Deepak Fertilisers and Petrochemicals Corporation Limited (DFPC IN)
Aggressive capex; innovative products key to DFPC growth story

INDIA | AGRICULTURE | Initiating Coverage

Read this report for insights into DFPC’s business strategies

- DFPC is the market leader in technical ammonium nitrate (TAN) with a domestic market share of c.44%; it is also the only manufacturer of prilled TAN in India, and ranks among the top-5 producers of TAN in the world.
- In the industrial chemicals (IC) segment, it commands a market share of c.60% in concentrated nitric acid (CNA), c.30% in dilute nitric acid (DNA), and c.38% in isopropyl alcohol (IPA). It is the largest manufacturer of nitric acid in Southeast Asia and a domestic market leader in IPA.
- In the crop-nutrition segment, it holds c.13-34% market share in ammonium nitro-phosphate (ANP), NPK fertilisers, water soluble fertilisers (WSF) bentonite sulphur. In fact, it is the largest manufacturer of bentonite sulphur in India and the only manufacturer of NP prill 24:24:0.
- It is expected to commercialize its 510 KTPA (1,500 MTPD) ammonia project at Taloja, Maharashtra, in H1 FY24 – to be mainly used for captive consumption. This will eliminate risks related to volatility in prices and availability of imported ammonia.
- It is expected to commercialize its TAN plant at Gopalpur, Odisha, by H2FY26 with a capacity of 376 KTPA. This will take its total TAN capacity to c.953 KTPA.

Ammonia backward integration adequate for current captive requirements: Ammonia constitutes 85% of its current raw material needs at 400 KTPA per annum, which is likely to rise after completion of debottlenecking in Taloja and TAN greenfield in Gopalpur. DFPC has a 40-year-old 129KTPA plant at Taloja, Maharashtra, which operates at 70-80% utilisation. It has also nearly completed a 510KTPA brownfield expansion in ammonia at a capex of Rs 43.5bn, which it expects to commission in H1 FY24. Backward integration will reduce its dependence on third-party suppliers and imports, providing assured raw material availability.

TAN debottlenecking & greenfield to reduce dependence on imports: DFPC’s current TAN capacity is 487 KTPA at Srikakulam and Taloja. Recently, it added 45 KTPA at Taloja, and will add another 45 KTPA by September 2023, both via debottlenecking. Also, it is in the process of commissioning a Rs 22bn greenfield TAN unit at Gopalpur, Odisha, which should start operations by H2FY26. The demand for TAN remains strong, driven by growth in the infrastructure and mining sectors. DFPC’s plan to increase its TAN capacity will help India become self-reliant in TAN and promote the government’s AtmaNirbhar Bharat vision.

Innovation at its best in the crop nutrition segment (CNB): DFPC has introduced products such as Mahadhan Croptek, in the crop-nutrition segment, which have been uniquely developed through a deeper understanding of farmers’ needs, to address balanced nutrition and use-efficiency in target crops. These products have been able to command premium pricing in key markets as a result of their higher efficiency levels.

Outlook and valuation: Innovation, capacity expansion driven growth: DFPC’s story hinges on its ability to constantly offer improved products to its customers through persistent innovation. We expect growth over the medium term (FY24-25) to be driven by commercialization of two key projects – ammonia and TAN. In the TAN segment, DFPC has established superiority and the commissioning of its greenfield project will help it assert dominance among competitors. In crop nutrition, it commands absolute brand recall in key regions of Gujarat and Maharashtra. We expect the company to face near-term challenges in ammonia and TAN, but we are confident of its ability to navigate through these obstacles successfully. We use the SOTP method for valuation, cautiously assigning a conservative multiple (considering the current macro environment) to arrive at a target of Rs 687, which is an upside of 22%.

Harmish Desai, Research Analyst
hdesai@phillipcapiital.in
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Ammonia brownfield to drive import-substitution benefits

Current ammonia capacity of 390MTPD is not enough
Ammonia is a key raw material across all the DFPC’s major products namely technical ammonium nitrate, ANP/NPK fertiliser and nitric acid. Based on its existing businesses, considering expanded capacity, we estimate its consolidated captive ammonia requirement at the Taloja unit to be 1,600 MTPD, which is set to rise to 2,200 MTPD by FY26. DFPC currently has the capacity to manufacture 390 MTPD of ammonia, which is why it has to meet a majority of its needs via imports from JNPT.

Existing ammonia plant to continue operations
DFPC’s c.40-year-old properly functioning 129KTPA ammonia plant at Taloja, Maharashtra, operates at 70-80% utilization and caters to 25% of its needs. It has not needed to take any long-term shutdowns, except in 2014, when the government stopped pooled gas supply. The current gas cost is US$ 15-16/mmbtu.

Ammonia brownfield expansion, strategically managing gas supply
DFPC is expected to announce the commissioning of its 510 KTPA ammonia brownfield plant at Taloja in H1 FY24. The overall project cost is projected to be c.Rs 43.5bn (of which 95% is already incurred), and it expects IRRs in high teens from the project, which will be funded through a combination of loan and equity (60:40). It intends to assume a total debt of Rs c.26bn for the project, with the remainder to be funded through equity. The debt component is expected to decrease further depending on future cashflows.

DFPC is eligible to recover 75% of its project costs via state GST benefits, which will be refunded over 20 years under incentive scheme through reimbursement of SGST. It expects the new plant to be more energy. Gas tie-ups using diversified benchmarks minimize price volatility risks.

For pre-commissioning, it has tied up gas at a favourable rate of US$ 15-16/mmbtu. The new plant requires a supply of 1.3bcm/day; it has tie-ups for 68% of its gas needs and the rest 32% is at an advanced stage of negotiations for which it is likely to diversify and create a portfolio of different benchmarks to minimize the risk of volatility in the underlying. The 68% tied-up gas contracts mainly rely on Brent prices as the underlying.

Project rationale: Safety, rebates, logistics, and long-term perspective
- Ammonia is a hazardous gas, so importing it means DFPC is taking on a risk.
- Logistics costs for ammonia import are high (US$ 90-100/MT).
- The new plant will earn DFPC additional rebates on GST (9%) from the Maharashtra government.
- The project will generate captive steam worth US$ 10-12/MT.
- Management is not worried about the significant correction in ammonia prices in recent times and it has created this asset with a long-term perspective of benefits accrued over 20-25 years.
- In the long term, management expects ammonia prices to remain firm.
- Russian supply for ammonia is still under negotiations, and may be re-started after sanctions cease.
- Natural gas prices have corrected after the effects of the recent gas crisis in the EU seems to have abated.
- Ammonia has many available applications (apart from DFPC) so demand for the commodity should rise.
### Ammonia requirement in FY24

<table>
<thead>
<tr>
<th>Product</th>
<th>Capacity (KTPA)</th>
<th>Utilisation (%)</th>
<th>/ tonne usage</th>
<th>Estimated requirement (KTPA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DNA</td>
<td>889</td>
<td>90</td>
<td>0.29</td>
<td>c.230</td>
</tr>
<tr>
<td>TAN (post debottlenecking)</td>
<td>576</td>
<td>95</td>
<td>0.22</td>
<td>c.120</td>
</tr>
<tr>
<td>Fertilisers (post debottlenecking)</td>
<td>1,100</td>
<td>90</td>
<td>0.15</td>
<td>c.148</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Company Data

### DFPC’s brownfield ammonia plant: Energy-efficient, brings environmental benefits
- Kellogg Brown & Root’s KRES technology consumes the lowest energy at 6.772 GCal/MT of ammonia produced, which is considered one of the lowest emissions in the world.
- Zero liquid discharge and minimal gaseous discharge during normal operations.
- Reduction in carbon footprint will enhance ESG scores.
- Reduction in ground-level pollution because the movement of 50,000 plus tankers between JNPT port to its factory will be eliminated.

### Technical details of the ammonia brownfield project

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPC Contractor</td>
<td>Toyo Engineering</td>
</tr>
<tr>
<td>Cooling tower</td>
<td>Completed</td>
</tr>
<tr>
<td>Gas supplier</td>
<td>GAIL (for pre-commissioning)</td>
</tr>
<tr>
<td>Technology provider</td>
<td>KBR USA</td>
</tr>
<tr>
<td>Workers</td>
<td>3,000 labour staff + 150 Toyo personnel</td>
</tr>
<tr>
<td>Operations team count</td>
<td>179</td>
</tr>
<tr>
<td>Debt funding approved</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Company Data

### Ammonia project economics

#### Ammonia Project Cost savings (US$)

<table>
<thead>
<tr>
<th></th>
<th>6-month avg.</th>
<th>10-year Avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ammonia Price (last 3 months avg.)</td>
<td>449</td>
<td>438</td>
</tr>
<tr>
<td>Transportation and Logistics cost</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>State GST Benefit</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Steam selling benefit</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total (a)</strong></td>
<td>594</td>
<td>583</td>
</tr>
</tbody>
</table>

#### Cost incurred

<table>
<thead>
<tr>
<th></th>
<th>460 (@US$ 14/ mmbtu)</th>
<th>384 (@US$ 12/ mmbtu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas cost (assuming conversion cost of US$ 32)</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total (b)</strong></td>
<td>495</td>
<td>419</td>
</tr>
</tbody>
</table>

#### Cost Savings (a-b)

<table>
<thead>
<tr>
<th></th>
<th>99</th>
<th>164</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$</strong></td>
<td>80</td>
<td></td>
</tr>
<tr>
<td><strong>Capacity in Rs mn</strong></td>
<td>4,033</td>
<td>6,691</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Company Data
DEEPAK FERTILISERS INITIATING COVERAGE

Ammonia production volumes

Ammonia prices

Natural gas prices have sharply corrected in recent times

Sudden spurt in prices started with the Ukraine – Russia conflict which led to compressed supply and elevated prices

Ammonia project latest updates

Latest video of DFPC’s ammonia brownfield project: [https://youtu.be/b68VAZ_zALK](https://youtu.be/b68VAZ_zALK)
Industrial Chemicals (IC)

**Focused on delivering value through product solutions, adopting value-based pricing**

DFPC is a leading manufacturer of industrial chemicals (ICs) in India, such as nitric acid, iso propyl alcohol (both pharma as well as industrial grade IPA) and food-grade liquid carbon dioxide. The company also imports and supplies IPA and other chemicals in India. In line with its strategy to transform from a commodity to a specialty company, it has been striving for bringing value to the customers through its IC business’s product solutions, for which it has been working towards a value-based pricing for its products/services. Through better input cost management, this business unit has been realizing higher customer satisfaction and stable earnings.

**Diversified range of high-value products: ICs are responsible for major EBITDA contribution over the years**

![Diagram showing capacity of key products and diversified range of products]

Source: PhillipCapital India Research, Company Data

**IC (IPA+NA+TAN) revenues and margins**

![Graph showing manufactured revenue, traded revenue, and margins]

Source: PhillipCapital India Research, Company Data
Production flow: High level of integration and fungibility in upstream – downstream operations

Technical Ammonium Nitrate (TAN) segment responsible for margin expansion ahead

The main component of most commercial explosives is technical ammonium nitrate (TAN). It is an "oxidiser" that contains around 60% oxygen and thus aids combustion. When TAN is coupled with fuel and a sensitizer, it transforms into an explosive. When combined with other blasting agents such as detonators and boosters, these commercial explosives rapidly change into gases at high temperature and pressure in a restricted state within the rock, causing the rock/mineral to crack.

TAN industry overview: DFPC commands a large chunk of the market

Currently, the domestic TAN market is c.1mn MTPA and expected to grow at a CAGR of 6%. Almost the entire TAN production capacity of the country is located in western India. Roughly 20% of the TAN demand in the country is currently met through imports from Russia, Bulgaria, Turkey and Uzbekistan.

A few details about DFPC’s TAN manufacturing operations

- Among the top producers of TAN in the world.
- Current installed capacity of about 576 KTPA; runs India’s largest TAN manufacturing complex.
- It has the advantage of location – with its TAN plants in proximity to major mining hubs in east and central India.
- 44% market share in the domestic TAN market in FY23.
- In exports, it caters to Middle East, Africa, and South East Asian countries.
- Only manufacturer of medical-grade ammonium nitrate, which is widely used in the production of medical grade nitrous oxide used as an aesthetic/analgesic.
- Only producer of explosives-grade TAN solids (or prill form) in India. This is notable because other manufacturers in the country produce TAN in liquid/melt form, which requires heated tankers for transport and is hard for consumers to store (due to the explosive nature of the chemical). DFPC largely sells two variants of TAN in solid form – HDAN and LDAN.
HDAN and LDAN sales mix and nuances
DFPC produces high density ammonium nitrate (HDAN), low density ammonium nitrate (LDAN) and ammonium nitrate melt (AN Melt). HDAN customers include public-sector coal and explosive manufacturers, while LDAN includes public and private-sector coal miners, the limestone industry, and the infrastructure sector. In the long term, DFPC would like the sales mix to shift to the high-margin LDAN, which Coal India and its subsidiaries have recently started using on a commercial scale. In addition to this, the TAN business unit is making significant investments in hardware such as BMDs (bulk mix deliver truck for delivering ANFO down the hole on mine bench at mine sites), and advanced software technology such as drones and AI based blast modelling.

TAN capacity in India

<table>
<thead>
<tr>
<th>Company</th>
<th>Capacity (KTPA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smartchem Technologies (DFPC)</td>
<td>576</td>
</tr>
<tr>
<td>Gujarat Narmada Valley Fertilizers &amp; Chemicals</td>
<td>255</td>
</tr>
<tr>
<td>Rashtriya Chemicals &amp; Fertilizers</td>
<td>190</td>
</tr>
<tr>
<td>National Fertilizers Limited</td>
<td>119</td>
</tr>
<tr>
<td>Total</td>
<td>1,140</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Company Data

TAN imports in India: Russia dumping led to imports peaking in FY23

Source: PhillipCapital India Research

Gopalpur greenfield TAN project to cement its dominant position in the market
India's ambition to become a "world manufacturing hub" will increase demand for power and infrastructure. As one of the most important specialist mining chemicals, technical ammonium nitrate will continue to play an important role in supporting India's economic growth in the coming decades.

DFPC will be commissioning a TAN greenfield project at the “Tata Steel Industrial Park” in Gopalpur, Odisha, with an installed capacity of 376KTPA, entailing an investment of Rs 22bn, expected to commercialize by H2FY26. Management is increasing its TAN capacity because its Taloja (Mumbai, Maharashtra) facility is no longer able to meet the demand-supply imbalance.

The initiative aims to replace the 225-250 KTPA of imported TAN into India. It is strategically located near major mining hubs, which should enable it to capture domestic demand, and provide access to the Gopalpur Port for export opportunities. The biggest challenge for the TAN industry is constrained availability and volatile prices of ammonia gas, which is a major raw material in its production. For this location, DFPC will have to import ammonia, as there is no backward integration at present.
The total cost of the project is anticipated to be Rs 22bn, with Rs 4.7bn already spent. For the project, the company has tied up entire debt of Rs 15.4bn with a door-to-door tenure of 14 years.

Recent setbacks in the TAN market
- TAN pricing in India is benchmarked to import-parity price (IPP). As, IPP includes international transport costs and tariffs, it could lead to traders importing TAN via various methods at competitive rates, thereby impacting domestic manufacturers.
- Recently, the government put a ban on exports of ammonium nitrate, as there were some concerns surrounding availability for mining activities. This hinders DFPC’s access to foreign markets and exports revenue. However, the management is confident about the exports market reopening.
- In addition to this, as the anti-dumping duties expired, India became a dumping ground for Russian TAN manufacturers.

TAN is a steady segment with a strong margin profile
TAN has performed consistently over the years, and seen steady expansion in margins. Its production will increase to 576 KTPA in FY24 from 70 KTPA in FY02. Roughly 63% of TAN demand comes from the coal segment. Coal India Ltd, the largest coal producer in India, aims to produce 1bn MT of coal in FY24, which is highly aspirational when compared with its FY23 production of 893mn MT. Commercial coal mining blocks allocated by the government through tenders are set to further increase the demand for explosives, adding to the requirement for TAN in the country.

For India, self-reliance in TAN is on the cards; expansion via Mahadan Agritech
In response to the growing demand for TAN in the Indian economy, Smartchem Technologies Limited, a 100% subsidiary of DFPC is establishing a greenfield TAN in Gopalpur, Odisha (expected to commercialize by H2FY26), which will address the expanding demand in the country’s eastern region. Smartchem Technologies is also working on a brownfield capacity expansion of its existing west India facilities, by de-bottlenecking of its existing operations. Other existing TAN manufacturers are also considering TAN capacity expansion.

FY23-24 budget announcement to benefit the TAN segment
The Union Budget of FY23-24 has set ambitious targets for sustained economic growth and India’s influence on the world stage. It identified the government-sector and infrastructure-sector investments as two of the key cornerstones for the way forward. A few key announcements that we believe will benefit the TAN segment:
- PM Gati-Shakti National Master Plan for seamless multi-modal connectivity, and logistics efficiency.
- Expressways to be augmented to facilitate faster movement of people and goods.
- National Highways network to be expanded by 25,000 km.
- Establishment of four multi-modal logistics park.
- 100 new cargo terminals to be developed in three years.
- 35% increase in capital expenditure.
Nitric acid segment expected to be next target for expansion capex

A few key points

- **Market share:** DFPC holds 45% market share in the nitric acid (CNA, DNA, and SNA) market in India.
- **Consumption and sales:** It has a total capacity of 1,120 KTPA (WNA+CNA). For the company, TAN and ammonium nitrate phosphate (ANP) consume a significant portion of its captive nitric acid manufacturing; it sells the surplus to neighbouring domestic companies.
- **Speciality grades:** In a bid to cater to the changing demands in the market, DFPC’s IC business unit has been innovating and developing specialty grades of nitric acid for specific application segments. In this vein, the Government of India’s PLI schemes in solar and electronics industries is likely to improve demand for niche and specialty premium graded nitric acid.
- **Demand:** The demand for nitric acid in India is set to see a healthy CAGR of 5.5% till FY30. The government initiatives such as ‘Aatmanirbhar Bharat’ and ‘Make in India’, and its aim to simplify tariff structure and encourage domestic production under PLI scheme has led to sustainable growth in demand for nitric acid. Industries such as steel, pharmaceuticals, nitro-aromatics, and explosives are expected to lead nitric acid demand in India.
- **Operating metrics:** In nitric acid, raw material cost increase is passed on in both formula-based contracts and spot segment.

Long-term contract with Aarti Industries validates demand

Aarti Industries Ltd (ARTO) and DFPC have signed a binding term sheet for a 20-year period for offtake and supply of nitric acid. The supply arrangement has come into effect from 1st April 2023. The deal benefits ARTO by way of a long-term supply security for a key raw material. This contract will consume at least 40-45% of DFPC’s current capacity (weak + concentrated), with scope for further increase depending on requirement. According to this deal, the prices are fixed on a cost-plus model until a certain volume level, and are market-linked for volumes above threshold levels. The companies have entered into a 20-year purchase agreement, as against 4-5 years in the past, which validates long-term demand for the product.

Value-added nitric acid products are receiving good traction

DFPC has recently commercialized solar-grade nitric acid, and started regular supplies to a solar-cell manufacturer. The product has received good feedback from the end users as well. Also, it has completed multi-stage commercial trials successfully for steel-grade nitric acid (for steel pickling applications) – and will launch this soon. The demand for nitric acid should grow in the medium to long term due to increasing use of nitric acid in various industries.
acid in steel, pharmaceutical, aromatic, and explosives industries, as well as undercurrents developing from the ‘China Plus One’ trend for the specialty chemical sector in India. The available brownfield site at Dahej could provide opportunities for cost-effective capacity enhancements.

**Total nitric acid capacity**
- Concentrated nitric acid - installed (Taloja, Dahej): 231,000 MT
- Weak nitric acid - installed (Taloja, Dahej, Srikakulam): 888,960 MT

**Market leader in Iso Propyl Alcohol (IPA)**

**DFPC is leading the IPA market with pharmacopeia compliant premium solutions**
- The IPA market in India should see a CAGR of 6-7% due to increase in consumption in the pharmaceuticals and chemicals industry as a solvent.
- In FY23, the IPA market in India stood at 220 KTPA and is likely to touch 392 KTPA by FY30.
- DFPC is the largest producer of IPA in India, offering reliable supply through manufactured and imported products.
- It is the only pharmacopeia compliant IPA manufacturer in India – meaning it follows specific guidelines outlined by recognized pharmacopeia authorities.
- DFPC is the only player in the market that offers a complete basket of IPA variants, i.e., industrial grade, pharma grade (Industrial Grade (IG), Pharma Grade (PG), Indian Pharmacopoeia (IP), European Pharmacopoeia (EP), British Pharmacopoeia (BP), Chinese Pharmacopoeia (CP), and United States Pharmacopeia (USP)) in various packing sizes.
- DFPC is working towards placing all its IPA-based solutions in premium applications across pharma, electronics and disinfection solutions. It had forayed into hand sanitizers, disinfectants, and wipes with its IPA-based product brand called Cororid in FY21, whose launch was part of the company’s strategy to focus more on value-added products. The brand received good response from domestic markets (both B2B and B2C segments).

**Long-term RM supply contract provides production guarantee**
DFPC manufactures IPA using refinery-grade propylene (RGP) as feedstock, for which it has a long-term sourcing contract with BPCL. In contrast, Deepak Nitrite and many other international producers use acetone as feedstock for their IPA production because it is more easily available and less expensive than RGP. DFPC cannot shift to using acetone as feedstock, as its existing capacity is not fungible. Even though DFPC uses the less-conventional RGP as feedstock, continuous supply ensures non-stop...
managing activity and fall in feedstock prices – which could even lead to margin expansion.

**Quantitative restriction on imports to help with DFPC volumes**

In FY23, DFPC’s IPA volumes suffered a setback due to dumping from China and other countries. China, Korea, Singapore and Taiwan exported the maximum isopropyl alcohol to India. Other countries that exported significantly to India include Germany, Japan, Netherland, Singapore and USA. The Directorate General of Foreign Trade (DGFT) has imposed quantitative restriction on IPA imports into India, which should help domestic volumes and spreads pick up in FY24. The country-wise quantitative restrictions shall be effective for a period of one year only and will cease automatically on 31st Mar 2024.

**Quantitative restriction (in MT) for IPA imports in FY24**

<table>
<thead>
<tr>
<th>Country</th>
<th>Q1FY24</th>
<th>Q2FY24</th>
<th>Q3FY24</th>
<th>Q4FY24</th>
<th>FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>China PR</td>
<td>9,924</td>
<td>9,924</td>
<td>10,526</td>
<td>10,526</td>
<td>40,900</td>
</tr>
<tr>
<td>Germany</td>
<td>2,116</td>
<td>2,116</td>
<td>2,244</td>
<td>2,244</td>
<td>8,720</td>
</tr>
<tr>
<td>Japan</td>
<td>1,496</td>
<td>1,496</td>
<td>1,587</td>
<td>1,587</td>
<td>6,166</td>
</tr>
<tr>
<td>Korea RP</td>
<td>6,290</td>
<td>6,290</td>
<td>6,672</td>
<td>6,672</td>
<td>25,924</td>
</tr>
<tr>
<td>Netherland</td>
<td>2,421</td>
<td>2,421</td>
<td>2,568</td>
<td>2,568</td>
<td>9,978</td>
</tr>
<tr>
<td>Singapore</td>
<td>2,668</td>
<td>2,668</td>
<td>2,830</td>
<td>2,830</td>
<td>10,996</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4,296</td>
<td>4,296</td>
<td>4,557</td>
<td>4,557</td>
<td>17,706</td>
</tr>
<tr>
<td>USA</td>
<td>2,214</td>
<td>2,214</td>
<td>2,348</td>
<td>2,348</td>
<td>9,124</td>
</tr>
<tr>
<td>Other countries</td>
<td>710</td>
<td>710</td>
<td>753</td>
<td>753</td>
<td>2,926</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>32,135</strong></td>
<td><strong>32,135</strong></td>
<td><strong>34,085</strong></td>
<td><strong>34,085</strong></td>
<td><strong>1,32,440</strong></td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Company Data

**IPA mapping: Integrated player to offer superior quality IPA**

Source: PhillipCapital India Research, Company Data
IPA production and sales volumes: Volumes suffered a setback in FY23

Source: PhillipCapital India Research, Company Data

Other chemicals: CO2, methanol, traded chemicals

Liquid Carbon Dioxide (CO2): DFPC is a leading supplier of 'food-grade' certified liquid carbon dioxide, with a 72,000 MTPA installed annual capacity in Taloja, Maharashtra. It supplies CO2 to various beverage producers, and to technical industries as a shield gas for welding. New LCo2 plants in distilleries are putting a strain on the demand-supply balance of this segment, and pricing, resulting in a dip in capacity utilisation to 87% in FY23.

Methanol: DFPC has a methanol capacity of 100 KTPA established in Taloja, Maharashtra. Formaldehyde, tert-amyl methyl ether (TAME), and methyl derivatives are all made from methanol. It is utilised in the pharmaceutical and paint industries as a solvent. The Government of India announced plans to lower customs duty on certain important chemicals such as methanol in the Budget 2022-23. Methanol production in India is not competitive with imports due to the high cost of natural gas in India. Methanol use is predicted to lower India’s annual fuel bill by 15% by 2030.

Traded chemicals: DFPC has considerably reduced its trading portfolio over the years in order to focus on its main business. It deals in specific products such as IPA and ammonia to retain its market share and hegemony. Going forward, it is investigating the possibilities of trading in pharma speciality solvents in order to provide a basket of solvents to Indian pharmaceutical companies, in addition to pharmacopoeia-grade IPA and methanol.
Crop nutrition business

Company, brands, products
- DFPC’s crop nutrition business is housed under its 100% subsidiary, Smartchem Technologies Limited (STL).
- Under its flagship brand Mahadhan, it offers a basket of 48 products, which include value-added fertilisers, specialty fertilisers, water-soluble fertilisers, micronutrients, and secondary nutrients.

Geographical presence and market share
- The business has a strong presence in the horticultural belt of India in the states of Maharashtra, Karnataka and Gujarat. In the last few years, DFPC has been expanding its geographical reach to south and north states of India.
- DFPC commands a market share of 20% in Maharashtra in NPK fertilisers and is the only manufacturer of 24:24:0 nitro phosphate (NP) fertiliser. It is working on expanding its market share in other predominant agricultural states.

Manufacturing
- It is amongst the top-five NPK manufacturers and largest producers of bentonite sulphur in India, with facilities at Taloja (Maharashtra) and Panipat (Haryana).
- It currently has a manufacturing capacity of 300 KTPA of nitro phosphates (NP) and 800 KTPA (including 200 KTPA of debottlenecking capacity) of NPK fertilisers. It also has a strong portfolio of water-soluble fertilisers.
- It commissioned a 28,000 MT greenfield plant for bentonite sulphur in Q1 FY18, which is strategically located at Panipat (Haryana), so it can serve the markets of Madhya Pradesh, Haryana, Uttar Pradesh and Punjab which are essentially sulphur-deficient regions.
- For meeting farmers’ needs, it imports NPK and DAP.

High-efficiency brands command premium value in key markets
DFPC has introduced products such as Mahadhan Croptek in the crop nutrition solution segment, which have been uniquely developed through a deeper understanding of the farmers’ needs to address balanced nutrition and use efficiency in target crops.

Mahadhan: Flagship brand offering wide range of nitro phosphate, and nitrogen phosphorous potassium (NPK) variants, water-soluble fertilisers, and bentonite sulphur to Indian farmers.

Croptek: Croptek is India’s first crop-specific balanced nutrition product with enhanced efficiency technology introduced for onions, cotton, sugarcane, and maize. It was launched in FY22. Each granule of Croptek provides all essential 7-8 nutrients including micronutrients in a balanced formulation. It has major/secondary/micronutrients namely sulphur, magnesium, zinc and boron along with N, P and K. It is powered by Nutrient Unlock Technology (NUT) which unlocks nutrients and enhances bio-availability thereby enhancing nutrient use efficiency. As a result of this unique technology, the product is able to command premium prices in its key markets.

Proficiency to regain lost market share
In FY15, the government cancelled natural gas supplies to the company under orders from the central government on the grounds that the company was using this gas to produce non-urea products. Because of this, DFPC lost one year of fertilizer production leading to lost market share. However, the company has been successful in regaining that market share (20%) in its home state of Maharashtra and is entering new markets in southern India.
**Portfolio of products commanding premium prices**

The company is able to attract a 10-15% price premium over the competition’s bulk fertilisers due to its niche NUT technology, which it intends to use to differentiate itself and obtain market share. The higher performance of such value-added items should increase its margin profile and create strong brand recall.

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**Fertiliser segment revenue and margins**

![Graph showing revenue and margins](source)

Source: PhillipCapital India Research, Company Data

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**NP sales and production volumes**

![Graph showing sales and production volumes](source)

Source: PhillipCapital India Research, Company Data

---

**NPK sales and production volumes**

![Graph showing sales and production volumes](source)

Source: PhillipCapital India Research, Company Data

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**Manufacturing footprint and market reach**

![Map showing footprint and reach](source)

Source: PhillipCapital India Research, Company Data
Value-added real estate

Creativity – striving to become a premier lifestyle retail centre
DFPC's value-added real estate business is primarily centred on its lifestyle retail centre, Creativity (formerly known as Ishanya), in Pune, Maharashtra. Creativity is envisioned as India's first and largest home and interiors destination. It is home to approximately 100 national and international furniture and home décor firms. In addition to Pune's largest and most stunning trampoline park, there is a selection of handpicked cuisines and restaurants. It has been striving to become a one-stop-shop for solutions, from space planning and interior design through product selection and last-mile execution.

Expansion plans and developments
- In FY22, the business unit entered into many agreements with both national and international furniture companies that planned a ‘go-to-market’ in FY23.
- After mall lockdown restrictions were gradually lifted in the second half of FY22, there was a steady influx of purpose-driven customers into the shopping centre, with campus footfalls increasing by more than 80% yoy, and sales productivity increasing by more than 30% in Q3 and Q4FY22.
- As part of its ongoing plan, Creativity is considering assembling a group of national and worldwide brand partners to provide a broader range of products and solutions, as well as putting in place robust support systems for interior design and online engagement.
- Overall, the division’s focus would be on adding depth to the categories it covers and improving customer experience through a phygital (physical + digital) journey.
- The aim for F&B and entertainment is to introduce greater variety (a variety of cuisines and active playing alternatives) to help promote perception of being an F&B destination, as well as for action-based entertainment. Both are experiential rather than transactional in nature.

Revenues from realty: Recovered in FY23 after a drop in FY21-22

Source: Company Data
Demerger to create value for the individual entity

The Board of Directors of Smartchem Technologies Limited (STL) recently approved a corporate restructuring plan with the objective of unlocking growth potential of each of the businesses. STL is a wholly owned subsidiary of Deepak Fertilisers and Petrochemicals Corporation Ltd.

The Board of Directors approves the following ‘Composite Scheme of Arrangement’:

1. Demerger of the TAN Business (mining chemicals) from STL to Deepak Mining Solutions Private Limited (DMSPL), a wholly owned subsidiary of Deepak Fertilisers and Petrochemicals Corporation Limited (DFPC); and
2. Amalgamation of Mahadhan Farm Technologies Private Limited (MFTPL), being a wholly owned subsidiary of STL, with STL.

Strategic rationale

The announcement drives focus on individual businesses, with both independent entities to have individual growth plans, focused leaderships, and strategies to maximize its growth prospects. This paves way for consumer-focused orientation strategy in CNB and TAN segments. Also, it enables sector specific strategic and financial investments in respective businesses. The demerger helps the company achieve scale by strengthening customer service and distribution network. The amalgamation of MFTPL with STL helps simplify the corporate structure.

Change in structure after the demerger

Source: PhillipCapital India Research, Company Data
Financial Analysis

Debt levels are likely to be contained
• Its ammonia brownfield is 60:40 funded through debt and equity. However, the debt component could decline with improved cash-flows and industry tailwinds.
• For the TAN greenfield, DFPC has taken a 14-year loan for Rs 15bn, which it will take over three years. Additionally, it will be amortizing its existing debt by repaying Rs 2.5-3.0bn every year.
• If these tailwinds continue, debt levels may become even more manageable.
• Also, Smartchem Technologies Limited (STL), a wholly owned subsidiary of DFPC received debt assistance from Asian Development Bank (ADB) worth US$ 30mn and a technical grant worth US$ 0.5mn for its farm efficiency initiatives (with a tenure of 5 years).

Superior margin profile in TAN
• TAN has performed consistently over the years and seen steady expansion in margins. Its production will increase to 576 KTPA in FY24 from 70 KTPA in FY02.
• Roughly 63% of TAN demand comes from the coal segment. Coal India Ltd, the largest coal producer in India, aims to produce 1bn MT of coal in FY24, which is highly aspirational when compared with its FY23 production of 893mn MT.
• Commercial coal mining blocks allocated by the government through tenders are set to further increase the demand for explosives, adding to the requirement for TAN in the country.
• With implementation of the new TAN project in Odisha, DFPC will become one of the world’s leading TAN players – giving it a unique position of strength in the mining chemicals space.
• Furthermore, NPK and TAN plant are undergoing debottlenecking, which should also allow them to further increase our production capabilities at the Taloja facility.
TAN revenues have seen a CAGR of 30% since FY18

![Graph showing TAN revenues from FY18 to FY23.]

Source: PhillipCapital India Research, Company Data

**Premium pricing in branded fertilisers:** The company is able to attract a 10-15% price premium over the competition’s bulk fertilisers due to the niche Nutrient Unlock Technology it employs to manufacture them. The management intends to take advantage of superior technology to differentiate itself and obtain market share. The higher performance of such value-added items should add a superior margin profile and create strong brand recall.

**Ammonia backward integration to ensure RM supply:** Ammonia is a critical raw material in all of the company’s primary products, which include technical ammonium nitrate, ANP/NPK fertiliser, and nitric acid. Given its reliance on imported ammonia, the company is establishing a 1,500 MTPD ammonia manufacturing facility in Taloja, Maharashtra, near its current facilities, through its step-down subsidiary Performance Chemiserve Ltd.

**Traction in operating cash flows in recent times**

- In recent years, decent performance from industrial chemicals and fertilisers have led to positive operating cash flows.
- Isopropyl alcohol segment had benefitted because of covid, and the increase in the use of sanitizers. DFPC’s *Corrorid* brand has found increasing use in many sectors such as medical, hospitality, etc.
- Own manufacturing of nitric acid, which is a key raw material input for most of DFPC’s final products, has led to significant cost savings. Also, the company successfully sells excess nitric acid to companies in the vicinity.
- TAN is one of the core segments of the companies. With aggressive production target from Coal India and other companies, there has been incremental use for it which has benefitted the company.
- In the CNB segment, the government’s timely payment of subsidy covered the incremental costs that this segment incurred.
- DFPC has been able to increase its market share in key markets of Gujarat and Maharashtra and has been able to command premium pricing due to its superior technology.
**Strong operating cash flow over the last few years**

![Cash Flow Chart](Image)

*Source: PhillipCapital India Research, Company Data*

**DFPC segment margins**

![Segment Margins Chart](Image)

*IC segment has been responsible for significant contribution to the company’s margin profile. The fertilizer segment has performed poorly in the past due to weak volumes and delayed subsidy payables*

*Source: PhillipCapital India Research, Company Data*
Outlook and valuation

We value DFPC using the sum of the parts (SOTP) valuation with the following assumptions:

- In the IC segment, we conservatively assign 8x FY25 EBITDA multiple. We believe TAN segment deserves a higher multiple due to its consistent performance. In IPA+NA, we would consider challenges that IPA faces.
- For fertilisers, we assign a conservative 7x FY25 EBITDA multiple. We use the word conservative because its peers are at a higher multiple, and also because DFPC’s products command premium pricing in its key markets. Assigning a conservative multiple leaves significant room for upside.
- In ammonia backward integration, the spreads have deteriorated in recent times. However, we expect them to normalize by the end of the year. Also, knowing that the asset has been created with a 20-25-year vision, we believe it will contribute to the margin profile of the company in mid-long term.
- Based on our assumptions, we arrive at a price target of Rs 687 which implies a meagre P/E of 9.3x.
- The ammonia plant will soon be up and running and can achieve peak utilisation in very short time. Also, with the incremental TAN capacity through debottlenecking and other short-term concerns sorting in meantime, we expect TAN segment to deliver strong performance going ahead.

<table>
<thead>
<tr>
<th>SOTP Valuation</th>
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</thead>
<tbody>
<tr>
<td><strong>Rs mn</strong></td>
</tr>
<tr>
<td>Chemicals</td>
</tr>
<tr>
<td>Fertilisers</td>
</tr>
<tr>
<td>Ammonia</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>(-) Debt</td>
</tr>
<tr>
<td>(-) Minority Interest</td>
</tr>
<tr>
<td>(+) Cash</td>
</tr>
<tr>
<td>Equity Valuation</td>
</tr>
<tr>
<td>No of shares</td>
</tr>
<tr>
<td>Price/ share (Rs)</td>
</tr>
<tr>
<td>CMP</td>
</tr>
<tr>
<td>Upside</td>
</tr>
</tbody>
</table>

Source: Company Data, PhillipCapital India Research
Threats to the business

**Promoter pledge:** While stock exchange filings show that 30% of the promoter ownership is encumbered, the company has stated that more than half of this is a non-disposal undertaking (NDU) provided to International Finance Corporation (IFC), under which the promoters are prohibited from selling shares under the NDU. Aside from the NDU, the promoters have pledged 7.8mn shares (via Robust Marketing Services), or 15% of the overall promoter ownership.

**Constraints on TAN margin:** The drop in TAN realisations following the recovery of Russian exports and the prohibition on Indian exports has begun to have an effect on TAN (and also the chemicals segment) margins. The central government is likely to enable Indian exports to resume soon. TAN demand remains high, particularly in the infrastructure industry. By expanding the share of TCO (total cost of ownership) contracts, DFPC hopes to boost profitability.

**Recent correction in ammonia prices:** Recently, ammonia prices have plummeted and the upcoming ammonia factory is likely to break even at present costs. The management is of the opinion that the plant has been constructed keeping in mind the long-term vision of the company. The plant is expected to be operational next quarter, and the company intends to sell excess production to a local buyer at premium prices.

**Past disputes: Both went in favour of DFPC**
1. In 2017, GAIL had claimed Rs 3.6bn towards supply of domestic natural gas between July 2006 and May 2014, alleging it was used for manufacturing products other than urea. Deepak Fertilisers has said that as per two contracts (entered into 2006 and 2010) between the two companies, the purchase of gas was contractually and clearly intended, supplied, and utilised for its integrated NPK fertiliser complex. In the same matter, High Court of Delhi has directed the Department of Fertilisers (DoF) to return Rs 3.1bn held back as subsidy within a period of four weeks; the DoF had withheld the subsidy alleging undue gains arising because of supply of cheap domestic gas.
2. In November 2018, Income Tax department concluded a ‘search and seizure operation’ at DFPC’s offices to search for proofs of any wrongdoings. The operation did not reveal any proof of such nature.
Company Profile

- Started in 1979 as an ammonia manufacturer.
- Also produces fertilizers and industrial chemicals.
- Today, its product portfolio spans industrial chemicals, bulk and specialty fertilisers, farming diagnostics and solutions, technical ammonium nitrate and value-added real estate.
- Its manufacturing facilities are in Taloja – Maharashtra, Srikakulam – Andhra Pradesh, Panipat – Haryana, and Dahej – Gujarat.

Production flow

Revenue split in FY23 (IC and CNB)

Revenue split in FY23 (TAN, IPA, NA)

Source: PhillipCapital India Research, Company Data
**Diversified product portfolio**

- **Industrial Chemicals**
  - Pharmaceuticals
  - Nitro Aromatics
  - Paints & Coatings
  - Steel
  - Inks
  - Others: Dyets, Cosmetics, Adhesives, Health & Hygiene etc.
- **Crop Nutrition**
  - Agriculture
- **Technical Ammonium Nitrate**
  - Nitro Phosphate Fertiliser
  - Nitrogen Phosphorous Potassium Fertiliser
  - Bentonite Sulphur
  - Low Density Ammonium Nitrate (LDAN)
  - High Density Ammonium Nitrate (HDAN)
  - Ammonium Nitrate Melt (AM Melt)

Source: PhillipCapital India Research, Company Data

**DFPC’s journey over the years**

- **1979**
  - Inception of company with Ammonia Plant
- **1989**
  - IPO
- **1990 – 1999**
  - Started Fertiliser business
  - Commened TAN facility and expanded IC capacity (ANP, Methanol and Nitric Acid)
- **2003**
  - Acquired Srikrulam TAN Plant
  - Started expanding TAN capacity (ANP, Methanol and Nitric Acid)
- **2014**
  - Creating JV with Platinum Blasting
  - Commissioning of new Nitric Acid Plant at Dahoj, Gujarat
- **2017**
  - Expanded Ammonium Nitrate, IPA and Fertiliser (NPK and Bentonite Sulphur)
  - Commissioned new Fertiliser Plant at Panipat, Haryana
- **2021**
  - Started working on Greenfield Ammonia Backward Integration project at Taloga
  - Started working on Greenfield TAN project at Gopalpur

Source: PhillipCapital India Research, Company Data

**Unique TAN portfolio**

- The main component of most commercial explosives is technical ammonium nitrate (TAN).
- DFPC is India’s sole producer of TAN in solid or prill form; other manufacturers in the country produce TAN in liquid/melt form, which requires heated tankers for transport and is hard for consumers to store (due to the explosive nature of the chemical).
- DFPC primarily sells two solid TAN variants: high-density ammonium nitrate (HDAN) and low-density ammonium nitrate (LDAN).
**TAN and TAN products**

<table>
<thead>
<tr>
<th>Products</th>
<th>Low Density Ammonium Nitrate</th>
<th>High Density Ammonium Nitrate</th>
<th>Ammonium Nitrate Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Optinex &amp; Optinex+</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Vertex Super</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Manufacturing ANFO &amp; ANFO Blends and Civil Infrastructure Projects</strong></td>
<td>Manufacturing Emulsions &amp; Slurry</td>
<td>Explosives Manufactures</td>
<td>Manufacturing Emulsions &amp; Slurry</td>
</tr>
<tr>
<td><strong>Mining, Infrastructure Developers &amp; Explosives Manufacturers</strong></td>
<td>As Explosives or Energy Dopant</td>
<td>As Raw Material for Explosives</td>
<td>As Raw Material for Explosives</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Company Data

**Strategic Plant Location**

- **Dahej, Gujarat**
  - Capacity (KMTPA): DNA: 149, CNA: 92
  - Geographic Advantage: Major customers of nitroaromatics and nitrocellulose are located in Gujarat

- **Taloja, Maharashtra**
  - Capacity (KMTPA): TAN: 444 = “50”
  - Geographic Advantage: Located in Maharashtra, horticulture capital of India with highest consumption of NPKs and specialties
  - TAN Deblotting

- **Srikakulam, Andhra Pradesh**
  - Capacity (KMTPA): TAN: 43, WNA: 40
  - Geographic Advantage: Satellite unit catering to regional explosives manufacturers

Source: PhillipCapital India Research, Company Data

**Industry updates: Ammonium nitrate, fertiliser industry, NBS (subsidy)**

**The ammonium nitrate industry**

The global ammonium nitrate market size was valued at US$ 14.1bn in 2022. It is projected to reach USD 19.4bn by 2031, growing with a CAGR of 3.6% during the forecast period (2023–2031). Coal, steel and cement, which are essential for the energy security and infrastructure development respectively, are downstream produce of the mineral mining activity. These commodities constitute three key components of the ‘Index of eight core industries’ which is a barometer of the performance of the Indian economy, as published by Government of India (GoI).

Domestically, due to this massive thrust on infrastructure, the demand for mining commodities such as coal (for power generation), limestone (for cement production),
iron ore (for steel production) and stone aggregates from stone quarries (for use in construction and infrastructure projects) is likely to grow. Ministry of Coal has projected the coal supply from domestic production to increase to 1.5bn MT in FY29-30 from 765mn MT in FY21-22, which indicates a CAGR of 9%. Coal India, the largest coal producer in India aims to produce 1bn MT of coal in FY24 from the current level of c.623mn MT coal production in FY22.

**Company-wise production of raw coal during the last ten yrs**

**TAN demand to see 8.4% CAGR in FY21-30**

**TAN imports into India**

**Top key players of ammonium nitrate market globally**

- ORICA
- YARA
- Incitec Pivot
- EuroChem
- SBU
- UralChem
- Wesfarmers
- ENAX
- Nutrien
- Sasol
- Xinghua
- CF
Fertiliser Industry in India

Agriculture is the primary source of livelihood for about 54.6% of India’s population. As per the second estimates of NSO, the agriculture, forestry and fishing accounted for a 15.5% (2021-22) of the country’s GVA at Basic Prices of 2011-12, registering a growth of 3.3%. The total foodgrain production in the country is estimated at record 316 million tonnes which is higher by 5.32 million tonnes than the production of foodgrain during 2020-21, as per the second advance estimates released by Ministry of Agriculture and Farmers Welfare.

India is the world’s second-largest user and third-largest producer of fertilisers. The Indian fertiliser ecosystem is made up of the private, public, and cooperative sectors. The fertiliser sector in India has played a significant role in designing Indian farms and boosting agricultural development over the years. Domestic fertiliser manufacturing meets nearly two-thirds of the country’s plant nutrition requirements, producing 42 million tonnes of fertiliser annually. In addition, to meet agricultural demand, India imports approximately 17 million tonnes of fertiliser. Between 2023 and 2028, the India fertiliser market is estimated to increase at a CAGR of 4.7%, reaching a projected value of USD 1160.18 billion. Increased need for food production and advances in agricultural operations are driving market expansion.

Per hectare consumption of nutrients

![Per hectare consumption of nutrients](image)

Source: PhillipCapital India Research, Department of fertilisers

Fertiliser production and sales data

<table>
<thead>
<tr>
<th>Qty in Lakh tonnes</th>
<th>FY22</th>
<th>FY23</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production</td>
<td>Import</td>
</tr>
<tr>
<td>Urea</td>
<td>251</td>
<td>91</td>
</tr>
<tr>
<td>DAP</td>
<td>42</td>
<td>57</td>
</tr>
<tr>
<td>MOP</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>NPK Complex</td>
<td>86</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Department of fertilisers

Nutrient-based subsidy (NBS)

The nutrient-based subsidy (NBS) policy for P & K fertilizers was implemented by the government w.e.f. 1st April 2010. NBS policy entails providing subsidy at the nutrient level, which the government announces on an annual basis. Currently, 21 grades of P & K fertilizers – viz. DAP, SSP, MOP, etc. and 15 grades of NPKS complex fertilizers are covered under this policy. As per this, retail price of P & K fertiliser are kept at the discretion of the manufacturers.
NBS rates

<table>
<thead>
<tr>
<th>Rs/kg</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>1HFY22</th>
<th>2HFY22</th>
<th>1HFY23</th>
<th>3QFY23</th>
<th>4QFY23</th>
<th>1HFY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogen (N)</td>
<td>18.9</td>
<td>18.9</td>
<td>18.8</td>
<td>18.8</td>
<td>18.8</td>
<td>92.0</td>
<td>98.0</td>
<td>99.3</td>
<td>76.3</td>
</tr>
<tr>
<td>Phosphate (P)</td>
<td>15.2</td>
<td>15.2</td>
<td>14.9</td>
<td>45.3</td>
<td>45.3</td>
<td>72.7</td>
<td>66.9</td>
<td>49.9</td>
<td>41.0</td>
</tr>
<tr>
<td>Potash (K)</td>
<td>11.1</td>
<td>11.1</td>
<td>10.1</td>
<td>10.1</td>
<td>10.1</td>
<td>25.3</td>
<td>23.7</td>
<td>25.7</td>
<td>15.9</td>
</tr>
<tr>
<td>Sulphur (S)</td>
<td>2.7</td>
<td>3.6</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
<td>6.9</td>
<td>6.1</td>
<td>2.8</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: PhillipCapital India Research, Department of fertilisers

**Recent correction in RM prices:** Natural gas, naphtha, fuel oil (nitrogenous fertilizers), phosphoric acid and rock phosphate (for phosphatic fertilizers) are the primary feedstock being used in the fertiliser sector. In the nitrogenous fertiliser segment, natural gas is increasing its share of total feedstock consumption due to cost and efficiency benefits. In case of phosphatic fertilizers, India is dependent on imports for both rock phosphate and phosphoric acid. Phosphoric acid is the key raw material used to produce the major phosphatic fertilizers, single super phosphate (SSP) and diammonium phosphate (DAP). Companies either purchase phosphoric acid, or produce phosphoric acid using rock phosphate and other inputs.

Recently, prices of key raw materials have corrected significantly as supply is not an issue anymore. This decline in input prices have led to a subsequent decline in subsidy.

**Phosphoric acid (USD/MT)**

Source: PhillipCapital India Research, Bloomberg

**Rock phosphate (USD/MT)**

Source: PhillipCapital India Research, Bloomberg

**Sulphur (USD/MT)**

Source: PhillipCapital India Research, Bloomberg

**DAP (USD/MT)**

Source: PhillipCapital India Research, Bloomberg
Band charts

**One-year forward P/E**

- 1 year forward P/E
- Mean
- +1SD
- -1SD

**One-year forward EV/EBITDA**

- EV/EBITDA
- Mean
- +1SD
- -1SD

Source: PhillipCapital India Research
## Key Managerial Personnel

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Director</th>
<th>Designation</th>
<th>Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. Salish Chimanlal Mehta</td>
<td>Chairman &amp; Managing Director</td>
<td>He currently serves as the Chairman &amp; Managing Director of Deepak Fertilisers and Petrochemicals Corporation Limited (DFPC). He has been associated with the company for more than 30 years and has played a pivotal role in its growth and expansion. After starting out in the Company as the Managing Director in 2002, he eventually progressed to become the Vice Chairman in 2005. He took over as the Chairman in October 2012. Mr Mehta has a management degree from the University of Texas, USA.</td>
</tr>
<tr>
<td>2</td>
<td>Mr. Amitabh Bhargava</td>
<td>Chief Financial Officer</td>
<td>He is a Graduate in Chemical Engineering from IIT, BHU with a Master’s in Business Management with Finance as major from SP Jain Institute of Management and Research. He has been associated with DFPC for 6 years. He started his career with GAIL and was involved in the construction, commissioning and operation of LPG Extraction Plant and HBJ Pipeline. He has worked with esteemed organizations such as ICICI Bank, ICICI Ventures, Macquarie Capital, RREEF Infrastructure (Deutsche Bank AG), Nomura Infrastructure Fund, GMR Infrastructure and lastly as Chief Finance Officer of Essar Group’s E&amp;P Company before joining DFPC.</td>
</tr>
<tr>
<td>3</td>
<td>Mr. Mahesh Girdhar</td>
<td>President – Crop Nutrition</td>
<td>Mr. Girdhar has over two decades of professional experience and is associated with DFPC for 3 years. Prior to DFPC, he worked as Global Crop Lead at Bayer Crop Science in Singapore since 2010 and previously was the Country Head, Bayer BioScience, India based in Hyderabad. He holds Post Graduate Degree in Agriculture from Haryana Agricultural University, Hisar and attended Advance Management Program at INSEAD, France.</td>
</tr>
<tr>
<td>4</td>
<td>Mr. Tarun Sinha</td>
<td>President – Technical Ammonium Nitrate</td>
<td>Mr. Sinha has over 30 years of combined experience in the mining and steel industries and is associated with DFPC for 3 years. He spent 24 years working with Orica, World’s largest explosives manufacturer, in different roles spanning different countries. He has a Bachelor of Technology (Mining Engineering) degree from Indian School of Mines, Dhanbad.</td>
</tr>
<tr>
<td>5</td>
<td>Mr. Shanmugananth M</td>
<td>President – Industrial Chemical</td>
<td>In a career spanning around 28 years, prior to joining us, Mr Shanmugananth was associated with Dow Chemical as Commercial Director. He has joined DFPC recently. He has completed his B.E. (Electronics &amp; Communication) from University of Madras and MBA (Marketing) from Anna University.</td>
</tr>
<tr>
<td>6</td>
<td>Mr. Mukul Agrawal</td>
<td>President – Manufacturing</td>
<td>Mr. Agrawal has rich experience of approx. 30 years and during this span, he has worked across various domains such as Chemicals, Ammonia, Fertilisers, Engineering Polymers, Fine Chemicals, Carbon Black, Viscose Fibers etc. He has done his Bachelor of Technology (Chemical Engineering) from Harcourt Butler Technical University, Kanpur, and a Post-Graduation Certificate in Business Management (Executive Education) from XLRI Jamshedpur.</td>
</tr>
<tr>
<td>7</td>
<td>Mr. Pandurang Landge</td>
<td>President – Commercials &amp; Strategic Growth</td>
<td>Mr. Landge has 39 years of domestic and overseas experience of operations, projects conceptualisation, projects and product development, execution, commercialisation and running businesses. He holds a Graduate Degree in Chemical Engineering from University Department of Chemical Technology (UDCT), Bombay University.</td>
</tr>
<tr>
<td>8</td>
<td>Mr. Arun Vijayakumar</td>
<td>President – Projects</td>
<td>Mr. Vijayakumar has ~26 years of extensive experience in managing integrated and large scale multi-phased complex Engineering, Procurement and Construction (EPC) projects in petrochemical and refining field. He has done his Bachelor of Engineering from Malaviya Regional Engineering College, Jaipur and MBA from S. P. Jain Institute of Management &amp; Research, Mumbai.</td>
</tr>
<tr>
<td>9</td>
<td>Mr. Romy Sahay</td>
<td>President – Human Resources</td>
<td>Mr. Sahay has over 28 years of experience in leading HR for multi-units and large geographically distributed workforce and has previously worked as a Vice President &amp; Head HR (Global Manufacturing Operations) at Dr. Reddy’s Laboratories. He holds a Graduate Degree in Electrical &amp; Electronics Engineering from Birla Institute of Technology (BIT), Mesra, and Post-Graduation Management in Personnel Management &amp; Industrial Relations from Xavier Labour Relations Institute (XLRI), Jamshedpur.</td>
</tr>
<tr>
<td>10</td>
<td>Mr. Naresh Kumar Pinisetti</td>
<td>President – Corporate Governance</td>
<td>Mr. Pinisetti is a Post Graduate in Human Resources from NIPM with an Executive MBA from Scandinavian International Management Institute (SIMI) and has completed his B.L from College of Law in Andhra University and M.A. in Sociology. He comes with an experience of over 30 years in different facets of Human Resource Development and Industrial Relations.</td>
</tr>
<tr>
<td>11</td>
<td>Mr. Debasish Banerjee</td>
<td>President – Strategic Projects</td>
<td>Mr. Banerjee has over 30 years of experience in in the field of corporate finance &amp; strategy. He is a qualified Chartered Accountant (Rank Holder) and holds a Graduate Degree in Science (Maths) from Ranchi University.</td>
</tr>
<tr>
<td>12</td>
<td>Mr. Deepak Rastogi</td>
<td>President – Strategy &amp; Transformation</td>
<td>Mr. Deepak has over 30 years of experience working across diverse industries. He is a Chartered Accountant and has also done his MBA from S. P. Jain Institute of Research &amp; Management.</td>
</tr>
<tr>
<td>13</td>
<td>Mr. Deepak Balwani</td>
<td>Associate Vice President Investor Relations &amp; Special Projects</td>
<td>He has over ~17 years of working experience in the field of Investor Relations, Strategy, Corporate Finance, Corporate Communication and Financial Planning &amp; Analysis. He is a Chartered Accountant, Diploma on Management and Business Finance (ICAI) and PGDBA (Finance). He also holds a B.Com (Hons) degree from Delhi University.</td>
</tr>
</tbody>
</table>
DFPC: Board Structure

Source: Company Data
Financials

### Income Statement

<table>
<thead>
<tr>
<th>V/E Mar, Rs mn</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>76,633</td>
<td>113,007</td>
<td>110,927</td>
<td>120,031</td>
</tr>
<tr>
<td>Growth, %</td>
<td>31.9</td>
<td>47.5</td>
<td>(1.8)</td>
<td>8.2</td>
</tr>
<tr>
<td>Other operating income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Material expenses</td>
<td>50,292</td>
<td>76,692</td>
<td>78,204</td>
<td>84,622</td>
</tr>
<tr>
<td>Employee expenses</td>
<td>4,919</td>
<td>5,944</td>
<td>6,101</td>
<td>6,602</td>
</tr>
<tr>
<td>Other Operating expenses</td>
<td>7,862</td>
<td>8,716</td>
<td>11,093</td>
<td>12,003</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>13,560</td>
<td>21,654</td>
<td>15,530</td>
<td>16,804</td>
</tr>
<tr>
<td>Growth, %</td>
<td>41.9</td>
<td>59.7</td>
<td>(28.3)</td>
<td>8.2</td>
</tr>
<tr>
<td>Margin, %</td>
<td>17.7</td>
<td>19.2</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,325</td>
<td>2,392</td>
<td>3,375</td>
<td>3,373</td>
</tr>
<tr>
<td><strong>EBITDA (Core)</strong></td>
<td>11,234</td>
<td>19,262</td>
<td>12,154</td>
<td>13,431</td>
</tr>
<tr>
<td>Growth, %</td>
<td>51.1</td>
<td>71.5</td>
<td>(36.9)</td>
<td>10.5</td>
</tr>
<tr>
<td>Margin, %</td>
<td>14.7</td>
<td>17.0</td>
<td>11.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Interest paid</td>
<td>1,548</td>
<td>1,947</td>
<td>1,988</td>
<td>2,035</td>
</tr>
<tr>
<td>Other income</td>
<td>439</td>
<td>840</td>
<td>882</td>
<td>926</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>6,875</td>
<td>12,209</td>
<td>8,397</td>
<td>9,365</td>
</tr>
<tr>
<td>Growth, %</td>
<td>69.1</td>
<td>77.6</td>
<td>(31.2)</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Net Profit (adjusted)</strong></td>
<td>6,875</td>
<td>12,209</td>
<td>8,397</td>
<td>9,365</td>
</tr>
<tr>
<td>Unadj. shares (m)</td>
<td>121</td>
<td>126</td>
<td>126</td>
<td>126</td>
</tr>
<tr>
<td>Wtd avg shares (m)</td>
<td>121</td>
<td>126</td>
<td>126</td>
<td>126</td>
</tr>
</tbody>
</table>

**Balance Sheet**

<table>
<thead>
<tr>
<th>V/E Mar, Rs mn</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; bank</td>
<td>2,888</td>
<td>4,987</td>
<td>3,099</td>
<td>5,233</td>
</tr>
<tr>
<td>Marketable securities at cost</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Debtors</td>
<td>13,458</td>
<td>16,905</td>
<td>16,715</td>
<td>18,087</td>
</tr>
<tr>
<td>Inventory</td>
<td>10,449</td>
<td>12,589</td>
<td>12,641</td>
<td>15,070</td>
</tr>
<tr>
<td>Loans &amp; advances</td>
<td>9</td>
<td>11</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,549</td>
<td>2,502</td>
<td>2,384</td>
<td>2,145</td>
</tr>
<tr>
<td>Total current assets</td>
<td>28,352</td>
<td>36,993</td>
<td>34,880</td>
<td>40,555</td>
</tr>
<tr>
<td>Investments</td>
<td>25</td>
<td>25</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>Gross fixed assets</td>
<td>25,247</td>
<td>20,110</td>
<td>24,110</td>
<td>28,110</td>
</tr>
<tr>
<td>Less: Depreciation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Add: Capital WIP</td>
<td>24,265</td>
<td>35,265</td>
<td>41,141</td>
<td>40,329</td>
</tr>
<tr>
<td>Net fixed assets</td>
<td>49,707</td>
<td>55,752</td>
<td>65,627</td>
<td>68,816</td>
</tr>
<tr>
<td>Non - current assets</td>
<td>4,285</td>
<td>6,047</td>
<td>6,047</td>
<td>6,047</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>82,368</td>
<td>108,115</td>
<td>118,132</td>
<td>129,403</td>
</tr>
</tbody>
</table>

| Trade Payables | 14,157 | 17,774 | 19,283 | 20,866 |
| Provisions    | 554 | 589 | 648 | 713 |
| Total current liabilities | 15,957 | 19,496 | 21,178 | 22,950 |
| Non - current liabilities | 41,799 | 55,630 | 57,321 | 59,111 |
| Total liabilities | 66,412 | 88,619 | 96,953 | 106,453 |
| Paid - up capital | 1,206 | 1,262 | 1,262 | 1,262 |
| Retained surplus | 37,636 | 49,408 | 57,805 | 67,170 |
| Minorsities    | 1,178 | 1,263 | 1,137 | 1,192 |
| Shareholders’ equity | 40,020 | 51,933 | 60,204 | 69,625 |
| **Total equity & liabilities** | 82,368 | 108,115 | 118,132 | 129,403 |

**Cash Flow**

<table>
<thead>
<tr>
<th>V/E Mar, Rs mn</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax profit</td>
<td>10,125</td>
<td>18,155</td>
<td>11,049</td>
<td>12,323</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,325</td>
<td>2,392</td>
<td>3,375</td>
<td>3,373</td>
</tr>
<tr>
<td>Chg in working capital</td>
<td>(13,730)</td>
<td>(26,140)</td>
<td>(4,611)</td>
<td>(6,226)</td>
</tr>
<tr>
<td>Total tax paid</td>
<td>(3,251)</td>
<td>(5,946)</td>
<td>(2,652)</td>
<td>(2,957)</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>(4,530)</td>
<td>(11,539)</td>
<td>7,161</td>
<td>6,512</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>7,254</td>
<td>9,608</td>
<td>9,875</td>
<td>3,189</td>
</tr>
<tr>
<td>Chg in investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chg in marketable securities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>7,254</td>
<td>9,608</td>
<td>9,875</td>
<td>3,189</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>3,775</td>
<td>(622)</td>
<td>18,547</td>
<td>11,248</td>
</tr>
<tr>
<td>Equity raised/(repaid)</td>
<td>11,637</td>
<td>11,771</td>
<td>8,397</td>
<td>9,365</td>
</tr>
<tr>
<td>Debt raised/(repaid)</td>
<td>2,872</td>
<td>10,294</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Dividend (incl. tax)</td>
<td>(37,636)</td>
<td>(49,408)</td>
<td>(57,805)</td>
<td>(67,170)</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td>(18,855)</td>
<td>(30,135)</td>
<td>(49,399)</td>
<td>(56,013)</td>
</tr>
<tr>
<td>Net chg in cash</td>
<td>20</td>
<td>1,180</td>
<td>1,731</td>
<td>2,134</td>
</tr>
</tbody>
</table>

### Valuation Ratios

<table>
<thead>
<tr>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EV/EBIT (x)</td>
<td>6.9</td>
<td>5.8</td>
<td>4.7</td>
</tr>
<tr>
<td>EV/Net sales (x)</td>
<td>6.2</td>
<td>5.5</td>
<td>4.5</td>
</tr>
<tr>
<td>PER (x)</td>
<td>15.5</td>
<td>15.3</td>
<td>14.4</td>
</tr>
<tr>
<td>Quick ratio (x)</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>ROIC (%)</td>
<td>10.5</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>12.8</td>
<td>12.6</td>
<td>12.6</td>
</tr>
<tr>
<td>Turnover ratios</td>
<td>26.6</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Net/Sales FA (x)</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Working capital/Sales (x)</td>
<td>6.1</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Receivable days</td>
<td>50.0</td>
<td>49.5</td>
<td>49.5</td>
</tr>
<tr>
<td>Inventory days</td>
<td>58.8</td>
<td>58.9</td>
<td>58.9</td>
</tr>
<tr>
<td>Payable days</td>
<td>86.5</td>
<td>86.5</td>
<td>86.5</td>
</tr>
<tr>
<td>Working capital days</td>
<td>45.1</td>
<td>53.5</td>
<td>53.5</td>
</tr>
</tbody>
</table>

Source: Company, PhillipCapital India Research
Rating Methodology
We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

### Large cap stocks

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUY</td>
<td>&gt;= +10%</td>
<td>Target price is equal to or more than 10% of current market price</td>
</tr>
<tr>
<td>NEUTRAL</td>
<td>-10% &gt; to &lt; +10%</td>
<td>Target price is less than +10% but more than -10%</td>
</tr>
<tr>
<td>SELL</td>
<td>&lt;= -10%</td>
<td>Target price is less than or equal to -10%.</td>
</tr>
</tbody>
</table>

### Mid cap and Small cap stocks

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUY</td>
<td>&gt;= +15%</td>
<td>Target price is equal to or more than 15% of current market price</td>
</tr>
<tr>
<td>NEUTRAL</td>
<td>-15% &gt; to &lt; +15%</td>
<td>Target price is less than +15% but more than -15%</td>
</tr>
<tr>
<td>SELL</td>
<td>&lt;= -15%</td>
<td>Target price is less than or equal to -15%.</td>
</tr>
</tbody>
</table>

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