

Buy
Gulshan Sugars & Chemicals (GSCL)

Face Value	Rs 8
Last Price	Rs 38
Target Price	Rs 55

Industry: Chemical

Market Cap (Rs Crs)	48.7
Year High/Low (Rs)	71/18

Holding Pattern (%)

Foreign	0
Institutions/Mutual Funds	5
Corporate Holding	14
Promoters	38
Public	43

(As on 30 September 2007)

Performance (%)

	1M	3M	12M
Stock (GSCL)	26	18.6	-36
BSE-200	1.9	18.1	51
BSE-500	2	18.4	52

Price Chart: (Daily)


A typical pattern called a cup-and-handle has been formed in the weekly chart of GSCL. Volumes can be seen increasing at both the ends of the cup as well as the handle. The breakout at Rs 40.05 is a good buying level for a price target of Rs 52.

Company Description:

Incorporated in 1980, the Muzaffarnagar (UP) (130 km from Delhi)-based GSCL is engaged in manufacturing of Calcium Carbonate, both precipitated calcium carbonate (PCC) and activated calcium carbonate (ACC). The company has expanded the production facilities by way of organic and inorganic way over the years. The present installed production capacity is 70, 000 TPA. It has also added 20, 000 tpa mainly for the paper and PVC industry. The company produces 19 grades of Calcium Carbonate.

Highlights:

The Company entered into a technological and equipment supply arrangement with a German IVA Industrieberatung GmbH to provide the technical support, design, drawings and supply of some of critical equipments to produce Ground Calcium Carbonate (GCC).

GSCL is the single largest manufacturing entity in the organized sector which meets the requirements of all the customers in various industries and the customers list include top MNCs in toothpaste, pharma, paint, paper, plastic, polymer, PVC products, rubber and leather industry.

Calcium carbonate has found an innovative application in the concrete market. It is increasingly used as quality filler in concrete applications, such as concrete wares (paving-stones, tubes and sewage-tanks etc.), ready-mixed concrete and prefabricated elements. It improves the concrete density, pre-stability and durability. Its stable colour quality increases the aesthetics, which make it very suitable for architectural applications.

GSCL tapped the capital market with an issue of 66, 00,000 equity shares of Rs 8 each at Rs 40 per share aggregating Rs 26.4 crore in November 2006 for setting up of 20, 000 tpa of GCC (Ground Calcium Carbonate) and a 3 MW captive power plant at its manufacturing facilities at Muzaffarnagar (UP) at a total cost of Rs 37.4 crore.

The company completed the project of GCC plant and commenced the commercial production before scheduled date in fourth quarter of the financial year 2006-07. Its 3 MW captive power plant commenced operation from October 2007.

Key Financial:

(Rs Crore)

Year End March	H1FY08	FY07	FY08E	FY09E
Sales	29.7	49	68	90
Other Income	0.9	2.5	2	2
PBIDT	6.2	10	14.5	20.7
Interest	1	2	2.2	2.7
PBDT	5.2	8	12.3	18
Depreciation	1.1	1.9	2.3	2.6
Tax	0.2	1	1.2	2.6
PAT	3.9	5.1	10	12.8
Equity		10.3	10.3	10.3
Reserves		34.4	44.4	57.2
Book Value (Rs)		34.7	42.5	52.4
EPS (Rs)		4	7.8	9.9
OP Margin (%)	20.9	20.4	22	23
NP Margin (%)	13.1	10.4	13.5	14.5
P/E (x)			4.9	3.8



Valuation & Recommendations:

The major growth area for the next five years will be in Asia, especially China, particularly in the form of satellite GCC plants at paper mills. According to the estimates by Roskill, the world consumption of GCC will rise to reach 67.6 million MT by 2010.

Paper will continue to be the largest market for GCC, accounting for an estimated 28 million MT of consumption by 2010 while consumption in plastics will reach 12.2 million MT. Plastic industry is the second largest consumer of GCC.

Rising demand of GCC from the paper and plastic sectors, the company's strategy for growth, expansion, market position, saving in energy costs, cost control measures and lower per capita consumption of calcium carbonate in the country (less than 1/10th of the world consumption), etc bode well for the prospects of GSCL. The full impact of the GCC plant and saving in power cost would be visible in financial year 2007-08 and thereafter.

At CMP of Rs 38, the shares are traded at P/Ex of 4.9 on FY08E and 3.8 on FY09E. We recommend BUY on the scrip with a medium-to-long term target of Rs 55.



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