

### Operationally in line; PAT above estimates

October 21, 2011

<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs 92	Rs 135
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,139
Sensex	17,085

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(6)	(17)	(28)
Rel. to Nifty	(2)	2	(4)	(15)

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	146/87
Market Cap (Rs bn/USD mn)	14/285
Daily Avg Volume (No of sh)	179050
Daily Avg Turnover (US\$m)	0.4

#### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	41.2	41.2	41.2
FII/NRI	6.4	6.0	6.1
Institutions	24.3	25.1	25.4
Private Corp	2.3	2.2	2.3
Public	25.9	25.5	25.1

Source: Capitaline

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- **Results were in line at the EBITDA level however higher other income and lower interest costs boosted APAT. Revenues grew by 27% yoy to Rs 10.2bn; PAT of Rs 808mn, 27% yoy**
- **Fertiliser segment reported revenues of Rs 6bn, 28% yoy higher than est driven by higher volumes of 263,000mt against est of 248,000mt. Margins were in line at 2.9%**
- **Chemical reported revenues of Rs 4bn, 26% yoy higher than est. Margins came in at 24% (-510bps yoy/ 700bps qoq). WNA-II plant commenced operations in July**
- **Maintain FY12E/FY13E estimates of Rs 19.3/Rs 25.7 with target price of Rs 135**

#### EBITDA in line; PAT above est driven by lower interest & higher other income

GNFC's Q2FY12 results were in line at the EBITDA level however lower interest costs and higher other income boosted APAT. Company reported revenues of Rs 10.2bn, +27% yoy higher than est of Rs 8.1bn due to higher fertiliser revenues. Fertiliser reported revenues of Rs 6bn, 28% yoy higher than est of Rs 4.6bn. Chemicals reported revenues of Rs 4bn, against est of Rs 3.5bn. However, EBITDA was in line with est at Rs 1.48bn, 28% yoy. EBITDA margin during the quarter stood at 14.5% against est of 17.6%. APAT of Rs 808mn, 27% yoy was higher than est of Rs 720mn driven by lower interest costs and higher other income. Company reported interest costs of Rs 56mn (est of Rs 100mn) while it reported other income of Rs 89mn (est of Rs 50mn).

#### Chemical segment – revenues higher, EBIT in line

Chemicals segment reported revenues of Rs 4bn, 26% yoy higher than our est of Rs 3.5bn. Segment reported EBIT of Rs 943mn, 4% yoy in line with est of Rs 930mn. Chemicals margins for the quarter stood at 24% (-510bps yoy/ 700bps qoq) against est of 27%. In Q1FY12, chemical segment suffered due to ammonia plant shutdown which resulted in margins as low as 17%. However, with the resumption of plant, margins improved 700bps qoq. Company's 300 MTPD Weak Nitric Acid-II Project commenced operations from July 23, 2011.

#### Fertiliser- topline higher driven by higher fertiliser volumes

Fertiliser segment reported revenues of Rs 6bn, 28% yoy higher than est of Rs 4.6bn. Total fertiliser volumes for the quarter stood at 263,000mt (est of 248,000mt) as compared to 261,000mt last year. Segment reported EBIT of Rs 173mn (compared to loss of Rs 18mn last year) ahead of our estimates of Rs 139mn driven by higher topline. Fertiliser margins stood at 2.9% in line with estimates of 3.0%.

#### Maintain BUY with target price of Rs 135

We believe commissioning of WNA-II plant is likely to drive revenues growth in FY12E while commissioning of Ethyl Acetic and TDI plant will boost top line in FY13E. Due to volatile chemical prices, we continue to base our target price on FY12E estimates. We maintain our estimates of Rs 19.3/Rs 25.7 for FY12E/FY13E and maintain target price of Rs135.

#### Financial Snapshot

Rs Mn

	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	8.9	5.1	0.7
FY11	28,459	3,774	13.3	1,664	10.7	4.1	7.8	8.6	6.4	0.7
FY12E	32,425	6,217	19.2	3,008	19.3	80.7	13.1	4.8	4.2	0.6
FY13E	35,825	8,269	23.1	3,992	25.7	32.7	15.4	3.6	3.2	0.5

## Key Financials – Quarterly

Rs mn

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>8,019</b>	<b>8,339</b>	<b>8,423</b>	<b>6,442</b>	<b>10,206</b>	<b>27.3</b>	<b>58.4</b>
<b>Expenditure</b>	<b>6,866</b>	<b>6,800</b>	<b>7,170</b>	<b>5,517</b>	<b>8,727</b>	<b>27.1</b>	<b>58.2</b>
<i>as % of sales</i>	<i>85.6</i>	<i>81.5</i>	<i>85.1</i>	<i>85.6</i>	<i>85.5</i>		
Consumption of RM	4,520	4,408	4,647	3,078	6,070	34.3	97.2
<i>as % of sales</i>	<i>56.4</i>	<i>52.9</i>	<i>55.2</i>	<i>47.8</i>	<i>59.5</i>		
Power & Fuel	928	998	1,018	912	1,146	23.4	25.6
<i>as % of sales</i>	<i>11.6</i>	<i>12.0</i>	<i>12.1</i>	<i>14.2</i>	<i>11.2</i>		
Employee Cost	581	608	650	631	612	5.4	(2.9)
<i>as % of sales</i>	<i>7.2</i>	<i>7.3</i>	<i>7.7</i>	<i>9.8</i>	<i>6.0</i>		
Other expenditure	837	786	855	897	900	7.5	0.3
<i>as % of sales</i>	<i>10.4</i>	<i>9.4</i>	<i>10.2</i>	<i>13.9</i>	<i>8.8</i>		
<b>EBITDA</b>	<b>1,153</b>	<b>1,539</b>	<b>1,253</b>	<b>925</b>	<b>1,479</b>	<b>28.3</b>	<b>59.9</b>
Depreciation	305	305	305	299	326	6.7	8.9
<b>EBIT</b>	<b>848</b>	<b>1,234</b>	<b>948</b>	<b>626</b>	<b>1,154</b>	<b>36.1</b>	<b>84.2</b>
Other Income	99	94	145	66	89	(10.1)	34.9
Interest	42	46	59	76	56	34.1	(26.6)
<b>PBT</b>	<b>905</b>	<b>1,282</b>	<b>1,035</b>	<b>617</b>	<b>1,187</b>	<b>31.1</b>	<b>92.5</b>
Total Tax	267	398	336	200	379	42.0	89.3
<b>Adjusted PAT</b>	<b>639</b>	<b>884</b>	<b>699</b>	<b>417</b>	<b>808</b>	<b>26.6</b>	<b>94.1</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
<b>APAT after MI</b>	<b>639</b>	<b>884</b>	<b>699</b>	<b>417</b>	<b>808</b>	<b>26.6</b>	<b>94.1</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>		
<b>Reported PAT</b>	<b>639</b>	<b>884</b>	<b>1,369</b>	<b>417</b>	<b>808</b>	<b>26.6</b>	<b>94.1</b>
<b>Reported EPS</b>	<b>4.1</b>	<b>5.7</b>	<b>8.8</b>	<b>2.7</b>	<b>5.2</b>	<b>26.6</b>	<b>94.1</b>

Margins (%)						(bps)	(bps)
EBIDTA	14.4	18.5	14.9	14.4	14.5	12	13
EBIT	10.6	14.8	11.3	9.7	11.3	73	158
EBT	10.1	14.2	10.6	8.5	10.8	70	221
PAT	8.0	10.6	8.3	6.5	7.9	(4)	146
Effective Tax rate	29.5	31.1	32.4	32.4	31.9	244	(55)

Source: Company, Emkay Research

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>26,145</b>	<b>28,459</b>	<b>32,425</b>	<b>35,825</b>
Growth (%)	(10.5)	8.9	13.9	10.5
<b>Expenditure</b>	<b>23,045</b>	<b>24,685</b>	<b>26,208</b>	<b>27,557</b>
Materials Consumed	14,075	14,799	16,212	17,913
Power & Fuel	3,362	3,415	3,242	3,583
Employee Expenses	1,968	2,134	2,594	2,866
Other Exp	3,640	4,337	4,159	3,196
<b>EBITDA</b>	<b>3,100</b>	<b>3,774</b>	<b>6,217</b>	<b>8,269</b>
Growth (%)	(28.7)	21.7	64.7	33.0
<b>EBITDA margin (%)</b>	<b>11.9</b>	<b>13.3</b>	<b>19.2</b>	<b>23.1</b>
Depreciation	1,170	1,211	1,619	1,950
<b>EBIT</b>	<b>1,930</b>	<b>2,563</b>	<b>4,598</b>	<b>6,319</b>
<b>EBIT margin (%)</b>	<b>7.4</b>	<b>9.0</b>	<b>14.2</b>	<b>17.6</b>
Other Income	863	436	216	200
Interest expenses	234	184	876	1,400
<b>PBT</b>	<b>2,559</b>	<b>2,814</b>	<b>3,938</b>	<b>5,119</b>
<b>Tax</b>	<b>961</b>	<b>1,150</b>	<b>931</b>	<b>1,126</b>
Effective tax rate (%)	37.5	40.9	23.6	22.0
<b>Adjusted PAT</b>	<b>1,599</b>	<b>1,664</b>	<b>3,008</b>	<b>3,992</b>
Growth (%)	(29.7)	4.1	80.7	32.7
<b>Net Margin (%)</b>	<b>6.1</b>	<b>5.8</b>	<b>9.3</b>	<b>11.1</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>1,599</b>	<b>1,664</b>	<b>3,008</b>	<b>3,992</b>
E/O items	(360)	-	-	-
<b>Reported PAT</b>	<b>1,239</b>	<b>1,664</b>	<b>3,008</b>	<b>3,992</b>
<b>PAT after MI</b>	<b>1,239</b>	<b>1,664</b>	<b>3,008</b>	<b>3,992</b>
Growth (%)	(45.6)	34.4	80.7	32.7

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>1,696</b>	<b>2,379</b>	<b>3,722</b>	<b>4,919</b>
Depreciation	1,170	1,211	1,619	1,950
Interest Provided	234	184	876	1,400
Other Non-Cash items	(377)	-	-	-
Chg in working cap	3,060	(3,144)	1,831	(270)
Tax paid	-961	-1,150	-931	-1,126
<b>Operating Cashflow</b>	<b>4,822</b>	<b>-520</b>	<b>7,117</b>	<b>6,873</b>
Capital expenditure	(6,664)	(7,400)	(8,000)	(5,000)
<b>Free Cash Flow</b>	<b>-1,842</b>	<b>-7,920</b>	<b>-883</b>	<b>1,873</b>
Other income	863	436	216	200
Investments	-	-	-	-
<b>Investing Cashflow</b>	<b>863</b>	<b>436</b>	<b>216</b>	<b>200</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	1,947	6,000	2,000	-
Interest Paid	(234)	(184)	(876)	(1,400)
Dividend paid (incl tax)	(591)	(609)	(637)	(637)
Income from investments	-	-	-	-
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>1,122</b>	<b>5,207</b>	<b>487</b>	<b>-2,037</b>
<b>Net chg in cash</b>	<b>143</b>	<b>-2,277</b>	<b>-180</b>	<b>36</b>
Opening cash position	2,843	2,986	709	529
<b>Closing cash position</b>	<b>2,986</b>	<b>709</b>	<b>529</b>	<b>566</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	1,554	1,554	1,554	1,554
Reserves & surplus	19,234	20,289	22,660	26,016
<b>Net worth</b>	<b>20,789</b>	<b>21,844</b>	<b>24,215</b>	<b>27,570</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	5,506	11,506	13,506	13,506
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>5,506</b>	<b>11,506</b>	<b>13,506</b>	<b>13,506</b>
Net deferred liabilities	2,160	2,160	2,160	2,160
<b>Total Liabilities</b>	<b>28,455</b>	<b>35,510</b>	<b>39,881</b>	<b>43,236</b>
Gross Block	30,842	41,141	48,541	56,541
Less: Depreciation	19,149	20,360	21,979	23,929
<b>Net block</b>	<b>11,694</b>	<b>20,780</b>	<b>26,562</b>	<b>32,612</b>
Capital work in progress	10,298	7,400	8,000	5,000
<b>Investments</b>	<b>895</b>	<b>895</b>	<b>895</b>	<b>895</b>
<b>Current Assets</b>	<b>9,742</b>	<b>12,275</b>	<b>12,766</b>	<b>15,108</b>
Inventories	4,050	4,635	5,511	5,726
Sundry debtors	167	4,375	3,484	5,235
Cash & bank balance	2,986	709	529	566
Loans & advances	2,539	2,556	3,242	3,583
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>4,174</b>	<b>5,841</b>	<b>8,343</b>	<b>10,379</b>
Current liabilities	2,815	4,482	6,983	9,019
Provisions	1,359	1,359	1,359	1,359
<b>Net current assets</b>	<b>5,568</b>	<b>6,434</b>	<b>4,424</b>	<b>4,730</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>28,455</b>	<b>35,510</b>	<b>39,881</b>	<b>43,236</b>

## Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	11.9	13.3	19.2	23.1
Net Margin	6.1	5.8	9.3	11.1
ROCE	10.3	9.4	12.8	15.7
ROE	7.8	7.8	13.1	15.4
RoIC	12.0	12.6	16.1	18.8
<b>Per Share Data (Rs)</b>				
EPS	10.3	10.7	19.3	25.7
CEPS	17.8	18.5	29.8	38.2
BVPS	134	141	156	177
DPS	3.3	3.4	3.5	3.5
<b>Valuations (x)</b>				
PER	8.9	8.6	4.8	3.6
P/CEPS	5.2	5.0	3.1	2.4
P/BV	0.7	0.7	0.6	0.5
EV / Sales	0.6	0.9	0.8	0.7
EV / EBITDA	5.1	6.4	4.2	3.2
Dividend Yield (%)	3.5	3.6	3.8	3.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.1	0.5	0.5	0.4
Net Debt/EBITDA	0.5	2.6	1.9	1.5
Working Cap Cycle (days)	19.6	58.1	22.6	19.8

**Recommendation History: Gujarat Narmada Fertiliser and Chemicals – GNFC IN**

Date	Reports	Reco	CMP	Target
28/07/2011	<a href="#">GNFC Q1FY12 Result Update</a>	Buy	100	135
30/05/2011	<a href="#">GNFC Q4FY11 Result Update</a>	Buy	103	157
11/04/2011	<a href="#">GNFC Company Update</a>	Buy	108	157
31/01/2011	<a href="#">GNFC Q3FY11 Result Update</a>	Buy	112	157

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
19/10/2011	<a href="#">Coromandel International Q2FY12 Result Update</a>	Buy	307	435
18/10/2011	<a href="#">Chambal Fertilisers Q2FY12 Result Update</a>	Accumulate	87	98
13/10/2011	<a href="#">Kajaria Ceramics Q2FY12 Result Update</a>	Buy	118	143
28/09/2011	<a href="#">GSFC Company Update</a>	Buy	434	530

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