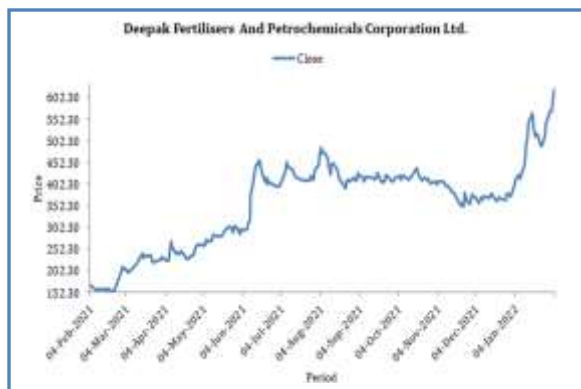


Deepak Fertilizers & Petrochem Corp Ltd.	
Industry	Fertilizers
No. of Shares (Crore)	12.06
Face value (Rs.)	10/-
Mkt. Cap (Rs. Crore)	6195.83
Price (22/02/2022)	513.75
Book Value (Rs)	299.63
P/BV	1.71
BSE Code	500645
NSE Code	DEEPAKFERT
Bloomberg	DFPC:IN
Reuters	DFPE.BO
Avg. Weekly Volume (NSE)	5,43,560
52 W H/L (Rs)	659.90/152.10
Shareholding Pattern	%
Indian Promoters	47.58
Institutions	13.73
Non- Institutions	38.69
Total	100
(As on December 31, 2021)	
Recommendation	
BUY	



Company Background

Deepak Fertilizers and Petrochemicals Corporation Ltd. (DFPCL) is among the India's prominent manufacturer of industrial chemicals and fertilizers. It has a strong presence in Technical Ammonium Nitrate (TAN) i.e. mining chemicals, industrial chemicals and crop nutrition (fertilizers). It is a multi-product Indian conglomerate which possesses state-of-the-art manufacturing facilities located in four states, namely Maharashtra (Taloja), Gujarat (Dahej), Andhra Pradesh (Srikakulam) and Haryana (Panipat).

Investment Rationale

➤ DFPCL's Industrial Chemicals (IC) business segment comprises of Diluted Nitric Acid (DNA) – 888,960 MTPA, Concentrated Nitric Acid (CNA) – 2,31,000 MTPA, Iso Propyl Alcohol (IPA) – 70,200 MTPA, Methanol – 100,000 MTPA and Liquid CO₂ – 72,000 MTPA with an overall aggregate installed operating capacity of ~13,62,160 MTPA.

➤ Its Mining Chemical segment i.e. TAN whose present installed capacity is pegged at ~486,900 MTPA has attained a capacity utilization of ~110% in Q3FY22 led by superlative demand, strong volume growth and ensuing improvement in its product mix.

➤ Going forward, the company is set to draw benefits from the increased TAN off-take, a trend which is likely to continue and sustain as demand for explosives are expected to increase invariably underpinned by bolstering tailwind in infrastructure, power and mining sectors.

➤ In Q3FY22 despite uneven spikes in input cost / raw material prices, margins viz. High Density Ammonium Nitrate (HDAN), Ammonium Nitrate Melt (AN Melt) and Low Density Ammonium Nitrate (LDAN) improved significantly driven by robust demand, benign volume growth (24% Y-o-Y & 31% Q-o-Q) and a resultant improvement in operating leverage.

➤ DFPCL's Ammonia business is currently operating at an installed capacity of ~128,700 MTPA.

➤ 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 commission by ~Q1FY24.

➤ Its Crop Nutrition Business (CNB) total installed operating capacity is slated at ~985,720 MTPA. The company is focusing on a crop-specific product portfolio which in turn is expected to render DFPCL with market share gains and margins.

➤ Last year in Oct'21 it has successfully mopped ~510 crores through a sale of shares to institutional investors in form of Qualified Institutional Placement (QIP).

➤ In the quarter gone by i.e. Q3FY22 DFPCL attained a topline of 1956 crores, a spectacular revenue growth of ~35%; operating profit jumped ~63% to 369 crores & EBITDA margins expanded ~300 basis points to 18% Y-o-Y. In bottom-line, its net profits virtually doubled owing to significant margin expansion in chemicals segment.

Recommendation

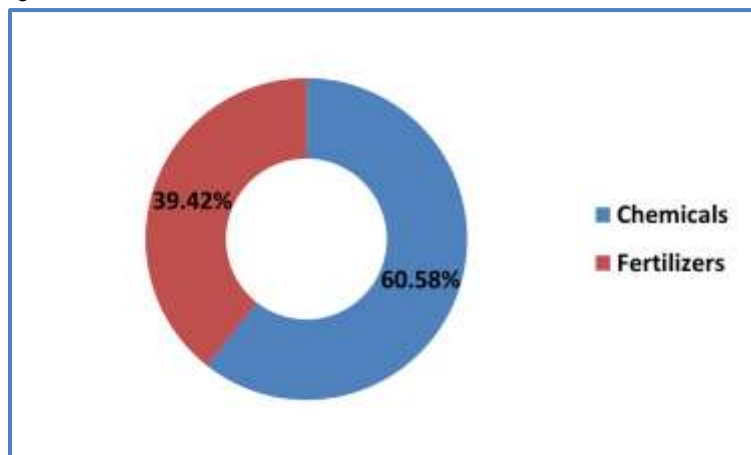
DFPCL's visionary management embeds a diversified product portfolio; market leadership in key segments and astounding demand outlook would strengthen topline growth, EBITDA & profitability perpetually; besides current value drivers are TAN & Nitric Acid. The Future Value creators (FGV) other than these two would incrementally emerge from Ammonia. At the CMP of Rs.513.75 the scrip is trading at a PE of approximately ~9 times its FY23e earnings. Hence, we recommend a buy on the stock with a target price of Rs.627/- which implies a prospective and potential upside of ~22.04% with an investment horizon of 9-12 months.

Particulars (In Rs.Crs)	Q3FY22	Q3FY21	Var%	9MFY22	9MFY21	FY21	FY20
Net Sales	1,955.70	1,447.14	35.14	5650.81	4233.41	5,808.49	4,685.38
Operating Profit	369.08	225.90	63.38	888.23	709.17	987.98	559.71
Consolidated Net Profit	179.73	87.55	105.29	398.57	287.02	400.31	87.26
PBIDTM%	18.87	15.61	20.90	15.72	16.75	16.25	11.25
PATM%	9.24	6.15	50.25	7.16	6.87	6.69	1.79
Equity	120.59	102.68	17.44	120.59	102.68	102.68	89.28
EPS (Rs.)	14.90	8.53	74.80	33.55	28.31	38.99	9.77

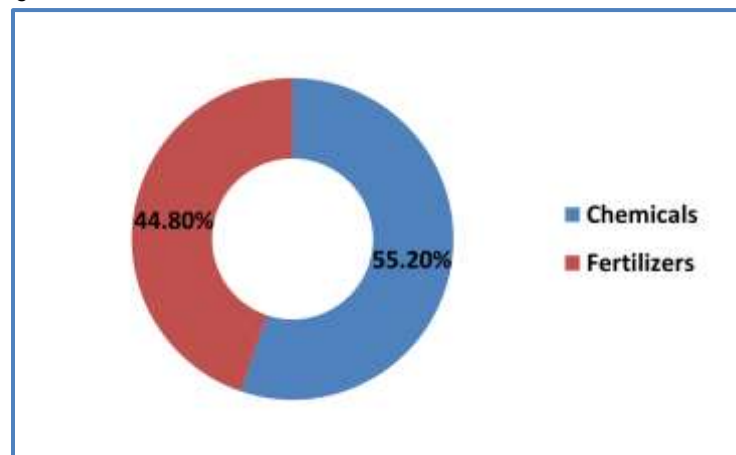
*Source: Company, Ace Equity, AUM Research

Revenue Pie (%)

Q3FY22



Q3FY21



*Source: Company, Ace Equity, AUM Research

Revenue Composition

- It is quite evident that revenues from Chemicals segment has gone up from ~55% to almost ~61% while the revenues from Fertilizers has drifted down to 39% from 45% erstwhile, which clearly indicates that chemicals are going to retain its eminence and essence from the fore front.

Industrial Chemicals (IC)

- DFPCL is leading manufacturer of industrial chemicals in India. It finds its application / user industry in sectors e.g. pharmaceuticals, agrochemicals, drugs and dye intermediates, refining of precious metals, defence, resin, textile, fertilizer among others.
- It is the 2nd largest manufacturer of Nitric Acid in South East Asia and the largest in India.
- At the end of ~Q3FY22 the capacity utilization of Nitric Acid stood at ~86%.
- A phenomenon wherein despite invariable spike in raw material prices due to accentuating or exerting pressure eliciting from rising input cost, Nitric Acid showcased growth in both volumes (~6%) and margins backed by the phenomenal demand from the downstream industries.
- Production at Dahej plant had suffered due to technical knowhow which eventually got resolved too and finally normal course of operations resumed in December'21.
- 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.

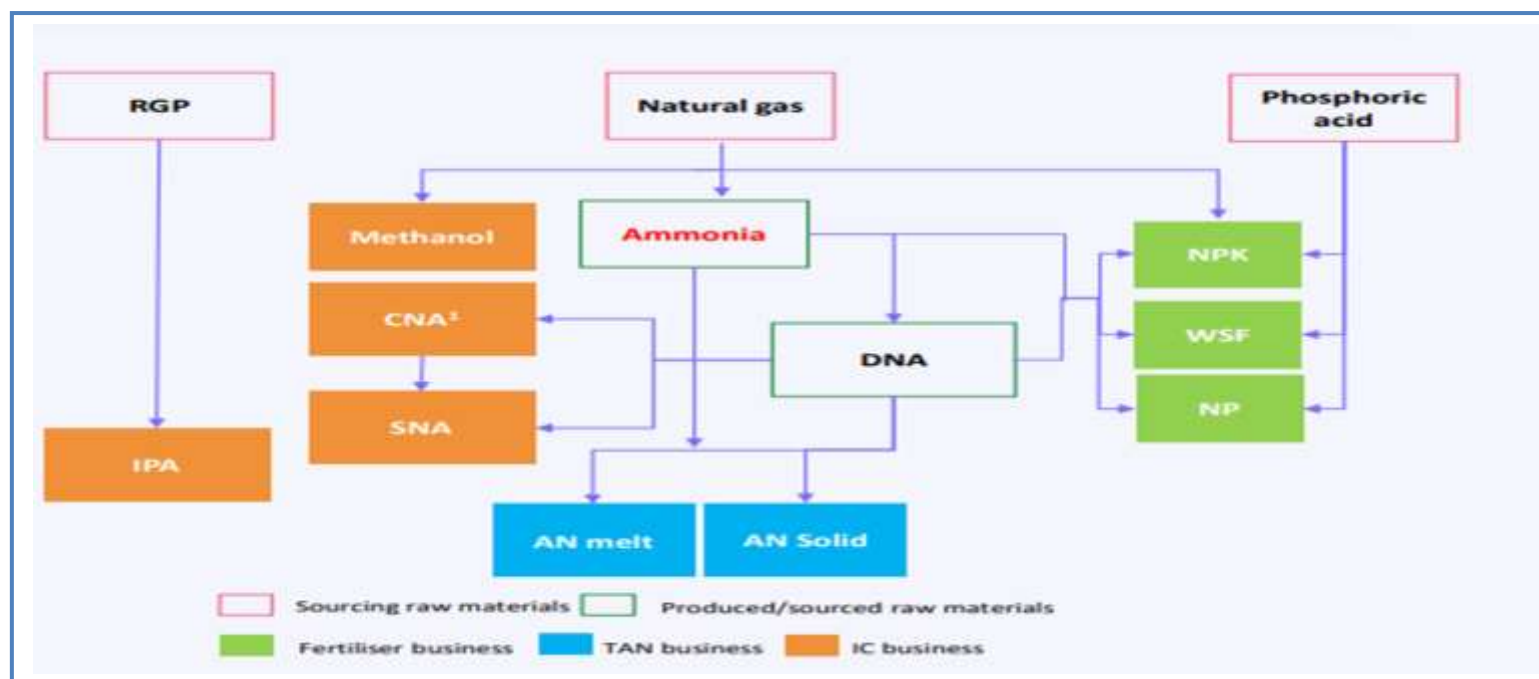
Iso Propyl Alcohol (IPA)-

- DFPCL is a leading manufacturer and marketer of IPA. It has an aggregate installed capacity of ~70,200 MTPA in its Taloja plant in Maharashtra. The Company trades in IPA to cater to the additional demand of the end customers and also to retain its market leadership.
- It has forayed into the hand sanitizers, disinfectants and wipes segment with its IPA-based product brand called 'Cororid'.
- The 'Cororid' brand has received good response from the domestic market, including B2B as well as B2C segments.
- As part of its strategy, the company aims to focus on a product portfolio with a mix of bulk commodity products and value-added specialty offerings that helps in reducing volatility in earnings over the business cycle.
- Its capacity utilization at the end of ~Q3FY22 stood at ~88%. However, in the current environment business conditions remains unfavorable as demand remains lackluster owing to significant rise in price of Refinery-Grade Propylene (RGP) its raw material which in turn impacted margins in Q3FY22.

Technical Ammonium Nitrate (TAN) / Mining Chemicals-

- DFPCL is the world's 5th largest single entity of TAN manufacturer producing High Density Ammonium Nitrate (HDAN), Low Density Ammonium Nitrate (LDAN) and Ammonium Nitrate Melt (AN Melt).
- The Company is the only producer of explosives grade TAN solids which finds its application in mining for explosives and infrastructure related activities in India & also manufactures Medical-Grade Ammonium Nitrate which is widely used in the production of medical grade nitrous oxide for use as an anesthetic/analgesic.
- The Company enjoys ~43% market share in the domestic TAN market.
- To meet the rising demand for TAN, the Company is setting up a new TAN manufacturing plant in the Eastern Coast of India 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.
- In conjunction to this, the company had planned for a capex of ~2200 crores through its wholly owned subsidiary Smartchem Technologies wherein till date they have incurred about ~357 crores from their internal accruals.
- This new TAN plant is also an initiative undertaken by the company to make India self-reliant for its TAN demand under the Aatmanirbhar Bharat Abhiyan.
- It is working perpetually with its mining chemicals customers to demonstrate their technical capabilities and value added benefits. Moreover, they are deploying advanced technologies at work like *Drones & Artificial Intelligence (AI)* based blast modelling to enhance productivity in the mines and infrastructure projects.
- Their endeavor to get closer contraction with the end user in order to add maximum value to them, by being a solution provider and reduce the supply deficit & thereby reduce the resultant import substitution of more than ~ 4500 crores.
- Demand is likely to go up due to increased Coal Mining activities.

Synergistic Business Model-



*Source: Company, Ace Equity, AUM Research

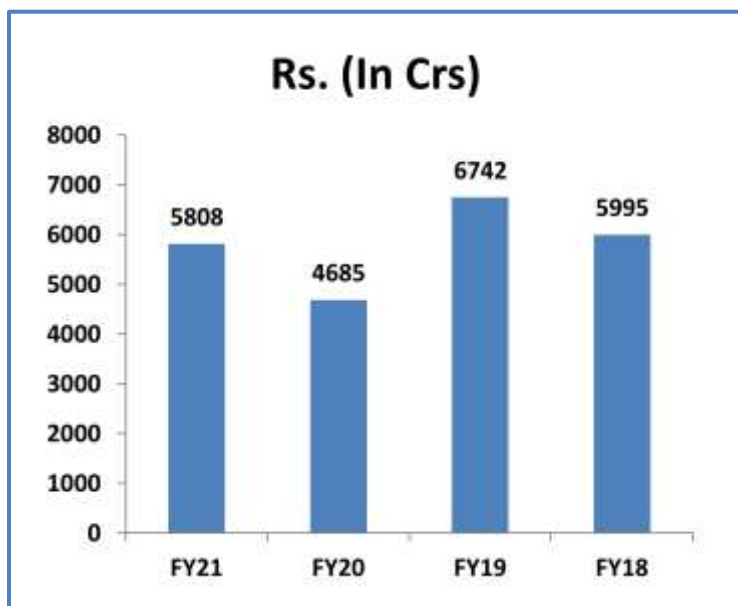
Ammonia-

- 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 ~4350 crores.
- Hitherto it has already incurred a partial capex ~2074 crores including debt incurred till date is about ~930 crores. The balance ~2276 crores will be spent in due course.
- The said plant is expected to get commissioned by ~Q1FY24. It is making speedy development on the ground and is progressing as per co's planned schedule.
- This new plant would save \$75-80 per tonne of logistics costs and this would yield an ~18-20% internal rate of return (IRR).

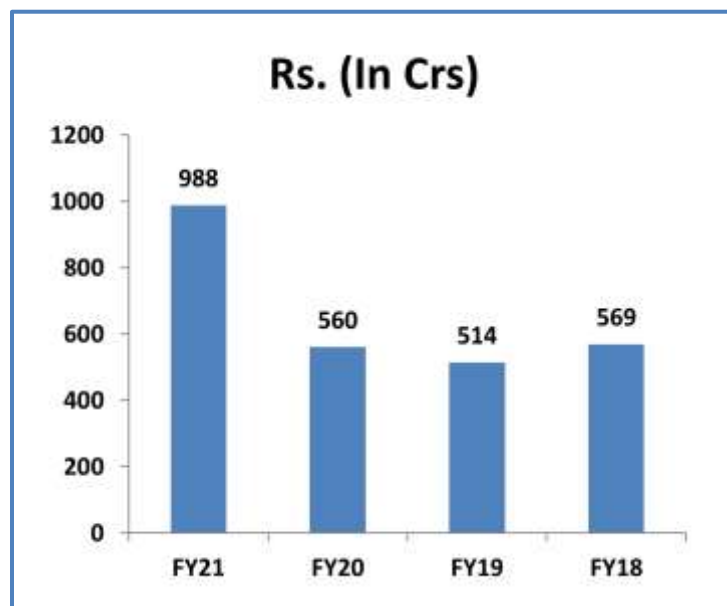
Crop Nutrition Business (CNB)-

- DFPCL for the first time in India has launched, '**Mahadhan Croptek**', a crop specific nutrient which would provide complete nutrition for having an essential primary, secondary and micronutrients required for crops.
- The company is focussing on a crop-specific product portfolio which shall provide value to farmers by enhancing product quality, increase in yield and thus more income to farmers.
- The Management said that with almost full reservoir levels across the country, the stage is set for a good Rabi harvest.
- 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**'.

Sales-



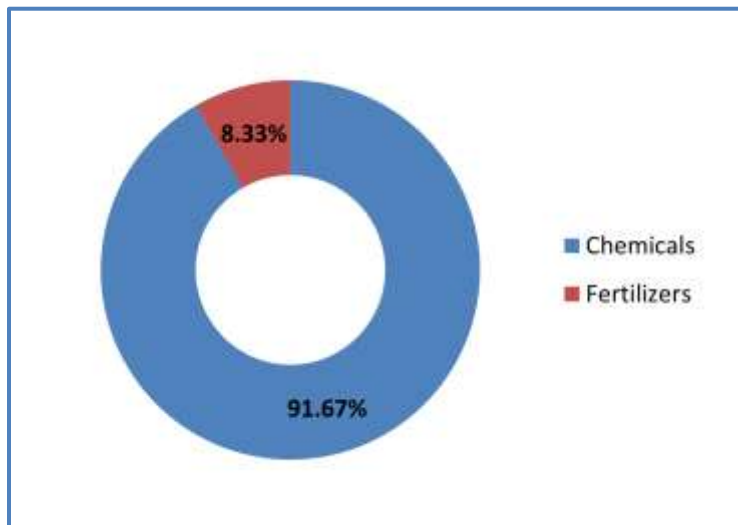
Operating Profit-



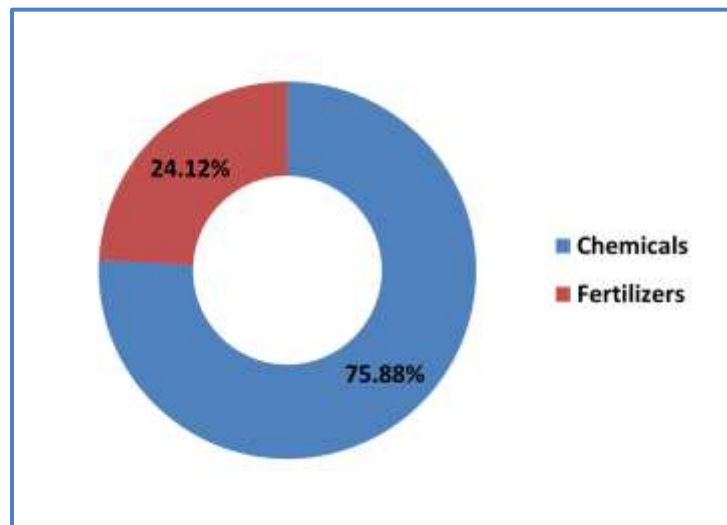
*Source: Company, Ace Equity, AUM Research

Earnings before Interest & Tax (Ebit)

Q3FY22-



Q3FY21-



*Source: Company, Ace Equity, AUM Research

- Chemicals Segment contributed over ~90% to total segment profit as compared to 76% in Q3FY21

Debt Position-

- DFPCL has reduced and pared debt by 250 crores hitherto to ~2264 crores as compared to Mar'21
- Net debt to equity ratio as on 30th Sep'21 stood at ~0.53
- The company has garnered ~648 crores from Operating Cash Flow (OCF) & ~64 crores in Net Cash Flow (NCF) as on 30th Sep'21

Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY22	Q3FY21	Var%	9MFY22	9MFY21	Var%
Net Sales & Other Operating Income	1,955.70	1,447.14	35.14	5650.81	4233.41	33.48
Total Expenditure	1,603.71	1,230.33	30.35	4796.46	3551.20	35.07
PBIDT (Excl OI)	351.99	216.81	62.35	854.35	682.21	25.23
Other Income	17.09	9.09	88.01	33.88	26.96	25.67
Operating Profit	369.08	225.90	63.38	888.23	709.17	25.25
Interest	36.19	42.80	-15.44	116.22	139.62	-16.76
PBDT	332.89	183.10	81.81	772.01	569.55	35.55
Depreciation	65.80	53.08	23.96	179.62	160.24	12.09
Tax	86.48	41.07	110.57	187.82	118.67	58.27
Minority Interest	-0.88	-1.40	37.14	-6.00	-3.62	-65.75
Consolidated Net Profit	179.73	87.55	105.29	398.57	287.02	38.86
EPS (Rs.)	14.90	8.53	74.80	33.55	28.31	18.51

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	54.3	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	-2.80	-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

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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