

Deepak Fertilizers and Petrochemicals Ltd.

4th November 2024

Growth with mega expansion underway

In Q2 FY25, DFPCL reported an overall revenue growth of ~13% on a YoY basis driven by a historic performance of the fertilizer segment owing to strong product acceptance and favourable monsoon. The Company also witnessed an EBITDA margin expansion of 621 bps on a YoY basis driven by significant profitability improvement (714 bps on a YoY basis) in the chemicals segment. Owing to a strong demand environment, the Company is confident of maintaining 90%+ utilizations in the higher margin chemicals segment during the remainder of FY25. In addition to this, DFPCL has also received policy support in the form of anti-dumping duty imposed by the GoI on Chinese IPA imports. All this augurs well for the Company and positions it for robust growth driven by ongoing capacity expansion.

Crop Nutrition Business reported historic performance

The crop nutrition business experienced ~27% volume growth in on a YoY basis Q2 FY25, with overall sales volumes reaching 332 KTPA and the share of manufactured fertilizers at ~84%. Specialty fertilizers, such as Croptek and Smartek, performed well with the sales of Croptek reaching 37 KMT, marking a robust 70% YoY growth on a YoY basis. These products have shown strong market acceptance due to their effectiveness in improving crop yield and quality. Besides, the favorable monsoon conditions in core markets significantly supported sales growth for bulk and specialty fertilizers. In the near term, the management is optimistic for the Rabi season due to the greatly improved ground-water levels. For the medium term, the management aims to double the share of specialty fertilizers from the current 20%.

Mining Chemicals utilization to rise but remains below peak

The segment's utilization stood at ~85% due to maintenance shutdown and the onset of monsoon. Further, with the influx of Russian TAN imports, DFPCL does not foresee any major challenges in securing supply for the Indian market. However, the management guides all its chemical facilities to be utilized between 92-98% for the remainder of the year. However, this is below the peak utilization of over 100% reported in Q1FY25. Furthermore, the realizations fell by ~3% on a QoQ basis at Rs. 45,000/ton. Overall, the management is confident in catering to the rising demand from the coal and steel industries.

An anti-dumping duty levied on China-produced IPA

The anti-dumping duty of \$217 per ton on IPA which was implemented by the Indian government, is expected to have a positive long-term impact on both the top line and bottom line of DFPCL's industrial chemicals business. This duty will help protect domestic manufacturers like DFPCL from cheaper imports, particularly from China, allowing the Company to maintain healthier margins and stabilize pricing.

View & Valuation

Owing to the above dynamics, we revise our estimates and maintain a BUY rating on DFPCL. We ascribe an EV/EBITDA of 10x on FY27E EBITDA, suggesting an upside of ~67% with a target price of Rs. 2,130.

BUY

CMP Rs. 1,277

TARGET Rs. 2,130 (+67%)

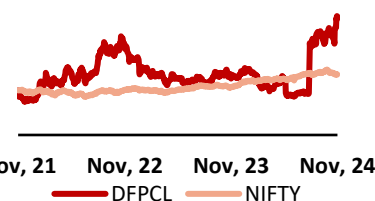
Company Data

Company Data	DFPC IN
Bloomberg Code	DFPC IN
MCAP (Rs. Mn)	1,56,618
O/S Shares (Mn)	126
52w High/Low	1,336/450
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	1,547

Shareholding Pattern %

	Sep 24	Jun 24	Mar 24
Promoters	45.63	45.63	45.46
FIIs	9.67	12.76	19.09
DIIIs	10.02	3.16	2.13
Non-Institutional	34.69	38.45	33.32

DFPCL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
Revenue	87	107	119
EBITDA	13	21	23
Net Profit	4	10	10
Total Assets	118	144	155
ROCE (%)	8%	13%	12%
ROE (%)	8%	17%	15%

Source: Company, Keynote Capitals Ltd.

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Q2 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY25	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Revenue	27,470	24,240	13%	22,810	20%	50,280	47,370	6%	86,761
COGS	18,168	17,559	3%	14,040	29%	32,209	34,588	-7%	58,981
Gross Profit	9,302	6,681	39%	8,770	6%	18,071	12,782	41%	27,780
Gross Profit %	34%	28%	630 bps	38%	-458 bps	36%	27%	896 bps	32%
Employee benefit expense	1,621	1,369	18%	1,570	3%	3,191	2,615	22%	5,265
Operating expenses	2,736	2,453	12%	2,559	7%	5,295	4,502	18%	9,647
EBITDA	4,945	2,859	73%	4,641	7%	9,586	5,665	69%	12,867
EBITDA %	18%	12%	621 bps	20%	-235 bps	19%	12%	711 bps	15%
Depreciation	1,000	810	23%	950	5%	1,950	1,400	39%	3,337
EBIT	3,945	2,049	93%	3,691	7%	7,636	4,265	79%	9,530
Finance Cost	1,030	1,070	-4%	1,110	-7%	2,140	1,860	15%	4,038
Other Income	70	190	-63%	120	-42%	190	390	-51%	1,228
PBT	2,985	1,169	155%	2,701	11%	5,686	2,795	103%	6,720
Tax	846	533	59%	702	21%	1,548	1,019	52%	2,044
PAT	2,139	636	236%	1,999	7%	4,138	1,775	133%	4,676
EPS	16.6	4.8	-	15.5	-	32.1	13.5	-	35.9

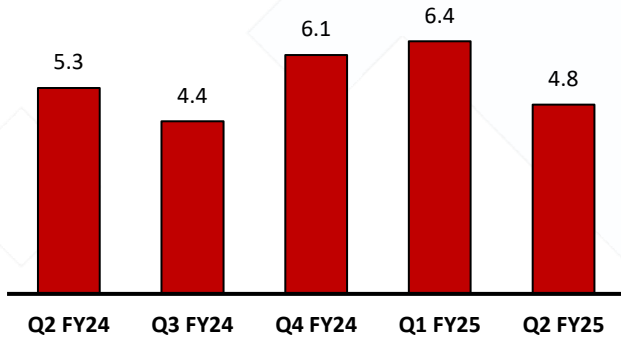
Segment Highlights (Rs. Mn)

Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY25	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Revenue									
Chemicals	12,661	11,700	8%	12,990	-3%	25,651	24,080	7%	47,910
Fertilizers	14,750	12,490	18%	9,770	51%	24,520	23,180	6%	38,610
Operating Profit									
Chemicals	3,610	2,500	44%	4,030	-10%	7,640	5,870	30%	12,320
Fertilizers	1,154	420	175%	529	118%	1,683	-270	-723%	0
Operating Profit Margin %									
Chemicals	28.5%	21.4%	714 bps	31.0%	-251 bps	29.8%	24.4%	541 bps	25.7%
Fertilizers	7.8%	3.4%	446 bps	5.4%	240 bps	6.9%	-1.2%	803 bps	0.0%

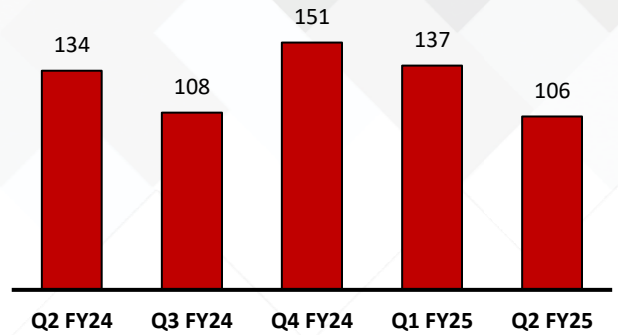
Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

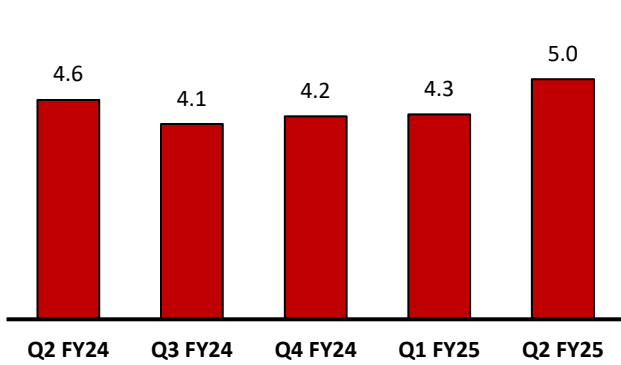
Mining Chemicals Revenue (Rs. Bn)



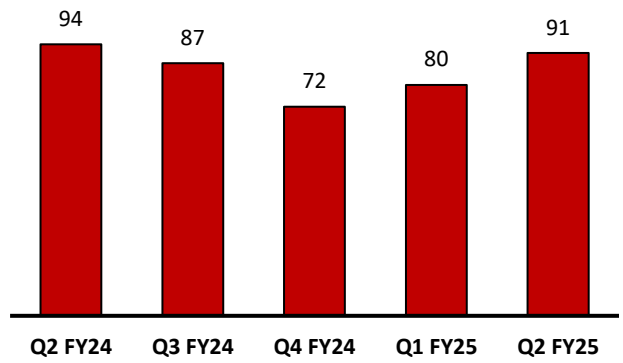
Mining Chemicals Volume (KMT)



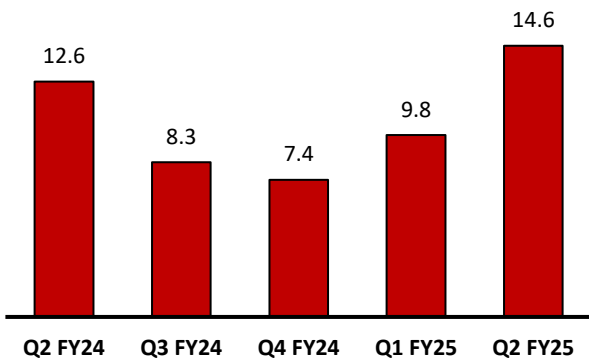
Industrial Chemicals Revenue (Rs. Bn)



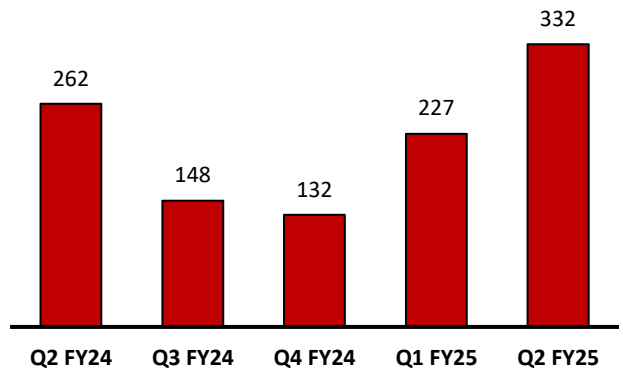
Industrial Chemicals Volume (KMT)



Crop Nutrition Revenue (Rs. Bn)

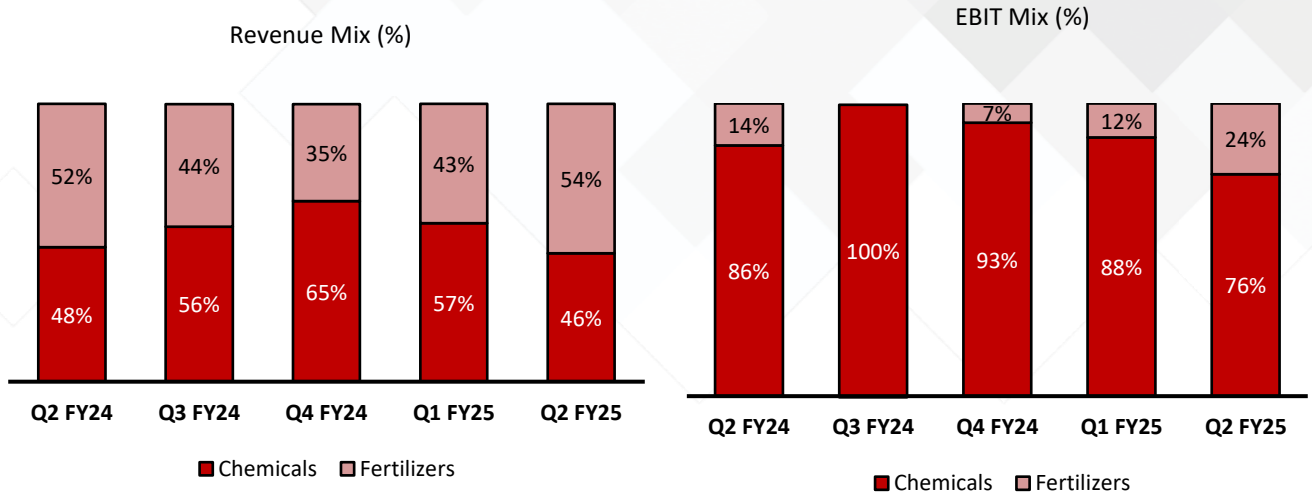


Crop Nutrition Volume (KMT)



Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression



Source: Company, Keynote Capitals Ltd.

Q2 FY25 Conference Call Takeaways

Ammonia

- When ammonia prices are low, DFPCL's downstream businesses, benefit from reduced input costs, improving their profitability. Conversely, when ammonia prices rise, the cost of production for these downstream businesses increases. However, the higher profitability from selling ammonia at elevated prices offsets the impact on downstream segments, as seen in the quarter where the ammonia plant contributed ~ Rs. 450-500 Mn to EBITDA.
- Management stated that if ammonia prices exceed \$400 per ton FOB-ME, the ammonia business will be PBT-positive. As of October 2024, ammonia prices stood at ~\$430 per ton, driven by seasonal demand increases during winter months.

Mining Chemicals

- Ammonia prices do not directly determine TAN pricing, which is instead linked to global fertilizer-grade ammonium nitrate prices. Despite rising ammonia prices, TAN realizations have remained stable.
- Existing capacities are around 1.0-1.1 Mn MTPA, with 15-20% of demand being met by imports (~10% coming from countries other than Russia). New capacities from domestic players would increase this to 1.6-1.7 Mn MTPA, but imports will still be necessary.
- Mining activities were impacted by monsoon-related disruptions in Q2 FY25 but are expected to recover in Q3 FY25 as demand picks up in the coal, cement, and steel sectors.
- DFPCL has implemented over 15 TCO projects aimed at optimizing the cost structure for its mining customers.

DFPCL | Quarterly Update

Industrial Chemicals

- The anti-dumping duty on IPA, effective from 22nd October 2024, is expected to support margins in the industrial chemicals business over the next few quarters.
- DFPCL is focusing on developing specialty grades of IPA, such as pharmaceutical-grade IPA (Purosolv) for industries like pharmaceuticals and disinfectants. The Company also plans to introduce semiconductor-grade IPA shortly.

Crop Nutrition Business

- Specialty fertilizers like Croptek performed exceptionally well, with sales volumes increasing by 70% on a YoY basis. The Company's targeted campaigns for crops such as cotton and sugarcane were highly effective in driving revenue growth.
- The favorable monsoon conditions in core markets allowed DFPCL to push sales of specialty fertilizers, including Solutek, which is specifically targeted for crops like grapes and tomatoes.
- Management expects a strong Rabi season due to above-normal monsoon, which have greatly enhanced water level in reserves. This is expected to increase acreage for crops such as sugarcane, onion, and potato.
- The share of special-grade fertilisers stand at ~20%, which the management expects to double in the next few years.

General

- The management believes that the current EBITDA margin of 18% is sustainable. While some cyclicalities may occur, the Company expects to maintain this level of profitability going forward.
- The plan is for each business unit to be separately listed at an appropriate time. However, no specific timeline has been provided for when this will happen.
- The Company has prepaid Rs. 2 Bn of debt ahead of schedule. By the end of FY25, the peak debt is expected to reach around Rs. 60 Bn due to ongoing capex projects at Gopalpur and Dahej. Additional drawdowns of Rs. 3-4 Bn are expected for these projects by the end of FY25.
- The management expects ROCE to improve significantly once the new projects (Gopalpur and Dahej) start generating EBITDA, which is anticipated by FY26-27. The IRR for these projects is estimated to be between 18-20%.
- The management expects most of their plants, including those producing ammonia, nitric acid, and other chemicals, to operate at 92% to 98% utilization.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1,13,007	86,761	1,07,212	1,18,647	1,46,000
Growth %	47%	-23%	24%	11%	23%
Raw Material Expenses	76,692	58,981	69,151	76,527	93,440
Employee Expenses	5,944	5,265	6,754	7,475	8,760
Other Expenses	8,716	9,647	10,721	11,865	14,600
EBITDA	21,654	12,867	20,585	22,780	29,200
Growth %	60%	-41%	60%	11%	28%
Margin%	19%	15%	19%	19%	20%
Depreciation	2,392	3,337	5,038	6,173	6,661
EBIT	19,262	9,530	15,546	16,607	22,539
Growth %	71%	-51%	63%	7%	36%
Margin%	17%	11%	15%	14%	15%
Interest Paid	1,947	4,038	4,042	4,782	4,483
Other Income & exceptional	840	1,228	500	600	700
PBT	18,155	6,720	12,005	12,425	18,756
Tax	5,946	2,147	2,101	2,174	3,282
PAT	12,209	4,572	9,904	10,250	15,474
Others (Minorities, Associates)	-108	-147	-150	-150	-150
Net Profit	12,101	4,425	9,754	10,100	15,324
Growth %	74%	-63%	120%	4%	52%
Shares (Mn)	126.2	126.0	126.0	126.0	126.0
EPS	95.86	35.12	77.41	80.16	121.62

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	4,987	3,609	15,275	14,163	31,415
Current Investments	5,971	2,583	2,583	2,583	2,583
Debtors	16,905	14,758	16,082	17,797	21,900
Inventory	12,589	11,924	14,735	16,307	20,066
Short Term Loans & Advances	2,084	11	11	11	11
Other Current Assets	1,304	8,694	8,694	8,694	8,694
Total Current Assets	43,841	41,578	57,379	59,554	84,668
Net Block & CWIP	62,048	63,445	73,407	82,233	75,572
Long Term Investments	25	25	25	25	25
Other Non-current Assets	8,299	13,255	13,055	12,855	12,655
Total Assets	1,14,212	1,18,303	1,43,865	1,54,666	1,72,920
Creditors	17,774	12,849	15,010	16,611	20,440
Provision	1,169	601	601	601	601
Short Term Borrowings	1,151	9,826	10,000	10,000	10,000
Other Current Liabilities	8,081	7,268	7,268	7,268	7,268
Total Current Liabilities	28,174	30,544	32,879	34,480	38,309
Long Term Debt	32,310	30,626	45,000	45,000	45,000
Deferred Tax Liabilities	8	472	472	472	472
Other Long Term Liabilities	1,787	2,201	2,201	2,201	2,201
Total Non Current Liabilities	34,105	33,298	47,672	47,672	47,672
Paid-up Capital	1,262	1,262	1,262	1,262	1,262
Reserves & Surplus	49,408	52,820	61,524	70,574	84,848
Shareholders' Equity	50,670	54,082	62,786	71,836	86,110
Non Controlling Interest	1,263	378	528	678	828
Total Equity & Liabilities	1,14,212	1,18,303	1,43,865	1,54,666	1,72,920

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	18,155	6,720	12,005	12,425	18,756
Adjustments	3,842	6,350	8,730	10,506	10,594
Change in Working Capital	-11,705	-2,618	-1,974	-1,686	-4,033
Total Tax Paid	-5,361	-3,134	-2,101	-2,174	-3,282
Cash flow from operating Activities	4,931	7,318	16,660	19,070	22,035
Net Capital Expenditure	-12,086	-8,261	-15,000	-15,000	0
Change in investments	2,150	4,266	0	0	0
Other investing activities	148	243	700	800	900
Cash flow from investing activities	-9,788	-3,752	-14,300	-14,200	900
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	11,227	2,437	14,548	0	0
Dividend (incl. tax)	-1,142	-1,351	-1,200	-1,200	-1,200
Other financing activities	-4,047	-5,184	-4,042	-4,782	-4,483
Cash flow from financing activities	6,039	-4,099	9,306	-5,982	-5,683
Net Change in cash	1,182	-533	11,666	-1,112	17,252

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	96	35	77	80	122
Growth %	70%	-63%	120%	4%	52%
Book Value Per Share	411	432	502	576	690
Return Ratios					
Return on Assets (%)	12%	4%	7%	7%	9%
Return on Equity (%)	27%	8%	17%	15%	19%
Return on Capital Employed (%)	19%	8%	13%	12%	15%
Turnover Ratios					
Asset Turnover (x)	1.1	0.7	0.8	0.8	0.9
Sales / Gross Block (x)	3.0	1.6	1.3	1.2	1.4
Working Capital / Sales (%)	10%	15%	17%	21%	24%
Receivable Days	37	67	52	52	50
Inventory Days	55	76	70	74	71
Payable Days	52	64	47	49	46
Working Capital Days	41	78	75	78	74
Liquidity Ratios					
Current Ratio (x)	1.6	1.4	1.7	1.7	2.2
Interest Coverage Ratio (x)	10.3	2.7	4.0	3.6	5.2
Total Debt to Equity	0.6	0.7	0.9	0.8	0.6
Net Debt to Equity	0.5	0.7	0.6	0.6	0.3
Valuation					
PE (x)	5.9	14.4	12.2	11.8	7.8
Earnings Yield (%)	17%	7%	8%	8%	13%
Price to Sales (x)	0.6	0.8	1.1	1.0	0.8
Price to Book (x)	1.4	1.2	1.9	1.7	1.4
EV/EBITDA (x)	4.6	7.8	7.6	6.9	5.4
EV/Sales (x)	0.9	1.2	1.5	1.3	1.1

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
28 th August 2024	BUY	1,079	+98%
4 th November 2024	BUY	1,277	+67%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

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