

January 31, 2011

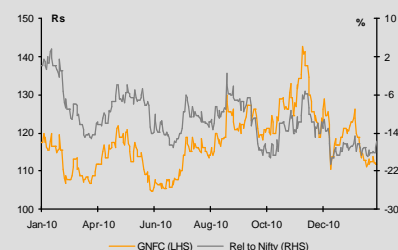
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 112	Rs 157
EPS change FY11E/12E (%)	7 / -
Target Price change (%)	NA
Nifty	5,512
Sensex	18,396

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(14)	(2)	2
Rel. to Nifty	2	(6)	(5)	(10)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri-input & Chemicals
Bloomberg	GNFC@IN
Equity Capital (Rs mn)	1554
Face Value(Rs)	10
No of shares o/s (mn)	155
52 Week H/L	146/101
Market Cap (Rs bn/USD mn)	17/372
Daily Avg Volume (No of sh)	253478
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	41.2	41.2	41.2
FII/NRI	6.1	5.1	5.2
Institutions	25.4	25.7	25.5
Private Corp	2.3	2.4	2.5
Public	25.1	25.7	25.7

Source: Capitaline

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Positive surprise by fertiliser division

- **Q3FY11 APAT at Rs 884 mn (+5.8% yoy on previous year APAT of Rs 835 mn) is ahead of estimates - driven by strong performance of fertiliser segment**
- **Chemical segment margins remain strong at 27.6% (vs 25.9% previous year) on account of buoyancy in chemical prices**
- **Fertiliser EBIT margins at 7.3% against historically reported losses - a positive surprise. Margins higher due to receipt of previous year subsidy and introduction of NBS policy**
- **Upgrade FY11E estimates by 7% to Rs 12.4 (previous Rs 11.6) driven by strong Q3FY11 results. Maintain BUY**

Results ahead of estimates on account of strong fertiliser results

GNFC's Q3FY11 results were ahead of estimates mainly due to strong performance of the fertiliser segment. However fertiliser segment also accounted for some subsidy amount (amount not disclosed) related to previous year. Fertiliser segment revenues increased by 14% yoy to Rs 4.9 bn (ahead of estimates of Rs 4.1 bn). Surprisingly fertiliser segment reported margins of 7.3% with EBIT contribution of Rs 355 mn (against our expectation of mere Rs 41 mn). It is to highlight that historically fertiliser business has not contributed to EBIT. Though high EBIT of current quarter may not be sustainable (since it includes subsidy related to previous year), we estimate that fertiliser business profitability has improved under the NBS regime and contribution is likely to improve, going ahead.

Chemical segment performance remain encouraging

Chemical segment revenues increased by 3% yoy to Rs 3.36 bn (in line with estimates) while this segment witnessed EBIT margin expansion of 170 bps yoy to 27.6% (though below our estimates of 31%) on account of increasing chemical prices. The company benefited from increase in methanol prices (+27% to Rs 16,500 / mt over Q2FY11), although the prices of other key chemicals like Acetic Acid, Aniline and TDI remained stable for the quarter.

Previous year results adjusted for EO loss of Rs 360 mn

GNFC's Q3FY10 results also included EO loss of Rs 360 mn and adjusting for that, EBITDA margins declined by 120 bps yoy to 18.5%. Resulting EBITDA remained flat at Rs 1.5 bn which is marginally ahead of our estimates of Rs 1.4 bn. With negligible changes in company's interest and depreciation, PBT also remained flat at Rs 1.3 bn and APAT grew by 6% yoy to Rs 884 mn (which is higher than our estimates of Rs 764 mn) resulting into AEPS of Rs 5.7 as against Rs 5.4 in the previous year. Reported profit increased by 48% on previous year RPAT of Rs 597 mn.

Upgrade FY11 estimates by 7%, maintain BUY

With company reporting Q3FY11 results – ahead of estimates, we upgrade our FY11 EPS estimates by 7% to Rs 12.4 (previous Rs 11.6) and maintain FY12 EPS estimates at Rs 22.4. At current price, GNFC trades at 5 x FY12E EPS, 30% discount to FY12 BV, 3.4x EV/EBITDA. We maintain our BUY recommendation on the stock with price target of Rs 157 based on 7x FY12E EPS of Rs 22.4. We believe that the ongoing capex is likely to drive the company's earnings FY13 onwards.

Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY09	29,201	4,350	14.9	2,275	14.6	(39.0)	11.8	7.6	3.4	0.9
FY10	26,145	3,100	11.9	1,239	10.3	(29.7)	7.8	10.9	5.5	0.8
FY11E	25,258	3,725	14.7	1,925	12.4	20.5	9.0	9.0	5.7	0.8
FY12E	29,792	6,660	22.4	3,479	22.4	80.7	14.8	5.0	3.4	0.7

Key Financials – Quarterly

Rs mn

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	7,659	5,066	3,678	8,019	8,339	8.9	4.0	20,036	21,079	(4.9)
Expenditure	6,147	5,627	3,850	6,866	6,800	10.6	(1.0)	17,515	17,418	0.6
<i>as % of sales</i>	<i>80.3</i>	<i>111.1</i>	<i>104.7</i>	<i>85.6</i>	<i>81.5</i>			<i>87.4</i>	<i>82.6</i>	
Consumption of RM	4,316	2,897	1,712	4,520	4,408	2.1	(2.5)	10,640	11,177	(4.8)
<i>as % of sales</i>	<i>56.4</i>	<i>57.2</i>	<i>46.5</i>	<i>56.4</i>	<i>52.9</i>			<i>53.1</i>	<i>53.0</i>	
Power & Fuel	776	659	777	928	998	28.6	7.5	2,703	2,703	(0.0)
<i>as % of sales</i>	<i>10.1</i>	<i>13.0</i>	<i>21.1</i>	<i>11.6</i>	<i>12.0</i>			<i>13.5</i>	<i>12.8</i>	
Employee Cost	500	453	518	581	608	21.5	4.6	1,706	1,515	12.6
<i>as % of sales</i>	<i>6.5</i>	<i>8.9</i>	<i>14.1</i>	<i>7.2</i>	<i>7.3</i>			<i>8.5</i>	<i>7.2</i>	
Other expenditure	555	1,619	844	837	786	41.5	(6.1)	2,466	2,022	22.0
<i>as % of sales</i>	<i>7.3</i>	<i>32.0</i>	<i>22.9</i>	<i>10.4</i>	<i>9.4</i>			<i>12.3</i>	<i>9.6</i>	
EBITDA	1,512	(561)	(171)	1,153	1,539	1.8	33.6	2,520	3,661	(31.2)
Depreciation	297	279	296	305	305	2.6	0.0	906	890	1.8
EBIT	1,215	(841)	(467)	848	1,234	1.6	45.6	1,614	2,771	(41.7)
Other Income	116	524	98	99	94	(19.1)	(5.4)	291	339	(14.3)
Interest	70	38	38	42	46	(33.7)	11.1	125	196	(35.9)
PBT	1,261	(355)	(407)	905	1,282	1.7	41.6	1,780	2,914	(38.9)
Total Tax	425	28	(181)	267	398	(6.4)	49.4	484	1,055	(54.1)
Adjusted PAT	835	(383)	(227)	639	884	5.8	38.3	1,295	1,859	(30.3)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	835	(383)	(227)	639	884	5.8	38.3	1,295	1,859	(30.3)
Extra ordinary items	(238)	0	0	0	0			0	(238)	
Reported PAT	597	(383)	(227)	639	884	48.0	38.3	1,295	1,621	(20.1)
Reported EPS	3.8	(2.5)	(1.5)	4.1	5.7	48.0	38.3	8.3	10.4	(20.1)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	19.7	(11.1)	(4.7)	14.4	18.5	(128)	409	12.6	17.4	(479)
EBIT	15.9	(16.6)	(12.7)	10.6	14.8	(106)	423	8.1	13.1	(509)
EBT	14.9	(17.3)	(13.7)	10.1	14.2	(70)	419	7.4	12.2	(478)
PAT	10.9	(7.6)	(6.2)	8.0	10.6	(31)	263	6.5	8.8	(236)
Effective Tax rate	33.7	(7.8)	44.4	29.5	31.1	(267)	162	27.2	36.2	(898)

Source: Company, Emkay Research

Capex plans to drive growth

GNFC's aggressive capex plan of Rs 40 bn over next 2-3 years is on track.

- Phase - 1 capex with estimated cost of Rs 12 bn is scheduled for commissioning by Q3FY11. It involves increasing WNA and DNA capacity and the energy efficiency and is likely to generate incremental revenues of Rs 3 bn and drive profit margins
- Further, Phase - 2 capex, with cost of Rs 16 bn to put TDI plant is expected to complete by Q3FY12
- Capex for Phase - 3 with cost of Rs 12 bn to convert its ammonia plant from LSHS to gas based is expected to complete by Q3FY13

Revision table

Rs mn	FY11E		
	Old Estimates	New Estimates	% Change
Net Sales	26,763	25,258	-5.6%
EBITDA	3,584	3,725	3.9%
EBITDA %	13.4%	14.7%	+135
PAT	1,798	1,925	7.1%
EPS (Rs)	11.6	12.4	7.1%

Segmental results

Rs mn	Rs mn									
	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Segmental Revenues										
Fertilisers	4303	2154	733	4762	4885	13.5%	2.6%	12336	10380	-15.9%
Chemicals	3270	2783	2816	3130	3355	2.6%	7.2%	8520	9301	9.2%
EBIT										
Fertilisers	114	-485	-762	-18	355	211.1%	-2118.8%	152	-424	-379.4%
Chemicals	848	693	371	911	924	9.0%	1.5%	2503	2206	-11.9%
EBIT Margins (%)										
Fertilisers	2.7%	-22.5%	-103.9%	-0.4%	7.3%	462	764	1.2%	-4.1%	-532
Chemicals	25.9%	24.9%	13.2%	29.1%	27.6%	162	-155	29.4%	23.7%	-566

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	29,201	26,145	25,258	29,792
Growth (%)	(15.0)	(10.5)	(3.4)	17.9
Expenditure	24,850	23,045	21,533	23,131
Materials Consumed	15,324	14,075	13,134	14,896
Power & Fuel	3,763	3,362	3,031	2,979
Employee Expenses	2,222	1,968	1,894	2,383
Other Exp	3,541	3,640	3,474	2,873
EBITDA	4,350	3,100	3,725	6,660
Growth (%)	(31.8)	(28.7)	20.2	78.8
EBITDA margin (%)	14.9	11.9	14.7	22.4
Depreciation	1,197	1,170	1,211	1,680
EBIT	3,153	1,930	2,513	4,980
EBIT margin (%)	10.8	7.4	10.0	16.7
Other Income	589	863	391	200
Interest expenses	205	234	155	720
PBT	3,537	2,559	2,749	4,460
Tax	1,262	961	823	981
Effective tax rate (%)	35.7	37.5	30.0	22.0
Adjusted PAT	2,275	1,599	1,925	3,479
Growth (%)	(39.0)	(29.7)	20.5	80.7
Net Margin (%)	7.8	6.1	7.6	11.7
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	2,275	1,599	1,925	3,479
E/O items	-	(360)	-	-
Reported PAT	2,275	1,239	1,925	3,479
PAT after MI	2,275	1,239	1,925	3,479
Growth (%)	(39.0)	(45.6)	55.5	80.7

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	2,948	1,696	2,358	4,260
Depreciation	1,197	1,170	1,211	1,680
Interest Provided	205	234	155	720
Other Non-Cash items	-	(360)	-	-
Chg in working cap	1,836	3,060	(1,713)	(1,015)
Tax paid	-1,262	-961	-823	-981
Operating Cashflow	4,925	4,839	1,189	4,664
Capital expenditure	(2,000)	(7,000)	(5,000)	(5,000)
Free Cash Flow	2,925	-2,161	-3,811	-336
Other income	589	863	391	200
Investments	500	-	-	-
Investing Cashflow	1,089	863	391	200
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	424	1,947	-	2,000
Interest Paid	(205)	(234)	(155)	(720)
Dividend paid (incl tax)	(591)	(591)	(609)	(637)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	-372	1,122	-765	643
Net chg in cash	3,642	-176	-4,185	508
Opening cash position	1,514	5,156	4,979	794
Closing cash position	5,156	4,979	794	1,302

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,554	1,554	1,554	1,554
Reserves & surplus	18,587	19,234	20,550	23,393
Net worth	20,141	20,789	22,105	24,947
Minority Interest	0	0	0	0
Secured Loans	3,559	5,506	5,506	7,506
Unsecured Loans	0	0	0	0
Loan Funds	3,559	5,506	5,506	7,506
Net deferred liabilities	2,160	2,160	2,160	2,160
Total Liabilities	25,860	28,454	29,770	34,613
Gross Block	30,097	32,097	39,097	44,097
Less: Depreciation	18,000	19,170	20,381	22,061
Net block	12,097	12,928	18,716	22,036
Capital work in progress	2,000	7,000	5,000	5,000
Investments	966	966	966	966
Current Assets	14,523	11,735	11,845	14,337
Inventories	4,308	4,050	2,837	3,346
Sundry debtors	2,887	167	3,668	4,326
Cash & bank balance	5,156	4,979	794	1,302
Loans & advances	2,173	2,539	4,546	5,362
Other current assets	-	-	-	-
Current lia & Prov	3,726	4,174	6,757	7,726
Current liabilities	2,367	2,815	5,398	6,366
Provisions	1,359	1,359	1,359	1,359
Net current assets	10,797	7,561	5,088	6,611
Misc. exp	-	-	-	-
Total Assets	25,860	28,454	29,770	34,613

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	14.9	11.9	14.7	22.4
Net Margin	7.8	6.1	7.6	11.7
ROCE	15.1	10.3	10.0	16.1
ROE	11.8	7.8	9.0	14.8
RoIC	17.6	11.6	13.1	19.8
Per Share Data (Rs)				
EPS	14.6	10.3	12.4	22.4
CEPS	22.3	17.8	20.2	33.2
BVPS	129.6	133.7	142.2	160.5
DPS	3.3	3.3	3.4	3.5
Valuations (x)				
PER	7.6	10.9	9.0	5.0
P/CEPS	5.0	6.3	5.5	3.4
P/BV	0.9	0.8	0.8	0.7
EV / Sales	0.5	0.6	0.8	0.8
EV / EBITDA	3.4	5.5	5.7	3.4
Dividend Yield (%)	2.9	2.9	3.0	3.1
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	0.0	0.2	0.2
Net Debt/EBITDA	-0.6	-0.1	1.0	0.8
Working Cap Cycle (days)	60.4	19.6	16.0	16.0

Recommendation History: Gujarat Narmada Fertiliser and Chemicals – GNFC IN

Date	Reports	Reco	CMP	Target
21/10/2010	GNFC Q2FY11 Result Update	Buy	127	157
03/08/2010	GNFC Q1FY11 Result Update	Buy	115	157
02/02/2010	GNFC Q3FY10 Result Update	Buy	120	158
29/10/2009	GNFC Q2FY10 Result Update	Buy	93	111

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/01/2011	GSFC Q3FY11 Result Update	Buy	327	530
28/01/2011	Tata Chemicals Q3FY11 Result Update	Accumulate	345	393
27/01/2011	Deepak Fertilisers Q3FY11 Result Update	Buy	157	250
25/01/2011	United Phosphorus Q3FY11 Result Update	Buy	155	210

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