Deepak Fertilisers And Petrochemicals Corporation Limited

Q1 FY2023 Results Update

233% Jump in Q1 Net Profits

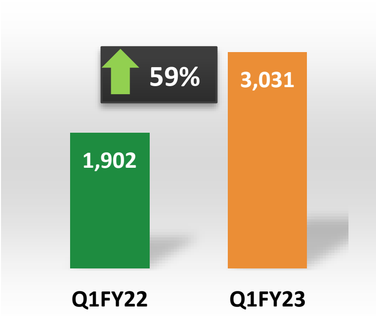
EBITDA improved Y-o-Y from Rs.290 Cr to Rs. 740 Cr driven by Chemicals Segment

Credit Rating Upgraded to [ICRA] AA-(Stable) / [ICRA] A1+

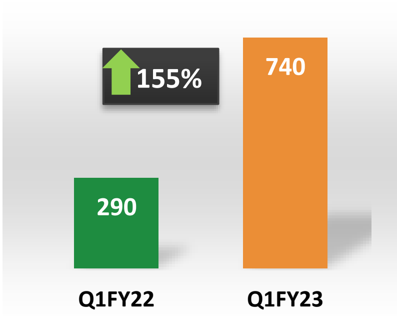
Pune, India, July 29, 2022: Deepak Fertilisers And Petrochemicals Corporation Limited, one of India's leading producers of industrial chemicals and fertilisers ("DFPCL" or the "Company"), announces its results for the quarter ending June 30, 2022.

Q1 FY23 Consolidated Financial Highlights

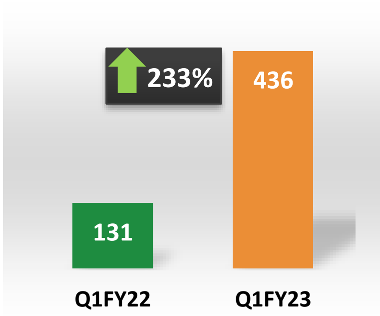
Q1 FY23 Revenues from Operations*



Q1 FY23 Operating EBITDA*



Q1 FY23 Net Profit*



* Rs Crores

- Robust top line growth and margin enhancement primarily driven by Chemical segment:
    - Chemicals Segment contributed about 87% of total segment profits. Chemicals revenues doubled to Rs. 1,771 Cr and margins expanded from 19% in Q1 FY22 to 41% in Q2 FY23
    - Fertilisers segment revenues grew by 26% y-o-y although segment margins were impacted on account of sharp increase in raw material prices
- Operating EBITDA Margins increased from 15.2% in Q1 FY22 to 24.3% in Q1 FY23
- Adverse movement of key raw material Prices in Q1 (Ammonia ▲ ~106% y-o-y; Phos Acid ▲ ~92% y-o-y; RGP ▲ ~35% y-o-y; Gas ▲ 91% y-o-y)
- Debottlenecking of TAN capacity by approx. 33,000 MT and NPK capacity by about 2,00,000 MT through process improvement of the existing plants at Taloja
- Launched Croptek Cotton and maize grade in the kharif season; Mahadhan Croptek received 'Golden Peacock Award' under 'Golden Peacock Innovative Product/Service Award 2022'
- ICRA has upgraded DFPCL and STL "Long Term" Credit Rating to AA- with Stable outlook. "Short Term" Credit Rating is also affirmed to A1+ (Highest Rating)

Chairman's Message

Commenting on the performance, Mr. Sailesh C. Mehta, Chairman & Managing Director:

"We have continued our strong operational performance in Q1 FY2023 on the back of improved margins in Chemical segment This persistent business performance is a result of our long-term strategic initiatives, strong market positioning and favourable market conditions.

During the Quarter:

1. *We experienced strong revenue growth driven by all business segments.*
2. *As part of overall corporate transformational journey from 'product to solutions' and 'commodity to specialty':*
    a. *CNB launched Croptek Cotton and maize grade in the kharif season*
    b. *TAN business volume supported by continued demand from Explosives Manufacturing & Coal Segment, higher and improved capacity utilization of Forward Integration cartridge explosives plant and capacity debottlenecking*
3. *Chemical product portfolio delivered growth in sales volumes as well as significant margins expansion. Fertiliser segment revenue increased significantly although margins impacted due to uncertainties around cost passthroughs and subsidies.*

Going Forward:

We are confident of maintaining strong market share in our key products across the segments. The strong demand outlook of our key products coupled with differentiated product portfolio should support business growth and profitability in the long term.

1. *Higher reservoir levels and appropriate monsoon coverage in our core command region is being witnessed. Consumption in Q2 is expected to increase supported by higher commodity prices for cash crops due to robust climatic conditions.*
2. *In Q2, TAN business focus is to ensure continuous evacuation and operation of TAN plants in view of seasonally lean demand as well as momentum in AN imports. To support continuous production, our country wide warehouse network will be used to distribute build-up stock in H2.*
3. *Furthermore, the Ammonia Project at Taloja (Maharashtra) and the TAN Plant at Gopalpur (Odisha), are making strong progress on the ground and are on track*

Long-term growth is expected to be underpinned by change in product mix, head room availability of additional capacities emerging from better operational management and debottlenecking along with greenfield expansions"

Chemicals Review

- Q1 FY23 Revenues increased y-o-y by 95% to Rs. 1,771 Cr in Chemical segment comprising Mining Chemicals and Pharma / Speciality Chemicals. Segment Profit increased 321% y-o-y from Rs. 173 Cr in Q1FY22 to Rs. 729 Cr in Q1 FY23
- **Mining Chemicals:**
    - In Q1 FY23, TAN Business achieved a capacity utilization of 111%. Volumes were supported by continued demand from Coal as reflected in Coal India's and SCCL's OB performance
    - Operationalized capacity from phase 1 of the debottlenecking initiative which also supported growth in the volume delivery in the Explosives Manufacturing and Coal Segment
    - Volume for Non-Coal Segment were impacted as cement plants ran on lower utilization levels as coal supplies were prioritized to power generation, and also due to the reduction in infrastructure activities leading to lower demand for cement production

  - Pricing of all products remained competitive; Margins in all product segments (i.e. HDAN, AN Melt and LDAN) improved despite adverse impact of increasing raw material prices

- **Pharma / Speciality Chemicals:**
  - In Q1 FY23, Acids business achieved a capacity utilization of 91% and IPA business of 58%
  - CNA and DNA continued to witness strong demand driving NSPs in Q1 although DNA production at Taloja plant was impacted mainly due to raw water shortage. This raw water shortage was on account of extended shutdown taken by MIDC to attend the line breakdown
  - IPA sales volumes decreased by 42% y-o-y in Q1 mainly due to lower production on account of raw water shortage and inability to pass through the rising cost of propylene and fuel
  - Launched 8 IPA based broad spectrum disinfection products designed to cater to the specific needs of hospitals, clinics, laboratories, and other medical and healthcare set-ups

Fertilisers Review

  - Q1 FY23 Revenues increased by 26% y-o-y to Rs. 1,256 Cr with segment profit at Rs. 114 Cr
  - With steep increase in raw material prices such as Ammonia, Phosphoric Acid and MoP, the production cost of fertilisers have increased significantly Taking ahead differentiation journey, DFPCL launched Croptek Cotton and maize grade in kharif season. NPK Croptek Sales of 29,521 MT in Q1 was majorly in Cotton, Maize and Sugarcane
  - Due to restricted availability of MoP, which is key source of Potassium i.e K, NPK Smartek portfolio production was limited. NP production volumes were impacted. Lower ANP production volumes due to constrained production on account of inadequate WNA raw material availability

Strategic Outlook

- Greenfield ammonia plant is making good development on the ground and is progressing as per planned schedule
- Various farmer connect initiatives, enhancing the customer experience, should be instrumental in cementing market position in crop nutrition business
- Second quarter is seasonally low period for mining activity due to monsoon. Prices of imported Ammonium Nitrate (AN) have started to moderate. TAN business aims to effectively compete on pricing to ensure reliability and supply security
- Demand and pricing for all grades of Nitric Acid are relatively subdued as it is typically expected during the monsoon season
- Thrust into the customised offerings for the Solar/Steel and Pharma sectors will gradually help to position Acids/IPA into a Speciality Chemical sector. A gradual mellowing down of the Raw Material-Ammonia prices would also help to sustain a reasonable delta for the TAN/Acid Businesses

Other Updates

- Pursuant to the provisions of Sections 132 and 133A of the Income-tax Act, 1961, a Search Operation was conducted by the Income Tax Department in November 2018. On 26 July 2022, the material subsidiary company, M/s Smartchem Technologies Limited (STL) has received the assessment and demand orders for the block period (Assessment Year 2013-2014 to Assessment Year 2019-2020) resulting in demands of Rs. 569 crores (including interest)
- While the Management is in the process of detailed examination of the Assessment Order received very recently, on a broad review of the said Order, as regards the legal perspective involved on the major contributor to the demands raised in the said Order, that of Depreciation on Goodwill and Intangibles assets and Interest thereon, the Company continues to rely on the strong legal advice based on Supreme Court decision and recent amendments in the Income Tax Act, 1961 and believes that the said Order is legally defendable. The Management is geared to take timely and appropriate steps to challenge the said Order

Additional Notes

Promoters Shares Pledge Position:

Promoters' pledged shares are now restricted to ONLY 6.9% of paid-up share capital. NDU obligation (and not 'pledge') is of 6.24% of paid-up share capital after release of 20,14,431 (NDU) and 3,40,56,875 (Negative Lien) in April 2022.

Non-Disposal Undertaking (NDU) was provided by Promoter of DFPCL to IFC for CCDs issued by Smartchem Technologies Ltd (100% owned). As per the undertaking, the Promoters undertook not to dispose the shares (as distinct from a 'pledge'). These shares are in fact prohibited from pledge, transfer or assignment

DFPCL Overview:

Deepak Fertilisers and Petrochemicals Corporation Ltd. (DFPCL) is among the India's leading manufacturers of industrial chemicals and fertilisers. With a strong presence in Technical Ammonium Nitrate (mining chemicals), Industrial Chemicals and Crop Nutrition (fertilisers), the Company supports critical sectors of the economy such as infrastructure, mining, chemicals, pharmaceutical and agriculture. DFPCL is a publicly listed, multi-product Indian conglomerate and has plants located in four states, namely Maharashtra (Taloja), Gujarat (Dahej), Andhra Pradesh (Srikakulam) and Haryana (Panipat). ICRA has upgraded DFPCL & STL 'Long Term' Credit Rating to AA- with Stable outlook. 'Short Term' Credit Rating is also affirmed to A1+ (Highest Rating).

Safe Harbour: