

Upward revision in target price

 2nd February 2010

BUY

Price	Target Price
Rs 120	Rs 158

Sensex – 16,356

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	27	28	100
Rel. to Sensex	18	25	23	13

Source: Bloomberg

Stock Details

Sector	Fertilisers
Reuters	GNFC.BO
Bloomberg	GNFC@IN
Equity Capital (Rs mn)	1554
Face Value (Rs)	10
No of shares o/s (mn)	155
52 Week H/L (Rs)	136/52
Market Cap (Rs bn /USD mn)	18/372
Daily Avg Vol (No of shares)	344921
Daily Avg Turnover (US\$ mn)	0.8

Shareholding Pattern (%)

	31/12/09	30/9/09	30/6/09
Promoters	41.2	41.2	41.2
FII/NRI	4.2	3.6	4.0
Institutions	25.6	25.7	23.4
Private Corp.	2.7	2.8	3.8
Public	26.5	26.7	27.6

Source: Capitaline

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Gujarat Narmada Fertiliser and Chemicals' (GNFC) Q3FY10 net revenues of Rs 7.7 bn (-22% YoY) were in line with est however APAT Rs 835 mn (-17% YoY) was marginally ahead of our est after adjusting for EO expense of Rs 360 mn. Performance of both the segments remained encouraging however fertiliser profits fell sharply mainly due to strong base affect. We maintain our positive outlook on company's chemical products portfolio which comprises of acetic acid, methanol, aniline and TDI. On its fertiliser business, conversion of urea plant from LSHS to gas base remains key concern while outlook for its complex fertiliser (ANP) business remains strong.

Whilst current valuations remain strong with stock trading at ~20% discount to FY10 book value and 6x FY11 est EPS, we believe that current ongoing capex of Rs 28 bn will be key growth driver from FY12 onwards. Though near term triggers may be missing, keeping long term view (18 – 24 months) on the company we maintain our BUY rating on the stock and revise our price target upward from Rs 111 to Rs 158 based on 1x FY11 BV.

Decline in Fertiliser sales volumes dragged revenues

Net revenues for Q3FY10 declined by 22% YoY to Rs 7.7 bn (inline with est of Rs 7.6 bn) mainly due to higher than expected decline in fertiliser segment revenues. Revenues declined by 40% YoY to Rs 4.3 bn due to weak fertiliser prices as compared to last year and 46% decline in fertiliser sale volumes to 286 thousand mt (Source : Ministry of Fertilisers). With EBIT margins of 2.7% this quarter, (-890 bps YoY) the company reported EBIT of Rs 114 mn versus Rs 837 mn last year.

Recovery in demand reflective in chemical segment

Prices of key chemicals manufactured by the company (Acetic Acid, Methanol, Aniline, Formic Acid) have improved driven by recovery in demand from user industries like pharma, textiles, paints and dyes. As a result chemical revenues increased by 27% YoY to Rs 3.3 bn (ahead of est of Rs 2.8 bn). However, due to rising costs of inputs and declining spread between finished goods and raw material prices, EBIT margins for the quarter declined by 130 bps YoY and 1020 bps QoQ to 25.9% resulting in EBIT of Rs 848 mn.

Bottomline adjusted for EO expense of Rs 360 mn was ahead of estimates

EBITDA margins for Q3FY10 stood at 19.7%, +100bps YoY resulting in an EBITDA of Rs 1.5 bn, -18% YoY (ahead of est). Results have been adjusted for 1) Rs 230 mn incurred on account of excise duty liability on fuel and steam generation as a prior period adjustment and 2) Rs 130 mn on account of loss / diminution in the value of fertiliser bonds. The company reported other income of Rs 116 mn (lower than estimates) and Interest of Rs 70 mn post which APAT for the quarter stood at Rs 835 mn, -17% YoY (ahead of est) with an AEPS of Rs 5.4 in Q3FY10 as against Rs 6.5 previous year.

Price target revised upward to Rs 158, maintain BUY

Due to strong performance of GNFC in 9MFY10 and improved visibility in earnings for the sector, we are upgrading our target price multiple from 30% discount to FY11 BV to 1x FY11 BV of Rs 158, which is still below its historical average of 1.1x. We maintain our earnings estimates at Rs 16.8 in FY10E and Rs 19.9 in FY11E. At current price the stock trades at 7.1x and 6x FY10E and FY11E respectively and offers 32% upside from current levels. We maintain BUY with a revised price target of Rs 158.

Key Financials

(Rs mn)

	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROE (%)	EV/ EBITDA	P/BV	Div Yld (%)	P/E
FY08	34339	6381	18.6	3729	24.0	21.8	3.4	1.0	3.5	5.0
FY09	29201	4350	14.9	2275	14.6	11.8	5.0	0.9	2.9	8.2
FY10E	30702	4622	15.1	2604	16.8	12.4	4.4	0.8	2.5	7.1
FY11E	32636	5299	16.2	3093	19.9	12.6	4.1	0.8	2.7	6.0

Capex plan of ~Rs 28 bn on schedule

As per the management, the company's capex plans for the next two years of Rs 28 bn are on schedule. Capex plans include set up of a 300 mtpd WNA plant, increase in TDI capacity by 150 mtpa and increase in ammonia plant capacity through revamp. Last month the government approved changeover in urea feedstock from FO/ LSHS to Natural Gas. Allotted to L&T, the project will involve a capex of Rs 12.2 bn and is expected to be completed in the next 32 months.

Quarterly Results analysis

Rs mn

Y/E Mar	Q3FY09	Q2FY10	Q3FY10	% YoY	% QoQ	FY09	FY10E	FY11E
Net Sales	9,855	7,662	7,659	(22.3)	(0.0)	29,201	30,702	32,636
Raw Material	4,358	3,755	4,001	(8.2)	6.6	12,324	-	-
Power & Fuel	1,124	991	776	(31.0)	(21.7)	3,763	-	-
Staff Cost	547	515	500	(8.5)	(2.9)	2,222	-	-
Purchase of goods for resale	1,315	282	315	(76.0)	11.6	3,000	-	-
Other Exp	671	779	555	(17.2)	(28.7)	3,541	-	-
Total Exp	8,014	6,322	6,147	(23.3)	(2.8)	24,850	-	-
EBITDA	1,842	1,340	1,512	(17.9)	12.8	4,350	4,622	5,299
Depreciation	300	308	297	(0.8)	(3.3)	1,197	1,141	1,141
EBIT	1,542	1,033	1,215	(21.2)	17.6	3,153	3,481	4,159
Interest	100	62	70	(30.0)	13.3	205	258	200
Other Income	94	41	116	23.7	185.7	589	783	800
PBT	1,536	1,012	1,261	(17.9)	24.6	3,537	4,006	4,759
Tax	529	405	304	(42.6)	(25.0)	1,262	1,402	1,666
APAT	1,007	607	957	(4.9)	57.7	2,275	2,604	3,093
EO Income	-	-	(360)			-	-	-
RPAT	1007	607	597	(40.7)	(1.6)	2275	2604	3093
AEPS	6.5	3.9	5.4	(17.0)	37.7	14.6	16.8	19.9
% of NS				(chng bps)	(chng bps)			
Raw Material + purchases	57.6	52.7	56.4	(120)	367	52.5	-	-
Power & Fuel	11.4	12.9	10.1	(128)	(280)	12.9	-	-
Staff Cost	5.5	6.7	6.5	98	(20)	7.6	-	-
Other Exp	6.8	10.2	7.3	44	(292)	12.1	-	-
EBITDA	18.7	17.5	19.7	105	225	14.9	15.1	16.2
EBIT	15.6	13.5	15.9	21	238	10.8	11.3	12.7
APAT	10.2	7.9	12.5	228	458	7.8	8.5	9.5

Source: Emkay Research

Segmental Results

Rs mn

Y/E Mar	Q3FY09	Q2FY10	Q3FY10	% YoY	% QoQ
Revenues					
Fertiliser	7192	4607	4303	(40.2)	(6.6)
Chemicals	2571	2975	3270	27.2	9.9
Others	92	81	86	(6.2)	6.7
Total	9855	7662	7659	(22.3)	(0.0)
Earnings					
Fertiliser	837	1	114	(86.4)	9416.7
Chemicals	700	1074	848	21.2	(21.0)
Others	1	29	-9	(936.4)	(132.1)
Total	1538	1104	953	(38.0)	(13.7)
Segment margins (%)				(chng bps)	(chng bps)
Fertiliser	11.6	0.0	2.7	(898)	263
Chemicals	27.2	36.1	25.9	(128)	(1017)
Others	1.2	35.6	-10.7	(1190)	(4631)
Total	15.6	14.4	12.4	(316)	(196)

Source: Emkay Research

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