



## Deepak Nitrite Limited Q1FY2012 Earnings Conference Call August 24<sup>th</sup>, 2011

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**Moderator:** Ladies and gentlemen good day and welcome to the Deepak Nitrite Limited Q1 FY2012 Earnings conference call. As a reminder for the duration of this conference all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you sir.

**Rishab Barar** Good afternoon everyone. We welcome all of you to the Deepak Nitrite Limited Analyst and Investor Conference Call. We shall discuss the performance and financial highlights of Q1 FY12. We have with us today Mr. Umesh Asaikar, CEO, Mr. Sanjay Upadhyay, Senior Vice President Finance and Mr. Sanjay Deshpande, GM Finance and Treasury. We will begin this call with opening remarks from the management team following which we will open the floor for an interactive question and answer session. Before we begin, I would like to mention that certain statements in this call may be forward-looking in nature and a disclaimer to this effect is included in the investor release and con-call invite, which was sent to you earlier. I would now like to hand over the floor to Mr. Umesh Asaikar. Thank you, and over to you sir.

**Umesh Asaikar** Good afternoon. I shall take you through the operational performance and key highlights during this quarter. After which I will hand over to Mr. Upadhyay who will take you through the financial performance. We are pleased to report a good operating performance in the first quarter of FY12.

We reported revenues of Rs. 164.6 crore compared to Rs. 154.1 crore in the first quarter of the last year FY11. This is an increase of 7%. EBITDA for the first quarter of FY12 was Rs. 13.3 crore compared to 13.2 crore in quarter one of last year FY11. PAT for Q1FY12 of Rs. 6.1 crore is higher by 4% when compared to Rs. 5.88 crore in the corresponding quarter last year. Your company is on an excellent growth trajectory with many initiatives planned for the year ahead. Revenue growth has been driven by a mix of volume growth and price increases. Volumes for the quarter are up by 2%. We have achieved a significant growth in different parts of our businesses, which I will discuss shortly. We have witnessed some pressure on the input cost. However, our initiatives continue to flourish as de-bottlenecking activities at our existing plants continue. We achieved a milestone this quarter as our fuel additive business achieved a revenue of Rs. 24 crore. This revenue is higher by around 47% compared to the first quarter of the last financial year. We are confident about the growth in this business and believe that it will contribute significantly for the later part of this year as well.

This business is a testament of our focus on our R&D initiatives where this product was developed in house and we strongly believed that many such products will be developed through our R&D initiatives in the future. The fuel additives help us supply to diesel additives, petrol additives as well as aviation within the fuel additive space.

We would like to stress on the point of the efforts that we have made over the last few years to make in-roads into the markets of China and the US. Exporting to these countries is extremely difficult and we are proud about the fact that we have successfully managed to achieve this. In China especially, we are competing with manufacturers within these Chinese markets and to successfully come out on top given these difficult market situations portrays a strong character. We expect traction from these markets to continue to be strong this financial year as well.

Coming to exports now, exports also continue to remain healthy, as about 37% of our revenue has come from exports this quarter. Earlier exports turned out to be more than 40%, but as I had mentioned last time, this is a testament to our domestic businesses performing extremely well. Our exports continue to remain healthy in absolute terms and we are positive of things remaining this way in the future as well. We have a prudent exchange management which has ensured a negating effect of volatility in the exchange rates on profitability. Majority of our exports continue to come from the markets in Europe, but our focus has been to diversify into other markets as well, for example China and the US as mentioned earlier. We are happy that Deepak Nitrite is poised towards a robust growth moving forward considering a few exciting initiatives that will contribute significantly to our top-line and bottom line numbers in the near future.

Our expansion plans continue to remain our core focus for the year ahead. We have planned expansion at Dahej as well as Nandesari in Gujarat. These expansions will be good drivers for growth and will also enhance overall production capacities. At Dahej, we will setup manufacturing facilities for fine and specialty chemicals, which will result in forward integration of one of our existing products namely DASDA. A capital outlay over this year of approximately Rs. 150 crore, it should be able to help us achieve revenues of Rs. 350 to 400 crore on this project alone. Our Brownfield project at Nandesari in Gujarat is also underway. The capital outlay of approximately Rs. 50 crore here, should be able to earn us revenues in the range of Rs. 120 to 140 crore. Progress on both these projects is going on as per schedule and are likely to be completed before September 2012. Financial closure of this project is also expected by the end of this month.

To conclude, I would like to mention that we are making a considerable progress in all segments of our businesses. Fuel additives continues to be the business where we will see good tractions for the year ahead. We see good potential in exports as well. Also the end-user industry that we cater to are growing steadily and with the expansion plants moving smoothly as planned, we are confident of delivering good growth performances in future. That brings me to the end of my opening remarks. I will now hand over the floor to our Senior Vice President in Finance Mr. Sanjay Upadhyay, who will take you through the financial numbers. Over to you, Sanjay.

**Sanjay Upadhyay**

Thank you for joining us on this call. I will briefly take you through the financial highlights.

Revenue in Q1FY12 stood at Rs. 165 crore compared to Rs. 154 crore in Q1FY11 up by 7% driven by an increase in volumes and realizations. EBITDA for Q1FY12 is Rs. 13.3 crore as against Rs. 13.28 crore in Q1FY11, an increase of 0.37%. PAT for Q1FY12 is Rs. 6.09 crore higher by 4% when compared to Rs. 5.88 crore in Q1FY11. Over the quarter, we have been able to increase our volumes by about

2%. Input costs have displayed an increasing trend. However the operating cost had risen to Rs. 31 crore in Q1FY12 compared to Rs. 28 crore in Q1FY11 due to increase in the utility costs, which is a variable cost that has risen due to an increase in fuel prices and also an increase in volumes. Interest costs have gone down significantly by 26% due to the borrowing in foreign currency and better working capital management. The net debt equity ratio is 0.24 as on 30<sup>th</sup> June 2011.

Now I will take you through the revenues on a segmental basis. Inorganic segment, revenues of for the quarter is at Rs. 31.2 crore compared to 30.16 crore in Q1FY11. Volumes have decreased by 6% in Q1FY12 as compared to Q1FY11. This segment contributes almost 18% of the total revenue. EBIT margin of Q1 FY12 was 13.7%. Organic segment, revenues for the quarter is Rs. 99 crore compare to Rs. 93 crore in Q1FY11. Volumes have grown by 5% in Q1 FY12 as compared Q1FY11. This segment contributes to over 56% of the total revenue. EBIT margin for Q1FY12 is 5.6%. In the Fine and Specialty segment revenues for the quarter is Rs. 45 crore as compared to Rs. 42 crore in Q1FY11. Volumes have grown by 3% in Q1FY10 as compared to Q1FY11. This segment contributes about 25% of the total revenue. EBIT margins of Q1FY12 is 10.7%.

This brings to us end of our discussion. Now we would gladly address questions that you may have. Thank you.

- Moderator** We have the first question from the line of Hardik Shah from KR Choksey, please go ahead.
- Hardik Shah** You said the financial closure that will be by this month end is for Dahej?
- Sanjay Upadhyay** Right.
- Hardik Shah:** I would like to know what are the margins for the fuel addictive business?
- Sanjay Upadhyay** Margins are improving because now this is the second year of operation. Since it is a bulk commodity, it remains slightly higher than the last year. Now it's improving day by day. But you must realize this is a bulk commodity. The fuel addictive segment is a mix of bulk and fine and specialty, but the volumes which are moving now is bulk.
- Hardik Shah** Nandesari expansion is for sodium nitrite, right?
- Sanjay Upadhyay** Right.
- Hardik Shah** So, can you throw some light on the margins that are currently there and what are you expecting once the new Brownfield expansion takes place?
- Sanjay Upadhyay** See we have mentioned this the last time, that we are expecting around 15% from this.
- Umesh Asaikar** Just a clarification, the expansion at Nandesari is for both sodium nitrite as well as sodium nitrate.
- Moderator** Thank you. The next question is from the line of Paurav Lakhani from Prime Securities, please go ahead.

**Paurav Lakhani** In the inorganic intermediates, the last two years if you see the margins were just holding around 20%, from Q3 onwards they started slipping and they have now reached 13.7%. So like could you just explain to us like how these thing works, whether this is cyclical or this is structural and another thing in the organic intermediate, which is around 50% plus of the company. Now the margins in the last year and year before that had a tendency of being the least in the first quarter and increasing to the end of the fourth quarter, so do you see this trend continuing?

**Sanjay Upadhyay** Yes, Mr. Asaikar, on this inorganic would you take this question on caustic and the Japan?

**Umesh Asaikar** Yes see what is happened, because of the tsunami that happened in Japan. The chemical industry as well as the petrochemical industry in Japan went through literally a seizure and many of the chemical plants stopped operating, including some of the caustic plants and therefore there was a sporadic demand-supply gap, with supply far below the demand in the eastern region including Australia and that has caused a very substantial price increase in caustics and various related chemicals. Now that the Japanese industry is coming back to life again, we expect the demand-supply situation to even out and the cost lines coming back into control as they were about six to eight months ago. If you have seen our performance of the last two to three years, our tonnages have substantially improved, which has been achieved through better customer satisfaction, better market shares and all that. So, to that extent in terms of the market share, in terms of better customer satisfaction, we are doing extremely well last year and including into this year. I expect this not to be a structural change just to answer your question other way, but a sporadic thing which will even out as we pass through this year.

**Sanjay Upadhyay** Yes, as to answer your question is on organic we have a margin of around 6% to 7% and that will be the average by and large. So, I mean whatever you are saying first quarter, second quarter, but then it evens out and this is the average for the year.

**Paurav Lakhani** Alright so, for our calculation purposes, we should take around 6%, so that is the safe figure right?

**Sanjay Upadhyay** 6 to 7%.

**Paurav Lakhani** This 13.7% like once this caustic soda problem is resolved as you said, then do you think that it will reach back to 20% odd levels or it will settle somewhere around 16 or 17%?

**Sanjay Upadhyay:** You are right Paurav, it will remain in the range of 16% to 17%.

**Paurav Lakhani** So with the Nandesari expansion happening, typically on the expanded capacity, what is the expectation of the ROCE on that expansion piece at Nandesari?

**Sanjay Upadhyay** It's around 20%.

**Paurav Lakhani** And Dahej plant, when are expecting completion?

**Sanjay Upadhyay** September 2012.

**Paurav Lakhani** Could you just breakup the CapEx within Dahej and Nandesari?

**Umesh Asaikar** Rs. 150 crore of Dahej approximately, Rs. 50 crore for Nandesari.

**Paurav Lakhani** Rs. 200 crore is the only thing right?

**Sanjay Upadhyay** Right.

**Moderator** The next question is from the line of Subhankar Ojha from SKS Capital, please go ahead.

**Subhankar Ojha** Just to continue on the previous question, these Rs. 200 crore of CapEx that you are planning like, this is funded all through borrowings?

**Sanjay Upadhyay** Yes because our debt-to-equity today is around 0.24 and the long term debt is hardly around Rs. 20 crore. So there is hardly any borrowing as on today.

**Subhankar Ojha** You have also mentioned which I missed out, some revenue figure out of this capital expenditure you can incurring, if you can reiterate that?

**Sanjay Upadhyay** At full capacity at Dahej, it is around Rs. 400 to 420 crore, around Rs. 400 crore and at Nandesari it is around Rs. 100-120 crore.

**Subhankar Ojha** And when would be the capacity utilization pickup? I understand that even if we commission this thing by September 2012, so in order to achieve the full capacity utilization how much time would it take?

**Sanjay Upadhyay** Capacity utilization will take three years from the date of commissioning.

**Subhankar Ojha** In a phased manner, right?

**Sanjay Upadhyay** Yes. So we can expect around 55 to 60% in the first year and it will gradually move up to around 75 to 80%, it goes like that.

**Moderator** Thank you. Sir we have no further questions.

**Umesh Asaikar** Thank you very much all of you for being with us this afternoon. If you have any further questions, please do contact our general manager, finance – Mr. Sanjay Deshpande or our investor relations team. We look forward to many more interactions with all of you in the future.

**Sanjay Upadhyay** Thank you.

**Moderator** Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Deepak Nitrite Limited that concludes this conference call.