

Message from the Chairman & Managing Director

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Deepak C. Mehta

Chairman and Managing Director

Dear Stakeholders,

We are pleased to share our 52nd Annual Report for the Financial Year 2022-23, highlighting Deepak's sustained performance through our manufacturing expertise, integrated facilities and agile operations. We are committed to strengthening our financial position and continue to invest in the Company in means that align with our vision and strategy. Our focus continues to be on building world-class facilities, innovative products and processes, while balancing market access and cost optimisation to achieve our goals. While doing so, we remain mindful of fulfilling our social as well as environmental obligations. The Company believes in growing responsibly while making an impact in the society. In addition to employee welfare and environment protection, your Company has consistently supported sustainable livelihoods with better healthcare facilities and offering education to marginal segments of the society. The objective is to contribute in a positive way by conserving natural resources while touching as many lives as possible and making them a part of our growth journey.

SUSTAINABILITY: KEY DRIVER OF INNOVATION

For Deepak, sustainability is neither a corporate social responsibility nor a cost line-item, rather it is a business imperative that is at the forefront. It forms a core of what we do and how we grow as an organisation. In the past, we have received several accolades demonstrating our efforts of growing responsibly by making a visible change on the ground. Recently, one of our units in Dahej achieved a milestone of receiving 100% score in its very first attempt in Together for Sustainability (TfS) Audit conducted by DQS India. This speaks volumes of our commitment to offer best-in-class solutions to our customers by using sustainable manufacturing practices. This achievement adds to other steps undertaken such as a signatory of prestigious 'Responsible Care', 'Nicer Globe alliance' as well as receipt of a silver medal with 60% assessment score from EcoVadis, which is a leading provider of business sustainability ratings. All this is a testament to our dedication of achieving the core objectives of people, planet and profit.

We firmly believe that sustainability is the critical ingredient of organisational and technological innovations that generate positive impact on both financial performance as well as overall business growth. In-line with this, we are steadily investing to innovate our product portfolio and expand our process expertise to deliver sustainable outcomes. We want sustainability and innovation to go hand-in-hand, which is why we have strengthened our R&D infrastructure with an endeavour to innovate new compounds, upgrade the existing processes and efficiently recover by-products from effluents. This is a right move towards a circular economy thereby limiting the damage caused to the environment.

Your Company is convinced that the creation of value in medium-to-long term, relies on effective integration of business, social and environmental performance. This will create sustained shareholder value and will be critical driver to continued success in the future.

INDIAN ECONOMIC SCENARIO

The Indian economy is poised to be one of the world's fastest-growing economies, despite global uncertainties and challenges. The International Monetary Fund (IMF) has revised its growth projection for India in 2023-24 to 5.9%. This revision is primarily due to expected decrease in consumption and tighter monetary policies, thereby impacting global growth. Slower consumption growth, coupled with external factors such as rising borrowing costs and sluggish income growth, is likely to impact private and Government consumption, as fiscal support measures introduced during the pandemic are phased out. Nevertheless, the recently presented Union Budget 2023 focusses on stability, sustainable development, inclusive growth and introducing policies to stimulate demand for various chemicals in sectors such as construction, emission control, polyurethanes, bio-pesticides and more.

Despite facing challenges on account of after effects of pandemic-led disruption, the Russia-Ukraine conflict and related supply side shocks, inflation and global monetary tightening, the Indian economy has demonstrated a resilient recovery across multiple sectors, positioning itself for a return to the pre-pandemic growth levels in FY 2022-23. India's impressive average growth rate of 7.5% per year over the past two decades, second only to China's 9.6% growth, further underscores its promising growth trajectory.

INDIAN CHEMICAL INDUSTRY

Over the last decade, the chemical industry in India has demonstrated remarkable growth, surpassed expectations and generated substantial wealth for its shareholders. This impressive foundation has positioned India as a promising contender to become a leading global hub for chemical manufacturing. The sector's outperformance has opened up new opportunities in the upstream and downstream industries. Such growth has been fostered by consistent revenue expansion, increasing profit margins and enhanced valuations.

The Global Chemical sector is expected to grow significantly from 2021 to 2040, with a strong growth rate of 11 to 12% in the period of 2021-2027 and a 7 to 10% growth rate from 2027-2040. This growth will triple the sector's global market share by 2040. India's contribution to global chemical consumption growth is projected to be over 20% in the next two decades, with domestic demand for chemicals in India surging from USD 170 billion in 2021 to an impressive USD 850 billion to USD 1,000 billion by 2040. India's chemicals sector is well-positioned to become a preferred destination for Companies seeking to fortify their supply chains due to its compelling value proposition and the changing geopolitical landscape. Additionally, India's speciality chemicals segment, particularly the Agrochemicals and Food and feed ingredient chemicals subsegments, demonstrates robust performance and strong market attractiveness, with projected significant growth rates. The Agrochemicals market in India is valued at USD 5.5 billion and is expected to represent nearly 40% of India's total chemicals exports by 2040. The Food and feed ingredient chemicals sub-segment, valued at USD 3 billion, anticipates a growth rate of 7 to 9%.

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to India's 'Make in India' and Atmanirbhar Bharat Abhiyaan initiatives and the recent budget policies are expected to generate demand for various chemicals. The proposed customs duty rate structure and basic custom duty changes aim to boost domestic production, exports and the Government's green initiative programme. Given the industry's role in providing building blocks and raw materials for many sectors, it will benefit from India's strong macroeconomic indicators. The Indian chemical sector is now seen as a reliable supplier for global companies pursuing a China+1 and Europe+1 strategy to de-risk their operations.

India has the potential to become a major player in the global chemicals industry due to its rapid economic growth, expanding middle-class population and lower labour costs. The country has demonstrated impressive growth in this sector, positioning itself as a potential global powerhouse in chemicals manufacturing and utilisation. Although challenges exist, India's enormous potential should not be underestimated. It is crucial to harness this potential and strive towards building a thriving chemicals industry that contributes significantly to the nation's growth and prosperity.

DNL's GROWTH & PERFORMANCE

In FY 2022-23, your Company exhibited resilient performance, delivering healthy topline growth driven by stable demand and high plant efficiency. Our market position in several flagship products continue to improve, as we scale new production and delivery volume benchmarks for the portfolio products. Despite persistent inflationary pressures, we remain committed to deliver sustainable profitability and following the core objectives of people, planet and profit.

Amid operational and macroeconomic challenges, our business model has proven its strength and resilience backed by immense agility. Incremental investments have boosted our capacity, while sustained demand from end-user industries has driven growth in revenue. Notably, Deepak Nitrite has emerged as a dominant player across various business verticals, with over ~70% of the domestic market share for basic intermediate sodium nitrate/nitrite. Its subsidiary, Deepak Phenolics, similarly commands over ~56% of the market share for Phenol, Acetone & IPA. With sharp focus on import substitution of key chemicals, the Company has developed specialised expertise and strives for market leadership.

Our emphasis remains on extending our product portfolio by graduating new products from our R&D pipeline, thereby sustaining momentum across established as well as new high-potential chemistries. Our teams have successfully overcome the setback caused by Nandesari fire incident, resuming to full production capacity and fulfilling supply commitments of

customers. Large-scale investment plans reflect our enthusiasm for the opportunities created by India's global potential.

We are excited about our prospects and committed to consistently enhancing the stakeholders' value proposition. The introduction of novel solvents will diversify our product offering, broaden our clientele and improve our overall value proposition. Our robust financial position, deep client relationships and towering growth aspirations position us well for future success.

NEXT PHASE OF DNL

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.

The Board has approved an investment of up to 51% of the Equity Share Capital of Deepak Oman Industries FZC LLC to set up a facility in Oman to manufacture key chemicals and benefit from low-cost inputs of raw materials and energy to serve global markets. As global supply chains are being redrawn, we are developing new relationships to allow more global customers to 'Depend on Deepak'.

We have recently signed an MoU with Government of Gujarat for additional investment of ₹ 5,000 Crores in the State of Gujarat to set up Greenfield Projects of Advance Intermediate Products, Phenol, Acetone and Bisphenol-A. This will be a big step forward towards making Bharat Aatmanirbhar in manufacturing these materials.

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.

VOTE OF THANKS

I express my sincere gratitude to our stakeholders, including shareholders and investors, for their unwavering support. Our dedicated employees have played a vital role in achieving our objectives and fulfilling our vision, while the guidance of our esteemed Board members has been invaluable. Deepak Nitrite and Deepak Phenolics Limited have consistently delivered value to customers worldwide, thanks to our productive workforce.

Looking ahead, we are confident of seizing more opportunities and accelerating our growth trajectory. Our focus remains on maintaining agility to capitalise on changing industry landscape.

To conclude, we thank everyone for being part of our Company's prosperous journey. We are honoured to be associated with you as we pursue sustainable growth and value creation.

Best Regards,

DEEPAK C. MEHTA

Chairman and Managing Director