

# Deepak Fertilisers | Not Rated

## Everything in place - demand, R&D, and capacity expansion

Deepak fertilisers (DFPCL) is among leading producers of fertilisers and industrial chemicals in India. Industrial chemicals business is the major segment that contributed 51.31% to total revenue in FY18. While crop nutrition business contributed 29.81%, the technical ammonium nitrate contributed 18.48% to the total revenue in FY18. DFPCL has 5 plants that are in close proximity to sourcing channels, ports and gas pipeline to procure raw materials and save logistics cost. DFPCL has grown its trading business to have key partnerships in South East Asia, Middle East Europe and China, providing another source of income. DFPCL expects to keep the leadership position through its plan to grow via the route of capacity expansion of current plants, investing in R&D for increasing customisation of products, improving portfolio mix towards high-margin products and some investments into real estate. We do not have a rating on the stock.

- Domestic penetration:** DFPCL has strategically placed plants in close proximity to its largest customers in the Indian geography. In crop nutrition business, DFPCL has expanded its market share in Maharashtra to c. 19% with improved market presences in Telangana, Andhra Pradesh, Tamil Nadu, Madhya Pradesh, Chhattisgarh and North India. It recently operationalised new Bensulf plant with effective capacity of 32,000 MTPA at Panipat, Haryana. In mining chemicals, DFPCL added new geographies in Raipur, Tata Nagar and NCR.
- Growth drivers:** DFPCL has initiated on a research establishment – ARTIC that is aimed towards customised product delivery, product innovation, nutrient management, and post-harvest shelf life etc. On products side, Global market insights estimates global market for ammonium nitrate to grow at CAGR of 3% during 2016-2024 on back of increase in demand for fertilisers and explosives. DFPCL can benefit from the growth in Indian market as farmers are focusing towards increasing land yield and increase in coalfield mining is resulting into increase in demand for commercial explosives. Further, demand is expected to rise from cement industry with GOI's "Pradhan mantra Awas Yognna" (housing for all). In mining, DFPCL bagged a USD 60mn mining services contract in Australia for duration of 3 years.
- Expansion plans:** DFPCL has successfully completed the mechanical completion of Nitric Acid plant and the production trials are in progress. The plant is estimated to produce 1,48,500 MTPA of dilute nitric acid and 92,400 MTPA of concentrated nitric acid. Additionally, more capacity expansion projects are planned for ammonia (5,00,000 MTPA), isopropyl alcohol (1,00,000 MTPA), technical ammonium nitrate (3,76,000 MTPA), and NPK fertiliser (2,00,000 MTPA).
- Financials:** DFPCL reported revenue/ EBITDA / PAT of INR 60bn/ 5.5bn/ 1.6bn in FY18. DFPCL has all the growth drivers in place- R&D, capacity expansion, and demand. Key risks to the business are: 1) Monsoon depended fertilisers business. 2) Pharma business vulnerable to the USA's policy changes. 3) Raw material price fluctuations.



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### Key Data – DFPC IN

Current Market Price	INR127
Market cap (bn)	INR11.2/\$0.2
Free Float	47.9%
Shares in issue (mn)	88.20494
Diluted share (mn)	88.20494
3-mon avg daily val (mn)	INR57.5/US\$0.8
52-week range	397/104
Sensex/Nifty	35,867/10,793
INR/US\$	70.7

### Price Performance

%	1M	6M	12M
Absolute	8.1	-49.9	-62.8
Relative*	9.2	-42.7	-67.7

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY14A	FY15A	FY16A	FY17A	FY18A
Net sales	39,146	38,124	43,092	41,501	59,949
Sales growth (%)		-2.6	13.0	-3.7	44.5
EBITDA	5,167	2,959	3,565	4,734	5,452
EBITDA (%)	13%	8%	8%	11%	9%
Adjusted net profit	2,519	594	1,163	1,543	1,627
EPS (Rs)	27.3	7.7	13.2	17.5	18.4
EPS growth (%)		-71.7	71.0	32.7	5.4
ROE (%)	17.3	4.0	6.0	7.7	7.9
PE (x)	3.8	16.1	10.8	14.3	15.3
Price/Book value (x)	0.6	0.7	0.6	1.1	1.2
EV/EBITDA (x)	2.8	6.4	8.0	7.6	10.0

Source: Company data, JM Financial. Note: Valuations as of 28/Feb/2019

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY14A	FY15A	FY16A	FY17A	FY18A	
<b>Net sales (Net of excise)</b>	<b>39,146</b>	<b>38,124</b>	<b>43,092</b>	<b>41,501</b>	<b>59,949</b>	
<i>Growth (%)</i>		-3%	13%	-4%	44%	
Raw material (or COGS)	28,180	29,849	33,432	29,432	45,549	
Personnel cost	1,689	1,536	1,830	2,102	2,458	
Other expenses (or SG&A)	4,110	3,781	4,265	5,234	6,489	
<b>EBITDA</b>	<b>5,167</b>	<b>2,959</b>	<b>3,565</b>	<b>4,734</b>	<b>5,452</b>	
EBITDA (%)	13%	8%	8%	11%	9%	
<i>Growth (%)</i>		-43%	20%	33%	15%	
Other non-op. income	469	289	724	159	241	
Depreciation and amort.	1,143	1,244	1,218	1,350	1,632	
<b>EBIT</b>	<b>4,024</b>	<b>1,714</b>	<b>2,347</b>	<b>3,384</b>	<b>3,820</b>	
Less: Finance Costs	1,010	1,111	1,300	1,215	1,732	
Pre tax profit	<b>3,483</b>	<b>892</b>	<b>1,755</b>	<b>2,304</b>	<b>2,305</b>	
Taxes	964	312	599	758	664	
Exceptional items	114	-86	0	0	0	
Less: Minority interest	0	-14	-6	3	14	
Reported net profit	2,405	680	1,163	1,543	1,627	
<b>Adjusted net profit</b>	<b>2,519</b>	<b>594</b>	<b>1,163</b>	<b>1,543</b>	<b>1,627</b>	
Margin (%)	6%	2%	3%	4%	3%	
Diluted share cap. (mn)	88	88	88	88	88	
<b>Diluted EPS (₹)</b>	<b>27.27</b>	<b>7.71</b>	<b>13.18</b>	<b>17.50</b>	<b>18.44</b>	
<i>Growth (%)</i>		-72%	71%	33%	5%	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY14A	FY15A	FY16A	FY17A	FY18A	
Reported net profit	2,405	680	1,163	1,543	1,627	
Depreciation and amort.	1,143	1,161	-9,538	1,309	1,476	
-Inc/dec in working cap.	-753	-3,465	-8,716	7,230	-14,545	
Others	1,353	822	570	1,059	1,504	
<b>Cash from operations (a)</b>	<b>4,148</b>	<b>-802</b>	<b>-16,521</b>	<b>11,141</b>	<b>-9,938</b>	
-Inc/dec in investments	541	0	-51	0	0	
Capex	-1,317	-1,292	7,493	-8,270	-5,487	
Others	79	289	724	159	241	
<b>Cash flow from inv. (b)</b>	<b>-697</b>	<b>-1,003</b>	<b>8,166</b>	<b>-8,111</b>	<b>-5,247</b>	
Inc/-dec in capital	0	0	0	0	0	
Dividend+Tax thereon	-670	-425	-956	-529	-529	
Inc/-dec in loans	-1,924	3,000	7,719	-2,263	17,955	
Others	-963	-1,123	3,245	-1,513	-2,219	
<b>Financial cash flow (c)</b>	<b>-3,557</b>	<b>1,452</b>	<b>10,008</b>	<b>-4,306</b>	<b>15,207</b>	
Inc/-dec in cash (a+b+c)	-106	-353	1,653	-1,277	23	
Opening cash balance	1,062	957	604	2,257	980	
Closing cash balance	957	604	2,257	980	1,003	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY14A	FY15A	FY16A	FY17A	FY18A	
Share capital	882	882	882	882	882	
Reserves and surplus	13,650	13,839	18,563	19,280	19,580	
<b>Networth</b>	<b>14,532</b>	<b>14,721</b>	<b>19,445</b>	<b>20,162</b>	<b>20,462</b>	
Total loans	8,237	11,237	18,956	16,692	34,647	
Minority interest	1	55	77	79	403	
<b>Sources of funds</b>	<b>22,770</b>	<b>26,013</b>	<b>38,478</b>	<b>36,933</b>	<b>55,512</b>	
Fixed assets	23,717	24,443	14,507	22,886	25,687	
Less: Depn. and amort.	9,443	10,604	1,066	2,374	3,850	
<b>Net block</b>	<b>14,274</b>	<b>13,840</b>	<b>13,441</b>	<b>20,511</b>	<b>21,837</b>	
Capital WIP	953	1,518	3,962	3,853	6,538	
Investments	2,104	2,533	557	1,592	3,929	
Def tax assets/- liability	0	0	2,680	1,585	785	
<b>Current assets</b>						
Inventories	3,462	4,094	6,059	5,045	7,685	
Sundry debtors	7,891	9,535	15,195	13,113	19,654	
Cash & bank balances	957	604	2,257	980	1,003	
Other current assets	578	836	3,007	3,747	8,439	
Loans & advances	1,175	1,442	27	55	45	
<b>Current liabilities &amp; prov.</b>						
Current liabilities	7,567	7,566	8,258	13,061	13,823	
Provisions and others	1,056	823	449	488	580	
<b>Net current assets</b>	<b>5,440</b>	<b>8,122</b>	<b>17,838</b>	<b>9,393</b>	<b>22,424</b>	
Others (net)						
<b>Application of funds</b>	<b>22,770</b>	<b>26,013</b>	<b>38,478</b>	<b>36,933</b>	<b>55,512</b>	

Source: Company, JM Financial

Key Ratios						
Y/E March	FY14A	FY15A	FY16A	FY17A	FY18A	
BV/Share (₹)	164.8	166.9	220.5	228.6	232.0	
ROE (%)	17.3	4.0	6.0	7.7	7.9	
Net Debt/equity ratio (x)	0.4	0.6	0.8	0.7	1.5	
<b>Valuation ratios (x)</b>						
PER	3.8	16.1	10.8	14.3	15.3	
PBV	0.6	0.7	0.6	1.1	1.2	
EV/EBITDA	2.8	6.4	8.0	7.6	10.0	
EV/Sales	0.4	0.5	0.7	0.9	0.9	
<b>Turnover ratios (no.)</b>						
Debtor days	74	91	129	115	120	
Inventory days	32	39	51	44	47	
Creditor days	98	93	90	162	111	

Source: Company, JM Financial