

FUNDAMENTAL COVERAGE

NATIONAL FERTILIZERS LTD



BUY | CMP 39 | TARGET 57 | POTENTIAL UPSIDE 46%

03 JUNE 2019

Stock Data

M.Cap (₹ in cr)	1913.26
Equity (₹ in cr)	490.58
52 wk H/L ₹	55.25/30.70
Face Value ₹	10.00
Div. Yield	2.77%
NSE Code	NFL
BSE Code	523630

LEAD RATIONALE

The company is **eyeing a sales turnover of ₹ 13,500 crore in FY20 on the back of strong performance of its non-urea business, which is 10 % higher than previous year.** High capacity utilization and energy savings soared operational revenue to ₹12245 crore during FY 19 accompanied its highest-ever urea production of 38.59 LMT with 119.46 % capacity utilization and biggest-ever total fertilizers sale of 48.95 LMT in FY19, a jump of more than 14% over the previous year .

Valuation Data

P/E	6.39
EV/EBITDA	11.19
P/BV	0.86
RONW(%)	13%

A significant booster to this year's fertilizer sale remained the **biggest ever share of complex fertilizers like DAP and NPK, a quantum jump of 152 % at 9.89 LMT.**

Index Detail

Sensex	40267.62
Nifty	12088.55
Index	S&P BSE Small

Additionally, **company invested an estimated ₹675 crore on energy saving projects** at its Nangal, Bathinda and Panipat units, and is likely to be completed by November 2019. Besides, NFL is **reviving a closed urea plant at Ramagundam in a JV** with EIL, FCIL and the state government at an estimated cost of ₹ 5,920 crore. The plant is expected to produce 3,850 MTPD of urea and 2,200 MTPD of ammonia per day, and **is likely to be completed by December 2019 and is expected to produce 13 LMT of fertilizers annually. After the commissioning of plant, NFL will become the largest indigenous Urea player in the country.**

Company's **borrowing went up due to an increase in subsidy receivables**, currently, the company had a subsidy outstanding of around ₹ 5,000 crores as on March 31 and borrowing was needed to finance it. Interestingly, **subsidy inflow has started in April 2019 and it will help to bringing down the borrowing levels as well.**

Fertilizer companies have seen a decline in their power consumption costs mainly due to the introduction of pooling of gas mechanism which has facilitated delivery of gas at similar prices to all manufacturers. Furthermore, **lower cost and adequate availability of natural gas have also allowed company to produce beyond reassessed capacities resulting in higher production and revenues.**

Industry Outlook - Government Initiatives, Direct Subsidy Transfer to Revive the Space

Government of India is targeting a doubling of farmer's income by 2022 on the back of strong agricultural growth, developing of technology backed markets, direct subsidy transfers and reforms in fertilizer space.

In lieu of improving the conditions of the farmers, the government has come out with various reforms such as, DBT (direct benefit transfer) subsidy with the help of POS (Point of sale) machines. As of yet, the DBT was given to fertilizer companies, which would then sell to farmers through POS. Government budgeted around ₹ 70079.85 crore for fertilizer subsidies for the FY19, but sources said nearly half of the money was used to settle dues from the previous year. Still the outstanding is around ₹ 15000 crore, down from ₹ 30,000 crore due to the non-availability of funds, which is quite evident due to lower tax collections. However, on an average, the DBT scheme has worked out well, as 55 million tones of nutrients have been sold to around 138 million farmers through around 2 lakh POS machines.

Already, higher allocation has been pegged for this sector with fertilizer subsidy pegged at ₹ 74986 crore for FY20 (interim budget). And we expect that government would work on subsidy delays for companies hovering with higher working capital borrowings and that the particular amount would be paid well on time, unlike in previous years.

Further, a **Nutrient Based Subsidy scheme** was implemented for P&K fertilizers, prescribing subsidy based on nutrient component present in it and also to save the farmers from the impact of an increase in international prices. This is extended for the upcoming year as well. In addition, the new investment policy initiated in 2015 is aimed at promoting the production of urea, and as a result, three new fertilizer plants are in line. **Further, it is expected to reduce the import burden of urea by FY21, making India self reliant.**

By 2020, the global fertilizer industry is expected invested \$130 billion in expanding capacity by over 150 million tones. The capacity expansion is in line with the expectation of global demand which should prevent any run-offs in the international Urea prices. **Declining consumption, scaling back of ammonia capacities in China has resulted in lower demand for input materials, natural gas.** This should help the existing players with lower input, energy costs.

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Projects and Other Activities status

- **Commercial production of Bentonite Sulphur Plant at Panipat with annual capacity of 25000 MT declared w.e.f. 20.09.2018**
- Company has contributed ₹273.69 crore towards equity in its JV Company (RFCL) out of total requirement ₹ 396 crore.
- **Energy saving scheme at Nangal, Bathinda and Panipat units at an estimated cost of ₹675 crore has been taken up and likely to be completed by 30.11.2019.**
- Energy saving schemes at Vijaipur I & II with capex of ₹235 crore. TEFER finalized and different Capex schemes are under execution at units.
- **Hyderabad Zonal office of marketing has become fully operational w.e.f. 01.04.2019.**
- Seed processing plant at 3 locations i.e. Panipat, Bathinda & Indore with capacity of 2 TPH (Tone Per Hour) for each plant are being set up.
- **New products being procured for trading like Calcium Nitrate and Water Soluble Fertilizers (19:19:19).**
- Setting up of Agro-chemical manufacturing facility at Bathinda plant.
- Company issued tender for **System Integrator for implementation of ERP which is likely to be completed in 2020-21.**

An Eye on Quarterly Numbers:

Company has earned PBT of ₹ 119.65 crore during Q4 FY19 as against ₹ 104.24 crore during CPLY i.e. an increase in profit by ₹ 15.41crore (14.78%), mainly due to ; **increase in contribution from Urea (mainly due to higher contribution from sale of urea be beyond RAC during the current year as compared to CPLY), increase in profitability from traded goods, decrease in selling expenses (net of higher under-recovery of freight expenditure through freight subsidy), and Increase in interest income on Income tax refund.**

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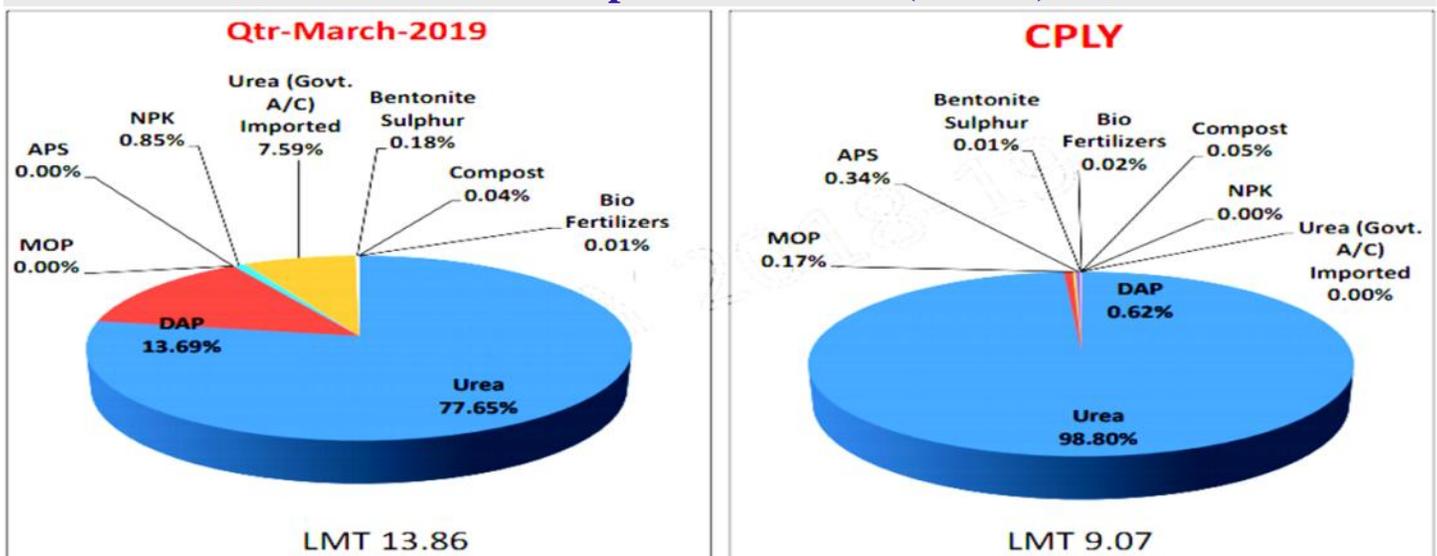
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However, the **increase was partially off-set by:**

- Reduction in energy norms (2% penalty at all units except Vijaipur-II unit and reduction in energy norm to 5.50 Gcal/MT for VP-II) for the FY 2018-19 pursuant to DoF notification dated 28.03.2018.
- Decrease in profitability from urea due to higher gas pool credit during CPLY (net of higher past period subsidy during current year as compared to CPLY)
- Increase in depreciation charge mainly on account of capitalization of assets in respect of AFCP Nangal unit, Bentonite Sulphur Plant at Panipat Unit and LED lightings etc.
- Higher profit from one-time sale of assets during CPLY (mainly due to profit from sale of redundant front end of Ammonia Plant in CPLY)
- Increase in energy consumption at Nangal and Panipat units (net of saving in energy consumption at Bathinda, Vijaipur I & II units)
- Decrease in contribution from Industrial products.

Sale Breakup All Fertilizers (% sale)



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SEGMENT WISE REVENUE AND RESULTS (₹ in Crores)

Particulars	Jan – March 19	Jan – March 18	FY 2018-19	FY 2017-18
Segment Revenue (Net Sales)				
Own Fertilizers (Urea, BS and Bio-fertilizers)	2347.22 76.01%	2012.68 95.85%	9534.21 77.86%	7626.66 85.17%
Fertilizer Trading	668.07 21.63%	24.15 1.15%	2442.32 19.95%	1106.95 12.36%
Other Products	72.85 2.36%	62.91 3.00%	268.71 2.19%	220.75 2.47%
Total	3088.14	2099.74	12245.24	8954.36
Segment Results {Profit before interest and un-allocable expenses (net of un-allocable income)}				
Own Fertilizers (Urea, BS and Bio-fertilizers)	142.85 66.35%	159.79 92.79%	581.17 72.34%	433.75 73.18%
Fertilizer Trading	46.56 21.62%	(4.16) (2.42%)	162.47 20.22%	103.86 17.52%
Other Products	25.90 12.03%	16.58 9.63%	59.76 7.44%	55.10 9.30%
Total	215.31	172.21	803.40	592.71
Less : Finance expenses	92.39	46.40	316.36	189.57
Less : un-allocable expenses (net of un-allocable income)	3.27	21.57	23.67	68.31
Profit before tax (PBT)	119.65	104.24	463.37	334.83

Key Financial Data

EV	9860.36
Net Worth	2213.80
BV	45.13
EPS(TTM)	6.10

₹ In crores except EPS

Key Financials (₹ in crores)

Particulars	Q4 FY 19	Q4 FY 18	Variation %
Revenue	3088.14	2099.74	47.07
EBITDA	252.55	168.26	50.10
PBT	119.65	104.24	14.78
PAT	80.88	67.68	19.50
EPS	1.65	1.38	19.57

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Opportunities

Leverage of existing marketing network for undertaking trading and other businesses.

Opportunity for New Investments abroad in NPK.

Scaling up of production & sale of certified seeds.

Scope for Increase in capacity utilization of Nitric Acid & Ammonium Nitrate Plants at Nangal.

Manufacturing of Customized, Fortified, Water Soluble & Liquid Fertilizers for balanced fertilization.

Manufacturing of Agro Chemicals.

Manufacturing Di-Nitrogen Tetroxide for ISRO

Threats

Lower international price of Urea restricting additional production.

Inadequate subsidy budget of the Government.

Increased Government regulations & procedures. Strict energy norms w.e.f. 2020-21 under NUP-2015.

Inadequate availability of domestic natural gas.

Adverse demand supply scenario of Fertilizers due to adverse agro Climatic condition.

Volatility in prices of Industrial Products.

Decontrol of Urea.

Outlook and Recommendation

Company's ability to maintain an adequate level of cash to meet upcoming liabilities is a good sign for its financial health; implies that NFL manages its cash and cost levels well, which is a key determinant for its future growth.

Moreover, implementation of NBS Policy by the Government of India few years back has opened new business avenues and company has grabbed this opportunity with rapid expansion of its DAP and MOP business. **Supported by the new initiatives, improved government policies, falling fertilizer prices, reduction in raw material prices, GoI's Urea policy and initiatives for higher domestic production, pilot projects towards targeting of direct subsidy transfer, favorable gas prices and availability have revived the sector & would definitely lead to improved profitability & margins for NFL in years ahead.**

We recommend to BUY this script.

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Quarterly Results (₹ in crore except per share)

Particulars	LTM	201903	201812	201809	201806
Net Sales	12250.5	3088.14	3763.59	3231.43	2167.36
EBITDA	880.9	252.55	267.18	212.77	148.37
Depreciation	101.1	40.51	23.33	19.16	18.14
Operating Income	779.7	212.04	243.85	193.61	130.23
Misc. Income (Exp)	51.4	14.11	29.7	6.01	1.58
Interest Expenses	316.4	92.39	77.8	81.85	64.32
EBT	463.4	119.65	166.05	111.76	65.91
Taxes	164.9	38.77	62.13	39.33	24.69
Net Income (Reg)	298.4	80.88	103.92	72.43	41.22
Extraordinary Items	0	0	0	0	0
Reported Net Income	298.4	80.88	103.92	72.43	41.22
EPS	6.1	1.65	2.12	1.48	0.84
Adjusted EPS	6.1	1.6	2.1	1.5	0.8

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