

Fertiliser surprises positively, upgrade earnings

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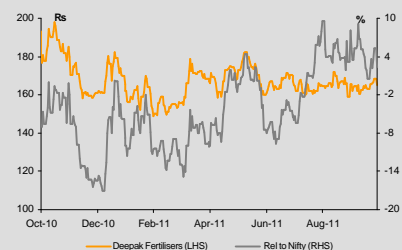
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 166	Rs 250
EPS change FY12E/13E (%)	6/10
Target Price change (%)	NA
Nifty	5,098
Sensex	16,939

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(3)	(2)	(9)
Rel. to Nifty	(1)	7	13	8

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri Input & Chemicals
Bloomberg	DFPC@IN
Equity Capital (Rs mn)	882
Face Value(Rs)	10
No of shares o/s (mn)	88
52 Week H/L	212/145
Market Cap (Rs bn/USD mn)	15/300
Daily Avg Volume (No of sh)	83471
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	43.2	43.2	42.6
FII/NRI	16.0	15.4	14.7
Institutions	8.7	8.9	9.6
Private Corp	7.0	6.6	6.9
Public	25.2	26.0	26.1

Source: Capitaline

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- **Q2FY12 results were in line with estimates. Revenues Rs 5.8 bn, +39%yoy, was above est due to strong fertiliser revenues but APAT Rs 619 mn, +38%yoy, was broadly in line with est**
- **TAN demand remained sluggish due to Telangana stir & monsoon related floods. Margin pressures also intensified as company was unable to push cost related increases**
- **Strong results in fertiliser were driven by higher trading of specialty fertiliser resulting in fertiliser contribution to EBIT in H1FY12 increasing to 25% from 18% previous year**
- **Driven by strong performance of fertiliser, we raised our EPS to Rs 26.7/30.6 (previous Rs 25.2/27.9) for FY12/13, maintain target of Rs 250 and reiterate BUY**

Topline above estimates led by higher fertiliser trading; bottomline in line

Deepak reported revenues of Rs 5.8bn, 39% yoy higher than est of Rs 4.6bn driven by higher fertiliser trading. Fertiliser segment reported revenues of Rs 2.3bn, 20% yoy (against est of Rs 1.3bn). Traded fertilizers increased by 2% yoy to Rs 1.1bn (against est of Rs 200mn) led by higher sales of water solubles, bio-fertilisers, etc. Chemicals reported in line revenues of Rs 3.5bn, 50% yoy. However, company reported EBITDA of Rs 1.06bn, +32% yoy (against est of Rs 1.1bn) with EBITDA margin of 18.3% (against est of 24%). Despite lower EBITDA, higher other income of Rs 119mn (against est of Rs 80mn) & lower tax, resulted in APAT of Rs 619mn, 38% yoy broadly in line with est of Rs 576mn. Results are adjusted for Rs 80 mn M-t-M loss in fertiliser inventory.

Margin pressures intensify in chemicals

Chemicals segment reported revenues of Rs 3.5bn, 50% yoy in line with est. Chemicals volumes increased by 22% yoy to 131,000mt while average chemicals realizations increased by 22% yoy. Margins came at 22% lower than est of 27% due to rising input cost primarily ammonia. Owing to demand remaining sluggish during the quarter due to Telangana stir & monsoon related floods, company was not able to pass on cost increases. Company has also preponed its new TAN plant shutdown to October for a period of 3 weeks and would negatively impact volumes (10,000-12,000mt).

Fertiliser margins improve to 15% driven by trading of high margin specialty fertilizer products

Fertiliser reported revenues of Rs 2.3bn, 20% yoy ahead of est of Rs 1.3bn driven by higher fertiliser trading. Trading revenues increased by 2% yoy to Rs 1.1bn ahead of est of Rs 200mn. Manufactured fertiliser volumes increased by 18% yoy to 42,000mt while prices increased by 26% yoy to Rs 26,800/mt in line with phos acid prices. Margins improved to 15% (700bps yoy) against est of 5% due to increasing share of high margin specialty traded fertilisers in absence of Muriate of Potash(MoP) trading.

Upgrade EPS to Rs26.7/30.6 for FY12/13, re-iterate Buy

We have revised our estimates to reflect higher fertiliser & chemical prices however margins contract by 300bps due to pressure on chemical margins. Revised EPS stands at Rs 26.7/30.6 for FY12/13. However, we maintain our buy rating with TP of Rs 250 based on 8x FY13 EPS.

Financial Snapshot

	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE %	P/E	EV/EBITDA	P/BV
YE-Mar										
FY10	12,880	2,785	21.6	1,547	17.5	11.8	17.7	9.4	6.8	1.6
FY11	15,682	3,445	22.0	1,910	21.7	23.5	19.3	7.6	5.5	1.4
FY12E	20,981	4,249	20.3	2,359	26.7	23.5	19.6	6.2	4.0	1.1
FY13E	22,137	4,754	21.5	2,697	30.6	14.4	18.6	5.4	3.1	0.9

Key Financials – Quarterly

	Rs Mn						
Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Revenue	4,141	3,750	4,285	4,739	5,772	39.4	21.8
Expenditure	3,342	2,931	3,382	3,610	4,713	41.0	30.6
as % of sales	80.7	78.2	78.9	76.2	81.7		
Consumption of RM	2,730	2,193	2,479	2,674	3,747	37.3	40.1
as % of sales	65.9	58.5	57.9	56.4	64.9		
Employee Cost	219	291	313	385	365	66.4	(5.2)
as % of sales	5.3	7.8	7.3	8.1	6.3		
Other expenditure	393	448	590	551	601	53.1	9.1
as % of sales	9.5	11.9	13.8	11.6	10.4		
EBITDA	800	819	903	1,129	1,059	32.4	(6.2)
Depreciation	170	184	194	191	196	15.1	2.8
EBIT	629	635	709	938	863	37.1	(8.0)
Other Income	69	82	118	68	119	71.6	74.9
Interest	90	114	124	127	150	65.4	17.7
PBT	608	604	703	879	832	36.8	(5.3)
Total Tax	160	167	208	240	213	33.0	(11.2)
Adjusted PAT	448	446	495	639	619	38.2	(3.2)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	448	446	495	639	619	38.2	(3.2)
Extra ordinary items	-33	-43	33	0	-80		
Reported PAT	415	403	527	639	539	30.0	(15.7)
Reported EPS	4.7	4.6	6.0	7.2	6.1	30.0	(15.7)

Margins (%)							(bps)	(bps)
EBIDTA	19.3	21.8	21.1	23.8	18.3	(96)	(548)	
EBIT	15.2	16.9	16.5	19.8	14.9	(25)	(485)	
EBT	13.0	13.9	13.7	17.1	12.4	(65)	(476)	
PAT	10.8	11.9	11.5	13.5	10.7	(9)	(276)	
Effective Tax rate	26.3	27.7	29.6	27.3	25.6	(74)	(168)	

Source: Company, Emkay Research

Revision in estimates

We have revised our revenue estimates to reflect higher fertiliser & chemical prices & higher fertiliser trading. However, our margins contract in FY12E due to intensifying pressures in chemical segment. Revised EPS stands at Rs 26.7/30.6 for FY12/13 respectively.

Rs mn	FY12E			FY12E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	19167	20981	9.5%	20856	22137	6.1%
EBITDA	4449	4249	-4.5%	4703	4754	1.1%
EBITDA %	23.2%	20.3%	-296	22.5%	21.5%	-108
APAT	2224	2359	6.1%	2459	2698	9.7%
AEPS	25.2	26.7	6.1%	27.9	30.6	9.6%

Segment Results							Rs mn
Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	% YoY	% QoQ
Revenues							
Chemicals	2346	2630	3472	3327	3515	49.8	5.6
Manufactured	2346	2630	3472	3327	3515	49.8	5.6
Traded	0	0	0	0	0		
Fertilisers	1925	1203	929	1474	2307	19.8	56.5
Manufactured	761	488	647	855	1125	47.8	31.5
Traded	1164	715	283	619	1182	1.6	91.0
Realty	31	28	29	18	19	-39.4	5.6
Others	21	5	6	32	31	52.4	-1.3
Total	4323	3865	4436	4851	5872	35.8	21.0
EBIT							
Chemicals	614	799	1003	945	777	26.5	-17.8
Fertilisers	153	43	7	226	346	126.6	53.0
Realty	-8	-13	-8	-42	-35	316.9	-17.6
Others	12	-5	-3	22	21	75.6	-5.9
Total	770	824	999	1151	1109	44.0	-3.7
EBIT %							
Chemicals	26.2	30.4	28.9	28.4	22.1	-407	-630
Fertilisers	7.9	3.5	0.7	15.3	15.0	707	-34

Source: Company, Emkay Research

Quarterly sale volume analysis

in MT

Product	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	% YoY	% QoQ
Ammonium Nitrate	22885	35463	56824	57563	41688	82.2%	-27.6%
Nitric Acid	31686	30374	35920	30462	32304	2.0%	6.0%
DNA	8320	8770	12239	10688	9293	11.7%	-13.1%
C N A	19062	17336	18504	15129	17656	-7.4%	16.7%
SNA	4304	4268	5177	4645	5355	24.4%	15.3%
IPA	16249	16078	20927	14437	21829	34.3%	51.2%
Propane	2280	1474	3276	3102	4000	75.4%	28.9%
Methanol	23401	23353	21613	19930	17978	-23.2%	-9.8%
Co2	7036	7562	7608	7691	8832	25.5%	14.8%
Bentonite Sulphur	3239	2253	1862	4160	3097	-4.4%	-25.6%
Total Chemicals	106776	116557	148030	137345	129728	21.5%	-5.5%
Fertiliser (ANP)	35730	23408	31814	32321	41982	17.5%	29.9%
Total	142,506	139,965	179,844	169,666	171,710	20.5%	1.2%

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	12,880	15,682	20,981	22,137
Growth (%)	(8.8)	21.8	33.8	5.5
Expenditure	10,095	12,237	16,732	17,384
Materials Consumed	7,612	9,272	12,911	13,464
Employee Cost	871	1,068	1,510	1,600
Other Exp	1,612	1,897	2,311	2,320
EBITDA	2,785	3,445	4,249	4,754
Growth (%)	7.7	23.7	23.3	11.9
EBITDA margin (%)	21.6	22.0	20.3	21.5
Depreciation	643	715	779	760
EBIT	2,142	2,730	3,470	3,994
EBIT margin (%)	16.6	17.4	16.5	18.0
Other Income	449	358	346	320
Interest expenses	463	439	577	460
PBT	2,127	2,649	3,240	3,854
Tax	657	748	881	1,156
Effective tax rate (%)	30.9	28.2	27.2	30.0
Adjusted PAT	1,547	1,910	2,359	2,698
Growth (%)	11.8	23.5	23.5	14.4
Net Margin (%)	12.0	12.2	11.2	12.2
(Profit)/loss from JVs/Ass/MI	-	-	-	1.0
Adj. PAT After JVs/Ass/MI	1,547	1,910	2,359	2,697
E/O items	(176)	(44.1)	-	-
Reported PAT	1,724	1,866	2,359	2,697
PAT after MI	1,547	1,910	2,359	2,697
Growth (%)	11.8	23.5	23.5	14.3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	1,678	2,291	2,893	3,534
Depreciation	643	715	779	760
Interest Provided	463	439	577	460
Other Non-Cash items	717	195	829	(60)
Chg in working cap	(91)	(748)	(1,029)	(126)
Tax paid	1,315	748	881	1,156
Operating Cashflow	2,097	2,144	3,168	3,411
Capital expenditure	(2,543)	(1,846)	(500)	(500)
Free Cash Flow	-446	298	2,668	2,911
Other income	449	358	346	320
Investments	(30)	-	-	-
Investing Cashflow	419	358	346	320
Equity Capital Raised	(0)	0	-	-
Loans Taken / (Repaid)	1,236	445	-	(2,000)
Interest Paid	(463)	(439)	(577)	(460)
Dividend paid (incl tax)	(413)	(413)	(464)	(568)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	360	-407	-1,041	-3,028
Net chg in cash	333	249	1,974	204
Opening cash position	1,704	2,037	2,286	4,260
Closing cash position	2,037	2,286	4,260	4,464

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	882	882	882	882
Reserves & surplus	8,357	9,713	12,584	14,663
Net worth	9,239	10,595	13,466	15,545
Minority Interest				
Secured Loans	6,090	6,596	6,596	4,596
Unsecured Loans	1,222	1,160	1,160	1,160
Loan Funds	7,312	7,757	7,757	5,757
Net deferred tax liability	609	789	789	789
Total Liabilities	17,160	19,140	22,012	22,091
Gross Block	14,581	17,853	20,570	21,070
Less: Depreciation	6,491	7,262	7,962	8,662
Net block	8,090	10,591	12,608	12,408
Capital work in progress	4,144	2,717	500	500
Investment	944	944	944	944
Current Assets	6,337	8,012	11,234	11,822
Inventories	1,163	1,614	1,858	1,960
Sundry debtors	2,020	2,596	3,088	3,259
Cash & bank balance	2,037	2,286	4,260	4,464
Loans & advances	1,117	1,515	2,027	2,139
Other current assets	-	-	-	-
Current lia & Prov	2,354	3,124	3,273	3,583
Current liabilities	1,708	2,386	2,605	2,863
Provisions	646	737	668	719
Net current assets	3,983	4,888	7,961	8,239
Misc. exp	-	-	-	-
Total Assets	17,160	19,140	22,012	22,091

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	21.6	22.0	20.3	21.5
Net Margin	12.0	12.2	11.2	12.2
ROCE	16.1	17.0	18.5	19.6
ROE	17.7	19.3	19.6	18.6
RoIC	16.2	18.3	21.6	24.6
Per Share Data (Rs)				
EPS	17.5	21.7	26.7	30.6
CEPS	24.8	29.8	35.6	39.2
BVPS	104.8	120.1	152.7	176.2
DPS	4.0	5.0	5.5	6.0
Valuations (x)				
PER	9.4	7.6	6.2	5.4
P/CEPS	6.7	5.6	4.6	4.2
P/BV	1.6	1.4	1.1	0.9
EV / Sales	1.5	1.2	0.8	0.7
EV / EBITDA	6.8	5.5	4.0	3.1
Dividend Yield (%)	2.4	3.0	3.3	3.6
Gearing Ratio (x)				
Net Debt/ Equity	0.5	0.4	0.2	0.0
Net Debt/EBIDTA	1.6	1.3	0.6	0.1
Working Cap Cycle (days)	42	42	41	39

Recommendation History: Deepak Fertilisers – DFPC IN

Date	Reports	Reco	CMP	Target
09/08/2011	Deepak Fertilisers Q1FY12 Result Update	Buy	160	250
12/05/2011	Deepak Fertilisers Q4FY11 Result Update	Buy	167	250
27/01/2011	Deepak Fertilisers Q3FY11 Result Update	Buy	157	250
28/10/2010	Deepak Fertilisers Q2FY11 Result Update	Buy	177	250

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2011	Coromandel International Q2FY12 Result Update	Buy	307	435
18/10/2011	Chambal Fertilisers Q2FY12 Result Update	Accumulate	87	98
13/10/2011	Kajaria Ceramics Q2FY12 Result Update	Buy	118	143
28/09/2011	GSFC Company Update	Buy	434	530

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