

CHAMBAL FERTILISERS & CHEMICALS LTD

BUY
CMP Rs56
TP Rs73

21 Oct 2009

Chambal Fertilisers' (CFCL) Q2FY10 standalone results were inline with expectations as net sales de-grew by ~45% YoY to Rs9.6bn because of lower contribution from traded fertilisers. OPM improved by ~900bps due to higher usage of gases against Naphtha and improved operating efficiency. Higher other income and decline in interest charges resulted in ~36% growth in net profits to Rs646mn.

Traded fertilisers drag revenues: CFCL trades significant quantity of different fertilisers to provide one-stop solutions to farmers for all nutrients. Due to sharp YoY correction in realisation from its peak of last year and lower demand due to depressed monsoon has resulted in ~83% de-growth in revenue from trades and resulted in net sales decline by ~45%.

Multiple factors to improve margins:

- **RIL gas availability:** CFCL has received ~1.15mmscmd of natural gas at the cost of USD6.21/mmbtu (including transportation). Availability of more gas has resulted in lower production cost and improvement in operating margins. Non-usage of liquid fuels (Naphtha and LSHS) should further result in lower working capital requirements and higher profitability.

- **Energy reduction measures:** CFCL has taken measures to reduce energy consumption by ~0.2Gcal per MT of Urea. As per current policy, this benefit will be completely retained with the company and will add to margins and profitability.

Combined effect of both factors has resulted in improvement in operating margins by ~900bps to ~18%.

IPP linked pricing to add to profitability: Going forward, company should benefit with IPP linked subsidy (floor and ceiling of USD250 and USD425 per MT of Urea) for production above cut-off limits.

VALUATIONS AND RECOMMENDATION

At CMP of Rs56, CFCL is trading at 7.7x and 5.0x of P/E and EV/EBITDA respectively for FY11 estimates of Rs7.3. With availability of gases and favourable fertiliser policy, we maintain our 'BUY' recommendation and a target price of Rs73 with a time horizon of 18 months.

KEY FINANCIALS						Rs mn
	FY07	FY08	FY09	FY10E	FY11E	
Net Sales	29,470	32,056	55,974	45,270	47,645	
YoY Gr.(%)	(4.4)	8.8	74.6	(19.1)	5.2	
Op. Profits	4,514	5,016	6,530	7,334	8,004	
Op. Marg.(%)	15.3	15.6	11.7	16.2	16.8	
Adjusted Net Profit	1,315	1,165	2,175	2,458	3,022	
YoY Gr.(%)	(10.9)	(11.4)	86.7	13.0	22.9	

KEY RATIOS					
Dil. EPS (Rs)	3.2	2.8	5.2	5.9	7.3
ROCE (%)	10.4	8.5	11.8	11.2	12.6
RoE (%)	14.7	11.2	17.7	18.1	19.5
PER (x)	17.7	20.0	10.7	9.5	7.7
EV/Net sales (x)	1.4	1.3	0.8	1.1	0.9
EV/EBDITA (x)	8.2	7.6	6.2	6.2	5.0

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-09	Jun-09	Sep-09
Net Sales	8,537	7,778	9,638
YoY Gr. (%)	41.4	(3.9)	(44.4)
Op. Profits	986	1,440	1,726
OPM (%)	11.5	18.5	17.9
Adjusted Net Profits	313	509	646
YoY Gr. (%)	219.4	(29.4)	35.8

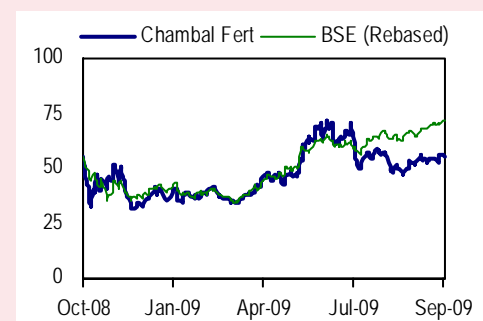
STOCK DATA

Market Cap	Rs23.3bn.
Book Value per share	Rs30.8
Eq Shares O/S (F.V. Rs10)	416.2mn.
Free Float	50.4%
Avg Traded Value (6 mnths)	Rs246mn
52 week High/Low	Rs75/29
Bloomberg Code	CHMB IN
Reuters Code	CHMB.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	2.8	(1.3)	24.7
Relative	(0.0)	(13.7)	(22.6)

RELATIVE PERFORMANCE



Financial Table (Standalone)

Rs mn	Sep-08	Sep-09	YoY (%)	Jun-09	QoQ (%)	FY08	FY09	YoY (%)
Net Sales	17,344	9,638	(44.4)	7,778	23.9	27,355	46,432	69.7
EBITDA	1,653	1,869	13.1	1,565	19.4	4,724	6,581	39.3
<i>EBITDA Margins (%)</i>	<i>9.5</i>	<i>19.4</i>		<i>20.1</i>		<i>17.3</i>	<i>14.2</i>	
Other Income	107	143	33.7	126	13.7	185	718	288.5
Interest	416	198	(52.4)	201	(1.3)	919	1,225	33.4
Depreciation	582	668	14.7	648	3.1	1,849	2,271	22.8
PBT	654	1,003	53.3	716	39.9	2,439	3,085	26.5
<i>Tax (%)</i>	<i>27.3</i>	<i>35.6</i>		<i>28.9</i>		<i>26.4</i>	<i>28.4</i>	
PAT	476	646	35.8	553	16.8	2,038	2,306	13.2
EPS	1.1	1.6	35.8	1.3	16.8	4.9	5.5	13.2

Segmental (Standalone)

Rs mn	Sep-08	Sep-09	YoY (%)	Jun-09	QoQ (%)	FY08	FY09	YoY (%)
Revenues								
Manufactured Urea	7,359	6,703	(8.9)	4,356	53.9	19,044	23,859	25.3
Traded Goods	8,210	1,383	(83.2)	2,003	(31.0)	3,405	15,360	351.1
Shipping	1,050	818	(22.1)	656	24.8	2,890	4,136	43.1
Textiles	670	671	0.0	683	(1.9)	2,341	2,768	18.3
Others	-	-	-	-	-	343	1,027	-
Total Revenues	17,290	9,575	(44.6)	7,699	24.4	28,023	47,150	68.3
PBIT								
Manufactured Urea	1,068	1,233	15.4	587	109.9	2,711	3,343	23.3
Traded Goods	(235)	88	(137.3)	61	42.3	240	(453)	(288.9)
Shipping	262	1	(99.6)	165	(99.4)	299	1,053	251.5
Textiles	(10)	20	-	9	-	38	(86)	-
Others	-	-	-	-	-	(88)	-	(100.0)
Total	1,085	1,342	23.6	823	63.0	3,201	3,857	20.5
Capital Employed								
Manufactured Urea	18,150	18,129	(0.1)	17,363	4.4	13,700	18,043	31.7
Traded Goods	(2,779)	255	(109.2)	(7,984)	(103.2)	351	(6,007)	(1,810.5)
Shipping	14,830	14,516	(2.1)	14,663	(1.0)	9,493	15,703	65.4
Textiles	2,481	2,209	(10.9)	2,218	(0.4)	2,721	2,420	(11.1)
Total Allocable capital	32,682	35,110	7.4	26,261	33.7	26,266	30,158	14.8
Add: Unallocable capital	(20,586)	(21,568)	4.8	(13,364)	61.4	6,884	9,645	40.1
Total	12,096	13,543	12.0	12,897	5.0	33,150	39,803	20.1
PBIT Margin (%)								
Manufactured Urea	14.5	18.4		13.5		14.2	14.0	
Traded Goods	(2.9)	6.3		3.1		7.0	(3.0)	
Shipping	24.9	0.1		25.2		10.4	25.5	
Textiles	(1.5)	3.0		1.3		1.6	(3.1)	
Total	6.3	14.0		10.7		11.4	8.2	
Sales Mix (%)								
Manufactured Urea	42.6	70.0		56.6		68.0	50.6	
Traded Goods	47.5	14.4		26.0		12.2	32.6	
Shipping	6.1	8.5		8.5		10.3	8.8	
Textiles	3.9	7.0		8.9		8.4	5.9	
PBIT Mix (%)								
Manufactured Urea	98.4	91.9		71.4		84.7	86.7	
Traded Goods	(21.6)	6.5		7.5		7.5	(11.8)	
Shipping	24.1	0.1		20.1		9.4	27.3	
Textiles	(0.9)	1.5		1.1		1.2	(2.2)	

Chambal Fertilisers & Chemicals Ltd.

Year Ended March (Figures in Rs mn)

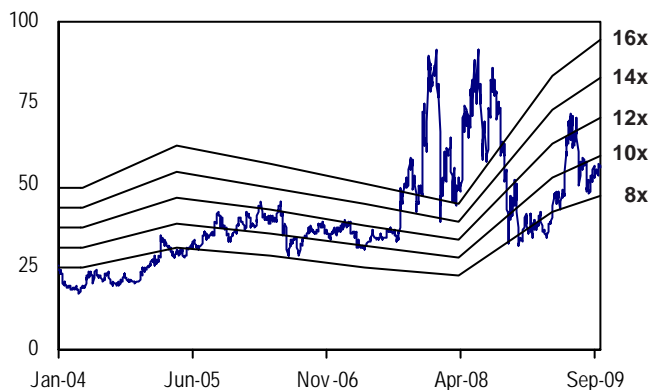
Income Statement	FY07	FY08	FY09	FY10E	FY11E
Net Sales	29,470	32,056	55,974	45,270	47,645
Growth (%)	(4.4)	8.8	74.6	(19.1)	5.2
Operating Profit	4,514	5,016	6,530	7,334	8,004
Other income	586	311	728	550	620
EBITDA	5,101	5,328	7,259	7,884	8,625
Growth (%)	3.7	4.5	36.3	8.6	9.4
Depreciation	2,126	2,458	2,817	3,080	3,136
EBIT	2,975	2,870	4,443	4,804	5,489
Interest paid	993	960	1,254	1,217	1,082
PBT (before E/o items)	1,983	1,910	3,189	3,587	4,407
Tax provision	689	756	1,027	1,148	1,410
E/o Income / (loss)	87	726	82	-	-
Net Profit	1,402	2,375	2,256	2,458	3,022
Adjusted net profit	1,315	1,165	2,175	2,458	3,022
Growth (%)	(11)	(11)	87	13	23
Basic EPS (Rs)	3.4	5.7	5.4	5.9	7.3
Adj Dil EPS (Rs)	3.2	2.8	5.2	5.9	7.3
Growth (%)	(10.9)	(11.4)	86.7	13.0	22.9

Cash Flow Statement	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,826	3,119	3,270	3,587	4,407
Depreciation	2,181	2,458	2,817	3,080	3,136
Total tax paid	(940)	(1,071)	(1,357)	(1,148)	(1,410)
Chg in working capital	(4,485)	1,010	5,105	(4,024)	1,184
Other items	949	(60)	2,379	667	462
Cash from oper. (a)	(469)	5,456	12,214	2,162	7,778
Capital expenditure	(7,729)	(4,163)	(10,630)	(4,253)	(300)
Chg in investments	6	1,128	(3,916)	(250)	(250)
Other items	(35)	32	512	550	620
Cash flow from inv. (b)	(7,759)	(3,002)	(14,034)	(3,953)	70
Free cash flow (a+b)	(8,228)	2,454	(1,820)	(1,792)	7,848
Equity raised/ (repaid)	-	1,092	6	-	-
Debt raised/ (repaid)	10,492	(1,322)	5,746	2,000	(4,500)
Interest Paid	(982)	(1,372)	(1,238)	(1,217)	(1,082)
Dividend (incl. tax)	(854)	(879)	(871)	(877)	(877)
Other items	8	80	2	-	-
Cash flow from fin. (c)	8,663	(2,400)	3,645	(93)	(6,458)
Net chg in cash (a+b+c)	436	54	1,826	(1,885)	1,390

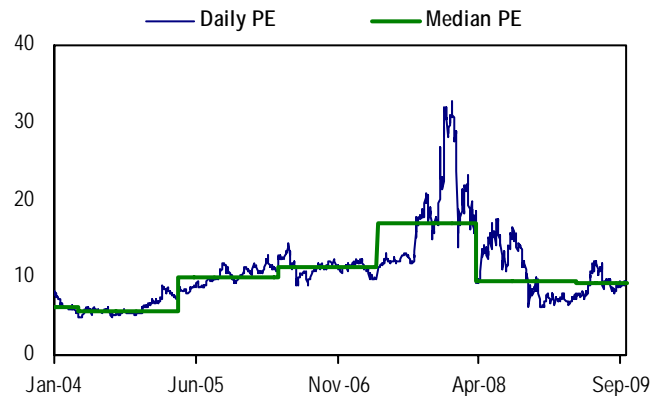
Balance Sheet	FY07	FY08	FY09	FY10E	FY11E
Equity Share Capital	4,162	4,162	4,162	4,162	4,162
Reserves & surplus	4,990	7,528	8,681	10,262	12,408
Shareholders' funds	9,152	11,690	12,843	14,425	16,570
Total Debt	20,154	18,545	25,038	27,038	22,538
Minority interest	22	1	2	(17)	(42)
Def tax / payment liability	4,497	3,822	3,281	3,281	3,281
Capital Employed	33,825	34,058	41,164	44,727	42,347
Net fixed Assets	25,102	26,527	34,037	35,210	32,374
Cash & Cash Eq.	1,392	1,445	3,271	1,386	2,776
Net other current assets	7,114	5,862	664	4,689	3,505
Investments	218	223	3,193	3,443	3,693
Total assets	33,825	34,058	41,164	44,727	42,347

Key Ratios	FY07	FY08	FY09	FY10E	FY11E
OPM (%)	15.3	15.6	11.7	16.2	16.8
Net margin (%)	4.8	7.4	4.0	5.4	6.3
Dividend yield (%)	3.2	3.2	3.2	3.2	3.2
Net debt/ Equity (x)	2.2	1.6	2.0	1.9	1.4
Net working capital (days)	88.5	(9.5)	(102.8)	(40.5)	(46.2)
Asset turnover (x)	0.9	0.9	1.4	1.0	1.1
ROCE (%)	10.4	8.5	11.8	11.2	12.6
RoE (%)	14.7	11.2	17.7	18.1	19.5
EV/Net sales (x)	1.4	1.3	0.8	1.1	0.9
EV/EBITDA (x)	8.2	7.6	6.2	6.2	5.0
PER (x)	17.7	20.0	10.7	9.5	7.7
Price/Book (x)	2.5	2.0	1.8	1.6	1.4

P/E Band



Median PE v/s Daily PE



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