31st Annual Report 2010-11

Stronger... Higher... Faster...

DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

BOARD OF DIRECTORS

C. K. Mehta, *Chairman*

S. C. Mehta, *Vice-Chairman & Managing Director*

R. A. Shah

D. Basu

N. C. Singhal

U. P. Jhaveri

S. R. Wadhwa

Dr. S. Rama Iyer

Smt. Parul S. Mehta

Anil Sachdev

Pranay Vakil

COMPANY SECRETARY

R. Sriraman

Sr. Vice-President (Legal) & Company Secretary

MANAGEMENT TEAM

Dr. T. K. Chatterjee, *President - Strategic Initiatives & Projects*

Somnath Patil, *President & CFO*

Rajendra Sinh, *President - HRD & Corporate Services*

Anand Sundaram, *CEO - VARE*

Dr. Rajeev Chemburkar, *President - Chemicals*

Guy R. Goves, *President - Agribusiness*

BANKERS

Bank of Baroda

IDBI Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank Limited

ICICI Bank Limited

Corporation Bank

SOLICITORS

Crawford Bayley & Company

J. Sagar Associates

AUDITORS

B. K. Khare & Co.

REGISTERED OFFICE

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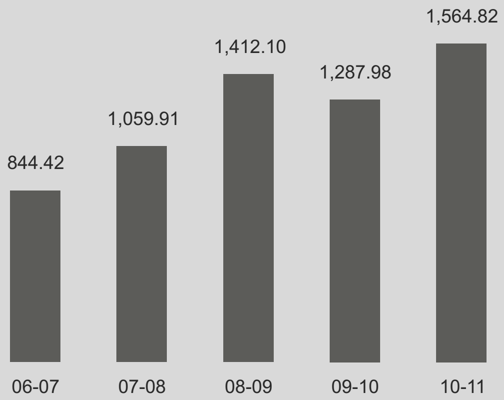
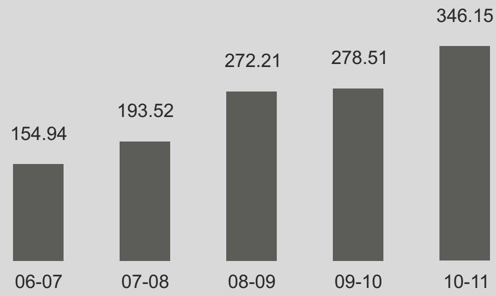
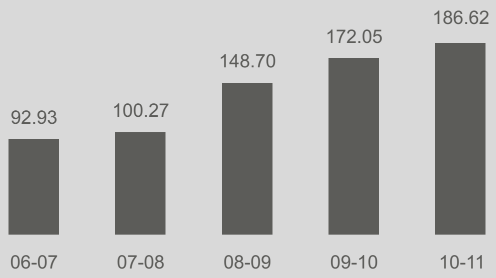
Financial Snapshot



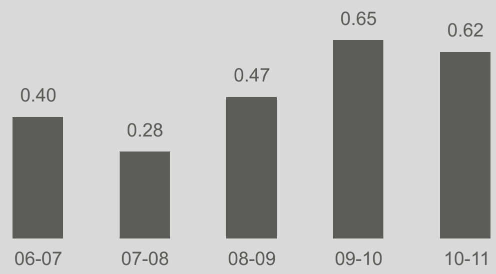
Income From Operations (Rs. in crores)



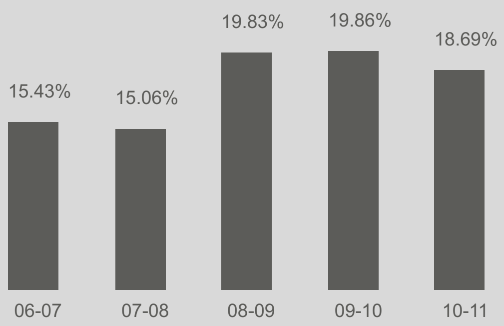
Operating EBIDTA (Rs. in crores)



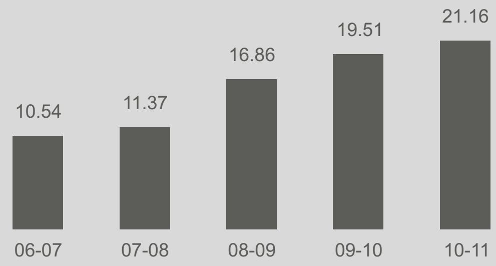
Net Profit (Rs. in crores)



Long Term Debt-Equity Ratio



Return on Net Worth (%)



Earnings per Share (In Rs.)

Stronger... Higher... Faster...

Over the years, DFPCL has grown from STRENGTH to STRENGTH...

Today:

- We are the only IPA manufacturer in India
- We have Asia's largest Nitric Acid complex
- We have TAN capacities that place us among the world leaders
- We are among the market leaders in the Indian Water Solubles, Specialty Fertilisers and Sulphur Bentonite segments
- We have been ranked 3^{rd} as per Total Income in the Chemicals sector by Dun & Bradstreet's India's Top 500 Companies 2010
- We have a product basket comprising of Fertilisers, Industrial Chemicals and Realty which gives us a unique resilience

With our strengths established, we now aim HIGHER...

- Moving from bulk fertilisers to speciality fertilisers and customized fertilisers
- Moving from fertilisers alone to total agri-produce management -- a holistic agri-player
- Moving from a domestic to a global TAN player, adding depth and value through mining services
- Moving from commodity to high value chemicals

For, tomorrow, we will grow FASTER...

- With a track record of consistently growing profitability
- With a healthy debt-equity ratio
- With strong cash flows
- With an expertly-led SBU-structured organisation

STRONGER... HIGHER... FASTER...

Offering increased returns to all our stakeholders!

Message From The Vice-Chairman & Managing Director

ON YOUR MARKS......

In an ever-changing and ruthlessly competitive global business scenario, it is crucial to spend adequate time to set one's sense of direction on the right track.

Simple but profound questions like:

- What Business do we want to be in....
- What value do we bring to the table...
- How do we ring-fence our USPs...
- How do we sustain our Business Model over the long-term...

The year that went by, saw us deeply ponder with these basic questions about our business focus, value proposition, creating competitive advantages and the long-term sustenance of our Business Model with growth in mind. In short, we got to 'On your marks'.

Today, after a lot of deliberations on the global scenario, financial sensitivities and carrying out pilot runs, we have chiselled out a clear growth direction for the Company.

> "Before everything else, getting ready is the secret of success" - *Henry Ford*

Today, we thus stand strategically poised to move forward in definitive directions:

- From Bulk fertilisers to Specialities and Customised fertilisers
- From Inputs alone to total Agri-solutions and produce management
- From a domestic to global TAN player
- From a critical Mining Chemical player to Contract Mining
- From a bulk commodity Chemical player to a high value Petrochemicals player

GET SET...

While technology and funds are easier to source, ensuring an appropriate Management bandwidth is indeed challenging. Further, for all human beings, change is far from an overnight exercise. It needs sustenance and sustainability over the long haul.

Over the year that has gone by, your Company moved from a traditional functional structure to a sector-focused SBU structure designed to propel the organisation forward in sync with the strategic growth path.

The Sector heads with considerable domain expertise, will now bring in a holistic and strong thrust to both, the existing business and to implementing the growth strategy in the sector.

Organisation-wide, a globally renowned and proven Job Evaluation Methodology is in place which will bring a sustaining logic and depth to the organisation structure and ensure its effectiveness.

A concerted performance review exercise across levels beginning with stretched and sharply defined Key Result Areas, review systems, hierarchy interactivity and reward system is already underway.

A methodical, work-behaviour-analysis based assessment of each individual in the senior management team, along with a SWOT analysis based personal growth path has been brought in to be able to objectively review management skill and depth.

Clearly, with these steps we've got beyond the 'On your marks' phase and are now at 'Get Set'.

The pages that unfold bring forth some of the results of our efforts ... Having established our strengths, climbing higher and faster is the motto for the year ahead.

Our focus is on action to capture value. Whether integrating backward into our raw-materials or intergrating forward to bring sectoral depth on our strategies, both, are set to excitingly unfold over the next few years. We are committed to propelling your Company into a new and exciting orbit.

"Do not go where the path may lead, go instead where there is no path and leave a trail" - *Ralph Waldo Emerson*

Warm Regards,

S. C. Mehta

Management Discussion and Analysis

THE MACRO-SCENARIO

The Indian economy continued to shine through the financial year under review 2010-11 (FY 11). The Indian economy grew at 8.6%. It is expected to continue growing around 7.5 to 8% driven largely by domestic demand drivers, the service sector growth momentum and exports.

Infrastructure is likely to follow its growth trajectory. The gradual opening up of the mining sector to private players should also augur well for the economy. The agri-products and consumer demand are also expected to continue with the present trend.

However, expectations for the medium term may need to be slightly mellowed. The International Monetary Fund (IMF) in its April 2011 World Economic Outlook (WEO) has assumed crude oil prices at US$ 107 per barrel for the year. The current high demand pressure for oil is expected to exacerbate with fresh Japanese demand. Concerns about supply disruptions due to political developments in the Middle East and North African (MENA) region still remain. Thus the uncertainty over global oil prices is expected to continue through the financial year 2011-12 (FY 12).

Further, domestic and global inflation levels remain a cause for concern. Interest rates may further firm up through FY12. FII and FDI inflows are expected to remain strong and bank liquidity is still positive. Credit growth is likely to get impacted as interest rates firm up.

THE SCENARIO FOR DFPCL

Given its product and customer profile, with its pronounced tilt towards the Indian farmer, the mining sector, the chemicals customer and the urban consumer, and its considerable strengths in product pricing derived from its advantages of scale, proximity, distribution network, quality, technical services and brands, your Company's potential for growth remains positive.

Raw Materials

Your Company's key raw materials are Natural Gas and its derivative, Ammonia, along with Propylene, Phosphoric Acid and Sulphur.

Multiple sources of gas are now available in India. Your Company's strategic location on the West Coast of India, close to the landfall point for most gas suppliers and its connectivity with the KG basin is an advantage. However, recent pronouncements from the Government's Directorate General of Hydrocarbons and some of India's key private sector gas producers have raised some uncertainty over gas availability in FY 12. On the other hand, ONGC announcements about its strong focus on gas exploration at the KG basin, gas from marginal fields and the availability of LNG are positive signals. Your Company will continue to monitor the developments carefully and will take appropriate steps to develop options so that supplies of such crucial raw materials are well managed.

On the Ammonia front, your Company will need a combination of in-house manufacture and outsourcing to maximise downstream capacity utilisation at its plants in the coming years. While Ammonia prices, globally, have been on an uptrend in recent months, your Company's location and storage facilities enable it to source Ammonia either domestically or from the world markets. Besides stepped up domestic Ammonia sourcing, your Company has tied up with a prominent Middle East supplier for its requisite quantities of Ammonia. This will ensure adequate availability of this vital raw material.

Propylene prices have been increasing in recent months. Globally Iso Propyl Alcohol (IPA) prices have generally moved in tandem with Propylene prices. Thus, your Company is confident that it can keep its margins reasonably intact.

Your Company is also working on a strategy to ensure consistent and adequate quantities of Phosphoric Acid. Price outlook for this product is expected to remain largely stable. Further the new Nutrient Based Subsidy scheme is also expected to help absorb any potential price hikes.

Sulphur prices have been somewhat volatile. However, your Company's strong brands and distribution network will enable it to maintain margins on Sulphur Bentonite for which Sulphur is a key input material.

Fertiliser/Agri-sector

The Government's new Nutrient Based Subsidy (NBS) policy, introduced from April 1, 2010, has been positive for all the stakeholders viz. the Indian farmer, the fertiliser industry and your Company. Along with improved production planning and cost management, better margins have been achievable in the fertiliser sector. The Indian fertiliser industry is now clearly poised on a new growth trajectory. The strong growth trends for both horticulture and food crops production as well as attractive prices are expected to have a positive impact on agri-exports from India.

Agronomist monitoring the pomegranate crop

Your Company continues to drive growth with its strategy of providing a complete basket of products and services to the Indian farmer. Its strong brands and customer relationships, robust distribution networks and knowledge-driven services are the key in this regard. Output management of horticultural products as a service and business driver will be expanded strategically, to achieve a competitive edge.

CHEMICALS

Technical Ammonium Nitrate (TAN)

India's mining industry is expected to grow at 8% annually according to most estimates. Coal, iron ore, limestone and other minerals, so crucial to a fast growing economy like India, continue to show strong growth. Infrastructure growth will be an important driver for your Company's TAN business in the coming years. Globally, the mining industry is expected to grow significantly in markets like S.E. Asia, Australia, Africa and parts of the Middle East. These factors bode very well for your Company's TAN business.

Industrial Chemicals

According to recent estimates, the Indian chemical industry growth is lagging behind GDP growth, highlighting its high demand potential. Your Company's key industrial chemicals products viz, Nitric Acid, Iso Propyl Acohol (IPA) and CO_2 serve some of the fastest growing sectors of Indian Industry.

Nitric Acid is a basic commodity chemical with widespread use across several sectors. Demand estimates for the Indian Nitric Acid market are around 8% given the high levels of growth in nitro-aromatics, pharmaceuticals and dyestuffs, in particular.

The biggest user of IPA in India is the pharmaceuticals industry. With most estimates indicating that the pharmaceuticals industry in India growing around the 15% mark, demand estimates for IPA are also robust with around 6-7% growth envisaged over the next few years. CO_2 demand in India is also estimated at a strong 15% given the rising levels of usage among end-users like beverages, automobiles and industrial uses like welding.

Thus, with the continuing consumer demand, the outlook for your Company's key industrial chemical products remains strong.

REALTY SECTOR

According to McKinsey, the expansion of domestic consumption in India is poised to be quite dramatic. McKinsey estimates that if overall economic growth remains on a long-term path of 7 to 8 percent, real consumption will grow from 17 trillion Indian Rupees today to 70 trillion Indian Rupees by the year 2025.

This highlights the potential in Indian retail and, by consequence, in retail-facilitation structures like malls where research indicates that with changing aspiration-based lifestyles, categories that define perceptual social identity will become key growth areas. Therefore, apparels, home textiles, leisure, consumer durables, jewellery and watches etc. are expected to show clear and strong growth strengths.

Further, in comparison to a plain vanilla mall, the lifestyle seeking consumer now clearly prefers a differentiated offering - the lifestyle centre - which goes beyond just shopping and helps enhance lifestyle aspirations. In keeping with these trends your Company has been working on changing its mall venture, Ishanya,

An artistic expression of the new High Street Ishanya concept

into a true world-class lifestyle centre with the new High Street Ishanya concept. New categories include lifestyle accessories, fine-dining and world-class entertainment options. Your Company is confident that this new strategy will improve the overall business value to the shareholders.

Detailed Financial and Operational Analysis

Financial Analysis

During the year 2010-11 your Company has shown increased production levels across all its major products.

Total Revenue for 2010-11 stood at Rs. 1,600.64 crores against Rs. 1,332.88 crores in 2009-10, an increase of 20%. Sales for the agri-business grew 20% to Rs. 528.45 crores in 2010-11 from Rs. 439.18 crores in 2009-10 while sales for the chemicals business grew 26% to Rs. 1,075.94 crores in 2010-11 from Rs. 852.46 crores in 2009-10.

Profit Before Tax increased to Rs. 261.47 crores in 2010-11 from Rs. 237.78 crores in 2009-10, while Net Profit stood at Rs. 186.62 crores in 2010-11 against Rs. 172.05 crores in 2009-10. Net Profit for the year under review is not comparable with the previous financial year given the exceptional gain of Rs. 25.71 crores (net) arising from sale of surplus land in FY10.

Earnings Per Share went up to Rs. 21.16 compared to Rs. 19.51 in the previous year. Your Company's operating margins stood at 22.01% against 21.62% in 2009-10.

Your Company's financial position continues to remain sound. The average debt cost stood at 9.24% for 2010-11 against 9.88% for 2009-10. During 2010-11, long term funds of Rs. 204 crores were borrowed mainly to finance the new 3,00,000 MT TAN project.

Short-term borrowings stood at Rs. 116.02 crores in FY 11 against Rs. 122.16 crores in FY 10. For 2010-11, the outstanding debt stood at Rs. 775.67 crores against Rs. 731.20 crores in 2009-10. The debt-equity ratio stood at a healthy 0.62 as compared to 0.65 in previous year. The current ratio, including liquid investments, was at 2.79 in 2010-11 against 2.96 in 2009-10.

Operational Analysis

Your Company utilised 0.650 $MMSM^3$ per day of Natural Gas (NG) during the year under review on an average, compared to 0.582 $MMSM^3$ per day of NG during 2009-10.

Production

Product	Quantity (MT)	
	2010 -11	2009 -10
Ammonia	1,07,100	1,00,851
Methanol	81,888	65,647
Iso Propyl Alchohol	67,462	61,619
Propane	9,166	9,231
Dilute Nitric Acid	3,08,950	2,60,162
Concentrated Nitric Acid	93,546	87,596
Nitro Phosphate Fertiliser	1,25,231	1,00,284
Technical Ammonium Nitrate	1,46,827	1,32,337
Bentonite Sulphur	11,254	10,191
Liquid Carbon Dioxide	30,403	29,132

Sales

Product	Quantity (MT)	
	2010 -11	2009 -10
Methanol	81,708	65,703
Iso Propyl Alchohol	67,652	61,671
Propane	9,060	9,316
Dilute Nitric Acid	37,101	23,187
Concentrated Nitric Acid	93,148	87,653
Technical Ammonium Nitrate	1,46,115	1,33,043
Fertilisers	2,84,935	2,61,655
Liquid Carbon Dioxide	30,310	29,176
Hydrogen (by-product)	4,621	3,312
Bulk and Speciality Chemicals	-	158
Bentonite Sulphur	12,178	8,691
Fruits and Vegetables	4,596	1,727
Windmill Power (KWH)	1,52,81,995	1,92,85,646

Ammonia requirements for the year were met through both in-house manufacture and outsourcing. Production levels of Ammonia increased during the year under review to 1,07,100 MT against 1,00,851 MT in 2009-10. Your Company outsourced 43,826 MT of Ammonia from the market.

Product-wise business review

Your Company's production reached record levels for Ammonia, Liquid CO_2, IPA, DNA and Bensulf for the year under review. Capacity utilisation will now be maximized in the coming year with better raw material management and operational efficiencies.

Fertiliser/Agri-Sector

The total bulk fertiliser sales volume for 2010-11 was 2,84,935 MT against 2,61,655 MT for 2009-10. Total revenue from the agri-business grew 20% to Rs. 531.18 crores in 2010-11 from Rs. 442.07 crores in 2009-10.

Production volumes of Nitro-Phosphate Fertiliser (NP) rose to 1,25,231 MT from 1,00,284 MT. Capacity utilisation was not optimal during the year under review owing to technical problems at the plant during the second quarter of FY 11 and the oil spill on the West Coast of India causing a diversion of phos acid shipment during the third quarter of the year under review.

Your Company successfully introduced the 24:24:0 grade of NP during the second half of the year under review. While enhancing crop productivity, the new grade will also help increase margins. Production volumes of Sulphur Bentonite rose to 11,254 MT in 2010-11 against 10,191 MT in 2009-10. Sales of speciality fertilisers saw an increase of 33% in value terms.

Nutrient management and advisory services continued to be a focus area. The nine Saarrthie centres now service about 7,648 hectares of cultivable land and have 9,808 farmer members. Your Company's efforts to meet GlobalGAP standards for its agri-produce and its stringent quality practices have enabled it to develop a Deepak GAP (Good Agricultural Practices) Standard for