

# Executive Director & CEO's Message



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**Maulik D. Mehta**  
Executive Director and CEO

**Dear Stakeholders,**

**During the fiscal year 2023, the operating environment experienced significant volatility due to the outbreak of the Russia-Ukraine war. This led to disruptions in global supply chains and a surge in commodity prices, resulting in high inflationary pressures on inputs. Additionally, the Company faced internal challenges such as a fire at the the Nandesari plant, which caused around 40-day loss in production and sales. Despite these obstacles, the Company's business model remained resilient, with incremental investments enhancing throughput and sustained demand from end-user industries driving growth.**

In this backdrop, DNL reported strong double-digit revenue growth and improved plant efficiencies that will yield consistent bottom line benefits while reducing the carbon and water footprint of all sites. However, profitability was impacted by lag in transmission of high input prices, inflationary environment and normalisation of spread in certain products from exceptional levels in the preceding fiscal. DNL has taken significant steps to mitigate risks in its business model by ensuring a secured supply of additional inputs, establishing captive power supply and deriving value from waste. Moreover, contracted supply arrangements with customers for products from both business segments provide high visibility for continued growth.

**COMMITMENT TO VALUE CREATION FOR STAKEHOLDERS**

In FY 2022-23 we asked key stakeholders a question: "how can we create more value for you?" Their answers prompted us to create succinct value drivers for 4 pillars i.e. shareholders, customers, people and community and we pledge to align ourselves with these statements.

In an ever-changing economic landscape influenced by global events alongside internal challenges, our adept teams successfully navigated through the uncertainties and evaluated our mission from the perspective of our key stakeholders. Understanding the valuable investments of resources made by each stakeholder, including finances, time, business and trust, we pledge to demonstrate their importance by offering persuasive grounds to 'Depend on Deepak'.

We remain dedicated to safeguarding the health and well-being of our employees and the communities we operate in. Our unwavering commitment remains steadfast on prioritising these 4 pillars:

- Shareholders – We have developed a roadmap based on our core fundamentals and values, ensuring responsible growth and a clear 'Right to Win' by balancing process excellence with high returns on capital. Our focus is on sustainable and high-quality growth, considering future potential and long-term strategies.

- Customers – We prioritise responsiveness and leverage our deep process expertise to become the preferred partner, supplying complex chemicals manufactured through safe and sustainable practices. We aim to be the first choice for customers and align our processes with their environmental, social and governance (ESG) values. We have taken several initiatives by completing a customer insight through industry expert and initiated on co-developing molecules with customers in the agrochemical and personal care products.
- People – Our people practices foster agile and adaptive leaders who build teams driven by action and guided by principles. We reward proactive action-taking and prioritise doing what is right over adhering to traditional hierarchies. We have taken several initiatives by appointing best professional agency to ensure effective and transparent professional growth across the group, an initiative on Diversity, Equity and Inclusivity which is governed by a fellow member of the Board of Director, empanelled coaches and co-created programs at all levels with reputed management institutes,
- Community – We strive to make a positive impact on society, ensuring that our presence benefits the communities we operate in. We aim to contribute to the betterment of society rather than merely existing within it.

**FINANCIAL PERFORMANCE OVERVIEW – FY 2022-23**

Despite the challenging macroeconomic conditions, it is heartening to note that our credibility, strategy and customer wallet share remains intact. Deepak achieved remarkable growth in its top line performance. Building upon a sturdy base, we strategically employ gradual capital injections to strengthen processes, enhance capabilities and meet the ongoing needs of various industries. As a result, we have achieved remarkable progress, witnessing a 17% year-on-year growth in our overall revenue, surpassing the milestone of ₹ 8,000 Crores in turnover, in contrast to the previous fiscal year's ₹ 6,845 Crores. This growth can be attributed to the Company's ability to maintain stable demand and maximise plant efficiency. EBITDA for the year stood at ₹ 1,337 Crores, reflecting a 19% decrease compared to the

previous year mainly due to very high input cost, particularly of commodity building blocks. These results are to be viewed in light of the impact of ongoing war, sharp rise in commodity prices and consequent rise in input prices, leading to inflationary pressures. Furthermore, the global supply chain for crude, fertilisers, petrochemical derivatives and speciality chemicals had been especially disrupted due to the Russia-Ukraine conflict, further impacting the Company's performance.

### Segmental Highlights

In line with Ind AS 108 guidelines, we have combined our strategic business units. As a result, our Group's activities are now categorised into two segments: Advanced Intermediates and Phenolics. Over the course of the year, both segments showcased noteworthy improvements, resulting in impressive financial expansion as a collective entity. Despite the challenges presented by the surroundings, the growth was attained through increased demand and a positive reception of our fundamental offerings. DNL remains unwavering in its dedication to nurturing development and expanding its endeavors to seize promising opportunities.

- **Advanced Intermediates –**

In the fiscal year 2023, our revenue experienced a remarkable growth of 21% to reach ₹ 3,074 Crores. Despite the current challenging circumstances, we managed to achieve an EBIT of ₹ 555 Crores, resulting in a margin of 18%. The Advanced Intermediates unit particularly stood out with its impressive revenue growth, driven by strong demand from end-user industries.

During the year, we actively pursued opportunities with both domestic and international customers. Given the global shift in the supply chain towards Asia and positive demand trends, we anticipate this segment to continue its strong performance. However, it is important to acknowledge the hurdles we face in terms of logistics, which may cause delays in passing on the prices.

Looking ahead, our future performance will be influenced by several factors, including new multiyear contracts, successful pilot projects and the introduction of new products in our portfolio.

- **Phenolics –**

In FY 2022-23, Deepak Phenolics reported a healthy financial performance, with revenue reaching ₹ 4,986 Crores and EBITDA amounting to ₹ 712 Crores, the Company achieved a margin of 14%. This success was primarily driven by improved plant efficiency, leading to a significant increase in volume for the phenolics division.

The phenol plant showcased exceptional performance, achieving an average utilization rate well over 120% for the year. Continued process improvement through the year supported by the captive power plant, resulted in the highest-ever quarterly domestic sales in Q4, along with the highest daily production of phenol. The impressive growth in volume was primarily attributed to improved acceptance of the Company's products and improved operational efficiency. Notably, both Phenol and Acetone experienced a significant increase in revenue realisation compared to the previous quarter.

Furthermore, the phenolics division plans to enhance its downstream products. With the upcoming implementation of projects like MIBC and MIBK, which are solvents, the utilisation of acetone is expected to increase further. Overall, the Company remains optimistic about the future prospects of its phenolics business.

### KEY DEVELOPMENTS & GROWTH INITIATIVES

FY 2022-23 has proven to be a transformative year for us, as we have witnessed the realisation of several growth initiatives. A significant milestone for Deepak Phenolics has been the successful implementation of debottlenecking measures, a crucial development that will bolster our production capabilities. This enhancement is set to commence within the current quarter, ensuring a swift and efficient integration. Furthermore, we have greenlit an advanced process control project, which is expected to go live in the subsequent quarter. We have taken several steps to improve our sustainable profitability by adding new products and debottlenecked existing plants. This initiative holds the potential to amplify operational efficiency and elevate product quality, further solidifying our market position and bolstering our competitive edge.

In addition to these accomplishments, we are actively pursuing various other ventures to expand our business horizons. Our SAC unit, a recent installation aimed at enhancing sustainability in Nandesari, has been successfully commissioned, marking a significant step forward. Looking ahead, we are planning to implement the photochlorination and chlorination project in the third quarter, followed by the acid project in the fourth quarter. These endeavours will effectively cater to our present and future requirements. By the first quarter of FY 2024-25, we anticipate the commissioning of our MIBK and MIBC plants, which, as previously mentioned, are derived from acetone. Moreover, the approval for our hydrogenation and multipurpose distillation facility signifies further progress in our expansion endeavours.

Additionally, it should be emphasised that DNL's subsidiary, Deepak Chem Tech Limited ("DCTL"), has been proactively

bolstering its workforce by recruiting essential personnel across departments including project management, procurement and support functions. DNL has allocated ₹ 400 Crores to DCTL to part finance the ongoing capital projects undertaken by the Group.

During the year, we have taken substantial measures to mitigate business risks, such as ensuring a consistent supply of critical raw materials and actively reducing debt to fortify our financial position. With the Nandesari plant operating at full capacity and other facilities operating at high utilisation rates, our momentum remains strong. As we gear up to commission multiple plants in the forthcoming quarters, we are poised to deliver growth and generate value for our esteemed shareholders. Acknowledging this, the Board of Directors has announced a final dividend of ₹ 7.50 per equity share, representing a remarkable 375% return on the face value of ₹ 2.00 each for the fiscal year 2022-23, in recognition of the Company's steady performance.

### SUSTAINABILITY AT THE FOREFRONT FOR DNL

Our Company is committed to a sustainable future and we have implemented various measures to reduce our carbon and water footprints. Additionally, we have found innovative ways to transform by-products into valuable compounds. These initiatives have been recognised by prestigious awards, such as being named "The Best Compliant Company for the Codes Under Responsible Care" by the Indian Chemical Council and receiving the Divya Bhaskar Pride of Gujarat award for "The Most Responsible Company." As proud signatories of Responsible Care, Together for Sustainability (TfS) and Nicer Globe, we prioritise environmental, health and safety guidelines. Deepak Nitrite is dedicated to responsible chemistry and the creation of effective solutions.

At Deepak Nitrite, we understand the risks associated with a constrained production process, including operational errors and warehousing misjudgements. To address this, we have taken on greater responsibility for developing and implementing automation and plant safety standards. These measures aim to minimise errors and ensure a safe working environment. Our commitment to quality, environmental standards, human resource management and efficiency in hazardous and complex chemical processes has made us a trusted supplier for major global customers.

We are pleased to share that our Dahej facility achieved a remarkable score of 100 out of 100 in the Together for Sustainability Audit, in the first attempt. It's worth noting that Together for Sustainability (TfS) is the European counterpart to Responsible Care, an esteemed institution in the United States. TfS is highly regarded by large European, Japanese and American companies. We are confident that this milestone will inspire

many more companies to follow suit and strive for excellence in sustainability.

### FUTURE OUTLOOK

DNL is poised to capitalise on the 'Make in India for the World' initiative and the growing trend of the China+1 strategy, as a multitude of opportunities emerge in the industry. With a lineup of projects worth around ₹25 billion spanning its core product lines, DNL is clearly dedicated to continuous growth and enhancing value. By utilising its strong manufacturing infrastructure and extensive expertise in chemistry, DNL has become a vital partner for major Indian and international conglomerates.

Positioned strategically, DNL is well-equipped to achieve incremental advantages in both its segments by implementing key projects scheduled for the upcoming year. These projects include expanding the capacity of specific products through brownfield projects, enhancing backward integration capabilities to boost margins and ensure a reliable supply, developing valuable downstream derivatives like solvents derived from Phenol and Acetone, establishing new chemistry platforms for photo chlorination and fluorination, investing in a compounding asset to cater to the diverse needs of India's 5G, electronics, EVs and medical devices industries and creating innovative products that leverage highly efficient chemistries to cater to various end-user industries.

Our focus is on implementing a pioneering growth strategy centred around a robust platform. This strategy entails directing investments towards our existing customers and businesses, utilising our current assets as a foundation for new value-added products. By incorporating specialised balancing equipments, we aim to achieve high return on capital employed (ROCE) targets.

Additionally, we are excited to announce the forthcoming establishment of a world-class research and technology centre. This state-of-the-art facility will house versatile pilot plants, compact plants, an environmental laboratory and scalable technology platforms. We are proud to uphold the trust and expectations of all our stakeholders and with enthusiasm and humility, we are dedicated to fostering inclusive, top-quality growth in the short and long term.

Furthermore, I want to take this opportunity to thank all our investors and stakeholders for their continuous commitment and confidence.

Best Regards,

**Maulik D. Mehta**

Executive Director and CEO