

28th June 2007**Buy**

Price	Target Price
Rs 90	Rs123
Sensex	14,510

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	14	4	21
Rel. to Sensex	7	4	(4)	(13)

Source: Capitaline

Stock Details

Sector	Fertilisers
Reuters	DPFE.BO
Bloomberg	DFPC@IN
Equity Capital (Rs mn)	882
Face Value (Rs)	10
52 Week H/L (Rs)	110 / 66
Market Cap (Rs bn)	7.9
Daily Avg Volume (No of shares)	134454
Daily Avg Turnover (US\$ mn)	0.3

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	41.9
FII/NRI	2.1
Institutions	18.4
Private Corp.	5.0
Public	32.7

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Pipe line of benefit has finally came

Deepak Fertilisers & Petrochemicals (DFPCL) is expected to be one of the key beneficiaries from the commissioning of Dahej Uran Pipeline (DUPL), a gas pipeline which will increase the availability of LNG for the DFPCL along with other players in the region. DFPCL at present suffers from lower operating levels at its DNA plant (capacity utilisation 71%), Methanol plant (64% capacity utilisation) and ANP plant (24% capacity utilisation) due to inadequate gas availability. Commissioning of DUPL will result in better capacity utilisation, since increased production can be easily absorbed by the market. As per our estimates on annualized basis, DFPCL can improve its topline by Rs 2.7 bn (33% over FY07 revenues) and EBITDA by Rs 539 mn (37% over FY07 EBITDA) which should result in incremental PAT of Rs 291 mn and an incremental EPS of Rs 3.3. We expect DFPCL to report APAT of Rs 1.2 bn and an EPS of Rs 13.4, which does not factor in expected benefits from this pipeline. At present, the stock trades at 6.7x FY08E eps. We maintain our BUY recommendation with a price target of Rs 123.

What is DUPL???

DUPL is 489 km gas pipeline from Dahej (Gujarat) to Uran (Maharashtra), having a capacity of 24 mmscmd to carry LNG. This pipeline is laid GAIL with an estimated project cost of Rs 1.8 bn. The pipeline has been continuously delayed, previously due to problem in laying the pipeline and later on faced commissioning problem at receiving terminal at Ratnagiri. DUPL finally commissioned on 25th June'07 (Source GAIL) however before DFPCL could reap the benefit, it has to wait 25-30 days more (source – DFPCL) since branch pipeline and connecting pipeline have yet to be commissioned.

How it will benefit to DFPCL????....

Presently DFPCL get gas from GAIL under the administered price mechanism (APM) but availability is limited to 0.6-0.7 mmbtu as against its total requirement of approx 1 mmbtu. Inadequate gas availability has led to underutilization of plants like methanol, ammonium nitrate phosphate (ANP), DNA etc. Increased gas availability should improve capacity utilisation at methanol plant from 64% to 130%, DNA plant from 71% to 100% and ANP plant from mere 24% to 113%. DFPCL will also benefit by switching from high cost naphtha based power to gas based power, which will result in further savings. We expect increased gas availability should result in annual incremental revenue of Rs 2.7 bn (33% over FY07 revenues), incremental EBITDA of Rs 539 mn (37% over FY07 EBITDA) and incremental PAT of Rs 291 mn resulting in an incremental EPS of Rs 3.3, which does not include expected benefit from savings on power cost.

Some concerns do remain

Even though DFPCL has commissioned it will take another 25-30 days, before LNG is available to the company for the use. Work is still going on branch pipelines and connecting pipelines. Pricing of gas is another issue to be addressed. Company expects prices to remain in the range of 5-7 \$ mmbtu. Company's profitability will depend on the prices of gas at which it will be negotiate with the supplier.

We maintain BUY recommendation

We **maintain our 'BUY'** recommendation on the stock with a price target of Rs 123, based on our FY08E EPS of Rs 13.4, which does not include expected benefit of Rs 3.3 (annualized) from this pipeline. In FY07 DFPCL reported revenues of Rs 8.3 bn and APAT of Rs 945 mn, resulting in an EPS of Rs 10.7. We expect, along with commissioning of DUPL, stabilization of IPA plant and commissioning of 'Ishanya' mall in Pune, Maharashtra should also have favourable impact on company's financials in FY08.

Expected benefit from commissioning of DUPL

Product	DNA	Methanol	ANP	Total
Installed capacity	297000	100000	229500	
FY06 - Actuals				
Capacity utilisation (%)	71	64	24	
Production (mt)	209638	63693	56127	
Sales (mt)	30720	64162	55160	
Revenues (Rs mn)	200	967	548	
EBITDA margins (%)	39.0	27.5	11.8	
Potential on improved gas availability				
Production (mt)	300000	130000	260000	
Sales (mt)	100000	130000	260000	
Revenues (Rs mn)	705	2118	2846	
Assumptions for FY08E				
Sales (mt)	55296	80203	110320	
Revenues	390	1307	1208	
Discount from potential (%)	55	62	42	
Incrementals , not discounted in model				
Incremental revenues	315	811	1639	2765
Incremental EBITDA	123	223	193	539
Incremental PAT				291
Incremental EPS				3.3

Source – Company, Emkay research

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