

September 11, 2014

Balwinder Singh  
balwindarsingh@plindia.com  
+91-22-66322239

Rating	Accumulate
Price	Rs89
Target Price	Rs115
Implied Upside	29.2%
Sensex	26,996
Nifty	8,086

(Prices as on September 11, 2014)

### Trading data

Market Cap. (Rs bn)	35.4
Shares o/s (m)	398.5
3M Avg. Daily value (Rs m)	98.2

### Major shareholders

Promoters	37.84%
Foreign	18.87%
Domestic Inst.	19.52%
Public & Other	23.77%

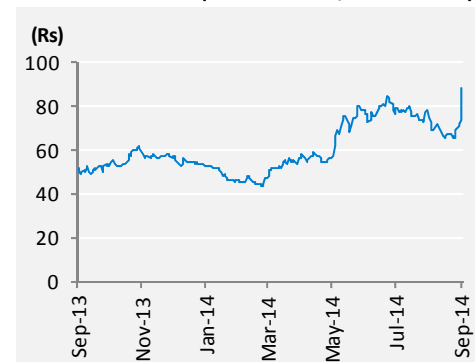
### Stock Performance

(%)	1M	6M	12M
Absolute	18.2	84.8	76.7
Relative	12.5	61.1	41.7

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2015	12.8	11.9	7.7
2016	14.4	13.1	10.2

### Price Performance (RIC: GSFC.BO, BB: GSFC IN)



Source: Bloomberg

We attended GSFC's Analyst Meet held on September 10, 2014. On the chemicals side, capro- benzene spreads which stood at US\$900/mt in FY14 are witnessing a gradual uptick. Current spreads are at US\$1,050-1,100/mt and management expects gradual improvement in spreads over the next few quarters. GSFC's plants continue to operate @110% capacity utilization. On the fertiliser side, MRPs were increased by 10-15% from Apr 2014 itself in anticipation of a gas price hike. However, GSFC's fertiliser MRPs is still lower when compared to peers/ IPP linked prices, giving room for further price hikes. GSFC expects fertiliser business to deliver stable margins of Rs2,500/mt. Stable FX and lower discounts this year bode well for fertiliser margins. On the capex side, WSF plant (revenue potential- Rs1.5bn) will be commissioned by Q3FY15E, nylon-6 plant (revenue potential - Rs2.9bn) will be commissioned by Q4FY15E, D train at Sikka (revenue potential- Rs1.5bn) will be commissioned by Q3FY16E. We are modelling for EPS of Rs12.8/14.4 in FY15E/16E respectively. Given that stock has underperformed in the current rally, coupled with attractive valuations of 7x FY15E/6x FY16E earnings and 30% discount to BV, we expect valuations to catch up. We maintain 'Accumulate' with a revised target price of Rs115 (previous Rs90).

- **Chemicals- worst over; gradual improvement on the cards:** GSFC believes that capro-benzene spreads have bottomed out. Spreads which stood at US\$900/mt in FY14 are currently ruling at US\$1,050-1,100/mt. Management expects gradual improvement in spreads from here on. Recent decline in crude prices would also help to improve spreads. We expect spreads to remain in US\$1,100-1,300/mt for the next couple of quarters.

Contd...2

Key financials (Y/e March)	2013	2014	2015E	2016E
Revenues (Rs m)	61,967	54,017	62,036	68,419
Growth (%)	16.9	(12.8)	14.8	10.3
EBITDA (Rs m)	7,813	5,894	7,114	7,885
PAT (Rs m)	5,187	4,035	5,102	5,735
EPS (Rs)	13.0	10.1	12.8	14.4
Growth (%)	(32.3)	(22.2)	26.4	12.4
Net DPS (Rs)	2.0	2.0	2.4	2.6

Profitability & Valuation	2013	2014	2015E	2016E
EBITDA margin (%)	12.6	10.9	11.5	11.5
RoE (%)	13.9	9.9	11.6	11.9
RoCE (%)	11.3	8.4	10.3	10.7
EV / sales (x)	0.8	0.7	0.6	0.6
EV / EBITDA (x)	6.2	6.6	5.6	5.2
PE (x)	6.8	8.8	6.9	6.2
P / BV (x)	0.9	0.8	0.8	0.7
Net dividend yield (%)	2.3	2.3	2.7	2.9

Source: Company Data; PL Research

- **Fertilisers- prices increased by 10-15%; can take further MRP hikes:** GSFC highlighted that they had raised prices by 10-15% from Apr'14 itself to combat the likely increase in gas prices. However, GSFC's fertiliser MRPs is still lower when compared to peers/IPP linked prices, giving room for further price hikes. GSFC highlighted that fertiliser business can deliver stable margins of Rs2,500/mt over the medium-term. Stable FX and lower discounts this year bode well for fertiliser margins.
- **Market share across fertilisers & chemicals:** GSFC's market share across fertilisers & chemicals are depicted below:

**Exhibit 1: GSFC Market Share in Fertilisers**

Product	Market share
DAP	6%
Ammonium Phosphate Sulphate	11%
Ammonium Sulphate	79%
Urea	1%

Source: Company Data, PL Research

**Exhibit 2: GSFC Market Share in Chemicals**

Product	India demand p.a.-mt	Market share
Caprolactam	115,000	72%
Melamine	55,000	33%
MEK Oxime	600	90%
Nylon-6	46,000	38%

Source: Company Data, PL Research

**Exhibit 3: 10year Production Volumes**

PARTICULARS	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
FERTILIZERS	MT	1,392,018	1,528,265	1,778,070	1,594,703	1,469,470	1,812,570	1,556,172	1,470,350	1,436,535	1,423,059
CAPROLACTAM	MT	77,150	78,120	79,666	79,716	70,913	81,151	79,577	80,503	83,180	84,856
NYLON-6	MT	8,691	7,975	9,145	8,683	8,783	8,715	9,464	8,914	9,659	9,751
MELAMINE	MT	14,823	15,323	15,335	14,741	13,655	13,735	13,938	15,279	14,001	14,916
ARGON	000NM <sup>3</sup>	2,245	3,105	2,912	3,129	3,183	3,464	3,327	3,270	3,458	3,334
MONOMER	MT	4,739	4,053	4,449	4,156	3,469	4,597	4,547	4,287	3,116	3,227
ACRYLIC SHEETS	MT	398	574	664	642	552	687	721	876	566	780
ACRYLIC PELLETS	MT	1,813	1,936	2,082	2,023	1,887	1,937	1,710	2,046	1,974	1,701
NYLON FILAMENT YARN	MT	6,069	5,779	5,169	4,705	4,498	4,433	4,361	3,910	3,080	3,643
NYLON CHIPS	MT	3,816	4,546	4,084	5,950	5,097	4,652	5,399	5,103	8,605	9,219

Source: Company Data, PL Research

**Exhibit 4: SWOT Analysis**

Strengths	Weaknesses	Opportunities	Threats
Zero debt company	Major RM is imported and there are limited suppliers	Tie-ups with countries incl. Togo, Senegal for RM	Dependence on monsoons
Fully integrated production	Capacities are pretty old though GSFC has been renovating them time and again	Agro products consolidation	FX related risks
Better & efficient management of utilities. viz. power & gas		New petchem complex at Dahej	Addition of new capacities globally in chemicals which can increase competition
Strong brand image & market share		Capacity addition in complex fertilisers	
Captive jetty at Sikka			
JV in Tunisia			
Strategic investment for MoP (Karnalyte)			

Source: PL Research

■ **Capex Update:** Following is the capex update

**Exhibit 5: Projects under Implementation**

Projects	Capex (Rs bn)	Capacity	Timeline	Revenue potential p.a.-bn
WSF plant	0.5	20000 mt	Q3FY15E	1.5
D train at Sikka	6.1	1650 mtpd	Q3FY16E	15.0
Nylon-6	1.3	15000 mtpa	Q4FY15E	2.9

Source: Company Data, PL Research

**Exhibit 6: Projects under Consideration**

Projects	Capex-Rs bn	Capacity
Melamine	10	40000 mt
Phos acid/Sulphuric Acid	13	
<b>Integrated plant at Dahej:</b>	<b>90</b>	
Urea		1m mtpa
Caprolactam		0.1m mtpa
High speed Nylon 6		30000 mtpa

Source: Company Data, PL Research

- **Expect valuations to catch up with peers; upgrade TP to Rs115 (previous Rs90):**  
We expect GSFC's valuations to catch up with other fertiliser peers. Given that valuations remain attractive as well as the fact that stock has underperformed in the current rally, we anticipate the valuation discount to narrow. We upgrade target price to Rs115 (previous Rs90).

**Exhibit 7: Valuation Matrix**

	Price (Rs)	PAT (Rs m)		EPS (Rs)		RoE (%)		RoCE (%)		PER (x)		EV/EBITDA (x)	
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Chambal Fertilizers	62	2,424	2,659	5.9	6.4	11.4	11.7	5.7	6.3	10.6	9.6	9.2	8.6
Coromandel Int.	328	4,534	6,107	16.0	21.6	18.7	22.0	14.9	17.5	20.5	15.2	11.4	9.2
Deepak Fertilisers	177	2,147	2,812	24.3	31.9	13.7	16.0	11.6	13.8	7.3	5.5	4.6	3.5
GSFC	89	5,102	5,735	12.8	14.4	11.6	11.9	10.3	10.7	6.9	6.2	5.6	5.2
Tata Chemicals	407	7,395	9,015	29.0	35.4	12.8	14.3	7.8	8.8	14.0	11.5	7.6	6.6

Source: Company Data, Bloomberg, PL Research

**Income Statement (Rs m)**

Y/e March	2013	2014	2015E	2016E
<b>Net Revenue</b>	<b>61,967</b>	<b>54,017</b>	<b>62,036</b>	<b>68,419</b>
Raw Material Expenses	40,515	31,273	40,374	47,053
Gross Profit	21,452	22,744	21,662	21,366
Employee Cost	3,951	3,954	4,227	4,650
Other Expenses	9,688	12,896	10,321	8,831
<b>EBITDA</b>	<b>7,813</b>	<b>5,894</b>	<b>7,114</b>	<b>7,885</b>
Depr. & Amortization	1,321	1,453	1,113	1,120
Net Interest	(1,018)	(1,119)	(1,120)	(1,200)
Other Income	1,381	1,571	1,306	1,400
<b>Profit before Tax</b>	<b>7,511</b>	<b>5,560</b>	<b>7,121</b>	<b>7,965</b>
Total Tax	2,304	1,525	2,019	2,230
<b>Profit after Tax</b>	<b>5,207</b>	<b>4,035</b>	<b>5,102</b>	<b>5,735</b>
Ex-Od items / Min. Int.	(21)	—	—	—
<b>Adj. PAT</b>	<b>5,187</b>	<b>4,035</b>	<b>5,102</b>	<b>5,735</b>
<b>Avg. Shares O/S (m)</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>
<b>EPS (Rs.)</b>	<b>13.0</b>	<b>10.1</b>	<b>12.8</b>	<b>14.4</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2013	2014	2015E	2016E
C/F from Operations	(8,405)	15,679	8,159	7,722
C/F from Investing	(6,532)	(4,495)	(8,000)	(7,000)
C/F from Financing	7,592	(8,939)	(2,298)	(1,404)
Inc. / Dec. in Cash	(7,344)	2,245	(2,139)	(682)
Opening Cash	8,976	1,631	3,876	1,737
Closing Cash	1,631	3,876	1,737	1,055
FCFF	(12,894)	15,706	5,973	5,522
FCFE	(4,013)	8,144	4,973	5,522

**Key Financial Metrics**

Y/e March	2013	2014	2015E	2016E
<b>Growth</b>				
Revenue (%)	16.9	(12.8)	14.8	10.3
EBITDA (%)	(30.8)	(24.6)	20.7	10.8
PAT (%)	(32.3)	(22.2)	26.4	12.4
EPS (%)	(32.3)	(22.2)	26.4	12.4
<b>Profitability</b>				
EBITDA Margin (%)	12.6	10.9	11.5	11.5
PAT Margin (%)	8.4	7.5	8.2	8.4
RoCE (%)	11.3	8.4	10.3	10.7
RoE (%)	13.9	9.9	11.6	11.9
<b>Balance Sheet</b>				
Net Debt : Equity	0.3	0.1	0.1	0.1
Net Wrkg Cap. (days)	185	152	123	111
<b>Valuation</b>				
PER (x)	6.8	8.8	6.9	6.2
P / B (x)	0.9	0.8	0.8	0.7
EV / EBITDA (x)	6.2	6.6	5.6	5.2
EV / Sales (x)	0.8	0.7	0.6	0.6
<b>Earnings Quality</b>				
Eff. Tax Rate	30.7	27.4	28.4	28.0
Other Inc / PBT	18.4	28.2	18.3	17.6
Eff. Depr. Rate (%)	3.1	3.4	2.5	2.4
FCFE / PAT	(77.4)	201.9	97.5	96.3

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2013	2014	2015E	2016E
Shareholder's Funds	39,416	41,906	45,896	50,426
Total Debt	15,051	7,489	6,489	6,489
Other Liabilities	2,392	2,619	2,619	2,619
<b>Total Liabilities</b>	<b>56,859</b>	<b>52,013</b>	<b>55,003</b>	<b>59,534</b>
Net Fixed Assets	20,842	22,366	29,253	35,133
Goodwill	—	—	—	—
Investments	6,724	8,274	8,274	8,274
Net Current Assets	29,292	21,373	17,476	16,126
<i>Cash &amp; Equivalents</i>	<i>1,631</i>	<i>3,876</i>	<i>1,737</i>	<i>1,055</i>
<i>Other Current Assets</i>	<i>39,978</i>	<i>30,593</i>	<i>30,216</i>	<i>31,047</i>
<i>Current Liabilities</i>	<i>12,318</i>	<i>13,096</i>	<i>14,477</i>	<i>15,976</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>56,858</b>	<b>52,013</b>	<b>55,003</b>	<b>59,534</b>

**Quarterly Financials (Rs m)**

Y/e March	Q2FY14	Q3FY14	Q4FY14	Q1FY15
<b>Net Revenue</b>	<b>14,180</b>	<b>14,476</b>	<b>15,181</b>	<b>12,432</b>
<b>EBITDA</b>	<b>1,809</b>	<b>1,418</b>	<b>1,475</b>	<b>1,591</b>
% of revenue	12.8	9.8	9.7	12.8
Depr. & Amortization	362	378	381	273
Net Interest	(289)	(382)	(449)	(220)
Other Income	413	523	496	256
<b>Profit before Tax</b>	<b>1,736</b>	<b>1,422</b>	<b>1,542</b>	<b>1,538</b>
Total Tax	438	366	704	456
<b>Profit after Tax</b>	<b>1,013</b>	<b>1,013</b>	<b>1,341</b>	<b>1,082</b>
<b>Adj. PAT</b>	<b>1,298</b>	<b>1,056</b>	<b>1,079</b>	<b>1,082</b>

**Key Operating Metrics**

Y/e March	2013	2014	2015E	2016E
<b>Revenues (Rs m)</b>				
Fertiliser	42,791	31,267	36,409	40,230
Chemicals	19,752	22,858	25,627	28,189
<b>EBIT Margin (%)</b>				
Fertiliser	8.7	7.1	9.1	8.0
Chemicals	17.5	12.8	12.3	14.0

Source: Company Data, PL Research.

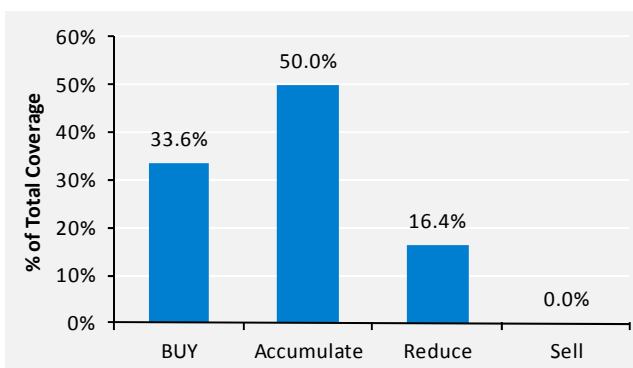


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.