

October 21, 2010

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 127	Rs 157
EPS change FY11E/12E (%)	- / -
Target Price change (%)	-
Nifty	6,102
Sensex	20,261

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	10	4	24
Rel. to Nifty	3	(2)	(10)	3

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	136/88
Market Cap (Rs bn/USD mn)	20/451
Daily Avg Volume (No of sh)	413182
Daily Avg Turnover (US\$m)	1.2

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	41.2	41.2	41.2
FII/NRI	5.1	5.2	5.1
Institutions	25.7	25.5	25.5
Private Corp	2.4	2.5	2.4
Public	25.7	25.7	25.8

Source: Capitaline

Rohan Gupta

rohan.gupta@emkayglobal.com
+91 22 6612 1248

Pragya Bhardwaj

pragya.bhardwaj@emkayglobal.com
+91 22 6612 1272

- **GNFC's ammonia plant resumed operations in Q2FY11 and posted PAT of Rs 639mn after losses in previous two quarters**
- **Net revenues Rs 8 bn (+4.6%yoy) were ahead of estimates but PAT of Rs 639 mn (+5.3%yoy) was broadly in line**
- **Fertiliser segment profitability continues to remain nil while chemical segment reported margins of 29% (-700bps yoy)**
- **Fine tuned revenue estimates but maintain FY11E/12E earnings estimates at Rs 11.6 / 22.4; recommend BUY**

Profit is back on track after two quarters of losses

GNFC's ammonia plant resumed its operation after two quarters (Feb' 2010 to Jun' 2010) of shut down caused by explosion at the plant. Plant shut down had adverse effect on company's operating margins (since GNFC had to meet its ammonia requirement from external purchase) resulting in loss of Rs 383 mn and Rs 227 mn in Q4FY10 and Q1FY11, respectively. However with commissioning of its ammonia plant from the current quarter company's profitability is back on track with PAT of Rs 639 mn, +5.3% yoy and EPS of Rs 4.1 in Q2FY11.

Revenue increased by 4.6%yoy driven by higher fertiliser revenues

Revenues increased by 4.6% to Rs 8 bn (ahead of estimates of Rs 6.6 bn) and were driven by higher fertiliser revenues. We estimate that overall fertiliser sales volumes declined by 7% to 261 thousand mt due lower urea sales. However fertiliser revenues increased on account of change in product mix since the company switched to selling more complex fertilisers in the quarter (based on sales volumes from Ministry of Fertilisers). Fertiliser segment revenues inched up by 3.4% yoy to Rs 4.8 bn (we estimated of Rs 3.4 bn). Chemical segment revenues at Rs 3.1 bn (+5% yoy) were inline with estimates. GNFC reported growth of 5.3% yoy at APAT of Rs 639 mn (our estimates Rs 568 mn) and AEPS of Rs 4.1 for Q2FY11 as against Rs 3.9 previous year.

EBITDA margins at 14.4%, below estimates

EBITDA margins for the quarter at 14.4% (-310 bps yoy) were below estimates mainly due to partial loss reported in the fertiliser segment. Though operations returned to normalcy, fertiliser division made marginal EBIT loss of Rs 18 mn (estimates of Rs 34 mn profit) due to its dependence on high cost furnace oil based feedstock. Chemical segment margins at 29% were higher than estimates of 25%. Chemical segment EBIT stood at Rs 911 mn (-15% yoy). Resulting EBITDA declined by 14% yoy to Rs 1.2 bn and was in line with estimates. Without any significant changes in interest and depreciation, PAT increased by 5.3% yoy to Rs 639 mn as against our expectation of Rs 568 mn.

Maintain BUY on back of attractive valuations

GNFC at current price trades at 5.6x FY12E EPS, 20% discount to FY12 BV, 3.6x 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 form FY13.

Financial Snapshot

Rs Mn

	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	8.7	3.9	1.0
FY10	26,145	3,100	11.9	1,239	10.3	(29.7)	7.8	12.3	6.2	0.9
FY11E	26,763	3,584	13.4	1,798	11.6	12.5	8.4	11.0	6.7	0.9
FY12E	29,792	6,660	22.4	3,479	22.4	93.5	14.9	5.7	3.8	0.8

H1FY11 results suffered due to poor Q1FY11 results, expect strong results in H2FY11

On the back of a strained 1st quarter on account of plant shutdown, H1FY11 results remained lackluster as the company reported revenues of Rs 11.7 bn (-13% yoy), EBITDA of Rs 981 mn (-54% yoy) and APAT of Rs 412 mn (-60% yoy). AEPS for H1FY11 stood at Rs 2.6. We expect H2FY11 PAT to increase by 1.4x and EPS of Rs 8.9 as against Rs 3.7 in the previous year due to losses reported in Q4FY10.

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

FY11E / 12E revenues revised by 15% / 11% while PAT remain unchanged

Due to higher fertiliser prices, we have fine tuned our revenue estimates for FY11 / FY12 by 15% / 11% to Rs 2.68 bn / Rs 2.98 bn respectively. However contribution from the fertiliser segment remains unchanged. As result we maintain our FY11E / FY12E PAT estimates at Rs 1.8 bn / Rs 3.5 bn and EPS Rs 11.6 / Rs 22.4.

Segmental results					Rs mn
Y/E Mar	Q2FY10	Q1FY11	Q2FY11	% YoY	% QoQ
Revenues					
Fertiliser	4607	733	4762	3.4	549.4
Chemicals	2975	2816	3130	5.2	11.2
Others	81	129	127	56.9	(1.8)
Total	7662	3678	8019	4.6	118.0
Earnings					
Fertiliser	1	-762	-18	NA	(97.7)
Chemicals	1074	371	911	(15.2)	145.7
Others	29	34	27	(7.0)	(22.2)
Total	1104	-357	920	(16.6)	(357.9)
Segment margins (%)				(chng bps)	(chng bps)
Fertiliser	0.0	-103.9	-0.4	(40)	10353
Chemicals	36.1	13.2	29.1	(700)	1594
Others	35.6	26.6	21.1	(1450)	(552)
Total	14.4	-9.7	11.5	(293)	2118

Source: Company, Emkay Research

Key Financials – Quarterly

Rs mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	7,662	7,659	5,066	3,678	8,019	4.6	118.0	11,697	13,420	(12.8)
Expenditure	6,322	6,147	5,627	3,850	6,866	8.6	78.4	10,716	11,271	(4.9)
<i>as % of sales</i>	82.5	80.3	111.1	104.7	85.6			91.6	84.0	
Consumption of RM	4,037	4,316	2,897	1,712	4,520	12.0	164.1	6,232	6,862	(9.2)
<i>as % of sales</i>	52.7	56.4	57.2	46.5	56.4			53.3	51.1	
Power & Fuel	991	776	659	777	928	(6.3)	19.5	1,705	1,928	(11.5)
<i>as % of sales</i>	12.9	10.1	13.0	21.1	11.6			14.6	14.4	
Employee Cost	515	500	453	518	581	12.7	12.2	1,099	1,015	8.2
<i>as % of sales</i>	6.7	6.5	8.9	14.1	7.2			9.4	7.6	
Other expenditure	779	555	1,619	844	837	7.4	(0.8)	1,680	1,466	14.6
<i>as % of sales</i>	10.2	7.3	32.0	22.9	10.4			14.4	10.9	
EBITDA	1,340	1,512	-561	-171	1,153	(14.0)	(772.4)	981	2,149	(54.3)
Depreciation	308	297	279	296	305	(0.9)	3.0	601	593	1.4
EBIT	1,033	1,215	-841	-467	848	(17.9)	(281.3)	380	1,556	(75.6)
Other Income	41	116	524	98	99	144.6	1.7	197	223	(11.8)
Interest	62	70	38	38	42	(32.4)	10.6	79	126	(37.1)
PBT	1,012	1,261	(355)	(407)	905	(10.5)	(322.2)	498	1,653	(69.9)
Total Tax	405	304	28	(181)	267	(34.2)	(247.5)	86	629	(86.3)
Adjusted PAT	607	957	(383)	(227)	639	5.3	(381.7)	412	1,024	(59.8)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	607	957	(383)	(227)	639	5.3	(381.7)	412	1,024	(59.8)
Extra ordinary items	0	(360)	0	0	0			0	0	
Reported PAT	607	597	(383)	(227)	639	5.3	(381.7)	412	1,024	(59.8)
Reported EPS	3.9	3.8	(2.5)	(1.5)	4.1	5.3	(381.7)	2.6	6.6	(59.8)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	17.5	19.7	(11.1)	(4.7)	14.4	(312)	1,903	8.4	16.0	(763)
EBIT	13.5	15.9	(16.6)	(12.7)	10.6	(291)	2,328	3.2	11.6	(835)
EBT	12.7	14.9	(17.3)	(13.7)	10.1	(262)	2,378	2.6	10.7	(808)
PAT	7.9	12.5	(7.6)	(6.2)	8.0	5	1,413	3.5	7.6	(411)
Effective Tax rate	40.0	24.1	(7.8)	44.4	29.5	(1,059)	(1,490)	17.3	38.1	(2,080)

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	29,201	26,145	26,763	29,792
Growth (%)	(15.0)	(10.5)	2.4	11.3
Expenditure	24,850	23,045	23,179	23,131
Materials Consumed	15,324	14,075	13,917	14,896
Power & Fuel	3,763	3,362	3,212	2,979
Employee Expenses	2,222	1,968	2,007	2,383
Other Exp	3,541	3,640	4,043	2,873
EBITDA	4,350	3,100	3,584	6,660
Growth (%)	(31.8)	(28.7)	15.6	85.8
EBITDA margin (%)	14.9	11.9	13.4	22.4
Depreciation	1,197	1,170	1,211	1,680
EBIT	3,153	1,930	2,373	4,980
EBIT margin (%)	10.8	7.4	8.9	16.7
Other Income	589	863	397	200
Interest expenses	205	234	139	720
PBT	3,537	2,559	2,631	4,460
Tax	1,262	961	832	981
Effective tax rate (%)	35.7	37.5	31.6	22.0
Adjusted PAT	2,275	1,599	1,798	3,479
Growth (%)	(39.0)	(29.7)	12.5	93.5
Net Margin (%)	7.8	6.1	6.7	11.7
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	2,275	1,599	1,798	3,479
E/O items	-	(360)	-	-
Reported PAT	2,275	1,239	1,798	3,479
PAT after MI	2,275	1,239	1,798	3,479
Growth (%)	(39.0)	(45.6)	45.2	93.5

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	2,948	1,696	2,234	4,260
Depreciation	1,197	1,170	1,211	1,680
Interest Provided	205	234	139	720
Other Non-Cash items	-	(360)	-	-
Chg in working cap	1,836	3,060	(2,049)	(678)
Tax paid	-1,262	-961	-832	-981
Operating Cashflow	4,925	4,839	702	5,001
Capital expenditure	(2,000)	(7,000)	(5,000)	(5,000)
Free Cash Flow	2,925	-2,161	-4,298	1
Other income	589	863	397	200
Investments	500	-	-	-
Investing Cashflow	1,089	863	397	200
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	424	1,947	-	2,000
Interest Paid	(205)	(234)	(139)	(720)
Dividend paid (incl tax)	(591)	(591)	(591)	(637)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	-372	1,122	-730	643
Net chg in cash	3,642	-176	-4,631	845
Opening cash position	1,514	5,156	4,979	348
Closing cash position	5,156	4,979	348	1,193

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	20,441	23,284
Net worth	20,141	20,789	21,996	24,838
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	29,661	34,504
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	18,717	22,037
Capital work in progress	2,000	7,000	5,000	5,000
Investments	966	966	966	966
Current Assets	14,523	11,735	12,058	14,228
Inventories	4,308	4,050	3,006	3,346
Sundry debtors	2,887	167	3,886	4,326
Cash & bank balance	5,156	4,979	348	1,193
Loans & advances	2,173	2,539	4,817	5,362
Other current assets	-	-	-	-
Current lia & Prov	3,726	4,174	7,079	7,726
Current liabilities	2,367	2,815	5,719	6,366
Provisions	1,359	1,359	1,359	1,359
Net current assets	10,797	7,561	4,979	6,502
Misc. exp	-	-	-	-
Total Assets	25,860	28,454	29,661	34,504

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	14.9	11.9	13.4	22.4
Net Margin	7.8	6.1	6.7	11.7
ROCE	15.1	10.3	9.5	16.1
ROE	11.8	7.8	8.4	14.9
RoIC	17.6	11.6	12.2	19.6
Per Share Data (Rs)				
EPS	14.6	10.3	11.6	22.4
CEPS	22.3	17.8	19.4	33.2
BVPS	129.6	133.7	141.5	159.8
DPS	3.3	3.3	3.3	3.5
Valuations (x)				
PER	8.7	12.3	11.0	5.7
P/CEPS	5.7	7.1	6.6	3.8
P/BV	1.0	0.9	0.9	0.8
EV / Sales	0.6	0.7	0.9	0.8
EV / EBITDA	3.9	6.2	6.7	3.8
Dividend Yield (%)	2.6	2.6	2.6	2.8
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	0.0	0.2	0.2
Net Debt/EBIDTA	-0.6	-0.1	1.2	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
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
31/07/2009	GNFC Q1FY10 Result Update	Buy	92	111

Recent Research Reports

Date	Reports	Reco	CMP	Target
15/10/2010	Rallis India Q2FY11 Result Update	Buy	1,416	1,800
12/10/2010	Kajaria Ceramics Q2FY11 Result Update	Buy	80	91
03/08/2010	Tata Chemicals Q1FY11 Result Update	Accumulate	349	393
03/08/2010	GSFC Q1FY11 Result Update	Accumulate	312	368

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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