



## Investor's Delight

12<sup>th</sup> January, 2011

Company	GSFC Ltd.
BSE Code	500690
FV	Rs. 10
Equity Capital (Rs in mn)	797
Reserves (Rs in mn)	23,800
Book Value	Rs. 299
Market Capitalization (Rs in mn)	26,221
CMP	Rs. 329
Target Price	Rs. 400
Upside	22%

### A) About the company

#### Background

The company was incorporated in 1962 by government of Gujarat. Currently, it holds 38% stake in the company. It is engaged in manufacturing of fertilizers like Urea, Di – Ammonium Phosphate(DAP) and other complex fertilizers. The company also manufactures industrial products like caprolactam, nylon 6 and other chemicals. GSFC has four manufacturing units located at Baroda, Surat and Jamnagar.

### B) Investment Rationale

**1) Beneficiary of Nutrient Based Policy (NBS):** Previous subsidy scheme was not favourable to GSFC as subsidies were based on actual cost of production of ammonia irrespective of global ammonia prices. With the introduction of NBS, the company has been gaining from lower cost of ammonia as compared to players who are dependent on imported ammonia. DAP contributes ~71% of the fertilizer revenues. OPM of the company has improved after NBS policy too. EBIT margin witnessed improvement in the first two quarters in H1FY11. EBIT margin touched 13% in Q1FY11 and 19.7% in Q2FY11. Going ahead, we believe the company is set to benefit significantly, owing to growth in complex fertilizers which is likely to be higher in the next two years.

**2)JV formation to result in DAP plant running at full capacity:** The company has formed JV with Tunisian companies like Groupe Chimique Tunisien (GCT) and Compagnie des Phosphates de Gafsa (CPG) and with domestic player - Coromandel Fertilizers Ltd. (CFL). Tunisian Indian Fertilizers (TIFERT - JV company) will produce 360,000 tons of phosphoric acid per annum. This will result in GSFC running DAP plant at full capacity since the production will be divided equally between GSFC and CFL. The project is expected to be operational in Q1FY12.

**3) Market leader in Caprolactum:** The company is a leader in the manufacturing of caprolactum with a capacity of 70,000 tons per annum. The other player in this space is FACT with a capacity of 50,000 tonnes. Caprolactum is used in manufacturing of nylon 6 for textiles, tyre chord, moulding, engineering components and other extrusion profiles. On an average, caprolactum contributed 16% of total revenue over the last five years. In addition, spread



between its raw material benzene required for producing caprolactum has widened. The spread has increased to US\$1,825/mt as against US\$1,200/mt in FY10.

**4) Strong performance in H1FY11:** Revenue growth of 13% was witnessed on yoy basis in H1FY11 whereas PAT clocked yoy growth of 205%. This was mainly on account of significant improvement in OPM. H1FY11 OPM witnessed significant improvement of 1,194bps on yoy basis to touch 21.2%, owing to positive impact of Nutrient Based Policy. EBIT margin on fertilizer products stood at 16.8% in H1FY11 (v/s 4% in H1FY10) whereas Industrial products segment witnessed EBIT margin of 28% in H1FY11.

**C) Outlook and Valuation:** With due consideration to factors like a) established brands, b) leadership in caprolactum, c) strong performance in H1FY11, we recommend a 'BUY' with a target price of Rs.400 (5x at annualized H1FY11 EPS) for investors with a six months horizon.



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