Regd. Office: Sai Hira, Survey No. 93,
Mundhwa, Pune - 411 036, India.
Tel: +91 (20) 6645 8000

15th June, 2021

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001
BSE Code: 500645

Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza,
Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 051
NSE Code: DEEPAKFERT

Dear Sirs,

Sub: Intimation of Credit Rating pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015

We wish to inform you that the Company has received intimation from the following rating agency in connection with revision / reaffirmation of credit rating(s), the details of which are as follows:

Name of the agency	Type of Instruments	Previous Rating	Current Rating	Remarks
ICRA	Short Term	[ICRA]A1	[ICRA]A1+	Upgraded from [ICRA]A1 to [ICRA]A1+
	Long Term	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	Reaffirmed

Rating Rationale – Key Extracts:

The upgrade in the short-term rating notes the improvement of Deepak Fertilisers & Petrochemicals Corporation Limited's (DFPCL) liquidity profile on a consolidated basis. This was led by substantial improvement in its scale of operations and profitability margins coupled with a decline in net working capital intensity leading

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DEEPAK FERTILISERS
AND PETROCHEMICALS
CORPORATION LIMITED

to substantial increase in cash accruals and cash balances and reduction in short-term debt as on March 31, 2021. The stable outlook takes into account established position in both the chemicals and fertilisers segments and the stable demand outlook for both the sectors in the long term.

A copy of the detailed Rationale report issued by ICRA in this regard is attached herewith and can also be accessed on the website of ICRA at the link given below:

https://www.icra.in/Rationale/ShowRationaleReport?Id=103979

This is for your information and record please.

Thanking you,

Yours truly,
For Deepak Fertilisers And Petrochemicals Corporation Ltd

RITESH CHAUDHRY
Digitally signed by RITESH CHAUDHRY
Date: 2021.06.15 21:38:07 +05'30'

Ritesh Chaudhry
Company Secretary

June 14, 2021

Deepak Fertilisers & Petrochemicals Corporation Limited: Long-term rating reaffirmed; short-term rating upgraded to [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund Based Term Loan	631.0	602.0	[ICRA]A+ (Stable); Reaffirmed
Long-Term – Fund Based Cash Credit/ WCDL#	400.0	400.0	[ICRA]A+ (Stable); Reaffirmed
Short-Term – Non-Fund Based Limits#	925.0	699.0	[ICRA]A1+; Upgraded from [ICRA]A1
Long-Term/ Short-Term - Unallocated Limits	0.0	255.0	[ICRA]A+ (Stable)/ [ICRA]A1+; reaffirmed/upgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Total	**1,956.0**	**1,956.0**	

**Instrument details are provided in Annexure-1*

#Fund based WC limit and Non-Fund Based WC limits are interchangeable.

Rationale

The upgrade in the short-term rating notes the improvement Deepak Fertilisers & Petrochemicals Corporation Limited's (DFPCL) liquidity profile on a consolidated basis. This was led by substantial improvement in its scale of operations and profitability margins coupled with a decline in net working capital intensity leading to substantial increase in cash accruals and cash balances and reduction in short-term debt as on March 31, 2021. The revenues and profitability margins of the fertiliser segment improved in FY2021 due to increase in sales of Smartek brand of NPK fertilisers. The fertiliser segment witnessed a reduction in raw material prices, however, due to buoyant demand, the sales realisation did not decline leading to expansion of contribution margins. The company has stopped manufacturing plain vanilla NPK fertilisers and is focussing on the Smartek brand of NPK fertilisers (value added fertilisers) which commands a healthy premium over the former. Further, with the outbreak of the Covid-19 pandemic, the demand and margins of Isopropyl alcohol (IPA) surged because of its usage in manufacturing sanitisers. Additionally, the sales volumes of Technical Ammonium Nitrate (TAN) reduced marginally in FY2021 as demand from cement and infrastructure sectors dipped on account of lack of labour availability during the lockdown. However, fall in raw material prices resulted in healthy profitability margins in this segment in FY2021. Further, in FY2021, the company was able to achieve stabilisation of its Nitric Acid manufacturing plant at Dahej, which was commissioned in April 2019. The utilisation levels remained high in FY2021 barring Q1 FY2021 when there was intermittent shutdown in the plant due to disruption in supply chain and shutdown of customer plants due to the lockdown. Going forward, the increase in sales volumes of Nitric acid, Smartek fertilisers (driven by healthy traction in the market) and TAN (owing to favourable outlook in key consumer segments post easing of lockdown) are expected to further add to the revenues and profits of the company.

Further, DFPCL has decided to put on hold its propylene-based IPA expansion project. As of now, the group is implementing its ammonia plant under Performance Chemiserve Limited (a subsidiary of Smartchem Technologies Limited) for which debt of Rs.2044 crore has been already tied up, with door to door tenure of around 19 years and the company is working on tie up of funding for the cost overrun. In FY2021, the company completed rights issue of Rs 178 crore and successfully completed the subscription from IFC to $30 million as Foreign Currency Convertible Bonds in DFPCL and $30 million as compulsory convertible debentures in Smartchem Technologies Limited (STL). It is in the process of raising additional funds in the form of equity/equity related instruments from multiple sources such as a multilateral institution and through qualified institutional placement. Despite infusion of funds, the credit metrics are expected to weaken until the company implements its Ammonia project due to which the project execution risk remains high.

Besides, ICRA notes that there has been a time overrun (from Q4FY2022 to Q1FY2024) in the Ammonia project due to Covid-19 pandemic-related challenges and land acquisition and land conversion issues. It also faced cost overrun (from Rs 2,920 crore to Rs 4,350 crore) owing to increase in land acquisition costs, EPC cost, addition of certain project components, increase in foreign exchange component, increase in cost towards storage and preservation of equipment and interest during construction (IDC). Due to unavailability of land in MIDC, the company had to purchase an agricultural land nearby, and convert it into industrial land, which led to the delay and increase in overall costs. Additionally, the group is planning to implement TAN project in near future, whose earlier budgeted project cost has increased owing to increase in costs of project utilities and other reasons. The timely execution of the ammonia and TAN projects as well as ramp up of operations within the revised timeline and cost budget would remain a key sensitivity. Going forward, the liquidity is expected to remain strong on the back of high anticipated cash accruals, large unutilised fund based limits, limited debt repayments and anticipated equity fusion from multilateral institution and from monetisation of assets.

The ratings continue to take into account the company's diversified business product portfolio comprising of fertilisers and industrial chemicals and the strong market position held in the industrial chemicals business with leadership in ammonium nitrate (TAN), Nitric acid and IPA. The ratings factor in the DFPCL's high financial flexibility as evident from the competitive cost of debt and healthy refinancing ability demonstrated in the past. The company has reduced its short-term borrowings in the current fiscal by efficiently managing its working capital cycle.

The ratings are however constrained by the agro-climatic and regulatory risk in the fertilisers business and the vulnerability of the chemicals division's profitability to inherent price cyclicality. Furthermore, the company's profitability remains sensitive to any large fluctuation in spot/term R-LNG prices. The ratings continue to note the moderate debt coverage metrics and return indicators of the company. For its ammonia project, DFPCL's ability to tie-up its gas requirements and achieve the design parameters, post-commissioning, would be important.

The Stable outlook takes into account the company's established position in both the chemicals and fertilisers segments and the stable demand outlook for both the sectors in the long term.

Key rating drivers and their description

Credit strengths

Strong market position in domestic industrial chemicals business - DFPCL has a strong market position in the existing chemical businesses of TAN, Nitric acids and IPA. It is one of the leading players of TAN in the domestic market supported by the superior quality product offering in the form of Low Density AN (LDAN), which commands a premium over AN-melt manufactured by domestic players and the imported fertiliser grade AN. The company is among the only two producers of IPA in the domestic market and caters to ~65% of the market demand through its manufacturing capacity. DFPCL is also the leading manufacturer of concentrated nitric acid (CNA) in the domestic market. It is expanding its capacities in TAN, which would allow it to maintain its dominant position over a longer term. The company also got environmental clearance (EC) for enhancing its fertiliser manufacturing to 1.1 million MTPA from 0.9 million MTPA in FY 2020.

Diversified product portfolio - DFPCL has a broad-based product mix, derived from two streams using natural gas or ammonia as the primary feedstock. The company's ability to suitably modify its product mix in response to changes in market conditions partially mitigates the risks associated with cyclicality.

Favourable demand prospects – The domestic demand outlook for the company's key products such as TAN, IPA, Nitric acid remains healthy. The demand for TAN will be driven by demand from coal mining and infrastructure sector while demand for Nitric acid would be supported by planned addition of capacities in the downstream segments. The IPA market is expected to maintain healthy growth, led by the growing end-user industry, namely the pharma sector apart from dyes and paints. The demand for IPA has also seen a sharp increase for sanitisers following the outbreak of corona virus. The fertiliser business would continue to benefit in the long term.

Healthy financial flexibility - DFPCL's overall liquidity position is strong supported by healthy cash accruals, availability of unutilised bank limits and high financial flexibility as reflected by its healthy refinancing ability. In FY2021, the company completed rights issue of Rs 178 crore and successfully completed the subscription from IFC to $30 million as Foreign Currency Convertible Bonds in DFPCL and $30 million as compulsory convertible debentures in Smartchem Technologies Limited (STL). Furthermore, with reduction in chemical trading activity, efficient management of working capital cycle in the manufacturing segment and reduction in short-term debt in FY2021, the refinancing risks have reduced.

Credit challenges

Vulnerability of profitability to cyclicality in input prices -The company's profitability remains exposed to the cyclicality in input prices and the ability to pass on the same to the customers. Earlier, the fertiliser business was also impacted by shortage of phosphoric acid as its key supplier had reduced its production. While DFPCL has subsequently diversified its supplier base, it remains exposed to any such shutdowns from its key suppliers.

Exposed to regulatory risks - The company's fertiliser business is exposed to agro-climatic risk and operates in a regulated environment. The selling prices of its products remain dependent on the subsidy allocated by the GoI to the various nutrients. DFPCL, thus remains exposed to any sharp variation in the subsidy amount and delays in receipt of the same, apart from any other regulatory intervention on the product prices. ICRA also notes the regulatory overhang with regard to additional claims by GAIL towards domestic gas supply. The matter is sub-judice.

Large debt-funded capex - DFPCL is setting up an ammonia plant at a total cost of about Rs. 4,350 crore to be funded in a debt to equity ratio of 61:39. It has achieved partial financial closure for the proposed ammonia plant (debt of Rs. 2,044 crore tied-up) and plans to commission the project by Q1 FY2024. Further, ICRA notes that there has been a time overrun (from Q4FY2022 to Q1FY2024) in the Ammonia project due to Covid-19 pandemic-related challenges and land acquisition and land conversion issues. It also faced cost overrun (from Rs 2,920 crore to Rs 4,350 crore), owing to increase in land acquisition costs and EPC cost, addition of certain project components, increase in foreign exchange component, increase in cost towards storage and preservation of equipment and interest during construction (IDC). Due to unavailability of land in MIDC, the company had to purchase an agricultural land nearby, and convert it into industrial land, which led to the delay and increase in overall costs. However, now the company has acquired the entire land required for the ammonia project and construction work has started at the project site.

Further, the company has decided to put on hold its propylene-based IPA expansion project. Additionally, the group is planning to implement TAN project in near future, whose earlier budgeted project cost has increased owing to increase in costs of project utilities and other reasons. DFPCL has purchased key equipment for the ammonia and TAN projects. It has also completed land acquisition process and has already received consent of establishment for its ammonia project. DFPCL plans to raise additional equity funds to meet part of the equity commitment for the aforementioned projects; timely conclusion of the equity raising programme would be critical from a credit perspective. ICRA expects the off-take risks for these projects to be limited, though the timely execution of the ammonia and TAN projects as well as ramp up of operations within the revised timeline and cost budget, would remain a key sensitivity.

Liquidity position: Strong

The company's liquidity position is expected to remain strong led by healthy accrual generation, decline in net working capital intensity, healthy financial flexibility and release of past subsidies lending support to the overall liquidity position. Further, it has a comfortable cushion available in the form of unutilised working capital limits as indicated by the low average working capital utilisation levels which stood at 26% for fund based limits in the 12-month period ended December 31, 2020. DFPCL had a healthy free cash balance (including investment) of Rs 656 crore on its books as on March 31, 2021. It is expected to incur a capex for Ammonia and TAN project during the next four years which would be funded through a mix of debt, equity infusion and internal accruals. However, due to the long repayment tenure of the term loans, the annual debt repayments are likely to remain modest in the range of Rs 200-250 crore over the next four years. The company has strong banking relationships and can also raise funds from the debt and equity markets, as demonstrated in the past. With funding tied up for the ammonia project with a comfortable moratorium period and long tenure, its cash flows are anticipated to be adequate to meet the repayment obligations.

Rating sensitivities

Positive factors – Successful commissioning and stabilisation of ammonia and TAN projects within the revised timeline and cost budgets, and healthy cash accruals from the same could lead to a rating upgrade.

Negative factors – Any further time and cost over runs in new projects or decline in profitability or stretch in working capital position of existing operations leading to deterioration of debt metrics or the company's inability to raise additional funding as envisaged could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Fertiliser Industry Rating Methodology for Entities in the Chemical Industry Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Deepak Fertilisers & Petrochemicals Corporation Limited with its subsidiary, Smartchem Technologies Limited as the latter is an integral part of DFPCL's operations. For arriving at the ratings, ICRA has considered the consolidated financials of Deepak Fertilisers & Petrochemicals Corporation Limited. As on March 31, 2021, the Company had 5 subsidiaries, 2 stepdown subsidiaries and 1 JV, that are enlisted in Annexure-2

About the company

DFPCL was incorporated in 1979. It is involved in manufacturing of Nitro-Phosphate (NP), Nitrogen-Phosphorous-Potassium (NPK), and Bentonite Sulphur fertilisers and industrial chemicals such as technical ammonium nitrate (TAN), methanol, Nitric acid and iso propyl alcohol (IPA). Its manufacturing facilities are located at Taloja, Srikakulam and Panipat. It also owns a commercial mall at Pune. DFPCL's promoters (Mr C. K. Mehta and Mr S.C. Mehta) hold 55.80% stake in the company with the rest held by the public and institutional investors. DFPCL's fertilisers and chemicals business verticals have inter-linkages in the form of use of common raw materials and synergies in the manufacturing processes. The capability of the business segments to attract a different set of investors and strategic partners in order to scale up the size and operations is significant and hence, in FY2018, DFPCL demerged its fertilisers and TAN businesses into a wholly-owned subsidiary, Smartchem Technologies Limited (STL) with effect from January 1, 2015. STL further owns ~90% equity in a subsidiary company, Performance Chemiserve Limited (PCL), which was acquired in Q4 FY2018. The Group is setting up a 1,500 MTPD ammonia plant under Performance Chemiserve Limited.

As per FY2021 audited financials, DFPCL reported a net profit of Rs. 406 crore on an OI of Rs. 5808 crore, against a net profit of Rs. 89 crore on an OI of Rs. 4685 crore in FY2020.

Key financial indicators (audited)

Consolidated	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	6,742	4,685	5,808
PAT (Rs. crore)	77	89	406
OPBDIT/OI (%)	7.2%	10.8%	16.4%
RoCE (%)	8.5%	9.4%	20.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.1	1.5
Net Debt/OPBDIT (times)	5.5	5.4	2.0
Interest Coverage (times)	2.1	2.1	5.1
DSCR (times)	1.7	1.7	2.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019			
					14-Jun-2021	14-Apr-2020	-	29-Mar-2019	25-Oct-2018	17-Sep-2018	02-Apr-2018
1	Fund Based Term Loan	Long-Term	602.0	586.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
2	Fund Based Cash Credit	Long-Term	400.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
3	Non-Fund Based Limits	Short-Term	699.0	-	[ICRA]A1+	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long-Term/ Short-Term	255.0	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term – Term Loan	Simple
Short-Term – Non-Fund Based Limits	Simple
Long-Term/ Short-Term – Unallocated Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Term Loan	FY2016	NA	FY2028	602.0	[ICRA]A+ (Stable)
NA	Fund Based Cash Credit	NA	NA	NA	400.0	[ICRA]A+ (Stable)
NA	Non-Fund Based Limits	NA	NA	NA	699.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	255.0	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Smartchem Technologies Limited	100%	Full Consolidation
Deepak Nitrochem Pty Limited	100%	Full Consolidation
Deepak Mining Services Private Limited (DMSPL)	100%	Full Consolidation

Complete Mining Solutions Private Limited (formerly known as RungePincockMinarco India Private Limited (Subsidiary of DMSPL))	51%	Full Consolidation
SCM Fertichem Limited	100%	Full Consolidation
Platinum Blasting Servies Pty Limited (PBS)[Subsidiary of STL]	65%	Full Consolidation
Australian Explosives Pty Limited (AME)[Subsidiary of PBS]	65%	Full Consolidation

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 454 5304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 454 5322
prashant.vasisht@icraindia.com

Sai Krishna
+91 44 4596 4304
sai.krishna@icraindia.com

Viraj Kadwadkar
+91 22 6114 3457
viraj.kadwadkar@icraindia.com

RELATIONSHIP CONTACT

L Shivkumar
+91 22 6114 3406
shivkumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

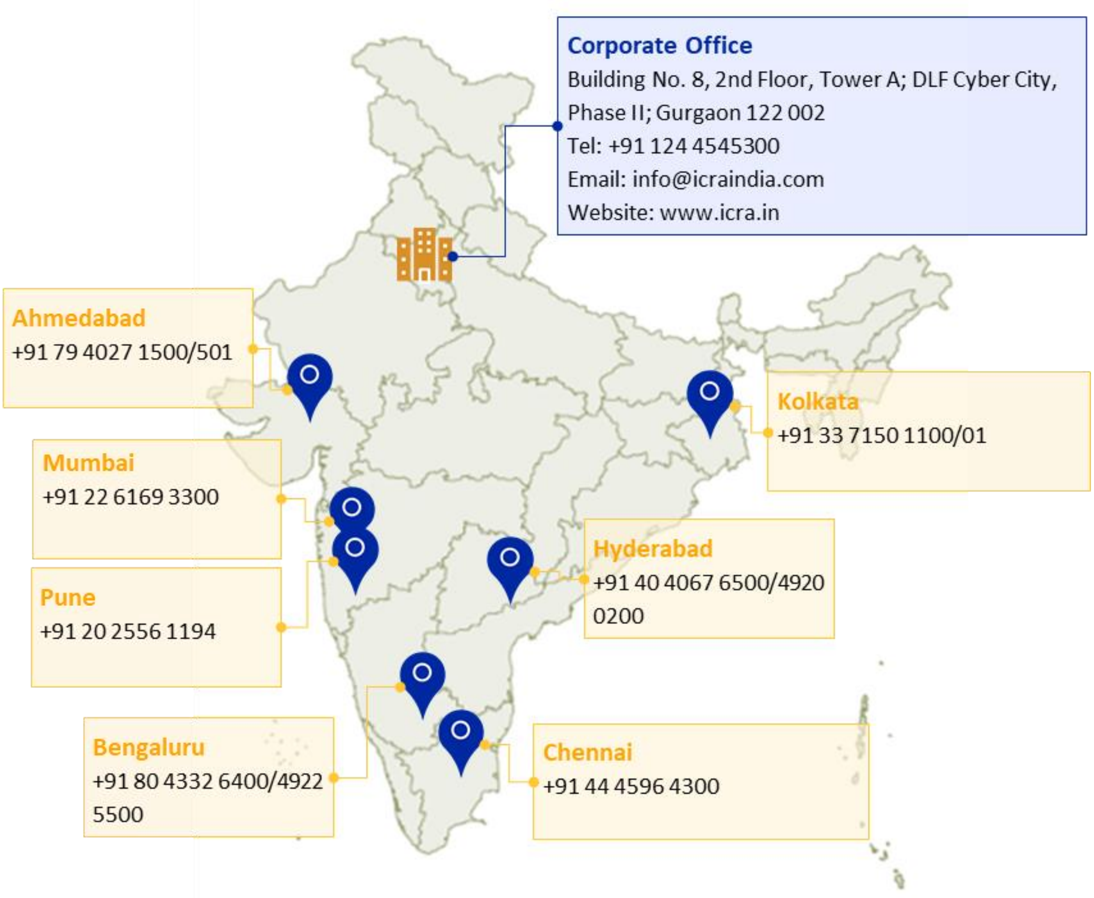
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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