Deepak Nitrite Limited

Q2 & H1 FY25 Earnings Conference Call

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MR. SOMSEKHAR NANDA – CFO

MODERATOR: **MR. VIRAL SHAH** – IIFL SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Deepak Nitrite's Q2 & H1 FY25 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, sir.

Viral Shah: Good evening everyone, and thank you for joining us on Deepak Nitrite's Q2 & H1 FY25 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 of Deepak Nitrite Limited. We will begin the call with opening remarks from the management team followed by an interactive Q&A session.

At the outset, I would like to clarify that certain statements made or disclosed on the conference call today may be forward-looking in nature, and a disclaimer to this effect has been included in the results presentation shared with you earlier.

To begin, 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: Thank you Viral. Good evening everybody and a warm welcome to all of you on Deepak Nitrite's Q2 & H1 FY25 earnings conference call. Belated wishes for Diwali and wishing all of you a prosperous New Year ahead.

Our results documents were shared earlier with you, and I hope you've had an opportunity to glance through them. I'll cover the key financial and operational highlights for the quarter and half year ended 30th September 2024. 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.

To start with, I'm delighted to share that we have commenced our foray into Advanced Materials in line with the long-term strategic plan that has been conveyed by our Chairman earlier. As emphasized by him, selecting the right technology partner has been crucial, and we have dedicated our efforts to finalizing a Technology Licensing Agreement at the earliest. Yesterday, the Board of Directors of Deepak Chem Tech Limited (DCTL), our 100% subsidiary, approved the following:

To proceed with the project to manufacture polycarbonate resins involving an investment of approximately INR 5,000 crore, inclusive of greenfield infrastructure and capital expenditure. This investment will be funded through a balanced mix of debt and equity, contingent upon the completion of detailed engineering.

To this end, DCTL has secured a technology partnership by entering into an agreement with affiliates of Trinseo PLC to license its technology for the production of polycarbonate resins. Trinseo's technology is highly regarded by leading customers for its quality and consistency. Additionally, DCTL will acquire Trinseo's assets, including all proprietary equipment with an annual capacity of 165,000 metric tonnes, currently located in Stade, Germany. This agreement also grants access to Trinseo's globally recognized CALIBRE™ resins and trademark.

This marks a significant milestone, and we're actively working towards achieving our goal.

On this note, I would like to take the opportunity to mention that,

1. India's demand for polycarbonate resins was approximately 240,000 MTPA in 2023, and it is projected to grow at a rate exceeding that of India's GDP. Currently, the entire demand is met through imports. The polycarbonate resin plant will cater to a wide range of applications across sectors such as mobility, electronics, electrical, medical equipment, aerospace, packaging and various other emerging and sunrise industries in the country. Additionally, new applications such as EV battery boxes are anticipated to further accelerate demand growth.
2. Deepak's strategy focuses on expanding downstream integration and the polycarbonate resin investment aligns with this approach as part of the phenol value chain.

Now coming to the operational performance in Q2 and H1.

Business sentiment in the quarter remained mixed due to geopolitical uncertainties linked with high interest, limited operating rates in Europe and China, low price destocking and volatile crude oil prices. While there are segments where we witnessed positive sentiment, a short-term challenge from persistently underpriced product availability from China has prevented a broader recovery so far. This was exacerbated by logistical challenges due to increasing freight rate and sailing times.

While a key market like Europe has slowed, emerging markets like Asia present growth opportunities driven by strong domestic consumption and rising onshore value addition. India has reinforced its role as a dependable manufacturing hub, providing a key alternative to China amidst these challenges. As a result, we see manufacturing capacity and capability buildup taking place in India, driving higher requirements for a variety of inputs. Industries such as medical equipment, semiconductors, telecommunication equipments and industrial products to name a few, which have not been traditionally the strengths for Indian manufacturing. We are

now emerging with exciting avenues for growth and by adding polycarbonate resins, we have positioned ourselves and our product portfolio to be increasingly relevant to these requirements.

Now as a result, our business, which is 84% dependent on domestic customers has proved to be a resilient bulwark amidst this global volatility. For Q2, consolidated revenues grew at 14% year-on-year. And for H1, consolidated revenues were higher by 18% on a year-on-year basis. This performance was powered by a strong growth in the Phenolics business driven due to improved demand supported by capacities being operated at high utilization levels, investing in upstream, debottlenecking and maintaining wallet share across our diversified product range in Advanced Intermediates. We have also successfully integrated sustainable energy sources, improved key product circularity and pivoted towards non-traditional customer geographies as we prioritize operating rates across locations.

In terms of profitability, EBITDA at INR 319 crore in Q2 was stable on a year-on-year basis. Realizations in Advanced Intermediates were muted this quarter and key agrochemical customers in Europe faced certain challenges, resulting in reduced offtake. While we successfully pivoted to customers in other geographies, volumes were maintained, but resulted in profitability temporarily being impacted. Capacity utilization and demand gains in Phenolics has substantially offset the impact of generally weak pricing on finished products in the AI segment in the quarter, enabling us to report steady EBITDA on a consolidated basis.

For H1, EBITDA increased by 15% year-on-year to INR 647 crore with an EBITDA margin of 15%. This was largely driven by Deepak Phenolics, which capitalized on steady realizations and higher volumes by optimizing capacity, and this enabled the Company to serve this increased demand from customers.

On the operational front, our domestic business, as I mentioned, contributed 84% of overall revenues versus 80% in the same quarter last year, while exports contributed to 16%. This reflects the shifting of volumes from Europe to Asia in most cases, and we've been able to retain or increase our wallet share with customers.

Coming to our segmental performance, the advanced intermediates segment generated revenues of INR 606 crore in Q2. Revenue growth was impacted by soft realizations due to the cyclicality and weak demand trends in end user segments. One of our key customers witnessed a challenge this quarter which impacted their ability to absorb committed volumes, which we partially offset by successfully redirecting the volumes to non-traditional geographies. We're also committed to broadening our customer base by strategically introducing new products and thereby expanding our offerings to reach a wider audience.

Revenues in the Phenolics segment were higher by 29% year-on-year, and EBIT margin was maintained at 15%. This improvement can be attributed to better realizations in the phenol and acetone chain, driven by favorable domestic consumption trends and expanded capacity.

Sustained capacity utilization in the quarter has been a key factor despite a very brutal summer, and this is a consistent performer in the segment.

Moving on to updates in our pipeline of projects:

- The nitric acid project is expected to be commissioned in H2 FY25.
- Our other projects, including photochlorination, hydrogenation and nitration block are also commissioning together in H2 FY25. If you remember, fluorination block was already commissioned in Q4 FY24.
- In the MIBK/ MIBC project, we expect commissioning in H1 FY26.
- The acetophenone project is on track and expected to be commissioned in H1 FY26.
- Additionally, our R&D center near Vadodara (Savli) is on track for commissioning in H2 FY25. This state-of-the-art facility will significantly enhance our capabilities in advanced chemistries as well as deliver our future growth. These efforts reflect an ongoing commitment to innovation, self-reliance and sustainable expansion.

As we work through a period of geopolitical uncertainty and other economic challenges, Deepak's strategy for future growth remains unwavering. Our strategy is to diversify, focusing on acquiring new customers across several promising markets. Additionally, we are developing new distribution channels in key geographies, which will bring us one step closer to local generic manufacturers and open up new avenues for growth. This approach not only mitigates regional risks, but also positions our best-in-class quality to capture new opportunities at a global scale.

Looking ahead, we anticipate a demand uptick from our legacy European customers in the later part of the second half of this year, potentially aligning with the end of China's destocking, leading to improved product pricing. Several projects are nearing completion over the next 6 – 12 months, including nitric acid, new nitration and hydrogenation blocks, photochlorination, acetophenone, cumene hydroperoxide, MIBK and MIBC as well as the R&D center. This is in addition to the recently commissioned projects, including multifuel boilers, SAC unit, advanced process control systems and high-pressure fluorination assets, which will add accretive value looking ahead. New investment announcements will significantly enhance the Company's business model and chemistry platforms over the next 3 years and pave the road for new partnerships and opportunities.

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

Sanjay Upadhyay: Thank you Maulik. Good evening everyone. Thank you for joining us today on Deepak Nitrite's earnings call. I'll take you through the highlights of the financial results for the quarter and half year ended September 30, 2024.

Coming to the key developments of this quarter, though Maulik has shared already, I am pleased to convey that Board of Directors of DCTL has yesterday approved setting up a project for manufacturing polycarbonate resins. Maulik has shared all of the details.

As regards to funding of the project, there is no pressure on the cash flow as of now, as we have liquid surplus of around INR 800 crore and payment to Trinseo is also in the phased manner. Over and above that, we have doable limits also available. We shall come back to the market regarding funding plans in detail in due course once we have evaluated various options in detail.

Additionally, we have invested INR 34.5 crore in OXOC Chemical Limited, which has ventured into business of polycarbonate compounding based products and derivatives. This should help Deepak Group with strategic objective of forward integration, but particularly when we have our polycarbonate plant now going ahead with the announcement phase.

Coming to the operations of Q2, amid a challenging landscape in terms of geopolitical concerns and heavy monsoon added volatility on the prices of few raw materials, Deepak Nitrite has delivered a resilient performance. First, our operations remain highly efficient. On a consolidated basis, our ROCE is reported at 23%, continuing our track record of consistently delivering value in the current challenging macro-economic landscape.

You all may appreciate that with projects approaching commissioning gradually as stated by Maulik earlier, some of which are bottom-line accretive and some are top-line, we are gradually getting into a high level of integration, as one of its kind amongst the chemical industries in the country. This will be a model, which will be very resilient. These product classes are catering to several core sector end users, and places Deepak in a very solid and strategic positioning, globally.

Coming to our financial performance. On the operating front, domestic business revenue stood at INR 1,714 crore and INR 3,475 crore in Q2 and H1, respectively. Export revenue were at INR 318 crore in Q2 and INR 724 crore in H1. On a consolidated basis, our domestic to export mix stood at 84:16 in Q2 FY25 as against 80:20 same period last year.

In H1 FY25 consolidated basis, the revenue grew at 18% to INR 4,239 crore versus INR 3,595 crore in H1 FY24, driven by performance of the Phenolics segment. EBITDA grew at 15% at INR 647 crore compared to INR 561 crore in H1 FY24. Margins came in at 15% in H1 FY25. PBT and PAT came at INR 539 crore and INR 397 crore, up 13% and 12%, respectively.

In Q2 FY25, on a consolidated basis, revenue were up 14% to INR 2,053 crore as compared to INR 1,795 crore in Q2 FY24. EBITDA at INR 319 crore was flat on a year-on-year basis. Margins moderated at 16% on the base of higher raw material costs and other utilities along with lower recovery for a few products. PBT and PAT stood at INR 264 crore and INR 194 crore, respectively. Profitability was aligned with the operational performance of the Company.

Moving to the segmental performance. In the Advanced Intermediates segment, revenue stood at INR 606 crore in Q2 FY25 versus INR 670 crore in Q2 FY24. While EBIT stood at INR 47 crore translating to 8% margin during the quarter under review. In H1 FY25, revenue came at INR 1,322 crore and EBIT came in at INR 114 crore, translating into a margin of 9% due to current environment as explained earlier.

The Phenolics segment delivered an encouraging performance with revenue growth at 29% year-on-year to INR 1,443 crore in Q2 FY25 versus INR 1,120 crore in Q2 FY24. EBIT was INR 215 crore at an EBIT margin of 15% in the quarter. In H1 FY25, revenue grew at 33% to INR 2,907 crore and EBIT was higher by 64% year-on-year at INR 422 crore, translating into a margin of 15%.

On the balance sheet front, the Company's financial position is significantly enhanced, and the Company continues to maintain zero debt position on a net basis with a net worth of INR 5,125 crore on a consolidated basis.

Our ongoing projects are progressing well and despite a bit of unexpected delay in Q2 due to very heavy monsoon in Gujarat, we are on track to commission most of the projects in the next 6 months to 8 months. Our R&D team is driving innovation, focusing on developing new products that will support the expansion of our specialty chemicals capabilities. These new plants will enhance our self-reliance on essential raw materials and maximize profitability once fully operational. Lastly, our R&D center near Vadodara is moving ahead on schedule, with 66% allocated capex of approximately INR 115 crore having been utilized. We are confident that the addition of the R&D center related capabilities will elevate the competitive positioning further. This center will also cater to various requirements of polycarbonate compounding strategy, and this will help us in catering to the upcoming surge in demand for sunrise sectors in the country.

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

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

Our first question is from the line of Nirav Jimudia from Anvil Corporation.

Nirav Jimudia: Congratulations to the entire team of Deepak for acquiring the assets abroad and bringing those assets to India. So sir, question basically is on the polycarbonate side only. So one, we have announced that 165,000 metric tonnes of polycarbonate would be put up here in India at a capex of INR 5,000 crore. If you can also share your thought process on the upstream capacities of BPA and phenol, when can we hear on both of these fronts? And if possible, if you can quantify the size of the capacities for both of them, that would be helpful.

Maulik Mehta: Okay. First of all, Happy New Year, Nirav. And just to clarify, it is part of our strategy to link phenol expansion as well as bisphenol A, which are the key intermediates that are required in

order to manufacture polycarbonates. So it's simply that we were able to tie up our technology as well as get assets, which are purpose-built for this capacity earlier. I think in a couple of months, we will be able to update you with regards to the investment as well as the capacities for these other 2 products. Suffice to say that as per our usual strategy, we will ensure that the assets are rightsized so that we can not only consume all the production internally, but also have some volumes to sell because BPA is also a 100% import into India. So we'll be able to cater to this. In phenol, we will be able to manufacture enough so that we are able to consume it into BPA as well as continue to maintain a wallet share with India's growing demand.

Sanjay Upadhyay: To add to this, we are at an advanced stage of discussions on this technology front also. Though phenol and BPA are known products, but it's better to evaluate our technology vis-a-vis the current technology available in the market. And when we come out, we'll come up with the best technology available in the market so that we do not have any future competiton. I mean, you've seen how phenol has performed. So similar thing, again, we are trying and we'll see that we get the best technology.

Nirav Jimudia: Got it. Sir, last time when we announced our capex for all the projects that is currently undergoing and getting commissioned; for this, everything is coming up at the new land parcel, I believe. So what would be the size of the area under which the entire facility would be accommodated? If you can just share because last time, if I'm not wrong, it was close to around 180 to 200 acres of land under which the capex was undergoing. So if you can share in terms of the size of the land requirement for such a big capex to accommodate?

Maulik Mehta: So I mean, we have a plan where we can accommodate in an expanded manner or in a more compact manner. We are also seeing how we can integrate this along with potential future expansions and other products. So the amount of space can go from anywhere between about a 160-acre plot to about 300 to 400 acres, again, depending on how much we are integrating with other products, which will be sharing a lot of these facilities. Just to clarify also that the investments that we are making right now will also permit us some headroom with regards to debottlenecking as we move forward.

Nirav Jimudia: Got it. And sir, for this technology tie-up, do we have to pay anything to the technology partner as onetime fee or any sort of understanding fee? If you can just help us understand.

Sanjay Upadhyay: Nirav, I just said in my earlier remarks that it is paid in a phased manner, okay. So it is in stages.

Maulik Mehta: But there's no royalty like one would normally have in most technology tie-ups. There is a technology fee and there is an asset purchase.

Nirav Jimudia: Got it. The second bit is on the nitric acid side. You mentioned that the pre-commissioning activities is going to start sooner and plant would be commissioned in second half of FY25. So is it now a right time to say like what sort of capacity of nitric acid we are coming up with? And

would it be entirely for the captive purpose or we'll be selling something in the market also given the kind of ramp-up in the volumes for our existing product baskets?

Maulik Mehta: So our pre-commissioning activities have already begun, to clarify. And the capacity that we have is enough for our current consumption as well as our future growth opportunities that we have identified. In the interim, of course, we will also be able to participate in the market. But our long-term strategy continues to remain making it for consuming it. And we see good opportunities for growth in nitrated products.

Nirav Jimudia: Okay. Got it. Sir, last bit from my side is on the Advanced Intermediates. Like you mentioned that there was pressure in terms of the agrochemical customers where we do campaign-based sales. So I think our turnover on a sequential basis was down close to INR 100 crore. So was the impact higher than the INR 100 crore in some of our legacy products and the existing product baskets? Would that help cover some of the lost sales, or is the entire INR 100 crore dip in sales coming from those customers? And since you mentioned that those customers are coming back in H2, will this sales gap be filled up again?

Sanjay Upadhyay: I mean, there is no loss of customer, Nirav?

Nirav Jimudia: No, no, I'm not saying loss of customers. I'm saying that the customers, which have deferred their purchases maybe because of the slowdown. I was just trying to understand that this INR 100 crore impact, what we have seen in terms of top-line on a quarter-on-quarter basis, I was just trying to understand that was the impact more than the INR 100 crore and other products of ours in the Advanced Intermediates would have compensated some sort of those lost sales? Just wanted to understand that.

Maulik Mehta: No. So INR 100 crore was not linked to any single customer or 2 customers. It was linked more to the end segment, which is agrochemicals. So just to clarify, agrochemicals, as a segment, a lot of customers have been constantly down revising their volume guidance over the year in anticipation of the end of this destocking cycle and are now also communicating back to us their confidence about significant improvement in volume pickup compared to the current and Q1, starting from towards the end of Q3 or Q4 onwards. So we can anticipate that this is the agrochemical slowdown that every other Indian Company, which also participates in this space which was refered to. And we also concur with the general feedback that, by and large, CY25 looks more positive than CY24.

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

Rohit Nagraj: The first question is on polycarbonate. So one, in terms of the existing facility in Germany, how old is the plant? And any specific reason why Trinseo wants to sell the entire asset? And another clarification on the same, based on the current margin environment on polycarbonate, what would be our expected payback? Because in phenol acetone project, we had a payback of 2.5

years, given the margin environment was very strong. So what is the expectation on the polycarbonate project?

Maulik Mehta: Okay. So Rohit, first of all, thank you. Just to add that the capacity for 165,000 metric tonnes in Stade is their current capacity. The reason that they wanted to move their assets and the reason that we bought this is because we made it clear in our engagement with them that we were not interested in taking just a single line.

We were interested in taking this as they were interested in vacating the market and working with Deepak, where we would supply whatever they're in, so they are not exiting the business. They're just exiting the manufacturing of polycarbonate resins. They continue to remain invested in the intellectual property development compounding of this product, and they will look at buying the resin from Deepak as we relocate their assets to India.

This also gives us the opportunity to supply to the growing Indian ecosystem, but at the same time, at a manufacturing cost, which may be considerably lower than the current climate that European manufacturers are facing. And Deepak has a good experience in seeing how to optimize and debottleneck as it learns the nuances of these new processes.

So not only is Trinseo happy that its end customers will continue to remain happy with them, but it has also communicated that many of these customers are investing in capacities in India. And they want to ensure that they don’t lose these customers, as their customers don't have to go somewhere else to be able to get these compounds.

And with an Indian manufacturing base, Trinseo will also be able to communicate to many of these customers that they stand derisked. So I think to start off with, while it looks like a licensing agreement and an asset purchase agreement, I would say that it is the beginning of a comprehensive partnership moving forward.

Sanjay Upadhyay: So with regards to the quality of asset, it's top class quality. Our technical team has visited, inspected, and the quality is really good. The advantage with this asset is that you can see a running plant. It's very rare that you buy assets and you see a running plant, which is actually performing and our technical team is getting trained there. And again, the technology is from Trinseo and the assets are also from Trinseo, so that makes it all the more a very good combination for us. So there is no issue as such.

And please appreciate, this also helps us in reducing the capex commencement plan by at least 8 to 10 months minimum here. That's a major advantage we are getting here. So overall, if you see, it's a very good deal for Deepak, win-win for us and for Trinseo, both.

Maulik Mehta: And I'll just add one thing. This plant was put up when I would say money was cheaper. So the kind of materials of construction (MOCs) that went into the construction of this plant, the asset, they are very exotic MOCs. Today, if someone was to put up a brand-new plant, they might try

to see how to optimize on some of these MOCs. So in a sense, we are getting a plant that has demonstrated performance, it is in top class condition and happens to have a large part of its asset base, I would say, a little bit overengineered. That gives us a lot of comfort as well in being able to see how over a period of time, we can start to eke out more and more value and throughput from the assets.

Rohit Nagraj: Sure. That's really helpful. Sir, second question, again, on the capex front. So out of the INR 14,000 crore capex plan till 2027, how much have we committed till now? And how much is left? Trying just to get a broader understanding of FY25 and FY26 capex.

Sanjay Upadhyay: So around INR 7,000 crore, we have committed, including this INR 5,000 crore plus earlier INR 2,000 crore what we have just shared about nitric acid and all. And balance INR 7,000 crore is there as part of MOU where the Phase 2 will commence as Maulik was telling in the earlier question regarding BPA, phenol and all these things. So this all total is INR 14,000.

Rohit Nagraj: Right. And for FY25 and FY26, what could be the capex number?

Sanjay Upadhyay: These are the capexes, which are not going to happen this year. This is still 2027 and/ or 2028. I think around by end of 2027, 2028 beginning. So this will take us through for next 3 years minimum.

Maulik Mehta: So the parts that we have not announced will also be done sort of in parallel, but we are still in the process of tying up certain loose ends. Once we do, we will be able to add those announcements, and they will be done in parallel in terms of execution.

Moderator: The next question is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Congratualtions on the tie-up. So just a couple of points on that. So let's say, if you were to build this plant of 165,000 metric tonnes, what would have been the capex that you would have to incur? I mean, apart from the technological fee or the licensing fee that you are paying?

Sanjay Upadhyay: See, this plant has a saving definitely because it's a second-hand plant, but we are developing a site. Why INR 5,000 crore? Because we are developing a site, which is greenfield where you have infrastructure cost, which is a part of this capex. So a lot of infrastructure costs also we have to incur because we have to make the site ready for all future investments. Of course, not the entire infrastructure is allocated to this, but a significant amount is allocated to this. And hence, the total investment is higher, but this will suffice for the future-ready. So there is a saving on this, and then shifting of the plant also needs some expense, when you are dismantling all these things. So we don't want to specify the amount, how much is saving. But yes, even after this, there is a saving on the total capex.

Maulik Mehta: And it's a good amount of saving, without going into details.

Krishan Parwani: Sure. Yes, yes. I mean, that's fine. As long as there is saving, that's fine.

Maulik Mehta: Yes, yes. So there is saving on the capex as well as the timeline, as Mr. Upadhyay mentioned.

Krishan Parwani: Yes. Got it. And secondly, I think in the past calls, we harped upon the technology, which does not rely on phosgenation. So does this one that you've procured, does this rely on phosgenation? If yes, how would you be sourcing the same?

Maulik Mehta: This is a process which is called interfacial polymerization. The raw materials for this are bisphenol A, chlorine, carbon monoxide and chain terminators. Let me put it this way, it is not only one of the most mature technologies in the world. It has the widest range of applications, the highest quality, an absolutely impeccable with sterling safety standard. So there's a 3 Phase safety system, all of it without requiring any human intervention. And let me clarify that the only products that we will be moving will be chlorine and bisphenol A, along with whatever small volume of chain terminators that one uses in the manufacturing. But you can consider that bisphenol A, energy and chlorine are the raw materials here.

Krishan Parwani: Yes. Got it. But I think when you're mixing chlorine and carbon monoxide, anyways, there is a phosgene, right? COCl2, anyways. It's probably basically you are starting from the scratch and then not buying phosgene. So it's like you are, in a way, kind of reacting bisphenol A with phosgene in a way, correct?

Maulik Mehta: Okay. Let me reemphasize this. It is interfacial polymerization with the key raw materials being chlorine and BPA. And what you're talking about is a HyCO plant, which is part of this capex, which we have already projected. It's part of this INR 5,000 crore investment, which is physically located on site, and the reactions are done in tank-in-tank design with electronic trips across the board. There's no human intervention that is required and the BPA is reacted within milliseconds within the plant in plant design and comes out clean. And there are chlorine destruction systems also that are put in place across the board. So this actually comes across as possibly the safest technology worldwide.

Krishan Parwani: Got it. And just last bit, I think in your previous comment, you mentioned that this does not include the BPA, right? You'll have to still purchase the BPA from outside.

Maulik Mehta: Until we manufacture, yes.

Krishan Parwani: Okay. So this INR 5,000 crore is entirely for this polycarbonate, right?

Maulik Mehta: For polycarbonate, HyCO, associated utilities, site and site infrastructure, along with additional capacities that are already going to be built for easy expansion because it's important for us to consider expansion opportunities without needing to stop manufacturing or without needing to make a lot of modular additions.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: First off, congratulations on this investment. A bit of an extension on what the previous participant was asking. You've approved an investment of about INR 50 billion with the start-up in FY28 end. Given that Trinseo had sold this asset for about $ 52 million, would it be possible to give a broad breakup of how the money would be spent? You obviously mentioned what all are going into it for the previous participant. But would it be possible to give a broad breakup of how the INR 5,000 crore would be spent? And given that for the relocation, you're entailing about 3 years, what are the key milestones that you would think about for the relocation to happen over the course of 3 years? That's the first question.

Maulik Mehta: Vivek, I think you can be rest assured that we've taken a good and accurate capital investment estimation. And I think if I'm not mistaken, my finance team can correct me, Mr. Upadhyay can correct me. But we have taken contingencies, margin money, cost of relocation as well as cost of ensuring compliance in terms of how it will be moved. So there will be an entire strategy in place to know how the asset will move from there to here and the payments that have to be made.

Again, to clarify, the cost of ensuring that the assets are ready for us to move is not in our scope. That belongs to Trinseo, and they are going to be doing that part. So in terms of how the money will be spent and how the assets will be brought here, there is a strategy that is put in place, and it is reasonably tight keeping international experts as well as Indian experts in the loop. I think over a period of time, we will be able to share some more colour on that or even better, I'm sure that the investors would love to get to know more on a face-to-face interaction with Mr. Mehta maybe in the forthcoming months.

Vivek Rajamani: Sure, that makes sense, and that's really helpful. Just a small clarification. When you've mentioned in terms of the size of the land parcel to kind of cater to all of your investments, I imagine the acquisition would happen progressively over the next 3-4 years as you finalize these various investments. Would that be a fair assessment?

Maulik Mehta: I think the land is taken care of. Of course, the infrastructure development and the investment on those fronts will happen side by side. But I think the land parcel is well accounted for.

Vivek Rajamani: Great, sir. And just one last question on the Advanced Intermediates side. We focused on the polycarbonate investment. Just wanted to get some colour on what's happening on the ground and how we should think about the demand and earnings trajectory over the next few quarters?

Maulik Mehta: Present tense; future perfect. But joking aside, one can assume that a lot of the end segments where the standalone business is operating will continue to see a similar level of volatility that we saw in Q1 and Q2 up until the end of Q3. And we are seeing recovery in a lot of the products that we are in. But one can anticipate that Q3 will be a mixed bag and Q4 will be much better. This is the same thing that I had also highlighted in the Q1 concall, and we stand aligned with that even in November 2024. So all of the indications seem to lean towards normalizing of the global environment in CY25.

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

Ankur Periwal: Congratulations for the tech tie up here. Just seeking some more clarifications here. Earlier, we had gone ahead and set up that the pilot compounding plant, the polycarbonate compounding plant to be sure of which segments we want to get into. And if I hear you right, with this technology, although you mentioned it's slightly dated, it's safe and ability to enter into multiple end use segments. So just trying to understand, are we focusing on much larger addressable opportunity now versus what you were thinking of earlier? And the tech team or the tech support from Trinseo, will it be supporting us in terms of ramping up all these investments?

Maulik Mehta: So to clarify, see, it's not dated. Chemical manufacturing plants, let's put it this way, these are not plants, which are expected to last 5 years or 10 years or 15 years. I would reemphasize that the kind of safety standards that this plant has and the impeccable record that it has over its years of operation, I would say that, hence, this actually is a better plant than if we were to put up a greenfield asset today, along with the fact that its operational track record means that it has a stable set of customers, which appreciate the quality and the consistency. So these products have approval cycles, which may go into 8-9 months, 1 year, 2 years, even longer in certain cases like medical devices. So having an asset, which has already gone through that, having a technology partner who is there, who is also partially a customer, who is also working with you to see how to partner up with end consumers, all of this means that all the investments that we have made so far in our compounding facility will get amplified multiple times with this.

So it dramatically broad bases and eases our acceptance into the applications, which we have been targeting. So in every regard, it is simply easy to say that the speed of approval at customer ends will be much, much faster than if you were to do everything from the start. This is the value of a technology and business partner that is walking alongside us, and because it is a technology and business partner walking alongside us, you can imagine that it is in their best interest to see how quickly we can get the product out because their customers are already even today announcing investments to put up capacities in India for consumption. So it is also in Trinseo's best interest to see how we can get on-spec and exceed the production capacity that we are transferring from Stade to India.

Ankur Periwal: Sure. That's helpful. And just a clarification, the royalty payment that we have made.

Maulik Mehta: Not a royalty. There is no repeat payments.

Ankur Periwal: Okay, the tech fee, correction. The tech fee that we have paid, it is irrespective of whether the capacity is 165,000 metric tonnes or going ahead, it could be probably 1 million tonnes.

Maulik Mehta: No, that's not the case and it should never be construed as that. It is for 165,000 metric tonnes and there is a headroom available. Any normal technology agreement which we have today, for example, the phenol manufacturing plant that we have designed for certain capacity, and when you exceed that capacity, you work with the technology supplier and you do pay them

something. It is obviously much less than what it would be if it was a brand-new license. But again, let me reemphasize, if I make 1 million tonnes from the same asset, there will be a payment because there is an expectation of support as well, but it is not a royalty. There is no repeating payment. It's not an annual thing.

Ankur Periwal: Yes, yes. Great. And just lastly, on the core Advanced Intermediates as well as the fine chemicals bit, you did mention that we do expect some uptick, let's say, starting Q4. But just trying to understand it better, the pricing-led pressure that we are seeing across most of the products, is there any visibility of improvement over there? And how does it impact or either defers our new product launches given the lower pricing as well as the overall margin that we can earn in this business?

Maulik Mehta: So the new products that we are planning to launch, I think, they have a clear rationale and an assumption and agreement also with customers that there will be a pass-through of raw material cost increases or decreases, both ways. So our margin is protected on those investments. We ourselves also invest in upstream so that our margin expansion is in our control. And finally, with regards to the prices, I would not comment so much on the prices, but I would say that moving forward from Q4 onwards, we are anticipating with reasonable confidence that there will be margin expansion. Will this be the case for each and every product? No, but it will be the case for enough to be able to have a meaningful improvement in our EBITDA percentage, even on a standalone basis.

Sanjay Upadhyay: Frankly, if you see the products what we are going to commission in second half and maybe in the earlier first half, it's all backward integrated, by and large. Or there is an integration like nitric acid, like BTC, BTF, like MIBK, MIBC. These are all integrated. So it is definitely margin accretive. It doesn't affect what is the global thing and it is a part of our overall strategy. So I don't think this temporary thing will affect any such decisions or any such things.

Moderator: The next question is from the line of Chirag Shah from White Pine Investment Management Private Limited.

Chirag Shah: Sir, just few questions. First on polycarbonate. So I'm a bit confused. This INR 5,000 crore capex that you have announced, which is starting in end 2028. Now everything will come by end 2028 or this transfer of asset will happen sooner and some production and revenue flow would happen before that. So what all is included in this? This INR 5,000 crore capex is earmarked for this 165,000 metric tonnes capacity that you'll be transferring or it is a much larger capacity you are creating?

Maulik Mehta: It is part of a larger picture, which I had also announced in a previous investor call that we may consider doing these 2 things in parallel where you make the HyCO and the polycarbonate plant together, you lump them together, and you lump the second phenol and BPA plant together. If there's no gap, fantastic, it is end-to-end and if there is a gap for that period of time, you purchase the bisphenol A from outside. Or you sell the bisphenol A while the polycarbonate plant is being

constructed. And this is continuing to remain within that ambit as I had mentioned. So it is just coincidental, call it, whatever that we tied up the agreement for licensing and asset sale for polycarbonates earlier. And the INR 5,000 crore that we have announced is part of the bigger picture, which also includes phenol, bisphenol A, methyl methacrylates as well as aniline. So I mean, a lot of these things, they're not necessary to connect to each other at the same time. But when they do, it looks beautiful. And obviously, it will reduce the overall payback of the entire asset, but each one of these standalone has a large viability based on saying, okay, there may be a situation where one comes up and then 6 months later, another one comes up. That's okay. As we've already mentioned earlier, there is a tie-up for propylene and hydrogen, and this is already in the news. This gives you a clarity that there is a plan for consumption of the same; hence, there is already in place a strategy to connect the upstream manufacturing as well as the downstream consumption into manufacturing polycarbonates, in partnership with Trinseo, as well as the further downstream efforts that we put in place with regards to compounding. So this forms a very nice supply chain, and it affords us a large amount of flexibility in ensuring that we do the right thing at the right cost without being held almost at gun point to any single technology suppliers win. So we have the flexibility. We have the ability to spend at the right time, and we have a very strong ability to integrate for end-to-end value accretion. Even though we are end-to-end, but these have a good payback by themselves.

Chirag Shah: This is helpful. But my query is slightly different. So if I have to assume it would be a step ramp-up of this entire INR 5,000 crore capex, right? Something will flow in revenue in 2027 and maybe H2 2027, something will come in 2028 and the entire picture will play out maybe in 2029, the entire integration that you're talking about. So this transfer of asset, when that will start contributing ballpark?

Sanjay Upadhyay: 2028-29. Beginning 2028.

Chirag Shah: Beginning 2028. Okay. Great. And second question is this INR 2,000 crore capex that we are doing, which most of which is coming on stream in next, say, next 12 months in a simple state. If you can help us understand on a steady-state basis or on Q2 basis, the benefits of backward and forward integration. So how should we understand this in terms of margins, in terms of ROCE? And how much time it will take for the benefit to be fully visible because there is a ramp-up time also which is involved, the teething issues could be there.

Maulik Mehta: So if 12 months includes any ramp-up time, teething issues, we consider it is less. But I think H2 2026 will be the first half where all of these investments will be commissioned and we'll be able to realize the benefits on an annualized basis. So from September next year onwards, you will see all of the investments that we have already made, start to add value.

Chirag Shah: And how should we think of benefits of backward and forward integration either in terms of margins or in terms of ROCE? If you can give some indication how to understand, it would be helpful.

Maulik Mehta: So between 2% and 4% on an EBITDA addition to the regular business operations.

Sanjay Upadhyay: Deepak Nitrite's EBITDA.

Maulik Mehta: Yes.

Chirag Shah: Yes, Deepak Nitrite. Okay.

Moderator: The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv Asset Management Company.

Sabyasachi Mukerji: Most of my questions are answered. Just one question, Maulik bhai. On this polycarbonate resin, I have been reading quite a few articles. I suppose it's something, which is in oversupply globally. Given the fact that China has put up so much of capacity, how should one think of the project economics, the peak turnover, margins, payback? I know it's early days, but any sense on that?

Maulik Mehta: Yes. So while China has significant capacities, I would relate that it is similar to a situation like, say, for example, phenol or sodium nitrite for that matter. Deepak manufactures a little less than 1 lakh tonnes of sodium nitrite, but China has 5x that capacity. And we've been able to survive over the last 50 years with the situation. Similarly, phenol, India has, I guess, about 500,000 tonnes of consumption to 600,000 tonnes of consumption. And there has been enough space for Deepak to manufacture while imports have continued at whatever volumes they were before we started manufacturing. And today, polycarbonate resins by themselves are imported at 240 kt on an annual basis. And we strongly believe that the consumption of this will grow at a CAGR which is in excess of India's GDP. Just to clarify, historically speaking, these assets on a global basis have operated somewhere between the 70% to 80% capacity. And we continue to believe that they will on a global scale.

Deepak has a different experience with sodium nitrite and phenol, so we will attempt to be able to run our assets at a higher capacity utilization. And the Indian market, we continue to believe is our right to win market. Meanwhile, as I've mentioned earlier, Trinseo will be a technology supplier. It will be relocating its assets to Deepak and will also be a potential customer. So with all of these things kept in mind, China may and will have capacities. It continues to invest in those. And I believe that the capacities at Deepak's end will be able to match in terms of cost effectiveness and variety of end applications. So these are not assets, which one should consider similar to just a regular chemical manufacturing asset. Because it's key to keep in mind that there are applications when these go into their advanced materials, which have a very long approval cycle and an entry barrier. And most customers, if they're investing in India, especially if they're investing in many of these PLI schemes, there is an intrinsic domestic value-add (DVA) component. And polycarbonate resins are actually a very large part of their overall cost. So having an Indian supplier with a globally recognized credibility gives immense comfort to these customers.

Sabyasachi Mukerji: Got it. Understood. So do we expect some sort of Government support because phenol, acetone, we have ADDs, right? And that is what makes us competitive.

Maulik Mehta: We don't have any ADDs. We survive on basic duty.

Sanjay Upadhyay: There is no ADD on phenol.

Sabyasachi Mukerji: There is ADD on isopropyl alcohol, I believe.

Maulik Mehta: We've been running our assets for longer than that, so we don't use these as a reason to exist. As and when they come, we will take the benefit.

Sanjay Upadhyay: And who will invest INR 5,000 crore with the support of ADDs.

Maulik Mehta: And to clarify, an ADD is on a particular country, phenol acetone, IP, these things are like oceans all over the world. So just because you stop or you increase the entry barrier for product coming from one country, it just provides an opportunity for product coming from another country. So we don't consider these things as our investment thesis. Will we take advantage of them as and when they present themselves? Damn, right. And I think we will do just fine if the competition comes from another geography.

Sanjay Upadhyay: Frankly, if you see our strategy and the whole integrated model of business, that is much more stronger than any other business. Because, see, if we were exiting, and someone had asked, I'm not sure we would have responded, given that they have standalone capacity. But today, if you have BPA, phenol, polycarbonate, and compounding as well, that's a unique and very strong business line. So I mean, competition will always be there, but we are not worried about that. And that is why we are creating such a model, which is strong and resilient. And in other businesses also why we are getting into the backward and forward integration because this is what helps the business to survive whatever kind of volatility is there. So the strength lies in this. Strength doesn't lie in the ADDs or any other things. So please appreciate that. Otherwise, there is a need of putting another phenol plant and we all have self-serve capacity. But we are doing that because we want to have an integrated model, including BPA. So this is where Deepak's strength and Deepak's vision and strategies lies.

Sabyasachi Mukerji: And what sort of IRR and payback are we looking at for this project?

Sanjay Upadhyay: See, this is not the only project. Let's not look at this project in a standalone basis. I repeat. We'll have to see the entire basket when we announce the other projects also. And then we'll have a detailed discussion on the total IRRs and paybacks, including infrastructure. Of course, this is good, even if we don't do other products. But since we are having an integrated basket of products, we will have a discussion when we come up with other plants also.

Moderator: I now hand the conference over to the management for closing comments.

Sanjay Upadhyay: Thank you all for joining this call. In case you have further queries or questions, you may get in touch with our IR team, Mr. Somsekhar Nanda. Thank you once again.

Maulik Mehta: Thank you, and Happy New Year.

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