

Gujarat Ambuja Exports Ltd.

BSE: 524226 | Sector: Agro-Edible Oils

06 Oct 2016

vScore : 60 | Gain%: **26.48%**

Buy Date: 06-Oct-2016 | Buy Price : Rs. 88

Exit Date: 14-Feb-2017 | Exit Price : 117.35

BUSINESS BACKGROUND

Gujarat Ambuja Exports Limited is an India-based agro processing company that focuses on exports. The Company's product profiles include solvent extraction, which consists of all types of oil seed processing, edible oil refining, cotton yarn spinning, maize-based starch and its derivatives, wheat processing/cattle feed and power generation through windmills, bio gas and thermal power plants. The Company's segments include agro processing, maize processing, cotton yarn and power generation. In addition, the Company is engaged in the provision of two agro processing products, which include de-oiled cake (DOC) and edible oil. It has manufacturing plants at different locations in states of Gujarat, Maharashtra, Madhya Pradesh, Uttarakhand and Karnataka. Gujarat Ambuja International Pte Ltd. is a subsidiary of the Company.

INVESTMENT HIGHLIGHTS

Q1FY17 results: It recorded sales of INR 770 Cr, compared to INR 610 in Q1FY16, EBITDA of INR 82 Cr (45% YoY up) EBITDA margin increased to 10.5% compared to 9% last year same quarter. Net profit of INR 48 Cr compared to 24 Cr in Q1FY16. Adj. EPS: INR 3.49/share compared to INR 1.79/share last year same quarter. (All figures are on Standalone basis.)

Segment Highlights: Gujarat Ambuja Exports operates in Cotton yarn, Maize processing, Agro processing and power division. For the FY16, cotton yarn contributed around 6%, Maize processing 40% and Agro processing around 50% of overall revenue. Power contributed around 3-4% of overall revenue. Overall exports contribute around 10-15% and rest is from domestic markets.

KEY DATA

FACE VALUE	Rs	2
DIVD YIELD %		1
52 WK HI/LOW		35/93
NSE CODE		GAEL
MARKET CAP	Rs.	1151 Cr

SHAREHOLDING PATTERN June16

PROMOTERS	-	71.96%
BANKS, MFs & DII's	-	0.07%
FII's	-	
PUBLIC	-	27.97%

KEY FUNDAMENTALS

Year Ending	FY16A	FY17E	FY18E
Rev Gr%	8	15	12
Net Profit Gr%	23	29	18
Roe %	11	13	14
RoCE %	14	16	17
EPS (Rs)	7.5	9.7	11.3
P/E (x)	11	8	7

Steady business growth in last year and future looks better on domestic demand boost:

Gujarat Ambuja Export mainly operates in Maize processing and other agri processing and from this 2 segments, it derives almost 90% of overall revenue.

Under Maize processing, it mainly manufactures Starches and value added downstream products. The company has 3 plants at Gujarat, Utrakhnad and Karnataka. It has a capacity of 1,600 TPD of Maize grinding. Under Maize processing some of the main products are starches, liquid glucose, glucose syrups, dextrose monohydrate etc. The market for these products is domestic and international MNC's.

The demand for overall Maize related products is increasing in domestic markets and exports are also contributing with increased volumes in this segment. For FY16, from overall revenue, Maize processing contributed around 40% and is expected to further improve in next years.

Under Agro processing segment, the company has products such as Deoiled cake (DOC), Edible Oil, value added soya derivatives such as granules, defatted flour. The company is focusing on granules and defatted flour as it has better demand and returns in domestic as well as international markets.

The overall domestic demand is expected to pick up in upcoming year on the back of improving economic activity and rural demand. The good monsoon of this year will be the major catalyst for overall growth in agro activity in the country. Overall consumer sector growth is expected to pick up from upcoming quarters. So in upcoming year, the company will see better growth from domestic markets. Export market was also subdued last year which is expected to slightly pick up next year. Hence overall revenues are expected to get a boost from domestic demand and some improvement from exports.

Fundamentals of the company are intact with improvement in margins and reducing debt levels:

The company has overall debt of about INR 320 crores as against shareholder's funds of INR 916 crores. The debt to equity ratio works out to be around 0.4 which is good compared to few other players in the industry. Further it is expected to be reduced to 0.3 and 0.2 in next one year. The interest cost is expected to decline in next 2 years consistently.

The EBITDA margins of the company has improved from around 6-6.5% range to 6.8% in FY16. In Q1 FY17 it has further improved it to near 9-10%. The company has ROCE of 14-15% and is expected to improve going ahead gradually.

The stock is very much undervalued compared to overall valuations of markets and peers from the industry such as LT Foods, Hatsun Agro Products, KRBL, Jubilant Foodworks. Looking at Debt- equity levels, improving ROCE's and other factors, this looks a better buy.

Business Outlook and Valuation :

At the moment at current price of 83 the stock is trading at (TTM) P/E of 11. Going ahead we expect revenue growth of 15-20% for FY17 and 10-15% for FY18. Hence our expectations for revenue for FY17 and FY18 are INR 3,146 Cr and INR 3,524 Cr respectively.

We expect company to maintain EBITDA margin around 7-8% for next two years. Going ahead we expect PAT margins of around 4-4.5% for next two years. Our PAT expectations for FY17 and FY18 are INR 133 Cr, INR 156 Cr respectively. Our EPS expectations for FY17 and 18 are INR 9.7 and INR 11.3 respectively.

We believe Gujarat Ambuja Exports at PE of 11 is attractive. With expected EPS of 9.7 for FY17 we expect target price as **110/share** with a stop loss at 65.

FINANCIALS:

For the Year Ended March (INR)	FY15A	FY16A	FY17E	FY18E
Net Sales (Cr)	2531	2736	3146	3524
EBIDTA (Cr)	163	187	223	248
EBIDTA %	6.4	6.8	7.1	7
Profit Before Tax (Cr)	97	122	159	186
Interest (Cr)	15	9.9	8	6
Depreciation (Cr)	61	65	68	71
Tax (Cr)	13	19	25	29
Profit After Tax (Cr)	84	103	133	156
PAT%	3.3	3.7	4.2	4.4
Diluted EPS (INR)	6.1	7.5	9.7	11.3
Shareholder's Funds (Cr)	827	916	1037	1182
Borrowings (Cr)	303	321	271	216
Gross Block (Cr)	960	1,044	1092	1127

Key Risks and Concerns:

- Any down turn in the global and domestic economic activity can impact company's financials.
- Competitor's products in edible oil segment and Starch can create pressure on margin and impact the sales of the company.

- Good Monsoon is a good trigger for the overall agro activity in the country for demand and production increase. Bad or adverse monsoon can spoil the things on the other hand.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk