



DEEPAK FERTILISERS
AND PETROCHEMICALS
CORPORATION LIMITED



On your marks,
Get set...



Industrial Chemicals



Mining Chemicals



Crop Nutrition



Chairman's Address

Mr. S. C. MEHTA
Chairman & Managing Director

40th Annual General Meeting
Monday, 21st September, 2020



Dear Shareholders,

It is with great pleasure that I welcome you all at the 40th Annual General Meeting of Deepak Fertilisers And Petrochemicals Corporation Limited. On behalf of the Board of Directors, I thank each one of you for making it convenient to attend this virtual meeting given the extraordinary circumstances.

The Annual Report for the year ended 31st March, 2020 has been circulated among you and with your permission, I take it as read.

Economic Scenario

The world is passing through unprecedented times and it would be unfair to begin a review of where we stand and our prospects without a mention of it.

The outbreak of novel Coronavirus is the largest pandemic in recent history and has had an extensive impact on most countries, especially India. India's GDP growth was 4.2% in 2019-20 compared to 6.1% in the previous year. There was a decline in economic growth, coupled with a surge in inflation that temporarily made the Indian rupee one of the worst performers among Asian peers. The nationwide lockdown imposed towards the end of the financial year under review to curb the outbreak of the novel Coronavirus deepened the slowdown. The de-growth in the first quarter of the current financial year was probably the sharpest decline in the history. However, we are optimistic that with Government of India's timely and efficient COVID remedial initiatives and Indian entrepreneurial spirit, Indian economy should soon recover from these turbulences.



Challenges

The year under review was perhaps the most challenging one in your Company's history as well.

We started the year on a positive note by commissioning our Dahej Nitric Acid plant; further establishing our leadership in the Acid segment. However, due to various uncontrollable factors and circumstances, we faced headwinds in every facet of our business. This primarily includes the overall slowdown of the economy in general and the financial sector in particular, dumping of IPA from China, the teething issue related to greenfield Nitric Acid complex and untimely but extended monsoon impacting fertiliser business as well as Technical Grade Ammonium Nitrate business. Besides, the outbreak of the novel Coronavirus and related lockdown adversely impacted our operations of NP/NPK plants and TAN plants at Taloja and the Nitric Acid plant at Dahej in the last week of 2019-20.

I am pleased to share that your Company and its management took up the challenges in hand with a concerted focus to bounce back with improved business performance through various short-term, mid-term and long-term initiatives.

Initiatives

Indeed, if there is a principal message that I wish to share with you today is that the vigour and range of initiatives undertaken, we are witnessing early green shoots and in fact positive outcome have begun already.

The complement of initiatives has comprised changes in organisational structure, manufacturing processes, applied R&D, channel reselection, marketing to farmers as well as systems to monitor each of these initiatives with the objective of timely course correction.

The Industrial Chemicals business engaged in progressing from the conventional sale of IPA and Nitric Acids towards value-added customer focused organisation. In line with this, it would be necessary to mention that the commencement of a new Nitric Acid greenfield plant at Dahej (Gujarat) represented a milestone. Even as the plant



encountered teething issues, I am pleased to share that the operating team, overcame several challenges, to report a reasonably satisfactory performance during the first year post commissioning and laid a strong foundation for capacity running at targeted utilisation levels.

Our Fertiliser team has responded with urgency in the strategy-to-execution life cycle. The focus shifted from commodities to value-added products, transcending from competitive pricing to premium pricing commensurate to the value offered by our products. Our Marketing team created extensive farmer and channel connect through digital marketing initiatives under restricted movement conditions. Above all, there has been an intense drive to move with a true spirit from a product centric business to a crop focused and farmer centric business.

The Technical Ammonium Nitrate team has embarked on a transformative journey from focusing on the conventional pattern of product sale to delivering a mining solution customised around customer needs. To enhance productivity for the Indian mining sector, the TAN team conducted extensive studies of downstream consumer needs and regulatory sectorial norms in the preparatory phase. Thereafter, the team deepened its collaboration with relevant stakeholders in the explosives and mining sectors in addition to knowledge sharing on value-added synergies and global best practices.

Financial Performance

During the year under review, your Company reported total revenues of Rs. 4,685 Crores in FY2020 compared to Rs. 6,742 Crores in FY2019. This decline was a result of conscious and pre-meditated initiative - your Company consolidated its trading portfolio with a growing emphasis on high-margin products only. The result was that the chemical trading business declined by Rs. 1,405 Crores y-o-y and fertiliser trading declined by Rs. 419 Crores y-o-y.

This conscious moderation has brought a desired upside: your Company was able to increase its operating margins from 6.8% in FY2019 to 9.9% in FY2020. I am also pleased to report that despite drawing additional long-term loans directed towards capital expenditure, the total debt of your Company declined by about Rs. 104 Crores as on



31st March, 2020 compared to 31st March, 2019. Total Debt further reduced by about Rs. 296 Crores as on 30th June, 2020. The gross debt-to-equity ratio of your Company improved by about 0.10x to 1.34x in March 2020. Your Company's credit-rating was reaffirmed by ICRA at A + Stable for long-term bank facilities and at A1 for short-term bank facilities.

In summary, I would like to share that despite all of these challenges, your Company has moved towards a more robust foundation of strong business fundamentals and a credible Balance Sheet on which we strive to deliver enhanced stakeholder value in the foreseeable future. If I look at the current year, impact of some of these challenges have been muted.

Looking Forward

I am relieved to communicate that the impact of COVID-19 has been limited on the Indian Agriculture Sector. Good monsoon augurs well for the Kharif season. Extensive farmer and channel connect through digital above-the-line and below-the-line initiatives were undertaken during a time of restricted movement.

Your Company has capitalised on the bountiful rains and extensive sowing through financial and operational initiatives. We have been continuously striving towards enhancing profitability by focusing on value-added businesses coupled with timely cost optimisation. The outcome of these initiatives was reflected in the robust performance of your Company during the first quarter of FY2020-21. Topline in Q1FY21 grew by 23% y-o-y to Rs. 1,382 Crores although Net Profits bolstered by 11 times to Rs. 121 Crores. Whilst surge in IPA prices and extensive use of hand sanitizer did help us, however Fertiliser segment contributed about 43% of the topline. Fertilisers segment delivered third consecutive profitable quarter and hence achieving a robust improvement in the overall quality of profit blend.

From medium / long term perspective, the recent reforms by the Central Government to support the agriculture sector and the mining sector are path breaking and should support the long-term health of the Indian economy as well as your Company's business sector. Your Company expects a good Kharif and Rabi season and is further enhancing



production efficiencies to address growing customer requirements. The country's planned infrastructure projects, coupled with a positive mining industry outlook, provide an attractive backdrop for TAN products for the year ahead.

Digitalisation

The pandemic has accelerated the adoption of digitalisation across industries and we have been embracing the power of digitalisation since a long time to enable employees, digitalise operations and enhance customer experience. Besides work from home, automation of critical processes, enabling paperless processes and digital marketing strategies, we embarked on empowering the sales force with digital technology which helped in better connecting with our customers and strengthening overall efficiency.

We have been investing in creating a strong digital eco-system by connecting with appropriate partners and innovative startups; and it has already started giving satisfactory results with a potential of delivering a sustainable business model in the long run.

Supporting Atmanirbhar Bharat

Our business segments and growth plans are integral to the growth of India's economy and are deeply aligned with the Prime Minister's vision of a self-reliant India - Atmanirbhar Bharat.

Starting from highly effective crop nutrient solutions to solutions for the mining sector to the various chemicals, we are well-positioned to drive superior growth and contribute towards building a stronger India.

Capacity enhancement capex plan in each of our existing businesses, backward integration drive and the strategic initiatives to further grow in each of the respective sectors augurs well; and we strongly believe that we are well poised to capitalise on these opportunities.



Acknowledgement

In conclusion, I convey our gratitude to all our customers, business associates, financial institutions, banks, stakeholders and respective Central and State Government for their continued support and co-operation.

I would also want to express my gratitude to the entire DFPCL team for its contribution to the Company's competitiveness and growth.

The business-strengthening initiatives of your Company in past few years have already started delivering results and we are on our mark for an exciting journey ahead.

My best wishes to you and your families. Stay safe, stay healthy.

Warm Regards,

S.C. Mehta

Chairman & Managing Director

Disclaimer: Deepak Fertilisers And Petrochemicals Corporation Limited is proposing, subject to receipt of requisite approvals, market conditions and other considerations, to undertake a rights issue of its equity shares and has filed the Letter of Offer ("LOF") with BSE Limited ("BSE"), National Stock Exchange of India Limited ("NSE") and the Securities and Exchange Board of India ("SEBI"). The LOF is available on the website of the SEBI, BSE and NSE at www.sebi.gov.in, www.bseindia.com and www.nseindia.com, respectively, as well as on the website of the lead manager, BOB Capital Markets Limited at www.bobcaps.in. Any potential investors should note that investment in equity shares involves a high degree of risk. For details, potential investors to refer to the section titled "Risk Factors" in the LOF.



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