

Chemical business continues to do well

May 30, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 103	Rs 157
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,473
Sensex	18,232

Price Performance (%)	1M	3M	6M	12M
Absolute	(4)	4	(17)	(1)
Rel. to Nifty	1	2	(11)	(8)

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	146/88
Market Cap (Rs bn/USD mn)	16/355
Daily Avg Volume (No of sh)	84202
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	41.2	41.2	41.2
FII/NRI	6.0	6.1	5.1
Institutions	25.1	25.4	25.7
Private Corp	2.2	2.3	2.4
Public	25.5	25.1	25.7

Source: Capitaline

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- Q4FY11 APAT (adjusted for insurance claim of Rs 1 bn) of Rs 699 mn against loss of Rs 383 mn previous year were below estimates mainly due to lower than expected margins
- Chemical segment witnessed attractive results with EBIT margins of ~28% (+300 bps yoy). Fertiliser segment margins remain at meager level of ~2%
- Increase in Nitric Acid capacity (by ~70%) to support revenue growth in FY12E while commissioning of Ethyl Acetic and TDI plant to add revenues in FY13E
- Maintain FY12E estimates at Rs 22.4 and introduce FY13E estimates at Rs 26.5. However we maintain our TP of Rs 157 (7x FY12 EPS) due to volatility in earnings, maintain BUY

Q4FY11 results below estimates

GNFC's Q4FY11 results were below our estimates due to lower than expected margins. Revenues of Rs 8.4bn, +66% yoy, were marginally ahead of our estimates of Rs 8.1bn driven by higher than expected chemicals revenues. However, EBITDA of Rs 1.25bn (previous year EBITDA was Rs -561mn) were lower than our estimates of Rs 1.5bn. Reported other income of Rs 1.1bn, +119% yoy, included accounting entry of Rs 1bn related to insurance claim received. APAT (tax adjusted amount of Rs 670mn on account of insurance claim) of Rs 699mn was lower than our estimates of Rs 902mn.

Fertiliser segment margins continues to struggle at ~2%

Fertiliser segment reported revenues of Rs 4.5bn, +112% yoy, which was marginally lower than our estimates of Rs 5bn. However, reported EBIT of Rs 834mn (compared to loss of Rs 485mn) was ahead of our estimates of Rs 300mn. Reported EBIT included Rs 750 mn related to insurance claims received during the quarter. Adjusting for the insurance claim received, adjusted EBIT stood at Rs 84 mn (below our estimates of Rs 300 mn) indicating margins of mere 2%.

Chemicals segment margins remain impressive at 28%

Chemicals segment revenues increased by 34% yoy to Rs 3.7bn (ahead of our estimates of Rs 3.1bn) on account of rising chemicals prices. Chemical segment EBIT of Rs 1 bn is adjusted for Rs 250 mn received on account of insurance claims and resulting EBIT margins at 28% increased by 300 bps yoy. Chemicals prices continued to remain strong during the quarter which benefited the company. We expect chemicals prices to remain strong in FY12E and have modeled for 30% margins during the year.

Maintain price target and recommend BUY

We expect chemicals segment performance to remain strong and maintain our FY12 estimates (EPS of Rs 22.4) and introduce FY13E estimates of Rs 26.5. We believe commissioning of Nitric Acid plant (DNA and WNA) by July'2011 is likely to drive revenues growth in FY12E while commissioning of Ethyl Acetic and TDI plant to add revenues in FY13E. Due to volatile chemical prices, we maintain our price target based on 7x FY12 estimates of Rs 157 and maintain our BUY recommendation on the stock.

Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	26,145	3,100	11.9	1,239	10.3	(29.7)	7.8	10.0	5.7	0.8
FY11	28,459	3,774	13.3	1,664	10.7	4.1	7.8	9.6	6.9	0.7
FY12E	33,396	6,973	20.9	3,489	22.4	109.6	15.0	4.6	3.9	0.6
FY13E	36,260	8,434	23.3	4,122	26.5	18.1	15.6	3.9	3.2	0.6

Key Financials – Quarterly

Rs mn

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	5,066	3,678	8,019	8,339	8,423	66.3	1.0	28,459	26,145	8.9
Expenditure	5,627	3,850	6,866	6,800	7,170	27.4	5.4	24,685	23,045	7.1
as % of sales	111.1	104.7	85.6	81.5	85.1			86.7	88.1	
Consumption of RM	2,897	1,712	4,520	4,408	4,647	60.4	5.4	15,287	14,075	8.6
as % of sales	57.2	46.5	56.4	52.9	55.2			53.7	53.8	
Power & Fuel	659	777	928	998	1,018	54.5	2.0	3,721	3,362	10.7
as % of sales	13.0	21.1	11.6	12.0	12.1			13.1	12.9	
Employee Cost	453	518	581	608	650	43.6	7.0	2,356	1,968	19.7
as % of sales	8.9	14.1	7.2	7.3	7.7			8.3	7.5	
Other expenditure	1,619	844	837	786	855	(47.2)	8.8	3,321	3,640	(8.8)
as % of sales	32.0	22.9	10.4	9.4	10.2			11.7	13.9	
EBITDA	-561	(171)	1,153	1,539	1,253	(323.3)	(18.6)	3,774	3,100	21.7
Depreciation	279	296	305	305	305	9.2	(0.0)	1,211	1,170	3.5
EBIT	-841	(467)	848	1,234	948	(212.8)	(23.2)	2,563	1,930	32.8
Other Income	524	98	99	94	145	(72.4)	54.1	436	863	(49.5)
Interest	38	38	42	46	59	53.5	26.6	184	234	(21.3)
PBT	(355)	(407)	905	1,282	1,035	(391.3)	(19.3)	2,814	2,559	10.0
Total Tax	28	(181)	267	398	336	1,107.2	(15.7)	820	1,082	(24.3)
Adjusted PAT	(383)	(227)	639	884	699	(282.5)	(20.9)	1,994	1,477	35.1
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	(383)	(227)	639	884	699	(282.5)	(20.9)	1,994	1,477	35.1
Extra ordinary items	0	0	0	0	670			0	(238)	
Reported PAT	(383)	(227)	639	884	1,369	(457.5)	54.9	2,664	1,238	115.2
Reported EPS	(2.5)	(1.5)	4.1	5.7	8.8	(453.7)	54.6	17.1	7.9	115.5

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	(11.1)	(4.7)	14.4	18.5	14.9	2,596	(358)	13.3	11.9	140
EBIT	(16.6)	(12.7)	10.6	14.8	11.3	2,785	(354)	9.0	7.4	162
EBT	(17.3)	(13.7)	10.1	14.2	10.6	2,791	(368)	8.4	6.5	187
PAT	(7.6)	(6.2)	8.0	10.6	8.3	1,586	(230)	7.0	5.6	136
Effective Tax rate	(7.8)	44.4	29.5	31.1	32.4	4,027	137	29.1	42.3	(1,317)

Source: Company, Emkay Research

Revision in estimates

We have revised our revenue estimates for FY12E by 12% to reflect the commissioning of Nitric Acid plant (DNA and WNA) by July'2011. However, our PAT estimates remain flat for FY12E as we expect chemicals margins to remain under pressure owing to lower capacity utilization initially in the new plant. We have also introduced FY13E estimates and expect company to report EPS of Rs 26.5, +18% yoy.

Rs mn	FY12E			FY13E	
	Old Estimates	New Estimates	% Change	Introducing Estimates	% yoy
Net sales	29,792	33,396	12.1	36,260	8.6
EBITDA	6,660	6,973	4.7	8,434	21.0
EBITDA %	22.4	20.9	-147 bps	23.3	238 bps
PAT	3,479	3,489	0.3	4,122	18.1
EPS	22.4	22.4	0.2	26.5	18.1

Segmental results

Rs mn									Rs mn	
	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Fertilisers	2154	733	4762	4885	4564	111.9%	-6.6%	14943	14489	3.1%
Chemicals	2783	2816	3130	3355	3729	34.0%	11.2%	13030	11303	15.3%
EBIT										
Fertilisers	-485	-762	-18	355	84	-117.3%	-76.4%	-340	-333	NA
Chemicals	693	371	911	924	1034	49.2%	11.9%	3241	3196	1.4%
EBIT Margins (%)										
Fertilisers	-22.5%	-103.9%	-0.4%	7.3%	1.8%	2434	-544	-2.3%	-2.3%	2
Chemicals	24.9%	13.2%	29.1%	27.6%	27.7%	283	18	24.9%	28.3%	-341

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	26,145	28,459	33,396	36,260
Growth (%)	(10.5)	8.9	17.3	8.6
Expenditure	23,045	24,685	26,423	27,825
Materials Consumed	14,075	14,799	16,698	18,130
Power & Fuel	3,362	3,415	3,340	3,626
Employee Expenses	1,968	2,134	2,672	2,901
Other Exp	3,640	4,337	3,714	3,169
EBITDA	3,100	3,774	6,973	8,434
Growth (%)	(28.7)	21.7	84.8	21.0
EBITDA margin (%)	11.9	13.3	20.9	23.3
Depreciation	1,170	1,211	1,720	1,950
EBIT	1,930	2,563	5,253	6,484
EBIT margin (%)	7.4	9.0	15.7	17.9
Other Income	863	436	200	200
Interest expenses	234	184	980	1,400
PBT	2,559	2,814	4,473	5,284
Tax	961	1,150	984	1,163
Effective tax rate (%)	37.5	40.9	22.0	22.0
Adjusted PAT	1,599	1,664	3,489	4,122
Growth (%)	(29.7)	4.1	109.6	18.1
Net Margin (%)	6.1	5.8	10.4	11.4
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	1,599	1,664	3,489	4,122
E/O items	(360)	-	-	-
Reported PAT	1,239	1,664	3,489	4,122
PAT after MI	1,239	1,664	3,489	4,122
Growth (%)	(45.6)	34.4	109.6	18.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	1,696	2,379	4,273	5,084
Depreciation	1,170	1,211	1,720	1,950
Interest Provided	234	184	980	1,400
Other Non-Cash items	(377)	-	-	-
Chg in working cap	3,060	(3,144)	2,281	(412)
Tax paid	-961	-1,150	-984	-1,163
Operating Cashflow	4,822	-520	8,270	6,860
Capital expenditure	(6,664)	(7,400)	(8,000)	(5,000)
Free Cash Flow	-1,842	-7,920	270	1,860
Other income	863	436	200	200
Investments	-	-	-	-
Investing Cashflow	863	436	200	200
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	1,947	6,000	2,000	-
Interest Paid	(234)	(184)	(980)	(1,400)
Dividend paid (incl tax)	(591)	(609)	(637)	(637)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	1,122	5,207	383	-2,037
Net chg in cash	143	-2,277	854	23
Opening cash position	2,843	2,986	709	1,562
Closing cash position	2,986	709	1,562	1,586

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	1,554	1,554	1,554	1,554
Reserves & surplus	19,234	20,289	23,142	26,627
Net worth	20,789	21,844	24,696	28,181
Minority Interest	0	0	0	0
Secured Loans	5,506	11,506	13,506	13,506
Unsecured Loans	0	0	0	0
Loan Funds	5,506	11,506	13,506	13,506
Net deferred liabilities	2,160	2,160	2,160	2,160
Total Liabilities	28,454	35,509	40,362	43,847
Gross Block	30,842	41,141	48,541	56,541
Less: Depreciation	19,149	20,360	22,080	24,030
Net block	11,694	20,780	26,460	32,510
Capital work in progress	10,298	7,400	8,000	5,000
Investments	895	895	895	895
Current Assets	9,742	12,275	13,503	14,550
Inventories	4,050	4,635	3,751	4,073
Sundry debtors	167	4,375	4,849	5,265
Cash & bank balance	2,986	709	1,562	1,586
Loans & advances	2,539	2,556	3,340	3,626
Other current assets	-	-	-	-
Current lia & Prov	4,174	5,841	8,496	9,108
Current liabilities	2,815	4,482	7,137	7,749
Provisions	1,359	1,359	1,359	1,359
Net current assets	5,568	6,434	5,007	5,442
Misc. exp	-	-	-	-
Total Assets	28,455	35,510	40,362	43,847

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	11.9	13.3	20.9	23.3
Net Margin	6.1	5.8	10.4	11.4
ROCE	10.3	9.4	14.4	15.9
ROE	7.8	7.8	15.0	15.6
RoIC	12.0	12.6	18.6	19.6
Per Share Data (Rs)				
EPS	10.3	10.7	22.4	26.5
CEPS	17.8	18.5	33.5	39.1
BVPS	134	141	159	181
DPS	3.3	3.4	3.5	3.5
Valuations (x)				
PER	10.0	9.6	4.6	3.9
P/CEPS	5.8	5.6	3.1	2.6
P/BV	0.8	0.7	0.6	0.6
EV / Sales	0.7	0.9	0.8	0.7
EV / EBITDA	5.7	6.9	3.9	3.2
Dividend Yield (%)	3.2	3.2	3.4	3.4
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.5	0.4	0.4
Net Debt/EBITDA	0.5	2.6	1.6	1.3
Working Cap Cycle (days)	19.6	58.1	16.0	16.0

Recommendation History: Gujarat Narmada Fertiliser and Chemicals – GNFC IN

Date	Reports	Reco	CMP	Target
11/04/2011	GNFC Company Update	Buy	108	157
31/01/2011	GNFC Q3FY11 Result Update	Buy	112	157
21/10/2010	GNFC Q2FY11 Result Update	Buy	127	157
03/08/2010	GNFC Q1FY11 Result Update	Buy	115	157

Recent Research Reports

Date	Reports	Reco	CMP	Target
30/05/2011	GSFC Q4FY11 Result Update	Buy	356	530
24/05/2011	Tata Chemicals Q4FY11 Result Update	Accumulate	352	400
12/05/2011	Deepak Fertilisers Q4FY11 Result Update	Buy	167	250
11/05/2011	Chambal Fertilisers Q4FY11 Result Update	Accumulate	81	86

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