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November 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**

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We enclose herewith the transcript of the earnings conference call of the Q2 & H1 FY 2024 held on November 9, 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**  
Company Secretary

Encl.: as above



Deepak Nitrite Limited  
Q2 & H1 FY24 Earnings Conference Call  
November 09, 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. VIRAL SHAH** – IIFL SECURITIES

**Moderator:** Ladies and gentlemen, good day, and welcome to the Deepak Nitrite Limited's Q2 FY24 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Viral Shah from IIFL Securities. Thank you, and over to you, Mr. Shah.

**Viral Shah:** Good afternoon everyone and thank you for joining us on Deepak Nitrite's Q2 & H1 FY24 Earnings Conference Call. From the mgt., we have Mr. Maulik Mehta, Executive Director and CEO; Mr. Sanjay Upadhyay, Director, Finance and Group CFO; and Mr. Somsekhar Nanda, CFO of Deepak Nitrite Limited. We will begin the call with opening remarks from the management team followed by an interactive Q&A session.

To begin with, Mr. Maulik Mehta will share views on the operating performance and the growth plans of the Company, followed by Mr. Sanjay Upadhyay, who 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. 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 Q2 & H1 FY24 Earnings Conference Call. First of all, I want to wish everybody a very, very Happy Diwali and a wonderful Prosperous New Year for not just you, but your family and friends as well.

Our results documents were shared with you earlier, and I hope you have had an opportunity to glance through them. I will initiate by briefly taking you through the key financial and operational highlights through the quarter and half year ended 30<sup>th</sup> September 2023. Mr. Upadhyay will then present you with a more comprehensive financial overview during the period under review. Following that, we would love to hear your questions.

In the first half of this financial year, the global chemical industry faced significant hurdles. Concerns have been about destocking by Chinese enterprises, uncharacteristic weakness in the Eurozone, and a transient reduction in discretionary income and expenditure owing to a hike in interest rates to calm inflation in major economies. Despite these challenges, our business demonstrated resilience due to various factors like cost leadership initiatives, changes in product mix and geographies and strategizing procurement of certain key raw materials where possible.

In addition to skillfully overcoming challenges, we have progressed on key strategic initiatives, including growth capexes which will cater towards bringing in upstream as well as downstream products. These projects have the capability of being both top line and margin accretive.

In the current scenario, DNL has experienced a decrease in revenue due to the transient reduction in realizations. In Q2 FY24, consolidated revenues were INR 1,795 crore, lower by 9% year-on-year and flat on a quarter-on-quarter basis. Sequentially, we witnessed consistent performance in the face of a challenging operating environment. This was primarily due to a strong growth overall in the Phenolics segment and a steady demand for Advanced Intermediates products.

We have also observed a quarter-on-quarter normalizing trend with regards to volumes, particularly in products geared towards specific end-user sectors like glass, paper, home care and more. We anticipate a normalized performance starting from Q4 of this financial year. While key export markets are grappling to demand pressures due to the global situation, the good news is that domestic consumption and demand remains largely intact.

Our strategy remains focused on products and geographies that enjoy stable to positive demand. Nevertheless, our market presence has remained steady across all product lines and geographies, thanks to enduring relationships with customers and the perseverance of our teams to maintain operational excellence. Hence, in all cases we have retained, and in a few cases grown, our wallet shares.

However, in terms of profitability, EBITDA has been impacted by input costs and a migration to relatively non-native markets for some of our products, which earlier had a home in geographies such as the Eurozone. In Q2 FY24, EBITDA was INR 319 crore, up 32% quarter-on-quarter, translating into an EBITDA margin of 18%. Our EBITDA grew quarter-on-quarter, attributed to an uptick in Phenol production driven by an increased demand and optimized capacity utilization. Additionally, cost savings on raw materials, operational improvements have all enhanced profitability by their own little bits, all of this while maintaining healthy margins. Consequently, PBT and PAT for the quarter grew by 37%. Thus, our primary focus continues to remain on enhancing productivity through our dedicated efforts and maintaining and growing our relationships with key customers, and as well as ensuring that our products find a good home, even if there is a migration in geographies in some cases.

On the operational front, our domestic business generated revenues of INR 1,437 crore, while exports were at INR 341 crore during the quarter.

Coming to our segmental performance. In the first half, the AI segment generated revenues of INR 1,379 crore, lower by 3% on a year-on-year basis despite these challenges. Further, during the quarter, we observed a positive uptick in our sales volume compared to the previous quarter. We are actively working on establishing new relationships in both the short and long term with key customers to ensure consistent offtake. Furthermore, we successfully maintained or increased our share in the market, as I mentioned, in new geographies as well.

Deepak Phenolics reported revenues of INR 2,188 crore in H1 FY24. In Q2 FY24, revenue stood at INR 1,120, up 5% on a quarter-on-quarter basis, and EBITDA margins improved to 17% from 10% last quarter. This quarterly improvement in profitability can be attributed to increased volumes, margin improvement and an improvement in VOC owing to the establishment of the advanced process control systems that we have put in place.

We also see that there is a gradual improvement in demand in the Phenolics segment. Our sustained high-capacity utilization of 136%, that continues to be a key factor. Notably, our efforts to introduce new downstream products are also now materializing, indicating promising growth prospects.

Moving to some interesting updates about our projects. First of all, our Acid project is steadily progressing and is planned to be commissioned as scheduled. Other projects such as photochlorination, fluorination, MIBK, MIBC, hydrogenation, the new Research and Development Center and brownfield expansions, are all progressing well and expected to be commissioned over the next few months.

In conclusion, Deepak Nitrite continues to be strategically positioned for comprehensive expansion, continues to increase its integration within its value chain and new value chains. Our investment plans underscore our readiness to capture these opportunities as they come to our home market, and we persistently aim to diversify our project portfolio, broaden the customer base and enhance our overall value propositions. We have a firm and robust financial standing, very strong client relationships and a well-planned growth prospect.

We are trying to enhance our business proposition, market share and shareholder value. We have taken substantial steps to mitigate risks in our business model, ensuring a stable input supply, establish captive power, increase the amount of generation of power and steel using sustainable means, and valorization of waste. Our ongoing and upcoming investments reflect our commitment to seizing opportunities in a responsible manner with an unwavering focus on innovation, customer expansion and value creation. I would like to hand this now over to Mr. Sanjay Upadhyay, who will address this forum and take you through the financial performance.

**Sanjay Upadhyay:**

Thank you Maulik. Good afternoon everyone. Thank you for joining us on this call today. First of all, let me wish all of you a very happy and healthy festive season.

I will now take you through the highlights of the financial results for the quarter and half year ended September 30, 2023.

During the period, Deepak Nitrite Limited maintained a solid performance despite a challenging operating environment marked by volatile raw material prices and utility costs. Despite this, the Company managed to increase its market share, especially in Phenolics, strengthening its topline across various business segments. Consequently, our operations remain highly capital-efficient, resulting in enhanced return on capital employed, the overall ROCE stood at 27% in Q2 FY24.

Coming to our financial performance, on operating front, domestic business revenue stood at INR 1,437 crore and INR 2,869 crore in Q2 and H1, respectively. Export revenues were INR 341 crore in Q2 and INR 677 crore in H1. On a consolidated level, domestic: exports mix stood at 81:19. And in Deepak Nitrite standalone, it is remaining at the more or less same level, so around 60:40 or maybe 55:45.

In H1 FY24 consolidated basis, revenues are lower at 11% at INR 3,595 crore compared to INR 4,041 crore in H1 FY23. EBITDA stood at INR 561 crore in H1 FY24 compared to INR 648 crore in H1 FY23. Margins came at 16% in H1 FY24 against 16%, almost at par with FY23. PBT and PAT were at INR 479 crore and INR 355 crore, respectively.

In Q2 FY24, on a consolidated basis, revenues came at INR 1,795 crore, again almost at par with INR 1,800 crore in Q1 FY24. On Q-on-Q basis, EBITDA came in at INR 319 crore from INR 242 crore in Q1 FY24. Margins at 18%, higher operating cost and other utilities along with the lower recovery and fuel products, PBT and PAT stood at INR 277 crore and INR 205 crore, respectively. Profitability was aligned with the operational performance of the Company, which was impacted due to review cleared by the inflationary pressure and in RM and other utilities. In the ensuing quarters, the circumstances are expected to improve in the second half of the year.

Moving to segmental performance, in the advanced intermediates segment, revenues stood at INR 670 crore in Q2 FY24, while the EBIT stood at INR 103 crore during the quarter under review. In H1 FY24, revenue came to INR 1,379 crore and EBIT came in at INR 218 crore, translating into a margin of 16% despite the current environment and challenging circumstances.

Phenolics segment delivered encouraging performance revenue growth of 5%, INR 1,120 crore in Q2 versus INR 1,068 crore in Q1 FY24. While EBIT of INR 170 crore

and EBIT margin came in at 15% in the quarter. In H1 FY24, revenue decreased by 16% to INR 2,188 crore and EBIT came in at INR 258 crore translating into a margin of 12%.

Lastly, on the balance sheet front, the Company's financial position has significantly enhanced, and the Company continues to maintain zero debt position with a net worth of INR 4,342 crore on a consolidated basis and INR 2,765 crore on a stand-alone basis, thereby strengthening the balance sheet for all future expansions.

During the quarter, our cumulative investment in wholly owned subsidiary, DCLT was around INR 599 crore. Of this, INR 100 crore was invested in Q2 FY24.

Approved projects are progressing well and on schedule. Our R&D team is actively developing new products to establish additional speciality chemical facilities. Once operational, these plants will enhance our self-sufficiency in critical raw materials and boost our profitability. Additionally, we are constructing a state-of-the-art R&D center near Vadodara. And it will come up maybe towards the end of next year. And this will certainly help in boosting our growth prospects in the future, particularly in the fine and specialty chemicals segment.

With that, I will now request operator 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:** I have two questions. So first, on our stand-alone business and if you can share your thoughts on three of our traditional products like sodium nitrite, DASDA and PNT part. In terms of the demand situation in H1 of FY24 in terms of the capacity utilizations, which we have clocked. And if you can just walk us through in terms of the situation for H2 of FY24 and then next year in terms of where we can see the first line of improvement coming. So could it be DASDA, because what we have seen is last 3 years after FY20, DASDA had been a muted growth. So where can we see the meaningful jumps, coming from DASDA and then you can share your thoughts on nitrite as well as the PNT chain.

**Sanjay Upadhyay:** Nirav, Maulik will answer this question, but I just want to know why you are calling these products only as a traditional product.

**Nirav Jimudia:** Yes, because these are the products which generally, we come to know in terms of the market understanding because sodium nitrite, we have the leadership position. PNT also and DASDA also had contributed good amount of profitability in FY24. Probably,

I am aware of these 3 major products, there could be others also. But if you can walk us through other products also that would be also helpful, sir.

**Sanjay Upadhyay:** There are many. Will let Maulik answer.

**Maulik Mehta:** Okay. First of all, Nirav, thanks for the question. Happy Diwali. I will take them one at a time. DASDA, the largest in application for this is optical brightness, and they go into detergents, textiles and paper. Now you are right in saying that the last couple of years have been muted. If you compare it to high point, that high point also, I will consider as noise because it was a one-off. But what I can see today is that while Q1, Q2 and even before that has been muted, we are seeing, if you look at a lot of the announcements that are made from paper companies and some detergent companies about increasing their investments in India, increasing their capacities in India.

You will see that the optical bright industry certainly has bottomed out over the last couple of quarters. And sequentially, we will start to see an uptick. Now as the only liquid discharge manufacturer and with a market leadership position when it comes to both DASDA and optical brighteners, we are primed to be able to take the largest share of this growth as it comes.

What has happened over the last year, 2 years in fact, is that there has been a malaise in the traditional geographies for these products, which were in the Eurozone, partially because of water cost, power costs, these things. And you have also noticed that over the last 2 years, there has been a steady stream of announcements about shutdowns in these. But also correlated to that, increase in investments in debottlenecking the Indian and Asian capacities outside of China. So, as these start to get commissioned, we will start to see an increase in volumes. And as we start to see an increase in volumes, it will be followed by an increase in our margins.

Now PNT, the largest home for PNT is DASDA. So, they are not directly correlated, but there is a significant correlation. The other segments are more into the dyes and the pigment segments. Now those have had a depressed couple of years. But there also, we believe that the situation, by and large, has bottomed out. So, it is not going to get worse, so to speak, it is going to get better. How fast it gets better is also a very good question. Now when it comes to sodium nitrite because it is a so-called intermediate/commodity product it has many, many end applications. Certain end applications are doing very well when certain traditional end applications like dyes and pigments have been suffering, especially in places like India. But there also, we are seeing that there is an expectation of improvement. We continue to remain the market leaders. We will continue to remain the market leader with the new capacities that we add in Oman as time moves forward. And we are very confident in these industries as well, but also in



certain export markets where we have pivoted to in the last quarter two, where earlier they were relatively unexplored.

We have increased our focus on that. It has started off well, it factors in our overall export markets, because we are new into these markets, the margins may not have been as interesting. But as we develop our understanding better and work with the consumers, they are better, we are strongly under the impression that this will also improve. So, in all these cases, I can tell you that the demand will certainly sequentially improve; the rate of which, we will see. But you are seeing also that there are lots of announcements made by other companies, which would be our customers. So that should give you confidence.

**Nirav Jimudia:**

Sir, second question is, if we see in terms of standalone Deepak Nitrite, most of the products which we have developed, we have a substantial market share in most of them. And over a period of time, we have either backward integrated or forward integrated in terms of the product profile and this has also helped us in achieving close to INR 3,000 crore of sales in the standalone side.

So just wanted to understand your thoughts in the standalone business, and I am excluding the downstream portion of Phenol Acetone part. When can we see such similar blocks coming in terms of, let us say, three, four products or a block of three, four products putting together or contributing to close to INR 500 crore to INR 1,000 crore of incremental sales?

And if you can correlate it with the acid plant, which we are currently putting on. So, could the acid plant also give us an opportunity to develop some of the newer downstream products, which can help us to get a meaningful improvement in our standalone sales going forward?

**Maulik Mehta:**

So, I will answer this question now. While we are in process of commissioning our upstream, naturally it is sensible for us to expand our consumption as well. And that is also taking shape in line with our commissioning of the upstream. So, you will see that value accretion there. Now with regards to the absolute number that you talked about, INR 500 crore, INR 1,000 crore, our priority is always on ensuring that we are growing our market share and growing our bottom line. The top line is a factor of the market prices. So, it is difficult to comment on that.

I believe that as the demand situation improves, so will the prices. When that happens, it is your guess as well as mine. But we have not only increased the capacity utilization in brownfields. We are also going to be introducing new products which will take advantage of Deepak's existing core capabilities. Now there may be new value chains, but they have similar process profiles where we have a high degree of competency in.

So, these are investments that you will see coming into announcement and then into play over the next two years. We have already made certain announcements. We have not made certain announcements even though we are at a pretty advanced stage, because we are waiting just to tie up some of the last bits.

But if you are looking at what Deepak Nitrite standalone business profile looks like over the next couple of years, then I do not see any challenge in achieving and crossing the numbers that you were earlier referring to.

**Nirav Jimudia:** Got it. And sir, just a last bit of thoughts on the commissioning of the various brownfield expansions which we have been talking about. So where can we see those capexes coming online over the next three to six months? So, what portion of the capexes from the brownfield side would get commissioned over the next 6 months?

**Maulik Mehta:** Hydrogenation brownfield will get commissioned over the next eight months. Rest of the brownfield expansions will be commissioned over the next 6 months.

**Moderator:** The next question is from the line of Bharat Gupta from India Inside Value Fund.

**Bharat Gupta:** So, a couple of questions. First, on the growth capex front. So, we signed an MOU with Gujarat Govt. regarding the INR 5,000 crore investment plan. So, what is the progress on it? And if possible, can you throw some light with respect to the bifurcation of the capex across the specialties, phenol, acetone, bisphenol, and probable timelines for the same?

**Maulik Mehta:** So, I do not want to break it down into specialty or non-specialty because all of this, at the end of the day, will depend on how you define specialty. So, this whole notion of assuming the specialty margins should be higher. I think now we may all accept that this is not always accurate. What I can share is that the MOU that we signed is for very specific products, that those are progressing along well on finalizing with regards to the technology suppliers. We are also clear about where we will be putting what up. And we should see these being invested in and commissioned over the next 4 years.

**Sanjay Upadhyay:** So, this technology, as Maulik was mentioning, it is in advanced stage. We are acquiring land very soon in a couple of months because that is also the prerequisite of going ahead with this INR 5,000 crore expansion. So, things are in place and moving as per the schedule. There were some delays in land areas, but yes, now we are progressing fast. So, it should not be an issue at all.

**Bharat Gupta:** So, going forward for the next four to five years, it will be a complete transformation from being to exchange of commodity to going venture into a specialty kind of setup. So just wanted to get a sense, like whatever investments which we are making in, so where does China compete? And particularly, it can be a big trade because a lot of

investment will be going in this particular domain. So, if this particular destocking in Chinese continues for some more time. So, can it have a delay on the timelines which we are setting in?

**Maulik Mehta:**

No, no. you are mixing up the two. Destocking of China cannot continue for two, three years. And then this is actually frankly you ask me, it is the right time to set up the projects because the world is seeing a very volatile situation today and unless we understand that it is very difficult for anybody to comment what will happen in next few years, suppose you ask me what will happen in 2025 or 2026. I can give you a guess only because nobody knows how Israel war will take place or what is happening on interest and so. Guess work can be done by anybody, but nobody can tell you exact answer.

So, the point here is, if we are going into the projects now, we expect and hope things will settle down in the next couple of years. And the world will again start though other countries are doing well, many countries are not doing well. So, if thing happen as per expectation for the next two, three years, if you see there is a revival in the world economy, see there is a right time to enter the market also. So, I think what we are doing is the right thing to do today and go ahead with the expansion plans and you are entering the market and there is a up cycle.

**Bharat Gupta:**

Right. Sir, just a basic question was around the fact that the segments where we will be investing in particularly. So, is China a big play in that particular segment as well?

**Sanjay Upadhyay:**

Let me tell you. Please understand what projects you are setting up in this because it is making our Company much stronger or going backward, going forward and China may come or Europe may come or anybody can come. We cannot stop anybody coming. But the resilience of the model of what we are creating if you see that way. I mean that is something which we can sail through any such crisis or any such additional capacity.

Yes, there can be ups and downs in the business. But business remains on a very, very strong foundation and fundamentals. Let us appreciate this. You see Deepak Nitrite standalone. You see Phenolics also whatever announcement we have made. And the way the demand for Phenolics is growing and the way we are entering the market and capturing. Let us appreciate that the steps are taken in the right direction. If somebody comes, if they do not come, that is a different question altogether. And we have our basis strong, I think we can face any challenge as such.

**Maulik Mehta:**

I just want to clarify, this whole concept about destocking. I think that the definition in the market is wrong. Destocking, just to be clear, means that somebody will try to sell a product regardless of whether they are making a negative margin or not.

Now it does not matter what country you are from, whether it is India or China, nobody wants to sell at a loss. The reason that they believe that they are okay with selling at a loss right now is so that they can empty their inventories in order to make new product, which will be sold at margins which are better than the products which they currently are holding in inventory. That essentially is what destocking means. And it also assumes that for whatever reason, the market demand right now is slower than it will be in the future.

So, they want to ensure that they are able to get a better part of the better market environment with their higher-margin product, which they will make freshly and put it in their inventories. So destocking is not desirable for anyone, regardless of the capacity that are being put up. Let us be clear about that.

Second point is that the investments that we are making in, call it specialty, call it a semi-specialty, are what we call our right to win. And when we look at our right to win, we compare ourselves against companies that may have actually established plants with fully depreciated business models. So, we do not make an investment hoping that the market will improve and hoping that destocking will end.

We look at the situation where we are up against someone who has all of the where we call and we are investing fresh money. So, believe in Deepak and believe in the study that we have put in place. And I will not really want to get into if these are specialty, because what does specialty mean? Is it about margins? Is it about SKUs, what is it? Is it about the length of the relationship with the customers? Because most of the products that we make, even in these segments, even if we are talking about polycarbonates, they are not going to be done with a sense of just putting them all in our department store and hoping someone buys them. They will be done with established long-term commitments with key customers who will also be putting up investments on their own side to consume Deepak's product. So, I think we should realign with the idea of destocking and specialty chemicals, as we see it not as per the market hype.

**Bharat Gupta:**

Thanks for the brief, Maulik and the team. Just a last bit from my side in terms of the guidance. So, I think in one of the calls you mentioned the Company will probably look to double the turnover over the next three to four years' time frame. So currently, are we holding upon the same given all the headwinds of which the industry is speaking?

**Sanjay Upadhyay:**

You mentioned the right word, transformation. We are at a stage where it is going to be a significantly different 'Deepak Nitrite' in next four, five years' time. We are still confident of this. And whatever you have said, yes, it is doable.

**Moderator:** The next question is from the line of Anika Mittal from Nvest Analytics.

**Anika Mittal:** Sir, my question is, is there an update on the ongoing projects, specifically the Photohalogenation and Helix plant anticipated for completion in December 2023. I am interested in understanding the strategic implications of this initiative in light of the evolving situation in China. If China gradually starts reoffering, could you elaborate how the completion of this project aligns with our objective to mitigate the input supply dependency on China? And additionally, considering the change in dynamics, how do we anticipate the manufacturing cost in comparison to the forecast? And what is the impact on our profitability? If you could also quantify the capex allocated to this project, sir?

**Maulik Mehta:** So first of all, for those particular sets of products, it will completely eliminate our dependency on China on every aspect, given the raw materials. So, we will be completely derisked. We will also be the only company in the world with that kind of end-to-end integration.

Now our commissioning is by and large on track, maybe a couple of weeks here or there. But by and large, it remains on track. Now with regards to what we will do there, it will allow us to manufacture both our consumed products as well as new products, because the assets have been up engineered to be able to manufacture a much wider variety which is currently in advanced stages in R&D. And once we establish ourselves with the base intermediate that we will be consuming, we will also be making these same assets more fungible in campaign manners. I would not want to get into the numbers specifically about the capex element here. To a certain extent, they have already been clarified earlier. And that clarification continues to hold. So, no new colouring on that point. But that is again on track and it dovetails very nicely with some of the other commissioning that we are going to come online over the next three to six months as well.

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

**Rohit Nagraj:** Congrats on a very strong comeback on the Phenol segment. So, first question is on the Phenolics front. So, we have seen a very strong comeback in terms of margins sequentially. What is your assessment in terms of the domestic demand and the inventory situation. Have things come back to more or less normalcy, and incrementally we will see that the performance will be remaining similar for the next foreseeable future?

**Maulik Mehta:** So first for last quarter, the performance was subdued, but we have also given clarity that we ourselves went into destocking because we anticipated a change in the raw material prices. Also, we had about three weeks of low production in Q1, which

affected our EBITDA percentage as well as our absolute. So, if you are looking at Q1 as a source of comparison, we had clarified them as well, that it was an unusual performance. But by and large, we believe that the downstream segments for phenol, acetone and IPA remain relatively healthy as we had in Q2. That is what we should be seeing in the next couple of quarters as well. We have, as I mentioned earlier, also completed our advanced process control commissioning, which allows us to operate more efficiently and operate at a higher capacity.

**Rohit Nagraj:**

Same question again on the Phenol segment. So, one of the petrochemical players in domestic market that they have announced 300,000 tonnes of capacity. And in our MoU signed with Gujarat Government, we also plan to go in for maybe a phenol acetone, bisphenol, and downstream products. So how do we assess this particular development, given that currently, obviously, we have more than 200,000 tonnes of imports in the country, and the new capacity probably will be able to absorb a significant part of it. So, your assessment of the same?

**Maulik Mehta:**

We assess it by feeling so very confident about the growing consumption of phenol and acetone in India.

**Moderator:**

The next question is from the line of Ankur Periwal from Axis Capital Limited.

**Ankur Periwal:**

Wishing everyone a very Happy Diwali. First question on the R&D side. The new center is coming up in the next financial year, and we already have around 100-plus manpower there. In terms of your thought and let us say, focus areas, given we have been doing R&D in the fine & specialty as well as the phenol derivatives, how do you allocate the resources there incrementally?

**Maulik Mehta:**

So first of all, whenever we are looking at very, very large volume, for example, if we were looking at something like polycarbonates. Now there, in our R&D, we work on formulations, but on the main facility, we would prefer to license it with an established and proven player. When we are talking about specialty chemical value additions, where we are looking at things like waste valorisation, that is where our R&D comes in. So internally, our R&D is focused on two things. One is new product development and one is operational excellence. So, both of these are given equal and due importance. Internally, in our labs, we do not really discriminate between a specialty and a non-specialty chemical. That said, when we are directly interface with a customer to develop or co-develop a molecule for a long-term contract with them, we do assign a special team which works in lockstep with the customer's R&D and technology team. So, they collaborate at every stage here so that at the end of the date, there is a great deal of clarity and confidence built even in the development process.

**Ankur Periwal:** Just a clarification. If I have got you correct, you mentioned that the polycarbonate compounding, the formulation part will be outsourced to a specialized third party, not done in-house?

**Maulik Mehta:** No, no, that compounding can be done internally using our own skills and talent. The facility, something which would convert key raw material, for example, bisphenol into a polycarbonate. That is where we will go with established, mature players where there are multiple different technologies, but we will go with someone who has a proven track record.

**Ankur Periwal:** Sure, sure. That is helpful. Secondly, on the standalone side, especially fine & specialty, there have been excess inventory, China led issues, etc. So, your thoughts in terms of demand outlook there and how are we seeing the product basket there in terms of new launches?

**Maulik Mehta:** So, the product basket with regards to new launches, the pipeline is clear. Now some of them, for example, maybe what we are considering a specialty, but they may have something like phenol as a raw material. And the end application, because it goes through multiple stages, will be a specialty chemical with the characteristics of that, meaning long-term contracts, particular quality and spec, high value adds, all of those things, even if the feedstock is phenol.

In the meanwhile, when we are looking at new products that are being added, they will be added over the next 2 years. And with regards to demand, there is a selective soft demand in certain parts of the agrochemical space, whereas in other parts, the demand is relatively robust. When it comes to Home and Personal Care, the demand is strong. When it comes to niche applications like thermal paper, the demand is weak.

**Ankur Periwal:** Fair enough. And will it be fair to say that most of the fine & specialty business will be largely contracted? As in client commitments, maybe short term or long term?

**Maulik Mehta:** Yes. Generally, that is the characteristic. It is not always like that, but more often than not, this is the case. They may be annual contracts, they may be multiyear contracts, or in a couple of cases, they may be half-yearly contracts.

**Ankur Periwal:** Just last question, from our China dependence right now in terms of RM sourcing, where are we right now? And post the expansion, where do we expect us to be?

**Maulik Mehta:** We source from China. We will continue to source from China wherever we need. But for every single raw material, we have sources which exclude China as well. So, our critical dependency on China is not there, I think, in any business. However, it does not mean that we will not take the opportunity to buy from them. Obviously, if we are going to be manufacturing the raw material ourselves, there is no question about it.

- Moderator:** The next question is from the line of Vivek Rajamani from Morgan Stanley.
- Vivek Rajamani:** Happy Diwali to you and the team. If I may, just on the demand point. I think in your opening remarks, you mentioned that you saw a sequential increase in volumes across the board in this quarter. If I just look at the revenue line on the Advanced Intermediates, the revenues have obviously come down on a sequential basis, which implies that your ASPs would have obviously been lower.
- My question is, do you get a sense that the decline in ASPs is now maybe stabilizing, and maybe going into the second half of this year, you start to see some pick-up there in line with the demand that you are seeing? That was the first question. And just as an extension to that, obviously, we are in November. For the first month and 10 days of this new quarter, do you get a sense that you are seeing an increased pace of green shoots coming through in some of these segments already?
- Maulik Mehta:** Just to be clear, I did not say that demand in terms of volume is normalized in quarter 2. I said that there is a sequential improvement in the volume demand trajectory that we are seeing as we move towards Q3 and Q4.
- So just to be clear about that. And Q2 did have some weak spots of demand. And hence, we chose strategically to migrate towards other geographies that are in applications for some of our products which previously used to be sold in the more mature economies. Now when it comes to how we are seeing Q3, I think what we should look at is over a period of time, Q3 so far, from October until now, has largely been occupied by the festival season.
- So, October and November, every single year, not just this one but even in past years, should never be reflective of what you would see in the rest of the year. Just like in China, you would never look at a Jan-end and Feb as an indicator of the rest of the year, because it was largely shut down because of, it is all New Year festivals. But we are continuing to see slight green shoots with regards to a stabilization, normalization worldwide. Nonetheless, it is premature to assume anything right now.
- Vivek Rajamani:** And just a second question. Obviously, on the phenolics side, spreads have been very strong this quarter, and I think they have continued to hold up pretty well. If you could just give a sense of the regional demand/ supply situation. I think last quarter, there were some shutdowns or so. If you could just give a sense of how the regional demand/ supply balance is shaping up into the second half of this year, that will also be very helpful.
- Sanjay Upadhyay:** See, we are running phenol plant at 136%, 135%. That answers your question that there is a demand, and we are able to supply. People will import because we are not able to



meet the full demand. That is a different thing. But I mean you have seen how second quarter has performed, and we are very confident that second half of the year also will continue the same momentum in Phenol as well as Deepak Nitrite also. So yes, there is a demand in the sense of discretionary spending and this, yes, I mean that is going for quite some time. It is not very recent. When Maulik talked about the textiles, and these are all last one year, 1.5 years, we are seeing this, there is a subdued demand, And overall, if you see the world economy also, people are maybe deliberately or maybe because of the extra situation, the demand is gradually slowing. So, we expect this to improve, but it may not improve so soon. But our product, we are selling full volumes. Not an issue at all. Yes, there could be pressure on the realizations because in this market, we are able to sell full volume. But we are not worried about these things. We are reaching the bottom of the cycle and things can only go up from here.

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

**Rohan Gupta:** Sir, first question is on our Phenol business, we are seeing a sharp improvement in margin. Though, I do not think that the spreads have improved so sharply. So, it is definitely driven by the better cost management and maybe higher utilization or excess. So, can you give some sense that how the spreads have improved on a Q-on-Q basis? And how much growth in the margin or profitability has come from the better volumes?

**Maulik Mehta:** Also because of the low base of Q1, because we had 3 weeks of no production. So, the base of Q1 was, I would say, unusually low. Hence, it looks like a significant improvement. But by and large, we are seeing that it is reasonable, what we entered Q2 with and what we are exiting Q2 with and in Q3 with, it is by and large, along a similar track.

**Sanjay Upadhyay:** See, Rohan, we have been mentioning again and again the Phenol normal margin would be in the range of, say, 15% to 18%. And this, what you are seeing now and these volumes, these are all here to stay. If it is going below that, around 10%, 11%, then there is something abnormal in that quarter, maybe because of our shutdown, maybe because of the inventory suddenly there is a volatility in the raw material pricing in this. But otherwise, this is the margins, one should expect. So, there is no abnormality in Q2.

**Rohan Gupta:** So, our capacity utilization for the phenol plant, still it stood at roughly 136% at H1.

**Sanjay Upadhyay:** It is not H1, it is Q2 because 1 we had a shutdown.

**Maulik Mehta:** We also had a brief shutdown in Q2 when we did a hookup. So, 136%, as you see, is the capacity utilization. It is not the capacity, the updated capacity. So, we will be in a

position to be able to cater even more to the demand in India and wherever it is. So, I do not think you look at 136% as absolute ceiling. We have the capability to ensure that we are able to supply to the growing market as well.

**Rohan Gupta:** Sir, yes, that was my exact question that with the advanced process control and with that which has helped us in debottlenecking. Should we expect then H2 utilization level, I mean, on an increased capacity can go up by another 15% from here in terms of volume, additional volume?

**Sanjay Upadhyay:** Let us not put this in terms of percentage, but yes, it can go up because there is a demand in the market. And our team is quite capable of delivering more. So, there is no issue as such on that.

**Maulik Mehta:** And the APC did not factor in Q2 at all. Other than, unfortunately, necessitated a very short shutdown for hookup. So, it actually affected negatively in Q2. And the benefits of that in terms of plant availability will be seen now onwards.

**Rohan Gupta:** Sir, recently, we have seen that the crude has gone up and which is likely to have some impact on us?

**Sanjay Upadhyay:** See, by and large market absorbs, we see crude volatility has remained. So, market absorbs these ups and downs.

**Maulik Mehta:** Rohan, from when you started the question and now crude has totally gone in a different direction. So, we are more concerned with our ability to maintain our appetite, pass it over and the demand in the market.

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

**Abhijit Akella:** Yes. Just a couple of clarifications I wanted to seek. So, 1 is with regard to the capex in the first half, it is about INR 310 crore or so, what number should we work with for the full year, please, this year? And maybe if you can give a number for next year also, if it is possible to share?

**Sanjay Upadhyay:** See, Abhijit, by and large now the things are moving to the first quarter of next year, first quarter onwards, I would say, because every quarter, you will see new capex is coming up. So whatever capex we spend, say, around INR 1,500 to INR 1,700, this all is getting now not an entire year, but Q1, Q2, Q3, that where it is progressing in next year, and it will commission from Q1 onwards.

**Maulik Mehta:** Except for the Fluorination.

**Sanjay Upadhyay:** Except Fluorination will be commissioned in Q4. This Q4.

- Abhijit Akella:** Okay. But in terms of the fresh capex on the newer projects, when should we expect a major pickup in spending on that? Will it be this year or next year onwards?
- Sanjay Upadhyay:** Abhijit, are you mentioning about the larger capex of INR 5,000 crore or what we have already said around INR 2,000 crore, INR 2,220 crore?
- Abhijit Akella:** Yes, more of the INR 2,000 crore, INR 2,200 crore.
- Sanjay Upadhyay:** That is what I was mentioning that you will find this every quarter, commissioning of 1 project from next year onwards.
- Abhijit Akella:** Then there is no Government incentive income this quarter in Deepak Phenolics. So just wondering what the reason for that might be? And whether we should expect some incentive income going forward?
- Sanjay Upadhyay:** Yes, of course, it is not going anywhere. Now it depends on the Government where if they have fund, then they will start distributing. I mean our filing is already there, and it can come any day, the process it may take time, but yes, you can expect this incensing load. In some quarter, it may be there, in some quarter it may not be there, but it is there, and here to stay.
- Abhijit Akella:** One last thing is just on Advanced Intermediates. So last quarter, we had pointed to a normalized margin expectation of about 20% to 22% EBITDA margin for Advanced Intermediates. We are running a little bit below that, but how should we think about that for say, the second half and then beyond, next year?
- Sanjay Upadhyay:** This year, Abhijit, I think Q2 and Q3 will also have this kind of whatever we are achieving today. Most likely from Q4 or next year onwards, things will change and will improve. I mean there is nothing wrong with the demand, but only there is a pressure on pricing because though we are able to sell, but yes, overall, things have slowed down. So, there is an impact there. So next year, we will definitely, we are not doing bad in AI, it is reasonably good. But if you are expecting still better performance, then you can expect from April onwards.
- Maulik Mehta:** And I know that I also put myself out there saying that the normalized EBITDA should be in the range of 20%, 22%. And it will be. We are starting to see anyway, it is just that the rate of improvement, sometimes you end up overestimating or underestimating. In this case, maybe I overestimated. But nonetheless, the factors that would go in that direction are all in place. And we are seeing those conversations with our customers. Let us say in this year, certainly towards the end of the financial year, we should be coming back to those numbers which we were used to.

- Abhijit Akella:** Got it. So, improving trajectory in Advanced Intermediates and Phenolics to remain around these levels or maybe slightly improve in Q3 and second half. Is that it?
- Sanjay Upadhyay:** Yes, you are right.
- Maulik Mehta:** No, no, no. Phenol, you can expect by and large around this. So, I would not look at a quarter-on-quarter improvement. Volume will increase. The percentage will remain around this plus 1%, minus 1% kind of thing.
- Moderator:** I now hand the conference over to the management for closing comments.
- Sanjay Upadhyay:** Thank you all for joining this conference call of Deepak Nitrite. In case any further clarifications are required, our investor relations team under Mr. Nanda will be glad to reply to you all. Wishing all of you a very Happy Diwali, a very happy festive season. Stay fine, stay healthy.
- Maulik Mehta:** Stay safe, and please enjoy the time with your loved ones. Thank you and have a great year.

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