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DEEPAK FERTILISERS  
AND PETROCHEMICALS  
CORPORATION LIMITED



INDUSTRIAL CHEMICALS



MINING CHEMICALS



CROP NUTRITION

Chairman's Address



Mr. S. C. MEHTA  
Chairman & Managing Director

39<sup>th</sup> Annual General Meeting  
14<sup>th</sup> August, 2019

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40  
a journey of 40 years



Dear Shareholders,

I extend a warm welcome to you all at the 39<sup>th</sup> Annual General Meeting of Deepak Fertilisers and Petrochemicals Corporation Ltd. (DFPCL). On behalf of DFPCL's Board of Directors, I thank each one of you for joining us here today.

The Company's accounts for the year ended March 31<sup>st</sup> 2019, along with the Directors' and Auditors' Report and Management Discussion and Analysis have already been circulated to you. With your permission, I would like to take them as read.

## **Economic Scenario**

While the global and domestic economies were in an upbeat mood till early 2018, increasingly the trends from early 2019 with the USA tariff walls impacting global trade and general recessionary trends has brought a dampening sentiment all around. Closer home as well, there has been an economic slowdown, with auto sales, a general yardstick of consumer optimism, hitting all-time lows. Furthermore, the NBFC crisis-driven liquidity crunch and depressed real estate and manufacturing sectors have culminated into having an overall impact on the financial and stock markets.

India has always been seen as an economy offering long-term and sustainable growth and we hope that with the Finance Ministry alive to the current situation, the Government will bring forth appropriate corrective measures along with the RBI, to kickstart the revival.

For your Company, the impact of external environment appears to be a temporary aberration as we are more focussed around the key domestic sectors aligned with the country's growth story.

While the delay in the monsoons added to last years' low rainfall tally and poor Rabi season did create a worrisome situation particularly in the first quarter, the current onslaught of the monsoon now has lifted the spirits, despite very heavy rains in some areas. A longer-than-expected season, brimming dams and the resultant expectation of better Rabi season, seems to bode good tidings for the fertiliser sector. Additionally, the Government has also announced increase in the allocation of P&K subsidies, in comparison to the interim budget, which will help provide timely subsidy payments. The Government's desire for Direct Benefit Transfer (DBT) to farmers in actual terms may finally unshackle this industry to allow product innovation and market dynamics to play a larger and much desired role.

The overall thrust in the Union Budget for infrastructure and energy sectors will have positive impact for our TAN Business.

Finally, the ongoing positive currents in the fine chemicals and pharma sector will continue to support our industrial chemicals business.



## Financial and Operational Performance for the financial year 2018-19

With the coming together of several challenges, FY2019 has been a perfect storm with strong head winds that impacted two out of the three sectors we function in. Water shortage hit manufacturing, drought hit fertiliser demand and spiralling raw material prices and supply constraints brought more pain. While these were temporary difficulties, it became more hard hitting in view of simultaneous interest cost hit, emerging out of blockage of working capital in our affected businesses.

In this context, total consolidated Revenue from Operations grew at a respectable 11.2% to Rs. 6,742 crore, as compared to Rs. 6,062 crore in FY2018. Total operating EBIDTA for the year was Rs. 459 crore compared to Rs. 545 crore reported last year. Net Profit after Tax during the year stood at Rs. 73 crore as compared to Rs. 164 crore in FY2018. Our Chemical business (including Industrial Chemicals and TAN) delivered a 4.9% growth in Total Income to Rs. 4,440 crore from Rs. 4,230 crore in FY2018. This business reported an improvement in performance principally driven by the TAN segment. Total Income from Crop Nutrition business increased by 25.8% to Rs. 2,273 crore in FY2019, from Rs. 1,807 crore in FY2018. The Company has maintained 18% market share with leadership position in the core market of Maharashtra for NP/NPKs. More details on this development will be presented by our CFO shortly.

Despite all the challenges, your Company managed to bring down the gross debt and short-term debt substantially.

On the legal front, a Rs. 357cr claim raised by GAIL was struck down by the learned arbitrator and the Hon'ble High Court also dismissed GAIL's appeal.

## Looking Forward

### TAN Business

Our TAN business, which contributed around 20% to our FY2019 Revenues, continues to experience strong business momentum in the domestic markets, supported by increasing mining and infrastructure activities as well as exports. With a resolute focus on strengthening the core TAN business, the Company is also planning to introduce new variants to cater to the rising demand for new products by the mining industry. Along with bulk supply, DFPCL is planning to connect to end-users in the sector, to serve them more efficiently and to provide on-the-ground services to mine operators.

### Industrial Chemical Business

In line with our strategy to move closer to end customers, DFPCL recently commenced operations of its new Nitric Acid facility at Dahej, Gujarat and the quality of Nitric Acid (both CNA and DNA) produced at this facility, is well acknowledged by our customers. The Company



has secured long-term product offtake contracts to the tune of 70% of the capacity. The new capacities are expected to start making meaningful contributions to EBITDA from FY2020. The strategically located plant, in the vicinity of all major customers, underpins our expectations for a robust performance. Going forward, the Company is focusing on developing new variants of nitric acid which can be used in new applications.

## **Crop Nutrition Business**

Weak start to the monsoons has delayed crop sowing in the country, with acreage declining significantly. However, after a transitory delay, the country is now experiencing good rainfall, which should reduce the initial demand deficit. On the business front, the Company is diversifying its CNB portfolio and transitioning from being a bulk fertilisers manufacturer to a specialty fertilisers provider. The Company has already shifted a major part of CNB sales plan to unique and differentiated products. The Company is now transforming its approach to market by creating crop-based focus for its differentiated product portfolio.

The Company's strategy in CNB has found consonance with large global fertiliser players. We are currently engaged in dialogue with some of them to explore a partnership, which could range from a strategic alliance to a potential Joint Venture. This would also help the Company procure key raw materials at preferential commercial terms.

## **Projects**

As a part of our backward integration, we are in the process of setting up a state-of-the-art 500KTPA Ammonia facility at Taloja, at a cost of Rs. 2,950 crores. During the year, we have tied up the entire debt requirement of about Rs. 2,044 crore which has a door-to-door tenor of 19 years, including the initial construction period of about 3.4 years and a moratorium of about 1.6 years. Principal repayment would be spread over 14 years, in line with the project cashflows.

On the other capacity expansion projects, namely TAN and IPA, we have planned to phase the implementation to smoothen the leverage peaks.

To support future growth plans, the Company recently secured a funding of US\$ 60 million (approx. Rs. 420 crore) from the International Finance Corporation by the way of Compulsory Convertible Debentures (CCDs) and Foreign Currency Convertible Bonds (FCCBs).

In line with the earlier announcement, the promoters are committed to subscribe to the warrants through preferential allotment. As you are aware, warrants worth Rs. 200 crore were issued to the promoters in October 2018 at a price of Rs. 308.79, out of which 25% of the amount has already been infused. The balance Rs. 150 crore would be infused within the stipulated period.



These steps along with the initiatives to monetize some non-core assets, should further improve the liquidity position of the Company.

In summary, our business fundamentals remain strong with increased capacities, improved efficiencies and shift towards higher margin specialities along with softening of raw material prices. With this, we expect a gradual bounce back as the Indian economy rebounds as well.

## **Acknowledgements**

I would like to thank our customers, business associates and channel partners for their continued faith in us over the years. I sincerely and gratefully acknowledge the unstinted support and wise counsel provided by my colleagues on the Board. And last, but not the least, I would like to express my deep gratitude to you, our loyal shareholders and all our employees for the continued support and trust over the years.

Warm Regards,

S.C. Mehta

Chairman & Managing Director