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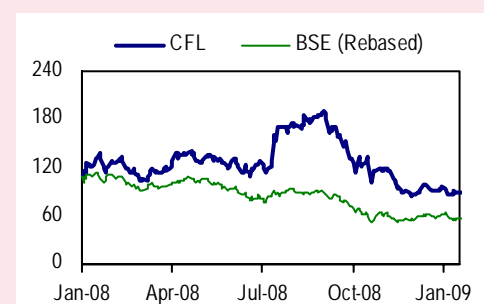
STOCK DATA

Market Cap	Rs14.5bn
Book Value per share	Rs57
Eq Shares O/S (F.V. Rs.2)	140mn
Median Vol (12 mths)	41,930 (BSE+NSE)
52 Week High/Low	Rs190/84
Bloomberg Code	CRFT@IN
Reuters Code	CORF.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	14.3	(18.1)	(11.1)
Relative	11.1	(19.7)	57.0

STOCK PRICE PERFORMANCE



CFL's sales quadrupled to Rs37bn in Q3FY09 with higher fertiliser realisations. However, higher costs of key RMs like phos. acid and sulphur led to a 378% jump in RM costs. Also, CFL ramped up traded fertiliser sales leading to a 7x jump in traded goods purchases. This affected margins, which contracted by 857bps YoY to 5.8%. While other income tripled to Rs274mn, interest costs edged up by 52% to Rs213mn. Higher other income helped CFL post a 77% rise in net profit to Rs1.3bn.

● Margins came off 267bps QoQ due to high cost sulphur inventory

While the current subsidy policy for complex fertilisers recognises raw material prices with a 1 month lag (instead of 3 months earlier), prices were in a downward spiral throughout the Sept-Nov period. CFL typically carries 2 months of sulphur inventory. With high cost inventory of sulphur utilised in production, which received lesser reimbursement, margins fell by 267 bps QoQ to 5.8%.

● Planned shutdown in Q4FY09 and steep correction in DAP prices may affect Q4FY09 performance

Though phos. acid prices has corrected more than 50% from the peak, correction in DAP prices has been steeper at ~70%. The phosphatic content ('P') in a fertiliser is linked to the imported DAP prices. This can result in lower subsidy payments, going forward. Also planned shutdown in its NPK plants will affect volumes in Q4FY09.

● CFL received fertiliser bonds worth ~Rs15bn so far in FY09

CFL received ~Rs4bn of bonds in FY08 and carried over bonds worth ~Rs2.9bn in FY09. So far, fresh bonds worth ~Rs15bn have been issued in FY09.

● Capex plans

CFL's Tunisian JV, TIFERT is setting up a 380k mtpa phos. acid plant. The same will be operational by the end of FY10, in time, for catering to a capacity addition of ~450k mtpa in complex fertilisers at Kakinada (expected to commence in Q1FY11).

VALUATIONS AND RECOMMENDATION

At the CMP of Rs104, CFL trades at a P/E of 3.4x, EV/EBIDTA of 3.6x its estimated FY10 numbers. While any delays in subsidy receipts and depreciation of rupee can affect profitability, CFL is better placed amongst its peers with its strong execution and sourcing capabilities. The stock has outperformed the Sensex over last 12 months by ~57%. We maintain a 'BUY' recommendation with a target price of Rs180 on a time horizon of 18 months. Our target price implies a P/E of 6x FY10E earnings.

KEY FINANCIALS (CONSOLIDATED)					
Rs mn	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Net Sales	18,518	20,665	37,573	96,232	70,436
YoY Gr. (%)	21.0	11.6	81.8	156.1	(26.8)
Op. Profits	1,496	1,994	4,128	7,276	7,694
Op. Marg. (%)	8.1	9.6	11.0	7.6	10.9
Net Profits	954	1,167	2,101	4,343	4,246
Eq. Capital	254	254	280	280	280

KEY RATIOS					
	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Dil. EPS (Rs)	6.8	8.3	15.0	31.0	30.4
ROCE (%)	16.4	16.6	26.7	32.3	25.0
RONW (%)	22.3	23.1	31.2	43.1	30.9
P/E (x)	13.9	11.3	6.9	3.3	3.4
EV/Sales (x)	1.3	1.1	1.1	0.3	0.4
EV/EBDIT (x)	8.7	6.9	5.1	3.5	3.6

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	87,952	96,232	9.4	91,663	70,436	(23.2)
Op. Profit	7,500	7,276	(3.0)	7,984	7,694	(3.6)
PAT	3,958	4,343	9.7	4,058	4,246	4.6
Diluted EPS	28.3	31.0	9.7	29.0	30.4	4.7

Financial Results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net sales	37,385	9,564	290.9	85,552	31,729	169.6	37,573
Expenditure	35,225	8,190	330.1	78,777	27,795	183.4	33,446
(Increase)/Decrease In stock	2,972	(239)		(744)	1,470		658
Consumption of raw material	29,169	6,965	377.8	64,827	21,223	182.4	25978
Purchase of goods for resale	1,037	148	600.7	9,320	899	936.8	1371
Staff Cost	324	249	30.0	905	715	26.5	977
Other expenditure	1,723	1,066	61.7	4,470	3,489	28.1	4462
Operating profit	2,160	1,374	57.2	6,775	3,934	72.2	4,128
Other Income	274	84	227.4	418	189	121.9	432
PBDIT	2,435	1,458	67.0	7,193	4,123	74.5	4,560
Interest	224	140	59.7	592	516	14.7	699
Depreciation	136	169	(19.3)	392	404	(3.1)	522
PBT & Deferred Tax	2,075	1,149	80.6	6,210	3,203	93.9	3,339
Provision for current tax	762	398		2,734	1,138		1238
(+)extraordinary item	-	-		1,586	-		
Net Profit	1,312	751	74.7	5,061	2,064	145.2	2,101
Equity Capital	280	256		280	256		280
Reserves (excl. rev. res.)	-	-		-	-		7,675
Diluted EPS for the period (Rs)	9.4	5.4		36.2	14.8		15.0
Book Value	-	-		-	-		56.9
OPM (%)	5.8	14.4		7.9	12.4		11.0
NPM (%)	3.5	7.9		5.9	6.5		5.6
Exp. (% of Net Sl.)							
Raw materials (adj.)	86.0	70.3		74.9	71.5		70.9
Purchase of goods for resale	2.8	1.5		10.9	2.8		3.6
Staff Cost	0.9	2.6		1.1	2.3		2.6
Other expenses	4.6	11.1		5.2	11.0		11.9

Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	15,300	18,518	20,665	37,573	96,232	70,436
<i>Growth (%)</i>	<i>25.9</i>	<i>21.0</i>	<i>11.6</i>	<i>81.8</i>	<i>156.1</i>	<i>(26.8)</i>
Total Expenditure	14,101	17,022	18,671	33,446	88,955	62,742
Operating Profit	1,199	1,496	1,994	4,128	7,276	7,694
<i>Growth (%)</i>	<i>(1.9)</i>	<i>24.7</i>	<i>33.3</i>	<i>107.0</i>	<i>76.3</i>	<i>5.7</i>
Interest & dividend income	285	272	160	432	600	300
EBDIT	1,484	1,768	2,154	4,560	7,876	7,994
(-) Interest	188	240	320	699	766	1,020
(-) Depreciation	352	372	399	522	530	540
PBT & extraordinary items	945	1,156	1,435	3,339	6,581	6,434
(-) Tax provision	405	446	489	1,304	2,777	2,187
(-) Minority Interest/extraord.items	77	118	189	-	1,586	-
Adj. Net Profit	784	954	1,167	2,101	4,343	4,246
<i>Growth (%)</i>	<i>71.0</i>	<i>21.7</i>	<i>22.4</i>	<i>80.0</i>	<i>106.7</i>	<i>(2.2)</i>
Fully diluted Eq. sh. O/s (mn no)	127.0	127.0	127.0	139.9	139.9	139.9
Book Value (Rs)	31	36	43	57	87	109
Diluted EPS (Rs)	5.6	6.8	8.3	15.0	31.0	30.4

Balance Sheet	2005	2006	2007	2008	2009E	2010E
<i>Equity Share Capital</i>	254	254	254	280	280	280
<i>Reserves & Surplus</i>	3,707	4,353	5,257	7,675	11,919	15,020
Net worth	3,961	4,607	5,511	7,955	12,199	15,300
Total Debt	2,685	4,271	5,493	10,022	15,500	18,500
Deferred Tax liability	869	752	713	825	825	825
Capital Employed	7,516	9,629	11,718	18,801	28,524	34,624
Fixed Assets	3,826	3,687	3,873	7,402	7,757	8,102
Net current assets	2,244	4,110	5,729	7,891	16,304	21,305
Investments	1,446	1,833	2,115	3,508	4,463	5,218
Total Assets	7,516	9,629	11,718	18,801	28,524	34,624

Cash Flow Statement	2005	2006	2007	2008	2009E	2010E
PBT & extra-ordinary items	945	1,156	1,435	3,339	6,581	6,434
Depreciation	352	372	399	522	530	540
Interest & dividend inc.	(171)	(137)	(14)	(129)	(600)	(300)
Interest paid	188	240	320	699	766	1,020
Tax paid	(218)	(341)	(571)	(1,124)	(2,777)	(2,187)
Other Adjustments	44	59	(28)	240	1,586	-
(Inc)/Dec in working capital	(28)	(1,845)	(315)	2,646	(7,867)	(3,951)
Cash from operations	1,112	(496)	1,226	6,193	(1,781)	1,555
Net capital expenditure	(294)	(336)	(294)	(421)	(885)	(885)
Net investments	-	(265)	(135)	(4,607)	(955)	(755)
Interest recd	171	132	29	34	600	300
Net inter-corporate Deposits	-	(165)	165	-	-	-
Cash from investing activities	(123)	(634)	(235)	(4,994)	(1,240)	(1,340)
Change in Loans	(311)	1,473	983	(1,199)	5,478	-
Eq. Dividend paid	(186)	(217)	(246)	(351)	(1,146)	(1,146)
Interest paid	(196)	(216)	(307)	(716)	(766)	(1,020)
Cash from financing activities	(692)	1,040	431	(2,265)	3,567	834
Inc/Dec. in cash	297	(90)	1,422	(1,066)	546	1,049

Key Ratios	2005	2006	2007	2008	2009E	2010E
OPM (%)	7.8	8.1	9.6	11.0	7.6	10.9
EBIDTA %	7.8	8.1	9.6	11.0	7.6	10.9
ROACE (%)	15.6	16.4	16.6	26.7	32.3	25.0
ROANW (%)	21.3	22.3	23.1	31.2	43.1	30.9
Sales/Total Assets (x)	1.4	1.3	1.2	1.2	3.4	2.0
Debt:Equity (x)	0.7	0.9	1.0	1.3	1.3	1.2
Debtors (days)	22.9	20.2	27.5	9.6	11.6	23.7
Inventory (days)	49.8	85.0	79.1	94.4	91.3	94.9
Net working capital (days)	52.8	79.9	99.8	75.6	35.7	68.4
EV/Sales (x)	1.3	1.3	1.1	1.1	0.3	0.4
EV/EBIDT (x)	9.5	8.7	6.9	5.1	3.5	3.6
P/E (x)	16.9	13.9	11.3	6.9	3.3	3.4
P/BV (x)	3.3	2.9	2.4	1.8	1.2	1.0

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