

CMP (Rs) 524

TP (Rs) 865

BUY

Key Figures

YoY Growth (%)

	Actuals	B&K Est	Consensus
Net Sales	2.3	1.2	n/a
EBITDA	13.1	27.4	n/a
Adj PAT	-40.4	-34.7	n/a
EPS	-40.4	-34.7	n/a

Gradual recovery in sight!!!

Change in B&K view Post Results

We are likely to review our estimates and rating on the company post earnings call as the key investment argument i.e. ramp up in PTFE sales is taking more than expected time. Though the sales are moving towards value added products within PTFE, the overall sales were sluggish in FY16 (down 12.6% YoY). However, uptick in caustic soda cycle (realisation up 21.2% YoY in 4Q'16) and expected antidumping duty on Chloromethanes is expected to neutralize the impact of lower PTFE sales in FY17E, thereby limiting downgrades.

Key Deviation & Reasons

Though sales were largely in line with estimates, EBITDA and PAT were 11.2% and 8.7% below our expectation. The miss has been largely owing to inferior mix than expected and therefore was led by lower than expected gross margin expansion.

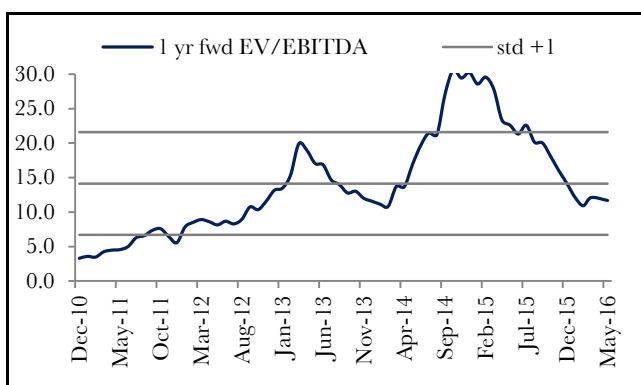
Other Highlights

- GFLC reported Sales and EBITDA growth of 2.3% and 13.1% YoY to Rs 3.53 bn and Rs 766 mn. However reported PAT declined by 90.0% to Rs 301 mn owing to absence of exceptional item. The company in 4QFY15 benefited from the sale of shares in Inox wind IPO.
- Caustic soda sales grew by 40.6% to Rs 922 mn, while sales of Chloromethanes, Refrigerant and PTFE declined by 16.9%, 11.75 and 2.8% to Rs 591 mn, Rs 594 mn and Rs 1.16 bn respectively.
- Though gross margins expanded by 140 bps to 70.2% on account of improving mix towards higher grade PTFE, while positive operating leverage helped 210 bps YoY expansion in EBITDA margin to 21.6%. Tax rate was higher at 30.4% (7.6% in 4QFY15).

Valuations

Year end	FY16P	FY17E	FY18E
PER (x)	54.5	20.0	15.4
PBV (x)	1.9	1.8	1.7

Historic valuation chart



Details (Rs Mn)

	4QFY15	4QFY16
Net Sales	3,458	3,536
EBITDA	677	766
EBITDA Margin (%)	19.5	21.6
Other Income	107	154
Interest	133	118
Depreciation	338	369
Reported PAT	3,001	301
Adjusted PAT	505	301
NPM (%)	14.6	8.5
EPS (Rs)	4.6	2.7

Financial highlights

(Rs mn)	4QFY15	4QFY16	YoY (%)	3QFY16	QoQ (%)	FY16P	FY17E	FY18E
Net sales	3,458	3,536	2.3	2,966	19.2	13,383	17,988	20,980
EBITDA	677	766	13.1	637	20.2	2,953	5,037	6,423
EBITDA margin (%)	19.5	21.6	—	20.8	—	22.1	28.0	30.6
Other income	107	154	44.2	92	67.2	443	750	900
Interest	133	118	(10.9)	110	8.0	477	240	220
Depreciation	338	369	9.0	367	0.5	1,442	1,487	1,530
PBT	3,249	433	(86.7)	252	71.4	1,478	4,060	5,573
Tax	248	132	(46.9)	41	224.4	436	1,177	1,839
Adjusted PAT	505	301	(40.4)	212	42.1	1,042	2,882	3,734
NPM (%)	14.6	8.5	—	7.1	—	7.8	16.0	17.8
EPS (Rs)	4.6	2.7	(40.4)	1.9	42.1	9.5	26.2	34.0

Segment Revenue

	Jun-15	Sep-15	Dec-15	Mar-16	FY15	FY16
Caustic Soda	668	725	686	922	2,568	3,000
YoY (%)	(2.6)	6.3	26.0	40.6	(8.2)	16.9
Chloromethanes	582	673	642	591	2,746	2,488
YoY (%)	6.0	(15.9)	(6.3)	(16.9)	25.8	(9.4)
Refrigerants	976	559	466	594	2,043	2,595
YoY (%)	286.6	26.2	(31.0)	(11.7)	62.2	27.0
PTFE	968	1,109	977	1,167	5,028	4,220
YoY (%)	(19.0)	(20.3)	(21.2)	(2.8)	14.5	(16.1)
Other Products	334	204	293	269	826	1,079
YoY (%)	116.3	(21.7)	65.1	14.7	6.2	30.7
Total Segment Revenue	3,527	3,269	3,064	3,543	13,210	13,383

Source: Company, B&K Research

Product Mix

	Jun-15	Sep-15	Dec-15	Mar-16	FY15	FY16
Caustic Soda	18.9	22.2	22.4	26.0	19.4	22.4
Chloromethanes	16.5	20.6	21.0	16.7	20.8	18.6
Refrigerants	27.7	17.1	15.2	16.8	15.5	19.4
PTFE	27.4	33.9	31.9	32.9	38.1	31.5
Other Products	9.5	6.2	9.6	7.6	6.3	8.1

Source: Company, B&K Research

Gujarat Fluorochemicals

Income Statement

Period end (Rs mn)	Mar 15	Mar 16P	Mar 17E	Mar 18E
Net sales	13,210	13,383	17,988	20,980
Growth (%)	15.8	1.3	34.4	16.6
Operating expenses	-10,386	-10,430	-12,951	-14,557
Operating profit	2,823	2,953	5,037	6,423
Other operating income				
EBITDA	2,823	2,953	5,037	6,423
Growth (%)	48.8	4.6	70.6	27.5
Depreciation	-1,239	-1,442	-1,487	-1,530
Other income	520	443	750	900
EBIT	2,105	1,955	4,300	5,793
Finance cost	-520	-477	-240	-220
Exceptional & extraordinary	2,791			
Profit before tax	4,375	1,478	4,060	5,573
Tax (current + deferred)	-552	-436	-1,177	-1,839
P / L form discount. Op.				
Profit / (Loss) for period	3,824	1,042	2,882	3,734
P/L of Ass., Min Int, Pref Div				
Reported Profit / (Loss)	3,824	1,042	2,882	3,734
Adjusted net profit	1,033	1,042	2,882	3,734
Growth (%)	38.9	0.8	176.8	29.5

Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16P	Mar 17E	Mar 18E
Share capital	110	110	110	110
Reserves & surplus	28,446	29,016	31,265	34,300
Shareholders' funds	28,556	29,126	31,375	34,410
Minority Intersts and others				
Non-current liabilities	5,145	5,289	5,289	5,289
Long-term borrowings	2,380	2,213	2,213	2,213
Other non-current liabilities	2,765	3,076	3,076	3,076
Current liabilities	6,997	4,246	4,549	4,090
ST borrow, Curr maturity	4,781	2,671	2,071	1,472
Other current liabilities	2,215	1,575	2,478	2,618
Total (Equity and Liab)	40,698	38,661	41,213	43,789
Non-current assets	29,012	30,469	30,131	29,949
Fixed assets (Net block)	21,031	20,738	20,500	20,419
Non-current Investments	4,205	5,706	5,706	5,706
Long-term loans and adv	3,777	4,025	3,925	3,825
Other non-current assets	0	0	0	0
Current assets	11,686	8,192	11,082	13,840
Cash & Current investment	3,590	334	58	983
Other current assets	8,095	7,858	11,024	12,857
Total (Assets)	40,698	38,661	41,213	43,789
Total debt	7,161	4,884	4,284	3,685
Capital employed	38,483	37,086	38,735	41,171

Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16P	Mar 17E	Mar 18E
Profit before tax	4,375	1,478	4,060	5,573
Depreciation	1,239	1,442	1,487	1,530
Change in working capital	-498	-628	-2,163	-1,593
Total tax paid	83	-130	-1,177	-1,839
Others		34	-510	-680
Cash flow from oper. (a)	5,200	2,196	1,697	2,991
Capital expenditure	-1,721	-1,149	-1,249	-1,449
Change in investments	307	-1,488		
Others	521	443	750	900
Cash flow from inv. (b)	-894	-2,194	-499	-549
Free cash flow (a+b)	4,306	2	1,198	2,442
Equity raised/(repaid)	0			
Debt raised/(repaid)	112	-2,277	-600	-599
Dividend (incl. tax)	-450	-514	-579	-643
Others	-589	-453	-295	-275
Cash flow from fin. (c)	-927	-3,245	-1,474	-1,517
Net chg in cash (a+b+c)	3,379	-3,243	-276	925

Key ratios

Period end (%)	Mar 15	Mar 16P	Mar 17E	Mar 18E
Adjusted EPS (Rs)	9.4	9.5	26.2	34.0
Growth (%)	38.9	0.8	176.8	29.5
CEPS (Rs)	20.7	22.6	39.8	47.9
Book NAV/share (Rs)	260.0	265.0	285.5	313.1
Dividend/share (Rs)	3.5	4.0	4.5	5.0
Dividend payout ratio	11.8	49.4	20.1	17.2
EBITDA margin	21.4	22.1	28.0	30.6
EBIT margin	15.9	14.6	23.9	27.6
Tax rate	34.8	29.5	29.0	33.0
RoCE	5.8	5.2	11.3	14.5
Total debt/Equity (x)	0.3	0.2	0.1	0.1
Net debt/Equity (x)	0.1	0.2	0.1	0.1
Du Pont Analysis - ROE				
Net margin	7.8	7.8	16.0	17.8
Asset turnover (x)	0.3	0.3	0.5	0.5
Leverage factor (x)	1.4	1.4	1.3	1.3
Return on equity	3.8	3.6	9.5	11.4

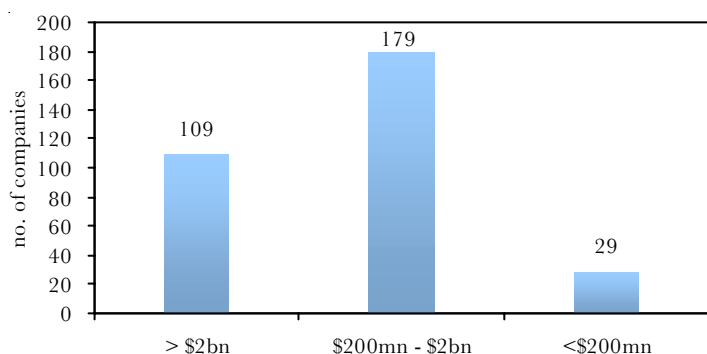
Valuations

Period end (x)	Mar 15	Mar 16P	Mar 17E	Mar 18E
PER	75.0	54.5	20.0	15.4
PCE	34.1	22.9	13.2	10.9
Price/Book	2.7	1.9	1.8	1.7
Yield (%)	0.5	0.8	0.9	1.0
EV/EBITDA	28.7	20.8	12.3	9.4

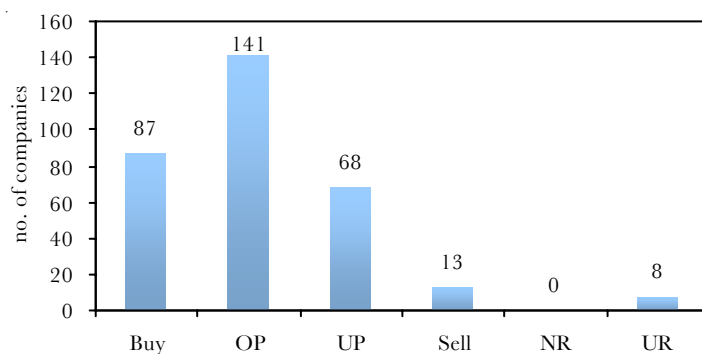
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
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