



# DEEPAK NITRITE LIMITED

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## Q3 FY2010 INVESTOR COMMUNICATION

**Pune, January 27, 2010:** 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 ended December 31, 2009.

### Financial Highlights

- Revenues for Q3 FY10 of Rs. 143.55 crore were higher by 12% when compared to revenues of Rs.127.83 crore in Q2FY10. On a corresponding quarter basis, revenues for Q3FY10 of Rs. 143.55 crore were lower by 5% when compared to revenues of Rs. 150.42 crore in Q3FY09.
- EBITDA for Q3FY10 is Rs. 11.01 crore against Rs. 11.90 crore in Q3FY09.
- Interest cost for Q3 FY10 is lower by 63% at Rs.1.55 crore against Rs. 4.17 crore in Q3 FY09.
- The company reported a PBT of Rs. 8.02 crore for Q3FY10 when compared to Rs. 4.10 crore in Q3FY09. PBT for the quarter includes a one time income of Rs. 1.90 crore on sale of premises. Excluding this gain, PBT for Q3FY10 was higher by 49.2% at Rs. 6.12 crore.

### MD's message

Commenting on the results, **Mr. Deepak C. Mehta, Vice Chairman & Managing Director**, said, *"Our results reflect the steady progress that we have made in our business over the last few quarters. We have increased volumes over the last year, introduced some new products, improved efficiencies in operations and have managed cash flows better. All of this has led to improved profitability.*

*We remain confident in our prospects over the longer term as we expand our product portfolio with products developed in-house, deepen our engagement with customers and suppliers and endeavour to enter new markets."*

### Operating Highlights

- The company has been able to increase volumes during 9MFY10 when compared to the corresponding period of last year. However, due to the situation prevailing in 9MFY09, selling prices for the company's products were markedly higher owing to global supply disruptions. This has resulted in a situation of lower absolute revenues despite higher volumes in 9MFY10.

- The company has introduced a range of fuel additives products. The company expects the annualised turnover from these products will be in the range of Rs. 75-100 crore per annum after the operations are stabilised.

## Outlook

- The company is expanding its hydrogenation capacity by 50%. The full year impact of this expansion will be reflected in FY 11.
- DNL has taken effective steps in the Nitro Toluidines (NT) segment to increase its market share in the export market & have accordingly enhanced production capabilities, the effect of which will be realised in the near future

-ENDS-

### **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 and speciality chemicals and is the partner of choice for several global chemical majors. Headquartered at Pune, DNL is a multi-division and multi-product company with manufacturing facilities at Nandesari 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 end user industries for DNL range from agro-chemicals, dyestuffs, pigments, inks, whiteners, pharmaceuticals to fuel additives. DNL prioritises R&D activities and invests over 1% of its annual revenues in this area. It has a government approved central R&D facility in Pune which has a sophisticated analytical laboratory, state-of-the-art equipment and advanced facilities. The company expects to launch new products through its R&D efforts. As a part of its growth strategy, the company anticipates that it will be able to add around 15% of its revenue through new products. This will help the company to broad base its presence in the market segment.

## 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

- During the first 9 months of FY2010, volumes have increased when compared to the corresponding period of last year. There has been a reduction in finished goods and raw material prices as compared to the same quarter last year which accounts for a large part of the difference in revenues.

Revenues	Q3FY10	Q2 FY 10	Q3FY09
Organic Intermediates	83.83	66.08	102.11
Inorganic Intermediates	28.61	28.03	21.40
Fine & Specialty	41.68	42.37	38.64
Others	0.00	0.00	0.00
Total	154.13	136.48	162.17
Inter Segment	10.58	8.65	11.75
Net Sales/Operating Income	143.55	127.83	150.42

Revenues	9MFY10	9MFY09
Organic Intermediates	204.30	239.07
Inorganic Intermediates	82.81	83.27
Fine & Specialty	116.82	139.17
Others	0.01	0.01
Total	403.95	461.54
Inter Segment	25.05	31.25
Net Sales/Operating Income	378.89	430.28

### Raw Materials & Inventories

- While the prices of raw materials have reduced from the highs during Q3FY09, the prices of raw materials continues to exhibit some volatility.

### Other expenditure

Particulars	Q3FY10	Q3FY09
Employee Costs	9.58	8.99
Other Operating exp	27.44	19.45

Particulars	9MFY10	9MFY09
Employee Costs	29.35	29.18
Other Operating exp	78.87	84.66

Other Operating costs for the nine months are lower mainly due to decrease in utility cost, forex transactions and SG&A cost.

### Interest, Depreciation & other income

	Q3FY10	Q3FY09
Interest	1.54	4.17
Depreciation	4.49	3.88
Other Income	3.05	0.25

	9MFY10	9MFY09
Interest	5.19	11.68
Depreciation	12.90	11.89
Other Income	3.82	1.45

- The depreciation cost continues to remain in line with the earlier quarters.
- Other Income in Q3 FY 10 includes profit on sale of premises of Rs. 1.90 Crores.
- The company has been able to decrease its interest costs by 56% due to a mix of factors:
  - There has been a reduction in the rate of interest since the corresponding quarter last year due to the availability of borrowing in foreign currency .

- The company has made a concerted effort to manage its working capital cycle more prudently leading to reduction in quantum and duration of funds tied up in working capital.

#### PBT, PAT & EPS (EPS in Rs.)

	Q3FY10	Q3FY09
PBT	8.02	4.10
PAT	5.53	2.76
EPS (Rs.)	6.16	3.08

	9MFY10	9MFY09
PBT	20.83	34.49
PAT	13.40	23.99
EPS (Rs.)	14.93	26.77

The company has finalised the conversion price for Rs. 14.91 lacs detachable warrants at Rs.100/- per equity share, i.e each detachable warrant will be converted into one equity share of a face value of Rs.10/-. The dilution in the equity base has been factored into the diluted EPS in the results table.

## Deepak Nitrite Limited – a brief background

### Overview:

Deepak Nitrite Limited (DNL) was incorporated in 1970 by Mr. C.K Mehta, the current chairman of the company, with the aim to manufacture Sodium Nitrite and Sodium Nitrate. Over the years the company has expanded its offering and operations.

Currently, DNL's principal activity is to manufacture basic and intermediate chemicals. These chemicals are used in the manufacture of products such as colorants, imaging chemicals, agrochemical, pharmaceuticals and rubber chemical intermediates, chemicals for refineries, cosmetics etc. The Company operates in three segments, namely, Inorganic Intermediates, Organic Intermediates and Fine / Specialty Chemicals. The Inorganic Intermediates segment includes manufacture and sale of sodium nitrate and sodium nitrite. The Organic Intermediates segment comprises the manufacture and sale of nitro chlor-benzenes, nitro toluenes, para cumidine and xylydines. The Fine and Specialty Chemicals consists of sale of low volume and knowledge intensive products.

The Company has a presence in more than 20 countries, including the U.S.A., member countries of the European Union, East European nations, Japan, Asean countries, South Korea and South America.

### The DNL Advantage:

#### Competence in Key Processes

DNL has set product quality and specifications to match the standards set by the world's best producers. The increasing international business and growing customer base which includes some of the marquee names in the global chemical industry demonstrates the satisfactory and reliable performance with respect to quality of products manufactured by DNL.

DNL is uniquely positioned to produce intermediates for industries catering to diverse market sectors like pharmaceuticals, rubber chemicals, leather chemicals, pesticides, fertilizers, tyre industries, dyes and dyestuff, etc.

DNL portrays a high level of expertise in the processes / reactions mentioned below:

- Hydrogenation
- Chlorination
- Nitration
- Sulfonation
- Alkylation
- Condensation
- Phenylation
- Oxidation
- Nox Production & Absorption.

#### Relationships and Partnerships with Key Customers:

DNL has aligned its customer relationship management systems with its core business to empower the customer with trust and reliability in the areas of product quality, technical support and supply continuity.

Some of the key customers of DNL are Sygenta Global, Bayer Crop Science, BASF, Kemira, Lanxess, Clariant, Isochem, Lonza and Sun Chemical.

Leadership position in several products:

DNL is India's largest producer of sodium nitrite and sodium nitrate by the ammonia oxidation process. Sodium nitrite also forms the raw material for several other value-added products manufactured by the company such as hydroxylamine derivatives, oximes, alkylated hydroxylamine and a rubber-blowing agent. DNL has expertise to safely handle bulk and hazardous chemicals. DNL is the market leader (65% market share) for sodium nitrite in India. Cost leadership, supported with well-entrenched market network & customer understanding has seen steady rise in market share for DNL.

In the Organic Intermediate sector, DNL is market leader in India in Nitro Toluene (NT) business, it is global leader in the Xylidine & Cumidine business and has significant presence in Nitro Chloro Benzene (NCB).

In Fine & Specialty business, DNL is among top 3 players globally in Color Intermediate and Oxime business. DNL has a niche positioning in various product categories in this segment.

Typically, DNL exports 53% of its revenue. DNL is strengthening its relationship with different customers in the export market and its product is also gaining recognition due to its superior quality. Of the exports, 70% is to Europe and the rest to Japan, Korea, USA & China.

Facilities:

Sr. No.	Facility	Location
1	Corporate Office	Pune, Maharashtra
2	Manufacturing Facility	Roha, Maharashtra
3	Manufacturing Facility	Taloja, Maharashtra
4	Manufacturing Facility	Nandesari, Gujarat
5	Manufacturing Facility	Hyderabad, AP
6	R&D Facility	Pune, Maharashtra
7	Proposed Facility	Dahej, Gujarat

Cost competitive operations:

DNL has a cost competitive setup of operations. Some key competitive advantages are

- Scale of operations and location of facilities helps to provide DNL with a competitive edge.
- The company has been able to secure assured supply of piped gas which enables it to increase the cost effectiveness and reliability of its processes.
- The established presence and track record in the industry. The plants set up by the company run on high efficiency with low maintenance outgo.

Earlier, competitiveness vs. Chinese companies was low due to incentives provided by the Chinese Government to smaller chemical manufacturers such as access to low cost capital, liberal labor laws and less stringent pollution control norms. However, the incentives provided by the Chinese Government have been withdrawn. Additionally due to heightened environmental concerns global customers have enhanced their focus on



adherence to environmental norms which has led to a level playing field. Given the withdrawal of these unsustainable incentives DNL has been able to improve its cost competitiveness in global markets.

#### **Research & Development:**

DNL invests over 1% of its revenue into Research and Development. The R&D facility at Pune has been approved by the Government of India. It has advanced facilities for testing new technologies and products. The R&D has highly skilled and experienced technical man power consisting of 50 post graduates in science and 9 Ph. D's. Furthermore, R&D investments have paid off through introduction of newer products and variants of existing products as well as through improvement of processes to cut costs or reduce wastage.

#### **Acquisitions and Unlocking:**

DNL has a fairly successful track record with acquisitions. The strategy implemented in this area is to

- identify a business which has significant potential but is underperforming
- acquire the business at a price which is comfortable given DNL's overall financial position and also leaves adequate room to realise returns
- increase the efficiency of the business acquired to fully realise benefits.

DNL immensely benefited by acquiring companies whose product lines complemented its own. In 1984, it acquired Sahyadri Dyestuffs & Chemicals.

In 2000, DNL acquired Aryan Pesticides Ltd., the agrochemical intermediate producer company located at Roha in Maharashtra to boost its specialty chemicals business. The company was acquired as a strategy of forward integration.

During FY07, DNL acquired the DASDA (diamino stilbene disulfonic acid) business of Vasant Chemicals Limited (as a forward integration step), a closely held company based in Hyderabad.

#### **Outlook:**

**Industry growth:** The company expects growth in its existing business to mirror the trends exhibited by the end-user industries it services, for e.g.

- the paper and pulp industry in India and China is expected to grow at CAGR in excess of 20% for the next 5 years
- the company sees sustained demand from agro-chemical sectors as the record low in food grain stocks will ensure that the long term outlook for agro intermediate products is very good however there will be cyclicity in the business.

**Contribution from new products:** The company has a very advanced R&D program and expects to introduce new products through its R&D initiatives. DNL expects a revenue contribution of 10-15% of revenues to be contributed by new products in each of the ensuing financial years.

Capacity expansion: The company has a proposed capacity expansion through a Greenfield project at Dahej (Gujarat). The company will invest Rs. 225 crore, in phases, to set up additional capacities for chlorination, hydrogenation and nitration.

DNL has already acquired 60 acres of land at Dahej and has selected the location based on evaluation of proximity to sources of the necessary inputs like hydrogen, chlorine, caustic soda and petro-products, as well as very good port based infrastructure facilities available there.

Upon completion of all phases, the Dahej facility will have capacity for chlorination of 20,000 TPA, nitration capacity of 30,000 TPA and hydrogenation capacity of 40,000 TPA to become the largest multi product hydrogenation facility in the country.