ArihantCapital
Generating Wealth

Result Update
9th May 2024

Chambal Fertilisers and Chemicals Ltd.

Weak earnings on Seasonality factors

CMP: INR 405

Rating: Buy

Target Price: INR 482

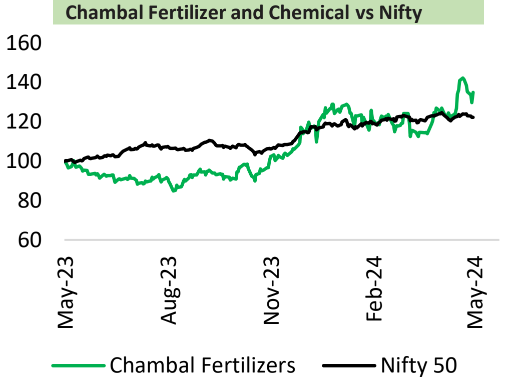
Stock Info	
BSE	500085
NSE	CHAMBLFERT
Bloomberg	CHMB:IN
Sector	Fertilizer
Face Value (INR)	10
Equity Capital (INR Mn)	4,162
Mkt Cap (INR Bn)	149
52w H/L (INR)	439/248
Avg Yearly Volume (in 000')	1,754

Shareholding Pattern %
(As on March, 2024)

Promoters	60.70
FIIs	15.00
DIIs	7.07
Public & Others	17.25

Stock Performance (%)	1m	6m	12m
Chambal Fertilizers	4.5%	31.0%	30.8%
NIFTY	-1.9%	11.9%	+5.6%

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.

Improving Margins with Volumes expected ahead

Improved margins over last year to continue in subsequent years

The Revenue for Q4FY24 fell 39.2% QoQ/26.6% YoY to INR 26.43 bn, EBITDA decreased by 73.5% QoQ/up 49.4% YoY to INR 1.67 bn and PAT fell by 78.9% QoQ/3.0% YoY to INR 970 mn. EBITDA Margins improved to 6.3% for Q4FY24 against 3.1% in Q4FY23 but fell from previous quarter's 14.4% in Q3FY24, as the gas prices stabilized at lower levels of USD 17 mmbtu, down from Q3FY24's USD 18 mmbtu.

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 6.67 lakh MT decreasing against Q3FY24's 9.1 lakh MT while sales also decreased over last year to 6.66 lakh MT against 7.64 lakh MT. During the quarter, the DAP sales fell to 0.01 lakh MT against 0.45 lakh MT, MOP sales also fell to 0.19 lakh MT against 0.55 lakh Mt in Q4FY23 while NPK sales fell to nil. This was due to the Seasonality factor of Q4 as the company sees practically nil retail sales as Q4 is not a sowing season across any geography for the company. On the other hand, the company's Gadepan Plant 1 & 2 took a planned shutdown in Q4FY24, leading to a sequential decrease of 1.8 lakh tonnes of Urea.

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 2.6 bn till now for the Capex, and intends to spend balance INR 7 bn of the planned capex on the TAN Project in the future. 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 upcoming Kharif season is supposed to be good in terms of volume demand as the company prepares for it with expected good monsoon as per IMD and other weather forecasts due to La Nina effect. 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. **We value the company at 6.5x EV/EBITDA on FY27E EBITDA of Rs 3,241 Cr for a target price of INR 482 per share and maintain a Buy rating.**

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	24,372	26,569	32,412
Net Profit	11,953	14,644	16,281	20,621
Diluted EPS	30.84	35.19	39.12	49.54
P/E (x)	12.97	11.37	10.23	8.07
EV/EBIDTA (x)	8.35	7.24	6.64	5.45
P/BV (x)	2.29	1.99	1.74	1.49
RoE (%)	16.7%	18.7%	18.1%	19.9%
Debt/Equity (x)	0.16	0.14	0.13	0.12

Particulars (Consolidated)	Quarter Ended			Change	
(INR Cr)	Q4FY24	Q3FY24	Q4FY23	% QoQ	% YoY
Revenue from Operations	**2,643**	**4,349**	**3,599**	**-39.2%**	**-26.6%**
Other Income	63	95	41	-34.1%	52.4%
Total Income	**2,706**	**4,444**	**3,640**	**-39.1%**	**-25.7%**
Expenses					
Cost of Materials Consumed	1,350	1,869	1,633	-27.8%	-17.3%
Purchases of Stock-in-Trade	450	600	865	-25.1%	-48.0%
Changes in Inventories of Finished Goods, Stock-in-Trade, and Work-in-Progress	-388	-32	-290	1122.2%	34.1%
Employee Benefits Expense	57	56	49	1.6%	17.0%
Finance Costs	36	36	67	-1.3%	-46.2%
Depreciation and Amortization Expenses	78	79	76	-1.3%	2.8%
Other Expenses	1,008	1,226	1,230	-17.8%	-18.0%
Total Expenses	2,591	3,837	3,630	-32.5%	-28.6%
EBITDA	**167**	**627**	**111**	**-73.5%**	**49.4%**
EBITDA Margins (%)	***6.3%***	***14.4%***	***3.1%***	-813bps	320bps
Profit Before JV & Tax	115	608	10	-81.0%	1060.7%
Share of JV	10	56	-4	-81.2%	-395.2%
Profit Before Tax	**126**	**664**	**6**	**-81.1%**	**1869.5%**
Current Tax	9	96	-8	-90.4%	-212.4%
Deferred Tax	20	108	-79	-81.7%	-125.0%
Total Tax Expense	29	205	-88	-85.8%	-133.2%
Profit for the Period	**97**	**459**	**94**	**-78.9%**	**3.0%**
PAT Margins (%)	***3.7%***	***10.6%***	***2.6%***	-690bps	105bps
EPS (Diluted)	2.51	11.04	2.26	-77.3%	11.1%

Concall Highlights

Management Guidance:

- The Maintenance capex for FY25 is INR 3.6 bn.

- In the TAN Project, the Company has spent INR 2.6 bn during the year, and will be spending balance INR 7 bn towards the TAN Project in future.

Key Highlights:

- The Management attributed the decline in Volumes during Q4FY24 due to planned shutdowns taken for the Gadepan Plant 1 & 2 during Q4FY24, due to which their annual Urea Sales came down by 1.8 lakh tonnes.

- Annual Production of Urea stood at 33.83 lakh tonnes.

- The Company received a subsidy amount of INR 144.80 bn for the year FY24. The decline in subsidies is due to lower Gas prices and lower NBS realizations.

- The Company's TAN project is informed to be running on time, and they have spent INR 2.6 bn till 31st march 2024 during the year.

- The Company continues to focus on Crop protection and Specialty Nutrients segment and expects to achieve INR 3 bn of EBITDA by FY26-27 from those businesses as the company has a product Pipeline of 12 new products of Crop Protection Chemicals in FY25.

- The Company also has 2 products in the Biological segment, MycoRaja and Bio Nano P which were launched in the last year. While Mycoraja was launched last year, this year, they have launched Bio Nano P, which is basically a Nano Phosphate developed biologically by action of certain microbes on Phosphates Rocks..

- The Company is also evaluating 2 more Biological products which are presently under trial under the Uttam Santulit Poshan Abhiyaan, in which the company tests their own Products in their Own farms, and after successful tests, they launch the products.

- The Company's board has further approved Energy Efficiency Projects worth INR 1,200 mn of which 1 or 2 plans will be worked upon by FY26.

- The Company is focussed on improving the energy efficiencies of Urea business. During the year, the employed the energy efficient measures, and while they were expecting 2-3% of energy efficiency, it has turned out to be better by 45-50% of that.

- The prices of gas for the quarter was around USD 17 per MMBTU.

- The Management explained that the Energy efficiency norms for NUP 2015 and NUP 2012 units is on the usage of gas per tonne of Urea produced. Hence, if the norm says that 5.5 G calorie of energy can be used for NUP 2015 units, the norm for NUP 2012 unit will be of 5 G calorie of energy per tonne for NUP 2012 units.

- Hence, if the company is able to save 1-2% of energy, as the quantum of energy used is very huge, like 15 million G calorie (equivalent to around 60 million MMBTU) of gas. Hence, even 1-2% of energy efficiency leads to healthy savings for the company's bottomline.

Financial Statements

Profit & Loss Statement (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**1,60,688**	**2,77,728**	**1,79,664**	**1,91,429**	**2,16,851**	**2,44,063**
Raw Material	96,033	1,97,043	1,09,023	1,19,643	1,31,195	1,46,438
Gross Profit	**64,655**	**80,685**	**70,642**	**71,786**	**85,656**	**97,625**
Gross Profit Margin %	**40.2%**	**29.1%**	**39.3%**	**37.5%**	**39.5%**	**40.0%**
Employee Costs	1,807	1,910	2,208	2,428	2,706	2,977
Operating & Other Expenses	40,227	60,582	48,001	44,986	56,381	62,236
EBITDA	**22,622**	**18,194**	**20,433**	**24,372**	**26,569**	**32,412**
EBITDA Margin %	**14.1%**	**6.6%**	**11.4%**	**12.7%**	**12.3%**	**13.3%**
Depreciation	2,997	3,083	3,128	3,816	3,956	4,064
Other Income	680	1,678	2,491	766	867	976
EBIT	**20,305**	**16,788**	**19,796**	**21,321**	**23,480**	**29,324**
Finance Cost	1,059	3,200	1,731	1,751	1,723	1,767
Exceptional Items	-	-	-	-	-	-
PBT	19,245	13,588	18,065	19,570	21,757	27,557
Income Tax	6,648	3,825	6,112	4,926	5,476	6,936
PAT	**12,597**	**9,763**	**11,953**	**14,644**	**16,281**	**20,621**
PAT Margin %	**7.8%**	**3.5%**	**6.7%**	**7.7%**	**7.5%**	**8.4%**

Source: Company, Arihant Capital Research

Balance Sheet (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Assets						
Total Non-Current Assets	72,136	71,313	74,198	79,395	75,439	73,927
Trade Receivables	21,513	17,605	1,916	15,734	20,794	30,090
Cash & Bank Balance	5,320	369	1,099	2,090	2,575	3,221
Other Current Assets	2,128	4,937	4,621	4,937	4,937	4,937
Total Non-Current Assets	**72,136**	**71,313**	**74,198**	**79,395**	**75,439**	**73,927**
Total Assets	**1,32,890**	**1,27,701**	**1,15,090**	**1,38,676**	**1,44,276**	**1,62,003**
Equity And Liabilities						
Equity Share Capital	4,162	4,162	4,007	4,162	4,162	4,162
Other Equity	59,834	66,519	68,729	79,712	91,923	1,07,389
Total Equity	**63,861**	**70,529**	**72,581**	**83,723**	**95,933**	**1,11,399**
Borrowings	24,712	18,204	11,442	20,809	18,697	20,212
Total Non-Current Liabilities	**31,011**	**25,650**	**22,143**	**19,460**	**20,061**	**20,692**
Trade Payables	14,998	12,115	7,938	9,440	5,941	6,687
Total Current Liabilities	**38,018**	**31,521**	**20,366**	**26,699**	**22,201**	**22,946**
Total Liabilities	**69,029**	**57,172**	**42,509**	**46,159**	**42,262**	**43,638**
Total Equity & Liabilities	**1,32,890**	**1,27,701**	**1,15,090**	**1,38,676**	**1,44,276**	**1,62,003**

Source: Company, Arihant Capital Research

Financial Statements

Cash Flow (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	22,309	14,163	18,870	19,570	21,757	27,557
Operating Profit before WC Changes	**26,894**	**20,285**	**22,940**	**23,931**	**26,135**	**31,967**
Operating Profit after WC Changes	6,121	35,107	36,713	4,374	20,563	12,630
Tax Paid	- 3,430	- 2,715	- 3,446	- 4,926	- 5,476	- 6,936
Cash Flow from Operating Acctivities	2,690	32,393	33,268	- 552	15,087	5,694
Cash Flow from Investing Activities	**- 1,191**	**- 18,732**	**- 3,825**	**- 9,104**	**- 2,423**	**976**
Cash Flow from Financing Activities	**- 2,128**	**- 18,620**	**- 28,714**	**10,647**	**- 12,179**	**- 6,024**
Net Change in Cash & Cash Equivalents	- 629	- 4,959	729	991	485	646
Opening Cash & Cash Equivalents	8,879	5,320	369	1,099	2,090	2,575
Closing Cash & Cash Equivalents	**8,253**	**369**	**1,099**	**2,090**	**2,575**	**3,221**

Source: Company, Arihant Capital Research

Key Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per Share (INR)						
EPS	30.3	23.5	28.7	35.2	39.1	49.5
EPS (Adj)	30.3	23.5	28.7	35.2	39.1	49.5
BVPS	153.4	169.5	174.4	201.2	230.5	267.7
Valuation (x)						
P/E	13.2	17.1	13.9	11.4	10.2	8.1
P/BV	2.6	2.4	2.3	2.0	1.7	1.5
EV/EBITDA	9.02	6.83	7.48			
Return Ratios (%)						
Gross Margin	40.2%	29.1%	39.3%	37.5%	39.5%	40.0%
EBITDA Margin	14.1%	6.6%	11.4%	12.7%	12.3%	13.3%
PAT Margin	7.8%	3.5%	6.7%	7.7%	7.5%	8.4%
NOPAT Margin	8.3%	4.3%	7.3%	8.3%	8.1%	9.0%
ROE	21.7%	14.5%	16.7%	18.7%	18.1%	19.9%
ROCE	23.5%	18.9%	22.9%	23.7%	23.0%	25.2%
Leverage Ratio (%)						
Total D/E	0.39	0.26	0.16	0.14	0.13	0.12
Turnover Ratios						
Asset Turnover	1.37	2.13	1.48	1.51	1.53	1.59
Receivable Days	49	23	25	30	35	45
Inventory Days	71	18	25	32	35	45
Payable Days	34	16	21	18	10	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