



Market Cap
₹12,300 Cr

CMP
₹974

Rating
Buy

Target
₹1355
 at 18X FY26 EPS (~40% upside)

Company Overview

Deepak Fertilisers & Petrochemicals Corp Ltd (DFPCL), founded in 1979, is a prominent player in the Indian chemical and fertiliser industry. In the agricultural sector, DFPCL is renowned for its extensive range of fertilisers and agricultural inputs, including **Nitro-Phosphate**, **Bentonite Sulphur**, and various specialty fertilisers. For the industrial sector, DFPCL produces **Nitric Acid**, its derivatives and is a leading manufacturer of it in South-East Asia. For the mining sector, DFPCL produces **Technical Ammonium Nitrate (TAN)** which is used in operations and infrastructure projects, and DFPCL's expertise in this area has positioned it as a leader in the field of mining chemicals.

Industry Growth

The global Nitric Acid Market Size was valued at \$31.77 billion in 2023 and is projected to grow from \$32.94 billion in 2024 to **\$44.09 billion by 2032**, exhibiting a **CAGR of 3.71%** during the forecast period 2024 - 2032.

Deepak Fertilisers holds a dominant position in the Indian Nitric Acid business with a **45% market share** and is increasing capacity by 450 KTPA with a capex of ₹1,950 crore.

The ammonium nitrate market size was valued at \$18.38 billion in 2023 and is expected to reach **\$25.86 billion by 2031**, growing at a **CAGR of 4.4% from 2024 to 2031**. DFPCL is a leading producer of TAN and is aiming to be **3rd largest producer** in the world in next two years.

Q1FY25 Performance

- **Revenue:** ₹2281 crore; down 1.4% YoY on weak pricing trend; up 9.3% QoQ
- **EBITDA:** ₹464 crore; up 65.5% YoY and 6.1% QoQ
- EBITDA margins came at 20.4% up 823 bps YoY, down 63 bps QoQ
- **Other income:** ₹12 crore; down 42.3% YoY, down 83.7% QoQ

Titanium Ammonium Nitrate (TAN) Segment

- The **cycle has turned positive for TAN**, the ammonia spread over natural gas is rising, and the ammonium nitrate spread over ammonia is also increasing. DFPCL is backward integrated with an ammonia capex of ₹4500 crore and has secured medium-term gas-based contracts.
- There was a ban on the export of TAN in FY24, which has now been lifted. The Budget 2024 proposed **duty hikes on ammonium nitrate** and duty reductions on precious metals used for catalysts, both of which will have a positive impact.
- Capex for the Gopalpur TAN project (₹2200 crore) is expected to be completed in H2 FY26, which will increase capacity to 1 MMTPA and contribute around **55% of revenue with an EBITDA margin of 18-20% in FY26**. Additionally, a substantial portion of the plant capex is expected to be recouped through subsidies over 15-20 years.

Nitric Acid and IPA segment

- **Price of Nitric Acid is steady** and IPA prices are strong as Europe has reduced exports.
- Demand for Nitric Acid has improved in **steel and electronic industry** and trials are being conducted for stainless steel based nitric acid which will improve volume.
- Brownfield expansion in Nitric Acid of WNA (300 KTPA) and CNA (150 KTPA) at a project cost of ₹1,950 crore. 65% of this additional CNA capacity is tied-up under a 20-year contract and substantial part of this capex is going to be received by company in form of subsidy.
- Company is focusing on becoming a **product and service supplier** in this space by making specialised products suitable to their needs, which will lead to better margins.

Crop Nutrition Segment

- Expansion into newer territories in northern and southern states.
- Premiumisation by creation of brands like **Croptek and Smartek** which are growing at 10% which is higher pace than industry, bulk fertilisers achieved modest 1% volume growth.
- Above average rainfall for monsoon and favourable outlook for rabi and kharif crops will lead to higher capacity utilisation and operating leverage will increase margins.
- Reduction in **overall revenue share from 40% to around 30% in FY26** due to capex in TAN and Nitric Acid which have better margins and would further aid its business.

Operational Highlights

- **Partnered with Haifa Group** for specialty fertilisers; market leader in water-soluble fertilisers and TAN.
- **Demerger into Mahadhan Agritech and Deepak Mining Solutions;** Ammonia and Blasting business to become subsidiaries.
- Secured 100% Natural Gas supply until May 2026 and a 20-year Nitric Acid supply agreement with Aarti Industries.
- ₹120 crore invested in Dahej project by March; exploring green Nitric Acid despite lack of domestic demand.
- Gross Debt: ₹4,150 crore. Management estimates this to peak at around ₹6,000 crore due to capex.

Market Outlook

- Favourable outlook for TAN business with capex and higher ammonium nitrate spread over ammonia.
- Stable Nitric Acid prices and volume expansion due to capex and addition of service element in commodity business.
- Transitioning from commodity to specialty business; working with mining companies for controlled blasting.
- Capex in ammonia, Tan and Nitric Acid to aid growth in FY25-26 across all verticals along with better monsoon supporting crop business.

Challenges

- Change in Government stance towards TAN or due to change in geopolitical situation.
- Fluctuation in TAN, Nitric Acid prices can affect company adversely.
- Russia resuming TAN exports at lower prices could affect DFPCCL adversely.

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