

1<sup>st</sup> June 2007

## Its payback time now

**Buy**

Price	Target Price
<b>Rs 87</b>	<b>Rs123</b>

<b>Sensex</b>	<b>14,544</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	3	1	12	(5)
Rel. to Sensex	(2)	(10)	5	(32)

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 / 63
Market Cap (Rs bn)	7.7
Daily Avg Volume (No of shares)	149655
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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Deepak Fertilisers & Petrochemicals (DFPCL) has reported an impressive set of results in Q4FY07 with APAT of Rs 278 mn +104%YoY and FY07 APAT of Rs 945 mn +41% YoY. DFPCL's specialty mall 'Ishanya' in Pune is finally on verge of launch in Jul'07 in 1<sup>st</sup> phase and by Oct'07 in 2<sup>nd</sup> phase. DFPCL is also confident of implementation of Dahej Uran Gas Pipeline (DUPL) by June-July '07 and also expects that due to continuous increase in gas supply, gas prices may settle at US\$ 4-5 / mmbtu. Out of its three business model now – Fertiliser, Chemicals and retail mall, Chemicals will remain focus area followed by fertilisers and retail mall. Company do not deny from the possibility of business- restructuring going forward. We attended the analyst meet of DFPCL to discuss some of the key issues on the company.

**Key takeaways from analyst meet -**

- Company's specialty mall for interiors and exteriors named 'Ishanya' in Pune with total built up area of 550 thousand sq feet is now ready to be handed over to lease owners. 220 thousand sq feet will be handed over by Jul'07 while rest should be handed over by Oct'07. Out of total leaseable area 76% has already been booked.
- Average rental is spread over from Rs 55-120 per sq feet and should generate revenues of approx Rs 250-300 mn pa. Company also expect to garner additional revenues from exhibitions, promotional shows etc. DFPCL is also focused on promoting the 'Ishanya' brand to leverage it either for further expansion or for charging brand premium and has plans to spend Rs 40-50 mn for brand promotion. Company has also 5-6 acre surplus land in adjoining area and is positively looking the opportunity to develop that land are also.
- DFPCL operates in three business area – Chemical, fertiliser and retail mall and chemicals will remain focus are for the company followed by fertiliser and retail mall.
- Company has plans to set up greenfield ammonium nitrate plant with 300 thousand mt capacity with estimated projected cost of Rs 4 bn. ammonia storage tanker at JNPT with capacity of 15 thousand mt and cost of Rs 900 mn should be over by end of CY07.
- Dahej Uran Gas Pipeline (DUPL) can play a very positive role and company expects DUPL to be commissioned by June-July'07. Increased availability of gas will help the company to increase its operating level by approx 40% and will reduce the power and fuel too. Gas prices in the long run are expected settle at US\$ 4-5 mmbtu due to increasing availability of gas.
- Company also has plans to venture into specialized value added chemicals to supply cosmetics industry, where it will be able to charge the premium and margins are likely to look up.
- Company expects ammonia prices may cool down in global market because of increasing capacity in world market and increasing supply of marketable ammonia.
- Methanol prices have crashed during the quarter and hovering at around US\$ 260/ mt. Prices to remain in the range of US\$ 250-300/ mt.

**Recommendation and valuation**

We maintain our 'BUY' recommendation on the stock with a price target of Rs 123, based on our FY08E EPS of Rs 13.4. In FY08 we expect profitability to improve from better utilisation of IPA plant and commissioning of Ishanya mall in pune.

**Note – For DFPCL's Q4FY07/ FY07 results please see our note on result update released on 19<sup>th</sup> May'07.**

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