

July 28, 2011

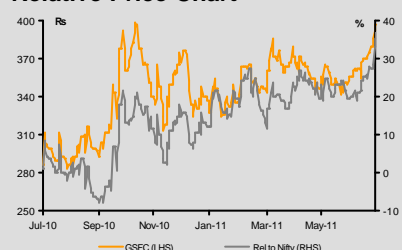
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs397	Rs 530
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	8	19	38
Rel. to Nifty	15	14	22	36

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri-input & Chemicals
Bloomberg	GSFC@IN
Equity Capital (Rs mn)	798
Face Value(Rs)	10
No of shares o/s (mn)	80
52 Week H/L	413/275
Market Cap (Rs bn/USD mn)	32/725
Daily Avg Volume (No of sh)	52449
Daily Avg Turnover (US\$mn)	0.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	37.8	37.8	37.8
FII/NRI	10.0	10.4	8.6
Institutions	26.4	26.2	26.8
Private Corp	10.1	9.9	10.9
Public	15.7	15.7	15.9

Source: Capitaline

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- Q1FY12 results were in line with estimates with APAT of Rs 1.77bn, +63% yoy. Reported sales of Rs 12.1bn, 13% yoy excludes inventory gain of Rs 441mn
- Chemicals segment margins at 38.7% (1700bps yoy/400bps qoq) surprised positively. Fertilizer segment margins improved 160bps yoy to 15.0% (in line with est)
- Caprolactam-benzene spreads declined to \$2,145/mt from \$2,242/mt in Q4 FY11. Spreads to witness further contraction in FY12 as caprolactam prices retreat from their peak
- We continue to maintain our BUY recommendation on the stock based on compelling valuations, FY12 EV/EBITDA 2x, 10% discount to BV

Results in line with estimates

GSFC reported revenues of Rs 12.1bn, +13% yoy, lower than our estimates of Rs 13.3bn due to lower fertilizer revenues. Fertilizer revenues increased by 9% yoy to Rs 8.6bn, lower than our estimates of Rs 9.6bn. Chemicals segment reported revenues of Rs 3.5bn, +24% yoy, marginally below our estimates of Rs 3.7bn. It is to highlight that net sales reported by the company excludes inventory gain of Rs 441mn on the differential subsidy arising on inventory valuation. Company reported EBITDA of Rs 2.74bn, +49% yoy with EBITDA margins improving 550bps yoy to 22.7% against our estimates of 21.5%. APAT of Rs 1.77bn, +63% yoy were in line with our estimates of Rs 1.75bn. Adjusted PAT excludes exceptional items to the tune of Rs 526mn related to provision towards interest and related charges on electricity duty for previous years.

EBITDA margins improve led by higher chemicals margins

GSFC reported EBITDA of Rs 2.74bn, +49% yoy, marginally lower than our estimates of Rs 2.9bn. EBITDA margins improved by 550bps yoy to 22.7% higher than our estimates of 21.5%. Chemical segment margins improved 1700bps yoy/400bps qoq to 38.7% driving overall EBITDA higher than our estimates. Even though caprolactam-benzene spread corrected during the quarter, yet they remain higher by about 26% yoy driving EBITDA margins northward. Fertilizer segment reported EBIT of Rs 1.29bn, +23% yoy with fertilizer margins improving 160bps yoy to 15.0%.

Reiterate BUY on compelling valuations

On the valuations front, GSFC has current cash on its book of Rs 6.7 bn (84 / share) with negligible long term debt. Further it has liquid investments of Rs 5.4 bn (Rs 68/ share). With 42% of cmp in cash and equivalents and FY12 EV/EBITDA of 2x, P/E of 5x and 10% discount to book value, we believe that the stock offers attractive investment opportunity on compelling valuations. However due to volatile earnings driven by unpredictable chemical prices we continue to value the stock on FY12E estimates and reiterate our BUY recommendation.

Financial Snapshot

										Rs Mn
YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	40,192	4,477	11.1	2,545	31.9	(49.0)	12.5	12.4	7.5	1.5
FY11	47,095	11,259	23.9	7,131	89.5	180.2	28.6	4.4	2.2	1.1
FY12E	57,925	9,671	16.7	5,863	73.6	(17.8)	18.9	5.4	2.2	0.9
FY13E	61,577	10,478	17.0	6,277	78.8	7.1	17.2	5.0	1.6	0.8

Quarterly Results

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	10,668	13,007	12,272	11,149	12,077	13.2	8.3
Expenditure	8831	9834	9115	8055	9339	5.7	15.9
<i>as % of sales</i>	<i>82.8</i>	<i>75.6</i>	<i>74.3</i>	<i>72.3</i>	<i>77.3</i>		
Consumption of RM	6,223	7,366	6,727	5,511	6,651	6.9	20.7
<i>as % of sales</i>	<i>58.3</i>	<i>56.6</i>	<i>54.8</i>	<i>49.4</i>	<i>55.1</i>		
Power & Fuel	818	792	794	803	850	3.9	5.8
<i>as % of sales</i>	<i>7.7</i>	<i>6.1</i>	<i>6.5</i>	<i>7.2</i>	<i>7.0</i>		
Employee Cost	625	772	675	569	829	32.6	45.7
<i>as % of sales</i>	<i>5.9</i>	<i>5.9</i>	<i>5.5</i>	<i>5.1</i>	<i>6.9</i>		
Other expenditure	1,165	905	919	1,172	1,009	(13.4)	(13.9)
<i>as % of sales</i>	<i>10.9</i>	<i>7.0</i>	<i>7.5</i>	<i>10.5</i>	<i>8.4</i>		
EBITDA	1,836	3,172	3,157	3,093	2,738	49.1	(11.5)
Depreciation	343	358	374	388	311	(9.6)	(20.0)
EBIT	1,493	2,814	2,783	2,705	2,428	62.6	(10.3)
Other Income	146	438	130	229	239	63.4	4.2
Interest	41	41	25	32	58	43.6	83.3
PBT	1,598	3,212	2,888	2,902	2,608	63.2	(10.1)
Total Tax	512	1,142	867	996	835	62.9	(16.2)
Adjusted PAT	1,086	2,070	2,021	1,954	1,773	63.3	(9.3)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
APAT after MI	1,086	2,070	2,021	1,954	1,773	63.3	(9.3)
Extra ordinary items	0	0	(265)	97	353		
Reported PAT	1,086	2,070	2,286	2,051	1,421	30.8	(30.7)
Reported EPS	13.6	26.0	28.7	25.7	17.8	30.8	(30.7)

Margins (%)						(bps)	(bps)
EBIDTA	17.2	24.4	25.7	27.7	22.7	546	(507)
EBIT	14.0	21.6	22.7	24.3	20.1	611	(416)
EBT	13.6	21.3	22.5	24.0	19.6	601	(436)
PAT	10.2	15.9	16.5	17.5	14.7	450	(284)
Effective Tax rate	32.0	35.6	30.0	34.3	32.0	(5)	(231)

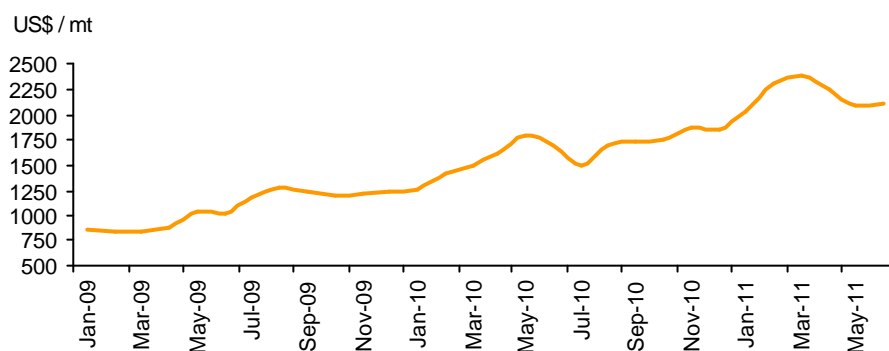
Fertiliser revenues lower, however margins in line

Fertiliser segment reported revenues of Rs 8.58bn, +9% yoy, lower than our estimates of Rs 9.56bn. Fertiliser volumes incl. both urea and complex increased by 4% yoy to 376,000mt. EBIT of Rs 1.3bn, +23% yoy, was lower than our estimates of Rs 1.4bn due to lower revenues. However, EBIT margin improved 160bps yoy to 15.0% in line with our estimates. Improvement in fertilizer margins can be attributed mainly to the implementation of NBS in the complex fertilizer space. GSFC has also benefited from its low cost captive ammonia production.

Chemicals margins continues its upward trajectory

Chemicals segment revenues increased 24% yoy to Rs 3.5bn marginally lower than our estimates of Rs 3.7bn. However, segment EBIT increased to Rs 1.35bn, 121% yoy higher than our estimates of Rs 1.1bn. EBIT margins improved 1700bps yoy/400bps qoq to 38.7% and were significantly higher than our estimates of 30.0%. Despite caprolactam-benzene spreads declining to \$2,145/mt as compared to \$2,242/mt last quarter chemical segment margins remained strong. . We like to re-iterate the fact that caprolactam-benzene spreads were at their peak in H2 FY11 and would soften during the course of the year.

Caprolactam-benzene spread



Source: Fibre2Fashion, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	40,192	47,095	57,925	61,577
Growth (%)	(31.7)	17.2	23.0	6.3
Expenditure	35,715	35,836	48,254	51,099
Materials Consumed	25,422	25,827	35,971	38,239
Power & Fuel	3,019	3,207	3,765	4,002
Employee Cost	2,902	2,641	2,896	3,079
Other Exp	4,372	4,161	5,621	5,778
EBITDA	4,477	11,259	9,671	10,478
Growth (%)	(47.4)	151.5	(14.1)	8.4
EBITDA margin (%)	11.1	23.9	16.7	17.0
Depreciation	1,409	1,464	1,780	2,000
EBIT	3,067	9,795	7,891	8,478
EBIT margin (%)	7.6	20.8	13.6	13.8
Other Income	1,130	943	1,170	1,250
Interest expenses	306	138	310	360
PBT	3,891	10,600	8,751	9,368
Tax	1,346	3,469	2,888	3,092
Effective tax rate (%)	34.6	32.7	33.0	33.0
Adjusted PAT	2,545	7,131	5,863	6,277
Growth (%)	(49.0)	180.2	(17.8)	7.1
Net Margin (%)	6.3	15.1	10.1	10.2
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	2,545	7,131	5,863	6,277
E/O items	-	363	-	-
Reported PAT	2,545	7,494	5,863	6,277
PAT after MI	2,545	7,131	5,863	6,277
Growth (%)	(49.0)	180.2	(17.8)	7.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	2,761	9,657	7,581	8,118
Depreciation	1,409	1,464	1,780	2,000
Interest Provided	306	138	310	360
Other Non-Cash items	(692)	392	(95)	(95)
Chg in working cap	(6,658)	5,211	(291)	(883)
Tax paid	-1,346	-3,631	-2,888	-3,092
Operating Cashflow	-4,220	13,231	6,397	6,409
Capital expenditure	(1,472)	(4,650)	(3,000)	(3,000)
Free Cash Flow	-5,692	8,581	3,397	3,409
Other income	1,130	943	1,170	1,250
Investments	1,811	-	-	-
Investing Cashflow	2,941	943	1,170	1,250
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	3,636	(2,950)	-	-
Interest Paid	(306)	(138)	(310)	(360)
Dividend paid (incl tax)	(359)	(359)	(558)	(558)
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	2,971	-3,446	-868	-918
Net chg in cash	220	6,078	3,699	3,741
Opening cash position	381	601	6,679	10,378
Closing cash position	601	6,679	10,378	14,119

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	797	797	797	797
Reserves & surplus	20,644	27,647	32,857	38,481
Net worth	21,441	28,444	33,654	39,278
Minority Interest	0	0	0	0
Secured Loans	1,748	798	798	798
Unsecured Loans	5,128	3,128	3,128	3,128
Loan Funds	6,876	3,926	3,926	3,926
Net deferred liabilities	1,497	1,497	1,497	1,497
Total Liabilities	29,814	33,867	39,077	44,701
Gross Block	32,316	34,135	38,785	41,785
Less: Depreciation	21,501	22,965	24,745	26,745
Net block	10,815	11,170	14,040	15,040
Capital work in progress	1,819	4,650	3,000	3,000
Investments	4,250	4,250	4,250	4,250
Current Assets	21,037	23,070	28,350	33,225
Inventories	6,111	5,648	8,728	9,279
Sundry debtors	6,216	8,881	6,348	6,748
Cash & bank balance	601	6,679	10,378	14,119
Loans & advances	8,109	1,862	2,896	3,079
Other current assets	-	-	-	-
Current lia & Prov	8,107	9,273	10,563	10,814
Current liabilities	4,217	5,384	6,674	6,924
Provisions	3,889	3,889	3,889	3,889
Net current assets	12,930	13,797	17,787	22,411
Misc. exp	-	-	-	-
Total Assets	29,814	33,867	39,077	44,701

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	11.1	20.0	16.7	17.0
Net Margin	6.3	12.2	10.1	10.2
ROCE	15.5	33.7	24.8	23.2
ROE	12.5	28.6	18.9	17.2
RoIC	15.2	47.3	39.7	37.9
Per Share Data (Rs)				
EPS	31.9	89.5	73.6	78.8
CEPS	49.6	88.2	95.9	103.9
BVPS	269.0	356.9	422.3	492.8
DPS	4.5	7.0	7.0	7.0
Valuations (x)				
PER	12.4	4.4	5.4	5.0
P/CEPS	8.0	4.5	4.1	3.8
P/BV	1.5	1.1	0.9	0.8
EV / Sales	0.8	0.5	0.4	0.3
EV / EBITDA	7.5	2.2	2.2	1.6
Dividend Yield (%)	1.1	1.8	1.8	1.8
Gearing Ratio (x)				
Net Debt/ Equity	0.1	-0.2	-0.3	-0.4
Net Debt/EBITDA	0.5	-0.6	-1.1	-1.4
Working Cap Cycle (days)	73.6	70.9	52.9	54.0

Recommendation History: Gujarat Sate Fertilisers – GSFC IN

Date	Reports	Reco	CMP	Target
30/05/2011	Gujarat Sate Fertilisers Q4FY11 Result Update	Buy	356	530
21/02/2011	Gujarat Sate Fertilisers Company Update	Buy	335	530
31/01/2011	Gujarat Sate Fertilisers Q3FY11 Result Update	Buy	327	530
16/12/2010	Gujarat Sate Fertilisers Company Update	Buy	349	530

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/07/2011	United Phosphorus Event Update	Buy	157	215
25/07/2011	Chambal Fertilisers Q1FY12 Result Update	Buy	88	110
22/07/2011	Coromandel International Q1FY12 Result Update	Buy	333	435
22/07/2011	Rallis India Q1FY12 Result Update	Buy	159	209

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