

Chemical business disappoints

July 28, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 100	Rs 135
EPS change FY12E/13E (%)	(14)/(3)
Target Price change (%)	(14)
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(8)	(10)	(12)
Rel. to Nifty	6	(2)	(8)	(13)

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)	16/363
Daily Avg Volume (No of sh)	70298
Daily Avg Turnover (US\$m)	0.2

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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- Q1FY12 APAT of Rs 417mn (against loss of Rs Rs 227mn due to ammonia plant shutdown previous year) disappointed us on back of dismal performance of chemical segment
- Chemical segment reported lower margins of 17.0% (+380bps yoy/-1070bps qoq) against expectation of 27.0%. Fertilizer segment margins stood at 3.6%
- WNA- II plant commenced operations in July. Increase in Nitric Acid capacity and commissioning of Ethyl Acetic and TDI plant to boost topline over the next 2 years
- Reduce FY12E/FY13E estimates by 13.6% / 3.1% to Rs 19.3/Rs 25.7. Subsequently reduce price target by 13.6% to Rs 135, maintain BUY with 35% upside

Q1FY12 results disappointed at PAT level.....

GNFC's Q1FY12 results disappointed due to lower than expected EBITDA margins. Revenues of Rs 6.4bn, +75% yoy, were in line with our estimates. YoY results are not comparable due to Ammonia plant break down previous year. EBITDA of Rs 925mn (EBITDA loss of Rs 171mn) was lower than our estimates of Rs 1.4bn due to lower than expected margins in chemical segment. EBITDA margin of 14.4% was lower than our estimates of 22.3%. APAT of Rs 417mn was lower than our estimates of Rs 647mn.

.. Due to poor performance of chemicals segment

Chemicals segment revenues increased by 9% yoy to Rs 3.1bn (below our estimates of Rs 3.67bn). Chemical segment EBIT of Rs 522 mn was lower than our estimates of Rs 988mn due to lower margins. Chemical segment margins stood at 17.0% (+380bps yoy/-1070bps qoq) against our estimate of 27%. Weak TDI price during the quarter had some adverse impact on chemical margins however we were unable to understand the key reason for sharp fall in margins. Company's 300 MTPD Weak Nitric Acid-II (WNA) plant has commenced its operation from July 23, 2011.

Fertiliser segment margins improved, yet continues to struggle

Fertiliser segment reported revenues of Rs 3.3bn, +346% yoy, higher than our estimates of Rs 2.58bn. Fertiliser segment performance is not comparable on a yoy basis since last year's results were negatively impacted due to ammonia plant break down. Total fertilizer volumes increased to 142,000mt as compared to 60,000mt last year. Segment reported EBIT of Rs 117mn (compared to loss of Rs 762mn) ahead of our estimates of Rs 26mn. Even though fertilizer segment margins improved 180bps qoq to 3.6% , yet they remain significantly lower than the industry average.

Reduce FY12 est and target price by 14%, while maintain BUY

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. Chemical prices continue to be volatile and pose downward risks and hence we continue to base our target price on FY12E estimates. We reduce our FY12E/ FY13E estimates by 13.6% / 3.1% to Rs 19.3/Rs 25.7. Subsequently reduce price target by 13.6% to Rs 135, maintain BUY with 35% upside.

Financial Snapshot

	Rs Mn									
	Net	EBITDA		EPS	EPS	RoE	EV/			
YE-Mar	Sales	(Core)	(%)	PAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	26,145	3,100	11.9	1,239	10.3	(29.7)	7.8	9.8	5.6	0.8
FY11	28,459	3,774	13.3	1,664	10.7	4.1	7.8	9.4	6.8	0.7
FY12E	32,425	6,217	19.2	3,008	19.3	80.7	13.1	5.2	4.4	0.6
FY13E	35,825	8,269	23.1	3,992	25.7	32.7	15.4	3.9	3.3	0.6

Key Financials – Quarterly

Rs mn

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	3,678	8,019	8,339	8,423	6,442	75.1	(23.5)
Expenditure	3,850	6,866	6,800	7,170	5,517	43.3	(23.1)
as % of sales	104.7	85.6	81.5	85.1	85.6		
Consumption of RM	1,712	4,520	4,408	4,647	3,078	79.8	(33.8)
as % of sales	46.5	56.4	52.9	55.2	47.8		
Power & Fuel	777	928	998	1,018	912	17.4	(10.4)
as % of sales	21.1	11.6	12.0	12.1	14.2		
Employee Cost	518	581	608	650	631	21.8	(3.0)
as % of sales	14.1	7.2	7.3	7.7	9.8		
Other expenditure	844	837	786	855	897	6.3	4.8
as % of sales	22.9	10.4	9.4	10.2	13.9		
EBITDA	-171	1,153	1,539	1,253	925	(639.7)	(26.2)
Depreciation	296	305	305	305	299	0.9	(2.0)
EBIT	-467	848	1,234	948	626	(234.0)	(34.0)
Other Income	98	99	94	145	66	(32.2)	(54.3)
Interest	38	42	46	59	76	102.1	29.9
PBT	(407)	905	1,282	1,035	617	(251.3)	(40.4)
Total Tax	(181)	267	398	666	200	(210.7)	(70.0)
Adjusted PAT	(227)	639	884	369	417	(283.7)	12.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	(227)	639	884	699	417	(283.7)	(40.4)
Extra ordinary items	0	0	0	670	-		
Reported PAT	(227)	639	884	1,369	417	(283.7)	(69.6)
Reported EPS	(1.5)	4.1	5.7	8.8	2.7	(283.7)	(69.5)

Margins (%)						(bps)	(bps)
EBIDTA	(4.7)	14.4	18.5	14.9	14.4	1,902	(52)
EBIT	(12.7)	10.6	14.8	11.3	9.7	2,243	(154)
EBT	(13.7)	10.1	14.2	10.6	8.5	2,227	(202)
PAT	(6.2)	8.0	10.6	8.3	6.5	1,263	(183)
Effective Tax rate	44.4	29.5	31.1	64.3	32.4	(1,191)	(3,190)

Source: Company, Emkay Research

Revision in estimates

We have revised our FY12E & FY13E estimates downward to reflect lower revenues and margins in chemicals segment. We have revised our revenue estimates downward by 3% in FY12E however our EPS declines by 14% because of lower margins in chemical segment. For FY13E, we have revised our revenue estimates downward by 1% while our EPS declines by 3%.

Rs mn	FY12E			FY13E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	33,396	32,425	-2.9%	36,260	35,825	-1.2%
EBITDA	6,973	6,217	-10.8%	8,434	8,269	-2.0%
EBITDA %	20.9%	19.2%	-171	23.3%	23.1%	-18
PAT	3,489	3,008	-13.8%	4,122	3,992	-3.1%
EPS	22.4	19.3	-13.6%	26.5	25.7	-3.1%

Segmental results

Rs mn							Rs mn
	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Fertilisers	733	4762	4885	4564	3271	346.1%	-28.3%
Chemicals	2816	3130	3355	3729	3070	9.0%	-17.7%
EBIT							
Fertilisers	-762	-18	355	84	117	NM	39.5%
Chemicals	371	911	924	1034	522	40.7%	-49.5%
EBIT Margins (%)							
Fertilisers	NM	-0.4%	7.3%	1.8%	3.6%	NM	174
Chemicals	13.2%	29.1%	27.6%	27.7%	17.0%	384	-1073

Source: Company, Emkay Research

Key Financials

Income Statement

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

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	1,696	2,379	3,722	4,919
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)	2,421	(489)
Tax paid	-961	-1,150	-931	-1,126
Operating Cashflow	4,822	-520	7,707	6,653
Capital expenditure	(6,664)	(7,400)	(8,000)	(5,000)
Free Cash Flow	-1,842	-7,920	-293	1,653
Other income	863	436	216	200
Investments	-	-	-	-
Investing Cashflow	863	436	216	200
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	-	-	-	-
Financing Cashflow	1,122	5,207	487	-2,037
Net chg in cash	143	-2,277	411	-183
Opening cash position	2,843	2,986	709	1,119
Closing cash position	2,986	709	1,119	936

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
Net worth	20,789	21,844	24,215	27,570
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	28,455	35,510	39,881	43,236
Gross Block	30,842	41,141	48,541	56,541
Less: Depreciation	19,149	20,360	21,979	23,929
Net block	11,694	20,780	26,562	32,612
Capital work in progress	10,298	7,400	8,000	5,000
Investments	895	895	895	895
Current Assets	9,742	12,275	12,712	13,745
Inventories	4,050	4,635	3,642	4,024
Sundry debtors	167	4,375	4,708	5,202
Cash & bank balance	2,986	709	1,119	936
Loans & advances	2,539	2,556	3,242	3,583
Other current assets	-	-	-	-
Current lia & Prov	4,174	5,841	8,289	9,015
Current liabilities	2,815	4,482	6,929	7,656
Provisions	1,359	1,359	1,359	1,359
Net current assets	5,568	6,434	4,424	4,730
Misc. exp	-	-	-	-
Total Assets	28,455	35,510	39,881	43,236

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
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	16.3	19.1
Per Share Data (Rs)				
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
Valuations (x)				
PER	9.8	9.4	5.2	3.9
P/CEPS	5.6	5.4	3.4	2.6
P/BV	0.8	0.7	0.6	0.6
EV / Sales	0.7	0.9	0.8	0.8
EV / EBITDA	5.6	6.8	4.4	3.3
Dividend Yield (%)	3.2	3.3	3.5	3.5
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.5	0.5	0.4
Net Debt/EBITDA	0.5	2.6	1.8	1.4
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
30/05/2011	GNFC Q4FY11 Result Update	Buy	103	157
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/07/2011	United Phosphorus Event Update	Buy	157	215
25/07/2011	Chambal Fertilisers Q1FY12 Result Update	Buy	88	110
22/07/2011	Coromandel International Q1FY12 Result Update	Buy	333	435
22/07/2011	Rallis India Q1FY12 Result Update	Buy	159	209

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