

OCTOBER 20, 2015

CARE REVISES THE LONG-TERM RATING ASSIGNED TO THE DEBT INSTRUMENTS OF

DEEPAK FERTILISERS & PETROCHEMICALS CORPORATION LIMITED

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Instruments-Non-Convertible Debentures	500.00	CARE AA- (Under Credit Watch) (Double A Minus)	Revised from CARE AA (Under Credit Watch) (Double A)
Commercial Paper Issue*	1,000.00 (enhanced from 500.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	1,500.00 (Rupees One Thousand Five Hundred crore only)		

*Based on confirmation from the company stating that aggregate of CP outstanding and other fund-based working capital borrowings shall not exceed Rs. 1,500 crore.

CARE ratings use the EIC (Economy-Industry-Company) approach to assess the overall credit profile of manufacturing companies. Credit analysis of an entity begins with a review of the Economy/Industry risk in which the entity operates along with an assessment of the business risk factors specific to the entity. This is followed by an assessment of the financial risk factors (current and future financial performance) and evaluation of management's strategy/policies and risk appetite. CARE also examines the risk related to any new project implementation, expansions and diversifications undertaken by the company. Furthermore, off-balance sheet exposures are also critically examined in assessing the credit profile of entity under review.

Rating Rationale

The revision in the rating assigned to the long-term debt instruments of Deepak Fertilisers & Petrochemicals Corporation Limited (DFPCL) (CIN-L24121MH1979PLC021360) factors in higher reliance on trading activity leading to a deterioration in the financial profile marked by decline in profitability margins and increased debt levels and continued reliance on natural gas at market rate vis-à-vis administered price mechanism (APM) rates. The revision also factors in the likely recovery of differential pricing on account of domestic natural gas at APM vis-à-vis natural gas at spot prices further to the circulars issued by the government. The ratings also factor in the debt-funded capex plan of the company pertaining to capacity augmentation of Bentonite Sulphur (BENSULF) and Nitrogen Phosphorus Potassium (NPK) fertilisers.

The ratings continue to derive strength from the company's long track record of operations in the fertiliser and industrial chemical segments of over 35 years, experienced promoters and management team, established brands for the company's products especially within the fertiliser vertical and a diverse and well-established distribution network including warehouses and dealerships which number in excess of 14,900. The ratings are further underpinned by the leading market position of DFPCL in the industrial chemicals segment, especially Technical Ammonium Nitrate (TAN) and Iso-Propyl Alcohol (IPA) and diversified product base across the fertiliser and chemicals verticals and a healthy financial risk profile marked by comfortable capital structure and low gearing levels, favourable coverage indicators and efficiency

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

ratios. The ratings also factor in the complete stake sale of DFPCL through its subsidiary SCM Soilfert Limited (SSL) of Mangalore Chemicals and Fertilisers Limited and the consequential realisation of its complete investment.

The above strengths are partially offset by the volatility in the prices of raw materials namely natural gas, propylene, ammonia and phosphorous, exposure to agro-climatic risks for fertiliser business and continued under performance of the company's realty business.

The long-term rating of the company continues to remain under credit watch due to the uncertainty pertaining to the resumption of natural gas to the company and any potential liability payable by the company further to the judgment of the Honorable High Court of Delhi. CARE would continue to monitor the developments to assess the impact on the credit rating of the company and would take a view subsequent to discussion with the management and any further development in the said matter.

The ability of the company to maintain its profitability margins in the backdrop of increased natural gas prices is the key rating sensitivity.

Background

DFPCL was incorporated in May 1979 and is one of the leading manufacturers of industrials chemicals and fertilisers in India.

DFPCL is the flagship company of Deepak group of companies which has presence in fertilisers and chemicals. DFPCL was established by the Mr Chimanlal Mehta and is currently promoted by his son Mr Shailesh Mehta who is the Chairman and Managing Director.

The company operates in three business segments – Chemicals, Fertilisers and Realty. DFPCL is one of the leading producers of industrial chemicals like Iso Propyl Alcohol [IPA; installed capacity 74,983 metric tonnes per annum (mtpa)], various grades of nitric acids [NA; installed capacity 841,500 mtpa], methanol [installed capacity 100,000 mtpa], propane, liquid carbon dioxide [food grade CO₂; 66,000 MTP Anitro-phosphates and hydrogen in India.

The company is one of the world's largest producers of technical ammonium nitrate (TAN) with a capacity of 469,000 mtpa. It also manufactures nitro-phosphate (NP; 229,500 mtpa) and Bentonite Sulphur fertilisers. Besides manufacturing, the company also trades in bulk fertilisers such as Di-ammonium Phosphate (DAP), Ammonium Sulfate, Single Super Phosphate (SSP), etc. The company has distribution channels including a dealer network of more than 14,900 dealers in the states of Maharashtra, Gujarat, Andhra Pradesh, Karnataka, Madhya Pradesh, Punjab and Haryana for marketing and selling its products. The company operates out of its manufacturing plants located at K-1, K-7 & K-8 MIDC Industrial Area located at Taloja, Maharashtra.

DFPCL is listed on the Bombay Stock exchange (BSE) as well as the National Stock Exchange (NSE). Promoter holding as on March 31, 2015 stood at 49.95% against 45.46% as on March 31, 2014. Other major shareholder segments as on March 31, 2015 include foreign institutional investors (14.63%), corporate bodies (4.92%) while individual investors held 26.15%. The company has 8 subsidiaries (including 2 overseas subsidiaries), two associate companies and one joint venture company as on March 31, 2015.

For FY15 (refers to the period April 1 to March 31) DFPCL achieved a total operating income of Rs.3,737.95 crore and a PAT of Rs.78.35 crore against a total operating income of Rs.3,830.62 crore and a PAT of Rs.243.88 crore during FY14.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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