



MORNING FARSIGHT

Friday, November 02, 2018

GNFC

CMP:RS 338

TRGT:RS 390

TIME HORIZON: 1 YEAR

GNFC, manufacturer of fertilizers such as urea, Ammonium Nitro Phosphate (ANP) and Calcium Ammonium Nitrate (CAN), and industrial chemicals such as methanol, acetic acid, aniline, Toluene Di Isocyanate (TDI), formic acid, and nitric acid, has posted strong earnings for Q2FY19 and H1FY19, coupled with complete repayment of debt and now strong cash rich balance-sheet. For Q2FY19, company has reported PAT of Rs 296 cr against Rs 185 cr QoQ and Rs 166 cr YoY, a growth of 60% QoQ and 78% YoY, with an EPS of Rs 19.06 in Q2FY19 alone and Rs 31 in H2FY19. This is despite company having written off Rs 127 crores of Subsidy Income in H1FY19, as Govt has not paid this claim and neither acknowledged the same. On the balance-sheet front, company has repaid all the ST and LT borrowings and stands a debt free company with Cash Eqv of Rs 281 cr (ignoring additional LT investments of Rs 656 cr). One must recall that Indian Govt has already imposed anti-dumping duty on imports of TDI and GNFC is sole producer of TDI in India and constitute major proportion of domestic production (nearly 100% share of Domestic production). Besides, company should not be evaluated simply on the basis of TDI, as in other baskets, it has methanol, ethyl acetate and formic acid and company is increasing its export presence for these products. Going ahead, Company developing a NEEM Vertical, where company is targeting revenue of Rs 500 cr in next 3 years from current levels of Rs 50 cr, and for this, they are increasing its marketing network. Just three months earlier, Neem products were being sold at about 3,000 retail outlets including big chains like Big Bazaar, Star Bazaar, Defence Canteens, CPC, Central Police Canteens, Kendriya Bhandar and now the Neem products are being sold at 21,000 retail stores across the country. Company is working to create a basket of around 20 Neem products like (Hand Wash, Shampoo, Face Wash, Hair Oil, Soap etc) in the next six months, increase the marketing network to almost 25,000 to 30,000 shops, and increase production capacity. On an estimated EPS of Rs 55 for FY19, stock is trading at PE of 6.2x, which is seen quite attractive and share ruling at Rs 338 can move to Rs 390 in 1 year. Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.