular product, what we ask ourselves is why should we make it, what is our unfair advantage, what is our right to win. Meaning somebody or the other is already making this in the world, and they may have fully depreciated plants, so what is the right that Deepak has to win with brand new capital and in India, we all know capital costs is quite high compared to most other places in the world, so we have to have overwhelming reasons why Deepak should be the right Company to make this, now there could be many, this could be because of significant process expertise that we have that we believe we would be the best to make it, it could be because there is a very, very high CAGR of demand, it could be because the customer that would look at it, the customer where we have some sort of a very significant tie-up where they say look if Deepak makes it, I am happy to give a premium to Deepak over other suppliers and I will give you the largest share.

Finally, it is as you mentioned earlier because there is a significant raw materials fit, which is a finished product that we are currently making and selling in the market, many of these we just waited to all of this and we need to have several of these in the green for us to take up a project and when we go into investing into a brand new product normally that would mean that at least two if not three of

these are very much in the green and that there should not be any major alarm bells, so we get all of the products that we are talking about right now, in deep conversations with customers, in most cases we have very, very significant part of our plant production already tied up in formula based pass through pricing, so now moving forward the investment risk is low and our operational competency is high, the products that they require are products that we are very familiar with.

Sanjay Upadhyay:

Nirav, one point I would like to mention here, the question was valid, see this business, Deepak Nitrite business model though we have three SBUs, like fine & speciality, BU and PP, but these are interwoven, if only integrated product goes from one segment to another so sometimes when the people question that fine & speciality's margins why did it change from 27% to 25%. Sometimes what happens that one segment, one product is doing very well, but same product finds application in F&S, so margin is down, so we transfer at the market price, so this is bound to act, one should not see like this, overall EBITDA margin we look at rather than looking at one particular SBU, in one particular segment, because these are all fully integrated business, each segment finds application in other segment, so my suggestion would be to look at the overall business rather than just speaking on one SBU/ product, it does not make much of a sales though outside market they will look differently, that is the reality of the business.

Nirav Jimudia:

So, in terms of this capacities, what we will be setting up and going into operation, how quickly can we utilize the capacities fully and if you can mention the asset turnover that would be helpful, Sir?

Sanjay Upadhyay:

See, normally our asset turnover is 1.4x and 1.5x, it is somewhere between 1.5x to even to 1.75x. We now have projects like phenolics also to the tune of around Rs. 1100 to Rs. 1200 Crore over and above that some de-bottlenecking as Maulik mentioned so around Rs. 1250 Crore capex are lined up, so we are very excited, you will see the results one by one. Like some expansions you see is coming in the next quarter itself or this quarter and every quarter you have something or other. There is IPA and also we are starting our cogent plant, so every quarter some new thing will be coming up, so business is going well as Maulik was also mentioning because the existing products are doing really well and on top of this, these all expansions, we are taking all corrective steps whatever is required to deliver performance, which everybody appreciates that is all I can say.

Nirav Jimudia:

Absolutely, Sir. Thank you so much for answering the questions in detail and festival wishes to the entire team.

Moderator:

The next question is from the line of Abhijit Akella from IIFL.

Abhijit Akella:

Thank you and good afternoon, gentlemen. Just a couple from my side, one was on the growth projects that you talked about, so you know there is a very full pipeline it seems of projects across all the segments, just wondering if there is one aggregate capex number that we can share that we are

executing over say the next couple of years, what is the total capex outlay that you are planning across all these segments combined?

Sanjay Upadhyay: Today, we have already announced around Rs. 1200 Crore to Rs. 1400 Crore and there are other in pipeline and it will be a significantly large amount, I would not say it will be small amount, but to give details will be a little difficult at this stage. We will be rather holding it and let it be cleared by the board and then announce it, rather than me giving a number. But then I can tell you with confidence, lot of projects are there in pipeline, more opportunities for the business as such both in phenolics and nitrite, no doubt in that.

Abhijit Akella: Sure, and just to clarify on the phenolics capex, you just mentioned about Rs. 1250 Crore, previously we had talked about Rs, 700 Crore odd in the solvents, so this Rs. 1250 Crore number includes the IPA doubling and the power plant, is that correct or there is something else also included?

Sanjay Upadhyay: No, Abhijit, the point is Rs. 700 Crore is in phenolics, Rs. 500 Crore is in Deepak Nitrite including the de-bottlenecking and everything, the IPA project we are not counting at all because this we considered as already done, so if you include that it is the Rs. 1400 Crore to Rs. 1500 Crore.

Abhijit Akella: Got it and in addition to that of course, we have de-bottlenecking at the basic intermediate segment, which is coming up this quarter plus within the next 6 to 8 months, we have the agrochemical intermediate de-bottlenecking as well?

Maulik Mehta: Yes, so I can tell you from Deepak Nitrite side not phenolics, but Nitrite side most of these investments, the customer base and the volumes have already been tied up.

Abhijit Akella: That is great, it is happy to hear. Second, just on the margin outlook, we have seen some dip in the margins this quarter as we have seen across the entire chemical industry actually because of these rising input & logistics costs, but you did talk about the increase in certain product prices such as for example in performance products, so in that context could you please share an outlook for how you see margin trending across the various segments over the second half of the year and beyond?

Sanjay Upadhyay: Abhijit, here again I would like to say that, see, margin is an outcome of what you do, there is a strategy we believe that optimal utilization of the plants are key like in phenolics. Now if you ask for example phenolics last quarter, we had 31% and this time it is 22%, are we saying that margin is bad, you see the top line growth, you see the overall growth in the business, you know somewhere margins are getting into a wrong thing, we have to focus on absolute number rather than focusing only on margin percentage because we grow the business, percentage can vary, we cannot target a particular percentage of EBITDA margin and then do the business, that way we cannot work in chemical industry right, but, to answer your question, again I will stick to my own guidance, which I have given earlier also I stick to that and it will be somewhere between 27% to 32% and in F&S, it will be

somewhere between 36% to 42% and PP is going up, PP can further go up today, what I said around 15% to 20% but the way things are moving it will be higher in third and fourth quarter, so can be in the range of 25% or something.

Abhijit Akella: And these are EBITDA margins right, sir?

Sanjay Upadhyay: Yes.

Abhijit Akella: And phenolics would you expect to sustain around these levels or improve a bit?

Sanjay Upadhyay: Yes, I expect this to sustain at this level.

Abhijit Akella: Got it, thank you. One last thing, you mentioned the new agrochemical contract you signed with one of the leading global customers and then the investor communication also talks about various long-term formula linked arrangement that you are kind of working on, so could you share some more insights into this deal and any further such negotiations you might be having in the pipeline, thank you so much.

Maulik Mehta: So, what we are doing here is something that we have discussed before during similar conference calls. We are working on what we are calling our depend on Deepak initiative where we start getting into very deep conversation with strategic customers where they are also expecting a certain level of growth, they have already been depending on Deepak in many of these cases, but it has not transitioned itself into a multi-year collaboration and partnership, so what we do is we had these conversations and we start an arrangement, together, they are also expecting a certain level of growth and there what we do is, then we tie-up the volume for that growth, we preemptively put in the investment where there are always X Y Z clauses and all that and then essentially their focus goes only and only on product development, market development because they are essentially de-risked with regards to volumes and it is important for us as key partners convinced them about why they should be able to depend on Deepak like at the end of the day you will find raw material prices increasing or decreasing, you will find utility costs increasing or decreasing and that is a general reality, which is our job to convince the customer that with all of these they would still be better off depending on Deepak and that is a conversation we have been having more and more successfully in more and more products and the product that you talked about where we tied up with medium term, meaning three to five years, it is one example, but it is by no means the only one and we are doing this increasingly more and more products as we ourselves develop our sense of confidence in doing this.

Earlier, Deepak itself stayed away from this because we said look we have 10 years, 15 years relationship with these customers, they have been depending on us, they have been giving us a lion's share of their requirements, why bother to get into that, but as we have gone ahead in the last couple of years, we have realized that their focus then can shift towards business development, market

development rather than worrying about annual discussions with Deepak and that has successfully transpired itself into a more solidified relationship, which was always there and we hope to be able to continue this trend wherever we find that there is good value for the customers and for the Company.

Abhijit Akella: Got it, thank you so much, Mr. Maulik and thank you, Mr. Sanjay and all the best.

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

Rohit Nagraj: Thanks for the opportunity. Sir, my first question is, you have mentioned about the increased market share and I think we have been talking about it since past one year, so what are the steps that we have taken to gain this market share across our product segment and aligned to that question is, this is predominantly because some of the smaller players in India have gone out of the system or is it because it will be import substitution products that we had been providing?

Sanjay Upadhyay: So, let me tell you about this market share, for example, sodium nitrite, we just said that there is a Brownfield expansion, and our market share is in the range of 70% to 80%, we are actually moving toward 75% to 80% now. Somewhere the customer has got that belief in Deepak Nitrite products and we are able to deliver also on this and when we say market share, it is not only domestic, we consider export market also, of course we will be very small in sodium nitrite as far as export is concerned, but still we have our presence in US and Europe on this and South East Asia, wherein phenolics if you see the capacity is going up and up. Earlier we thought that we will be having 60% to 65% market share but today because the market has expanded, we are still at 60% to 65%. But still we are having enough opportunity, we go on increasing our production, as you are aware people in production are part of the capacity, but actually it is not capacity, it is the capability of producer rather than capacity of producer you know, so somewhere people will ask that how can you grow further, but then you can see every time we are growing, so more and more we produce, more and more market we are capturing. Our market share has remained intact in most of the products and it is growing in fact in most of the products and we do not let go market share, let me tell you honestly because that is the key here if we are just focusing on EBITDA, but not focusing on market share it does not help big chemical business, you have to retain your market growth and then only focus on the EBITDA, so you name any product and we will be at least above 50% to 60% in whichever segments we are operating and in some products it will be around 70% to 75% also.

Rohit Nagraj: Right, Sir. The second question is on the medium-term contract for one of the largest players that you have mentioned, so any understanding maybe after five years, we are looking at certain percentage of our revenue coming in from such long-term contracts, any strategy that we are planning or devised for the same?

Maulik Mehta: No, we do not work with a predetermined target in terms of percentage or anything like that, I know that is a workable business model for many companies, but for us what we do is we say okay, is there

a value that both sides can gain from having this kind of formalized relationship, otherwise in general in every single one of our products, our customers know and appreciate how well they can depend on Deepak, so if they are already depending on Deepak there has to be a good value at both sides to get into this kind of a discussion, now it just so happens that right now we are getting into many of these conversations, many of them will transpire into formal arrangement, some of them will stay at an informal arrangement and in some cases we ourselves decide that look the right way forward is to ensure that there is an anchor customer or two, but beyond that we should focus on spot opportunities because we are well entrenched in that segment, we have a good dealer and distributor network, we have our team spread out very well and we believe that the Company will further benefit from having an open position, so with all of these vagaries saying that there is X or Y strategy, the strategy could be product specific, the strategy in many cases could be customer specific, so we do not foresee any sort of strict number that we need to achieve, we are not taking this as our own targets.

Rohit Nagraj: Got it Sir, just one clarification on the capex front, so Rs. 1250 Crore to Rs. 1300 Crore is excluding the Deepak Clean Tech capex or is it including?

Maulik Mehta: It is a part of this, it includes it. As far as you are concerned, it is the Company in which you have invested.

Rohit Nagraj: Right, Sir. Thank you so much and best of luck.

Moderator: The next question is from the line of Kumar Saumya from Ambit Capital.

Kumar Saumya: Good afternoon, Sir. My question is regarding this medium-term contract, if you could throw some light on this contract and how much are we planning to extract from this contract and post this, how do we plan to utilize it and if you can highlight & give clarity on, is it exclusive supply agreement or we are supplying to other customers with the same product?

Maulik Mehta: What I can tell you is, I certainly cannot give you any numbers because lot of my customers are listening to this call, but in all seriousness what we had in our discussion is that, these are growing molecules that the customer uses, so they themselves cannot give up, the fixed volume number, but what they tell us is that we have an obligation to supply a minimum percentage of their requirement, we have to give them a priority. Tomorrow if push comes shove and their requirement increases, we have to agree to be giving them volume instead of giving it out in the spot market, all of these are give and take at the end of the day. What I can tell you is that for this particular product we give them a specific kind of SKUs which is tailor made for their consumption and therefore while we may sell the mother product to other companies and other customers this particular kind of SKU in this manner we focus on giving to this customer that also allows us to create some sort of an entry barrier with regards to competition, I hope that answers your question.

- Kumar Saumya:** Yes, Sir and again repeating on earlier question, that Rs. 1300 Crore includes Rs. 700 Crore of Phenolics capex?
- Maulik Mehta:** Yes. Once again, we will just highlight that this is what we have announced so far, this is not the end of it, but this is what we have clearance from the board to be able to tell the shareholders
- Kumar Saumya:** Thank you. That is, it.
- Moderator:** The next question is from the line of Naresh Vaswani from Sameeksha Capital.
- Naresh Vaswani:** Sir, my first question is on the pricing of phenol and acetone which are imported right now? And with the Anti-Dumping Duty (ADD) going out will there be more imports because the duty structure, which was there is no longer there now?
- Sanjay Upadhyay:** No, to answer that, we are confident that we will retain the margin, which is 22%. Again, I am not taking one figure, but it will be somewhere between 20% to 22% margin, we will be retaining, there is no question of antidumping affecting us, nothing like that.
- Maulik Mehta:** What I can share is antidumping can be from one country to another, but phenol is like water, water will come from everywhere, it is not like you can block one place and the cup will not fill up with water, it is all about what is the price, what is the movement, what is the available supply and let me assure you, there is ample supply of phenol in the world and there was also ample consumption of phenol in the world before Deepak came in, India was almost entirely supplied by imports and today, there are a number of countries, so the countries which have this antidumping revoke do not actually factor in any substantial way whatsoever whether it is with volumes or with prices in the Indian ecosystem. So we ourselves are not very worried, we do not think you should be very worried, imports will continue, but generally speaking not really from the countries where it got revoked, it is rather free market and everything depends at the end of the day on prices and on demand supply.
- Naresh Vaswani:** And on the capex front, out of the total, how much is for the Brownfield?
- Sanjay Upadhyay:** So, around Rs. 150 Crore to Rs. 200 Crore will be for Brownfield.
- Naresh Vaswani:** Thank you, Sir.
- Moderator:** The next question is from the line of Kishan Gupta from CD Equisearch.
- Kishan Gupta:** Good afternoon. So, what factors do you think have enabled you to run this phenol capacity at some 120% or more?

Sanjay Upadhyay: Factors, we follow efficiency, and we have very good technical team all I can say. I just say this what you said capabilities is their namesake, capability is more important you know and realize that, yes, we can do it.

Maulik Mehta: Actually, for us also this has been very, very good learning as Mr. Upadhyay said, we should focus not on talking about the name, place, design capacity in fact when we began this project, we did not have a lot of money, we did not have a lot of land, we had to do what best we could do with what we had, just theory of constraint. And then over getting a good handle on how to run the plant, we ourselves learned that as long as we minimize the peaks and troughs and we focus on throughput, we have seen more peaks, the highs and lows that you have, the lower the throughput can become. When you streamline it to make sure that you know it is homogeneous in that sense, you are putting the right kind of advanced process controls and you have to ensure efficiency, that is the name of the game here, you automatically try that there are new kinds of sealings that you are able to find, frankly speaking when we started running the plant, we ourselves started 105% to 108% of the capacity. And in fact right now, we have gone far, far in excess of that and even when we are finding that we make this small change here this efficiency improvement guess we can further improve the throughput, so if you ask us if we have reached our sealing, no we have not and we have learned from past experience as Mr. Upadhyay said that the sealing is on our mind, we have to focus on improving capability, we will improve the output automatically and as we do this we amortize the fixed cost over a larger base.

Kishan Gupta: So, essentially can you replicate this for other businesses or other plants as well?

Maulik Mehta: That is challenging ourselves.

Sanjay Upadhyay: We have been doing that regularly, otherwise how do we grow.

Kishan Gupta: I am talking about over 100%?

Maulik Mehta: Yes, we have done it successfully in a couple of other products, we ask ourselves that question why cannot we do it everywhere and the short answer is you know it is easier to do when it is a continuous plant, but that does not mean that we are resting on that answer. The job that operational excellence has is the process intensification, do more with the same and we have significantly improved in many of our products, we are working on others, we have not raised our hands in failure yet, so the job for us is not done, it is ongoing.

Sanjay Upadhyay: Further it will need some small capexes also, it is not like it is free. Like debottlenecking, as we said there will be some investment, but the idea is to run the plant optimally, the benefit of this is that you already have utility, you already have a plant running, whatever is required for the technical point of use or you can use the same thing also for utilization, so this is where the key lines.

- Kishan Gupta:** So, do you think you have some sort of competitive advantage in running this phenol plant at this utilization or others can also do it?
- Sanjay Upadhyay:** I do not know if others have demonstrated it yet or not, we demonstrated it.
- Kishan Gupta:** Not globally, no global players have been able to demonstrate that?
- Maulik Mehta:** We cannot answer that because this is not what we spend our time asking ourselves.
- Kishan Gupta:** You are talking about efficiency right, so we are just trying to understand how efficient you have been as compared to others for this business?
- Sanjay Upadhyay:** You have seen our performance, why compare with somebody else, when we have said our capacity is 2 lakhs tonnes and today, we are selling more than 230 lakhs to 240 lakhs tonnes and what more you want, why compare with somebody else what they are doing, we are doing our business, we are doing reasonably well that much we can say.
- Kishan Gupta:** Thanks.
- Moderator:** The next question is from the line of Dhruv Muchhal from HDFC Asset Management.
- Dhruv Muchhal:** Thank you so much. Sir, the first question was I was doing this math, for your RM cost for phenol business, what I was doing is consolidated minus standalone should effectively give me the phenol business, if I am not wrong. And if I look at the RM cost after doing this math, the RM cost in the phenol business has increased significantly versus if I look at benzene and propylene prices that have not changed much, this is I am referring to the Bloomberg benchmark for benzene and propylene on a Q-o-Q basis, so what could be driving this, I am just trying to understand that?
- Maulik Mehta:** What could be driving the raw material cost?
- Dhruv Muchhal:** What could be driving the significant increase in raw material cost on a Q-o-Q basis, which is not suggested by the benchmark, it could be probably the laid back Q1 prices or Q4 prices are now reflecting, I am just trying to understand what could be this?
- Maulik Mehta:** So, first of all, the prices that we pay for our raw materials are not always exactly the same as the published price, that is dependent on our discussion with the supplier, it could be based on a previous month or it could be based on an average of a quarter or something like that, it is different for different supplier, similarly what I can also say is that at the end of the day you also consume for example, hydrogen and between these key raw materials, there are also other smaller raw materials that are there, that do play a role, it is not like they are completely absent.

- Dhruv Muchhal:** Sure, the only thing is the increase is substantial, so I was just wondering is it primary to do with the lag impact or is it something else, the lag is understandable, but I was trying to understand is there anything other than the lag?
- Sanjay Upadhyay:** The prices of benzene have gone up, the volumes are going up, we cannot say the absolute number however, some number, it could be stock of all.
- Dhruv Muchhal:** One point, which you may not have considered or if you have, I do not know, would you have considered the cost of utilities 200-250%?
- Sanjay Upadhyay:** Benzene have gone up, the volumes are higher so there could be a combination of all, there could be stock also for their convention.
- Dhruv Muchhal:** I will try to take it later offline, no worries.
- Maulik Mehta:** Yes.
- Dhruv Muchhal:** And Sir, one other question was, actually two small questions, first is on the basic intermediates, you mentioned that we are expanding capacities, and which will be commission in Q3, so can you give some percentage in terms of volumes, how much volumes can increase after this capacity expansion, it will help us in our growth forecast?
- Maulik Mehta:** For that one product it would increase it, now again, this is a question of capacity versus capability, if I were to say the capacity, the increase would be about 15% or so.
- Dhruv Muchhal:** Sure, and the last question was, the Rs. 1200 Crore to Rs. 1300 Crore capex that we plan, first is what duration do we plan to spend this capex, because this is in context of the H1 capex, as the capex number seems a bit low, which is about Rs. 82 Crore on a consolidated basis, so I just wanted to understand this Rs. 1200 Crore is to be spent over what period?
- Sanjay Upadhyay:** In the next one-and-a-half years.
- Dhruv Muchhal:** So, the larger part will come in the next year from cash provisions, right?
- Sanjay Upadhyay:** It starts from today, the larger cash flow will come in the first half of next year.
- Dhruv Muchhal:** Got it, sure. Great, Sir. Thank you so much.
- Moderator:** The next question is from the line of Ranjit Cirumalla from B&K Securities.

Ranjit Cirumalla: Sir, thanks for this opportunity. I have a couple of questions, the question is kind of repetitive I have this confusion on the capex front, I am looking at the board approved capex, which you are saying around Rs. 1100 Crore odd and we have this Rs.700 Crore on the phenolics and Rs. 400 Crore on Deepak Nitrite so we have considered it as a Company, it would definitely help us if you can provide some clarity between both these capexes?

Sanjay Upadhyay: Rs. 700 Crore we have announced in Deepak Phenolics you must have read that, Rs. 300 to Rs. 330 crore in Deepak Nitrite, which is announced, plus there is de-bottlenecking capex, which we do not make announcement because we believe this is the normal feature what we spend could be in the range of Rs. 150 Crore to Rs. 175 Crore. Plus, as you know the other things like IPA, which itself is around Rs. 250 Crore to Rs. 260 Crore, so there are several things, I mean no announcements have made been because as we believe this is a routine thing, which in any case we do it, so Rs. 50 Crore to Rs. 60 Crore de-bottlenecking, we do not make an announcement, but overall, it is in this range.

Ranjit Cirumalla: But these announcements are not including Deepak Clean Tech, so you also kind of alluded that we have been doing some capex in Deepak Clean Tech as well?

Sanjay Upadhyay: We answered just few minutes back, for Deepak this is the total capex.

Ranjit Cirumalla: So, this Rs. 700 Crore is phenolics, Rs. 400 Crore is for Deepak Nitrite that is right?

Sanjay Upadhyay: Deepak Nitrite that is Deepak Clean Tech is around Rs. 300 Crores to Rs. 350 Crores.

Ranjit Cirumalla: This is helpful and it clarifies. Second question, in the release you have mentioned that the quantities of OBA and DASDA are like higher than the usual quantity, so just wanted to get a sense are we likely to see the similar trends that we have witnessed couple of years back, your qualitative commentary would be helpful?

Maulik Mehta: Honestly speaking, it is not good for us to answer that because when you start seeing something and it is sudden and significant you do not know whether it is something that will continue at the end of the day for us, we are not here in the spot market, our goal is to remain sustainable and our goal is to be strategic suppliers, of course we will take advantage of any opportunity that comes and there is no doubt about it, but if you ask somebody in the beginning of a volatile change what they expect the average over the next many months to be, whatever answer it will be, will be wrong from the perspective, so please I would not look forward to answering this question.

Ranjit Cirumalla: Yes, Sir, certainly, perfectly fine, I was more looking for the demand exit or entry?

Maulik Mehta: Demand has been growing certainly, which we mentioned about three quarters ago from a very, very low base, today by and large all of the downstream industries are up and running largely to whatever it was at pre-COVID levels it terms of volumes, now like any other industry they are dependent on

our whole variety of raw materials, the demand is very strong especially in segments like paper, which was very depressed for the longest time, the demand is very strong, it is their job to make sure that they get all of the key raw materials that they need in order to supply to that growing demand, how well they do it you know play a large role in the kind of demand that they have for our products, there is no point in being able to get three out of five raw materials because you still cannot make the finished product. Today, we are seeing strong demand, we are seeing rising prices and we are seeing a high level of customer confidence, tomorrow we do not know.

Ranjit Cirumalla: Finally, between the supply chain, will the industry be able to meet that demand, do you have any supplies?

Maulik Mehta: Like I mentioned that the segments are now operating at pre-COVID levels. And today, if you read in the news in the US and Europe, in Southeast Asia everywhere they are essentially running out of printed paper, they are not able to make this kind of pamphlets, brochures and things like that, so there is a very high demand. Now, that does not necessarily translate automatically into high demand for Deepak's products or intermediates like there would be other supplies with other intermediates, they can make sure that they are able to get all of those, which right now they are able to, we need to see how the situation transpires, today it looks positive, tomorrow wait, and see.

Ranjit Cirumalla: Thank you, Sir.

Moderator: The next question is from the line of Rajiv Sehgal, an Individual Investor.

Rajiv Sehgal: Good afternoon. At the outset, I would like to congratulate the management for an outstanding set of numbers in difficult market conditions. I have two questions, number one, how dependent are Deepak Nitrite and Deepak Phenolics on import of raw materials from China? My second question relates to launch of derivative products of phenol and acetone, here I would like to know what is the timeline for the launch of these new products and secondly, what is the estimated annual revenue in year one when these products get launched?

Maulik Mehta: First of all with regards to the import dependency on China, see, we do import from China, but we do not only import from China for any of our raw materials, so if you ask us with regards to criticality I would say that it is not high and I would say that you know, we look at China like any other source, but we have others including domestic sources from that front we have dealers, of course at the end of the day these can create sticker shock on prices and all, but we believe that we are in a good place in our key dependence and we have been able to pass on cost increases in Q3 so far. Now, with regards to the revenue growth, etc., of the new products, what Mr. Upadhyay mentioned is that we would target something around 1.5x odd asset turnover ratio, so that would give you a good indication.

Sanjay Upadhyay: But if your question is specifically about tier one operation you can take 70%-75% utilization

- Rajiv Sehgal:** I had two questions here, number one what is the timeline for the launch of the derivative products of phenol and acetone and secondly, how much incremental revenue would these derivative products give you in year one of the date of their launch?
- Sanjay Upadhyay:** So, to answer specifically on timeline, it will be one-and-a-half years from now and first year operation to be fair, you can take our target would be 100%, but you can go 70%-75% of utilization, so if the asset turn is 1.5x, accordingly you can calculate it.
- Maulik Mehta:** So, just to clarify when we say as turnover we talk about incremental revenue, we do not talk about cannibalized revenue.
- Rajiv Sehgal:** Thank you.
- Moderator:** The next question is from the line of Satjit Singh an Individual Investor.
- Satjit Singh:** My question has been answered. Thank you so much.
- Moderator:** The next question is from the line of Venkat Rao, an Individual Investor.
- Venkat Rao:** Sir, thank you for giving me this opportunity. I am a first-time investor, and I am a data scientist by profession, my question is to Mr. Maulik. Sir, can you tell us, how important is artificial intelligence going to be in Deepak's future and how is it really adding value to Deepak if there are any projects that you see?
- Maulik Mehta:** Artificial intelligence and machine learning, if I am honest is as important as you wanted to be, you can make it the most critical aspect, you can make it something that you can just ignore, but we have been implementing machine learning and AI across many of our plants, we have got a lot of value from it, what we focus on doing is making sure that at every stage especially when you are implementing advanced process control you are capturing data whether you are able to make use of the data immediately or you are able to use this bank of data that you have developed over many months even 6 to 8 months from now in order to project a trend, at the end of the day the data is useless unless it converts itself into knowledge and insight, we started that journey, we are quite happy with the results, we hope to be able to take more such initiatives across more such plants and not just in plants, but also with regards to the supply chain, it is a calculated step and our goal is to see that we do it right, we do not do it because it is a flavor of the season. I certainly do not do it because a lot of these big three consulting firms are pushing it.
- Venkat Rao:** Got it, thank you, Sir.
- Moderator:** The next question is from the line of Gaurav Sinhal, an Individual Investor.

- Gaurav Sinhal:** Sir, just one question, you had explained in the last call about fine and speciality chemicals and how it depended on global situation of shipping, just wanted to understand if that situation is improving, because over the last three quarters there has been a decline, so just wanted to know if the situation is improved?
- Maulik Mehta:** So, you know I asked this question to the logistics head before this call because I anticipated it and very happily, he told me the situation is now not getting worse.
- Gaurav Sinhal:** That is good enough.
- Maulik Mehta:** I would like to highlight one thing, right now it is well known that there is some sort of production and therefore supply constraint for material coming out of China, some of these reasons are decision based, some of these are consequence based and therefore China being a very high center of gravity in terms of material movement across the world when that reduces its trading you will therefore immediately find a knockdown availability of it to the rest of the world including India. Today, therefore the situation seems less dire than it was a few months ago, now if and when after a couple of quarters China comes back and in what form it comes back and how that affects the freight we do not know, this is a question that not just Deepak, not just the chemical industry, not just India is grappling with, but today certainly seems to have given us a brief respite, it has nowhere at all come back to what it was pre-COVID, so let us be clear about that, prices are still elevated, but supply has improved.
- Gaurav Sinhal:** So it would be possible to pass on the cost and actually give you some kind of growth?
- Maulik Mehta:** We were hoping so, but again I have to warn that this is still an evolving situation.
- Gaurav Sinhal:** Understood, Sir. Thank you.
- Moderator:** The next question is from the line of Manish Jain from Moneylife Advisory Services.
- Manish Jain:** How do you foresee the revenue composition three to four years from now?
- Maulik Mehta:** Will be good.
- Manish Jain:** What will be the major revenue growth drivers?
- Maulik Mehta:** It is difficult to project now frankly speaking, we are making investments in all the segments, we are expecting growth so far in all the segments and we remain bullish now the journey from now towards to the next three years, there is a lot of new strategic moves that we will be making that we would not have made many years ago and that will actually dictate a lot more, so for example, we are looking at getting into entirely new segments like that has been announced, with solvents, today we have almost

no place in this other than some small volume of acetone and IPA, but what we are going into downstream more value adding solvent, how we are able to liberate this and develop the business model, which is allowing us to take a larger share and more value enhancing share will factor into how we take our strategic business decisions with regards to business unit structure, so you know it is a journey for us, we will get into, but you know you can safely say that across all of the engines we are expecting some or the other level of growth over the next year, two years, three years.

Manish Jain: Understood, and what is the capacity utilization across business segments today?

Maulik Mehta: Now are you asking for our capacity utilization or capability utilization?

Manish Jain: Both if you can answer.

Sanjay Upadhyay: Actually, this is across the segments everywhere we can increase the capacity and we will do that regularly. So if I tell you we are at near to 90% that does not make much sense, we will grow to answer your question, more on all the segments you will see as I mentioned in the last call also, you will see completely different Deepak Nitrite five years from now, last five years also we had said that, in fact our Chairman had said in one of the meetings, he said that it is the question of what is your growth, he said I want to reach \$1 billion turnover, now that was absolutely good, that time maybe our turnover was Rs. 1200 Crore to Rs. 1400 Crore and he was targeting Rs. 6500 crore and this year we should touch Rs. 6500 crore, so you see this is what you can. You know 4 to 5 years back, he made some comments and we have delivered and we as a Company delivered more than what we promised, that is our accepted truth. So you will find a completely different Deepak Nitrite after 4 or 5 years, so be patient and trust us on whatever steps we are taking, that is all I can say.

Moderator: The next question is from the line of Sukanth Krish, an Individual Investor.

Sukanth Krish: Sir, thank you for giving me this opportunity. So, my first question is related to the revoke of antidumping duty recently by our ministry and second question is related to the dual controller regime from China, how are we seeing this opportunity and the third and last question is, regarding the new chemistry which is fluorine in the agriculture segment?

Maulik Mehta: The first question, which is about the antidumping duty, I do not expect that it will impact us much, if the prices are going to go up, they will go up, if there are going to go down they will go down, but it will not be because of these revocations and with regards to your second question sorry what was it about?

Sukanth Krish: Dual control regime in China?

Maulik Mehta: So with regards to dual control, I think there is value to the investor community in spreading the dual control policy, the policy has been in place over last year as well, they are just implementing it far

more strictly right now and we believe that they will continue to implement it strictly up to the Beijing Olympics, but we strongly also feel that they will continue to implement it to a large extent all of next year, you know the impact of this, that is very tightly linked to what people understand from it and how different industries react to it because the goal of the dual control policy is for it to be dynamic, for it to reward, provinces that are doing well and for it to punish provinces which are not doing well while at the same time ensuring that overall as a country it is working towards its net zero emissions by such a date and all of this has already been outlined, now for the chemical industry in particular this will lead to short-term disruptions in many cases, lead to opportunities and in some cases lead to supply side shocks and in many cases for Deepak it has also actually led to interesting opportunities to export more to China, what happens is that the policy along with your current shortage that we are facing in utilities along with their internal targets for the Beijing Olympics are creating a significant shock.

This will over a period of time you know evolve into something which is more sustainable, we do not see that right now, the kind of situation that is there sustainable, nonetheless, we are taking the opportunity to see where all we can gain by creating those kind of relationships with our customers where we are able to leverage and demonstrate our dependability. And in other cases, we are seeing where we can as I mentioned, locate export opportunities even if it is China.

Third question was about fluorine that has been announced, yes fluorination will be one of the process platforms that we are investing in the new site at Dahej this will be part of the newly announced subsidiary and therefore there are various kinds of products that can be fluorinated, but fluorination as a new process competency will add to Deepak's table, that is the intention.

Sukanth Krish:

Sir, in that case fluorination we are targeting at agriculture industry or the electric vehicle industry, and how are we differentiated from the leading companies like Navin Fluorine?

Maulik Mehta:

See, fluorination is a step, it is one unit process, now by itself a process is not what is going to differentiate you, today we are for example, we are in nitration, we are in hydrogenation, so many other things, there are so many other companies that are in it. There are very, very well regarded companies that are in it, nobody actually asks how we will differentiate ourselves, yes, regards to fluorination, key aspects of it are, things like availability of raw material, safety and operational excellence on those front that is what we have to work on, but fluorination is one step, we are linking it with other steps which we have a very deep level of similarity with nitration, reduction, fluorination all of these things are steps that we have been doing for decades now and we know what we are doing, so we would not see ourselves comparing or competing with Navin. But what we are doing is we are expanding our product basket with new product that will now utilize a process, which was not yet part of our stable. We have in any case even today, a lot of fluorinated products that we sell, but until recently we have been buying the key raw material, now we will not only make some of the key raw materials, but we will be making other products, which as of now will find their application in the

agrochemical and the pharma spaces. As we go ahead, we are collaborating with key customers, strategic customers to develop products using the same facility, which will go into other segments, but a lot of agrochemical formulation, a lot of pharmaceutical formulation happened to require these products, which requires fluorination.

Sukanth Krish: So, to conclude within fluorination, we are targeting agriculture industry and not electric vehicle industry right?

Maulik Mehta: We are interacting with opportunity in that space, if you ask us what we will do, what is going to be the first product out of the plant, the first product out of the plant will be targeting in the agro and pharma space, but these are plans at the end of the day which are very fungible so you can use them to make other products as well, we optimize it in the best way that we know how.

Sukanth Krish: Thanks for the opportunity and happy festive season. Thank you, Sir.

Moderator: We will take the last question from the line of Ravi Mehta from Deep Financial.

Ravi Mehta: Thanks for the opportunity. Just a couple of questions, one was the medium-term contracts that you signed, are these new molecules jointly developed by our Company with the customers or you get the molecule, and you develop the process or how does it work?

Maulik Mehta: No, so what we have announced are molecules which we have in any case as a mother product, but we have customized them in some way and formed specifically to optimize their use by the target customer, it is not jointly developed.

Ravi Mehta: Sure, one more question was on the basic chemical vertical being re-branded as BI, so does it involve some value addition to the basic material and looking at an intermediate, is that a way to look at it or it is more of signing strategic contracts and having focus and that is why so?

Maulik Mehta: It is a strategic reorientation for Deepak to be honest, because it means that internally we have to realign ourselves towards taking very balanced view, not just an opportunistic and short-term view where we are talking to say strategic customers to see how we can ensure that there is a long-term collaboration, in other cases what we are making sure is we focus of course on spot opportunities as and when it comes, but finally we are also recognizing that the products that we make which we have, over the time or few years ago where this segment was actually called bulk and commodity chemicals from that it translated into basic chemicals and now I believe it is the right next step for it to be considered as basic intermediates, not a chemical just by it is not the basic chemical because we are also finding that the product we make are becoming more and more critical for our key end segments and therefore they are expecting Deepak to be playing a more and more active role in ensuring that their supply pipeline remains dependable, so that kind of conversation that we are having the way that

we are realigning ourselves internally is now to have a view and acknowledging that how the importance of our products have increased in our customers minds.

Ravi Mehta: And are we going one or two steps in the process to arrive at this, from basic chemicals maybe one or two step forward to get into intermediate?

Maulik Mehta: See, we are widening the basket over a period of time and otherwise what ends up happening is we constantly internally are in this about whether a downstream of a BI product should be, BI or it should be in speciality, so what we have taken a call internally is that any product which at the end of the day is a push product meaning that it is requiring an extremely strong tie up with a particular customer in the end segment who not only is an anchor customer, but is also going to dictate whether we succeed or fail. Those kind of products will become speciality products whereas products where the focus must always remain on process excellence, product excellence, but there are multiple different end segments, multiple applications and multiple kinds of customers. So we consider products which are well suited for BI and therefore now moving forward when we decide whether products are to be categorized in speciality or BI. It will no longer be on the basis of what is the kind of margin that one should expect, it should be on the basis of what are the most important levers that we should be focusing on. Yes, we will go downstream, some kinds of downstream will feature into a enriched speciality BU edition and sometimes it will remain within BI, sometimes something that we may make in speciality may deserve its own BU tomorrow, but this will be evolving and its base is not just something as simple as a margin.

Ravi Mehta: And just lastly one clarification, the expanded IPA capacity and cogent plant, is it commissioned in H1, or it is going to be commissioned now?

Maulik Mehta: It is in process right now, it will be commissioned in this current quarter.

Ravi Mehta: So, it will be ready probably in this quarter.

Maulik Mehta: Yes.

Ravi Mehta: Thanks, and all the best.

Maulik Mehta: Thank you and happy Deepavali.

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

Sanjay Upadhyay: Thank you everyone for joining this call. In case any further clarifications are required; you can contact Mr. Somsekhar Nanda, our Deputy CFO. Wish all of you a very Happy Deepavali and Happy New Year.



*Deepak Nitrite Limited
October 29, 2021*

Maulik Mehta: Thank You. Happy Deepavali and Happy New Year.

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