

IMV Equity Report: Gujarat State Fertilizer & Chemicals Limited

From Research Desk

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<i>Stock</i>	<i>Industry</i>	<i>Recommendation</i>	<i>CMP</i>	<i>Targets</i>
GSFC	FERTILISERS	Buy above 144	142	215+

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GSFC

Recommendation: Buy

GSFC, a PSU, is engaged in manufacturing of Fertilisers (62% of revenue) and Chemicals (38%). In the Fertiliser division, the company manufactures Urea (Market share- 1%), Di-Ammonium Phosphate (MS- 6%), Ammonium Sulphate (MS- 79%), Ammonium Phosphate Sulphate (MS- 11%), etc. In the Chemicals division, GSFC manufactures Caprolactam (MS- 72%), Melamine (MS- 33%), MEX Oxime (MS-90%), Nylon-6 Chips (MS-38%), etc. GSFC has established position in the domestic fertiliser and chemicals manufacturing industry.

It has high operational and business synergies due to its integrated manufacturing operations, diversified product offerings and market leadership position in its industrial chemical products, especially caprolactam and melamine. The fertiliser division's by-products such

As steam and intermediates such as industrial gases, hydroxyl amine are either sold directly in the market or further processed to make industrial products for example MEK-Oxime. Ammonium sulphate, a by-product of caprolactam, is a fertiliser.

Results

- GSFC posted a net profit of Rs 103.47 crores in the recently-ended quarter compared to Rs 101.20 cores for the corresponding period in the previous financial year, the company said.
- EBITDAM contracted by ~350 bps yoy to ~8%. Company has decided to shift to NPK and reduce focus on DAP which is positive for fertilizer segment.
- Capro-Benzene spread above \$1000/ton and commissioning of Nylon plant are positives for industrial segment.
- GSFC reported sharp ~17% yoy decline in total sales volume to 353303 MT. Fertilizer sales volume declined by ~19% yoy to 312017 MT.
- Industrial segment reported strong volume growth in Nylon-6 (69% yoy), MEK Oxime (31% yoy) to 4597 MT and 990 MT respectively.
- Prices of Ammonia declined ~25% yoy to ~20000/MT which coupled with decline in volume resulted in ~45% decline in revenue. Capro-benzene spread during the quarter increased 13% qoq to \$730/MT.

Key Data	
BSE Code	500690
NSE Code	GSFC
Bloomberg Code	GSFC IN
CMP	142
Face Value	2
Market Cap (In bn.)	31.13
Beta	0.6
Book Value	120.14
Free Float (INR Bn)	25.52
52 Week High	144
52 Week Low	67

(INR mn)	FY16	FY17E	FY18E
Net sales	61633	52697	64716
Growth	15.75 %	-14.50%	22.81%
OPM	9.95%	9.43%	12.26%
Adj. Pat	3794	3030	5213
Growth	-5.31%	-20.14%	72.07%
Adj. EPS (INR)	9.52	7.60	13.08
P/E (x)	11.45	14.34	8.33
EV/EBIDTA	6.07	10.99	7.80
Net Debt/Equity	0.24	0.22	0.34
RoCE	9.20%	6.39%	10.43%
RoE	8.24%	6.23%	10.06%

Shareholding (%)	
Promoters	37.84
FIIIs	19.75
DIIIs	13.51
Others	28.90

Share Price (%)	1m	3m	12m
Abs Perf	11.21%	29.06%	114.71 %
Relative to Nifty	9.89%	21.98%	94.07 %

Investment Rationale

- GSFC has started production at Nylon-6 plant and is installing dryer blending unit to manufacture field grade Nylon. This will help in achieving higher realization from Nylon. Company is doing capex of INR 8000 mn for Melamine plant with capacity of 40,000 MT.
- While the nylon-6 and FDY expansion would foresee investment worth Rs 125 crore and Rs 40 crore, that of melamine will see around Rs 1000 crore investment, taking the total investment in the expansion activities to Rs 1209 crore.
- It is expected to be commissioned in Q2FY18 which could add INR 4000 mn to top line at full capacity.
- Expansion of caprolactam plant will be completed in FY17 which will provide additional capacity by 50,000 MT.

Valuation and view:

Expansion of caprolactam capacity, capex for melamine and already commissioned Nylon and WSF plants are key triggers. Capro-benzene spread above ~\$1000/ton will boost margins and Profitability for company. Prices of Ammonia are rising steadily which will further add to revenue and margins. We estimate revenue and PAT CAGR of 2.5% and 17% respectively whereas EBIT margin is expected to increase ~200+ bps between FY16-18E.

Technical Aspect



GSFC is finding support at 114 and resistance at 144. On weekly chart, GSFC trading above 21 and below 55 days exponential moving average which is at 122 and 120 respectively while RSI and MACD too showing positive divergence which indicates that upper side seems certain in it. GSFC is likely to touch at 185 and 215 respectively. Three consecutive close + weekly close above 144 will see nonstop rally in GSFC till 215+ mark in week to come.

Traders don't go for aggressive or positional selling at all because trend looks positive and we expect rally to remain continue till 215+++mark in coming weeks. For positional trade, stop loss seeing below 114 on closing basis which in unlikely to breach in near terms.

Recommendation:

Traders can buy and accumulate

Buy GSFC Cash above 144 for the initial upside target of 215++ mark with stop loss below 114 on closing basis.

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