

## GAINS ON CARDS

# GNFC on the Cusp of a Turnaround on Better Demand

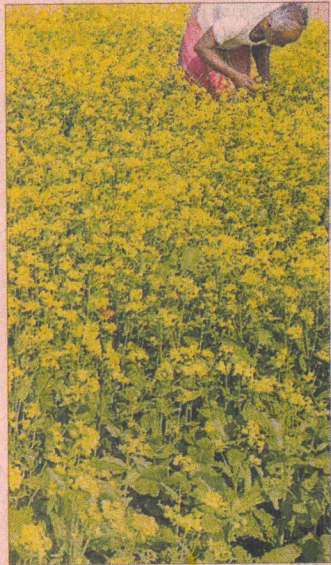
Improvement in TDI business and pickup in fertilisers segment augur well for the co

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**ET Intelligence Group:** Gujarat Narmada Valley Fertilizers & Chemicals is expected to report better financial numbers in the coming quarters following a turnaround in its TDI business and pickup in the fertilisers segment due to better monsoon compared with the previous two years. Although the stock has doubled in the last six months, its forward valuation appears to be attractive considering the turnaround in the major divisions.

GNFC's performance was under pressure largely due to loss in the toluene diisocyanate (TDI) division, key chemical used in foams and mattresses. In 2013-14, it set up a TDI plant of 67,000 tonnes per annum capacity to manufacture to replace imports. The business suffered due to a sharp fall in the TDI price from a peak of Rs 180 per kg to a low of around Rs 90 per kg. FY15 was a loss year but thanks to other businesses, in FY16 it reported Rs 226 crore net profit despite loss of Rs 350 crore from TDI.

Since April 2016, TDI price has risen by 60% to Rs 160 per kg after some plants shut down in Germany and Japan. According to the management, GNFC's



breakeven price is Rs 140-142 per kg at a capacity utilisation of 80%, which means the division is expected to turn profitable. "We have turned around our TDI business which many thought would take us down," said Rajiv Gupta, MD, GNFC.

## ET ANALYSIS

TDI plant's current capacity utilisation is 105%.

110%. Not only GNFC has increased domestic market share but is also exporting to Latin America, Africa, Middle East and China. GNFC is also the largest player in Formic Acid used for leather tanning, animal feed, and Acetic Acid used by paints and adhesives. According to Gupta, realisations across the chemical products are picking up.

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## GNFC Fertilizer Biz Picks Up

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Fertilizer business too, has picked up after strong monsoon post June. "Urea and phosphate inventories have reduced substantially. For Rabi crop, too, demand has been pretty good due to late rains," said Gupta. Another positive factor is that farmers are directly benefiting from fertilizer subsidies and therefore, demand from them has been strong. This has reduced the diversion for industrial use.

GNFC has recently ventured into neem products. It has set up women groups that help collecting neem seeds which are then used to make neem oil and pesticides, while the crushed neem residue is also sold as manure. It plans to enter consumer segment with neem soap.

At the closing price of ₹167.5 on Monday, the stock traded at six times FY17 expected earnings, compared to 10 times FY17 earnings multiples of peers including Gujarat State Fertilizers & Chemicals (GSFC) and Rashtriya Chemicals & Fertilizers (RCF).