

GSFC reported ~39% YoY growth in net sales in Q3FY18 to INR 15375mn on account of strong growth (~49% YoY) in fertilizer segment. Capro-Benzene spread at \$1000/ton in February would help EBITDA margins in coming quarters. GSFC expects payment of balance INR 7 bn AS subsidy in 1-2 quarters. Melamine plant capex is expected to be commissioned by September 2018. We retain buy rating with target price of INR 161 based on SOTP valuation.

EBITDA margins increased 340 bps YoY

GSFC reported ~39% YoY growth in net revenue to INR 15375mn. Fertilizer segment reported strong volume growth of 40% YoY led by strong growth in NPK (volume growth ~350%) and DAP (volume growth ~150%). RM cost as % of sales increased ~520 bps YoY on account of increase in price of Natural gas (~22% of RM cost), phosphoric acid (~28% of RM cost) and due to lower production of Ammonia (8% of RM). Employee cost and other expense as % of sales declined ~365bps and ~400bps respectively. EBITDA for Q3FY18 stood at INR 1615mn, with EBITDA margin expansion of ~340bps to ~10.5%.

Capro-Benzene spread to boost margins

Industrial chemicals reported ~8% revenue growth on account of strong Capro-Benzene spread of ~\$1100/MT in Q3FY18 and ~42% volume growth in Nylon. Capro-benzene spread in February stood at \$1000/MT and is expected to remain above ~1000\$/MT in Q4FY18 on account of lower production in China and domestic market (FACT plant shut down and no other major producer). Industrial Chemicals reported EBIT margin of ~15.4% (~4.2% YoY and 7.5% QoQ) and management is hopeful of sustaining it.

Strong volume growth in Fertilizer segment

Fertilizer segment reported ~49% YoY growth in revenue on account of ~40% volume growth. Strong increase in volume was on account of increased production volume at Sikka facility (DAP, NPK) and increased trading volume (~52% YoY growth). Total fertilizer sales volume were +5 lac MT. Segment EBIT increased by ~60% YoY to INR 745mn with margin of 7% (vis-à-vis ~6.5% YoY and 4.7% QoQ).

Other concall highlights

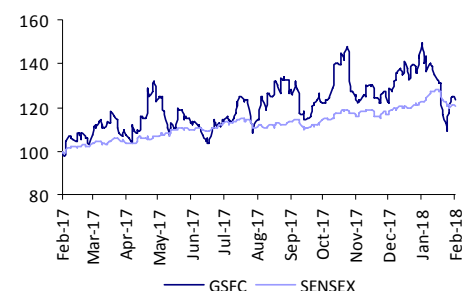
- Ammonia plant is currently operating at ~80% utilization. Management expects utilization to reach ~100% in Q4FY18 which would also help in reduction of power cost due to additional steam generation.
- Current subsidy outstanding stood at ~INR 15 bn which included Ammonium sulphate subsidy of ~INR 7bn and other subsidy of ~INR 8 bn. As per management, subsidy is being received with a lag of 3-4 months.
- Major capex for FY19 is Melamine plant (INR 5 bn) which is expected to be operational by September 2018. Management also guided for ramp in Nylon plant utilization. Management has kept target of INR 10 bn PBT in next 4-5 years.
- Management guided for ~1.9-2 mn MT fertilizer sales in FY18 and ~2.2 mn MT sales in FY19.
- Management has guided for ~21-22% tax rate in next 2 years.

Outlook & Valuation

GSFC has guided for strong volume growth in fertilizer segment in FY19. Steady increase in Capro-Benzene spread is expected to benefit Industrial chemical segment. Melamine plant of capacity 40000 MT is expected to be commissioned by Q2FY19. AS subsidy of INR 7 bn+ is expected by FY18 which will help to reduce working capital burden. We estimate revenue/PAT CAGR of 15%/12% respectively whereas EBITDA margin is expected to increase ~150+ bps to ~11%+ between FY17-19E. We retain BUY rating with target price of INR 161 based on SOTP valuation (9x FY19 earnings + investment value of INR 43/share after ~40% holding company discount) in next 12-15 months.

Shareholding (%)	Dec-17
Promoters	37.84
FII's	16.10
DII's	17.42
Others	28.64

Relative Price Performance



Key Data	
BSE Code	500690
NSE Symbol	GSFC
Bloomberg Code	GSFC IN
Reuters Code	GSFC.BO
Shares Outstanding (mn)	398
Face Value	2
Mcap (INR bn)	54.47
52 Week H/L	166/107
2W Avg. Vol, BSE	508894
Beta	1.81

(INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	61633	52645	57279	69554
Growth	15.8%	-14.6%	8.8%	21.4%
EBITDA Margin	10.0%	9.3%	8.4%	11.5%
Adj. PAT	3794	4193	4020	5325
Growth	-5.3%	10.5%	-4.1%	32.5%
Adj. EPS (INR)	9.5	10.5	10.1	13.4
P/E (x)	14.7	13.3	13.9	10.5
EV/EBIDTA	6.0	12.8	12.8	7.6
Net Debt/Equity	0.2	0.1	0.1	0.1
RoCE	9.2%	6.6%	6.1%	10.6%
RoE	8.2%	8.5%	7.7%	9.5%

Production data

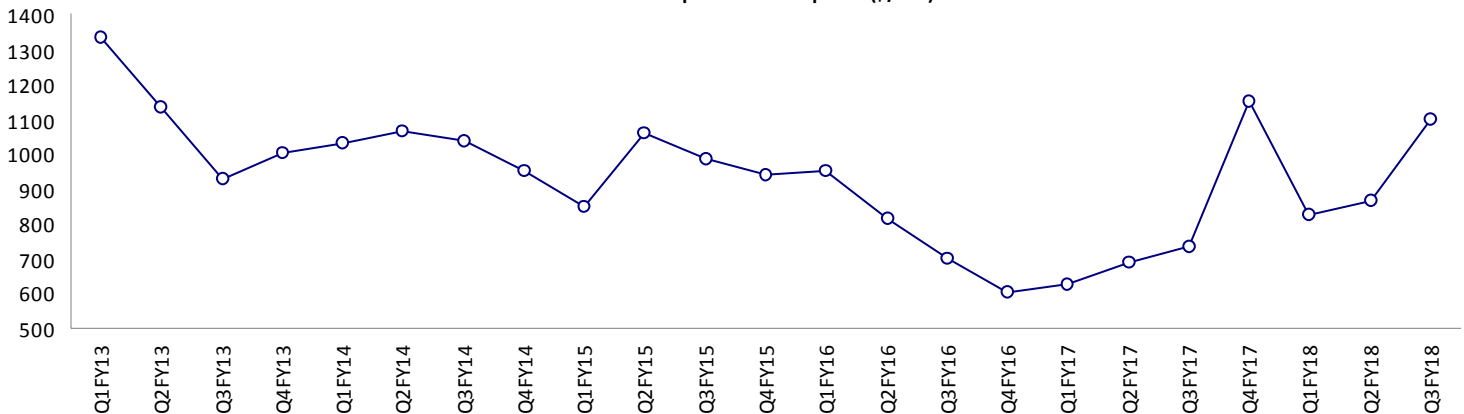
Product Fertilizers	Production MT	Q3FY18			Q3FY17			Production % YoY	YoY Change		
		Gross sales MT	INR Mn.	Realization/ MT	Production MT	Gross Sales MT	INR Mn.		Gross sales % YoY	% YoY	
Urea	106830	95589	1867	19532	106414	99165	2226	22447	0%	-4%	-16%
AS	99570	53661	883	16463	83150	58737	940	16007	20%	-9%	-6%
ASP	74990	55570	1213	21823	75120	42749	955	22340	0%	30%	27%
NPK	49940	26898	759	28233	0	5988	149	24833	NA	349%	411%
DAP	135960	130247	3842	29500	60040	51789	1475	28483	126%	151%	160%
Others			2128				1427				49%
Total Fertilizers	467290	361965	10693	29541	324724	258428	7172	27752	44%	40%	49%
Caprolactum	23026	16882	2306	136577	19928	15840	1838	116042	16%	7%	25%
Melamine	3658	3646	345	94487	4111	4101	444	108218	-11%	-11%	-22%
Nylon-6	5122	6514	879	134879	4868	4597	654	142245	5%	42%	34%
MEK Oxime	1290	1134	145	127690	810	990	109	110505	59%	15%	32%
Others	-	-	588	-	0	-	973	-	-	-	-40%
Polymer products	-	-	273	-	-	-	4	-	-	-	NA
Fibre Unit	-	-	147	-	-	-	310	-	-	-	-53%
Total Sales	-	-	4682	-	-	-	4331	-	-	-	8%

Segment revenue	Q3FY18	Q2FY18	QoQ	Q3FY17	YoY
Fertilizer	10693	11691	-8.5%	7172	49%
Industrial prod	4682	3712	26.1%	4331	8%
Total	15375	15403	-0.2%	11503	34%
Fertilizer %	69.5%	75.9%		62.3%	
Industrial prod %	30.5%	24.1%		37.7%	

EBIT					
Fertilizer	745	550	35.5%	465.4	60%
Industrial prod	721	275	161.9%	180	301%
Total	1466	825	77.7%	645	127%
EBIT Margin					
Fertilizer	7.0%	4.7%		6.5%	
Industrial prod	15.4%	7.4%		4.2%	
Total	9.5%	5.4%		5.6%	

Quarterly Financials

Particulars (INR Mn)	Q3FY18	Q2FY18	QoQ	Q1FY18	Q4FY17	Q3FY17	YoY	9MFY18	9MFY17	YoY
Net sales	15375	15403	-0.2%	11376	15418	11027	39.4%	42153	37246	13.2%
Raw Material Costs	9308	10316	-9.8%	6415	10056	6104	52.5%	26039	21399	21.7%
Employee Expenses	1297	1312	-1.1%	1332	1271	1332	-2.6%	3941	3831	2.9%
Power, Oil & Fuel	1474	1156	27.6%	1009	1161	1150	28.2%	3639	3268	11.4%
Other Expenses	1680	1650	1.8%	1807	1782	1655	1.5%	5137	5031	2.1%
TOTAL EXPENDITURE	13759	14433	-4.7%	10564	14270	10242	34.3%	38756	33529	15.6%
EBITDA (Excluding OI)	1615	970	66.6%	812	1149	785	105.7%	3397	3717	-8.6%
Depreciation	303	297	2.3%	292	243	272	11.7%	892	792	12.6%
PBIT	1312	673	94.9%	520	906	514	155.4%	2505	2926	-14.4%
Interest	165	90	83.5%	130	177	145	13.9%	385	473	-18.6%
Other income	83	433	-80.9%	128	135	133	-38.0%	643	432	48.9%
PBT	1230	1016	21.1%	518	864	502	144.8%	2764	2885	-4.2%
Tax	-766	224	-442.7%	113	-1006	-109	600.8%	-430	560	-176.7%
PAT	1996	792	151.9%	405	1870	612	226.3%	3193	2325	37.4%
Equity	797	797		797	797	797		797	797	
Face Value	2	2		2	2	2		2	2	
EPS	5.01	1.99		1.02	4.69	1.54		8.01	5.83	
% of sales										
Raw Material Costs	60.5%	67%	-643 bps	55%	65%	55.4%	519 bps	62%	57%	432 bps
Employee Expenses	8%	9%	-8 bps	12%	8%	12%	-364 bps	9%	10%	-94 bps
Power, Oil & Fuel	10%	8%	209 bps	10%	8%	10%	-84 bps	9%	9%	-14 bps
Other Expenses	11%	11%	21 bps	15%	12%	15%	-409 bps	12%	14%	-132 bps
EBITDAM	10.5%	6.3%	421 bps	7.1%	7.5%	7.1%	338 bps	8.1%	10.0%	-192 bps
PATM	13.0%	5.1%	784 bps	5.5%	12.1%	5.5%	743 bps	7.6%	6.2%	133 bps

Capro Benzene Spread (\$/MT)


Source: SPA Research

Financials

Income Statement

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	61633	52645	57279	69554
<i>Growth</i>	15.8%	-14.6%	8.8%	21.4%
Raw Material Cost	38372	31393	35095	41663
Power Cost	5069	4430	4869	5738
Employees Cost	5355	5114	5626	6188
Other Expenses	6705	6817	6873	7999
Total Expenditure	55500	47754	52463	61588
EBITDA (Excluding OI)	6133	4891	4816	7966
<i>Growth</i>	3.8%	-20.3%	-1.5%	65.4%
<i>EBITDA Margin</i>	9.95%	9.29%	8.41%	11.45%
Depreciation/Amortization	1,007	1,036	1,172	1,319
EBIT	5,126	3,855	3,644	6,647
<i>EBIT Margin</i>	8.3%	7.3%	6.4%	9.6%
Interest Expense	302	649	451	342
Other Income	648	563	732	688
EBT	5,472	3,768	3,925	6,994
Tax Expenses	1,678	(425)	(95)	1,669
PAT	3,794	4,193	4,020	5,325
Exceptionals	-	-	-	-
APAT	3,794	4,193	4,020	5,325
<i>Growth</i>	-5.3%	10.5%	-4.1%	32.5%
<i>APAT Margin</i>	6.2%	8.0%	7.0%	7.7%

Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
Adj. EPS	9.5	10.5	10.1	13.4
CEPS	12.0	13.1	13.0	16.7
DPS	2.2	1.8	2.0	2.7
BVPS	119	128	135	145
Return Ratios				
RoCE	9.2%	6.6%	6.1%	10.6%
RoNW	8.2%	8.5%	7.7%	9.5%
Liquidity Ratios				
Net Debt/Equity	0.2	0.1	0.1	0.1
Current Ratio	3.3	3.7	3.4	2.3
Efficiency Ratios				
Asset Turnover Ratio	1.1	0.9	0.9	1.0
Inventory Days	60	82	69	70
Debtor Days	195	190	150	109
Debtor days excluding subsidy	54	55	55	55
Creditor days	53	60	55	55
Valuation Ratios				
P/E (x)	14.7	13.3	13.9	10.5
P/BV (x)	1.2	1.1	1.0	1.0
P/CEPS (x)	5.6	10.7	10.7	8.4
Dividend Yield	1.6%	1.3%	1.4%	1.9%
EV/Net Sales (x)	0.6	1.2	1.1	0.9
EV/EBITDA (x)	6.0	12.8	12.8	7.6

Balance Sheet

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
Sources of funds				
Share capital	797	797	797	797
Reserves & Surplus	54651	61196	65176	69676
Total Networkth	55448	61993	65973	70473
Total Debt	11904	7533	7520	6171
Total Liabilities	67351	69993	73493	77655
Application of funds				
Net Block	16462	20221	22058	30255
Capital Work-in-Progress	4035	2730	7000	2500
Investments	20500	21000	22500	23000
Total Current Assets	40960	36456	33226	32062
Total Current Liabilities	12529	10345	13374	13403
Net Current Assets	28431	26111	19852	18659
Net Deferred Tax	(1618)	(888)	(1177)	(1516)
Other Assets	1105	621	968	1602
Total Assets	67351	69993	73493	77655

Cash Flow

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
EBT	5472	3768	3925	6994
Less: Other Income/Exceptionals	(648)	(563)	(732)	(688)
Add: Depreciation	1007	1036	1172	1319
Add: Interest paid	302	649	451	342
Direct taxes paid	(1475)	(335)	(1456)	(1595)
Change in Working Capital	(9362)	2345	5460	1193
Cash Flow from operations (a)	(4705)	6640	11086	7564
Change in Fixed Assets	(1067)	(4795)	(3000)	(9000)
Change in CWIP	(1436)	1305	(4270)	4500
Change in Investments	(1500)	(500)	(1500)	(500)
Others	2344	1460	148	127
Cash Flow from Investing (b)	(1659)	(2530)	(8622)	(4873)
Change in Equity	0	0	0	0
Debt Raised/(Repaid)	4879	(3904)	(480)	(1349)
Dividend paid	(1055)	(1026)	(834)	(1103)
Interest paid	(302)	(649)	(451)	(342)
Others	(405)	1280	(354)	167
Cash Flow from Financing (c)	3344	(4094)	(1806)	(2627)
Net Change in Cash (a+b+c)	(3019)	16	658	64
Opening Cash	3550	531	547	1204
Closing Cash	531	547	1204	1269

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