

Deepak Fertilizers

₹ 96

Require? Acquire!**Accumulate**

Jul 05, 2013

Company Background

Deepak Fertilisers and Petrochemicals Corporation (DFPCL) was incorporated in 1979 as a private limited company. It is currently one of the leading manufacturers of industrial chemicals and fertilisers in India. The company operates in three business segments—chemicals, agribusiness, and specialty retailing. The chemicals segment of the company includes methanol, ammonium nitrate, nitric acid (dilute, strong and concentrated), carbon-dioxide and hydrogen. It is one of the largest producers of methanol with an installed capacity of more than 1,00,000 tonnes per annum. The company markets chemicals through direct reach with over 550 customers in chemical sector and fertilisers with a network of over 2,900 dealers. The fertiliser segment comprises of manufactured ammonium nitrophosphate (ANP) and trading of bulk fertilisers like di-ammonium phosphate, ammonium sulphate, muriate of potash, and single super phosphate through imports / outsourcing. DFPCL has also forayed into the construction of a specialty mall, "Ishanya" in Pune. It has leased out 76 per cent of property. This is India's largest design centre and specialty mall for building exteriors and interiors.

Key Highlights

- ➔ Though high ammonia prices are a concern for DFPCL they are expected to correct by 20-25 percent. That would help improve their chemical business margins plus purchasing an asset like Mangalore Agro Chemicals would also give them stable earnings. DFPCL is transforming itself into a major fertiliser company than a chemical company.
- ➔ The acquisition will strengthen DFPCL's foothold in the fertiliser segment and also increase geographical spread as MCFL has a strong distribution network in Karnataka, AP, north Tamil Nadu, whereas DFPCL is mainly present in north-west India. There is also a surplus usable land of ~50 acres at MCFL's facility which can be used further for expansion.
- ➔ Deepak Expects to achieve TAN sales volume of 300000-320000 MT in FY14 out of which exports should be around 50000-70000MT, considering the current rate of the dollar, the export income may substantially rise in FY 14..

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	13,740.1	16,071.6	23,876.8
Rev. growth (%)	(5.70)	16.97	48.57
EBITDA (INR mn)	3,497.7	3,814.2	4,725.3
Net profit (INR mn)	1,720.5	1,866.2	2,129.7
Shares outstanding (mn)	88.2	88.2	88.2
EPS (INR)	19.5	21.2	24.1
EPS growth (%)	15.70	8.47	14.12
P/E (x)	5.8	7.5	6.3
RONW (%)	17.2	18.7	18.0
ROCE (%)	9.7	10.7	10.4

Nishant Chopra

nishantc@indiratrade.com

Info Codes

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

Market Data

52 Wk Range (₹)	: 91 / 144
Shares in Issue (mn)	: 88.2
Mkt. Cap (₹ bn)	: 8.38
BSE 2 Wk Avg Vol	: 10000

Share Holding Pattern (%)

Promoters	: 43.32
DII's	: 7.82
FII's	: 13.12
Others	: 35.74

Investment Theme

DFPCL has emerged as an integrated multi-product company manufacturing ammonia, iso propyl alcohol, methanol, nitric acid, low-density prilled ammonium nitrate, and nitrophosphate fertilisers in its state-of-the-art plants operating with world class technology. Huge capital outlay and restricted availability of technology pose high entry barriers in the bulk chemicals business. Hence, the competition is low in the business and this enables DFPCL to maintain a strong position in all the products segments. It has also recently acquired a 24%+ stake in UB Group's Mangalore Chemicals & Fertilizers through its subsidiary SCM Soilfert. This investment is expected to be very strategic & a good fit with the company's current business. The company's planned growth trajectory is expected to introduce a re-rating in valuations a year or two down the line.

A different kind of Chemistry !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	13541.7	16650.4	22.96	24744.0	48.61
Other Income	685.4	406.6	(40.68)	459.2	12.94
Change in Stocks	54.7	(39.5)	(172.21)	310.7	(886.58)
Raw Material Con.	5219.8	7084.2	35.72	11378.4	60.62
Employee Exp.	876.8	1067.9	21.80	1393.1	30.45
Indirect Taxes	701.8	1059.9	51.03	1420.8	34.05
Other Exp.	3994.2	4007.2	0.33	6611.2	64.98
Operating Exp.	10737.9	13258.7	23.48	20492.8	54.56
Operating Profit	2803.8	3391.7	20.97	4251.2	25.34
Total Interest	464.3	459.0	(1.14)	939.0	104.58
Gross Profit	3024.9	3339.3	10.39	3771.4	12.94
Net Dep.	668.5	732.8	9.62	805.4	9.91
Total Taxation	635.9	740.3	16.42	836.3	12.97
Net Profit/Loss	1720.5	1866.2	8.47	2129.7	14.12

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	14,108.6	16,615.9	18,516.6	21,201.7
Equity Share capital	882.0	882.0	882.0	882.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	7,149.1	8,422.0	9,779.1	11,353.0
Long Term Loans	3,646.7	5,938.3	6,596.5	5,355.8
Short Term Loans	2,430.8	1,373.6	1,259.0	3,610.9
USES OF FUNDS	14,108.6	16,615.9	18,516.6	21,201.7
Gross Block	12,659.7	13,493.6	16,762.4	20,447.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	5,367.9	5,906.5	6,593.5	7,373.9
Net Block	7,291.8	7,587.1	10,168.9	13,073.2
Capital Work in Progress	2,435.0	4,141.6	2,699.4	1,200.6
Investments	1,544.6	1,557.7	1,135.8	1,188.4
Current Assets	6,309.7	6,416.8	8,569.8	10,816.0
Less : Current Liabilities	3,478.0	3,087.3	4,057.3	5,076.5
Total Net Current Assets	2,831.7	3,329.5	4,512.5	5,739.5
Misc. Expenses not written	5.5	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	1,424.8	1,407.6	1,119.5	962.1
Mkt Val. Quoted Investments	76.9	168.9	16.1	225.0
Contingent Liabilities	2,731.6	1,869.5	1,584.3	1,336.4
Dividend (%)	45	50	55	55

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 12	Sep 12	Dec 12	Mar 13
Net Sales	6,341.30	6,906.90	6,233.50	6,592.60
Cost Of Sales	5,319.50	6,130.60	5,537.50	5,892.80
Operating Profit	1,021.80	776.30	696.00	699.80
Recurring Income	102.60	179.30	148.60	177.60
Adjusted PBDIT	1,124.40	955.60	844.60	877.40
Financial Expenses	266.20	158.10	176.20	221.20
Depreciation	226.60	250.10	250.50	247.30
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	631.60	547.40	417.90	408.90
Tax Charges	176.60	141.00	101.40	117.70
Adjusted PAT	455.00	406.40	316.50	291.20
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	455.00	406.40	316.50	291.20

52 Week Index Relative Percentage Appreciation



Deepak vs SENSEX

Fertilizer Sector Issues

Preliminary data from the Ministry of Fertilisers indicates that sales volumes of overall complex fertilisers (incl. manufactured & traded) declined by 50% YoY for the industry during Apr.13. On the contrary, urea sales increased by 6% YoY during the same period. Imported complex fertilisers witnessed decline of 56% YoY during Apr.13 as companies refrained from importing due to delay in subsidy fixation as well as huge inventory in system. Similarly, manufactured complex fertiliser volumes declined by 47% YoY during Apr.13. While it is expected that urea demand will remain steady, complex fertiliser sales continues to remain under pressure due to wide differential in urea v/s complex fertiliser prices and huge inventory in system. Though few companies have already announced reduction in farm gate prices of complex fertilisers, the bigger challenge is the existing inventory in system which will be sold at reduced prices which may suggest that major portion of the loss will have to be borne by the companies.

Key Risks

- ➔ Any delay in scaling up operations of the TAN plant will lead to an opportunity loss DFPCL and increase the downside. High volatility in crude prices could adversely impact the company's raw material costs and, hence, its profitability.
- ➔ Though the company has tied up with Middle East suppliers for ammonia and for natural gas with multiple sources in India, any issues on this front may pose a risk for DFPCL.
- ➔ Though the Indian finance minister has, assured that the entire subsidy amount will be paid in cash and not bonds. Any delay in the payment of subsidies by Gol or payment of the same, could strain the company's working capital cycle.
- ➔ Any INR volatility may impact the operating margin of the chemicals segment of DFPCL.

In a Nutshell

DFPCL is among India's leading producers of industrial chemicals and fertilisers and has established a prime position for itself over the last three decades across Indian and global markets. Set up in 1979 as an Ammonia manufacturer, today it is a publicly listed, multi-product Indian conglomerate with an annual turnover of over USD 300 million with a multi-product portfolio spanning industrial chemicals, bulk and specialty fertilisers, farming diagnostics and solutions, technical ammonium nitrate, mining services and consulting and value added real estate. It has over the years, built its capabilities to finer market nuances like price volatility, speed and strategy, based not just on an analysis of growth trends in both the Indian and the global economy but even deeper, on scale, resources, technology capability, quality and product diversification. It is now focusing on global growth, drawing strengths from its existing product and plant synergies and adding new product lines, new plants and augmenting manufacturing capacities. In Technical Ammonium Nitrate (TAN) it's moving from a domestic market leader to being a global player, while moving further forward into Mining Services and Contract Mining. In Agri-business, DFPCL has moved from bulk fertilisers to specialties/customised products and farm solutions and further into produce management. In Chemicals, it is moving up the value chain from bulk chemical commodities to high-value petrochemicals. It 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. With events like the acquisition of MCFL, DFPCL is ready to propel itself into a new and exciting growth orbit.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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