

May 30, 2011

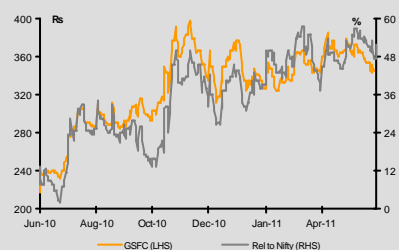
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 356	Rs 530
EPS change FY12E/13E (%)	11/NA
Target Price change (%)	NA
Nifty	5,473
Sensex	18,232

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(4)	6	6	60
Rel. to Nifty	1	4	14	50

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	413/215
Market Cap (Rs bn/USD mn)	28/621
Daily Avg Volume (No of sh)	45481
Daily Avg Turnover (US\$m)	0.4

**Shareholding Pattern (%)**

	Mar-11	Dec-10	Sep-10
Promoters	37.8	37.8	37.8
FII/NRI	10.4	8.6	6.9
Institutions	26.2	26.8	28.2
Private Corp	9.9	10.9	10.8
Public	15.7	15.9	16.3

Source: Capitaline

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**Reiterate BUY on compelling valuations**

- Q4FY11 results were in line with estimates- Revenues of Rs11.1bn, +43% yoy, APAT (adjusted for Rs 145 mn EO income) of Rs 1.95bn, +52% yoy
- Chemicals segment margins at 34.7% continues to remain strong (+320bps yoy) while fertiliser segment witnessed margins of 21.7% against losses in previous year
- Upgrade FY12E estimates by 11% to Rs 73.6 and introduce FY13E (EPS of Rs 78.8). Company holds cash in books and investments of Rs 150 / share (42% of cmp)
- Despite expected deceleration in earnings by 18% in FY12 due to softening chemical prices, valuations remain compelling with EV/EBITDA of 1.8x and 20% discount to BV

**Strong momentum continues**

GSFC's Q4FY11 results were in line with our estimates. Adjusted revenues of Rs 11.1bn (adjusted for Rs 76.2mn of subsidy received related to 1997-98), +43% yoy, were in line with our estimates of Rs 10.8bn. Adjusted EBITDA of Rs 3.1bn, +98% yoy, was marginally higher than our estimates of Rs 2.9bn led by higher than expected fertilizer margins. APAT of Rs 1.95bn, +52% yoy, was marginally higher than our estimates of Rs 1.76bn. AEPS for the quarter stood at Rs 24.5, +52% yoy, and was marginally higher than our estimates of Rs 22.1.

**Upgrade FY12E estimates by 11%, introduce FY13E**

We have revised our FY12E earnings estimates by 11% to Rs 73.6 (from Rs 66.3) due to firm margins in chemicals segment in H1FY12E. Though chemical prices have recently declined, they are still higher by ~30% yoy and spreads remain favourable. We have also introduced FY13E estimates and expect company to post an EPS of Rs 78.8 with growth driven by higher fertiliser volumes.

**Softening chemical prices to lead deceleration in earnings in FY12**

It is to highlight that though we expect GSFC's earnings to decline by 18% yoy in FY12E, it is due to decline in chemical prices. In FY11, caprolactam prices saw their peak level (increased upto US\$ 3560 / mt by Mar'2011, +75% over FY10 average) and boosted company's earnings. However prices have started softening from Q1FY12E and margins to follow suit resulting into decline in earnings.

**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 1.8x, P/E of 4.8x and 20% 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 in FY12E, we maintain our price target of Rs 530 which discounts 7.2x FY12E EPS and we 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	11.1	6.8	1.3
FY11	47,095	11,259	23.9	7,131	89.5	180.2	28.6	4.0	1.9	1.0
FY12E	57,925	9,671	16.7	5,863	73.6	(17.8)	18.9	4.8	1.8	0.8
FY13E	61,577	10,478	17.0	6,277	78.8	7.1	17.2	4.5	1.3	0.7

## Quarterly Results

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
<b>Revenue</b>	<b>7,825</b>	<b>10,668</b>	<b>13,007</b>	<b>12,272</b>	<b>11,149</b>	<b>42.5</b>	<b>(9.2)</b>	<b>47,095</b>	<b>40,192</b>	<b>17.2</b>
<b>Expenditure</b>	<b>6261</b>	<b>8831</b>	<b>9834</b>	<b>9115</b>	<b>8055</b>	<b>28.7</b>	<b>(11.6)</b>	<b>35836</b>	<b>34796</b>	<b>3.0</b>
<i>as % of sales</i>	<i>80.0</i>	<i>82.8</i>	<i>75.6</i>	<i>74.3</i>	<i>72.3</i>			<i>76.1</i>	<i>86.6</i>	
Consumption of RM	4,530	6,223	7,366	6,727	5,511	21.6	(18.1)	25,827	25,422	1.6
<i>as % of sales</i>	<i>57.9</i>	<i>58.3</i>	<i>56.6</i>	<i>54.8</i>	<i>49.4</i>			<i>54.8</i>	<i>63.3</i>	
Power & Fuel	678	818	792	794	803	18.5	1.1	3,207	3,019	6.2
<i>as % of sales</i>	<i>8.7</i>	<i>7.7</i>	<i>6.1</i>	<i>6.5</i>	<i>7.2</i>			<i>6.8</i>	<i>7.5</i>	
Employee Cost	853	625	772	675	569	(33.3)	(15.7)	2,641	2,902	(9.0)
<i>as % of sales</i>	<i>10.9</i>	<i>5.9</i>	<i>5.9</i>	<i>5.5</i>	<i>5.1</i>			<i>5.6</i>	<i>7.2</i>	
Other expenditure	200	1,165	905	919	1,172	486.3	27.6	4,161	3,453	20.5
<i>as % of sales</i>	<i>2.6</i>	<i>10.9</i>	<i>7.0</i>	<i>7.5</i>	<i>10.5</i>			<i>8.8</i>	<i>8.6</i>	
<b>EBITDA</b>	<b>1,564</b>	<b>1,836</b>	<b>3,172</b>	<b>3,157</b>	<b>3,093</b>	<b>97.7</b>	<b>(2.0)</b>	<b>11,259</b>	<b>5,396</b>	<b>108.7</b>
Depreciation	352	343	358	374	388	10.2	3.7	1,464	1,409	3.9
<b>EBIT</b>	<b>1,212</b>	<b>1,493</b>	<b>2,814</b>	<b>2,783</b>	<b>2,705</b>	<b>123.2</b>	<b>(2.8)</b>	<b>9,795</b>	<b>3,987</b>	<b>145.7</b>
Other Income	365	146	438	130	229	(37.3)	76.3	943	1,130	(16.5)
Interest	56	41	41	25	32	(43.2)	28.2	138	306	(55.0)
<b>PBT</b>	<b>1,521</b>	<b>1,598</b>	<b>3,212</b>	<b>2,888</b>	<b>2,902</b>	<b>90.8</b>	<b>0.5</b>	<b>10,600</b>	<b>4,811</b>	<b>120.4</b>
Total Tax	233	512	1,142	981	948	306.2	(3.3)	3,583	1,346	166.1
<b>Adjusted PAT</b>	<b>1,288</b>	<b>1,086</b>	<b>2,070</b>	<b>2,021</b>	<b>1,954</b>	<b>51.7</b>	<b>(3.3)</b>	<b>7,131</b>	<b>3,464</b>	<b>105.9</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
<b>APAT after MI</b>	<b>1,288</b>	<b>1,086</b>	<b>2,070</b>	<b>2,021</b>	<b>1,954</b>	<b>51.7</b>	<b>(3.3)</b>	<b>7,131</b>	<b>3,464</b>	<b>105.9</b>
<b>Extra ordinary items</b>	<b>-920</b>	<b>0</b>	<b>0</b>	<b>265</b>	<b>97</b>			<b>363</b>	<b>-920</b>	
<b>Reported PAT</b>	<b>368</b>	<b>1,086</b>	<b>2,070</b>	<b>2,286</b>	<b>2,051</b>	<b>457.3</b>	<b>(10.3)</b>	<b>7,494</b>	<b>2,544</b>	<b>194.5</b>
<b>Reported EPS</b>	<b>4.6</b>	<b>13.6</b>	<b>26.0</b>	<b>28.7</b>	<b>25.7</b>	<b>457.3</b>	<b>(10.3)</b>	<b>94.0</b>	<b>31.9</b>	<b>194.5</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	20.0	17.2	24.4	25.7	27.7	776	202	23.9	13.4	1,048
EBIT	15.5	14.0	21.6	22.7	24.3	877	159	20.8	9.9	1,088
EBT	14.8	13.6	21.3	22.5	24.0	920	151	20.5	9.2	1,135
PAT	16.5	10.2	15.9	16.5	17.5	107	106	15.1	8.6	652
Effective Tax rate	15.3	32.0	35.6	34.0	32.7	1,732	(130)	33.8	28.0	581

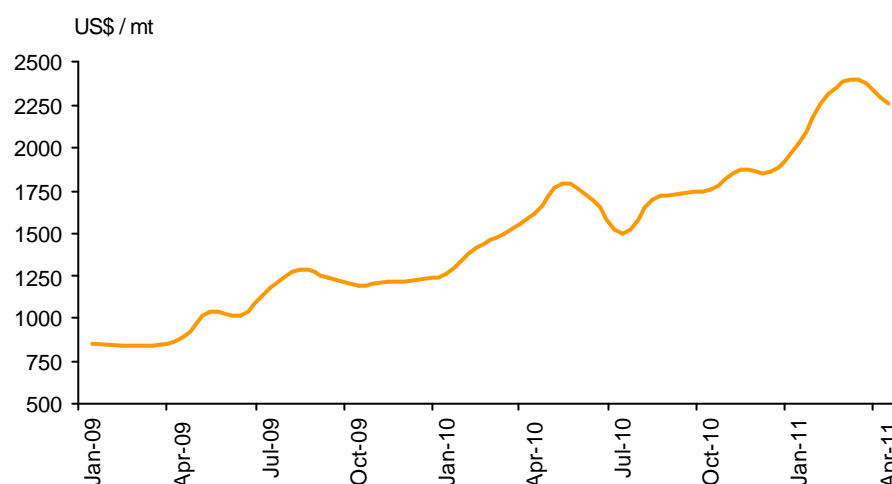
### Fertiliser segment margins at 21.7% was a positive surprise

Fertiliser segment reported revenues of Rs 7.1bn (adjusted for subsidy received of Rs 76.2mn), +51% yoy, marginally ahead of our expectations of Rs 6.7bn. Adjusted EBIT of Rs 1.5bn (adjusted for subsidy received of Rs 76.2mn included in revenues and Rs 68.8mn included in other income) was ahead of our estimates of Rs 1bn. Adjusted EBIT margin improved 560bps qoq/2700bps yoy to 21.7% against our expectation of 15%. Implementation of NBS last year in the complex fertilizer space has benefited all players and their margins have increased considerably. GSFC has also benefited from its low cost captive ammonia production.

### Chemicals segment margins decline qoq- yet remain healthy

Chemicals segment revenues increased 30% yoy to Rs 4.1bn and were in line with our estimates. Segment EBIT increased to Rs 1.4bn, 43% yoy and was marginally below our estimates of Rs 1.6bn. EBIT margins increased to 34.7% as against 31.5% last year. However, margins declined ~500bps qoq to 34.7% as against 39.6% because of recent correction in caprolactam-benzene spreads (as highlighted last quarter, caprolactam-benzene spreads at US\$ 1,825 / mt in Q3FY11 were near their peak). We believe spread between Caprolactam and Benzene (raw material) would decline further in Q1FY12E, however it should remain healthy.

#### Caprolactam-benzene spread



Source: Fibre2Fashion, Emkay Research

### FY11 achieved highest ever profit of Rs 7.1 bn driven by all time high chemical prices and strong margins in fertiliser

GSFC's revenues increased by 17% yoy to Rs 47 bn in FY11 backed by increasing chemical prices. Chemicals segment revenues increased by 27% yoy while fertilizers segment revenues increased by 13% yoy. Adjusted EBITDA for the year grew by 109% yoy to Rs 11.3bn led by improvement in margins in both the chemicals & fertilizers segment.

Fertiliser segment achieved revenues of 32 bn while segment reported EBIT of Rs 5.7 bn, +200% yoy with EBIT margins of 17.7% as against 6.7% previous year. Sharp improvement in fertiliser margins was on account of ammonia cost benefit since company meets its requirement for ammonia captively in manufacturing of complex fertiliser.

Chemical segment revenues at Rs 14.6 bn was up by 27% yoy but the segment reported EBIT of Rs 4.8bn, +116% yoy with EBIT margins of 33%. Margins in chemicals segment was at all time high due to extraordinarily high caprolactam prices in H2FY11.

Consequently, adjusted PAT grew by 106% yoy to Rs 7bn and AEPS for the year stood at Rs 89.4.

**Revision in estimates**

We have revised our estimates for FY12E to reflect high chemicals prices in H1FY12E. Though chemical prices have recently declined, they are still higher by ~30% yoy and spreads remain favorable. Consequently, we have revised our revenue estimates for FY12E by 18% and our PAT estimates by 11%. We have also introduced FY13E estimates and expect company to report EPS of Rs 78.8, +7% yoy.

Rs mn	FY12E			FY13E	
	Old Estimates	New Estimates	% Change	Introducing Estimates	% yoy
Net sales	49,220	57,925	17.7	61,577	6.3
EBITDA	8,928	9,671	8.3	10,478	8.4
EBITDA %	18.1	16.7	-144 bps	17.0	32 bps
PAT	5,285	5,863	10.9	6,277	7.1
EPS	66.3	73.6	11.0	78.8	7.1

## 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>57,925</b>	<b>61,577</b>
Growth (%)	(31.7)	17.2	23.0	6.3
<b>Expenditure</b>	<b>35,715</b>	<b>35,836</b>	<b>48,254</b>	<b>51,099</b>
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
<b>EBITDA</b>	<b>4,477</b>	<b>11,259</b>	<b>9,671</b>	<b>10,478</b>
Growth (%)	(47.4)	151.5	(14.1)	8.4
<b>EBITDA margin (%)</b>	<b>11.1</b>	<b>23.9</b>	<b>16.7</b>	<b>17.0</b>
Depreciation	1,409	1,464	1,780	2,000
<b>EBIT</b>	<b>3,067</b>	<b>9,795</b>	<b>7,891</b>	<b>8,478</b>
<b>EBIT margin (%)</b>	<b>7.6</b>	<b>20.8</b>	<b>13.6</b>	<b>13.8</b>
Other Income	1,130	943	1,170	1,250
Interest expenses	306	138	310	360
<b>PBT</b>	<b>3,891</b>	<b>10,600</b>	<b>8,751</b>	<b>9,368</b>
<b>Tax</b>	<b>1,346</b>	<b>3,469</b>	<b>2,888</b>	<b>3,092</b>
Effective tax rate (%)	34.6	32.7	33.0	33.0
<b>Adjusted PAT</b>	<b>2,545</b>	<b>7,131</b>	<b>5,863</b>	<b>6,277</b>
Growth (%)	(49.0)	180.2	(17.8)	7.1
<b>Net Margin (%)</b>	<b>6.3</b>	<b>15.1</b>	<b>10.1</b>	<b>10.2</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>2,545</b>	<b>7,131</b>	<b>5,863</b>	<b>6,277</b>
E/O items	-	363	-	-
<b>Reported PAT</b>	<b>2,545</b>	<b>7,494</b>	<b>5,863</b>	<b>6,277</b>
<b>PAT after MI</b>	<b>2,545</b>	<b>7,131</b>	<b>5,863</b>	<b>6,277</b>
Growth (%)	(49.0)	180.2	(17.8)	7.1

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>2,761</b>	<b>9,657</b>	<b>7,581</b>	<b>8,118</b>
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
<b>Operating Cashflow</b>	<b>-4,220</b>	<b>13,231</b>	<b>6,397</b>	<b>6,409</b>
Capital expenditure	(1,472)	(4,650)	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>-5,692</b>	<b>8,581</b>	<b>3,397</b>	<b>3,409</b>
Other income	1,130	943	1,170	1,250
Investments	1,811	-	-	-
<b>Investing Cashflow</b>	<b>2,941</b>	<b>943</b>	<b>1,170</b>	<b>1,250</b>
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
<b>Financing Cashflow</b>	<b>2,971</b>	<b>-3,446</b>	<b>-868</b>	<b>-918</b>
<b>Net chg in cash</b>	<b>220</b>	<b>6,078</b>	<b>3,699</b>	<b>3,741</b>
Opening cash position	381	601	6,679	10,378
<b>Closing cash position</b>	<b>601</b>	<b>6,679</b>	<b>10,378</b>	<b>14,119</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	797	797	797	797
Reserves & surplus	20,644	27,647	32,857	38,481
<b>Net worth</b>	<b>21,441</b>	<b>28,444</b>	<b>33,654</b>	<b>39,278</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	1,748	798	798	798
Unsecured Loans	5,128	3,128	3,128	3,128
<b>Loan Funds</b>	<b>6,876</b>	<b>3,926</b>	<b>3,926</b>	<b>3,926</b>
Net deferred liabilities	1,497	1,497	1,497	1,497
<b>Total Liabilities</b>	<b>29,814</b>	<b>33,867</b>	<b>39,077</b>	<b>44,701</b>
Gross Block	32,316	34,135	38,785	41,785
Less: Depreciation	21,501	22,965	24,745	26,745
<b>Net block</b>	<b>10,815</b>	<b>11,170</b>	<b>14,040</b>	<b>15,040</b>
Capital work in progress	1,819	4,650	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>23,070</b>	<b>28,350</b>	<b>33,225</b>
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	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>8,107</b>	<b>9,273</b>	<b>10,563</b>	<b>10,814</b>
Current liabilities	4,217	5,384	6,674	6,924
Provisions	3,889	3,889	3,889	3,889
<b>Net current assets</b>	<b>12,930</b>	<b>13,797</b>	<b>17,787</b>	<b>22,411</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>29,814</b>	<b>33,867</b>	<b>39,077</b>	<b>44,701</b>

## Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
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
<b>Per Share Data (Rs)</b>				
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
<b>Valuations (x)</b>				
PER	11.1	4.0	4.8	4.5
P/CEPS	7.2	4.0	3.7	3.4
P/BV	1.3	1.0	0.8	0.7
EV / Sales	0.8	0.5	0.3	0.2
EV / EBITDA	6.8	1.9	1.8	1.3
Dividend Yield (%)	1.3	2.0	2.0	2.0
<b>Gearing Ratio (x)</b>				
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
21/02/2011	<a href="#">Gujarat Sate Fertilisers Company Update</a>	Buy	335	530
31/01/2011	<a href="#">Gujarat Sate Fertilisers Q3FY11 Result Update</a>	Buy	327	530
16/12/2010	<a href="#">Gujarat Sate Fertilisers Company Update</a>	Buy	349	530
22/10/2010	<a href="#">Gujarat Sate Fertilisers Q2FY11 Result Update</a>	Buy	370	530

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
24/05/2011	<a href="#">Tata Chemicals Q4FY11 Result Update</a>	Accumulate	352	400
12/05/2011	<a href="#">Deepak Fertilisers Q4FY11 Result Update</a>	Buy	167	250
11/05/2011	<a href="#">Chambal Fertilisers Q4FY11 Result Update</a>	Accumulate	81	86
02/05/2011	<a href="#">Rallis India Q4FY11 Result Update</a>	Buy	1,390	1,735

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