Deepak Nitrite Limited

Q1 FY26 Earnings Conference Call

August 14, 2025

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

Moderator: Ladies and gentlemen, good day, and welcome to the Deepak Nitrite Q1 FY26 Earnings Conference Call hosted by IIFL Capital Services 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.

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. The results documents have been shared with you earlier and have been also posted on the company's website. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ranjit Cirumalla. Thank you, and over to you, sir.

Ranjit Cirumalla: Good afternoon everyone, and thank you for joining us on Deepak Nitrite's Q1 FY26 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 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.

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

Maulik Mehta: Hello. Good afternoon everybody, and a warm welcome to you on Deepak Nitrite's Q1 FY26 Earnings Conference Call.

Our results documents were shared with you earlier, and I hope you've had the opportunity to glance through them. I will initiate by briefly taking you through the key financial and operational highlights for the first quarter ended 30th June 2025. Mr. Upadhyay will then present you with the financial overview during the period under review. And following this, we'll open the forum for the Q&A session.

As we begin FY26, Deepak Nitrite remains steadfast in navigating a complex global business environment. The past several months have been marked by a confluence of challenges that have significantly affected the industry. Slower-than-expected recovery in some agrochemical intermediates has stifled growth, while continued oversupply from China has impacted the pricing. These headwinds, coupled with fairly fast-evolving geopolitical complications, have compounded the complexities. Our strong business fundamentals underpinned by an import substitution strategy, expansion initiatives, both capacity augmentation as well as new projects, process optimization and commitment to innovation and sustainability have provided us some resilience in this backdrop.

Despite these challenges, we foresee a pickup in demand trajectory driven by improving market dynamics, the commissioning of new projects and expanding product applications. Our focus on accelerated execution, enhanced product mix, digital transformation, expansion into newer markets and product variants positions us well to capitalize on the evolving landscape. We remain confident that Deepak Nitrite will continue to deliver value, while contributing to India's larger vision of self-reliant and sustainable industrial growth.

Deepak Nitrite has solidified its position as one of India's leading chemical intermediate producers, recognized globally for responsible manufacturing and a supplier of choice. Our diverse portfolio serves multiple industries, underpinned by a philosophy of responsible chemistry, emphasizing sustainability, transparency and ethical business practices. Guided by experienced leadership and deep technical expertise, we continue to strive towards driving operational excellence and long-term value accretion.

Our performance this quarter was sustained by volume growth across our diverse product portfolio, supported by a notable recovery in demand from non-agrochemical applications and also the initial success from certain cost optimization initiatives. In the Advanced Intermediates segment, although agrochemical intermediates are experiencing subdued global demand, we project a recovery in the upcoming period. The Phenolics segment witnessed steady demand with better realizations backed by debottlenecking and capacity augmentation initiatives. Our focus on cost management continues. We are excited with our pipeline of new products and upcoming projects that are set to contribute to growth in a meaningful way. In addition, we're actively expanding into newer applications to broaden our market presence and diversify our customer base.

For the quarter ended June 30, 2025, Deepak Nitrite reported a revenue of INR 1,897 crore, mainly driven by steady volumes, improved product mix and realization gains in Phenolics. This came on the backdrop of a challenging external environment. Despite pricing pressures in the AI segment, consolidated EBITDA stood at INR 197 crore, marking an 11% sequential rise with margins expanding by about 100 basis points to 10% quarter-on-quarter. This was a result of improved operating leverage from sustained volumes and enhanced operational efficiencies from our optimization and process recalibration efforts. PBT was at INR 138 crore, up 17% sequentially, demonstrating resilient operational momentum. These numbers are excluding Government incentives that we've received of INR 17 crore in Q1 FY26 and INR 161 crore in Q4 FY25, which was a sum total of about 2 years, respectively.

The standalone Deepak Nitrite revenue was INR 620 crore, lower by 6% quarter-on-quarter. EBIT declined to INR 41 crore, primarily due to a delayed offtake of key products in the agchem intermediate space. However, we anticipate a recovery in the ensuing period. In addition, we are driving targeted initiatives to enhance our competitiveness by adding new customers through a diversification effort and into new geographies. We've seen initial improvements in the margin trends in the non-agchem space. These trends, along with our strong customer relationships, position us well for a sustained recovery. Also, the benefits from backward integration will enhance supply security and cost optimization even amidst global overcapacity and pricing challenges.

By implementing strategic initiatives, we have successfully expanded our product portfolio, which is expected to generate incremental annualized revenue. This growth will be driven by the commercialization of a new value stream integrated product for the dyes and cosmetics segment and the launch of a new product through a long-term co-manufacturing agreement. Overall, these targeted efforts will enhance our market presence, including untapped geographical opportunities, thereby creating new avenues for sustainable growth. This is, by the way, done with existing assets and negligible investment. And while we may have launched these products in the middle of the year, they are going to be tested by customers for stability, and then we will be able to supply commercial volumes when the next contractual cycle begins. This is expected to be in the beginning of CY2026, meaning January 2026.

The Phenolics segment delivered a revenue of INR 1,287 crore, marking a sequential degrowth of 6%. Profitability was higher due to variable cost optimization amid stable sales volume and improving spreads. This was further bolstered by operational efficiencies at the plant. The segment's resilience reinforces the strength of our integrated approach.

We're progressing well on key projects that will enhance our backward and forward integration, strengthening our competitive advantage. Our concentrated nitric acid plant is in trial production phase, while for the weak nitric acid, commissioning activities are ongoing with the technology partner at site and are expected to be commissioned within this quarter. Commissioning of both of these plants will significantly strengthen Deepak Group's manufacturing capabilities for all nitration-based products. By scaling up production and enhancing backward integration, we will secure a more reliable and predictable supply chain for our key raw materials. This will not only boost operational efficiency and reduce reliance on external suppliers, but will also solidify our market leadership as an ammonia to amine supplier and reinforce our commitment to import substitution, ensuring a more resilient foundation for long-term growth.

Building on our extensive expertise in hydrogenated aromatics and non-aromatics, we have started trial production at our new hydrogenation facility, significantly expanding our group's production capacity. This strategic move directly supports the expansion of our product portfolio and better positions us to meet with growing global demand for high-value specialty chemicals. This new facility will not only enhance our operational scale, but also our position as a key player in this critical segment, while integrating well with our already commissioned fluorination assets.

Our advanced solvent MIBK, MIBC and others and nitration plants are expected to be commissioned in the next quarter. This move will significantly strengthen our downstream integration, allowing us to capture more value from our existing product lines and reduce our reliance on external suppliers.

We are prioritizing resilience by effectively managing resources and adapting our processes to meet with these demands. In the face of market challenges for our core agrochemical products, we've demonstrated operational agility by proactively repurposing our assets. This capital-efficient approach allows us to co-develop and produce alternative, higher-value products in close collaboration with our other customers. The strategy not only diversifies our portfolio, but drives new growth without requiring meaningful capex.

Our transition to renewable energy is already delivering results. During Q1 FY26, we have seen short-term benefits through strategic tie-ups. In order to attain our long-term goal of sourcing 60% to 70% of energy from renewables by FY27, we have signed a PPA, which will lead to significant *cost savings starting from May 2026. Overall, this initiative is projected to reduce our eCO_2 emissions by an estimated 60% to 65%.

India's first integrated polycarbonate project aims to produce 165,000 metric tonnes of polycarbonate resin annually. A key part of this strategy is backward and forward integration from propylene, which will be supplied from a feedstock of LPG. The chain of products will include from propylene to phenol and acetone, to bisphenol A and polycarbonate resins. In line with this, the Company is also expanding its phenol and acetone capacity to serve as raw materials for bisphenol A, which will also, in turn, be an intermediate for polycarbonates. And we have already entered into the polycarbonate compounding business with an invested asset in Vadodara. This holistic approach, which leverages existing expertise and the technology license from Trinseo positions Deepak Nitrite to be a highly integrated producer, reduce India's reliance on imports and secure a predictable supply chain for its downstream products. Polycarbonates are a highly versatile product range that are used widely in various applications and industries due to very unique properties, including high impact resistance, transparency, heat resistance and light weight. They are used in sectors such as electrical, automobile, medical devices and now increasingly also in defense and drone manufacturing. This integrated complex is expected to start commercial operations by December 2027.

Deepak Nitrite is committed to expanding its integrated product portfolio and deepening market penetration with investments of around INR 10,000 crore over the next 3 years and operations spanning seven manufacturing plants across India, serving more than 50 countries, we're well positioned to deliver long-term value and contribute also to India's self-reliance.

To summarize, Q1 has demonstrated challenges and opportunities, which have tested our strategic ability amid global uncertainties. Our focus on import substitution, integration, innovation and sustainability continue to drive operational performance. We profusely thank our employees, partners and stakeholders for their continued trust and support as we work towards realizing our vision of creating a stronger, self-reliant and prosperous India.

Potential U.S. tariffs are expected to have a moderate impact on our business given that our exposure to the U.S. is limited to 2.5% to 3% at a consolidated level. We are taking proactive steps to negate this by expanding into new markets. Additionally, we're maintaining close communication with our customers and closely monitoring this unpredictable environment. More importantly, this will help increase our exposure to Bharat in line with the Viksit Bharat initiative.

Overall, we remain committed to delivering a long-term value to our stakeholders through responsible growth, operational excellence and a sustainable future.

Thank you. We look forward to building on the strong foundation in the coming years.

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

Sanjay Upadhyay: Thank you, Maulik. Good afternoon everyone, and thank you for joining this call today. I'll now walk you through the key highlights of our financial results for the first quarter ended June 30, 2025.

In the first quarter of FY26, we achieved stable operational performance on a quarter-on-quarter basis. This was predominantly driven by sustained volumes, better pricing in Phenolics as well as cost optimization initiatives. Despite persistent pricing pressure and softer demand in agrochemical intermediates, our legacy portfolio as well as Phenolics stayed resilient and maintained volumes. As hinted by Maulik, we anticipate demand revival in agro intermediates in the upcoming quarters. Meanwhile, demand in other end applications like dyes, pigments, detergents, glass and home, personal care, etc., remains steady.

Our EBITDA showed marked improvement, benefiting from greater operating leverage due to steady volumes along with ongoing cost control and efficiency measures. As we advance, we believe that strategic steps we have undertaken will accelerate our recovery and enhance profitability in the coming period.

Financial overview: On the revenue front, our domestic sales totalled at INR 1,623 crore in Q1 FY26, complemented by export revenue of INR 267 crore. This resulted in consolidated domestic to export revenue ratio of 86:14 for the quarter. In alignment with our import substitution strategy, our keen focus on the domestic market provides a stable buffer against geopolitical shocks. This not only insulates us from the external volatility, but also ensures a more consistent demand trajectory and revenue stream, forming a predictable and resilient foundation of our long-term business stability.

Consolidated revenue declined by 7% quarter-on-quarter to INR 1,897 crore. EBITDA grew by 11% to INR 197 crore compared to INR 178 crore in Q4 FY25 with margin expansion at 10%. Profit before tax improved by 17%, reaching at INR 138 crore. With a positive outlook ahead, we expect performance to improve as demand stabilizes, key projects come online and cost efficiency initiatives gain further momentum, positioning us for consistent profitability in the period ahead. Total income, EBITDA and PBT exclude Government incentive amounting to INR 17 crore in Q1 FY26, INR 161 crore in Q4 FY25, respectively.

Segmental performance highlights: The Advanced Intermediates segment delivered revenue of INR 605 crore in Q1 FY26, lower by 7% from INR 654 crore in Q4 FY25. EBIT stood at INR 35 crore, yielding margin of 6%. In addition to ongoing macroeconomic challenges, this was impacted due to certain pre-operative expenses of projects nearing commissioning at DCTL.

Our Phenolics business showed resilience, posted an operational revenue of INR 1,287 crore from INR 1,371 crore in the prior quarter, Q4 FY25, a decline of 6%. EBIT was INR 101 crore, reflecting an operational margin of 8%. Favorable demand ensured volume stability as well as

better pricing. Simultaneously, we achieved cost optimization by effectively managing our variable expense. EBIT grew by 29% during the period.

On strategic growth and innovation front, we continue to advance our long-term growth strategy, which includes launching our new specialty chemical manufacturing facility each year. Leveraging our strong R&D capabilities, we are focused on developing differentiated products that will expand our specialty chemicals portfolio.

The new capacities will enhance our self-reliance on critical raw materials, contribute to margin improvement as they scale up. Our state-of-the-art R&D center near Vadodara, which is expected to commission soon will play a pivotal role in driving innovation-led growth.

Although the quarter presented external headwinds, we remain optimistic about our future prospects. With a healthy project pipeline, a steadfast commitment to operational excellence and improving market conditions. Deepak Nitrite is well positioned to achieve sustainable growth and deliver lasting value to our shareholders.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First on the agrochemical side, can you help us understand what really has happened, it is lower demand, because destocking appears to be largely behind for the conventional portfolios of the innovators or it is China oversupply, because China still continues to add a lot of capacity. So that issue doesn't look like going away very soon. So what gives us confidence that we should see a much better recovery going forward?

Maulik Mehta: Do you have another question also? I can answer them together.

Sanjesh Jain: Okay. Perfect. Then I will ask all the questions. So second on the, you said that volume was steady. That means, on a standalone basis — particularly in AI — volumes were broadly flattish, which suggests that agrochemicals have declined. Within the non-agrochemical segment, what should be the expected growth rate, especially for some of our key products like sodium nitrite, OBA, and BHA? How has that portfolio evolved? That's number two. Number three, on the value creation from the agrochemical value chain, which you spoke about last quarter that you intend to move up in the value chain. Where are we in that effort? And when should we see benefit of that going in? And lastly, on the new product commission, could you provide an update on its ramp-up progress?

Maulik Mehta: Okay. Thank you for the questions. I'll answer the first one first. Yes, China has ramped up its capacity significantly. But most of that capacity that has been ramped up is for the final product, which goes into formulations. We are an intermediates manufacturer. So what's important is that we focused on seeing what we can do to optimize our cost structure as well as our affluent footprint. And on both of these, along with our quality, I think we stand out as the best in the world. And this has also been given as feedback by customers. Now the Chinese market is also open to us to supply, albeit at perhaps lower realization if we choose to take it. Now that choice

remains ours, and we will engage with all potential customers, both in India, in Europe as well as in China to optimize our customer mix. But that way, we will ensure that we are derisked from a geographical perspective. These products continue to remain extremely desired in terms of their effectiveness and efficacy at the farm level. Now that said, we have also worked to see how we can engage with partners and see where we can go downstream to further optimize our value offering. In a couple of the plants, we have made sure that we are able to run multiple products in discrete streams. Now these products, because we're literally in the middle of the year, at the moment, what we have worked with strategic customers for is plant pilot batches, which are roughly about 20 or 30 tonnes in terms of volume in order to be able to qualify for contractual agreements, which would start with meaningful volumes from January onwards. So these are certain steps that we have taken to not only derisk from 'x' particular product, but also from 'x' particular customer. I think we will see a meaningful improvement because orders delayed are not orders declined. And meanwhile, we will see what we have to do in order to make our assets multipurpose in campaigns to be able to run along with customer requirements.

With your second question, which I'm answering last regarding the volumes. Now frankly, on the other products, which are going more into the dyes and intermediate space, I think there, our volumes are largely intact with a marginal growth. And also, by the way, in our PP, our optical brighteners and intermediates, there also, we have seen a growth in line with our debottlenecking efforts. The agrochemical products have had a temporary blip, as I mentioned. Some of them which would be higher margin have had a deferment of supply from our customers, which we are working to see how to address. So all in all, I would say that the net impact on volume is not substantial, but there has been, of course, a net impact in terms of profitability. And we're seeing what we can do to cover that for the rest of the year.

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

Nirav Haresh Jimudia: I have two questions. First is on investment of close to around INR 220 crore, which you have mentioned in the annual report to manufacture a key agrochemical intermediate for foray into specialty fluorochemicals. So if you can share your views here, like is this for a novel agrochemical or this is for the off-patent product, some estimates on the market potential? And when can we see the full benefit of this investment accruing to us?

Maulik Mehta: Okay. So first of all, Nirav, thanks for the question. Just to clarify, the investment of INR 220 crore is in its construction phase and expected to be commissioned at some point between the end of January and the middle of March 2026. We're engaging with customers just also to highlight that while the primary customer for this would be an agrochemical major for a product which is under patent and our process also would be under intellectual property control. The plant is designed in such a way that it doesn't necessarily only have to make that. It will also be able to supply to the cosmetics industry as well as the polymer industry, both of which appreciate the higher quality as well as the considerably reduced carbon footprint that this process will allow us to put on the table. So this technology as well as this plant is probably the first and only of its kind, and it leverages two key strengths of the company. So the moat is significant.

Nirav Haresh Jimudia: Got it. Any time lines of the launch of this product by the innovator, because probably or possibly in the earlier phase, we'll be supplying some of the samples to them. And then once that is

launched, the sales could have been ramped up from them. So any tentative schedule have been given by the innovator to you in terms of the launch by them?

Maulik Mehta: So this product will be supplied as "plant relevant batch" in quarter 3 and in time for us to be able to engage with them meaningfully for long-term contracts moving forward. But as I also mentioned, the asset will be fungible for us to use in other applications. There also, we are engaging with customers. There also, we are ensuring that we are using this opportunity to supply small plant relevant batches for them to test. In some of these applications, there is also things like stability testing and all of those things. But in all of the cases, whether it is for cosmetics, whether it is for advanced polymers, whether it is for agrochemical intermediates, in all the three spaces, the customers have definitely reverted back very, very positively with regards to our industry-leading specifications and purity. So on that front, our product is a benchmark. Now we have to make sure that we are able to supply the products and run them in campaigns as efficiently as possible.

Nirav Haresh Jimudia: Correct. Just a last clarification on the answers given by you. This product which we are going to supply, is it safe to assume that it would be backward integrated in the sense that it would use most of the bouquet of products which we are currently manufacturing and this is a kind of forward integration going to the customer through the bouquet of products what we are already having?

Maulik Mehta: So you are partially correct. But also I'll highlight that this plant, the protected IP is the process, not the product. So the same plant will be able to make multiple products using a process which will be intellectually protected by Deepak using a common set of strengths. So you change the raw materials from A to B, you're able to make a product which goes into a different application. And in most of these cases, there is significant synergy with our core competencies. And in two cases, a significant synergy also with Deepak manufacturing the upstream product. I hope this helps.

Nirav Haresh Jimudia: Got it. My second question is on the AGM, like the Chairman, mentioned about projects worth INR 14,000 crore under pipeline. If I'm not wrong, some turnover figure of INR 7,000 crore was also mentioned on these investments. If I recall it correctly, we are undergoing INR 8,500 crore of capex plus INR 2,000 crore of capex, which is under various stages of commissioning. So for the rest of the projects, are the products finalized? And what sort of integration it would help with the existing line of products what we already have?

Maulik Mehta: Okay. So a couple of points just to highlight. Many of the products which are in the process of commissioning, whether it is products like MIBK, MIBC, whether it is nitric acid, those are already part of this, and they are in various stages of commissioning or something that was commissioned 1.5 years ago, which was the fluorination asset. There is something which is in the process of being commissioned in this particular quarter that we are referring to and some more which is being commissioned in Q3, which is in the mechanical completion and pre-commissioning stage. So all of these put together, then over and above this, what we're talking about with regards to INR 8,000 crore of revenue is to keep in mind that when we make phenol, acetone, bisphenol A, these will be largely fed into the manufacturing of polycarbonate. So they will be able to accrue a higher ROCE and earn EBITDA percentage. So it should be looked at

in line with that, that all the investment when you look at a backward integration does not result in a top line as high, if it was just a downstream investment. But it builds a significant amount of resilience, and we are able to leverage that to create long-term agreements with our customers. One of those customers incidentally also being the company that we are acquiring the license as well as the plant and assets from.

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

Abhijit Akella: Just a few updates on some of the key projects, if it's possible to share. So just on nitric acid, should we expect the benefits to start from the second quarter of this financial year? Or will it really start from the third quarter? And could it add something like 200-300 bps to the Advanced Intermediates segment margin? Is that a fair estimate to have?

Maulik Mehta: Yes. I think, in terms of the margin expectation, you're right. And just to clarify, since we are in the middle of the second quarter, we've already begun trial production and we've already started the commissioning activities for the WNA asset. Integrated, both of these will be commissioned and online, on stream for their desired capacity by the end of Q2. If we're able to take advantage of some volumes as the trial production commences, of course, there will be that benefit, which is accrued. But meaningful and consistent benefit will be accrued from the beginning of Q3 onwards at infinitum.

Sanjay Upadhyay: And to answer your question, yes, it will add to EBITDA, maybe about 2% to 3%, what you mentioned, that's right.

Maulik Mehta: Also, I'll just highlight that while we have been constructing this, we have also invested in expansion of our nitration capabilities across multiple locations. So we will be able to consume more of what we make as compared to what we had originally anticipated. So fortunately, unfortunately, whatever you want to call it, our nitration and reduction capacities have been able to come on stream with trial production in one place and commissioned in other places, a little bit earlier than the nitric acid plant. But the good thing is that our market presence is already established, and we should be able to hit the ground running once these assets are fully commissioned.

Abhijit Akella: That is helpful. And then on the MIBK, MIBC project, you've mentioned H2 FY26 as the commissioning time line. So realistically, what sort of capacity utilization percentages could we work with for this financial year and then maybe next financial year?

Maulik Mehta: I think there will be a ramp-up. It's going to be an accelerated ramp-up to a sense, because not only will we be making MIBK, but we'll be making the downstream of that MIBC and a couple of other solvents and mining chemicals as well. So the capacity ramp-up will be, I think, three or four products altogether in line with MIBK. So the answer to that is a little bit challenging. It is going to be an accelerated ramp-up. It is not going to be something that takes like a year to do. It's going to be months. But we will do it in line with customer approvals, because two out of these products, also have significant consumption in the cosmetic space, where there is a higher price and higher margin expectation. But for that, you have a longer lead time for validation. So we've already started production of some of these or we're starting production

within the month to seed market it from another location. And we are ensuring that we are able to move forward with this validation before the much larger plant comes into production. Hopefully, this will allow us to accelerate our meaningful supplies to these segments as well. If not, then there will be a couple of months of lag where their validation cycles and stability studies are in the terminal stages of approval.

Abhijit Akella: Understood. On the polycarbonate compounding facility, which is up and running at present, are there meaningful contributions expected for this year in terms of revenues or maybe profits as well?

Maulik Mehta: I think, frankly, what you should look at is not so much for this year. It's more about what we're able to accelerate on, over the next year or 2 years. I mentioned much earlier, this asset, while it will have contribution in revenue, it's a strategic investment to fast track our approval cycle. So it is to be looked at as if it is a very large-scale pilot project, and it allows us to move forward the validation cycles. Many of these end applications have validation cycles, which are more than 18 months long. So we've just started that a few months ago. And if you look at 18 months, then you should not look at a meaningful contribution if and when that happens during the year, certainly, we'll appreciate it. But it will allow us to run the polycarbonate resin plant when it is commissioned all the way to a 100 without at that time waiting for 18 months of qualification.

Abhijit Akella: Got it. So just to round up on the Advanced Intermediates segment. Obviously, profitability has been weak for the last couple of quarters. But with the backward integration now coming up, nitric acid plus the new products and the contract manufacturing initiatives, can we expect to sort of get back into double-digit EBIT margins maybe sometime next year or so? Is that sort of how we are envisaging it?

Maulik Mehta: Yes. In fact, if the orders from our strategic customers had not been deferred, we would have been able to see that even in Q1. But the unfortunate truth is that, this is a situation that prevailed despite our best efforts. So yes, but of course, I will just highlight that many of these products that we're talking about, like nitric acid happen to be in Deepak Chemtech. So the profits as they are will be booked in the company where they're manufactured. And as a group, we will be, of course, able to take advantage of that. Deepak Nitrite standalone EBIT percentage should be able to improve steadily over a period of time. But from that perspective, I would rather focus on the EBITDA of the group rather than the standalone.

Sanjay Upadhyay: But Abhijit, to answer your question, it will be a part of AI segment only. So AI segment will certainly show the improved EBITDA at a consol level.

Abhijit Akella: Sure. I understood that. Just last two quick things from me, and I'll get back in the queue. One is on the capex budget for this year. Last time, we had mentioned INR 1,500 crore for fiscal 2026. So is that still on track? And then I guess we need to incur pretty much the entire INR 10,000 crore by fiscal 2028. So the next 2 years, should we expect the remaining amounts to be spent?

Sanjay Upadhyay: This year, it would be in the range of INR 800 crore to INR 1,000 crore, roughly. That INR 500 crore is spent. So next year, it will be a significant amount out of whatever new capex is what

we have announced. So, around INR 1,000 crore we have already spent this year and next year will be around INR 3,000 crore and around INR 5,000 crore, the balance in 2028. That's how it will be.

Abhijit Akella: So sorry, INR 1,000 crore this year and then INR 3,000-odd crore in 2027 and the balance in 2028. Is that correct?

Sanjay Upadhyay: Yes, yes. But some portion goes to the next year also because if you're talking of cash outflow, I'm mentioning about cash outflow, not the actual capex in the balance sheet. See, cash outflow happens subsequently also post project completion. Projects will be completed by dates what we have given by 2028. But cash outflows can happen in the next year also. It will happen, because there are some guarantees and warranties and whatever, the creditors and LCs.

Abhijit Akella: Right. Okay. Just one last thing from me on the topic of tariffs. So I guess we do have significant exposure to some industries like, say, textiles, for example, or I don't know, maybe even autos or auto ancillaries or something else, which are export-oriented and which are believed to possibly face some headwinds from the tariffs from the U.S. So Maulik, would appreciate your assessment of how you're seeing the scenario and what possibly the repercussions could be and how we could mitigate any such challenges?

Maulik Mehta: I think, honestly, anything that I say right now, I would look back at it within the next month, 1.5 months and probably wish I hadn't said it. One thing is for sure that as a Company, as an intermediate manufacturer, we must not only look at first order impact, but second order impact as well. Because our customers and their demand pickup is also dependent on what is going to happen with this. And more than that, it is also dependent on how other countries are dealing with the same geopolitical uncertainty. But generally, what happens during times of uncertainty is, one, most companies will try to see how to derisk their supply base. Two, they will try to see how to mitigate their costs by conversing with their suppliers to see if some of these can be shared. But three, there is also an impact, which we don't consider of the rupee-dollar devaluation. And along with that also is the fact that supply chains are not built overnight. They take a lot of investment and time. And hence, any impact, both positive as well as negative, would be bleeding out over multiple quarters just because there is a position and a threat of tariff and an increased tariff at one time does not mean that the sum total of the impact is felt within the next month or 2 months.

So, I will definitely say it's a wait-and-watch approach. I will also say that we're not without options. And I will also add that our greatest investment is into the country of India itself. As I mentioned in the AGM also, India is the world's largest economy that has a fair balance of supply-led as well as demand-led growth. And that is something that we should harvest and cultivate because that is our true strength and potential. Meanwhile, we are working with our customers also in the U.S. to see how we can ensure that they are derisked. And we will do it without allowing for any significant bleed from our margins as well as volumes. But I'm sorry, I'm not able to give you a much clearer answer. Frankly, you deserve a better answer, but this is not a time when anyone would be able to give you.

Moderator: The next question is from the line of Tushar Raghatate from Omega Portfolio Advisors.

Tushar Raghatate: I just wanted to know like you're doing INR 9,000 crore capex in DCTL. So considering the polycarbonate resin import and the end user markets in the polycarbonate, what sort of market size you are seeing in order to cater from this PC compounding facilities going forward?

Sanjay Upadhyay: You are asking about polycarbonate market size in India?

Tushar Raghatate: Yes, the Indian market size which you are trying to put up going forward?

Sanjay Upadhyay: 4 lakh metric tons.

Tushar Raghatate: 4 lakh MT, okay. And considering the size of the capex, what sort of IRR and in how many years do you see the cash flows contributing positively going forward? By when will you recover the amount?

Sanjay Upadhyay: See, the payback is around 5 years, 5.5 years, between 5 and 5.5 years when you take the entire integrated value chain. You cannot be doing it in bits and pieces. So it's from bisphenol A to phenol, the entire capex will be 5, 5.5 years payback, 16% to 18% IRR.

Tushar Raghatate: Fair enough. And in the phenol business, like one of the major iron ore capacity in Germany, which is about 30% of their capacity is getting shut due to European carbon policy. Any benefit we are seeing from that in the phenol business?

Sanjay Upadhyay: See, phenol, if you heard our Chairman today morning, we have expanded capacity. Even this month also, we have reached another peak. And we are able to sell the entire volumes. And that's because of these reasons only. Because we are one of the integrated players. That's one thing. And secondly, India is consuming these intermediates in a significant way. Our demands are increasing, so we are able to sell, that's why we are increasing the capacity when we are putting up polycarbonate also because we can't let go the market. So you can see the numbers and results that is demonstrating our ability to produce and sell both.

Tushar Raghatate: Got it. One of the players is setting up phenol and acetone capacity in India and also plans to enter the BPA segment. Do you anticipate any competition arising from this going forward? Secondly, considering your phenol and acetone capacity to serve polycarbonate, do you have plans for merchant sales in phenol, acetone, or BPA in the future?

Sanjay Upadhyay: See, by and large, this will be captive. There is room for one more player also, because the way demand is growing. But our additional capacity comes for a captive consumption largely.

Maulik Mehta: But there will be demand of phenol BPA, which is also sold in the market, but it will be a much smaller share of the total capacity.

Tushar Raghatate: Got it. Considering the thumb rule of polypropylene and other things like the 165 KTPA, I think the capacity can be much higher going forward, considering the applications you are working on?

Maulik Mehta: I'm not sure what thumb rule this is.

Sanjay Upadhyay: I mean, today, whatever plan we have, this is the capacity we are setting up. So, I mean, and beyond that, today, we can't say anything further.

Tushar Raghatate: Got it. So my question is basically the quantity of polypropylene and BPA is used and the phenol is used to make polycarbonate. On that front, there is a huge room of expansion in the polycarbonate. So on that front, I'm asking post calendar year 2027. So what sort of market you are seeing for that?

Sanjay Upadhyay: I understand your question, but the point is, let us cross 2027, 2028 first, then we can discuss. I said, there is a time, we can't jump to these kind of discussions now. Because we are in the process of setting up such a large capex and projects. Beyond that, today, we will not be able to answer further on future expansion, beyond 2027. That is not possible.

Maulik Mehta: Yes. One thing that I can mention is that, when there is an established plant which is integrated with room to grow, further expansion does not take such time as fresh greenfield plant. And also the investment required to expand is very, very small compared to, again, a greenfield asset.

Tushar Raghatate: Okay. Sir, and my last question, like Bayer has a subsidiary in India to cater the polycarbonate, the import resin. So, post the capex getting commercialized, do you see yourself as the lowest cost producer in India for polycarbonate?

Maulik Mehta: Bayer is not into polycarbonate. You may be referring to Covestro. It got separated from Bayer several years ago. We're going to be working with a lot of different partners in the downstream. And you can look at us as co-producers because we will also be getting into compounding. We will also be partnering on compounding with various players, just to be clear, Bayer, ex-Bayer Covestro does not have manufacturing for polycarbonates in India. And it will be the first.

Tushar Raghatate: Got it. And you also mentioned in your Deepak Advanced product subsidiary that you're working up with the ABS plus polycarbonate blend. So just wanted to understand you're having plan to manufacture ABS or you have some collaboration with others who are already manufacturing ABS in India?

Maulik Mehta: No. Not in India. We're talking to everybody right now. ABS is massively oversupplied globally. So there's plenty of options. We have no intention of getting into ABS manufacturing. But we will be supplying to ABS.

Tushar Raghatate: But certainly, are you planning to manufacture epoxy resin because it's a INR 2,000 crore, INR 3,000 crore market of imports in India?

Maulik Mehta: I won't respond to that. This is something that is being internally evaluated. But at the moment, I have no comment for epoxy resin.

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

Aditi Loharuka: I would like to know that how are you adapting to rising risk of trade war?

Maulik Mehta: Whatever adaptation we do, then the trade war looks different in the next week. So I think, honestly, the best thing that we are able to do to adapt for a trade war is look within, look at our

partners, our business partners, suppliers and customers all over the world. Because, as I mentioned earlier, we are not without options, and we're not without relationships. Frankly speaking, as I mentioned, the direct impact that it has on Deepak's consolidated business is not substantial, but the second order impact is something that is to be ascertained. So no clear answer to give you right now, which is worth your time. But we are evaluating options, and we're engaging with everybody, including the U.S. companies. Let's be clear, companies, our customers, our suppliers, nobody benefits from a trade war. If someone benefits, it may be a Government or someone else. But customers, which are companies prefer stability of supply and strategic partnerships. So we're navigating into this together, not alone.

Aditi Loharuka: Yes. The situation is unpredictable, I agree. But given the current scenario, what are the options that you have to deal with this?

Maulik Mehta: The options that we are working on our investments for, because these options allow us to cater to investments which are already being planned by the consuming industry within India. So when we are investing in something which is going to be made in India using feedstock that is made in India and consumed by customers in India, this is one way that we are working to see how to protect the future of Deepak Nitrite's growth trajectory.

Aditi Loharuka: And how will this impact your capex plans?

Maulik Mehta: There's no direct impact to the capex plan. The capex plans are as we have already delineated them. And with regards to cost of material of construction and such, I don't know. But when we are relocating a polycarbonate plant, let's keep in mind that significant assets are already constructed and being packed and brought to India. So you don't have to invest in brand-new assets. These are very high-quality assets, extraordinarily well maintained. Frankly, there are assets that were put up at an expense, which today would have been prohibitive in the kind of metallurgy that they have. So let's say that we have assets which we are able to put up, which would have cost considerably more if we were to invest everything all over again in a brand-new plant.

Aditi Loharuka: No. What I want to understand is like when we make any capex plans, we have in mind that this plan will generate a certain sum of revenue and the major exports are in the U.S. also. So I want to know that how will this impact your capex? As in, do you have any plans of slowing down capex if the tariffs are high or anything as such?

Maulik Mehta: We do not have plans to slow down our capex, because of the tariff war that is ensuing all over the world. Because our capex plans are very clearly targeted towards supplying our product to Indian customers with some amount being supplied to our technology partner who will compound it into their applications in Europe.

Moderator: The next question is from the line of Rohit Nagraj from B&K Securities.

Rohit Nagraj: On MIBK, MIBC, we said that the ramp-up will be relatively faster. In terms of current pricing, what is the optimal level of revenues that we are expecting? And what are the EBITDA margins that we are expecting on the downstream products?

Maulik Mehta: But when you say current pricing, I see MIBK, more than MIBC, the pricing is highly dynamic and volatile. If I look at the last 6 months and now, it's been extremely, extremely volatile. So if I'm just to look at MIBK as a standalone product, I'm looking at a merchant revenue of close to about INR 550 crore. And let's see because like I mentioned, this is very, very dynamic.

Rohit Nagraj: Right. And in terms of EBITDA margins, any number you want to put to?

Maulik Mehta: Difficult to say right now. Because it is integrated with the upstream. So just putting it on a standalone basis would not be the right answer. It has to be balanced with cracks all the way from propylene to acetone to MIBK, MIBC and the other solvents.

Rohit Nagraj: Got it. On the Phenolics front, so this quarter, again, we have been able to increase the volumes. However, the margins have declined materially, both on sequential as well as Y-o-Y basis. So was there any element of inventory losses on our raw materials?

Maulik Mehta: Sorry, just to correct you there. I would actually say that it is quite the reverse of that. The margins have improved from what was actually a multiyear low in quarter 4.

Sanjay Upadhyay: Almost 8% to 11%.

Maulik Mehta: Yes. So it's been a substantial drop. However, in quarter 1, I would also highlight that two things have happened. One is we've had our highest ever production, but also our production has been constrained in the same quarter, because of the heat wave. Our last highest production was in the coldest month of the year. So it is heartening to know that we are capable of making a new high in the hottest month of the year. But the kind of heat wave that took place in Gujarat, especially in Dahej was unprecedented for the last, I think, 50 or 70 years. And hopefully, with this learning and this experience as we move through the rest of the year, now hopefully into colder months, we will be able to maintain this high production. So just to course correct here, in quarter 1, volumes were lower than they could have been despite having touched a high peak, but the cracks were higher than they were in Q4. As I mentioned, multiyear lows in Q4, and there has been at least some level of an improvement in Q1.

Sanjay Upadhyay: Q1 is better than Q4, Rohit. I don't know how you are saying it is lower. Because the incentive of INR 161 crore, which we had mentioned that you need to remove from the last quarter, Q4 FY25. Then you will know the real EBITDA between Q4 and Q1.

Maulik Mehta: As well as INR 17 crore in Q1 FY26.

Sanjay Upadhyay: Yes, and INR17 crore in Q1 FY26.

Moderator: The next question is from the line of Tejas Sonawane from Asian Markets Securities.

Tejas Sonawane: Three questions from my side. Firstly, on the capex plan, the second MOU, which we had announced of INR 9,000 crore. So we also had mentioned about plans of expanding into MMA, PMMA and NME. So if you can provide some update about these products? Secondly, I just wanted to know if you can give us some color on the peak debt levels, which we could see by FY28. And thirdly, on the quarterly numbers, adjusting for the Government incentive scheme

from the segmental revenue of Phenolics, removing the Government income from the quarter 4 numbers as well as quarter 1, we see there is a sequential decline of 6%. While in the initial remarks, you did allude to the fact that on the realization front, we have seen some improvement as well as the volumes were steady during Q1. So what could have led to this 6% decline sequentially adjusting for the Government incentive income?

Sanjay Upadhyay: So the MOU of MMA is, whatever we have announced INR 8,500 crore, that is what the announcement is. Very soon, we'll be coming up with the BPA announcement also provided our Board approves that. But of course, they will approve, but approval is pending today. MMA, we'll come back to you when we decide on that. Today, we have not yet decided. So today, the capex plan is around INR 11,000 crore. If you include BPA also into that plus whatever we have spent earlier, so that is the plan on that capex.

Second question, even at peak levels, we do not expect to cross the threshold of around 1.5x Debt-to-Equity at the time of project completion. Once the project is operational and begins generating returns, we anticipate debt levels will normalize. So if it can be in the range of, say, INR 7,000 crore, INR 7,500 crore, we have worked out, but it depends on the capex, how we are phasing out, what kind of creditors and LCs and everything. But roughly, it can be in the range of INR 7,000 crore, INR 7,500 crore, considering INR 11,000 capex. And what was your third question?

Tejas Sonawane: It was on the quarterly segmental performance. So, if you remove the Government incentive income from the Q4 FY25 segmental Phenolics revenues and the Q1 FY26 revenues, there is a sequential decline of 6%. While in the initial remarks, you did highlight that realizations have improved sequentially, while the volumes also have been steady. So what led to the 6% decline which you have seen sequentially, excluding the Government incentive income?

Sanjay Upadhyay: You are talking about revenue?

Maulik Mehta: Yes. I'll answer that. I think, you may have misunderstood when we said realization, what we were referring to was the bottom line, the EBITDA. However, when we spoke about revenue, you're correct that there is a 6% sequential degrowth after adjusting for the SGST benefit. The improvement in the realizations, aka, the EBITDA is because of somewhat of an improvement in the spread as compared to Q4 FY25. I hope this clarifies.

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

Maulik Mehta: Thank you. Have a good day, and thank you for attending the concall. Happy Independence Day. And please whatever worries there are about global geopolitics, I think this is a good time to remember that this is a young democracy. We've come fast. We have a long way to go, and the future is actually within us. Thank you.

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