

**STOCK IDEA**
Rating: BUY**GNFC Ltd**
Chemicals & Fertilisers

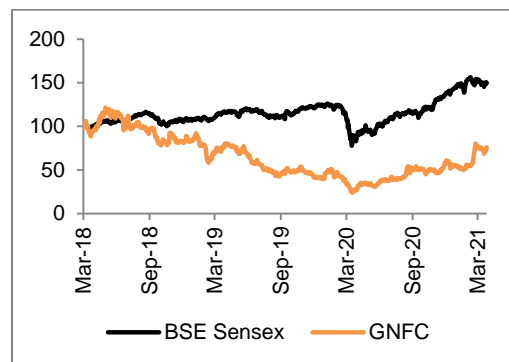
Date	Apr 6, 2021
CMP (Rs)	313.3
Target Price	380.0
Potential Upside	21%
BSE Sensex	49,201.39
NSE Nifty	14,683.50

Scrip Code	
Bloomberg	GNFC:IN
Reuters	GNFC.NS
BSE Group	A
BSE Code	500670
NSE Symbol	GNFC

Market Data	
Mar. cap.(Rs Cr)	4869.27
Eq. Cap.(Rs Cr)	155.42
52 Wk High/Low	339.5/108.0
Avg.Qtly Volume	16,25,533
Face Value (Rs)	10

Shareholding Pattern (%)

Particulars (%)	Dec-20	Sep-20	June-20
Promoters	41.2	41.2	41.2
FII	8.6	8.7	9.9
DII	13.6	13.9	14.9
Public	36.7	36.2	34.0

Comparative Price Chart

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GNFC was incorporated as a public limited company in 1976 and is promoted jointly by the Gujarat State Investments Limited (GSIL) and Gujarat State Fertilizers and Chemicals Limited (GSFC), both cumulatively holding a 41.18% equity stake. Based in Bharuch, GNFC mainly manufactures fertilisers such as urea, ANP and calcium ammonium nitrate (CAN), and industrial chemicals such as methanol, acetic acid, aniline, TDI, formic acid and nitric acid. Fertilizers Division contributes ~35% to company's revenue and ~5% EBIT, Chemicals division contributes ~60% to revenue and 90-95% of EBIT and IT services contributes ~2% of revenues and ~1-2% of EBIT. The company is one of the largest producers of industrial chemicals in India, with TDI, Acetic Acid, and Formic Acid being its core products. It is the only manufacturer of Toluene Di Isocyanate (TDI) in South-East Asia. The company has so far exported its products to more than 80 countries worldwide.

INVESTMENT RATIONALE**TDI Plant de-bottlenecking and sharp price rise to drive strong growth in revenues and profits**

TDI prices has seen a spurt of about ~50% over the last few months, driven by few units in china undergoing maintenance shut down resulting in shortages. Further, slower demand has picked up after gradual opening of economies across the world driving demand. TDI constitutes 25% of chemical division revenue for GNFC in FY20. The rise in prices is likely to sustain over the next few months, owing to few more units in US and Europe going for maintenance shutdown and tight supply chain issues owing to lack of availability of shipping container and Suez Blockage issue. Further, debottlenecking of TDI 2 plant is expected to be completed in Q1FY22 which will improve production of the unit by 20%. Thus we expect a strong revenue growth for TDI with improved profitability for FY22 and FY23.

DBT implementation in FY22 will help cash flow and company becoming debt free

Implementation of new DBT in FY22 will mean that fertilizer companies will receive subsidy within a few days of the sale. This shall help Fertiliser companies with faster recovery in subsidy, providing certainty to cash flow. In fact, Government has provided Rs 1.34 trn towards Fertilizer subsidy in RE of FY21 Budget which shall cover all outstanding subsidies for FY21. Further, Rs 795 bn is provided for fertilizer subsidy for FY22. GNFC has a subsidy receivable of Rs 900 cr as of December 2020 with a debt of Rs 860 cr in FY20. In fact, the management has indicated that the Subsidy receivables have already come down to Rs 300 cr with newer model of DBT. Further, we expect the company to become debt free in FY22 and the incremental cash flow could be either be used for newer projects or paid to shareholders.

Capacity expansion in Chemicals and IT services to boost profits

Formic Acid capacity is enhanced by 20 MTD, which will be completed in Q2FY22. This will increase the overall Formic Acid capacity to 85 MTD. Further, company is adding another plant for Concentrated Nitric Acid (CNA), which will add a capacity of 150 MTD and will be completed by Q2FY22. The new plant will help company in increasing its share in the CNA Market. Increase in capacity for chemicals will bodes well for profitability, as chemicals division accounts for average 85-90% of EBIT vs. 5-10% for Fertilizers. Company's IT division – nCode Solutions, a CMMiSVC level 5 company providing services in Digital Signatures, and e-procurement with high level of transparency. The division reported sales of Rs 75 cr and Rs 20 cr profit in FY20. The division has expanded into Smart city/System Integration, Project Management, Data Centre operations etc. Thus, we expect IT services to continue to add to company's profitability.

Key Risks

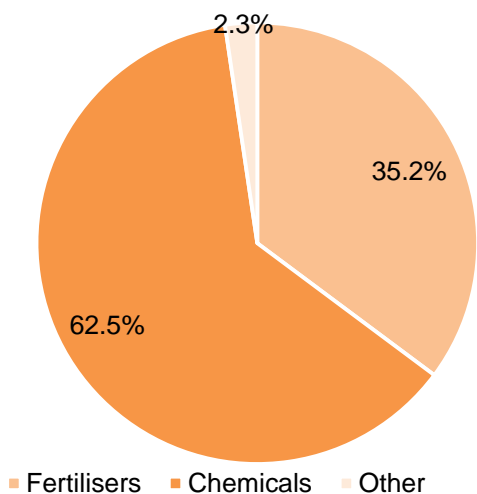
Delay in new DBT implementation could have bearing on both cash flows and debt of the company. Further, correction in prices of products or a sharp rise in input prices could have implication on profitability of the company.

Valuation and Outlook:

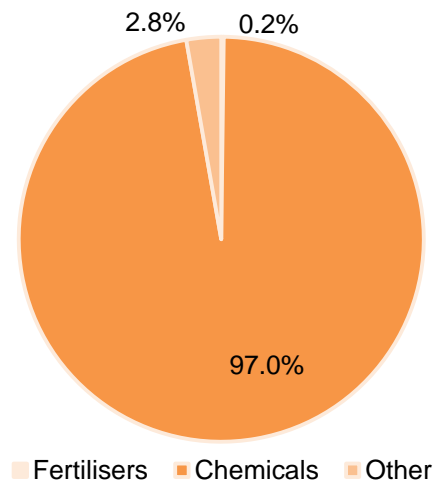
GNFC has tailwinds emanating from several factors such as rising TDI prices, new DBT for Fertilizer subsidy, capacity expansion for chemicals and improving visibility in IT service business. For FY22, we are projecting a revenue growth of 18% and earnings growth of 15% over FY21e-23e (owing to higher tax rate). Further, lower receivable days at just 25 days in FY23e vs. 100 days in FY20 will aid in improved working capital and company becoming debt free. With steady revenue and cash flow visibility and improving profitability, we expect the stock to re-rate. **Hence we recommend a BUY on GNFC with a TP of Rs 380, based on 8x FY23e EPS. Our TP represents a 21% upside to the company's stock from its CMP of Rs 313.**

Particulars	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDAM (%)	PAT (Rs. Cr)	PATM (%)	EPS (Rs.Cr.)	P/E (x)
FY19	5,896	868	14.7%	750	12.7%	48.2	6.5
FY20	5,162	542	10.5%	508	9.8%	32.7	9.6
FY21E	5,067	916	18.1%	563	11.1%	36.2	8.7
FY22E	6,230	1,043	16.7%	648	10.4%	41.7	7.6
FY23E	7,086	1,147	16.2%	742	10.5%	47.8	6.6

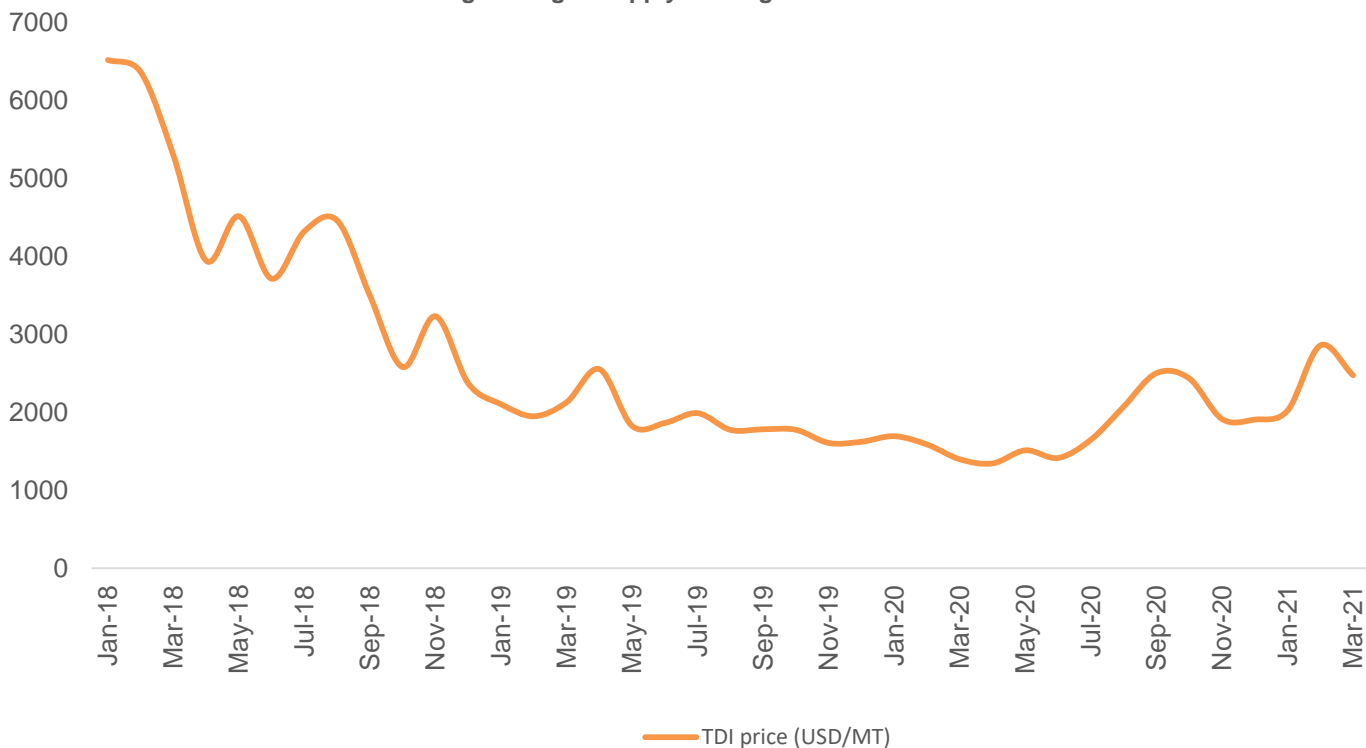
Average Revenue mix (FY18-20)



Average EBIT mix (FY18-20)

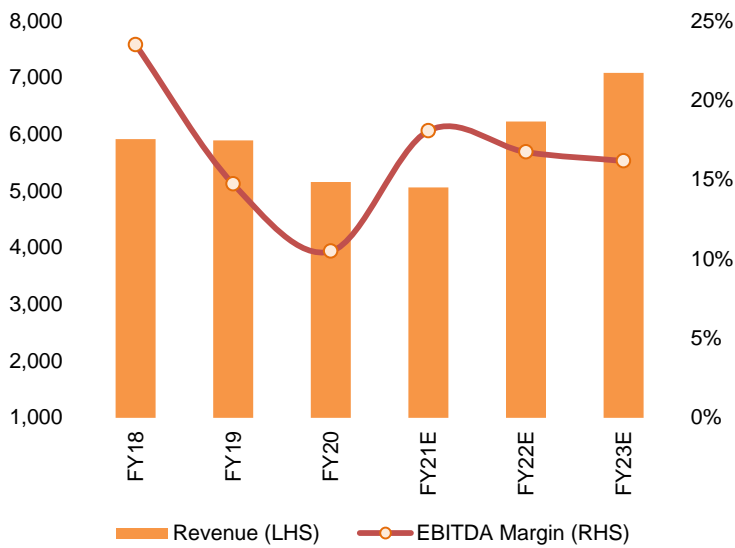


TDI Prices surge owing to supply shortage due to maintenance shutdown in China

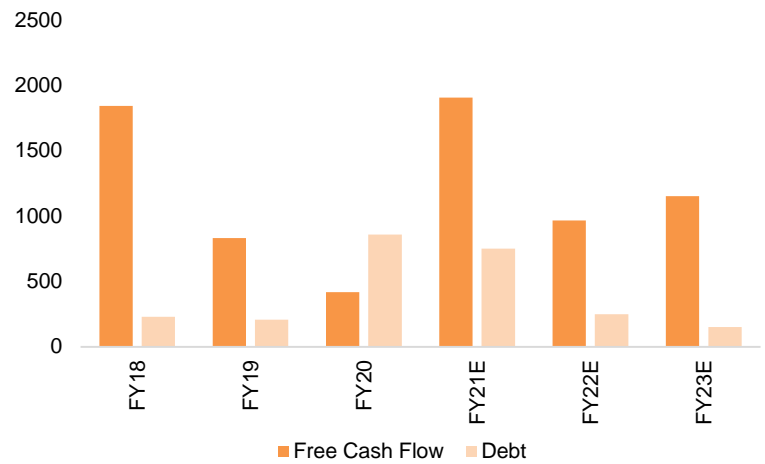


(All figures in Crore)

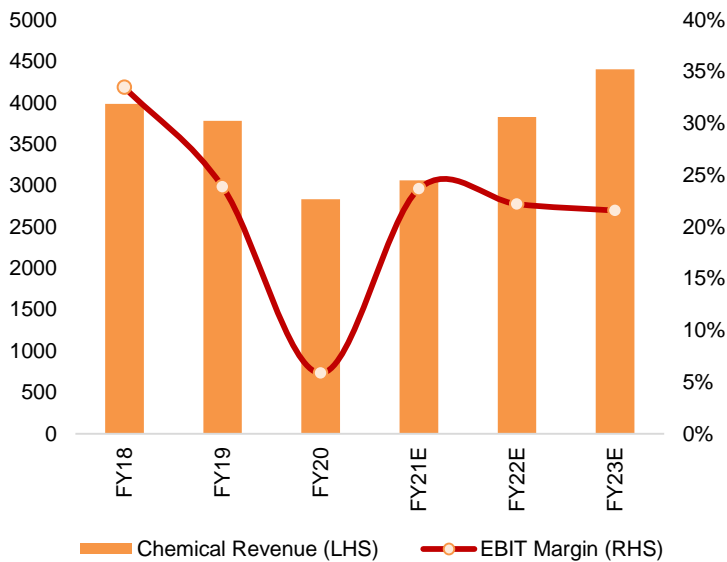
Revenue expected to improve on the back of TDI price rise



DBT implementation in FY22 will help cash flow and company becoming debt free



Chemical revenue to improve on the back of multiple capacity additions



Fertilisers revenue and margins expected to improve aided by new DBT implementation

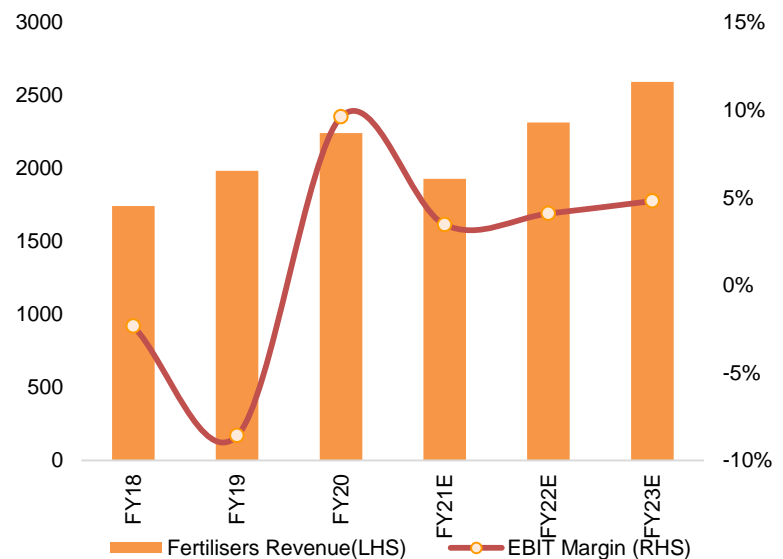


Exhibit 1: Income Statement

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Revenues	5,917	5,896	5,162	5,067	6,230	7,086
COGS	2,612	2,861	2,738	2,344	2,966	3,413
Gross profit	3,305	3,035	2,425	2,723	3,264	3,673
Employee cost	395	524	513	471	582	666
Other expenses	631	753	540	575	685	762
EBITDA	1,391	868	542	916	1,043	1,147
EBITDA Margin	23.5%	14.7%	10.5%	18.1%	16.7%	16.2%
Depreciation & amortization	270	263	264	274	296	326
EBIT	1,120	605	277	643	747	821
Interest expense	100	6	5	8	3	2
Other income	142	221	153	136	156	170
PBT	1,162	819	425	772	901	990
Tax	372	78	-74	208	252	247
Minority interest	0	0	0	0	0	0
PAT	795	750	508	563	648	742
Adj. PAT	795	750	508	563	648	742
EPS (INR)	0.0	0.0	0.0	36.2	41.7	47.8
Adj. EPS	51.1	48.2	32.7	36.2	41.7	47.8

Source: Company filings, SystematixResearch

Exhibit 2- Cash Flow Statement

INR Cr	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Cash Generated From Operations	1,819	701	286	1,777	807	973
Net Cash Flow from/(used in) Investing Activities	49	(310)	(901)	616	(322)	(300)
Net Cash Flow from Financing Activities	(1,400)	(185)	546	(253)	(667)	(291)
Net Inc/Dec in cash equivalents	468	206	(69)	2,140	(182)	382
Opening Balance	(565)	(97)	109	40	2,180	1,998
Closing Balance Cash and Cash Equivalents	(97)	109	40	2,180	1,998	2,380

Source: Company filings, SystematixResearch

Exhibit 3- Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin (%)	23.5%	14.7%	10.5%	18.1%	16.7%	16.2%
Tax rate (%)	32.1%	9.5%	-17.4%	27.0%	28.0%	25.0%
Net Profit Margin (%)	13.4%	12.7%	9.8%	11.1%	10.4%	10.5%
RoE (%)	17.6%	14.8%	9.6%	9.9%	10.5%	11.0%
RoCE (%)	26.6%	15.7%	7.0%	12.0%	14.0%	14.4%
EPS (INR)	0.0	0.0	0.0	36.2	41.7	47.8

Source: Company filings, Systematix Research

Exhibit 4- Balance Sheet

INR Cr	FY18	FY19	FY20	FY21E	FY22E	FY23E
Non-current assets						
Property, plant and equipment	4,115	3,916	3,768	3,623	3,486	3,340
Capital work-in-progress	14	25	82	82	82	82
Investment Property/Intangibles	19	19	18	18	18	18
Other intangible assets	27	25	22	22	22	22
Right of use of assets	0	0	2	2	2	2
Financial assets						
Investments	785	799	673	660	812	923
Loans	76	247	102	102	102	102
Other financial assets	10	11	14	14	14	14
Income tax assets (Net)	41	23	11	11	11	11
Other non-current assets	37	56	77	77	77	77
Total non-current assets	5,124	5,121	4,771	4,613	4,627	4,593
Current assets						
Inventories	681	829	932	915	1,125	1,280
Financial assets						
Trade receivables	1,120	1,240	1,413	416	461	485
Cash and cash equivalents	6	164	66	2,205	2,024	2,405
Other bank balances	10	71	123	123	123	123
Loans and advances	15	17	184	184	184	184
Other financial assets	32	23	783	51	62	71
Other current assets	243	144	147	147	147	147
Total current assets	2,107	2,488	3,648	4,041	4,126	4,695
TOTAL ASSETS	7,231	7,609	8,419	8,655	8,753	9,288
EQUITY AND LIABILITIES						
Equity						
Equity share capital	155	155	155	155	155	155
Other equity	4,362	4,909	5,144	5,562	6,044	6,596
Equity attributable to the equity shareholders	4,517	5,065	5,299	5,718	6,199	6,751
Total equity	4,517	5,065	5,299	5,718	6,199	6,751
Liabilities						
Non-current liabilities						
Borrowings	0	0	0	0	0	0
Lease Liabilities	0	0	1	1	1	1
Provisions	173	236	243	243	243	243
Deferred tax liabilities (Net)	479	467	316	316	316	316
Government grants(deferd income)	880	820	759	759	759	759
Total non-current liabilities	1,533	1,522	1,319	1,319	1,319	1,319
Current liabilities						
Financial liabilities						
Borrowings	230	208	859	750	250	150
Lease obligations	0	0	1	1	1	1
Trade payables	426	395	513	440	556	640
Other financial liabilities	172	183	210	210	210	210
Other current liabilities	133	85	68	68	68	68
Provisions	55	64	62	62	62	62
Government grants	66	66	63	63	63	63
Current tax liabilities (Net)	100	23	24	24	24	24
Total current liabilities	1,181	1,022	1,800	1,618	1,234	1,218
Total liabilities	2,714	2,545	3,119	2,937	2,554	2,537
TOTAL EQUITY AND LIABILITIES	7,231	7,609	8,419	8,655	8,753	9,288

Source: Company filings, Systematix Research

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Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	No
Served as an officer, director or employee	No

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EXPLANATION TO RATINGS: BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

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