"Deepak Nitrite Limited's Q4 & FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Deepak Nitrite Limited's Q4 & FY2021 Earnings Conference Call, hosted by Antique Stockbroking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Anubhav Adlakha from Antique Stock Broking. Thank you and over to you, Sir.

Anubhav Adlakha: Good afternoon everyone and thank you for joining us on Deepak Nitrite Limited's Q4 & FY2021 earnings conference call. Today we have with us Mr. Maulik Mehta, Executive Director & CEO, Mr. Sanjay Upadhyay, Director, Finance & CFO and Mr. Somsekhar Nanda, Deputy CFO. We will begin the call with opening remarks from the management team followed by an interactive Q&A session.

At the outset, I would like to clarify that certain statements made or discussed on the conference call today may be forward-looking in nature and a disclaimer to this effect has been included in the investor communication shared with you earlier.

To begin, Mr. Maulik Mehta will share views on the operating performance, the growth plans of the company followed by Mr. Sanjay Upadhyay who shall take us through the financial and segmental performance. The result documents have been shared with you earlier and also have 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 very warm welcome to you on Deepak Nitrite's Q4 & FY2021 earnings conference call. We have shared all our results documents and I hope you have had the opportunity to look at them.

Unfortunately, as we speak, India is witnessing a devastating second wave of the pandemic which is more virulent than what we saw during the first wave. Various states in the country have imposed different kinds of lockdown while trying to balance twin considerations of lives and livelihoods. Deepak Nitrite is doing its bit to help the society during these very testing times through focus on healthcare and livelihood. Apart from taking the responsibility of vaccinating all of its employees and spouses, the company in partnership with its philanthropic arm has put up a 40-bed COVID care center with ICU and oxygen beds, purchased and deployed medium and large size oxygen PSA plants at nearby facilities. This is in addition to expanding medical and life insurance coverage for all employees and workers. We will continue to monitor and see what best we can do to go above and beyond in what we believe is our responsible duty.

In this backdrop, I will give you a brief gist of our performance during FY2021 and how we are preparing ourselves for the coming year. Mr. Upadhyay will then provide you with more granular details of our financials.

With last year situation in hand, the best choice for DNL was to be more nimble footed given the uncertainty of external conditions. The internal processes such as people management, supply chain and processes were all closely monitored, and every effort was taken to optimize productivity. The team derived immense satisfaction that despite the loss of one month of production due to last year's lockdown, we were able to record growth in the second half that erased the effects of the first half which enabled us to conclude our Golden Jubilee Year on a positive note with growth of 3% in revenue accompanied by about 29% growth in bottom line. By competing in both domestic and export market, the company was able to maximize utilization of its facilities resulting in higher earnings. All the numbers referred to during the call are consolidated unless mentioned otherwise.

Despite the severity of the second wave, the company continues to operate at elevated productivity levels in all its facilities while complying with Government regulations and safety procedures. The board has recommended a dividend of Rs. 5.5 per share in FY2021 equal to 275% of face value to share the benefits of sustained growth and maintain focus on value creation for all stakeholders. This does include a 50% special dividend to mark the company's 50th year of operations.

Now in the backdrop of a challenging macroeconomic environment, Deepak has delivered a robust exit in FY2021 on the back of a stellar performance in the fourth quarter. Revenues in the fourth quarter were Rs. 1,469 Crores higher by 39% year-on-year and 19% on a quarter-on-quarter basis. This was bolstered by volume as well as realization gains in the phenolics business that witnessed an incrementally favorable demand environment in the end-user industries. Revenue growth was also supported by basic chemicals and fine & speciality chemical segments, which witnessed volume growth and price firming.

EBITDA at Rs. 461 Crores in Q4 was higher by 75% year-on-year and 36% quarter-on-quarter. EBITDA margin improved to 31% as a result of positive pricing scenario, increased plant productivity and higher operational leverage. DNL was able to build on the current buoyant realization for the phenolic product basket thanks to an improvement in plant productivity by the operating team, which was supported by efficient material handling and logistics.

PBT for the fourth quarter was Rs. 390 Crores higher by 94% year-on-year primarily owing to strong results in the BC, F&S and phenolic businesses. Apart from DPL's positive performance, profit before tax improved due to lower interest rates as a result of substantial debt reduction over the last year. Mr. Sanjay Upadhyay will share more color on this in his remarks.

PAT was at Rs. 290 Crores in Q4 higher by 68% year-on-year as a result of better operational and financial efficiency, further aided by the revenue growth. The ongoing global pandemic has put our business model to test, and I am happy that we have emerged through the circumstances, as a stronger and more confident organization. We believe that the steps that we have put in place to improve our internal practices and ensure that the quality of profitability is high will continue to benefit us in the future. We believe that the growth trajectory will continue across all of the SBU fueled by increase in capacity from Brownfield expansion, new products that come out of Greenfield capex's and continued strong demand from our target end segments.

Coming to segmental performance, the basic chemical segment grew by 9% supported by strong volume growth as a result of a sharp turnaround in key end-user industries along with higher realization for specific products. This was achieved despite a significant increase in raw materials almost across the board as the company was able to pass on a lot of the cost. Fine & Specialty segment reported a 30% revenue growth backed by volume increment of 15%. The performance was upheld by strong demand and an appealing product lineup that is tailored to a broad diverse array of applications. The performance product segment reported lower revenues in Q4 due to the impact of DASDA pricing in the base year which is exceptionally high, and it is extremely low at present. However, due to strong demand there is a segment volume increase of 12%. We have to keep in mind that there has been significant impact from raw material price increases in performance products and the nature of the business here is that most of the revenue comes from contractual agreements which require either a price pass-on or a review over a quarterly period or somehow at some points a fixed price in hold for three- or six-month period.

Deepak Phenolics delivered an outstanding performance with revenue growth of 77%, EBIT expanded by 319% year-on-year translating to an EBIT margin of 28% while 12% in Q4 last year. Plant efficiency measures culminated in utilization levels exceeding 115% of defined capacity versus 98% last year. As a result of healthy demand and the firm realizations during the quarter, revenue for both phenol and acetone significantly increased to last year's level. With a tailwind of an economic recovery, coupled with a stronger balance sheet, we are set to progress on our growth plans. During the quarter, land development in our newly acquired Dahej site, 55 acres out of a total of 127 acres is nearing completion. The site will support capacity enhancement for key products in a standalone business and will be developed in stages. Plans for forward integration products based on phenol and acetone are being finalized and we will be sharing them at an appropriate time.

On that note, as we step into the next financial year, we are confident that the current challenges in the global and specifically in the Indian economic environment not withstanding DNL is well equipped to evaluate the emerging growth prospects in end user industries. Focus on people's first mindset, ensuring man and material safety is the most responsible step for us that will form the thesis of our performance.

Besides this, with a distinct shift in chemical supply chain towards a China plus one policy, DNL has the potential to capitalize on the opportunity and accelerate in the near to medium term. I would like to add one point that throughout FY2021 for almost all of our products we as a company have either maintained or gained market share with all of our key accounts. This gives us confidence that with product mix and decades of manufacturing experience and a good synergy between the value that we aspire and the values that our customers aspire, Deepak is a perfect choice to lead this movement of the Indian chemical industry becoming a global player.

Thank you and I would now like to hand over the call to our Director – Finance & CFO, Mr. Sanjay Upadhyay to address this forum and briefly take you through the financial performance of the period under review.

Sanjay Upadhyay: Thank you Maulik. Good afternoon everyone and thank you for joining us today on Deepak Nitrite’s earnings call. I will walk you through the highlights of the financial results for the quarter ended March 31, 2021.

During the quarter under review, DNL witnessed volume gains across most of the products signaling a solid recovery. Market share of key products was either retained or increased. Revenues expanded by 39% to Rs. 1,469 Crores in Q4 FY2021 owing to volume as well as realization gains in the BC, F&S and phenolic segment. EBITDA reported at Rs. 461 Crores higher by 75% translating to margin of 31% versus 21% in Q4 FY2020. PBT grew by 94% to Rs. 390 Crores while PAT enhanced by 68% to Rs. 290 Crores.

Moving to a segmental performance, basic chemicals reported revenue of Rs. 245 Crores in Q4 FY2021 up by 9% from Rs. 226 Crores in Q4 FY2020. The company's performance was fueled by sharp increase in volumes as a result of a rebound in key and user industries. EBIT increased by 27% to Rs. 71 Crores with an EBIT margin of 29%.

Fine & Specialty Chemicals segment revenues grew by 30% to Rs. 206 Crores in Q4 FY2021 as compared to Rs. 158 Crores in Q4 FY2020 supported by volume gain of 15%. EBIT improved by 58% to Rs. 80 Crores with EBIT margin of 39%.

PP segment reported revenue of Rs. 87 Crores during the quarter under review. Overall volumes in PP segment improved by 12% in line with the opening up of the economy.

Phenolics registered solid performance with revenue expanding by 77% to Rs. 938 Crores in Q4 FY2021, EBIT enhanced by 319% year-on-year translating to EBIT margin of 28% versus 12% percent in Q4 FY2020. As a result of healthy demand, revenue realization of both phenol and acetone increased significantly over last year.

On the balance sheet front, company financial status has significantly improved, and it is progressively reducing debt through cash flows. Deepak Nitrite has not only attained debt free status in fiscal in the standalone entity, but also steadily built-up surplus funds of Rs. 125 Crores which have been invested in liquid funds. During quarter, DPL prepaid its project term loan by Rs. 100 Crores without any prepayment penalties in Q4 out of the total repayment of around Rs. 265 Crores made during the year. The future interest rates will be significantly reduced as a result of this. As March 31, the consolidated net debt equity ratio is 0.15 which is healthy.

Reflecting the strength in its financial position, ICRA Limited and CRISIL both upgraded the long-term rating on bank facilities of DNL from ICRA AA- to ICRA AA and CRISIL AA- to CRISIL AA. ICRA also reaffirmed short-term rating at ICRA A1+ on bank facilities as well as commercial paper program of DNL. While CRISIL Limited reaffirmed short-term rating is CRISIL A1+. For DPL, ICRA Limited has upgraded long-term rating for ICRA A to ICRA AA-, ICRA has also upgraded short-term rating for ICRA A to ICRA A1 plus on bank facilities of DPL.

With that, I would like to request the moderator to open the floor for question & answer sessions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and session. The first question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: I have two questions, on Deepak Phenolics, so if we draw down on the results that we are successfully bringing down our operating costs despite increasing the utilization levels on the phenol acetone side and I presume that even IPA cost is also included in the numbers so probably the standalone the phenol acetone plant would have been showing more cost efficiencies especially on the power cost. So, on a Y-o-Y basis if we see the power cost is down despite of increasing the utilization levels so if you can share like as Maulik always says that our focus is more on reduction in the operating cost through process innovation and end finish product prices are not in our hands so if you can discuss some of the steps which we have taken over last two years in bringing down our operating costs at Deepak Phenolics. And a related question to this is so if we see in the western world, most of the raw material plants like crack, propylene as well as benzene are near to the phenol acetone plants which gives them leeway in the logistic cost, so how we are tackling this issue here because probably benzene is available nearby but if we see propylene either we have to source it from some long destinations or probably importing them, so what is Deepak Phenolics doing in terms of bringing down our logistics cost in order to make us more and more competitive.

Sanjay Upadhyay: Let me answer that. Nirav, the point what you said is very right and if you are attending our calls in the last three, four years we have always been saying, that we can run the plant efficiently, we know our team, we can do much more than anybody else is doing and if you run your plant beyond 100%, if you run your plant at 115%, 120% that to on a continuous basis that adds significant advantage to your operating cost, your overhead cost is spread over large volumes so it reduces that, any component of cost will have a fixed and variable component both and fixed component gets distributed over the larger and larger volumes. The key here is how do you utilize your plant to maximum, these are the products which of course we have been saying from the beginning it is a bulk commodity, it is more important to run your plant more efficiently. We cannot do anything in the market, of course market is in our favor, of course demand is growing, but then our operational efficiency, we have to manage that sufficiently and that is what we are doing. I must add one more point after Maulik took over. In fact, we are the only team, we have a president-level operational excellence now, can you imagine in a chemical company like us we have operational excellence so that makes a big difference. His job is to see that constantly he monitors all the parameters, power, furnace, raw material where we can improve, how to improve and constantly guiding our team to perform. So I mean how efficiently you manage that makes all the difference, we are demonstrating to the world that what we can do and you see the performance we are always crossing the expectation of the market, this is something we ourselves feel proud of that whenever we promise something we over deliver, so numbers are in front of you.

Nirav Jimudia: But Sir I presume power cost is predominantly a variable cost?

Sanjay Upadhyay: Not 100% Nirav. Of course, we take steps, we get energy audit done, we do everything, every alternative year we do an energy audit, we also have internal audit that tells us what is okay and what can be improved and also bring things to our attention, this is the part of our process and that is where our strength lies.

Nirav Jimudia: What I also presume is that since our power plant may be also in the process of getting commissioned it will further bring down our power cost? .

Sanjay Upadhyay: Of course, in the second quarter, it will.

Nirav Jimudia: If you can explain what steps we have been taking in terms of reducing our logistic cost?

Sanjay Upadhyay: That from day one we have started, this squeeze is again you are actually at the right point. This logistics costs we knew is a main area for us, we do not have that advantage like others what you mentioned so we have to manage the logistics more efficiently. Benzene fortunately for us OPAL is there, its there in the pipeline and distance, but then propylene it comes from a distance but here also we have the right person who actually compares the rates. What is really beneficial is rail, road or sea, how do we transport, how do we take care of shipments, we have GPS system to monitor. Everything is done in a way where you do not lose out on anything how fast you can rotate your tankers, how fast you can move your trucks and so we have a special agency to work out these things, a person who is really expert in logistic so again it is our team performance, otherwise distance I cannot do anything.

Nirav Jimudia: That is true but let us say like you mentioned on the pipeline side in terms of some more logistic advantages in terms of some new propylene plant probably may be coming near our plant which can help us.

Sanjay Upadhyay: Of course, no doubt on that if that happens that is good.

Nirav Jimudia: If Maulik could add some point to this that would be great..

Maulik Mehta: As Mr. Upadhyay has already covered, I can just add that I still remember Mr. Mehta's one point to a group of investors, he said that sometime the phenolic business seems like we were actually running a logistics company that happens to make phenol and acetone. I think here again it is the pennies that take care of the pounds, we do software modeling, we do a lot of analysis about how we can manage material movement without risking too much. So, we are of course in a country where there is a benzene surplus. We need our suppliers but just as much our suppliers need us and therefore, we are able to balance a good short-term and long-term relationship and right from the beginning I think Mr. Upadhyay has mentioned this previously also we de-risk our supply chain because even though we could get better discounts we do not just go with one or two suppliers. We actually spread our volumes which are significant, and we are probably the largest merchant buyer of benzene in the country. So, we have to actually spread it, and this has actually helped. Now there is a new benzene plan that is coming up in Bhatinda, so we continue to see small, medium and big opportunities to optimize our supply chain so this will continue to remain a good stress for us a good muscle that we have been supposed to develop we had no choice but at times like this we certainly add the feather to our cap.

Nirav Jimudia: And also the vision of Mr. Mehta would have helped us, like we initially started with a basic chemical phenol plant and then diversified or moved towards speciality as compared to other companies. They focus first on speciality and then probably going backward integration where probably the cost push is higher in terms of capex and everything so I think our strategy has worked very well in terms of first setting up the basic chemical plant and then moving towards speciality.

Maulik Mehta: That is not so simple, it is not one trick for me. Again, in this case this is what we did with phenol, but with another business we may go the other way around. It always depend on one very simple question that we ask ourselves, what is the right to win that the company has, is it by going downstream because we have a particular relationship with the customer and then working upstream or is it going upstream because we have a better relationship with the supplier. And what is the technology that is used is it something which gives us a benefit or not, or not so nothing is a one trick for me. But in phenol, we certainly took a decision to start with the basic and then move downwards instead of the other way around. Luckily, there is a lot of downstream applications of phenol which are all import substitutes, many of them are now manufactured in India and there is ample opportunity.

Moderator: The next question is from the line of Nitin Tiwari from Yes Securities

Nitin Tiwari: I had a couple of questions. First of all, as Mr. Mehta pointed out that there has been a strong end user demand from a number of industrial applications if you could elaborate on where we have seen growth in demand and in what end user industry. Overall business where is the demand growth coming from in case of phenol and acetone and also in the specialty chemicals, also for basic chemicals, so if you can just give some flavor around that?

Maulik Mehta: In Deepak Nitrite, agro chemicals they continued throughout the whole year to see a strong demand so the products which go into unique applications like personal care. In Q3 and Q4, we saw resurgence in the demand for dye intermediates, so right now the situation is similar status quo to what we saw in Q4 in terms of which industries are doing very well. Paper as a segment, I have mentioned in Q2, Q3 and now in Q4, volume is resurgent, prices will come in line and we have to see the impact of Q1. But as we have mentioned earlier, we have a very good balance between domestic and export and customers really do appreciate Deepak's products, so where we find that there is more opportunity for export demand as compared to temporary local demand, we are able to adjust very easily.

Nitin Tiwari: In case of phenolics, what has contributed to growth demand?

Sanjay Upadhyay: In phenol when I say demand is good it is phenol India demand which is certainly growing, no doubt about that. We have seen that in the demand in pharma is also growing, there are new plants which have come up. It is a combination of three, four factors. China is actually now importing phenol so there is a short supply there, some plants in US are again in trouble on phenol. The advantage as a local player has to be there. Our whole concept of setting a phenol plant was there was no major plant in India, it was only small two plants. So regional advantage has to be there and now you can see in this situation where the commodity prices are going up and sea freight are also going up. It is extremely difficult for people to import and sell in India. We have to encourage huge growth, so Indian demand is growing, India's infrastructure is growing, India's pharma is growing, China is growing parallelly, so there is a problem of supply, so all this is going in favor of phenol, so this is what is making big difference in phenol. And our own efforts are also in play, we are able to supply 125%, 130% at times to the market now this is why it makes the whole difference. Sometimes if you find that there is over supply in Indian market, we are able to export. This is one more thought, when earlier in good all days, nobody would imagine India is exporting, but we are exporting, so combination of all these in the sector are the drivers for growth.

Nitin Tiwari: Great, that is good to know. Price in particular have been helpful, so how do you see that trend involving?

Sanjay Upadhyay: Phenol prices are going up, acetone has also gone up, in fact IPA has been doing well in first quarter, to some extent in second quarter, IPA has gone down in last two quarters, but ultimately it is a basket of products, something works very well something may not.

Maulik Mehta: I could add one point here. A lot of these products like phenol and acetone, similarly the products we have in basic chemicals. Now, you the investor community love to classify them as basic chemicals and basic implies simple. But what we mean when we say basic chemicals is that in many cases these are full so what is important is to make it at the right cost and to make it at the right quality and there is not one single end application, there are various applications and many of them is at way more quote-on-quote basic level for our end segments so they are part of a whole basket of other products that are used together for their application, so this allows us to de-risk instead of being over dependent on a single application, phenol by itself goes into I think about 8 or 10 applications which are significant in scope and in consumption volume. Now all of them have good international and domestic demand CAGR. You will see a similar situation even with the products with us in the basic chemical segment even if you have for example sodium nitrite or something situation where water treatment it may not be doing well, dyes is doing well, if dyes is not doing well, food preservative is doing well. If that is not doing well, oil-well chemicals are doing well. These are large things for these products and their demand requires a particular quality of basic chemicals and Deepak is really a global stalwart in both quality and in reliability for many of these products.

Sanjay Upadhyay: I would like to add to what Maulik said and what he says is very right. If you see our model, now last year as you know the performance grew because of DASDA. Now this year if you see basic and fine & speciality is doing exceedingly well, of course I cannot say 45%, 46% marginally here to stay, but we have done something right that is really worth so by giving you a product contributing EBITDA margin of 37%-42% which earlier used to be in the lower range than this. So this is where, we are at the right place with the right products, this is our business model, it is a de-risk business model. You people call it basic but basic is giving 30% EBITDA margin and there is nothing called basic, nitrite is one of the prime products for us, so it is a combination of products and applications how efficiently you run business and this is what the whole thing is about.

Nitin Tiwari: What was the capex for FY2021 and what is the planned capex for FY2022, basically investment plant? And the capacity extension that we have planned if you can just elaborate a little bit on that?

Maulik Mehta: I can tell you what we have announced. I cannot give you the firm number but what we have announced is about Rs. 300 crore of capex in FY2022 this is in Deepak Nitrite, we have not yet announced the capex that we are looking at in the phenolic business. In FY2021, the primary capexes were for Brownfield expansion and if I am not mistaken, I think that was to the tune of about Rs. 150 crore to Rs. 200 crore in Deepak Nitrite and I think about Rs. 100-150 crore in phenolics.

Nitin Tiwari: On the capacity expansions that you announced, could you elaborate on that and where are we adding all this capacity??

Maulik Mehta: The ones that were in Deepak Nitrite were commissioned during the year and you have also seen that there is a volume uptick. Now in phenolics that will happen in the first half of FY2022. Ones that we had announced last year, I think about 10 months ago. You very well know what we have announced and that is the power plant and IPA and we have not announced newer capital investment yet in phenolics, in nitrite it is the Rs. 300 crore that we have talked about for growth and we will be looking at some Brownfield.

Sanjay Upadhyay: Total capex in Deepak Nitrite would be around Rs. 400 crore, Rs. 300 crore as Maulik rightly said in growth capex, and Rs. 100 crore would be in the existing Brownfield expansion, the products, everywhere we have an opportunity to expand demand is moving up, so we are expanding the current capacity also few of our plants. So, it would be in the range Rs. 400 crore total, now how much we spend, there is again uncertainty, because labor is not available and there are issues. Last year also we have similar issues, it has actually worsened further, do those things are there, but here we try our best to see that how fast we can come up with the additional new capacities.

Maulik Mehta: I want to make one point very clear that for the investor community it is very important to know how quickly we will go ahead with Brownfield, Greenfield etc for us, yes profit and growth is important but we have to be very responsible here, lot of this investment and growth requires manpower that will be putting the projects up in places where other people are working you understand and therefore for us what is the most important priority in today's environment is man and material safety. We will never do anything that endangers that and you are all rest assured that growth is something which we are very keen on doing we are well set up to do it, but we will do it very responsibly our first responsibility is towards the 2,000 families that are depending on us.

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

Rohit Nagraj: The first question is on the commentary that you made, you mentioned that you have seen market share gains across segment as well as products. Now was it due to import substitution because of the COVID-19 issue or probably because of the smaller players currently not operating or operating at low utilizations or probably going out of the system, so what was the reason and whether we will be able to maintain this market share going forward?

Maulik Mehta: Yes, to all of your questions, because you had three or four in all, so the short answer is yes. It is not just whether our co-producers are able to produce or not it is about the trust level that is there between us and our key customers in some cases these are implicit in the kind of relationship that we have, in some cases they are explicit in the form of contract, short medium, and long term. So, we have focused on giving a remarkably high deliverable in FY2021, in FY2022 our focus is to continue along that and focus on quality of deliverable. So, we continue to ensure that our customers look at us as the first port of call-in terms of getting the right quality, the right price and consistently. We have demonstrated that in the last year we look forward to demonstrating that again, the more you demonstrate it, the more confident they become and other manufacturers who will tomorrow use your products become at stopping the search when they meet Deepak, they do not go around shopping continuously. They are happy with the relationship that they have, and we count some of the world's best companies amongst our customers and all of these companies have had good long-term relationships with Deepak in various capacities.

Rohit Nagraj: I understood, that is really good to hear that we have the strongest capabilities and relationships with our customers. Second question is in terms of the phenolics business. Now our IPA is also settled so in three years time, how much of our phenol acetone IPA volume, will be utilized for forward integration in terms of value-added products just maybe a percentage will also do and then from a long-term perspective, how do we look at this business so we will be completely integrating downstream or will have some portion for external sales and some portion will be utilized for capital consumption?

Maulik Mehta: We have our plans to grow in terms of our own capacity, but at the same time, chairman has already given indication that the right strategy should be to have plans to internally consume between 25% and 30% of a basic chemical that gives us that resilience in value chain but at the same time we have successfully created a niche, a good niche for ourselves in our domestic market and we intend to maintain that market share. So, whatever it takes for us to go downstream and into internally consumed and maintain the market share is what we would look forward to doing. Mr. Upadhyay if you want to add any color?

Sanjay Upadhyay: As you rightly said Maulik, we have been saying this around 30% to 35% will be captively consumed. In fact, today we are running at 130% capacity utilization, but we will not let go any market share for sure. So far, we want to go more forward integrate and consume 30% to 35% ourselves and then think of further depending on the market situation how do we go further in phenol and acetone, so this is the whole roadmap, we are clear on how we go about in next three, four years, all our steps are very clear, we have worked on this and we are fairly clear on that.

Moderator: The next question is from the line of Swarnabha Mukherjee from Edelweiss PCG.

Swarnabha Mukherjee: I have few questions. First one on the capex side again so the investor communication gives very interesting details in terms of how you are going to utilize your existing technology platforms and also focus on new platforms like fluorination and photochlorination so just wanted to get some more details on this, in terms of what kind of opportunity size, you are seeing of bringing in this platform and this Rs. 300 crore growth capex that you were planning for FY2022, how much do you think would be in terms of revenue potential? Additionally, could we also expect further announcement in terms of capex during the course of year?

Maulik Mehta: I will answer the first one. I need to mention that we look at this slightly differently from the way that you would have heard us before and we also look at this slightly differently from the way that other companies announce their new projects, so what we have said is that we are investing in Greenfield project in the new site, and these will in addition to our existing technology platforms add fluorination and photochlorination. So, what I want to clarify is that these are platforms we put up, the processes we put up, the towers we put up, the reactors and we have a good stable products that we are looking forward to making, but the important point is that they fit very nicely with our existing value chains also.

As we have mentioned in the past, we have a very strict template that we follow for any new investment which we call 'Deepak's Right to Win' and that means there must be a good reason why Deepak should invest in this product not just because it is currently looking very attractive, but because in the worst of situations I will give you a small example when we do our internal evaluation, we ask ourselves at the lowest price of the last three years and the highest raw material price of the last three years, would we still be able to make enough money to have between a three to four year free cash flow position. If the answer is 'yes' then we know that in the best of times we can certainly do as well as we can, but we should be able to manage it in the worst of times, we should know whether new capacities are coming up elsewhere in the world which may be better integrated than us etc., we should have a good understanding of the market as the market is growing in double digits so all of these things have certain weightages that they play. But if the answer to a pertinent question is 'no' then we very seriously do not look at that it will really require some sort of a mammoth rationale to study some product opportunities if one of these criteria is a no. Included amongst this is also that we must be able to do what we want to do in terms of our margins and growth potential without risking environmental consensus standards. So we will not look at products which have a very low yield where there is a lot of effluent that has to be taken care of, we are very focused on ensuring that what we invest in, it is something that is sustainable in the medium term and in the long term and wherever possible we tie up with good anchor customers.

So, if you ask what is the topline of this is or what the bottom line of this is, it is very easy to extrapolate from what I have said. When you target a Rs. 300 crore investment, you target a three to four year free cash flow position, you will be able to estimate what kind of topline and bottomline we are looking at. And again, as I mentioned before this is for us to integrate, the new platforms with the existing core technologies that we possess, the investment is into products which will use all of these platforms in some permutation & combination to give us value-added new products. Any announcement about new investments of course we have plans when we choose to make those announcements will matter significantly on where we are along the process of internal and board approval. Also, we would not announce until we have all the loose ends tied up.

Swarnabha Mukherjee: Thanks for the detailed explanation. Couple of other quick questions. First one in terms of the realization growth that you have mentioned in basic chemicals or Fine & Specialty chemicals so one thing to understand is there a factor of product mix change or would it be a factor of raw material demand in a particular sector what would be driving the sustainability of that and then eventually sustainability of the margins in basic chemical segment?

Maulik Mehta: No, it is a very mixed answer. I can give you a simple example. The prices of most petrochemicals have gone up significantly so as the price of crude, but so has the price of things like aniline, so has the price of chemicals like ammonia. Now these are currently at higher prices than we have seen in years with many cases we are able to pass these prices onwards because it is not just Deepak that is experiencing these price rises. It is all over the world and we benchmark our costs against the best in the world so today if I had to compete with Lanxess or BASF in Germany or with China I have to compete with them. So, I have to see what best I can do to get my raw materials at a price that is at least reasonably competitive to any of them, because otherwise I cannot just say that yes BASF or China or Lanxess or somebody else, it is able to make it at lower but still come to me. No. I have to really justify not only the quality but the cost of my product. So in basic chemicals and in certain products it is easier for the cycle between cost increase and price increase to be short. In some products where there is more of a long-term relationship where the contractual clause is to look at price reviews every quarter. We had to absorb the cost increase within the quarter and look at how best we can ensure that we are able to pass it on the next opportunity that we have to review. So, a lot of this is dynamic and if you ask me at a point where we have just managed to pass on a cost increase, I will show you fantastic numbers, but that does not by itself give a good justification of which is a better strategy. This is a good mix of short-term and long-term relationships that we have fostered.

Sanjay Upadhyay: But to answer your question, EBITDA margins in basic chemicals have expanded as a result of lot of efforts, market has grown, people have shown interest to stay, whenever we talk, we are in top of range so you do not just take 30% of this. But yes, the whole range has gone up from 27% to 30% in basic or the fine & speciality from 37%, 38% to 42%, this is how the range has moved. And the product mix of course there are 5, 6, 7 products amongst that and then depending on the demand and supply, some products will suddenly go up, some products will go down that is a part of that, but product basket has remained same, the volumes have gone up. It is not that product changed but the volume has certainly gone up. Supposing we were running in the first couple of quarters with a 50% manpower so we had to select those products which are more beneficial, more in demand and what the customer wants. So, this is how we manage the whole operations, so the margin is combination of all these. And we have actually worked on this and how our margin is sustainable. Except we are comparing or looking at a year, which was very abnormal, due to COVID. Like paper industry has not done well, textile was not doing well even today they are not doing well, oil industry has not done well so those kind of products have really suffered, but others have picked up because our product applications like Agro did very well, pharma did well so this is where we go.

Swarnabha Mukherjee: One book keeping question, in the presentation you have mentioned I think the volume of the performance product segment has gone up 12%, so just wanted to understand is that a quarter-on-quarter comparison?

Sanjay Upadhyay: Yes, for Q4 it is quarter-on-quarter

Moderator: The next question is from the line of Onkar Ghugardare from Shree Consultancy.

Onkar Ghugardare: I just wanted to know what was your gross block and what kind of asset turnover you are expecting?

Sanjay Upadhyay: You can see from balance sheet itself.

Onkar Ghugardare: I was looking into what can be the asset turnover.

Sanjay Upadhyay: Normally we look at 1.75 to 2x, 1.75:1 or 2:1 normally but it depends on again volumes it has a strategy somewhere if you are working forward integration, backward integration then it can be a little lower or higher also, but normal range of this 1.75: 1 or 2:1.

Onkar Ghugardare: Okay, the second question is everybody is talking about China plus one policy and the companies are also doing fabulously well. My question is that, what can go wrong in this place where everybody is going about this chemical space and are we as a nation or policy makers are doing enough to take market share from China or is it just like because there is a China plus one sentiment everywhere India as a country is getting some amount of market share from it.

Sanjay Upadhyay: Actually, I do not understand this question itself and people keep on asking China plus one and policies. When you analyze the company, any company you see the performance of class or forget about Deepak Nitrite you will see the chemical segment for last 10 years and I am not talking about last year or year before that.

Onkar Ghugardare: My question was not regarding the sector?

Sanjay Upadhyay: Sector only I am saying so for understanding the sector you just see the chemical industry how they have performed, most of the companies, good companies. You take for example RPU or any good company and you will see a trend that last 10 years they have been growing every year. It is not that overnight something has happened and people are saying China plus one is there today, what will happen tomorrow it is nothing like that. Otherwise, how can somebody put up capex, how can somebody grow if this is the fear everybody keeps in mind that China plus one will get withdrawn, then you would not have set up the phenol plant at all. I am sorry there is nothing called China plus and of course people are looking at China plus but frankly it is the chemical segment per se it is bound to grow there is no doubt. This is the only industry where applications are huge and everywhere if the world is growing, chemical has to grow because everywhere you find chemicals and the fact remains that China what it was 10 years back it is not the same China, so it is not china plus one, but the people how they look at India that is more important. China plus one could be anything, but Indian industries are doing well, China's chemical industry is not the same as earlier, it has changed from the last 10 years, it's not a change that came in yesterday or day before, it is not because of the pandemic or anything. This is here to stay, there is nothing as such like what will happen tomorrow, it is not possible. It cannot go back on this.

Maulik Mehta: From my side, I have similar view but slightly controversial, I believe that in the last one year, one-and-a-half years, our Government has done a lot say Atmanirbhar Bharat, let us forget the happening of the last one month, one-and-a-half month but in general, the Government has looked at different levers to make manufacturing in India a more attractive option. Now I believe that Atmanirbhar Bharat is a good interim step but looking at it as a final step I think is a mistake. What we should look at is Atmanirbhar Bharat until the intermission and then after the intermission for the rest of the movie Global India. We must be making in India for the world if we make in India for India then we restrict ourselves to national scale and as we are seeing in phenol and acetone, the difference that we are seeing today between Deepak Phenolics and its next largest domestic competition. Look at the difference in the operational costs, look at the difference in the margins, that is the difference between national scale and international scale. Now that does not mean that on every single item and every single product everything has to be largest in the world. But we must think in terms of what is the operational efficiency that we can drive by putting up something which is really a global scale because then however the market changes and see that India as a consumer is growing very fast, one of the fastest growing countries in the world in terms of consumption. So the Indian population with its size and its aspiration is also demanding and consuming more chemicals, so global India should be the ideal destination not Atmanirbhar Bharat. In the meanwhile, what I can also share is that China plus one is not just about China but it is also about India, it is also about other countries like India. The reason that Deepak is attractive to its customers is because one, we have a large variety of competencies in technology, and we manage them efficiently and sustainably in an environmentally sustainable manner.

Second, we are able to demonstrate on a daily basis that we have the same values as they do. We are part of the Nicer Globe alliance, we are part of together for sustainability initiatives, we are accredited with responsible care, now these things may not mean much to a lot of Indian companies because they are not used to it, but these become significant motivating factors for European and American companies to look at Deepak not only because we are the cheapest but because when they are audited by their activist investors and their shareholders. When they say that Deepak which shares similar values as they do is their key supplier for important intermediates that means that somebody who supplying to them cares as much about the environment will ensure that the material reaches them safely, securely and is managing all of its operations without cutting corners, ensuring that all of its workers, all of its employees are paid well, there is a good diversity, there is a good mix of solid financials and investment into our Indian growth. These are important for them, it is important for their investors and it is important for us so as you see China plus one is not just about a country and it is not just about ex-China, I can also happily tell you that in the last six months, we have done fantastic business selling to China also, so Deepak's products are sold into China at particularly good margins.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: I was looking at profits reported for phenolics in this quarter, it is Rs. 267 crore and then I look at the four quarters of the last year not the current year, those numbers are Rs. 59 crore, Rs. 24 crore, Rs. 41 crore and Rs. 64 crore, adding all up to Rs. 187 crore for the year 2019-2020 so that means a single quarter is made almost 40% more profit than the entire last year. Similarly, when I see the performance products profits in the current quarter it is a tiny sum of Rs. 3 crore and last year it was Rs. 419 crore and for the current year it is hardly 5% of the entire last year's earnings for the performance products, so is this some kind of a wide swinging lottery or there is some greater predictability about how the businesses would behave over period of time. I mean there can be some acute swings at a particular point of time I can understand but given the really large kind of swings in two businesses in opposing direction.

Sanjay Upadhyay: This question is too general, it is a easy equation number one and these questions we are answering from last two years on our performance and so we will need to take you through the earlier years performance also. So can I request you Mr. Bharat to get in touch with Mr. Somsekhar Nanda separately on performance and of course phenol if any understanding is required, Mr. Somsekhar Nanda can guide and help you in detail, for that you will have to understand the business of both the segments as this call will be too short a time to explain to you all these questions.

Maulik Mehta: In the long term, I will just mention one thing which we have said before, the right EBITDA for the performance products business should be in the range of about 18% to 20%. This is the right EBITDA, now there will be times where it is longer and there will be times where it is shorter.

Bharat Shah: Perfect. I do not have good understanding and that is the reason why I am asking. Yes, we will work around that, and I will be too delighted to know the company better. I will prefer to spend good time and understand. Thank you.

Sanjay Upadhyay: Better we can have a separate call on this with Mr. Somsekhar Nanda and understand the business and segments then you will be able to appreciate these things.

Somsekhar Nanda: I will reach out to you, Bharat bhai.

Moderator: The next question is from the line of Aashil Shah from CJ Shah & Co.

Aashil Shah: I just wanted to understand how you mentioned the right margins for the performance products segment, in the phenolics segment will you have any sort of estimate?

Sanjay Upadhyay: Phenolics segment you cannot say this margin or that margin, phenolics is again different and if you understand the business, it is not possible to say this is the right margin. Normally we would say yes in good old days, that our margin would be in the good range depending on the crack, benzene but the last two years the volatility is high, but one thing is clear that phenol how efficiently you run the business improves your margin. That is important here okay because this market is of course one part but then running the business efficiently is another part of it and the volume gain because the demand of phenol is growing. There is no doubt whatever be the margin. So, the demand is growing. If you supply higher volumes, you are bound to make more profit in phenolics. So, to give a particular range like Deepak Nitrite is difficult in phenol, but I can certainly say that our margins are any day better than whatever crack market is calculating and it would be much higher than say 15% than normal crack if you understand & follow the phenol business.

Aashil Shah: Understood Sir and the last question I had was how much of the acetone you would like to utilize for IPA versus selling it as acetone outside?

Sanjay Upadhyay: So, it depends how better you know, IPA was doing exceedingly well in the first two quarters last year. Then it went down. So, it depends. If the IPAs are doing well again, we will start acetone only for IPA. That is why acetone per se you are also having good demand. Acetone per se is also having good margin. There is no big calculation in that.

Aashil Shah: So, it is not that you are always running IPA at full capacity. We take a call based on that.

Sanjay Upadhyay: It need not be.

Maulik Mehta: Again, it depends on cost economics. I think IPA and acetone are some of the easier examples you may not think of this but for us the more challenging ones are how do you decide which product to give something like nitrite acid or hydrogen if there is a short supply? So, we are regularly doing things like linear programming to analyze where we are, what we need to do. So many things like this where the efficiency we are able to get out it is similar who someone like a day trader would look at it in terms where we should be and when we should be buying at what price and how we should be ensuring that we are able to utilize. Simple example is in the last three to four months is there an opportunity for us to buy from petrochemicals, from suppliers, dealers at a lower price than the index simply because they are in a hurry to refill their tanks at the port. So, we analyze tank refilling cost. The margins come from being sufficiently successful at managing so many different variables. IPA and acetone, we look at not just the margin of acetone and IPA, but also what it is that would drive the efficiency, this is a continuous process. We use it at 50%, do we use it at 100%. What is better not just on the basis of acetone cost and price but also on the basis of operational costs.

Moderator: The next question is from the line of Saurabh Kapadia from Asian Markets Securities.

Saurabh Kapadia: What was the utilization level? I believe you mentioned 115% plus so was it 120%?

Sanjay Upadhyay: It was more than 115% actually. At times it was more than 120% also.

Saurabh Kapadia: You mentioned about the two new chemistry platforms, so in terms of the new technology or the new chemistry are we developing our own product, or we are working with the customer to make some product based on newer technology?

Maulik Mehta: So, both. We are adding these platforms in addition to the existing platforms. Some of the products that we are getting into are the ones where we are working with the customer, but that customer is also an anchor customer. It is not the only customer and at the same time we have seen that there is enough demand in the market and enough growth opportunity to go downstream. So, we are also looking at supplying to the market and in some products, we are looking also at partially it is just going to be sold like that and partially it will be generally consumed. Partially it will also be looked at for new growth opportunity. Just to caution that the two platforms that we added does not mean that we are adding two products. We are adding more products. These are the two platforms we are adding to the existing platforms that we are investing into in the new facility.

Saurabh: Are we also looking at contract manufacturing opportunity for longer term basis?

Maulik Mehta: Yes, we have signaled that we are open to that. We have got some good interest. I can also share that, it is at a very advanced level. It is not just in terms of discussion, but we are fine tuning the long-term arrangement. Like I mentioned earlier, we are not a contract manufacturing company. So, this does not signal the bulk of our business. It also does not signal any change in strategy for the company. We have just said that we are open to opportunities and we are taking an opportunity but that just means that we are widening the diversity of our business relationship. This is not a right turn or a left turn.

Moderator: The next question is from the line of Tejas Sheth from Nippon India AMC.

Tejas Sheth: The Rs. 300 crore capex, is this part of the clean tech or is it something beyond that because I think in the last call Maulik had alluded that the board approval will be required for the next stage of this new subsidiary, which we have formed so is this part of the same capex plan or is there something other than that?

Sanjay Upadhyay: No, it is the same capex plan.

Tejas Sheth: Okay and on Deepak Phenolics, when can we see the next line of downstream products coming. I know we are adding IPA capacity. any new product lined up this year or early next year?

Sanjay Upadhyay: The products are already lined up its not that, but we are yet to take a call, as Maulik said in his opening remarks that yes, we are working at a much, much in advanced stage, but then to give you a right color we will have to wait for some time for the answer. It may be maximum a quarter or two.

Maulik Mehta: Actually, the technology providers have had to deal with COVID. So, the information exchange is lower than where it should have been. We would have like to be one or two steps ahead like we have been in Deepak Nitrite, but this is unforeseen and unfortunate. As Mr. Upadhyay mentioned, we are looking forward to being able to share good news, but we will look at it appropriately.

Tejas Sheth: This chlorination and photochlorination will also have similar application industries that is mainly agrochemicals and pharma?

Maulik Mehta: Like I said the applications are diverse, yes, there is a bias towards these if I look at the current set of products what we are adding to our roaster and again I must caution, do not think that the same product requires both chlorination and photochlorination and nothing else. There are additional steps.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Just a couple of questions from my side. Could you give us some sense on your phenolics utilization for FY2020 and for FY2021?

Sanjay Upadhyay: Utilization we just said it is 115%.

Tarang Agrawal: For the entire year, is it?

Sanjay Upadhyay: Yes.

Tarang Agrawal: What was it for FY2020?

Sanjay Upadhyay: FY2020 it was around 80% to 90%.

Tarang Agrawal: What proportion of your business do you have volumes visibility in terms of having some kind of take arrangement with your customers whether it is the standalone business or the phenolics business?

Sanjay Upadhyay: Let us talk of Deepak Nitrite first. Off take if you ask me a signed agreement of course we will have only for few products, but more or less our customers are there for years. Any products you take like sodium nitrite, so we know what their off take is. We are the only suppliers to them. So, agreement is not there, but by and large we know our business how much it will be next year. What kind of volumes they will take? Unless situation like COVID and this happens, we are fairly clear about our off takes next year in almost all the products.

Maulik Mehta: I can also add that even with COVID we have natured good relationships with export customers, so we are comfortably moving from domestic customers to an export customer or from one end application to another. For our fine and specialty business, most of the business, because we manufacture a particular product for a small group of customers, one customer in a small group so there we have good medium-term visibility and frankly we can say that okay by and large we have good clarity of those whether there is COVID or there is not COVID as long as we are able to manufacture and move material there is good visibility through the year or at least for the next six to nine months at any given time.

Tarang Agrawal: That applies to phenolics as well?

Maulik Mehta: In phenolics also there is a good diversity of customers and in any case like what happened in Q1 and in the beginning of Q2, think about it in this fashion that as a company we are constrained even by the size of our raw material storage or our finished goods storage in phenol and every day we manufacture more than 600 to 700 tonnes of phenol and then about 300 to 400 tonnes of acetone. Now in this kind of volume that we are talking about, we do not have more than a few days of storage for FG or RM. If we are able to continuously manufacture at utilization exceeding 100% you can imagine that we did find ways and means of selling both phenol and acetone and arranging raw materials for phenol and acetone even in the peak of the pandemic last year and even in the peak of the lockdown last year. So, we do understand that there are domestic risks, there are export risks, but we have identified enough derisking opportunities so that as long we are able to manufacture, we will see what best we can do to get the raw materials and fund the FG. We demonstrated it before, and we are confident about doing so again.

Moderator: The next question is from the line of Naresh Vaswani from Sameeksha Capital.

Naresh Vaswani: My question is, is there any delay on the capex front due to the enhancing capital cost that we are witnessing and secondly considering all the plans and the Greenfield and Brownfield projects that you have, what sort of EBITDA growth can we expect on FY2021 base for the next three years?

Sanjay Upadhyay: There is no delay on account of the capex or whatever you say nothing of that sort. EBITDA margin if you see again year on year, we are improving our margins. Margins have gone up significantly. In fact, all the segments so when you ask EBITDA you have to see across all the segments, fine and specialty, performance products so everywhere things have improved, and it will continue to improve. Every year we improve by 1% or 2% to 3%. For the two years, it has gone up by 6% to 7% to 8% so we are today at around 28% to 29%. So, it continues to grow.

Naresh Vaswani: On the absolute number in that growth, I wanted to know what can we expect for the next three years? The absolute EBIT number, based on your plans what sort of guidance you can give?

Sanjay Upadhyay: EBIT or EBITDA number that cannot be given, these kinds of guidance in particular we do not give. If you study our numbers and if you study our products, you will automatically come to know how it will go.

Maulik Mehta: I want to share with you our philosophy for investing. I think you should take the guidance from that.

Moderator: The next question is from the line of Dhruvam from HDFC Mutual Fund.

Dhruvam: In the earlier question you mentioned that the phenolics was operating at 115% for the full year of FY2021 or was it from Q3 that you increased it just for my numbers I just wanted to clarify?

Sanjay Upadhyay: The Q1 was of course down because one month it was closed due to lockdown.

Dhruvam: So, from Q2 it was operating at 115% consistently?

Sanjay Upadhyay: Yes, because Q1 was first month on an average I say.

Dhruvam: You shared the volume growth for the quarter for the two segments, basic and the fine & specialty can you also share the same numbers for the full year?

Sanjay Upadhyay: See when you see volume growth you have to compare the lost one month of production. My edge is that we have grown 8% to 9%.

Dhruvam: In the basic chemical?

Sanjay Upadhyay: Overall I am saying. The fine and specialty growth was higher of course.

Maulik Mehta: I think I can say that in Q4 at least baring perhaps one or two products by and large we have operated most of our plants at close enough to capacity. In some cases, we have exceeded capacity. Depending how fast we are able to unlock capacity that is how fast we will be able to grow volumes and we are awaiting some of the segments that were down in FY2021 and we have seen volume resurgence. We have also seen price resurgence, but unfortunately as I mentioned we have been impacted by raw material cost so we are working to see how all that stabilizes, but then we should be able to see increased volumes for pretty much all of our products baring perhaps fuel additives, which we are expecting to continue to see a tepid demand for at least the next quarter or two quarters, but even this we have seen very briefly in the metals that it was just about to turn around and the situation that was on the ground got bad again. So, fingers crossed we have to see but this is the guidance we can give for fuel additive. The rest of it we are seeing that we need to add capacity as quickly as possible.

Dhruvam: Sure, I was looking at the historical FY2021 if that is available readily or probably, I will take it later. For the full year like for example you gave the quarter volume growth for specialty at 15% and I believe that is basic, but if that is available for the full year?

Sanjay Upadhyay: That number you can get it. I told you 8% to 9% overall. You have to adjust for one-month loss of production and the compare.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Sanjay Upadhyay: Thank you all for joining us on this conference call. I hope we answered your questions satisfactorily. In case you have any further questions, or need any clarifications, you can get in touch with Mr Somsekhar Nanda our Deputy CFO. He will give you more details about the same. Thank you so much.

Maulik Mehta: Thank you from my side also. I know that the last one month has been a very scary month for all of us and I am happy to know that all of us share the same level of concern about the company, the economy, our well-wishers, our family I think that the same kind of perseverance and determination that we are very well known and famous around the world. I am sure that this too shall pass. I genuinely do believe that it is darkest before dawn and all of us together we should be able to see the light of dawn very soon. Thank you everybody. Please stay safe.
