ArihantCapital
Generating Wealth

Initiating Coverage
10th Oct 2023

Chambal Fertilisers and Chemicals Ltd.

Boosting India's Green Productivity

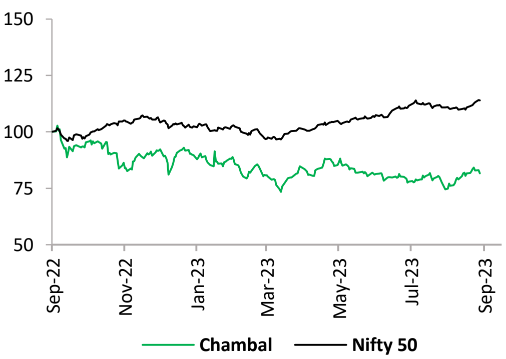
CMP: INR 273
Rating: Buy
Target Price: INR 439

Stock Info	
BSE	500085
NSE	CHAMBLFERT
Bloomberg	CHMB:IN
Sector	Fertilizer
Face Value (INR)	10
Equity Capital (INR Mn)	4,162
Mkt Cap (INR Bn)	114
52w H/L (INR)	332/248
Avg Yearly Volume (in 000')	1,634

Shareholding Pattern % *(As on Sep, 2023)*	
Promoters	60.6
FIIs	9.6
DIIs	12
Public & Others	17.8

Stock Performance (%)	**1m**	**6m**	**12m**
Chambal Fertilizers	-4.3%	+0.5%	-15.1%
NIFTY	-0.3%	+11.1%	+13%

Chambal Fertilizer and Chemical vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Anmol Das
anmol.das@arihantcapital.com
022-67114834

INTRODUCTION

Chambal Fertilisers and Chemicals Limited (CFCL) is one of India's leading fertilizer producers, with a market share of around 12%. Presently, the company has a market share of ~12% in Urea, ~13% in DAP, 2% in MOP, and 2% in NPK in the domestic market. The company operates one of the largest urea plants in the country. The Company has three plants i.e. Gadepan-I, Gadepan-II, and Gadepan-III located at Gadepan, District Kota, Rajasthan to manufacture Urea. Apart from the manufacture of Urea, the Company is also engaged in the marketing of other fertilizers such as Di-Ammonium Phosphate ("DAP"), Muriate of Potash ("MOP"), NPK Fertilizers, Speciality Plant Nutrients and Crop Protection Chemicals.

INVESTMENT RATIONALE

Bottoming out Urea prices

The dynamics of urea prices substantially impact the profitability of companies in the fertilizer industry, including CFCL. Thus, understanding urea prices' trajectory is paramount when assessing CFCL. One of the compelling aspects of CFCL's investment case is the apparent bottoming out of urea prices. The price of urea is influenced by a combination of factors including raw material costs, energy costs, supply and demand dynamics, currency exchange rates, government policies and regulations, weather conditions, and global market dynamics.

Strategic Capex Plan for the Establishment of a Technical Ammonium Nitrate (TAN) Plant

The company is focusing on the establishment of a TAN plant, with a capacity of approximately 2,40,000 MT per annum, which lies in the strategic Capex plan undertaken by the company. The decision to invest in this plant and the associated manufacturing of Weak Nitric Acid (WNA) is poised to reshape the company's growth trajectory. The expansion into TAN diversifies the product portfolio, reducing reliance on existing products. This diversification strategy is instrumental in mitigating risks associated with product concentration. The plant's set up contract is given to L&T and will see it operationalizing by Oct 2025, and hence a full year of backward integrated TAN facility to come by FY27 with revenue of Rs 1,000 Cr for a full year.

Tapping into Lucrative Markets with Technical Ammonium Nitrate

This project represents a significant Capex commitment, underlining the company's strategic vision to diversify and expand its product portfolio. The addition of TAN and WNA to the product portfolio diversifies revenue streams, reducing dependency on a single product category. The global demand for Technical Ammonium Nitrate has been on the rise due to its extensive applications in the mining and construction industries. The co-production of Weak Nitric Acid as part of this project creates synergies within company's operations. It not only streamlines the supply chain but also enhances cost efficiency, potentially leading to improved margins.

OUTLOOK:

The company's strong fundamentals, coupled with the positive tailwinds in the fertilizer industry, make CFCL an attractive investment option with the potential for robust returns. The strategic Capex plan to establish a Technical Ammonium Nitrate plant and associated facilities represents a transformative move for the company. It not only augments production capacity but also positions the company as a key player in the TAN market, both domestically and globally. The entry into the Technical Ammonium Nitrate market marks a pivotal moment for the company. It positions them to harness the growing demand for TAN and diversify revenue streams, ultimately bolstering profitability. With the project's timely completion and adherence to necessary approvals, the company is poised to emerge as a key player in the TAN industry. CFCL is a well-managed company with a strong track record of profitability. The company has a healthy balance sheet and a low debt-equity ratio. **We value the company at 6.5x EV/EBITDA on FY26E EBITDA of Rs 3,023 Cr for a target price of INR 439 per share.**

Overview

Business Model	Chambal Fertilizers is the leading producer of Urea having a capacity of 3.4 million tonnes with a market share of 12%. Apart from Urea, Chambal fertilizers also produces Di-ammonium Phosphate, Muriate of Potash and NPK fertilizers and has a market share of 13%, 2% and 2% respectively. The company is also doing greenfield expansion for Technical Ammonium Nitrate and Weak Nitric Acid with capacity of 240Kt and 210Kt respectively.
Strategic Positioning	Chambal Fertilizers is the largest producer of Urea in India with a market share of 12% and focused in Northern, western and central markets.
Competitive Edge	Chambal Fertilizers is well placed in its respective products and has network across the nation for new segments TAN and Weak Nitric Acid.
Financial Structure	Chambal Fertilizers reduced their debt from high levels seen last year as the up to 3x Natural Gas prices drove many companies to increase their debt levels in order to maintain supplies.
Future Revenue drivers	The greenfield expansion of TAN facility of 240 KT and Weak Nitric Acid of 210 KT capacity which will commercialize by Oct 2025 will drive the future revenue of the company.
Share Holder Value Proposition	We expect the bottomline of Chambal Fertilizers to growth with a CAGR of 17.9% between FY23 and FY27 end, by when the TAN facility along with the Weak Nitric Acid facility will be available with full capacity for whole year.
Earnings Visibility	We are expecting Chambal Fertilizer's PAT to grow at a CAGR of 24.6% between FY23-26.
Risk	Internal risks include the prices of Natural gas which is used as a Raw Material for the production of Urea. External risks include the geopolitical risks on raw material prices, freight charges, etc. along with regulatory risks regarding pricing of agro-chemical products.
Rating Rationale and Fair Value Calculation	Chambal Fertilizer's strategic capex towards Technical Ammonium Nitrate (TAN) with 240 KT and Weak Nitric Acid capacity of 210 KT per year will yield Rs 10 bn additional revenue for the company while the fallen prices of Natural gases will allow their Profitability to increase. Therefore, with the increase in Profitability of the company and its ongoing capex, we value the company at 6.5x of FY26E EBITDA and arrive at a Target Price of Rs 439 per share.

Exhibit 1: Summary

Summary (Rs Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,27,190	1,60,688	2,77,728	2,05,717	2,31,179	2,62,522
EBIDTA	24,635	22,622	18,194	23,614	24,275	30,238
Net Profit	14,113	12,597	9,763	13,910	14,367	18,871
Diluted EPS	39.76	37.62	24.85	33.42	34.52	45.34
P/E (x)	6.86	7.25	10.98	8.17	7.91	6.02
EV/EBIDTA (x)	5.53	5.88	7.22	5.55	5.32	4.21
P/BV (x)	2.28	1.87	1.69	1.48	1.30	1.13
RoE (%)	38.3%	21.7%	14.5%	18.4%	16.6%	19.1%
Debt/Equity (x)	0.60	0.39	0.26	0.22	0.20	0.17

Technical Ammonium Nitrate Plant

The Company had decided to set up a plant for the manufacture of Technical Ammonium Nitrate, with a capacity of approximately 2,40,000 MT per annum including a plant to manufacture approximately 2,10,000 MT per annum of Weak Nitric Acid ("Project") at its existing site at Gadepan, District Kota, Rajasthan. The Company awarded a contract on April 5, 2023, to Larsen and Toubro Limited for implementation of the Project. The contract includes designing, engineering, procurement, supply of equipment and materials, construction, project management, pre-commissioning and commissioning of the Project and its associated facilities, and grant/ transfer of the requisite license to the Company. The Project is scheduled to be completed within 30 months from April 5, 2023, and is subject to necessary statutory and other approvals.

Comprehensive Analysis of Industry Structure and Growth Trends

Urea

Urea is a major crop nutrient that plays a vital role in ensuring food security. The demand for Urea in the country is higher than its production capacity, hence part of the demand is met through imports. The price of Urea is regulated by the Government of India which pays subsidy on the Urea sold for agricultural use.

Most of the Urea manufacturing units in India use natural gas as feedstock / raw material. The demand for natural gas is met through supplies from domestic sources and through imports. The supply of domestic gas to Urea manufacturers has reduced over the years and a major part of the natural gas requirement of Urea manufacturers is being met through imports. The imported gas is sourced through long-term, mid-term, and short-term contracts. The prices under the mid-term and long-term contracts are less volatile in comparison to the prices of natural gas sourced through short-term contracts. There was a lot of volatility in the prices of natural gas during the last two financial years and the geopolitical situation in the world has further added to the volatility in the prices of natural gas. The increase in prices of natural gas increases the cost of manufacturing Urea, however, it is appropriately considered by the Government of India while fixing the subsidy for Urea units up to the Re-Assessed Capacity (RAC) of Urea plants. For production beyond RAC, as per the prevailing policy of the Government of India, subsidy is calculated considering the cost of natural gas and a fixed cost component, which is common for the entire industry, but lower than the normal fixed cost paid for production up to RAC. This is compared to the Import Parity Price (IPP) of Urea along with certain fixed incidental expenses. The IPP used is the annual average. If the IPP and incidental expenses of imported Urea are lower as compared to the subsidy calculated for production beyond RAC, then it may not be viable to operate the plants beyond RAC.

Exhibit 1: The increase in Urea prices would improve the realization (US $)

The New Investment Policy - 2012 ("NIP-2012") of the Government of India boosted investment in the Urea sector during the last 6-7 years. A total of 6 plants had been set up / in process under NIP-2012 in the public and private sector including the Gadepan-III plant of the Company which commenced commercial production on January 1, 2019. This has led to the addition of an annual capacity of around 8 million MT of Urea in the country which will largely fill the demand & and supply gap and will reduce dependence on imports. The country has reached the level of almost self-sufficiency in Urea production after the addition of these 6 plants. However, the increasing demand for Urea will require some import of Urea to meet the demand & and supply gap.

The prices under most of the long-term gas supply contracts in India are linked to the prices of crude oil. The upsurge in the prices of crude oil and natural gas continued during the Financial Year 2022-23 and geopolitical developments, due to the Ukraine-Russia conflict, have further worsened the situation. The natural gas prices had touched historically high levels which led to substantial increases in international prices of ammonia and Urea. The production cost of indigenous Urea has also gone up substantially due to the increase in prices of natural gas. With the fixed MRP (Maximum Retail Price) of Urea to the farmers in India, the subsidy on Urea has gone up substantially which has put pressure on the finances of the Government of India as well as working capital requirements of fertilizer companies.

Urea production in the country during the Financial Year 2022-23 was 28.49 million MT against 25.07 million MT in the previous year. During the Financial Year FY22-23, a total of 7.58 million MT of Urea was imported into the country in comparison to 9.14 million MT of Urea imported in FY21-22. The Urea sales in the country during the Financial Year 2022-23 were 35.73 million MT against the Urea sales of 34.18 million MT during the previous year.

The price of imported Urea was around USD 596.45 per MT at the beginning of the Financial Year 2022-23 which went as high as USD 750 per MT before coming down to USD 330 per MT by the close of the Financial Year 2022-23.

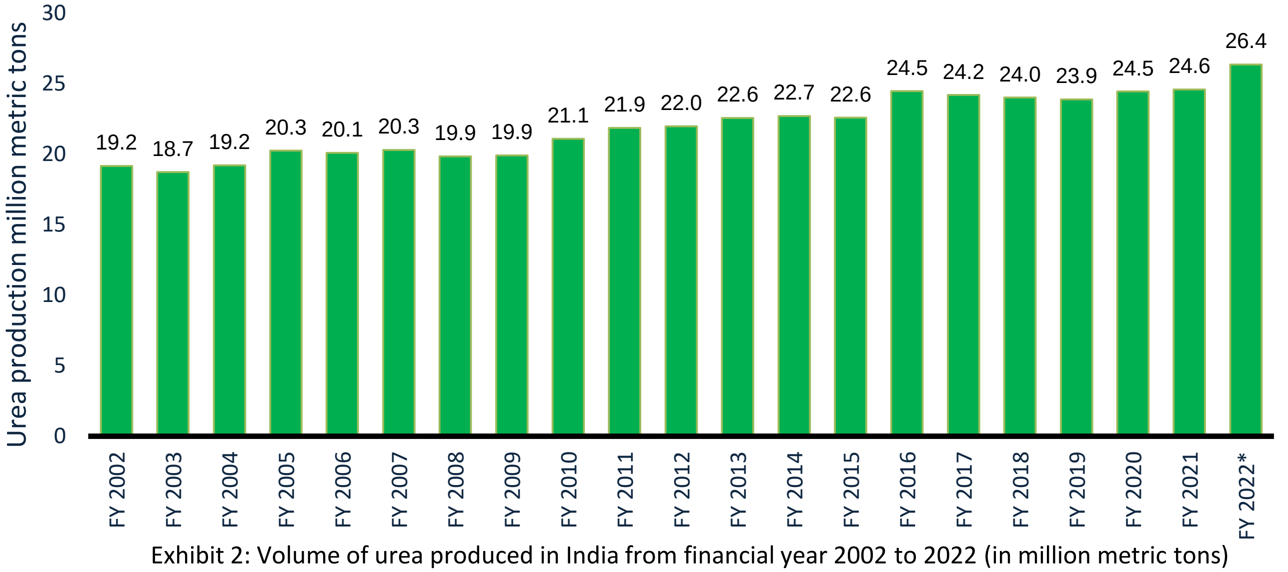


Exhibit 2: Volume of urea produced in India from financial year 2002 to 2022 (in million metric tons)

B) Other Products

DAP is another major product that is sourced from the international market and marketed by the Company. Apart from this, the Company also markets various grades of NPK fertilizers and MOP. DAP demand in India is met through local manufacturing and imports, and in FY22-23, imports were around 60% of the total quantity supplied in the market. NPK fertilizers are largely manufactured in the country and some quantity is imported to meet the shortfall and demand of the market for a few specific grades. In the case of domestic manufacturing of DAP and NPK fertilizers, raw materials like ammonia, rock phosphate, phosphoric acid, potash, etc. are also imported. Hence, the country has a huge dependence on imports as far as DAP and NPK fertilizers are concerned. MOP is not produced in India and the country is fully dependent on imports.

The rally in the prices of fertilizer inputs like natural gas, ammonia, phosphoric acid, potash, etc. continued unabated during the first half of the Financial Year 2022-23 leading to high prices of all fertilizer products during this period. The fertilizer prices started declining in the second half of the Financial Year 2022-23 and came down substantially by the end of the Financial Year 2022-23. This volatility has adversely impacted the fertilizer industry in India which is largely dependent on the import of inputs / raw materials for fertilizer manufacturing and finished fertilizers.

The consecutive good monsoon has kept the demand high for all the fertilizers in India. While there was a substantial increase in prices of phosphatic and potassic fertilizers, the MRP of these fertilizers was kept low for farmers leading to a substantial increase in the subsidy budget of the Government of India. Due to the continuation of the Russia-Ukraine conflict at the beginning of the Financial Year 2022-23 and higher demand in some of the markets the supply of Phosphatic and Potassic fertilizers was constrained at the beginning of the year. The situation stabilized as the year progressed and the supplies came to normal levels by the end of the Financial Year 2022-23 leading to comfortable stock levels in India. The export restrictions and custom inspections mandated by China during the previous year had continued but supplies from Morocco has enabled the country to withstand the pressure and supplies from China have shown sign of easing towards the end of the Financial Year 2022-23.

DAP

DAP sales in the country during the Financial Year 2022-23 were 10.53 million MT in comparison to 9.27 million MT during the Financial Year 2021-22 registering an increase of about 13.6%. DAP sales in the Financial Year 2021-22 were lower compared to normal average sales due to challenges in its availability as a result of high global demand. A total 4.35 million MT of DAP was manufactured in the country during the Financial Year 2022-23 as against 4.22 million MT manufactured during the previous year. Further, 6.18 million MT of DAP was imported into the country during the Financial Year 2022-23 as against 5.46 million MT of DAP imported during the previous year.

The prices of DAP were in the range of USD 920-927 per MT (CFR India) in April 2022 which moved in the range of USD 577-578 per MT (CFR India) by the end of the Financial Year 2022-23 after rising to a peak of around USD 960 per MT.

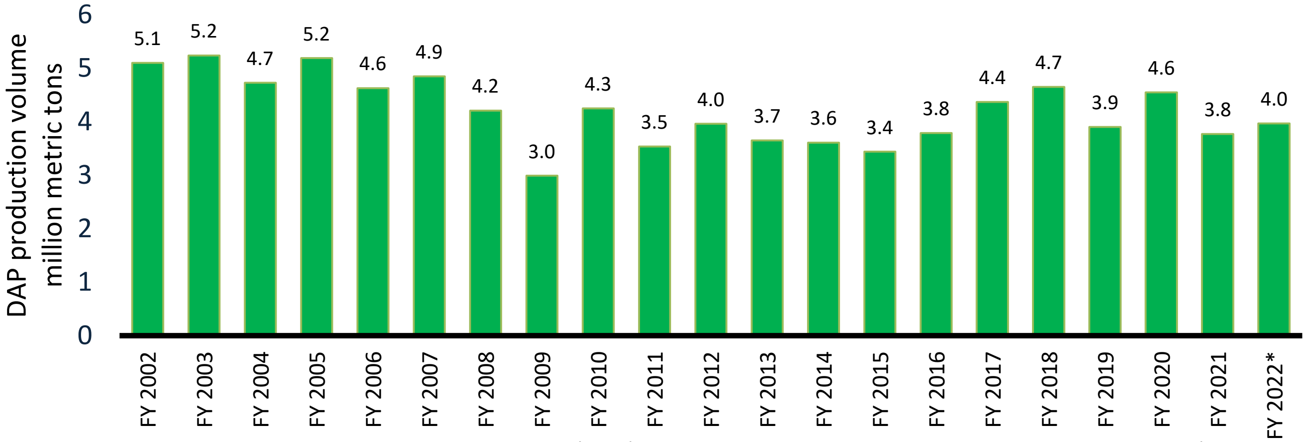


Exhibit 3: Volume of di-ammonium phosphate (DAP) produced in India from financial year 2002 to 2022 (in million metric tons)

MOP

MOP is imported for direct application as fertilizer as well as for the manufacture of NPK fertilizers in the country. MOP imports as fertilizer in the country during the Financial Year 2022-23 were 1.87 million MT as against 2.46 million MT during the Financial Year 2021-22. MOP sales for direct application during the Financial Year 2022-23 were 1.63 million MT against the sales of 2.45 million MT in the previous year.

The prices of MOP were USD 590 per MT (CFR India) at the beginning of the Financial Year 2022-23 which decreased to USD 422 per MT (CFR India) during the quarter ended March 31, 2023.

The Company procures specialty plant nutrients from manufacturers of repute in India and abroad and these products are marketed under the brand names of the Company. The supply constraints during the first half of the Financial Year 2022-23 have impacted sales volumes of a few products. However, the brand strength and focused approach have enabled the Company to keep the momentum to achieve higher sales volumes for almost all other products.

The crop protection chemicals business in India is largely dominated by manufacturers who cater to domestic and international markets. The Company procures crop protection chemicals from reputed formulators which are sold under its own brands. The Company has used its brand strength to penetrate into the crop protection market and gradually increased this business to a sizeable level. The Company is rapidly growing this business through the expansion of its product basket, deeper market penetration in the existing marketing territory, and geographical expansion of its marketing territory.

Crop Protection Market 2016-2022**

	2016	2017	2018	2019	2020	2021	2022
World Crop Protection Market (US$ million)	61,628	63,489	67,251	66,702	68,407	71,604	78,715
- Of which biocontrol products	2,317	2,420	2,585	2,788	3,040	3,344	3,562
Nominal change on previous year (%)	-6	3	5.9	-0.8	2.6	4.7	9.9

**On basis of S&P Global's restated historic data, including Biocontrol products, PGRs, fumigants and pheromones

Category-wise growth in global markets (US$ Terms)

	Share of global market	YoY growth rate
Herbicide	46%	~14%
Insecticide	26%	~6-7%
Fungicide	25%	~7-8%
Others (Includes PGRs,fumigants and pheromones)	3%	~2-3%

Herbicide Market

In 2022, the global crop protection market saw remarkable growth, with herbicides emerging as the leading and fastest-expanding segment, surpassing other product categories. This growth, driven by increased product prices and favorable weather conditions in key markets, resulted in a 10% overall market expansion to reach approximately $79 billion. Notably, herbicide sales thrived due to high prices of essential non-selective herbicides such as Glyphosate and Glufosinate, although currency fluctuations had some limiting effects due to certain major currencies weakening against the USD.

Insecticides Market

The demand for insecticides was primarily fuelled by the presence of insect pressure and an expansion of crop area in Brazil. Chlorantraniliprole, a leading insecticide active ingredient based on diamide chemistry, has recently gone off-patent in some geographies. This development is expected to drive growth in volume terms for chlorantraniliprole in the future. The effectiveness of this active ingredient in controlling insects is increasingly contributing to its popularity in the market.

Fungicide Market

Adverse weather conditions negatively affected the sales of fungicides in key markets such as the US and Europe. However, the fungicides market experienced relatively robust demand in Asian markets, leading to high single-digit growth for the year. Despite challenges in certain regions, the overall performance of the fungicides market remained positive.

Regional outlook

North America

Crop production in the USA is expected to experience significant growth, particularly in corn and cotton, driven by expanded acreages. Soybean production is also projected to increase due to improved yields. Similarly, in Canada, higher production is anticipated for cereals and canola. However, the value of the crop protection market may be impacted by lower prices for active ingredients compared to 2022.

Central & South America

The crop protection market is projected to either remain stable or experience modest growth. Brazil is expected to be a key growth market, with expanded areas for corn and soybeans leading to increased production in 2023. Additionally, corn exports are forecasted to rise as China looks to Brazil as an alternative source due to supply disruptions in Ukraine and Argentina.

Despite the expected growth in Brazil's crop protection market, the overall performance may be dampened by weaknesses in Argentina (lower yields) and other markets with lower prices for corn and soybeans. However, it is important to highlight that the increasing demand for the export of fruits and vegetables has contributed to a rise in the value of crop protection use in these markets.

Asia-Pacific

The crop protection market in 2023 is expected to be driven by favorable weather conditions in several countries, leading to increased production of key crops such as rice in China, canola and wheat in Australia, and cotton in India. However, the market may be impacted by high channel inventories, particularly in India, as well as softness in agrochemical prices and weakness in key currencies, resulting in a nominal USD impact. The Asia-Pacific region is experiencing rapid growth, fuelled by the focus on boosting production to maintain an export surplus and ensure quality for export markets.

Europe

EU requirements for reduced crop protection volumes may limit the value development in Europe, but emerging markets in Eastern Europe are expected to drive demand. Favorable autumn conditions have benefitted winter crop sowing in the northern and western regions of the continent. Cereal exports are expected to rise, driven by the resumption of Ukraine's Black Sea exports and the larger wheat crop, as well as the price competitiveness of wheat from the EU and the UK. Dry conditions remain a concern in France, while Ukraine is also severely impacted by the destruction of the Kakhovka Dam.

Indian agrochemical industry

India holds a significant position as the fourth largest crop protection producer, commanding a 13-15% share in the global crop protection market. In fiscal year 2023, the crop protection market in India was estimated to be around Rs. 765 billion. The country's strong foothold in the global market contributed to significant growth in Indian agrochemical exports, driven by value-driven factors. The growth in agrochemical exports was primarily led by an increase in formulation prices and the appreciation of the dollar during FY23. India has been benefitting from the China+1 strategy adopted by global players and the expiration of patents for certain molecules, further boosting its position in the market.

The domestic crop protection industry experienced a year-on-year growth of approximately 9-10%. This growth was supported by an expected rise in per hectare expenditure, driven by an increase in crop protection prices and the expansion of acreages under key crops. Farmers' preference for high-end chemistries also contributed to this growth. The price rise of formulations, averaging around 7-8%, and the introduction of new products in the last two years played a significant role in driving the industry forward. However, volume growth was limited due to factors such as skipped sprays in cotton caused by erratic monsoons and lower infestation of pests like brown planthoppers in crops such as paddy. On the other hand, herbicide penetration continued to increase, driven by heavier weed infestation in dry conditions, as herbicides gained preference over manual labour. During the last quarter of FY23, the performance of Indian agrochemical players was impacted by high channel inventories and the influx of low-priced Chinese generics. These factors posed challenges for the industry and influenced its overall performance.

Key Points

- 4^{th} Largest crop protection producer
- 13-15% is India Share in Global Crop Protection Market
- Rs 765 Billion is the Estimated worth of India's Crop Protection Market
- Domestic Crop Protection Market grew by ~9-10% annually
- Indian Crop Protection Industry expected to grow by ~11-12% CAGR between FY22 to FY25
- India's Export expected to grow ~14-15% CAGR from FY23 to FY25

Opportunities

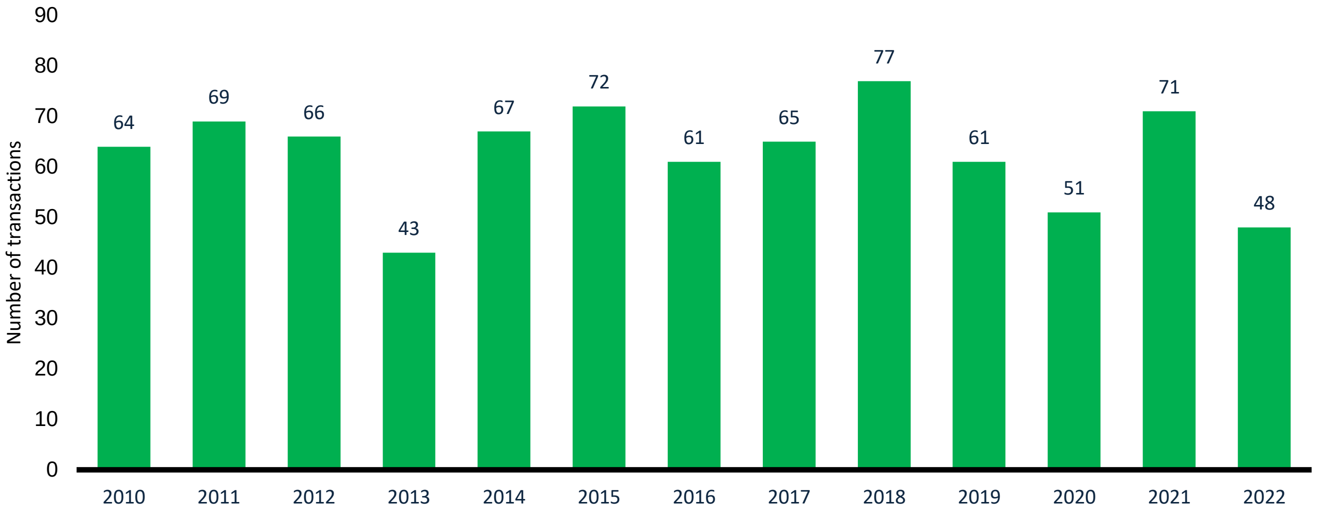
− Over the next few years up to FY 26, ~US $4.2 billion worth of technical are expected to go off-patent, increasing the export potential of India which has a strong presence in generics
− Government initiatives to provide credit facilities to farmers at low interest rates and other cash incentives
− Increase in commodity prices expected to improve the farmer's per hectare expenditure and pave the way to the industry growth
− New product launches, younger active ingredients, and new technologies to boost the industry.
− Climate change has resulted in the development of various new crop-damaging pest like black thrips
− India's capability in low-cost manufacturing, a strong presence in the generic crop protection segment, availability of technically trained manpower, seasonal domestic demand and unutilized capacity is expected to drive export growth in the next 3 years at a CAGR of 14-15%

Challenges

− Unfavorable climatic conditions like erratic rainfall can disturb the spraying windows
− Increased supply of lower-priced agrochemicals from China
− Stringent government regulations on product development, registration and application

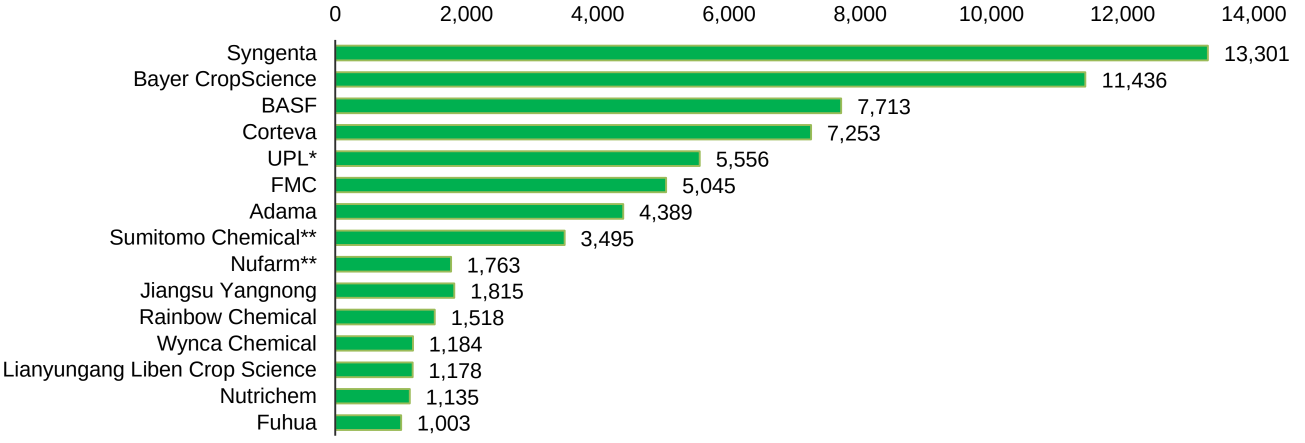
Global

Exhibit 4: Fertilizers and agricultural chemicals merger and acquisition deal volume worldwide from 2010 to 2022.
Global fertilizers and agricultural chemicals transaction volume 2010-2022



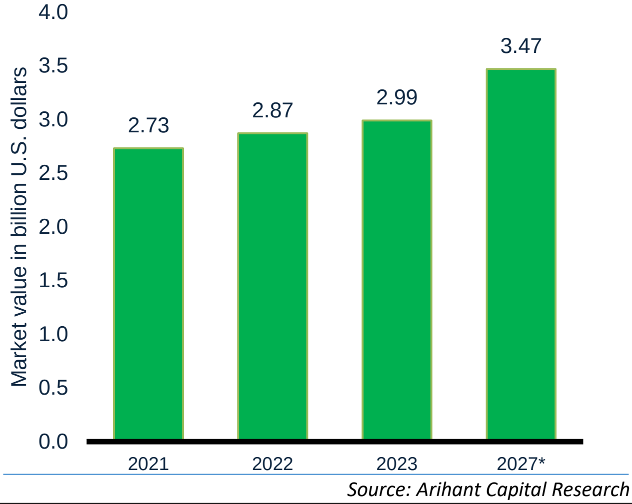
Source: Arihant Capital Research

Exhibit 5: Leading pesticide companies worldwide based on sales in 2021 (in million U.S. dollars)
Leading companies worldwide based on pesticide sales 2021



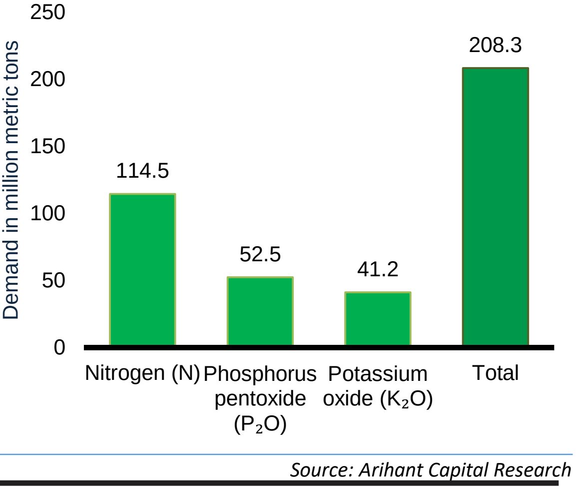
Source: Arihant Capital Research

Exhibit 6: Market value of fertilizer additives worldwide from 2021 to 2023 with a forecast to 2027 (in billion U.S. dollars)



Source: Arihant Capital Research

Exhibit 7: Medium-term forecast for global fertilizer demand to 2025/2026, by nutrient (in million metric tons)



Source: Arihant Capital Research

Indian Agriculture Sector

The Indian agriculture sector, with the second-largest agricultural land in the world is the backbone of the economy. The sector is projected to grow by 3.5% in FY23. The sector met domestic requirements, and also rapidly emerged as the net exporter of agricultural products in recent years. Agriculture exports touched US$ 50 billion in FY23. The total kharif foodgrain production in the country is estimated at 150 MMT higher than the average of the previous five years. However, the area sown under paddy was about 20 lakh hectares less than compared to 2021.

The growth in the agriculture sector is likely to remain buoyant, supported by healthy progress in Rabi sowing, with the area sown being higher than the previous year. As per the third Advance Estimates of production of major crops for FY23, total foodgrain production in the country is estimated at a record 330 MMT, 15 MMT higher than in 2021-22. This will become the highest-ever foodgrain production in India. Wheat harvest was at a record 113 MMT up from 108 MMT in 2021-22. This has led to a recovery in the rural economy. The government's Central Sector Scheme of financing facility under the Agriculture Infrastructure Fund of INR 10,000 billion supports farmers, PACS, FPOs, and agri-entrepreneurs, among others in building community farming assets and post-harvest agriculture infrastructure. Kisan drones are also being promoted, with subsidies being given to various sections, including farmers, SC-ST category, and women farmers, and crop-specific SOP has also been issued for the application of pesticides with drones. Nearly INR 612.1 billion has been provided to states over FY15 to FY23 for various activities like training, testing, setting up of CHCs, hi-tech hubs, and Farm Machinery Banks under the Sub-Mission on Agricultural Mechanisation. Besides, 15.24 lakh farm machinery and equipment have been provided at subsidized rates through state governments, including tractors, power tillers, and automated machinery.

E-National Agriculture Market, which digitally integrates wholesale markets, trade turnover grew 32% to INR 7,465.6 billion in FY23 with growing use by farmers, traders, and farmers' producers' organizations (FPOs). The turnover on the platform is expected to cross INR 1 trillion in FY24.

There is a demand shift towards low-price fertilizers like urea and DAP. India plans to phase out urea imports by 2025 as it expands its domestic production capacity through the activation of new plants.

The Indian fertilizer market size was INR 899 billion in 2022 and is expected to grow at 4.9% CAGR to reach INR 1,188 billion by 2028.

The volume of fertilizers imported in India from the financial year 2011 to 2021, by nutrient (in million metric tons) Import volume of fertilizers in India FY 2011-2021.

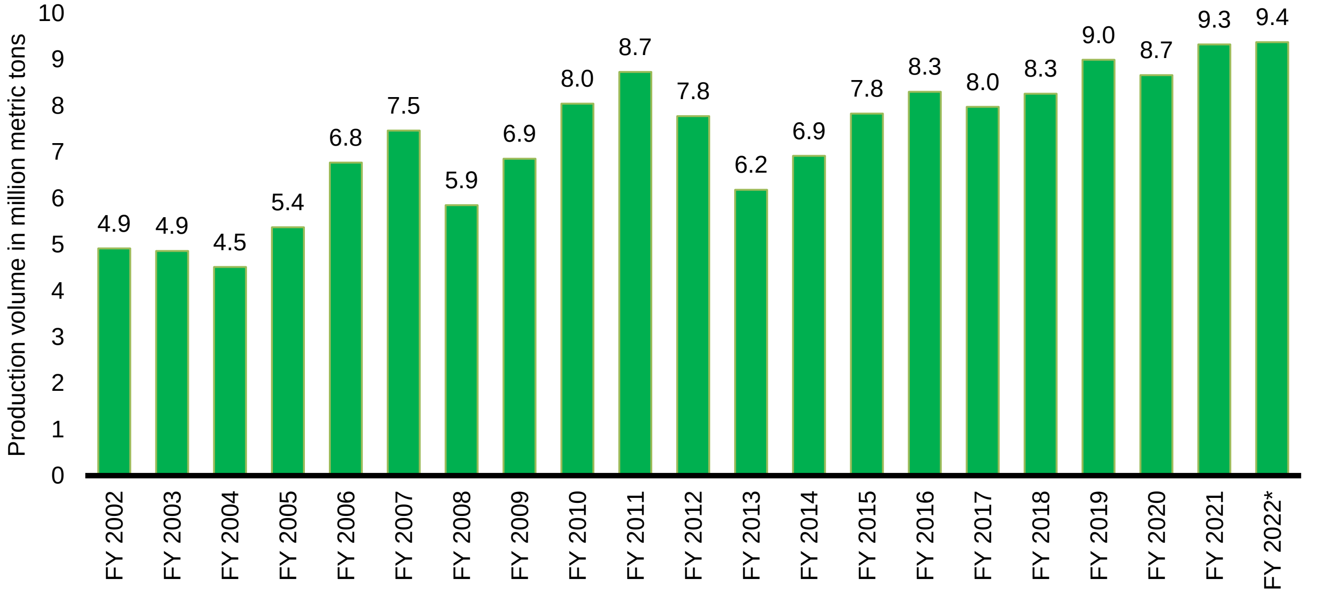


Exhibit 8: Volume of complex fertilizers produced in India from financial year 2002 to 2022 (in million metric tons)

India Fertiliser Overview

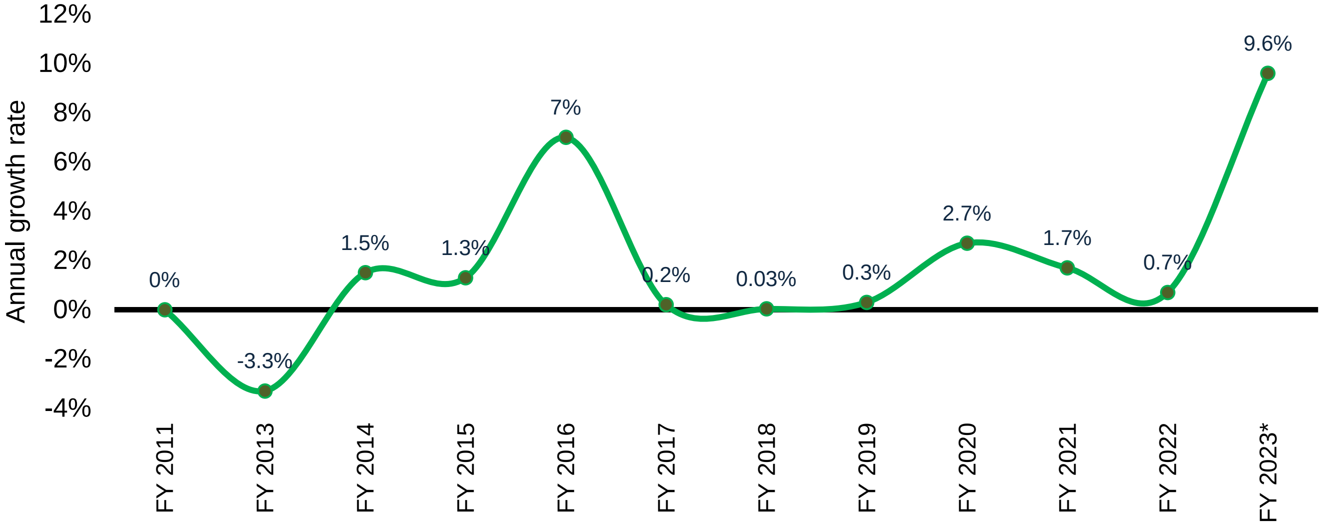


Exhibit 9: Annual growth rate of fertilizer production in India from the financial year 2013 to 2023

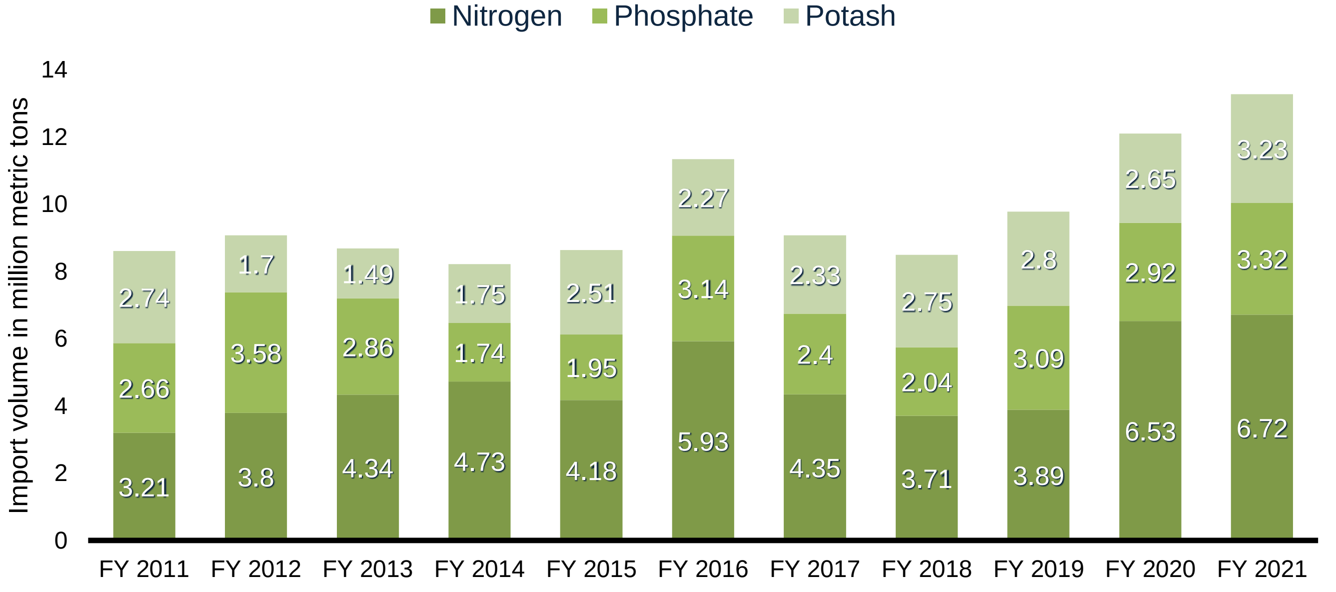


Exhibit 10: Volume of fertilizers imported in India from financial year 2011 to 2021, by nutrient (in million metric tons)

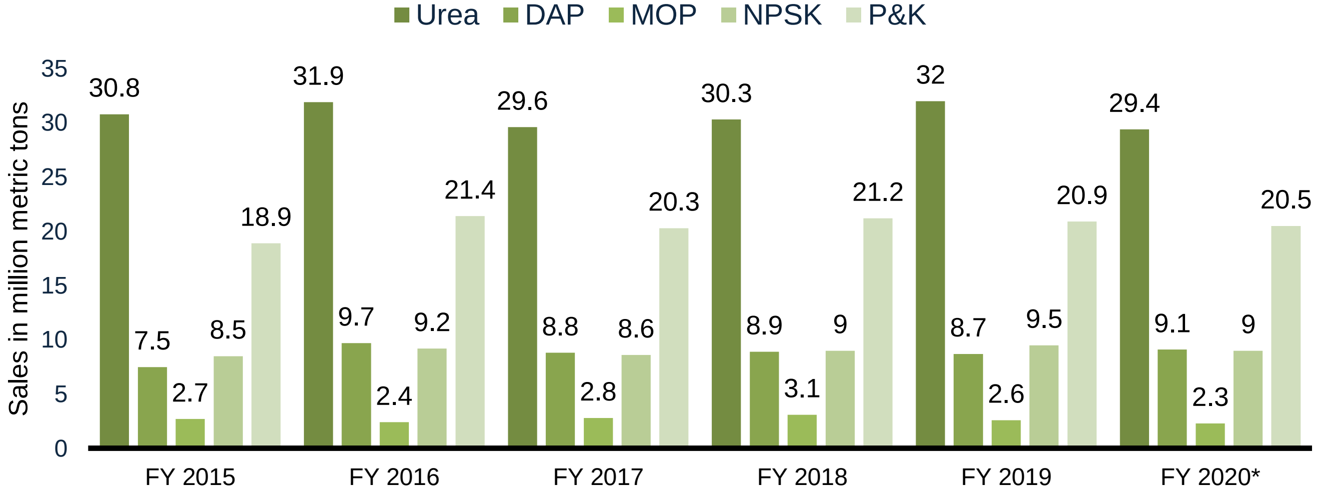


Exhibit 11: Sales volume of fertilizers in India from financial year 2015 to 2020, by type (in million metric tons)

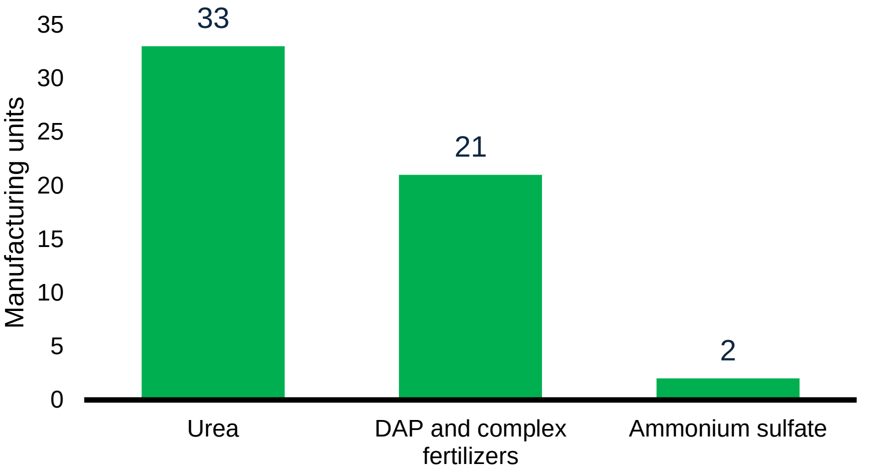


Exhibit 12: Number of fertilizer manufacturing units in India in financial year 2022, by type

Opportunities and Threats

The Company is a large manufacturer of Urea and markets bulk fertilizers such as DAP, NPK, and MOP. The reliable supply channels, established marketing network and financial strength offer an opportunity to grow volumes of bulk fertilizers, crop protection chemicals, and specialty plant nutrients. The geographical expansion of marketing territory and deeper penetration in existing territory offers an opportunity to grow its business of marketed products. A large portion of the demand for phosphatic fertilizers is met through imports and the Company being an established player has the advantage of further increasing volumes of these products subject to reasonable margins. The new territories have sizeable demand for NPK fertilizers, crop protection chemicals, and specialty plant nutrients which gives opportunity to the Company to grow; however, the Company has to overcome the competition from large established players in these territories by focusing on the product requirements in the new territories and maintaining reasonable margins.

The new Urea plants that have become operational in India during the last few years have reduced the demand-supply gap in the country. Further, the new players may also enter the marketing of bulk fertilizers and other agri-inputs resulting in increased competition. However, these plants are in the eastern and southern parts of India whereas the Company supplies a major part of its products in the northern and central parts of India. Hence, the Company does not foresee much impact on its business due to the capacity addition by new players in the Urea Industry. The implementation of the 'One-Nation-One-Fertiliser' concept by the Government of India may also impact the brand advantage of the Company. The Company is evaluating the impact of 'One-Nation-One-Fertiliser' and an appropriate strategy is being worked out to mitigate the impact thereof on the brand of the Company. The demand variation due to changes in monsoon pattern, availability constraints, volatility in the prices of DAP, MOP, and NPK fertilizers, variation in the foreign exchange rates, and regulation of prices of products by the Government of India are a few challenges which the Company faces in its business related to non-Urea fertilizers. The Company continuously evaluates these factors and strives to mitigate them through dynamic sourcing and pricing of the products and appropriate hedging of foreign exchange risk.

Risks and Concerns

Fertilizer is a regulated industry with a high dependence on the policies of the Government of India. The third Urea plant of the Company is under NIP – 2012 which is effective for 8 years from the start of production. The changes or delays in policies of the Government of India may sometimes adversely affect the Company. The volatility in the prices of marketed fertilizers along with the regulation of prices of products by the Government of India may adversely impact the Company in the short run. The high prices of gas but low IPP of Urea may impact the production of Urea beyond re-assessed capacity as the subsidy of the Government of India for the production of Urea beyond re-assessed capacity plants is also linked to IPP.

Chambal's Uttam Bandhan

Chambal's Uttam Bandhan is pioneering an agriculture and community welfare program that plays a pivotal role in preserving and rejuvenating arable land. This initiative focuses on educating farmers about sustainable agricultural practices. Chambal employs a combination of modern and traditional media channels to deliver tailored information and technical expertise to farmers.

Through this initiative, farmers have multiple channels at their disposal to access valuable information on advanced farming techniques, top-quality agricultural inputs, and current market prices. It also assists them in finding authorized dealers, staying updated on local weather forecasts, and exploring non-farming business opportunities. Importantly, this initiative empowers farmers to address challenges such as nutrient-depleted soils, declining water tables, and the indiscriminate use of fertilizers and pesticides.

The connection between Chambal and the farmers is facilitated through Uttam Krishi Salhakars (UKSs). Typically, a UKS is a local, entrepreneurial youth with a strong understanding of agriculture. Their responsibilities include gathering soil and water samples for analysis, distributing the quarterly magazine "Chambal ki Chitthi," coordinating animal health camps, organizing farmer meetings, conducting crop seminars, and facilitating product demonstrations.

Soil and water Testing

Soil is the single most important factor that determines crop productivity and quality, ensures long term sustainability and promotes environmental well-being. Since soil is neither inexhaustible nor self-sustaining, there is a need to test soil so that its health can be maintained and restored back.

Chambal's soil management initiative is a pioneering move in this regard. Chambal has two Agriculture Development Laboratories (ADL) at Gadepan (Rajasthan) and Agra (Uttar Pradesh). In addition to the two ADLs, the company has satellite laboratories at Baran, Bundi and Jhalawar in Rajasthan.

Chambal also operates two mobile soil testing facilities in Kota and Kota areas of Rajasthan. In these testing facilities, soil analysis is done in-situ and instant reports are given to the farmers.

These laboratories carry out soil and water tests free of charge for Uttam Bandhan members. Soil tests are done for micro nutrients and based on the reports soil mapping is done. The test result data is electronically stored and is also made available on www.uttamkrishi.com.

Crop Nutrients Products:

Fertilizer (Major Nutrients)

Fertiliser	Technical Name
Uttam Neem Urea	46% Nitrogen
Uttam DAP	Di-Ammonium Phosphate (46% Phosphorous 18% Nitrogen)
Uttam MOP	Murate of Potash (60% Potassium)

Specialty Fertilizer / Micro Nutrients

Brand Name	Technical Name
Uttam Neem (Neem coated Urea)	46% Nitrogen
Uttam Sulton	90% Sulphur
Uttam Zinc	Zinc Sulphate Monohydrate – Zinc 33%
Uttam Sampoorn	Micro Nutrient Mixture Fertiliser
Uttam Polybor	Di Sodium Octa Borate Tetra Hydrate (Boron 20%)
Calrich	Calcium Nitrate (Ca 18.8%, N 15.5%)
Uttam Recharge	N.P.K. (100% water soluble fertiliser)
Granubor	15 % Boron

Crop Nutrients Products:

Uttam Keetnashak (Insecticides)

Brand Name	Technical Name
Aceveer	Acephate 75% SP
Acto	Acetamaprid 20% SP
Bruno	Buprofezin 25% SC
Imexo	Thiamethoxam 25% WDG
Lambda Double	Lambda Cyhalothrin 5% EC
Lambda Strong	Lambda Cyhalothrin 4.9% CS
Onvix	Chlorantraniliprole 0.4% Gr
Pevota	Chlorantraniliprole 18.5% SC
Stembo	Fipronil 0.3% Gr
Veercombi 44	Profenofos 40% + Cyper 4% EC
Veercombi 505	Chlorpyriphos 50% + Cyper 5% EC
Veertap Power	Cartap Hydrochloride 4%Gr

Brand Name	Technical Name
Uttam Flue 3935	Flubendamide 39.35% W/W
Uttam EMA	Emmamectin Benzoate 5% SG
Toro-10	Bifenthrin 10% EC
Chloroveer	Chlorpyriphos 20% EC
Chlorveer Strong	Chlorpyriphos 50% EC
Fenveer DP	Fenvalerate 0.4% Dust
Imidaveer	Imidacloprid 17.8% SL
Uttam Metroz	Pymetrozine 50%WG
Uttam Reon	Pyriproxyfen 5% + Diafenthiuron 25% SE

Uttam Phaphundinashak (Fungicides)

Brand Name	Technical Name
Figo	Tricyclazole 75% WP
Manzim	Manco 63% + Carben 12% WP
Sulfino	Sulphur 80% WDG
Veercon	Propiconazole 25% EC
Veersulp DP	Sulphur 85% DP
Uttam Fulcot	Thifluzamide 24% SC
Uttam Lexon	Azoxystrobin 11%+Tebuconazole18.3%SC
Uttam Azole	Azoxystrobin 18.2%+Difenoconazole11.4%SC

Crop Nutrients Products:

Uttam Kharpatvarnashak (Herbicides)

Brand Name	Technical Name
Attract	Atrazine 50% WP
Butaveer	Butachlor 50%EC
Dhoomketu	Imazethapyr 30% SL
Lido	Butachlor 50% EW
Metaveer	Metribuzin 75% WP
Penveer	Pendimethalin 30% EC
Penveer Plus	Pendimethalin 38.7% CS
Pretilaveer	Pretilachlor 50% EC
Totto	Paraquat Dichloride 24%SL
Veerkill 80	2,4-D Sodium Salt 80% WP
Zeto	Fenoxaprop Ethyl 9.3% EC
Moto	Metsulfuron Methyl 20% WP
Prido	Pretilachlor 37% EW
Veerkill	2,4-D Ethyl Ester 38% EC
Weedkil	2,4-D Amine Salt 58% SL
Weeza	Clodinofop Propargyl 15% WP
Wheto	Sulfosulfuron 75% WDG

Company's Marketing Location

Chambal has a vast marketing network comprising 22,000 village-level outlets. The Company caters to the needs of the farmers in ten states in the northern, eastern, central, and western regions of India and is the lead fertilizer supplier in the States of Rajasthan, Madhya Pradesh, Punjab, and Haryana. The Company has a vast marketing network comprising 20 regional offices, 4,200 dealers, and 60,000 retailers. The company holds the highest market share among private-sector Urea manufacturers in the country. The company has further strengthened its position as the lead fertilizer manufacturer in India after the commissioning of the Gadepan III plant.

Financial Analysis

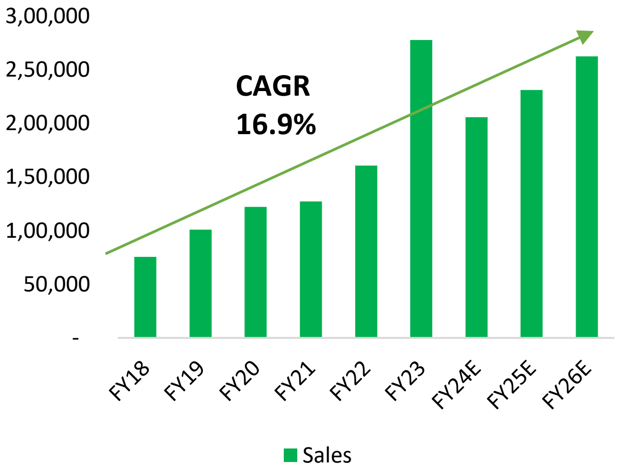


Exhibit 13: Revenues expected to grow a CAGR of 16.4% over FY23-FY26E

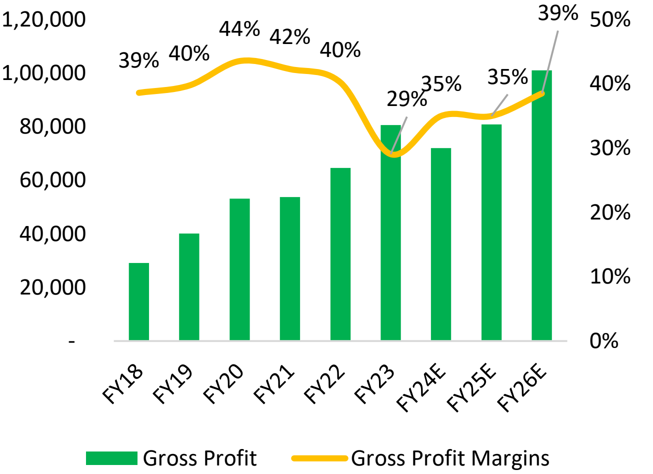


Exhibit 14: Net Profit & Margin trend in the upcoming years

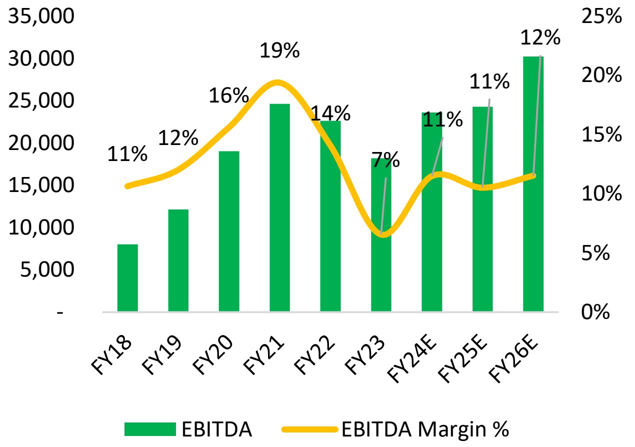


Exhibit 15: EBITDA expected to grow by 87% over FY23-FY26E

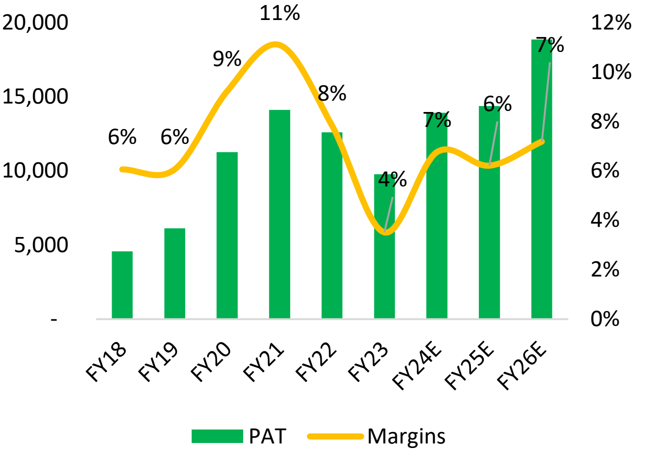


Exhibit 16: PAT expected to grow by 123% over FY23-FY26E

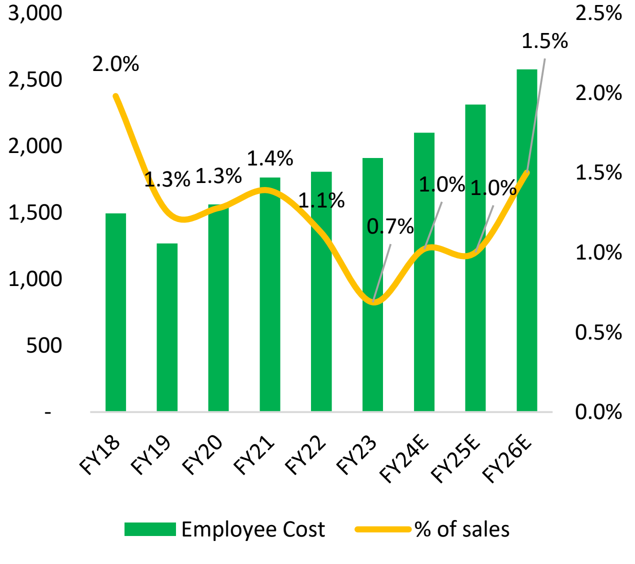


Exhibit 17: Employee Costs & as % of sales

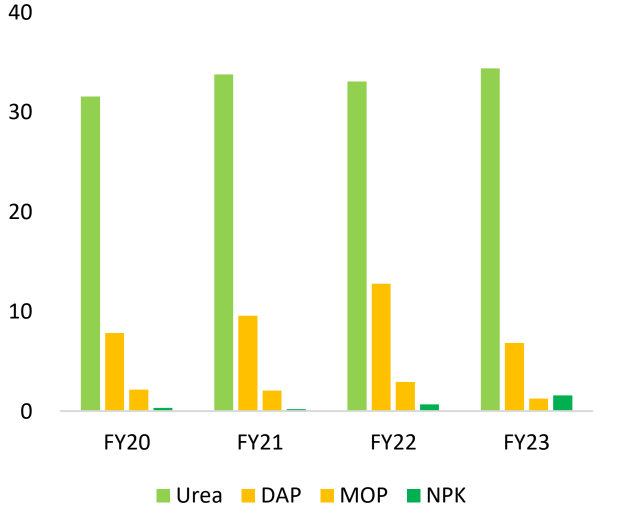


Exhibit 18: Yearly Sales Volume

Source: Company Reports, Arihant Capital Research

Financial Statements

Profit & Loss Statement (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	**1,27,190**	**1,60,688**	**2,77,728**	**2,05,717**	**2,31,179**	**2,62,522**
Raw Material	73,382	96,033	1,97,043	1,33,716	1,50,266	1,61,451
Gross Profit	**53,808**	**64,655**	**80,685**	**72,001**	**80,913**	**1,01,071**
Gross Profit Margin %	**42.3%**	**40.2%**	**29.1%**	**35.0%**	**35.0%**	**38.5%**
Employee Costs	1,764	1,807	1,910	2,101	2,311	2,577
Operating & Other Expenses	27,409	40,227	60,582	46,286	54,327	68,256
EBITDA	**24,635**	**22,622**	**18,194**	**23,614**	**24,275**	**30,238**
EBITDA Margin %	**19.4%**	**14.1%**	**6.6%**	**11.5%**	**10.5%**	**11.5%**
Depreciation	2,892	2,997	3,083	3,536	3,816	3,956
Other Income	474	680	1,678	766	925	1,050
EBIT	**22,216**	**20,305**	**16,788**	**20,843**	**21,383**	**27,332**
Finance Cost	2,894	1,059	3,200	2,254	2,184	2,114
Exceptional Items	- 3,379	-	-	-	-	-
PBT	22,701	19,245	13,588	18,589	19,199	25,218
Income Tax	6,119	6,648	3,825	4,679	4,832	6,347
PAT	**14,113**	**12,597**	**9,763**	**13,910**	**14,367**	**18,871**
PAT Margin %	**11.1%**	**7.8%**	**3.5%**	**6.8%**	**6.2%**	**7.2%**

Source: Company, Arihant Capital Research

Balance Sheet (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Assets						
Total Non-Current Assets	70,991	72,136	71,313	83,211	79,395	75,439
Trade Receivables	11,746	21,513	17,605	14,090	19,001	25,173
Cash & Bank Balance	8,879	5,320	369	639	2,708	4,531
Other Current Assets	1,144	2,128	4,937	4,937	4,937	4,937
Total Non-Current Assets	**70,991**	**72,136**	**71,313**	**83,211**	**79,395**	**75,439**
Total Assets	**1,02,467**	**1,32,890**	**1,27,701**	**1,36,705**	**1,46,046**	**1,54,992**
Equity And Liabilities						
Equity Share Capital	4,162	4,162	4,162	4,162	4,162	4,162
Other Equity	48,326	59,834	66,519	76,952	87,727	1,01,879
Total Equity	**52,358**	**63,861**	**70,529**	**80,962**	**91,737**	**1,05,890**
Borrowings	31,468	24,712	18,204	18,204	18,204	18,204
Total Non-Current Liabilities	**34,855**	**31,011**	**25,650**	**25,650**	**25,650**	**25,650**
Trade Payables	3,890	14,998	12,115	11,836	11,401	7,192
Total Current Liabilities	**15,255**	**38,018**	**31,521**	**30,093**	**28,659**	**23,452**
Total Liabilities	**50,109**	**69,029**	**57,172**	**55,743**	**54,309**	**49,102**
Total Equity & Liabilities	**1,02,467**	**1,32,890**	**1,27,701**	**1,36,705**	**1,46,046**	**1,54,992**

Source: Company, Arihant Capital Research

Financial Statements

Cash Flow (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	23,595	22,309	14,163	18,589	19,199	25,218
Operating Profit before WC Changes	**25,185**	**26,894**	**20,285**	**23,046**	**23,725**	**29,706**
Operating Profit after WC Changes	72,871	6,121	35,107	25,929	13,071	22,836
Tax Paid	- 3,435	- 3,430	- 2,715	- 4,679	- 4,832	- 6,347
Cash Flow from Operating Acctivities	69,435	2,690	32,393	21,250	8,239	16,489
Cash Flow from Investing Activities	**- 1,963**	**- 1,191**	**- 18,732**	**- 5,814**	**- 8,945**	**- 2,240**
Cash Flow from Financing Activities	**- 60,069**	**- 2,128**	**- 18,620**	**- 15,167**	**2,775**	**- 12,425**
Net Change in Cash & Cash Equivalents	7,404	- 629	- 4,959	270	2,068	1,824
Opening Cash & Cash Equivalents	1,461	8,879	5,320	369	639	2,708
Closing Cash & Cash Equivalents	**8,879**	**8,253**	**369**	**639**	**2,708**	**4,531**

Source: Company, Arihant Capital Research

Key Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Per Share (INR)						
EPS	39.8	30.3	23.5	33.4	34.5	45.3
EPS (Adj)	33.9	30.3	23.5	33.4	34.5	45.3
BVPS	125.8	153.4	169.5	194.5	220.4	254.4
Valuation (x)						
P/E	7.2	9.5	12.2	8.6	8.3	6.3
P/BV	2.3	1.9	1.7	1.5	1.3	1.1
Return Ratios (%)						
Gross Margin	42.3%	40.2%	29.1%	35.0%	35.0%	38.5%
EBITDA Margin	19.4%	14.1%	6.6%	11.5%	10.5%	11.5%
PAT Margin	11.1%	7.8%	3.5%	6.8%	6.2%	7.2%
NOPAT Margin	12.8%	8.3%	4.3%	7.6%	6.9%	7.8%
ROE	38.3%	21.7%	14.5%	18.4%	16.6%	19.1%
ROCE	27.4%	23.5%	18.9%	22.2%	20.5%	23.4%
Leverage Ratio (%)						
Total D/E	0.60	0.39	0.26	0.22	0.20	0.17
Turnover Ratios						
Asset Turnover	1.03	1.37	2.13	1.56	1.64	1.74
Receivable Days	34	49	23	25	30	35
Inventory Days	23	71	18	25	32	35
Payable Days	11	34	16	21	18	10

Source: Company, Arihant Capital Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880