

Results inline; maintain Accumulate

January 27, 2012

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 388	Rs 530
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,205
Sensex	17,234

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	(17)	(3)	17
Rel. to Nifty	1	(17)	2	25

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	504/316
Market Cap (Rs bn/USD mn)	31/628
Daily Avg Volume (No of sh)	85983
Daily Avg Turnover (US\$mn)	0.7

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	37.8	37.8	37.8
FII/NRI	11.8	10.8	10.0
Institutions	27.1	27.1	26.4
Private Corp	9.6	9.8	10.1
Public	13.6	14.5	15.7

Source: Capitaline

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- GSFC reported in line performance- sales of Rs 13bn, 6% yoy, APAT of Rs 1.7bn, -15% yoy. EBITDA margins declined 590bps yoy/410bps qoq to 19.8% due to lower chemical margins
- Fertiliser EBIT margin at 15.3% (est 13%) was ahead of est while chemical margin at 26.6% (est 28%) was lower than est. Decline in chemical margins is in line with decline in spreads
- Caprolactam-benzene spread bounced back to \$1710/mt in Jan'12 compared to low of \$1480/mt in Dec'11. However, est remain unchanged as we had factored spreads of \$1700/mt
- Earnings have started decelerating from Q3FY12 due to decline in spreads. We maintain Accum with TP of Rs 530 despite attractive valuations due to declining trend in spread

Results in line with 6%yoy sales growth while APAT declined by 15%yoy

GSFC reported revenues of Rs 13bn, 6% yoy in line with our est. Fertiliser segment reported in line revenues of Rs 9bn, 7% yoy while chemicals segment reported revenues of Rs 4bn, 4% yoy in line with est. GSFC reported EBITDA of Rs 2.6bn, -18% yoy in line with est. EBITDA margins came at 19.8% (-590bps yoy/-410bps qoq) against est of 19.4%. GSFC's employee cost increased to Rs 1.18bn, 75% yoy due to higher provisioning of liability on account of wage revision of Baroda employees. Company reported APAT of Rs 1.72bn, -15% yoy in line with our est. AEPS for the quarter stood at 21.6 against est of Rs 21.8. Despite 6% increase in topline, APAT declined by 15% yoy primarily because of lower margins in chemicals segment.

EBITDA margins decline 590bps yoy/410bps qoq to 19.8% due to contraction in caprolactam-benzene spreads

GSFC reported EBITDA of Rs 2.6bn, -18% yoy in line with est with EBITDA margins of 19.8%. Fertiliser segment reported margins of 15.3% against estimates of 13% while chemical segment reported margins of 26.6% lower than est of 28%. During the quarter, average caprolactam prices stood at \$2900/mt (4% yoy/-17%qoq) while benzene prices stood at \$1000/mt (5% yoy/-11%qoq). Consequently, spreads declined to \$1900/mt for Q3FY12 compared to \$2400/mt in Q2FY12 leading to decline in chemical margins from 34.3% in Q2 to 26.6% in Q3FY12.

Maintain Accumulate; though valuations remain attractive

Though chemical spreads remain encouraging compared to historical average, however with recent decline in spreads, we expect GSFC's earnings to decelerate. GSFC had been a beneficiary of the strengthening caprolactam-benzene cycle during the previous 6-7 quarters however with recent decline in spreads, earnings decelerated in Q3FY12. We maintain Accumulate rating with target price of Rs 530. Valuations still remain attractive with cash of Rs 8.5bn currently which is likely to increase to Rs 15bn (cash/share of Rs 194) by FY13E. Despite attractive valuations, 50% of cmp in cash and equivalents and FY13 EV/EBITDA of 1.5x, P/E of 4.9x we maintain our Accumulate rating on the stock due to declining trend of caprolactam – benzene spreads.

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	12.2	7.4	1.4
FY11	47,095	11,259	23.9	7,131	89.5	180.2	28.7	4.3	2.2	1.1
FY12E	54,858	10,678	19.5	6,745	84.6	(5.4)	21.5	4.6	1.8	0.9
FY13E	58,863	10,436	17.7	6,248	78.4	(7.4)	16.7	4.9	1.5	0.8

Quarterly Results

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Revenue	12,272	11,149	12,077	12,641	13,000	5.9	2.8	37,718	35,946	4.9
Expenditure	9115	8055	9339	9610	10421	14.3	8.4	29369	27781	5.7
<i>as % of sales</i>	<i>74.3</i>	<i>72.3</i>	<i>77.3</i>	<i>76.0</i>	<i>80.2</i>			<i>77.9</i>	<i>77.3</i>	
Consumption of RM	6,727	5,511	6,651	6,988	6,929	3.0	(0.8)	20,568	20,316	1.2
<i>as % of sales</i>	<i>54.8</i>	<i>49.4</i>	<i>55.1</i>	<i>55.3</i>	<i>53.3</i>			<i>54.5</i>	<i>56.5</i>	
Power & Fuel	794	803	850	750	1,053	32.5	40.3	2,653	2,404	10.4
<i>as % of sales</i>	<i>6.5</i>	<i>7.2</i>	<i>7.0</i>	<i>5.9</i>	<i>8.1</i>			<i>7.0</i>	<i>6.7</i>	
Employee Cost	675	569	829	736	1,182	75.2	60.7	2,747	2,072	32.5
<i>as % of sales</i>	<i>5.5</i>	<i>5.1</i>	<i>6.9</i>	<i>5.8</i>	<i>9.1</i>			<i>7.3</i>	<i>5.8</i>	
Other expenditure	919	1,172	1,009	1,137	1,256	36.8	10.5	3,402	2,989	13.8
<i>as % of sales</i>	<i>7.5</i>	<i>10.5</i>	<i>8.4</i>	<i>9.0</i>	<i>9.7</i>			<i>9.0</i>	<i>8.3</i>	
EBITDA	3,157	3,093	2,738	3,031	2,580	(18.3)	(14.9)	8,349	8,166	2.2
Depreciation	374	388	311	311	328	(12.5)	5.3	949	1,076	(11.8)
EBIT	2,783	2,705	2,428	2,720	2,252	(19.1)	(17.2)	7,400	7,090	4.4
Other Income	130	229	239	411	307	136.4	(25.4)	957	714	34.0
Interest	25	32	58	7	25	2.0	261.4	91	106	(14.5)
PBT	2,888	2,902	2,608	3,125	2,534	(12.3)	(18.9)	8,267	7,698	7.4
Total Tax	867	948	835	997	810	(6.5)	(18.7)	2,642	2,521	4.8
Adjusted PAT	2,021	1,954	1,773	2,128	1,724	(14.7)	(19.0)	5,625	5,177	8.7
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
APAT after MI	2,021	1,954	1,773	2,128	1,724	(14.7)	(19.0)	5,625	5,177	8.7
Extra ordinary items	265	97	-353	0	0			-353	265	
Reported PAT	2,286	2,051	1,421	2,128	1,724	(24.6)	(19.0)	5,272	5,442	(3.1)
Reported EPS	28.7	25.7	17.8	26.7	21.6	(24.6)	(19.0)	66.1	68.3	(3.1)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	25.7	27.7	22.7	24.0	19.8	(588)	(414)	22.1	22.7	(58)
EBIT	22.7	24.3	20.1	21.5	17.3	(535)	(420)	19.6	19.7	(10)
EBT	22.5	24.0	19.6	21.5	17.1	(534)	(434)	19.4	19.4	(5)
PAT	16.5	17.5	14.7	16.8	13.3	(321)	(358)	14.9	14.4	51
Effective Tax rate	30.0	32.7	32.0	31.9	32.0	196	8	32.0	32.8	(79)

Source: Company, Emkay Research

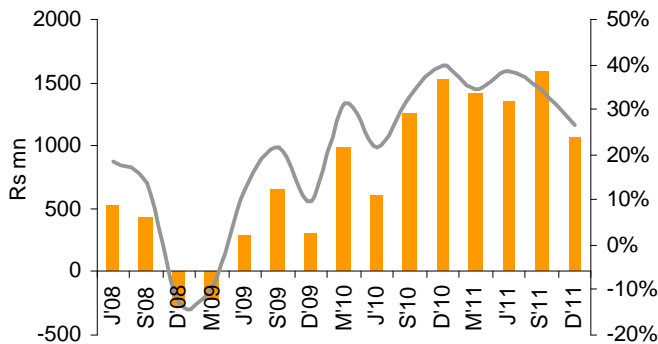
Fertiliser topline in line; margins ahead of est

Fertiliser segment reported revenues of Rs 9bn, 7% yoy, in line with our estimates while EBIT of Rs 1.4bn, 2% yoy, was slightly ahead of estimates of Rs 1.2bn due to higher margins. Company reported EBIT margin of 15.3% (-73bps yoy/26bps qoq) against est of 13.0%. GSFC has been a beneficiary of the NBS system and its margins have improved considerably over the last 2 years. GSFC also benefits from its low cost captive ammonia production.

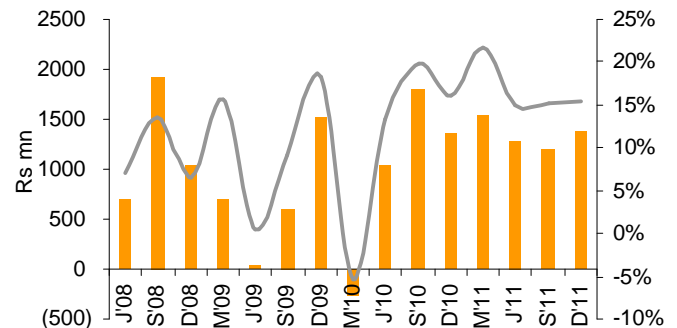
Chemical margins decline 1300bps yoy/780bps qoq to 26.6%

Chemicals segment revenues increased by 4% yoy to Rs 4bn in line with est. Chemical segment reported EBIT of Rs 1.06bn, -30% yoy with margins of 26.6% (-1300bps yoy/-780bps qoq) against est of 28.0%. During the quarter, average caprolactam prices stood at \$2900/mt (4% yoy/-17%qoq) while benzene prices stood at \$1000/mt (5% yoy/-11%qoq). Consequently, spreads declined to \$1900/mt for Q3FY12 compared to \$2400/mt in Q2FY12 leading to decline in chemical margins from 34.3% in Q2 to 26.6% in Q3FY12.

Chemicals EBIT & Margins



Fertiliser EBIT & Margins



Source: Company, Emkay Research

Caprolactam prices retreat in Jan'12; spreads follow suit

Caprolactam prices bounce back to \$2850/mt in Jan'12 from their low of \$2500/mt in Dec'11

Caprolactam prices bounced back to \$2850/mt in the first half of Jan'12 from their low of \$2500/mt in Dec'11. Caprolactam prices had fallen to \$2500/mt in Dec-11 due to weak global macroeconomic climate which forced buyers to adopt a wait and watch strategy as they expected prices to decline further. However, demand rebounded in Jan'12 due to moderate supply and inventory buildup by certain Asian caprolactam players. Going forward, industry experts expect CPL market to remain bullish in near future due to optimistic outlook.

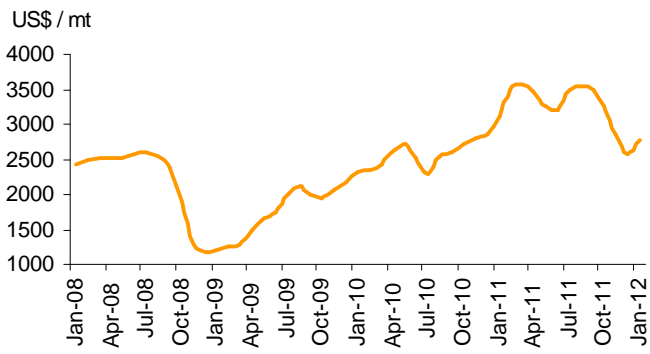
Benzene prices increased by 10% to \$1135/mt in Jan-12 compared to \$1030/mt in Dec-11

Benzene prices increased by 10% to \$1135/mt in Jan-12 compared to \$1030/mt in Dec-11 driven by bullish energy rates and firm demand from textiles and plastic sectors. Going forward, benzene price is expected to remain firm in short term future due to supportive demand.

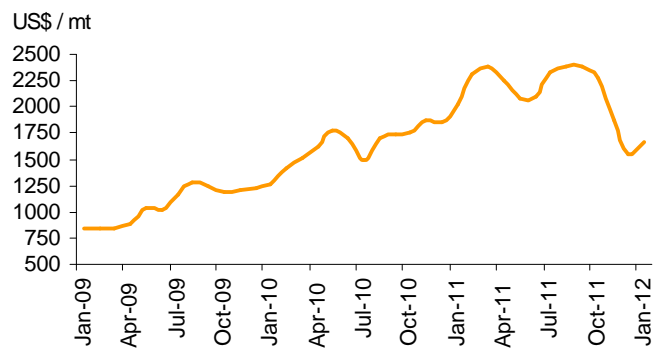
Spreads bounce back to \$1710/mt in Jan'12 driven by increase in caprolactam prices

Driven by rebound in caprolactam prices, caprolactam-benzene spreads increased to \$1710/mt in January compared to the low of \$1480/mt in Dec'11. Spreads had declined in Nov/Dec'11 due to decline in caprolactam prices however with the rebound witnessed in caprolactam prices in January'12, spreads followed suit. We expect spreads to remain in this range in the near future and have modeled for spreads of around \$1700/mt in the near future. Current spreads at \$1710/mt are lower than the average of \$1900/mt witnessed in Q3FY12.

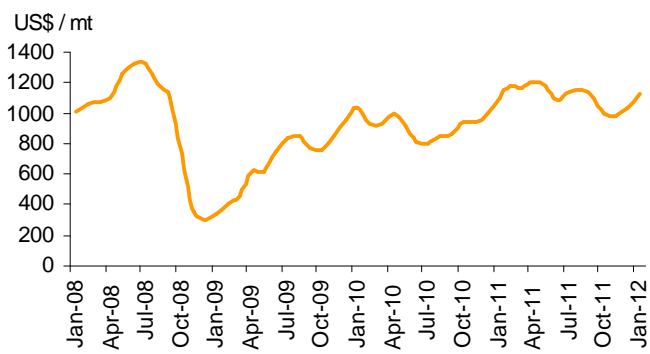
Caprolactam prices



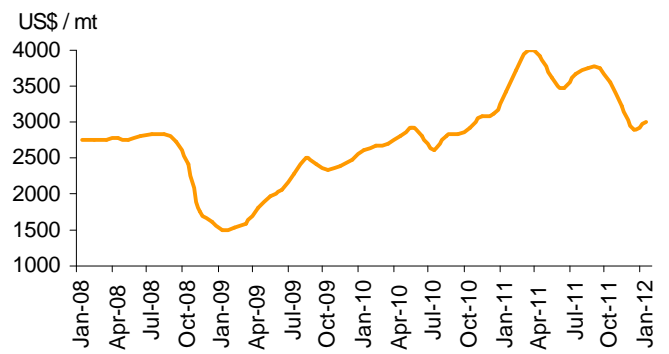
Caprolactam-benzene spreads



Benzene prices



Nylon chips prices



Source: Fibre2Fashion, Emkay Research

Key Financials

Income Statement

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

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	2,761	9,657	8,870	8,076
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
Operating Cashflow	-4,220	12,681	8,844	5,894
Capital expenditure	(1,472)	(4,649)	(3,000)	(3,000)
Free Cash Flow	-5,692	8,031	5,844	2,894
Other income	1,130	943	1,159	1,250
Investments	1,811	0	-	-
Investing Cashflow	2,941	943	1,159	1,250
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
Financing Cashflow	2,971	-3,449	-856	-918
Net chg in cash	220	5,526	6,146	3,226
Opening cash position	381	601	6,127	12,273
Closing cash position	601	6,127	12,273	15,499

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
Net worth	21,441	28,286	34,552	40,148
Minority Interest	0	0	0	0
Secured Loans	1,748	981	981	981
Unsecured Loans	5,128	2,942	2,942	2,942
Loan Funds	6,876	3,923	3,923	3,923
Net deferred liabilities	1,497	2,043	2,043	2,043
Total Liabilities	29,814	34,253	40,519	46,114
Gross Block	32,316	35,572	38,784	41,784
Less: Depreciation	21,501	22,960	24,470	26,470
Net block	10,815	12,613	14,314	15,314
Capital work in progress	1,819	3,212	3,000	3,000
Investments	4,250	4,250	4,250	4,250
Current Assets	21,037	22,518	31,086	36,182
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	-	-	-	-
Current lia & Prov	8,107	8,340	12,131	12,632
Current liabilities	4,217	5,384	9,176	9,676
Provisions	3,889	2,956	2,956	2,956
Net current assets	12,930	14,178	18,955	23,550
Misc. exp	-	-	-	-
Total Assets	29,814	34,253	40,519	46,114

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
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
Per Share Data (Rs)				
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
Valuations (x)				
PER	12.2	4.3	4.6	4.9
P/CEPS	7.8	3.6	3.7	3.7
P/BV	1.4	1.1	0.9	0.8
EV / Sales	0.8	0.5	0.4	0.3
EV / EBITDA	7.4	2.2	1.8	1.5
Dividend Yield (%)	1.2	1.8	1.8	1.8
Gearing Ratio (x)				
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
19/12/2011	GSFC Analyst Meet Update	Accumulate	373	530
08/12/2011	GSFC Company Update	Accumulate	443	530
20/10/2011	GSFC Q2FY12 Result Update	Buy	427	530
28/09/2011	GSFC Company Update	Buy	434	530

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/01/2012	Fertiliser Sector Update			
25/01/2012	Deepak Fertilisers Q3FY12 Result Update	Buy	138	185
24/01/2012	JK Paper Q3FY12 Result Update	Accumulate	36	48
23/01/2012	Coromandel International Q3FY12 Result Update	Hold	274	286

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