

CMP: INR 359

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)	149
52w H/L (INR)	403/248
Avg Yearly Volume (in 000')	1,754

Shareholding Pattern %

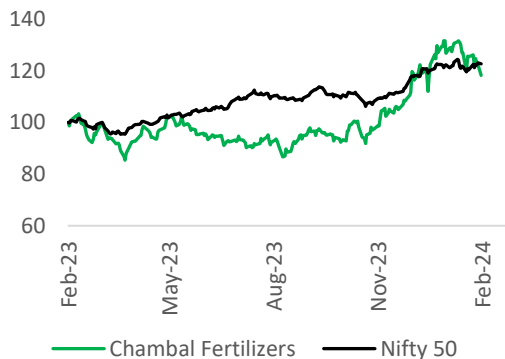
(As on Dec, 2023)

Promoters	60.56
FII's	9.34
DII's	13.4
Public & Others	16.7

Stock Performance (%)

	1m	6m	12m
Chambal Fertilizers	-5.3%	31%	23.7%
NIFTY	1.9%	11.9%	+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 Q3FY24 fell 47.6% YoY/19.3% QoQ to INR 43.5 bn, EBITDA decreased by 6.4% YoY/up 2.0% QoQ to INR 6.27 bn and PAT increased by 41.8% YoY/20.6% QoQ to INR 4.59 bn. EBITDA Margins improved to 14.4% for Q3FY24 against 11.4% in Q2FY24 and 8.1% in Q3FY23, as the gas prices stabilized at lower levels of USD 18 mmbtu. Power consumption for the quarter stood at INR 10 bn (last quarter INR 9.44 bn) and Freight charges at INR INR 1.55 bn (previous quarter INR 2.07 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 9.1 lakh MT increasing against Q2FY24's 9.08 lakh MT while sales increased over last year to 8.92 lakh MT against 8.78 lakh MT. During the quarter, the DAP sales fell to 0.73 lakh MT against 4.13 lakh MT, NPK sales also fell to 0.09 lakh MT against 0.7 lakh Mt in Q3FY23 while MoP sales increased to 0.36 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 spen 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 three Plants at Gadepan are operating at optimum efficiency with inventories of 22-23% of adequate inventory levels. The upcoming Kharif season is supposed to be good in terms of volume demand as the company prepares for it. 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 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 (13) bn as seasonal in crop protection business. **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		9M		Change
	Q3FY24	Q2FY24	Q3FY23	% QoQ	% YoY	9MFY24	9MFY23	9M YoY
Revenue from Operations	4,349	5,386	8,296	-19.3%	-47.6%	15,323	24,174	-36.6%
Other Income	95	82	23	16.8%	317.6%	186	126	47.2%
Total Income	4,444	5,467	8,319	-18.7%	-46.6%	15,510	24,301	-36.2%
Expenses								
Cost of Materials Consumed	1,869	1,680	2,269	11.2%	-17.6%	5,232	6,890	-24.1%
Purchases of Stock-in-Trade	600	234	1,692	156.2%	-64.5%	3,725	8,530	-56.3%
Changes in Inventories of Finished Goods, Stock-in-Trade, and Work-in-Progress	-32	1,503	2,016	-102.1%	-101.6%	534	2,076	-74.3%
Employee Benefits Expense	56	53	48	5.7%	17.7%	164	142	15.1%
Finance Costs	36	46	120	-20.3%	-69.6%	137	253	-45.8%
Depreciation and Amortization Expenses	79	78	78	0.9%	1.3%	235	232	1.0%
Other Expenses	1,226	1,300	1,602	-5.7%	-23.4%	3,792	4,829	-21.5%
Total Expenses	3,837	4,895	7,824	-21.6%	-51.0%	13,818	22,952	-39.8%
EBITDA	627	615	670	2.0%	-6.4%	1,877	1,708	9.9%
EBITDA Margins (%)	14.4%	11.4%	8.1%	26.4%	78.7%	12.2%	7.1%	
Profit Before JV & Tax	608	573	495	6.3%	23.0%	1,691	1,349	25.4%
Share of JV	56	9	(0.1s)	550.1%	#VALUE!	70	61	14.5%
Profit Before Tax	664	581	495	14.3%	34.3%	1,761	1,410	24.9%
Current Tax	96	90	80	6.5%	20.7%	290	217	33.6%
Deferred Tax	108	110	91	-1.2%	19.4%	292	253	15.5%
Total Tax Expense	205	200	171	2.3%	20.0%	582	470	23.8%
Profit for the Period	459	381	324	20.6%	41.8%	1,179	940	25.4%
PAT Margins (%)	10.6%	7.1%	3.9%			7.7%	3.9%	
EPS (Dilluted)	11.04	9.15	7.79			28.33	22.59	

Concall Highlights – Q3FY24

Management Guidance:

- The Management informs of the TAN Project running as per timeline with statutory approvals received in place. For the capex of INR 16.45 bn, till now the company has spent INR 1.98 bn as of Dec 2023. The Company will be spending 50-60% of the planned Capex by March 2025.
- The Management says that the molecules required for the coming Kharif crops are seeing stability in prices. Hence, they don't expect any impact on Inventories as far as Chambal Fertilizers is concerned.
- Regarding the recently announced guideline on the MRP for Non-Urea producers, integrated producers and Importers, the Management cleared that Chambal does not have any plans of going integrated Manufacturing as of now. Going ahead, for any company, the Management believes it is at least a 5 year affair to become Integrated Manufacturer. Hence, if they evaluate any benefit for the company through inorganic route, the Management is confident of going for Acquisition given the strength of their Balance sheet.

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

- Revenue increased to INR 43.48 bn decreasing by 47.6% YoY/-19.25 flat QoQ.
- EBITDA increased to INR 6.28 bn down by 6.2% YoY/up 2.2% QoQ. EBITDA Margins increased to 14.45% for Q3FY24 increasing by 635 bps QoQ/up 303 bps QoQ.
- PAT increased to INR 4.59 bn for Q3FY24 up 41.8% YoY / 20.6% QoQ. PAT margins increased by 666 bps YoY / 350 bps QoQ.
- The management says that all the facilities have been performing at optimal capacity utilization with Urea production at 9.1 lakh MT for Q3FY24 and 27.15 lakh MT.
- The Company's subsidy receivables stood at INR 4.68 bn as of Dec 2023.
- The Company has a number of products in the Pipeline for Soybean, Maize, Wheat and Rice.
- Over the 9MFY24, in the Crop Protection Chemicals, the company witnessed Volume Growth of Insecticides by 9% YoY, Fungicides by 30% YoY and Weedicides by 24% YoY. In the Specialty Nutrients, the Volume grew by 16% YoY for the 9MFY24.
- 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 stood at USD 18 mmbtu on a LPA basis.
- The Power and Fuel Costs stood at INR 10 bn and Freight Costs stood at INR 1.55 bn.
- 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.
- Across the nation, the Urea inventories on YoY basis as of Jan 31st is up by 51% at around 7 million MT. DAP inventories around 2 million MT and NPK inventories are around 3.9 million MT, and MOP inventories are 1 million MT as of Jan 31st 2024.
- 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.
- The management says they did not have any issue with Inventories, and it stood around 22-23%, which is fairly adequate.

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, Aриhant 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, 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
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 Activities	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, 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

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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