

November 2022
VALUE PARAMETERS

Face Value (Rs.)	10.0
Mrk.Cap (Rs. in Cr)	11,019
Enterprise value (Rs in Cr)	9839
52-Week High/Low	912/390
EPS (TTM)	131
P/E Ratio (TTM)	5.4
Book Value per share (Rs)	508
Industry P/E	10.5
P/B Ratio (calc at CMP)	1.41
Dividend Yield (%)	1.40
Cash equivalents (Rs. Cr)	1182
Debt (Rs. Cr)	1.77

SHAREHOLDING PATTERN (%)

Promoters	41.18
FIIs	22.64
DIIs	5.34
Public	30.83

FINANCIAL PERFORMANCE

Consolidated	FY22	FY23E	FY24E
Revenue (Rs. Cr)	8642	9698	10693
Growth (%)	68.5%	12.21%	10.25%
Expenditures	6259	7300	8116
EBITDA (Rs. Cr)	2383	2398	2577
Growth (%)	137.6	0.60%	7.46%
Margin (%)	27.6%	24.7%	24.1%
PAT (Rs. Cr)	1710	1726.35	1879
Growth (%)	145.40%	0.90%	8.80%
Margin (%)	19.8%	17.8%	17.6%
EPS (Rs)	110.1	111.4	121.2
RoE (%)	24.3	19.5	18.1
RoCE (%)	32.7	26.3	24.3
P/E	6.6	6.5	5.9

PRICE PERFORMANCE


Our Recommendation: GNFC is the key player in fertilizer segment with its fertilizer brand Narmada being very famous within farmer community. The company holds leadership position in chemical business with its diverse portfolio and the product line helped company being profitable in situations of price fluctuations. The company is taking steps to gain market share by diversifying its product portfolio base further. The company has capex plan of Rs 1350 crore for capacity expansion. The stock is currently trading at 1.4x its book value and P/E of 5.4x. We value the stock at Rs. 840 (7x FY24E EPS). We recommend BUY in price range Rs. 680-700 with target price Rs 840 (upside 19%).

Investment Rationale:

About Company: Gujarat Narmada Valley Fertilizers & Chemicals Limited (GNFC) is a joint sector enterprise, promoted by the Gujarat State Investments Limited (GSIL), and Gujarat State Fertilizers & Chemicals Ltd. (GSFC). The company deals in business of Industrial Chemicals, Fertilizers and small presence in IT services. In the chemical segment, the company has portfolio of various bulk chemicals that are used in industries for manufacturing various specialty chemicals and end products.

Q1FY23 Results: GNFC reported strong set of numbers despite global headwinds.

- Consolidated Revenue increased by 93% YoY to Rs. 2696.19 crores, which was Rs. 1394.32 crore in a year-ago-period (Q1FY22). On QoQ basis, revenue reduced by 2.7% from Rs. 2771.71 crore in March 2022.
- Consolidated Net Profit increased by 136% to Rs. 571.43, which was Rs. 241.80 crore in a year-ago-period (Q1FY22). On QoQ basis, Net Profit reduced by 55% from Rs. 2771.71 crore in March 2022.

Strong Financials: From FY15 when the company had incurred operating loss of Rs 450 crore and had debt of Rs 3800 crore, the company has gone a long way in expanding its business and improving operating efficiency. In FY22, GNFC reported Net Profit of Rs 1710 crore. Company is almost debt free and has Rs. 1200 crore of cash in hand and Rs 1300 crore worth of investment in FY22 with RoE/RoCE are 24.3% and 32.7% respectively.

Industry Outlook: Chemical segment, India stands 6th in the world and 4th amongst Asian countries, accounting for 2.5% of global chemical sales. Chemical industry in India was more than 170 billion US dollars and may cross USD 300 billion by FY25. Chemical Industry is highly regulated in India and capital intensive thereby not easy for new player to get in. Chemical industry has lots of potential to expand and grow and GNFC can capture large chunk of pie given its monopolistic position in Gujarat and good geographical reach in other states. **Fertilizer segment,** Indian Fertilizer Industry is highly regulated and monitored by Government of India and the main objective of this industry has been to provide primary and secondary nutrients on subsidized rates to farmers. Despite this, India still has not become self-reliant in fertilizer production and 25-30% of domestic demand is met by imports. There lies a good import substitution opportunity to domestic players.

Key Risks in Fertilizers Industries:

- Fluctuations in raw material prices.
- Delays in payment for subsidies by Govt could impact interest cost.

Quarterly financial result, standalone (Rs. Cr)

Y/E March (INR Crore)	Q1FY23	Q1FY22	YoY chang. (%)	Q4FY22	QoQ chang. (%)
Revenue	2,696.19	1,394.32	93.37	2,771.71	-2.72
Expenditure	1,934.13	1,001.23	93.18	1,885.83	2.56
<i>% of Sales</i>	71.7	71.8	NA	68.0	5.43
EBITDA	762.06	393.09	93.86	885.88	-13.98
<i>Margin (%)</i>	28.3	28.2	10 bps	32.0	(370) bps
Depreciation	75.62	69.72	8.46	74.38	1.67
EBIT	686.44	323.37	112.28	811.50	-15.41
Int. and Finance Charges	1.66	0.76	118.42	0.80	107.50
Other Income	76.19	42.93	77.47	60.64	25.64
PBT bef. EO Exp.	760.97	365.54	108.18	871.34	-12.67
EO Items	0.0	0.0	NA	0.0	NA
PBT	760.97	365.54	108.18	871.34	-12.67
Tax	192.02	125.67	52.80	228.08	-15.81
<i>Tax Rate (%)</i>	25.2	34.4	NA	26.2	NA
PAT	568.95	239.87	137.19	643.26	-11.55
<i>Margin (%)</i>	21.1%	17.2%	bps	23.2%	-9.07
Extraordinary Items	0	0	-	0	-
Prior period items	0	0	-	0	-
Net Profit	568.95	239.87	137.19	643.26	-11.55
Adj. EPS	36.61	15.43	137.27	41.39	-11.55

Income statement, standalone (Rs. Cr)

Y/E March (INR Crore)	FY18	FY19	FY20	FY21	FY22
Revenue	5,916.59	5,896.02	5,162.42	5,128.69	8,642.29
<i>Change (%)</i>		-0.3	-12.4	-0.7	68.5
Expenditure	4,525.96	5,027.86	4,620.71	4,125.36	6,258.51
<i>% of Sales</i>	76.5	85.3	89.5	80.4	72.4
EBITDA	1,390.63	868.16	541.71	1,003.33	2,383.78
<i>Margin (%)</i>	23.5	14.7	10.5	19.6	27.6
<i>Growth (%)</i>		-37.6	-37.6	85.2	137.6
Depreciation	270.47	262.95	264.33	272.30	291.69
EBIT	1,120.16	605.21	277.38	731.03	2,092.09
Int. and Finance Charges	99.71	6.38	5.27	19.95	3.46
Other Income	141.52	220.54	152.67	237.23	209.42
PBT bef. EO Exp.	1,161.97	819.37	424.78	948.31	2,298.05
Exception Items	0.0	0.0	0.0	0.0	0.0
PBT	1,162.0	819.4	424.8	948.3	2,298.1
Tax	372.45	78.20	-74.07	259.10	594.30
<i>Tax Rate (%)</i>		9.5	-17.4	27.3	25.9
PAT	789.52	741.17	498.85	689.21	1,703.75
<i>Margin (%)</i>	13.3%	12.6%	9.7%	13.4%	19.7%
<i>Growth (%)</i>		-6.1	-32.7	38.2	147.2
Extraordinary Items	0	0	0	0	0
Prior period items	0	0	0	0	0
Net Profit	789.52	741.17	498.85	689.21	1,703.75
Adj. EPS	50.80	47.69	32.10	44.35	109.62

Balance Sheet, standalone (Rs Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Shareholders' fund	4457.98	4997.10	5222.50	5983.67	7898.84
Share Capital	155.42	155.42	155.42	155.42	155.42
Reserves & Surplus	4,302.56	4,841.68	5,067.08	5,828.25	7,743.42
Total Debt	229.56	207.93	858.64	2.16	0.07
Other liabilities	1532.58	1522.40	1319.10	1355.82	1376.37
Curr Liab & prov	953.18	814.17	941.63	958.63	1351.34
Current liabilities	953.18	814.17	941.63	958.63	1351.34
Total Liabilities	2715.32	2544.50	3119.37	2316.61	2727.78
Total Equity & Liabilities	7173.30	7541.60	8341.87	8300.28	10626.62
Non-Curr. Assets	5064.58	5053.69	4693.71	4868.14	5748.83
Net Fixed Asset	4114.73	3915.70	3769.85	3681.55	3541.00
Intangible assets	27.41	24.66	22.48	21.10	19.96
CWIP	13.67	25.36	81.90	160.90	137.72
Investments	726.00	731.65	595.93	781.14	1156.95
Other Non-curr assets	107.01	108.95	121.33	115.60	232.27
Long-term loans & Avanc.	75.76	247.37	102.22	107.85	660.93
Current Assets	2108.72	2487.91	3648.16	3432.14	4877.79
Inventories	680.64	829.03	932.35	813.34	976.97
Trade receivables	1,120.08	1,240.19	1,413.42	509.55	625.10
Cash/Bank Balance	16.15	234.91	189	1450.73	1181.94
Current investments	0	0	0	72.23	64.81
Other current assets	276.44	167.08	929.53	168.1	161.82
Loans & Advances	15.41	16.70	183.86	418.19	1867.15
Total Assets	7173.30	7541.60	8341.87	8300.28	10626.62

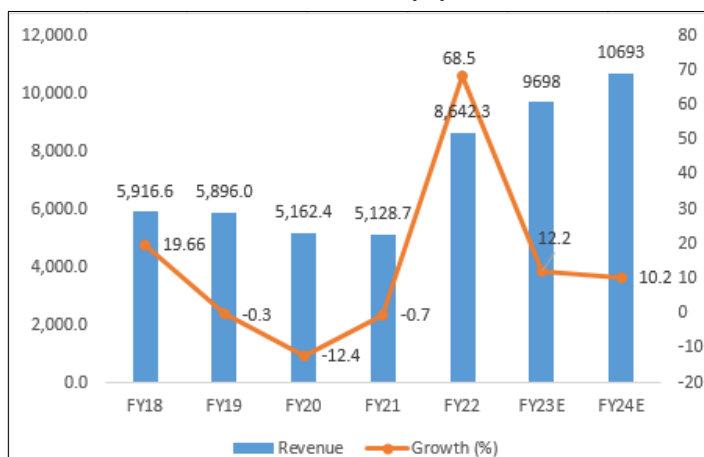
Cash Flow Statement, standalone (Rs. Cr)

Y/E: March	FY18	FY19	FY20	FY21	FY22
Profit Before Tax	1,161.97	819.37	424.78	948.31	2,298.05
Net CashFlow From Operating Activities	1,818.58	541.15	285.74	1,884.40	1,966.66
Net Cash Used In Investing Activities	49.48	-150.27	-900.91	-855.81	1,898.76
Net Cash Used From Financing Activities	1,400.04	-184.93	546.02	-933.66	-130.27
Foreign Exchange Gains / Losses	0	0	0	0	0
Other Adjustments	0	0	0	0	0
NET INC./DEC. IN CASH	468.02	205.95	-69.15	94.93	-62.37
Opening Cash Balance	-564.74	-96.72	109.23	40.08	135.01
Ending Cash Balance	-96.72	109.23	40.08	135.01	72.64

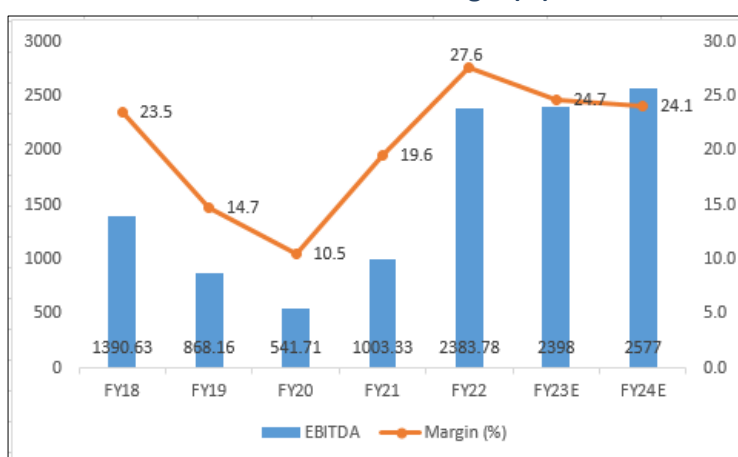
Key Ratios

Y/E March	FY2018	FY2019	FY2020	FY2021	FY2022
Per Share Data (Rs)					
EPS	50.8	47.69	32.10	44.34	109.62
BV/Share	286.83	321.52	336.02	385	508.23
DPS	8	7	5	8	10
Dividend Payout (%)	15.75%	14.68%	15.58%	18.04%	9.12%
Valuation Ratios					
P/E	7.12	6.36	3.51	6.70	7.67
P/BV	1.25	0.94	0.34	0.77	1.64
EV/EBITDA	3.88	4.36	3.53	2.6	4.61
Return Ratios (%)					
RoE		15.68%	9.76%	12.30%	24.55%
RoCE	23.98%	16.57%	7.62%	16.05%	33.15%
RoA	10.47%	10.07%	6.28%	8.28%	18.00%
Leverage Ratio (x)					
Current Ratio	2.21	3.06	3.87	3.58	3.61
Quick Ratio	1.50	2.04	2.88	2.73	2.89
Interest Cover Ratio	13.95	136.08	102.79	50.29	688.95
Net Debt/Equity	0.05	0.04	0.16	0.00	0.00

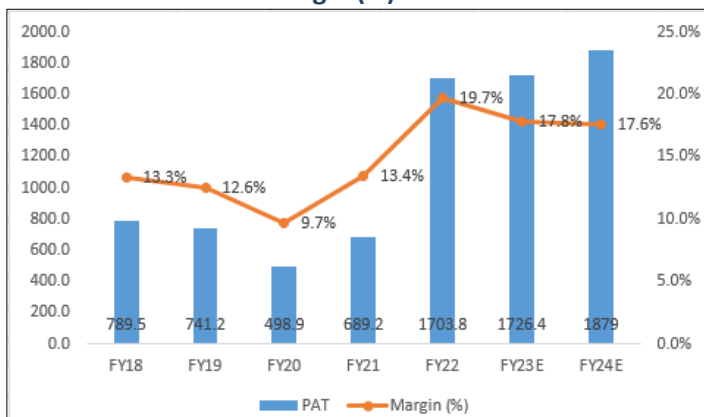
Revenue and Growth (%)



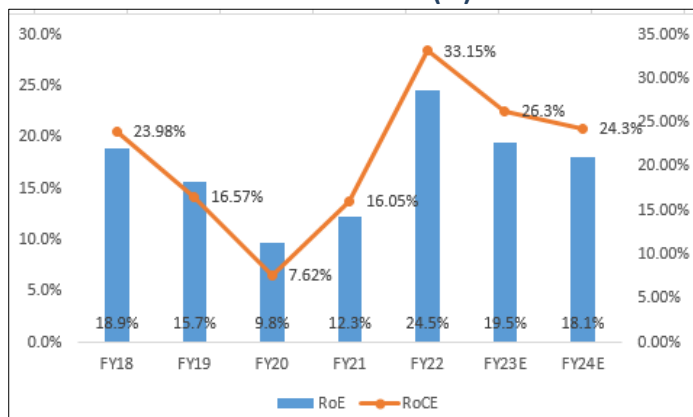
EBITDA & EBITDA Margin (%)



PAT & PAT margin (%)



RoE vs RoCE (%)



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