LKP SHARES

Company Update

Gwalior Chemical Industries Ltd. Rs 40

...downgrading from neutral to sell **Sell**

Industry	:	Specialty Chemicals	BSE/NSE Codes	:	532764/GWALCHEM
Company P/E	:	4.5xFY'09E	52-Week H/L (Rs)	:	128/ 35
Market Cap. (Rs)	:	1bn	Daily traded volume	:	1,00,000 / 1,25,000
Face Value (Rs)	:	10	Dividend (FY08)	:	12%

- Gwalior Chemical Industries Ltd. (GCIL) is a producer of toluene - based (derivative of crude oil) specialty chemicals. Toluene being sensitive to crude oil prices, GCIL enters into price fixing contracts with suppliers on a monthly/quarterly basis for requirements for upto 3 months to hedge its position against rising prices. What once was beneficial to the company in the face of ever increasing crude oil prices has turned detrimental due to steep fall in prices.
- GCIL entered into price fixing contracts for Q2FY09 also. However, due to fall in raw material prices throughout the quarter GCIL saw a diminution in the value of its raw materials to the extent of Rs.63 mn. Also postponement and cancelling of orders by customers has not helped the company and it showed mellowed earnings for Q2FY09. GCIL still has unused toluene at the end of second quarter procured at higher prices, which it expects to clear during the second half of the current fiscal.
- The company intends to raise loans for putting up a co-generation plant by September 2009 and for other planned expansions in the current fiscal. The co-gen plant is expected to reduce the steam and power costs of the company at its Nagda facility, however considering the current scenario we feel that rising interest costs would negate the positives the co-generation plant could provide in the future.
- Though GCIL witnesses similar trends for its finished goods prices vis -a - vis toluene prices, it would still stand to lose in respect of toluene purchased at higher levels. Planned capacity addition of 600 tpa to the pigments plant has concluded as per the timeline given by the company. GCIL is yet to take a decision on whether to carry out the other expansions planned as per schedule or postpone them but is reasonably sure about commissioning the co-generation plant by the next fiscal as it intends to derive long term benefits from its commissioning.
- We believe that although the topline growth could be achieved (as it has already done ~60% of estimated sales till Q2FY09), bottomline would falter owing to unstable demand and the losses on account of diminution in raw material values. We downgrade our recommendation on the stock from NEUTRAL to SELL and we believe that investors holding the stock would do well to sell now and on any up move to Rs50 levels, as we do not believe that the stock would enjoy any better discounting.

Business Flowchart

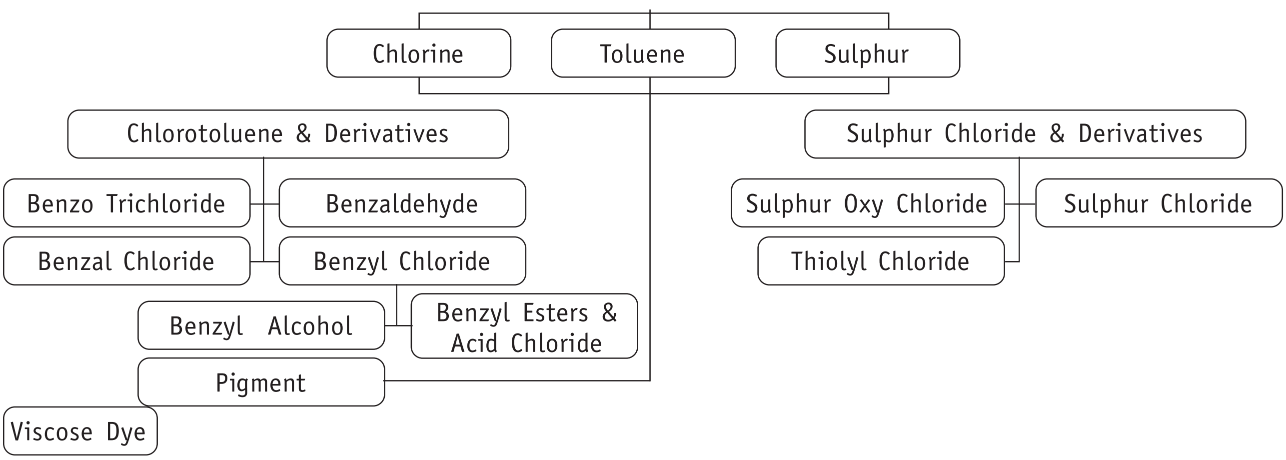


Table 1: Profit & Loss A/c

Year End Mar. (Rs. Mn.)	FY'07	FY'08	FY09E
Net Sales	2,054	2,949	3,715
% growth yoy		43.6%	26.0%
Other Income	16	8	52
Total Income	2,070	2,957	3,767
RM Consumption	1,056	1,581	2,045
% of Net Sales	51.4%	53.6%	55.0%
Manufacturing Expenses	342	415	524
% of Net Sales	16.7%	14.1%	14.1%
SG & A Expenses	271	407	515
% of Net Sales	13.2%	13.8%	13.9%
Total Expenditure	1,669	2,403	3,083
% of Net Sales	81%	81%	83%
EBITDA	401	554	684
Interest	56	92	121
Depreciation	71	89	109
PBTA	274	373	453
Exceptional Items	-	-	105
Profit Before Tax	274	373	348
Taxation	87	124	116
Profit After Tax	187	249	232
Extraordinary Items	-	7	-
Net Profit	187	243	232
% growth yoy		29.80%	-4.29%

Table 2: Balance Sheet

Year End Mar. (Rs. Mn.)	FY'07	FY'08	FY09E
Share Capital	247	247	247
Reserves and Surplus	1,287	1,495	1,683
Net Worth	1,533	1,741	1,930
Secured Loans	789	1,306	1,684
Unsecured Loans	13	7	7
Loan Funds	803	1,313	1,691
Deferred Tax Liability	213	259	272
Capital Employed	**2,549**	**3,314**	**3,893**
Gross Block	1,554	1,976	2,384
Depreciation	301	380	489
Net Block	1,252	1,597	1,895
Capital WIP	120	234	274
Investments	351	376	25
Inventories	187	316	523
Sundry Debtors	582	853	1,105
Cash and Bank Balances	45	27	43
Loans and Advances	162	212	404
Total Current Assets	975	1,408	2,076
Current Liabilities	120	253	316
Provisions	29	50	60
Total Current Liabilities	149	303	376
Working Capital	826	1,105	1,700
Misc. Expenditure	-	1	-
Capital Deployed	**2,549**	**3,314**	**3,894**

Table 3: Key Ratios

Year End Mar.	FY'07	FY'08	FY09E
EPS (Rs.)	**7.58**	**9.84**	**9.42**
P/E (x)	5.28	4.06	4.25
Book Value (Rs.)	62.15	70.58	78.23
P/BV (x)	0.64	0.57	0.51
EBITDA (%)	19.51	18.79	18.40
NPM (%)	9.11	8.23	6.26
ROCE (%)	12.95	14.04	12.06
RONW (%)	12.20	13.94	12.04
Debt - Equity	0.52	0.75	0.88
Market Cap./Sales	0.48	0.33	0.27

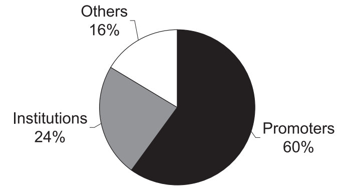
Table 4: Half Yearly Results

Particulars (Rs. Mn.)	H1FY'08	H1FY'09	% growth
Net Sales	1,295	2,185	69%
Other Income	-6	45	
Total Income	1,288	2,231	
Total Expenditure	-1,043	-1,904	
EBITDA	246	326	33%
Interest	-42	-46	
Depreciation	-42	-51	
PBT	162	230	
Taxation	-53	-65	
PAT	109	166	52%

Table 5: Cash Flow Statement

Particulars (Rs. Mn.)	H1FY'08	H1FY'09	% growth
PBT	274	373	348
Adjustments	125	184	183
PBT after adjustments	399	557	531
Working Capital Changes	-483	84	-428
PBT after working capital changes	-85	641	104
Taxes	-47	-84	-113
Net Cash from Operating Activities	-132	557	-9
Net Cash from Investing Activities	-613	-570	-37
Net Cash from Financing Activities	763	-5	62
Net Inc./(Dec.) in Cash Equivalents	19	-18	16
Cash at the beginning of the year	26	45	27
Cash at the end of the year	45	27	43

Shareholding Pattern



Price Performance Chart