

Price: 1,297

Recommendation: Buy

Industry: Commodity Chemicals

Sector: Commodities

Report Date: 21-Apr-2025

Deepak Fertilisers and Petrochemicals Limited is strategically expanding its capacity in Dahej and Gopalpur, focusing on backward integration and specialty products. The company is diversifying its crop nutrition and industrial chemicals segments, emphasizing high-purity chemicals. With strong financial performance, including a 39% revenue increase in Q3 FY '25, it aims to enhance operational efficiency through corporate restructuring and explore new markets like semiconductor chemicals.

| Sales | | Profit & Loss | | Profitability Matrix | |
|--------------------|---------|---------------------------|---------|-------------------------|----------|
| Current Year | 1945 Cr | Operating Profit(Year) | 406 Cr | Operating Profit Margin | 20.9 % |
| Previous Year | 2350 Cr | Operating Profit(Quarter) | 92.2 Cr | EBITDA Margin | 24.47 % |
| Current Quarter | 519 Cr | PAT (Year) | 270 Cr | Net Profit Margin | 14.0 % |
| Previous Quarter | 531 Cr | PAT (Quarter) | 66.9 Cr | EPS | 27.8 |
| Revenue (QYoY) | 426 Cr | | | | |
| Valuation Matrix | | Growth(YoY) | | Growth(QoQ) | |
| Trailing P/E | 46.6 | Sales Growth | -6.70 % | Sales Growth | -2.26 % |
| PEG Ratio | 0.35 | PAT Growth | -5.59 % | Sales Growth QYoY | 21.83 % |
| EV/EBITDA | 28.2 | EPS Growth | 12.1 % | PAT Growth | -33.1 % |
| P/B | 5.06 | Dividend Yield | 0.65 | PAT Growth QYoY | 57.04 % |
| Capital Allocation | | Holdings | | Leverage | |
| RoE | 8.74 % | Promoter | 45.6 % | Debt/Equity | 0.14 |
| RoA | 6.87 % | FII | 11.6 % | Debt | 469 Cr |
| RoCE | 11.5 % | DII | 8.82 % | Market Cap | 16365 Cr |
| RoIC | 25.0 % | Public | 34.0 % | Enterprise value | 16786 Cr |
| | | No of Shares | 12.6 Cr | Cash Equivalents | 47.2 Cr |

source : Company filings

Company's Overview Based on Recent Concall and Performance:

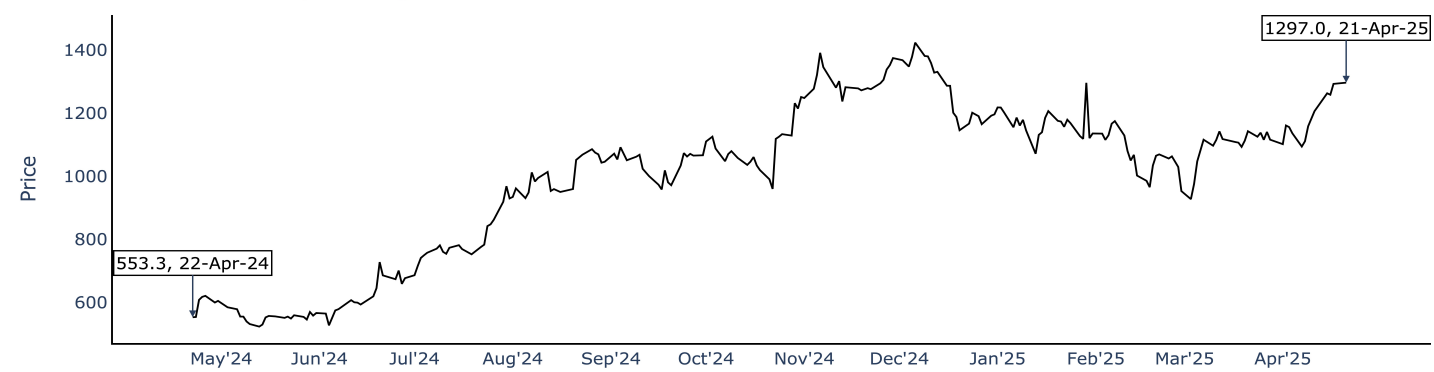
In the recent earnings call, Deepak Fertilisers and Petrochemicals Limited highlighted several strategic initiatives and business strategies aimed at sustaining growth and enhancing profitability. The company is focusing on capacity expansion projects in Dahej and Gopalpur, expected to go live in the second half of the coming year. These projects are anticipated to significantly boost production capacity, aligning with the company's strategy of backward integration and shifting from commodity to specialty products. The company emphasized its commitment to manufacturing excellence and sustainable growth, stating, "Our focus on backward integration, shifting from commodity to specialty and driving manufacturing excellence has positioned us for a long-term sustainable growth."

The company is also actively pursuing diversification schemes, particularly in its crop nutrition and industrial chemicals segments. The crop nutrition business has seen a remarkable shift from commodity NPKs to crop-specific NPKs, which has been well-received in the market. This strategic pivot is supported by strong R&D; efforts and market segmentation, aiming to provide holistic solutions rather than just products. The industrial chemicals segment is also seeing a transformation, with a focus on high-purity chemicals and specialty products like pharma-grade IPA and steel-grade nitric acid. The company is leveraging its strong alignment with the India growth story, which provides a robust tailwind for its mining chemicals and crop nutrition businesses.

Looking ahead, Deepak Fertilisers is optimistic about its future growth and scaling prospects. The company plans to continue its strategic focus on specialty products, aiming to increase the share of specialty business in its overall portfolio. The ongoing corporate restructuring is expected to enhance focus and operational efficiency, with each business unit operating as a separate corporate entity. This restructuring is anticipated to drive growth by allowing each unit to focus on its specific strategic levers. The company is also exploring opportunities in the semiconductor and solar-grade IP chemical markets, which are expected to contribute significantly to its industrial chemicals business in the coming years.

From a financial perspective, the company reported a strong performance in Q3 FY '25, with operating revenue increasing by 39% year-over-year and EBITDA surging by 72%. The net profit also saw a substantial increase, reflecting the effectiveness of the company's strategic initiatives. However, there are areas for improvement, such as managing the seasonality in the TAN and IC businesses and optimizing the realization front. The company is also considering the monetization of non-core assets and exploring further opportunities for cost reduction, particularly in gas supply, which is expected to reduce costs by over 20% once new supply agreements commence. Overall, while the company is on a positive trajectory, continued focus on strategic execution and market adaptation will be crucial for sustaining its growth momentum.

DEEPAKFERT Daily Closing One Year Price Chart



| Name | Mar Cap (Rs. Cr.) | P/E | ROE | Sales(G) QoQ | Sales(G) QYoY | PAT(G) QoQ | PAT(G) QYoY |
|------------------|-------------------|--------|--------|--------------|---------------|------------|-------------|
| SRF | 89871.99 | 78.36 | 12.22% | 1.96% | 14.36% | 34.58% | 6.96% |
| Linde India | 55172.69 | 127.05 | 12.88% | -4.50% | -14.21% | 9.20% | -2.70% |
| Gujarat Fluoroch | 43608.25 | 95.64 | 7.69% | -3.37% | 15.73% | 4.13% | 57.50% |
| Godrej Industrie | 37950.22 | 49.10 | 0.65% | 0.41% | 34.39% | -34.57% | 76.86% |
| Deepak Nitrite | 27531.97 | 39.86 | 16.38% | -6.33% | -5.27% | -49.49% | -51.45% |

| Aspect | Commentary |
|----------------------|--|
| Revenue | The company's revenue shows a decline from the previous year, indicating potential challenges in maintaining sales momentum. However, the quarter-over-quarter revenue remains relatively stable, suggesting some resilience in the face of market fluctuations. |
| Profit & Loss | Operating profit and PAT figures reflect a solid performance, with the company maintaining profitability despite revenue challenges. The quarterly figures suggest a consistent operational efficiency, supporting the overall financial health. |
| Profitability Matrix | The company exhibits strong profitability metrics, with healthy operating and net profit margins. The EPS indicates robust earnings potential, reinforcing investor confidence in the company's financial stability and growth prospects. |
| Valuation Matrix | Valuation metrics suggest the company is trading at a premium, with a high P/E ratio. However, the low PEG ratio indicates potential undervaluation relative to growth, offering an attractive investment opportunity for growth-focused investors. |
| Growth (YoY) | Year-over-year growth metrics reveal a decline in sales and PAT, highlighting challenges in sustaining growth. However, EPS growth suggests improved earnings efficiency, potentially driven by strategic cost management and operational improvements. |
| Growth (QoQ) | Quarter-over-quarter growth shows a decline in sales and PAT, indicating short-term challenges. However, the significant QYoY growth in PAT suggests strong recovery potential, driven by strategic initiatives and market adaptation. |
| Capital Allocation | The company demonstrates effective capital allocation, with strong returns on equity and capital employed. The high return on invested capital indicates efficient use of resources, supporting long-term value creation and shareholder returns. |
| Holdings | The company's shareholding pattern reflects a balanced distribution, with significant promoter and public holdings. This structure supports stability and investor confidence, while institutional holdings indicate strong market interest and potential. |
| Leverage | The company maintains a low debt-to-equity ratio, indicating prudent financial management and low leverage risk. The strong market capitalization and enterprise value further underscore the company's robust financial position and growth potential. |

Analyst viewpoint: Deepak Fertilizers and Petrochemicals Limited presents a promising investment opportunity in the short to mid-term, driven by its strategic focus on capacity expansion and diversification into high-value specialty products. The company's ongoing projects in Dahej and Gopalpur are set to significantly boost its production capacity, aligning with its long-term strategic goals of backward integration. This transition from commodity chemicals to specialty products is crucial for enhancing profitability and reducing volatility. The recent financial performance underscores this potential, with a notable 39% year-over-year increase in Q3 FY '25 operating revenue and a 72% surge in EBITDA, reflecting strong operational efficiencies and strategic execution. Furthermore, the company's robust portfolio restructuring efforts, along with a prudent capital allocation strategy, as evidenced by a low debt-to-equity ratio of 0.14 and strong returns on invested capital, enhance its growth prospects in emerging markets such as semiconductor and solar-grade IP chemicals.

Relative to its peers, Deepak Fertilizers offers compelling valuation metrics despite trading at a premium P/E ratio, bolstered by an attractive PEG ratio of 0.35, suggesting substantial undervaluation when considering its growth trajectory. The company has exhibited resilience amidst challenges, maintaining substantial EPS growth and demonstrating efficient use of resources to support long-term shareholder value. However, it is essential to manage the seasonality in its TAN and IC businesses and continuously adapt to market conditions to sustain its growth momentum. The balanced shareholding pattern further instills investor confidence, positioning Deepak Fertilizers favorably amidst competitive pressures in the commodity chemicals sector, making it a worthwhile consideration for growth-focused investors seeking stability and robust returns.

Please read detailed disclosure on next page.

| Explanation of Investment Rating* | |
|-----------------------------------|--|
| Investment Rating | Expected Return (over 12-month) |
| BUY | >=15% |
| SELL | <-10% |
| NEUTRAL | >-10% to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (hereinafter referred to as the Regulations).

1. GOALZEN CAPITAL SERVICES PRIVATE LIMITED is a SEBI-Registered Research Analyst having SEBI registration number INH000013448. GOALZEN CAPITAL SERVICES PRIVATE LTD ("GoalFi" or "We"), the research entity, is engaged in providing research services on securities and information on personal financial products. This Research Report (called Report) is prepared and distributed by GOALZEN CAPITAL SERVICES PRIVATE LIMITED with brand name 'GoalFi' (brand name trademarked to research analyst and company director 'Robin Arya') and used by GOALZEN CAPITAL SERVICES PRIVATE LIMITED with mutual consent.

2. GOALZEN CAPITAL SERVICES PRIVATE LIMITED, its partners, employees, directors or agents, do not have any material adverse disciplinary history as on the date of publication of this report.

3. I, Robin Arya, author/s and the name/s in this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have any financial interest in the subject company.

4. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.

5. I, Robin Arya, do not hold this stock as part of my investment portfolio at the date of recommendation. I/analysts in the Company have not traded in the subject stock thirty days preceding this research report and will not trade within five days of publication of the research report as required by regulations.

6. GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not received any compensation from the subject company in the past twelve months. GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not been engaged in market making activity for the subject company.

7. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Analyst Certification:

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclaimers:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent.

This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.

The investment discussed or views expressed may not be suitable for all investors. Certain transactions - including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of GOALZEN CAPITAL SERVICES PRIVATE LIMITED. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject GOALZEN CAPITAL SERVICES PRIVATE LIMITED to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees responsible for any such misuse and further agrees to hold GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is meant for the clients of GOALZEN CAPITAL SERVICES PRIVATE LIMITED only.

GOALZEN CAPITAL SERVICES PRIVATE LIMITED has a contractual arrangement with a vendor - Smallcase Technologies Private Limited (STPL) whereby STPL provides technology solutions and related back-end infrastructure along with support for back-office related operations & processes. STPL does not provide any investment advice or recommendation nor does it make any claim of returns or performance with respect to any advice or recommendation.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Terms & Conditions:

These Terms and Conditions govern the use of the research subscription services provided by GOALZEN CAPITAL SERVICES PRIVATE LTD ("GoalFi" or "We"). By subscribing to our services, you agree to these terms, if you disagree with any part of the terms, you must not use our services.

Payment and Renewal:

The subscription fee is non-refundable. No such requests over email or any other channel requesting for refund or for pro-rata refund will be acknowledged if smallcase constituents or research provided is accessed by the user. Please do not subscribe if you disagree with any part of the terms. Subscription renewals will be charged the standard rate unless otherwise notified.

Limitation of Liability:

GoalFi provides research based on data and analysis. The subscriber acknowledges that all investment decisions carry inherent risks, and GoalFi shall not be liable for any losses incurred based on our research.

No Investment Advice:

The content provided under the subscription is purely for informational purposes and should not be construed as investment advice. GoalFi, being a SEBI Registered Research Analyst (RA), provides research insights and not investment advisory services.

Termination:

GoalFi reserves the right to terminate the subscription at any time due to non-compliance with these terms or any other reasons deemed appropriate by us and no refund will be made.

No Guarantee: While we strive to provide accurate and reliable research, there is no guarantee on the returns or performance of the recommendations. Investing in securities involves risks, and there's the potential for losing money.

Review and Update: Our research products are reviewed and updated periodically to reflect the latest market conditions and insights. However, market conditions can change rapidly, and there's no guarantee that the conditions on which recommendations and insights are based will remain the same.

Research Analyst Details:

Name: Robin Arya

Email: smallcase@goalfi.in

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – support@goalfi.in

Customer having any query/feedback/ clarification/ In case of grievances for any of the services rendered by GOALZEN CAPITAL SERVICES PRIVATE LIMITED, write to hello@goalfi.app

Website: goalfiresearch.smallcase.com