

October 18, 2011

Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs87	Rs 98
EPS change FY12E/13E (%)	3/-4
Target Price change (%)	-11
Nifty	5,038
Sensex	16,748

Price Performance

(%)	1M	3M	6M	12M
Absolute	(18)	4	3	2
Rel. to Nifty	(17)	15	17	23

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	119/66
Market Cap (Rs bn/USD mn)	36/730
Daily Avg Volume (No of sh)	4490395
Daily Avg Turnover (US\$m)	9.1

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	55.1	55.1	54.9
FII/NRI	7.0	6.7	7.8
Institutions	12.7	12.0	11.1
Private Corp	4.1	4.7	5.1
Public	21.2	21.5	21.1

Source: Capitaline

Rohan Gupta

rohan.gupta@emkayglobal.com
+91 22 6612 1248

Balwinder Singh

balwinder.singh@emkayglobal.com
+91 22 6612 1272

Withdrawal of shipping business demerger - Negative

- **Chambal's Q2FY12 results were broadly in line with APAT of 841 mn, (-14%yoy) despite disappointment in shipping (EBIT loss of Rs 49 mn) and textiles (loss of Rs 90 mn)**
- **Manufactured fertiliser and trading business posted encouraging results with EBIT margins of 16.8% and 6% respectively and expected to remain robust**
- **Withdrawal of proposed demerger of shipping is the biggest disappointment and is expected to put pressure on company's earnings due to adverse business environment**
- **Revise est to Rs 9.0/8.9 (from Rs 8.7/9.2) for FY12/FY13 resp. Trim target multiple and reduce target price to Rs 98 (from Rs 110) with downgrade to Accumulate (from BUY)**

Topline above est due to higher trading

Chambal Fertilisers reported revenues of Rs 16.4bn, +6% yoy, higher than our est (Rs 13.7bn) due to higher trading. Manufactured fertiliser revenues increased 14% yoy to Rs 7.61bn in line with est. However, trading revenues of Rs 6.9 bn, -4% yoy, (exp of Rs 4.7 bn) were ahead of our est. Shipping segment reported revenues of Rs 984mn, 38% yoy (est of Rs 751mn) and textiles reported revenues of Rs 908mn, 13% yoy (against est of Rs 841mn).

Higher fertiliser profit trimmed by losses in shipping and textiles

Chambal reported EBITDA of Rs 2bn, -9% yoy in line with our est. However, EBITDA margin of 12.5% was lower than est of 14.7% due to losses in shipping & textiles segment. Shipping segment reported losses of Rs 50mn against profit of Rs 152mn last year while textiles segment reported losses of Rs 90mn against profit of Rs 86mn last year. Manufactured fertiliser segment reported profits of Rs 1.28bn (margin of 16.8% against est of 13%). Trading reported profit of Rs 415 mn (trading margins 6%) against est of 5%. Company reported PBT of Rs 1.20bn, -16% yoy lower than est due to higher reported interest & depreciation costs.

Demerger withdrawal of shipping business- negative for Chambal

Company has withdrawn its proposal of demerging shipping business due to unfavourable status of negotiations with the lenders due to adverse dynamics of shipping industry at present. We were of the view that shipping business demerger to have favourable impact on company's return ratios and will improve valuations of the company due to core presence in fertiliser (urea). However with recent negative development we expect stock to have negative impact in light of challenges faced by shipping business at present which is likely to drag company's earnings in current year.

Downgrade to Accumulate from Buy

With concerns over shipping business and delays in urea policies since government has yet not taken any firm decision on bringing urea under NBS, we have trimmed our target multiple to 11x (from 12x) and downgrade the stock to Accumulate from BUY. We have revised est to Rs 9.0/8.9 (from Rs 8.7/9.2) for FY12/FY13 respectively with revised target price to Rs 98 (previous est Rs 110).

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	36,004	6,842	19.0	2,724	6.5	22.8	20.8	13.4	8.5	2.6
FY11	46,808	7,482	16.0	3,101	7.4	13.8	20.6	11.7	7.3	2.2
FY12E	51,240	8,181	16.0	3,726	9.0	20.2	20.6	9.8	6.0	1.8
FY13E	51,398	8,030	15.6	3,687	8.9	(1.1)	17.4	9.9	5.3	1.6

Key Financials – Quarterly

Rs Mn

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Revenue	15,453	13,588	8,112	11,644	16,423	6.3	41.0
Expenditure	13,200	11,461	6,959	9,848	14,378	8.9	46.0
as % of sales	85.4	84.3	85.8	84.6	87.5		
Consumption of RM	9,615	7,746	2,895	6,076	9,788	1.8	61.1
as % of sales	62.2	57.0	35.7	52.2	59.6		
Power & Fuel	1,531	1,681	1,790	1,630	1,931	26.1	18.4
as % of sales	9.9	12.4	22.1	14.0	11.8		
Employee Cost	279	274	306	301	336	20.5	11.7
as % of sales	1.8	2.0	3.8	2.6	2.0		
Other expenditure	1,776	1,760	1,969	1,841	2,323	30.8	26.2
as % of sales	11.5	13.0	24.3	15.8	14.1		
EBITDA	2,253	2,128	1,153	1,796	2,045	(9.2)	13.9
Depreciation	677	667	652	659	705	4.2	7.0
EBIT	1,576	1,461	500	1,137	1,340	(15.0)	17.9
Other Income	118	115	138	194	110	(6.7)	(43.6)
Interest	269	231	219	242	248	(8.0)	2.2
PBT	1,424	1,345	419	1,089	1,202	(15.6)	10.4
Total Tax	441	442	5	360	140	(68.4)	(61.2)
Adjusted PAT	982	903	415	729	1,062	8.1	45.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	982	903	415	729	841	(14.4)	15.4
Extra ordinary items	0	0	0	0	75		
Reported PAT	861	1,074	677	637	917	6.5	43.9
Reported EPS	2.1	2.6	1.6	1.5	2.2	6.5	43.9

Margins (%)

(bps) (bps)

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
EBIDTA	14.6	15.7	14.2	15.4	12.5	(212)	(297)
EBIT	10.2	10.8	6.2	9.8	8.2	(204)	(161)
EBT	8.5	9.1	3.5	7.7	6.6	(180)	(103)
PAT	6.4	6.6	5.1	6.3	5.1	(124)	(114)
Effective Tax rate	31.0	32.9	1.1	33.1	11.6	(1,938)	(2,143)

Source: Company, Emkay Research

Segmental results

Rs mn

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Revenues							
Fertilisers	6653	6830	5399	7000	7609	14.4	8.7
Trading	7181	4999	1031	2899	6881	(4.2)	137.4
Shipping	715	702	771	889	984	37.7	10.7
Textiles	801	997	870	714	908	13.3	27.1
Total	15351	13528	8071	11503	16383	6.7	42.4
Earnings							
Fertilisers	1178	1110	481	958	1275	8.3	33.1
Trading	278	332	120	285	415	49.3	45.5
Shipping	152	65	155	101	-49	(132.6)	(148.9)
Textiles	86	107	96	-11	-90	(204.4)	705.8
Total	1693	1614	852	1333	1551	(8.4)	16.4
Segment margins							
Fertilisers	17.7	16.3	8.9	13.7	16.8	(94)	308
Trading	3.9	6.6	11.6	9.8	6.0	216	(381)
Shipping	21.2	9.2	20.1	11.4	-5.0	(2,624)	(1,637)
Textiles	10.7	10.8	11.1	-1.6	-9.9	(2,061)	(832)
Total	11.0	11.9	10.6	11.6	9.5	(156)	(212)

Source: Company, Emkay Research

Continuous delay in urea policies hurts the investors' confidence

During the quarter, the Empowered Group of Ministers (EGoM) approved partial decontrol of urea, bringing it under Nutrient Based Subsidy (NBS) policy. The proposal however, is yet to be approved by CCEA. We believe decontrol of urea would be beneficial for efficient players and lead to improvement in profitability as well as return ratios and continue to maintain that. However, recent media sources suggest that urea decontrol has been facing opposition from certain ministries leading to delay in implementation of NBS for urea. Frequent changes / delays in policy implementation negatively impact investors' confidence in the sector and hence the valuations also.

Chambal to set up SSP plant

The board of directors of Chambal has granted approval for setting up Single Super Phosphate (SSP) Plant at Dahej, District Bharuch, Gujarat, with an annual capacity of 5 Lac MT, at a project cost of approximately Rs. 1.22 bn. The Company is also setting up a SSP Plant at its existing factory premises at Gadepan, Distt. Kota, Rajasthan with an annual capacity of 2,00,000 MT at a project cost of approximately Rs. 325mn.

Shipping & textiles to remain laggard

Shipping business is likely to remain under pressure in the near term. Out of Chambal's six vessels, only 1 vessel is currently under long term contract while the remaining 5 ships are operating on spot rates. Owing to this, shipping business reported adjusted losses of Rs 50mn (after adjusting MTM losses of Rs 143mn). We expect shipping business to continue face challenges due to current adverse environment. Textiles business reported losses of Rs 90mn on account of high cost inventory held by the company. We believe shipping & textiles are likely to remain laggard in the current scenario and have modeled for losses in both these segments for FY12. However, improved margins in the manufactured fertiliser business and higher production above cut off (qualifying for IPP linked subsidy) are likely to boost profitability in the current scenario.

Revision in estimates due to cancellation of shipping business demerger

We have revised our estimates to reflect higher trading revenues & inclusion of the shipping business into standalone operations. Further, we have also factored in higher margins in manufactured fertiliser operations & lower margins in shipping & textiles. Consequently, we have increased our FY12 revenue estimates by 19% to include shipping revenues and higher trading revenues. However, due to lower textiles and shipping profitability, and increased depreciation & interest, PAT increases by mere 3% for FY12. For FY13, we have revised our revenue estimates by 18% while PAT declines by 3%. Our revised EPS for FY12 & FY13 stands at Rs 9 & Rs 8.9 respectively.

Rs mn	FY12E			FY13E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	42,900	51,240	19.4%	43,505	51,398	18.1%
EBITDA	6,616	8,181	23.7%	6,641	8,030	20.9%
EBITDA %	15.4%	16.0%	54	15.3%	15.6%	36
APAT	3,604	3,726	3.4%	3,810	3,687	-3.2%
EPS	8.7	9.0	2.9%	9.2	8.9	-3.7%

Trim FY13 EPS estimates; target multiple & hence target price

Our revised EPS for FY13 stands at Rs 8.9 (as compared to previous est of Rs 9.2). We have also trimmed our target multiple to 11x (previous 12x) due to uncertainty hovering over shipping & textiles segment. Media reports also suggest that urea decontrol is getting delayed due to opposition from certain ministries. Consequently, our target price stands at Rs 98 (previous est of Rs 110)

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	36,004	46,808	51,240	51,398
Growth (%)	(21.7)	30.0	9.5	0.3
Expenditure	29,162	39,326	43,059	43,368
Materials Consumed	17508	25025	25108	25185
Power & Fuel	5588	6425	8198	8224
Employee Cost	986	1,145	1,203	1,263
Other Exp	5,080	6,731	8,550	8,696
EBITDA	6,842	7,482	8,181	8,030
Growth (%)	24.5	9.4	9.4	(1.8)
EBITDA margin (%)	19.0	16.0	16.0	15.6
Depreciation	2,576	2,679	2,680	2,680
EBIT	4,266	4,802	5,501	5,350
EBIT margin (%)	11.8	10.3	10.7	10.4
Other Income	407	474	657	617
Interest expenses	852	1,020	983	848
PBT	3,821	4,257	5,175	5,120
Tax	1,098	1,156	1,449	1,434
Effective tax rate (%)	28.7	27.2	28.0	28.0
Adjusted PAT	2,724	3,101	3,726	3,687
Growth (%)	22.8	13.8	20.2	(1.1)
Net Margin (%)	7.6	6.6	7.3	7.2
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	2,724	3,101	3,726	3,687
E/O items	(233)	151	-	-
Reported PAT	2,490	3,252	3,726	3,687
PAT after MI	2,724	3,101	3,726	3,687
Growth (%)	22.8	13.8	20.2	(1.1)

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	3,821	4,257	5,175	5,120
Depreciation	2,576	2,679	2,680	2,680
Interest Provided	852	1,020	983	848
Other Non-Cash items	1,260	(517)	895	-
Chg in working cap	(6,784)	(731)	(708)	939
Tax paid	-1,084	-1,601	-1,449	-1,434
Operating Cashflow	640	5,106	7,576	8,154
Capital expenditure	(3,085)	(659)	(50)	(50)
Free Cash Flow	-2,444	4,447	7,526	8,104
Other income	316	419	-	-
Investments	2,978	(603)	-	-
Investing Cashflow	3,294	-184	0	0
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	-	-	(3,000)	(3,000)
Interest Paid	(852)	(1,020)	(983)	(848)
Dividend paid (incl tax)	(974)	(925)	(974)	(974)
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-1,825	-1,945	-4,957	-4,822
Net chg in cash	-975	2,318	2,570	3,282
Opening cash position	1,275	300	2,618	5,188
Closing cash position	300	2,618	5,188	8,470

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	4,162	4,162	4,162	4,162
Reserves & surplus	9,738	12,071	15,718	18,430
Net worth	13,901	16,233	19,880	22,593
Minority Interest	-	-	-	-
Secured Loans	19,961	14,453	11,453	8,453
Unsecured Loans	6,199	10,385	10,385	10,385
Loan Funds	26,160	24,838	21,838	18,838
Net deferred tax liability	2,455	2,012	2,012	2,012
Total Liabilities	42,515	43,083	43,730	43,442
Gross Block	49,734	49,576	50,284	50,334
Less: Depreciation	20,455	22,818	25,498	28,178
Net block	29,278	26,758	24,786	22,156
Capital work in progress	479	683	25	25
Investment	4,172	4,006	4,006	4,006
Current Assets	12,597	16,039	22,509	25,838
Inventories	2,433	4,024	4,492	4,506
Sundry debtors	5,585	5,897	9,125	9,153
Cash & bank balance	300	2,618	5,188	8,470
Loans & advances	854	1,589	1,793	1,799
Other current assets	3,425	1,910	1,910	1,910
Current lia & Prov	4,011	4,403	7,596	8,583
Current liabilities	2,277	2,636	4,212	4,224
Provisions	1,734	1,767	3,384	4,358
Net current assets	8,586	11,636	14,913	17,256
Misc. exp	-	-	-	-
Total Assets	42,515	43,083	43,730	43,442

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	19.0	16.0	16.0	15.6
Net Margin	7.6	6.6	7.3	7.2
ROCE	11.0	12.0	14.2	13.7
ROE	20.8	20.6	20.6	17.4
RoIC	12.2	12.7	15.7	16.3
Per Share Data (Rs)				
EPS	6.5	7.4	9.0	8.9
CEPS	12.7	13.9	15.4	15.3
BVPS	33.4	39.0	47.8	54.3
DPS	2.0	1.9	2.0	2.0
Valuations (x)				
PER	13.4	11.7	9.8	9.9
P/CEPS	6.9	6.3	5.7	5.7
P/BV	2.6	2.2	1.8	1.6
EV / Sales	1.6	1.2	1.0	0.8
EV / EBITDA	8.5	7.3	6.0	5.3
Dividend Yield (%)	2.3	2.2	2.3	2.3
Gearing Ratio (x)				
Net Debt/ Equity	1.6	1.1	0.6	0.3
Net Debt/EBIDTA	3.2	2.4	1.5	0.8
Working Cap Cycle (days)	58	57	67	67

Recommendation History: Chambal Fertilisers – CHMB IN

Date	Reports	Reco	CMP	Target
25/07/2011	Chambal Fertilisers Q1FY12 Result Update	Buy	88	110
11/05/2011	Chambal Fertilisers Q4FY11 Result Update	Accumulate	81	86
24/01/2011	Chambal Fertilisers Q3FY11 Result Update	Accumulate	78	86
16/07/2010	Chambal Fertilisers Q1FY11 Result Update	Accumulate	67	77

Recent Research Reports

Date	Reports	Reco	CMP	Target
13/10/2011	Kajaria Ceramics Q2FY12 Result Update	Buy	118	143
28/09/2011	GSFC Company Update	Buy	434	530
27/09/2011	Fertiliser Sector Update			
26/08/2011	Fertiliser Policy Update			

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.