

SCALING NEW PEAKS



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Forty Sixth Annual General Meeting

Day & Date : Monday, June 26, 2017
Time : 10:30 a.m.
Venue : Hotel Surya Palace,
Opposite Parsi Agyari,
Sayajigunj,
Vadodara - 390 005

Cautionary Statement Regarding Forward-Looking Statement

This Report may contain certain forward-looking statements relating to the future business, development and economic performance. Such Statements may be subject to a number of risks, uncertainties and other important factors, such as but not limited to (1) competitive pressure; (2) legislative and regulatory developments; (3) global, macro-economic and political trends; (4) fluctuations in currency exchange rates and general market conditions; (5) delay or inability in obtaining approvals from authorities; (6) technical developments; (7) litigations; (8) adverse publicity and news coverage, which could cause actual developments and results to differ materially from the statements made in this Report. Deepak Nitrite Limited assumes no obligation to update or alter forward-looking statements whether as a result of new information, future events or otherwise.



SCALING NEW PEAKS

We have climbed to great heights so far...

Market leader in India for
Sodium Nitrite, Sodium Nitrate and
Nitro Toluenes

Ranked among the top 500 corporates by
Dun and Bradstreet for the past three years

Amongst the top three suppliers for
products like Cumidines and Oximes

Bestowed with the Women Empowerment
FICCI CSR Award 2015-16

Our achievements also include...

Fully Integrated Business Model with the ability to forward, integrate and produce complete value chain from feedstock to finished product within the organisation.

Process Expertise with indigenous development and prowess in handling various types of hazardous chemicals.

Multiple Products Multiple Solutions with expertise in custom manufacturing services and the ability to cater to an array of chemical majors across the globe.

360° Quality Management with global quality standards in products, processes and plants.

Sustainable Operations with a commitment to safety, quality, conservation and a holistic approach towards environmental protection.

Integrated Suppliers and Customers to ensure reliable and cost-effective product availability.

Global Supplier of Choice due to enduring relationships with leading global companies in over 20 countries for over a decade.



Now we set to Scale New Peaks

... by changing the dynamics of the domestic markets for the fast growing chemicals - Phenol and Acetone green field project - through our wholly-owned subsidiary, Deepak Phenolics Limited.

ABOUT DEEPAK NITRITE



Reduction, Sulphonation, Condensation, Diazotisation and Oxidation.

As a multi-division and multi-product, India-based chemical manufacturing Company, with diversified business segments and product portfolios, we enjoy a leading market position in most of our products in the domestic as well as global markets. In addition to well-established multinationals, some of whom we create customised product offerings for, our client list also includes several Fortune 500 Companies.

To maintain our leadership position, we lay strong emphasis on our in-house Research & Development. This has led to the development of a range of new product applications and a deeper understanding of our customers' preferences. Consequently, we are leading global player for several niche chemical products, like Xylidines, Cumidines, Oximes and Colour Intermediates.

Beyond ISO certifications, due to our work policies and processes, we have been accredited with a "Responsible Care" certification.

We have a rich heritage of consistently rewarding our Shareholders with dividends and augmenting Shareholders' wealth through consistent performance.

As a part of our growth plans, we have forayed into a Greenfield project at Dahej, Gujarat, to manufacture Phenol and Acetone, through our subsidiary, Deepak Phenolics Limited.

Established in the 1970s, by Shri C. K. Mehta (Founder & Chairman Emeritus), Deepak Nitrite Limited (DNL) is a leading Indian chemical manufacturing company with a product portfolio that comprises Basic Chemicals, Fine & Speciality Chemicals and Performance Products.

Our distribution network spans over 30 countries worldwide, while our ISO certified manufacturing facilities are located at Nandesari, Dahej (Gujarat), Roha, Taloja (Maharashtra) and Hyderabad (Telangana) and our R & D facility at Nandesari (Gujarat). Our wide bouquet of products enables us to cater to several industries, including Colourants, Petrochemicals, Agrochemicals, Rubber, Pharmaceuticals, Paper, Textile, Detergents, Fine & Speciality Chemicals, etc. We have developed expertise in multiple chemical processes, including Nitration, Alkylation, Nitrogen Oxides Absorption, Hydrogenation/



30 countries
distribution
network spans



NANDESARI

Gujarat

- Bulk and commodity product manufacturing with on-site Nitration & Speciality Agrochemicals



DAHEJ

Gujarat

- Full spectrum stilbenic Optical Brightening Agents production
- Phenol & Acetone Project through wholly-owned subsidiary Deepak Phenolics Limited



TALOJA

Maharashtra

- Hydrogenation & noble metal catalysis speciality



ROHA

Maharashtra

- Multispeciality manufacturing facility specialising in pilot plants and scaling up activities in Nitration & Speciality Agrochemicals



HYDERABAD

Telangana

- Manufactures DASDA for captive use and for commercial sales



FROM THE DESK OF CHAIRMAN & MANAGING DIRECTOR



Dear Stakeholders,

Financial Year (FY) 2016-17 has been a highly eventful year for your Company. Despite many headwinds, significant progress was made in execution of strategy and achievement of its mission, thus underlining your Company's business strength and resilience.

The change at the helm in India in May 2014 was supplemented by expectations of bold reforms in economic and industrial policies. After an initial period of consolidation, the reforms agenda has gathered momentum and the economy has been restored on a path of high growth. The Indian chemical industry stands to gain from this growth and the policy changes have positively impacted the sector. In order to boost manufacturing in the country, the Government launched the 'Make in India' campaign and alongside theme of Ease-of-Business announced by the Government received encouraging response with several global leading companies coming forward to commit

investments in setting-up world-class manufacturing units in the country. Several large commitments in the chemical sector will undoubtedly increase the output and contribution of the sector in the years ahead. We are witnessing a shift globally and Asia, being the epicentre of growth and enjoying abundant skilled resources, is emerging as the world's chemical manufacturing hub. Within that, India enjoys low-cost manufacturing capabilities by virtue of relatively lower-cost labour, highly competent leadership and geographic proximity with the Middle East, one of the world's key raw material sources. Recent developments contributing to a stronger and stable currency, positive governance environment and improvement in skills and capabilities is serving to enhance the competitive advantage. With the benefits of several tailwinds and the Government's focus on eliminating the infrastructure gaps in the country through investments in solar power, coal-based power plants, availability of power and decreasing trend of power tariff, large-scale



Company raised

₹ **150** crores

through Qualified
Institutional Placement
(QIP) in March 2017




"We are witnessing a shift globally and Asia, being the epicentre of growth and enjoying abundant skilled resources, emerging as the world's chemical manufacturing hub"

improvement in surface and water transportation system, India is elevating its position as a critical manufacturing hub for the global speciality chemicals industry. On the environment front, Government has been strict in norms, which shall continue helping entities like Deepak Nitrite to operate for long-term growth opportunities.

FY 2016-17 also witnessed some key developments both in India and across the globe which have the potential to reshape the global business dynamics. A sharper degree of resistance to globalisation has resulted in regime changes in the US and a vote for the 'BREXIT' in the UK. The enhanced focus on job creation in the home country is forcing governments to be more focussed towards protecting manufacturing. Simultaneously, in India, the ongoing progress towards the GST regime combined with steps to transform India into a 'less-cash' society will strengthen the fabric of organised industry. Drive of demonetisation created initial hiccups before swiftly moving towards a normal situation which fructifies Government efforts towards a transparent economy. Further, multiple initiatives to boost the rural economy announced in the Union Budget 2017 combined with improved monsoon trends are expected to favourably impact demand for end-user products from those markets in the medium to long-term thereby benefiting the overall chemical industry. In light of

this, it is favourable that your Company is poised to significantly elevate the degree of focus on the domestic market in the coming years.

During the year under review, your Company witnessed a slew of unforeseen events. It encountered headwind in the form of temporary closure of one of its three units at Hyderabad facility due to excessive flooding and hence issues related to pollution. However, all necessary steps were taken to address the compliance conditions and your Company received a permanent revocation order from regulators which served to reinforce the strength and quality of operations. In addition to this unexpected development, a fire broke out at one of the distillation columns of Company's manufacturing facility at Roha Industrial Estate in Maharashtra. It was an unfortunate event, however, the Company's trained rapid response team could avoid larger disaster. The damaged facilities have been reconstructed within a reasonably brief period, which gives me satisfaction. Your Company is adequately covered under insurance for replacement value of the damaged facilities and loss of profits due to business interruptions. While both these unforeseen incidents were swiftly brought under control, our performance in the third quarter was impacted.

FY 2016-17 also saw some setbacks in terms of reduced requirements for fuel

additives due to change in dynamics of the oil supply market as well as volatile crude oil prices which led to re-pricing of products linked to global prices of crude and related petrochemical intermediates. However, by leveraging its plants and as a part of its long-term strategy and sustainability focus, your Company was able to diversify its products, markets and end-user industries in a manner that downturn in a particular end-user segment is mitigated by capitalising on opportunities in other end-user segments, thereby providing a natural hedge.

Your Company reported resilient performance during the year even in the face of one-time developments that occurred in the third quarter. The turnaround of performance effected in the fourth quarter to recover from the impact of developments in the immediately preceding quarter was particularly heartening.

Your Company raised ₹ 150 crores through Qualified Institutional Placement (QIP) in March 2017 at a price of ₹ 104 per Equity Share (including premium of ₹ 102 per Share). The proceeds, which will be deployed towards funding the Greenfield Project for the manufacture of Phenol and Acetone, saw strong response from high quality domestic institutional investors resulting in subscription of over 2.2 times the issue size, exceeding



₹ 340 crores. It may be worth mentioning here that, in January 2016, the Company raised ₹ 83 crores through Qualified Institutional Placement at a price of ₹ 70.90 per Equity Share to part fund ongoing Phenol project. I thank all investors participating in QIP, reposing confidence in the Phenol project of the Company, which is set to escalate the Company into a new high rung.

The Board of Directors recommended a Dividend of ₹ 1.20 per Share of a Face Value of ₹ 2 each. Your Company has been consistent in paying the Dividend for past many years. The Dividend rate has been maintained despite the expanded capital base as well as the one-time adverse events.

Export revenues stood at ₹ 470.84 crores, while domestic revenues came in at ₹ 734.67 crores. Export and domestic market contributed 61% and 39% of total revenues for the year, respectively. USA, Europe and Asia continue to contribute to the bulk of the export revenues with contribution of 19%, 54% and 22%, respectively.

In order to reinforce its strategic objectives in recognition of continued transformation of the portfolio, your Company has, during the year renamed its Bulk Chemicals and Commodities segment as 'Basic Chemicals' and the Fluorescent Whitening Agents segment

as 'Performance Products' segment. The Performance Products segment includes an expanding range of products. Details of each Strategic Business Unit (SBU) are underlined below:

BASIC CHEMICALS (BC)

Basic Chemicals segment reported steady performance during the year. While demand for fuel additives went down, your Company moved production to other products giving better contribution, though topline was impacted. This segment will witness healthy momentum going forward due to enhanced product mix as well as addition of new category of products and also good demand from end user industries.

FINE & SPECIALITY CHEMICALS (FSC)

Fine & Speciality Chemicals include agro, pharma and personal care intermediates. This segment reported de-growth in revenues as well as volumes due to the unfortunate fire incident at Roha. Going forward, FSC segment is expected to exhibit strong growth as processing capabilities for pharma and personal care intermediates have been enhanced to capitalise on healthy demand. Visibility of improved traction in agro intermediates is also expected to provide a fillip to the growth of the segment.

PERFORMANCE PRODUCTS (PP)

Performance Products segment includes direct sales of Diamino Stilbene Disulfonic Acid (DASDA) from the Hyderabad facility as well as Optical Brightening Agents (OBA) revenues from Dahej. The shutdown of the Hyderabad facility due to floods impacted the volumes and profitability of PP segment. New investments are being made in the PP segment, whose impact will be seen in the upcoming years. As you would be aware, we are the only fully integrated OBA player in the industry and this gives your Company a competitive edge over other players. Your Company has diversified its focus on export markets and end-user industries to accelerate growth.

EXPANSION PLANS

In FY 2016-17, your Company, through its wholly-owned subsidiary, Deepak Phenolics Limited made significant progress in its project at Dahej, to manufacture 200,000 MTPA of Phenol and 120,000 MTPA of its co-product Acetone. This will be supported by manufacturing 260,000 MT of Cumene, which is a feedstock for manufacturing Phenol and Acetone. This greenfield project is expected to be commissioned in the second half of the current financial year. For this, the overall capital outlay will be approximately ₹ 1,400 crores. I am glad to underline that your Company has tied up the



"I am glad to underline that we have tied up the long term debt to finance this project and also made further progress in raising equity funds required as we have raised ₹ 150 crores through the second round of Qualified Institutional Placement (QIP) which was concluded in March 2017".

long-term debt to finance this project and also made further progress in raising Equity funds needed to the tune of ₹ 150 crores through the second round of Qualified Institutional Placement (QIP) which was concluded in March 2017. Success of this round of QIP signifies awareness of investors in great potential of Phenol / Acetone project. We believe in being with the investors and take them along with us in creating a new big petrochemical venture. This is in addition to Equity funds already raised in Phase I of the QIP in FY 2015-16 and sale of land at Pune concluded in early FY 2016-17. The project team has shown excellent team efforts in executing the project.

Your Company will address the opportunity offered by the supply deficit in the domestic market which is currently met by imports. In addition to competitiveness on cost due to supplying the domestic markets from a plant located in India, your Company will leverage the latest manufacturing technologies in its state-of-the-art plant which will reduce wastage and is more efficient in utilisation of inputs and energy.

With the objective of developing working relationships with major clients across India and accelerating its market presence, your Company has

already started seeding of Phenol in the domestic market to establish strong marketing and distribution channels ahead of the commencement of manufacturing at its plant. Further, the supply of benzene, a key raw material has become significantly easier in the domestic market thereby enhancing the prospects for the mega phenol project further.

OUTLOOK

Overall, your Company remains confident and continue to see several opportunities in the speciality chemicals space for widening its portfolio of value-added products as customer demand and acceptance remains robust. Your Company is confident of growth from each one of its segments on the back of improving market conditions and a buoyant pipeline of products. While your Company will bounce back from the setbacks in FY 2016-17, the management has also put in place steps to enhance operating efficiencies, which will allow your Company to scale

new heights in performance. Lastly, the contribution of the Phenol project, scheduled to be commissioned in the second half of FY 2017-18 is expected to be transformational.

On behalf of the Board of Directors, I would like to take this opportunity to acknowledge the entire team of your Company for their contribution and commitment. Lastly, I would like to extend my sincere gratitude to all our business partners and associates for their confidence through the years and count on their support going forward.

Best wishes,

Deepak C. Mehta

Chairman & Managing Director

ABOUT DEEPAK PHENOLICS

Sensing a huge untapped opportunity to cater to the domestic demand for Phenol and Acetone, due to their conspicuous domestic production deficit, Deepak Nitrite Limited (DNL) took a strategic investment decision to manufacture these products domestically, through its wholly-owned subsidiary, Deepak Phenolics Limited.

PHENOL

Phenol is used in the manufacture of a large range of commercial products. It is consumed in laminates, automobile, foundry, paints, rubber, surfactants, pharma, agro-chemicals, etc.

Moreover, around 100,000 tpa of Phenol is being imported in the form of derivatives which go for infrastructure products, epoxy resins, polycarbonates, etc.

Phenol consumed in India increased at a CAGR of about 7%, from nearly 200,000 MT in FY 2010-11 to 280,000 MT in FY 2015-16. While this consumption was largely driven by the phenolic resins industry, which accounts for 76% of Phenol consumed in India,

other end-user industries include drugs and dyes, alkyl phenol, agro chemicals, etc.

The demand for phenolic resins industry has seen a robust growth of 7-8% over the past five years, on the back of rising automobile sales in the domestic market as well as a healthy rise in exports. The plywood and laminates industry has also grown at a rapid pace with the growth of the underlying construction and housing industry.

Against this backdrop of increasing demand, the import component has been steadily rising at a CAGR of 15% between FY 2010-11 and FY 2015-16. On the one hand, the domestic capacity has been largely stagnant at 80,000 MTPA, with no capacity additions for the past 7-8 years. At the same time, the capacity utilisation rate of domestic manufacturers has fallen from 100% in FY 2010-11 to 50% in FY 2015-16. As a result, domestic supply has been able to meet only 12% of domestic demand in FY 2015-16 compared to 45% in FY 2008-09. Domestic capacities stagnated

with two sub-optimal plants with around 30,000 - 40,000 tpa, hence the country's demand has been more than met with imports. Other factors that have tilted the scales in favour of imported phenol have been the difference in the domestic and landed cost due to uneconomical cost structures for domestic players and a rise in the operating costs of domestic producers which have led to a fall in margins and therefore, continued losses. It has been an experience of the industry that free domestic availability significantly boosts consumption.

ACETONE

Acetone is predominantly used in the production of pharmaceuticals, paints, adhesives and thinners, etc. The consumption of acetone has increased at a CAGR of about 4% from around 125,500 MT in FY 2010-11 to 152,425 MT in FY 2015-16 on the back of steady to good growth in user industries such as the pharma industry, paints and adhesives and other key sectors including Aldol chemicals, Methyl Methacrylate (MMA), etc. In future, the Acetone

DOMESTIC CONSUMPTION OF PHENOL (IN MT)

