

Opening New Horizons



DEEPAK NITRITE LIMITED

Fortieth Annual Report 2010-2011

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GREEN INITIATIVE

The Company welcomes the move of 'Green Initiative in the Corporate Governance' taken by the Ministry of Corporate Affairs (MCA), Government of India, allowing the companies to send the official documents to their shareholders electronically. To support this green initiative of the Government in full measure, members who have not registered their E-mail address, so far, are requested to do the same immediately.

Fortieth Annual General Meeting

Day & Date : Friday, August 5, 2011 ■ **Time** : 10:30 a.m.

Venue : Hotel Surya Palace, Opposite Parsi Agiyari, Sayajigunj, Vadodara - 390 005.



Opening New Horizons

In a globalised business environment, the challenge before companies is to continually expand their reach and enhance their capabilities. Deepak Nitrite did so successfully in FY 2010-11, opening new horizons across geographies and business segments. Despite considerable uncertainty in global markets, Deepak Nitrite recorded impressive all round performance. Revenues from the US market increased by over 50%, significant inroads were made in the highly competitive Chinese market, and domestic businesses recorded growth of 34%. With strategic investments in new manufacturing facilities aimed at opening further horizons, Deepak Nitrite is poised to become a ₹ 1000-crore enterprise within next three years.



HIGHLIGHTS



Increased turnover
by volume 23% and by value 24%
in FY11 compared to FY10



Fuel additives
contributed ₹ 63 crore
of revenue in FY11



Reduction in interest costs by 17%
due to decrease in average net debt



Net debt to equity ratio : 0.25



Augmentation of existing
manufacturing facilities on track



Achieved 'REACH' compliance



Listed on National Stock Exchange (NSE)



Highest ever dividend recommended : 60%



Turnover crossed the ₹ 650 crore mark



Improved ICRA ratings :
Short Term Debt : A1+
Long Term Debt : LA+

OPENING NEW HORIZONS



The Success of Strategic Thrusts

In a business environment marked by increasing competition as well as opportunity, long-term strategic planning is the key requirement for a company's sustained success. The strategy has to be based on keen understanding of one's strengths vis-à-vis the emerging market scenario. Once shaped through rigorous analysis, a good strategy has to be carried out with strong conviction.

Deepak Nitrite has since inception grown on the foundation of robust business strategies. Deepak Nitrite is a company operating in multiple business areas, with multiple and multi-purpose manufacturing units producing a wide spectrum of products, catering to a multitude of customers in dispersed locations. This degree of flexibility has enabled the Company to develop a de-risked business model. The model offers major advantages. Overall the Company is cushioned from the impact of economic cycles in both customer and end-user industry segments : presence in different industries, economic cycles and currencies provides a natural hedge. Exposure to different verticals has also helped Deepak Nitrite enhance its technological as well as marketing expertise.

Multiple Products and Applications

Nitro Chloro Benzene

- Pharmaceuticals
- Dyes
- Rubber Chemicals
- Agro-chemicals
- Pigments

Oximes

- Agro-chemicals

Sodium Nitrite

- Dyes/Pigments
- Pharma Intermediaries
- Food Colours
- Electroplating
- Speciality Chemicals
- Colourants

Cumidines

- Agro-chemicals

Nitro Tolunes

- Colourants
- Speciality Chemicals
- Rubber Chemicals
- Pharmaceuticals
- Explosives
- Dyes
- Diamino Stillbene Disulphonic Acid (DASDA)
- Agro-chemicals

DASDA

- Paper
- Textiles
- Detergents

Speciality

- Colourants

Xylidines

- Pigments
- Fuel Additives
- Agro-chemicals
- Pharma Intermediaries

Fuel Additives

- Petrol Blending
- Diesel Blending
- Aviation Turbine Fuel

From the Desk of the Vice Chairman & Managing Director



Dear Stakeholders,

I am delighted to address you on yet another successful year for Deepak Nitrite. Our strategy in FY 2010-11 was aimed at entering new business segments and strengthening our presence in existing markets. I am happy to report that your Company achieved success in these efforts and delivered robust performance in all business segments. This has given us impetus to dream bigger and aim higher. Considering the overall performance, the Board of Directors has recommended a dividend of ₹ 6 per equity share of face value of ₹ 10 each.

The global economy posed major challenges in FY 2010-11. Developed countries reported improvement in economic indicators, largely on account of government stimulus packages. However, there was also an upsurge in commodity prices, especially in emerging market economies. There were concerns regarding the sovereign debt of some European countries. Political unrest in the Middle East, catastrophes in Japan and fast changing weather patterns added to the complications and made the overall business environment more unpredictable than ever.

Your Company successfully met these challenges. We have a broad-based product mix catering to varied applications and industries and hence we can address uncertain and volatile market conditions with some ease.

Leveraging our competencies, our strategy in FY 2010-11 was to achieve growth in the fuel additives market, continue with our expansion plans at Dahej, and penetrate difficult markets like USA and China. In terms of segmental growth, we wanted to better our performance compared to previous years. I am proud to state that your Company not only met but exceeded its targets with respect to these strategies.

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New Product Horizons

We are one of the few players in India to capitalise on the demand for fuel additives and this market has become an important business segment for us. All our products for this market, encompassing petrol, diesel and aviation turbine fuel blending applications are doing well. Apart from fuel additives, which were introduced in FY 2009-10, we have launched some other products that, we are confident, will be equally successful. You will be pleased to note that over 50% of your Company's incremental revenues in FY 2010-11 came from sale of products introduced in the last two years.

New Market Horizons

Another significant aspect of our performance in FY 2010-11 was the progress made in widening and strengthening our diversified geographical reach. While Europe has historically been a good market for us, we have recently taken steps to increase our presence in USA and China. Our success was due to acceptance of our products by our esteemed customers. Our products enjoy competitive advantage due to superior quality backed by sustainable after-sales support. China is renowned for its low cost manufacturing capabilities. Our ability to derive revenues from this market speaks volumes about our global cost competitiveness and value proposition. Another feather in our cap was registration of our products under the European Union's REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) regulation. This will strengthen our long-term relationships with European buyers.

In the Indian market, our products flourished and our businesses reported growth of 34% in FY 2010-11. While our export revenues increased in absolute terms by 14%, the share of revenues from the domestic market increased from 53% in FY 2009-10 to 57% in FY 2010-11 due to strong performance in all segments. We foresee good growth in both the markets. We derive much strength from the fact that the Indian economy continues to grow rapidly, and is expected to register around 9% annual growth in the coming years. This will help further development of your Company's domestic business.

New Financial Horizons

Your Company has greatly improved its financial strength. On the operating side, we have been able to significantly reduce our interest cost despite steadily increasing interest rates. Our net debt to equity ratio stands at 0.25 as on March 31, 2011. We have also steadily increased net worth, thereby sharing our progress with all our stakeholders. Our stronger financial position backed by low leverage will enable us to finance our expansion plan, cost-effectively.

New Manufacturing Horizons

Let me share some exciting information about our expansion plans, which will open up new horizons for us. In our Greenfield expansion at Dahej, we are setting up facilities for manufacture of a performance chemical, which will be a forward integration of one of our existing fine and speciality chemicals. The project has a capital outlay of around ₹ 150 crore. We are well on course to complete this project on schedule.

Our commitment to work ethics, research & development, environmental standards, safety norms and community services remained unstinted.

We are also excited about our Brownfield expansion at Nandesari in Gujarat which will be completed in the first half of FY 2012-13. This investment is aimed at expanding our inorganic-intermediates business.

I can proudly say that your Company is on course to exceed revenue earnings of ₹ 1,000 crore within next three years.

To conclude, I would like to reiterate that we ended FY 2010-11 on an extremely positive note. Our strategies for opening new horizons were successful and all our businesses performed well. Our commitment to work ethics, research & development, environmental standards, safety norms and community services remained unstinted.

I appreciate the hard work put in by our employees and the support of all our stakeholders, which has greatly contributed to our success and am confident that it shall be always available in our endeavour to place ourselves on a path of rapid growth.

Best wishes,

D. C. Mehta

Vice Chairman & Managing Director

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