



## Investor's Delight – GSFC Ltd.

<b>Date</b>	<b>June 19, 2014</b>
<b>BSE Code/NSE Code</b>	<b>500690/GSFC</b>
<b>Bloomberg/Reuters Code</b>	<b>GSFC:IN/GSFC.BO</b>
<b>Industry</b>	<b>Fertilizers</b>
<b>Promoter's holding (%)</b>	<b>37.84</b>
<b>FV</b>	<b>Rs. 2</b>
<b>Equity Capital (Rs. in mn)</b>	<b>797</b>
<b>Market Cap. (Rs. in mn)</b>	<b>30,186</b>
<b>52 week high/low</b>	<b>Rs. 82.10/Rs. 43.7</b>
<b>CMP</b>	<b>Rs. 75.7</b>
<b>Book Value</b>	<b>Rs. 105.2</b>
<b>Recommendation</b>	<b>"BUY"</b>
<b>Target/Upside</b>	<b>Rs. 100/Upside: 32%</b>

### Background

Gujarat State Fertilizers & Chemicals Limited (GSFC) was established in 1962 and promoted by the Gujarat Government which holds about 38% stake in the company. GSFC operates in two broad divisions – 'fertilizers' and 'industrial chemicals' segments. The former contributes to over two-thirds of the overall revenues, while the latter contributes the balance. Within its fertilizer segment, GSFC sells products such as Di-ammonium phosphate (DAP), Ammonium Phosphate Sulphate, urea amongst other complex fertilizers. Within the industrial segment, the key product sold is caprolactam. The same is used in manufacturing Nylon-6. Its applications are in the manufacture of fibres for textile and tyre cords, molding engineering components and other extrusion profiles and monomer castings. GSFC is a market leader in caprolactam and (DAP) markets. Caprolactam is basically a material used to manufacture nylon-6. It is also used in molding engineering components and other castings. GSFC has manufacturing capacity of 70,000 MTPA. Over the last five years the share of caprolactam in total sales has been going up. Since benzene is the key raw material required to manufacture caprolactam the end product price is dependent upon the movement in benzene prices. High volatility in benzene prices affects the demand for caprolactam.

However, as the company operates in a regulated industry its financials and return ratios have been quite volatile. Nonetheless, after the Nutrient Based Subsidy came into effect in April 2010, the margins and return ratios of the company have not only witnessed stability but also registered improvement. This also led to a substantial re-rating in the stock.

### Successful turnaround story...

The turnaround story of the Company began from FY 2003-2004. Under able leadership and timely intervention of **Former Chief Minister of Gujarat - Shri Narendra Modi** in taking certain bold policy decisions, the company could work on the strategies to enhance its productivity, bring down costs through technical innovations and improved management information systems. The revival measures were fully supported by Govt. of Gujarat and the Company was given complete autonomy to roll back to the track. Finally the major factors that brought company out of red were improvement in the Operational Efficiency, Reducing Cost of Sales, Regenerating Confidence in Suppliers & Customers,

Moral boosting of employees, strategizing foray in the global market, consolidating through further Expansions, focusing on ideal product mix to insulate performance from downtrends etc.

Govt. of Gujarat provided the proactive support to GSFC, which brought out a scheme of deferred sales tax of an amount up to Rs. 45 Crores per year for five years, thus improving the Company's cash flow position. Another important breakthrough was the increased availability of natural gas in Gujarat, from GAIL, GSPC and Gujarat Gas, which substituted costly Naphtha and LSHS.

As a step towards backward integration as well as a part of global trotting for feed-stocks has participated in a joint venture in Tunisia viz. Tunisian Indian Fertilizers S.A. (TIFFERT), this would ensure the consistent supply 1, 80,000 TPA of additional Phosphoric Acid per annum required for the production of DAP. GSFC has also acquired a strategic stake in M/s Karnalyte Resources Incorporation in Canada. This secures availability of Potash for the Company in long run.

The major achievements of the company during the able leadership of Shri Narendra Modi, as Chief Minister can be summarised below:

1. GSFC could achieve consistent profitability record and it has touched its highest profits during the period 2001-02 to 2012-13. Its net profit touched ever highest level of **Rs.759 Crores during 2011-12** and the total profit after tax during 2001-02 to 2012-13 was **Rs.3594 Crores**, as compared to total profit after tax of **Rs. 1166 Crores** earned during the period 1988-89 to 1999-2000.
2. Significantly, GSFC, which was under loss in the year 2001-02 and 2002-03 on account of various factors, not only turned around but also earned its highest ever profit. Turn-over per share increased from **Rs.255/- to Rs.665/-** per share.
3. During this period, GSFC diversified into new chemicals like MEK-Oxime and other raw materials such as Phosphoric Acid, Potassic Acid, etc. It also diversified and increased significantly its Fertilizers portfolio. Its Fertilizers manufacturing capacity today stands at 1.7 Million Tons. It also added significantly to its wind energy portfolio which stands at over 150 MW. The total projects invested by GSFC during the period of Hon'ble Chief Minister is **Rs. 8340 Crores**.

### **Q4FY14 result highlights**

#### **Standalone financial snapshot**

(Rs m)	4QFY13	4QFY14	Change	FY13	FY14	Change
<b>Income from operations</b>	16,960	15,181	-10.5%	62,533	54,125	-13.4%
<b>Expenditure</b>	15,689	13,204	-15.8%	54,554	48,837	-10.5%
<b>Operating profit (EBDITA)</b>	1,271	1,977	55.5%	7,979	5,288	-33.7%
<b>Operating profit margin</b>	7.5%	13.0%		12.8%	9.8%	
<b>Other income</b>	180	496	175.7%	1381	1,571	13.7%
<b>Interest</b>	127	47	-62.9%	363	451	24.5%
<b>Depreciation</b>	340	381	12.0%	1321	1,453	10.0%
<b>Profit before tax</b>	984	2,045	107.7%	7,677	4,954	-35.5%
<b>Tax</b>	400	704	75.9%	2496	1,532	-38.6%
<b>Profit after tax/(loss)</b>	584	1,341	129.4%	5,181	3,422	-34.0%
<b>Net profit margin (%)</b>	3.4%	8.8%		8.3%	6.3%	
<b>No. of shares (m)</b>					398.5	
<b>Basic earnings per share (Rs)</b>					8.6	
<b>P/E ratio (x)</b>					8	

Source: Company, Ajcon Research

- a) Topline declined by 10.5% YoY in 4QFY14. For the full year revenues declined 13.4% YoY. Decline in revenues from the fertilizer segment (30.3% YoY in 4QFY14 and 26.9% YoY in FY14) impacted overall sales growth. However, revenues from the industrial products segment increased 37.4% YoY in 4QFY14 and 15.8% YoY in FY14. Revenues from the fertilizer segment were down due to lower volumes.
- b) Operating profits increased 55.5% YoY during the quarter despite poor performance at the top line level due to a fall in expenditure. Total expenses declined 15.8% YoY during the quarter. However, margins registered a strong improvement and increased from 7.5% in 4QFY13 to 13.0% in 4QFY14. This was mainly due to decline in raw material cost (-19.1% YoY) during the quarter. Employee cost also declined by 74.4% YoY. It may be noted that the employee cost of 4QFY13 was abnormally higher due to provisioning on account of wage revision.
- c) The net profits increased 129.4% YoY on the back of 175.7% YoY growth in other income and 62.9% YoY fall in interest expenses. However, after adjusting for forex gains and losses the profits increased by 90.9% YoY.
- d) The management is confident of sustaining margins and profits going forward. It expects a likely improvement in the fertiliser sector and in industrial products on good sales of new products. Management does not see the new gas pricing regime to be an issue for the company anymore as they have already taken product price hikes to mitigate the impact of higher gas prices. The company's yearly subsidy need for the urea business stands at around Rs 1,700-1,800 crore.
- e) The company has already taken steps to reduce its power cost by making significant investments in windmill capacities. With the company commissioning 29.4MW of wind power project in the current quarter the power cost are likely to decline in future which would support its margins.
- f) The board of directors declared a dividend of Rs 2 per share for the fiscal under consideration.
- g) The debt/equity ratio of the company stood at 0.18x at the end of the year.
- h) **Segment-wise performance (Standalone)**

	4QFY13	4QFY14	Change	FY13	FY14	Change
<b>Fertilizer Products</b>						
Revenue (Rs m)	12,003	8,368	-30.3%	42,791	31,267	-26.9%
% share	70.8%	55.1%		68.4%	57.8%	
PBIT margin	8.6%	7.5%		10.1%	5.7%	
<b>Industrial Products</b>						
Revenue (Rs m)	4,958	6,813	37.4%	19,742	22,858	15.8%
% share	29.2%	44.9%		31.6%	42.2%	
PBIT margin	3.4%	20.7%		15.4%	12.7%	
<b>Total*</b>						
Revenue (Rs m)	16,960	15,181	-10.5%	62,533	54,125	-13.4%
PBIT margin	7.1%	13.4%		11.8%	8.7%	

Source: Company, Ajcon Research



## Peer Comparison

Particulars	GSFC	Coromandel Intl	Rashtriya Chem	Zuari Agro
LTP	75.75	258.2	68.45	192.05
Change %	0.33	-0.04	3.32	-6.07
52 W H/L	82.10/43.70	280.00/162.40	70.75/26.00	217.00/73.50
<b>Results (in Cr.)</b>	<b>14-Mar</b>	<b>14-Mar</b>	<b>14-Mar</b>	<b>14-Mar</b>
Sales	5,412.49	9,380.52	6,587.60	5,197.05
PAT	342.17	344.85	249.89	26.16
Equity	79.7	28.32	551.69	42.06
Face Value	2	1	10	10
<b>Ratios</b>				
OPM %	12.67	8.39	9.72	5.81
NPM %	6.32	3.68	3.79	0.5
EPS	8.59	12.05	4.53	--
CEPS	12.23	15.07	7.1	11.14

Source: Company, BSE, Ajcon Research

## Outlook and Valuation

At the current price of Rs 75.75 the stock is trading at a multiple of 8x its trailing 12 month (TTM) earnings and 0.72x of its FY14 Book Value. The company continues to remain a strong player in the caprolactam market. Q4FY14 results were encouraging on both topline and margin front. The company has also announced future capex plans of Rs 51bn for setting up of a new 100,000 tons caprolactam plant and 40,000 ton melam ine plant which would drive the topline growth over the next 3- 4 years subject to the regulatory approvals are in place.

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