

17 March 2011

MF Global Company Update

Deepak Fertilisers

| TAN commissioned; margin sacrifice imminent in wake of rising input costs

FERTILISERS
DFPC IN: **BUY**
RS 155

TAN commissioned, however sale vols below our estimates: New Technical Ammonium Nitrate plant (TAN) commissioned, likely to sell ~20,000-25,000 mt in Q4FY11E, however below our estimate of 50,000 mt. TAN to account for Rs 463 in revenues (3% of FY11E overall revenues at realisation of Rs 18,500/mt).

TAN to be EPS accretive in Q4: New associated Nitric Acid (key feed for TAN) plant not stabilized and the company is drawing on existing Acid facilities to meet acid requirements of the new TAN plant. We thus expect the incidence of capital-related charges to be lower (like depreciation and interest) in Q4FY11E and that, TAN commissioning to be PBT accretive at about 2%. Also, locally procured ammonia (20% cheaper compared to imports) in this quarter could help earnings favourably.

Rise in costs partially mitigated by increase in end product price, though not adequate: Going forward, we see fall in gas availability raising the risk of higher gas prices for the company as also rising phosphoric acid and ammonia prices are key risks to attaining our earnings estimates. To partially combat the rise in Ammonia costs, the company has raised Ammonium Nitrate prices by Rs 2700/mt or 17% w.e.f. Jan (indicated in the Q3 call). However, the price hike seems less, given it has to push higher volumes (0.3mmt new TAN) and margin sacrifice seems imminent.

Q4FY11E earnings could be somewhat higher over Q3FY11E, however, below our estimates, due to cost inflation: Much of the better performance in Q3FY11 was helped by higher methanol prices/margins and the same trend is expected to continue. Methanol prices have advanced by 5% qoq to US\$ 344/mt. We estimate Q4FY11E EPS at Rs 5.6/share and Rs 21.5/share in FY11E.

Lower estimates by 5%/10%, view intact, valuations attractive: To account for higher ammonia/phos. acid costs, we lower FY11E/12E earnings by 5/10%, respectively, to Rs 21.5/24. However, reiterate Buy for attractive valuations and higher dividend prospects (expected to generate free cash flows after many years). Book value growth of 15% and dividend yield of 4.5%, could give stock return of over 20%. Also, while investments in ISHAANYA have been a dampener on returns, the new TAN project (project cost 1/4th that of global TAN projects) could maximise returns and earnings. Value unlocking possibilities over the long term in ISHAANYA/chemicals division limits investment downside. Maintain Buy, albeit at a revised price target of Rs 200 (Rs 220 earlier).

VALUATION SUMMARY

Y/E MAR, RS MN	FY08	FY09	FY10	FY11E	FY12E
NET SALES	11,255	14,586	13,120	17,179	22,439
EBIDTA	2,383	3,098	3,276	4,413	5,574
EBIDTA MARGINS, %	21.2	21.2	25.0	25.7	24.8
NET PROFIT	1,098	1,380	1,228	1,894	2,127
NET PROFIT MARGIN, %	9.8	9.5	9.4	11.0	9.5
NET PROFIT (ADJUSTED)	1,098	1,380	1,228	1,894	2,127
EPS, RS	12.4	15.6	13.9	21.5	24.1
EPS GROWTH, %	19.4	25.7	(11.0)	54.2	12.3
PER, X	12.5	9.9	11.1	7.2	6.4
EV/EBIDTA, X	7.1	5.8	5.8	4.5	3.2
PRICE/BOOK VALUE, X	1.9	1.7	1.5	1.3	1.1
ROIC, %	15.9	17.6	16.7	18.1	21.4
ROE, %	16.1	18.1	14.2	19.1	18.8

Source: Company, MF Global India Research Estimates

TARGET RS 200 (+29%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	88MN
MARKET CAP (RS) :	14BN
MARKET CAP (USD) :	303MN
52 - WK HI/LO (RS) :	212 / 102
LIQUIDITY 3M (USD) :	1.5MN
FACE VALUE (RS) :	10

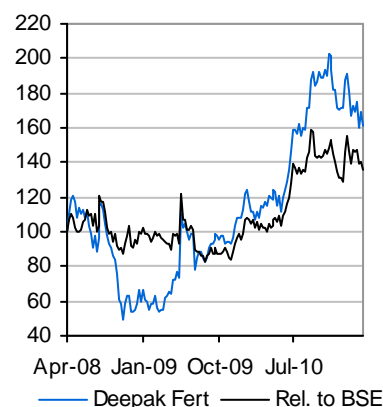
SHARE HOLDING PATTERN, %

PROMOTERS :	42.6
FII / NRI :	14.7
FI / MF :	9.6
NON-PROMOTER CORP. HOLDINGS :	6.9
PUBLIC & OTHERS :	26.1

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-8.2	-2.9	40.9
REL TO BSE	-7.4	4.6	35.9

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY08	FY09	FY10	FY11E	FY12E
NET SALES	11,255	14,586	13,120	17,179	22,439
GROWTH, %	29	30	-10	31	31
OTHER INCOME	452	420	529	326	357
TOTAL INCOME	11,706	15,006	13,649	17,505	22,796
OPERATING EXPENSES	-9,323	-11,909	-10,373	-13,092	-17,222
EBITDA (CORE)	2,383	3,098	3,276	4,413	5,574
GROWTH, %	26.7	30.0	5.8	34.7	26.3
MARGIN, %	21.2	21.2	25.0	25.7	24.8
DEPRECIATION	-515	-593	-714	-793	-938
EBIT	1,868	2,504	2,563	3,621	4,636
GROWTH, %	26.7	30.0	5.8	34.7	26.3
MARGIN, %	21.2	21.2	25.0	25.7	24.8
INTEREST PAID	-171	-407	-464	-751	-1,412
OTHER NON-OPERATING INCOME	0	0	0	0	0
NON-RECURRING ITEMS	-28	-33	250	0	0
PRE-TAX PROFIT	1,670	2,064	2,349	2,870	3,223
TAX PROVIDED	-580	-694	-697	-976	-1,096
PROFIT AFTER TAX	1,090	1,370	1,653	1,894	2,127
NET PROFIT	1,090	1,370	1,653	1,894	2,127
MF NET PROFIT	1,098	1,380	1,228	1,894	2,127
GROWTH, %	19.4	25.7	(11.0)	54.2	12.3
NET PROFIT (ADJUSTED)	1,098	1,380	1,228	1,894	2,127
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	0	0	0	0
UNADJ. SHARES (M)	88	88	88	88	88
WTD AVG SHARES (M)	88	88	88	88	88

CASH FLOW

Y/E MAR, RS MN	FY08	FY09	FY10	FY11E	FY12E
PRE-TAX PROFIT	1,670	2,064	2,349	2,870	3,223
DEPRECIATION	515	593	714	793	938
CHG IN WORKING CAPITAL	156	-527	42	-338	-451
TOTAL TAX PAID	-624	-663	-730	-976	-1,096
OTHER OPERATING ACTIVITIES	-141	409	-93	817	1,412
CASH FLOW FROM OPERATING ACTIVITIES	1,576	1,877	2,281	3,166	4,027
CAPITAL EXPENDITURE	-2,160	-2,250	-2,634	-2,948	0
CHG IN INVESTMENTS	538	-44	-30	0	0
CHG IN MARKETABLE SECURITIES	-2	-22	33	0	0
OTHER INVESTING ACTIVITIES	179	136	330	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-1,446	-2,181	-2,302	-2,948	0
FREE CASH FLOW	130	-304	-20	218	4,027
EQUITY RAISED/(REPAID)	7	7	5	0	0
DEBT RAISED/(REPAID)	241	2,584	1,234	3,188	0
DIVIDEND (INCL. TAX)	-361	-380	-452	-503	-704
OTHER FINANCING ACTIVITIES	-766	-1,535	-300	-817	-1,412
CASH FLOW FROM FINANCING ACTIVITIES	-880	676	487	1,868	-2,116
NET CHG IN CASH	-750	372	467	2,086	1,911

BALANCE SHEET

Y/E MAR, RS MN	FY08	FY09	FY10	FY11E	FY12E
CASH & BANK	317	1,602	2,069	4,156	6,067
MARKETABLE SECURITIES AT COST	10	33	0	0	0
DEBTORS	2,263	2,781	2,020	3,153	4,119
INVENTORY	849	1,035	1,163	1,399	1,840
LOANS & ADVANCES	936	897	1,117	897	898
OTHER CURRENT ASSETS	0	0	17	17	17
TOTAL CURRENT ASSETS	4,376	6,348	6,387	9,622	12,942
INVESTMENTS	870	914	944	944	944
GROSS FIXED ASSETS	11,471	13,742	14,672	18,816	21,764
LESS: DEPRECIATION	-5,297	-5,869	-6,583	-7,375	-8,314
ADD: CAPITAL WIP	2,483	2,440	4,144	2,948	0
NET FIXED ASSETS	8,657	10,313	12,234	14,388	13,450
NON-CURRENT ASSETS	0	0	0	0	0
TOTAL ASSETS	13,903	17,575	19,564	24,954	27,335
CURRENT LIABILITIES	2,128	2,213	1,708	2,475	3,256
PROVISIONS	442	495	646	690	866
TOTAL CURRENT LIABILITIES	2,570	2,708	2,354	3,165	4,122
NON-CURRENT LIABILITIES	4,155	6,770	7,970	11,158	11,158
TOTAL LIABILITIES	6,725	9,478	10,324	14,323	15,280
PAID-UP CAPITAL	882	882	882	882	882
RESERVES & SURPLUS	6,307	7,220	8,358	9,749	11,172
SHAREHOLDERS' EQUITY	7,177	8,097	9,240	10,631	12,055
TOTAL EQUITY & LIABILITIES	13,903	17,575	19,564	24,954	27,335

PER-SHARE DATA

Y/E MAR, RS MN	FY08	FY09	FY10	FY11E	FY12E
MF EPS (INR)	12.4	15.6	13.9	21.5	24.1
GROWTH, %	19.4	25.7	(11.0)	54.2	12.3
BOOK NAV/SHARE (INR)	81.4	91.8	104.8	120.5	136.7
FDEPS (INR)	12.4	15.6	13.9	21.5	24.1
CEPS (INR)	18.6	22.8	19.2	30.5	34.8
CFPS (INR)	19.5	16.6	26.9	26.6	29.6
DPS (INR)	3.5	4.0	4.5	5.0	7.0

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

Y/E MAR, RS MN	FY08	FY09	FY10	FY11E	FY12E
RETURN ON ASSETS (%)	9.2	10.4	10.5	10.7	11.6
RETURN ON EQUITY (%)	16.1	18.1	14.2	19.1	18.8
RETURN ON INVESTED CAPITAL (%)	15.9	17.6	16.7	18.1	21.4
ROIC/COST OF CAPITAL (X)	1.8	1.9	1.8	2.0	2.3
ROIC - COST OF CAPITAL (%)	7.1	8.6	7.6	8.9	12.2
RETURN ON CAPITAL EMPLOYED (%)	10.6	12.0	11.7	11.8	13.0
COST OF CAPITAL (%)	8.8	9.0	9.1	9.2	9.1
ROCE - COST OF CAPITAL (%)	1.9	3.0	2.7	2.6	3.9
ASSET TURNOVER (X)	1.1	1.2	0.9	1.1	1.3
SALES/TOTAL ASSETS (X)	0.9	0.9	0.7	0.8	0.9
SALES/NET FA (X)	1.4	1.5	1.2	1.3	1.6
WORKING CAPITAL/SALES (X)	0.2	0.2	0.2	0.2	0.2
RECEIVABLE DAYS	73.4	69.6	56.2	67.0	67.0
INVENTORY DAYS	27.5	25.9	32.4	29.7	29.9
PAYABLE DAYS	83.3	67.8	60.1	69.0	69.0
CURRENT RATIO (X)	2.1	2.9	3.7	3.9	4.0
QUICK RATIO (X)	1.7	2.4	3.1	3.3	3.4
INTEREST COVER (X)	10.9	6.2	5.5	4.8	3.3
DIVIDEND COVER (X)	3.6	3.9	3.1	4.3	3.4
PER (X)	12.5	9.9	11.1	7.2	6.4
PEG (X) - Y-O-Y GROWTH	0.6	0.4	(1.0)	0.1	0.5
PRICE/BOOK (X)	1.9	1.7	1.5	1.3	1.1
YIELD (%)	2.3	2.6	2.9	3.2	4.5
EV/NET SALES (X)	1.5	1.2	1.4	1.2	0.8
EV/EBITDA (X)	7.1	5.8	5.8	4.5	3.2
EV/EBIT (X)	7.1	5.8	5.8	4.5	3.2
EV/NOPLAT (X)	9.3	7.5	7.3	5.8	4.0
EV/CE	1.4	1.2	1.1	0.9	0.8
EV/IC (X)	1.7	1.5	1.4	1.2	1.1

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET RS	CMP RS	DATE
BUY	200	155	17-MARCH-11
BUY	220	177	28-OCTOBER-10
BUY	195	152	23-JULY-10
BUY	150	110	27-MAY-10
NEUTRAL	112	110	19-MARCH-10
BUY	89	87	03-NOVEMBER-09
BUY	107	87	14-SEPTEMBER-09

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BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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