Q2 & H1 FY2017 - INVESTOR COMMUNICATION

Deepak Nitrite Reports H1 FY2017 Results

Revenues at Rs. 620 crore, EBITDA at Rs. 78 crore

PBT higher by 12%, PAT increases by 11%

Vadodara, October 26, 2016: 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 half-year ended September 30, 2016.

Financial Highlights

H1 FY2017

- Revenues stood at Rs. 619.55 crore in H1FY17, from Rs. 676.80 crore in H1FY16. Overall volumes have been stable to higher across key products, however weakness in demand for a couple of products, due to weak and volatile crude oil prices have impacted the topline performance.

- EBITDA (including other income) was Rs. 78.35 crore in H1FY17 compared to Rs. 79.30 crore in H1FY16. EBITDA margin improved by 90 basis points to 12.6% in H1 FY17. This was due to continued positive trends in product mix resulting in increased proportion of high value products. The strong trend in underlying profitability is not fully reflected due to certain one-time expenses.

- PBT excluding exceptional items grew by 12% to Rs. 44.10 crore in H1FY17 compared to Rs. 39.41 crore in the same period last year. Improved operating profitability and lower finance costs contributed to growth in PBT which was achieved despite the increase in depreciation on account of regular growth and maintenance CAPEX.

- PAT increased to Rs. 31.12 crore in H1FY17, an increase of 11%, compared to Rs. 28.13 crore in H1FY16, excluding exceptional item (Gain of Rs. 70.8 crore arising on sale of assets - Net of Tax Rs. 54.4 crore).

- EPS (excluding exceptional items) for H1FY17 stood at Rs. 2.70 per share (of face value of Rs. 2 each) on an enlarged capital base compared to Rs. 2.69 per share in H1FY16. (QIP: Issuance of 1,17,50,000 shares of Rs. 2 each at a premium of Rs. 68.90 in January, 2016)

Q2 FY2017

- Revenues stood at Rs. 303.56 crore in Q2FY17, from Rs. 338.28 crore in Q2FY16. The positives for the quarter have been the strong traction from select products in the established business segments as well as encouraging off take in the recently launched products for personal care and pharma intermediates. Revenue growth was impacted by weakness in demand for a couple of products in export markets due to moderation in crude oil prices and related petrochemical intermediates.

- EBITDA (including other income) was Rs. 37.02 crore in Q2FY17, compared to Rs. 41.12 crore in Q2FY16. The EBITDA margin stood at 12.2%. EBITDA in Q2 last year was positively impacted by one-time tax reversal of GSP in the US market. Despite reduced sales, the EBITDA margin has been largely stable on the back of a favourable shift in product-mix towards high-value products and cost management initiatives.

- PBT was higher by 4.4% to Rs. 21.66 crore in Q2FY17 compared to Rs. 20.74 crore in the same period last year. This was due to the reduction in finance costs on a y-on-y basis.

- PAT came in at Rs. 15.41 crore in Q2FY17 compared to Rs. 14.78 crore in Q2FY16, representing a growth of 4.3%.

- EPS for Q2FY17 stood at Rs. 1.33 per share (of face value of Rs. 2 each) on an enlarged capital base compared to Rs. 1.41 per share in Q2FY16.

MD's message

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

"The silver lining in our performance in the first half has been the consistent improvement in profitability led by our efforts on optimising the overall product mix in favour of higher value-added products as well as the focus on realigning our cost structure. We are heartened to report double-digit growth in profitability, reflected in PBT and PAT growth of 12% and 11% respectively adjusted for exceptional items, even while reporting lower revenues. The improved operating profile of the business would have been further enhanced has it not been for certain one-time expenses during the period.

Revenue growth has not been encouraging and this needs to be viewed in the backdrop of the volatile global macro-economic environment which has significantly impacted exports. The domestic markets have been largely stable in the period. While there have been pockets of declining volume for some products, we are pleased to see stable to positive volume growth across most of our product portfolio with particularly encouraging traction in Fine & Speciality Chemicals. The Performance Products vertical at Dahej has had a challenging quarter and we are focussed on increasing volumes and utilisation on the back of strategic initiatives undertaken by us in the past.

I am happy to share the progress of our Greenfield project to manufacture Phenol and Acetone. We have made significant progress in project implementation and we remain on track to commission the project as per schedule.

Despite the unfortunate incident at plants in Roha and Hyderabad, we are confident about our prospects going forward. A well distributed monsoon has increased demand for agro-chemicals while improved economic growth is expected to enhance demand in end user industries linked to consumption. In addition, efforts to deepen customer penetration across major geographies and other marketing initiatives will further improve business prospects. We are yet to fire on all engines and the endeavour to revive the performance products segment and the impending contribution from the phenol and acetone business will elevate the momentum of long term growth and value creation."

Operating Highlights

During the first half of the year, the Company reported improved profitability metrics due to increased proportion of high-value products in the product mix.

- Domestic revenues stood at Rs. 372.52 crore in H1FY17 from Rs. 389.73 crore in the same period last year. Pricing has been largely stable in most products, however slower-than-expected increase in off take of certain products due to weak and volatile crude oil prices impacted revenue growth.

- Revenues from exports came in at Rs. 236.67 crore in H1FY17 compared to Rs. 281.10 crore in H1FY16. The combination of weak global market sentiment as well as moderation in demand for couple of products largely crude oil based has resulted in lower export revenues.

- BC revenues stood at Rs. 311.29 crore in H1FY17 compared to Rs. 363.28 crore in H1FY16. Change in dynamics of the oil supply market has resulted in reduced requirements of fuel additives, which led to the decline in BC revenues. However, strong momentum in other products in the BC segment has resulted in improved profitability despite a decline of Rs. 50 crore in revenues. The EBIT margin has expanded by 170 basis points to 12.8%

- Revenues from FSC segment were at Rs. 187.06 crore in H1FY17, an improvement of 3.4% compared to Rs. 180.88 crore in H1FY16. However, the profitability improved substantially as segmental EBIT grew by 18% to Rs. 51.13 crore. This was due to healthy demand for agrochemical intermediates owing to favourable monsoons and strong momentum in personal care intermediates.

- PP segment reported revenues of Rs. 122.67 crore in H1FY17 compared to Rs. 134.34 crore in H1FY16. Slowdown in demand for DASDA led to the reduction in topline. Further, OBA being a performance chemical is taking more time for approval than earlier anticipated.

- The Company is focussed on rationalizing its cost structure and has made progress on this front. However, the progress on cost reduction is not fully reflected due to impact of certain one-time costs in H1FY17 and at the same time there was a one-time tax reversal in Q1FY16 which has reduced the base.

- Finance Costs have significantly reduced by 36% from Rs. 20.60 crore in H1FY16 to Rs. 13.27 crore in H1FY17 due to repayment of loans, reduced working capital borrowings and decline in exchange loss on a y-on-y basis.

Other Developments

- The Company received an Order from the Telangana State Pollution Control Board for closure of one of three units located at Hyderabad. The Company has taken all necessary steps to have revocation of closure order in place. Resumption of operations in this unit is expected within a short period.
- A Fire broke out at one of the distillation columns of Company's manufacturing facility at Roha Industrial Estate, Maharashtra on October 21, 2016. The fire was promptly brought under control and there were as no major injury except minor injuries caused to two persons, who have been treated and are now in good health.
    - A detailed investigation is being carried out to assess the reasons of fire, estimate the impact of damage as well as draw action plan to repair damaged equipment and restore production.
    - Deepak Nitrite manufactures various intermediates and fine chemicals at the Roha facility. The Company is confident that the supply of affected intermediates / products to the customers will be minimally affected during the time the said column is repaired, hence this incident is not expected to have any material impact on the performance of the Company. Further, the expenditure as well as loss of business caused due to this fire are covered under insurance.

Outlook

The road ahead appears promising as the Company will continue its efforts of driving sustained growth led by focus on value-led product portfolio in order to improve the overall product mix as well as higher utilisation at the OBA facility. Strategic initiatives undertaken in the past will help us to break-even in the OBA business in H1FY18. FSC segment is well on track to demonstrate healthy performance in the second half of this fiscal year. This will be further aided by volume increment and better realisations in BC segment, which will gain due to potential improvement in crude oil prices and related petrochemical intermediates.

Favourable agro-climatic conditions in key geographies globally and growth in agriculture is expected to further increase the consumption of agrochemicals, which would in turn drive growth for our products. In addition, volume ramp up in pharma and personal care intermediates will positively foster our performance. The Company will continue to manage its costs as well as strengthen its balance sheet, through various cost management initiatives.

Update on Project for Manufacture of Phenol and Acetone

As highlighted in the past, DNL is implementing a project to manufacture Phenol and 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. The capacity of the Phenol Plant will be 200,000 MTPA and that of co-product Acetone will be 120,000 MTPA. The Company will also manufacture 260,000 MT Cumene, Feedstock for manufacturing Phenol and Acetone. With the proceeds from the QIP in January, 2016 and sale of land in April, 2016 as well as internal accruals of last two financial years, the company has tied up substantial equity required for the project, while debt has already been fully tied up on a ring-fenced basis. Further, the Board has approved resolution for an additional QIP for an amount not exceeding Rs. 150 crore which shall fund equity for the project.

As underlined earlier, Kellogg, Brown & Root International, Inc. (KBR) has been selected for technology and engineering services while M/s. ThyssenKrupp Industrial Solutions (India) Pvt. Ltd. (formerly known as UDHE) has been selected as the EPCM contractor for the Phenol project. The physical implementation of the project is well on track and it is expected to be commissioned as per schedule. As on September 30, 2016, a significant proportion of total implementation cost has already been committed. The Company has already invested an amount of Rs. 153 crore as on September, 2016 in terms of cash outgo.

DNL has started seed marketing of phenol with an objective of developing working relationships with major clients across India as well as establish marketing and distribution channels. The demand for phenol in India continues to be buoyant and this is expected to progressively improve with increase in the consumption trends of end-user industries. The Company's focus will be to substitute Phenol imports in India.

Attached: Details to the announcement

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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. 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	Q2FY17	Q2FY16	%	H1FY17	H1FY16	%
Basic Chemicals	156.27	181.39	(13.8)	311.29	363.28	(14.3)
Fine & Speciality Chemicals	88.29	85.63	3.1	187.06	180.88	3.4
Performance Products	60.96	72.20	(15.6)	122.67	134.34	(8.7)
Other Unallocable	1.39	1.65	(15.8)	2.93	2.58	13.5
Total	**306.91**	**340.87**	**(10.0)**	**623.95**	**681.08**	**(8.4)**
Inter Segment	4.34	2.89	50.1	7.69	4.78	60.7
Net Sales/Op. Income	**302.57**	**337.98**	**(10.5)**	**616.26**	**676.30**	**(8.9)**
Other Income	1.00	0.30	233.7	3.29	0.50	558.5
Total Revenues	**303.57**	**338.28**	**(10.3)**	**619.55**	**676.80**	**(8.5)**

Expenditure Analysis

Particulars	Q2FY17	Q2FY16	%	H1FY17	H1FY16	%
Employee Costs	29.32	29.65	(1.1)	61.34	57.45	6.8
Interest	4.90	10.58	(53.7)	13.27	20.60	(35.6)
Depreciation	10.47	9.80	6.8	20.98	19.29	8.8

- Employee cost increased due to:
  - Impact of annual increment and increase in recruitment and training expenses.

Profitability Analysis

Particulars	Q2FY17	Q2FY16	%	H1FY17	H1FY16	%
PBT	21.66	20.74	4.4	44.10*	39.41	11.9
PAT	15.41	14.78	4.3	31.12**	28.13	10.6
EPS (Rs.)	1.33	1.41	(5.7)	2.70**	2.69	0.4

*Excluding exceptional gain of Rs. 70.8 crore on account of sale of land and surrender/assignment of leasehold rights in land at Pune
**Excluding exceptional gain as above of Rs. 54.4 crore Net of Taxes

Statement of Borrowings

Secured Loan & Net Debt/Equity as on 30th September, 2016

Particulars	Q2FY17	Q2FY16
ECB	135.15	204.46
Rupee Term Loan	77.19	97.52

Other Loan Funds (Includes CC)	264.53	238.79
Total Loan Funds	476.87	540.77
Debt/Equity Ratio	0.85	1.44

Capital Employed

Particulars	*Q2FY17*	*Q2FY16*
Capital Employed	1,099.86	961.74
Less : Capital Work in Progress	21.78	24.02
Less : Investment in Deepak Phenolics	152.61	33.78
Capital Employed in Operations	925.47	903.94