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August 16, 2023

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

We enclose herewith the transcript of the earnings conference call of the Q1 & FY 2024 held on August 8, 2023 and the same is also available on the website of the Company at the weblink https://www.godeepak.com/financial-result/.

Please take the same on your record.

Thanking you.

Yours faithfully,
For DEEPAK NITRITE LIMITED

ARVIND
BAJPAI

ARVIND BAJPAI
Company Secretary

Encl.: as above

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Deepak Nitrite Limited

Q1 FY24 Earnings Conference Call

August 08, 2023

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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Deepak Nitrite Limited's Q1 FY24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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. Ranjit Cirumalla from IIFL Securities Limited. Thank you, and over to you, sir.

Ranjit Cirumalla: Thank you, Dorwin. Good afternoon, everyone, and thank you for joining us on the Deepak Nitrite Limited's Q1 FY24 Earnings Conference Call. Today, we have with us, Mr. Maulik Mehta, Executive Director and CEO; Mr. Sanjay Upadhyay, Director, Finance and Group CFO; and Mr. Somsekhar Nanda, CFO, Deepak Nitrite Limited. We will begin the call with opening remarks from the management team followed by an interactive Q&A session.

To begin with, Mr. Maulik Mehta, will share his views on operating performance and the growth trends of the company followed by Mr. Sanjay Upadhyay, who shall take us through the financial and segmental performance.

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

Maulik Mehta: Good afternoon, everybody, and a warm welcome to all of you on Deepak Nitrite's Q1 FY24 Earnings Conference Call. To begin, we pay tribute to Shri CK Mehta, visionary Founder, and Chairman Emeritus of Deepak Nitrite Limited, who departed peacefully surrounded by family on July 3rd, 2023. Over 50 years ago, he ramped up Make in India, leading to the establishment of Deepak Nitrite Limited, a professionally driven organization epitomized by strong values, excellence, and responsible chemistry. His legacy of nation-building by serving society continues to inspire and guide the Deepak Group. As we cherish his illustrious life filled with inspirational moments and fondly remember him for his contribution to the nation, to society, to the Company, and to our entire fraternity of stakeholders.

Our results documents were shared with you earlier and I hope you have had the opportunity to glance through them. I will initiate by briefly taking you through the key financial and operational highlights for the quarter ended 30th June, 2023. Mr. Upadhyay will then present you with a more comprehensive financial overview during the period under review. Following this, we will open the forum for a Q&A session.

As we stepped into fiscal year 2024, we faced an array of challenges arising from global macroeconomic pressures and slower-than-anticipated demand from key customer segments. The Indian chemical industry, including Deepak Nitrite was impacted in Q1 FY24 by factors such as additional supply from China opening up, a global destocking of inventory and a slowdown in the Euro zone. This has led to the softening of realizations and impacted the volume off-take.

In order to save our profitability and market share, the Company proactively took several measures like exploring new customer opportunities, optimizing procurement and evaluated valorization opportunities of byproducts, apart from continuous improvement around operational excellence. These have helped us to operate plants efficiently and consistently deliver supplies to customers, while making progress on growth initiatives and strategic parameters.

During May 2023, we reported highest-ever production for some of our products, showcasing solid business resilience. Notably, we have been able to export key pharma and agro-intermediates to China during the last two quarters and we will continue to do so. We have also successfully enhanced wallet share in each and every one of our products.

Apart from carefully navigating through challenges, we made progress on strategic endeavours. We proactively de-risked our business model by securing assured input supplies from alternate sources. We have recently commenced a captive power supply and are driving value from waste. Further, the growth initiatives to enter a substantial supply contract in all segments ensure a clear pathway for sustainable growth.

The development that I am personally excited about is the setting up of a world-class R&D center in Vadodara. This R&D center is under implementation and will allow us to further deepen our capabilities and expertise across existing as well as new complex chemistries. We've also made considerable progress on all of our growth initiatives and capex plans, making Q1 a fairly eventful quarter on all counts.

With this backdrop, I shall share an overview of the performance. In Q1, consolidated revenues were INR 1,800 crore, lower by 13% Y-o-Y and 9% Q-o-Q. The challenging industry-wide conditions amid the opening of China, inventory destocking, etc. We believe that this is transitionary and have undergone several such cycles in our history, our focus during the quarter was on factors within our control such as optimizing of procurement, operational excellence, and exploring new opportunities with existing and new customers and new products that we have enhanced our valorization opportunities for. This has enabled us to partially mitigate the impact of prevailing weak industry trends, but we must also remember that many of these are sustainable improvements and will take us well into stronger quarters.

EBITDA for Q1 FY24 was INR 242 crore, lower by 33% Y-o-Y, translating into an EBITDA margin of 13%. The changes in the global chemical landscape intensified by China's product dumping at lower prices, resulted in lower sales realization. Sales at several key products, including phenol, owing to a general sluggishness of market impacted our operating performance. Consequently, EBIT and PAT for the quarter declined by approximately 36% year-on-year. However, in most of the cases, we have been able to either retain or increase wallet share.

Projects under implementation for brownfield of existing products and processes and capex for an assured supply of inputs using photohalogenation and complex Halex fluorination, as well as projects for asset supply are expected to be commissioned over the next 6 to 8 months. These will enhance our competitiveness and together with the cyclical recovery in prices will buttress our profitability going ahead.

Now coming to our segmental performance. In Q1, the Advanced Intermediates segment generated revenues of INR 719 crore, lower by 3% on a Y-o-Y basis, amidst a decline in input prices and hence realizations. Despite inventory destocking by our customers, our margins in AI remained steady. As a result, segment PBT was resilient at INR 115 crore as compared to INR 131 crore last year.

Deepak Phenolics reported revenue of INR 1,089 crore in Q1. The decline in revenue and EBITDA is due to a sharp contraction in phenol spreads due to a supply glut arising from the opening up of China, as well as the slowdown in global markets and spreads being at a multiyear low.

We do have to also mention that the phenol plant was shut down for the first time in 4 years for its regular maintenance change, and this was for 15 days in the beginning of the quarter. We also looked at the improving raw material trend to self-finished products at a much more accelerated rate and we entered Q2 with a multiyear low opening inventory to take the best advantage out of the improved feedstock prices.

The Phenolics division aims to enhance downstream offerings to projects such as MIBC and MIBK, which will lead to higher capital utilization of acetone and attractive margins. Looking ahead, we are strategically positioned to capitalize on increasing demand and benefit from the trend of import substitution in India. The asset on derivatives remains a significant progress on ground for the project execution. The plant is expected to be commissioned in the first half of FY25, enabling downstream value-added products.

In a key development, Deepak Chem Tech Limited (DCTL), our wholly owned subsidiary, signed a INR 5,000 crore MOU with the Government of Gujarat to manufacture specialty chemicals, phenol, acetone as well as bisphenol in the state. DCTL will invest approximately INR 5,000 crore across these projects, aimed to commence the first phase in '24, '25 and complete the project by '26, '27.

Just health indicators, I'd like to share because I know that this question will come up during the discussion. In Deepak Phenolics, we expect quarter 2 to be better on a Y-o-Y basis as well as a Q-o-Q basis. In Deepak Nitrite, we expect quarter 2 to be flat on a Y-o-Y basis and improved on a Q-o-Q basis. And on a consolidated level, we expect both Deepak Nitrite and Deepak Phenolics together to be able to deliver better on Q-o-Q as well as Y-o-Y basis.

So, closing, I'd like to emphasize that Deepak Nitrite is well positioned for expansion in various aspects with a strong integration in the value chain. Our investment plan, which, at the moment, the project under execution amount to about INR 2,000 crore plus or minus, reflects our enthusiasm to seize opportunities, both in India and worldwide.

We continue to diversify our product offerings, expand our client base and enhance overall value propositions with a strong financial position, valuable customer relationship and well considered growth initiatives, we're poised to elevate our business proposition. Our expansion plans will improve our competitiveness, grow market share and generate value for all stakeholders.

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

Sanjay Upadhyay: Thank you, Maulik. Good afternoon, everyone and thank you for joining us today on Deepak Nitrite's earnings call. I'll walk you through the highlights of the financial results for the quarter ended June 30, 2023. Deepak performed interestingly during the quarter, despite a challenging environment, which impacted most of the chemical industries all over the world.

In Q1, consolidated revenues were lower by 13% at around INR 1,800 crore due to declining realizations and lower volumes in light of inventory destocking by global customers. In spite of that, Deepak Nitrite's volume share has not gone down like at one year. But the impact is largely because of the price realization which were lower as compared to earlier period.

EBITDA was INR 242 crore, down by 33%. Spreads across key product in phenols have reduced in past quarter. In fact, phenol witnessed multiyear cyclical lows this quarter as the real EBITDA margin has compressed to 13% during the quarter, PBT and PAT decreased to INR 202 crore and INR 150 crore, respectively. Our domestic business has generated revenue of INR 1,432 crore and export revenues were at INR 336 crore during the quarter.

Moving to our segmental performance in the Advanced Intermediates segment, revenues decreased by 3% to INR 719 crore in Q1 versus INR 739 crores in Q1 FY23, while EBITDA was down 9% to INR 136 crore during the quarter under review, the Advanced Intermediates segment reported a resilient performance on the back of diverse product portfolio and strong customer service capabilities performing very creditably, despite the challenging industry backdrop.

Deepak Phenolics reported a lower revenue by 19% to INR 1,089 crore in Q1 versus INR 1,338 crore in Q1 FY23. EBITDA was INR 107 crore, down by 51% in Q1, while EBITDA margin came in at 10% versus 16% in FY23. The Company's working capital position improved by INR 321 crore. Advanced Intermediate by INR 41 crore and Phenolics by INR 82 crores.

In Q1 FY24, DNL witnessed exchange rate volatility ranging from a peak of 82.85 to a low of 81.61. To manage the forex volatility risk, the Company employed dynamic hedging strategies, which led to a gain of INR 0.24 crore in Q1 FY24. Lastly, on the balance sheet front, Company’s financial position continues to be strong, being net zero debt Company and with solid cash flows, we are well poised to execute on growth plans.

During the quarter, we effectively managed surplus funds to make advanced payments to select suppliers, receiving cash discounts and remaining funds where invested in safe investment avenues and surplus funds are in the process of being deployed in growth prospects. As a result, we achieved an aggregate gain of INR 8.6 crore in Q1 FY24.

On a considerable basis, the Company remains debt free and boasts of a substantial net worth of INR 4,240 crore. This will facilitate leveraging in balance sheet for potential expansion projects as and when needed in the future. This was explained in detail by our Chairman in the AGM last week.

Our investment in its wholly-owned subsidiary DCTL was INR 499.5 crore, of this INR 94.5 crore was invested in Q1 FY24. The total investment in DCTL comprises of INR 9.5 crore in equity and INR 490 crore in CCDs. Approved projects are being executed as per planned. We are poised to announce commissioning of projects over the next several quarters in a phased manner.

Once commissioned, the plants will help secure internal supply of critical raw materials and thereby elevate the profitability levels at full utilization. Further, the Company is building world-class R&D centers as explained by Maulik near Vadodara to solidify its capabilities and expertise across complex chemistries. While accelerating growth momentum, existing R&D setup keeps working on various product and processes.

With that, I would like to now request moderator to open question and answer session please.

Moderator: The first question is from the line of Madhav Marda from Fidelity International.

Madhav Marda: I just had one very broad question. I think in the initial remarks, you mentioned that you all have seen quite a few sub-cycles in the history of the Company. Just wanted to understand, what are the key things which are similar and the key things which are different in this cycle versus the past ones. And in your view, what could help in the cycle, sort of correcting itself and things coming back to more normal levels? That would be very helpful.

Maulik Mehta: See, when we alluded to the fact that we have seen several cycles, what we mean is in a general sense, when new capacities are coming in, you will always have a short period of time when demand grows and demand grows at a relatively consistent phase, 5%, 6%, 7%, 8% CAGR. But when capacities come online, they come online in a certain manner.

So, over a period of time, this normalizes, so the demand is able to match up to the capacity that has been commissioned. And hence, when we're talking about commodity chemicals where Deepak Phenolics play largely, you have such situations of bull and bear cycle. But over a period of time, they normalize.

Similarly, as China has always been over the last 25 years, a significant player, maybe the most significant player in the production of chemicals. Generally, what ends up happening is that the production comes online in a normal market situation. What we have right now is a perfect storm, where there is low consumption in China and certain unlocking of COVID measures in China have pushed a lot of volume out.

But globally, because of tightening interest rates, there is also a headwind with regard to long-term visibility on consumption. Let me clarify that in the short term, demand is there, and consumption is there, but customers are not able to project a situation beyond the next 3 to 6 months. And wherever they are, that is simply because they may have their own downstream tied up in the consumption markets as well.

So, cyclicality in this sense in the chemical industry, whether it is in specialty or in commodity chemicals from the involvement of players like China and from the involvement of players like Europe, this we have seen. And we expect that Deepak is not only well positioned, but we'll be having an opportunity to be able to make significant strengthening of its moat as we move forward.

Sanjay Upadhyay: I would just add one thing to this. Though cyclicality affects the prices, we can maintain our volumes. Even if you see Phenolics, we are confident that we will achieve last year's production level. Maybe we'll not produce more but the turnover, maybe we'll cross that also. So the market share remains intact and the position in Deepak Phenolics is strong, once the demand picks up, we are very confident we will do better than what we have done in the first quarter.

Madhav Marda: Got it. And just a follow-up from my side would be that so the key thing to watch for incremental is China's own domestic demand kind of coming back and that should solve a lot of challenges that the global chemical industry faces. Is that one key thing to watch out for or what are the other pointers that we should look at to sort of think about recovery?

Maulik Mehta: So as generally, as the interest rates stabilize, global consumption comes to a point where they can project over a longer period. As I mentioned, right now, customers also have visibility of only a couple of months. But as they become confident that the global situation is stable, even if it is stable at a higher level, they are very happy to place a long-term commitment to volume.

But at the same time, China is picking up its internal consumption as well. So, whatever you see, which is a slowdown in terms of quarter, month-on-month export as well as imports in China. A large part of this is prices, not so much volumes. Volumes are intact in that sense. And as we move forward, we expect that China will go closer to its own self-sufficiency and India will be more linked with the rest of the world in terms of global demand and supply.

Madhav Marda: So, the Indian supply chain diversification, has been a key driver for growth for the companies in India. That kind of still holds, right? This is more of a cyclical challenge than anything changing structurally on the ground.

Maulik Mehta: Yes. But I will also caution that it is easy for companies and investors to just bet on the same horse. So, this is certainly a key driver, but by no means is it the only driver. And there are other important factors at play too, including, but not limited to the Indian companies' own resilience and competitiveness.

Companies like Deepak are used to competing with China. So, our performance matches China's ability to perform on the best of days as well as the worst of days. So, we don't necessarily need to depend on China doing well or badly in order to have a level of resilience from our own operational excellence.

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

Nirav Jimudia: Sir, on the spend onto post capex, all the plans which we have commissioned. So, if you can share the capex as well as the cost savings which could accrue to us with the commissioning of this plant.

Maulik Mehta: So, I mean, the plant has been commissioned, but cost savings are not the right way to put it because we have significantly reduced the volume of spend that we will push out and cost savings are always going to be in relation to the price of fresh asset. What I would like to, however, say is that this will add a significant score advantage to our scope 1, scope 2 emission disclosures.

And more than that, it allows us to have a more sustainable operation where we are less dependent on external vagaries. So, all of these things have a cost of energy, a cost of fresh materials, and these things change. So, it is difficult to give you an exact number. But anyway, what I can tell you is that the fantastic concentration plant fits well within our internal benchmark about savings and has the significant added benefit of improving our ESG. So, I look at it from not the bottom line but from the right thing to do.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, the first question is on the new R&D center. So, we have been building capabilities over the last few years and that is also displayed in terms of the newer products that we are working on and the projects which are getting commissioned. I mean, we plan to work on this new R&D centre. So, is it that we now would be also focusing on the export market given that predominantly earlier, our focus was on import substitutes? So, your thoughts on the same from a vision perspective? Thank you.

Maulik Mehta: So, we supply to the import substitution market. But more and more, the import substitution market has become a good foil for the global market because more and more of these multinational companies have started putting up their own investments into India or have tied up with converting partners in India.

So now, I mean, we don't look from Deepak Nitrite's perspective at just an import substitution, but we look at it from the perspective of making in India and making it to be able to supply to the world, which, of course, includes India. So, processes that we are building up in our R&D center. Some of these are the processes that we currently have in our technical toolkit, and we are adding new processes in this, which are at a very advanced stage.

And what we are doing is we are ensuring that we have a very high level of integration, both software integration as well as hardware integration between our R&D, our scale-up facilities and what we would call our challenged product, challenged capability plants, which are somewhere between mini plants and pilot plants where we are able to demonstrate our capability.

Now we are also getting into a lot of gas-liquid reactions and gas-gas reaction. And as I have mentioned earlier, we are moving ahead with at least three life sciences products, which will be downstream of our existing product basket. And these are, as I earlier also mentioned, going to be tied up with strategic customers in multi-year contracts. And we'll have some small volume of sales into the market as price discovery also.

So, these will all be taking place on an accelerated basis in our new R&D center. What it will allow us to do is it will allow us to do more of the same faster rather than keeping everything in a long line of projects that need space from the assets that are available. Along with that, it will also allow us to get into a couple of new processes, which I will not get into detail about right now.

Rohit Nagraj: Sure, sir. This is helpful. Sir, the second question is on Phenol. So, in your opening remarks, you alluded that there have been supplies coming from China. So, does it mean that there have been significant capacity additions in China, which are over and above their internal consumption? And that will probably have some bearing on the spreads over the medium term. And a second, a light question to that. In terms of the capacity debottlenecking that we're talking about 10%. So, after the debottlenecking, our capacity would increase to 330,000 from 300,000? Thank you.

Maulik Mehta: Okay. So, for the first part, we are not seeing any significant imports of Chinese phenol into India. However, because China is the largest producer in the world, its presence on a global stage means that there is increased pressure from non-Chinese phenol suppliers to also participate in Indian consumption. Nonetheless, as we alluded to in our opening remarks, Deepak has been able to maintain as well as grow its wallet share. So, while these imports were there before we started, these imports continue even when we are running our plant. We expect that these imports will continue even in the future.

Sometimes, this is because the new capacities that have been commissioned in the last six months have not yet had their downstream capacity commissioned, which generally may happen with a delay of a couple of months. Nobody wants to be in a situation where they commission a downstream first and then the upstream. So, this may have a transient effect, but all I can say is that, yes, there will always be this pool between the changes in terms of RM and the changes in terms of SG especially for a commodity chemical like phenol.

But we remain confident that we will maintain or grow our wallet share in India as consumption continues to increase even compared to the rest of the world where consumption may be moderating or slightly decreasing, India is a bright spot in the global economy when it comes to consumption and Deepak is in a prime position to be taking advantage here.

The second question that you asked with regards to the capacity, rather than going into numbers, 330,000 that, whatever. What we can say is that on a debottleneck basis compared to the design capacity, Deepak should and will be able to produce about 150% of what it had invested to produce in 2018.

Sanjay Upadhyay: Actually, I would rather elaborate here that, see, when you say debottlenecking in the process is already on. If we have touched this capacity, say, 135%, 140% I mean this is not one should go, this is now debottlenecked and capacity will go up like this. It has gone up. In 1 year, we have gone up from 220, 225, 230, 260, 270, 280. So, this is how it is. And to put any number is difficult as our team is capable of being much, much more than what we say anytime. So, we are very confident that we will deliver, as Maulik mentioned, about 150% on a consistent basis that the approach, can cross even beyond that.

Moderator: Thank you. The next question is from the line of Anas Savarkar from Value Quest. Please go ahead.

Anas Dadarkar: So, I didn't quite get the last one, you mentioned the Chinese imports. So, if you could just repeat what you've said. Because I understand, I think in the Q4 call, you mentioned that the Company doesn't have competition from Chinese phenol manufacturers.

Maulik Mehta: See, direct phenol from China. There is some in India, but it is very, very small. But because China is a large player, it's applying to the global market to disrupt other suppliers who then divert more volume to India. This is a normal situation. You have to think of phenol like Benzene, Toluene, Xylene, where it is an ocean. If one place gets occupied, it's water, it moves into another location.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First question on the advanced intermediate side. In your opening remarks, you did mention 3% Y-o-Y decline is largely led by realizations, while volumes have been largely intact. Just wanted to understand within the segment considering from, let's say, the basic product or the value-added segments, is there any significant diversion there? And how has been the competitive intensity in both of them?

Maulik Mehta: Okay. So let me give an indication of what we are seeing in the end application industries. So, plywood, and I'm telling you about the Company as a whole, including Deepak Phenolics. Plywood and construction, we are seeing an improving trend for sure. Auto we are seeing somewhat of an improving trend. And what I'm telling you right now is on a sequential basis, just to be clear, Pharma is relatively flat or slightly better. Dyes is flat, but it is flat at a low point over the last couple of quarters, Dyes has not picked up to what it was maybe about a year, 1.5 years ago.

Agro also flat. Paper and textiles also flat but also at a very low level. So, when I am saying that we are seeing an improvement is on the basis of how we see quarter 2 going where there are certainly green shoots that are visible, as I mentioned earlier, in the construction and the auto segments. And the other places where we see an improvement is because we are able to take wallet share away from other players who are in the same product.

Ankur Periwal: Sure, sir. And from a growth perspective, given that we have been launching newer products earlier as well. And now also, there are plans of the new value-added products getting launched. How do you look at them, let's say, from a growth perspective in terms of your market share gains with the existing ones as well as the new customer addition?

Maulik Mehta: So, our guidance with regards to growth and the value that, that growth would bring into our top line and bottom line remains intact. So even today, we see a similar top line as well as our bottom line to all of the capex which are currently under execution. There are a few other capexes, which we have not yet started to execute, which are at the engineering level. And these are also being seen from the same life.

Today, we expect a similar outcome from those, we are going into it with caution, talking to customers because they also need to be able to give us the same confidence not only on prices but also in terms of volumes because it will all be multi-year contracts. But today, I can tell you that there is no drop in our excitement about the existing projects as well as the ones that we have not yet announced.

Ankur Periwal: Sure, sir. And just a follow-up on that. What percentage broadly of the business here will be more on a longer-term basis, more like a client commitment there?

Maulik Mehta: So, most of the new products that we get into will be with a significant part of the volume, the majority of the volume being on a contractual basis. Some brownfield expansions that we do for existing products, will continue to have the same blend of contractual and non-contractual. I hope that gives clarity.

Moderator: Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Just had one question actually with regard to the project pipeline that is getting commissioned over the rest of this year, FY23-24. So, while we are aware about the integration too as well as the asset capacity, both of which will serve backward integration. Any other projects, brownfield or greenfield that were commissioned in the past that we should expect to start contributing to the numbers over the rest of this financial year?

Maulik Mehta: So, at this moment, we have give or take about INR 2,000 crore, INR 2,100 crore, which is under execution. This does not include projects where we have not yet tied-up everything. So, if we have tied-up everything, including the customer contracts, including the RM sourcing, etc., then we would add to this number.

So, when we're talking about that INR 5,000 crore and all that, that is a separate amount because we're still in the process of tying-up with customers and all. So, this INR 2,000 crore is well on its way and over the next, I think, one year or at least the next five quarters, pretty much all of these should be commissioned. And this will be a mix 50-50 of bottom line accretive as well as top line accretive. Let me highlight that anything which is top line accretive, is obviously also bottom line accretive.

Sanjay Upadhyay: If you're asking about the past brownfield, whatever we have done, the expansion and then the quantities were fully sold. Only issue is that today, if you see the agro industry is not doing that well. The demand is subdued. We are not gunning at 110 million side at double the capacity. So, if you ask the double capacity, are we running fully? Then no. But then we are much higher than the earlier levels. That much I can tell you.

The word capacity is of course, we have done in past a full double capacity. But today, it is lower. And then say, nitrite also, we have capacity much more that what we are. But yes, we are running a little lower than our full capacity. So today, there is a subdued demand in the market, no doubt on that. We are running full, selling higher volumes as compared to earlier years and even this year also. But we still have scope to increase further capacity if the demand revives further.

Abhijit Akella: That's very helpful. So just maybe one follow-up on the advanced Intermediates business. Sanjay bhai, you mentioned the sodium nitrate running a little bit subdued utilization levels. How about the other major products in that segment, like if we take nitrotoluene or DASDA, OBA, or the Fine Speciality side? Is pressure sort of visible across all of these some and others

Sanjay Upadhyay: Let's not get into product specific but and we also told that, the products going to dyes and dye intermediates. There is definitely an impact. So, we're going to textile also. So there, you will see this impact on demand slowdown is certainly felt, anything there for past one year. Things have not improved as such in those industries. And there, we are not able to do 100%, beyond 100%.

Normally, our strategy is to go beyond 100%, which we are not able to do, though, we are selling the volumes higher than last year, but then capacity can be debottlenecked, and we have debottlenecked. But to answer your question, running at 100%, 115%, is not possible. because the demand is subdued. End applications rather than product-specific. You know where the application is.

Abhijit Akella: Yes, absolutely. No, that's clear. And one last thing on the raw material side, we've been seeing softening commodity prices but for us to sort of benefit from those, will we again need to see demand recovery before we start to be able to hold on to those benefits

Sanjay Upadhyay: No, not really. In fact, if you see the first quarter, we were having some impact of these inventories also because we are importing also for our fine & specialty. Now if you import, you don't import in a very small parcel. So, when the price suddenly falls and prices started falling, we were carrying inventories, and that was consumed in the first quarter.

So Q2 will not have much impact on raw materials. So, we should start seeing the benefit. As Maulik explained, this quarter looks better than the consequential basis of Q1. That is largely because in Q1 volumes are sold, but this will not be seen and then, you'll see a better number in Q2.

Moderator: Thank you. The next question is from the line of Rohit Jain from Tara Capital Partners. Please go ahead.

Rohit Jain: Thank for the opportunity. Sir, one question on the outlook for global Phenol. You said that globally, the demand for Phenol is not growing and India remains the bright spot. So, in that sort of context, this pressure that, we have from goods getting imported from other parts of the world. Is that something that, we should expect on a sustained basis in the future also? Or you still maintain that, this is a transient issue and this is going to solve itself out?

Maulik Mehta: Okay. Just to clarify, it's not that the demand for Phenol is not growing. It's just that, the supply of Phenol in the last six months has been significantly faster than the growth in demand. And as I alluded to right in the beginning of the call, this is part of the regular bull-bear cyclical trend that one sees with commodities. Now India's demand is growing faster than the world's demand.

And hence, just because of the gravity of India's demand outstripping world demand, there is more interest from international suppliers. But as I also mentioned, Deepak has been able to hold its own, has grown its wallet share and has ensured that, we can be able to make product available from its plants.

In Q1, we had a short 15-day shutdown. But this is the first time in four years that we've taken it, and this is a critical part of maintaining any capital invested, chemical plant, which operates on a continuous basis. So yes, there has been an impact that was felt in Q1. Similarly, there has also been the impact of Deepak destocking its own FG in order to ensure that it is able to best take advantage of the lower-priced raw materials heading into Q2.

And so, both of these, have been playing on the numbers that you see in Q1, which are both limited to that quarter and will not come into Q2. What this means with regards to global demand and supply is that, look, the global production of Phenol is higher than it was at the same time last year.

And soon enough, we will also start seeing a significant increase in the consumption of phenol as the downstream capacities come online. So, in the interim period, we may have a situation, where the supply of Phenol is more than the consumption of Phenol, and this will moderate over some quarters. So, I would just urge all of our stakeholders to be patient with us, this is a normal situation.

And there's nothing here that is particularly pertaining to the kind of strategy that phenol has to undergo. Nonetheless, as we have also mentioned Deepak is investing in its own downstream capacity, which will be consuming both phenol and acetone at market prices. So, any benefit that we see there is only accretive on the base numbers that we are seeing today. And even the EBITDA percentage will be slightly better than whatever we are seeing when it comes to the prices for phenol and acetone.

Rohit Jain: Okay. And just one related question to that. You've mentioned that, you have seen the cycles earlier as well. One question is, how long do you expect this cycle to last? I mean, is it a one quarter- or two-quarter phenomenon? Or do you think, it could go on for slightly longer than that?

And the reason I ask is there is a view that, a few market participants have, which is that structurally, China's growth is now at least the capital investments are going to be much lower than it has been in the past. So, recovery in China, even if it happens, would be consumption led and not investment-driven. So, with that sort of a context, how long do you expect the cycle of extra supply and lower demand to sustain?

Sanjay Upadhyay: I'm going to answer your question on a consolidated basis, not just Deepak Phenolics or Nitrite. But on a consolidated basis, we do believe that the amount of destocking that took place in the first half of the year has softened, and we expect going into Q2 and then Q3 onwards, the destocking will still be there, but with a materially lower impact compared to the first half. Now whether this means that, we are back what do we consider as a normal is a question. But all I can say is that Q2 and Q3 looks to be sequentially better than the first half.

Primarily under pressure simply because of the destocking. That part will be slowly addressed. Now what happens with regards to macro interest rates and recession, taxation and all that, those are in the hands of things like the federal reserve or the bank or wherever else you look at it. So those are not in anybody's visibility. But we are seeing some level of cost correction there as well. Where the tightening of interest rates does not expect to be something that continues for quarters at an end.

Moderator: Thank you. The next question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: Hi, sir. Thank you so much for the presentation. Just one clarification and one question from my side. So, I just wanted to clarify, when you were talking about the end segment demand with respect to the trends that you are seeing like plywood, construction, autos, etc., you're talking about it from a sequential perspective, right, Q2 over Q1, right?

Maulik Mehta: Yes, it is sequential. I agree there. However, I would also like to mention that a couple of them are seeing, for example, plywood is seeing improvement even compared to the third quarter of last year. Right? So, one where we are seeing an improvement, certainly, I mentioned sequentially, but it is also longer than sequentially. For the rest of them, you are correct.

Dyes over the last one year have been down. Even last year, it was down. We waited for a long time for festival season to come, and it didn't clearly come. Nonetheless, we sold some of the highest volumes that we have sold, and we will exceed that number this year. Primarily, this is because of taking market share away from other players. But if I'm talking about the demand in the end industry, we are yet to see dyes and colours get into a celebratory mode.

Vivek Rajamani: Sure, sir. Thank you so much for the classification. And the question that I had was, you mentioned in your presentation that you've been acquiring customers, and you have also talked about the commencement of exports to China. Just wondering, would it be possible to give any indicative sense of the margin profile from some of these new customers? Is it comparable to your existing customer base? Or is it better? Or can you just give some colour along those lines, that would be really helpful? Thank you very much.

Maulik Mehta: I can't give you a lot of details there, but I can say that it is actually a little bit better. So, when we are selling to China, we are discovering that the margins are better. Now whether they remain better or not, I don't know. We will see how it goes. But right now, this is more exploratory. And it's too early to tell, but the margins are at least as good, if not better compared to our normal sales.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta: Hi, sir. Good afternoon and thanks for the opportunity. Sir, just a few clarifications. So, first is on phenol plant. You mentioned that the consistent utilization rate will be 150% of the rated capacities of 2018.

Maulik Mehta: Existing consistent capability rate, we will manufacture, and we will sell whatever we believe is the right number. But our ability to produce consistently will be, as you mentioned, compared to the installed capacity, a significant improvement.

Rohan Gupta: Yes, sir. Fair enough. I'm talking about production only. So, definitely selling will be dependent on the market conditions. So, does it include the 10% kind of expansion in Brownfield, which you are likely to go through, our debt is on over and above this?

Maulik Mehta: No. This is included

Sanjay Upadhyay: Rohan, I just responded to earlier question, when we talk of debottlenecking 10% and this is from the last level. But we always close that, what we achieved last. So, the capacity is going up beyond 3, you can assume, and that's what Maulik was mentioning that consistently achieving 150%, that will be done, once the debottlenecking is overlaid, which is likely to be over in next couple over this month. So, after that, it can go beyond that also, but consistent 150%.

Maulik Mehta: That will be our new floor. Further, we can make more.

Sanjay Upadhyay: 10% and this, we cannot talk about it now.

Rohan Gupta: Right. So, this 150% will be available from Q3 onwards, right?

Maulik Mehta: Yes, from the current year, in winter, we may be able to produce more because we must do less Chilling. We don't include that in any guidance.

Rohan Gupta: No, sir, that is fine because those are the technical things, that compensate in annual number. Sir, second question is on your new project of INR 5,000 crore investment commissioning. Sir, if you can give some more light on that. In terms of, your still in talk to the Government and the project has to kick off.

But will it include phenol as its own, all these are there in your existing line of products on the specialty chemicals also, you have mentioned that some of the new products and will be included there. So, can you give some more sense that, it is completely in the existing line of the business of the Company, or you are trying to add some more diversified revenue stream from the INR 5,000 crore, MOU project signing?

Maulik Mehta: No, so you've answered that question yourself. While there will be some participation of phenol and acetone, most of the other products, including, for example, as you mentioned bisphenol, including the specialty chemicals that we will be putting up our products which are having a very tight level of synergy with our existing platforms, but these are new products.

Bisphenol also for us is a new product. When we get into manufacturing of polycarbonates, it will also be a new product. But as you can imagine, all those deals will benefit from these are upstream and downstream.

Rohan Gupta: Yes. So, these are all the products which you have already talked about. I was just asking that are we expecting any completely new chemistries or new revenue stream to be included there?

Maulik Mehta: Yes, yes. Because see, when I say specialty chemicals, it gives me so much bandwidth to be absolutely vague pretty much all of the capex that is here is of products which are not currently manufactured by Deepak, which will be manufactured by Deepak, and which will have a very tight level of integration with our core competencies as well as the new ones that we are adding.

For example, we're just stepping into photo chlorination and fluorination. So, these now become part of our technical toolbox and when we invest into this larger capex, they will become part of what we call our core competency. So, something which we are not used to is it is an opportunity. Once we invest in something and we start doing it commercially, but it is only for a couple of products, we call it part of our technical toolbox.

And once it is something that we are comfortable using from multiple products and in multiple states, when we call it part of our core competency, diazotization, nitration, hydrogenation, these are part of our core competency. sulphonation, fluorination, chlorination, these are part of our technical toolbox.

Rohan Gupta: Sir, just last question for the clarification only, you mentioned that our plant is likely to witness a Y-o-Y as well as a sequential improvement. I understand probably sequential because of your plant shutdown this current quarter and extremely low spreads, which we are seeing, but in standalone business, also you mentioned that still Y-o-Y kind of flattish kind of number.

That business, as we have been consciously investing and last year, it has gone through a complete low cycle, our standalone business and the products there. Still, it is not seeing any significant improvement there on Y-o-Y basis we should be seeing some surge and uptick in that business.

Maulik Mehta: See, on the standalone business there is a good amount of it which goes into the dyes and colours segment, right? So, while this and so the two industries, which DNL on a standalone supplies to, one is in the dyes and the other is in to paper and textile. These continue to be underperforming the rest of the applications like agro, Pharma, rubber, those things, which are reasonably good, and our contractual agreements are well maintained.

What we have is two end segments, which are slow, and I'm giving you a cautious guidance because if you speak to a lot of other companies who are in this space exclusively, they will give you buoyant optimistic visibility with regards to dyes. We are just telling you what we have been told, if this picks up well and good maybe it picks up in the tail end of Q2, maybe it picks up in Q3.

I have also mentioned that there is a sequential improvement that we are seeing. So, being halfway into Q2, what I can tell you is that these are segments which have not seen as much of a bounce back as we had hoped. And hence, we have given a guidance of flat compared to last year and better certainly much better compared to Q-o-Q.

Rohan Gupta: And sir in our agrochemical business under fine and specialty, we were planning to launch a couple of AI technicals and also intermediates. As you mentioned that in agro chemical industry is going through a tough time, are there any delays in those product commissioning or they are all intact as for now?

Maulik Mehta: No, no. There is no delay. In fact, as Mr. Upadhyay mentioned last year, at the end of last year, we commissioned and then within a couple of months. So, for example, if we plan to commission a plant to make 100 tons, we commissioned to 100 tons, and then we debottlenecked it very quickly to 150 tons. So, when we debottleneck to 150, we are today selling about 100.

So, it is as per what we had invested in, but not as per the debottleneck capacity, we expect this to come back anyway. But here and now because there is destocking going on through the entire value chain, including at the farmers end, we are cautious about this based on the indications our customers have given.

What I can tell you is that not only does the wallet share remain intact, but the long-term visibility for the growth of these applications also remains intact. So, I would caution to say that agrochemicals' is not doing well. In fact, on a longer-term basis it is, but on a shorter-term basis, there are headwinds, which I believe will culminate over the next quarter or two and then we should have something of a normalized situation.

Moderator: Thank you. The next question is from the line of Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Thanks for the opportunity. I think you answered a couple of my questions in the previous answer, but just a couple of clarifications on that. So, it is regarding the INR 5,000 crore investment. So, just wanted to understand because in order to put up, let's say, or in order to kind of reduce the imports of bisphenol of India, you would have to also expand to some extent phenol as its own capacity. Is that understanding, correct?

Maulik Mehta: Yeah. Part of it is from expansion and part of it is from Greenfield, correct.

Krishan Parwani: Understood. I mean, have you kind of finalized how much of this INR 5,000 crore number would be towards the bisphenol production and how much would be for, let's say, phenol expansion and how much for specialty chemicals?

Maulik Mehta: No, we have an indication internally. Certainly, it is not right for discussing externally.

Sanjay Upadhyay: If you see the press release, we will say Rs. 3,500 crore towards phenol and bisphenol and Rs. 1,500 crore towards fine and specialty chemicals.

Krishan Parwani: Noted. That is helpful., are you okay to kind of, let's say, go into the detail of specialty or should I not ask at this moment?

Maulik Mehta: No, no, not at this moment because all of these are at a very advanced stage when it comes to engineering and planning. So, while we are still discussing with customers for signing up of these multiyear legally binding contracts, I would not like to go into more details.

Moderator: Thank you. The next question is from the line of Hitesh Agarwal from Fair Value Capital. Please go ahead.

Hitesh Agarwal: Yes, sir. My question was on the capex, which we'll be doing under a Deepak Chem Tech is exclusive Rs. 2,000 crore announced for Deepak Nitrite and Phenolics?

Maulik Mehta: Yes, whatever is ongoing is ongoing. This would be in addition to.

Moderator: Thank you. The next question is from the line of Vaishnavi Deshmukh from Yashwi Securities Pvt. Ltd. Please go ahead.

Vaishnavi Deshmukh: So, we can see the outlook on the demand side for Deepak Phenolics, I just wanted to have a light on the margin side. So, are we going to plan on doing on the actions that we're going to take to improve the margins of Deepak Phenolics as compared to the first quarter or these are gone be because you already said that the guidance for the margins are going to remain same as you have already said that before. So, what are we going to do to improve the margins here to Deepak Phenolics?

Maulik Mehta: I would not like to specifically answer any questions about A product or B product but let me give you a clarity. We maintain a particular guidance that we have in Deepak Phenolics in the next couple of quarters, in Q2- Q3, we should see a range-bound EBITDA of about 12% to 15% as compared to whatever it was in Q1.

And in DNL, we should see it range bound between 20% and 22%. On a consolidated basis, hence, we should see something between 15% to 18%. This is, of course, different from what you saw in Q1 and hence, I'm confident that in the rest of the year, we will be able to perform definitely better on consequential as well as on a Y-o-Y basis.

Moderator: Thank you. The next question is from the line of Hitesh Agarwal from Fair Value Capital. Please go ahead.

Hitesh Agarwal: Yes, sir, the capex plan, which we have signed, the INR 5,000 crore MoU, could you give us some guidance on what is the asset turns and how we are likely to fund the capex?

Maulik Mehta: No. I think we have enough tools in our toolbox to be able to do it via a judicious mix of internal accruals and debt. Right now, we are at nil as well as raising funds if required through other routes.

Sanjay Upadhyay: In case required.

Maulik Mehta: So, we are comfortable, and we have lots of options.

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

Sanjay Upadhyay: Thank you very much for joining us on this call. In case you need further clarification, you can talk to Mr. Somsekhar Nanda or our Investor Relations team. Thank you once again.
