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India Research

Gwalior Chemical

Buy

CMP: Rs72

Target Price: Rs107 (12 Months)

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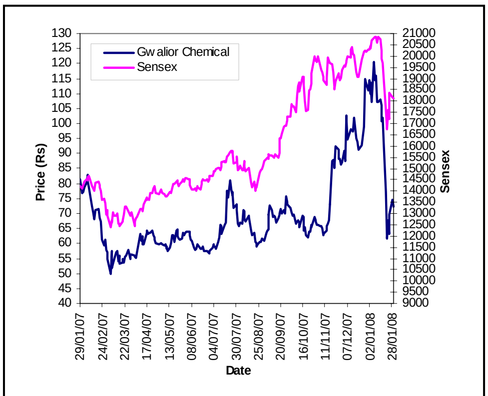
Sector	Chemicals
Market Cap (Rs cr)	178
Beta	1.3
52 WK High / Low	128/49
Avg Daily Volume	112695
Face Value (Rs)	10
BSE Sensex	18,092
Nifty	5,281
BSE Code	532764
NSE Code	GWALCHEM
Reuters Code	GWCH.BO
Bloomberg Code	GCIL IN

Shareholding Pattern (%)	
Promoters	60.0
MF/Banks/Indian FIs	11.0
FII/ NRIs/ OCBs	0.1
Indian Public	28.9

Share Price Vs Sensex



3QFY2008 Result Update

Performance Highlights

- **Stellar performance:** Gwalior Chemical Industries (GCIL) posted a stellar performance for 3QFY2008 reporting a 56% and 41% yoy jump in Net Sales and Profits, respectively. A commendable performance clocked by GCIL amidst high raw material prices (Toluene – derived from crude oil) and Rupee appreciation, which impacted its Exports. New capacity additions during the quarter fuelled the company's growth, which was entirely volume driven. During 3QFY20008, Exports were up 55% yoy to Rs33cr and accounted for over 41% of GCIL's overall Sales.

- **Operating Margins slip by 60bp:** High raw material prices impacted GCIL's Operating Margins, which slipped by 60bp to 18.3% (18.9%). Exports also took a hit due to Rupee appreciation. But, higher volumes made up for the adverse impact of Rupee appreciation. Staff costs and manufacturing expenses increased 21% and 25% yoy respectively, which were in line. Other expenditure increased significantly by 54% yoy to Rs9cr (Rs6cr) on the back of higher selling and admin expenses on Exports. Nevertheless, Operating Profit increased 51% yoy to Rs15cr (Rs9.7cr).

- **High Depreciation, Interest costs restrict Net Profit growth to 41%:** Due to addition of newer assets during the quarter, Depreciation went up by 35% yoy to Rs2.4cr (Rs1.8cr). Foreign currency borrowings, which were utilised for the company's ongoing expansion programme, resulted in Interest costs increasing by a whopping 153% yoy to Rs2.2cr (Rs0.9cr). Other Income declined 41% yoy to Rs0.4cr (Rs0.7cr). Hence, Net Profits increased only 41% yoy to Rs6.7cr (Rs4.7cr).

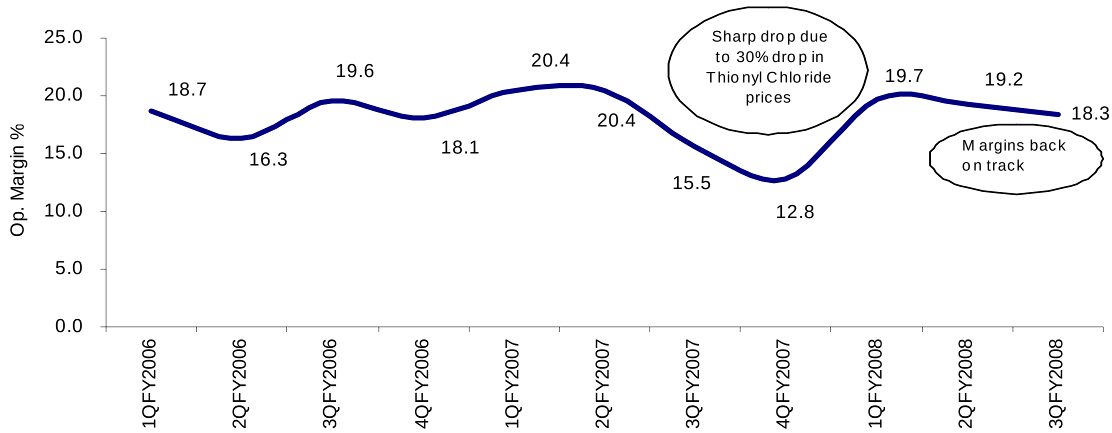
Key Financials

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	**205.4**	**290.1**	**365.1**	**450.7**
% chg	*20.4*	*41.3*	*25.8*	*23.4*
Net Profit	**18.7**	**24.5**	**37.4**	**48.1**
% chg	*20.1*	*30.6*	*52.9*	*28.7*
EPS (Rs)	**7.6**	**9.9**	**15.2**	**19.5**
EBITDA Margin (%)	18.8	18.9	19.2	19.8
P/E (x)	9.5	7.3	4.8	3.7
P/CEPS (x)	6.9	5.3	3.6	2.9
RoE (%)	12.2	14.0	18.0	19.2
RoCE (%)	10.4	13.4	14.8	16.4
P/BV (x)	1.2	1.0	0.9	0.7
EV/ Sales (x)	1.2	0.8	0.7	0.5
EV/ EBITDA (x)	6.6	4.5	3.7	2.7

Source: Company, Angel Research, FY2009E - Factored in Rs3cr Other Income from redemption of Mutual Fund units

Other highlights: GCIL introduced *Cinnamic Aldehyde* from its Flavors and Fragrance Division during 3QFY2008. Currently at a nascent stage, this product is expected to start contributing 1QFY2009 onwards. Work on other products is on track and the company is confident of introducing over 8-10 products in FY2009. The expanded capacity was partially utilised during 3QFY2008. The company expects to complete the entire capacity expansion and commission the same by end of March 2008. Hence, capacity utilisation is expected to improve in Q4FY2008. The company had invested surplus funds in Mutual Funds, which stood appreciated by over Rs3cr by the end of 3QFY2008. The same will be accounted after redemption. Sequentially, OPMs slight dipped on account of higher raw material prices. However, over the long term we are positive over the sustainability of Margins.

Exhibit 2: Operating Margin Performance



Source: Company, Angel Research

Outlook and Valuation

We expect GCIL to benefit from the expanded capacity, which is will be fully commissioned very soon. Further, demand for the company's products continues to be robust both in the domestic and international markets. However, there is a slight concern over the Rupee exchange rate. Nevertheless, the company is adopting measures to keep its Margins intact through hedging, booking short-term contracts, etc. We remain positive over the long-term growth prospects of the company and have introduced FY2010 estimates as well. The stock is currently available at 3.7x FY2010E EPS of Rs19.5. **We maintain a Buy on the stock, with a revised Target Price of Rs107 (Rs93).**

Exhibit 3: 3QFY2008 Performance

Y/E March (Rs cr)	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
Net Sales	**79.7**	**51.2**	***55.5***	**209.1**	**147.5**	***41.7***
COGS	42.8	25.1	*70.6*	108.5	74.0	*46.7*
Total Operating Expenditure	65.1	41.5	*56.7*	169.3	118.2	*43.3*
EBITDA	**14.6**	**9.7**	***50.5***	**39.8**	**29.3**	***35.6***
EBITDA Margin (%)	*18.3*	*18.9*		*19.0*	*19.9*	
Other Income	0.4	0.7	*(40.9)*	(0.2)	1.1	*(117.0)*
Depreciation	2.4	1.8	*34.7*	6.5	5.2	*24.9*
Interest	2.2	0.9	*152.6*	6.4	4.4	*47.1*
PBT	**10.5**	**7.8**	***34.7***	**26.7**	**20.9**	***27.5***
PBT Margin (%)	*13.2*	*15.2*		*12.8*	*14.2*	
Total Tax	3.8	3.0	*24.1*	9.1	7.1	*27.8*
% of PBT	*36.0*	*39.1*		*34.0*	*33.9*	
FBT	0.0	0.0		0.1	0.0	*500.0*
PAT	**6.7**	**4.7**	***40.8***	**17.5**	**13.8**	***27.0***
Exceptional items	0.0	0.0		0.0	0.0	
Adj. PAT	**6.7**	**4.7**	***40.8***	**17.5**	**13.8**	***27.0***
PAT Margin (%)	*8.3*	*9.1*		*8.4*	*9.3*	

Source: Company, Angel Research

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