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DEEPAK FERTILISERS | Agrochemicals | 07 July 2021

Takeaways from company interaction

- **DPFCL's FY21 performance was best ever for the company with EBITDA/PAT jump of 2.1x/4.6x YoY**
- **Higher capacity utilization, cost optimization initiatives, higher pricing, and a product differentiation strategy helped improve profitability**
- **A set of ongoing expansion projects including expansion of its ammonia capacity, a key raw material, to further improve cash flow certainty**

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Moving up the value chain with focus on high-value differentiated products… DFPCL has transformed itself over the years from manufacturer of ammonia to a multi-product company with a focus on high-value differentiated products and premium solutions. Company's portfolio now spans Industrial Chemicals, Bulk and Specialty Fertilisers and Technical Ammonium Nitrate.

…Resulting in Improved margin profile; backward integration into ammonia to reduce cost further: DFPCL improved its operating margin by ~700bps in FY21 over 5-year average of 9% (FY16-20) on the back of increased capacity utilization, higher price, and increased focus on premium products. With backward integration of ammonia under progress, DFPCL's ammonia capacity is set to increase 5x, resulting in lower dependence on imported Ammonia, which otherwise is subject to volatile global prices. International Finance Corporation is among its lenders.

Capacity ramp-up; global supply chain shift to India to further support the growth: DFPCL has been ramping up its capacities across product and solutions. It is also simultaneously focusing on diversification of RM sourcing, backward integration of key raw material, and debottlenecking existing capacities.

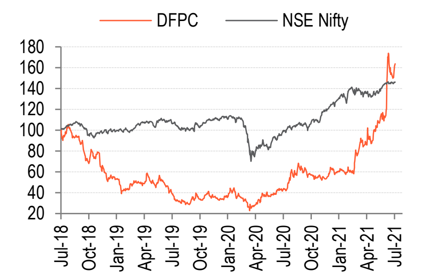
Ammonia plant expansion at Taloja, near Mumbai, is currently underway and will add 510 KTPA to existing 129 KTPA capacity. Company has spent Rs. 15.7bn till now and will be spending further Rs. 28bn. This investment will reduce dependence on import of Ammonia as well as reduce logistics cost. Utilization of Ammonia plant will likely be 100% once technically complete thanks to captive requirement.

The company also plans to invest ~Rs. 18bn on a new TAN capacity of 376 KTPA in Gopalpur, Odisha which is likely to roll out in the next 24-36 months and will further strengthen DFPCL's leadership in the TAN market. Company already has an installed capacity of 487 KTPA of TAN at its Taloja complex. DFPCL is expecting IRR in high teens for its Ammonia and TAN expansion projects.

Ticker/Price	DFPC IN/Rs 430
Market cap	US$ 591.5mn
Free float	44%
3M ADV	US$ 4.52mn
52wk high/low	Rs 474/Rs 107
Promoter/FPI/DII	56%/3%/2%

Source: NSE | Price as of 7 Jul 2021

Stock performance



Source: NSE

Other key details

DFPCL's recent expansion projects include (1) 92 KTPA CAN and 148 KTPA DAN expansion at Dahej, which started commercial production in Apr-19 (with an outlay of Rs 5.5bn), (2) 32 KTPA Bensulf plant at Panipat (operationalized in FY18) and (3) 600 KTPA NPK expansion at Taloja, which started commercial production in Feb-2017 (with an outlay of Rs. 8.0bn).

Other capacity expansion projects under consideration include 100KTPA expansion of Isopropyl Alcohol (IPA) and 200KTPA expansion of NPK fertilizers.

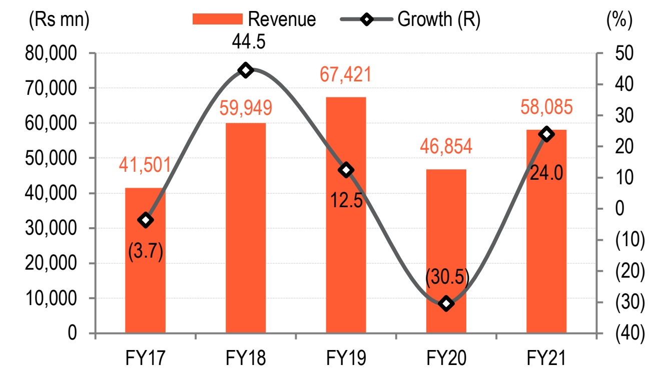
- **Capacity headroom:** DFPCL has capacity headroom of 15-20% as its current capacity utilization is 74% for Nitric Acid, 79% for IPA, 78% for NP, 73% for NPK, 51% for Bensulf and 74% for TAN.

- **Historical best performance in FY21:** DFPCL's FY21 revenue grew 24% YoY to Rs 58.1bn, EBITDA doubled to Rs. 9.6bn while net profit jumped 4.6x to Rs 4.0bn. The strong performance was the result of key investments made over the last 4 years across Industrial Chemicals, Mining Chemicals and Fertilisers.

  Revenue growth of 15% YoY in Chemical segment was supported by substantial increase in demand as well as better realizations in Nitric Acid business, while 38% YoY growth in Fertilizer segment was mainly on account of higher volumes. EBITDA margin expanded 654bps YoY to 16.4% – highest level in last 10 years. Chemical business contributed 81% to company's operating profits in FY21.

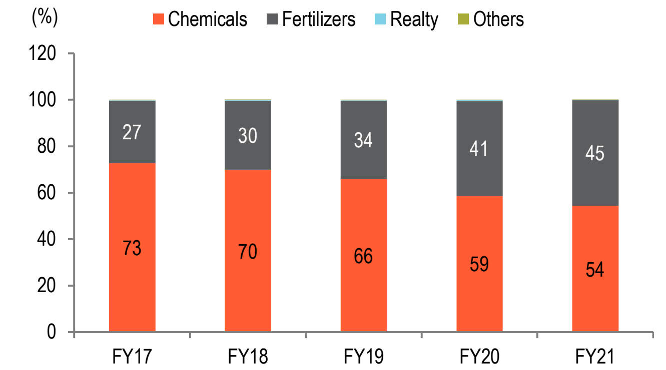
- **Debt reduction with strong cash generation:** Better working capital management and increase in profitability helped generate operating cash to the tune of Rs 12.5bn. This in turn helped DFPCL reduce its borrowings and boost cash on books. Company reduced its net debt by Rs 8.4bn in FY21, resulting in Net Debt/ EBITDA of 1.91x at FY21-end (vs 5.74x in FY20).

Fig 1 – Revenue growth of 9% over FY17-FY21



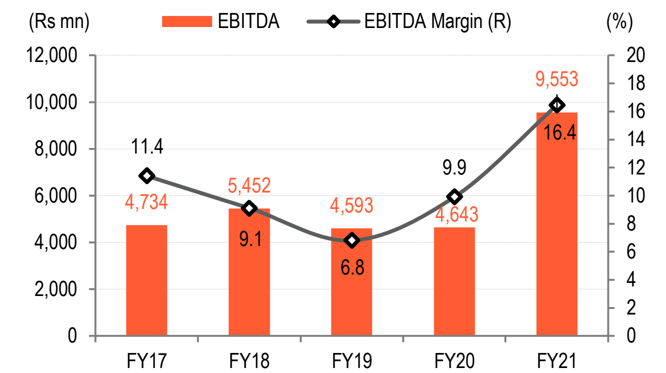
Source: BOBCAPS Research

Fig 2 – Segmental mix



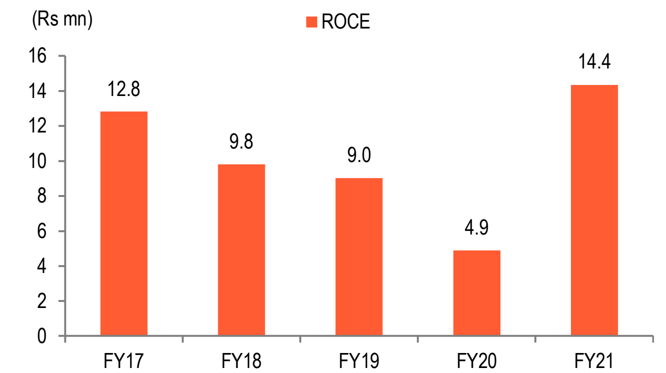
Source: BOBCAPS Research

Fig 3 – Recovery in EBITDA margin over FY17-FY21



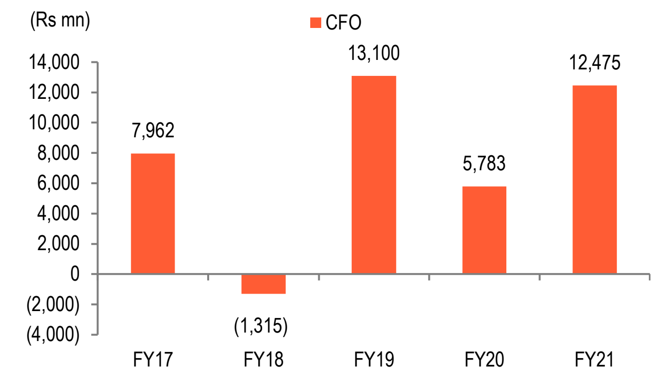
Source: BOBCAPS Research

Fig 4 – ROCE recovery ahead with improving profitability



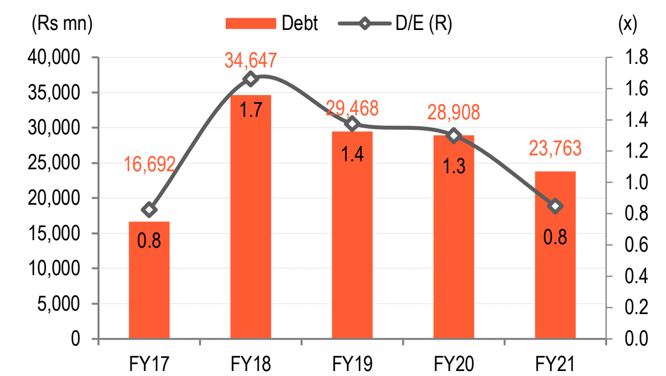
Source: BOBCAPS Research

Fig 5 – Improving profitability to support cash generation



Source: BOBCAPS Research

Fig 6 – Balance sheet improvement with debt retirement



Source: BOBCAPS Research

About the company

Established in 1979 as an ammonia manufacturer, Deepak Fertilisers and Petrochemicals Corporation Limited (DFPCL) has evolved into a multi-product Indian company, with a portfolio spanning Industrial Chemicals, Bulk and Specialty Fertilisers, Technical Ammonium Nitrate, and Value-Added Real Estate. DFPCL has established a prime position for itself over the last four decades, and serves critical sectors of the economy such as agriculture, pharmaceuticals, mining, infrastructure and health and hygiene.

DFPCL is engaged in the manufacturing of Industrial Chemicals (Nitric Acid, Iso Propyl Alcohol, Methanol and Carbon Dioxide), Crop Nutrition (Nitro Phosphate, Nitrogen Phosphorous Potassium variants, Water Soluble Fertilisers and Bentonite Sulphur) and Technical Ammonium Nitrate (Mining Chemicals). The company draws 54% of revenue from Chemical segment, 45% from fertilizer segment and remaining from Reality and Windmill segments.

DFPCL is 2nd largest manufacturer of Nitric Acid in South East Asia and the largest in India, only manufacturer of NP prill 24:24:0 fertiliser and TAN solids in India, leading manufacturer and marketer of Iso Propyl Alcohol (IPA), largest manufacturer of Bentonite Sulphur in India, and market leader in specialty and water-soluble fertilisers in India. DFPCL holds leadership position across core product offerings with market share of Technical Ammonium Nitrate (TAN) - 42%, Concentrated Nitric Acid (CAN) - 71%, Dilute Nitric Acid (DNA) - 65% and Crop Nutrition Business (CNB) - 19%.

The Company operates four state-of-the-art manufacturing facilities across India in Maharashtra (Taloja), Gujarat (Dahej), Andhra Pradesh (Srikakulam) and Haryana (Panipat) employing ~2,000 employees and exports to 29 countries across six continents.

The Promoters increased their equity stake from 52.2% (46.6 million shares) in March 2020 to 55.8% (57.3 million shares) by March 2021. Out of the total 57.3 million shares held by Promoters, 9 million shares, representing 15.3% of promoter holding, have been pledged. A non-disposal undertaking (NDU) was provided by the Promoters to International Finance Corporation (IFC) for CCDs issued by Smartchem Technologies Ltd, a wholly owned subsidiary. The NDU is applicable on 35 million shares owned by the Promoters and ensures they continue to own the shares. As per the undertaking, the Promoters undertook not to dispose the shares. These shares are in fact prohibited from mortgage, pledge, transfer or assignment.

Fig 7 – Sectors Served

Business Verticals	Key Sectors Served
Industrial Chemicals	Pharmaceuticals, Nitro Aromatics, Paints & Coatings, Steel, Inks, Explosives, Dyes, Agrochemicals, Cosmetics, Adhesives
Crop Nutrition	Agriculture
Technical Ammonium Nitrate	Mining, Infrastructure, Explosives, Pharmaceuticals, Electronics
VARE	Home Makers and Interior Solution Seekers, Architects and Interior Designers, Food and Entertainment Patrons, Art and Culture Enthusiasts

Source: Annual Report

Fig 8 – Composition of business segment

Segment	Products Covered
Chemicals	Pharmaceuticals, Nitro Aromatics, Paints & Coatings, Steel, Inks, Explosives, Dyes, Agrochemicals, Cosmetics, Adhesives
Bulk Fertilisers	Nitro phosphate, Muriate of potash (MOP), Diammonium phosphate (DAP), Ammonium Sulphate, Mixtures, Single super phosphate (SSP), Sulphur, Micronutrients, SSF, Bio Fertilisers, Fruits, Vegetables, Pesticides.
Realty	Real Estate Business
Others	Windmill Power

Source: Annual Report

Fig 9 – Capacities

Products	Installed Capacity (TPA)	Current Utilization (%)	Planned Capacity (TPA)
Industrial Chemicals	**13,52,000**		
Nitric Acid	11,16,000	74	
Concentrated Nitric Acid (CAN)	2,31,000		
Diluted Nitric Acid (DAN)	8,85,000		
Iso Propyl Alcohol (IPA)	70,000	79	1,00,000
Methanol (CH3OH)	1,00,000		
Liquid CO2	66,000		
Crop Nutrition	**9,57,000**		
Nitro Phosphate Fertiliser (NP)	3,00,000	78	
Nitrogen Phosphorous Potassium Fertiliser (NPK)	6,00,000	73	2,00,000
Bentonite Sulphur (Bensulf)	57,000	51	
Mining Chemicals			
Technical Ammonium Nitrate (TAN)	4,84,900	74	3,76,000
Common Raw Material			
Ammonia (NH3)	1,28,700		5,10,000

Source: Annual Report, Company

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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