

06/08/2016

Sector: Fertilisers

Financial Snapshot:
Q1 sales volume declined by 10%:

GSFC has reported around 10% YoY decline in total sale volume which stands around 299467 MT. Fertilizer sales volume has declined by 8.3% standing at 257378 MT. DAP sales which is approx 27% of fertilizer volume, has grew 63% YoY standing at 69386 MT as company targeted significant increase in DAP sales but oversupply of DAP in market resulted in heavy inventory burden of around 90000 MT. Ammonium Sulphate sales which is around 21% of fertilizer volume had declined 26.6% YoY to 52812 MT. Ammonium Phosphate Sulphate which is 19% of fertilizer volume, its sales declined 38.3% YoY to 49156 MT and Urea which is approx 32% of fertilizer volume has a sales declined marginally to 81702 MT. Industrial segment volume had declined around 20% YoY to 38000 MT. Increased sale of Melamine by approx 28% YoY was the only positive in Industrial segment as Caprolactam which is 37% of Industrial segment, Nylon-6 5% and Ammonia around 40% has declined by 16.4%, 4.3% and 32.3% to 14067 MT, 2309 MT and 15321 MT respectively.

Q1 has contraction in Operating Margin of 470 bps:

GSFC has reported Operating Profit of INR 979mn, which is down by 37.4% YoY while operating margin stood at 9.05%, which is down by 470 bps YoY. CoGS, as a % of sales, adjusted for change in inventory, has increased 11.6 ppts to 68.76%. Employee cost, as a % of sales, grew by 240 bps to 11.4%. Power costs and other expenses, as % of sales, has increased by 30 bps and 300bps to 9.5% and 19.9% respectively.

Industrial Segment is under pressure:

Industrial segment revenue had declined by 18.6% YoY to INR 4197mn as it came under pressure due to lower price of industrial chemicals. Capro-Benzene spread has declined by 34.2% YoY to USD 625/ MT. GSFC witnessed marginal increase in Capro-Benzene spreads on QoQ basis from USD 600/MT to USD 625/MT. Robust Caprolactam manufacturing capacity of China is putting tremendous pressure on Caprolactam market. Expected increase in capro-benzene spread and additional revenue from Nylon-6 plant from H2FY16 should revive Industrial segment revenue in FY17.

Stock Summary
Particular

CMP (INR)	69.85
Target Price (INR)	99
Potential Upside	41.73%
O/S No. of Shares (cr.)	39.84
Market Cap. (cr.)	3574.34
Equity Cap. (cr.)	79.70
52 Week High	86.70
52 Week Low	57.65
Face Value	2
NSE Code	GSFC
BSE Code	500690

Share Holding Pattern:

Particular	Mar-16
Promoters	37.84
Public (FII+DII)	34.86
Others	0.00
TOTAL	100%

Stock Performance:


Increase in Fertilizer Industry:

Fertilizer segment revenue reported a modest 6.5% YoY growth which stood around at INR 6624mn which is led by strong traction in Urea and DAP sales but sales of other fertilizers remained subdued. Due to intervention of government, GSFC reduced DAP prices by INR 2200/MT, whereas the prices of other fertilizers remained constant. Gujarat, the major target market for GSFC, had witnessed lower than expected rainfall which resulted in lower sale of fertilizers and higher inventory. GSFC is carrying phosphoric acid inventory at USD 715/MT but further negotiations with suppliers could reduce its prices to USD 600/MT. Effective Phosphoric acid prices are applicable from April and hence will be beneficial for company in coming quarters. On a positive note, GSFC received fertilizer subsidy backlog of INR 9bn which improved liquidity but increased finance cost due to long credit periods to farmers partially nullified it. Fertilizer subsidy of INR 5bn is still due from the government.

Capex to have a Cautious stance:

Company has planned for capex of INR 5 bn for FY17 and FY18 each. Capital expenditure for Caprolactam plant of capacity 100,000 MT has been put on hold due to negative headwinds in Caprolactam market and DAP expansion at Sikka plant is also on hold as increased production of DAP resulted in huge inventory burden in Q1. Ongoing expansion of Melamine III plant is expected to be completed by Mar' 18. Nylon-6 capacity which is expected to be operational by Q2FY17 will generate revenue of ~INR 3 bn at full capacity. Water soluble fertilizer facility which was commissioned in H2FY16 will start contributing to revenue from H2FY17.

Valuation Outlook:

Commencement of production of FDY plant (started in H2CY15), WSF plant (H2FY16) and Nylon-6 plant (H1CY16) is expected to aid topline and bottom line growth till FY18E. Profit growth may be partially affected due to lower chemical prices and increasing subsidies. Topline and bottom line is expected to grow at a CAGR of 13.7% and 24.2% respectively between FY16-18E. We maintain BUY rating on the stock with a target price of INR 99 based on SOTP valuation method (6x FY18E earnings and Investment value of INR 11/share after 40% holding company discount).

Particular (INR mn)	FY15	FY16	FY17E	FY18E
Net Sales	53246	61633	72366	79607
Growth	-1.62%	15.75%	17.41%	10.01%
OPM	11.09%	9.95%	10.56%	11.71%
Adj. PAT	4006	3794	4799	5847
Growth	16.07%	-5.31%	26.52%	21.84%
Adj. EPS (INR)	10.05	9.52	12.04	14.67
P/E (x)	8.28	7.14	5.65	4.63
EV/EBIDTA	6.28	6.07	4.89	4.75
Net Debt/Equity	0.09	0.24	0.20	0.31
RoCE	9.62%	9.20%	10.62%	11.94%
RoE	9.26%	8.24%	9.73%	10.93%

Quarterly Financials

Particulars (INR Mn)	Q1FY17	Q4FY16	QoQ	Q3FY16	Q2FY16	Q1FY16	YoY
Gross Sales	10821	17016	-36.41%	16150	17622	11373	-4.85%
Total Revenue	10821	17016	-36.41%	16150	17622	11373	-4.85%
Raw Material Costs	5430.4	11327	-52.06%	9852	11373	5821	-6.71%
Employee Expenses	1235.7	1775	-30.38%	1331	1221	1028	20.19%
Power, Oil & Fuel	1024.8	1360	-24.63%	1339	1330	1040	-1.50%
Other Expenses	2150.8	1813	18.62%	1865	1633	1919	12.06%
TOTAL EXPENDITURE	9842	16275	-39.53%	14386	15557	9809	0.34%
Operating Profit	979	741	32.11%	1764	2065	1564	-37.39%
Depreciation	253.3	255	-0.82%	257	251	242	4.84%
PBIT	726	486	49.41%	1507	1814	1323	-45.10%
Interest	179.6	120	49.54%	83	57	42	326.60%
Other Income	97	137	-29.04%	131	226	155	-37.58%
PBT	643	502	28.04%	1554	1983	1436	-55.19%
Tax	180.4	177	2.04%	522	556	427	-57.70%
PAT	463	326	42.16%	1032	1426	1009	-54.13%
Equity	797	797		797	797	797	
Face Value	2	2		2	2	2	
EPS	1.16	0.82		2.59	3.58	2.53	
OPM	9.05%	4.36%	469 bps	10.92%	11.72%	13.75%	-470 bps
EBITDAM	9.95%	5.16%	479 bps	11.73%	13.00%	15.12%	-517 bps
PATM	4.28%	1.91%	236 bps	6.39%	8.09%	8.87%	-460 bps

Financial Statements:
Income Statement:

Particular (INR Mn)	FY15	FY16	FY17E	FY18E
Net Sales	53246	61633	72366	79607
Growth	-1.62%	15.75%	17.41%	10.01%
Raw Material Cost	32853	38373	45631	49675
Power Cost	5090	5069	5608	5772
Employees Cost	3873	5355	5890	6479
Other Expenses	5523	6705	7598	8359
Total Expenditure	47339	55501	64728	70284
Operating Profit	5906	6132	7638	9323
Growth	11.69%	3.82%	24.57%	22.05%
Operating Margin	11.09%	9.95%	10.56%	11.71%
Depreciation/Amortization	1,007	1,007	1,108	1,129
EBIT	4,900	5,125	6,530	8,194
EBIT Margin	9.20%	8.32%	9.02%	10.29%
Interest Expense	180	302	377	469
Other Income	1,019	648	773	831
EBT	5,739	5,471	6,926	8,555
Tax Expenses	1,734	1,678	2,126	2,708
PAT	4,005	3,794	4,799	5,847
Exceptionals	(1)	-	-	-
APAT	4,006	3,794	4,799	5,847
Growth	16.07%	-5.31%	26.52%	21.84%
APAT Margin	7.52%	6.15%	6.63%	7.35%

Balance Sheet:

Y/E Mar (INR mn)	FY15	FY16	FY17E	FY18E
Sources of funds				
Share capital	797	797	797	797
Reserves & Surplus	43845	46584	50458	54937
Total Networkth	44642	47381	51255	55734
Total Debt	7444	11904	12422	17864
Total Liabilities	52086	59284	63677	73598
Application of funds				
Net Block	19579	23114	23506	22876
Capital Work-in-Progress	2599	500	4000	13500
Investments	8577	8879	9248	9429
Total Current Assets	31764	40942	41291	43487
Total Current Liabilities	8701	11956	12630	14019
Net Current Assets	23062	28986	28660	29468
Net Deferred Tax	(2761)	(2559)	(2649)	(2679)
Other Assets	1030	364	912	1003
Total Assets	52086	59284	63677	73598

Cash Flow Statement:

Y/E Mar (INR mn)	FY15	FY16	FY17E	FY18E
EBT	5739	5471	6926	8555
Less: Other Income/Exceptionals	(750)	(433)	(519)	(552)
Add: Depreciation	1007	1007	1108	1129
Add: Interest paid	180	302	377	469
Direct taxes paid	(1504)	(1475)	(2216)	(2738)
Change in Working Capital	(2140)	(9071)	2107	(2282)
Cash Flow from operations (a)	2532	(4198)	7783	4582
Change in Fixed Assets	(623)	(4542)	(1500)	(500)
Change in CWIP	(749)	2099	(3500)	(9500)
Change in Investments	(303)	(302)	(369)	(181)
Others	45	870	(336)	126
Cash Flow from Investing (b)	(1630)	(1874)	(5705)	(10056)
Debt Raised/(Repaid)	(446)	4460	519	5441
Dividend paid	(932)	(1055)	(1026)	(955)
Interest	134	(74)	(70)	(134)
Others	28	(405)	280	(354)
Cash Flow from Financing (c)	(1216)	2926	(297)	3999
Net Change in Cash (a+b+c)	(314)	(3147)	1781	(1474)
Opening Cash	3864	3550	403	2184
Closing Cash	3550	403	2184	710

Financial Ratios:

Particular	FY15	FY16	FY17E	FY18E
Per Share Data (INR)				
Adj. EPS	10.05	9.52	12.04	14.67
CEPS	12.58	12.05	14.83	17.51
DPS	2.20	2.20	2.05	2.93
BVPS	112	119	129	140
Return Ratios				
RoCE	9.62%	9.20%	10.62%	11.94%
RoNW	9.26%	8.24%	9.73%	10.93%
Liquidity Ratios				
Net Debt/Equity	0.09	0.24	0.20	0.31
Current Ratio	3.65	3.42	3.27	3.10
Efficiency Ratios				
Asset Turnover Ratio	1.05	1.11	1.18	1.16
Inventory Days	70	60	61	62
Debtor Days	135	196	151	150
Creditor days	39	50	49	48
Valuation Ratios				
P/E (x)	8.28	7.14	5.65	4.63
P/BV (x)	0.74	0.57	0.53	0.49
P/CEPS (x)	6.62	5.64	4.59	3.88
Dividend Yield	2.64%	3.24%	3.01%	4.32%
EV/Net Sales (x)	0.70	0.60	0.52	0.56
EV/EBIDTA (x)	6.28	6.07	4.89	4.75

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