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Gujarat Narmada Valley Fertilizers & Chemicals Ltd

14th June 2017

BSE: 500670 | Sector: **Fertilizers**

vScore : 60 | Gain% : **22.28%**

Buy Date: 14-Jun-2017 | **Buy Price** : Rs. 300.00

Partial Profit Booked at: Rs. 351.50 **on** 04-Oct-2017

Exit Date: 06-Oct-2017 | **Exit Price** : Rs. 382.2

BUSINESS BACKGROUND

Gujarat Narmada Valley Fertilizers & Chemical Ltd (GNFC) engages in business of industrial chemical, fertilizers and IT. GNFC is one of the leaders in fertilizers industry. The company engaged in manufacturing and selling of urea and ammonium nitro phosphate. The company also manufactures core chemicals and petrochemicals like Formic acid, Acetic acid, Methanol, Toluene Di – Isocyanate(TDI), Aniline, etc. GNFC is the only manufacturer of Toluene Di-Isocyanate in South East Asia and Indian Sub Continent. The company's chemicals enjoy high brand value in niche market. The company also provides several cutting-edge IT services and solutions covering System integration, Digital Signatures Certificate (DCS), E-procurement, EGovernance projects, Data centres, Cloud storage and CCTV surveillance systems etc. under Brand name of (n)code solutions.

INVESTMENT HIGHLIGHTS

Q1FY18 results:
In Q1FY18, GNFC's net sales stood at Rs 1054 cr as compare to Rs 948 Cr in Q1FY17. EBITDA of the company setteled at Rs 176 cr. EBITDA margin expanded to 16.76% YoY. PAT of the company grew by 106% to Rs 104 cr YoY. PAT expanded to 9.91% as compare to 5.34% in same quarter of previous year. (All figures are on standalone basis.)

Segment Highlights:
The company operates in three main segments- fertilizers, chemical and IT with share in revenue pie of 43%/53%/2% respectively. In Q1FY18, fertilizer segment grew by 45% YoY to Rs 304cr. Chemical sector stood at Rs 712 cr vs Rs 717 cr in Q1FY17. IT segment recorded highest growth of 80% YoY to Rs 38 cr. IT segment is in growth phase with growth rate more than other two segment led by E-governance projects.

KEY DATA

FACE VALUE Rs	10
DIVD YIELD %	1.28
52 WK HI/LOW	322/137
NSE CODE	GNFC
MARKET CAP	Rs.4153Cr

SHAREHOLDING PATTERN

PROMOTERS	-	41.21%
BANKS, MFs & DIIs	-	16.00%
FIIs	-	13.50%
Others	-	29.29%

KEY FUNDAMENTALS

Year Ending	FY16A	FY17A	FY18E
Rev Gr%	-2	21	23
Net Profit Gr%	9	130	21
ROE%	6	15	17
ROCE %	6	14	16
EPS (Rs)	15	34	41
P/E (x)	21	8	7

Anti Dumping on TDI, fuels the growth of the company:

GNFC is 100% sole producer of Toluene Di – Isocyanate(TDI) with capacity of 50,000 MTPA (capacity utilization rate TDI I- 136%, TDI II- 53%) in India. TDI has wide application in foam, furniture cushion, industrial gaskets, protective pad for sports and medical use, automobile seats, packaging etc. India has imposed anti dumping duty on TDI on the imports from China, Japan and Korea. Exports from these countries at below their normal value due to which domestic industry has suffered. There is huge demand for TDI in domestic market and GNFC is positioned well as a sole producer of TDI in India, to benefit from anti dumping duty on TDI imports.

Positive Industry outlook:

Indian government has recently announced “Direct Benefit Transfer” (DBT) scheme to implement in fertilizer subsidiary. Under DBT in fertilizer sector, the subsidy will be released to the fertilizer companies instead of the beneficiaries, after the sale is made by the retailers to the beneficiaries. It is mainly useful in urea as its highly valued fertilizer in sector. GNFC would get benefit of DBT as its main product under fertilizer is urea with capacity utilization of 120%. It would aid to improve receivables of the company and eventually makes balance sheet more stronger.

The chemical sector has witnessed growth of 13-14% in the last 5 years and expected to grow Indian chemical industry is expected to register a growth of 8-9% in the next decade and is expected to double its share in global chemical industry to 5-6% by 2021. GNFC being a manufacturer of core chemicals would ride on this growth wave.

New projects of the company would add value to topline of GNFC:

GNFC has entered into a Joint venture Agreement with Ecophos SA, Belgium for setting up Di-Calcium Phosphate project, based on Hydrochloric Acid generated as byproduct from 50,000 MTPA TDI plant at Dahej. This would enhance the profitability of TDI , Dahej plant and the company as a whole.

GNFC is planning to set up a Joint Venture company with Santosh Agrochem LLP to purify its by product – Lime, to make it more marketable. This would resolve the environmental issues and at the same time can add value to the product portfolio and revenue.

Indian government made it mandatory to manufacture 100% neem coated urea in its fertilizer policy. GNFC started pilot project to manufacture neem oil and neem cake with 10,000 MT capacity as a part of backward integration strategy. It has earned Rs 13.69 cr revenue from this project in FY16. GNFC is planning to expand capacity to 20,000 MT which can add ~2% on topline of the company.

Diversified product portfolio:

In recent past industrial chemicals has been dominant driver of growth for GNFC.The company is well diversified between fertilizer segment and chemical segment. The company is increasing its foray into chemical division to provide necessary balance and cushion against any slowdown in fertilizer division which is highly weather dependent in India.

Strong financials:

GNFC has grown at CAGR of 3.73% over FY12-16 and expected to grow at CAGT of ~5% over FY16-FY19E. The company is improving its EBITDA margin since FY15- from 6.23% in FY15 to 11.27% in FY16 and expected to expand by 249 bps in FY17E on account of improving raw material cost. The company maintains its PAT margin in the range of 4-7% over last five years. The company has reduced debt to Rs.3107 cr in FY16 vs Rs.3904 cr in FY14.

Business Outlook and Valuation :

At the moment at current price of **290** the stock is trading at (TTM) P/E of 7.8x. Going ahead we expect revenue growth of 23% for FY18. Hence our expectations of revenue for FY18 is INR 6103 Cr.

We expect company to maintain EBITDA margin around 13-18% for next two years. Going ahead we expect PAT margins of 10-11% for next two years. Our PAT expectations for FY18 is INR 632 Cr. Our EPS expectations for FY18 are INR .

We believe GNFC at TTM PE of 7.8x with ROCE around 14-16% with healthy margins is attractively valued. For FY18 EPS expectations of 41, we expect target price of **375/share** with a stop loss at 260.

FINANCIALS:

For the Year Ended March (INR)	FY15A	FY16A	FY17A	FY18E
Net Sales (Cr)	4935	4842	4944	6103
EBIDTA (Cr)	308	546	876	1206
EBIDTA %	6	11	17	20
Profit Before Tax (Cr)	208	226	422	760
Interest (Cr)	274	245	203	180
Depreciation (Cr)	266	247	251	266
Tax (Cr)	-	-	193	109
Profit After Tax (Cr)	208	226	521	632
PAT%	4	5	10	11
Diluted EPS (INR)	-29	14	34	41
Shareholder's Funds (Cr)	3606	3737	3887	4042
Borrowings (Cr)	3843	3108	2642	2245
Gross Block (Cr)	7569	7631	7708	7785

Key Risks and Concerns:

- Fertilizer being highly controlled and subsidized sector, company's fertilizer business is largely dependent on Government's policy. Changes in such policies may impact fertilizer business.

- Poor monsoon or high import of fertilizers could trigger a price war bringing prices and profitability of fertilizers under pressure.

- Chemical business is largely dependent upon domestic market which is highly competitive.

- Availability and pricing of key raw materials have potential to impact profitability and operations.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

Source: Niveza Research Desk