

## Muted quarter

### 8.5% YoY volume growth drives top line

In 2QFY11, higher sales volumes (up 8.5% YoY) of chemicals and fertiliser, led to 15.7% YoY growth in revenue to ₹4.1bn. On a sequential basis, sales volumes remained flat at ~138,000 tonnes. The second quarter being seasonally weak for ammonium nitrate sales, we expect sales of chemicals to pick up during the third and fourth quarter.

The company has also commissioned a new ammonium nitrate plant, which has increased the total capacity from 132,000 tonnes to 432,000 tonnes, which is expected to start contributing from 3QFY11 onwards.

### EBIDTA affected by a one-time subsidy write-back

EBIDTA for the quarter stood at ₹766mn, up 6.2% YoY. During the quarter, the company reversed ₹33.5mn of subsidy accounted in the previous year, after declaration of the final fertiliser subsidy rates. Adjusting for that, EBIDTA grew 11% YoY.

PAT for the quarter grew 15% YoY to ₹414mn.

### Valuation

The stock is currently trading at 9x and 7.5x FY11E and FY12E EPS, respectively. Going forward, we expect the company to benefit from improved gas availability and higher nitric acid volumes, which will lead to higher production of nitro phosphate and ammonium nitrate (AN).

Also, the company has completed a new 300,000-tonne ammonium nitrate plant, which will be the company's next growth driver. We will review our estimates and rating after the conference call with the management.

## ACCUMULATE

Sector view: **Overweight**

Sector relative view: **Outperform**

TP: **₹175 (-3%)**

CMP: **₹180**

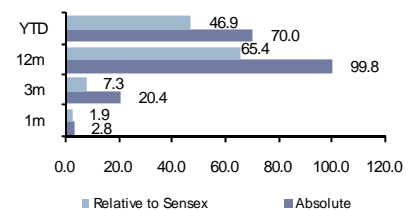
### Company data

Shares outstanding	88mn
Market cap	₹16bn/US\$0.36bn
52-wk high/low	₹199/83
Avg daily trade vol	00(mn shrs)

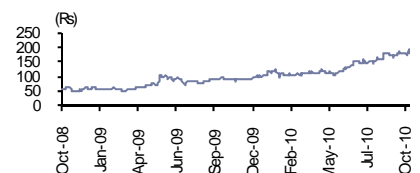
### Shareholding pattern (%)

Promoter	FII	DII	Others
42.6	8.9	10.2	38.3

### Performance (%)



### Share price movement



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## Exhibit 1: Quarterly results

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
<b>Income from operations</b>	3549	3668	3238	3505	4108
YoY %	(5.37)	(1.23)	(2.74)	44.62	15.74
QoQ %	46.43	3.36	(11.72)	8.25	17.18
<b>Total Expenditure</b>	2828.10	2985.00	2435.70	2581.80	3341.60
Raw materials and purchased goods	2249	2351	1758	1871	2730
YoY %	(1.60)	(9.31)	(17.85)	49.07	21.39
% of sales	63.36	64.09	54.27	53.36	66.45
Staff Cost	208	223	222	244	219
Other Expenditure	371	411	456	467	393
<b>EBITDA</b>	721.1	683.4	802.6	923.6	766.1
YoY %	(13.94)	32.39	17.98	59.82	6.24
<b>Margins (%)</b>	<b>20.32</b>	<b>18.63</b>	<b>24.78</b>	<b>26.35</b>	<b>18.65</b>
<b>YoY (bps)</b>	<b>-202</b>	<b>473</b>	<b>435</b>	<b>251</b>	<b>-167</b>
Depreciation	160	171	163	167	170
EBIT	562	512	640	757	596
Interest	103	117	119	111	90
Other income	63	66	79	89	69
<b>Profit before Tax</b>	521	461	599	735	574
<b>Exceptional Items</b>	2	-257	3	0	0
Provision for Taxation	159	190	154	213	160
Tax rate	30.40	41.13	25.68	28.97	27.86
<b>Net Profit after Tax</b>	361	529	442	522	414
YoY %	-13.61	136.19	11.43	34.21	14.70
EPS	4.10	5.99	5.01	5.92	4.70

Source: Alchemy Research, Company

Revenue increased 15.7% YoY, led by 8.5% growth in volumes.

EBIDTA grew 6.2% YoY. Adjusting for the fertiliser subsidy reversal, EBIDTA growth was 10%.

PAT grew 15% YoY to `414mn.

The ratings are based on the absolute upside of our target price from the current price.

Upside >25%	Strong Buy
Upside between 15% and 25%	Buy
Upside up to 15%	Accumulate
Downside up to 15%	Reduce
Downside >15%	Sell
<b>Sector relative call</b>	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
<b>Sector weight</b>	
Overweight	
Equal weight	
Underweight	

#### Sales

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#### Trade execution

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