



FINANCIAL CAPITAL

Financially strong, ready for next giant leap.

At Deepak Nitrite, we intend to provide optimum returns to the providers of our financial capital. Our prudent financial management enables us to navigate through business downturns and ensure long-term growth and sustainability.

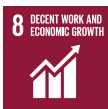
Material issues addressed

- Growth and profitability

Key risks considered

- Business risk
- Funding risk

SDGs impacted



Managing our financial capital

We have a robust financial management strategy that assesses the requirement of funds for sustainable business operations as well as investments towards growth opportunities. Our focus is on delivering sustainable value to our stakeholders despite economic challenges or industry upheavals. Regular investments are made in our manufacturing and intellectual capital to deliver quality products to our customers; human and social capital for the well-being of our employees and communities; and natural capital for promoting environmentally responsible behaviour. These investments are made in a carefully balanced and calibrated manner to achieve financial objectives.



We ensure adequate liquidity, optimal cost of funds and maintain healthy gearing ratios. Our aim is to maintain a strong balance sheet through proactive liability management. We also review all our investments based on our stringent capital allocation framework to maximise shareholder returns

Performance in FY 2022-23

- Reported strong revenue growth despite a challenging external environment marked by rising prices of key raw materials, high logistics costs and supply chain disruptions due to the Russia-Ukraine war

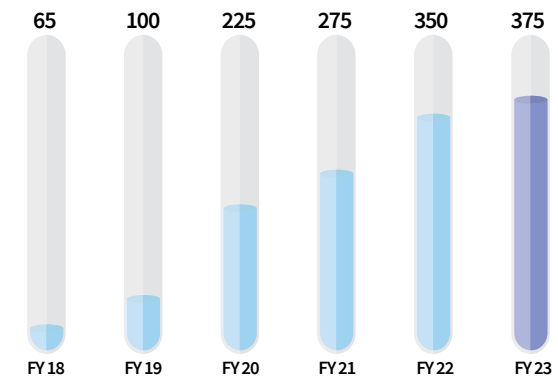
- Revenue of ₹ 8,020 Crores in FY 2022-23 owing to stable customer demand and high plant efficiency with all plants operating at high utilisation rates
- The Phenol plant recorded a utilisation rate of more than 120% and achieved the highest-ever quarterly domestic sales with highest daily phenol production. In January 2023, we crossed the milestone of 1 million tonnes of phenol production on a cumulative basis since inception
- EBITDA performance was impacted due to a combination of internal and external factors such as high input costs, disrupted global demand and supply and fire at Nandesari Plant which caused non-availability for about 40 days
- The Board of Directors has recommended a Final Dividend of ₹ 7.50 (375%) per equity share of ₹ 2.00 each for FY 2022-23
- On a consolidated basis, Deepak remains debt free with a net worth of ₹ 4,090 Crores thereby strengthening its balance sheet for future expansion

Value creation

Consistently rewarded shareholders



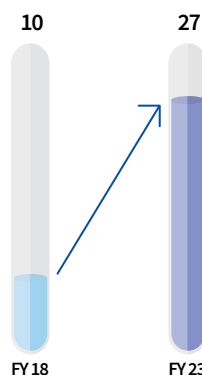
Dividend (%)



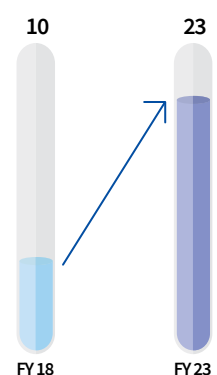
Excellence in execution

Sustained Increase in return ratios, with zero debt levels

ROCE (%)



ROE (%)



Communique of Director (Finance) & Group CFO

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DNL is committed to returning value to its investors and all shareholders. Given the Company's healthy performance, the Board has recommended a higher dividend of ₹ 7.50 per equity share of face value of ₹ 2.00 each, being 375%, for FY 2022-23. The Company remains resolute in its pursuit of continued productivity growth in the upcoming year

Shri Sanjay Upadhyay

Director (Finance) & Group CFO

Dear Stakeholders,

Your Company achieved a notable performance in the fiscal year 2022-2023 in the backdrop of a demanding environment characterised by various internal and external factors. Despite these challenges, we efficiently managed our operational activities and fulfilled our supply commitments, ensuring a consistent and steady supply of products to our customers.

Pioneering the way in sustainability, your Company has embarked on numerous endeavours aimed at diminishing its environmental footprints while simultaneously generating value-added compounds from by-products, all in a concerted push towards a sustainable tomorrow. With sustainability at the core of our endeavours, we are empowered to foster inclusive growth and bring forth societal value, all the while curbing our environmental impact and upholding a responsible approach throughout our value chain.

AGILE BUSINESS FRAMEWORK

Your Company has demonstrated its agility in achieving growth while maintaining the quality and safety standards by leveraging our expertise in chemicals and the value chain. Our success can be attributed to our balanced revenue growth strategy, which includes diversification across products, end-user segments, customers and geographies. This is interwoven with a focus on sustainability to ensure that we are meeting the needs of customers while respecting our commitments to our people, the environment and the communities within which we operate.

Amidst operational and macroeconomic challenges, our business model has proven resilient and we have emerged stronger and more confident. Incremental investments have led to increased capacity, while sustained demand from end-user industries has driven growth in both our topline and bottom-line. We have developed a sustainable business model that serves over 30 end-user markets, mitigating some market fluctuations. Amidst several challenges, the safety of our personnel, materials and operations across all our sites has been our topmost priority.

PAVING THE WAY FOR A SUSTAINABLE TOMORROW

At DNL, we continue to emphasise the significance of responsible chemistry, an all-encompassing approach that incorporates environmental conservation, the well-being of people and the prosperity of our customers, suppliers and communities. It is this very spirit of sustainability that drives us to undertake proactive initiatives to protect and nurture our sphere of influence.

As we navigate the ever-changing landscape of business, industry, society and our planet, we are committed to building a sustainable future through our 3P approach: Plant, process and people safety. At DPL, Dahej, an astounding 12 million safe man-hours – an irrefutable testament to our unwavering dedication to safety. Additionally, our Company has gained international recognition as a responsible corporate citizen. For us, sustainability holds significance that goes far beyond obligatory corporate responsibility. It acts as a protective shield, safeguarding the future growth of our Company, while seamlessly integrating into our business strategy, operations and structure. It has become an indispensable cornerstone of our overall framework.

DNL remains resolute in its commitment to responsible chemistry and the production of impactful solutions. To minimise errors, we have assumed a greater role in developing and implementing additional automation and safety standards within our plants. As a result, we have emerged as the leading suppliers for major global clients, thanks to our steadfast adherence to quality, environmental practices, effective human resource management and our ability to handle complex and hazardous chemical processes with efficiency.

This year, a remarkable milestone was achieved at our Dahej facility. It received a perfect score of 100 out of 100 in the Together for Sustainability Audit. This prestigious evaluation, similar to the renowned Responsible Care program in the United States, garners immense respect from large European, Japanese and American companies.

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Moreover, on the sustainability front, the Company is expanding its in-house waste treatment capacity as part of the projects under implementation, leading to a decrease in its footprint. It is also increasing its ability to backward integrate, thereby de-risking its supply chain. As a responsive company, we take pride in our deep process expertise and commitment to producing complex chemicals using safe and sustainable methods, making us the preferred partner of choice for global customers.

EXEMPLARY TRACK RECORD

DNL has displayed exceptional adaptability in seizing opportunities, predicated on our global competitiveness and strong customer relationships. This has enabled us to meet our customers' demands while maintaining high levels of operational efficiency. Carefully navigating the volatile macroeconomic environment, we ended the year on a positive note, with consolidated revenues increasing by 17% yoy to reach ₹ 8,020 Crores. Our financial discipline has ensured that we reported EBITDA of ₹ 1,337 Crores and a net profit of ₹ 852 Crores for the year.

On a standalone basis, we are debt-free, with a surplus of ₹ 400 Crores in cash, bank balances and investments. Our net debt-to-equity ratio, on a consolidated basis, has improved to 0.03x from 0.2x in FY 2021-22, reflecting our commitment to improving the Company's capital structure. We have also used cash flow to enhance operational efficiency and extensively improved our working capital, resulting in higher ROCE. Deepak Nitrite has achieved a ROCE of over 25% for the last 16 consecutive quarters on a standalone basis.

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As we continue to reduce debt and maintain dividends, we are strategically deploying cash flow into growth projects, which will further enhance our business proposition.

An unfortunate incident of fire happened at our Nandesari unit resulting in damage of facilities and loss of production for about 40 days. The Company has lodged an insurance claim for business interruption and reinstatement of assets. All the insurable interests of your Company including inventories, buildings, plant and machinery are adequately insured against risk of fire and other risks.

CAPEX UPDATE

We have announced investment aggregating to ₹ 2,500 Crores for expanding our capacity, enabling assured availability of inputs, backward integration for improved efficiency, widening of product portfolio and assimilation of new chemistries within our operations –

- To enhance market share and maintain our leadership position, we have planned brownfield projects for certain key products. These projects aim to meet the growing demand and improve the overall business proposition.
- A Greenfield expansion in Polycarbonate compounding will help us venture into the Polycarbonate business. This expansion will provide valuable insights into the market, including niche and major players. It will also enable the catering of specialised demand in new-age applications such as 5G boxes, EV batteries, medical devices and more.

- Another project focussed on backward integration will incorporate new chemistry platforms like photochlorination and fluorination, we aim to reduce supply chain risks in the agro space and expand the range of products using these chemistries. It will strengthen the backward integration capabilities for key inputs.
- The MIBK-MIBC project involves forward integration. These products are derived from acetone and the objective is to introduce new chemistries thereby enabling utilisation of a higher proportion of acetone internally to manufacture MIBK and MIBC. This move enables the production of other downstream value-added products.

These projects will contribute to our robust revenue growth, expand its market share, improve margins, mitigate business risks through a diversified product mix and strengthen customer and supplier relationships.

UPGRADE IN CREDIT RATING

Deepak Nitrite has a strong reputation and holds a dominant position in a wide range of product categories. Your Company's financial performance has been consistently improving, reflecting the disciplined ingrained into its growth strategy. As a result, ICRA has reaffirmed Deepak Nitrite's long-term rating as ICRA AA and short-term rating as ICRA A1+. Additionally, ICRA has upgraded Deepak Phenolics, the Company's wholly owned subsidiary, from ICRA AA- to ICRA AA for the long-term rating and reaffirmed the short-term rating as ICRA A1+. The long-term rating outlook for both Deepak Nitrite and Deepak Phenolics has been revised from Stable to Positive.

Notably, these credit rating upgrades indicating an improved creditworthiness were attained within a short span, even amidst challenging circumstances such as mounting inflation, tightening liquidity and an unfavourable capital raising environment.

DIVIDEND – ELEVATING SHAREHOLDER RETURN

DNL is committed to returning value to its investors and all shareholders. Given the Company's healthy performance, the Board has recommended a higher dividend of ₹ 7.50 per equity share of face value of ₹ 2.00 each, being 375%, for FY 2022-23. The Company remains resolute in its pursuit of continued productivity growth in the upcoming year.

FUTURE ENDEAVOURS

To remain future-ready, we believe investing is crucial and a part of our growth strategy. Our governance pillars are integrity and transparency and we prioritise long-term value creation through our financial reporting and governance practices. The Company's future looks bright, driven by various internal and external factors. We are dedicated to leveraging this momentum and creating value for all stakeholders.

On behalf of the Board of Directors and the management team, I would like to express our gratitude to all our shareholders for their trust and confidence in DNL. We remain cautiously optimistic that DNL will continue to deliver long-term value to both its internal and external stakeholders.

Best Regards,

SANJAY UPADHYAY

Director (Finance) & Group CFO

