

Results in line with expectations

29th October 2009

BUY

Price	Target Price
Rs 93	Rs 111

Sensex – 16,053

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	2	38	70
Rel. to Sensex	(3)	(3)	(2)	(4)

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)	108/49
Market Cap (Rs bn /USD mn)	14/295
Daily Avg Vol (No of shares)	304523
Daily Avg Turnover (US\$ mn)	0.6

Shareholding Pattern (%)

	30/9/09	30/6/09	31/3/09
Promoters	41.2	41.2	41.2
FII/NRI	4.0	4.0	3.9
Institutions	23.4	23.4	23.7
Private Corp.	3.8	3.8	3.8
Public	27.6	27.6	27.5

Source: Capitaline

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Gujarat Narmada Fertiliser and Chemicals' (GNFC) Q2FY10 results were broadly in line with estimates. Net revenues of Rs 7.7 bn, -12% YoY were ahead of our est (Rs 6.7 bn). Company surprised positively with 140bps YoY / 1050bps QoQ improvement in chemical segment EBIT margins to 36.1% however fertiliser segment profitability remained muted. EBITDA margins also improved by 30bps YoY / 350bps QoQ to 17.5%. Company reported PAT of Rs 607 mn, -23.3% YoY, which was marginally short of our expectation of Rs 653 mn mainly due to higher tax provisioning. EPS for the quarter was Rs 3.9 as against Rs 5.1 in the previous year. We maintain our BUY recommendation on the stock with price target of Rs 111.

Fertiliser contributed revenue growth but disappointed at profitability

Net revenues of Rs 7.7 bn, -12% YoY were ahead of our est (Rs 6.7 bn) due to decline in revenues in both fertilisers and chemicals. Fertiliser revenues declined by 12% YoY to Rs 4.7 bn (ahead of expectations Rs 3.7 bn) due to weak fertiliser prices and drop in fertiliser sale volumes by 22% YoY to ~282 thousand mt (Source : Ministry of Fertilisers). EBIT contribution from fertiliser division remained nil.

Chemical segment witnessed significant margins expansion on QoQ

Chemical revenues declined by 11% YoY to Rs 2.9 bn (in line with est of Rs 3 bn) due to sharp fall in chemical prices compared to last year. Chemical segment reported highest ever margins seen in the last 2 years. Chemical margins increased by 140 bps YoY / 1050 bps QoQ to 36.1% on account recovery in finished product prices like Acetic acid, Aniline, Methanol higher than raw material prices like benzene, Toulene, Chlorine etc. Chemical segment posted EBIT of Rs 1.1 bn for Q2FY10, -7.1% YoY.

Marginally below than expected PAT due to higher tax provisioning

EBITDA at Rs 1.3 bn, -10% YoY was marginally above our estimates of Rs 1.2 bn however other income at Rs 41 mn was significantly lower than expected. Company reported PBT of Rs 1 bn which was in line with our expectation of Rs 1 bn. PAT at Rs 607 mn, -16.2% YoY, was marginally below our expectation of Rs 653 mn due to higher tax rate of 40%. Company reported an EPS of Rs 3.9 in Q2FY10 as against Rs 5.1 previous year.

Capex plan of ~Rs 28 bn on schedule

Company has capex plan of approximately Rs 28 bn for next two years is on schedule. It is to highlight that the company is likely to fund this capex through debt of ~ Rs 20 bn and internal accruals of Rs 8 bn without any equity dilution. Capex plans includes – Set up of a 300 mtpd WNA plant, increase in TDI capacity by 150 mtpa and increase in ammonia plant capacity through revamp. It has also been allotted 282 hectares of land at Dahej for these projects.

We maintain our BUY recommendation with a price target of Rs 111

We believe chemical margins should improve in H2FY10 on account of stabilizing chemical prices across the board. Driven by strong margins we expect the company to report an EPS of Rs 16.8 in FY10E and Rs 19.9 in FY11E. We maintain our estimates and re-iterate our target price of Rs 111 (based on 30% discount to Book value of Rs 158). At our target price, the stock trades at 6.6x and 5.6x of our FY10E and FY11E est EPS, respectively. Given ~20% upside from current level, we maintain our BUY rating on the stock.

Key Financials

	(Rs mn)									
	Net	EBITDA		EPS	ROE	EV/		Div Yld		
YE-Mar	Sales	(Core)	(%)	PAT	(Rs)	(%)	EBITDA	P/BV	(%)	P/E
FY08	34339	6381	18.6	3729	24.0	21.8	2.7	0.8	4.6	3.8
FY09	29201	4350	14.9	2275	14.6	11.8	4.0	0.7	3.8	6.3
FY10E	30702	4622	15.1	2604	16.8	12.4	3.5	0.6	3.3	5.5
FY11E	32636	5299	16.2	3093	19.9	12.6	3.3	0.6	3.5	4.6

Quarterly Results analysis

Rs mn

Y/E Mar	Q2FY09	Q1FY10	Q2FY10	% YoY	% QoQ	FY09	FY10E	FY11E
Net Sales	8,681	5,757	7,662	(11.7)	33.1	29,201	30,702	32,636
Raw Material	3,678	2,816	3,755	2.1	33.4	12,324	-	-
Power & Fuel	1,012	937	991	(2.0)	5.8	3,763	-	-
Staff Cost	575	500	515	(10.3)	3.1	2,222	-	-
Purchase of goods for resale	1,116	9	282	(74.7)	3002.2	3,000	-	-
Other Exp	811	687	779	(4.0)	13.3	3,541	-	-
Total Exp	7,192	4,949	6,322	(12.1)	27.8	24,850	-	-
EBITDA	1,489	809	1,340	(10.0)	65.7	4,350	4,622	5,299
Depreciation	310	285	308	(0.7)	7.9	1,197	1,141	1,141
EBIT	1,179	523	1,033	(12.4)	97.2	3,153	3,481	4,159
Interest	13	65	62	376.7	(4.7)	205	258	200
Other Income	41	183	41	(0.7)	(77.8)	589	783	800
PBT	1,207	642	1,012	(16.2)	57.7	3,537	4,006	4,759
Tax	417	224	405	(2.8)	80.8	1,262	1,402	1,666
APAT	790	417	607	(23.3)	45.3	2,275	2,604	3,093
EO Income	-	-	-			-	-	-
RPAT	790	417	607	(23.3)	45.3	2275	2604	3093
AEPS	5.1	2.7	3.9	(23.3)	45.3	14.6	16.8	19.9

% of NS				(chng bps)	(chng bps)			
Raw Material + purchases	55.2	49.1	52.7	(254)	362	52.5	-	-
Power & Fuel	11.7	16.3	12.9	128	(334)	12.9	-	-
Staff Cost	6.6	8.7	6.7	11	(196)	7.6	-	-
Other Exp	9.3	11.9	10.2	82	(177)	12.1	-	-
EBITDA	17.2	14.0	17.5	34	345	14.9	15.1	16.2
EBIT	13.6	9.1	13.5	(11)	438	10.8	11.3	12.7
APAT	9.1	7.3	7.9	(119)	66	7.8	8.5	9.5

Source: Emkay Research

Segmental Results

Rs mn

Y/E Mar	Q2FY09	Q1FY10	Q2FY10	% YoY	% QoQ	FY09	FY10E	FY11E
Revenues								
Fertiliser	5251	3425	4607	(12.3)	34.5	17927	19811	20638
Chemicals	3331	2275	2975	(10.7)	30.7	10885	10684	11798
Others	100	57	81	(19.1)	42.2	388	207	200
Total	8681	5757	7662	(11.7)	33.1	29201	30702	32636
Earnings								
Fertiliser	28	36	1	(95.7)	(96.7)	358	528	619
Chemicals	1156	582	1074	(7.1)	84.7	3040	3048	3539
Others	-30	30	29	(195.0)	(3.0)	105	30	0
Total	1154	648	1104	(4.4)	70.5	3503	3605	4159
Segment margins (%)								
				(chng bps)	(chng bps)			
Fertiliser	0.5	1.1	0.0	(51)	(104)	2.0	2.7	3.0
Chemicals	34.7	25.6	36.1	138	1054	27.9	28.5	30.0
Others	-30.3	52.2	35.6	6593	(1660)	27.1	14.3	0.0
Total	13.3	11.2	14.4	111	316	12.0	11.7	12.7

Source: Emkay Research

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