

**Key takeaways from the Analyst meet:**

- From 2006-07 GSFC has a constant dividend pay record of 45% except last financial year when it paid dividend of 70%
- At present it is a zero debt company
- As DAP is the major contributor in fertilizer segment, which is subject to raw material availability and international prices, GSFC has engaged in Joint Venture with two Tunisian companies in Tunisia.
- GSFC has tie-ups with companies in countries like Togo, Uganda, Senegal, Canada etc.
- It enjoys strong brand image- SARDAR in Fertilizer Business Segment
- Many products in both segments rely on procurement of raw-material which is subject to availability through import, international prices and government policies.
- GSFC is exposed to exchange rate related risks, but it has formulated hedging policy to safeguard itself.
- Cost increase will be passed on to consumers if needed.

**Future projects:**

Projects that will be completed in near future

| NAME OF PROJECT                            | CAPACITY                              | PROJECT COST<br>RS Crores                | EXPECTED COMMISSIONING | EXPECTED ADDITIONAL<br>TURNOVER<br>RS CRS |
|--|---------------------------------------|--|------------------------|---|
| Methanol                                   | 173000<br>MTPA                        | 301                                      | Q4 2011-12             | 347                                       |
| TIFERT<br>(P <sub>2</sub> O <sub>5</sub> ) | 360000<br>MTPA<br>(GSFC<br>share 50%) | 500 mnUSD<br>GSFC<br>Investment –<br>120 | Q1 2012-13             | 1244                                      |
| Wind<br>Mill –V                            | 50.4 MW                               | 281                                      | H2 2011-12             | 31  |
| Nylon – 6                                  | 15000 MTPA                            | 125                                      | Q3 2013-14             | 285                                       |
| Annone<br>Moderni-<br>zation               | 2500 MTPA                             | 90                                       | H2 2013-14             | 20  |

## Projects under consideration

| PROJECT   | ESTIMATED INVESTMENT<br>RS CRORE | STATUS   |
|---|----------------------------------|--|
| 4 <sup>th</sup> DAP/NPK Train of 0.4 million MT/Year at Sikka   | 250                              | LSTK Tenders in process.                                   |
| Methyl Ethyl Ketone of 24,000 MTPY  | 120                              | Tender invitation  |
| Phosphoric Acid/ SSP at Sikka   | 1000                             | Under DFR Study  |
| Integrated Fertilizer & Petrochemical Complex at Dahej<br>* Urea 1 Million MTPY<br>* Caprolactam 0.1 Million MTPY<br>* Melamine 40,000 MTPY | 7000                             | DPR is done .<br>Land allocation and tendering in progress |

Since GSFC is a zero debt company and very well equipped with funds, projects will be funded internally but if needed funds can be raised through debt.

## Valuation

|             | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-------------|---------|---------|---------|---------|---------|
| <b>RoE</b>  | 20%     | 24%     | 26%     | 12%     | 26%     |
| <b>RoCE</b> | 25%     | 21%     | 36%     | 15%     | 43%     |

| Ratio            | Present | Historic average (7 years) |
|------------------|---------|----------------------------|
| <b>P/E</b>       | 3.45    | 4.77                       |
| <b>P/BV</b>      | 0.85    | 0.95                       |
| <b>EV/EBITDA</b> | 2.21    | 4.66                       |

Considering that GSFC is in a capital intensive business, we have chosen P/BV as the valuation technique. GSFC's long term average RoE stands at around 22%. However GSFC's historically (7-year) average P/B stands at 0.95x i.e less than 1x. Further prior to 2008 stocks trading range was above 1x (P/B). We believe primary reason for de-rating in valuation is 2008 proposal by Government of Gujarat (GoG), mandatory for State PSU to contribute up to 30% of their annual Profit Before Tax to Gujarat Socio-Economic Development Society (GSEDS) to support weaker sections of the society and this law is still about to pass. Though none of the State PSUs are actually paying the proposed tax but this has remained as the major overhang for the stock. Hence it has been trading at a lower P/BV multiple since 2008. It is uncertain and difficult to estimate whether GoG will successfully implement the proposed law. **Factoring this we have arrived at Target P/BV multiple of 0.8x, giving us fair price of Rs320. Therefore at CMP of Rs340 we recommend AVOID on the stock.**

## Company overview

In 1962, Gujarat Government promoted Gujarat State Fertilizers and Chemical Limited. Currently it hold 38% in the company. GSFC is the first to manufacture DAP (complex fertilizer), Melamine plant and Caprolactam in India. It operates in two business segments, fertilizers and industrial products. Fertilizers products include Urea, Ammonium Sulphate (AS), Di- Ammonium Phosphate (DAP) and Ammonium Phosphate Sulphate (APS). Industrial products include total of 13 products out of which the main products are Caprolactam, Melamine, MEK Oxime and Nylone 6. The company is the market leader in first 3 product segments.

In 2010-11 business of fertilizer products comprised 69% of total revenue, while the remaining 31% came from the industrial products segment. In the fertilizer business segment DAP contributes around 70% of the revenue and in Industrial Product Caprolatam contributes around 50% of total business.

### Following is the market share of major GSFC products.

#### Fertilizer business

| Name of Fertilizer | India Demand (in mn p.a.) | GSFC share |
|--------------------|---------------------------|------------|
| DAP                | 11.1                      | 8%         |
| Urea               | 28.2                      | 1%         |
| APS                | 3.5                       | 3%         |
| AS                 | 0.5                       | 70%        |

#### Industrial Product business

| Name of Product | India Demand MTPA | GSFC share |
|-----------------|-------------------|------------|
| Caprolactam     | 122,500           | 60%        |
| Melamine        | 40,000            | 40%        |
| MEK Oxime       | 550               | 90%        |
| Nylon – 6       | 40,000            | 40%        |

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