Gujarat State Fertilisers and Chemicals Limited

Dated: January 11, 2018

Does GSFC generate an acceptable amount of cash through operations?

GSFC's debt levels have fallen from ₹12,876.4M to ₹8,052.4M over the last 12 months – this includes both the current and long-term debt. With this reduction in debt, GSFC's cash and short-term investment stands at ₹670.6 million, ready to deploy into the business. Additionally, GSFC has produced ₹9,112.5 million in operating cash flow during the same period of time, leading to an operating cash to total debt ratio of 113.17%, indicating that GSFC's operating cash is sufficient to cover its debt. This ratio can also be a sign of operational efficiency as an alternative to return on assets. In GSFC's case, it is able to generate 1.13x cash from its debt capital.

Does GSFC's liquid asset cover its short-term commitments?

At the current liabilities level of ₹18,365.8M liabilities, it appears that the company has been able to meet these commitments with a current assets level of ₹36,220.3M, leading to a 1.97x current account ratio. Usually, for chemicals companies, this is a suitable ratio since there's sufficient cash cushion without leaving too much capital idle or in low-earning investments.

Is GSFC's level of debt at an acceptable level?

GSFC's level of debt is appropriate relative to its total equity, at 12.17%. GSFC is not taking on too much debt commitment, which may be constraining for future growth. We can test if GSFC's debt levels are sustainable by measuring interest payments against earnings of a company. Ideally, earnings before interest and tax (EBIT) should cover net interest by at least three times. For GSFC, the ratio of 16.69x suggests that interest is excessively covered, which means that debtors may be willing to loan the company more money, giving GSFC ample headroom to grow its debt facilities.

For a potential investor

GSFC's relatively safe debt level is even more impressive due to its ability to generate high cash flow, which illustrates operating efficiency. Furthermore, its high liquidity ensures the company will continue to operate smoothly should unfavourable circumstances arise.

Relevant news about GSFC

According to an interview with CNBC-TV18, VD Nanavaty, Executive Director & CFO of GSFC said that there is a lot of growth story in the rural sector and we expect volume growth of around 25 percent in this quarter. The company is taking a lot of farm extension services which creates market for our produce, he added.

According to him, the government has been quick in releasing subsidies in FY18. He said, “subsidy flow has been good this year. We expect subsidy receivable of Rs 800 crore to be paid by March 2018. We expect fertiliser volume growth of 25 percent and 10 percent turnover growth in chemical segment.”

Other noteworthy points

The government is planning to focus on developing the agricultural sector of the Indian economy and thus the growth of related industries is also inevitable. Fertilisers being a prime necessity of the agricultural sector should see growth in the coming years by default. Moreover, strong fundamentals of the Company is an added advantage.

About shares

Previous Close:	Rs. 152.15
52 week high:	Rs. 164.85
52 week low:	Rs. 102.20

Opinion

Buy and hold.

Buy Price: Rs. 150-155

Investment Period: Long term (2 years or more)