

December 24, 2008

Rating	Accumulate
Price	Rs57
Target Price	Rs80
Implied Upside	40.0%
Sensex	9,687

(Prices as on December 23, 2008)

Trading Data

Market Cap. (Rs bn)	5.0
Shares o/s (m)	88.2
Free Float	57.7%
3M Avg. Daily Vol ('000)	70.7
3M Avg. Daily Value (Rs m)	4.3

Major Shareholders

Promoters	42.3%
Foreign	2.4%
Domestic Inst.	16.0%
Public & Others	39.3%

Stock Performance

(%)	1M	6M	12M
Absolute	12.8	(37.3)	(65.0)
Relative	4.9	(5.4)	(13.4)

Price Performance (RIC: DPFE.BO, BB: DFPC IN)



Source: Bloomberg

■ **Despite downturn in commodity prices, margins would be sustainable:** In Q3FY09, prices in the industrial chemical segments have fallen by 15-20% except Isopropyl Alcohol (IPA), where price has dipped by 40% QoQ. Southward industrial chemical prices have been set-off by the fallen raw material prices. Hence, margins are sustainable. During the quarter, methanol price has been dipped by 50%. Hence, DFPC has traded in Q3FY09 with negligible amount of manufacturing.

■ **Expansion plan - on time:** Capex plans of Rs8bn are being executed on time. Expansion plan for Ammonium Nitrate (AN) is on a trial run and will be operational by the end of January 2009. Capex plan of Diluted Nitric Acid (DNA) and ammonia storage tank in JNPT will be on-stream by Q1FY10.

■ **Fertiliser - gas is an issue:** DFPC is still under discussion with companies for supply of gas. Management expects that trading in specialty fertilizer (initiated from FY09) would add topline by Rs90-100cr in FY09.

■ **Real estate and others - hit by demand slowdown:** Fifty percent of Ishanya mall (5,50,000 sq ft) has already been rented out and management is facing demand slowdown currently. DFPC has total forex borrowing including ECB of Rs4,900m. Hence, DFPC could be hit by the MTM losses on foreign currency loan, due to sharp appreciation of dollar against Indian rupee in Q3FY09.

■ **Valuation:** At the CMP of Rs57, stock is trading at 3.5x at its consolidated FY10E EPS of Rs16.1. We recommend "Accumulate" the stock with target price of Rs 80.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	9,099	11,706	14,761	14,105
Growth (%)	41.8	28.7	26.1	(4.4)
EBITDA (Rs m)	1,511	1,932	2,712	2,507
PAT (Rs m)	932	1,117	1,511	1,418
EPS (Rs)	10.4	12.4	17.1	16.1
Growth (%)	19.6	18.4	38.7	(6.1)
Net DPS (Rs)	3.0	3.5	3.4	3.2

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	17.3	17.2	19.1	18.6
RoE (%)	14.2	15.2	18.1	15.0
RoCE (%)	19.3	22.3	30.0	26.0
EV / sales (x)	0.9	0.7	0.4	0.5
EV / EBITDA (x)	5.2	4.3	2.0	2.6
PE (x)	5.5	4.6	3.3	3.6
P / BV (x)	0.8	0.7	0.6	0.5
Net dividend yield (%)	5.2	6.1	6.0	5.6

Source: Company Data; PL Research

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Expansion Plan

Product	Description	Location	Capex (Rs m)	Schedule Time	Current Status
Diluted Nitric Acid (DNA)	To ramp up the capacity from 3lac MT to 4.5lac MT	Taloja	1,100	Q1FY10	On Time
Ammonium Nitrate	To ramp up the capacity from 1.3lac MT to 1.8lac MT	Taloja	250	Q4FY09	Trial Run is going on and will be operational by end of Jan'09.
Ammonia	Storage Tank of 15000 MT	JNPT	870	Q1FY10	On Time
Ammonium Nitrate	To set up 3lac MT plant	Taloja	6,000	End of FY11	DFPCL has already invested Rs 1000mn and project is on time.
Total			8,220		

Source: Company Data, PL Research

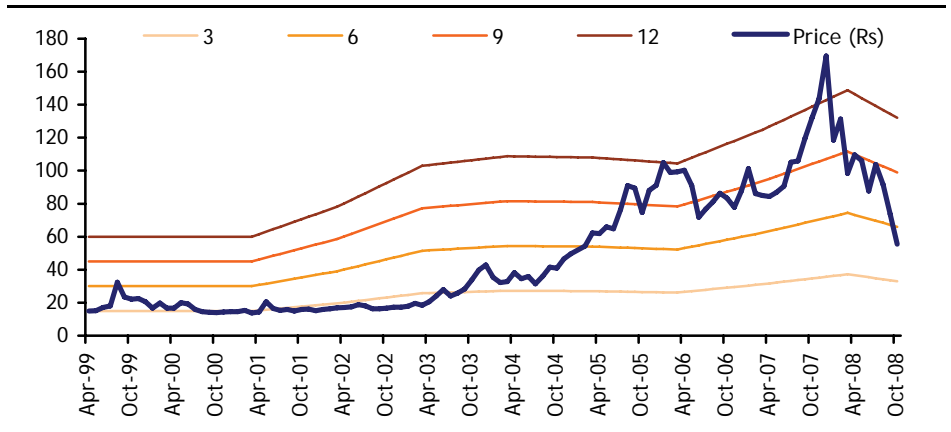
Industrial Chemical's Price Movement

(Rs/MT)

	Realisation			CMP		
	FY08	Q1FY09	Q2FY09	Q3FY09	QoQ chng.	FY08 chng.
Concentrated Nitric Acid (CAN)	11,575	13,000	14,950	12,000	-19.7%	3.7%
Diluted Nitric Acid (DNA)	8,829	10,000	12,000	10,000	-16.7%	13.3%
Ammonium Nitrate (AN)	14,003	16,970	20,600	18,000	-12.6%	28.5%
Isopropyl Alcohol (IPA)	48,786	56,137	70,000	43,000	-38.6%	-11.9%
Methanol	16,641	20,000	19,330	10,000	-48.3%	-39.9%

Source: Company Data, PL Research

PE Band



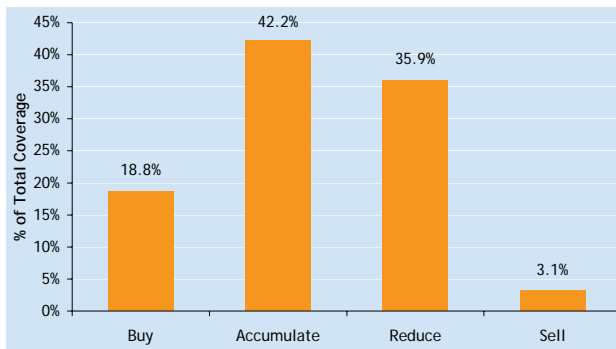
Source: PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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