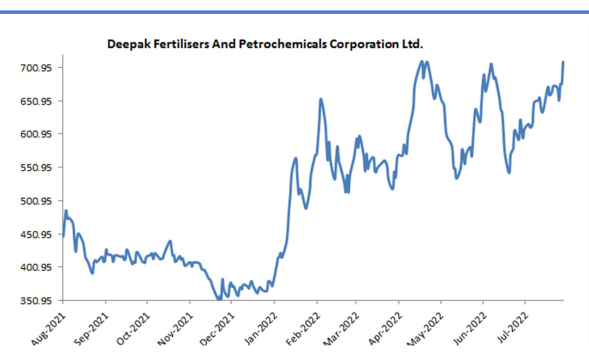


August 8, 2022

Deepak Fertilizers & Petrochem Corp Ltd.

Industry	Fertilizers
No. of Shares (Crore)	12.60
Face value (Rs.)	10.00
Mkt. Cap (Rs. Crore)	9797.01
Price (5/08/2022)	809.55
Book Value (Rs)	357.00
P/BV	2.27
BSE Code	500645
NSE Code	DEEPAKFERT
Bloomberg	DFPC.IN
Reuters	DFPE.BO
Avg. Weekly Volume (NSE+BSE)	14,33,480
52 W H/L (Rs)	861.25/344.00
(As on August 08, 2022)	
Recommendation	
BUY	

Further to our Research report dated Feb 23rd 2022, wherein we had recommended a BUY at the then price of Rs.513.75/- cum-dividend (dividend declared for FY 2022 - 90%), the share price had spurted to Rs.861.25 which is 52 week high. With further capacity addition in its TAN and Ammonia division the stock would see further rerating in the near future. At the current market price of 810/-, Buy is recommended with a medium to long term view.



Company Background

Deepak Fertilizers and Petrochemicals Corporation Ltd. (DFPCL) is a leading industrial chemicals and fertilizer business in India. It is a dominant player in Technical Ammonium Nitrate (TAN) i.e. mining chemicals, industrial chemicals and crop nutrition and Ammonia. It is a multi-product Indian conglomerate which has manufacturing facilities located in four states, namely Maharashtra (Taloja), Gujarat (Dahej), Andhra Pradesh (Srikakulam) and Haryana (Panipat) and exports to more than 27 countries across 6 continents.

Investment Rationale

- India is 6th largest producer of chemicals in the world with over 80000 commercial products and is poised to touch USD 300 billion by FY25 registering a CAGR of ~14% between FY21-FY25. India's share in global chemical market is at around 3%, which could be doubled by a shift of merely 10% of China's chemical business to India and DFPCL is well placed to grab this opportunity.
- Its Mining Chemical segment i.e. TAN whose present installed capacity is pegged at ~486,900 MTPA has attained a capacity utilization of ~111% in Q1FY23 led by strong demand and volume growth. The company is seeking approval for additional 30000 tons to meet the growing demand from mining and infrastructure segment.
- CNA (Concentrated Nitric Acid), High Density Ammonium Nitrate (HDAN), Ammonium Nitrate Melt (AN Melt) and Low Density Ammonium Nitrate (LDAN) sales improved in Q1FY23 although DNA production volumes were impacted due to ammonia un-availability.
- Nitric acid demand likely to remain strong going ahead due to China+1 factor is supporting demand and generating healthy margins. In acid space the capacity utilization stood at 91% in Q1FY23.
- A Greenfield expansion plan of about ~510,000 MTPA in Ammonia is currently underway and undermined, which is making expeditious development; creeping as per co's planned schedule and it is expected to get commissioned by ~Q1FY24. With this it would bring ~Rs.25000crs worth import substitution for next 10 years and improve carbon footprints for the company.
- Its Crop Nutrition Business (CNB) total installed capacity currently is at ~11,25,000 MTPA. Due to war situation in Russia and Ukraine had led to further shortage of raw material which impacted ANP & NPK volumes in current quarter. The company had launched CropTek Maize and CropTek Cotton in Q1FY23. The company was actively engaged with 65 lakh farmers at the end of FY21.
- In the latest quarter Q1FY23, DFPCL attained a topline of Rs. 3031 crs, a remarkable growth of 59% YoY, operating profit jumped ~155.04% to Rs. 740.46 crs & EBITDA margins improved to 24% as against 15% in Q1FY22. Owing to superior margins from chemical business the net profit zoomed to Rs.434 crs and one of the best in many years.

Recommendation

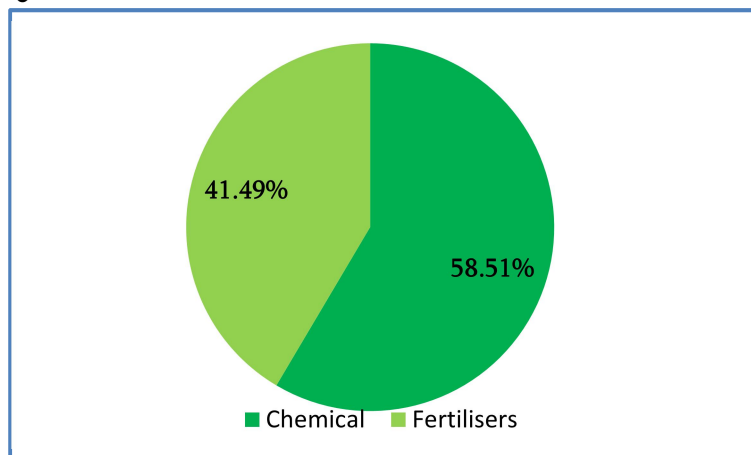
DFPCL's management plans to transform the company from commodity to specialty and product solutions and achieve market leadership in its entire key product segment. The company delivered ROE of 17.46% in FY22 out performing its 5 year average of 10.84% and ROCE stood at 13.59%. DFPCL likely to see sustained uptrend in revenue and profitability with implementation of TAN and ammonia project and increased contribution from Chemical segment. At the CMP of Rs.810 the stock is trading at a PE of approximately ~9.2 times its FY24e earnings. Hence, we recommend a buy on the stock with a target price of Rs.1026/- which implies a prospective and **potential upside of ~27% with an investment horizon of one year.**

Particulars (In Rs.Crs)	Q1FY23	Q1FY22	Var%	H2Y22	H2FY21	FY22	FY21
Net Sales	3,031.07	1,902.10	59.35	3968.18	3022.22	7,663.29	5,808.49
Operating Profit	740.46	290.33	155.04	880.73	504.71	1399.88	987.98
Consolidated Net Profit	433.89	128.02	238.92	459.43	200.84	678.27	400.31
PBIDTM%	24.43	15.26	60.05	21.51	16.21	17.69	16.45
PATM%	14.31	6.73	112.69	11.68	6.77	8.97	7.00
Equity	120.59	102.68	17.44	120.59	102.68	120.59	102.68
EPS (Rs.)	35.98	12.47	188.59	38.44	19.94	56.25	38.99

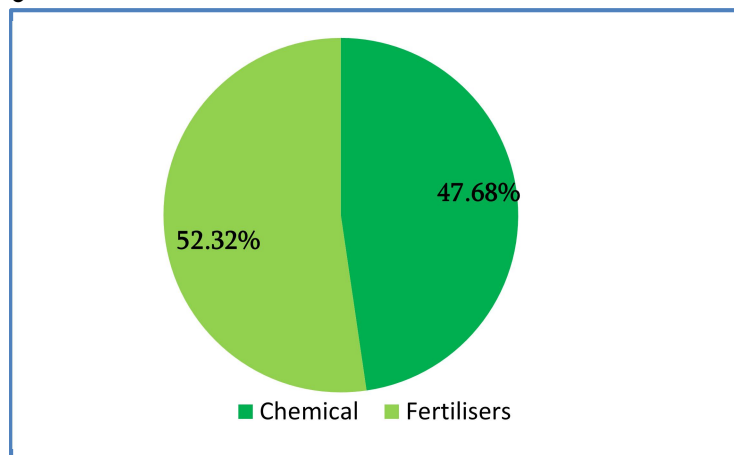
*Source: Company, Ace Equity, AUM Research

Segmental Revenue Contribution (%)

Q1FY23



Q1FY22



*Source: Company, Ace Equity, AUM Research

- The revenue from Chemicals segment doubled to Rs.1771 Crs during the quarter Q1FY23 and its contribution to total segmental profits was about 86%, while revenues from Fertilizers grew by 26%YoY in Q1FY23 to Rs.1256 Crs & its contribution to profit was at 14% due to sharp increase in raw material prices. Going ahead the chemical segment will maintain their prominence and essence due to China +1 strategy kind of inclination of global supply chain which is leading to strong set of growth in Chemical segment.

Industrial Chemicals (IC)

- DFPCL is India's major producer of industrial chemicals which finds application in pharmaceuticals, agrochemicals, medicines and colour intermediates, precious metal refining, defence, resin, textile, and fertiliser are some of the industries where it is used.
- It is the 2nd largest manufacturer of Nitric Acid in South East Asia and the largest in India.
- At the end of ~Q1FY22 the capacity utilization of Nitric Acid stood at ~91%.
- CNA & DNA continued to witness strong demand driving NSPs (net selling price) in Q1FY23 although DNA production at Tajola plant was impacted mainly due to raw water shortage. This was due to shutdown taken by MIDC to attend the line breakdown.
- The Company has been focusing on better price-volume management, new product development and a hybrid work environment for optimum productivity to take the big leap towards a more customer-facing organization.
- It has a strong distribution network of 50+ channel partners and direct relationships with more than ~600 industrial customers in India.
- Going ahead, Shift of structural global supply chain attributing to China+1 strategy, trend towards India would continue to drive strong demand of Nitric Acid from downstream customers.

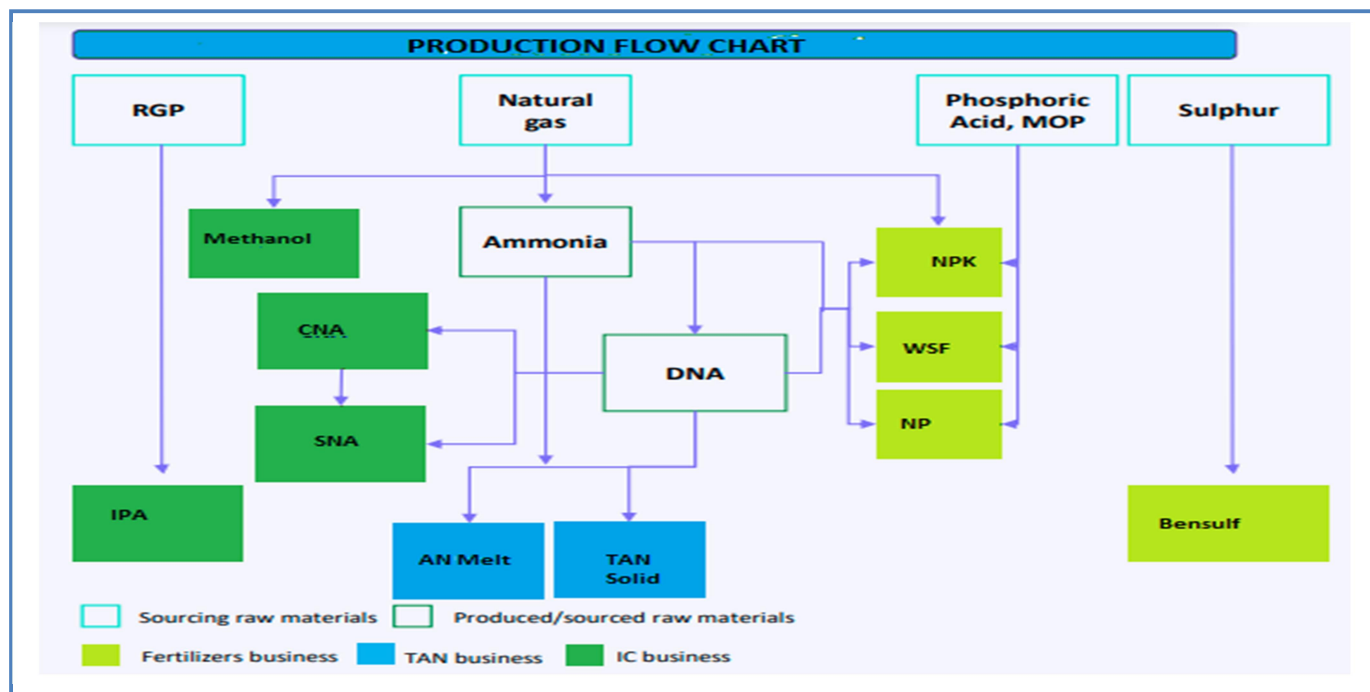
Iso Propyl Alcohol (IPA)

- DFPCL is a significant IPA producer and marketer. Its Taloja plant in Maharashtra has a total installed capacity of 70,200 MTPA. The company trades in IPA to meet increased demand from end consumers and to maintain its market dominance.
- It has forayed into the hand sanitizers, disinfectants and wipes segment with its IPA-based product brand called '**Cororid**' which has received good response from the domestic market, including B2B as well as B2C segments.
- The company intends to focus on a product range that includes a mix of bulk commodity products and value-added specialised solutions as part of its goal to assist reduce earnings volatility across the business cycle.
- In Q1FY23, it had 58% capacity utilisation rate due to water shortage and inability to pass through the rising cost of propylene raw material and fuel.
- DFPCL launched 8 IPA based broad spectrum disinfection products designed to cater to the specific needs of hospitals, clinics, laboratories and other medical and health care set-ups.
- In future, there will be a high need for compact IPA packs in both Pharmaceuticals and LR grades which would benefit the company.

Technical Ammonium Nitrate (TAN) / Mining Chemicals

- DFPCL produces High Density Ammonium Nitrate (HDAN), Low Density Ammonium Nitrate (LDAN), and Ammonium Nitrate Melt, and is the world's fifth largest single TAN manufacturer (AN Melt).
- The Company is India's only producer of explosives-grade TAN solids, which are used in mining for explosives and infrastructure-related activities, as well as Medical-Grade Ammonium Nitrate, which is widely used in the production of medical-grade nitrous oxide, which is used as an anesthetic/analgesic.
- TAN production in Q1FY23 achieved capacity utilization of 111%.
- To meet the rising demand for TAN, the Company is setting up a new TAN manufacturing plant in Gopalpur Odisha with an estimated capacity of ~376000 MTPA. The plant is expected to get commissioned by ~Q2FY25 and this would ideally position DFPCL to capitalize on the strong demand growth.
- On project completion and commencement, Odisha will become a key source of TAN to the entire Eastern Belt where majority of Mining and Infrastructure growth is foreseen in future.
- The TAN segment reported a 177% YoY growth in sales revenue to Rs.1078 crs in Q1FY23 as against Rs.389 in Q1FY22, supported by continued demand from coal as reflected in Coal India's and SCCL's OB (overburden) performance.
- Operationalization of capacity from phase 1 debottlenecking initiative also supported volume growth in explosives manufacturing and Coal segment.
- Pricing of all products remained competitive during the quarter and margins in all product segments (i.e. HDAN, AN Melt and LDAN) improved despite adverse impact of increase in raw material prices seen during the quarter.
- In Q2 TAN business to mellow out in view of seasonality as well as momentum in AN imports. Therefore to support continuous production, the company's country wide warehouse network will be used to distribute build-up stock in H2FY23.

Synergistic Business Model



*Source: Company, Ace Equity, AUM Research

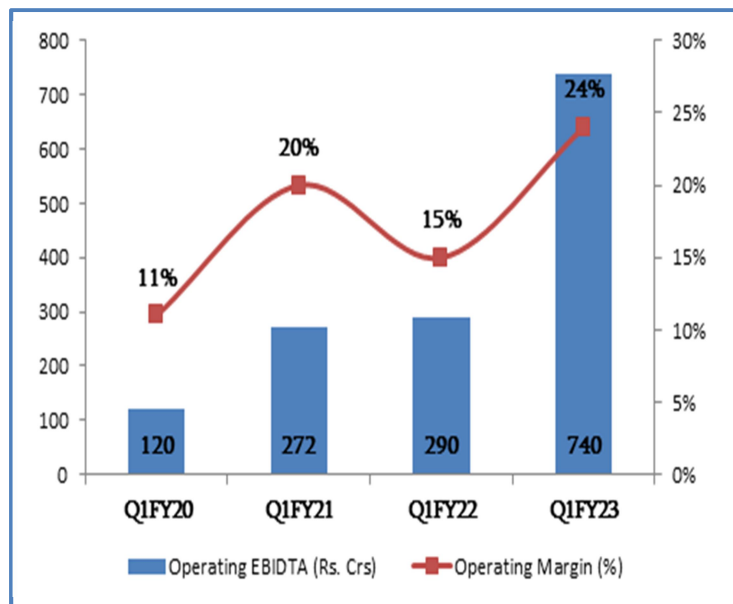
Ammonia

- At present, Ammonia business is operating at an installed capacity of ~128,700 MTPA.
- The company has envisaged a greenfield expansion plan of ~510,000 MTPA entailing to which the total capex outlay is estimated at ~ Rs.4350 crores. It has got all the environment clearances with 95%-97% equipment in place and the management sees no escalation in project cost as it fixed turnkey contract with Toyo.
- Hitherto it has already incurred 65% of total capex ~Rs.2850 crores odd and the balance Rs.1500 crs to be incurred further by way of debt of ~Rs.750 crs and rest through internal accruals.
- The said plant is expected to get commissioned by ~Q1FY24. This would lead to zero dependence of the company on imports or domestic third party ammonia supplier.
- This new plant would save \$75-80 per tonne of logistics costs and this would yield a ~18-20% internal rate of return (IRR). The company would replace import of ammonia completely and help in backward integration.

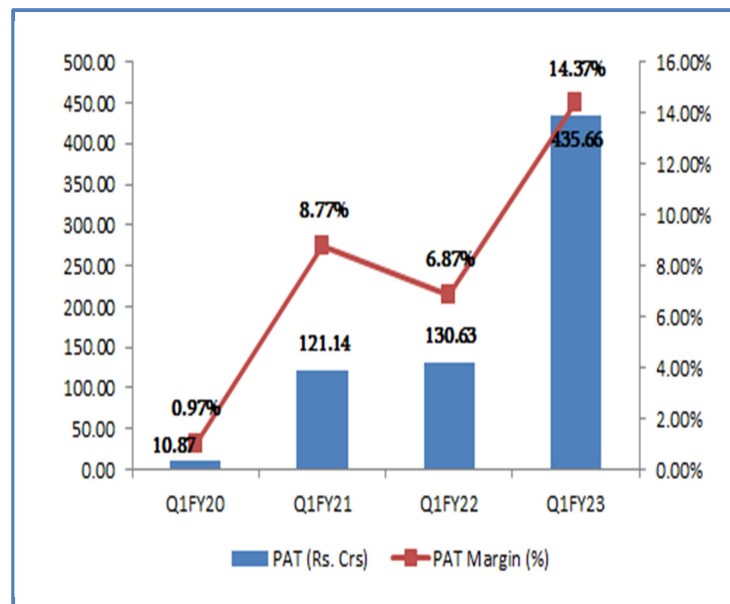
Crop Nutrition Business (CNB)

- DFPCL for the first time in India has launched, 'Mahadhan app', which connects over a million farmers as a one stop solution for its varied fertilizer products.
- The company is focusing on a crop-specific product portfolio which shall provide value to farmers by enhancing product quality, increase in yield by 12-15% and thus more income to farmers.
- DFPCL is also one of the leading manufacturers of Nitrogen Phosphorous Potassium (NPK) and specialty fertilizers. The business offers a wide range of NP (Nitro Phosphate), NPK variants, Water Soluble fertilizers and Bentonite Sulphur to Indian farmers under its flagship brand 'Mahadhan'
- The production cost of fertilizers increased further in Q1FY23 due to substantial increases in raw material costs such as ammonia, phosphoric acid, and MoP. The conflict between Russia and Ukraine has resulted in a further shortage of RM such as MoP.

Q1FY23 Operating Profit (Rs.crs) & OPM(%)



PAT (Rs. Crs) & PAT Margins (%)



*Source: Company, Ace Equity, AUM Research

Q1FY23 Robust Performance

- The company displayed its best ever performance in Q1FY23 with operating profit jumping by 155.04% YoY to Rs.740 crs and exhibiting excellent operating margins at 24%.
- The operating margins improved from 11% in Q1FY20 to 24% in Q1FY23 on back of company's focus on high margin products.
- Finance cost marginally increased during the quarter to Rs.43.52 crs due to recent rise in interest rate.
- Despite adverse movement on raw material prices like ammonia which increased by 106%, Phosphoric acid by 92%, propylene by 35% and gas by 91% respectively, the company was nevertheless able to increase its margins in Q1FY23 because of its competitive pricing of its products.

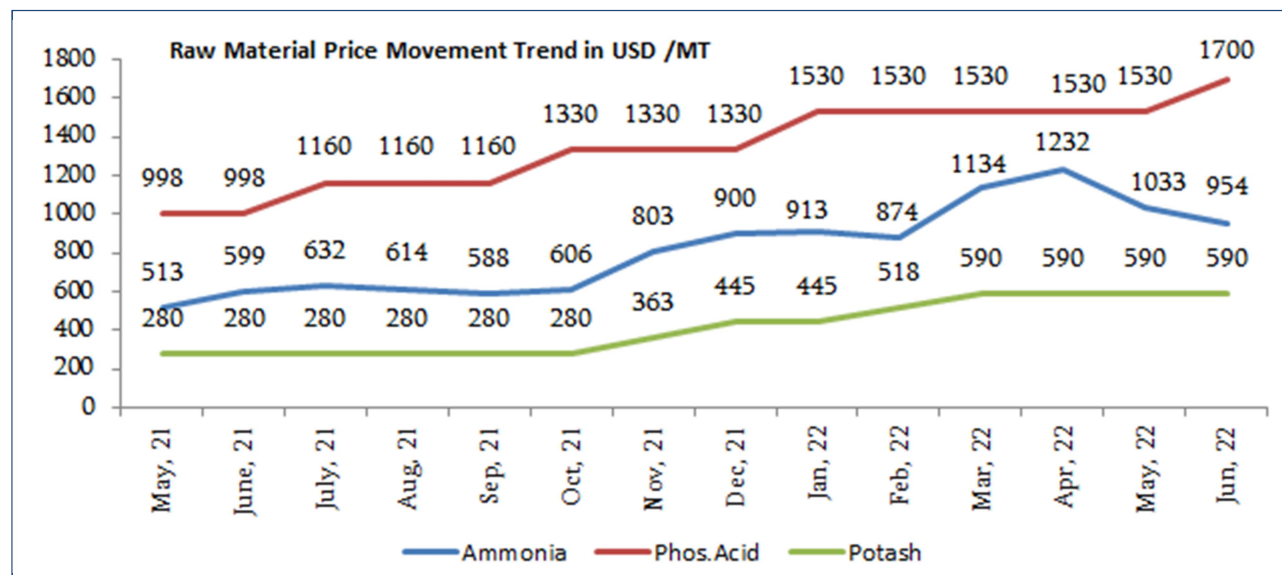
Debt Position

- DFPCL has recorded net debt of Rs.1930 crs in Q1FY23 from Rs.1419 crs in FY22.
- Net debt to equity ratio as on 30th June 22 stood at ~0.45x
- Due to the long repayment tenure of the term loans, the annual debt repayments are likely to remain modest at around ~Rs.270 crs in FY23 & ~Rs.240 crs in FY24.
- The company strictly follows to keep its leverage under control and reduce dependency on external funding.
- No large loan repayments due in next three years when Ammonia and TAN project will be under implementation.

Capacities

Products	Installed Capacity (TPA)	Current Utilisation (%)	Planned capacity (TPA)
Industrial Chemicals	1,362,160	90	
Nitric Acid	1119960	82	
Concentrated Nitric Acid (CAN)	231000		
Diluted Nitric Acid (DAN)	888960		
Iso Propyl Alcohol (IPA)	70,200	90	
Methanol (CH ₃ OH)	100000		
Liquid CO ₂	72,000		
Crop Nutrition	1,125,000	62	
Nitro Phosphate Fertiliser (NP)			
Nitrogen Phosphorous Potassium Fertiliser (NPK)	438000		
Bentonite Sulphur (Bensulf)	60,720		
Mining Chemicals			
Technical Ammonium Nitrate (TAN)	484900	100	376000 (Q2FY25)
Common Raw Material			
Ammonia (NH ₃)	128700		510000 (Q1FY24)

Raw Material Price Movement trend for the past 12 months



Source: Company, Ace Equity, AUM Research

Financials

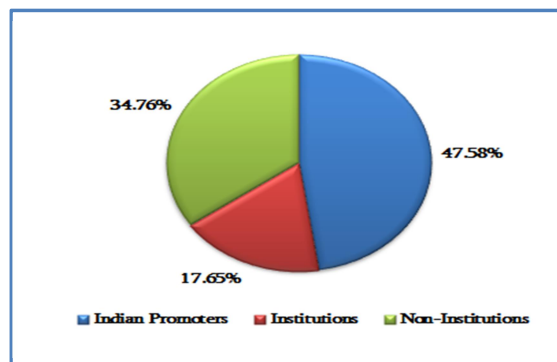
Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q1FY23	Q1FY22	Var%	FY22	FY21	Var%
Net Sales & Other Operating Income	3,031.07	1,902.10	59.35	7663.29	5808.49	31.93
Total Expenditure	2,290.61	1,611.77	42.12	6307.34	4853.18	29.96
PBIDT (Excl OI)	740.46	290.33	155.04	1355.95	955.31	41.94
Other Income	11.21	5.87	90.97	43.93	32.67	34.47
Operating Profit	751.67	296.20	153.77	1399.88	987.98	41.69
Interest	43.52	43.29	0.53	154.82	187.71	-17.52
PBDT	708.15	252.91	180.00	1245.06	800.27	55.58
Depreciation	58.69	62.50	-6.10	232.53	211.95	9.71
Tax	213.80	59.78	257.64	325.05	181.88	78.72
Minority Interest	-1.77	-2.61	32.18	-9.21	-6.13	-50.24
Consolidated Net Profit	433.89	128.02	238.92	678.27	400.31	69.44
EPS (Rs.)	35.98	12.47	188.59	56.25	38.99	44.27

Consolidated Income Statement (Value in Rs. Crs)				
Particulars	FY21	FY20	FY19	FY18
Net Sales & Other Operating Income	5,808.49	4,685.38	6,742.06	5,994.86
Total Expenditure	4853.66	4221.12	6282.73	5449.68
PBIDT (Excl OI)	954.83	464.26	459.33	545.18
Other Income	33.15	95.45	54.30	24.09
Operating Profit	987.98	559.71	513.63	569.27
Interest	187.71	242.93	229.33	173.16
Depreciation	211.95	213.53	171.46	163.23
PBT	588.32	103.25	112.84	232.88
Provision for Tax	181.88	14.07	36.32	66.39
Minority Interest	-6.13	-1.75	-2.8	-1.43
Share of Associate	0.00	-0.17	-3.05	-2.39
Consolidated Net Profit	400.31	87.26	70.67	162.67
EPS (Rs.)	38.99	9.77	8.01	18.44

*Source: Company, Ace Equity, AUM Research

Shareholding Pattern as on June 2022

Shareholding Pattern	%
Indian Promoters	47.58
Institutions	17.65
Non-Institutions	34.76
Total	100.00
As on June 30, 2022	



Consolidated Balance Sheet (Value in Rs. Crs)				
Particulars	FY21	FY20	FY19	FY18
EQUITY AND LIABILITIES				
Share Capital	102.68	89.28	88.20	88.20
Share Warrants & Outstandings	0.00	41.67	50.00	0.00
Total Reserves	2599.91	2049.83	1959.65	1957.97
Shareholder's Funds	2702.59	2180.78	2097.85	2046.17
Minority Interest	97.01	43.13	43.77	40.33
Secured Loans	1,783.39	1,884.75	1,770.92	625.52
Unsecured Loans	403.20	199.50	0.00	0.00
Deferred Tax Assets / Liabilities	-47.03	-45.89	-73.53	-94.34
Other Long Term Liabilities	110.28	69.54	0.00	0.00
Long Term Provisions	67.08	56.87	46.31	48.39
Total Non-Current Liabilities	2,316.92	2,164.77	1,743.70	579.57
Trade Payables	1,296.76	1,294.49	1,483.99	908.98
Other Current Liabilities	493.17	401.42	422.82	467.51
Short Term Borrowings	110.19	719.30	1,175.91	2,839.22
Short Term Provisions	79.55	81.45	76.04	15.34
Total Current Liabilities	1,979.67	2,496.66	3,158.76	4,231.05
Total Liabilities	7,096.19	6,885.34	7,044.08	6,897.12
ASSETS				
Gross Block	3,523.35	3,407.25	2,765.30	2,579.27
Less: Accumulated Depreciation	938.57	731.50	561.51	395.56
Net Block	2,584.78	2,675.75	2,203.79	2,183.71
Capital Work in Progress	1,615.74	1,309.40	1,370.22	653.84
Intangible Assets under development	3.12	0.16	0.00	0.00
Non-Current Investments	36.15	36.84	5.93	15.12
Long Term Loans & Advances	427.12	441.61	527.41	513.37
Other Non-Current Assets	19.87	16.05	1.77	3.52
Total Non-Current Assets	4,686.78	4,479.81	4,109.12	3,369.56
Current Investments	449.20	11.60	251.58	377.73
Inventories	637.22	683.69	827.90	768.49
Sundry Debtors	906.12	1,275.80	1,396.26	1,965.37
Cash and Bank	246.31	259.26	116.23	100.31
Other Current Assets	52.33	52.11	49.01	70.08
Short Term Loans and Advances	118.23	123.07	293.98	245.58
Total Current Assets	2,409.41	2,405.53	2,934.96	3,527.56
Net Current Assets (Including Current Investments)	429.74	-91.13	-223.80	-703.49
Total Current Assets Excluding Current Investments	1,960.21	2,393.93	2,683.38	3,149.83
Total Assets	7,096.19	6,885.34	7,044.08	6,897.12

*Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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