Q4 & FY2017 - INVESTOR COMMUNICATION

Deepak Nitrite reports Q4 FY2017 Results

Turnaround performance in Q4 FY17 vs. Q3 FY17

Revenues at Rs. 325.44 crore Vs. Rs. 279.85 crore in Q3 FY17, up by 16%

EBITDA at Rs. 39.64 crore Vs. Rs. 31.08 crore in Q3 FY17, up by 28%

PAT at Rs. 16.56 crore Vs. Rs. 8.01 crore in Q3 FY17, higher by 107%

Raised Rs. 150 crore through QIP in March 2017

Board declares dividend of Rs. 1.20 per share; 43rd consecutive dividend

Vadodara, April 28, 2017: Deepak Nitrite Ltd. (DNL), having a product portfolio of Basic Chemicals (BC), Fine & Speciality Chemicals (FSC) & Performance Products (PP), enjoys a leading market position in most of its products in the domestic as well as global markets. (*Note: Segments have been renamed and there is no re-classification*) DNL has announced its financial results for the quarter and year ended March 31, 2017.

During FY2017, the Company was required to shutdown its DASDA manufacturing facility at Hyderabad, due to flooding. As a result, DNL received an order from the Telangana State Pollution Control Board for closure of one of the three units. After reviewing the compliance status of the order, TSPCB granted interim revocation order, followed by permanent revocation order and the plant operations were completely restored. In a separate incident, a fire broke out at a distillation column of the facility in Roha, Maharashtra which manufactures Fine & Speciality Chemical intermediates. Three out of four affected units at Roha have resumed production in a phased manner while the fourth unit is expected to be restarted during May, 2017.

Inspite of one-time developments in Q3 FY17, the company reported a turnaround performance in Q4 FY17 with 16% and 107% Q-o-Q improvement in Revenues and PAT.

Financial Highlights

Q4 FY2017

- Revenues came in at Rs. 325.44 crore in Q4 FY17 compared to Rs. 340.75 crore in Q4 FY16. The impact of one-time developments affected the Q4 FY17 performance compared to Q3FY17 as the Hyderabad facility has been restarted and three of the four units in Roha were restarted in a phased manner. On a normalised basis, revenues would have been steady compared to Q4 last year.

- EBITDA (including other income) was Rs. 39.64 crore in Q4 FY17, compared to Rs. 46.63 crore in Q4 FY16. The EBITDA margin was 12.2% against 13.7% in the same period last year. EBITDA has been impacted by lower topline out of speciality chemicals portfolio as well as incurring of certain one-time expenses in restarting facilities as well as enhancing processes – the benefits of these will accrue in the forthcoming quarters. On a normalised basis, EBITDA would have been higher due to improved product mix.

- PBT excluding exceptional items stood at Rs. 20.68 crore in Q4 FY17 compared to Rs. 29.38 crore in the same period last year. The impact of afore-mentioned developments as well as certain one-time expenses has compressed profitability.

- PAT (excluding exceptional items) was Rs. 16.56 crore in Q4 FY17 compared to Rs. 20.56 crore in Q4 FY16. Including exceptional items, PAT stood at Rs. 20.76 crore as compared to Rs. 20.56 crore in Q4 FY16.

- EPS for Q4 FY17 stood at Rs. 1.37 per share (of face value of Rs. 2 each) on an enlarged capital base compared to Rs. 1.78 per share in Q4 FY16. (QIP: Issuance of 1,44,23,076 shares of Rs. 2 each at a price of Rs. 104 per share in March, 2017).

Because of one-time events that occurred in Q3 FY17, the overall performance during the year was impacted. The financial performance for FY17 has to be seen in light of these one-time developments.

FY2017

- During FY17, revenues stood at Rs. 1,221.56 crore as compared to Rs. 1,335.73 crore in FY16. Topline performance was impacted by afore-mentioned one-off events which impacted production and sales volumes. The Company undertook aggressive marketing efforts and initiatives to diversify revenue mix which has helped to partially mitigate impact of these developments.

- EBITDA stood at Rs. 149.08 crore in FY17 compared to Rs. 166.68 crore in FY16. The EBITDA margin stood at 12.2%, lower by 40 bps Y-o-Y, impacted by the afore-mentioned one-time developments. On a normalised basis, EBITDA would have been higher with better margins due to improved composition of higher value products in the revenue-mix.

- PBT excluding exceptional items stood at Rs. 75.90 crore in FY17 compared to Rs. 91.33 crore in the same period last year. In addition to revenue impact due to above-mentioned developments, the Company incurred certain one-time expenses as well as higher depreciation due to increase in asset base. On a normalised basis, the Company would have reported double digit growth in PBT.

- The Company reported PAT (excluding exceptional items) of Rs. 53.33 crore in FY17 compared to Rs. 65.15 crore in FY16. On a normalised basis, the Company would have reported double digit growth in PAT. Including the gain of Rs. 74.97 crore arising from sale of land (Net of Tax Rs. 58.7 crore), reported PAT was Rs. 112.04 crore in FY17 compared to Rs. 65.15 crore in FY16.

- EPS (excluding exceptional items) for FY17 stood at Rs. 4.55 per share (of face value of Rs. 2 each) on an enlarged capital base compared to Rs. 6.07 per share in FY16. (QIP: Issuance of 1,44,23,076 shares of Rs. 2 each at a price of Rs. 104 per share in March, 2017).

MD's message

Commenting on the results, **Mr. Deepak C. Mehta, Chairman & Managing Director**, said,

"Financial Year 2017 was a challenging year for the Company and I am happy to report a fairly resilient performance indicating the robustness of our business model. Notwithstanding the changing dynamics in export markets as well as disruptive events in the domestic market, DNL has made continued progress in enhancing its product portfolio, market presence, customer engagements and developing new products.

Overall performance during the year could have been far superior, but for the impact due to one-time developments which led to temporary shutdown of facilities at Roha as well as Hyderabad. Both the facilities have now resumed production. The last phase of resumption of one plant at Roha is expected during ensuing days.

The Company made significant advancement in its Greenfield project of Phenol & Acetone with investments of over Rs. 475 crore till date, while committed amount towards the project has been higher than Rs. 900 crore. We have achieved complete financial closure of debt funding for this project and have also very recently concluded the second round of QIP to raise Rs. 150 crore. Along with internal accruals, the funds raised will be deployed as we expect to commission this project in the last quarter of current financial year. This project will elevate the operational profile and growth prospects of the Company, once commissioned.

In line with our emphasis on rewarding shareholders, we have declared a dividend of Rs. 1.20 per share in FY17. This is the 43rd consecutive year of dividend payment by Deepak Nitrite underlining the sustainability of the business model. The dividend rate has been maintained despite expanded capital base as well as one-time developments.

Going forward, we are excited about the prospects of our enhanced product portfolio in Fine & Speciality Chemicals and Basic Chemicals segments which will provide renewed momentum. In the Performance Products segment, we are widening our focus on newer regions and end-user industries with newer patented products. We have also put in place some exciting initiatives in processing of by-products and waste management which will elevate our operating performance further. The combination of these initiatives and the impending commissioning of our Phenol project will enable us to scale new heights and accelerate value creation for our stakeholders."

Operating Highlights

During FY17, one-time developments have impacted production and sales volume. However, product mix enhancements and aggressive marketing helped the Company to increase volumes in Q4 in the BC segment which has partly compensated for the shortfall and narrowed the overall volume decline in FY17 to 4%. Other key aspects of the performance were:

- Domestic revenues stood at Rs. 735.72 crore in FY17 from Rs. 794.58 crore in the same period last year. Apart from marginal effect from demonetisation, the performance was impacted by one-time developments which affected the overall volumes.
- Revenues from exports came in at Rs. 469.79 crore in FY17 compared to Rs. 525.75 crore in FY16, partly affected by impact on production volumes due to one-time developments.
- Revenues from the BC segment stood at Rs. 634.57 crore in FY17 compared to Rs. 674.56 crore in FY16. Demand for fuel additives went down. Since our plants are multipurpose, we have switched to other products giving better contribution, though topline has been impacted.
- Revenues from FSC segment were at Rs. 359.36 crore in FY17 compared to Rs. 393.37 crore in FY16. Volume growth declined by 3% during the year. The segment was on course to record a strong year but for the incident at Roha. Better momentum driven by favourable monsoons as well as higher traction in personal care and pharma intermediates would support growth in the FSC segment in FY18.
- PP segment reported revenues of Rs. 240.09 crore in FY17 compared to Rs. 273.68 crore in FY16. Volumes de-grew by 5% due to shutdown of Hyderabad facility. This was further helped by change in product mix towards application in textiles and detergents and widening its focus to include additional markets and end-user industries in order to achieve accelerated volume growth.
- The Company had engaged a leading business consultant to review its business processes and suggest measures to drive enhanced value. Based on the report, several initiatives have been identified and implemented. These include debottlenecking of processing facilities to improve throughput, processing of by-products and better waste management to enhance production efficiencies and synergies. The benefit of these initiatives will result in improved operating efficiencies as well as cost savings in the ensuing financial years.

Other Developments

- The Company raised Rs. 150 crore through Qualified Institutional Placement (QIP) in March 2017 at a price of Rs. 104 per equity share (including premium of Rs. 102 per share). DNL witnessed a strong response from high quality domestic institutional investors. The proceeds which will be deployed towards funding the Greenfield Project for manufacture of Phenol and Acetone saw demand from several marquee investors resulting in subscriptions of over 2.2 times the issue size, exceeding Rs. 340 crore. Prominent investors who participated in the QIP include Reliance Mutual Fund, ICICI Lombard General Insurance Company, Birla Sun Life

Insurance Company, ICICI Prudential Mutual Fund, IDFC Mutual Fund and Dalton India (Master) Fund LP, amongst others.

- The insurance company is considering an interim release in the claim for damage of property at Roha plant. This is at an advanced stage and the initial survey for the claim of loss of profit owing to business interruption at Roha has been provided by surveyor. However, this is not booked in the current quarter and shall be booked in due course.

Dividend

- The Board of Directors of the Company recommended a dividend of Rs. 1.20 per equity share of face value of Rs. 2 each. Once approved, this will be the 43rd consecutive year of dividend payment by Deepak Nitrite. The dividend rate has been maintained despite expanded capital base (due to QIP concluded in Q4) as well as one-time developments.

Outlook

Moving into financial year 2018, DNL is well placed to capture the growth opportunities arising in the end user industries. The Company has restarted all but one of the facilities and full operation is getting restored in ensuing days.

Fine & Specialty chemicals segment would lead the growth momentum as a result of encouraging demand scenario in the global as well as domestic markets and higher contribution from personal care & pharma intermediates. Further, the Company has set up small facilities for backward integration of some agro-chemical products and pharma intermediates which will commence operation in FY18. These will meaningfully enhance the profitability of these products.

The Basic Chemicals segment will witness continued momentum due to enhancing of product mix as well as addition of new category defining products. The Company has spent Rs. 20 crore in FY16-17 to set up processing of new products which will contribute to both topline and bottomline from FY2017-18. Performance Products segment is also expected to demonstrate improved performance going forward as a result of multiple strategic initiatives undertaken by the Company which is expected to result in better customer acceptance for OBA in the global markets. In addition, the Company is focusing more on the detergents and textiles industry in order to enjoy better profitability.

Update on Project for Manufacture of Phenol and Acetone

As underlined earlier, DNL is implementing a mega project to manufacture 200,000 MTPA of Phenol and 120,000 MTPA of the co-product Acetone. This will be supported by manufacturing 260,000 MT of Cumene, which is a Feedstock for manufacturing Phenol and Acetone. A wholly owned subsidiary, viz. Deepak Phenolics Limited has been set up for this project. The proposed Phenol Plant will be located at Dahej in the State of Gujarat, with a capital expenditure of Rs. 1,400 crore to be funded by 60 : 40 debt to equity ratio.

DNL will address the opportunity offered by the supply deficit in the domestic market which is currently met by imports. In addition to competitiveness on cost due to supplying the domestic markets from a plant located in India, DNL will leverage the latest manufacturing technologies in its state-of-the art plant which will reduce wastage and is more efficient in utilization of inputs and energy. It will enable the country to save foreign exchange and provide a market leadership position to Deepak Nitrite in Phenol & Acetone in India while strongly elevating its growth prospects.

In Q4 FY17, the Company raised Rs. 150 crore through second round of Qualified Institutional Placement (QIP) at a price of Rs. 104 per equity share (including premium of Rs. 102 per share). The equity portion required for the said project has been largely tied up through the proceeds from both rounds of QIP, sale of land as well as internal accruals of last two financial years. Debt portion has also been fully tied up on a ring-fenced basis.

The World-class Phenol & Acetone project is taking good shape and we have attained substantial progress in the construction work. This project is expected to be commissioned in the last quarter of current financial year. Till date, the Company has invested an amount of close to Rs. 475 crore. Overall, more than Rs. 900 crore has been committed for this project implementation till date. Seed marketing initiatives has resulted in initial volumes being supplied and the demand for phenol is improving in the domestic market. The objective of the seed marketing initiative is to develop working relationships with the customers together with understanding the demand pattern and the overall logistics.

Attached: Details to the announcement

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About Deepak Nitrite Limited

Deepak Nitrite Limited [NSE - DEEPAKNITR, BSE - 506401] having a product portfolio of Basic Chemicals (BC), Fine & Speciality Chemicals (FSC) &Performance Products (PP), enjoys a leading market position in most of its products in the domestic as well as global markets and is the partner of choice for several global chemical majors. Headquartered at Vadodara, Gujarat, DNL is a multi-division and multi-product company with manufacturing facilities at Nandesari & Dahej in Gujarat, Roha and Taloja in Maharashtra, and at Hyderabad in Andhra Pradesh. It is also setting up a project for manufacture of Phenol and Acetone through its wholly owned subsidiary Deepak Phenolics.

The BC segment consists of commodity chemicals which DNL supplies in high volumes. These products are made to standard specifications and are subject to low-to-moderate margins. In this segment, the profit focus is centred on cost leadership.

The FSC segment consists of niche products which are manufactured in low volumes. These products enjoy higher value as they are customised to specific customer requirements. Due to the differentiation from standardised products, the focus of the B2B supply model is based on quality of product, long-term relationships, stable and sustainable operations and global best practices for suppliers and customers. The Company has also forayed in Pharma and Personal Care intermediates in the recent past, the opportunity for which remains vast. DNL is one of the top 3 producers of fine intermediates that produce broad and innovative range of Performance Chemicals meeting the needs of Speciality Producers.

The PP segment consists of supply of OBA and its intermediate DASDA. DNL is the world's only fully integrated manufacturer of OBA (Toluene – PNT – DASDA – OBA). There is good demand for OBAs across industries like Paper, Detergents and Textiles. OBAs extend into Application Chemistry and DNL's strategy is to create a unique market positioning leading to a sizeable market share globally.

The end user industries for DNL range from agro-chemicals, dyestuffs, pigments, inks, whiteners, pharmaceuticals to fuel additives, textiles, paper, detergent and solar industry. DNL prioritises R&D activities and invests around 1% of its annual revenues in this area. It has a government approved central R&D facility which has a sophisticated analytical laboratory, state-of-the-art equipment and advanced facilities.

Safe Harbour

Some of the statements in this document that are not historical facts are forward-looking statements. These forward-looking statements include our financial and growth projections as well as statements concerning our plans, strategies, intentions and beliefs concerning our business and the markets in which we operate. These statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements. These risks include, but are not limited to, the level of market demand for our services, the highly-competitive market for the types of services that we offer, market conditions that could cause our customers to reduce their spending for our services, our ability to create, acquire and build new businesses and to grow our established businesses, our ability to attract and retain qualified personnel, currency fluctuations and market conditions in India and elsewhere around the world, and other risks not specifically mentioned herein but those that are common to industry.

Details to the Results (All figures in Rs. Crore)

Revenues

Particulars	Q4 FY17	Q4 FY16	%	FY17	FY16	%
Basic Chemicals	171.87	146.89	17%	634.57	674.56	(6%)
Fine & Speciality Chemicals	90.54	122.88	(26%)	359.36	393.37	(9%)
Performance Products	68.56	71.44	(4%)	240.09	273.68	(12%)
Other Unallocable	0.68	2.02	(66%)	4.89	5.78	(15%)
Total	**331.66**	**343.23**	**(3%)**	**1,238.91**	**1,347.39**	**(8%)**
Inter Segment	6.22	2.48	151%	17.35	11.67	49%
Net Sales/Op. Income	**325.44**	**340.75**	**(4%)**	**1,221.56**	**1,335.73**	**(9%)**
Other Income	0.30	0.79	(62%)	3.94	2.05	92%
Total Revenues	**325.74**	**341.54**	**(5%)**	**1,225.50**	**1,337.78**	**(8%)**

Expenditure Analysis

Particulars	Q4 FY17	Q4 FY16	%	FY17	FY16	%
Employee Costs	29.05	29.39	(1%)	122.20	116.08	5%
Interest	8.30	7.78	7%	30.89	37.45	(18%)
Depreciation	10.67	10.27	4%	42.28	39.45	7%

Profitability Analysis

Particulars	Q4 FY17	Q4 FY16	%	FY17	FY16	%
PBT*	20.68	29.38	(30%)	75.90	91.33	(17%)
PAT*	16.56	20.56	(20%)	53.32	65.15	(18%)
EPS (Rs.)	1.37	1.78	(23%)	4.55	6.07	(25%)

*Excluding exceptional gain of Rs. 75.0 crore (net of taxes Rs. 58.7) on account of sale of land and surrender/assignment of leasehold rights in land at Pune

Statement of Borrowings

Secured Loan & Net Debt/Equity as on 31st March, 2017

Particulars	Q4 FY17	Q4 FY16
ECB	90.57	172.30
Rupee Term Loan	63.39	87.99
Other Loan Funds (Includes CC)	419.96	234.90
Total Loan Funds	573.92	495.19
Debt/Equity Ratio	0.78	1.01

Capital Employed

Particulars	*Q4 FY17*	*Q4 FY16*
Capital Employed	1,374.00	1,025.84
Less : Capital Work in Progress	40.84	10.31
Less : Market Investments and Investment in Subsidiaries	385.98	132.43
Capital Employed in Operations	947.18	883.10