Deepak Nitrite Limited

Q1 FY27 Earnings Conference Call

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MODERATOR: **MR. AAKASH MAJI** – IIFL CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to the Deepak Nitrite's Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

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 presentation shared with you earlier.

I now hand the conference over to Mr. Aakash Maji. Thank you and over to you, sir.

Aakash Maji: Good afternoon everyone and thank you for joining us on Deepak Nitrite's Q1 FY27 Earnings Conference Call. Today, we have with us Mr. Maulik Mehta, Deputy Managing Director; Mr. Sanjay Upadhyay, Director, Finance & 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 his view on the operating performance and the growth plans of the company, followed by Mr. Sanjay Upadhyay, who shall take us through the financial and segmental performance. The results documents have been shared with you earlier and have also been posted on the company's website.

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

Maulik Mehta: Good afternoon everybody and thank you for joining us. We appreciate your continued interest in Deepak Nitrite.

Our investor presentation and financial statements have already been shared, and I trust you've had an opportunity to go through them.

I'll begin by sharing our perspective on the quarter, the evolving industry landscape and the strategic progress we have made before Mr. Upadhyay takes you through the financial performance in greater detail.

The first quarter of FY27 marks further steps towards Deepak's agility to successfully weather global challenges. While the chemical industry at large continues to navigate price volatility, evolving geopolitical dynamics and an uneven demand recovery, we believe the operating environment is gradually becoming more favorable for manufacturers with integrated and diversified platforms.

Increasingly, customers are seeking partners who can offer not just consistency of supply, but also superior quality, technical collaboration and the ability to scale reliably across geographies. This structural shift aligns well with our strategy of building integrated value chains, strengthening domestic manufacturing and reducing supply risks.

Over the last 6 decades, Deepak Nitrite has been in a leading position in India's chemical industry, serving customers across more than 50 countries through 7 manufacturing facilities

across 5 strategic locations. Our diversified portfolio, integrated manufacturing platform and continued investments in specialty chemicals, R&D, digitalization and advanced manufacturing position us well to capture long-term growth opportunities.

More importantly, the investments we have made over the past several years are now beginning to translate into stronger operating leverage and improved earnings quality.

We are proud to report that Q1 demonstrated an improving trajectory for the company with record Revenues, EBITDA, Profit Before Tax and Profit After Tax. The strong performance reflects the benefits of our manufacturing model. Molecules recently added to the product basket are being passed across for customer approval processes. Newer molecules are also being added for the commercial pipeline. Product out from these projects commissioned in recent past and projects being commissioned in the current quarter and ramping thereafter.

Consolidated Revenue from Operations stood at INR 2,592 crore, registering a 35% improvement year-on-year and a 22% growth sequentially. EBITDA reached an all-time high of INR 554 crore, growing 159% year-on-year and 45% sequentially, while EBITDA margins expanded to 21% compared with 11% last year and 18% sequentially. Profit Before Tax increased to INR 468 crore, up 202% year-on-year and 55% quarter-on-quarter. While PAT reached INR 345 crore, registering a 207% year-on-year and 57% sequentially.

The quarter benefited not just from improved market conditions, but also from enhanced customer engagement, stronger manufacturing efficiencies, integrated benefits from recently commissioned assets, innovative procurement and continuous cost optimization initiatives. We believe these structural improvements position the business well for sustainable growth in the ensuing periods.

Phenolics delivered its highest ever quarterly performance, highlighting the strength of our manufacturing platform and operational excellence. Revenues increased to INR 1,775 crore, a 36% year-on-year and 24% sequential growth, while EBIT reached a record INR 418 crore, registering 254% year-on-year and 46% quarter-on-quarter. This performance was supported by stable plant operations, innovative procurement and engagement with all kinds of customers in different applications. Despite continued volatility in global feedstock markets, initiatives taken at procurement, operations and engagement as well as a strong domestic market position enabled us to maintain reliable customer deliveries, cost competitiveness and healthy profitability.

The Advanced Intermediates business also delivered a strong quarter with Revenues rising to INR 804 crore, representing a 33% year-on-year and a 14% sequential growth. EBIT was INR 67 crore, recording an 89% improvement year-on-year and sequentially with 100% improvement. Performance was driven by improving domestic demand, a better product mix and increasing synergies from our recent backward integration and growing contribution from other commissioned manufacturing assets.

During the quarter, we also expanded our engagement in specialty chemical applications and strengthened our presence across high-value customer segments. Within AI, pressure of high-cost raw materials remained for certain products. However, customer engagement improved,

demand strengthened across select export markets and new products continue to gain traction. Our strategy of diversifying products, customers and geographies continues to reduce dependence on any single market or end application while strengthening the resilience of our business.

Importantly, growth within AI is now being supported by two complementary drivers: the recovery in demand across our products that earlier experienced softer conditions and capacity-led expansion in established product lines that have continued to witness healthy customer demand. This provides us with greater confidence in the medium-term outlook for the business.

One of the most strategic and significant developments over the last few quarters has been the successful completion and stabilization of our ammonia-to-amines integration chain. This gives me the opportunity to say that we're no longer a nitration company that buys nitric acid. We're now a nitrogen company that nitrates. This commissioning, along with the expansion of our nitration and reduction capacity has materially strengthened our footprint. And these investments not only enhance supply security, but are also expected to improve structural cost competitiveness, increase value addition and create new downstream opportunities over the coming years.

These projects represent a significant shift from capacity creation towards platform creation, enabling us to leverage common manufacturing infrastructure across multiple downstream products and improve capital efficiency over time. The multipurpose agrochemical intermediates facility, along with MIBK and MIBC projects remain on track. MIBK as well as MIBC will be commissioned along with acetophenone in August itself, and the rest of them will be commissioned within Q2. These projects will strengthen downstream integration, broaden our basket and support future margin expansion.

Coming to the establishment of India's first integrated polycarbonate project. This project continues to progress in line with our execution road map, and we remain focused on disciplined implementation while building a fully integrated advanced material platform for India. Further, we've also made major inroads into seed marketing of our polycarbonate compounds, having qualified with marquee customers in diverse end applications. Alongside these investments, we continue to advance digitization, process automation and sustainability initiatives to improve productivity, energy efficiency and manufacturing reliability.

Our R&D platform has a robust pipeline that continues to gain momentum. Several products across fluorination, amination, nitration and specialty chemistries are progressing through customer qualifications and commercialization. While each product addresses a specific market opportunity, collectively, they broaden our specialty portfolio, deepen customer engagement and create a more diversified and resilient earnings base with best-in-class product carbon footprint scores.

Our transition towards renewable energy continues to gather momentum and is expected to progressively improve both the sustainability as well as the cost competitiveness of our manufacturing operations.

Looking ahead, we believe the business is evolving into the next stage of its growth journey. Improving demand, visibility across several product categories, recently commissioned capacities, expanding downstream product offerings and continued customer qualification across petchem provide multiple opportunity drivers for the quarters ahead. While geopolitical developments and pricing volatility may continue to influence the operating environment, Deepak today is significantly stronger, significantly more integrated and significantly more diversified. We remain very confident in our ability to deliver growth profitably while continuing to invest in the future.

With that, I would now request Mr. Sanjay Upadhyay to take you through the financial performance.

Sanjay Upadhyay: Thank you, Maulik. Good afternoon everyone and thank you for joining us today on our Company's Q1 FY27 earnings conference call. I'll take you through the financial performance for the quarter ended June 30, 2026 followed by performance of our business segments and update on our strategic growth initiatives.

We are pleased to report an excellent start to FY27 with the company delivering its highest ever quarterly performance across Revenue, EBITDA, PBT and PAT. This performance reflects improving demand across key end user industries, the strength of our integrated manufacturing platform, disciplined execution and increasing contribution from our recently commissioned assets.

Revenue from operations increased to INR 2,592 crore, registering a 35% year-on-year and 22% sequential growth. The performance was driven by healthy volume growth across businesses and improving product mix and stronger customer demand also helped in improving the profits and margins.

Our domestic business remains resilient with an 85:15 domestic to export revenue mix. At the same time, exports recorded healthy growth, reflecting our expanding global presence and diversified customer base.

EBITDA increased to INR 554 crore, representing a 159% year-on-year and 45% sequential growth. EBITDA margin expanded to 21% compared to 18% in previous quarter and 11% in Q1 FY26. Margin expansion was supported by higher operating leverage, favorable product mix, backward integration benefits, improved manufacturing efficiencies and continued cost discipline.

Reflecting the strong operating performance, PBT reached a record of INR 468 crore, increasing 202% year-on-year and 55% sequentially.

PAT also reached an all-time high of INR 345 crore, growing 207% year-on-year and 57% sequentially. This result highlights the resilience of our diversified product portfolio and scalability of our integrated business model.

Beyond the reported growth, we are particularly encouraged by the continued improvement in earnings quality, higher asset utilization, greater integration benefits improved manufacturing

efficiencies and disciplined working capital management collectively strengthening cash generation during the quarter.

On segment performance, Phenolics business delivered its highest ever quarterly performance with revenue increasing to INR 1,775 crore, up by 36% year-on-year and 24% sequentially. EBIT rose to a record INR 418 crore, registering a 254% year-on-year and 46% quarter-on-quarter growth with EBIT margin expanding to 24%. The business benefited from stronger product realizations, sustained demand across product applications and stable plant operations with consistently high utilization levels. Our fully integrated Phenolics value chain continues to provide a structural competitive advantage through superior cost efficiencies, deeper product integration and enhanced value addition.

The AI segment also delivered a strong quarter with revenue increasing to INR 804 crore, representing 33% growth year-on-year and 14% sequential growth. EBIT of INR 67 crore recorded 89% year-on-year and 100% quarter-on-quarter growth, resulting in an EBIT margin of 8%. The improvement was driven by better product realization, higher operating rates and modified product mix. In addition, the successful stabilization of recently commissioned nitrogen and hydrogenation facilities has enhanced manufacturing flexibility, strengthened raw material security and improved our ability to serve high-value applications.

I hope that investors will recognize the performance delivered this quarter reflects not only an improvement in market conditions, but also the cumulative impact of strategic investments, integration initiatives and capability building undertaken over the past several years.

Closure of debt funding for our new integration project, which I highlighted in the last AGM. As you are aware, as mentioned by Maulik, to ongoing propylene and polycarbonate project of INR 11,500 crore being funded by debt and equity ratio of 60:40. The entire debt has been tied up at a very competitive rate and terms as mentioned yesterday during the proceedings of AGM. This marks an important milestone in our growth journey and reinforcing our ability to execute large-scale investment through a balanced financing network.

On balance sheet and capital allocation, our balance sheet remains a key strategic strength, providing a solid foundation for our next phase of growth. Consolidated net worth increased to INR 6,214 crore, while our debt-to-equity ratio remained comfortable at 0.27x, reflecting a prudent capital structure.

We continue to deploy capital in disciplined manner, prioritizing projects that deepen integration, expand value-added offerings, strengthen our competitive positioning. Investments during the quarter continued across our integrated polycarbonate project, downstream specialty chemical platforms and other strategic manufacturing initiatives.

Working capital efficiency also improved through tighter inventory management discipline, receivables, collections and supply chain optimization, resulting in healthy operating cash generation. Our balance sheet continues to provide us significant financial flexibility, thereby allowing us to simultaneously execute our growth projects while maintaining prudent leverage and preserving capacity for our future opportunities.

Looking ahead, we remain optimistic about the medium- and long-term outlook for our business. As the benefit of our strategic investment continue to unfold over the coming quarters, we believe Deepak Nitrite is increasingly well positioned to deliver superior earnings quality, stronger cash generation and sustainable long-term value creation.

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

Moderator: Thank you very much. The first question is from the line of Nirav Jimudia from Anvil Wealth.

Nirav Jimudia: Few questions, yesterday in the AGM, you touched upon the fact that our phenol plant has now reached a capacity of close to around 4 lakh tonnes. Could you share whether we have actually touched the quarterly run rate of 1 lakh tonnes of phenol production this quarter or whether the capability is now being built to run the plant at that rated capacity in the subsequent quarters? Also on the propylene availability side, how are we covered to support this high level of phenol production? And last bit on what would be our game plan in terms of the current market environment with respect to acetone, IPA and MIBK mix?

Maulik Mehta: Okay. Nirav, so as you know, Q1 had a lot of raw material volatility and the team did an excellent job in securing propylene as it was required. In the meanwhile, they also made sure that they were able to purchase competitively priced intermediates. So when we're talking about our capacity, there were significant periods during the quarter where we came to that number on a run rate basis. There were periods where we did not because of raw material sourcing and if they take a short-term shutdown for maintenance, which we normally do on an annualized basis anyway. So moving forward, I think we are more than capable of doing this. Of course, all of this is in line with regards to the demand market for both acetone, IPA as well as phenol. Now, you're asking about capacity. Earlier, we used to have a situation where summer months would have a lower capacity and winter would have higher. We have seen how we can reduce the delta between summer and winter. So we're at, I would say, a run rate of close to what you're saying on an annualized basis. We are looking at opportunities to debottleneck further. And hopefully, we should in the short to medium term, be able to achieve the big 4 number. And I think you can wish us best of luck for that.

With regards to the market dynamics between acetone, IPA, MIBK, this is one of those things where the integrated model allows us a degree of flexibility to focus on running our assets as hot as possible. And then it doesn't matter whether we are consuming our acetone, we're converting it into IPA, converting that into MIBK, converting that into MIBC. That degree of flexibility remains with us. But on all cases, it is safe to say that we are world scale in terms of our cost as well as our capacities. So MIBK as well as MIBC in their pre-commissioning runs have already demonstrated meeting the stringent consumption norms that we had designed for. So for example, in MIBC, we have already been able to exceed the originally designed capacity, and we will stabilize the run rate and the commissioning in line with our engagement with technology partners.

Nirav Jimudia: Perfect. Second question is, in the annual report, you have mentioned that, let's say, in the medium term, the focus would be more towards the value-added products rather than the

commodity ones, and this would support the higher profit growth for us. And you touched upon a few of the products like the fluorination part, BTF as well as the acetophenone project, which is expected to be commissioned shortly. So, if you could just help us understand how the projects that have already been commissioned, such as the nitric acid plant, along with the projects that are expected to be commissioned in the near future, will help us sustain the earnings momentum that we have achieved in Q1 FY27 from the Advanced Intermediates side?

Maulik Mehta: I think we should feel confident of being able to look at Q1 as a strong start to the year. And I can also say with a degree of confidence that all of these assets, which we are targeting, in fact, 2 of these plants, the alkylation plant as well as the multipurpose plant was slated for commissioning a couple of months earlier, but Q1 also had a disruption where contractual manpower was not available. There was a natural gas shortage across the country. And so some of those pre-commissioning activities, which should have been finished earlier are currently in process. And so basically, in any case, we had anticipated a ramp-up over a few months so that we can have regular operations in line with customer allocations in CY. So that begins from January, and that is something where we are working hard to see that we remain on track with giving the commercial volumes. These will have definitely a better margin profile than even the existing platform that Deepak does already serve in Advanced Intermediates.

Nirav Jimudia: Got it. Lastly, is it possible to quantify in terms of what sort of incremental contribution in terms of, let's say, the top line as well as some flavor on the margin side, if you can share based on the products what we have introduced and going to be commissioned in subsequent quarters. So some understanding on the top line as well as the EBITDA margins would be very helpful.

Maulik Mehta: Thanks. I'll refrain from answering that question. I'll just say that the margin profile is either in line or better than the average margin profile that Advanced Intermediates has. And many of them have the advantage of integrated asset fungibility, which allows us to see that we are able to gain more not only from those products, but from the site at large.

Moderator: The next question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First, on the Phenolics side, Maulik, what was the average spread we did in this quarter? And how is the spread looking like in Q2 and Q3? Will this kind of profitability be sustainable? Or we are looking at some moderation here?

Maulik Mehta: Okay. Sanjesh, as you would know from previous investor calls, I refrain from commenting on spreads. What I can say is that Deepak does have an operational excellence leverage that it places on what is considered as publicly available data on RM as well as SG prices. So I would not comment on what the market sees as feedstock and phenol acetone prices. I would just say that Deepak is able to ensure that it is able to secure its feedstock at competitive rates, and it is able to get prices which are, I would say, better than what seems to be reflected on an international index.

Sanjesh Jain: Very clear. So second, on MIBK and MIBC, now we are very close to commissioning. Has the product been approved by the customer? Where are we in the approval cycle? And how much time will it take to fully ramp up the plant?

Maulik Mehta: Yes. So product quality has been approved, has been appreciated. In fact, our product quality is best-in-class by a margin on both of these. We've already been able to achieve our target raw material as well as utility norms in our pre-commissioning runs, and we are coordinating well with technology providers. We're confident that as demand comes in, we should be able to ramp up to beyond 100% very quickly. And by the way, as we do, this will substantially help the entire site integration because asset OSBLs are common, and that will have a material uplift in terms of profitability.

Sanjesh Jain: That's great. One question and last question on the Phenolics. Maulik, earlier we thought that 3,50,000 tons was like reaching a maturity for the asset and probably we have crossed even the best of that, and we are talking of further debottlenecking in the same facility. What has changed since then to now?

Maulik Mehta: I think the only thing that has changed is confidence.

Sanjesh Jain: Okay. Have you made any technological changes or bought additional site? Any tangible thing you can share or it's just purely process improvement that's leading to all this?

Maulik Mehta: No, no. We've invested in advanced process controls, which allow us significantly tighter process management across the propylene and benzene to phenol and acetone. And one thing that all our customers appreciate is that more product does not mean more lower quality product. So the quality of our product has remained best-in-class. We continue to see how we can expand capacity in line with also improving constantly the product quality. And by and large, I don't think there is a single customer anywhere that we have supplied to where there has been a concern about quality. So the advanced process control has been a fundamental lever for us. And I think along this journey from about 2 lakh tonnes to as we keep on reaching higher and higher, the investment in the asset would have been somewhere along the lines of about INR 80 crore to INR 100 crore. And this demonstrates an excellent return on capital employed, if I say. I'll just mention that we are going to make, I think, about some INR 70-odd crore investment further in debottlenecking the assets to be able to touch about 4 lakh tonnes. In the meanwhile, as I mentioned earlier, we are also in the process of commissioning acetophenone in an integrated model from the same asset.

Sanjesh Jain: That's fantastic, actually. And when we talk about this 4 lakh metric tonnes, it also includes acetophenone or this is just phenol?

Maulik Mehta: This is just phenol. All of these other things, I don't add all of them together, because that number would be very large. But they should be considered together, as when one product increases, the corresponding co-product also increases. Our capacities have also been debottlenecked in the interim. And our acetophenone will not be this kind of world scale, but it will be an international scale. It will probably have the lowest product carbon footprint in the world because it is made in an extremely innovative way. So it will be top quality with extremely low PCF scores.

Sanjesh Jain: That's great to hear. One last on Advanced Intermediates, we have now commissioned the hydrogenation and nitration facility. What is exactly planned for these blocks, and how are we looking at utilizing this over the next 1, 1.5 years?

Maulik Mehta: So we had actually already commissioned our nitration and reduction last year. I think in Q3, if I'm not mistaken. And we have already started operating these assets with a relatively high utilization, anticipating that we need to place our products in the market once our nitric acid plant is also commissioned, it will allow us to be aligned from end to end. And as we've already been in the market, those assets have already been operating, our backward integration just allows us to capture a larger share of the value. So concurrently, right now, we are able to manufacture 8 products simultaneously with a high degree of efficiency across multiple assets.

Sanjesh Jain: I just wanted to understand, how does doing nitric acid in-house enhance our downstream capability? Is it just that we will become more cost competitive or there is more to it?

Maulik Mehta: There is more to it. But cost competitive is certainly a powerful lever. There is more to it. It allows us to practice the kind of chemistries which would be challenging otherwise. Let me just leave it at that.

Moderator: The next question is from the line of Archit Joshi from Nuvama Wealth.

Archit Joshi: I must acknowledge that the annual report has come out really well in terms of disclosures. So congrats to the team for a good set of numbers. First question, just extending the scope of the phenol capacity discussion from the previous participant. You did mention that we are in the phase of debottlenecking capacities to about 400 KTPA and I think we should also be on track to get another 300 KTPA in Deepak Chemtech. Given the disclosures from the annual report, we are already operating at about 170-odd percent utilization, which is phenomenal. From a terminal basis, this looks like we'll easily clock something like 1,000 KTPA, possibly the 4-figure number that you are alluding to earlier. I was just wondering, how should we see it from an integration perspective when we hit that number, let's say, 3 or 4 years down the line or as early as possible? How much would be merchant sales from that? How much should we have for bisphenol and polycarbonate once those plants are up and running?

Maulik Mehta: Thank you, Archit, for that question. Just to clarify, when I said the 4-figure number, I meant in terms of 4 lakh for the existing asset, which is in Deepak Phenolics. Sorry, I may have miscommunicated. What I want to also clarify is that the new asset in Chemtech will largely serve as an integration platform for our downstream. We've recently announced a BPA and that kind of stitches propylene all the way to polycarbonate. And for all of these products, whether it is phenol, whether it is BPA, whether it is polycarbonate and that will go into compounding. All of these will allow us to also participate in the merchant market as the downstream capacities get ramped up and the customer acquisition is in line. So we appreciate that very often, there is a situation where you might have an intermediate that has a better case because the downstream is still in a process of validation in some application or another. So this will allow us to participate in every part of the value chain. Similar to the way it is done in the existing assets, we can participate in acetone, IPA, MIBK, MIBC as well as downstream. This is a similar model that you can anticipate in the propylene to polycarbonate and compounding chain.

Archit Joshi: Sure. So it will be safe to assume that the production that is happening in the Phenolics business will be predominantly merchant sales and very opportunistic merchant sales in the Chemtech subsidiary. And just to add on to that, if you can also help us with the timelines of commissioning

of all these 3, if there is any derail preponement of the phenol plant, the bisphenol A recently announced and the polycarbonate one. That would be really helpful.

Maulik Mehta: So I'll just say that, look, we are working to ensure that our phenol capacity happens in line with the commissioning of the propylene supply that comes from PDH, in their propane dehydrogenation investment. So that is being engineered to be aligned with the feedstock supply. The polycarbonate asset is, in that sense, disengaged and it is coming in line with a very different goalpost where our technology supplier as well as the equipment supplier will also be our anchor customer. So we are working to see how we can commission this quickly so that we are up and running at the same time as their inventory stockpile. There, we have to work fast. We don't have the luxury of working in line with the propylene pipeline being established. However, we don't want to let go of any market share when it comes to phenol. So we will try to see how we can optimize. But strategically and financially, we've kept both of these projects going concurrently. I would anticipate that we would target H2 for our polycarbonate commissioning. And we would target BPA, which would be commissioned maybe a couple of months after that. We've just made the announcement, but the investments that we have already accounted for assume generous storage facilities that allow us to delink as required strategically.

Archit Joshi: So when you say H2, it's H2 FY28, right, for the next financial year?

Sanjay Upadhyay: 2028-2029.

Archit Joshi: FY29?

Maulik Mehta: Yes, FY28-29.

Archit Joshi: Got it. And just one final one on the industry. I mean, we have seen the volatility and multiple shocks in terms of capacities being pulled out of the system, I'm sure that the market has also shaken up. Anything that we are hearing on phenol capacity being withdrawn in the system. While I understand that the spreads will be too volatile, but if I have to take a directional sense of any supply-demand mismatch that we foresee, given the fluidity in the situation, would you have any thoughts to share on that? Because the margins that we have reported, I'm sure we have done phenomenally well from a spread perspective, and they are maybe a tad lower than the dream run that we had during COVID. So I was just trying to gauge where this could settle in the interim. That would be my last one.

Sanjay Upadhyay: See, no new capacities are coming up. New capacities have come up in the last couple of years in China, but that is now all done and China is largely self-sufficient. So no new capacity. Today, if you see the demand is more or less balanced, and we are having enough market in India. In fact, whatever you are saying there's a lot of demand in India, supplies are actually limited. So we have a great opportunity today. So to answer your question, there is no worry as such. There is no oversupply in the market and demands are almost balanced. So actually, there is a short supply today, if I can tell you.

Maulik Mehta: Archit, I'll just add a little bit of color to what Mr. Upadhyay said. Deepak Phenolics does not really have a significant participation in the global phenol market because our focus remains predominantly India and the domestic customers. Through Q1, you would have noticed that for

a large part of the quarter, I think the entirety of the quarter, the Government had actually removed the import duty on phenol. So this was a period of time where imports as they came, came in duty-free. And we're happy to note that the Government has reimposed this import duty on phenol moving forward because they also believe that, by and large, the demand improvement and the ability for Deepak and other Indian producers like HOCL is enough to be able to supply that requirement.

Archit Joshi: Just for the sake of understanding a bit more, while the quarter would have presented us with opportunities on the short supply, as Upadhyay ji mentioned. But over a period of time when, let's say, the dust settles, I'm sure that there will be an import parity-wise pricing in the commodities that we manufacture. So for that, the global supply-demand mismatch or equilibrium or an oversupply or undersupply situation will be the guiding force towards that. If that is my correct understanding, and that's why the question that I asked previously, if you have seen any capacities getting pulled out or any new additions towards, which I think Upadhyay ji mentioned or gave his thoughts. So anything that you can add to that, sir?

Maulik Mehta: No, you're right and what Mr. Upadhyay has also mentioned is, as we see the world, I just want to highlight that, look, the price of phenol or acetone anywhere else in the world does not necessarily mean that, that is the price at which it lands in India. You will have seen escalating freight rates, insurance rates, depreciating currency as well as the kind of customer profile and the application profile of phenol consumers in India. This is essentially not what you would see as a customer mix anywhere else in the world, where largely phenol goes into the production of polycarbonates all over the world. In India, it is a much, much more diversified end application, which includes small, medium scale as well as large companies in chemicals, in specialty chemicals, agrochemicals, pharmaceuticals, construction and laminates. So this kind of customer profile actually lends itself very well to a domestic supplier who can ensure that their books, their inventory levels, their focus is on a just in time.

Our goal is to make sure that they have absolute peace of mind with regards to the supply of these chemicals. And again, I feel like the tagline of commodity chemicals keeps getting attached one way or the other. I'll just rephrase that to say that any chemical eventually over a period of time can become a commodity, can become a specialty. It is essentially linked to the kind of control you have over the marketplace about whether your product is preferred compared to somebody else's product, you are able to place it there at a high value to yourself and to your customer. And since we don't really participate so much in the international market, we find that India offers us a unique advantage, and we offer in turn, our customers a unique advantage. This is also what Mr. Deepak Mehta alluded to yesterday in the AGM that a world-scale investment in something creates world-scale investment opportunities for downstream consumers. We've seen this happen, and we've seen this happen not just in phenol consumption, but in many, many other products. So the world, whatever is happening there, India continues to remain a salient destination for downstream investment.

Moderator: The next question is from the line of Sajal Kapoor from Antifragile Thinking.

Sajal Kapoor: My understanding is that Deepak's R&D philosophy has historically been to take chemistry you understand, engineer it better, scale it safely, manufacture it competitively as far as possible and

then progressively move downstream, whether it's Advanced Intermediates or otherwise. I have 2 related questions. First is, you say the R&D pipeline is robust. After years of sustained R&D investments, why has that not translated into structurally higher gross margins? Where exactly is the bottleneck?

Maulik Mehta: Thanks, Sajal. First of all, a big fan. So the R&D that we've been working on, the chemistry platforms that we seek to exploit to their fullest, whether it is in atom efficiency or whether it is in process optimization or new molecules, what has happened over the last few years is the chemistries that we are in, whether it is nitration, diazotization, oximation, reduction, a lot of competition has been there world over. And generally, what you will see is that when competition intensity increases, before consolidation of high-cost assets, you will see a lot of push towards trying to eke out and red ocean the environment. And there is a period of time where just because someone comes in with a better understanding of new molecules that use the same chemistry platforms, they are faced with this red ocean because you have existing players trying to be kind of the last man standing. Now eventually, over a period of time, that becomes more and more challenging to sustain because many of these companies are using profits borrowed from other parts of their platforms to maintain their market share. This is obviously not something which is sustainable, but you would expect any company to try its best to let go of market share last.

For Deepak, that also means that over the last couple of years, we have faced the brunt of this as we come in with new molecules in the same space. Over a period of time, we believe that the degree of red ocean here is improving. We're finding that there is a slackness in terms of the competitive intensity. China, which had actually allowed rampant capacity expansion of these chemistries, which are inherently dangerous, not only in their process, but in their affluent treatment and their intermediate storages. New laws have come into place, which prohibit casual investment of new capacities, more consolidated focus on ensuring not just process but affluent treatment as well. So these are things that Deepak was looking at from a long time ago, but the value was being eroded because if you have a competitor landscape that may not look at this with as much attention to detail.

Today, we are evolving to an environment where the world recognizes that these are chemistries when performed at scale. They need to have concurrent affluent, concurrent byproduct management, concurrent process management and done responsibly. So as we've been able to integrate, we should be able to see that these new molecules that are coming out are coming out with margin profiles, which are better than they were in the past simply because of the competition intensity. The number of new molecules that we've released along with the expansion of our existing molecules, we've also been able to introduce our products into new applications, which have better margins by making changes to their purity profiles. So we've entered new applications which we were not in, say, for example, a year ago. The margin profile for many of these products will continue to evolve. But today, we are seeing that the chemistries that we are in with the addition of things like photochemical reactions as well as fluorination gives us by far the broadest basket of chemistry platforms in the country. So I'm kind of answering your question. I'm kind of giving you a clarity about where our R&D efforts have been. They've been focused on small volume, large volume, process optimization. And finally,

a lot of the products that we have recently introduced go through a customer validation cycle as well and these can typically range from a couple of months to up to even about 12 months. If you recall, when we got into optical brightening agents, at that time, we had customer validation cycles, which spanned more than 24 months when we were selling to detergent majors. So even though our product quality was good, the customer was not willing to pick it up until the entire validation was done. Today, we are the largest by a margin player outside of China. And this is the result of having gone through this entire validation cycle, engaging with customers and building that kind of relationship and trust. So these will happen. They're already in the process of happening, and you will see the results of these over the next few years.

Sajal Kapoor: That's very helpful, Maulik. Just to follow up on that, I read the annual reports and, as far as I could see, before Savli, the new R&D center recently commissioned, we had close to 100 R&D professionals, and in that pool of 100, we had, give or take, about 20 PhDs. Now, 20 PhDs is a more attractive number for me, not just the 100 R&D professionals. So, the question really is, now that we have the new R&D center up and running, where do we expect the human capital on the R&D side to go, especially on the PhD side?

Maulik Mehta: Sajal, interesting question, but I have an interesting answer to that. With the way that we are introducing flow chemistry into our R&D to an industrial scale setup. Suddenly, we are finding that just a pure-play organic chemist may appreciate and in some cases, may not appreciate the kinetics and the flow dynamics that are there in these new kinds of technologies. Similarly, even a chemical engineer may not fully be able to appreciate the chemistry involved there. So what we're actually now focusing on is a hybrid between organic chemists, physical chemists as well as chemical engineers addressing the problems together. So, in many cases, when we're introducing flow chemistry at a lab and then at an industrial scale, we're focusing on what we call Cross-Functional Teams (CFTs), because we've suddenly realized that the answer to the optimization question and the new product introduction question does not rest only within one educational discipline.

Sajal Kapoor: You mentioned flow chemistry, Maulik. I'm not a chemist, but I've visited several large industrial scale flow chemistry setups in India, primarily in Hyderabad and Vizag. What I've seen is that this is more of an engineering challenge rather than a chemistry challenge, because as you mentioned, the word kinetics there and I think the challenge becomes significant even if you are doing a 2-step or introducing a single-step flow chemistry in the mix of things. Is that a fair assessment on your side as well?

Maulik Mehta: There is an engineering angle that comes in to what would traditionally be a chemistry domain.

Moderator: The next question is from the line of Vidhi Shah from C.R. Kothari & Sons.

Vidhi Shah: How much capex is pending, which will be spent this year? So, out of INR 11,500 crore capex, how much is pending now? And what would be the peak debt for the same?

Sanjay Upadhyay: Pending now, we have spent around INR 1,200 crore. I mentioned yesterday also. Further this year, we'll spend around another INR 1,000 crore to INR 1,500 crore this year further. So total spend will be around in the range of INR 3,200 crore.

Maulik Mehta: The investment that is going to be spent this year is largely on site development activities, construction. And as we are getting the assets from outside of India, setting them up and putting them up. So the long lead items are what the capex spend that Mr. Upadhyay indicated is towards.

Moderator: The next question is from the line of Rohit Nagraj from 360 ONE Capital.

Rohit Nagraj: Congrats on strong set of numbers. Sir, first question is, you mentioned in your opening remarks that the team did a remarkable job in terms of sourcing the key raw materials during last quarter. How has been the situation during the current ongoing quarter? And are we placed to get all the materials competitively for the quarter?

Maulik Mehta: Thanks, Rohit. First of all, I'll just highlight, we always procure raw materials competitively. The question is competitive to what. For example, in April, we were able to procure raw materials at a price which is substantially higher than what we would have procured in Q4. Largely, we were able to engage with suppliers to say, look, if you're able to supply this raw material to us, we will see that you get the margin that you would have gotten anyway by making something else. But that allowed us to operate our assets to an optimal utilization. And moving forward, as the availability of raw materials has also substantially improved, we continue to be able to ensure that our feedstock is procured at a price which I think is more competitive than anybody else in the country. And as and when the propylene comes in from the PDH site, at that time, it will be even more competitive. So all in all, whether it is ammonia, whether it is toluene, whether it is benzene or propylene or hydrogen, I think it would be a reasonable assumption to make that we would be absolutely competitive compared to anybody else in the country and perhaps competitive enough compared to anybody else on a global basis as well.

Rohit Nagraj: Perfect, sir. That's helpful. Sir, second question is in terms of the ongoing capex. So as Mr. Upadhyay mentioned that we'll be doing about INR 3,500 crore of capex during this year. For the rest of the capex, what is the kind of funding arrangement that we are looking at? And just one more, if I can squeeze in. In terms of the exports market, how are we looking at the exports market over the last couple of months, given that there have been multiple disruptions which are happening in terms of supply chains. So what is your understanding and view on the same?

Sanjay Upadhyay: So on capex front, let me answer. We have already spent around INR 1,200 crore. Further, this year, it will be around INR 1,500 crore to INR 1,600 crore. As I mentioned yesterday in the AGM, we have already tied up with the banks for debt funding. We were required to put in around 25% of the equity, which we have already done. So the next tranche comes from the bank. So, funding is not a worry. Therefore, around INR 3,000 crore investment we would have done till now on the projects, last year and this year combined up till now. Plus further, whatever we are going to spend in 2027, 2028 will be another INR 3,000 crore. That is the plan on the capex for this year and next year. What was your next question, on exports?

Rohit Nagraj: Yes, sir, in the exports market, how are we looking at the demand in the last couple of months, given that there have been supply chain disruptions and availability of vessels, availability of containers. So just your perspective on the same?

Maulik Mehta: I'll take this question. So Rohit, there is disruption, there is an escalation in freight rates, insurance rates, etc. The way that we've approached this problem is with a degree of agility. Obviously, this kind of buttresses our domestic sales realizations. But when we're exporting, I'll give you one simple example. When we make sodium nitrite and we export sodium nitrite, it is considered as Class 5. One of our key customers happen to be in the Middle East, where anyways, there was already a war premium in that sense and escalating freight rates. So what we did is we engaged with the customer. We changed the composition of our product very simply by just adding water to it and supplying it to the customer, and that completely changed the hazardous class of the cargo. This allowed us to give the customer the volumes that they required, which they also appreciated. Nobody else in the world would have considered doing it exactly how Deepak did. The answer to how we are approaching it is we're recognizing that there are higher freight rates. In some cases, we are constantly engaging with customers to see whether there is a value in moving from a CIF model to an FOB model. In some cases, we're saying, okay, we will work to see how we can give you larger parcels so that there is a consolidation in the freight rate, moving from ISOs to bulk in many cases. So these are constant engagements that we are having with our customers. In a few examples, when we were talking about the U.S. market, we may end up having an opportunity to club larger volumes rather than smaller volumes, which would go in more expensive per kilo freights. So this will give them the benefit of having that inventory without worrying about changing lead times. It will give us the opportunity of running our assets at a more optimized capacity utilization and it also improves our ability to serve markets which otherwise would have a much longer lead time to address.

Rohit Nagraj: Sure. This is helpful. We expect to hear from you on the 4 lakh tonnes capacity utilization in the near term.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: One question is on the export side. In the AI division, what would be the export domestic mix for us? And if you could help us how this is spread across, geography-wise?

Maulik Mehta: So generally, in AI, it would be anywhere between 40% to 50%. But look, Rohit, I would not treat this as a gospel for 2 reasons. One, being that we're talking about value. Volume is different, value is different. And the second thing is that quarter-on-quarter, this changes. What is important is that, for Deepak, the AI business, it has a roughly 50-50 mix. The Phenolics business has a mix which is almost entirely domestic. So on a consolidated basis, you would see something which is close to about an 80% domestic and 20% exports. This is hiding one crucial point, which is that, as we're looking forward, a lot of our export customers are also working with us and with other Indian companies to see how they can have our product consumed in India. So we negotiate with the key innovator who may be sitting in Japan or in Europe or wherever. And there is an agreement to see how to supply to diversified geographies, including in India. So it is done in engagement with the export customer. But they're also seeing that these kind of freight rates are better addressed by having multiple partnerships across the value chain with a large part of that value chain also being geographically co-inhabiting each other.

Rohit Sinha: Okay. Got it. And secondly, in your initial remarks, you have mentioned about the inventory management discipline, which we have maintained in Q1. So just wanted to understand whether

we had some incremental benefit out of inventory or it was largely in line with what we were having?

Maulik Mehta: Actually, I don't think there was any place where we were able to get any benefit. But, I wish there was a place that we were able to benefit from inventory. Unfortunately, there was not. We did work hard to see how we were able to secure key raw materials for continuous operations. And we remain well placed for all our raw material supplies in this quarter, the next and all. The teams have done a remarkably good job given the kind of volatility in being able to see competitive raw material rates. And we're seeing an uptick in terms of volume demand across all of our verticals in all of our businesses. So we're happy to be able to ensure that our feedstock is not the rate-limiting factor.

Moderator: The next question is a follow-up from the line of Sajal Kapoor from Antifragile Thinking.

Sajal Kapoor: Maulik, just a quick clarification on that flow chemistry and fluorination examples. I mean, can you give us 1 or 2 examples where these chemistries, i.e., fluorination or flow has moved from R&D to commercial scale and what economic advantage it is creating today or maybe next year or the year after?

Maulik Mehta: Okay. Sajal. So these are 2 separate things. There's fluorination, which is separate. There is flow chemistry, which is separate. So the flow chemistry platform that we are exploiting is within our familiar neighborhood of NOx chemistry, I would call it. So minor changes, for example, if you change the ratio of NOx gases, it allows you to do nitration, you change the ratio, it allows you to do diazotization. So the flow chemistry platforms are in that case, multistage. So you have the nitration and then the downstream separation and all that. And you also have the other option of doing the diazotization and then the decomposition of hydrolysis. So here, we're able to optimize and make world-scale capacities with very, very small footprints, significant atom efficiency.

And I'll give you one example, one product that we're making currently in a batch or in a semi batch, it takes us about 16 to 18 hours from feedstock to finished product. This gets completed in roughly between 45 to 52 seconds. So it gives you a very nice example of not just how rapid the reaction is, but how much that actually changes the amount of “hazardous intermediate”, which is in the system at one time. It also gives you an example of how quickly we're able to serve multiple large volume or low volume products at the same time with rapid changeover campaign from one to the other. So we're also reducing the kind of vectors that we are having in the plant. The assets are highly engineered, exotic MOC and very, very efficient. They allow us to exploit the chemistry rather than going broad on batch reactors where you can perform 20 different kinds of chemistries. We are focusing on a couple of chemistries where you can make 20 different kinds of products. This is what you will see coming into play in the next financial year, not this financial year. But right now, we've been focused on gaining market traction with our seed samples.

Sajal Kapoor: Amazing. That's all I wanted to double-check.

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

Tushar Raghatate: Most of my questions were answered. I just wanted to know, in the polycarbonate compounds, where are we in terms of validation with customers for the sunrise sector? Like Covestro has many blends, is there anything in pipeline for technical collaboration with other companies going forward? That would be my first question.

Maulik Mehta: So I mean, when we're talking about compounds, all of the compounds that we are referring to are, in fact, blends. So it's a formulation, polycarbonate resin forms the spinal cord, but the actual performance depends on the formulation and the blend. Sometimes it provides a physical property, sometimes it provides a chemical property. We are approved with what one would call sunrise sectors. But just to be clear, these are sunrise sectors in India. When you have electric mobility, whether you have electronics, these may not be sunrise in China or in Japan. But in the target market, we're looking to work with. If I have to give you names of companies, I can give you names of companies like Mahindra, Panasonic, Goldmedal and Tata AutoComp, these are examples of names. Now these names will drastically expand as we give you more color into the kind of strategic collaborations we're having or we are working towards developing. I think we will be able to make announcements regarding this soon enough. But exactly what you were referring to, we are in engagement with strategic partners, focusing more on supplying compounds to different end applications, whether it is medical or auto or whatever in the South Asian market.

Tushar Raghatate: Specifically, my question was majorly on the aerospace front, for the fighter jets, the canopy, for the planes, various sheets of polycarbonate. On that front, where are we?

Maulik Mehta: Okay. Specifically on that application, I will decline to comment.

Tushar Raghatate: Okay. Fair enough.

Maulik Mehta: So if you want to take my no comment as a comment, then I'll leave it at that.

Tushar Raghatate: It's up to you. And secondly, in terms of the big project of polycarbonate, considering the final price of the benzene, polypropylene and polycarbonate, is my understanding correct that we are somewhere heading towards 60% gross margin kind of business in polycarbonate going forward? And my last question would be, what would be the peak debt post this commercialization of the mega project by FY29 or so?

Maulik Mehta: Okay. So I would let Mr. Upadhyay answer about the peak debt. But just to clarify, I will not comment on the integrated margin. Suffice to say that it has a formidable IRR as we're looking at it. I believe I think we've been convincing enough to the banks, so that should be confidently inspiring.

Sanjay Upadhyay: So today, at this INR 11,500 crore what we are having against that, we are borrowing around INR 6,800 crore plus working capital, whatever is required, in the business at the peak. So that would be somewhere around INR 8,000 crore to INR 8,500 crore. But debt-to-equity ratio will be very, very comfortable. It will not cross even 1. So that's what I can say as of now.

Tushar Raghatate: Sir, just last question. Post this polycarbonate, do we see the working capital shift considering the frequency of offtake in the polycarbonate segment for the specialized sector?

Sanjay Upadhyay: The working capital shift in the specialized sector, what it has to do with that?

Tushar Raghatate: No, considering in terms of defence and all, do you see any shift in inventories or anything on the payables or anything on that front post this polycarbonate thing comes into picture?

Sanjay Upadhyay: No, not really. It will be normal. Since we are in chain, it won't be that much. It's a normal cycle, not that it will increase significantly.

Maulik Mehta: See, as of yet, we have not made the kind of announcements you're looking for with regards to our polycarbonate compounding strategic tie-ups. But suffice to say that, that will be a core anchor for our own polycarbonate resin production. And similarly, also, I have already alluded that the technology supplier, equipment supplier will also be an anchor customer. And over and above that, India continues to be entirely import dependent. I would not want to comment on certain sectors which you have mentioned. These are conversations which are under strong NDAs as they should be.

Moderator: The next question is from the line of Meet Vora from JM Financial.

Meet Vora: When we say that we have achieved integration across ammonia-to-nitration-to-amines value chain, wanted to understand what exactly are we doing on the amines front? Is it specific to products like MAHCL or mPDA? Or also are we planning to do more products on the amines front?

Maulik Mehta: Okay. Thanks, Meet. First of all, ironically, the 2 products that you mentioned are not amines. One of them is what you would call an oxime. And the other one has no ammunition at all, but I appreciate the question. See amination is reduction, you're introducing hydrogen and replacing the oxygen that would be there in a nitro group. This is a critical feedstock for us when we are looking at doing diazotization. And we will be the only company in the world, I believe, that will be doing diazotization with liquid with solid as well as with gas. And as we enter the Schiemann platform diazotization, this means that the amine also reacts with fluoride and becomes a fluoro compound. So this will be one example of a downstream integration of an amine. Another example of a downstream integration with an amine will be when we have multiple amines in the same ring. So I won't go too much into that, but we are comfortable now with our ability to do high-pressure reduction, noble metal catalysts, dissolving metal catalysts, other things like Raney nickel and all of those.

So, we have a very broad base of different catalysts. All of these are indigenously developed catalysts. They have very, very good results. Even something as simple as MIBK is also a hydrogenation. And interestingly, when you look at IPA, MIBK, MIBC, they marry competencies that AI has with feedstock that Phenolics provides. So the opportunity for us to find a way to interlink competencies is tremendous. And as we look forward, we are continuing to see how to expand this portfolio. So the assets that are there in place are already in their commissioning phase. And we are already quite well placed with regards to our assets, which we're now going to be utilizing with higher margin accrual.

Meet Vora: Understood, thank you so much for that elaborate answer. Second question is on volumes of phenol in Q1. You did mention that we have achieved close to 1 lakh tonnes volume. So I think

that would be on a run rate basis in May or June, right? Because we had taken a plant shutdown in April, and there were issues in propylene availability during April, particularly. So how should one understand the overall volumes in Q1?

Maulik Mehta: So, when I said 1 lakh tonnes, what I meant was on a run rate basis. You're right on that. April was spotty because we had a maintenance shutdown also. We preponed that shutdown to kind of get it aligned with an improving availability position with propylene. So there were parts of the quarter where our run rate was basis the intermediates that we had stockpiled and part of it was on the basis of bought out propylene and benzene.

Meet Vora: Understood. Just one last question, so if I understand correctly, there has to be a ratio of around 1.6 between pricing of MIBK and acetone for it to be viable for a commercial production and be profitable. Is that understanding correct? And if that is true, are we seeing that ratio currently or it is still under pressure?

Maulik Mehta: I can't really comment on this 1.6. I don't know where this comes from. I would be happy to engage on this in a little bit more detail because this is the first time I'm hearing about this number of 1.6. There is acetone, there are a couple of other raw materials, for example, hydrogen. Now this is a process which is essentially a condensation followed by a reduction. We have, over and above that, implemented divided wall columns, which allow us literally the most aggressive degree of efficiency of any producer in the world. So it would be hard for me to align at this moment with you on this number of 1.6.

Meet Vora: If you can call out the acetophenone capacity that we are putting up?

Maulik Mehta: I think we should be able to give you that answer soon. I would love to give you that answer before the next conference call if that opportunity arises. Otherwise, the next conference call. We're going to commission it this month. So hopefully, you will be able to get it from enough market sources in just a few weeks from now.

Moderator: Thank you very much. That was the last question for today. I now hand the conference over to the management for closing remarks. Over to you.

Sanjay Upadhyay: Thank you so much for joining this call. In case you have further clarifications or any questions, you can ask Mr. Gopal Thakkar or Mr. Somsekhar Nanda. Thank you once again.

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