Q3&9MFY2017 - INVESTOR COMMUNICATION

Deepak Nitrite reports 9MFY2017Results

Delivers resilient performance inspite of Plant shutdowns

PBT at Rs. 55.2 crore, PAT of Rs. 36.8 crore

Vadodara, February 15, 2017: Deepak Nitrite Ltd. (DNL), having a product portfolio of Basic Chemicals (BC), Fine & Speciality Chemicals (FSC) & Performance Products (PP), enjoys a leading market position in most of its products in the domestic as well as global markets. (*Note: Segments have been renamed and there is no re-classification*) DNL has announced its financial results for the quarter and nine-months ended December 31, 2016.

Performance during the period was impacted due to following reasons:

- Due to excessive rains and flooding in Hyderabad, the Company received an order from the Telangana State Pollution Control Board for closure of one of three units located at Hyderabad in October 2016. After reviewing the compliance status of this order, TSPCB granted interim revocation order and the plant operations resumed within one month. All effective steps have been taken for permanent revocation of the said order.
- A Fire broke out at one of the distillation columns of Company's manufacturing facility at Roha Industrial Estate, Maharashtra on Oct 21, 2016. Out of the four facilities at this unit, three have resumed operations in a phased manner. The 4th facility is being rapidly reconstructed and it is expected that the full production of FSC at the Roha facility will be restored by Q1 FY18. The Company is adequately insured for replacement value of the damaged facilities and loss of profits due to business interruption.
- There was also some impact on customer demand notably SMEs in the domestic market as end-user industries were hampered by demonetisation. Demand is returning to normalcy in the fourth quarter.

Financial Highlights

<u>9MFY2017</u>

- Revenues stood at Rs. 896.12 crore in 9MFY17, from Rs. 994.97 crore in 9MFY16. Revenue growth was largely impacted by one-time development. Due to stoppage of production at Roha and Hyderabad units for few weeks, volumes have declined by 5% on a year-on-year basis.
- EBITDA was Rs. 109.44 crore in 9MFY17 compared to Rs. 120.81 crore in 9MFY16. The EBITDA margin expanded by 10 basis points to 12.2%. The EBITDA margin expansion is driven by higher proportion of value-added products in the overall product mix. However, the full

benefit of product-mix improvements is not visible as the shutdown of plant in Roha has impacted the performance in FSC segment, which is a high-margin business. **Adjusting for these one-time developments, normalised EBITDA would have been higher on a y-o-y basis.**

- PBT excluding exceptional items stood at Rs. 55.22 crore in 9MFY17 compared to Rs. 61.95 crore in the same period last year. PBT performance was driven by stable contribution margin and supported by lower finance costs which helped to offset the increase in depreciation on account of regular growth and maintenance CAPEX. PBT margins are stable on a y-o-y basis despite the impact of one-off developments.

- Reported PAT was Rs. 91.3 crore in 9MFY17, an increase of 105% compared to Rs. 44.59 crore in 9MFY16. Excluding the gain of Rs. 70.8 crore arising from sale of land (Net of Tax Rs. 54.4 crore), normalised PAT was Rs. 36.8 crore in 9MFY17, lower by 12.3% compared to Rs. 44.59 crore in 9MFY16. Reduced contribution caused by lower volumes due to plant shutdowns have impacted the profitability for the period.

- EPS (excluding exceptional items) for 9MFY17 stood at Rs. 3.17 per share (of face value of Rs. 2 each) on an enlarged capital base compared to Rs. 4.27 per share in 9MFY16. (QIP: Issuance of 1,17,50,000 shares of Rs. 2 each at a premium of Rs. 68.90 in January, 2016)

Q3FY2017

- Revenues were Rs. 279.86 crore in Q3FY17 compared to Rs. 318.67 crore in Q3FY16. **There was loss of revenue of around Rs. 50 crore in Q3 due to the stoppage of production at Roha and Hyderabad facilities for reasons mentioned earlier**. Volumes have declined by 7% on a y-o-y basis.

- EBITDA (including other income) was Rs. 31.08 crore in Q3FY17, compared to Rs. 41.50 crore in Q3FY16. The EBITDA margin was 11.1% against 13% in the same period last year, dropping by 190 basis points. One-time developments have resulted in lower volumes and reduced contribution from high-margin FSC segment, negated benefits due to cost management initiatives as well as improving product mix.

- PBT stood at Rs. 11.12 crore in Q3FY17 compared to Rs. 22.54 crore in the same period last year. Compressed profitability is primarily due to the impact of one-time developments as mentioned earlier.

- PAT was Rs. 8.01 crore in Q3FY17 compared to Rs. 16.45 crore in Q3FY16, de-growth of 51.3%.

- EPS for Q3FY17 stood at Rs. 0.69 per share (of face value of Rs. 2 each) on an enlarged capital base compared to Rs. 1.57 per share in Q3FY16.

MD's message

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

"We have delivered a resilient performance in the third quarter, which should be viewed in light of challenging conditions on the ground. Our manufacturing facility in Roha was shut for over five weeks due to a fire at one of the distillation columns. Also, there was a temporary production stoppage of nearly one month at our DASDA manufacturing facility in Hyderabad due to an order from the Telangana State Pollution Control Board. While manufacturing has now resumed at all units except one, the resultant decline in volumes has impacted revenue growth & margin. Furthermore, demonetisation resulted in subdued volumes in the domestic market as demand from end user industries of our SME customers was impacted. It is heartening to mention that inspite of certain one-time events, we have been able to retain market share of various products at Roha.

While the numbers have been impacted by one-time developments, the pleasing aspect of our performance has been continued strong demand for several products in the Basic Chemicals and Fine & Speciality Chemicals segments. An improved product mix with increasing proportion of higher contribution products has supported the strong underlying trend in profitability. If we adjust for the impact of the one-time developments, EBITDA would have been higher even on reduced volumes.

We continue to see several opportunities for widening our portfolio of value-added products as customer demand remains robust. There are exciting trends in agrochemical intermediates as well as recently introduced pharma and personal care intermediates.

After the unexpected events during the third quarter, we have restarted all facilities except one in Q4 and will work towards restoring the growth momentum. Wider acceptance of our products in the various end-user industries combined with further diversification of our product portfolio, customer segments and geographical markets will drive growth in a balanced and sustainable manner. We anticipate FY18 to be a stronger year on the back of improved productivity and higher efficiencies expected from business improvement initiatives accompanied by removal of certain one-time expenses.

The mega Phenol / Acetone is project is progressing well and we are on the target to achieve commercial production in the next financial year. The Company has already started working on various derivatives of Phenol and Acetone which are targeted towards solvents required for Pharmaceutical, Agro & Perfumery Products. The prospects for the phenol and acetone business are buoyant due to the prospects for import substitution as well as organic annual growth of 8-9% in demand for phenol and acetone based products in India. With the completion of this project the turnover (consolidated) shall more than double in a couple of years' time. Further opportunities lie in downstream products of Phenol and Acetone which are imported to the country as of now."

Operating Highlights

During 9M FY2017, the Company reported a 5% decline in volumes on a y-o-y basis due to the shutdown of the DASDA manufacturing facility in Hyderabad for nearly one month and shutdown of Roha plant for five weeks due to an accident in one of the distillation columns.

- Domestic revenues stood at Rs. 538.27 crore in 9MFY17 from Rs. 592.99 crore in the same period last year. There was some impact of demonetisation in the domestic markets as SME Customers deferred purchases due to weak demand in their end-user industries. Revenues from exports came in at Rs. 346.51 crore in 9MFY17 compared to Rs. 391.54 crore in 9MFY16.

- BC revenues stood at Rs. 462.70 crore in 9MFY17 compared to Rs. 527.66 crore in 9MFY16. There were several encouraging trends in the performance. Many key products have witnessed improved pricing during the period. Underlying demand has also been fairly positive across the portfolio. However, stabilisation of global crude oil prices at lower levels and re-entry of Iran as a global supplier has improved the availability of higher grades of crudes thereby impacting demand for fuel additive products. The Company has proactively responded by pushing nitrogen based products and the increasing momentum of these products is visible as the gap in turnover has narrowed in each successive quarter this financial year. The buoyant market for these products has helped strengthen profitability profile of the BC Segment

- Revenues from FSC segment were at Rs. 268.82 crore in 9MFY17 compared to Rs. 270.49 crore in 9MFY16. Volume growth in FSC segment was 3% driven by higher off take in agrochemical intermediates duly supported by steady momentum in personal care and pharma intermediates. This performance would have been even better but for shutdown of Roha plant which impacted couple of key products. In addition to insurance coverage for replacement of assets, the Company is also insured for loss of profit. Overall, demand for products remains strong and traction is expected to improve in the coming quarters.

- PP segment reported revenues of Rs. 171.52 crore in 9MFY17 compared to Rs. 202.24 crore in 9MFY16. Shutdown of the Hyderabad facility due to floods has impacted the volumes and profitability of products under the PP Segment.

Other Developments

- The Company is adequately insured for replacement value of the damaged facilities and loss of profits due to business interruption. The Company has lodged an insurance claim under fire insurance policy for damage of facilities to the extent of Rs. 21.45 crore and claim on account of loss of profits due to business interruptions of Rs. 13.01 crore. Claim on account of loss of profits has been acknowledged and process of settling claim under insurance policy is under process.

Outlook

The roadmap for financial year 2018 looks buoyant as DNL is well placed to demonstrate sustained growth. The Basic Chemicals segment is expected to see high volumes on the back of improving demand trends. New investments are being made in the FSC segment whose impact will be seen next year. The Company is also aggressively pitching for increasing market share of agro-chemicals in the export markets. Fine & Speciality chemicals segment would be a clear outperformer owing to a favourable demand scenario in the global as well as domestic markets. In addition, higher contribution from personal care as well as pharma intermediates would foster growth.

The management consultancy appointed by the company has completed its assessment report and made specific recommendations to improve processes and enhance efficiencies. These are in the process of being implemented and are expected to result in sustainable improvements in operating performance from FY18 onwards.

The demand outlook is stable to positive across most of the end user industries. Strategic initiatives to enhance product mix, wider geographic reach and improved presence across customer segments will lead to balanced growth. Efforts on product and process innovation are underway and the company plans to introduce further value-added products. The upcoming Phenol and Acetone facility would further provide an impetus to the performance.

Update on Project for Manufacture of Phenol and Acetone

As announced earlier, DNL is implementing a project to manufacture 200,000 MTPA of Phenol and 120,000 MTPA of the co-product Acetone to address the opportunity offered by the supply deficit in the domestic market which is currently met by imports. A wholly owned subsidiary, viz. Deepak Phenolics Limited has been set up for this project. The proposed Phenol Plant will be located at Dahej in the State of Gujarat.

Substantial equity portion required for the said project has been tied up through the proceeds from the QIP, sale of land as well as internal accruals of last two financial years. Debt portion has also been fully tied up on a ring-fenced basis. Further, in Q2 FY17, the Board had approved resolution for an additional QIP for an amount not exceeding Rs. 150 crore which shall fund equity for the project.

The construction work is close to 55% complete and the project is expected to be commissioned around December 2017. As of now, entire plant implementation cost has been committed. The Company has invested an amount of close to Rs. 350 crore till date. Successful seed marketing has resulted in initial volumes being supplied and the demand for phenol is improving in the domestic market. Further, supply of benzene, a key raw material has become significantly easier thereby enhancing the prospects for the mega phenol project further.

Attached: Details to the announcement

For further information please contact:

Somsekhar Nanda	**Mayank Vaswani / Nishid Solanki**
Deepak Nitrite Limited	CDR India
Tel: 026 52765200	Tel: +91 22 66451230 / 1221
Email: snanda@deepaknitrite.com	Email: mayank@cdr-india.com nishid@cdr-india.com

About Deepak Nitrite Limited

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

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

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

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

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

Safe Harbour

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

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

Revenues

Particulars	*Q3FY17*	*Q3FY16*	*%*	*9MFY17*	*9MFY16*	*%*
Basic Chemicals	151.42	164.38	(7.9)	462.70	527.66	(12.3)
Fine & Speciality Chemicals	81.76	89.61	(8.8)	268.82	270.49	(0.6)
Performance Products	48.85	67.90	(28.1)	171.52	202.24	(15.2)
Other Unallocable	1.27	1.18	7.9	4.21	3.77	11.7
Total	**283.30**	**323.07**	**(12.3)**	**907.25**	**1,004.16**	**(9.7)**
Inter Segment	3.44	4.40	(21.8)	11.13	9.19	21.2
Net Sales/Op. Income	**279.86**	**318.67**	**(12.2)**	**896.12**	**994.97**	**(9.9)**
Other Income	0.35	0.25	39.1	3.64	0.75	383.8
Total Revenues	**280.21**	**318.92**	**(12.14)**	**899.76**	**995.72**	**(9.64)**

Expenditure Analysis

Particulars	*Q3FY17*	*Q3FY16*	*%*	*9MFY17*	*9MFY16*	*%*
Employee Costs	31.81	29.24	8.8	93.15	86.69	7.5
Interest	9.32	9.07	2.8	22.60	29.67	(23.8)
Depreciation	10.64	9.90	7.5	31.62	29.19	8.3

Profitability Analysis

Particulars	*Q3FY17*	*Q3FY16*	*%*	*9MFY17*	*9MFY16*	*%*
PBT	11.12	22.54	(50.7)	55.22	61.95	(10.9)
PAT*	8.01	16.45	(51.3)	36.78	44.59	(17.5)
EPS (Rs.)	0.69	1.57	(56.1)	3.17	4.27	(25.8)

*Excluding exceptional gain of Rs. 70.8 crore (net of taxes Rs. 54.4) on account of sale of land and surrender/assignment of leasehold rights in land at Pune

Statement of Borrowings

Secured Loan & Net Debt/Equity as on 31st December, 2016

Particulars	*Q3FY17*	*Q3FY16*
ECB	130	201
Rupee Term Loan	102	93
Other Loan Funds (Includes CC)	259	229
Total Loan Funds	491	523
Debt/Equity Ratio	0.85	1.33

Capital Employed

Particulars	*Q3FY17*	*Q3FY16*
Capital Employed	1,123	968
Less : Capital Work in Progress	36	22
Less : Investment in Deepak Phenolics	167	-
Capital Employed in Operations	920	946