Deepak Nitrite Limited

Q4 & FY25 Earnings Conference Call

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MODERATOR: **MS. DISHA ARORA** – IIFL CAPITAL LIMITED

Moderator: Ladies and gentlemen, welcome to the Deepak Nitrite Limited's Q4 & FY25 Earnings Call hosted by IIFL Capital Limited. At the outset, I would like to clarify that certain statements made or discussed on the conference call today may be forward-looking in nature, and a disclaimer to this effect has been included in the investor communication shared with you earlier.

As a reminder, all participant line will be in listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded.

I now like to hand the conference over to Ms. Disha Arora from IIFL Capital Limited. Thank you, and over to you, ma'am.

Disha Arora: Thank you. Good afternoon everyone, and thank you for joining us on Deepak Nitrite's Q4 & 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.

To begin, Mr. Maulik will share his views on the operating performance and the growth plans of the Company, followed by Mr. Sanjay Upadhyay, who shall take us through the financial and segmental performance. The results documents have been shared with you earlier and also have 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 welcome to Deepak Nitrite's Q4 & FY25 Earnings Conference Call. Our earnings documents were shared with you earlier, and I trust you have had a chance to review them.

FY25 was a challenging year for the entire chemical industry, marked by significant external headwinds, a global slowdown in demand, amplified by geopolitical tensions and macroeconomic uncertainties. A wait-and-watch mode in the face of tariff ambiguity has meant that supply couldn't be fully absorbed, placing pressure on prices of chemical intermediates. Additionally, intense price competition, particularly from Chinese producers who have been aggressively placing supplies exerted further margin pressure for Indian manufacturers.

Amongst these headwinds, domestic demand served as a vital cushion, showing early signs of stabilization and recovery in almost the entire range of industry applications. This resilience was supported by our continuous focus on cost optimization, digital transformation and an endeavor to capture niche demand through product variants and new offerings.

Given this operating framework, we have reported a resilient performance in FY25, where we focused on further strengthening our business model through key initiatives aimed at improving both productivity as well as profitability. Record production volumes were achieved in several products through process optimization initiatives, debottlenecking efforts and capacity augmentation, all of which has served to enhance operational efficiency. Cost optimization has

been achieved by process recalibration. Simultaneously, we expanded our product portfolio and secured long-term contracts, positioning ourselves for consistent and sustainable growth. As we look ahead to FY26 with several projects commissioning on the horizon, we are confident in our ability to deliver an improved growth and profitability scenario. We have also started gaining benefits from renewable hybrid power arrangements, which will encompass almost 60% of our total consumption by the end of next year.

For fiscal year ended March 31, 2025, Deepak Nitrite reported a total income of INR 8,366 crore, growing 8% over the previous year. This growth has been achieved in the face of significant headwinds, and our teams have expended considerable effort to debottleneck facilities, augment capacity and develop new products and variants as well as seeking out additional customers and non-coal markets in order to achieve the growth.

As you are all aware, product pricing remained subdued for most of the fiscal year. In this context, we have delivered a consolidated EBITDA of INR 1,176 crore, almost at last year's level, despite this challenging environment. Here too, I would like to commend our team for undertaking these optimization measures, process recalibration and delivering increased production volumes of key products.

We reported a profit before tax of INR 953 crore for the year and profit after tax of INR 697 crore. While top line growth was driven by volume, which helped offset the impact of lower realization, profitability was affected by several factors. These included elevated input costs, overall slowdown in certain segments like the agrochemical industry and some customer-specific challenges. We are confident that we will be able to transition towards a normalized level of profitability during the financial year.

Following a subdued Q3, we indicated an expected improvement in Q4. Our Q4 performance highlights, on a consolidated basis, our total income stood at INR 2,202 crore, marking a 14% sequential increase and a 3% rise on a year-on-year basis.

EBITDA increased to INR 339 crore, a 79% increase on a sequential basis and a 6% increase on a year-on-year basis. PBT more than doubled on a sequential quarter basis to INR 279 crore, an increase of 106%. PAT of INR 202 crore is also a 106% increase on a quarter-on-quarter basis.

In Q4, we achieved record production and sales levels across several key products. This was driven by capacity augmentation, debottlenecking of select facilities and process optimization initiatives. This contributed to strong volume growth. For the quarter, domestic sales accounted for 82% of revenue and export contributed 18%.

While now for the segmental performance, Advanced Intermediates in the quarter recorded revenues of INR 654 crore, reflecting a 19% sequential increase. For the full year, the segment reported a revenue of INR 2,527 crore, representing a 7% year-on-year decline.

The quarter-on-quarter recovery was driven by strong performance across multiple product segments, which effectively met evolving customer requirements while demand for dyes and pigments has improved from Q3 end, pricing pressure persisted. We are actively addressing these challenges through targeted initiatives aimed at improving competitiveness and margins.

As previously indicated, agrochemical demand continued to be subdued, a trend that we expect to persist for the next couple of quarters. Nevertheless, we remain focused on prioritizing the production of high-demand products and strategically expanding into non-core markets that demonstrate consistent or growing demand. Our strategic road map also includes a downstream move in certain applications with marginal investments along with industry-leading ESG targets.

Looking ahead, we are expanding our portfolio with new product offerings and variant supported by new customer acquisition, which we believe will drive a revival and growth for the segment. The new products will also serve customers in the Pharma and Personal Care segment as well as high impact industrial solvents and energy applications.

Phenolics, in Q4 FY25, the Phenolics segment reported revenues of INR 1,532 crore, reflecting a 12% quarter-on-quarter and 5% year-on-year growth. For the full year, revenues increased by 16%, reaching INR 5,805 crore. This growth was underpinned by debottlenecking, capacity augmentation initiatives, which enabled us to set new benchmarks in the production and sale of key products. While the market absorbed the increased production volumes, a temporary rise in imports, which started in Q3 impacted product pricing while we had taken an annual shutdown. Looking ahead, we anticipate an improvement in market conditions, coupled with softening input costs and supported by enhanced operational efficiency.

As far as project updates and the future outlook is concerned, while some of our projects experienced delays, these spillovers from FY25 has created a robust and exciting project pipeline for FY26.

By the second quarter, we anticipate the commissioning of our state-of-the-art R&D center in Savli, Vadodara. This involves over INR 100 crore of capex. This facility will give a better structure and impetus to our R&D program while significantly enhancing our innovation capabilities. We have already commissioned a facility, which is focused on compounding, which will go into applications, which are multiple in nature from electric switches and EVs, all the way to medical devices. And this compounding facility will dovetail very nicely once we have our polycarbonate resin manufacturing setup. The nitric acid unit will be commissioned towards the end of Q1, early Q2. And this is a critical upstream integration, which will help improve reliability, reduce costs, significantly improve sustainability scores and allow us to capture a greater share of the value chain. Expansion projects across key chemistries, including nitration and hydrogenation are set to be commissioned too, building on successful commissioning of the fluorination block in Q4 FY24 and a recently commissioned fluorination block.

By the second half of FY26, we expect to commission the MIBK and MIBC project, which are downstream derivatives of acetone. This will help enhance our integration and support value-added growth. We are also executing a major transformation in our energy consumption mix with the goal of transitioning 60% to 70% of energy consumption to renewable sources in Gujarat and Maharashtra. This shift is projected to result in a 60% reduction in carbon emissions aligning with our broader sustainability goal.

To address challenges relating to intermittency, liability and infrastructure integration, we are targeting an optimal blend of renewable energy source. This helps bring in sustainability and

operations apart from yielding significant reduction in total cost. As a legacy, the company has been rewarding shareholders by way of handsome dividend, so has it this year. Mr. Upadhyay will take you through the details of the dividend process by the Board of Directors.

As far as strategic outlook is concerned, this is probably the first time and maybe the last time I hope that we are not going to give a sharp guidance about this quarter and the next quarter, owing to geopolitical uncertainties, but we continue to remain confident about an optimistic growth in our full year projections. Now what started out as an investment thesis and an aspiration has now become a well-accepted industry by word, Make in India, Make for the World, as most companies embrace the concept of nearshoring.

Deepak is entering a transformative phase marked by the commissioning of fully-integrated facilities that will significantly enhance operational resilience and profitability. In an increasingly volatile global environment, our strategy of backward and forward integration ensures that we can better serve end consumers while enabling our commodity and specialty businesses to support each other. This year represents a renewed commitment to building a new Deepak with project execution gaining momentum, technology is being finalized and promising partnerships emerging in the field of material sciences.

Our growth road map includes the development of upstream products like nitric acid as well as downstream derivatives like MIBK/ MIBC, which are set to become operational in the coming quarters. A major highlight is that the Deepak Chem Tech Board approved an investment of INR 3,500 crore for new capacities in phenol, acetone and IPA, which will be integrated into the production of polycarbonate resins.

Combined with the earlier INR 5,000 crore approval, the total investment in the PC resins project, starting from phenol and acetone, now stands at approximately INR 8,500 crore. Once commissioned, Deepak will become one of the world's largest single-location producers of phenol and acetone with over half of this capacity set to be converted into higher-value derivatives like bisphenol and polycarbonate resins.

In conclusion, FY25 and particularly a strong recovery in Q4, exemplifies Deepak's operational resilience and the strength of its strategic initiatives. Despite ongoing global volatility and pricing pressures, we achieved volume growth, strengthened our market footprint and advanced critical integration projects.

Thank you for your continued support and trust. We look forward on building on this strong foundation in the coming years.

I'd now like to hand over the call to Mr. Sanjay Upadhyay.

Sanjay Upadhyay: Thank you, Maulik. Good afternoon, everyone, and thank you for joining us today on Deepak Nitrite's earnings call. I will now take you through the key highlights of the financial results for the fourth quarter and full year ended March 2025.

In FY25, we recorded a consolidated revenue of INR 8,366 crore, reflecting an 8% growth over INR 7,758 crore in FY24. EBITDA stood at INR 1,176 crore, marginally lower than INR 1,199

crore in previous year with EBITDA margin at 14%. PBT was INR 953 crore and PAT came at INR 697 crore.

You all are aware that we have a strong history of proposing and distributing dividends. In order to carry that vision forward from our management this year as well, the Board has maintained a dividend of INR 7.5 per share, being 375%, per equity share. We hope this offers an opportunity to be rejoiced by the shareholders who have placed immense trust in us. We are thankful to the shareholders and believe their unwavering trust in us and shall take us to greater heights.

After relatively muted Q3, we closed the year well, delivering 14% quarter-on-quarter revenue growth led by recovery in Advance Intermediates segment, as Maulik highlighted, we witnessed encouraging demand revival across several key products in the portfolio. In the Phenolics segment, we achieved higher volumes across all product lines. However, the pricing environment continued to remain soft due to increased imports as well as the higher raw material prices. In Q4, consolidated EBITDA rose sharply by 79% quarter-on-quarter to INR 339 crore supported partially by the Government incentives. So, these Government incentives are a part of the business and there will be some questions on that. It's a part of our regular income because incentives are there for 10 years, of course, this figure is high because of the accumulated INR 161 crore. But normally, we get around INR 60 crore to INR 70 crore every year. We are booking on a cash basis, actually, on accrual basis, we get around INR 60 crore to INR 70 crore every year. So I hope I've answered that query from the investors.

Q4 has been a challenging quarter with persistent weakness in pricing. Nevertheless, we believe our initiative towards capacity augmentation, debottlenecking and cost optimization are aimed in the right direction. While the outcome of these initiatives have been lessened in Q4, we are confident that as we move forward, strategic actions we have undertaken will further strengthen our recovery trajectory and drive improved profitability in the upcoming year.

On the operating front, domestic business earnings stood at INR 1,796 crore in Q4 and INR 6,849 crore for the FY25. Export came at INR 384 crore in Q4 and INR 1,432 crore for the full year. The domestic to export mix of FY25 stood at 83:17, on a consolidated basis.

Moving to the segmental performance in the Advanced Intermediates segment, revenue increased by 19% quarter-on-quarter to INR 654 crore in Q4 FY25 from INR 552 crore in Q3. With EBIT at INR 45 crore and margin at 7%. For the full year, revenue stood at INR 2,527 crore with EBIT of INR 176 crore reflecting 7% margin.

Deepak Phenolics posted a stable performance with Q4 FY25 revenue rising 12% sequentially to INR 1,532 crore from INR 1,366 crore. EBIT came in at INR 239 crore with a margin of 16%. For FY25, we only grew at 16% to INR 5,805 crore and EBIT stood at INR 783 crore, translating to a margin of 13%.

On the balance sheet front, the Company continues to demonstrate financial strength with consolidated net worth of INR 5,425 crore and standalone net worth of INR 3,126 crore. We enjoy a well-fortified position to undertake a plant upstream and downstream expansion, which has been covered by Maulik in his remarks. We are making notable progress with our growth

initiatives, led by a strong R&D foundation, we are developing different products to enhance our specialty chemicals portfolio.

This new capacity to improve self-reliance in critical raw materials and support margin expansion as they become fully operational. Our new R&D center near Vadodara with an investment of a little more than INR 100 crore is set to be commissioned shortly. And this will reinforce our innovation-led growth strategy.

In conclusion, while the past year presented external challenges and will continue to face external challenges in current year also, our outlook remains strong and positive with a solid pipeline of projects set to be commissioned during the year. Though the number not be annualized number because most of the projects are getting commissioned in phased manner, say, Q1, Q2, Q3, Q4. But we are looking at a very bright next year with these whole projects getting commissioned next year. Deepak Group is well positioned to deliver sustainable growth and long-term value for all stakeholders.

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

Moderator: Thank you very much. The first question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First, I want a clarification. Maulik bhai, you said in your opening remarks that we are looking at a few downstream products in agrochemicals, moving up in the value chain. Second, you spoke about the new product, which will have application in agro and pharma and probably another for industrial solvent and energy. Can you give us a little bit more color on this product and what is the capex we are looking at, expansion of these products?

Maulik Mehta: Okay. So first of all, thank you for the question. These products will not really have any meaningful capex maybe other than some balancing equipment or something. And most of these will be utilizing assets that we already have in campaigns. So while we have a baseload and a foundation of some intermediates that we make, we have partnered with certain downstream customers where we would run these products as a value-add in certain campaigns. I think every month, there will be a campaign. It will swing between the baseload of products and the higher value-accretive products. Now when we go downstream in Agrochemical Intermediates, here also, the focus is to do it in a very strategic manner because traditionally, we have always focused on making intermediates not really technical. So when we're doing that, we're doing that along with strategic partners. And as far as what I mentioned about the Personal Care, this again it is going to be an asset valorisation; but it is also going to fundamentally add a brand-new chemistry to our product portfolio. Just for the record, this chemistry is one that's called Friedel-Craft.

Sanjesh Jain: What chemistry is it?

Maulik Mehta: It's called Friedel-Craft, these are German names. I think that's 2 scientists who created this chemistry many, many years ago, but it has a broad range of applications. And over a period of time, it will actually also feed into the polycarbonate resin as a major application. But right now, the priority focus will be into personal care and pharma.

Sanjesh Jain: Very clear. That means because we were running very efficiently our plant, this means we will have more value from the same plant rather than more volume. Is that a fair statement?

Maulik Mehta: So while that answer is yes, I mean, we have a mixture of high-efficiency, continuous operations plants, for example, the phenol plant, the sodium nitrite or the nitrotoluene plant, but we also have a very broad range of batch plants, which are very well instrumented and able to have a very large number of chemistries that we're able to use in those assets. So these are assets, which will be used to make these higher value, relatively smaller volume products. And some of them will include assets such as our fluorination block. Some of them will include assets, which we would otherwise have used for some other chemistries. So the high-efficiency single product plants will continue to run in that manner in order to gain the base load of efficiency. And the other assets, which are batch, will be used to generate higher value, smaller volume, margin-accretive product.

Sanjesh Jain: Very clear. Now shifting gear to the standalone business this quarter, I think we had a good run on Agrochemicals sequentially. But if I look at incremental gross profit and incremental revenue, that's only 37%. That says that we are still facing some margin pressure in the underlying core product even in the Q4. When we see the margins have stabilized, are they stabilizing at a Q4 level or at the Q3 level?

Maulik Mehta: No, neither. Even Q4 is softer than it should be. But I'm not going to give any opinion about what Q1 and Q2 will be because, I mean, literally, on a daily basis, there are news that come out that completely shatter your perception of what would be a normalized situation. So I would rather say that we're confident about coming back to a normalized number, which is higher than the Q3, obviously, higher than the Q4. But I would say that this will be achieved on the annual number rather than on a base of Q3 or Q4.

Sanjesh Jain: That's very helpful. But can you throw some light on what's really happening? It's a demand side issue in China or it's oversupply situation in China? What really is driving a sudden spurt in competition in our product, which till now has been doing quite well even in the worst of the situation in FY24?

Maulik Mehta: So generally, what has happened over the last several years is that there has been a significant overcapacity that has been built in China. Along with that, a lot of the Agrochemical Intermediates that Deepak manufactures has a very large application base across the world, but has been largely dependent on only a small handful of customers. Now as these molecules go through a process where there is a patent expiry, the number of customers increases. And for a short period of time, so does the number of potential competitors. So Deepak has been focusing on ensuring that it is building cost leadership as well as ESG leadership. Now there is always going to be a period of time in the middle when you're essentially competing with someone's finished goods inventory. It's easy for Deepak to compete with anybody at a global level when you're talking about manufactured products. But when you're competing with somebody's closing stock, which is depleting at a pretty rapid clip, but you still have the tail end of it there in the market, that competition becomes unable. To be honest, we are actually quite well aligned with a lot of other players who say that the down cycle of agrochemicals is petering over to the end. You have certain players who are forward integrated into the formulation, who are able to

tell you that the future is much brighter because they're there with it. We follow suit maybe with a lag of 1 quarter or 2 quarters. But we are well aligned that moving forward, the situation is not as grim as it was in FY24, FY25 with regards to volume recovery as well as over a period of time, price recovery.

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

Nirav Jimudia: I have 2 questions. So, first is on the commissioning of our nitric acid plant. So when we see the other players in the industry having the capacities of nitric acid, they are integrated in terms of their upstream ammonia, whereas probably we have to purchase ammonia from outside to support our nitric acid production. So just wanted to have your thoughts here that because we need to purchase it from the outside market, how we would be competitive vis-a-vis those players having their captive ammonia? And also, if you can talk about in terms of the opex difference between us and them over a period of time?

Maulik Mehta: Okay. Nirav, thanks for your question. Just to clarify, look, Deepak Nitrite has been in the business of consuming ammonia now for 54 years. We started off with sodium nitrite, which is a consumer of ammonia. So our ammonia purchasing pipeline, both from domestic as well as international sources is relatively robust, and it can be made more robust with some marginal investments here and there. So look, we don't compete with manufacturers of nitric acid. Our asset is in place for us to consume internally. So our products that we make, while nitric acid will be made, our products will be downstreams of nitric acid. And those are much higher value in a sense of multiple end applications, domestic and international demand. In fact, in a couple of places, we have tied up a large portion of our production for multiple years with formula-linked pricing, which includes movement of feedstock, for example, ammonia. So moving forward, I don't see us trying to benchmark against nitric acid producers who have their own ammonia. I look at benchmarking us against nitric acid consumers who purchase their own nitric acid, whereas we will continue to purchase and expand our purchasing policy for ammonia.

Sanjay Upadhyay: So, Nirav, to elaborate, this is a make or buy decision. It has nothing to do with the market. And then secondly, the certainty of supply and through pipeline. These are the major components one has to look at. We are not competing with anybody. We know they will be far superior than us. But assured supply, timeline supply, cost as compared to market will be much lower. Paybacks are better, quite good, in fact. So this is what calls for a make or buy decision, not as compared to how they are doing and what we are doing. How efficiently we are doing is more important. So I hope we have answered your question.

Nirav Jimudia: So just one thing here. Last quarter, you mentioned that probably we would have our own storage tanks also for ammonia. So how that is progressing and when that could be commissioned? Because now our nitric acid facilities are getting commissioned in Q2. So if you can share something on that storage tanks, that would be helpful.

Maulik Mehta: So what we've done is we have already made investments and commissioned investments about storage of nitric acid as well as unloading of nitric acid to have a much higher rate of consumption on a steady basis. We have also invested into expanding our storage to allow us a greater degree of flexibility and then take that ammonia via pipeline into our consumption sites.

I won't say that, that is a significant investment, but that should also be operationalized during the year. To ensure that we have a strategically derisked ammonia sourcing strategy.

Nirav Jimudia: Got it. Second question is in terms of the input prices, like some of our major raw materials like toluene, octanol have seen a price corrections from March onwards. So just wanted to have your thoughts here, like have the product prices being adjusted commensurate with the fall in these raw material prices? Or we would have some extra delta left with us to work with? Given the kind of commentary what we have seen in your investor presentation, like you have mentioned that we are seeing a kind of demand revival in dyes and pigment segment. So if you can relate all this with reference to these raw materials as well as your outlook for DASDA, OBA for FY26?

Maulik Mehta: Sure. So look, Nirav, as you mentioned, there is a price softening of key petrochemicals like benzene and toluene and such. Now because we are intermediates manufacturers, we are also present in multiple parts of the value chain. For example, my OBA prices do not move in line with toluene prices, right. So in some parts of the business, when we have a contractual agreement with customer for an intermediate, we have a formula with a pass-through clause, which may have, in some cases, 1 month. In another case, it is a quarter where there is an adjustment to the price of the product based on quarterly average movements. In other places, it is linked to the market price. So when I'm selling optical brighteners, nobody really asks me about the price of toluene and how its downward revision would improve my OBA prices. So there, it is about being able to secure long-term customer contracts. And as you've mentioned, OBA, we have debottlenecked our optical brightener manufacturing capacity. We've also launched a few new SKUs, including into certain segments where we were originally expecting an extinction threat in that segment. So now our optical brighteners are able to service those applications as well. And we're working very tightly with our key accounts, our customers to increase our wallet share. But we do debottleneck in anticipation and then over the next year, work to see how we can increase our wallet share with them. So this is an ongoing activity. Even this year, we will be able to debottleneck the asset with marginal investment. And our goal is to ensure that we are increasing our wallet share because we have upstream integration and because we have a strong value chain thesis that we are able to give to customers.

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

Ankur Periwal: First question on the AI part. Your commentary suggests volume-led uptick across some of the segments wherein we are seeing some green shoots. My question is more on our thoughts and strategy given that the pricing-led scenario is the way it is, probably it will take some time for it to recover. So is there any enhancement in product specifications that we are doing to address the margin pressure? Or there could be a reset in terms of AI margins over the medium term as we scale up this business?

Maulik Mehta: So in the AI business, the part which goes into dyes, pigments and their associated industries, I think, I had mentioned also in February that from the closing end of Q3 onwards, there has been an improvement. And that improvement was volume-led and eventually, it would turn into pricing improvement as well as margin improvement. So I think the volume improvement has persisted. Now we're starting to see some level of margin improvement. Again, all of this is

significantly influenced by geopolitics. So I'm cautiously optimistic, but we are seeing along the lines of what we had mentioned in February. Now when it comes to other segments such as Agrochemicals, for us, in a certain group of products, which go into Agrochemicals, we are seeing margin as well as volume improvement, but not in others. The other ones will come maybe towards the end of Q1 or Q2. I'm not sure. And hence, I am not going to give any clarification with regards to the other chemical, which goes into Agrochemicals. What we have done in the meanwhile is, we have seen how to ensure that we are optimizing on the cost front, how we are ensuring that we are able to even go downstream in partnership with certain customers as well as ensure that there is a level of asset fungibility, where we are able to use the same asset to drive production for intermediates, which will go into other applications such as pharma and personal care. Revival is fully realized, we will have more options than we did 1 or 2 years ago because we will have more products commissioned across a broader range as well as we will have gone downstream to be able to have a greater security about the future of these assets.

Ankur Periwal: Sure. And just a follow-up on that. Within AI, is there any specific segment wherein the pricing or the competitive pressure is significantly higher, maybe Fine & Specialty or Basic Chemicals or even DASDA?

Maulik Mehta: So pricing pressure, of course, is significant on products such as DASDA and there is a pricing pressure on a couple of Agrochemicals. In another couple of Agrochemicals, the situation has been on an improving track. I wouldn't say that it is where I would like it to be or where it has been in the last few years, but it is on an improving track.

Ankur Periwal: Okay. Great. And just a second question on our medium-term expansion into phenol acetone downstream. So there was a tech tie-up, which I think was pending on the BPA side. So what's the status there? And from a tech perspective, are we more or less done across the product range that we are looking at? Or there is still more to go?

Maulik Mehta: Oh, bisphenol? BPA?

Ankur Periwal: Yes, bisphenol. Yes.

Maulik Mehta: I think we're at the final leg of concluding all that. The other licenses have already been tied up. Polycarbonates, as we've mentioned earlier, we are in a unique position where the equipment, the license, the final product trademark as well as our anchor customer all happen to be the same name, which gives us a great degree of confidence, not only in servicing the Indian requirement because of our compounding facility that we've already put up. But we've already started servicing the domestic market as well as the anchor customer, which will be located in Europe and will continue to consume product that comes out of this plant. So I think we are well placed with India's growing demand as well as our anchor customers' expected demand.

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

Abhijit Akella: So just a clarification on the Government incentives. So number one, this was for 10 years, so how many more years does it continue for? And if I heard you correctly, you mentioned that

there was some accumulation of the incentives this year. So for what period exactly has this INR 161 crore number have been received?

Sanjay Upadhyay: Abhijit, I mentioned that on accrual basis, INR 60 crore to INR 70 crore is the accrual every year. This is till December 2028. Okay. But then you make further investment, you further qualify for these incentives. So when we are considering the larger projects, we fall into a mega project scheme where the schemes are again better. And for such incentives and these things will continue there also. But on current results, what Government does is that they release 80% and 20% is withhold until they do the final verification and certifies that. So that was completed last year. So we got current year as well as the accumulation of past year of 20%. But henceforth, it will be INR 60 crore to INR 70 crore on an accrual basis, for the existing investment.

Abhijit Akella: Right. Just to clarify, so is it fair to assume that out of this INR 160 crore, maybe INR 60 crore or INR 70 crore would have pertained to FY25 and the rest would have pertained to the previous years?

Sanjay Upadhyay: Yes, this is fair.

Maulik Mehta: While we make this happen, obviously, they will have their own period of time. So that will be accrued separately because they will be separate investments.

Abhijit Akella: Yes, sure. And I guess the commissioning for that would be basically from fiscal 2028 onwards or thereabouts, right?

Sanjay Upadhyay: Yes.

Maulik Mehta: Correct.

Abhijit Akella: Correct. Okay. Got it. The other question I had was just on the normalized margin outlook. While I understand that for the next couple of quarters, it's very difficult to hazard a guess. But when you're alluding to a more normalized level from a full year basis, is there some rough range you could point us to for the 2 segments regarding where margins could end up normalizing in each of them?

Maulik Mehta: I think it is probably not the right time to be able to answer that. We believe that the normalized margins should be higher than what they are right now. Whether that happens in 1 quarter or 2 quarters or 3 quarters, I don't know. But we're confident about an annualized margin, which is higher. So perhaps we see how the situation plays itself out, there will be pockets of opportunity even in the short term, it might look disproportionately higher than it should be. But I just hastened to say that it doesn't mean that Q1 and Q2 will be low and Q3 and Q4 will be high. So we are positioned in a place where we are able to take opportunities and those opportunities may be short or medium term in nature. They may be long term in nature. So we will remain agile, and we will always ensure that we are giving a high degree of transparency to investors.

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

Vivek Rajamani: Just a couple of clarifications on phenol. I know last quarter was a difficult one because you had mentioned the perfect storm. Given that you've been able to run the plants a lot better in this quarter, just wanted to get a sense if we've been able to recoup the market share that we lost last quarter to imports and possibly increased it because we obviously expanded our capacities. And as an extension, I think you had mentioned that you will see some relief from the import pressures after March. Just wanted to get back to see if that has been happening as you were guiding in the previous quarter?

Sanjay Upadhyay: Yes, yes. You are right in this, Vivek. Of course, we are not losing any market share, it remains intact; in fact, it's growing. We go on debottlenecking capacities and the market absorbs whatever we are selling. We don't see any pressure on market share as such. Q4 did face some pressure from raw material pricing, but Q1 — though Maulik has told me not to hazard a guess, but I'll still hazard a guess — Q1 is much better for phenol compared to Q4, as raw material prices are returning, cracks are going back to earlier levels. So I can say, things are in place. We are able to sell in the market, whatever volumes we are supplying to the market and cracks are also getting improved cracks. So see, whenever we talk about something, we'll have to see the Deepak Nitrite product portfolio. Frankly, we are into domestic 83%. Domestic market is growing. Domestic market is stable and though there will be some pressure here and there in one of the quarters, but overall, domestic markets are doing reasonably well.

Exports, we are facing pressure, maybe somewhere because of the export dynamics, what we are facing outside geopolitical situation in this. So phenol, so far domestically, we don't see much of a pressure on that, which is a larger section of our business. When we talk about AI and all these things, there also, if you see it's not that there is a pressure on product volumes or anything. It's only because of some concerns on this, but that is also now more or less getting in a stable situation now, it will further improve from here. I mean whatever we have seen up till now, I think we have seen the bottom, that's all I can say. Future looks very bright, not that and with all the commissioning in a phased manner, we are very confident we'll go on because it's already done. I mean nitric acid has already started, the CNA part of it. So, with all these factors, we expect a very good year ahead, and various steps have been taken to support this.

This R&D and small, small things, which Maulik was highlighting, we must realize how are we differentiating our product, how the efficiencies are getting improved, like nitric acid equation, the supply starts from pipeline. And many things are done internally because see, the external environment remains external, but we are doing so many things here. So I see a good year and next year we will be further better because of steps what we are taking. I'm not talking about the global uncertainty, what is happening. But by and large, things are in control from our side. We don't see much of an issue in running our plant operations and the commissioning of the plant. So I'm very optimistic about this, though cautiously optimistic, that's the right word Maulik has used. But yes, I mean, this year should be better than last year because we have seen the bottom, which I feel.

Maulik Mehta: No, I totally agree. One thing that we have learned from last year is that maybe we need to have a much sharper messaging about when we do our regular shutdowns for cleaning and maintenance because when we announced it, we announced also the period of time that we will have a shutdown as well as the fact that we would have inventory. But I think a lot of traders

because of the country's large dependence on Deepak, which has served them well, they anticipated for whatever reason that we may extend our shutdown or they wanted to derisk themselves. So we had much more of an import coming in, in the end of October, early November to compensate for a perceived extended shutdown, which never actually took place. We were, in fact, able to start back up at a shorter notice along with larger asset available capacity debottlenecking also. So our increased capacity came head-to-head with an increase in imports. I think maybe we can learn from this, improve our communication strategy that we put out to ensure that this kind of situation gets avoided because at the end of the day, our customers just want to feel secure about the availability given the face of uncertainty in geopolitics.

Moderator: The next question is from the line of Arun Prasath from Avendus Spark.

Arun Prasath: So first, Maulik, just coming back to the technology part on our phenol polycarbonate integrated project. You said bisphenol is in the final stages, but have we finalized for the new phenol acetone complex? Or is the technology licenses finalized or we are just continuing with the existing one that we have?

Maulik Mehta: I won't answer that question. I'll just say that it has been finalized.

Arun Prasath: Okay. All right. And also, you said that from the polycarbonate project, the anchor customers' expected demand is very healthy. So, can you indicate what percentage of our overall polycarbonate capacity this anchor customers expected demand would represent?

Maulik Mehta: I know I'm saying this a second time to the same gentlemen. I won't answer that question as well. Frankly, that is part of the discussion that we are having. And if I answer that question, I'm giving away any leverage. So we are in conversations and what we are telling strategic partners is that once we have commissioned their interest in working with us is well noted, and we are happy to be their partner of choice because we're able to service them with technologically trademark products. If they can help us debottleneck fast and further expand capacity quickly, then we will be able to service them faster. So leave us with that little bit of leverage for negotiation. But rest assured that our first priority is to ensure that our anchor customers as well as the domestic market are both well served.

Arun Prasath: Okay. All right. So that's fine. On the compounding facility you spoke about, when do we get to see some kind of revenue traction from this facility? Is it this year, next year? What stage are we in, I know you mentioned that you have sent feelers to the customers, but are we in a stage where we can confidently go and sell and book revenue in this? And what is our aspiration in the next 2, 3 quarters or in the medium term?

Maulik Mehta: No. So just think of this as an R&D center. Now it is able to make in terms of the total throughput, much larger than what you would expect very often in an R&D center, sometimes even larger than a standalone plant. But it is still to be considered as an R&D center. We have generated revenues already in the last year, we will extend that this year. But these are all to be considered as in a chemical, what you would look at it as a PO for a piloted product. So when you're talking to customers and you're scaling up your production in order to give them confidence that these are plant representative samples, right? And that's what they pay for. When you send them a lab

sample, they don't pay for that. But when you send them a pilot sample, a larger volume, multiple SKUs that they do pay for. But still, I would consider them as R&D projects to build customer confidence.

Moving forward, as we're able to have them do their extended testing in multiple environments, temperature, conductivity, those other things, then they will expand into full-fledged business SKUs. So we've already started seeing value. We've already started engaging with customer's long-term contracts, but these are still pilot products.

Sanjay Upadhyay: The response what we have got from our customers is very encouraging. Product is getting acceptance. Frankly, this is field marketing, what we are doing to ensure that when we come up with phenol plant, and we are ready with this facility also on a larger scale, so again, I mean, back-to-back, we have integrated facility of compounding also. And the idea is that next phenol plant will be consumed captively rather main product in the market.

Maulik Mehta: And this is a change for our strategy because the traditional thing that Deepak would do would just be to manufacture the resin and sell the resin. Now while we will do that, we will also ensure that we are selling compounds, which are made using that resin and other smaller raw materials, which have significantly higher price as well as margin, but have a significant approval cycle. So we are starting that approval cycle earlier before the PC plant comes up so that we can then reduce the amount of resin that we sell in the market and increase the amount of compound that we sell.

Arun Prasath: Typically, what is the approval cycle in months? Is it 24 months, 36 months?

Maulik Mehta: For some products, it can go from 6 months to other products in things like medical devices and all that, it can go to even 36 months. They're obviously much, much higher value. And because of that, there is a very strict regulation and control. So I mean, we've been working with potential customers in multiple segments including EVs, including switches, including furniture as well as medical devices.

Arun Prasath: So what I understand is some of these approvals needs to also come from the customer's customer. Is it the right way to think? Because 36 months is too long.

Maulik Mehta: No, it is not as long, see, we look at it from a different perspective. 36 months for something, which is going to be around helping people in difficult situations where things cannot be repaired easily. And these will last with the customer, the consumer for decades. 36 months is a fair thing and the Government India as well as states, they've been very supportive. I would not put too much worry into the fact that something takes 36 months. It takes it because it will be there as a consistent business for decades to be.

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

Kumar Saumya: Just a couple of questions. On the compounding facility, is it the same capacity that we had indicated earlier? Or has there been any changes there?

Maulik Mehta: It will be that capacity in a phased manner. Right now, it is smaller, but not significantly smaller.

Kumar Saumya: Okay. And, any indication on what is the revenue that we have booked this fiscal from the compounding facility?

Maulik Mehta: No, I won't answer that question right now because it depends on what products get accepted, when the same customer expects maybe different SKUs for separate registration or approvals, those things. So we are working together with multiple customers and multiple segments. So yes, it's too early.

Kumar Saumya: Sanjay, sir, if you could just give us an indication what is the cash capex for this fiscal?

Sanjay Upadhyay: This fiscal, it won't be that high because we are almost at the verge of completion of all our earlier capexes. This should be in the range of INR 1,200 crore to INR 1,500 crore out of whatever we have announced, that INR 8,500 crore plus the residual of the earlier. So out of around say INR 9,000 crore, INR 9,500 crore, our cash capex for this year should be around INR 1,500 crore.

Moderator: The next question is from the line of Aditi Loharuka from CD Equisearch.

Aditi Loharuka: I would like to know that how much is not so modest capex justified in the light of uncertainties in global trade in general and chemical industry, in particular?

Sanjay Upadhyay: Capex justification, are you asking?

Aditi Loharuka: Yes, sir.

Sanjay Upadhyay: What I mentioned just now?

Maulik Mehta: No, in general, I think.

Sanjay Upadhyay: I don't know if you're asking about the capex approvals what we have got from the Board about INR 8,500 capex, these are all well thought of strategy and well-integrated business strategies. Going backward, going forward, like compounding, like nitric acid, like polycarbonate. So, I mean, market remains what it is. But how resilient business you are creating is very relevant in this situation. If you have to answer the question on this, we can answer it confidently, we have that backward integration, forward integration and all kind of efficiencies in place. So capex justification, in any case, this capex is going to take time. It's by December 2027, we'll be ready. I don't see much of a problem in taking these capex decisions, whatever we have taken. I can understand if we are entering into some other, but these are all very well-known sort of strategies what we are following.

Maulik Mehta: I'll just add one point to that, and I say this with unequivocally, I think that Deepak Nitrite has the best investment thesis in the chemical industry in India. Across the segments, across the company sizes, the investment thesis that Deepak has is attracting interest across the globe. So there's no question about the fact that we have made the right decisions. Now sometimes you do have project delays, and those are regrettable. And we have to work hard to see how we can always keep on improving on those fronts. But if you're asking about why we are investing, what we are investing in, I think that you will have a remarkable resilience moving forward and we

are exactly where we need to be in order to take the best advantage of the geopolitical global situation. Yes, we have a large neighbor in China, but that does not change the fact that India has significant headroom to grow and Deepak has made the right choices for investment.

Sanjay Upadhyay: At the right time also.

Maulik Mehta: Yes.

Sanjay Upadhyay: That's very important—at what point in time you make decisions matters. Delayed decisions do not help. If you have a strategy, it's crucial to make timely decisions, and we have done so, following the right execution philosophy.

Aditi Loharuka: Okay. So, what is your strategy to handle trade uncertainties in near term?

Maulik Mehta: That's a whole separate question, and it cannot be answered over an investor con-call. Our strategy involves working with our internal operations. It works with external customers, and it works to see how to make certain assets fungible to be able to apply to multiple applications. Beyond this point, trade uncertainty is a fact of life, which we should be poised to take advantage of as well.

Moderator: The next question is from the line of Sanjay Kushwaha, an individual investor.

Sanjay Kushwaha: My question is, the polycarbonate and BPA products comes from petrochemicals and may face more regulation in future. As the world moves toward greener and safer materials, how are you planning to manage this transition?

Maulik Mehta: To be honest, the world is moving towards greener solutions and that is a wonderful thing that companies around the world are doing. But the interesting thing is that the product that will come out of these systems will be required to house these cleaner and greener processes. When you have an electric vehicle, the polycarbonate that is used to manufacture the electric vehicle and to house the battery of the electric vehicle is also as required as the source of the fuel. So let me just give you this kind of assurance that moving forward, products such as polycarbonates will have different end users, but will be just as much of interest to the downstream customers who are also engaging in improving their sustainability. So it will be a slightly different SKU, but the core product will remain the same and in part a different physical property based on the requirement. So we may not manufacture more internal combustion cars and the polycarbonate resin that would be used for that compound will be the same polycarbonate resin, which is used for a compound, which makes an EV.

Moderator: The next question is from the line of Huseain Bharuchwala from Carnelian Capital.

Huseain Bharuchwala: Just one point. So after the debottlenecking, what is our capacity, you would say, on the phenol plant?

Maulik Mehta: I think we should have stopped much earlier answering questions about capacity because one thing that has happened is because of that, then you have licensers saying, "Oh, you know what, now if you're running it at that capacity, please pay us license fees for that." So yes, we are

consistently ensuring that we have the asset debottlenecked. Our focus is to ensure that we maintain and grow the domestic market share. So with the current capacity, we will continue to find ways to optimize further. And which we've also signed up for greenfield plant because we are seeing that we will soon, not right now, but soon maybe over the next 6, 8 months, reach the kind of ceiling that we can expect from this asset. So we need to work quickly to see that we have corresponding greenfield asset, which will service the polycarbonate assets as well as the market.

Moderator: The next question is from the line of Meet Vora from Emkay Global.

Meet Vora: I have just 2 bookkeeping questions. First one is that what would be the accounting treatment for this Government incentive income? Will we be doing this consistently on a cash basis or on an accrual basis, as this INR 60 crore, INR 70 crore of income is more or less certain that we are planning to accrue every year going forward.

Sanjay Upadhyay: You have to leave something for me and the auditors as well, right? If I answer your question here, my auditor might raise it later. I understand the dilemma, but we'll take a call. Let me also discuss it with the auditors.

Meet Vora: Sure. And just secondly, on the interest cost every quarter or year that we can work with, as I see that there's been a debt increase to around INR 1,000 crore by the end of March this year. So if you can give some indication over there?

Sanjay Upadhyay: Frankly, we have about INR 900 crore in cash lying with us, so our net debt is minimal. This borrowing was done primarily to ensure smooth cash flows. Secondly, we're also putting pressure on our team—our previous habit of borrowing had completely gone. So now the focus is on whether we have strong negotiation skills: are we getting the best rates, the best opportunities, like the 14-year term loan? These aspects are being tested here, even if only in a smaller way. I could repay this loan today—there's hardly any debt to speak of. But this borrowing was done for the new company we started, DCTL. So this is what we have done. But frankly, I have no pressure on debt at all.

Meet Vora: Correct. Because gross interest cost ideally should be in sync with that INR 1,000 crore. That's why I was asking, but I understood your point.

Sanjay Upadhyay: And also there, it will be in other income, right. So the net interest also will be hardly anything. And then it gets capitalized also. I mean there are several factors here, hence it's a bookkeeping question.

Moderator: The next question is follow-up from the line of Arun Prasath from Avendus Spark.

Arun Prasath: I was asking about the capital work in progress, INR 1,600 crore we have in our books as of March 2025. So apart from the long-term projects, can you just help us understand what portion of this is getting commercialized in Q2 and Q3?

Sanjay Upadhyay: So, all the projects, what we had earlier announced for INR 2,000 crore, INR 2,200 crore are getting commissioned in the current year. This balance will be whatever we are spending, say,

phenol technology or the polycarbonate technology and this gets spilled over to the next years. But other all earlier announcements are getting completed by this year.

Arun Prasath: So majority of this will be capitalized this year?

Sanjay Upadhyay: Yes.

Moderator: As there are no further questions from the participants, I now hand the conference over to management for closing comments.

Sanjay Upadhyay: Thank you all for joining this call. In case you have any further questions, our team can answer that. Thanks once again for joining this call.

Maulik Mehta: Thank you.

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