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## Rashtriya Chemicals & Fertilizers - Buy

Rashtriya Chemicals & Fertilizers (RCF) was incorporated In 1978. It is India's largest fertiliser maker by capacity and revenue. The state owned company was formed after the re-organisation of FCI into 5 Companies. Till 1992, the Company was a wholly owned PSU. During 1992 and 1993, 7.5% of the equity of the company has been disinvested to Financial Institutions, Public etc.

RCF pioneered the manufacture of basic chemicals such as Methanol, Sodium Nitrate, Sodium Nitrite, Ammonium bicarbonate, Methylamines, Dimethyl Formamide, Dimethylacetamide. Today RCF is the only manufacturer of DMF in India.

## Management

The management of the company is led by U S Jha Chairman & Managing Director; while other directors include Mathew C Kunnumkal, Deepak Singhal, Ashok Misra, Anil Agrawal, Gautam Sen, J Kohareswaran and Manoj Priya.

## Business Overview

RCF is one of the leading producers of Fertilizers in India. Sujala, Suphala 15:15:15, Suphala 20:20:0, Ujjwala, Microla and Biola are its major fertilizers. All the products can be used with different soil types and in various climatic conditions.

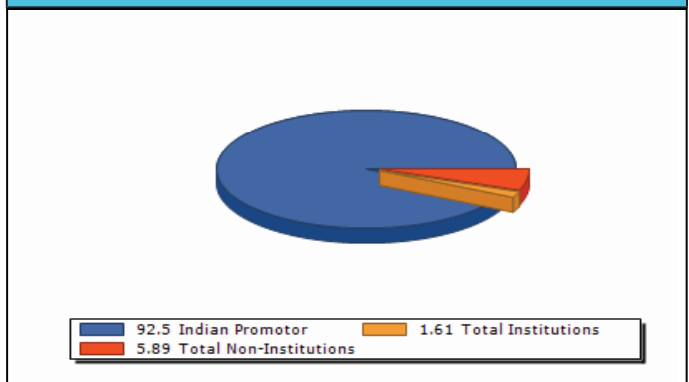
RCF pioneered the manufacture of basic chemicals such as Methanol, Sodium Nitrate, Sodium Nitrite, Ammonium bicarbonate, Methylamines, Dimethyl Formamide, Dimethylacetamide in India. Today R.C.F is the only manufacture of DMF in India. Product characteristics, consumer needs, economy to the consumers and safety are the primary considerations in determining the type of packaging and modes of transportation for each of the products.

RCF has two complexes, one at Trombay, Mumbai and the other at Thal, Raigad District, Maharashtra.

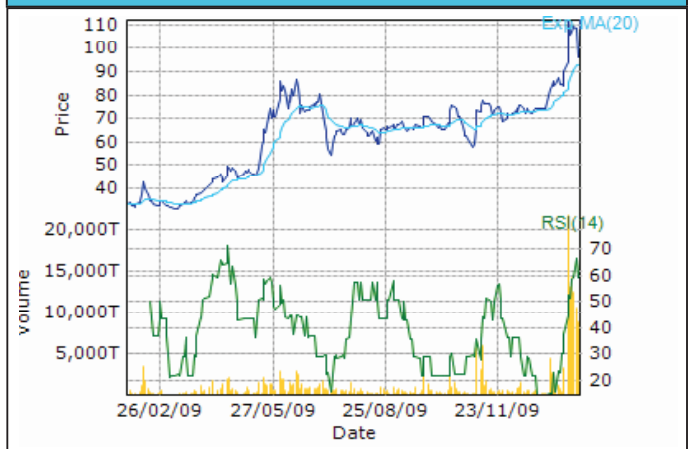
The company has established six static soil testing laboratories since 1967 and three mobile testing

Stock Data		29/01/2010
Current Mkt Price (Rs)		103.05
52 Week High		117.90
52 Week Low		30.50
Mkt Cap (Rs. in Million)		56851.46
Return in last one Month (%)		39.35

## Share Holding



## Performance in last one year



## Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	83659.80	51402.70	62.75
Other Income	1189.50	1070.60	11.11
Total Expenditure	79618.80	48558.30	63.97
Operating Profit	5230.50	3915.00	33.60
Interest	1107.20	662.50	67.12
Profits After Tax	2115.80	1581.50	33.78
Reserve & Surplus	0.00	0.00	13.59
Reported EPS(Rs)	3.84	2.87	33.95
Core EBITDA Margin (%)	4.78	5.44	-12.14



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vans. Soil testing reports (or Soil Health Cards) are mailed directly to farmers after analysis. This enables farmers to make informed decisions about soil health management and maintenance depending on the crop to be sown. This service is rendered free of cost to farmers.

## Latest result analysis

- The company has reported a decline of 29.48% in its net sales for the quarter ended December 31, 2009 to Rs 1606.58 crore from Rs 2278.20 crore in the corresponding previous quarter
- The net profit of the company was up by 13.09% to Rs 77.78 crore compared to Rs 68.78 crore.
- The total income of the company decreased by 1.85% to Rs 1,619.97 crore compared to Rs 1,803.04 crore.
- Other income of the company decreased by huge 75.87% to Rs 13.39 crore compared to Rs 55.49 crore in the December 2009 quarter.
- The operating profit margin of the company increased by more than 250 basis points y-o-y to 8.95% in the third quarter of FY10.
- Net profit margin of the company too increased by more than 150 basis points to 4.84%.
- The company has shown other expenditure of Rs 244.57 crore that includes Mark to Market (MTM) loss of Rs 1816.89 lakhs towards the Fertilizer Bonds received from Government of India.

## Industry Scenario

The Indian fertiliser industry which got its advent from its first manufacturing unit of single super phosphate plant at Ranipet near Chennai with a capacity of 6000 MT a year has now taken a burgeoned face and is now the third largest fertilizer producer in the world, while China second largest producer next to the United States.

The Indian fertilizer industry is the third largest consumer-based industry having a 12% share of global consumption and is growing at a pace of 4%

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	16065.80	22782.00	-29.48
Expenditure	14765.00	21905.30	-32.60
Other Income	133.90	554.90	-75.87
EBITDA	1434.70	1431.60	0.22
Interest	32.90	170.50	-80.70
Net Profit	777.80	687.80	13.09
EBITDA Margin (%)	0.09	0.06	42.11
NPM (%)	0.05	0.03	60.36
EPS	1.41	1.25	12.80

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	83659.80	51402.70	62.75
Total Income	84849.30	52473.30	61.70
Total Expenditure	79618.80	48558.30	63.97
Operating Profit	5230.50	3915.00	33.60
Profits After Tax	2115.80	1581.50	33.78

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	5516.90	5516.90	0.00
Reserve & Surplus	11213.50	9872.20	13.59
Total Liabilities	30972.70	27823.90	11.32
Investments	356.10	3596.90	-90.10
Current Liabilities	16403.10	5929.10	176.65
Net Current Assets	18960.10	14184.40	33.67
Total Assests	30972.70	27823.90	11.32

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	3.84	2.87
Core EBITDA Margin (%)	4.78	5.44
EBIT Margin (%)	5.16	5.90
ROA (%)	7.20	6.10
ROE (%)	13.18	10.60
ROCE (%)	14.85	11.90
Price/Book (x)	1.24	1.87
Net Sales Growth (%)	62.75	47.37
EBIT Growth (%)	41.55	6.31
PAT Growth (%)	33.78	6.33
Total Debt/Mcap (%)	0.69	0.43



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per annum. The government is making efforts to attain self-sufficiency in foodgrains in the Eleventh Five Year Plan that would surely lead to increase in the consumption of fertilizers in the near future.

The industry is dependent to a large extent on gas for urea production and phosphoric acid for production of DAP and other phosphatic fertilizers but the dilemma is that fertilizer units and gas companies have not been able to reach an agreement over the pricing of gas and very few long-term gas supply agreements have been signed so far, and with the government policy favouring conversion to gas based units, the demand for gas is only expected to go up.

The new fertilizer policy will definitely serve the different facets of the demanding industry but a comprehensive long term policy addressing the concerns of both the farming community and the domestic industry is the present need of the industry.

The implementation of a protective policy committed to an assured return for the sector and a regulated price regime for the farm community has resulted in a several-fold increase in both capacity and production/consumption of fertiliser over last three decades.

Outlook of the industry is stable to positive with some significant positive developments for the sector expected in coming fiscal. Riding on favourable supply equation and rising use, fertiliser sector should continue growing strongly in the medium to long run as well

## Latest News

RCF is planning to expand its production capacity at its Thal-based facility. It is planning to increase its urea production capacity to 3.15 million tonnes (MT) per annum from the current 2MT. The expansion may cost the company about Rs 4,000 crore.

RCF's plan to set up facilities in the African continent has been stalled. RCF's mining partner in South Africa doesn't find commercial value in investing in

the continent; due to drop in prices of diammonium phosphate (DAP). The company had planned to build a greenfield DAP and urea facilities in South Africa and Mozambique last year.

## Investment Rationale

It is estimated that the fertiliser subsidy will come in higher in the upcoming union budget. In the budget there was a provision for Rs 53,000 crore and then Rs 3000 crore had been given in the first supplementary for grants.

The new urea policy should be in place from April 1, because the current urea policy is upto March 31 and government is working on formulating the new policy. The new policy will be a nutrient based subsidy instead of product based subsidy. Hence it will be in the favour of the company

The company is also projected to be a candidate for government divestment. The government currently holds 92.5% in the company.

The new joint venture company for making gypsum-based building products between FACT and Rashtriya Fertilizers and Chemicals (RCF) will be operational by March this year. The JV- FACT-RCF Building Products Limited (FRBL) -will produce gypsum-based building walls, wall putty etc with an investment of Rs 100 crore. This development will add to the profitability of the company in the coming time.

At CMP of Rs 103, the stock is trading at an EV/ EBITDA of 15.82x and a P/E multiple of 27.76. We would recommend a BUY in the stock with a price target of Rs 185 as the company is set to benefit from the higher supply of natural gas and all its plants achieving higher capacity utilization. Though it will continue to depend on government's fertiliser subsidy policy but its profitability is expected to move on a steady growth path.



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