

**CMP: INR 287**

**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)	119
52w H/L (INR)	332/248
Avg Yearly Volume (in 000')	1,754

**Shareholding Pattern %**

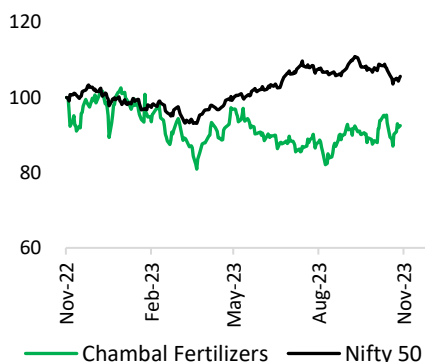
(As on Sep, 2023)

Promoters	60.6
FIIs	9.6
DIIs	12
Public & Others	17.8

**Stock Performance (%)**

	1m	6m	12m
Chambal Fertilizers	4.2%	-4.9%	-7.7%
NIFTY	-2.1%	+5.3%	+5.6%

**Chambal Fertilizer and Chemical vs Nifty**



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**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.

**Improving Margins with Volumes expected ahead**

**Improved margins over last year to continue in subsequent quarters**

The Revenue for Q2FY24 fell 37.3% YoY/3.6% QoQ to INR 53.8 bn, EBITDA increased by 38.4% YoY/down 2.9% QoQ to INR 6.15 bn and PAT increased by 38.9% YoY/12.5% QoQ to INR 3.8 bn. EBITDA Margins improved to 11.4% for Q2FY24 against 11.3% in Q1FY24 and 5.2% in Q2FY23, as the gas prices stabilized at lower levels. Power consumption for the quarter stood at INR 9.44 bn (last quarter INR 14.43 bn) and Freight charges at INR INR 2.07 bn (previous quarter INR 2.14 bn).

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

Prices of natural gas has stabilized to long term average levels bringing down prices of Urea and helping Chambal Fertilizers post their sustainable levels. Urea Production stood at 0.908 mn MT increasing by 2.9% against Q2FY23's 0.882 mn MT while sales dipped by 17% YoY volume-wise due to the dry spell seen across the nation during the month of August. During the quarter, the DAP sales fell by 22.4% YoY alongside NPK sales which also fell by 8% YoY while MoP sales increased volume wise by 73.3% YoY.

**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 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 three Plants at Gadepan are operating at optimum efficiency with inventories of 138K tonnes of Urea and 119K tonnes of DAP, NPK and MOP inventories with CFCL. The upcoming Rabi season is supposed to be good in terms of volume demand as the Winter crops aren't dependent on monsoons. CFCL's EBITDA Margins are back to their long term average and expected to improve further in the subsequent quarters as demand will rise for Rabi 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 21 bn. **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.**

**Financial Performance:**

Summary (Rs Mn)	FY23	FY24E	FY25E	FY26E
Net Sales	2,77,728	2,05,717	2,31,179	2,62,522
EBIDTA	18,194	23,614	24,275	30,238
Net Profit	9,763	13,910	14,367	18,871
Diluted EPS	24.85	33.42	34.52	45.34
P/E (x)	10.98	8.17	7.91	6.02
EV/EBIDTA (x)	7.22	5.55	5.32	4.21
P/BV (x)	1.69	1.48	1.30	1.13
RoE (%)	14.5%	18.4%	16.6%	19.1%
Debt/Equity (x)	0.26	0.22	0.20	0.17

Particulars ( Consolidated) (INR Mn)	Quarter Ended			Change		Half Year		Change
	Q2FY24	Q1FY24	Q1FY23	% QoQ	% YoY	H1FY24	H1FY23	
<b>Revenue from Operations</b>	<b>53,855</b>	<b>55,893</b>	<b>85,868</b>	<b>-3.6%</b>	<b>-37.3%</b>	<b>1,09,748</b>	<b>1,58,779</b>	<b>-30.9%</b>
Other Income	818	89	888	814.5%	-8.0%	907	1,036	-12.4%
<b>Total Income</b>	<b>54,673</b>	<b>55,982</b>	<b>86,756</b>	<b>-2.3%</b>	<b>-37.0%</b>	<b>1,10,655</b>	<b>1,59,815</b>	<b>-30.8%</b>
Expenses								
Cost of Materials Consumed	16,802	16,823	25,634	-0.1%	-34.5%	33,625	46,206	-27.2%
Purchases of Stock-in-Trade	2,343	28,910	41,683	-91.9%	-94.4%	31,252	68,385	-54.3%
Changes in Inventories of Finished Goods, Stock-in-Trade, and Work-in-Progress	15,028	-9,373	-4,198	-260.3%	-458.0%	5,655	597	847.8%
Employee Benefits Expense	533	540	499	-1.3%	6.7%	1,073	943	13.8%
Finance Costs	458	548	850	-16.5%	-46.1%	1,006	1,331	-24.4%
Depreciation and Amortization Expenses	784	772	782	1.7%	0.3%	1,556	1,543	0.9%
Other Expenses	13,000	12,661	17,805	2.7%	-27.0%	25,661	32,270	-20.5%
Total Expenses	48,947	50,880	83,054	-3.8%	-41.1%	99,827	1,51,274	-34.0%
<b>EBITDA</b>	<b>6,150</b>	<b>6,333</b>	<b>4,445</b>	<b>-2.9%</b>	<b>38.4%</b>	<b>12,483</b>	<b>10,379</b>	<b>20.3%</b>
<b>EBITDA Margins (%)</b>	<b>11.4%</b>	<b>11.3%</b>	<b>5.2%</b>	0.8%	120.6%	<b>11.4%</b>	<b>6.5%</b>	
Profit Before JV & Tax	5,726	5,103	3,702	12.2%	54.7%	10,828	8,541	26.8%
Share of JV	86	55	340	55.3%	-74.8%	141	613	-77.0%
<b>Profit Before Tax</b>	<b>5,812</b>	<b>5,158</b>	<b>4,042</b>	<b>12.7%</b>	<b>43.8%</b>	<b>10,969</b>	<b>9,154</b>	<b>19.8%</b>
Current Tax	904	1,032	445	-12.4%	103.4%	1,937	1,373	41.1%
Deferred Tax	1,098	740	855	48.4%	28.3%	1,837	1,622	13.2%
Total Tax Expense	2,002	1,772	1,300	13.0%	54.0%	3,774	2,995	26.0%
<b>Profit for the Period</b>	<b>3,810</b>	<b>3,386</b>	<b>2,742</b>	<b>12.5%</b>	<b>38.9%</b>	<b>7,196</b>	<b>6,159</b>	<b>16.8%</b>
<b>PAT Margins (%)</b>	<b>7.1%</b>	<b>6.1%</b>	<b>3.2%</b>			<b>6.6%</b>	<b>3.9%</b>	
EPS (Dilluted)	9.15	8.14	6.59			17.29	14.8	

### Concall Highlights – Q2FY24

#### Management Guidance:

- Regarding the TAN Plant project, the contract is given to L&T, and the Project is on schedule. Going ahead in the TAN business, there could be surplus WNA which can then help in the next step of the Nitric Acid value chain. The Management believes this will allow them for expansion into the conceived Nitric Acid Value Chain over the next 3-5 years of time.
- For the upcoming Rabi crop season in the country, the Management does not expect any increase in land acreage of crops which are grown in their operating territories. The standard crop cycle that is followed starts with Mustard, followed by Potato, Wheat and Grams, and there are no risks expected by the company as these are not monsoon dependent crops.
- The Management does not expects the Government will come out with any Price Hikes for the industry in a unilateral manner, and instead take industry players as well as farmers opinion on Price hikes before the elections due in May 2024.

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

- Urea production stood at 9.08 lakh MT and sales stood at 8.38 lakh MT.
- Subsidy received stood at INR 5.5 bn, Receivables stood at INR 5.5 bn and Subsidy received stood at INR 68 bn
- International Prices of fertilizers including DAP, NPK and MOP has been declining on the lower input costs.
- Nearly 43,000 soil samples were analyzed and 3,100 farmer meetings were conducted for customers services extension program.
- Surplus Ammonia volumes will change over time.
- The estimated INR 1 bn of savings may change with the changes in Gas Prices.
- The Urea energy efficiency norms that are to be revised by the Government of India in 2025, The Management informed that all their Urea plants are already following the previous achieved target of 5.5 Gcal/MT of Urea, and that they are one of the best in the world in energy efficiency wise.
- Gas Costs for last 6 months is USD 16.7 mmbtu.
- The Company has taken necessary Provisions earlier due to steep decline in natural gas prices and other business risks, which have now being brought down.
- The Management reiterates the Government subsidy Program as announced by Government on 25th Oct 2023 regarding continuation of subsidy of DAP at INR 4,500 per tonne, and they expect that the Government might not change that in the future as well beyond March 2024.
- The channel inventory of fertilizers is not very high, but very high for Crop Protection products. However, they also mention that it has reduced by almost 50% from the levels it was before the Kharif crop season.
- The prices of fertilizers for the kharif crop season were down by 10-15% and for the Rabi crop season also they were down by the same 10-15% but now picking up to the same levels as they were for the last year.
- The Company has tie-ups with several Japanese and American companies to bring up new molecules / products which can be scaled up further. Hence, the Product Portfolio is intact for the next 5 years.
- The Prices of DAP are at levels where trading of DAP is not viable for the company.
- However, there is no plan currently on setting up of a Ammonia Plant as it is a very expensive Project.
- On the Crop Protection business, the Company has not taken any absolute Provisions on the book.
- Channel inventory of 2.2 million MT of DAP is in the country as of 1st Nov, viz. in terms of months is 2 months of sales. NPK inventory in the country as of 1st Nov is 3.9 million MT which is sufficiently high. MOP inventory in the country as of 1st Nov is around 1 million MT, viz. converts to 4 months of forward sales.
- Urea closing inventory with the company at the end of Q2FY24 stood at 1,38,000 tonnes and 1,19,000 of DAP, NPK and MOP put together.
- The company is already seeing some softening in the NPK trades. Management is expecting Prices to cool down in the next quarter.
- Power consumption for the quarter stood at INR 9.44 bn (last quarter INR 14.43 bn) and Freight charges at INR INR 2.07 bn (previous quarter INR 2.14 bn).
- Gadepan Plant 1 produces 0.28 million MT, Gadepan Plant 2 produces 0.269 million MT and Gadepan Plant 3 produces 0.375 million MT in the current quarter.

## Financial Statements

Profit & Loss Statement (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>1,27,190</b>	<b>1,60,688</b>	<b>2,77,728</b>	<b>2,05,717</b>	<b>2,31,179</b>	<b>2,62,522</b>
Raw Material	73,382	96,033	1,97,043	1,33,716	1,50,266	1,61,451
<b>Gross Profit</b>	<b>53,808</b>	<b>64,655</b>	<b>80,685</b>	<b>72,001</b>	<b>80,913</b>	<b>1,01,071</b>
<b>Gross Profit Margin %</b>	<b>42.3%</b>	<b>40.2%</b>	<b>29.1%</b>	<b>35.0%</b>	<b>35.0%</b>	<b>38.5%</b>
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
<b>EBITDA</b>	<b>24,635</b>	<b>22,622</b>	<b>18,194</b>	<b>23,614</b>	<b>24,275</b>	<b>30,238</b>
<b>EBITDA Margin %</b>	<b>19.4%</b>	<b>14.1%</b>	<b>6.6%</b>	<b>11.5%</b>	<b>10.5%</b>	<b>11.5%</b>
Depreciation	2,892	2,997	3,083	3,536	3,816	3,956
Other Income	474	680	1,678	766	925	1,050
<b>EBIT</b>	<b>22,216</b>	<b>20,305</b>	<b>16,788</b>	<b>20,843</b>	<b>21,383</b>	<b>27,332</b>
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
<b>PAT</b>	<b>14,113</b>	<b>12,597</b>	<b>9,763</b>	<b>13,910</b>	<b>14,367</b>	<b>18,871</b>
<b>PAT Margin %</b>	<b>11.1%</b>	<b>7.8%</b>	<b>3.5%</b>	<b>6.8%</b>	<b>6.2%</b>	<b>7.2%</b>

Source: Company, Aриhant Capital Research

Balance Sheet (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Assets</b>						
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	<b>70,991</b>	<b>72,136</b>	<b>71,313</b>	<b>83,211</b>	<b>79,395</b>	<b>75,439</b>
<b>Total Assets</b>	<b>1,02,467</b>	<b>1,32,890</b>	<b>1,27,701</b>	<b>1,36,705</b>	<b>1,46,046</b>	<b>1,54,992</b>
<b>Equity And Liabilities</b>						
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
<b>Total Equity</b>	<b>52,358</b>	<b>63,861</b>	<b>70,529</b>	<b>80,962</b>	<b>91,737</b>	<b>1,05,890</b>
Borrowings	31,468	24,712	18,204	18,204	18,204	18,204
<b>Total Non-Current Liabilities</b>	<b>34,855</b>	<b>31,011</b>	<b>25,650</b>	<b>25,650</b>	<b>25,650</b>	<b>25,650</b>
Trade Payables	3,890	14,998	12,115	11,836	11,401	7,192
<b>Total Current Liabilities</b>	<b>15,255</b>	<b>38,018</b>	<b>31,521</b>	<b>30,093</b>	<b>28,659</b>	<b>23,452</b>
<b>Total Liabilities</b>	<b>50,109</b>	<b>69,029</b>	<b>57,172</b>	<b>55,743</b>	<b>54,309</b>	<b>49,102</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,02,467</b>	<b>1,32,890</b>	<b>1,27,701</b>	<b>1,36,705</b>	<b>1,46,046</b>	<b>1,54,992</b>

Source: Company, Aриhant 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
<b>Operating Profit before WC Changes</b>	<b>25,185</b>	<b>26,894</b>	<b>20,285</b>	<b>23,046</b>	<b>23,725</b>	<b>29,706</b>
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
<b>Cash Flow from Operating Activities</b>	<b>69,435</b>	<b>2,690</b>	<b>32,393</b>	<b>21,250</b>	<b>8,239</b>	<b>16,489</b>
<b>Cash Flow from Investing Activities</b>	<b>- 1,963</b>	<b>- 1,191</b>	<b>- 18,732</b>	<b>- 5,814</b>	<b>- 8,945</b>	<b>- 2,240</b>
<b>Cash Flow from Financing Activities</b>	<b>- 60,069</b>	<b>- 2,128</b>	<b>- 18,620</b>	<b>- 15,167</b>	<b>2,775</b>	<b>- 12,425</b>
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
<b>Closing Cash &amp; Cash Equivalents</b>	<b>8,879</b>	<b>8,253</b>	<b>369</b>	<b>639</b>	<b>2,708</b>	<b>4,531</b>

Source: Company, Arianth 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, Arianth 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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