

**BSE Code:** 500645    **NSE Code:** DEEPAKFERT    **Reuters Code:** DPFE.BO    **Bloomberg Code:** DFPC:IN

Deepak Fertilisers and Petrochemicals Corporation Ltd (DFPCL) is the leader in the Indian Technical Ammonium Nitrate (TAN) market, with a TAN capacity of nearly 5,00,000 MTPA and garnering a market share of 30%. With the increased its TAN capacity further by 300,000 MT, the company is set to garner more market share to over 50% in FY13 by replacing the cheaper grade TAN imports. Further, the company is also going to reap rich benefits from the rising TAN demand driven by increasing demand for coal and limestone production.

### Investor's Rationale

DFPCL has strengthened its leadership position in the chemicals segment with the addition of a new TAN plant of 300,000 MT per annum capacity at its Taloja plant that is expected to boost the blended capacity utilization to 80% in FY14 from the current capacity utilization of 65-70%.

To augment growth in the agri-business, DFPCL has recently announced investments in Fertilisers at a total investment of ₹4.15 billion. DFPCL is expanding capacity of its NPK grade complex fertilisers from 229,000 MT p.a. to 600,000 MT p.a. at a capex of ₹3.6 billion and is also setting up a new bentonite sulphur project at a cost of ₹550 million at Panipat in Haryana. Ramp-up in TAN & expansion in complex fertiliser will boost earnings growth.

DFPCL reported a robust revenue growth of 33.8% YoY at ₹6,341 million in Q1FY13, driven by strong revenue growth in its chemicals segment and also higher fertilizer trading sales. The revenue from the industrial chemicals segment grew strongly by 41.3% YoY, while the revenue from the mining chemicals segment grew robustly by 37.8% YoY augmented by better utilisation of the TAN plant. Further, the revenues from the fertilisers segment improved by 21.7% YoY on the back of higher volumes from traded fertilisers.

DFPCL is betting big over its TAN and IPA business and it expects chemical segment margins to stay above 20% in FY13 driven by stable TAN margins of around 22-23% and the IPA margins are likely to remain around 15% supported by the price hikes undertaken by the company.

DFPCL is better placed among its competitors and enjoys a strong scale advantage as Asia's largest single-location manufacturer of Dilute Nitric Acid (DNA). The company has the advantage of its strong customer relationships and its domestic geographical presence and this provides the superiority among its peers. Further, the company seizes every opportunity available to satisfy gaps in the market depending upon favorable pricing.

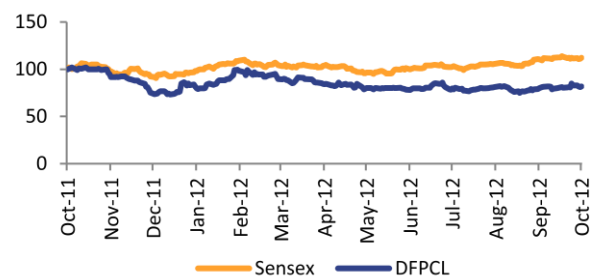
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	135.0
<b>Target (₹)</b>	<b>162</b>
<b>Potential Upside</b>	~20%
<b>Duration</b>	Long Term
52 week H/L (₹)	170.5/118.2
All time High (₹)	212.8
Decline from 52WH (%)	20.8
Rise from 52WL (%)	14.2
Beta	0.6
Mkt. Cap (₹ bn)	11.9
Enterprise Value (₹ bn)	15.4

### Fiscal Year Ended

	FY11A	FY12A	FY13E	FY14E
Revenue (₹mn)	16,613.6	24,485.8	26,929.0	29,085.6
Net Profit(₹mn)	1,875.2	2,117.0	2,400.3	2,795.3
Share Capital	882.0	882.0	882.0	882.0
EPS (₹)	21.3	24.0	27.2	31.7
P/E (x)	6.4	5.6	5.0	4.3
P/BV (x)	1.1	1.0	0.8	0.7
EV/EBITDA (x)	4.0	3.4	3.0	2.6
ROE (%)	17.7	17.4	17.0	16.9
ROCE (%)	14.0	13.8	13.9	14.1

### One year Price Chart



Shareholding Pattern	Sep'12	Jun'12	Diff.
<b>Promoters</b>	43.3	43.3	-
<b>FII</b>	13.2	13.2	-
<b>DII</b>	8.2	9.0	(0.8)
<b>Others</b>	35.3	34.5	0.8



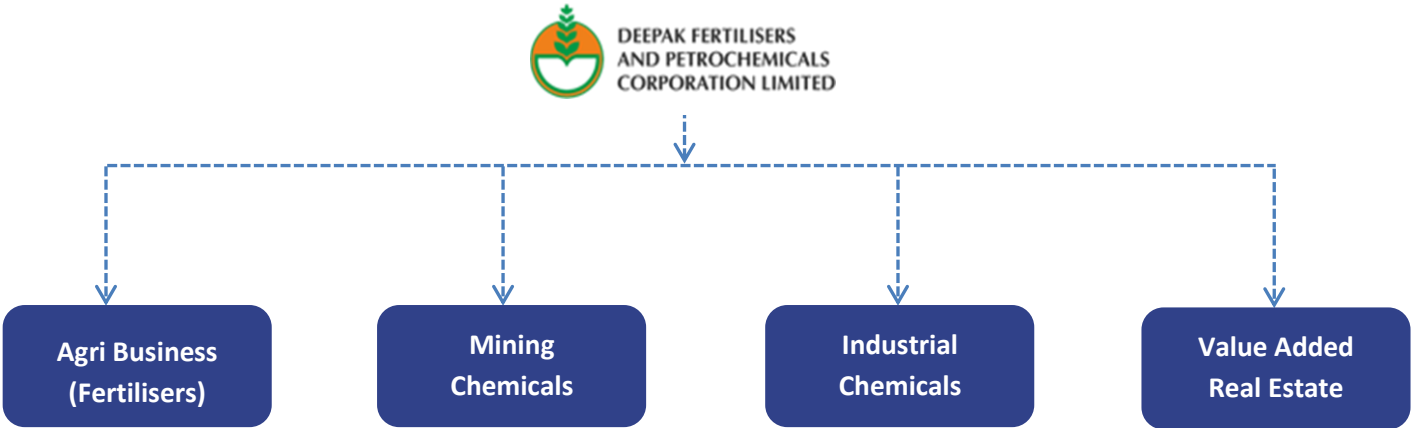
*DFPCL is the only Iso Propyl Alcohol (IPA) and Technical Ammonium Nitrate (TAN) manufacturer in India & the largest Nitric Acid and AN producer in SEA.*

**A ~₹12 billion Company, the only IPA and TAN manufacturer in India**

Deepak Fertilisers and Petrochemicals Corporation Ltd (DFPCL) was incorporated in 1979. It is an integrated multi-product company manufacturing ammonia, methanol, ammonium nitrate and nitro-phosphate fertilisers. It is ranked 3<sup>rd</sup> among chemical manufacturers in India by Dun & Bradstreet. It is also the only Iso Propyl Alcohol (IPA) and Technical Ammonium Nitrate (TAN) manufacturer in India & the largest Nitric Acid and AN producer in SEA. DFPCL's business is broadly categorised into 3 segments namely Chemicals, Fertilisers and speciality retailing. DFPCL's plant is located at Taloja, near Mumbai. The company also has its own pipeline for transportation of gas from Uran to its plant. The company has a diversified product portfolio consisting of chemicals, fertilisers, Mining Services and Consultation, other agri-inputs and Value Added Real Estate. The Company is the only manufacturer of IPA in India and one of the very few companies in the world with a US Pharmacopoeia certification for this product, making it the supplier of choice for the Indian pharmaceutical industry. DFPCL is now focused on global growth, drawing strengths from its existing product and plant synergies and adding new product lines, new plants and augmenting manufacturing capacities.

DFPCL has built a strong reputation of being a domestic market leader in the TAN, and is on its path towards becoming a global player. It is also moving further into Mining Services and Contract Mining. DFPCL has also expanded its portfolio in the agri-business segment and moved from bulk fertilisers to specialties/customised products and farm solutions and further into produce management. Further, the company is on its path towards delivering high-value petrochemicals from only delivering bulk chemical commodities, in the chemicals segment. Besides, DFPCL has also marked its presence in the real estate segment and has built India's first true Lifestyle Centre, Ishanya, that re-creates a unique consumer experience that is part retail, part entertainment and part public space.

**Product Portfolio**



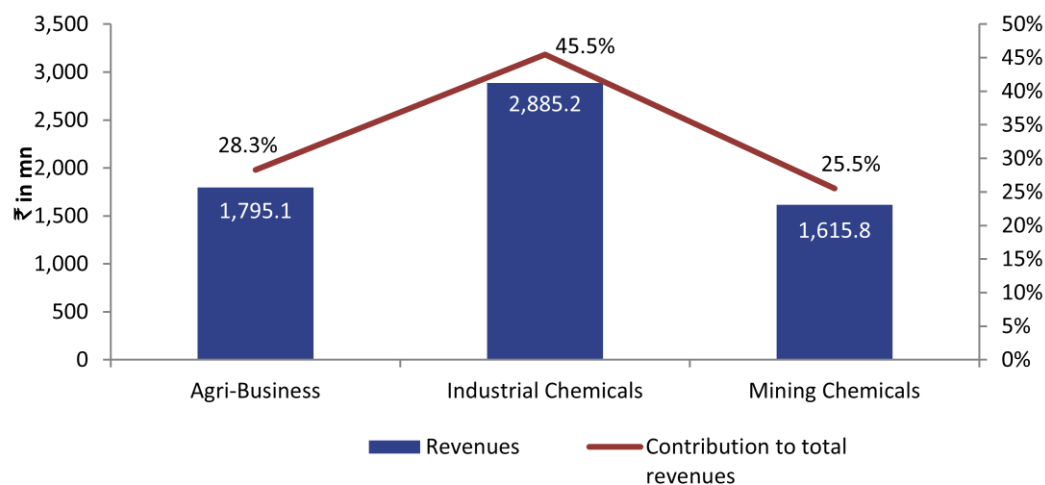


DFPCL reported a robust revenue growth of 33.8% YoY in Q1FY13 supported by strong revenue growth in its chemicals segment and also higher fertilizer trading sales.

### Robust revenue growth of 33.8% YoY in Q1FY13 led by strong revenue growth in its chemicals segment

During Q1FY13, DFPCL reported a robust revenue growth of 33.8% YoY at ₹6,341 million as compared to ₹4,739 million in Q1FY12, driven by strong revenue growth in its chemicals segment and also higher fertilizer trading sales. The revenue from the industrial chemicals segment grew strongly 41.3% YoY at ₹2,885 million (contributed 45.5% to the total revenues). While, the revenue from the mining chemicals segment grew robustly by 37.8% YoY at ₹1,616 million (contributed 25.5% to the total revenues) augmented by better utilisation of the TAN plant. Further, the revenues from the fertilisers segment improved by 21.7% YoY at ₹1,795 million (contributed 28.3% to the total revenues) on the back of higher volumes from traded fertilisers. DFPCL's EBITDA de-grew by 9.5% to ₹1,022 million translating into a decline in the EBITDA margins by 770bps YoY (up 320bps QoQ) to 16.1% impacted by higher cost pressures. In the chemicals segment, the ammonia and propylene costs grew tremendously thus impacted margins. TAN margins declined to 21-22% compared to 25% last year. While, the decline in volumes and higher phos acid prices squeezed the fertiliser segment profit. IPA margins during the quarter fell to 12% from 20% last year. Further, the company's interest expenses surged more than double by 109.6% YoY to ₹266 million on the back of an increase in working capital and full capitalization of new TAN plant. As a result, the adjusted PAT de-grew by 28.8% YoY to ₹455 million.

Sector-wise revenue contribution in Q1FY13



DFPCL is having TAN capacity of around 5,00,000 MTPA and is among the top ten globally. It is also the only domestic supplier of IPA, with 70,000mt p.a. IPA facility, accounting for a market share of ~70% domestically.

### Prominent player of TAN and IPA

DFPCL is the only player in India with TAN capacity of around 5,00,000 MTPA and is among the top ten globally. TAN is an explosive material with extensive applications in infrastructure and demand is expected to improve in future. Further, to deepen its position in the chemical business, DFPCL has recently added a new TAN plant of 300,000 MT per annum capacity at its Taloja plant. The company has produced a total of 64,900mt of TAN solid during Q1FY13 with the blended capacity utilization of 60%. However, DFPCL expects TAN volumes to be around 300,000mt for FY13 through capacity utilization of 70% as against 203,000mt of TAN sold in FY12. Further, DFPCL remains optimistic about garnering a market share in TAN of over 50% in FY13 by replacing the cheaper grade TAN imports. Besides, DFPCL is also the only domestic supplier of IPA, with 70,000mt p.a. IPA facility, accounting for a market share of ~70% domestically. IPA capacity utilization during Q1FY13 stood at 100%. Meanwhile, the Group is betting big over its TAN and IPA business and it expects chemical segment margins to stay above 20% in FY13 driven by stable TAN margins of around 22-23% and the IPA margins are likely to remain around 15% supported by the price hikes undertaken by the company.



*With the recent addition of a new TAN plant of 300,000 MT per annum capacity at its Taloja plant, DFPC's aims at maximising capacity utilisation of the plant.*

*DFPCL is diversifying its asset base towards petrochemicals to reap rich benefits from the high value petrochemical downstream products.*

## Divergent product portfolio -

- **Mining Chemicals**

DFPCL is one of the largest producers of TAN in the world and the only producer of explosive grade low density prilled AN. The market for TAN in India is expected to continue to grow at an estimated growth rate of 8% annually over the next decade driven by extent of mining resources available and clear need for mining to grow. Meanwhile, DFPCL is having a TAN capacity of nearly 5,00,000 MTPA. It is having a broad product range - AN Melt, High-Density and Low-Density AN. With strong brands and well-entrenched distribution system under its kitty, the company is now moving up the ladder from being a basic mining input provider to a holistic mining services provider of end to end solution in geology, mine consulting and contract mining. Further, DFPCL's products meet World-class quality with domestic scale and it has the proximity advantage with ability to provide Just-In-Time service. Besides, the company has set a future course of action of becoming a fast growing Integrated Mining Company of international repute in five years and target gaps in global markets viz. South-East Asia, Australia, Africa and Middle-East. In addition to this, the company is also planning to boost measures with capacity expansion close to Indian mining centres. The company has recently added a new TAN plant of 300,000 MT per annum capacity at its Taloja plant.

With its new TAN plant now operating efficiently, DFPCL's main focus is at maximising capacity utilisation of the plant to 80% and the company is advantageously placed to achieve this by 2013-14. Besides, there is a substantial demand supply gap of TAN in the market, so this provides a significant opportunity for the company for having superior product grades include Low Density Ammonium Nitrate. Separately, the mining chemicals segment of DFPCL has garnered revenues of ₹4,440.3 million in 2011-12 (contributes ~19 to the total revenues), registered a strong growth of 71% over the previous year.

- **Industrial Chemicals**

DFPCL is among the leading player in the Industrial Chemicals segment in India, with the chemicals, being manufactured at its plant at Taloja. DFPCL has FDA-licensed products-Iso Propyl Alcohol (IPA) and Nitric Acid under its kitty and is having a strong and direct relationship with over 600 Industrial customers in India and globally. Further, DFPCL is having strong distribution network of over 50 channel partners across India and it exports its products to over 30 countries globally. The manufactured chemicals are used by various sectors such as pharmaceuticals, pesticides, drugs and dye intermediates, refining of precious metals, resin, textile, fertiliser among others. The pharmaceutical industry is the biggest user of IPA and with the growth momentum is expected to maintain in the near future, this ensures better IPA demand. Further, in order to set a strong foothold in the IPA business, the company has started importing IPA and build market share, as it considers ways to augment capacity. It is also having the Asia's largest Nitric Acid complex, with most of the production consumed in-house. With DFPCL's combined Nitric Acid facility of around 5,24,700 MT from on-site ammonia, guarantees consistent supply through-out the year. Currently, the company's Industrial Chemicals business remains focus towards solvents.

Meanwhile, the company is gradually diversifying its asset base towards petrochemicals with a vital focus on high value downstream products due to encash the opportunities arising in high value petrochemical downstream products.



DFPCL is one of India's largest manufacturers of Nitro Phosphate fertilisers with an installed capacity of 2.29 lakh MTPA.

- Agri-business (Fertilisers)**

DFPCL is one of India's largest and most reputed manufacturers of Nitro Phosphate fertilisers (nitrogen in both nitrate and ammoniacal forms) and speciality fertilisers like Sulphur Bentonite. DFPCL, with an installed capacity of 2.29 lakh MTPA for nitro phosphate fertilisers, gained the reputation of being the sole manufacturer of 24:24:0 in India and amongst market leaders for water solubles, speciality fertilisers and Bentonite Sulphur. With its manufacturing facility located at Taloja (Maharashtra), it is having a strong network of more than 4,500 dealers, sales staff and agronomists, with penetration across seven states viz- Maharashtra, Andhra Pradesh, Karnataka, Gujarat, Madhya Pradesh, Punjab and Haryana.

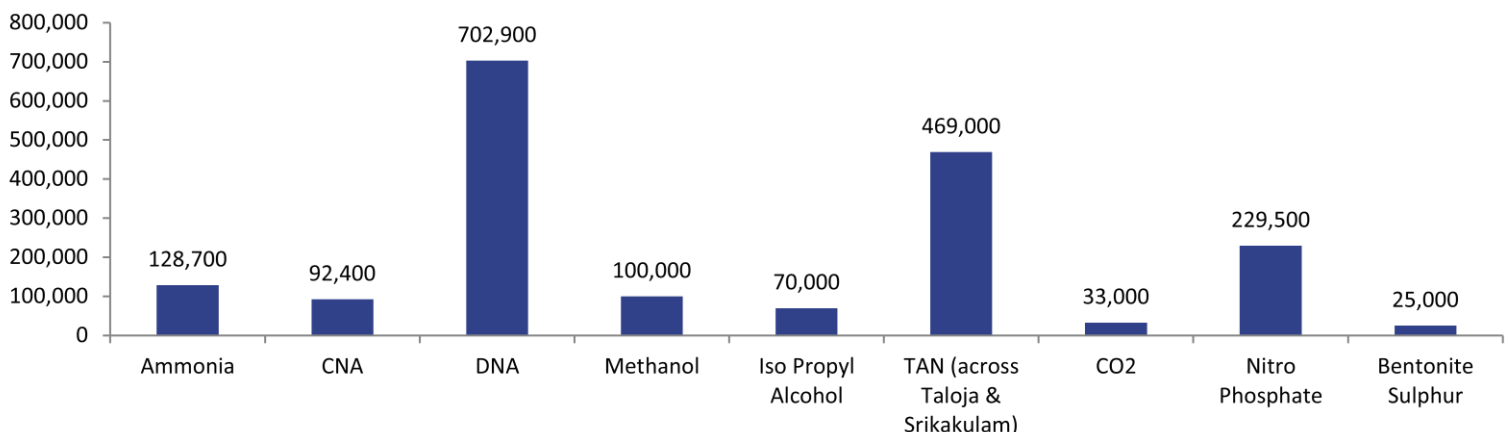
Besides, DFPCL's Saarrthie initiative linking nutrient management to product output management, having Deep farmer relationships with 12 Saarrthie centres and served over 11,500 farmers. DFPCL has also gained the reputation of being the total nutrient management services provider to the Indian farmers through its "MAHADHAN SAARRTHIE CENTRES", which provides bring agricultural production technologies to the door-step of the farmers. DFPCL's unique initiative - Mahadhan Saarrthie helps the farmers by providing farming solutions including diagnostic and advisory services and also allows farmers to market their produce in domestic and international markets. This initiative by the company ensures higher yields and profitability to the farmer. The agri-business of DFPCL has garnered revenues of ₹9,695.0 million in 2011-12 (contributes ~42 to the total revenues), registered a tremendous growth of 82% over the previous year.

Under the fresh produce management segment, the company's focus on select fresh fruits and vegetables for global and Indian markets. In order to encash the opportunity of rising demand for high quality fresh fruits and vegetables rising across both India and global consumers, the company is focusing towards building capabilities in technologies like ripening and cold chains through small-ticket acquisitions like Desai Fruits And Vegetables (DFV) and also acquire scale and market access.

- Value Added Real Estate**

DFPCL has also forayed into the real estate segment and has built India's first true Lifestyle Centre, Ishanya in Pune, as India's First True Lifestyle Centre - a family destination with offerings ranges from home, fashion, lifestyle, food and entertainment. The company is undertaking modification exercise at Ishanya and the mall should start trading in the new format soon. Further, the company remains confident of deriving good value from its Ishanya venture through business improvement strategies and other value-drivers. Moreover, the business prospects look bright with the expected FDI in multi-brand retail.

**DFPCL's installed plant capacities (MTPA)**





DFPCL is lined up with a Capex of ₹4.15 billion to boost growth in the fertiliser space.

Strong performance of the fertilizer and the agribusiness helped boost the topline by 50% in FY12.

### Capacity expansion to augment growth in agri-business

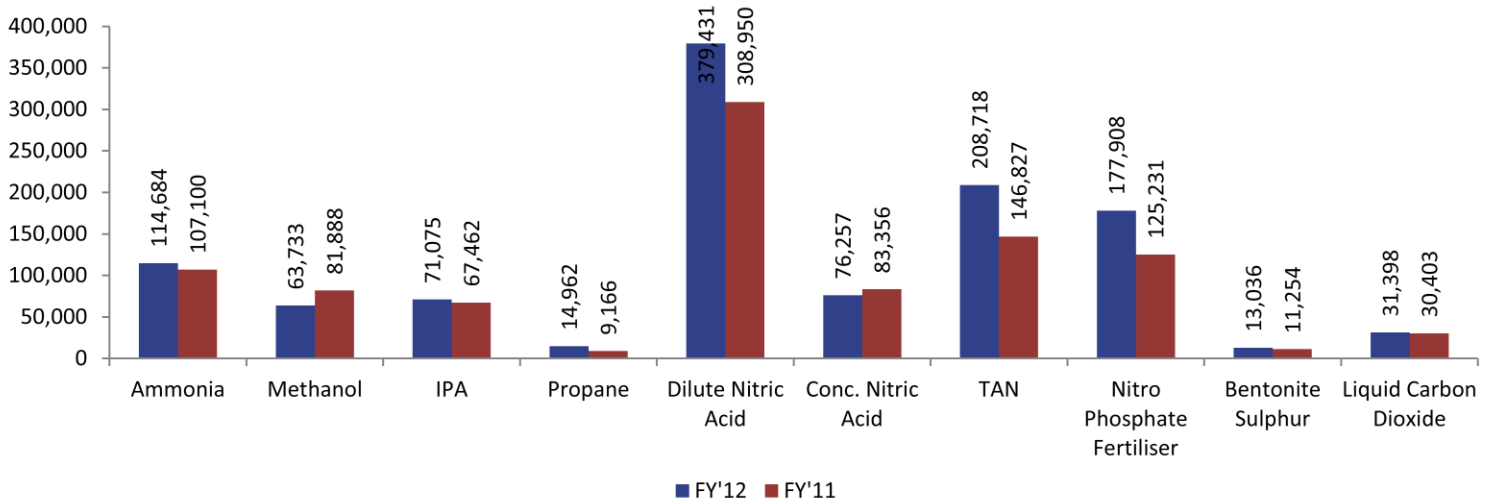
To augment growth in the agri-business, DFPCL has recently announced two new projects at a total investment of ₹4.15 billion. DFPCL is expanding capacity of its NPK grade complex fertilisers from 229,000 MTPA to 600,000 MTPA at a capex of ₹3.6 billion. The expansion will benefit the company to gain additional flexibility to produce all NP / NPK grades with fortification of micronutrients. The augmented capacity will enable the company to meet increased demand of NPK fertilisers of the Western India. Further, the company is also setting up a new bentonite sulphur project at a cost of ₹550 million at Panipat in Haryana. This project will help compensate the sulphur deficiency in Indian soils improving soil quality and farm yield. Both the projects are expected to be completed in 30-months from commencement.

Besides, DFPCL is undergoing a thorough studies about the market and capex for its planned 3,00,000 MT Technical Ammonium Nitrate project in South Australia. The company is expected to take a final decision on how to proceed with the project depending on the studies by around end-FY13 or early FY14.

### Topline growth remained robust in FY12 driven by strong growth in sales volumes

DFCL has registered a tremendous growth in its total income from operations in FY12 by 50% to ₹23,428.1 million as against ₹15,648.1 million in the previous year. The performance of the fertilizer and the agribusiness remained strong in FY12 with substantial increase in revenue and profitability owing to higher capacity utilization and significantly higher volumes of traded fertilizers. The sales from the agri-business witnessed a staggering growth of 82% to ₹9,695.0 million in FY12 from ₹5,311.8 million in FY11. Further, the sales for the chemicals business also increased by 33% to ₹14,304.9 million in FY12 from ₹10,759.4 million in FY11. However, the profit before tax grew by 11% to ₹2,900.6 million as against ₹2,610.5 million in FY11 and profit after tax rose 14% to ₹2129.7 million as against ₹1,866.2 million in FY11, impacted adversely by rupee depreciation to the extent of ~₹170 million and by ~₹60 million due to some planned shutdown in Q4. Further, the margins were also squeezed by the sharp rise in raw material costs during the last quarter, along with a time lag in finished product price adjustment.

DFPCL's production trend (MTPA)





## Balance Sheet (Consolidated)

(₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	882.0	882.0	882.0	882.0
Reserve and surplus	9,712.6	11,252.5	13,277.9	15,667.9
Net Worth	10,594.7	12,134.5	14,160.0	16,550.0
Minority Interest	0.0	0.001	0.001	0.001
Loan funds (Long Term)	6,402.3	5,098.4	4,843.5	4,601.3
Deferred Tax Liabilities (Net)	838.8	1,040.6	1,092.6	1,092.6
Provisions (Long Term)	88.0	149.8	254.7	382.0
Current Liabilities	4,488.7	7,648.5	8,610.1	9,471.1
<b>Capital Employed</b>	<b>22,412.5</b>	<b>26,071.9</b>	<b>28,960.9</b>	<b>32,097.1</b>
Total Fixed Assets	13,308.1	14,621.8	15,791.6	17,054.9
Non-Current Investment	125.4	336.3	373.6	414.0
Loans & Advances (Long Term)	605.9	303.3	364.0	400.4
Other Current assets	0.0	4.8	5.3	5.8
Current assets	8,373.0	10,805.6	12,426.4	14,221.9
<b>Capital Deployed</b>	<b>22,412.5</b>	<b>26,071.9</b>	<b>28,960.9</b>	<b>32,097.1</b>

## Key Ratios

	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	23.6	18.3	18.6	19.2
EBIT Margin (%)	18.9	14.7	15.0	15.6
NPM (%)	11.3	8.6	8.9	9.6
ROCE (%)	14.0	13.8	13.9	14.1
ROE (%)	17.7	17.4	17.0	16.9
EPS (₹)	21.3	24.0	27.2	31.7
P/E (x)	6.4	5.6	5.0	4.3
BVPS	120.1	137.6	160.5	187.6
P/BVPS (x)	1.1	1.0	0.8	0.7
EV/Operating Income (x)	1.0	0.6	0.6	0.5
EV/EBITDA (x)	4.0	3.4	3.0	2.6
EV/EBIT (x)	4.9	4.3	3.7	3.2

## Profit & Loss Account (Consolidated)

(₹million)	FY11A	FY12A	FY13E	FY14E
<b>Total Operating Income</b>	<b>16,613.6</b>	<b>24,485.8</b>	<b>26,929.0</b>	<b>29,085.6</b>
Expenses	12,690.2	19,996.5	21,911.5	23,492.6
<b>EBITDA</b>	<b>3,923.5</b>	<b>4,489.3</b>	<b>5,017.5</b>	<b>5,593.0</b>
Depreciation	787.2	889.6	978.6	1,056.8
<b>EBIT</b>	<b>3,136.3</b>	<b>3,599.7</b>	<b>4,038.9</b>	<b>4,536.2</b>
Interest	439.2	682.3	614.1	552.7
Exceptional Item	33.8	0.0	0.0	0.0
<b>Profit Before Tax</b>	<b>2,663.3</b>	<b>2,917.4</b>	<b>3,424.9</b>	<b>3,983.5</b>
Tax	788.1	800.4	1,024.6	1,188.5
<b>Net Profit</b>	<b>1,875.2</b>	<b>2,117.0</b>	<b>2,400.3</b>	<b>2,795.3</b>

## Valuation and view

With the increased its TAN capacity further by 300,000 MT, DFPCL is set to garner more market share to over 50% in FY13 by replacing the cheaper grade TAN imports. The ramp-up in TAN & expansion in complex fertiliser will also boost earnings growth. Continuous ramp-up in the new TAN facility is expected to boost the blended capacity utilization to 80% in FY14 and upturn in capacity of complex fertilisers is likely to result in incremental revenues. Besides, we expect the working capital cycle of the company to improve from Q3FY13 on the back of subsidy receivables being released by the government and the management expects the softening of global ammonia prices to ease from H2FY13, which would in turn improve margins. Considering, the above aspects we recommend 'BUY' on DFPCL. At the current market price of ₹135.0, the stock is trading at a P/E of 5.0x on FY'13E EPS of ₹27.2 and 4.3x on FY'14E EPS of ₹31.7.



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