

## Company Report

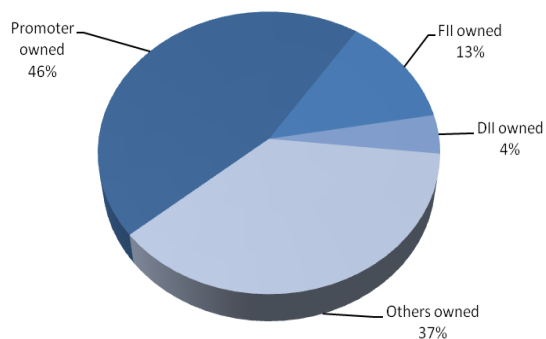
# Deepak Fertilisers & Petrochemicals Corp Ltd.

16<sup>th</sup> July, 2014**BUY**
**CMP** **Rs.169.00**
**Target Price** **Rs.235.00**

BSE Code	500645
NSE Code	DEEPAKFERT
Market Cap (Rs Cr.)	1490.66
52 Week High/Low	81.20/175.80
Industry	Fertilizers
Face Value	Rs.10.00
Shares O/S	8.82 Cr.

EPS	28.55
Book Value	164.75
P/E	5.92
P/B	1.02

### Shareholding Pattern



**Research Analyst:** Vineeta Mahnot  
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- Deepak Fertilisers & Petrochemicals is one of the leading manufacturers of industrial chemicals and fertilisers in India. The company operates in three business segments- chemicals, fertilisers and real estate.
- The company has registered robust results for the quarter ending March 2014. The revenues from operations grew by 62% to Rs.1069.59 crores vs. Rs.659.67 cr. in the like quarter previous year. Operating profit climbed sharply by ~135% at Rs.165.45 crores as against Rs.70.39 crores in the previous year quarter. The adjusted net profit stood at Rs.91.66 crore for the quarter as compared to Rs.29.12 crore; registering a growth of ~215%. The robust profit growth was mainly due to strong performance of chemical segment. On the margins front, operating margin climbed about 480bps at 15.47% as against 10.67% while net profit margin expanded 416bps at 8.57% from 4.41% y-o-y.
- The chemical segment registered a growth of 73% to Rs.752.70 crores in revenues in current quarter as against Rs.435.07 crores in the same quarter last year.
- The technical ammonium nitrate (TAN) registered growth of 48% during the quarter on account of stable raw material prices as compared to the corresponding quarter of previous year. The agri-business grew by 32% at Rs.330.98 crores in the current quarter helped by continued focused approach on operational excellence, customer focus and the strong portfolio of brands as against Rs.249.91 crores in the like quarter last year.

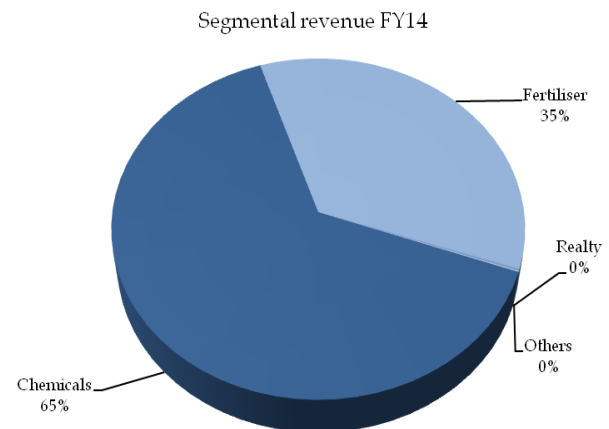
### Valuation

With volumes building up; expansion plans, strong brand loyalty by customers and strong financial performance; DFPC Ltd. growth prospects and profitability looks positive. We believe the company is trading at an attractive valuation at 5.76x and 4.9x of FY15EPS of Rs.29.31 and FY16EPS of Rs.34.50. We initiate a 'BUY' on the stock with a target price of Rs.235 (appreciation of about 40%) with the medium to long term investment horizon.

## Business Details

Incorporated in 1983, Deepak Fertilisers and Petrochemicals Corporation (DFPCL) started commercial production of ammonia (in technical collaboration with Fish International Engineers (USA) using natural gas as feedstock. This marked the fulfillment of a need for lateral integration into the world of basic building block chemicals, premium fertilisers and petrochemicals. At the time, this was India's only merchant ammonia manufacturer. In July 1992, DFPCL commenced commercial production of Low Density Ammonium Nitrate (LDAN), Nitro Phosphate (NP), Dilute Nitric Acid (DNA), and Concentrated Nitric Acid (CNA). This has resulted in a multi-product portfolio for DFPCL consisting of chemicals, petrochemicals, fertilisers and other agri-inputs. DFPCL's business can be broadly categorised into-

**Chemicals:** This division of DFPCL manufactures Methanol, various grades of Nitric Acid and Ammonia and Isopropyl Alcohol. DFPCL is one of the largest producers of Methanol in India, which in turn is used to manufacture drugs, pharmaceuticals, DMT, pesticides, methylamines, formaldehyde, etc. DFPCL is also one of the largest manufactures various concentrations of Nitric Acid (60%, 68%, 72% and 98%). Ammonium Nitrate: The explosives division manufactures Low Density Ammonium Nitrate, which is used for making Ammonium Nitrate-fuel oil (ANFO), blasting agents and also emulsified ANFO (HANFO). DFPCL is the largest manufacturer of ammonium nitrate in India, and the only one making prilled Ammonium Nitrate (AN). Their products are used for open cast mining, underground metalliferrous mining and construction Industry.

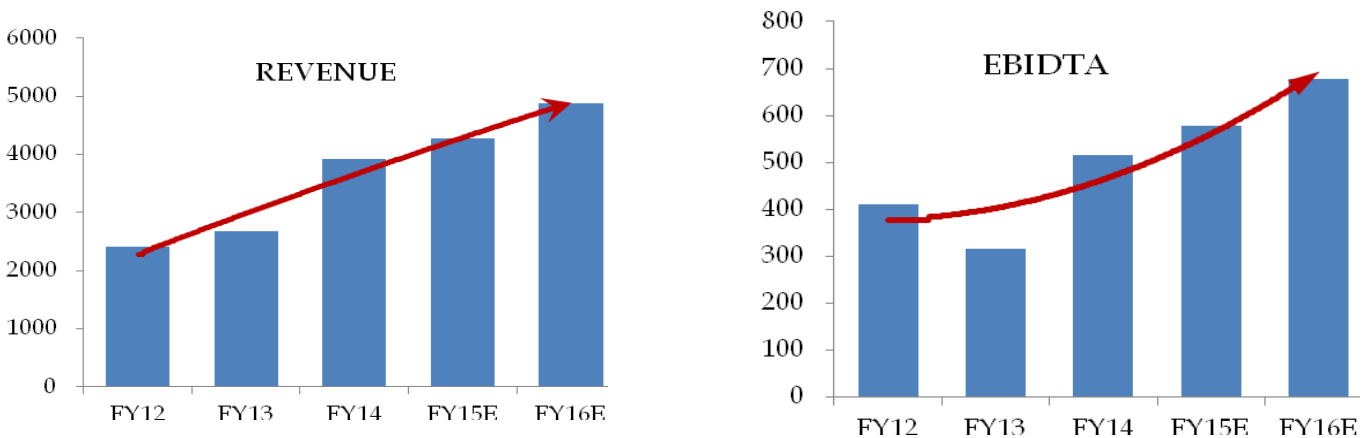


**Agribusiness:** DFPCL is one of India's largest and most reputed manufacturers of Nitro Phosphate fertilisers (nitrogen in both nitrate and ammoniacal forms) and speciality fertilisers like Sulphur Bentonite. DFPCL's fertilisers are marketed under the prominent Mahadhan and Bhoodhan brand umbrella in Maharashtra, Andhra Pradesh, Karnataka, Gujarat, Madhya Pradesh, Punjab and Haryana. DFPCL has been serving the farming community for over 20 years by improving farm productivity and increasing the farmer's income through a wide network of more than 4,500 dealers, sales staff and agronomists.

**Specialty Retailing:** Ishanya: Ishanya is India's first International Design Centre and Speciality Mall - a centre for excellence in space design and the one-stop shop for interior and exterior products. For architects and interior designers, Ishanya is a platform to showcase their art, craft and vision to a targeted and discerning audience. For manufacturers and retailers of interior and exterior products, it's the perfect marketplace to make the most of India's real estate and construction boom. For homeowners, corporate shoppers and visitors, Ishanya will provide the ultimate experience in shopping for the home.

## Excellent financial performance

DFPC Ltd. has registered with strong financials for the year ended March 2014. Revenues from operations surmounted by about ~47% at Rs.3920.39 crores from Rs.2673.13 crores in FY13. This growth has been on account of strong performance in both the chemicals and the fertilizer segment. Operating profit skyrocketed by about 63% at Rs. 514.53 crores from Rs.315.98 crores a year ago. Net profit zoomed at about Rs.251.85 crores as compared to Rs.129.30 crores; witnessing a growth of ~95%. EPS stood at Rs.28.55 as against Rs.14.66. The company's continuous effort to achieve operating excellence and maximize capacity utilization along with focus on its customers has helped to boost profitability in the year ended. Operating profit margins expanded by 130bps at 13.12% from 11.82% in FY13. Net profit margin jumped by 158bps at 6.42% vs 4.84% last year. Stable currency and ammonia prices have helped the company to improve its margins.



## Decent growth outlook

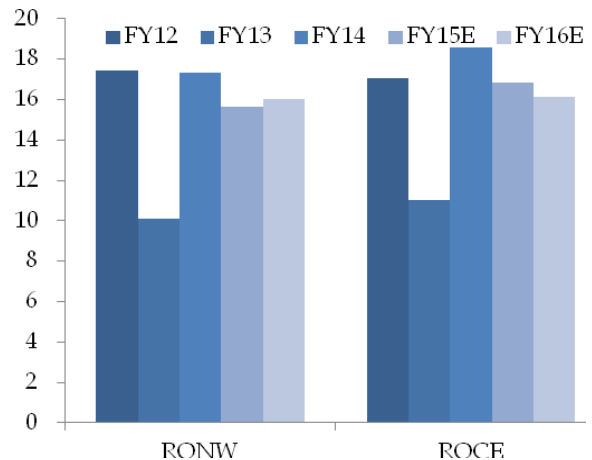
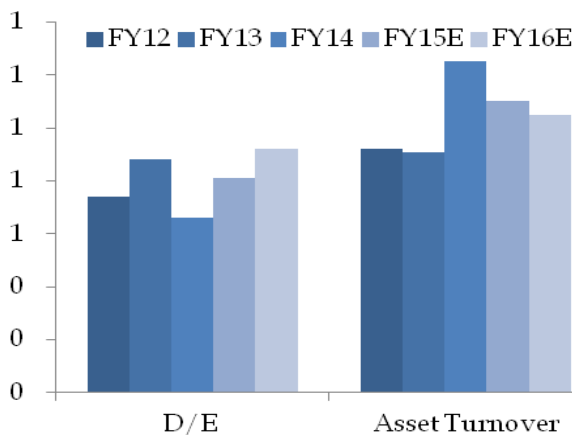
On the back of improving economic scenario along with stable currency and stable ammonia prices; the company expects to see higher volumes of technical ammonium nitrate. The company's fertilizers enjoy very strong brand loyalty with the dealers and the farmers leading to sustainable volumes going ahead. It has very strong presence in the Maharashtra, Gujarat, and Karnataka. The company also plans to pass on the proposed gas prices increase in a gradual manner. On the back of expected growth in the mining activity and with targeted export; the capacity utilization is expected to reach around 90-95% in the case of technical ammonium nitrate. Isopropyl plant is already operating at more than 100% capacity utilization and the company expects to continue with that level of performance. The company sees sustainable margins of upwards of 20% for technical ammonium nitrate and isopropyl alcohol going forward. Recently, the company has moved a proposal to double the borrowing powers to Rs.1,000 crores. It may use these funds to finance its plans for doubling complex fertiliser capacity to six million tonnes per annum. The company plans to focus on two key high margin growth drivers- speciality fertilizers and soluble products in the future. Further, the company is evaluating its option to counter offer from Zuari and UB group for Mangalore Chemicals acquisition. The recent gas supply distortion issue remains a concern for the company.

## Strong segmental growth driven by volumes

Deepak Fertilisers Ltd. has registered with strong segmental revenues in the financial year ended March 2014. Chemical segment revenue grew by 49% at Rs.2516.23 crores from Rs.1688.53 crores last year while the segment revenue grew by 72% at Rs.358.79 crores. This was on the back of better capacity utilization of all the products, more particularly technical ammonium nitrate, as well as due to improved realization. Steep increase in the international prices of methanol also helped reach higher profits. Revenue of agri-business grew by 42% to reach Rs.1409.62 crores from previous year's figure of Rs.994.68 crores. The segment profit reached Rs.156.40 crores which is a growth of 72% over last year. Higher capacity utilization of our ammonium nitro phosphate at 36% and bentonite sulphur plant by 53% and growth of about 40% in case of outsourced specialty fertilizer over last year helped us achieve this strong performance in the segment. With the stabilisation of its plants, improved product quality and a strong marketing strategy, your Company has increased the sales volume of TAN from 2,33,337 MT in the previous year to 3,10,016 MT during the year under review i.e. FY 2013-14. The total sales volume of Nitric Acid of different grades was recorded at 1,42,692 MT in FY 2013-14, compared to 1,18,675 MT in FY 2012-13. The Company sold 4,79,364 MT of bulk fertilisers which was 35% higher than the last year's sales of 3,55,954 MT. The growth in volume of sales was on account of an increase in in-house produced ANP (marketed under brand name MAHAPOWER) production by 37% & also in trading activities by 32% over the last year.

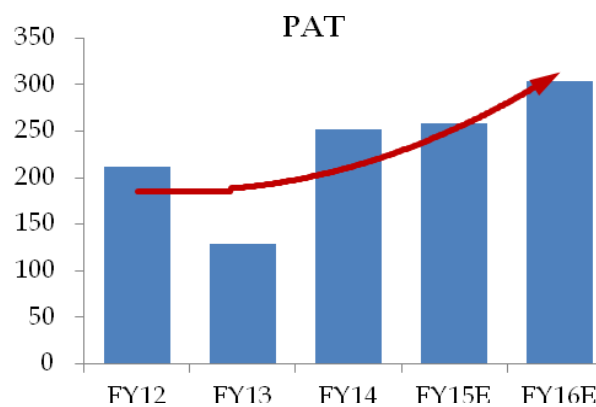
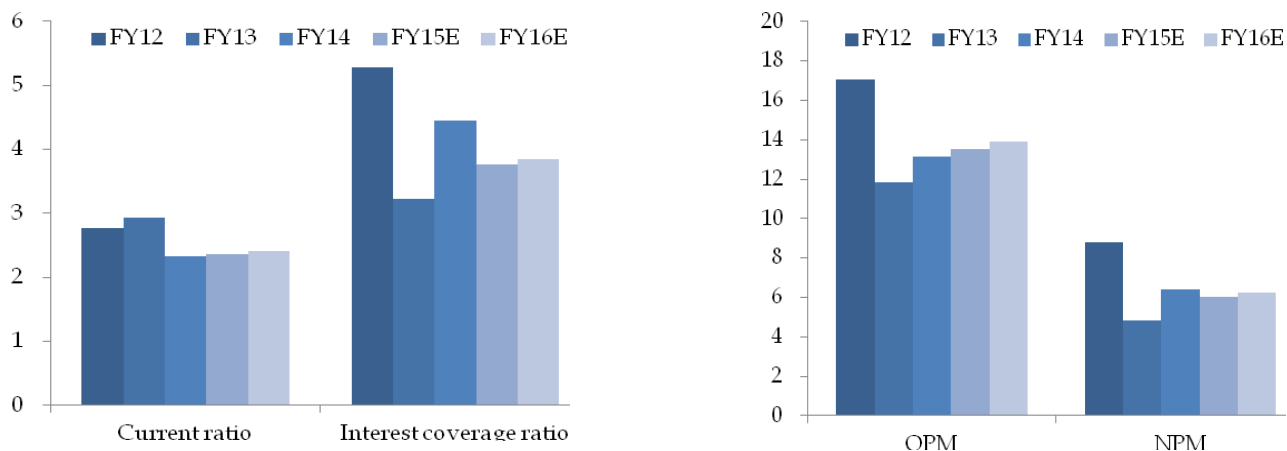
Product	Sales	
	FY 2013-14	FY 2012-13
Ammonia	NA	NA
Methanol	32,830	14,933
Iso Propyl Alcohol	76,644	67,904
Propane	15,800	13,228
Dilute Nitric Acid	54,803	41,556
Concentrated Nitric Acid	63,628	55,614
Technical Ammonium Nitrate	3,10,017	2,33,337
Bulk Fertilisers	479,364	3,55,954
Nitro Phosphate Fertilizer	242,557	1,77,199
Bentonite Sulphur	14,758	10,821
Liquid Carbon Dioxide	35,643	30,125
Windmill Power ('000 KWH)	17,915	18,314

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### Capacity expansion on cards

DFPC Ltd has made a capex of Rs.70 crores in the financial year ended March 2014. The company is planning for a capex of around Rs.130 odd crores for FY15. Out of this a sum of anywhere between Rs.80 and Rs.100 crores would be towards the expansion and remaining about Rs.50 and Rs.60 crores will be maintenance capex. The company also in the process of doubling its NPK plant capacity of 6,00,000 MT which is almost more than doubling of today's volumes through a brown-field expansion at the Taloja plant. This expansion is in line with the firm rise in demand from the company's core regions and surrounding areas. The project is expected to be operational by December 2015 and will set the stage for the launch of a variety of complex fertilisers and fortification with micro nutrients like boron, zinc and copper. Going forward, this project will also provide a bigger platform for its flagship product, MAHAPOWER. With this expansion, your Company's dependence on specific type of phosphoric acid will also reduce, as the new plant will be capable of processing all sources of phosphoric acid. Further, the company is setting a Greenfield 30,000 MT plant for Bentonite Sulphur at Panipat (Haryana) to address the growing demand and to explore growth opportunities in new markets, especially northern India. The project, expected to be commissioned by September 2015, will enable the company to save on logistics costs, boost functional efficiencies and enhance its competitiveness.



## Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales	2411.29	2673.13	3920.39	4273.23	4871.48
Growth		10.86%	46.66%	9.00%	14.00%
Expenditure	1999.65	2357.15	3405.86	3696.34	4194.35
EBITDA	411.64	315.98	514.53	576.89	677.14
Growth		-23.24%	62.84%	12.12%	17.38%
EBITDA margin	17.07%	11.82%	13.12%	13.50%	13.90%
Other income	37.29	57.51	49.03	55.55	63.33
Depreciation & Amortisation	88.96	108.18	114.28	129.58	152.64
EBIT	359.97	265.32	449.27	502.86	587.83
EBIT margin	14.93%	9.93%	11.46%	11.77%	12.07%
Interest	68.23	82.33	100.98	133.54	153.10
PBT	291.74	182.99	348.29	369.32	434.73
Tax	80.04	53.68	96.45	110.80	130.42
PAT	211.70	129.30	251.85	258.52	304.31
Minority interest	0.00	0.00	0.00	0.00	0.00
Share of profits in Associates	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	211.70	129.30	251.85	258.52	304.31
Growth		38.92	94.77	2.65	17.71
Net Profit margins	8.78	4.84	6.42	6.05	6.25
Exceptional item	0.00	0.00	11.35	0.00	0.00
Reported PAT	211.70	129.30	240.50	258.52	304.31
Equity Capital	88.20	88.20	88.20	88.20	88.20
Adjusted EPS	24.00	14.66	28.55	29.31	34.50

## Ratios

Particulars	FY12	FY13	FY14	FY15E	FY16E
Return on Equity	17.45	10.09	17.33	15.63	16.04
Return on Capital employed	17.06	11.03	18.59	16.82	16.16
Debt/Equity	0.74	0.88	0.66	0.81	0.92
Asset turnover	0.92	0.91	1.25	1.10	1.05
Current Ratio	2.77	2.93	2.33	2.37	2.41
Book value per share	137.57	145.23	164.75	187.56	215.06
Interest coverage	5.28	3.22	4.45	3.77	3.84

## Balance Sheet

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Share Capital	88.20	88.20	88.20	88.20	88.20
Reserves & Surplus	1125.25	1192.75	1364.98	1,566.17	1,808.73
Shareholders funds	1213.45	1280.96	1453.19	1654.37	1896.93
Borrowings	896.66	1123.90	963.58	1335.38	1739.82
Deferred tax liability	104.06	125.02	119.93	119.93	119.93
Minority Interest	0.00	0.00	0.14	0.00	0.00
<b>Sources of funds</b>	<b>2214.17</b>	<b>2529.88</b>	<b>2536.84</b>	<b>3109.69</b>	<b>3756.68</b>
Gross block	2,154.11	2,370.44	2,446.21	2756.92	3247.65
Accumulated Depreciation	812.50	912.13	1,018.84	1,148.42	1,301.06
Net block	1341.61	1458.31	1427.38	1608.50	1946.59
Capital work in progress	120.57	26.71	95.30	151.63	211.10
Investments	55.83	254.52	210.36	275.43	341.14
Deferred tax assets	0.00	0.00	0.00	0.00	0.00
Goodwill on consolidation	0.00	0.00	0.00	0.00	0.00
Inventories	211.32	246.82	346.22	483.12	558.99
Sundry debtors	566.03	651.74	789.06	984.83	1,139.47
Cash and bank balance	155.79	104.76	95.69	130.07	150.50
Other current assets	4.14	19.84	15.14	18.58	21.50
Loans and advances	153.21	176.22	160.20	241.56	279.49
Total current assets	1,090.50	1,199.38	1,406.31	1,858.17	2,149.95
Current liabilities and provisions	394.34	409.04	602.50	784.04	892.09
Net current assets	696.16	790.34	803.81	1,074.13	1,257.85
Misc exp	0.00	0.00	0.00	0.00	0.00
<b>Uses of funds</b>	<b>2,214.17</b>	<b>2,529.88</b>	<b>2,536.84</b>	<b>3,109.69</b>	<b>3,756.69</b>

## Quarterly Financial Highlights

Rs. Crore

Particulars	Q4FY14	Q4FY13	Q3FY14	YoY%	QoQ%
Revenues	1069.59	659.67	1014.04	62.14	5.48
Expenditures	904.14	589.28	875.02	53.43	3.33
Operating Profit	165.45	70.39	139.02	135.05	19.01
Adjusted Net Profit	91.66	29.12	75.39	214.76	21.58
OPM%	15.47	10.67	13.71	480bps	176bps
NPM %	8.57	4.41	7.43	416bps	114bps
Adjusted EPS	10.39	3.30	8.55	214.85	21.52

## Past Price movement of the stock





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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
<i>1. Analyst Ownership of the Stock</i>	<i>No</i>
<i>2. Hem &amp; its Group Company Ownership of the Stock</i>	<i>Yes</i>
<i>3. Hem &amp; its Group Companies' Director Ownership of the Stock</i>	<i>Yes</i>
<i>4. Broking relationship with company covered</i>	<i>No</i>

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