

April 6, 2018

**Rating: BUY**

Ticker: GNFC  
 CMP: Rs.392  
 Target: Rs.516  
 Upside: 32%

**Key Stock Data**

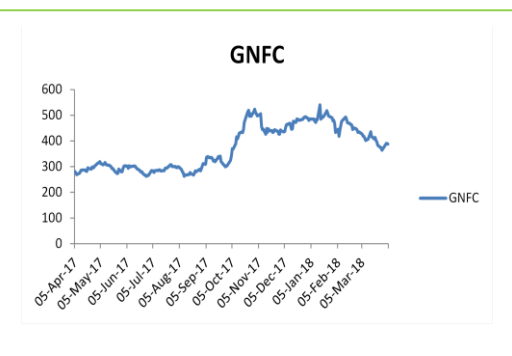
Sector	Fertilizers
No. of shares	15.5 Crs
FV (Rs)	10
MCAP (Rs)	6095 Crs
MCAP (\$)	94 Crs

**Key Financials (Rs. in Crs)**

Y/E March	FY17 A	FY18 E	FY19 E
Revenue	4945	5654	6672
EBITDA	652	1252	1535
PAT	521	627	801
EPS /sh.	33.54	40.46	51.65
BV /sh.	249	282	323
P/BV (x)	1.57	1.38	1.21
PE (x)	11.63	9.64	7.55
ROE (%)	22%	29%	26%

**Shareholding Pattern**

Promoters	41.21%
FIIIs	9.68%
DIIIs	4.43%
Others	44.68%



Research Analyst

Foram Parekh

[Foram.parekh@indiabulls.com](mailto:Foram.parekh@indiabulls.com)

## Gujarat Narmada Valley Fertilizers & Chemicals - GNFC

### 3QFY18 Result Update

The Company reported stupendous set of 3QFY18 numbers on all counts both on a yearly as well as on a quarterly basis. The topline of the company grew by 30% Y-o-Y and 6% Q-o-Q to Rs. 1,591 Crs in 3QFY18 as against Rs.1,221 Crs in 3QFY17. EBITDA for the quarter grew by 111% Y-o-Y and 34% Q-o-Q to Rs. 428 Crs in 3QFY18 as against Rs.203 Crs in 3QFY17 and Rs. 319 Crs in 2QFY18. PAT for the quarter grew by 241% Y-o-Y and 37% Q-o-Q to Rs. 228 Crs in 3QFY18 against Rs.67 Crs in 3QFY17 and Rs. 166Crs in 2QFY18. EBITDA Margin increased by 1028 bps Y-o-y and 572 bps Q-o-Q to 26.92% in 3QFY18 as against 16.64% in 3QFY17 and 21.20% in 2QFY18. PAT Margin increased by 885 bps Y-o-Y and 330 bps Q-o-Q to 14.32% in 3QFY18 as against 5.47% in 3QFY17 and 11.02% in 2QFY18.

### Debt Free Company from March 2018.

GNFC has turned debt free from March 2018. The company successfully paved off the debt of Rs. 400 Crs in its last quarter of FY18 and aims to enjoy the debt free status for most of the years.

### Outlook & Valuations

GNFC Ltd is a diversified company with business in chemical and fertilizer segment. The company is continuously focusing on increasing its capacity additions in chemical segment and improving capacity utilization of its Dahej Plant. Given the management's focus on maintaining its growth and its higher margins, we feel the stock is a BUY at CMP. The company is currently trading at mere 7.55x FY19 PE. We would like to allot a PE multiple of 10x on an FY19 E EPS of Rs.51.65 to arrive at a Target Price of Rs. 516 per share.

### Quarterly Financial Highlight Table (Rs. In Crs)

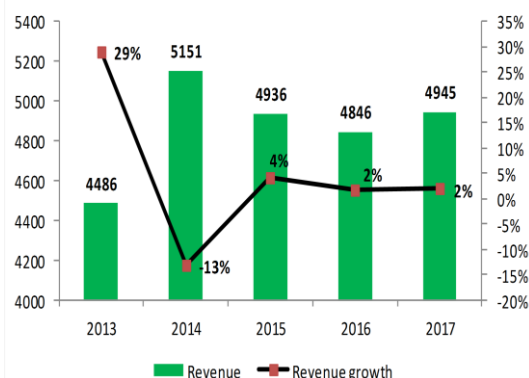
Particulars	3QFY18	2QFY18	3QFY17	Q/Q	Y/Y	FY2017
Revenue	1591	1507	1221	6%	30%	4945
EBITDA	428	319	203	34%	111%	652
PAT	228	166	67	37%	241%	521
EPS	14.66	10.69	4.29	37%	242%	33.54
EBITDA M	26.92%	21.20%	16.64%	572 bps	1028 bps	13.19%
PAT M	14.32%	11.02%	5.47%	330 bps	885 bps	10.54%

April 6, 2018

## Investment Rationale

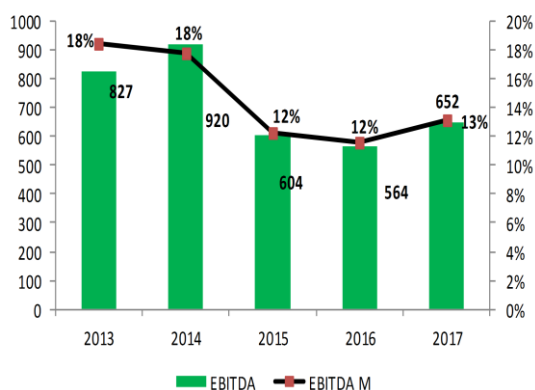
### 1. Chemical segment continue to shine

The Chemical Segment has performed extremely well for 3QFY18 and continues to do well from FY2016-17 despite competitive scenario of Chemical business in the country and International Market. The chemical segment reported a turnover of Rs. 1085 Crs in 3QFY18 as compared to Rs. 667 Crs in 3QFY17 and Rs. 963 Crs in 2QFY18. The segment profit also jumped to Rs. 390 Crs in 3QFY18 from Rs. 124 Crs in 3QFY17 and Rs. 287 Crs in 2QFY18. The outstanding performance of Chemical Segment was mainly attributed to smart marketing strategy and dynamic pricing of Company’s products.



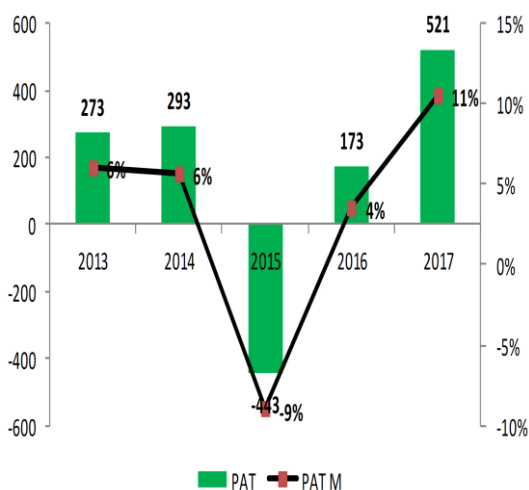
### 2. Operating Margins growth aided by Chemical Segment

GNFC’s EBITDA jumped by whopping 111% Y-o-Y to Rs. 428 Crs in 3QFY18 as compared to Rs. 203 Crs in 3QFY17. The jump in EBITDA is chiefly due to its chemical segment which now contributes to 68% of the total revenue in 3QFY18 as against 55% in 3QFY17 and 63% in 2QFY18. Its fertilizer segment contributes 29% of the total revenue in 3QFY18 from 35% of the total revenue in 3QFY17. The chemical’s PBT Margin reported at 36% in 3QFY18 from 18% in 3QFY17 and 30% in 2QFY18.



### 3. Attractive Valuations

GNFC is trading at very attractive valuations as compared to its peers. The PE of the company stands at mere 7X FY19E. It is one of the most cheaply valued companies in the industry with industry PE trading at 22x on an average for FY19E. The primary reason for such a cheap valuations is due to higher growth rate. The management is very confident of achieving a CAGR growth of 20% on its bottom-line and sustaining its margins at current rate despite the higher base.



April 6, 2018

GNFC draws on the resources of the natural wealth of the land as well as the industrially rich reserves of the area.

GNFC successfully commissioned different projects – in fields as diverse as chemicals, fertilizers and electronics.

The company is continuously focusing on increasing its capacity additions in chemical segment and improving capacity utilization of its Dahej Plant.

The company is currently trading at mere 7.55x FY19 PE. We would like to allot a PE multiple of 10x on an FY19 E EPS of Rs.51.65 to arrive at a Target Price of Rs. 516 per share.

## Company Background

Gujarat Narmada Valley Fertilizers & Chemicals Ltd (GNFC), is a joint sector enterprise promoted by the Government of Gujarat and the Gujarat State Fertilizers & Chemicals Ltd.(GSFC). It was set up in Bharuch, Gujarat in 1976. Located at Bharuch in an extremely prosperous industrial belt, GNFC draws on the resources of the natural wealth of the land as well as the industrially rich reserves of the area. GNFC started its manufacturing and marketing operations by setting up in 1982, one of the world's largest single-stream ammonia-urea fertilizer complexes. Over the next few years, GNFC successfully commissioned different projects - in fields as diverse as chemicals, fertilizers and electronics.

## Risk & Concerns

1. Agriculture business is highly dependent on Monsoon.
2. The company's fertilizer business is highly dependent on Government's policies and reforms. Slow reforms taken by the government will have an adverse effect on the company's fertilizer business.
3. Any increase in Raw Material business will be a risk to the company.

## Outlook & Valuations

GNFC Ltd is a diversified company with business in chemical and fertilizer segment. The company is continuously focusing on increasing its capacity additions in chemical segment and improving capacity utilization of its Dahej Plant. The Dahej plant's capacity utilization has increased to 87% from 85% and the volume is also up by 10% Y-o-Y. Given the management's focus on maintaining its growth and its higher margins, we feel the stock is a BUY at CMP. The company is currently trading at mere 7.55x FY19 PE. We would like to allot a PE multiple of 10x on an FY19 E EPS of Rs.51.65 to arrive at a Target Price of Rs. 516 per share.

April 6, 2018

Analyst Stock Rating	
<b>Ratings</b>	<b>Expected absolute returns over 12 months</b>
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

**Research Analyst:**

Foram Parekh – Fundamental Analyst – Equity Email: [foram.parekh@indiabulls.com](mailto:foram.parekh@indiabulls.com)

Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

**Disclosure:**

We /I,Foram Parekh author(s) hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. We/I, also certify that no part of our/my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or Indiabulls Ventures Limited does not have any financial interest in the subject company. Also Research Analyst or his relative or Indiabulls Ventures Limited or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative Indiabulls Ventures Limited or its associate does not have any material conflict of interest.

**Disclaimer:**

This document has been prepared by Indiabulls Ventures Limited (IVL), for use by the recipient as information only and is not for circulation or public distribution. This document is published in accordance with Regulation 18 of the SEBI (Research Analysts) Regulations, 2014 & IVL research analysts have adhered to the code of conduct under Regulation 24 (2) of the SEBI (Research Analysts) Regulations, 2014. IVL researches, aggregates and faithfully reproduces information available in public domain and other sources, considered to be reliable and makes them available for the recipient through this document. However, IVL make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability, error, omissions with respect to the information contained in this document. Recipients should be aware that past performance is not necessarily a guide for future performance & value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities/financial instruments. Nothing in this document constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. Anything contained in, not contained in, assumed to be implied, warranted, excluded from being warranted or vaguely alluded to shall not be attributed to, blamed upon, or otherwise associated with IVL nor IVL shall be responsible, accountable, discountable, or in presence or absence thereof for any liability arising from the use of this document. IVL, its directors and/or employees doesn't accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

IVL directors/employees and its clients may have holdings in the stocks mentioned in the document. This report is based on technical, fundamental and derivative analysis on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

Indiabulls Ventures Limited : [www.indiabulls.com](http://www.indiabulls.com)

**Corporate Office:** Indiabulls Ventures Limited, Indiabulls Finance Center, Tower 1, 8th floor, SenapatiBapatMarg, Elphinstone Road (W), Mumbai – 400013.