



DEEPAK NITRITE LIMITED

Forty First Annual Report 2011-12

ENTERING A NEW WORLD OF BRIGHTENERS

From Chemicals to Solution Provider



Contents

02	Operational highlights
03	Corporate Information
04	Growth ready with a robust business model
06	From the Desk of Vice Chairman & Managing Director
10	Brightening the world with Optical Brightening Agents (OBA)
12	OBA plant at Dahej
14	Board of Directors
17	Senior Management Team
18	Providing solutions to the solar energy segment
20	Staying ahead with quality and sustainability
22	Growing by being with customers every step of the way
24	Beyond Business
26	Shifting Headquarters
28	Financial Highlights
31	Notice
35	Management Discussion and Analysis
40	Directors' Report
45	Report on Corporate Governance
53	Auditors' Report
56	Balance Sheet
57	Statement of Profit & Loss
58	Cash Flow Statement
60	Notes to Financial Statements
86	Investors Welfare Scheme

Green initiative – a welcome step

We once again request shareholders to register their email address with their Depository Participant or with the Registrar and Transfer Agent of the Company to receive documents / notices in electronic mode from the Company in lieu of physical copies. Please note that, in case you have already registered your email address, you are not required to re-register unless there is a change in your e-mail address. Shareholders holding shares in physical form are requested to send email at deepaknitrite@shareproservices.com to register their email address for receiving the above documents by email. Further, please note that these documents will also be available on the Company's website www.deepaknitrite.com for your ready reference.



Forty First Annual General Meeting

Day & Date	:	Saturday, 4th August, 2012
Time	:	10.30 a.m.
Venue	:	Hotel Surya Palace, Opposite Parsi Agiyari, Sayajigunj, Vadodara - 390 005

ENTERING A NEW WORLD OF BRIGHTENERS

From Chemicals to Solution Provider

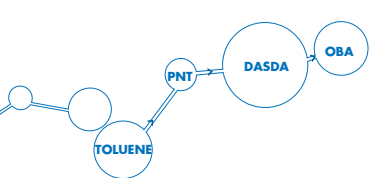
Deepak Nitrite Limited is India's leading manufacturer of organic, inorganic and fine & speciality chemicals.

The Company is now at a landmark inflection point as it climbs up the value chain to offer not only bulk chemicals and intermediates but also high value ready to use chemical products and also offer relevant chemical solutions to industries. A feat made possible by the expected completion of its greenfield project at Dahej which will manufacture Fine & Speciality Performance Chemical (Optical Brightening Agents - OBA). This would be the most integrated plant in the world.

The ability to manufacture OBA brightens the Company's growth potential, ushers it into a new promising world of product application markets and opens new vistas of opportunities as it climbs up the value chain from chemicals to solution provider.

"When you see brightness / white, think of Deepak Nitrite Limited"





Operational highlights

Increase in turnover by nearly **18%** in FY12 as compared to FY11



Fuel Additives contributed to about **₹ 100 crores** for FY12 as against ₹ 63 crores for FY11

Turnover crossed the **₹ 775 crores** mark

Greenfield state-of-the-art **project at Dahej** under implementation

Brownfield expansion at Nandesari is underway

Dividend rate maintained at **60%**

ECB loan availed **USD 45 million**

Turnover from U.S. contributed to about ₹ 60 crores for FY12, **34% growth** compared to FY11

Corporate information

BOARD OF DIRECTORS

Shri C. K. Mehta	- Chairman
Shri D. C. Mehta	- Vice Chairman & Managing Director
Shri A. C. Mehta	- Managing Director
Shri M. R. B. Punja	- Director
Shri A. K. Dasgupta	- Director
Shri Hasmukh Shah	- Director
Shri Nimesh Kampani	- Director
Shri Sudhin Choksey	- Director
Shri Berjis Desai	- Director
Dr. Richard H. Rupp	- Director
Shri Sudhir Mankad	- Director
Shri S. K. Anand	- Additional Director

AUDIT COMMITTEE

Shri M. R. B. Punja	- Chairman
Shri A. K. Dasgupta	- Member
Shri Sudhin Choksey	- Member
Shri Sudhir Mankad	- Member

INVESTORS GRIEVANCE COMMITTEE

Shri A. K. Dasgupta	- Chairman
Shri D. C. Mehta	- Member
Shri A. C. Mehta	- Member

REMUNERATION COMMITTEE

Shri A. K. Dasgupta	- Chairman
Shri Berjis Desai	- Member
Shri Sudhir Mankad	- Member

SR. VICE PRESIDENT (FINANCE) & COMPANY SECRETARY

Shri Sanjay Upadhyay

BANKERS

State Bank of India	Bank of Baroda
Dena Bank	ICICI Bank Ltd.
AXIS Bank Ltd.	ING Vysya Bank
Standard Chartered Bank	DBS Bank Ltd.
Hongkong and Shanghai Banking Corporation	

AUDITORS

B. K. Khare & Company
Chartered Accountants, Mumbai

REGISTERED OFFICE

9/10, Kunj Society, Alkapuri, Vadodara - 390 007
Tel: +91-265-235 1013, 233 4481/82
Fax: +91-265-233 0994
Email: investor@deepaknitrite.com
Website: www.deepaknitrite.com

GLOBAL HEADQUARTERS

Aaditya-I, National Highway No.8,
Chhani Road, Vadodara - 390 024
Tel: +91-265-276 5200 | Fax: +91-265-234 0506

PLANTS

Nitrite & Nitroaromatics Division

4-12, GIDC Chemical Complex,
Nandesari - Dist., Vadodara - 391 340

Taloja Chemical Division

Plot Nos. K/9-10, MIDC Taloja,
Dist. Raigad - 410 208

APL Division

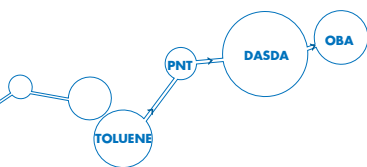
Plot Nos. 1, 2, 26 & 27
MIDC Dhatav, Roha, Dist. Raigad - 402 116

Hyderabad Specialities Division

Plot Nos. 90-F/70-A and B,
Phase II, Industrial Development Area,
Jeedimetla, Tal. Quthbullapur Madal,
Dist. Ranga Reddy, Hyderabad - 500 055

Project site under development

Plot No. 12/B GIDC, Dahej, Dist. Bharuch,
Gujarat - 392 130



ENTERING A NEW WORLD OF BRIGHTENERS.

From Chemicals to Solution Provider

Growth ready with a robust business model

Deepak Nitrite is today a multi-product, multi-location Company with a wide spectrum of products. With years of experience and deep understanding of the user-industry requirements, it is the preferred supplier to world renowned chemical brands spread over four continents and 20 countries. The Company has established long-term contracts with global MNCs and supplies a large quantum of their chemical requirement in key products manufactured by them.

STAYING AHEAD WITH A DE-RISKED BUSINESS MODEL

Wide spectrum of products with diverse applications

Multi-purpose manufacturing facilities

Export spread across diverse geographies, economies & currencies

Customers across diverse industries

Fully integrated business model from building blocks to Performance application products





Application of OBA in detergents ▼



PRESENT MULTI-PURPOSE MANUFACTURING FACILITIES

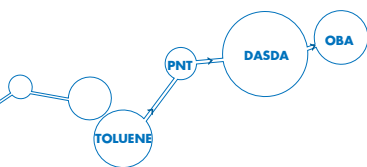
Existing facility	Key processes
Nandesari, Gujarat	Ammonia Oxidation, Alkali Fusion, Sulfonation, Continuous Nitration, Condensation
Taloja (near Mumbai), Maharashtra	Hydrogenation
Roha, 120 kms from Mumbai	Alkylation, Oxidative Bromination, Reductive Alkylation, Diazotisation
Hyderabad, Andhra Pradesh	Sulfonation, Oxidation, Reduction

The brownfield expansion at Nandesari in Gujarat will expand its inorganic-intermediates business while the greenfield expansion at Dahej is a forward integration in the performance chemicals segment.

WIDE GEOGRAPHIC PRESENCE

The Company is today recognised as a globally proactive chemical entity with a presence in over 20 countries including the most advanced economies of the U.S. and Europe and the cost-competitive economy of China.

The genesis of strategically thinking ahead of times is reflected in the Company's robust business model and it will continue to pave the path for future value accretion and growth.



From the **Desk of Vice Chairman & Managing Director**



Your Company succeeded
in capitalising on the
opportunities that prevailed
even in the overall negative
environment to report steady
growth in turnover of **18%** to
touch **₹ 776.91** crores in the
current fiscal.



Dear Stakeholders,

It is with immense pleasure that I share your Company's exemplary performance in the tough and challenging environment that prevailed through the financial year 2011-12. It was a year in which circumstances tested the mettle of businesses around the world. However, despite the turbulence in the operating environment, we are glad to report growth and also delighted to have made significant progress on key strategic initiatives.

The fiscal under review threw up many challenges, some of which carried forward from the previous year while others arose from recent developments. The continued sluggishness in the developed economies kept global businesses on their toes. To further aggravate the situation was the intensification of the Eurozone debt crisis, the after-effects of the tsunami in Japan and political events in the Middle East. These developments combined to result in softening of demand for end-user industries, coupled with continued pressure on commodity prices, notably crude and heightened volatility in foreign exchange rates.

In India, we kicked off FY12 on an optimistic note, but were forced to soon downgrade our outlook as persistent inflation, policy inaction and shocks from the macro environment resulted in moderation of the growth rate. Stubborn inflation and firmer input prices impacted corporate profitability as well as household budgets. All this led to lower than expected GDP growth. Worse still, the fiscal deficit exceeded targets in FY11, annual budget, resulting in sustained pressure on liquidity and interest rates. However, with the FY12 budget seeking to address some of these challenges, the scenario, going forward, is once again beginning to look positive.



D.C. MEHTA
VICE CHAIRMAN
& MANAGING DIRECTOR

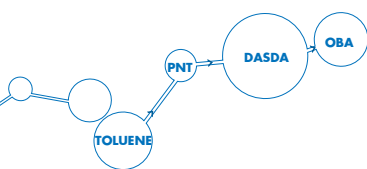
While, admittedly, it is easy to focus on circumstances and succumb to the prevailing pressures, let us not forget that when the playing field is level for all companies, the strength of an organisation lies in making the most of the operating environment. I am pleased to state that your Company, on the back of its experience and expertise, succeeded in capitalising on the opportunities that prevailed even in the negative environment to report steady growth in turnover of 18%, from ₹ 661.08 crores last year to ₹ 776.91 crores in the current fiscal.

What makes this achievement truly remarkable is that it encompassed all our business segments, with each of them performing strongly. Revenue growth was driven by higher volumes with some improvements in realisations. Inorganic intermediates, Organic intermediates, as well as Fine & Speciality chemicals, all lived up to our expectations and we are glad to have performed well across each segment of our business.

One of our key strengths is our diversified customer base, to which we are continually adding. The end-user industries that we supply to, are diversified across dyes, pigments, agro-chemicals, pharmaceuticals, paper, explosives, textiles, rubber chemical intermediates, chemicals for refineries and cosmetics, to name a few. This provides us with a natural hedge as a slowdown in any one of these industries is compensated by improved demand in another.

Exports also proved a great driver for growth during the year and revenues from exports stood at approximately 44% of total

**“I AM PLEASED TO STATE
THAT YOUR COMPANY, ON
THE BACK OF ITS EXPERIENCE
AND EXPERTISE, SUCCEEDED
IN CAPITALISING ON THE
OPPORTUNITIES THAT PREVAILED
EVEN IN THE NEGATIVE
ENVIRONMENT TO REPORT
STEADY GROWTH IN TURNOVER
OF 18%, FROM ₹ 661.08 CRORES
LAST YEAR TO ₹ 776.91 CRORES
IN THE CURRENT FISCAL.”**



ENTERING A NEW WORLD OF BRIGHTENERS.

From Chemicals to Solution Provider

“THROUGH EXPANSION INTO OBA, WE ARE POISED TO MOVE TO THE NEXT LEAGUE – FROM MERE CHEMICAL MANUFACTURING TO ENTER THE OTHER HIGH-END OF CUSTOMISED CHEMICAL SOLUTIONS BUSINESS.”



revenues, registering growth of 24% from ₹ 282 crores last year to ₹ 350 crores in the current fiscal.

The positive performance on the exports front came amidst concerns of a slowdown in exports, given that a large proportion of exports are to European countries. However, since a significant part of our exports are to countries such as Germany and Switzerland, which were not so severely impacted by the economic turmoil in Europe, we were able to keep our performance on this count well on track.

Further, our customers are large multinational companies with a global presence and well established businesses. The growth in exports was also attributable to our prudent foreign exchange hedging policies, wherein we were able to take advantage of the depreciating rupee, which aided better realisations.

Apart from Europe, we supply products to markets in China & U.S. Exports to China this year stood at ₹ 35 crores, while to the U.S. it scaled to ₹ 63 crores. We have recently entered both these markets and operations are currently at a nascent stage. There is scope to increase revenues from both these markets and our strategy is to establish a significant presence in these new major two export markets.

In operational terms, a key highlight of our performance during the year was the development in our fuel additives business, where we could successfully achieve a turnover closer to the ₹ 100 crore mark. With oil prices increasing at a rapid rate, demand for Fuel Additives is also increasing. Fuel Additives help Refineries maximize fuel efficiency and reduce emissions, and improves the overall quality of different types of fuels like gasoline, diesel, Aviation Turbine Fuel and lubricants and are thus in high demand. One of such Fuel Additive is Cetane Booster, which is used for Diesel is also witnessing strong demand. Other Fuel Additives such as Anti-Oxidants are being introduced by the Company in the near future.

I believe this to be truly a landmark for your Company as it

is a testament to our strong in-house R&D capabilities. Going forward, we are focussed on more such initiatives and I must stress that your Company believes in innovation as a key component of its business strategy and spends almost 1% of its revenue on R&D each year.

Unfortunately, even though our performance on revenue growth and business expansion has been noteworthy, there has been a moderation in margins. This is attributed to the increase in input prices across various categories. Due to higher prices of crude oil and natural gas, inputs derived from these commodities also firmed up. The earthquake and tsunami in Japan resulted in a disruption in the supply of caustic lye, which also put pressure on input prices. However, the good news is that the prices of inputs have peaked out and the time lag in passing on higher costs to customers is behind us; so we definitely expect an improved performance going forward.

Another notable event that I would like to touch upon is the progress made on our expansion plans. Apart from the debottlenecking activities undertaken earlier, which resulted in higher volumes on the existing manufacturing base, we are focussed on expanding our capacities.

Our greenfield expansion in Dahej and brownfield expansion at Nandesari are progressing as planned. Our greenfield expansion in Dahej is a forward integration to manufacture OBA. With the completion of this greenfield project at Dahej, we will complete the vertical integration from Toluene to Optical Brightening Agent - OBA (Toluene ->PNT -> DASDA -> OBA). This feat places us amongst the very few fully integrated player in the world with such a capability.

Optical Brightening Agents (OBA) enjoys good demand across industries like Paper, Detergents, Textiles, Coating applications in Printing and Photographic Paper. Through this expansion, we are poised to move to the next league – from mere chemical manufacturing to enter the other high-end customised chemical solutions business.