

More rains could increase demand significantly in next couple of quarters

CMP: INR 517

Rating: HOLD

Target Price: INR 562

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)	149
52w H/L (INR)	575/248
Avg Yearly Volume (in 000')	3,311

Shareholding Pattern %

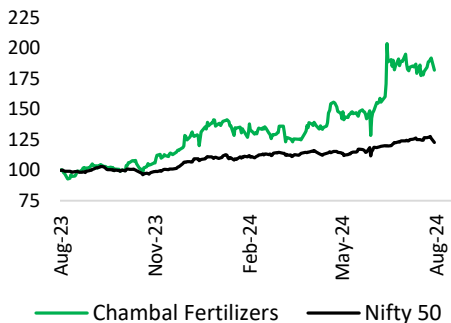
(As on June, 2024)

Promoters	60.70
FII's	15.60
DII's	7.29
Public & Others	16.41

Stock Performance (%) 1m 6m 12m

Chambal Fertilizers	-4.4%	42.7%	86.6%
NIFTY	-0.4%	10.4%	23.6%

Chambal Fertilizer and Chemical vs Nifty



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Improving Margins, Chances of further improvement in subsequent quarters

Chambal Fertilizers and Chemicals Limited (CFCL) posted Net Profits of INR 4,483 mn in Q1FY25, increasing by up 363.2% QoQ/up 32.4% YoY. EBITDA increased to INR 7,520 mn growing by 351.7% QoQ/18.7% YoY while margins expanded to 15.2% in Q1FY25, up 894 bps QoQ/391 bps YoY. The Company's Urea Productions & Sales also increased over last year from 9.03 lakh MT / 8.87 lakh MT in Q1FY25 against 8.89 lakh MT / 8.59 lakh MT in Q1FY24. The lower prices of natural gas led to better margins for the company as the prices of Ammonia, Natural Gas and other key inputs over the previous quarter while prices remained stable at lower levels during Q1FY25.

Improving Margins with Volumes expected ahead

Improved margins over last year to continue in subsequent quarters

The Revenue for Q1FY25 increased by 86.6% QoQ/down 11.7% YoY to INR 49.3 bn, EBITDA increased by 351.7% QoQ/up 18.7% QoQ to INR 7.5 bn and PAT increased by 363.2% QoQ/32.4% YoY to INR 4.5 bn. EBITDA Margins improved to 15.2% for Q1FY25 against 6.3% in Q4FY24 and 11.3% in Q1FY24, as the gas prices stabilized at lower levels of USD 1.9 mmbtu.

Prices of Natural Gas, fertilizers and other Agro-chemicals have stabilized

Prices of natural gas have come down over previous quarters, helping Chambal Fertilizers post their sustainable levels. Urea Production stood at 9.03 lakh MT increasing against Q1FY24's 8.89 lakh MT while sales increased over last year to 8.87 lakh MT in Q1FY25 against 8.59 lakh MT in Q1FY24. During the quarter, the DAP sales fell to 0.55 lakh MT against 2.79 lakh MT in Q1FY24. NPK sales on the other hand increased substantially to 1.58 lakh MT against 0.55 lakh Mt in Q1FY25 while MoP sales increased to 0.28 lakh MT.

Strategic Capex Plan for Technical Ammonium Nitrate (TAN) Plant

The strategic capex of a TAN plant with a capacity of approximately 2,40,000 MTPA and Weak Nitric Acid of 2,10,000 MTPA awarded to L&T is on track to be commercialized by October 2025. The Company has spent around INR 2 bn till now for the Capex, and intends to spend 50-60% of the planned capex by March 2025. Management is also exploring long term opportunity with the TAN expansion for setting up a Nitric Acid Value Chain which is expected to grow 8-10% CAGR during FY22-30 period.

Outlook and Valuation:

The 3 Plants at Gadepan are operating at optimum efficiency with inventories of 22-23% of adequate inventory levels. The ongoing Kharif season is generally seen going good as per most of the domestic Ag-chem companies. CFCL's EBITDA Margins are back to their long term average levels and can see further improvement in the subsequent quarters as demand will rise for Kharif crops. The company is poised to emerge as a key player in the TAN industry and a possible Nitric Acid Value Chain in next 3-5 years. CFCL is a well-managed company with a strong track record profitability with a healthy balance sheet and a net cash surplus of bn as seasonal in crop protection business. **We value the company at 9x EV/EBITDA on FY27E EBITDA of Rs 28.75 bn for a target price of INR 562 per share with a Hold rating (earlier Buy).**

Financial Performance:

Summary (Rs Mn)	FY24	FY25E	FY26E	FY27E
Net Sales	1,79,664	1,91,429	2,16,851	2,44,063
EBIDTA	20,433	19,586	24,400	28,751
Net Profit	11,953	11,063	14,658	17,881
Diluted EPS	30.84	26.58	35.22	42.96
P/E (x)	16.76	19.45	14.68	12.03
EV/EBIDTA (x)	10.64	11.72	9.50	8.35
P/BV (x)	2.29	1.77	1.59	1.41
RoE (%)	16.7%	13.3%	14.7%	16.0%
Debt/Equity (x)	0.16	0.13	0.12	0.11

Particulars (Consolidated) (INR Cr)	Change				
	Q1FY25	Q4FY24	Q1FY24	% QoQ	% YoY
Revenue from Operations	4,933	2,643	5,589	86.6%	-11.7%
Other Income	51	63	9	-18.7%	472.1%
Total Income	4,984	2,706	5,598	84.2%	-11.0%
Expenses			0		
Cost of Materials Consumed	1,754	1,350	1,682	29.9%	4.3%
Purchases of Stock-in-Trade	974	450	2,891	116.6%	-66.3%
Changes in Inventories of Finished Goods, Stock-in-Trade, and Work-in-Progress	165	-388	-937	-142.6%	-117.6%
Employee Benefits Expense	56	57	54	-2.2%	3.7%
Finance Costs	40	36	55	11.7%	-26.7%
Depreciation and Amortization Expenses	82	78	77	5.3%	6.6%
Other Expenses	1,232	1,008	1,266	22.3%	-2.7%
Total Expenses	4,304	2,591	5,088	66.1%	-15.4%
EBITDA	752	167	633	351.7%	18.7%
EBITDA Margins (%)	15.2%	6.3%	11.3%	894bps	391bps
Profit Before JV & Tax	681	115	510	490.0%	33.4%
Share of JV	-35	10	6	-435.2%	-735.3%
Profit Before Tax	716	126	516	468.8%	38.8%
Total Tax Expense	268	29	177	820.6%	51.0%
Profit for the Period	448.32	97	339	363.2%	32.4%
PAT Margins (%)	9.1%	3.7%	6.1%	543bps	303bps
EPS (Dilluted)	11.19	2.51	8.14	345.8%	37.5%

Concall Highlights – Q1FY25

Management Guidance:

- The Company has launched 8 new CPC offerings, comprising mainly of weedicides and fungicides.
- Uttam Pranam Bio Nanophosphorus, a unique product produced through biogenic process having 10% P2O5, has been launched under the biological vertical. The company is working on new biological products, especially for fungicides and weedicide, to be launched over the next 6-12 months.
- The Trials for the new biological products are already on. The company is analyzing and testing some eco-friendly biostimulants and is confident of launching a variant in the near future.

Concall Highlights (Continued)**Key Highlights:**

- Revenue came at INR 49,330 mn against our estimates of INR 31,470 mn, up 86.6% QoQ/ down 11.7% YoY.
- EBITDA came at INR 7,520 mn against our estimates of INR 3,000 mn, up 352% QoQ/ up 18.7% YoY.
- EBITDA Margins came at 15.2% for Q1FY25 against our estimates of 9.53% in Q1FY25, up 894 bps QoQ / up 391 bps YoY.
- Net Profit came at INR 4,483 mn, against our estimates of INR 2,010 mn, up 363.2% QoQ/ up by 32.4% YoY.
- If they are producing 110 MT of Urea per day, then the company will be using 60-65 MT of ammonium per day.
- 19,000 litres sold in Q1FY25. 1 lakh bottles generating revenue of INR 25 mn.
- The Management explained the tactics used in marketing like Early placing of products for consumers to make the first buy, and then if the consumer returns to buy again, that is where the company makes volumes and realizations better for them from the renewed orders.
- The Company explained that they have several combination products
- The CPC Sales constitute 8-10% contribution of the overall revenue.
- The Management clarified that the Company has not had any conversation with the Government regarding the Gadepan 3 plant as the timeline is still 2.5 Years away (till Jan 2027). The Management expects the concern to arise by end of 2025.
- The Company's credit cycles are longer for their products in the CP portfolio than the Peers in the Crop protection chemicals industry.
- In the Crop protection chemicals, the Company does 66% of the business in Cash and remaining in Credit Sales. Similarly, for the Specialty chemicals business, the Company does 36% of the business in Cash and remaining in the Credit Sales.
- The IMACID subsidiary witnessed higher margins due to softening of input prices along with increased production compared to Q1FY24.
- The Management acknowledged that the commodity prices have come down compared to last year, specially for the bulk fertilizers, like Ammonia and Natural Gas.
- Over the years, Company's employee's salaries have gone up but the number of employees stayed stable so as to keep a check on employee expenses.
- The Company's 7% decline in the sales of Crop Protection chemicals is also attributed to the lowering of Prices of input materials.
- The Company has added 4 products to the pipeline, all of which have been introduced in FY25. The Company has introduced 6 new products in the weedicide segment and two in the fungicide segment through its strategic partnership with innovators.
- Uttam Pranam Bio Nanophosphorus, a unique product produced through biogenic process having 10% P2O5, has been launched under the biological vertical. The company is working on new biological products, especially for fungicides and weedicide, to be launched over the next 6-12 months.
- The Trials for the new biological products are already on. The company is analyzing and testing some eco-friendly biostimulants and is confident of launching a variant in the near future.
- The Company is entering into hybrid and research variety seeds, which will complete the agri input. The Company has launched 38 new molecules in the last five years, which contribute to 25-30% of sales. The Company continues to add and delete products from its portfolio, including combinations.

Financial Statements

Profit & Loss Statement (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	2,77,728	1,79,664	1,91,429	2,16,851	2,44,063
Raw Material	1,97,043	1,09,023	1,24,429	1,33,363	1,50,099
Gross Profit	80,685	70,642	67,000	83,488	93,964
Gross Profit Margin %	29.1%	39.3%	35.0%	38.5%	38.5%
Employee Costs	1,910	2,208	2,428	2,706	2,977
Operating & Other Expenses	60,582	48,001	44,986	56,381	62,236
EBITDA	18,194	20,433	19,586	24,400	28,751
EBITDA Margin %	6.6%	11.4%	10.2%	11.3%	11.8%
Depreciation	3,083	3,128	3,816	3,956	4,064
Other Income	1,678	2,491	766	867	976
EBIT	16,788	19,796	16,536	21,312	25,663
Finance Cost	3,200	1,731	1,751	1,723	1,767
Exceptional Items	-	-	-	-	-
PBT	13,588	18,065	14,785	19,589	23,896
Income Tax	3,825	6,112	3,721	4,930	6,015
PAT	9,763	11,953	11,063	14,658	17,881
PAT Margin %	3.5%	6.7%	5.8%	6.8%	7.3%

Balance Sheet (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
Assets					
Total Non-Current Assets	71,313	74,198	79,395	75,439	73,927
Trade Receivables	17,605	1,916	15,734	20,794	30,090
Cash & Bank Balance	369	1,099	(2,387)	(3,930)	(11,708)
Other Current Assets	4,937	4,621	4,937	4,937	4,937
Total Non-Current Assets	71,313	74,198	79,395	75,439	73,927
Total Assets	1,27,701	1,15,090	1,40,060	1,47,156	1,61,944
Equity And Liabilities					
Equity Share Capital	4,162	4,007	4,162	4,162	4,162
Other Equity	66,519	68,729	89,891	1,00,885	1,14,296
Total Equity	70,529	72,581	93,901	1,04,895	1,18,306
Borrowings	18,204	11,442	12,014	12,615	13,246
Total Non-Current Liabilities	25,650	22,143	19,460	20,061	20,692
Trade Payables	12,115	7,938	9,440	5,941	6,687
Total Current Liabilities	31,521	20,366	26,699	22,201	22,946
Total Liabilities	57,172	42,509	46,159	42,262	43,638
Total Equity & Liabilities	1,27,701	1,15,090	1,40,060	1,47,156	1,61,944

Source: Company, Arianth Capital Research

Financial Statements

Cash Flow (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	14,163	18,870	14,785	19,589	23,896
Operating Profit before WC Changes	20,285	22,940	19,145	23,966	28,306
Operating Profit after WC Changes	35,107	36,713	- 411	18,394	8,969
Tax Paid	- 2,715	- 3,446	- 3,721	- 4,930	- 6,015
Cash Flow from Operating Activities	32,393	33,268	- 4,133	13,464	2,954
Cash Flow from Investing Activities	- 18,732	- 3,825	- 9,104	- 2,423	976
Cash Flow from Financing Activities	- 18,620	- 28,714	9,752	- 12,585	- 11,709
Net Change in Cash & Cash Equivalents	- 4,959	729	- 3,485	- 1,544	- 7,778
Opening Cash & Cash Equivalents	5,320	369	1,099	- 2,387	- 3,930
Closing Cash & Cash Equivalents	369	1,099	- 2,387	- 3,930	- 11,708

Key Ratios	FY23	FY24E	FY25E	FY26E	FY27E
Per Share (INR)					
EPS	23.5	28.7	26.6	35.2	43.0
EPS (Adj)	23.5	28.7	26.6	35.2	43.0
BVPS	169.5	174.4	225.6	252.0	284.2
Valuation (x)					
P/E	17.1	13.9	15.0	11.4	9.3
P/BV	2.4	2.3	1.8	1.6	1.4
EV/EBITDA	6.83	7.48			
Return Ratios (%)					
Gross Margin	29.1%	39.3%	35.0%	38.5%	38.5%
EBITDA Margin	6.6%	11.4%	10.2%	11.3%	11.8%
PAT Margin	3.5%	6.7%	5.8%	6.8%	7.3%
NOPAT Margin	4.3%	7.3%	6.5%	7.4%	7.9%
ROE	14.5%	16.7%	13.3%	14.7%	16.0%
ROCE	18.9%	22.9%	17.4%	19.1%	20.6%
Leverage Ratio (%)					
Total D/E	0.26	0.16	0.13	0.12	0.11
Turnover Ratios					
Asset Turnover	2.13	1.48	1.54	1.59	1.71
Receivable Days	23	25	30	35	45
Inventory Days	18	25	32	35	45
Payable Days	16	21	18	10	10

Source: Company, Aриhant Capital Research

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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%

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