

Result as per expectation, project on time
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Rating	BUY
Price	Rs179
Target Price	Rs235
Implied Upside	31.3%
Sensex	20,221

(Prices as on October 26, 2010)
Trading data

Market Cap. (Rs bn)	15.8
Shares o/s (m)	88.2
3M Avg. Daily value (Rs m)	84.7

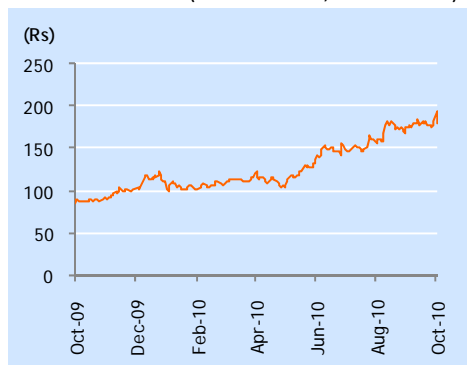
Major shareholders

Promoters	42.61%
Foreign	9.98%
Domestic Inst.	10.23%
Public & Other	37.18%

Stock Performance

(%)	1M	6M	12M
Absolute	2.4	48.9	98.1
Relative	1.6	35.0	77.3

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



Source: Bloomberg

■ **One-time events impacted Q2FY11:** Deepak Fertilizers and Petrochemicals Corporation's (DFPCL's) net sales grew by ~16% YoY to Rs4,108m (our expectation - Rs4,202m). Industrial chemicals segment grew by ~12% YoY to Rs2,346m, mainly on account of higher volumes on YoY basis despite a shutdown of IPA for 20 days and lower offtake of ammonium nitrate (AN) due to heavy rains during the quarter. Fertiliser sales grew by ~29% YoY to Rs1,892m, mainly on account of strong volumes led by increased raw material (Natural gas and Phosphoric acid) availability. EBITDA margin has fallen down by 170bps YoY to 20% (our expectation 22%) because the company has been impacted due to fertiliser subsidy reversal for the earlier year (Rs33.5m), lower IPA prices on QoQ basis (profit impacted by Rs75m) and lower offtake of AN (profit impacted by Rs30m). Adjusted PAT grew by ~14% to Rs414m (our expectation Rs404m).

■ **Project on time:** DFPCL's 3lac MTPA ammonium nitrate plant in Taloja is on schedule and expected to commission in H2FY11 with a capex of Rs655cr. The company has already commenced a trial run on the same.

■ **Maintain 'BUY':** We are positive on DFPCL on the back of improving feedstock availability, stabilizing market scenario and higher growth CAGR, going forward. We believe that the company would show FY10-12E net sales and PAT CAGR of 29% and 27% v/s FY05-10 CAGR of ~20% and ~14%, respectively. Further, company's return ratios are expected to improve, going forward. During FY04-10, stock traded in the P/E band between 4x-8x. We strongly believe that the stock could trade higher than present P/E on the back of higher earnings growth and return ratios, going forward. Hence, we maintain our **'BUY'** rating on the stock, with a target price of Rs235 (based on 9x FY12E EPS).

Key financials (Y/e March)	2009	2010	2011E	2012E
Revenues (Rs m)	14,714	13,649	18,049	22,528
Growth (%)	25.7	(7.2)	32.2	24.8
EBITDA (Rs m)	3,188	3,309	3,934	4,877
PAT (Rs m)	1,370	1,653	1,777	2,300
EPS (Rs)	15.5	18.7	20.2	26.1
Growth (%)	25.7	20.6	7.6	29.4
Net DPS (Rs)	4.0	4.5	5.0	5.0

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	21.7	24.2	21.8	21.7
RoE (%)	17.9	19.1	18.0	20.2
RoCE (%)	14.2	11.4	12.2	14.4
EV / sales (x)	1.4	1.5	1.3	0.9
EV / EBITDA (x)	6.3	6.3	5.9	4.3
PE (x)	11.5	9.5	8.9	6.9
P / BV (x)	1.9	1.7	1.5	1.3
Net dividend yield (%)	2.2	2.5	2.8	2.8

Source: Company Data; PL Research

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**Q2FY11 Result Overview (Rs m)**

Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
Net Sales	4,108	3,549	15.7	3,505	7,613	5,973	27.5
Expenditure	3,342	2,828	18.2	2,582	5,923	4,674	26.7
Operating Profit	766	721	6.2	924	1,690	1,299	30.1
<i>Margin (%)</i>	<i>18.7</i>	<i>20.3</i>		<i>26.3</i>	<i>22.2</i>	<i>21.7</i>	
Other Income	69	63	9.3	89	158	305	(48.1)
PBITDA	835	784	6.5	1,013	1,848	1,604	15.2
<i>Margin (%)</i>	<i>20.0</i>	<i>21.7</i>		<i>28.2</i>	<i>23.8</i>	<i>25.5</i>	
Depreciation	170	160	6.8	167	337	309	9.1
PBIT	665	625	6.4	846	1,511	1,295	16.7
Interest	90	103	(12.5)	111	202	228	(11.4)
Profit before tax	574	521	10.2	735	1,309	1,067	22.7
<i>Margin (%)</i>	<i>14.0</i>	<i>14.7</i>		<i>21.0</i>	<i>17.2</i>	<i>17.9</i>	
Tax	160	159	0.9	213	373	314	18.9
<i>Tax Rate (%)</i>	<i>27.9</i>	<i>30.4</i>		<i>29.0</i>	<i>28.5</i>	<i>29.4</i>	
Adjusted PAT	414	363	14.2	522	936	754	24.3
Ex-Items	-	2		-	-	3	
Reported PAT	414	361	14.7	522	936	750	24.8

Source: Company Data, PL Research


Segmental break-up (Rs m)

Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
Chemicals							
Manufactured	2,346	2,085	12.5	2,312	4,658	3,776	23.4
Traded	-	18	-	-	-	79	-
Total	2,346	2,103	11.6	2,312	4,658	3,854	20.9
Fertilizers							
Manufactured	728	400	82.1	734	1,461	625	133.9
Traded	1,164	1,068	9.0	554	1,719	1,485	15.7
Total	1,892	1,467	28.9	1,288	3,180	2,110	50.7
Reality	31	32	(2.8)	31	62	68	(8.8)
Others	21	26	(20.5)	31	52	61	(14.9)
Total Sales	4,290	3,628	18.2	3,662	7,952	6,093	30.5
Less: Inter-segment Revenue	182	79	130.6	157	339	120	182.7
Net Sales	4,108	3,549	15.7	3,505	7,613	5,973	27.5
Segment Results							
Chemicals	614	639	(4.0)	778	1,392	1,199	16.1
Fertilizers	119	77	54.1	148	267	129	107.1
Reality	12	18	(32.0)	(20)	35	44	(21.4)
Others	(8)	(11)	(25.2)	22.7	(29)	(16)	80.5
Total	737	723	1.9	928	1,665	1,356	22.8
Segment Margin %							
Chemicals	26.2	30.4		33.7	29.9	31.1	
Fertilizers	6.3	5.3		11.5	8.4	6.1	
Reality	38.4	54.9		-65.0	56.0	64.9	
Overall	17.9	20.4		26.5	21.9	22.7	

Source: Company Data, PL Research

Sales Volume (MT)

Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
C.N.A. (Including S . N. A)	23,366	21,789	7.2	24,497	47,863	41,817	14.5
D.N.A.	8,320	4,157	100.1	7,773	16,093	7,262	121.6
Methanol	23,401	21,390	9.4	13,342	36,743	33,618	9.3
IPA	16,249	16,533	(1.7)	14,397	30,646	29,214	4.9
Ammonium Nitrate	22,885	26,892	(14.9)	30,913	53,798	59,782	(10.0)
ANP (23:23:0)	35,730	25,813	38.4	34,080	69,810	37,699	85.2
Bentonite Sulphur	3,239	2,081	55.6	4,825	8,064	4,783	68.6
Total	133,190	118,655	12.2	129,827	263,017	214,174	22.8

Source: Company Data, PL Research


Income Statement (Rs m)

Y/e March	2009	2010	2011E	2012E
Net Revenue	14,714	13,649	18,049	22,528
Raw Material Expenses	9,476	7,983	10,585	13,782
Gross Profit	5,238	5,666	7,464	8,746
Employee Cost	783	912	1,594	1,449
Other Expenses	1,268	1,446	1,936	2,419
EBITDA	3,188	3,309	3,934	4,877
Depr. & Amortization	593	714	847	1,023
Net Interest	407	464	547	568
Other Income	—	—	—	—
Profit before Tax	2,187	2,131	2,539	3,286
Total Tax	694	697	762	986
Profit after Tax	1,493	1,435	1,777	2,300
Ex-Od items / Min. Int.	124	(218)	—	—
Adj. PAT	1,370	1,653	1,777	2,300
Avg. Shares O/S (m)	88.2	88.2	88.2	88.2
EPS (Rs.)	15.5	18.7	20.2	26.1

Cash Flow Abstract (Rs m)

Y/e March	2009	2010	2011E	2012E
C/F from Operations	1,415	2,441	2,124	2,830
C/F from Investing	(2,294)	(2,664)	(3,796)	(200)
C/F from Financing	2,164	691	483	(2,517)
Inc. / Dec. in Cash	1,285	467	(1,188)	113
Opening Cash	316	1,602	2,069	881
Closing Cash	1,602	2,069	881	994
FCFF	(857)	271	(4,576)	2,630
FCFE	1,727	1,505	(3,576)	630

Key Financial Metrics

Y/e March	2009	2010	2011E	2012E
Growth				
Revenue (%)	25.7	(7.2)	32.2	24.8
EBITDA (%)	33.6	3.8	18.9	24.0
PAT (%)	25.7	20.6	7.6	29.4
EPS (%)	25.7	20.6	7.6	29.4
Profitability				
EBITDA Margin (%)	21.7	24.2	21.8	21.7
PAT Margin (%)	9.3	12.1	9.8	10.2
RoCE (%)	14.2	11.4	12.2	14.4
RoE (%)	17.9	19.1	18.0	20.2
Balance Sheet				
Net Debt : Equity	0.6	0.6	0.7	0.4
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	11.5	9.5	8.9	6.9
P / B (x)	1.9	1.7	1.5	1.3
EV / EBITDA (x)	6.3	6.3	5.9	4.3
EV / Sales (x)	1.4	1.5	1.3	0.9
Earnings Quality				
Eff. Tax Rate	31.7	32.7	30.0	30.0
Other Inc / PBT	—	—	—	—
Eff. Depr. Rate (%)	4.3	4.5	3.7	4.5
FCFE / PAT	126.1	91.1	(201.2)	27.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2009	2010	2011E	2012E
Shareholders Funds	8,103	9,240	10,500	12,283
Total Debt	6,078	7,312	8,312	6,312
Other Liabilities	—	—	—	—
Total Liabilities	14,180	16,552	18,812	18,595
Net Fixed Assets	10,313	12,234	15,183	14,359
Goodwill	—	—	—	—
Investments	914	944	944	944
Net Current Assets	3,640	4,033	3,344	3,951
<i>Cash & Equivalents</i>	<i>1,602</i>	<i>2,069</i>	<i>881</i>	<i>994</i>
<i>Other Current Assets</i>	<i>4,746</i>	<i>4,317</i>	<i>5,397</i>	<i>6,461</i>
<i>Current Liabilities</i>	<i>2,708</i>	<i>2,354</i>	<i>2,933</i>	<i>3,505</i>
Other Assets	(687)	(658)	(658)	(658)
Total Assets	14,180	16,552	18,812	18,595

Quarterly Financials (Rs m)

Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Revenue	3,734	3,317	3,595	4,177
EBITDA	729	881	1,013	835
<i>% of revenue</i>	<i>19.5</i>	<i>26.6</i>	<i>28.2</i>	<i>20.0</i>
Depr. & Amortization	171	163	167	170
Net Interest	117	119	111	90
Other Income	—	—	—	—
Profit before Tax	441	599	735	574
Total Tax	152	154	213	160
Profit after Tax	289	445	522	414
Adj. PAT	529	442	522	414

Key Operating Metrics

Y/e March	2009	2010	2011E	2012E
Industrial Chemicals Sales	8,782.2	8,654.5	10,442.7	13,592.3
Fertilisers Sales	5,745.8	4,391.8	7,054.7	8,314.2
Industrial Chemicals EBIT %	30.4	31.3	29.6	28.5
Fertilisers EBIT %	3.8	3.7	8.6	8.6

Source: Company Data, PL Research.