

RCF Ltd.**₹ 45****Fertile Period!****Accumulate**

Dec 23, 2016

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 planning to undertake projects by participating in the revival of closed fertilizer units, Additional Ammonia Urea project at Thal, Coal Based Fertilizer Plant at Talcher & Urea Plant in Iran for import of Urea to India through JV.
- ➔ RCF is also carrying out a number of energy conservation projects which will improve the profitability of the Company in the coming years. The Company is also looking for opportunities for long term off take agreements for procurement of fertilizers, to ensure sustained growth.
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- ➔ 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.
- ➔ RCF received several recognitions and awards in various category for conservation in energy, excellence in Cost Management, Production performance excellence in Innovation Management and so on.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	67,972.3	79,360.2	89,038.3
Rev. growth (%)	(3.05)	16.75	12.20
EBITDA (INR mn)	6,826.8	6,416.3	8,861.9
Net profit (INR mn)	2,498.9	3,220.6	1,912.3
Shares outstanding (mn)	551.7	551.7	551.7
EPS (INR)	4.3	5.5	3.2
EPS growth (%)	(11.57)	27.80	(40.77)
P/E (x)	7.73	10.29	11.98
RONW (%)	10.28	12.34	6.90
ROCE (%)	11.58	13.54	7.88

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Info Codes

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

Market Data

52 Wk Range (₹)	: 35 / 54
Shares in Issue (mn)	: 551.7
Mkt. Cap (₹ bn)	: 24.79
BSE 2 Wk Avg Vol	: 12500

Share Holding Pattern (%)

Promoters Holding	: 80.00
Corporate Holding	: 1.35
Domestic Institution	: 6.86
Foreign Institution	: 1.08
Public & Others	: 10.71

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 profit ability. 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.

Fertilized Giant

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	65,876.0	77,134.5	17.1	86,494.3	12.1
Other Income	740.4	743.6	0.4	1,122.1	50.9
Change in Stocks	(3,096.1)	75.3	(102.4)	2,324.3	2,986.7
Raw Material Con.	28,152.1	36,383.7	29.2	43,667.3	20.0
Employee Exp.	4,420.0	5,262.4	19.1	4,924.4	(6.4)
Indirect Taxes	1,355.9	1,482.1	9.3	1,421.9	(4.1)
Other Exp.	23,176.0	25,963.3	12.0	34,127.7	31.4
Operating Exp.	57,104.0	69,091.5	21.0	84,141.3	21.8
Operating Profit	6,416.3	8,861.9	38.1	5,799.4	(34.6)
Total Interest	1,325.6	1,184.4	(10.7)	1,437.1	21.3
Gross Profit	5,090.7	7,677.5	50.8	4,362.3	(43.2)
Net Dep.	1,417.5	2,581.2	82.1	1,451.3	(43.8)
Total Taxation	1,174.3	1,875.7	59.7	998.7	(46.8)
Net Profit/Loss	2,498.9	3,220.6	28.9	1,912.3	(40.6)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	42,289.9	44,058.9	48,724.0	61,628.9
Equity Share capital	5,516.9	5,516.9	5,516.9	5,516.9
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	18,036.0	19,567.0	21,592.4	22,774.3
Secured Loans	10,906.7	12,006.9	10,359.9	15,312.0
Unsecured Loans	7,830.3	6,968.1	11,254.8	18,025.7
USES OF FUNDS	42,289.9	44,058.9	48,724.0	61,628.9
Gross Block	36,852.0	40,109.9	40,575.8	41,884.5
Less : Revaluation Reserves	619.5	684.3	1,150.7	1,242.6
Less : Accumulated Depreciation	22,065.4	23,228.9	24,421.9	25,676.3
Net Block	14,167.1	16,196.7	15,003.2	14,965.6
Capital Work in Progress	1,842.5	771.9	611.6	1,499.8
Investments	180.4	178.6	1.7	1.9
Current Assets	40,617.0	37,423.8	44,595.0	56,413.3
Less : Current Liabilities	13,565.0	9,566.6	11,612.0	13,315.5
Total Net Current Assets	27,052.0	27,857.2	32,983.0	43,097.8
Misc. Expenses not writtenoff	(952.1)	(945.5)	124.5	2,063.8
NOTE				
Book Value of Unquoted Investments	180.4	178.6	1.7	1.9
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	3,115.0	5,004.1	4,784.0	4,849.7
Dividend (%)	11.0	15.0	18.0	11.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	21,033.4	20,689.4	15,372.0	17,689.5
Cost Of Sales	16,664.9	17,107.5	11,730.0	13,872.9
Operating Profit	4,368.5	3,581.9	3,642.0	3,816.6
Other Income	261.7	555.4	205.3	200.8
Adjusted PBDIT	4,630.2	4,137.3	3,847.3	4,017.4
Financial Expenses	321.9	456.3	476.0	135.4
Depreciation	345.0	435.6	339.6	361.5
Other Expenses	3,152.2	2,768.7	2,726.6	2,846.4
Adjusted PBT	811.1	476.7	305.1	674.1
Tax Charges	272.5	110.8	109.2	239.9
Reported Profit	538.6	365.9	195.9	434.2
Extra Ordinary Items	-	-	-	-
Other Non Cash Adjust	-	-	-	-
Adjusted Net Profit	538.6	365.9	195.9	434.2

52 Week Index Relative Percentage Appreciation



RCF vs SENSEX

Risks Associated

- ➔ Manufacturing and marketing of Fertilizers is the core business of RCF. In the recent years, there has been high volatility in the prices of raw material resulting in an adverse impact on production and marketing plans. The profitability is susceptible to the input costs of major raw materials, such as Rock Phosphate, Sulphur, DAP, MOP, MAP etc. Production of Urea, Complexes and chemicals is dependent on the availability of feedstock gas and its economic pricing.
- ➔ Department of Fertilizers (DoF), Government of India, is under the process of implementing a move to mop up the unintended gains that the fertilizer units are making in nutrient “N” by use of APM/RIL gas for manufacturing of P&K fertilizers with retrospective effect from 1.4.2010. This, if implemented, will not only have adverse impact on the profitability but also operational viability of the Company..
- ➔ Uncertainty in government policies in respect of supply of feed stock gas, pricing of fertilizers and subsidy thereon also affect the performance and competitiveness of the Company.
- ➔ The chemicals business is also exposed to cut throat global market competition.
- ➔ Gas Pooling Mechanism for Urea production is adding to the interest burden on the Company.
- ➔ Raw material such as Rock Phosphate, KCl etc. required in the manufacturing of the complex fertilizers has to be imported.
- ➔ As the ultimate customers of the Company are farmers, agro-climatic condition has a large effect on the performance of the Company.

In a Nutshell

RCF's strength lies in its skilled manpower, high Brand Equity of its Products such as Ujjwala, Suphala, Microla, Biola, and Sujala. It has a wide reach of marketing network which ensures that it can take its products to the farthest corner of the country. The Farmer's Training Institutes at Thal and Nagpur are helping in a big way to educate farmers on latest farming techniques. Also Company has been operating toll free help line number called "Kisan Care" through which farmers can approach agriculture experts and get their queries addressed. This too adds to its brand recognition. The Company has a wide portfolio of chemical products which has applications across several sectors like pharmaceuticals, dyes etc. The well maintained plants and equipment ensure that production remains uninterrupted. Several opportunities exist overseas, for Collaborations/Diversification in the field of manufacturing and mining of raw materials as well as fertilisers thereby presenting an opportunity for marketing of variety of products. Huge demand and supply gap in the Country provides an opportunity to Company for expanding its Urea base at Thal. Alternate feedstock such as Coal gives an opportunity for undertaking Fertilizer Projects in other parts of the country closer to coal mines based on latest coal gasification technology. Experienced and Skilled Manpower of the Company has been in demand for rendering O&M services in India and abroad. The experienced staff of the company is also called for various training seminars and represent the company increasing both its revenue and Brand Value In view of all these the future of the company seems pretty good enough. We therefore recommend to accumulate at current prices.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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