March 28, 2025

Deepak Mining Solutions Limited: Ratings Assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long-term fund based – Term loan**	2,000.00	[ICRA]AA- (Positive); Assigned
Long term -Fund Based-Cash Credit	100.00	[ICRA]AA- (Positive); Assigned
Short Term-Non Fund Based Facilities	500.00	[ICRA]A1+; Assigned
Total	**2600.00**	

**Instrument details are provided in Annexure I; **Proposed*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Deepak Fertilisers and Petrochemicals Corporation Limited (DFPCL, rated [ICRA]AA- (Positive)/[ICRA]A1+) and its subsidiaries -Mahadhan AgriTech Limited (MAL, rated [ICRA]AA- (Positive)/[ICRA]A1+) and Deepak Mining Solutions Limited (DMSL)-due to their managerial, operational and financial linkages, collectively referred to as the Group/consolidated entity.

The assigned ratings factor in the group's diversified product portfolio comprising phosphatic fertilisers and industrial and mining chemicals. The ratings also factor in the Deepak Group's strong market position in the mining chemical business, especially in TAN, and the industrial chemicals business, particularly in nitric acid and iso-propyl alcohol (IPA). The completion of the ongoing capex plans will enhance the Group's market leadership in the TAN and Nitric acid segment. The ratings also consider the Deepak Group's strong financial flexibility.

The Deepak Group will witness a sizeable growth in its scale of operations and cash generation from FY2027 as the ongoing capex programmes for technical ammonium nitrate (TAN) under DMSL and for nitric acid under DFPCL are expected to be completed on time within the planned capital outlay. Additionally, from FY2027, the input gas cost for PCL is expected to moderate from the current levels, pushing up the Group's profitability. However, ICRA notes that the leverage and coverage metrics will moderate in FY2026 because of the debt being availed for the ongoing projects.

The ratings are, however, constrained by the agro-climatic and regulatory risks in the fertiliser business and the vulnerability of the chemical division's profitability to the inherent price cyclicality along with the volatility in natural gas prices. The ratings are also constrained by the project execution risk associated with the large debt-funded capex plans being undertaken by Group i.e., the TAN project at Gopalpur at a capital outlay of nearly Rs. 2,200 crore and the nitric acid plant at Dahej at a capital outlay of ~Rs. 1,985 crore. The company has incurred around Rs. 1,300 crore for these two projects by the end of December 2024 and the remaining capex is to be incurred in FY2026 and H1 FY2027. The large capex plan exposes the company to project execution risks and a timely commissioning of these projects within the proposed capital outlay will remain a key monitorable.

Further, ICRA notes that MAL had filed an appeal against an order of the Commissioner of Income Tax (Appeals) in response to the receipt of assessment and demand orders for the block period (assessment year 2015-2016 to assessment year 2019-2020) pursuant to the search operations conducted by the income tax department in November 2018. The department has raised a demand of Rs. 540.4 crore (including interest), which was decided against MAL by the Commissioner of Income Tax (Appeals). Thereafter, MAL has filed appeal against the order in the Income Tax Appellate Tribunal. ICRA will continue to monitor the development on this front.

The Positive outlook on the long term rating reflects ICRA's expectation of the healthy improvement in the credit profile of the Deepak group including Deepak Fertilisers & Corporation Limited {DFPCL, rated [ICRA]AA-(Positive)/[ICRA]A1+)}, Mahadhan AgriTech Limited {MAL, rated [ICRA] AA- (Positive)/[ICRA]A1+}, Performance Chemiserve Limited {PCL, rated [ICRA]AA-(Stable)/[ICRA]A1+} and DMSL – from FY2027, driven by the completion of the ongoing capex programme and a significant improvement in PCL's profitability.

Rating Outlook

The Positive outlook reflects ICRA's expectation of the Deepak Group continuing to benefit from the healthy demand for its products and integrated nature of operations. Additionally, with the capex cycle expected to be completed over the course of next one year and benefit of the expected improvement in the profitability of PCL from FY2027, ICRA expects the credit profile of the group to improve from FY2027.

Key rating drivers and their description

Credit strengths

Strong market position in domestic industrial and mining chemical business - The Deepak Group has a strong market position in the existing chemical businesses of TAN, Nitric acid and IPA. The Group is one of the leading players of TAN in the domestic market, supported by the superior product quality of low-density ammonium nitrate (LDAN), which commands a premium over AN-melt manufactured by domestic players and imported fertiliser-grade AN. The Group is one of the leading manufacturers of IPA and concentrated nitric acid (CNA) in the domestic market. It is also expanding its capacities in TAN, which would allow it to maintain its dominant position over a longer term. The backward integration to produce ammonia and a moderation in the production cost from FY2027 is expected to improve the competitiveness of these products further.

Diversified portfolio with shift towards value-added products - 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 the changes in market conditions partially mitigates the risks associated with cyclicality. The company has also been increasing its portfolio of value-added products in the chemical and fertiliser segments and the trend is expected to continue in the near to medium term.

Favourable demand prospects - The domestic demand outlook for the company's key products such as TAN, IPA and Nitric acid remains healthy. The demand for TAN will be driven by the coal mining and infrastructure sectors, while the demand for nitric acid would be supported by the planned capacity addition in the downstream segments. The IPA market is expected to maintain a healthy growth, led by the growing end-user industry, namely the pharma sector, apart from dyes and paints. The demand for the fertiliser segment is also expected to stay healthy as the country remains dependent on imports to meet the phosphatic fertiliser requirements. Additionally, the recent policy changes which allow companies to earn up to 10% of the profit before tax margin will allow the entity flexibility in setting the retail prices for fertilisers. The same should bode well for the segment as it will allow the company to pass on the input price impact to the end consumers.

Healthy financial flexibility - The Group has a healthy financial flexibility, reflected in its fund-raising and refinancing ability. In the past, it had raised funds through rights issues and QIP which was subscribed by marquee domestic and international financial institutional investors, and from multilateral agencies. Further, since January 2024, the pledge on promoter shareholding has been entirely released and, hence, there is no encumbrance of any kind on promoter holding.

Credit challenges

Profitability vulnerable 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. Further, any availability issues of key raw materials may have an adverse impact on the company's operations. However, the risk has been partly mitigated by supplier diversification. The availability risk will be mitigated further by the backward integration in ammonia and the firm gas supply tie-ups.

Exposure to regulatory risks - The fertiliser business is exposed to agro-climatic risk and operates in a regulated environment. The selling prices of the 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 levels announced under the Nutrient-Based Subsidy (NBS) scheme and the timeliness of the subsidy payout by the GoI, apart from any other regulatory intervention on the product prices. ICRA also notes the regulatory overhang over additional claims by GAIL towards domestic gas supply. The matter is sub-judice.

Large debt-funded capex – The Deepak Group is undertaking a Rs. 4,500-crore capex programme (~ Rs. 1,300 crore incurred till December 2024) for setting up a 376-KTPA TAN project at Gopalpur, Odisha (capital outlay of nearly Rs. 2,200 crore), and a Nitric acid plant at Dahej, Gujarat, with a capital outlay of nearly Rs. 1,985 crore. A debt of Rs. 1,541 crore has been tied up for the TAN project. For the Nitric acid project, the company has bridge loans of Rs. 700 crore and is in the process of completing documentation for the term debt sanctioned for the project. Given the sizeable capex, the company will remain exposed to project execution risk and the timely completion of the projects within the expected capital outlay will remain a key monitorable. However, comfort can be drawn from the fact that the capex is in the existing line of business and the Group has a track record of efficiently running the operations of such plants.

Liquidity position: Adequate

The liquidity position of the Deepak Group at a consolidated level remains adequate, supported by expectations of robust cash flow from operations in the range of Rs. 1,000-1,200 crore per annum for FY2025 and FY2026, a healthy cushion in the working capital limits for both DFPCL and MAL and ~Rs. 497 crore of cash balances as on December 31, 2024. The company had tied up external debt for the TAN project and in the process of completing documentation for the term debt sanctioned for the Nitric acid project. Thus, the debt funding for the projects is largely in place. The cash flow from operations and the debt tie-ups will be adequate to fund the ongoing capex plans and to meet the term debt repayments for the Group, going forward.

Rating sensitivities

Positive factors – A healthy improvement in cash accruals on a sustained basis, aided by the timely completion of new projects within the expected capital outlay, would help improve the credit metrics and favour an upgrade. A specific credit metric for upgrade would be net debt/OPBDITA of less than 1.5 times, on a sustained basis.

Negative factors – A decline in profitability, and/or a stretch in the working capital position of the existing operations, or any material time and cost overruns in the capex projects, or any new large debt-funded capex might result in a sustained deterioration of the debt metrics and trigger a downgrade. A specific credit metric for downgrade would be net debt/OPBDITA of more than 2.5 times, on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Mining Chemicals Fertilizers
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Deepak Fertilisers And Petrochemicals Corporation Limited with its subsidiary, Mahadhan AgriTech Limited as the latter is an integral part of DFPCL's operations. ICRA has considered the consolidated financials of Deepak Fertilisers & Petrochemicals Corporation Limited. As

Analytical approach	Comments
	on December 31, 2024, the company had six subsidiaries, three step-down subsidiaries and one JV, that are enlisted in Annexure-2

About the company

Deepak Mining Solutions Limited (DMSL/the company) was incorporated in the year 2008. It is a wholly owned subsidiary of DFPCL and is in the business of manufacturing of Technical Ammonium Nitrate (TAN) and providing consultancy to mining companies in India. It provides consultancy in the entire value chain of the mining business. The Company is poised to transition from being a supplier of TAN products to the provider of holistic mining solutions. The Company enjoys ~40% market share in the domestic TAN market. To meet the growing demand for TAN in India, the Company has enhanced its licensed production capacity to 0.63 MMTPA through brownfield expansion. It produces High Density Ammonium Nitrate (HDAN), Low Density Ammonium Nitrate (LDAN), Ammonium Nitrate Melt (AN Melt) and Medical Grade AN. It is the sole producer of solid grade TAN in India. It also manufactures Medical Grade Ammonium Nitrate, which finds application in the production of nitrous oxide used as an analgesic. The company is also expanding its TAN manufacturing capacity by 376 KTPA in Gopalpur, Odisha expected to be commissioned in FY2026.

Key financial indicators (audited)

DFPCL (consolidated)	FY2023	FY2024	9M FY2025*
Operating income	11301	8676	7607
PAT	1221	457	667
OPBDIT/OI	19.7%	15.1%	19.0%
PAT/OI	10.8%	5.3%	8.8%
Total outside liabilities/Tangible net worth (times)	1.2	1.1	-
Total debt/OPBDIT (times)	1.7	3.2	1.9
Interest coverage (times)	11.5	3.2	4.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 28, 2025	Date	Rating	Date	Rating	Date	Rating
Fund Based – Term Loan*	Long term	2,000.00	[ICRA]AA- (Positive)	-	-	-	-	-	-
Fund Based - Cash Credit	Long term	100.00	[ICRA]AA- (Positive)	-	-	-	-	-	-
Non Fund Based Facilities	Short term	500.00	[ICRA]A1+	-	-	-	-	-	-

**Proposed term loan*

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term - Fund Based – Term Loan*	Simple
Long term -Fund Based-Cash Credit	Simple
Short Term-Non Fund Based Facilities	Very Simple

**Proposed Term Loan*

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 analysing 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 are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based: Term Loan*	NA	NA	NA	2000.00	[ICRA]AA- (Positive)
NA	Fund Based: Cash Credit	NA	NA	NA	100.00	[ICRA]AA- (Positive)
NA	Non-Fund Based Limits	NA	NA	NA	500.00	[ICRA]A1+

*Source: Company; * Proposed Term Loan*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mahadhan AgriTech Limited (erstwhile known as Smartchem Technologies Limited)	100.0%	Full Consolidation
Deepak Nitrochem Pty Limited	100.0%	Full Consolidation
Deepak Mining Solutions Limited (DMSL)	100.0%	Full Consolidation
SCM Fertichem Limited	100.0%	Full Consolidation
Ishanya Realty Corporation Limited	100.0%	Full Consolidation
Ishanya Brand Services Limited	100.0%	Full Consolidation
Yerrowda Investments Limited	85.0%	Equity Method
Performance Chemiserve Limited [Subsidiary of DMSL]	100.0%	Full Consolidation
Platinum Blasting Services Pty Limited (PBS) [Subsidiary of DMSL]	85.0%	Full Consolidation
Australian Explosives Pty Limited (AME) [Subsidiary of PBS]	100.0%	Full Consolidation

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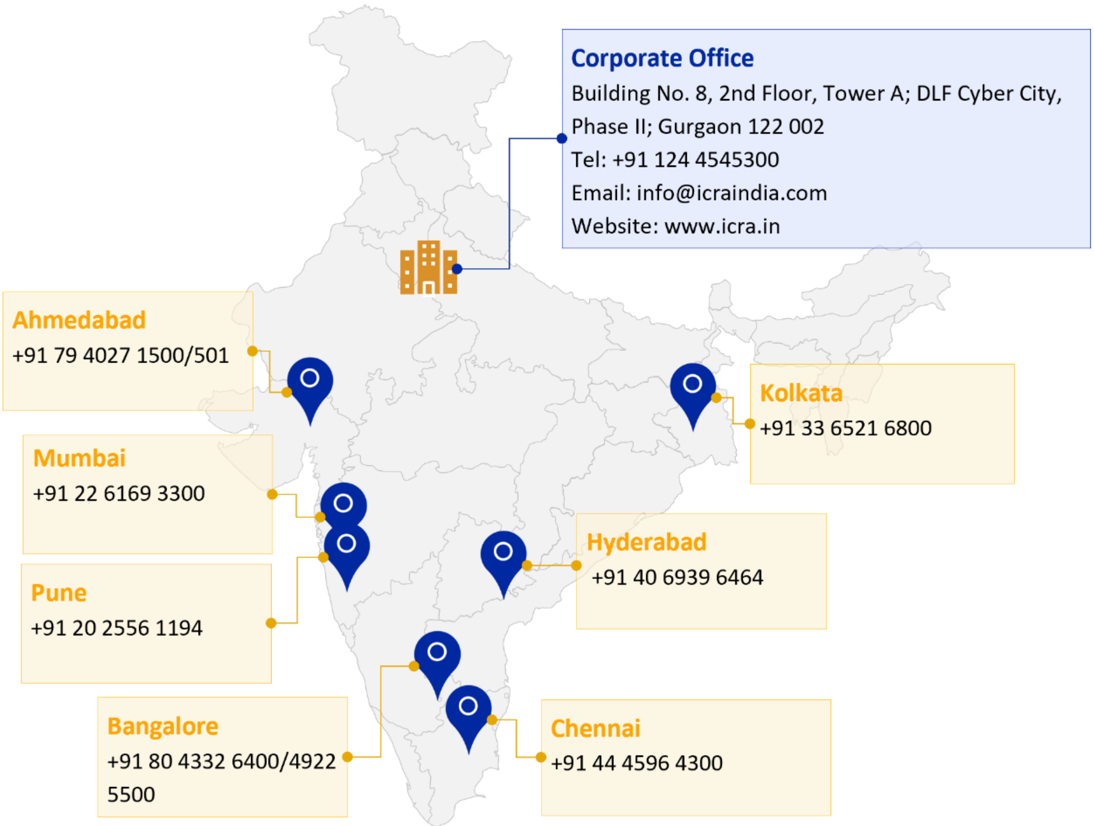

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