

September 11, 2014

Balwindar 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- Rs15bn) 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/6xFY16E 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.

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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 ³	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 Captive jetty at Sikka JV in Tunisia Strategic investment for MoP (Karnalyte)		Capacity addition in complex fertilisers	

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	
Integrated plant at Dahej:	90	
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
Net Revenue	61,967	54,017	62,036	68,419
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
EBITDA	7,813	5,894	7,114	7,885
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
Profit before Tax	7,511	5,560	7,121	7,965
Total Tax	2,304	1,525	2,019	2,230
Profit after Tax	5,207	4,035	5,102	5,735
Ex-Od items / Min. Int.	(21)	—	—	—
Adj. PAT	5,187	4,035	5,102	5,735
Avg. Shares O/S (m)	398.5	398.5	398.5	398.5
EPS (Rs.)	13.0	10.1	12.8	14.4

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
Total Liabilities	56,859	52,013	55,003	59,534
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 & 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	—	—	—	—
Total Assets	56,858	52,013	55,003	59,534

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

Quarterly Financials (Rs m)

Y/e March	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Net Revenue	14,180	14,476	15,181	12,432
EBITDA	1,809	1,418	1,475	1,591
<i>% of revenue</i>	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
Profit before Tax	1,736	1,422	1,542	1,538
Total Tax	438	366	704	456
Profit after Tax	1,013	1,013	1,341	1,082
Adj. PAT	1,298	1,056	1,079	1,082

Key Financial Metrics

Y/e March	2013	2014	2015E	2016E
Growth				
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
Profitability				
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
Balance Sheet				
Net Debt : Equity	0.3	0.1	0.1	0.1
Net Wrkng Cap. (days)	185	152	123	111
Valuation				
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
Earnings Quality				
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

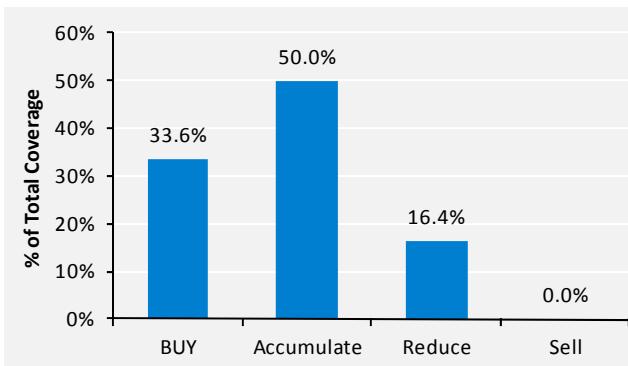
Source: Company Data, PL Research.
Key Operating Metrics

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



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

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

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