Q3 & 9M FY2016 - INVESTOR COMMUNICATION

Deepak Nitrite Reports Q3FY16 Results

Continues to deliver strong growth in profitability

PBT increases by 51% to Rs. 22.5 crore, EBITDA grows by 18% to Rs. 41.3 crore

Mumbai, February 5, 2016: Deepak Nitrite Ltd. (DNL), having a product portfolio of Bulk Chemicals & Commodities (BCC), Fine & Speciality Chemicals (FSC) & Fluorescent Whitening Agents (FWA), enjoys a leading market position in most of its products in the domestic as well as global markets. DNL has announced its financial results for the quarter & nine-months ended December 31, 2015.

Financial Highlights

Q3FY16

- Revenues stood at Rs. 318.67 crore in Q3FY16 compared to Rs. 306.34 crore in Q3FY15 inspite of 12% growth in volumes. This was due to moderation in the prices of crude oil and related petrochemical intermediates. The volume growth in Q3FY16 compared to Q3FY15 was led by balanced growth in all three segments.

- EBITDA in Q3FY16 was Rs. 41.25 crore, higher by 18% compared to Rs. 35.02 crore in Q3FY15. DNL reported continued upward trajectory in the EBITDA margin which was 13%, an increase of 150 bps compared to Q3FY15. Expansion in the EBITDA margin has been driven by improved contribution from key products as well as changed product mix.

- PBT grew by 51% to Rs. 22.54 crore in Q3FY16 compared to Rs. 14.97 crore in Q3FY15. The improved operating performance and overall cost management have led to strong growth in profitability.

- PAT came in at Rs. 16.45 crore in Q3FY16 compared to Rs. 12.73 crore in Q3FY15, representing a growth of 29.2%.

- EPS for the quarter stood at Rs. 1.57 per share of face value of Rs. 2 each compared to Rs. 1.22 per share in Q3FY15.

9MFY16

- Revenues in 9MFY16 stood at Rs. 994.97 crore compared to Rs. 994.71 crore in 9MFY15. Volume growth remains healthy at 11% Y-o-Y on an overall basis. Growth in volumes has been neutralised by sharp fall in prices due to the impact of lower crude oil prices. The FSC segment which includes agrochem intermediates as well as recent foray in pharma and personal care intermediates reported volume growth of 24% on a Y-o-Y basis, while FWA volumes were higher by 9% on a Y-o-Y basis driven by improved performance in the OBA product portfolio.

- EBITDA was higher by 19% to Rs. 120.05 crore in 9MFY16 compared to Rs. 100.77 crore in the same period last year. The EBITDA margin improved by around 180 bps to 12.1%. Favourable trends in the FSC segment product portfolio have driven improvements in EBITDA. This was also supported by improvement in volume and efficiency gains within the BCC segment.

- PBT grew by 30% to Rs. 61.95 crore in 9MFY16 compared to Rs. 47.49 crore in 9MFY15. This also compares favourably with the PBT of Rs. 68 crore in full year FY15. PBT growth has been achieved through a combination of improved product mix, enhanced efficiency and overall cost management.

- PAT increased to Rs. 44.59 crore in 9MFY16 compared to Rs. 38.21 crore in 9MFY15 representing a growth of 17%.

- EPS for 9MFY16 stood at Rs. 4.27 per share of face value of Rs. 2 each compared to Rs. 3.66 per share in 9MFY15.

MD's message

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

"DNL continues to report a strong operational performance with steady improvement in profitability. Against the backdrop of heightened volatility in the economic landscape, we are pleased to deliver strong double-digit volume growth supported by traction in all the three SBUs. Our focus on value-added products combined with business optimisation initiatives have led to over 50% growth in PBT in Q3 on a Y-o-Y basis.

Initiatives undertaken in earlier quarters are driving momentum in business performance. Supplies of agro intermediates have elevated the performance of the FSC segment. The FWA segment has also delivered a steady performance – though margins were under pressure, the Company's efforts to improve topline growth paid off. The BCC segment also benefitted from a favourable demand environment for key products.

The FSC segment is on track to deliver robust performance in the ensuing years on the back of foray in the high-potential pharma and personal care segment as well as positive traction in the agro intermediates.

The Fund raising undertaken in January will allow us to execute our expansion plan to set up a world-class manufacturing facility for Phenol and Acetone with cutting edge technology. This will further strengthen our product portfolio and provide a platform for sustained growth and value creation."

Operating Highlights

DNL reported healthy operational performance during the nine-months period led by volume growth of 24%, 9% and 6% in FSC, FWA & BCC segments respectively.

- Domestic revenues came in at Rs. 592.99 crore in 9MFY16 from Rs. 595.74 crore in 9MFY15. Impact of sharp fall in crude oil prices and related petrochemical intermediaries was mitigated by volume growth in the all the segments.

- Revenues from exports stood at Rs. 391.54 crore in 9MFY16 compared to Rs. 386.08 crore in 9MFY15. Though there was some impact from reduced prices, export volumes continues to be healthy due to sustained demand from the end user industries supported by better customer acceptance for our products. The current scenario of currency depreciation is expected to be beneficial to DNL in exports.

- BCC revenues stood at Rs. 527.66 crore in 9MFY16 compared to Rs. 577.31 crore in 9MFY15, representing a moderation of 9%. Fall in crude oil prices & related petrochemical intermediates affected the topline growth, although volumes in the BCC segment improved by 6%. The fall in crude oil prices impacts around 30% of the business and results in a pass-through to customers on product realisations, however the margins remain intact.

- Revenues from FSC segment increased by 19% to Rs. 270.49 crore in 9MFY16 over Rs. 227.44 crore in 9MFY15. Select intermediates in the agrochem segment supported this growth which was further aided by contribution from newly introduced pharma intermediates.

- The re-aligned FWA Segment which includes direct sales of DASDA from the Hyderabad facility as well as OBA revenues from Dahej reported revenues of Rs. 202.24 crore in 9MFY16 compared to Rs. 201.88 crore in 9MFY15. Volume growth stood at 9% in 9MFY16 as a result of higher demand in the export markets. Expanding product portfolio combined with better customer acceptance and higher demand of OBA-led products would help deliver higher volumes in the forthcoming years.

- DNL is keeping a close watch on its costs and sourcing of raw materials which ensure that it remains competitive even when faced with potential competition from Chinese manufacturers. Its superior cost-competitiveness has enabled it to export some of its products to China.

- Despite high volatility in the foreign currency, exchange rates during the quarter, the impact on the Company's performance was minimised due to proactive forex management.

Other Highlights

- DNL successfully raised Rs. 83.3 crore through Qualified Institutional Placement (QIP) by allotting 1,17,50,000 equity shares of Rs. 2 each at a price of Rs. 70.90 per share (including premium of Rs. 68.90 per share) to prominent domestic and foreign institutional investors including Franklin Templeton Mutual, Government Pension Fund Global, Norway and ICICI Lombard General Insurance Company among others.

- The QIP proceeds, among other capital requirements, will help to fund the Phenol project being undertaken in the wholly-owned subsidiary 'Deepak Phenolics Limited'.

Outlook

DNL would continue to drive volume-led growth in all the three SBUs including BCC segment, FSC segment and FWA segment. With recent introductions of pharma and personal care intermediates, the FSC segment is expected to deliver robust performance in the forthcoming years. Strong demand from the end-user industries would boost growth in the re-aligned FWA Segment which includes direct sales of DASDA from the Hyderabad facility as well as OBA revenues from Dahej.

The Company has undertaken operational efficiency improvement and cost reduction initiatives which will help improve profitability further in the near future.

Update on Project for Manufacture of Phenol and Acetone

As announced earlier, DNL is implementing a project to manufacture Phenol and Acetone to meet the deficit in the domestic requirements. 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.

As intimated 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. Most of the engineering work is completed and orders for major equipments would begin by the end of current quarter.

The Company has started seed marketing of phenol with an objective to develop relationships with all major clients in India. The demand for phenol continues to be buoyant in India and is expected to steadily increase based on consumption trends of end-user industries. Phenol imports remain strong and the country's current demand will absorb the entire capacity that DNL plans to install thereby substituting imports. Further, the abundant availability of phenol in the local market is expected to spur pent-up demand which will further grow the market.

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 Bulk Chemicals & Commodities (BCC), Fine & Speciality Chemicals (FSC) & Fluorescent Whitening Agents (FWA), 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.

The BCC 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 Effect Chemicals meeting the needs of Speciality Producers.

The FWA segment consists of supply of OBA and its intermediate DASDA. DNL is the world's only fully integrated manufacturer of FWA (Toluene – PNT – DASDA – OBA). There is strong demand for FWAs across industries like Paper, Detergents and Textiles. FWAs 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	*Q3FY16*	*Q3FY15*	*%*	*9MFY16*	*9MFY15*	*%*
Bulk Chemicals& Commodities	164.38	165.77	(0.8)	527.66	577.31	(8.6)
Fine & Speciality Chemicals	89.61	82.93	8.1	270.49	227.44	18.9
Fluorescent Whitening Agents	67.90	62.39	8.8	201.24	201.88	0.2
Other Unallocable	1.18	2.32	(49.2)	3.77	5.38	(29.9)
Total	**323.07**	**313.41**	**3.1**	**1,004.16**	**1,012.00**	**(0.8)**
Inter Segment	4.40	7.07	(37.8)	9.19	17.29	(46.9)
Net Sales/Op. Income	**318.67**	**306.34**	**4.0**	**994.97**	**994.71**	**0.0**

Expenditure Analysis

Particulars	*Q3FY16*	*Q3FY15*	*%*	*9MFY16*	*9MFY15*	*%*
Employee Costs	29.24	25.38	15.2	86.69	75.79	14.4
Interest	9.07	11.09	(18.2)	29.67	28.32	4.7
Depreciation	9.90	9.22	7.3	29.20	26.81	8.9
Other Income	0.25	0.26	(3.8)	0.75	1.85	(59.4)

- Employee cost increased due to:
  - Impact of annual increment and provision for increased bonus under the amended legislature
  - Impact of increase in minimum wages to contract labour
  - Higher provisioning of gratuity owing to lower discount rate at a falling interest rate scenario
- Interest during Q3FY16 decreased due to forex fluctuations, while Depreciation increased due to capitalisation of the Hydrogenation facility which was fully commissioned in Q1FY16.

Profitability Analysis

Particulars	*Q3FY16*	*Q3FY15*	*%*	*9MFY16*	*9MFY15*	*%*
PBT	22.54	14.97	50.6	61.95	47.49	30.4
PAT	16.45	12.73	29.2	44.59	38.21	16.7
EPS (Rs.)	1.57	1.22	28.7	4.27	3.66	16.7

Statement of Borrowings

Secured Loan & Net Debt/Equity as on 31st December, 2015

Particulars	Q3FY16	Q3FY15
ECB	201	242
Rupee Term Loan	93	84
Other Loan Funds (Includes CC)	229	269
Total Loan Funds	523	595
Debt/Equity Ratio	1.33	1.73

Includes exchange fluctuations of Rs. 50.80 crore; excluding this impact the Debt/Equity ratio stands at 1.05.

Capital Employed

Particulars	Q3FY16	Q3FY15
Capital Employed	968	982
Less : Capital Work in Progress	22	24
Capital Employed in Operations	946	958