

Chambal Fertilisers & Chemicals Ltd_(CHMB IN)

Continue to outpace industry growth

INDIA | AGRICULTURE INPUTS | Quarterly Update

30 July 2020

Top takeaways from Q1FY21

- ✓ Consolidated revenue (Rs 32.18bn; +13%/+63% yoy/qoq) was in line with our estimates, led by robust sales volumes (+31%/+73% yoy/qoq) for urea and non-urea fertilisers.
- ✓ EBITDA margin was 18.3%, +230bps vs. our estimates largely led by lower operating expenses (power and fuel) and employee cost. EBITDA at Rs 5.90bn, was +13% vs. estimates.
- ✓ PAT (Rs 2.98bn, +76%/+56% yoy/qoq), beat our estimates by only 5% due to higher tax rates (36%). Adjusted PAT was at Rs 3.47bn, +22% vs. estimates after considering normal tax rate of 25.2%.

Conference call highlights

- ✓ CHMB's production, dispatches, sales, and market collections during quarter were largely unaffected by covid-19. All plants were operating at normal levels.
- ✓ In Q1FY21, urea sales volumes were up 23%/42% yoy/qoq to 0.89mn tonnes, primarily supported by strong kharif consumption and advance buying. Sales volumes growth was also substantially higher for P&K fertilisers (53%/248% yoy/qoq) led by better consumption.
- ✓ CHMB was able to gain c.20% market share for DAP in its prime states such as Rajasthan, MP, Punjab, UP, Haryana, Bihar, etc. It expects consumption of non-urea grades to continue growing in H2FY21 led by better kharif and robust rabi season.
- ✓ The company is gradually gaining market share in non-urea business on a large base of existing urea sales. It expects trading margins to remain better in FY21 compared to FY20.
- ✓ Pooled gas prices in Q1FY21 were at US\$7.1/mmbtu vs. US\$13.1/mmbtu last year. CHMB expects lower gas prices to reduce its working capital requirement and help expand margins even further.
- ✓ In Q1FY21, IMACID (joint venture) contributed Rs 112mn (vs. Rs49mn last year) due to rising phosphoric acid prices. The company expects contribution to remain better in FY21.
- ✓ Loan outstanding was at Rs89.3bn, a decline of 14% qoq with a reduction in working capital loans. CHMB expects debt repayment of c. Rs7-10bn in FY21.
- ✗ Subsidy outstanding was Rs53.9bn (34%/32% yoy/qoq) by June 2020. Higher outstanding was due to better sales volumes and limited subsidy receipts from the government.
- ✓ CHMB is looking various options for a faster growth in the coming years such as: (1) Focusing on agrochemicals and micronutrients segments; (2) increasing non-urea trading volumes substantially into its non-traditional market; (3) foray into manufacturing of P&K fertilisers by drawing on its JV with IMACID.

Outlook and valuation: CHMB's Q1FY20 performance was ahead of our estimates. Better kharif demand with advance buying across product categories supported volumes in Q1. High volume growth could be challenging in Q2 due to a large base of last year. However, better outlook for monsoon and robust rabi season augurs well for CHMB to maintain its annual growth momentum. Subsidy receivables from the government remain a near-term challenge for the fertiliser sector, including CHMB. We value the stock at Rs200 (earlier Rs 190), which discounts our FY22 EV/EBITDA by 7x. We remain positive on CHMB and maintain BUY.

BUY (Maintain)

CMP RS 157/ TARGET Rs 200 (27%)

SEBI CATEGORY: SMALL CAP

COMPANY DATA

O/S SHARES (MN) :	416
MARKET CAP (RSBN) :	65
MARKET CAP (USDBN) :	0.9
52 - WK HI/LO (RS) :	185 / 93
LIQUIDITY 3M (USD MN) :	2.7
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 20	Mar 20	Dec 19
PROMOTERS :	59.8	59.0	58.9
FII / NRI :	7.7	7.9	7.8
FI / MF :	15.6	15.4	15.8
NON PRO :	5.8	6.3	6.1
PUBLIC & OTHERS :	11.1	11.4	11.5

KEY FINANCIALS

Rsmn	FY20	FY21E	FY22E
Net Sales	122,060	121,432	120,002
EBIDTA	19,644	20,104	20,162
Net Profit	11,837	10,763	11,069
EPS, Rs	23.1	25.9	26.6
PER, x	5.5	6.1	5.9
EV/EBIDTA, x	8.0	7.1	6.5
ROE, %	33.4	23.8	20
Debt/Equity (%)	266	178	131

CHANGE IN ESTIMATES

Rsbm	Revised Est.		% Revision	
	FY21E	FY22E	FY21E	FY22E
Revenue	121,432	120,002	1.1	(0.2)
EBITDA	20,104	20,162	4.0	2.9
Core PAT	10,763	11,069	8.2	6.6
EPS (Rs)	25.9	26.6	8.2	6.6

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(Rsbm)	Q4FY20	Q4FY19	yoy growth %	Q3FY20	qoq growth %	vs. expectations %	Comments
Revenue	32,187	28,547	12.8	19,691	63.5	(1.4)	Robust volumes growth supported revenue by 13% yoy
EBITDA	5,902	4,463	32.2	2,793	111.3	12.5	
EBITDA Margin %	18.3	15.6		14.2			Falling gas price helped to boost margins
PAT (adj)	3,474	2,060	68.6	761	356.4	22.3	
PAT Margin %	10.8	7.2		3.9			
EPS (adj)	8.3	5.0	68.6	1.8	356.4	22.3	

Consolidated Quarterly Result

Rsmn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
Net Sales	26,109	28,547	35,661	38,320	19,691	32,187	63.5	12.8
RM costs	12,972	16,325	20,967	22,937	8,664	18,875	117.8	15.6
% of sales	49.7	57.2	58.8	59.9	44.0	58.6		
Gross Profit	13,137	12,222	14,695	15,384	11,027	13,311	20.7	8.9
Gross Margin%	50.3	42.8	41.2	40.1	56.0	41.4		
Employee Expenses	359	377	471	373	438	433	-1.1	14.8
% of sales	1.4	1.3	1.3	1.0	2.2	1.3		
Other Expenses	8,597	7,382	8,648	8,186	7,796	6,977	-10.5	-5.5
% of sales	32.9	25.9	24.2	21.4	39.6	21.7	85.3	
EBITDA	4,181	4,463	5,576	6,825	2,793	5,902	111.3	32.2
EBITDA Margin (%)	16.0	15.6	15.6	17.8	14.2	18.3		
Other Income	829	256	449	74	287	274	-4.4	7.2
Depreciation	689	694	766	733	720	708	-1.7	2.0
Finance cost	1,191	1,322	1,497	1,099	1,133	977	-13.7	-26.1
Exceptional Item	1,973	-	-	-	(436)	-		
PBT	5,101	2,702	3,761	5,068	791	4,491	-84.4	66.2
Taxes	245	1,064	71	285	(403)	1,619	-501.7	52.2
Tax rate (%)	4.8	39.4	1.9	5.6	(51.0)	36.1		
PAT (Before MI/JV share)	4,857	1,639	3,689	4,783	1,194	2,872		
Share of MI/JV share	84	59	165	65	(157)	114		
PAT (Reported)	4,940	1,698	3,855	4,847	1,037	2,985	187.8	75.8
Net profit margin (%)	18.9	5.9	10.8	12.6	5.3	9.3		
PAT (adj)	2,519	2,060	2,979	3,857	761	3,474	356.4	68.6
EPS	11.9	4.1	9.3	11.6	2.5	7.2		
EPS (adj)	6.1	5.0	7.2	9.3	1.8	8.3	356.4	68.6
Paid up equity	4,162	4,162	4,162	4,162	4,162	4,162		

Source: Company, PhillipCapital India Research

Segmental revenue (consolidated)

Rsmn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
Fertiliser and other agri-inputs	26,109	28,547	35,501	38,320	19,691	32,187	63.5	12.8
% of sales	99.3	99.4	99.6	100.0	100.0	100.0		
Software and others	184	164	160	0	0	0	Na	Na
% of sales	0.7	0.6	0.4	-	-	-		
(-) Inter segment	-	-	-	-	-	-		
Revenue	26,292	28,711	35,661	38,320	19,691	32,187	63.5	12.1
PBIT								
Fertiliser and other agri-inputs	2,314	3,953	5,237	6,125	2,956	0	Na	Na
PBIT margin %	8.9	13.8	14.8	16.0	15.0	-		
Software and others	-66.6	-22.4	-31.9	-0.01	0.5	0	Na	Na
PBIT margin %	(36.2)	(13.6)	(19.9)					
PBIT	2,247	3,931	5,205	6,125	2,957	0		

Source: Company, PhillipCapital India Research

Sales volumes summary

Mn t	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
Urea (Gadepan I & II)	0.45	0.40	0.55	0.55	0.40	0.59	50.0	48.5
Urea (Gadepan III)	0.33	0.33	0.35	0.35	0.24	0.30	27.7	(8.5)
DAP/NPK/NPS	0.10	0.20	0.29	0.40	0.09	0.33	269.3	60.1
MOP	0.04	0.05	0.06	0.08	0.02	0.06	165.2	24.5
Total volumes	0.92	0.98	1.24	1.38	0.74	1.28	72.5	30.6

Source: Company, PhillipCapital India Research

Subsidy outstanding

Rsbm	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
Urea (Gadepan I & II)	26.3	22.9	17.1	17.4	23.8	25.1	5.7	10.0
Urea (Gadepan III)	9.7	11.1	15.2	14.8	20.5	20.4	(0.2)	Na
P&K Fertilisers	9.0	6.0	6.7	7.9	9.1	8.2	(10.0)	36.1
Others	0.2	0.2	0.2	0.2	0.2	0.1	(0.2)	(28.8)
(-) Receipt under SBA	7.0	-	-	-	12.7	-	Na	Na
Total	38.2	40.2	39.2	40.2	40.8	53.9	32.3	34.0

Source: Company, PhillipCapital India Research, Standalone

Loan outstanding

Rsbm	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
Long term loans (Fertiliser)	1.0	1.0	1.0	-	-	-	Na	Na
Long term loans (Gadepan III)	42.8	46.5	46.7	46.1	46.8	46.7	(0.2)	0.5
Term loan shipping	-	-	-	-	-	-	Na	Na
Working capital loan	41.6	40.9	38.1	29.0	36.6	42.5	16.3	4.1
(+) Short borrowing via SBA	7.0	-	-	-	12.7	-	Na	Na
Total	92.5	88.4	85.8	75.1	96.1	89.3	(7.1)	1.0

Source: Company, PhillipCapital India Research, Standalone

Financials

Income Statement

Y/E Mar, Rsmn	FY19	FY20e	FY21e	FY22e
Net sales	101,774	122,060	121,432	120,002
Growth, %	35	20	-1	-1
Total income	101,774	122,060	121,432	120,002
Raw material expenses	-60,818	-68,893	-69,826	-69,106
Employee expenses	-1,665	-1,560	-1,894	-1,824
Other Operating expenses	-27,012	-31,962	-29,608	-28,909
EBITDA (Core)	12,279	19,644	20,104	20,162
Growth, %	54.2	60.0	2.3	0.3
Margin, %	12.1	16.1	16.6	16.8
Depreciation	-1,441	-2,869	-2,964	-3,023
EBIT	10,838	16,776	17,140	17,139
Growth, %	52	55	2	0
Margin, %	11	14	14	14
Interest paid	-2,525	-5,026	-4,397	-3,977
Other Non-Operating Income	828	1,066	850	840
Non-recurring Items	-1,973	436	0	0
Pre-tax profit	8,334	13,281	14,178	14,586
Tax provided	-2,486	-1,014	-3,421	-3,524
Profit after tax	5,848	12,266	10,756	11,062
Others (Minorities, Associates)	54	6	6	6
Net Profit	5,902	12,273	10,763	11,069
Growth, %	59	50	-9	3
Net Profit (adj)	7,875	11,837	10,763	11,069
Unadj. shares (m)	416	416	416	416
Wtdavg shares (m)	416	416	416	416

Balance Sheet

Y/E Mar, Rsmn	FY19	FY20e	FY21e	FY22e
Cash & bank	811	1,675	2,381	6,923
Debtors	48,274	55,631	51,567	50,960
Inventory	13,231	11,356	12,310	12,165
Other current assets	2,734	4,588	4,588	4,588
Total current assets	65,050	73,252	70,847	74,637
Investments	2,757	2,172	2,172	2,172
Gross fixed assets	71,597	73,009	74,105	75,587
Less: Depreciation	-3,151	-6,019	-8,983	-12,007
Add: Capital WIP	1,086	850	850	850
Net fixed assets	69,533	67,840	65,971	64,430
Non-current assets	1,110	390	390	390
Total assets	139,261	145,327	141,053	143,301
Current liabilities	64,916	66,409	59,326	58,459
Provisions	412	489	489	489
Total current liabilities	65,328	66,898	59,815	58,948
Non-current liabilities	46,080	44,118	37,118	30,118
Total liabilities	111,408	111,016	96,933	89,066
Paid-up capital	4,162	4,162	4,162	4,162
Reserves & surplus	24,670	31,231	41,040	51,155
Shareholders' equity	27,853	34,311	44,120	54,235
Total equity & liabilities	139,261	145,327	141,053	143,301

Cash Flow

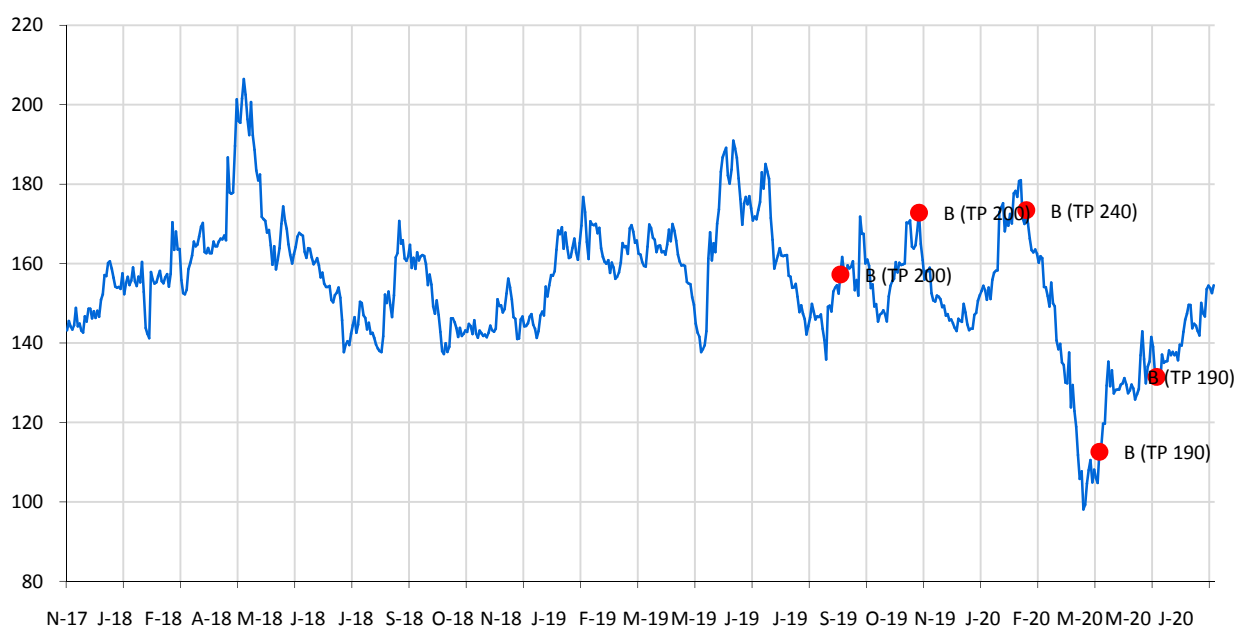
Y/E Mar, Rsmn	FY19	FY20e	FY21e	FY22e
Pre-tax profit	9,140	12,815	13,593	14,001
Depreciation	1,441	2,869	2,964	3,023
Chg in working capital	-12,041	-11,979	2,939	-114
Total tax paid	-2,920	-3,748	-3,421	-3,524
Cash flow from operating activities	-4,379	-43	16,075	13,386
Capital expenditure	-18,025	-1,176	-1,095	-1,482
Chg in investments	-686	585	0	0
Cash flow from investing activities	-17,545	-560	-510	-897
Free cash flow	-21,924	-603	15,565	12,489
Debt raised/(repaid)	26,109	6,840	-13,912	-7,000
Other financing activities	-4,098	-953	-953	-953
Cash flow from financing activities	21,958	5,791	-14,859	-7,947
Net chg in cash	34	5,188	706	4,543

Valuation Ratios

	FY19	FY20e	FY21e	FY22e
Per Share data				
EPS Adj (INR)	17.3	23.1	25.9	26.6
Growth, %	59.0	50.3	-9.1	2.8
Book NAV/share (INR)	69.3	85.0	108.6	132.9
CEPS (INR)	20.7	30.0	33.0	33.9
Return ratios				
Return on assets (%)	7.2	12.1	10.6	10.6
Return on equity (%)	27.3	33.4	23.8	20.0
Return on capital employed (%)	16.0	24.0	23.2	22.4
Turnover ratios				
Asset turnover (x)	1.0	1.0	1.0	1.0
Sales/Total assets (x)	0.9	0.9	0.8	0.8
Sales/Net FA (x)	1.7	1.8	1.8	1.8
Working capital/Sales (x)	(0.0)	0.0	0.1	0.1
Receivable days	173.1	166.4	155.0	155.0
Inventory days	47.5	34.0	37.0	37.0
Payable days	40.3	19.3	19.3	19.3
Working capital days	(3.6)	14.3	26.4	27.0
Liquidity ratios				
Current ratio (x)	1.0	1.1	1.2	1.3
Quick ratio (x)	0.8	0.9	1.0	1.1
Interest cover (x)	4.3	3.3	3.9	4.3
Total debt/Equity (%)	302.8	266.0	177.5	131.2
Net debt/Equity (%)	300.0	261.3	172.2	118.7
Valuation				
PER (x)	8.3	5.5	6.1	5.9
Price/Book (x)	2.3	1.8	1.4	1.2
EV/Net sales (x)	1.5	1.3	1.2	1.1
EV/EBITDA (x)	12.4	8.0	7.1	6.5
EV/EBIT (x)	14.0	9.4	8.4	7.6

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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