

24th July 2009

HOLD

Price	Target Price
Rs 82	Rs 103

Sensex – 15,231

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	25	54	7
Rel. to Sensex	(13)	(12)	(11)	(9)

Source: Bloomberg

Stock Details

Sector	Fertilisers
Reuters	DPFE.BO
Bloomberg	DFPC@IN
Equity Capital (Rs mn)	882
Face Value (Rs)	10
No of shares o/s (mn)	88
52 Week H/L (Rs)	116/40
Market Cap (Rs bn /USD mn)	7/144
Daily Avg Vol (No of shares)	575771
Daily Avg Turnover (US\$ mn)	1.1

Shareholding Pattern (%)

	31/3/09	31/12/08	30/9/08
Promoters	42.6	42.6	42.3
FII/NRI	5.6	5.5	6.2
Institutions	16.0	15.9	16.1
Private Corp.	6.8	6.8	6.6
Public	29.1	29.1	28.9

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Higher other income boosted earnings

Deepak Fertilisers and Chemicals (DFPCL) Q1FY10 results were quite in line with our expectations however PAT was ahead of estimates due to higher other income. Net revenues declined 27% YoY to Rs 2.4 bn (we expected Rs 2.7 bn) on account of fall in chemical prices. EBITDA declined by 16% YoY to Rs 578 mn however EBITDA margins improved by 320 bps to 23.8% YoY from 20.7% in Q1FY09. EBITDA margins improved mainly on account of lower revenues from trading business to 20% (30% previous year). Chemical segment margins declined by 270 bps to 32% while Fertiliser segment margins positively surprised with 400 bps YoY margins expansion to 8%. Other income for the quarter at Rs 242 mn was significantly above exp (Rs 81 mn) which includes dividend of Rs 102 mn from subsidiary and forex gain of Rs 90 mn. APAT for the quarter declined by 15.5% YoY to Rs 391 mn (we expected Rs 256 mn) resulting in AEPS of Rs 4.4 as against Rs 5.2 in Q1FY09. We maintain our HOLD rating on the stock with a price target of Rs 103.

Weak Topline Results – broadly in line with expectations

Q1FY10 net revenues declined by 27% to Rs 2.4 bn however were broadly in line with expectations of Rs 2.7 bn. Revenue declined on account weak chemical prices. In Q1FY10, key products prices Methanol were down by 50% YoY, IPA down by 30%. Few products like Ammonium Nitrate and Nitric Acid prices remained buoyant. As a result revenues from the chemical business were down by 24.3% YoY to Rs 1.7 bn. Fertiliser segment reported a better than expected performance however revenues declined by 35% to Rs 643 mn.

Margins improved due to lower revenues from traded goods

Revenues contribution from traded goods was 20% as against 30% previous year. Since margins in trading are lower than own manufactured, overall EBITDA margins for the quarter improved by 320 bps to 23.8%. EBITDA declined by 16% YoY to Rs 578 mn (above our expectation of Rs 491 mn). Fertiliser segment posted attractive performance since margins improved by 400 bps to 8%. Chemical segment margins however declined by 270 bps YoY to 32.0% reflecting low chemical prices for the quarter.

Bottomline above estimates driven by higher other income, maintain HOLD

During the year company increased its Ammonium Nitrate capacity from 100 thousand mt to 132 thousand mt and commissioned Bentonite sulphur plant with capacity of 25,000 mt as a result gross block increased from 11.4 bn to Rs 13.7 bn in FY09. Resultant depreciation and interest increased by 20% and 39% YoY respectively. Company reported Other income of Rs 242 mn which includes Rs 102 mn received as dividend from subsidiary and Rs 90 mn on account of forex gain and was higher than our expectation. As a result APAT at Rs 391 mn was higher than expectation but declined by 15.5% YoY. AEPS for the quarter stands at Rs 4.4 as against Rs 5.2 in Q1FY09.

We maintain our HOLD rating on the stock with a price target of Rs 103 which offers 23% upside from current. We maintain our FY10 and FY11 EPS estimates at Rs 13.9 and Rs 16.8, respectively. And believe that there are possibilities of earnings upgrade going forward.

Key financials

	(Rs mn)									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROE (%)	EV/ EBITDA	P/BV	Div Yld (%)	P/E
YE-Mar										
FY08	10568	1887	17.9	1012	11.5	15.2	6.4	1.0	4.2	7.2
FY09	14121	2586	18.3	1384	15.7	18.2	5.7	0.9	4.8	5.3
FY10E	13821	2422	17.5	1223	13.9	14.1	6.9	0.8	4.2	6.0
FY11E	15106	2876	19.0	1485	16.8	15.4	5.8	0.7	4.8	4.9

Prices of Key Products changed

Chemicals	Units	Q1 FY10	Q1 FY09	Q4 FY09	% YoY	% QoQ
Ammonium Nitrate	Rs / kg	18.00	15.00	16.50	20%	9%
Isopropyl Alcohol (IPA)	Rs / kg	61.60	86.38	50.43	-29%	22%
Methanol Domestic	Rs / kg	15.90	24.52	15.12	-35%	5%
Methanol Global	USD / MT	230.00	466.67	205.00	-51%	12%
Nitric Acid	Rs / kg	10.00	9.33	10.00	7%	0%

Quarterly Result analysis

Rs mn

	Q1FY09	Q4FY09	Q1FY10	% YoY	% QoQ	FY09	FY10E	FY11E
Net Sales	3327	3330	2424	-27.1	-27.2	14121	13821	15106
Raw Material	1923	2140	1255	-34.8	-41.4	4494	8577	9141
% of Sales	57.8	64.3	51.8			31.8	62.1	60.5
Staff Cost	169	227	218	28.7	-3.8	758	814	896
% of Sales	5.1	6.8	9.0			5.4	5.9	5.9
Other exp	547	419	373	-31.8	-10.9	6284	2007	2194
% of Sales	16.4	12.6	15.4			44.5	14.5	14.5
Total Exp	2640	2785	1846	-30.1	-33.7	11535	11398	12230
EBITDA	687	544	578	-15.9	6.2	2586	2422	2876
EBITDA %	20.7	16.3	23.8	318.7	749.4	18.3	17.5	19.0
Depreciation	125	128	149	19.6	17.0	524	550	600
EBIT	562	417	429	-23.8	2.9	2062	1872	2276
Other Income	210	41	242	15.2	-82.9	360	325	346
Interest	90	79	124	38.8	-36.4	405	450	500
PBT	683	334	379	-44.5	-11.9	2017	1747	2121
Tax	220	117	155	-29.4	-24.7	633	524	636
APAT	463	262	391	-15.5	-32.9	1384	1223	1485
APAT %	13.9	7.9	16.1	221.8	825.0	9.8	8.8	9.8
EO Items	-13.7	134.3	-1.6	1210.0	-13590.0	103	0	0
RPAT	449	396	389	-13.3	1.9	1487	1223	1485
AEPS (Rs)	5.2	3.0	4.4	-15.5	-32.9	15.7	13.9	16.8

Source: Emkay Research

Segmental Results

Rs mn

	Q1FY09	Q4FY09	Q1FY10	% YoY	% QoQ
Revenues					
Chemicals	2313	1674	1751	-24.3	4.6
Manufactured	1960	1657	1690	-13.8	2.0
Traded	352	17	61	-82.8	258.6
Fertiliser	989	1613	643	-34.9	-60.1
Manufactured	315	132	225	-28.5	70.4
Traded	673	1481	418	-38.0	-71.8
Reality	31	46	36	14.8	-22.8
Others	29	6	35	23.1	450.0
Total	3370	3768	3340	-0.9	-11.4
EBIT					
Chemicals	802	525	559	-30.2	6.5
Fertiliser	40	7	52	30.4	646.4
Reality	2	39	-5	-308.7	-112.4
Others	22	-3	27	19.4	-1081.5
Total	866	568	633	-26.9	11.4
EBIT %					
Chemicals	34.7	31.4	32.0	-271	58
Fertiliser	4.0	0.4	8.0	401	758

Source: Emkay Research

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