

January 18, 2012

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Rating	Accumulate
Price	Rs78
Target Price	Rs89
Implied Upside	14.1%
Sensex	16,466
Nifty	4,967

(Prices as on January 18, 2012)

#### Trading data

Market Cap. (Rs bn)	32.7
Shares o/s (m)	416.2
3M Avg. Daily value (Rs m)	266.2

#### Major shareholders

Promoters	55.10%
Foreign	6.99%
Domestic Inst.	12.67%
Public & Other	25.24%

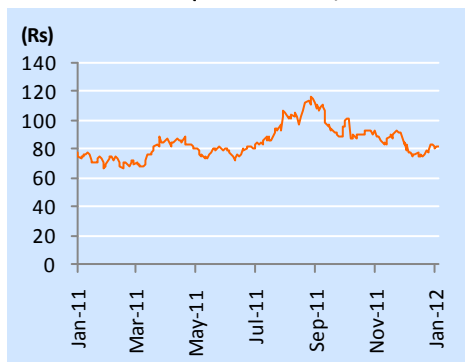
#### Stock Performance

(%)	1M	6M	12M
Absolute	0.1	(7.4)	5.9
Relative	(6.2)	3.9	18.7

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2012	7.7	8.7	-11.5
2013	7.4	8.4	-11.5

#### Price Performance (RIC:CHMB.BO, BB:CHMB IN)



Source: Bloomberg

■ **Strong urea volume and trading sales led to a strong quarter:** Chambal Fertilisers and Chemicals' (Chambal's) Q3FY12 standalone net sales grew by 32.2% YoY to Rs17,966m (PLe: Rs14,838m), primarily on account of 16.4% YoY growth in urea volumes and 57.8% YoY growth in trading sales. However, urea production volume stood at ~5.5Lac MT. Sales of shipping and textiles businesses were as per our expectation. Better-than-expected sales were mainly on account of higher trading sales (Rs7.9bn v/s PLe: Rs6.0bn).

■ **Lower tax provision set off the lower EBIT/MT of urea business:** Chambal's EBITDA de-grew by 3.9% YoY to Rs2,039m (PLe: Rs2,235m). EBIT/MT in urea business de-grew by 12.2% YoY to Rs1,688/MT (down by 24.9% QoQ, PLe: Rs1940/MT). Company had received subsidy related to earlier years which amounted to Rs220m during Q2FY12. Excluding earlier year's subsidy, EBIT/MT de-grew by 9.2% QoQ. Company has strong trading margins on the back of better treasury and inventory management. Company's trading EBIT margin stood at 6.1% (PLe: 5.5%). Chambal is carrying ~50K MT of DAP inventory at the end of the quarter. Textile EBIT margin was under pressure because Chambal has considered marginal amount of inventory write-down due to fallen Cotton/Yarn prices during the quarter. Company believes that most of the inventory write-down has already been completed. Company's long-term contract in shipping business (four out of six ships) had expired during Q1FY12. At present, all of Chambal's ships are at a spot price (i.e. US\$15000/Day), which is much lower than contract price (i.e. US\$22000/Day). Hence, EBIT margin of the company's shipping business has fallen sharply to negative 4.2% (PLe: -4.7%). Company has provided lower tax rate of 21.7% (PLe: 33%) during Q3FY12. Chambal's Q2FY12 adjusted PAT de-grew by 4.1% YoY to Rs862m (PLe: Rs884m).

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	41,942	57,798	69,265	65,295
Growth (%)	(26.0)	37.8	19.8	(5.7)
EBITDA (Rs m)	7,567	7,863	8,927	8,607
PAT (Rs m)	2,448	2,471	3,203	3,093
EPS (Rs)	5.9	5.9	7.7	7.4
Growth (%)	(0.3)	0.9	29.7	(3.4)
Net DPS (Rs)	1.9	1.9	1.9	1.9

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	18.0	13.6	12.9	13.2
RoE (%)	18.0	16.4	20.0	17.8
RoCE (%)	7.0	6.9	6.2	9.1
EV / sales (x)	1.4	0.9	0.7	0.7
EV / EBITDA (x)	7.7	6.7	5.7	5.2
PE (x)	13.3	13.2	10.2	10.6
P / BV (x)	2.3	2.1	2.0	1.8
Net dividend yield (%)	2.4	2.4	2.4	2.4

Source: Company Data; PL Research

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- **Exceptional deferred tax resulted in loss in reported PAT:** Chambal has provided Rs929.3m of exceptional deferred tax during the quarter. Hence, reported PAT stood at a loss of Rs12m. During the year, shipping division of the company shifted from tonnage tax scheme to normal tax regime w.e.f. April 01, 2011. Under the tonnage tax scheme, the company had to pay fixed annual tax, irrespective of profit or loss in the shipping business. Company's shipping business was also facing losses on account of global shipping downturn. The company is likely to pay normal tax under the Income Tax Act (as % of profit) once the shipping business turns profitable. We believe that the company is witnessing a long downturn cycle in the shipping business since they opted for a shift in tax regime. Any company can opt for change in tax scheme only once. On account of the above, company has difference of ~Rs6bn in depreciation as per the Company Act (depreciation rate is 5%) and Income Tax Act (depreciation rate is 20%). On the same, company has to provide deferred tax liability of Rs1,858.6m (~31% of Rs6bn) during Q3FY12 (50%) and Q4FY12 (50%). Hence, we expect that company to provide balance Rs929.3 during Q4FY12. We have considered the same in our FY12 estimates as an exceptional item.
- **Key Highlights of Management interaction and for the quarter:**

  - Chambal has approved setting up of Single Super Phosphate (SSP) plant in Dahej, Gujarat, with an annual capacity of 5Lac MT at a project cost of Rs122cr during Q2FY12. Company is yet to receive environmental clearance for the project which is expected to take 24 months to complete. Land has already been allotted during Q3FY12 to the company. We have considered capex as CWIP in our FY13 and FY14 estimates.
  - Further, company is also setting up a SSP plant in its existing facility at Gadepan, Kota (Rajasthan), with a capacity of 2Lac MT at the capex of Rs32.5m. Project is likely to get operational by Q1FY13 (May 2012). We have considered production of 1Lac MT and 1.5lac MT in our FY13E and FY14E estimates, respectively.
  - Company has a gross debt of Rs24bn in its standalone books (~Rs12bn in Shipping and Rs12bn of Working capital debt).
  - Company did not witness a shutdown of its urea plant and has not received any amount as earlier period subsidy during Q3FY12.
- **Valuation and Outlook:** We have trimmed our FY12E/FY13E estimates by 8.3%/16.9% on considering lower urea and phosphoric acid prices and lower profit in shipping business. We expect Chambal's consolidated PAT to grow at three year's CAGR (FY11-14E) of 12.7% (v/s 7% in FY05-11). At present, stock is trading at one-year forward P/E of 10.6x. Stock has been trading in the range of 6x-13x for the past ten years. We maintain our '**Accumulate**' rating on the stock, with revised TP of Rs89 (i.e. 12x FY13E EPS). We believe that any positive outcome like NBS scheme, new investment policy and hike in urea prices at the farmer level would be the key upside trigger for the stock in the near term and it will lead to an upward revision in our estimates as well. We have not considered any benefit in our estimates related to policy.

**Exhibit 1: Standalone Q2FY12 Result Overview (Rs m)**

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY12	YoY gr. (%)
<b>Net Sales</b>	<b>17,966</b>	<b>13,588</b>	<b>32.2</b>	<b>16,423</b>	<b>46,033</b>	<b>38,609</b>	<b>19.2</b>
Total Expenditure	15,927	11,465	38.9	14,378	40,152	32,371	24.0
<b>EBITDA</b>	<b>2,039</b>	<b>2,123</b>	<b>(3.9)</b>	<b>2,045</b>	<b>5,881</b>	<b>6,238</b>	<b>(5.7)</b>
<i>EBITDA (%)</i>	<i>11.4</i>	<i>15.6</i>		<i>12.5</i>	<i>12.8</i>	<i>16.2</i>	
Depreciation	736	667	10.3	705	2,101	2,027	3.6
<b>EBIT</b>	<b>1,304</b>	<b>1,456</b>	<b>(10.5)</b>	<b>1,340</b>	<b>3,780</b>	<b>4,211</b>	<b>(10.2)</b>
Interest	289	231	25.4	248	779	800	(2.6)
Other Income	86	115	(25.4)	110	390	422	(7.7)
<b>PBT</b>	<b>1,100</b>	<b>1,341</b>	<b>(17.9)</b>	<b>1,202</b>	<b>3,391</b>	<b>3,833</b>	<b>(11.5)</b>
Less: Tax	239	442	(46.1)	463	1,062	1,151	(7.8)
<i>Tax as % of PBT</i>	<i>21.7</i>	<i>33.0</i>		<i>38.6</i>	<i>31.3</i>	<i>30.0</i>	
<b>Adjusted PAT</b>	<b>862</b>	<b>898</b>	<b>(4.1)</b>	<b>738</b>	<b>2,329</b>	<b>2,681</b>	<b>(13.1)</b>
Less: Ex-Od Items incl. forex Loss/ (Gain)	874	(176)	NA	(178)	788	107	637.0
<b>Reported PAT</b>	<b>(12)</b>	<b>1,074</b>	<b>NA</b>	<b>917</b>	<b>1,541</b>	<b>2,574</b>	<b>(40.1)</b>

Source: Company Data, PL Research

**Exhibit 2: Segmental Break-up (Rs m)**

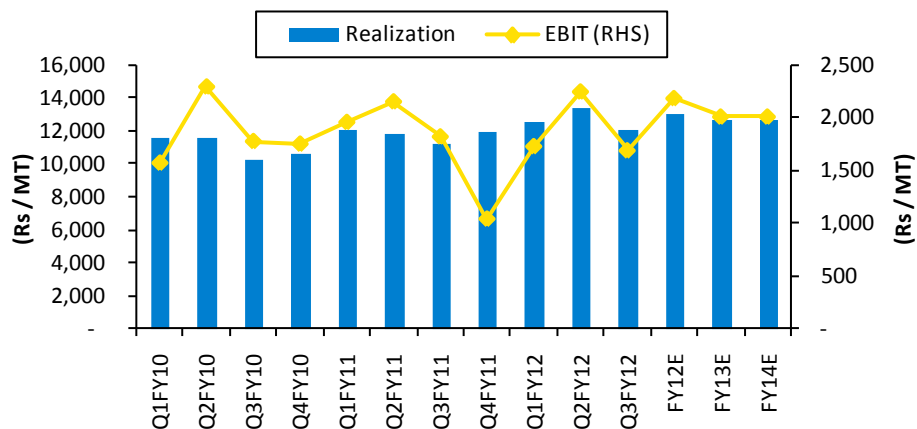
Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY12	YoY gr. (%)
<b>Segment Revenue</b>							
Own Manufactured Fertilizers	8,080	6,830	18.3	7,609	22,690	18,743	21.1
Traded Goods	7,887	4,999	57.8	6,881	17,668	15,038	17.5
Textile	838	997	(15.9)	908	2,461	2,538	(3.0)
Shipping	1,031	702	46.8	984	2,905	2,075	40.0
<b>Net Sales</b>	<b>17,837</b>	<b>13,528</b>	<b>31.9</b>	<b>16,383</b>	<b>45,723</b>	<b>38,393</b>	<b>19.1</b>
<b>Segment Results (EBIT)</b>							
Own Manufactured Fertilizers	1,130	1,105	2.2	1,276	3,363	3,160	6.4
Traded Goods	482	332	45.4	415	1,182	809	46.1
Textile	(19)	107	(117.6)	(90)	(120)	292	(141.0)
Shipping	(43)	65	(165.9)	(49)	9	391	(97.7)
<b>Total</b>	<b>1,550</b>	<b>1,609</b>	<b>(3.7)</b>	<b>1,551</b>	<b>4,435</b>	<b>4,652</b>	<b>(4.7)</b>
<b>EBIT (%)</b>							
Own Manufactured Fertilizers	14.0	16.2		16.8	14.8	16.9	
Traded Goods	6.1	6.6		6.0	6.7	5.4	
Textile	(2.3)	10.8		(9.9)	(4.9)	11.5	
Shipping	(4.2)	9.2		(5.0)	0.3	18.8	
<b>EBIT %</b>	<b>8.7</b>	<b>11.9</b>		<b>9.5</b>	<b>9.7</b>	<b>12.1</b>	

Source: Company Data, PL Research

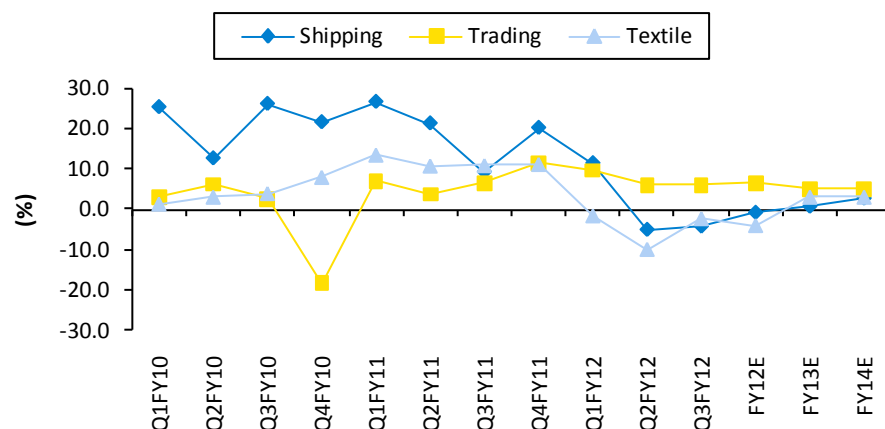
**Exhibit 3: Sales Description**

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY12	YoY gr. (%)
Urea Sales Volume (MT)	668,947	574,902	16.4	567,200	1,790,422	1,603,081	11.7
Urea Sales Realisation (Rs/MT)	12,079	11,881	1.7	13,415	12,673	11,692	8.4
EBIT (Rs/MT)	1,688	1,922	(12.2)	2,249	1,878	1,971	(4.7)

Source: Company Data, PL Research

**Exhibit 4: Stable Urea Business Realization and Margin**


Source: Company Data, PL Research

**Exhibit 5: Volatile Other Business Margin**


Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>41,942</b>	<b>57,798</b>	<b>69,265</b>	<b>65,295</b>
Raw Material Expenses	—	—	—	—
Gross Profit	41,942	57,798	69,265	65,295
Employee Cost	—	—	—	—
Other Expenses	34,374	49,935	60,338	56,689
<b>EBITDA</b>	<b>7,567</b>	<b>7,863</b>	<b>8,927</b>	<b>8,607</b>
Depr. & Amortization	3,189	3,229	3,285	3,320
Net Interest	888	1,137	1,168	984
Other Income	(275)	(65)	(1,717)	—
<b>Profit before Tax</b>	<b>3,215</b>	<b>3,433</b>	<b>2,757</b>	<b>4,303</b>
Total Tax	1,142	1,268	1,512	1,452
<b>Profit after Tax</b>	<b>2,073</b>	<b>2,165</b>	<b>1,245</b>	<b>2,852</b>
Ex-Od items / Min. Int.	(374)	(306)	(1,959)	(241)
<b>Adj. PAT</b>	<b>2,448</b>	<b>2,471</b>	<b>3,203</b>	<b>3,093</b>
<b>Avg. Shares O/S (m)</b>	<b>416.2</b>	<b>416.2</b>	<b>416.2</b>	<b>416.2</b>
<b>EPS (Rs.)</b>	<b>5.9</b>	<b>5.9</b>	<b>7.7</b>	<b>7.4</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	(3,191)	7,077	3,195	6,959
C/F from Investing	(499)	157	(500)	(344)
C/F from Financing	1,389	(3,089)	(3,892)	(4,925)
Inc. / Dec. in Cash	(2,302)	4,146	(1,197)	1,689
Opening Cash	4,321	2,019	6,164	4,968
Closing Cash	2,019	6,164	4,968	6,657
FCFF	(6,591)	7,581	4,412	6,384
FCFE	(4,212)	5,972	1,446	2,384

**Key Financial Metrics**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	(26.0)	37.8	19.8	(5.7)
EBITDA (%)	0.4	3.9	13.5	(3.6)
PAT (%)	(0.3)	0.9	29.7	(3.4)
EPS (%)	(0.3)	0.9	29.7	(3.4)
<b>Profitability</b>				
EBITDA Margin (%)	18.0	13.6	12.9	13.2
PAT Margin (%)	5.8	4.3	4.6	4.7
RoCE (%)	7.0	6.9	6.2	9.1
RoE (%)	18.0	16.4	20.0	17.8
<b>Balance Sheet</b>				
Net Debt : Equity	1.8	1.2	1.1	0.7
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	13.3	13.2	10.2	10.6
P / B (x)	2.3	2.1	2.0	1.8
EV / EBITDA (x)	7.7	6.7	5.7	5.2
EV / Sales (x)	1.4	0.9	0.7	0.7
<b>Earnings Quality</b>				
Eff. Tax Rate	35.5	36.9	54.8	33.7
Other Inc / PBT	—	—	—	—
Eff. Depr. Rate (%)	5.8	6.0	6.0	6.0
FCFE / PAT	(172.1)	241.7	45.1	77.1

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	14,358	15,761	16,322	18,489
Total Debt	27,412	25,803	22,837	18,837
Other Liabilities	2,933	2,457	2,457	2,457
<b>Total Liabilities</b>	<b>44,704</b>	<b>44,021</b>	<b>41,616</b>	<b>39,783</b>
Net Fixed Assets	30,602	28,198	25,413	22,437
Goodwill	3,290	2,937	2,937	2,937
Investments	631	1	1	1
Net Current Assets	10,182	12,885	13,265	14,408
Cash & Equivalents	2,019	6,164	4,968	6,657
Other Current Assets	14,721	14,560	16,779	16,011
Current Liabilities	6,558	7,840	8,482	8,259
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>44,704</b>	<b>44,021</b>	<b>41,616</b>	<b>39,783</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>8,451</b>	<b>11,838</b>	<b>16,532</b>	<b>18,052</b>
<b>EBITDA</b>	<b>1,496</b>	<b>1,991</b>	<b>2,155</b>	<b>2,125</b>
% of revenue	17.7	16.8	13.0	11.8
Depr. & Amortization	652	659	705	736
Net Interest	219	242	248	289
Other Income	—	—	—	—
<b>Profit before Tax</b>	<b>566</b>	<b>1,181</b>	<b>1,023</b>	<b>1,974</b>
Total Tax	5	360	463	239
<b>Profit after Tax</b>	<b>677</b>	<b>637</b>	<b>917</b>	<b>(12)</b>
<b>Adj. PAT</b>	<b>619</b>	<b>729</b>	<b>738</b>	<b>862</b>

**Key Operating Metrics**

Y/e March	2010	2011	2012E	2013E
Fertilizers Sales (Rs m)	22,408	24,142	29,391	29,690
Trading Sales (Rs m)	7,611	16,069	18,961	15,169
Shipping Sales (Rs m)	2,766	2,846	3,984	3,984
Fertilizers EBIT (%)	17.0	15.0	16.8	15.6
Trading EBIT (%)	2.9	5.8	6.6	5.0
Shipping EBIT (%)	20.7	19.2	(0.8)	0.7

Source: Company Data, PL Research.