Management Discussion & Analysis

GLOBAL ECONOMIC SCENARIO

The Financial Year 2018-19 was characterised by fears of sharp slowing down of global economic growth due to an increasing degree of deglobalisation. World economic growth is projected to moderate from 3% in 2018 to 2.9% in 2019 on an annualised basis, as consumer and business spending weakened, advanced-economy growth decelerated, and recovery in major commodity-exporting emerging market and developing economies levelled off. This deceleration is due to a combination of tariff wars, quantitative barriers impeding the free movement of people, products and services, and geo-political protectionism, such as Brexit, and its associated impact.

Even as the U.S. economy has demonstrated an uptick recently it is believed the trade war with China will lead to slower growth. The growth in the Eurozone slipped to a 4 year low in the second half of Calendar Year 2018 and a forecast by the European Commission has revised the estimate downward to 1.3% in 2019 owing to softening exports and slowing external demand.

Economic Growth in 2019

The International Monetary Fund (IMF) has predicted that over the next decade, reverse globalisation will make the playing field of global economies uneven, resulting in reduced ability to leverage existing competitive advantages. The consequences of escalating trade actions are undeniable: higher prices in China and the U.S., less purchasing power for consumers in these countries, higher input costs, heightened financial market volatility, and possibly higher interest rates. These effects are likely to spill over from these countries into integrated markets. There are considerable downside risks which includes the possibility of disorderly financial market volatility and rising vulnerability of some emerging markets and developing economies to such disruption. There are also signs of a deteriorated risk appetite among investors and a potential slowdown in China.

Moreover, with no let-up in the US-China trade war, growth forecast point to more pain ahead, not just for the developed economies, but for the emerging market economies too. Trade tensions, including the imposition of tariffs by large economies, have resulted in a material impact on global commodity markets, leading to trade diversion and widening price differentials among countries.

Asia to drive Global Economic Growth

Asia is seen driving the global economy in 2019, with high-growth economies such as India, Indonesia, Malaysia, China, Philippines, and Turkey leading the way. India is expected to be one of the fastest growing economies in the world, with structural reforms and higher investments driving economic activity. Growth in Emerging Markets and Developing Economies, is projected to mature during the latter part of 2019.

China is projected to run a current account deficit in 2019, which will be after decades of witnessing a surplus situation. Also, it has changed its forecast to a range of 6-6.5% and further targeted to go down to 5.5%, the slowest since 2009. Its erstwhile robust economic growth engine seems to have slowed down as it faces pressures such as the trade war with the U.S., a global economic slowdown and a decline in domestic consumption. A modest weakening of China's industrial sector is likely owing to softening of export growth and a crackdown on the polluting industry. The structural slowdown is expected to be offset partly by a moderate pick-up in other large economies, including India.

INDIAN ECONOMIC SCENARIO

The Central Statistics Office revised the growth rate for India in Fiscal 2018-19 from 7.2% to 7%. While the first half witnessed strong growth trends, growth in the second half was impacted by a liquidity crisis in the BFSI sector as well as global macro-economic events. Even as growth moderated, India remained the fastest growing large economy in the world. Further, growth has been quite broad-based and domestic macro-economic indicators have remained largely stable.

Domestic demand has strengthened as the benefits of structural reforms such as the Goods & Services Tax harmonisation, improvement in governance in PSU banks and their recapitalisation take effect. Growth remained healthy despite multiple external challenges including volatile oil prices and rupee volatility which served to place pressures on demand, inflation, current account, and public finances. However, business investment and exports remained fairly robust.

According to US-based rating agency Moody's report "Global Macro Outlook for 2019 and 2020", India is less exposed to a slowdown in global manufacturing trade growth if compared with other major Asian economies and the emerging markets, and it is poised to grow at a relatively stable pace over the next two years. Announcement of the direct cash transfer program for farmers and the middle-class tax relief measures will also contribute to the fiscal stimulus. With the on-going reforms beginning to impact the economy now positively, there is renewed optimism about India's growth prospects in the upcoming years. It's believed that improvement in the governance of public banks will help avoid a new wave of non-performing loans and support the investment recovery.

Private consumption is projected to remain firm, and investment growth is also expected to continue as the benefits of recent policy reforms begin to materialise and credit rebounds. Strong domestic demand and resumption of investment cycle will boost demand for crude, metals, materials and other imports which may widen India's current account deficit. Inflation is projected to rise somewhat above the midpoint of the Reserve Bank of India's (RBI) target range of 2% to 6%, mainly owing to energy and food prices. Economic growth is seen moderately accelerating on the back of steady government expenditure, largely stable rural incomes, faster private consumption, and investment growth.

Economic growth in India is expected to accelerate moderately to 7.5% in FY 2019-20, according to a World Bank forecast, attributing it to an upswing in consumption and investment pick-up. India will continue to retain its tag as the world's fastest-growing large economy.

INDUSTRY OUTLOOK AND TRENDS

The calendar Year 2018 represents the 6th year of an extended upcycle in the global chemical markets, characterised by robust demand, tight supply, and strong profitability. This extended period of profitability caused a surge in reinvestment planning activities in North America, the Middle East, China, and other Asian locations. At the same time, many risks represent potential drags on global growth, including rising crude oil prices, domestic fiscal policy and currency fluctuations, geopolitical tensions, and realignment of trade barriers.

Additionally, trade barriers and imposition of tariffs announced by the US on imported Chinese products are likely to have spill-over effects, several customers are keen to de-risk the supply chain reliance on the Chinese market and are seeking alternative suppliers, which is favorable for India. Innovation and elevation of product suites will be an important factor as many companies will consider this as their key competitive advantage. Depreciation of INR vs USD will be an added advantage for Indian enterprises who are seeking to replace China's market share in global trade due to these tariffs.

Domestic Chemical Industry

The domestic chemical industry is forecasted to grow at a CAGR of 9% to touch US$ 304 Billion by FY 2024-25 from US$ 163 Billion in FY 2017-18, according to the India Chem Strategy Report by FICCI. Growth is likely to be driven by rising demand in end-use segments for specialty chemicals and petrochemicals. India's chemical industry is one of the fastest growing in the world, currently ranked the 3rd largest in Asia and 6th largest globally concerning output, after US, China, Germany, Japan and Korea, stated the Report. The domestic chemical industry is said to have attracted FDI investment of US$ 1.3 Billion during FY 2017-18, about 3% of the total FDI inflows into India.

The chemical sector continued to maintain its strong performance trajectory, driven by the increasing competency of Indian players across the globe as disruption in China's chemical market continues to persist. The basic chemical players stand to benefit from high demand volumes and strong commodity chemical prices globally, aiding them to sustain higher margins and higher volumes.

Increasing Capacities

The domestic chemical companies are set to invest the highest ever on capacity expansions to cater to rising demand from domestic and overseas markets, following plant shutdowns in China, currently the world's largest producer and exporter. The decline in supply from China offers opportunities for Indian players to ramp up their supply to the world market and explore new markets for sustained exports. Meanwhile, competitive cost of labour and accommodative government policies are also set to help the chemical sector in India. Besides, most large chemical companies maintain adherence to strict pollution norms, especially in Gujarat and Maharashtra.

Key Growth Enablers

The chemical industry is expected to be the key contributor and a catalyst in achieving the target of US$ 1 Trillion manufacturing economy by 2028, from the current US$ 380 Billion.

The country's consumption growth story largely drives the chemical industry in India. The per capita consumption of chemicals in India is 1/10th of the world average with India being a low consumption country even among the developing nations. With nearly US$ 15 Trillion of Chinese exports in chemicals and plastics subject to US tariffs, India is set to gain market share in the global chemical industry, estimated to be around US$ 4.7 Trillion. Significant opportunities lie ahead for Indian chemical companies arising out of emerging possibilities in US-China trade war as well as shutting down of capacities in China. The domestic industry is also tapping the intermediates opportunity and exploiting meaningful demand. Given the mature market conditions of China, India is expected to be the next engine of growth rendering opportunities to players engaged in the chemical value chain – extending from agrochemicals, dyes, pigments, and specialty chemicals, which sees the strongest tailwinds along with petrochemicals at the same time.

Further, Indian chemical companies are enhancing capabilities and investing greater amounts in R&D to elevate their offerings. India continues to gain traction from major countries and is likely to grow multifold in the coming decade. Specialty chemical companies have witnessed a sharp increase in demand for their products over the last few years. In the Specialty Chemicals segment, production picked up by 3.7% in 2018 and is expected to witness another 2.2% rise in 2019. Gains led by an improvement in oilfield chemicals, electronic chemicals, coatings, adhesives, cosmetic chemicals, and flavors and fragrances. In the years ahead, the demand for Specialty Chemicals is expected to grow in line with gains in the industrial and construction sectors. Specialty chemical players, with presence across the value chain, have observed significant improvement in their operating margins.

Future Industry Outlook

The Government has announced plans to ensure robust market size for Indian players through the implementation of a new policy in the Indian chemical space to strengthen domestic production and curb imports. A complete revamp of the current Petroleum, Chemicals & Petrochemicals Investment Regions (PCPIRs) policy will encourage effective and long-term investments in the sector and boost margins for Indian chemical players. The industry will also see some global companies investing in the Indian chemicals space.

Reducing Dependence on Chemical Imports

India continues to be a net importer of chemicals. Organic, inorganic and agrochemicals account for almost US$ 33 Billion of India's imports. Despite India's rising stature in the global chemical industry, domestic manufacturing of certain intermediates and value added chemicals is significantly below the volumes required by the consuming industries. With demand increasing steadily both due to local market absorption and capturing of global market share, leading chemical companies have recognised the growth opportunities and are focused on undertaking high-level investments, addressing challenges in the supply value chain and incorporating better and advanced technology to elevate their competencies and reducing India's import dependence.

PERFORMANCE OF YOUR COMPANY

During the year, your Company continued its investments in fortifying its diversified portfolio and also strengthening its infrastructure and processes to drive greater efficiencies, supported by its financial strength. Your Company is strategically preparing itself for the next phase of growth through value-added capabilities, new capacities, continuous perseverance, and inventiveness. It is taking on new opportunities which are bottom line accretive and margin accretive. The expansion strategies have been devised keeping in mind its risk-mitigating approach towards incurring capex and making continuous investments into the productive assets to become "future ready" and deliver on our promises.

In FY 2018-19, your Company reported solid performance driven by growth across all the Strategic Business Units (SBUs). Revenue including other income grew to ₹ 1,795 Crore, higher by 20% from FY 2017-18. The EBITDA stood at ₹ 308 Crore, up by 44% from the previous year translating into EBITDA margins of 17.2%, higher by 280 basis points (bps). Margin expansion was a result of product-mix adjustments, better realisation, and cost leadership initiatives. Profit Before Tax (PBT) was ₹ 212 Crore, an improvement of 74% from last year. Profit After Tax (PAT) stood at ₹ 138 Crore, representing an improvement of 65% compared to the previous year.

Domestic Revenues constitute a major part of your Company's turnover at 68%, while export revenues represented 32%. Domestic topline witnessed a year-on-year growth of 25% owing to robust demand from agrochemicals and pigment applications, amongst others. On the other hand, exports grew by 14% on account of encouraging demand trajectory for our key products in the global markets.

Overall, the performance in FY 2018-19 was largely driven by a combination of volume growth and higher realisations for some key products across all the Strategic Business Units (SBUs). These factors will attribute to an encouraging demand in end-user industries and several initiatives undertaken by the key management to enhance product throughput, drive operating efficiencies and increase capacities of select products. More importantly, given your Company's agile nature, it was swiftly able to move its manufacturing towards products enjoying a better demand scenario. The above, along with supply disruptions in China, led to your Company further strengthening its market position in some of the key products in its portfolio.

On a consolidated basis, too, your Company performed and progressed well, mainly supported by commencement of production of the Phenol and Acetone facility at the domestic area of Petroleum, Chemicals & Petrochemicals Investment Region (PCPIR) at Dahej in Gujarat. The plant can produce 200,000 MTPA of phenol and 120,000 MTPA for co-product acetone, supported by the capacity to manufacture 260,000 MT of cumene for captive consumption.

In a key achievement, the plant was not only stabilised in the first quarter of its operations, but its capacity utilisation was also ramped up to touch 100% during Q4 of FY 2018-19, apart from constantly operating more than 80% during the last quarter of FY 2018-19, thereby resulting in consolidated revenues of ₹ 2,715 Crore. Additionally, the facility manufacturing delivered positive EBITDA and PBT in the first few months of its operations.

During the year under review, your Company entailed a capital expenditure of around ₹ 60 Crore towards brownfield expansions in Basic Chemicals and Fine & Specialty Chemicals segments, to enhance the capacities of major products and also towards increasing operational efficiencies.

Your Company continues to reward its shareholders well. Given improved performance, your Company declared a Dividend of ₹ 2 per Equity Share in FY 2018-19, on a face value of ₹ 2, amounting to 100%. The Dividend rate has increased from ₹ 1.30 per Equity Share in FY 2017-18 on an expanded capital base.

OVER-DELIVERING ON OUR PROMISES

Your Company not only delivered on all its promises, but by going beyond stated targets and achieving some targets ahead of time it has actually over-delivered by accomplishing the commissioning of its large greenfield project. The project, which is India's largest phenol-acetone plant, has been completed within the stipulated time and project cost. More importantly, complex logistics and material management has been undertaken in a seamless manner. All requisite tests, dry runs, process evaluation and safety audits have been undertaken in a comprehensive manner. Commissioning of this plant is also significant from the viewpoint of positioning India as a global power in chemical intermediates. The plant is expected to reduce India's import dependence for phenol and take care of the demand-supply gap and make the country self-reliant in the production of phenol and acetone.

Lower logistics, better inventory management and quality advantage over imports will be some key incentives for import substitution. Local availability of phenol and acetone will also boost the production of intermediates, thus diversifying the applications for these products and further expanding India's overall market reducing even imports of these downstream intermediates. With this, your Company is not only encouraging value-added specialty chemicals but also making available the intermediates to the downstream units. Thus, in addition to its own efforts of saving precious foreign exchange resources for the country it will also act as an enabler for other enterprises to do so.

PERFORMANCE OF BUSINESS UNITS

Deepak Nitrite is a multi-product company that manufactures a diversified product portfolio of Basic Chemicals (BC), Fine and Specialty Chemicals (FSC), and Performance Products (PP), while its manufacturing facilities located at Nandesari and Dahej in Gujarat; Roha and Taloja in Maharashtra; and Hyderabad in Telengana.

Your Company is the market leader in almost all the products it manufactures. Even as the operations are now predominantly domestic, it enjoys significant footprint offshore, especially into Europe, USA, Japan, Latin America, South East, and Far-East Asia - an export network spanning over 30 countries. Your Company is focused on expanding its footprint in high-value intermediates. Multiple levers and strategic initiatives are fueling the steep and sustainable growth trajectory.

1. Basic Chemicals

Under Basic Chemicals, your Company manufactures Nitrites, Nitro Toluidines, Fuel Additives. Cost leadership is the foremost competitive advantage required here to drive growth and profitability as these chemicals are high-margin high-volume products with greater price sensitivity. These chemicals are manufactured as per standard specifications and are dependent on raw material availability and pricing.

User Industries for Basic Chemicals:

- Colorants
- Rubber chemicals
- Explosives
- Dyes
- Pigments
- Food colors
- Pharmaceuticals
- Petrol & diesel blending
- Agrochemicals

In FY 2018-19, Basic Chemicals reported sales of ₹ 893 Crore, an increase of 17% YoY owing to improved product-mix as well as higher realisations. The performance of Basic Chemicals has to be seen in light of heightened volatility in both crude oil prices and related petrochemical intermediates and also disruption caused in Chinese Chemical Industry . The EBIT increased by 36% during the year.

2. Fine & Speciality Chemicals

The Fine & Specialty Chemicals segment consists of specialised and niche products created from various processes and requiring technical skills and expertise. Under this segment, your Company manufactures Specialty Chemicals such as Xylidines, Oximes, Cumidines etc amongst others. Products in the respective, segment are customised as per requirements of the client and typically manufactured in low volumes, as they enjoy higher value. Emphasis is on quality, the stickiness of relationships, sustainable operations as well as global best practices for suppliers and customers.

User Industries for Fine & Specialty Chemicals:

- Agro-chemicals
- Colorants
- Pigment
- Pharmaceuticals and personal wellness

Your Company's revenues from this segment in FY 2018-19 stood at ₹ 536 Crore, higher by 16% year-on-year, while EBIT improved by 10%. This segment reported steady performance during the year on the back of firm realisation gains in select products as well as positive demand scenario. This was further aided by benefits accruing from backward integration initiatives and capacity expansion for established products. FSC segment is on track to demonstrate strong performance in the ensuing years as your Company has expanded its product offerings and also enhanced certain capacities which will allow it to expand its basket of products and cater to the robust demand environment.

3. Performance Products

Performance Products are application chemicals, it consists of two products - Optical Brightening Agent (OBA) and its pre-cursor, DASDA. Your Company is the world's only fully-integrated manufacturer of OBA, with vertical integration from Toluene to PNT and further into DASDA and OBA. These products have stringent requirements in terms of performance and technical specifications. Your Company has developed an extensive network of global clientele and undertaken meticulous efforts to position its products into right geographies, cater to high-value end-users and elevate operational efficiencies.

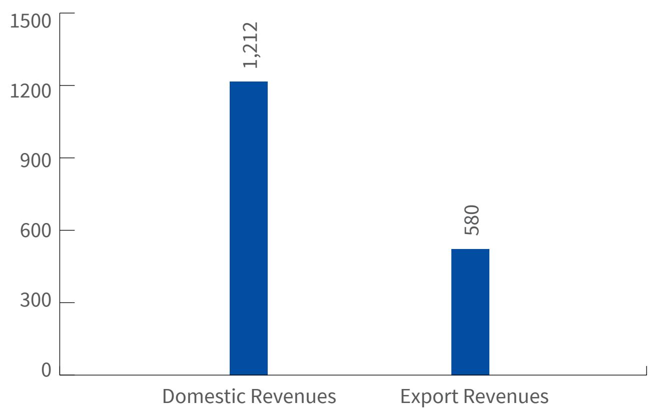
User Industries for Performance Products:

- Paper
- Detergents
- Textiles

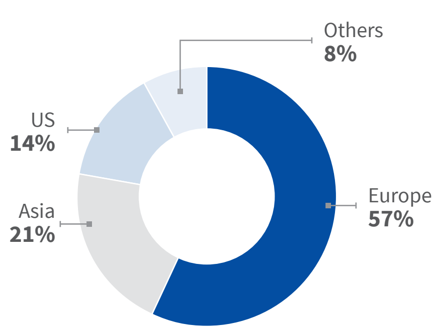
The Performance Products segment demonstrated excellent performance in FY 2018-19 with revenues of ₹ 403 Crore, recording 35% growth YoY with positive EBIT of ₹ 83 Crore. Performance of this segment is driven by a combination of factors such as focused re-orientation of customer industries and geographies by the Company, shutdown of capacities in China and enhanced operational performance. Our position as a fully integrated supplier of OBA have enabled us to capitalise on shifts in the industry landscape resulting in the elevation of performance. This segment now contributes 22% to the Company's total revenues.

GEOGRAPHICAL PERFORMANCE

Domestic Revenues for FY 2018-19 stood at ₹ 1,212 Crore, as compared to ₹ 968 Crore in FY 2017-18. Export revenues amounted to ₹ 580 Crore, as compared to ₹ 511 Crore in the previous year.



As compared to the previous year, your Company's exports have grown at 14% in FY 2018-19. Shifts in global supply chain, performance enhancement in key geographies and deeper customer engagement enabled better performance. This momentum was further supported by Company's efforts of running plants at optimum capacities with streamlined processes. In FY 2018-19, Europe contributed 57%, as compared to 46% in the previous financial year. Asia also showed an improvement during the year and contributed 21%, while the US contributed 14%.



SIGNIFICANT CHANGES IN KEY FINANCIAL RATIOS

Key Financial Ratios	FY 2018-19	FY 2017-18	Change (%)	Reason
Debtors Turnover Ratio	5.21	4.04	29	Faster realisation
Inventory Turnover Ratio	7.72	7.92	(3)	-
Interest Coverage Ratio	5.96	4.03	48	Higher profitability & reduction in borrowings
Current Ratio	1.79	1.78	-	-
Debt Equity Ratio	0.31	0.49	(37)	Higher profitability & reduction in overall borrowings
Return on Net Worth (%)	13.05	8.84	48	Improved profitability*
Operating Profit Margin (%) (EBIT)	14.20	10.90	31	Improved profitability due to better sales realisation
Net Profit Margin (%) (PBT)	11.80	8.20	45	Improved profitability due to better sales realisation

*However, Net Worth included ₹ 560 Crores provided as equity to Deepak Phenolics Limited, return of which for full year is to come in FY 2019-20.

COMMENCEMENT OF PHENOL & ACETONE GREENFIELD PLANT

Deepak Phenolics Limited (DPL), a wholly-owned subsidiary of Deepak Nitrite Limited, commenced commercial production at its mega Greenfield facility of Phenol and Acetone plant at Dahej in Gujarat in November 2018. The facility has an installed capacity to manufacture 200,000 MTPA of Phenol and 120,000 MTPA of Acetone. Further, it has also facility to manufacture 260,000 MTPA of Cumene for captive consumption. The facility makes your Company a market leader and highly competitive in terms of logistics and inventory management, operating efficiencies and favorably positions it to capture opportunities emerging from production of downstream products.

The foremost objective of venturing into phenol and acetone is to tap the growing domestic demand and hence substitute imports, as India imported almost 80% of its phenol-acetone requirements. We are proud to share that the Company not only managed to successfully stabilise the plant during the 5 months of operation during FY 2018-19 but also successfully ramped up its capacity utilisation above 80% of the total utilisation. During the fourth quarter, the plant touched 100% utilisation indicating its readiness to scale up further towards optimum utilisation.

During the year, the Company achieved a key milestone by replacing the bulk of imports of Phenol and Acetone in the local market and at present it has a market share of around 55% in the country. It has been a forerunner in tapping the import substitution opportunity in India, which will go towards creating long-term benefits for the country. Additionally, your Company has also been successful in producing and selling pharma grade acetone.

Your Company proudly states that its robust supply chain management has resulted in smooth and seamless working of the facility and is expecting it to become further efficient so to yield better saving. This is commendable on two counts. Firstly, this has been achieved within few months of commissioning, hence the rapid ramp-up indicates a high level of preparedness. Secondly, the transportation of the raw materials and finished goods involve complexities which are appropriately and efficiently managed. These efforts also paved the way to achieving a positive EBITDA and PBT during its maiden months of operation post commissioning of the plant. Your Company has demonstrated its leadership position in this space and will now explore opportunities in downstream derivatives to further elevate its performance.

Phenol is a versatile industrial organic chemical and it is used to produce a wide variety of chemical intermediates including bis-phenol-A, phenolic resins, cyclohexanone etc. It is consumed in a large range of end-use segments such as laminates, automobile, foundry, paints, rubber, surfactants, pharma, and agro-chemicals, among others. On the other hand, Acetone is predominantly used in the production of pharmaceuticals apart from its significant applications in paints, adhesives, and thinners among others. Acetone, as we know, is a co-product of the phenol manufacturing process.

Considering the cross-country movement of over 6 Lakhs MT of explosive/hazardous materials, DPL is committed towards improving the safety standards for road transportation. DPL has interfaced with Loss Control Services (LCS) for 'First Respondents' services with an aim to minimise the environmental and social impact of in-transit incidents. LCS has a strong network of First Respondents stationed every 120 kms between the facility and DPL's sources/destinations. LCS's teams possess adequate know-how and experience in handling materials and are equipped with a 24-hour central control room.

ON A SOLID AND SUSTAINABLE GROWTH PATH

With a rich legacy, history of manufacturing excellence, diversified product portfolio, loyal customer base, experienced leadership and a robust financial position, your Company has the key ingredients in place for sustained growth. Commissioning of the new plant for manufacturing Phenol and Acetone, launch of new products, small capacity expansions and debottlenecking in Basic Chemicals and Fine & Specialty Chemicals are seen driving earnings, going forward. This will be supported by the improving performance trajectory of the Performance Products segment. With a strong platform in place, capacities offering headroom for growth, a roadmap for further value addition, your Company is favorably positioned for capturing the rising opportunities in the global chemicals & specialty chemicals space.

THE 5 Ms OF EFFICIENCY

Your Company enjoys the strategic advantage of attaining sustainability across the 5 Ms of efficiency – Man, Material, Machines, Methods, and Money – resulting in lean manufacturing operations and performing with high efficiency. Also, it is investing in environmental sustainability throughout its business operations by optimising resource use and appropriate treatment of effluents. In addition, it has undertaken steps to process joint products and by products in its operations to derive further value

Your Company has high potential for business scalability with limited incremental capital intensity. Its steady shift to value-added products enables enriched margins. It remains poised to reap the benefits from increasing capacity utilisation that will lead to an increase in operating leverage, higher operating margins, and better return ratios.

SWOT ANALYSIS

Strengths

Extensive Product Portfolio with Application Diversity: Over the years, your Company has widened its product offerings to have a diversified product portfolio and insulate itself from any slowdown in a particular product or category to de-risk itself. Its diversified product portfolio caters to multiple end-user industries such as agrochemicals, rubber, pharmaceuticals, colorants, and textiles, amongst others. Additionally, superior infrastructure at various locations and balanced contribution from domestic and export markets have resulted in steady growth for your Company. Further, most of the products are contracted with pass through clauses enabling the company to be remunerated for its value addition while minimising adverse impact from raw material fluctuation.

Expanding Global Footprint and Long-term Customers: Your Company has an emerging presence across the key export geographies e.g. the US, Europe and China, among others. Today, it exports to more than 30 countries across 6 continents and is further expanding its wings. Moreover, your Company's customer-centric approach has led to a long-standing association with most large customers across the globe. Customer stickiness, as well as a diversified portfolio, ensures that it is not dependent on a single application to drive growth.

Driving Sustainability across Value Chain: Your Company works relentlessly towards reducing its carbon footprint through socially responsible initiatives. Being the accredited members of 'Responsible Care' and 'Together for Sustainability,' your Company has successfully created a benchmark for other chemical companies through its sustainability initiatives and innovative spirit.

Strong Supply Chain Capability: Your Company's strong supply chain can offer quality servicing and in-market execution by creating stronger ties with its suppliers and customers. This is enabling your Company to get closer to a diverse set of consumers and suppliers across geographies.

Strong Technical Skills: Your Company possesses high levels of technical expertise in the areas of Nitration, Hydrogenation, Oxidation, and Diazotisation. An experienced team keenly focuses on managing these skills efficiently and in a manner that results in higher plant utilisation.

Your Company's presence in the chemical industry for several decades has facilitated it to develop multiple technical capabilities and provide niche chemistries to its customers. As a practice, it continues to work on complex and hazardous chemical processes by leveraging its expertise in indigenous development and also its capability in developing, managing, storing and handling various types of chemicals in quantities ranging from few kilos to several tons. Technical expertise is a strong competitive advantage of your

Company, as it provides comfort to its customers that the processes will be undertaken safely and in a cost-competitive manner while adhering to the highest standards of quality.

Proficient Management Team: Your Company has a proficient management team which understands industry dynamics and trends and also possesses sound domain knowledge. It has an established track record in the industry and is largely instrumental in developing the key strategies to accelerate the growth momentum. Your Company's management team contributes significantly to its success while adhering to the Code of 'Responsible Care' and ethical values.

Weaknesses

Volatility in Raw Material Prices: The entire chemical industry is impacted by volatility in prices of raw materials, as this is directly linked to the prices of end-products and comprises of a major component in the chemical process. This is a way of life in the chemical intermediates industry and your Company ensures that a majority of the products are contracted with pass through clauses thereby minimising adverse impact from raw material fluctuation.

Lack of Alternative Energy Sources: A manufacturing company is constantly in need of a significant amount of power and electricity in its processes of manufacturing and waste management. As non-conventional energy is presently unfeasible and alternative fuels have several limitations, your Company makes use of conventional fuels such as coal and furnace oil for power generation. Additionally, as an economy, India is still familiarising itself with these "energy efficient" sources. However, being a 'Responsible Care' Company, your Company in the process of adopting several strategies to widen its scope of green endeavors.

Currency Fluctuations: Fluctuation in exchange rates is a regular operating risk. However, in recent years the degree of volatility has sharpened and the Company has to guard itself against sudden, adverse movements. As your Company exports a wide range of products to various geographies, there is a perennial currency risk that is pro-actively managed by hedging of exposure. Further, being a net exported your Company can benefit from depreciation in the rupee.

Opportunities

Substitute for Imports: Your Company takes pride in the fact that it's Make In India-aligned Phenol and Acetone plant, which commenced commercial production during the year, has created a new benchmark for chemical companies in terms of import substitution. Making these chemicals locally available offers significant advantages to India as it not only facilitates the ease of performing operations but also reduce the time-lag with zero import costs. Your Company will continue to explore further opportunities in downstream derivatives to elevate its growth momentum.

Collaborative Measures through "Make In India": The Government initiatives through "Make in India," with a strong focus on manufacturing, has proved significantly beneficial to chemical players in gaining easy regulatory clearances, besides opening up huge opportunities for foreign collaboration. Your Company has always been at the forefront in supporting the Government and is also confident in exploring more such investment and manufacturing opportunities with time.

Encouragement to Indian Exporters: India's international trade has significantly improved over the past few years, facilitating your Company in gaining key market insights and identifying additional scope for new business avenues. An impetus towards this, has been the shutdown of China's chemical factories, which has provided an opportunity to Indian exporters to open up new channels of trade and create a whole new market, which bodes well for the future growth of your Company.

Favorable Government Initiatives: The year under review has been an impressive one for India's chemical sector in terms of growth and productivity. The key initiatives of the Government such as 100% Foreign Direct Investment (FDI_ under the automatic approval route and the Draft National Chemical Policy proves to be beneficial for chemical companies, such as yours, and has resulted in an enhanced focus on R&D initiatives and technological advances.

Threats

Obsolescence of Products and processes: With the advent of new technologies and new materials, there are risks to established products. Further, the discovery of newer, more efficient processes to manufacture chemical compounds can threaten the viability of some of your Company's product lines. Further, the obsolescence of products owing to lack of demand or import substitution also affects the Company's business model. However, your Company has a diversified portfolio of products which helps it mitigate these risks by shifting its manufacturing resources towards alternate products. Further, your company constantly upgrades its processes through technical improvements brought in by its in-house R&D team.

Lack of Talent Pool: Efficient and hard-working human capital is a rare and valuable resource today. India lacks widespread and abundant availability of technically skilled laborers. Your Company has initiated several measures to develop talent and undertakes comprehensive training for skill development, understand business complexities and adherence to global best practices. In addition, DNL has various initiatives in place to encourage high quality talent to shift to Vadodara which is gradually becoming a hub for chemical companies that have invested in the Dahej PCPIR.

MANAGEMENT OUTLOOK

Your Company has been a prominent player in India's chemical industry and is poised to reap the benefits of shifts in the global industry landscape. In addition to this, the Government's support and key initiatives for the benefit of the industry has created multiple growth opportunities for domestic chemical companies, such as yours.

Your Company remains well positioned to harness new opportunities from our comprehensive domain knowledge, decades of experience, and continuous innovation that have enabled us to deliver a consistent performance. The Company intends to keep driving growth by repeatedly winning in the chosen geographies and markets and creating enhanced value for all the stakeholders. With an enhanced focus on development, it is confident of continuing on its promising growth trajectory in the times to come.

Basic Chemicals to Maintain Growth Momentum

In the fiscal year of FY 2019-20, Basic Chemicals is projected to continue the positive growth momentum, backed by stable demand visibility across key end-user industries. The underlying strategy for the segment is to focus on cost leadership. As a result, it is well placed to capitalise on the supply disruption in China and subsequent de-risking by customers which is creating further growth opportunities. This, along with benefits reaped from Brownfield expansions, will drive your Company's growth and enable it to improve profitability in a sustainable manner.

Improving Penetration and Backward Integration of FSCs to drive growth and profitability

Your Company's strong in-house R&D team has successfully developed several various products and optimise processes enabling your Company to enjoy a clear leadership position in the market. Today, these products are widely used as chemical intermediaries across industries such as agrochemicals, pharmaceuticals and personal care, among others. The Fine & Specialty Chemcials segment will always focus on a constant supply of new high value molecules to cater to newer opportunities. The segment has demonstrated its nimbleness in the past and will continue to demonstrate this strength.

Performance Products – Sustaining the momentum in Performance

The vertical of Performance Products, which derives most of its demand from paper, detergents and textile products, is projected to witness a marked improvement in scale. As informed earlier, your Company's various strategies like change in product mix, modifying new geographical reach, changing customer blend, increasing operational efficiencies - have worked favourably for the company. Improvised customer relationships and sustainable supply of high quality product have steered DNL into becoming a preferred partner and this has been supported by re-orientation of product portfolio and target markets all of which have resulted in better performance.

Phenol and Acetone

Your Company's foray into the "Phenol-Acetone" market is resonant with its core expansion strategy of entering products that are import dependent, scalable and aligned with its existing product portfolio. With a global scale plant, key capabilities to replace the import-dependent market, coupled with a strong demand environment, your Company is expected to be a leader in these as well as downstream products.

RISK MANAGEMENT

Being a diversified and prudent enterprise, your Company continues to focus on a system-based approach to manage risks. Its risk management and mitigation processes are embedded in its key corporate strategies of developing a portfolio of world-class products matching organisational capabilities, with ample market opportunities.

Your Company remains focused on building distributed leadership and succession planning processes and is coming up with ways to enhance organisational capabilities. Accordingly, risk management has always been an integral part of your Company. Backed by strong internal control systems, existing Risk Management Framework and policies have laid down the roles and responsibilities of various business segments regarding the managing of risks, covering a range of responsibilities, right from strategic to operational. These responsibilities today offer a strong foundation for appropriate risk management procedures, their effective implementation as well as the independent monitoring and reporting handled by Internal Audit and the top management team.

Your Company has set appropriate structures to monitor and manage inherent business risks proactively. A strong and independent Internal Audit function at the corporate level carries out risk-focused audits across all the product segments and points out identified and constantly strengthened. Accordingly, raw material pricing risks, commodity risks and currency fluctuation risk effectively managed by its proficient and capable team. It also has appropriate checks and balances in place and aims to minimise the adverse impact of these risks on its operations.

INTERNAL CONTROL FRAMEWORK

Your Company's Corporate Governance policy guides its conduct of affairs, while its management team remains committed to the financial and accounting policies, as well as systems and processes. Your Company's Planning & Review Processes and the Risk Management Framework provide the requisite foundation for internal financial controls concerning its Financial Statements. The preparation is based on significant accounting policies that are carefully selected by the Management and approved by the Audit Committee and the Board. These policies are reviewed and updated from time to time. The key Management reviews these systems, Standard Operating Procedures, and controls and audited by an Internal Audit Team, whose findings and recommendations are reviewed by the Audit Committee and tracked through to implementation.

Your Company has in place adequate internal financial controls concerning the financial statements. Such controls have been assessed during the year, taking into consideration the essential components of internal controls. Based on the results of such an assessment carried out by the key Management, no reportable material weakness or significant deficiencies or operation of internal financial controls, observed. Your Company ensures that regular audit and review processes reinforce the systems on an on-going basis.

HUMAN RESOURCE DEVELOPMENT

Your Company's Human Resource Development practices are broadly guided by the key principles of relevance, consistency and fairness. Several initiatives are being implemented across segments to strengthen the processes of talent management, capability development, and performance. Considered together, all these have been significantly making a positive impact on talent attraction, retention, and commitment.

Your Company's HR function continues to align its strategic interventions and processes with its long-term vision in creating and also growing value for the Indian chemical industry and the stakeholders. These are one of the key drivers of improved business performance of your Company.

Your Company's talent management promise continues to play a key role in attracting and retaining the "best-in-class" talent. Performance management also serves to align individual and team performance with the larger strategic goals of the organisation. As on March 31, 2019, your Company had 1,362 permanent employees.

DISCLAIMER: This Report contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words 'anticipate,' 'belief,' 'estimate,' 'expect,' 'intend,' 'will' and other similar expressions as they relate to the Company and its Businesses are intended to identify such forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements publicly, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes to it.