Stock Note

Gujarat Narmada Valley Fertilizers and Chemicals Ltd. (GNFC)

August 01, 2022

RETAILRESEARCH

HDFC securities
Click. Invest. Grow.
20 YEARS

Gujarat Narmada Valley Fertilizers and Chemicals Ltd. (GNFC)

HDFC securities Click. Invest. Grow. 20 YEARS

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Fertilizer and Chemicals	Rs. 721.8	Buy in Rs 715-728 band and add more on dips in Rs 633-647 band	Rs.792	Rs. 853	2 quarters

HDFC Scrip Code	GNFCEREQNR
BSE Code	500670
NSE Code	GNFC
Bloomberg	GNFC IN
CMP – July 29, 2022	721.8
Equity Capital (Rs Cr)	155.42
Face Value (Rs)	10
Equity Share O/S (Cr)	15.54
Market Cap (Rs Cr)	11218
Book Value (Rs)	514
Avg. 52 Wk Volumes	2466770
52 Week High	912
52 Week Low	313

Share holding Pattern % (Jun, 2022)	
Promoters	41.18
Institutions	27.98
Non Institutions	30.84
Total	100.0

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Harsh Sheth
Harsh.Sheth@hdfcsec.com

Our Take:

Promoted jointly by the Government of Gujarat (GoG) and Gujarat State Fertilizers and Chemicals Limited (GSFC), Gujarat Narmada Valley Fertilizers and Chemicals Ltd. (GNFC) was incorporated as a public limited company in 1976, with the two promoters cumulatively holding a 41.18% equity stake in it. Subsequently however, the entire shareholding of the GoG was transferred to Gujarat State Investments Limited (GSIL), a GoG undertaking. Based in Bharuch (Gujarat), GNFC is engaged mainly in the manufacture 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. The company also trades in a few fertilizers and chemicals.

Fertilizers

GNFC started fertilizer manufacturing and marketing operations by setting up in 1982, one of the world's largest single-stream ammonia-urea fertilizer complexes. It is one of the leaders in fertilizer industry. The company is engaged in manufacturing and selling fertilizers such as Urea, Ammonium Nitro Phosphate and Calcium Ammonium Nitrate under the umbrella NARMADA. GNFC has to its credit one of the largest Ammonia plant along with the world's largest single stream Urea plant.

Chemicals

Even as the company was implementing its fertilizer complex, plans were underway for expansion and diversification in related areas. This resulted in the setting up of core chemical and petrochemical plants such as Methanol, Formic Acid, Nitric Acid and Acetic Acid. These industrial chemicals are used by a wide range of manufacturers, processors and chemical operators in India and even abroad. While Methanol finds applications in chemicals, resins etc.

IT Services

GNFC diversified into IT services in 1989 by setting up (n)Code Solutions which offers Digital Certificates that can integrate with applications such as emails, workflow, enterprise wide applications, or secure VPNs. The Digital Certificates can be used by individuals, corporates and governments to secure online B2B/B2C applications and other online transactions. Although it's a small portion of company's revenues it has strong potential to grow. Margins in IT business are significantly higher than fertilizer and chemical segments and with increasing digitalization in the country we may see strong increase from this segment.

Valuation & Recommendation:

GNFC has established market position in fertilizers business (with its fertilizer brand Narmada being well entrenched within the farmer community especially in Gujarat), market leadership in chemicals business for products including Methanol, Acetic acid, Aniline and TDI, diverse chemicals product portfolio with high level of vertical integration across its fertilisers and chemical divisions allowing higher value addition and diversification. The company's strength lies in its product diversity and ability to switch among product streams in tune with the market conditions. Accordingly, even under extreme price volatilities for a particular product segment in chemicals portfolio, GNFC was able to maintain profitable operations over the years. FY22 was one of the best years for GNFC due to commodity prices going through the roof, even as it was able to contain the rise in raw material costs.

The company is undertaking steps to improve its profitability and market share of its diversified product basket while most of its plants are running at more than 100% capacity utilization. It has, from time to time undertook debottlenecking and revamping activities to enhance the capacity and improve efficiencies. Besides ongoing capex, it has envisaged ~Rs 1350 Cr capex for sizeable expansion in capacities of its key products.

With the expectation of above average monsoons and economic revival we believe there would be higher demand for company's products in fertilizer segment. On the other hand, chemical buoyancy continues and this segment should perform better with favourable prices, increased capacities and robust offtake. With high cash reserves and strong cash flow generation expected to be continue, GNFC which is trading at relatively cheap valuations looks a formidable bet in the current high interest rate environment.

The valuation expansion in GNFC over the past year or so has been much slower than other large chemical players that now quote at valuation of 2-2.5x of that of GNFC. While GNFC may find it difficult to grow fast over the large base of FY22 at the net level, we expect steady valuation expansion in the stock. **We think the base case fair value of the stock is Rs 792 (6.5x FY24E EPS) and the bull case fair value of is Rs 853 (7x FY24E EPS). Investors can buy the stock in Rs 715-728 band (6x FY24E EPS) and add more on dips in Rs 633-647 (5.3x FY24E EPS) band.**

Financial Summary

Particulars (Rs Cr)	Q4FY22	Q4FY21	YoY-%	Q3FY22	QoQ-%	FY21	FY22P	FY23E	FY24E
Operating Income	2771.1	2380.3	16.4%	1733.0	59.9%	5,129	8,642	9,747	10,747
EBITDA	885.3	673.9	31.4%	470.4	88.2%	1,003	2,384	2,388	2,590
APAT	643.3	540.8	19.0%	308.9	108.2%	697	1,710	1,735	1,889
Diluted EPS (Rs)	41.4	34.8	18.9%	20.0	107.1%	44.8	110.1	111.6	121.5
RoCE-%						15.8	32.7	26.3	24.3
P/E (x)						16.1	6.6	6.5	5.9
EV/EBITDA						9.7	4.2	3.3	2.5

Key Triggers

Fertilizer business is not the focus area

GNFC, in 1982, started fertilizer manufacturing and marketing operations by setting up, one of the world's largest single-stream ammonia-urea fertilizer complexes. It is engaged in manufacturing and selling fertilizers such as Urea and Nitro Phosphate, under the umbrella brand NARMADA. While the company enjoys near monopolistic position in Gujarat, strong brand equity built over the years has helped it to establish strong presence in Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh.

Besides manufacturing, it is engaged in trading of Di-Ammonium Phosphate (DAP), Muriate of Potash (MOP), Single Super Phosphate (SSP), Ammonium Sulphate and City Compost. The basic objective of marketing such fertilizers is to make available wide range of fertilizers to farmers and making regular supplies of fertilizers to distribution channel. The market is undergoing a sea change and there is a shift from seller's to buyer's market. Therefore, it is of paramount importance to make available different kind of fertilizers as per the market demand in different areas.

The contribution of fertilizers in GNFC's topline has decreased from 50% in FY11 to 45% in FY15 and 29% in FY22 with the company's increased focus on higher margin and lower working-capital intensive chemicals segment. Historically, the fertilizer business has remained a drag in terms of profitability for GNFC. The company made losses/small profits in the last few years due to various under-recoveries in subsidy mechanism relating to conversion costs and fixed costs. With improved efficiency, GNFC plans to reduce the under-recoveries.

Indian fertilizer industry

Indian Fertilizer Industry is highly regulated and monitored by Government of India (GoI) in view of the fact that India is still not self-sufficient in fertilizer production. This industry is characterized by following factors:

- Capital intensive nature – High capex required to set up and run.
- Working capital intensive nature – due to time lag in receipt of substantial component of product sales price in the form of subsidy.
- Major inputs are imported e.g. Natural gas, Rock Phosphate, Phosphoric Acid, Sulphur.
- Most fertilizers have to be imported due to inadequate domestic capacities mainly Urea, DAP, MOP etc.
- Product prices are subsidized and Government expends on such subsidies based on either policy or data submission by respective companies.
- Main nutrients are N, P, K and S i.e. Nitrogen, Phosphorous, Potash and Sulphur.
- The ideal ratio of NPK is 4:2:1, however India is highly skewed in this ratio due to affordability of fertilizer types e.g. Potash (K) is costlier so demand gets impacted inspite of the need of nutrient for soil / crop mix.

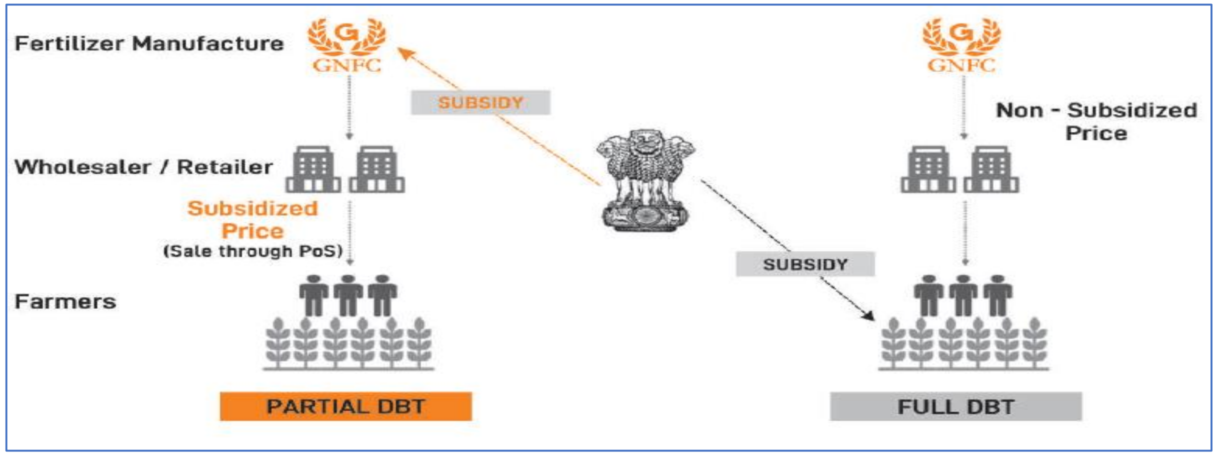
• Speciality fertilizers usage is yet to gain traction

Fertilizer Policy Overview:
Fertilizer industry is governed by major policies related to reimbursement of product subsidy, freight subsidy, movement control etc. Major policies in this industry are:

Product subsidies: NPKs are governed by Nutrient Based Subsidy (NBS) which is decided periodically by Department of Fertilizers. Urea is governed by Concessional Rate policy whereby variable costs of production subject to energy norms is reimbursed more or less fully whereas fixed costs are reimbursed at prescribed amounts per MT of production till Reassessed Capacity of each unit. Thus, the cost dynamics of each unit is different. The main feed i.e. natural gas is supplied at uniform pool price to all urea units. Based on the cost of production the periodic concessional rates are ascertained by Department of Fertilizers and reimbursed accordingly to individual units. With NBS rates already announced till September, 2022, fertilizer margins for GNFC should remain to some extent protected.

Freight subsidies: The rail freight is reimbursed at actual whereas the road freight is reimbursed at prescribed rates by Department of Fertilizers. In case of Urea, both, primary and secondary road movement is eligible for reimbursement whereas in case of NPKs only primary movement is eligible for reimbursement.

The Direct Benefit Transfer (DBT) scheme for fertilizers was implemented throughout the country from March 2018. Though the scheme is called DBT, subsidy continues to be routed through the industry-partial DBT. In this way, a full DBT is yet to be rolled out. Following is the pictorial view of DBT scheme:



(Source: Company, HDFC sec)

The scheme has changed the business model for fertilizers companies. Subsidy under the scheme becomes due only on sale of fertilizers by the retailers to the farmers through POS (Point of Sales) machines. Earlier 95% and 90% of the subsidy amount of Urea and Nitro Phosphate respectively were paid on receipt of fertilizers at the field warehouses/retailers. The DBT scheme as currently designed has impact on further working capital tie up since in the pre-DBT regime companies were eligible for subsidies when fertilizers reach district(s) whereas under DBT, subsidy is eligible for reimbursement upon sales through point of sale (POS) machine to farmer. From a liquidity perspective, there is a high dependence on the subsidy budget of GOI which has consequential impact on the working capital quantum of fertilizer manufacturing companies.

Chemicals business will continue to shine

GNFC deals in Bulk Chemicals. These are used by downstream manufacturers of various products like speciality chemicals and other end use applications. In the chemical product portfolio, it has various chemicals serving cross section of downstream industry. It works on Business to Business model (B2B). It is one of the largest producers of industrial chemicals in India, with TDI, Acetic Acid, and Formic Acid being its core products. The company is the only manufacturer of Toluene Di Isocyanate (TDI) in South-East Asia. Rise in demand from end user industries and increasing per-capita consumption is likely to support strong demand for chemicals. Moreover, companies, indigenous as well as global, seeking to de-risk their supply chains and reduce dependency on China presents a valuable growth opportunity.

GNFC's industrial products profile

Products	Applications
Acetic Acid (Glacial)	Acetic Anhydride, Vinyl Acetate Monomer(VAM), Purified Te-rephthalic Acid(PTA), Monochloro Acetic Acid, Acetates, Dyes & Dye Intermediates
Ammonium Nitrate	Explosives, Herbicides & Insecticides
Aniline	Acetanilide, Antioxidants, Herbicides, Pigments, Rubber Chemicals: Vulcanizing Agents, Photographic Chemicals: Hydroqumone, Pharmaceutical, Isocyanantes: MDI
Concentrated Nitric Acid (CNA)	Aniline, TDI, Dyestuff & Dye Intermediates, Explosives, Nitrobenzene
Ethyl Acetate	Solvent in Printing Inks, Paints and Coating, Laminates, Flexible, Packaging, Aluminium Foil, Pestcides, Varnishes, Synthetic Fruit Essence, Perfumes, Photographic Films and Plates, Adhesives and Pharmaceuticals
Formic acid	Coagulant for obtaining rubber from latex, Fixing of dyes in leather industry, Pesticides, Vulcanization Accelerators, Electroplating,Construction Chemicals
Methanol	Acetic Acid, Formaldehyde, Chloromethane, Pesticides, Methyl Amines, Paints, Insecticides
TDI (Toluene Di- Isocyanate)	Flexible Polyurethane Foam, (Furniture Cushion, Industrial Gaskets, Mattresses, Protective pads for Sports & Medical Use, Automobiles: Seats, Lining, Sun visors) Coating, Adhesives, Sealants, Elastomers (CASE)
Technical Grade Urea	Cattle feed, Pigments, Dyes, Fuel additives
Weak Nitric Acid (WNA)	CNA, Dyestuff & Dye Intermediates, Explosives, Metal cleaning

Intermediates and By-Products	Applications
Calcium Carbonate	In Cattle feed, Water treatment, Neutralization of Acidic Effluent, Cement Industry
Dilute Sulfuric Acid	Ferric Alum, Fertilizer, Textile
Hydrochloric Acid	Chemical Reagent, Production of gelatin, Household cleaning, Metal Pickelings, Textiles, Dye, Intermediates, DCP
Meta Toluene Diamine (MTD)	Chain extender, Cross linker, Rubber Chemical & dyes, Polymides, TDI
Methyl Formate	Di Methyl Formamide (DMF), Formic Acid, Pharmaceuticals, Metal Foundries, Fumigant & Larvicide for Tobacco, Formulations of Synthetic Flavors
Neem Oil	Coating of Urea, Pesticides, Cosmetics, Medicine
Nitrobenzene	Aniline,Antioxidants, Herbicides, Pigments,Rubber Chemicals: Vulcanizing Agents, Photographic Chemicals: Hydroquinone
Ortho Toluene Diamine (OTD)	Polyols, Antioxidants, Corrosion Inhibitors, Rubber Chemicals, Dyes
Sodium Hypo Chlorite	Disinfectant, Bleaching Agent, Water Treatment.

Products	Domestic Market Size (MTPA)	GNFC Market Share (%)	Major Sources of Imports
Acetic Acid	1,055	15	Malaysia, Singapore, China, Taiwan
AN Melt	969	16	Russia, Turkey, Bulgaria, Iran
Aniline	106	32	China, Belgium, USA
C N A	184	15	No import
Ethyl Acetate	320	20	No import.
Formic Acid	38	53	China
Methanol	2,448	4	Saudi Arab, Qatar, Iran, Oman, Venezuela, Algeria
Technical Grade	280	37	China, Middle East, UAE, Oman, Japan
Toluene Di-Isocyanate (TDI)	57	66	China, Germany, Korea, Japan, Saudi Arabia
Weak Nitric Acid (WNA)	273	36	Korea

(Source: Company, HDFC sec)

The chemicals business has been the driver of GNFC's growth with its contribution increasing from 48% in FY11 to 70% in FY22 and EBIT contribution of >90%. Post FY15, the company has channelized its investments and efforts into chemical business which has helped it in establishing leadership position in majority of chemicals in its basket.

The most important factor aiding GNFC's profitable turnaround is the flexibility offered by its product basket which enables it to choose the optimal product mix based on market conditions to maximise revenue and profit and integrated nature of its chemical portfolio. For instance, the company has the flexibility to sell CNA directly or convert it into TDI and sell, depending on the market and price dynamics. This flexibility helps GNFC optimize its profits.

The company's stellar performance in FY22 was driven by sharp increase in prices of key chemicals amidst restricted exports from China, supply chain disruption due to Covid-19 and the Ukraine war. While the prices of Acetic Acid and Aniline have corrected in the recent past, management expects prices of WNA, TDI, Ammonium nitrate melt and CAN to remain strong in near to mid-term.

Growth opportunities in IT segment: GNFC diversified into IT services in 1989 by setting up (n)Code Solutions which offers Digital Certificates that can integrate with applications such as emails, workflow, enterprise wide applications, or secure VPNs. The Digital Certificates can be used by individuals, corporates and governments to secure online B2B/B2C applications and other online transactions. Although it's a small portion of company's revenues it has strong potential to grow. Besides, it has promoted a portal called www.nprocure.com offering end-to-end electronic procurement services provider. It also designs and builds class data center infrastructure and also offers a wide range of Security Services which include Managed IT Services & Secure Infrastructure design & building Services. Margins in IT business are significantly higher than fertilizer and chemical segments and with increasing digitalization in the country we may see strong increase from this segment.

Capex to drive the growth

GNFC has continuously looking for the growth opportunities and achieving higher operational efficiencies. In FY22, it has completed debottlenecking of its TDI-II plant (increase in 10,000 MTPA) and formic acid (6800 MTPA) at Dahej and Bharuch facility respectively. Besides, with an increased captive consumption of CNA for TDI, the company's market share in TDI has been falling which has led to setting up of 50,000 MTPA of CNA (potential to generate revenues of ~Rs 300 Cr). It is also setting up 4MW Solar Power Plant which will reduce its power cost going ahead. Both are expected to be commissioned by Q3FY23. With a vision to become a global powerhouse, it has started working on projects like that of enhancing ammonia capacity by 50,000 MTPA, Weak Nitric Acid capacity by 2,00,000 MTPA and Ammonium Nitrate Melt by around 1,50,000 MTPA. The total capex size is estimated to be around Rs 1,350 Cr. These plants are expected to be commercialized by FY25-26. Further, the capex proposals for foray into Green Hydrogen with renewal power capacities apart from other chemicals are at examination stage. Estimated capex on account of these projects is around Rs 2,900 Cr.

Healthy financials

Post FY15, where the company had reported an operating loss and had >Rs 3800 Cr worth of debt on its books, has reported a remarkable turnaround as its PAT in FY22 stands at Rs 1710 Cr and is debt-free with cash of ~Rs 1200 Cr and investments worth ~Rs 1300 Cr. This was driven by working towards operational and productive existing non-operational and unproductive assets, i.e. the TDI plant at Dahej, which had seen cost and time over-runs. It restructured the product mix, implemented a new pricing strategy and expanded exports to turn profitable. Simultaneously, it focused on non-TDI revenues, which have paid-off, and revenues from other chemicals such as concentrated nitric acid (CNA) and weak nitric acid (WNA).

FY22 had been a stellar year for GNFC given the sharp rise in prices of key products which are import substitutes and where GNFC is the biggest domestic producer. This was aided by supply chain disruptions following the outbreak of Covid-19 and the Ukraine war recently. While the prices are expected to moderate as the global trade normalizes, the commissioning of new capacities and robust domestic demand would boost the demand off take. The company has generated ~Rs 6600 Cr of operating cashflows in last 5 years and increasing contribution of high margin and low working capital intensive chemicals business will further aid cash generation. The capex will be funded by internal accruals and company will continue to maintain strong balance sheet.

Key risks

Volatility in raw material prices: Power and fuel is one of the key cost components of GNFC. Natural gas being an international commodity is subject to price fluctuation. The company is not affected by the price volatility of the natural gas to the extent consumed for Urea as under the Urea pricing formula the cost of natural gas is pass through if the consumption of natural gas is within the permissible norm for manufacturing of Urea. GNFC also deals in purchase of other feed stock materials (i.e Rock phosphate, and Denatured Ethyl Alcohol) which are imported by the company and used in the manufacturing of Ammonium Nitro Phosphate and Ethyl Acetate which are subject to a price and material availability risk.Raw materials and fuel used for chemicals are subject to price volatility and forex fluctuations to the extent these are imported. However, GNFC has so far been able to pass over the increased cost to the consumers though with a lag.

Competition in chemicals business: GNFC faces competition from large Indian and foreign players. Changes in capacities, production schedules and demand conditions can impact the capacity utilisation and margin trends. Also import/export policies in India and exporting countries/importing countries could impact the competitiveness of GNFC.

Timely payment of subsidies: Government subsidy accounts for more than 75% of revenue of the Urea suppliers and about 35% in case of P&K fertilizers. Therefore, its timely payment is very important for sustaining financial health of the company. GNFC is exposed to the fertilizer policy of the Government which at times results in delayed payments due to cumbersome procedures. Such inordinate delays in subsidy payments lead to liquidity problems and higher interest costs.

Erratic weather: The Indian agriculture sector remains vulnerable to the vagaries of monsoon as the area under irrigation remains low, resulting in volatility in sales and profitability of the fertilizer sector.

Promoter background: GNFC is majorly owned by the Govt of Gujarat enterprises, and hence, suffers from relatively poor perception attributable to PSUs. However Gujarat based PSUs are run quite professionally which could lead to improvement in the perception over time.

About the company

Promoted jointly by the Government of Gujarat (GoG) and Gujarat State Fertilizers and Chemicals Limited (GSFC), GNFC was incorporated as a public limited company in 1976, with the two promoters cumulatively holding a 41.18% equity stake in it. Subsequently, however, the GoG's entire shareholding was transferred to Gujarat State Investments Limited (GSIL), a GoG undertaking. 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. The company also trades in few fertilisers and chemicals. It further provides IT services and solutions covering digital signature certificates (DSCs), e-procurement, e-governance projects, data centres, CCTV surveillance systems etc under the brand name of (n)Code solutions.

GNFC Plants Installed capacity and Technology Collaborations			
Plant	Year	Capacity (TMT)	Technical Collaboration
Acetic Acid	1995	100	BP Chemicals, UK
Agri. Urea	1982	637	
Tech-Grade Urea	1982		Saipem, Italy
Ammonia - OIL	1982	445	
Ammonia - Gas	2013	370	- Air separation, Rectisol and Nitrogen wash units as well as total engineering of the integrated plant - Linde AG, Germany - Fuel Oil Gasification - GE, USA

			- CO Shift Conversion-BASF, Germany.
Ammonium Nitro Phosphate	1991	142	BASF - Germany
Aniline	1995	35	Chematur Engineering AB, Sweden
Co-generation Power & Steam	2012	285	
Concentrated Nitric Acid- I	1991	33	
Concentrated Nitric Acid - II	1999	33	
Concentrated Nitric Acid - III	2011	50	Plinke, Germany
Ethyl Acetate	2012	50	KBK, India
Formic Acid	1989	10	Kemira OY, Finland
Methanol-I	1985	50	
Methanol-II	1991	188	ICI, UK & Linde AG, Germany
Methanol Synthesis Unit	2006	31	
Synthesis Gas (Figures in KNM3)	1998	202	Jacob, UK and H & G
Toluene Di-Isocyanate -I	1998	14	
Toluene Di-Isocyanate – II	2014	50	Chematur Engineering AB, Sweden
Weak Nitric Acid-I	1991	248	
Weak Nitric Acid-II	2011	100	UHDE, Germany

(Source: Company, HDFC sec)

Financials

Income Statement

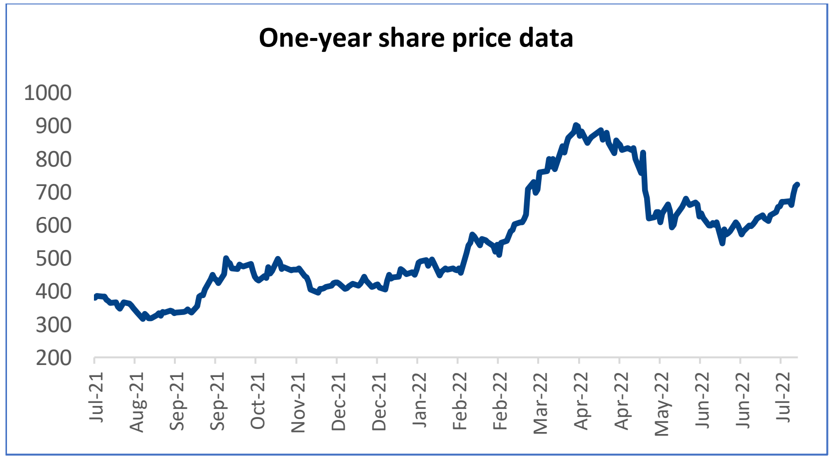
Particulars (in Rs Cr)	FY20	FY21	FY22P	FY23E	FY24E
Net Revenues	**5162**	**5129**	**8642**	**9747**	**10747**
Growth (%)	***-12.4***	***-0.7***	***68.5***	***12.8***	***10.3***
Operating Expenses	4621	4125	6259	7359	8157
EBITDA	**542**	**1003**	**2384**	**2388**	**2590**
Growth (%)	***-37.6***	***85.2***	***137.6***	***0.2***	***8.5***
EBITDA Margin (%)	***10.5***	***19.6***	***27.6***	***24.5***	***24.1***
Depreciation	264	272	292	332	356
Other Income	153	237	209	253	290
EBIT	**430**	**968**	**2302**	**2310**	**2524**
Interest expenses	5	20	3	3	2
PBT	**425**	**948**	**2298**	**2307**	**2522**
Tax	-74	259	594	572	633
Adj. PAT	**508**	**697**	**1710**	**1735**	**1889**
Growth (%)	***-32.2***	***37.2***	***145.4***	***1.4***	***8.9***
EPS	32.7	44.8	110.1	111.6	121.5

Balance Sheet

Particulars (in Rs Cr) - As at March	FY20	FY21	FY22P	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	155	155	155	155	155
Reserves	5144	5913	7835	9398	11093
Shareholders' Funds	**5299**	**6068**	**7990**	**9554**	**11248**
Minority Interest	0	0	0	0	0
Total Debt	860	4	2	2	2
Net Deferred Taxes	316	391	422	422	422
Total Sources of Funds	**6476**	**6463**	**8414**	**9978**	**11672**
APPLICATION OF FUNDS					
Net Block & Goodwill	3791	3701	3578	3717	4114
CWIP	82	161	138	138	138
Investments	673	938	1313	1313	1313
Other Non-Curr. Assets	205	206	876	146	154
Total Non-Current Assets	**4751**	**5005**	**5905**	**5314**	**5718**
Inventories	932	813	977	1469	1513
Debtors	1413	510	625	1015	988
Cash & Equivalents	189	1451	1182	3266	4714
Other Current Assets	1113	586	2029	1835	1925
Total Current Assets	**3648**	**3360**	**4813**	**7585**	**9140**
Creditors	513	399	631	813	840
Other Current Liab & Provisions	1429	1522	1673	2107	2346
Total Current Liabilities	**1943**	**1922**	**2304**	**2921**	**3186**
Net Current Assets	1705	1438	2509	4664	5954
Total Application of Funds	**6476**	**6463**	**8414**	**9978**	**11672**

Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22P	FY23E	FY24E
Reported PBT	425	948	2,298	2,307	2,522
Non-operating & EO items	-58	-87	13	866	73
Interest Expenses	-44	-61	-118	3	2
Depreciation	264	272	292	332	356
Working Capital Change	-253	1,029	109	-207	78
Tax Paid	-48	-218	-628	-572	-633
OPERATING CASH FLOW (a)	**286**	**1,884**	**1,967**	**2,728**	**2,398**
Capex	-130	-215	-137	-470	-753
Free Cash Flow	155	1,669	1,829	2,258	1,645
Investments	-759	696	29	0	0
Non-operating income	-12	-1,337	-1,791	0	0
INVESTING CASH FLOW (b)	**-901**	**-856**	**-1,899**	**-470**	**-753**
Debt Issuance / (Repaid)	680	-833	0	0	0
Interest Expenses	-3	-19	-2	-3	-2
Share Capital Issuance	0	0	0	0	0
Dividend	-131	-78	-123	-171	-194
FINANCING CASH FLOW (c)	**546**	**-929**	**-125**	**-174**	**-197**
NET CASH FLOW (a+b+c)	**-69**	**99**	**-57**	**2,084**	**1,448**



Key Ratios

Particulars	FY20	FY21	FY22P	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	10.5	19.6	27.6	24.5	24.1
EBIT Margin	8.3	18.9	26.6	23.7	23.5
APAT Margin	9.8	13.6	19.8	17.8	17.6
RoE	9.8	12.3	24.3	19.8	18.2
RoCE	7.5	15.8	32.7	26.3	24.3
Solvency Ratio (x)					
Net Debt/EBITDA	1.2	-1.4	-0.5	-1.4	-1.8
Net D/E	0.1	-0.2	-0.1	-0.3	-0.4
PER SHARE DATA (Rs)					
EPS	32.7	44.8	110.1	111.6	121.5
CEPS	49.7	62.4	128.8	133.0	144.4
BV	341.0	390.4	514.1	614.7	723.7
Dividend	5.0	6.0	10.0	11.0	12.5
Turnover Ratios (days)					
Debtor days	94	68	24	31	34
Inventory days	62	62	38	46	51
Creditors days	32	32	22	27	28
VALUATION					
P/E	22.1	16.1	6.6	6.5	5.9
P/BV	2.1	1.8	1.4	1.2	1.0
EV/EBITDA	21.9	9.7	4.2	3.3	2.5
EV / Revenues	2.3	1.9	1.2	0.8	0.6
Dividend Yield (%)	0.7	0.8	1.4	1.5	1.7
Dividend Payout	15.3	13.4	9.1	9.9	10.3

(Source: Company, HDFC sec)

HARSH RAJENDRA SHETH

Digitally signed by HARSH RAJENDRA SHETH
Date: 2022.08.01 08:46:58 +05'30'

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193