

Investors' meeting

 23rd June 2008

BUY

Price	Target Price
Rs 90	Rs 123

Sensex - 14,293

Price Performance

(%)	1M	3M	6M	12M
Absolute	(13)	9	(43)	0
Rel. to Sensex	2	14	(21)	1

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)	178/78
Market Cap (Rs bn /USD mn)	8/186
Daily Avg Vol (No of shares)	680407
Daily Avg Turnover (US\$ mn)	1.7

Shareholding Pattern (%)

	31/3/08	31/12/07	30/9/07
Promoters	42.0	41.9	41.9
FII/NRI	2.0	2.1	2.8
Institutions	17.1	18.3	19.0
Private Corp.	5.7	5.4	5.7
Public	33.2	32.3	30.7

Source: Capitaline

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We hosted two days investors' meet for Deepak Fertilisers and Petrochemicals (DFPCL) in Mumbai. Mr. N.D. Joshi–C.F.O (DFPCL), discussed the outlook on existing business along with their future growth plans. Outlook on company's key products like Methanol, IPA, Ammonium Nitrate and Nitric Acid and impact on company's profitability from increased gas availability from KG basin, was flavour of most of the meetings followed by development of 'Ishanya' mall in Pune and recently proposed JV with Yara International. We have positive outlook on the company and maintain BUY recommendation on the stock with a price target of Rs 123.

Positive outlook on key products

Company guided for healthy outlook for all its key products like Methanol, Ammonium nitrate, IPA and Nitric Acid (DNA & CNA). Demand for all these products to remain strong driven by growth in user industry like pharma, construction, textiles and other intermediaries. This should lead to stable EBITDA margins for the company.

Increase in gas availability to drive profitability

DFPCL's current gas deficit of about 50% of its total requirement (0.9 mmscmd) leads to lower capacity utilization of existing plans and higher cost due to uses of high cost naphtha for steam generation. Expected Increase in gas availability from Reliance KG basin gas is to boost company's profitability by approximately 50% (if gas is priced at US\$ 6 / mmbtu or less).

Rs 2.1 bn capex plans on track

Company has already increased its ammonia capacity from 90 thousand mtpa to 125 thousand mtpa in anticipation of increase in gas availability. Its plans to increase DNA capacity from 300 thousand mtpa to 445 thousand mtpa (estimated capex Rs 1 bn) and increase in Ammonium Nitrate capacity from 90 to 132 thousand mtpa (Rs 200 mn) is expected to be completed by Mar'09. Installation of new ammonia tanker with 15 thousand mt capacity (Rs 870 mn) should be over by Oct'09.

JV with Yara International to take 3-6 months

Company has plans to transfer its fertiliser business to a JV company, which it is planning to set up with leading global fertiliser player, Yara international. Company has also plans to transfer its Ammonium Nitrate business to this JV company and greenfield project to put 300 thousand mtpa AN plant will be under this JV. However, the modalities of this proposed JV have not yet been finalised and is expected to get completed in next 3-6 months.

Valuations & Recommendations

We maintain our BUY recommendation on the stock with a price target of Rs 123. We expect DFPCL to report net revenues of Rs 11.6 bn and Rs 12.1 bn and PAT of Rs 1.1 bn and Rs 1.2 bn in FY09E and FY10E, respectively. EPS works out at Rs 12.4 for FY09 and Rs 13.3 for FY10. At present, the stock trades at 7.3x FY09E earnings.

Key financials

YE-Mar	(Rs mn)									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROE (%)	EV/ EBITDA	P/BV	Div Yld (%)	P/E
FY07	8331	1480	17.8	971	11.0	16.1	8.5	1.3	3.3	8.2
FY08	10568	1887	17.9	1012	11.5	15.0	7.5	1.1	3.9	7.9
FY09E	11566	2117	18.3	1093	12.4	14.7	6.7	1.0	4.4	7.3
FY10E	12115	2244	18.5	1175	13.3	14.4	6.3	0.9	4.4	6.8

Presentation Highlights –

Products Portfolio

	Methanol	IPA	DNA	Nitric Acid CNA	Ammonium Nitrate
Inst cap (mt)	100,000	70,000	297,000	79,200	90,000
Production (mt)(FY08)	31,500	49,400	217,300	80,500	117,800
Capacity Utilisation	32%	71%	73%	102%	131%
Avg Realisation (Rs / mt)	18,000	48,000	7,000	9,000	14,000
CMP (Rs / mt)	20,000	70,000	8,000	10,000	17,000
Raw Material	Natural Gas	Propylene	Ammonia	DNA	Ammonia / DNA
RM - Requirement	30 btu / mt	0.8 mtpa			
Other Requirement	Steam	Steam			
EBITDA margins	25-30%	20-24%	18 - 25%		22 - 25%
User Industry	Raw Material for manufacture of Formaldehyde, DMT, Methylamines, Pesticides, MTBE, Acetic Acid.	Raw Material for manufacture of Paint, Healthcare, Pharma, Agro, Organic & Imaging Chemicals	Pharma, Manufacture of nitro compounds, Defense sector, Refining of precious metals		Explosives
Growth in user industry	5 - 6%	4 - 5%			Linked with mining industry
India market	900 thousand mt	80 - 100 thousand mt	100 thousand mt	160 thousand mt	400 thousand mt
DFPCL market share	20%	75%	32%	48%	38%
Competitors	RCF, GNFC	Imports	RCF, GNFC		RCF, GNFC
% contribution to NS	6%	25%	10%		15%
Remarks	DFPCL is also into trading of imported Methanol	7 years tie-up with BPCL for propylene			DFPCL only manufacturer of porous prilled Ammonium Nitrate in India

Source: Emkay Research, Company

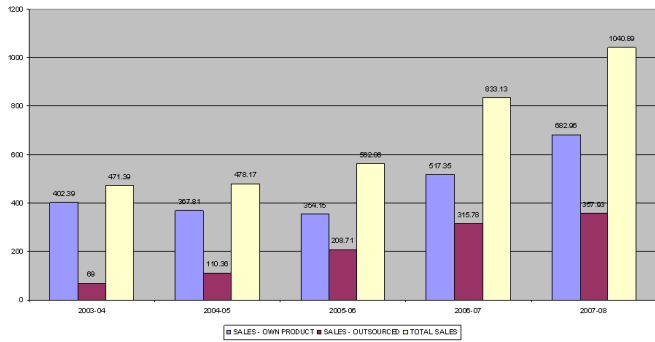
Capex Plans

Expansion Plans	Status	Amount (Rs mn)
Revamp of Ammonia capacity from 90 - 125 thousand mtpa	Completed	200
Set up 4th DNA plant with increased in capacity from 300 - 445 thousand mtpa	Mar '09	1050
Expansion of Ammonium Nitrate from 90 - 132 thousand mtpa	Mar '09	200
New Ammonia Storage Tank of 15 thousand mt capacity at JNPT	Oct '09	870
New Ammonium Nitrate Plant at Paradeep of 300 thousand mt capacity	2 years	6000

Source: Emkay Research, Company

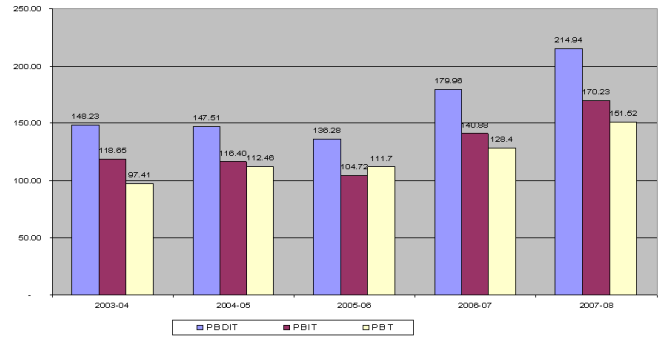
Key Charts from Presentation

Sales Rs. Crore



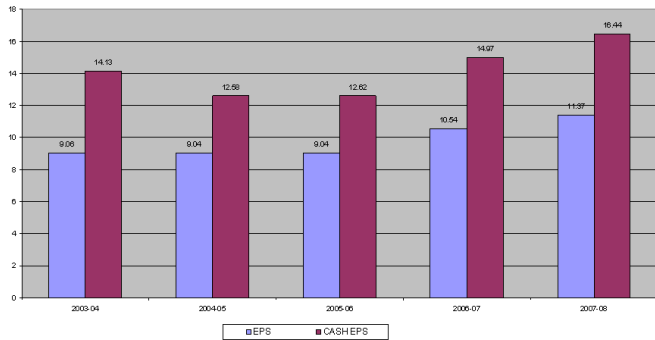
Source: Company

Profitability Rs. Crore



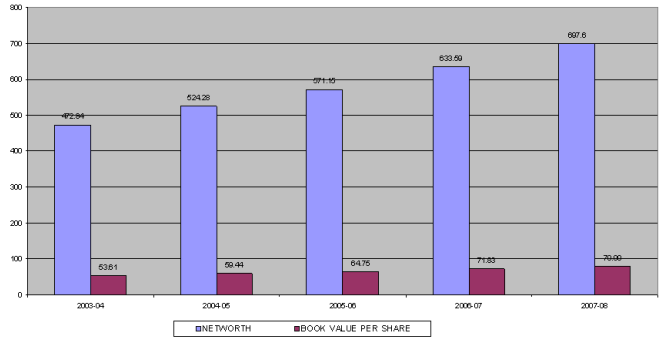
Source: Company

Earning Per Share (Rs.)



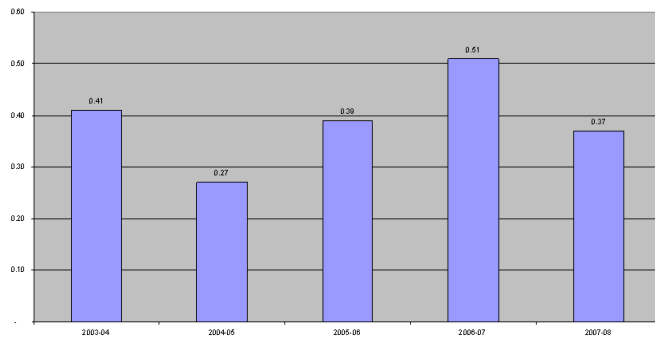
Source: Company

Net Worth/Book Value per share (Rs.)



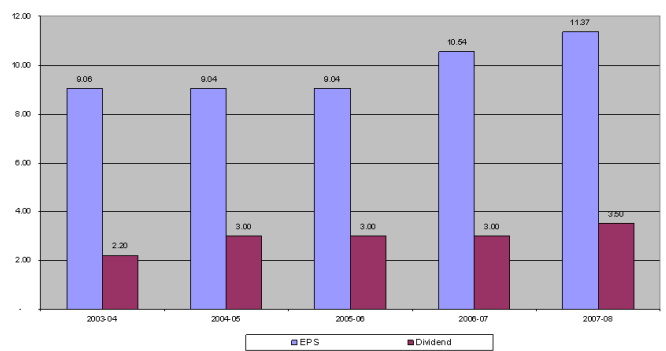
Source: Company

Debt / Equity Ratio



Source: Company

Dividend FY 1997-98



Source: Company

Meeting highlights -

Methanol production – lower gas availability restricted production

In FY08 methanol production was only 31,500, down by approximately 46% from previous year. Production was affected mainly due to lower gas availability. However, company has methanol capacity of 100 thousand mtpa and can produce upto 115 thousand mtpa but lower gas availability has always restricted utilization of Methanol. Methanol price has been very volatile during the year ranging from US\$ 240 to US\$ 700 / mt and at present hovering at US\$ 400 / mt.

Total energy consumption (for feedstock and steam requirement) per mt of methanol is approximately 30 mmbtu. It implies energy cost of approximately US\$ 180 / mt (if gas is at US\$ 6 / mmbtu) and approximately US\$ 30 / mt for other expenditures, resulting in total variable cost of ~ US\$ 210 / mmbtu. Company is expecting long run average methanol prices at US\$ 300-350 / mt. Margins should remain stable on long term basis however profitability from this segment can improve significantly through better utilization of the plant.

Increase in LNG availability to boost methanol production in H1FY09

LNG availability has increased since May'08 due to additional gas available from GAIL and hence methanol production has increased. Company has already received 12 mn scm of gas in June'08 and expects another 12 mn scm of gas in July'08.

Iso Propyl Alcohol

Production at IPA plant has ramped up and was ahead of management's expectation in FY08 with production of 49,400 mt (capacity utilization of 71%). FY09 production should remain stable because of restricted Propylene supply (key input for IPA) at 50,000 mt from HPCL, Company has 7 year contract with HPCL to supply propylene. However company is in talks to increase the supply of Propylene.

DFPCL is the only manufacturer of IPA in India and expects demand to remain robust. IPA average price for FY08 was Rs 49,000 / mt which at present has increased to Rs 70,000 / mt. IPA margins should be in range from 8,000 – 12,000 / mt with volatility in short run due to variance in market price of IPA and Propylene.

Ammonium Nitrate – strong growth expected

Growth for ammonium nitrate is expected to flourish on account of growth in mining and construction industry. Company has plans to increase AN capacity through de-bottlenecking from 90 thousand mtpa to 132 thousand mtpa by Mar'09. Looking at attractive demand growth for the product, company has plans to put another Greenfield project with capacity of 300 thousand mtpa at Paradeep, Orissa with estimated project cost of Rs 6 bn.

Realty mall – Ishanya

Company's specialty mall 'Ishanya' with total area of 550 thousand sqft has completed almost six months of launch. Approximately 300 thousand sqft has already been opened and balance 250 thousand sqft is expected to open by end of FY09. Company has already booked about 80% space on lease rentals. Average lease rental is approximately Rs 48/- psqft and rental income is expected to be Rs 300 mn per year. Apart from lease rentals, approximately Rs 100 mn per year is expected to be generated from sources like Amphitheater, art gallery, exhibition, events etc. There will be property tax of Rs 20 mn per year and other expenditure is expected to be Rs 20 mn however company need not bear maintenance expenditures.

Increase in gas availability to drive profitability

DFPCL faces shortfall of gas, since it gets gas only about 0.4 mmscmd as against its total requirement of 0.8 mmscmd. Reliance KG basin gas is expected to come from Q4CY08 and hence gas availability is expected to go up significantly. Government's focus on gas going first to fertiliser sector followed by petro chemicals and power, reinforces the increase availability of gas to the company. It will drive company's profitability by 1) ramp up in capacity utilization of 2) lower power and fuel cost due to replacement of naphtha with gas. It can drive company's revenues by ~25% (Rs 2 bn) and profitability by ~50% (Rs 500 mn).

Transfer of fertiliser business to unlock value

Company has plans to transfer its fertiliser business to a JV company, which it is planning to set up with leading global fertiliser player, Yara international. This JV company will focus on specialty fertiliser and will use DFPCL's strong marketing and distribution network to sell its product. DFPCL also has plans to transfer its Ammonium Nitrate (AN) business to JV company and planed expansion of AN plant at Paradeep, Orissa (with estimated capex of Rs 5 bn) will be under this JV company. We believe that transfer of this business can be at Rs 6-7 bn, given strong distribution network of DFPCL.

Q4FY08 results highlights -

In Q4FY08, company reported net revenues of Rs 3.4 bn, +60%YoY and PAT of Rs 319 mn, +14.7%YoY, which were better than expectation. Revenues and EBITDA margins, both were above than our expectation. In year FY08, stand alone revenues increased by 26% to Rs 10.6 bn. EBITDA margins were stable at 17.9% while increase in depreciation, interest and effective tax rate along with lower other income affected bottomline. As a result, APAT increased by 7.0% to Rs 1.0 bn resulting in an EPS of Rs 11.5 as against Rs 10.7 in FY07. However in FY08, company's subsidiary (smart chem) reported attractive performance and consolidated net profit increased by 10% to Rs 1.1 bn.

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