

RCF Ltd.

₹ 56

Disinvestment Season**Buy**

Jan 04, 2013

Company Background

Rashtriya Chemicals & Fertilizers Ltd (RCF) a Government Company, has been formed in 1978 after reorganisation of the erstwhile Fertilizer Corporation of India & National Fertilizers Ltd. RCF is one of the leading producers of fertilizers in India and is a Miniratna company, a status awarded by the Government of India. The company is engaged in Production & Marketing of nitrogenous & complex fertilizers & industrial chemicals with its manufacturing units at Trombay & Thal & marketing offices in most of the States of India. Till 1992, the company was a wholly owned PSU. During 1992 and 1993, some of the equity has been disinvested to financial institutions, public etc. RCF is one of the leading producers of fertilizers in India and produces several brands of fertilizers.

Key Highlights

- ➔ RCF is setting up Single Super Phosphate(SSP) plant at Thal of 0.5 mm MTPA at Rs. 2.78 bn. Feasibility of the project is being examined and the project is likely to take 24 months to complete from the start.
- ➔ RCF intends to import & market complex fertilizers, water soluble fertilizers, SOP, Ammonium Sulphate, Zinc Sulphate and develop customized /fortified fertilizers like Boronated Urea and Zincated urea. It has introduced two new products in the market viz. Boronated Suphala & Neem Coated urea which will improve the agricultural yield and also benefit the company.
- ➔ RCF exported 552 MT of Suphala 15:15:15 worth Rs. 16.5 mn as against 384 MT worth Rs. 7.4 mn during the previous year. Net Sales and Operating Profit are expected to grow at a CAGR of 18% & 15% over 2011 to 2014E.
- ➔ RCF, along with Coal India Limited (CIL) and GAIL is contemplating to set up a fertilizer complex, comprising of 2500 MTPD ammonia plant, 3500 MTPD Urea plant, 800 MTPD Nitric Acid and 1000 MTPD ammonium nitrate plant. Coal for this will be made available by CIL through its subsidiary Mahanadi Coal Fields which is located nearby.
- ➔ Thal urea plant is also being revamped, wherein capacity of one urea streams will be increased to 2300 MTPD so as to convert the entire ammonia into urea and achieve urea production of 6015 MTPD. The cost is Rs. 488.8 mn.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	59,602.9	57,226.2	66,357.0
Rev. growth (%)	(29.76)	(3.99)	15.96
EBITDA (INR mn)	6,055.6	5,597.4	5,957.3
Net profit (INR mn)	2,348.7	2,451.2	2,492.4
Shares outstanding (mn)	551.7	551.7	551.7
EPS (INR)	4.3	4.4	4.5
EPS growth (%)	11.01	4.36	1.68
P/E (x)	18.7	17.9	12.5
RONW (%)	6.9	11.2	10.1
ROCE (%)	3.9	7.6	7.1

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Info Codes

Reuters	: RSTC.BO
Bloomberg	: RCF@IN
NSE	: RCF
BSE	: 524230

Market Data

52 Wk Range (₹)	: 73 / 48
Shares in Issue (mn)	: 551.7
Mkt. Cap (₹ bn)	: 30.72
BSE 2 Wk Avg Vol	: 282000

Share Holding Pattern (%)

Promoters	: 92.50
DII's	: 01.46
FII's	: 00.00
Others	: 06.04

Investment Theme

RCF is a giant fertilizer company in India & also has number of plants for different industrial products. The Company is accredited with ISO 14000 certification for whole factory & ISO 9001 certification for chemical group of plants. RCF is also accredited with OHSAS 18001 certification. The Company is tying up with SSP Units for manufacturing & marketing 6 lakh MT of SSP to increase turnover and profitability. RCF also intends to import and market complex fertilizers, water soluble fertilizers, SOP, Aluminium Sulphate, Zinc Sulphate and develop customised/ fortified fertilizers like Boronated Suphala and Zincated urea. RCF has been nominated by Gol to take a lead role for development of the fertilizer project. Also any development regarding the commercial usage of large land bank at Chembur & disinvestment will be the positive triggers.

Buy Shares directly from President

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	57330.5	56149.4	(2.06)	65541.7	16.73
Other Income	2822.6	1749.8	(38.01)	1583.0	(9.53)
Change in Stocks	(924.3)	(195.0)	(78.90)	4616.0	(2467.18)
Raw Material Con.	16159.1	16288.9	0.80	20845.1	27.97
Employee Exp.	3608.3	4002.1	10.91	4238.4	5.90
Indirect Taxes	603.3	737.4	22.23	1093.7	48.32
Other Exp.	32802.5	31078.4	(5.26)	39606.2	27.44
Operating Exp.	54097.5	52301.8	(3.32)	61167.4	16.95
Operating Profit	3233.0	3847.6	19.01	4374.3	13.69
Total Interest	925.3	735.1	(20.56)	755.3	2.75
Gross Profit	5130.3	4862.3	(5.22)	5202.0	6.99
Net Dep.	1664.3	1268.4	(23.79)	1278.6	0.80
Total Taxation	1117.3	1142.7	2.27	1431.0	25.23
Net Profit/Loss	2348.7	2451.2	4.36	2492.4	1.68

4 Years Balance Sheet

(₹ mn)

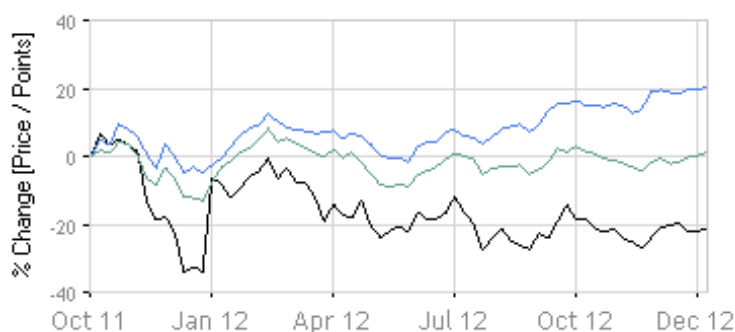
Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	31,045.7	31,718.5	24,944.8	34,177.8
Equity Share capital	5,516.9	5,516.9	5,516.9	5,516.9
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	11,213.5	12,854.5	14,600.4	16,195.1
Long Term Loans	1,338.4	2,581.0	3,573.2	12,242.3
Short Term Loans	12,976.9	10,766.1	1,254.3	223.5
USES OF FUNDS	31,045.7	31,718.5	24,944.8	34,177.8
Gross Block	28,387.1	31,092.0	32,454.4	35,132.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	17,622.0	18,671.4	19,619.8	20,742.5
Net Block	10,765.1	12,420.6	12,834.6	14,389.9
Capital Work in Progress	2,365.8	1,400.5	822.8	1,773.1
Investments	6,701.8	6,283.5	3,223.9	232.2
Current Assets	33,001.8	26,704.5	21,362.5	40,829.6
Less : Current Liabilities	21,795.0	15,090.6	13,299.0	23,047.0
Total Net Current Assets	11,206.8	11,613.9	8,063.5	17,782.6
Misc. Expenses not written	6.2	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	6,501.8	6,283.5	3,223.9	232.2
Mkt Val. Quoted Investments	200.0	0.0	0.0	0.0
Contingent Liabilities	2,401.4	2,051.8	4,419.4	6,150.8
Dividend (%)	14	11	11	12

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	15,954.50	24,942.00	14,818.60	16,685.70
Cost Of Sales	15,230.90	23,094.40	14,474.50	15,413.40
Operating Profit	723.60	1,847.60	344.10	1,272.30
Recurring Income	388.90	649.40	328.50	433.40
Adjusted PBDIT	1,112.50	2,497.00	672.60	1,705.70
Financial Expenses	2.50	236.60	243.90	139.60
Depreciation	307.70	527.00	332.10	339.20
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	802.30	1,733.40	96.60	1,226.90
Tax Charges	261.20	598.30	31.40	398.10
Adjusted PAT	541.10	1,135.10	65.20	828.80
Non Recurring Items	(1.60)	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	539.50	1,135.10	65.20	828.80

52 Week Index Relative Percentage Appreciation



RCF vs SENSEX vs PSU

Points to ponder

Fertilizer sector is very crucial for Indian economy because it provides a very important input to agriculture. The fertilizer industry specially the ammonia urea plants are highly energy intensive in the operation. The wide variation in the vintage of fertilizer plants in the country in terms of feedstock, major feed stocks presently being used in fertilizer plant are natural gas, naphtha and fuel oil / LSHS. The majority of industry has improved its performance significantly in terms of specific energy consumption and capacity utilization. There are several State-of-the-art fertilizer plants operating in India. There are around 27 fertilizer plants in the country engaged in the manufacture of urea.

Risks Associated

RCF was hit by lower volumes and higher other expenditure due to shutdown at Urea plant and higher prices of complex fertilisers/ unavailability of raw material resulted in decline in sales volumes. The Plants have been in operation for a very long time, some of them since 1965 by carrying out regular upkeep, maintenance and up-gradation. The complex fertilizers are based on imported raw materials which can face severe volatility in raw material prices and foreign currency exchange rate affecting the profitability of the company. In the recent years, there has been high volatility in the prices of raw material and creation of scarcity impeding production and marketing plans. The chemicals business is highly susceptible to cut throat global market competition.

In a Nutshell

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. 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. 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. Today R.C.F is the only manufacture of DMF in India. RCF took the advantage of manufacturing industrial products since its fertilizer manufacturing process already incorporated Ammonia, Nitric Acid and Sulphuric Acid plants. The company is exploring the opportunity of participating in Phosphatic Fertilizers project in Saudi Arabia, being undertaken by Ma'aden at Al Khabra mines at a project cost of USD 3.0 bn. Ma'aden is willing to offer equity shares upto 30% to Indian Companies. If the project fructifies it would help in tying up for Phosphatic supply, apart from the benefit of being a shareholder of the venture.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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