

Deepak Nitrite reports H1FY14 Financial Results Revenues expand 26% to Rs. 576 crore

Mumbai, October 31, 2013: Deepak Nitrite Ltd. (DNL), a leading manufacturer of Organic, Inorganic, Fine & Specialty chemicals and preferred business partner of global chemical companies, has announced its financial results for the quarter and half year ended September 30, 2013.

Financial Highlights

H1 FY14

- Revenues for H1FY14 of Rs. 576 crore were higher by 26% compared to revenues of Rs. 457 crore in H1FY13. A strong performance by Organic Chemical segment supported by all round growth in the other segments helped drive volumes higher. There has been a rise in realisations of several products helped by rupee depreciation. The traction in revenues is primarily driven by strong growth in revenues from the domestic market which expanded 37% while export revenues expanded by 12%. Revenues are not strictly comparable due to the revenues from the FWA business which has commenced in the current fiscal. Excluding the contribution from FWA, revenues were higher by 23%.
- EBITDA for H1FY14 of Rs. 42.52 crore is higher by 33% compared to EBITDA of Rs. 31.98 crore in H1FY13. Rupee depreciation and changed product mix have led to an increase in the EBITDA margin from 7% in H1FY13 to 7.4% in H1FY14. This is despite the absorption of the post commissioning expenses of the Dahej facility.
- EBIT for H1FY14 of Rs. 29.14 crore is higher by 20% compared to EBIT of Rs. 24.24 crore (excluding exceptional item of Rs. 8.58 crore) in H1FY13.
- PAT for H1FY14 of Rs. 11.12 crore is lower than Rs. 13.47 crore (excluding exceptional item of Rs. 5.80 crore, net of tax) in H1FY13. The figures are not strictly comparable as post commissioning expenses as well as interest and depreciation on newly-commissioned facilities have been incurred upfront while contribution will follow in subsequent quarters as utilisation increases. Excluding the impact of these costs, PAT was higher by 64%.
- EPS for the first half stands at Rs. 10.63

Q2 FY14

- Revenues expanded 26.5% from Rs. 249 crore in Q2FY13 to Rs. 315 crore in Q2FY14. Of this revenues from FWA were Rs. 12 crore, excluding which, the like-for-like revenue growth is 21.6%.
- The FWA business has contributed Rs. 2.5 crore in revenues in Q1FY14 and has contributed Rs. 12 crore in revenues in Q2FY14. At full capacity utilisation, which is expected in 2-3 years, this facility can contribute Rs. 125 crore in quarterly revenues.
- EBITDA for Q2FY14 of Rs. 25.18 crore is higher by 61% compared to EBITDA of Rs. 15.62 crore in Q2FY13. The Company has been able to deliver a significant improvement in EBITDA despite the impact of the Dahej facility which is currently operating at sub-optimal utilisation. This is due to the improving EBITDA contribution from the established products of the company.
- PAT for Q2FY14 of Rs. 7.48 crore is higher by 4.3% when compared to Rs. 7.17 crore in Q2FY13. Excluding the impact of the Dahej facility, PAT of Rs. 12.8 crore was higher by 78%
- EPS for the quarter stands at Rs. 7.15

MD's message

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

"FY14 continues to be an exciting year for Deepak Nitrite. Our business is firing on all cylinders propelling us to our best ever H1 performance of Rs. 576 crore in revenues. The Organic Chemicals segment has been a standout performer for the half year and has been ably supported by the other segments. We have also seen higher contribution from the domestic markets in the first half which have led to the strong revenue growth. That said, revenues from exports have also been healthy with a year-on-year expansion of 12%.

The key highlight of our performance this year has been the improvement in margins. In addition to volume growth we have focused on improved realisations. Our ongoing review and improvement initiatives led to debottlenecking of existing capacities for some key specialty chemicals which have helped optimise performance. This was accompanied by moderation in some raw materials as well as overall cost optimisation focus. All of these factors have helped us to significantly improve profitability in the existing business on a year-on-year basis.

The FWA business at our Dahej facility is in the initial stages. We will cater to domestic and international markets and are working on gradually scaling up revenues by establishing long-term supply arrangements for customers.

We are enthused by the growth in all our businesses and in order to propel these businesses to achieve their true potential we have created SBUs around synergistic product lines. Each SBU will function independently and we are augmenting our leadership team to enable us to pursue growth aggressively. With strong momentum in existing business lines and a healthy outlook for new businesses, we are confident of delivering sustained growth in the second half of FY14."

Operating Highlights

DNL has witnessed healthy growth across all segments with Organic Chemicals, Inorganic chemicals and Fine & Speciality growing 31%, 15% and 11% respectively.

- Strong demand in domestic markets has led to an increase in domestic revenues by 37% on a y-on-y basis.
- Of the total sales in H1, revenues from exports were at Rs. 215 crore and contributed 39% of sales during the period. DNL reported growth in export revenues despite stable volumes due to change in product mix in favour of high value products as well as rupee depreciation leading to improvement in overall realisations.
- Based on end user applications, the strongest growth in volumes has come from products catering to the industries of Fuel, Colours and Agrochemicals.
- Trends in Raw material prices have been favourable with moderation in prices of almost all building blocks especially caustic lye and ammonia. In select products where there has been increase in raw materials costs it has been mitigated by improved realisation.
- In only its second quarter of operations the Dahej facility has delivered a positive contribution covering variable costs. While it is currently reporting negative EBITDA, the Dahej facility is expected to achieve break even within six months.
- DNL regularly hedges its foreign currency exposures. Significant volatility in the rupee in Q2 has made it challenging to manage fluctuations from raw material imports, import parity pricing, export realisations and trade funding. However, proactive foreign exchange management has enabled the company to minimise impact from currency volatility.

Other Highlights

- The Indian Chemical Council has conferred the ICC Award for Social Responsibility (Category I: Companies having annual sales revenue above Rs. 500 crores) for the year 2012 to Deepak Nitrite Ltd.
- The employees of DNL have contributed one day basic salary with a matching contribution from DNL for the benefit of victims of the Natural Disaster in Uttaranchal. A cheque for the total proceeds was handed over to Collector of Vadodara under aegis of Red Cross Society.

Outlook

Green field project at Dahej for manufacture of Fluorescent Whitening Agents (FWA)

The Dahej Plant has commenced its first stream of commercial production of FWAs on March 15, 2013 making DNL the only fully integrated manufacturer of FWAs in the world. The plant is the largest facility in the industry and is has easy and comprehensive access to port facilities, power, water and other utilities and since it is located within a chemical complex enjoys the benefit of availability of most of the basic raw materials in near proximity.

This product primarily serves three major industries, viz. paper, detergents and textiles. Strategic planning has enabled it to be a globally cost competitive facility and its location allows it to serve both domestic and global customers. This business is the Company's first major foray in the world of customised formulations. DNL will offer door-step supply of OBA with matching logistics solutions and after-sale technical services. This product takes the company many stages forward into offering performance solutions to customers across all key markets.

Production will be scaled up gradually and peak utilisation is expected in 3 years from the date of commissioning. Currently, marketing efforts and operating trials are underway at customer facilities. As the product is in the nature of a performance chemical, it undergoes extensive approvals and application trials at the customers end. However, once approved, it can lead to long-term supply agreements.

DNL has commenced supplies to domestic customers and has made shipments to a few international customers. The FWA business has already reported a positive contribution in Q2FY14 which is only the second quarter of operations for this facility.

The work at the remaining part of the facility is expected to be commissioned during the second half.

Brown field expansion project at Nandesari

The expansion at the Nandesari facility has been completed and commercial production has commenced from June 26, 2013.

As communicated earlier, we have commissioned additional capacity of Nitration at Nandesari which has resulted in de-bottlenecking leading to increased production.



Attached: Details to the announcement

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About Deepak Nitrite Limited

Deepak Nitrite Limited [NSE - DEEPAKNITR, BSE - 506401] is a leading manufacturer of Organic, Inorganic, Fine & Speciality chemicals 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 Organic Intermediates segment consists of Nitro Aromatic plants and Multi-Purpose Aromatic Amines Plant based on Catalytic Hydrogenation Technology. The Inorganic Intermediates segment consists of manufacture of Sodium Nitrite and Sodium Nitrate by the ammonia oxidation process, where DNL is the largest on purpose manufacturer. The Fine & Speciality Chemicals segment produces a broad and innovative range of Effect Chemicals meeting customized needs of Speciality Producers.

The new facility in Dahej will manufacture Optical Brightening Agents (OBA). There is good demand for these products across industries like Paper, Detergents, Textiles, Coating Applications in Printing and Photographic Paper. The facility at Dahej enables us to forward integrate to manufacture OBA (Toluene – PNT – DASDA – OBA) and makes DNL only integrated manufacturers of this product in the world.

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 existing 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	Q2FY14	Q2FY13	%	H1FY14	H1FY13	%
Inorganic Intermediates	38.70	31.95	21%	72.43	65.03	11%
Organic Intermediates	186.95	143.86	30%	353.32	270.16	31%
Fine & Specialty	85.01	72.94	17%	147.27	125.36	17%
Others	12.92	2.57	-	16.78	2.85	-
Total	323.57	251.32	29%	589.80	463.40	27%
Inter Segment	8.99	2.79	222%	13.51	6.30	114%
Net Sales/Op. Income	314.57	248.53	27%	576.30	457.10	26%

Expenditure Analysis

Particulars	Q2FY14	Q2FY13	%	H1FY14	H1FY13	%
Employee Costs	20.95	17.03	23%	40.43	31.77	27%
Other expenses	33.04	19.69	68%	62.56	37.96	65%

Employee costs and other expenses were higher during the quarter due to post commissioning expenses for projects at Dahej and Nandesari with matching turnover to follow in coming quarters.

Particulars	Q2FY14	Q2FY13	%	H1FY14	H1FY13	%
Interest	7.47	1.01	640%	12.99	4.29	203%
Depreciation	7.43	4.64	60%	14.17	9.27	53%
Other Income	0.42	0.66	-36%	0.79	1.54*	-49%

*Excludes exceptional items of Rs. 8.58 crore

- There has been a sharp rise in Depreciation and Interest cost due to part-commissioning of Dahej facility and full commissioning of Nandesari. Excluding these amounts, the normalised interest cost as a ratio to turnover has remained steady.
- Interest cost includes exchange loss of Rs. 3.78 crore in H1FY14 as per Accounting Standard-16

Profitability Analysis

<i>Particulars</i>	<i>Q2FY14</i>	<i>Q2FY13</i>	<i>%</i>	<i>H1FY14</i>	<i>H1FY13</i>	<i>%</i>
PBT	10.71	10.62	1%	16.15	28.53*	-43%
PAT	7.48	7.17	4%	11.12	19.27*	-42%
EPS (Rs.)	7.15	6.86	4%	10.63	18.42*	-42%

* Includes exceptional items of Rs. 8.58 crore at PBT level and Rs. 5.80 crore, net of tax at PAT level.

Statement of Borrowings

Secured Loan & Net Debt/Equity as on 30th September 2013

<i>Particulars</i>	<i>Q2FY14</i>	<i>Q4FY13</i>
ECB	279.55	244.75
Other Loan Funds (Includes CC)	221.53	96.41
Total Loan Funds	501.08	341.16
Less : Amount in Bank FD/CA for ultimate purpose of capex	-	5.70
Net Debt	501.08	335.46
Net Debt/Equity Ratio	1.71	1.16

- Due to sharp depreciation of the rupee against the dollar during the quarter, the borrowing has gone up owing to notional loss on translation of foreign currency borrowings. Excluding the loss on foreign currency translation net debt : equity ratio stands at 1.48x.

Capital Employed

<i>Particulars</i>	<i>Q2FY14</i>	<i>Q4FY13</i>
Capital Employed	821.18	644.93
Less : Bank Balance	6.12	9.50
Less : Capital Work in Progress	117.83	117.55
Capital Employed in Operations	697.23	517.88

- Due to depreciation of the rupee against the dollar during H1FY14, there has been an increase on account of capitalisation of exchange fluctuation for ECB resulting in increase in capital employed.