

January 24, 2011

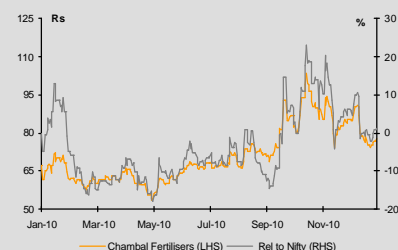
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 78	Rs 86
EPS change FY11E/12E (%)	NA
Target Price change (%)	12
Nifty	5,743
Sensex	19,151

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(11)	14	16
Rel. to Nifty	(5)	(6)	8	2

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri Input & Chemicals
Bloomberg	CHMB@IN
Equity Capital (Rs mn)	4162
Face Value(Rs)	10
No of shares o/s (mn)	416
52 Week H/L	105/53
Market Cap (Rs bn/USD mn)	32/702
Daily Avg Volume (No of sh)	10020137
Daily Avg Turnover (US\$m)	19.5

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	54.9	54.1	53.7
FII/NRI	7.8	8.2	7.0
Institutions	11.1	10.8	11.1
Private Corp	5.1	5.0	4.9
Public	21.1	21.9	23.4

Source: Capitaline

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- **Q3FY11 results were in line with estimates with APAT of Rs 903 mn (adjusted for Rs 171 mn EO item), +13% yoy**
- **Shipping business disappoints with EBIT margins of 9% vs 37% due to softening charter rates and lower asset utilization. Fertiliser trading margins remain healthy at 6.6%**
- **EBITDA margins contraction of 80 bps to 15.7% (vs estimated 18.9%) is on account of higher fertiliser trading and disappointing results of shipping business**
- **Upgrade price target to Rs 86, based on 10x FY12 eps (as against 15x to complex fertiliser players), maintain ACCUMULATE**

Q3FY11 revenue growth of 19% driven by higher trading

Chambal's revenues increased by 18.6% to Rs 13.6 bn (ahead of estimates of Rs 11.6 bn) mainly on account of higher fertiliser trading. Trading revenues increased by 24% to Rs 5 bn and accounted for 37% to sales. Textiles division also reported healthy growth with 29% increase in revenues to Rs 1 bn. Fertiliser revenues under own manufacturing at Rs 6.8 bn and shipping revenues of Rs 702 mn was in line with estimates.

Margins contraction in shipping division affected EBITDA margins

EBITDA margins declined by 80 bps yoy to 15.7% (below our expectation of 18.9%) mainly on account of contraction in margins in shipping business (declined from 37% to 9%). As a result, EBIT from shipping crashed by 71% to Rs 65 mn (adjusted for Rs 170 mn provision write back in current quarter). Shipping business has witnessed challenging environment due to softer charter rates and lower utilization. EBIT margins in the fertiliser segment remained healthy at 16.3% and textiles at 11%. Margins in trading segment at 6.6% was ahead of our estimates since company has entered into price contract at the beginning of the year and benefited in subsequent quarters from higher realisations.

APAT Rs 903 mn in line with estimates adjusted for Rs 170 mn EO

Adjusting for Rs 170 mn on account reversal of provision write back in shipping business, APAT at Rs 903 mn, +13.2% yoy, was in line with our estimates of Rs 898 mn. AEPS for the quarter stood at Rs 2.2 as against Rs 1.9 previous year. Company reported profit of Rs 1.07 bn, +35% yoy. Company reported APAT of Rs 2.7 bn in 9MFY11, +26% yoy and EPS of Rs 6.5.

Maintain Accumulate rating, upgrade price target by 12%

We maintain our FY11 / FY12 estimates at Rs 8.5 and Rs 8.6. Chambal along with being beneficiary of changes in urea policies should also benefit from additional urea production in FY11E / FY12E under IPP based subsidy due to strong global urea prices which should help it to improve its margins and RoE. We are upgrading target multiple from previous 9x FY12 eps to 10X (as against 15x to complex fertiliser players). Subsequently we are upgrading target price from Rs 76 to Rs 86 and maintain Accumulate recommendation. Disappointing performance of shipping division in near future due to weak charter rates and lower asset utilization rates are key risks.

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	45,955	5,494	12.0	2,218	5.3	8.8	18.7	14.6	9.0	2.6
FY10	35,990	6,826	19.0	2,724	6.5	22.8	20.5	11.9	6.2	2.3
FY11E	41,258	7,599	18.4	3,553	8.5	30.4	22.9	9.1	5.6	1.9
FY12E	41,557	7,474	18.0	3,572	8.6	0.5	19.7	9.1	4.9	1.7

Key Financials – Quarterly

Rs Mn

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	11,461	7,193	9,654	15,453	13,588	18.6	(12.1)	38,696	28,798	34.4
Expenditure	9,566	5,539	7,706	13,200	11,461	19.8	(13.2)	32,367	23,625	37.0
<i>as % of sales</i>	83.5	77.0	79.8	85.4	84.3			83.6	82.0	
Consumption of RM	6,894	2,518	4,768	9,615	7,746	12.4	(19.4)	22,129	14,990	47.6
<i>as % of sales</i>	60.2	35.0	49.4	62.2	57.0			57.2	52.1	
Power & Fuel	1,335	1,408	1,423	1,531	1,681	25.9	9.8	4,635	4,180	10.9
<i>as % of sales</i>	11.6	19.6	14.7	9.9	12.4			12.0	14.5	
Employee Cost	244	254	287	279	274	12.0	(1.8)	840	732	14.7
<i>as % of sales</i>	2.1	3.5	3.0	1.8	2.0			2.2	2.5	
Other expenditure	1,093	1,359	1,227	1,776	1,760	61.0	(0.9)	4,762	3,723	27.9
<i>as % of sales</i>	9.5	18.9	12.7	11.5	13.0			12.3	12.9	
EBITDA	1,894	1,653	1,948	2,253	2,128	12.3	(5.5)	6,329	5,173	22.3
Depreciation	639	621	683	677	667	4.3	(1.5)	2,027	1,956	3.7
EBIT	1,255	1,033	1,265	1,576	1,461	16.4	(7.3)	4,302	3,217	33.7
Other Income	82	(7)	103	118	115	40.9	(2.0)	336	429	(21.8)
Interest	224	229	300	269	231	3.2	(14.4)	800	622	28.6
PBT	1,113	797	1,068	1,424	1,345	20.8	(5.5)	3,837	3,024	26.9
Total Tax	316	218	268	441	442	40.0	0.2	1,151	879	30.9
Adjusted PAT	797	579	800	982	903	13.2	(8.1)	2,686	2,145	25.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	797	579	800	982	903	13.2	(8.1)	2,686	2,145	25.2
Extra ordinary items	0	-2	-161	-122	171			-112	236	
Reported PAT	797	576	640	861	1,074	34.7	24.8	2,574	2,381	8.1
Reported EPS	1.9	1.4	1.5	2.1	2.6	34.7	24.8	6.2	5.7	8.1

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	16.5	23.0	20.2	14.6	15.7	(87)	108	16.4	18.0	(161)
EBIT	11.0	14.4	13.1	10.2	10.8	(20)	55	11.1	11.2	(6)
EBT	9.0	11.2	10.0	8.5	9.1	5	60	9.0	9.0	4
PAT	7.0	8.0	8.3	6.4	6.6	(31)	29	6.9	7.4	(51)
Effective Tax rate	28.4	27.4	25.1	31.0	32.9	450	188	30.0	29.1	93

Source: Company, Emkay Research

Segmental results

Rs mn

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenues										
Fertilisers	5993	5355	5260	6653	6830	14.0	2.7	18743	17053	9.9
Trading	4045	180	2857	7181	4999	23.6	(30.4)	15038	7431	102.4
Shipping	605	687	658	715	702	16.1	(1.7)	2075	2079	(0.2)
Textiles	774	832	740	801	997	28.7	24.4	2538	2128	19.3
Total	11417	7055	9515	15351	13528	18.5	(11.9)	38393	28690	33.8
Earnings										
Fertilisers	1000	908	848	1178	1110	11.0	(5.7)	3136	2911	7.7
Trading	105	-33	199	278	332	217.1	19.3	809	254	219.0
Shipping	225	80	175	152	65	(71.1)	(57.2)	391	493	(20.7)
Textiles	30	65	99	86	107	260.1	25.0	292	59	397.3
Total	1360	1020	1321	1693	1614	18.7	(4.7)	4628	3716	24.5
Segment margins										
Fertilisers	16.7	16.9	16.1	17.7	16.3	(44)	(144)	16.7	17.1	(34)
Trading	2.6	-18.3	7.0	3.9	6.6	405	277	5.4	3.4	197
Shipping	37.2	11.6	26.5	21.2	9.2	(2,795)	(1,198)	18.9	23.7	(487)
Textiles	3.9	7.9	13.4	10.7	10.8	692	5	11.5	2.8	875
Total	11.9	14.5	13.9	11.0	11.9	2	90	12.1	13.0	(90)

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	45,955	35,990	41,258	41,557
Growth (%)	68.9	(21.7)	14.6	0.7
Expenditure	40,462	29,164	33,658	34,083
Materials Consumed	24576	17508	20216	20363
Power & Fuel	8023	5588	6601	6649
Employee Cost	906	986	1,035	1,087
Other Exp	6,957	5,082	5,805	5,984
EBITDA	5,494	6,826	7,599	7,474
Growth (%)	24.2	24.3	11.3	(1.7)
EBITDA margin (%)	12.0	19.0	18.4	18.0
Depreciation	2,271	2,576	2,390	2,390
EBIT	3,222	4,250	5,209	5,084
EBIT margin (%)	7.0	11.8	12.6	12.2
Other Income	1,194	423	817	819
Interest expenses	1,323	852	1,092	942
PBT	3,093	3,822	4,935	4,961
Tax	875	1,098	1,382	1,389
Effective tax rate (%)	28.3	28.7	28.0	28.0
Adjusted PAT	2,218	2,724	3,553	3,572
Growth (%)	8.8	22.8	30.4	0.5
Net Margin (%)	4.8	7.6	8.6	8.6
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	2,218	2,724	3,553	3,572
E/O items	-	(233)	-	-
Reported PAT	2,218	2,491	3,553	3,572
PAT after MI	2,218	2,724	3,553	3,572
Growth (%)	8.8	22.8	30.4	0.5

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	4,162	4,162	4,162	4,162
Reserves & surplus	8,181	10,070	12,650	15,247
Net worth	12,344	14,232	16,812	19,409
Minority Interest	-	-	-	-
Secured Loans	20,697	15,697	13,697	10,697
Unsecured Loans	3,499	3,499	3,499	3,499
Loan Funds	24,196	19,196	17,196	14,196
Net deferred tax liability	3,281	3,281	3,281	3,281
Total Liabilities	39,820	36,709	37,289	36,886
Gross Block	46,631	48,842	51,842	51,892
Less: Depreciation	17,983	20,559	22,949	25,339
Net block	28,648	28,282	28,892	26,552
Capital work in progress	2,270	59	59	59
Investment	6,109	6,109	6,109	6,109
Current Assets	15,663	9,643	8,061	10,998
Inventories	3,168	2,426	2,781	2,801
Sundry debtors	6,601	3,224	3,695	3,722
Cash & bank balance	1,275	3,094	570	3,453
Loans & advances	1,006	788	903	910
Other current assets	3,612	112	112	112
Current lia & Prov	12,886	7,401	5,850	6,849
Current liabilities	11,621	5,916	3,391	3,416
Provisions	1,265	1,485	2,459	3,433
Net current assets	2,777	2,242	2,211	4,149
Misc. exp	17	17	17	17
Total Assets	39,820	36,709	37,289	36,886

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	3,181	3,822	4,935	4,961
Depreciation	2,271	2,576	2,390	2,390
Interest Provided	1,225	852	1,092	942
Other Non-Cash items	505	139	-	-
Chg in working cap	3,814	2,354	(2,493)	945
Tax paid	-1,226	-1,098	-1,382	-1,389
Operating Cashflow	9,770	8,644	4,541	7,848
Capital expenditure	(10,401)	-	(3,000)	(50)
Free Cash Flow	-631	8,644	1,541	7,798
Other income	724	-	-	-
Investments	(2,933)	-	-	-
Investing Cashflow	-2,208	0	0	0
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	5,571	(5,000)	(2,000)	(3,000)
Interest Paid	(1,221)	(852)	(1,092)	(942)
Dividend paid (incl tax)	(871)	(974)	(974)	(974)
Income from investments	12	0	0	0
Others	0	0	0	0
Financing Cashflow	3,492	-6,825	-4,066	-4,916
Net chg in cash	652	1,819	-2,524	2,883
Opening cash position	623	1,275	3,094	570
Closing cash position	1,275	3,094	570	3,453

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	12.0	19.0	18.4	18.0
Net Margin	4.8	7.6	8.6	8.6
ROCE	12.1	12.2	16.3	15.9
ROE	18.7	20.5	22.9	19.7
RoIC	12.3	14.8	18.0	17.6
Per Share Data (Rs)				
EPS	5.3	6.5	8.5	8.6
CEPS	10.8	12.7	14.3	14.3
BVPS	29.6	34.2	40.4	46.6
DPS	1.5	2.0	2.0	2.0
Valuations (x)				
PER	14.6	11.9	9.1	9.1
P/CEPS	7.2	6.1	5.4	5.4
P/BV	2.6	2.3	1.9	1.7
EV / Sales	1.1	1.2	1.0	0.9
EV / EBITDA	9.0	6.2	5.6	4.9
Dividend Yield (%)	1.9	2.6	2.6	2.6
Gearing Ratio (x)				
Net Debt/ Equity	1.4	0.7	0.6	0.2
Net Debt/EBITDA	3.1	1.5	1.4	0.6
Working Cap Cycle (days)	(15)	(3)	27	27

Recommendation History: Chambal Fertilisers – CHMB IN

Date	Reports	Reco	CMP	Target
16/07/2010	Chambal Fertilisers Q1FY11 Result Update	Accumulate	67	77
05/10/2010	Chambal Fertilisers Q4FY10 Result Update	Hold	62	60
29/01/2010	Chambal Fertilisers Q3FY10 Result Update	Hold	62	60
22/10/2009	Chambal Fertilisers Q2FY10 Result Update	Accumulate	53	60

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2011	Kajaria Ceramics Q3FY11 Result Update	Buy	74	100
18/01/2011	Rallis India Q3FY11 Result Update	Buy	1,313	1,800
13/01/2011	Coromandel International Q3FY11 Result Update	Buy	279	435
31/12/2010	Kajaria Ceramics Company Update	Buy	73	100

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