

October 21, 2011

<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs 427	Rs 530
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,092
Sensex	16,936

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	14	18	25
Rel. to Nifty	(5)	25	36	47

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	466/304
Market Cap (Rs bn/USD mn)	34/692
Daily Avg Volume (No of sh)	141182
Daily Avg Turnover (US\$m)	1.2

#### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	37.8	37.8	37.8
FII/NRI	10.8	10.0	10.4
Institutions	27.1	26.4	26.2
Private Corp	9.8	10.1	9.9
Public	14.5	15.7	15.7

Source: Capitaline

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- **GSFC continued strong show with Q2FY12 PAT at Rs 2.12 bn (+3% yoy on strong base) above our est driven by strong performance of fertiliser and chemicals**
- **Fertiliser EBIT margins at 15% (est 11%) and chemical margins at 34.3% (est 35%), driven by higher spread in caprolactam, supported PAT growth despite lower revenues**
- **Despite lower than est revenues, strong performance below the EBITDA line driven by lower than est interest, depreciation and higher other income boosted PAT**
- **With 48% of cmp in cash and equivalents and FY12 EV/EBITDA of 2.0x, P/E of 5x, stock offers attractive investment opportunity. Re-iterate BUY with TP of Rs 530**

#### Revenues lower than est due to lower fertiliser revenues; EBITDA in line

GSFC reported revenues of Rs 12.6bn, -3% yoy lower than est of Rs 14.4bn. Fertiliser segment reported revenues of Rs 8bn, -12% yoy against est of Rs 10.3bn. Chemicals segment reported revenues of Rs 4.6bn, 20% yoy higher than est of Rs 4.1bn. However, EBITDA of Rs 3.0bn, -4% yoy was in line with est due to higher fertiliser margins. Company reported EBITDA margin of 24% (-41bps yoy/131bps qoq) against est of 20%. APAT of Rs 2.1bn, 3% yoy is above our est of Rs 1.8bn led by higher margins & higher other income. Company reported other income of Rs 411mn against est of Rs 270mn. Also, reported interest costs of Rs 7mn were lower than est of Rs 80mn. AEPS of Rs 26.7, 3% yoy is higher than est of Rs 22.4

#### EBITDA margins remain strong

GSFC reported EBITDA of Rs 3.0bn, -4% yoy, in line with est of Rs 2.9bn. Fertiliser segment reported margins of 15% against estimates of 11% while chemical segment reported margins of 34.3% in line with estimates of 35%. During the quarter, average caprolactam prices stood at \$3500/mt (41% yoy) while benzene prices stood at \$1130/mt (35% yoy). With increase in finished product (Caprolactam) prices higher than the raw material (Benzene) cost, spread between Caprolactam and Benzene prices averaged \$2370/mt for the quarter as compared to \$1643/mt last year.

#### Reiterate BUY on compelling valuations

GSFC has been beneficiary of strong caprolactam cycle, which has helped the company in strong cash generation. It holds cash of Rs 8.5 bn as of now which is likely to increase to Rs 15bn (cash/share of Rs 194) by FY13E. GSFC also held liquid investments to the tune of Rs 4.2bn (Rs 53/share) in its books at end of FY11. With 48% of cmp in cash and equivalents and FY12 EV/EBITDA of 2.0x, P/E of 5x, valuation remains compelling. Company's both the segments – fertiliser and chemicals, continue to post robust results driven by favourable chemical spread and low cost manufacturing advantage in complex fertiliser. We re-iterate BUY with TP of Rs 530.

#### Financial Snapshot

YE-Mar	Rs Mn									
	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	13.4	8.1	1.6
FY11	47,095	11,259	23.9	7,131	89.5	180.2	28.7	4.8	2.4	1.2
FY12E	54,858	10,678	19.5	6,745	84.6	(5.4)	21.5	5.0	2.0	1.0
FY13E	58,863	10,436	17.7	6,248	78.4	(7.4)	16.7	5.4	1.7	0.8

## Quarterly Results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>13,007</b>	<b>12,272</b>	<b>11,149</b>	<b>12,077</b>	<b>12,641</b>	<b>(2.8)</b>	<b>4.7</b>
<b>Expenditure</b>	<b>9834</b>	<b>9115</b>	<b>8055</b>	<b>9339</b>	<b>9610</b>	<b>(2.3)</b>	<b>2.9</b>
<i>as % of sales</i>	75.6	74.3	72.3	77.3	76.0		
Consumption of RM	7,366	6,727	5,511	6,651	6,988	(5.1)	5.1
<i>as % of sales</i>	56.6	54.8	49.4	55.1	55.3		
Power & Fuel	792	794	803	850	750	(5.2)	(11.7)
<i>as % of sales</i>	6.1	6.5	7.2	7.0	5.9		
Employee Cost	772	675	569	829	736	(4.8)	(11.2)
<i>as % of sales</i>	5.9	5.5	5.1	6.9	5.8		
Other expenditure	905	919	1,172	1,009	1,137	25.6	12.6
<i>as % of sales</i>	7.0	7.5	10.5	8.4	9.0		
<b>EBITDA</b>	<b>3,172</b>	<b>3,157</b>	<b>3,093</b>	<b>2,738</b>	<b>3,031</b>	<b>(4.4)</b>	<b>10.7</b>
Depreciation	358	374	388	311	311	(13.1)	0.2
<b>EBIT</b>	<b>2,814</b>	<b>2,783</b>	<b>2,705</b>	<b>2,428</b>	<b>2,720</b>	<b>(3.3)</b>	<b>12.1</b>
Other Income	438	130	229	239	411	(6.1)	72.4
Interest	41	25	32	58	7	(82.8)	(88.0)
<b>PBT</b>	<b>3,212</b>	<b>2,888</b>	<b>2,902</b>	<b>2,608</b>	<b>3,125</b>	<b>(2.7)</b>	<b>19.8</b>
Total Tax	1,142	981	948	661	997	(12.7)	50.8
<b>Adjusted PAT</b>	<b>2,070</b>	<b>1,907</b>	<b>1,954</b>	<b>1,773</b>	<b>2,128</b>	<b>2.8</b>	<b>20.0</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
<b>APAT after MI</b>	<b>2,070</b>	<b>1,907</b>	<b>1,954</b>	<b>1,773</b>	<b>2,128</b>	<b>2.8</b>	<b>20.0</b>
<b>Extra ordinary items</b>	0	265	(97)	-353	-		
<b>Reported PAT</b>	<b>2,070</b>	<b>2,172</b>	<b>2,051</b>	<b>1,421</b>	<b>2,128</b>	<b>2.8</b>	<b>49.8</b>
<b>Reported EPS</b>	<b>26.0</b>	<b>28.7</b>	<b>25.7</b>	<b>17.8</b>	<b>26.7</b>	<b>2.8</b>	<b>49.8</b>

Margins (%)						(bps)	(bps)
EBIDTA	24.4	25.7	27.7	22.7	24.0	(41)	131
EBIT	21.6	22.7	24.3	20.1	21.5	(12)	142
EBT	21.3	22.5	24.0	19.6	21.5	14	185
PAT	15.9	15.5	17.5	14.7	16.8	92	215
Effective Tax rate	35.6	34.0	32.7	25.3	31.9	(365)	656

**Fertiliser revenues lower, however margins higher than est**

Fertiliser segment reported revenues of Rs 8bn, -12% yoy, lower than our estimates of Rs 10.3bn. However, EBIT of Rs 1.2bn, -33% yoy, was in line with estimates of Rs 1.1bn due to higher margins. Company reported EBIT margin of 15.1% (-471bps yoy/8bps qoq) against est of 11.0%. 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.

**Chemical margins remain healthy**

Chemicals segment revenues increased by 20% yoy to Rs 4.6bn higher than est of Rs 4.1bn. Chemical segment reported EBIT of Rs 1.6bn, 26% yoy, higher than our estimates of Rs 1.4bn. EBIT margins improved by 171bps yoy to 34.3% and were in line with est of 35.0%. During the quarter, average caprolactam prices stood at \$3500/mt (41% yoy) while benzene prices stood at \$1130/mt (35% yoy). With increase in finished product (Caprolactam) prices higher than the raw material (Benzene) cost, spread between Caprolactam and Benzene prices averaged \$2370/mt for the quarter as compared to \$1643/mt last year.

**Caprolactam-benzene spreads remained strong during Q2FY12**

Caprolactam prices bounced back to \$3580/mt in the first half of Sep 2011 as compared to \$3190/mt in June 2011. Benzene prices increased to \$1215/mt in the first week of August 2011 as compared to \$1090/mt in June 2011. Consequently, spread between Caprolactam and Benzene prices bounced back to \$2335 / mt in July as against \$2085 / mt in May2011. Spreads strengthened further to \$2385/mt in Aug 2011 and moved closer to their peak of \$2390/mt attained in March2011. However, caprolactam prices have recently declined to \$3350/mt in 2<sup>nd</sup> week of October compared to average of \$3485/mt in September. Benzene prices have also declined to \$995/mt in 2<sup>nd</sup> week of October compared to average of \$1095/mt in September. Spreads stood at \$2355/mt in 2<sup>nd</sup> week of Oct compared to average of \$2390/mt in September.

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>40,192</b>	<b>47,095</b>	<b>54,858</b>	<b>58,863</b>
Growth (%)	(31.7)	17.2	16.5	7.3
<b>Expenditure</b>	<b>35,715</b>	<b>35,836</b>	<b>44,180</b>	<b>48,428</b>
Materials Consumed	25,422	25,827	34,067	36,554
Power & Fuel	3,019	3,207	3,566	3,826
Employee Cost	2,902	2,641	2,743	2,943
Other Exp	4,372	4,161	3,804	5,104
<b>EBITDA</b>	<b>4,477</b>	<b>11,259</b>	<b>10,678</b>	<b>10,436</b>
Growth (%)	(47.4)	151.5	(5.2)	(2.3)
<b>EBITDA margin (%)</b>	<b>11.1</b>	<b>23.9</b>	<b>19.5</b>	<b>17.7</b>
Depreciation	1,409	1,464	1,511	2,000
<b>EBIT</b>	<b>3,067</b>	<b>9,795</b>	<b>9,168</b>	<b>8,436</b>
<b>EBIT margin (%)</b>	<b>7.6</b>	<b>20.8</b>	<b>16.7</b>	<b>14.3</b>
Other Income	1,130	943	1,159	1,250
Interest expenses	306	138	298	360
<b>PBT</b>	<b>3,891</b>	<b>10,600</b>	<b>10,028</b>	<b>9,326</b>
<b>Tax</b>	<b>1,346</b>	<b>3,469</b>	<b>3,283</b>	<b>3,077</b>
Effective tax rate (%)	34.6	32.7	32.7	33.0
<b>Adjusted PAT</b>	<b>2,545</b>	<b>7,131</b>	<b>6,745</b>	<b>6,248</b>
Growth (%)	(49.0)	180.2	(5.4)	(7.4)
<b>Net Margin (%)</b>	<b>6.3</b>	<b>15.1</b>	<b>12.3</b>	<b>10.6</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>2,545</b>	<b>7,131</b>	<b>6,745</b>	<b>6,248</b>
E/O items	-	363	(353)	-
<b>Reported PAT</b>	<b>2,545</b>	<b>7,494</b>	<b>6,392</b>	<b>6,248</b>
<b>PAT after MI</b>	<b>2,545</b>	<b>7,131</b>	<b>6,745</b>	<b>6,248</b>
Growth (%)	(49.0)	180.2	(5.4)	(7.4)

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>2,761</b>	<b>9,657</b>	<b>8,870</b>	<b>8,076</b>
Depreciation	1,409	1,464	1,511	2,000
Interest Provided	306	138	298	360
Other Non-Cash items	(692)	1,065	(95)	(95)
Chg in working cap	(6,658)	3,988	1,370	(1,369)
Tax paid	-1,346	-3,631	-3,110	-3,077
<b>Operating Cashflow</b>	<b>-4,220</b>	<b>12,681</b>	<b>8,844</b>	<b>5,894</b>
Capital expenditure	(1,472)	(4,649)	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>-5,692</b>	<b>8,031</b>	<b>5,844</b>	<b>2,894</b>
Other income	1,130	943	1,159	1,250
Investments	1,811	0	-	-
<b>Investing Cashflow</b>	<b>2,941</b>	<b>943</b>	<b>1,159</b>	<b>1,250</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	3,636	(2,953)	-	-
Interest Paid	(306)	(138)	(298)	(360)
Dividend paid (incl tax)	(359)	(359)	(558)	(558)
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>2,971</b>	<b>-3,449</b>	<b>-856</b>	<b>-918</b>
<b>Net chg in cash</b>	<b>220</b>	<b>5,526</b>	<b>6,146</b>	<b>3,226</b>
Opening cash position	381	601	6,127	12,273
<b>Closing cash position</b>	<b>601</b>	<b>6,127</b>	<b>12,273</b>	<b>15,499</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	797	797	797	797
Reserves & surplus	20,644	27,490	33,755	39,351
<b>Net worth</b>	<b>21,441</b>	<b>28,286</b>	<b>34,552</b>	<b>40,148</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	1,748	981	981	981
Unsecured Loans	5,128	2,942	2,942	2,942
<b>Loan Funds</b>	<b>6,876</b>	<b>3,923</b>	<b>3,923</b>	<b>3,923</b>
Net deferred liabilities	1,497	2,043	2,043	2,043
<b>Total Liabilities</b>	<b>29,814</b>	<b>34,253</b>	<b>40,519</b>	<b>46,114</b>
Gross Block	32,316	35,572	38,784	41,784
Less: Depreciation	21,501	22,960	24,470	26,470
<b>Net block</b>	<b>10,815</b>	<b>12,613</b>	<b>14,314</b>	<b>15,314</b>
Capital work in progress	1,819	3,212	3,000	3,000
<b>Investments</b>	<b>4,250</b>	<b>4,250</b>	<b>4,250</b>	<b>4,250</b>
<b>Current Assets</b>	<b>21,037</b>	<b>22,518</b>	<b>31,086</b>	<b>36,182</b>
Inventories	6,111	5,648	7,166	8,063
Sundry debtors	6,216	8,881	8,904	9,676
Cash & bank balance	601	6,127	12,273	15,499
Loans & advances	8,109	1,862	2,743	2,943
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>8,107</b>	<b>8,340</b>	<b>12,131</b>	<b>12,632</b>
Current liabilities	4,217	5,384	9,176	9,676
Provisions	3,889	2,956	2,956	2,956
<b>Net current assets</b>	<b>12,930</b>	<b>14,178</b>	<b>18,955</b>	<b>23,550</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>29,814</b>	<b>34,253</b>	<b>40,519</b>	<b>46,114</b>

## Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	11.1	20.0	19.5	17.7
Net Margin	6.3	12.2	12.3	10.6
ROCE	15.5	33.5	27.6	22.4
ROE	12.5	28.7	21.5	16.7
RoIC	15.2	44.7	44.0	38.0
<b>Per Share Data (Rs)</b>				
EPS	31.9	89.5	84.6	78.4
CEPS	49.6	107.8	103.6	103.5
BVPS	269.0	354.9	433.6	503.8
DPS	4.5	7.0	7.0	7.0
<b>Valuations (x)</b>				
PER	13.4	4.8	5.0	5.4
P/CEPS	8.6	4.0	4.1	4.1
P/BV	1.6	1.2	1.0	0.8
EV / Sales	0.9	0.6	0.4	0.3
EV / EBITDA	8.1	2.4	2.0	1.7
Dividend Yield (%)	1.1	1.6	1.6	1.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.1	-0.2	-0.4	-0.4
Net Debt/EBITDA	0.5	-0.6	-1.2	-1.5
Working Cap Cycle (days)	73.6	70.9	45.9	50.0

**Recommendation History: Gujarat Sate Fertilisers – GSFC IN**

Date	Reports	Reco	CMP	Target
28/09/2011	<a href="#">GSFC Company Update</a>	Buy	434	530
28/07/2011	<a href="#">GSFC Q1FY12 Result Update</a>	Buy	397	530
30/05/2011	<a href="#">Gujarat Sate Fertilisers Q4FY11 Result Update</a>	Buy	356	530
21/02/2011	<a href="#">Gujarat Sate Fertilisers Company Update</a>	Buy	335	530

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
19/10/2011	<a href="#">Coromandel International Q2FY12 Result Update</a>	Buy	307	435
18/10/2011	<a href="#">Chambal Fertilisers Q2FY12 Result Update</a>	Accumulate	87	98
13/10/2011	<a href="#">Kajaria Ceramics Q2FY12 Result Update</a>	Buy	118	143
27/09/2011	<a href="#">Fertiliser Sector Update</a>			

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