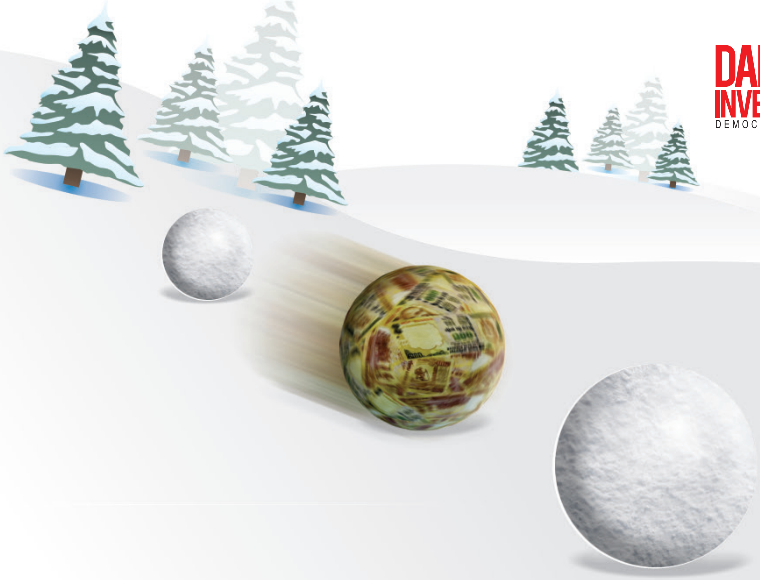

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MID BRIDGE
THE MIDCAP MARVEL

May 2020

COMPANY NAME	:	**Chambal Fertilisers & Chemicals**
BSE Code	:	**500085**
Time Duration	:	**1 year**
CMP	:	**₹141.50 (as on 21 May., 2020)**
Target Price	:	**₹175**

Mid Bridge recommendation for the month of May is Chambal Fertilisers & Chemicals Limited. It manufactures urea-based fertilisers and di-ammonium phosphate (DAP). These are the two very important types of fertilisers that are used in India due to lower to medium phosphorus and nitrogen presence in the soil. Urea fertilisers drive demand from their cost effectiveness while, DAP fertilisers use their chemical property of 'ready to use' nature for the same.

The fertiliser sector is an important part of the economy and also very regulated. This makes it a safe area of investment. On the company specific level, Chambal Fertiliser & Chemicals has strong promoters and market presence.

Established position

It has a total manufacturing capacity of 3.03 million metric tonnes per annum (MMTPA). This includes the newly-added 1.34 MMTPA of capacity in Gadepan (Rajasthan). This makes up to 12.67 per cent of the total urea production in India. The sales of urea in the country stood at the levels of 31.72 million MT while, the company made sales of 2.5 MMT. This depicts that the company drives its growth from such a high scale capacity, which also stands out amongst its private peers.

Supportive regulatory environment

The fertiliser sector in India is a highly regulated one. There are different schemes & policies for urea and other fertilisers such as 'New Urea Investment Policy'. The major aim of these policies is to promote domestic urea production and energy efficiency in urea production. The policy implements that subsidy should be disbursed without any delay and reduce the energy-based subsidy norms.

As per the last reported annual report of the company, its overall specific energy consumption stood at 5.357 Gcal/MT of urea as against the policy, which gave target energy norms for the year 2018-19 to 5.5 G Cal/MT, making it a clear beneficiary of the subsidy. It's the new urea, which is more energy efficient in comparison to the existing plants, giving a higher scope of subsidy support.

Timely capex

The completed major brownfield urea capacity expansion plan in the early 2019 stood at Rs 5,762.05 crore as of the end of FY19, which was funded by debt and equity mix. The stock price reacted somewhat negatively due to the anticipation of higher working capital needs and fears of delay in subsidy payments. Though, as Gadepan plant has started contributing in terms of sales and production during the current fiscal year, we expect that the top-line growth would be stronger i.e. in double digits. After the recent lockdown, more emphasis will be put on the agricultural sector, resulting in higher output. Agricultural sector contributes the highest in terms of GDP hence; the output from this segment would certainly create a huge impact on economy revival. The newly-added capacity of the company will certainly help it in gaining more market share.

Healthy business environment

Urea-based fertilisers have seen an import pressure and stiff competition due to the international urea prices. Lower international urea price encourages the imports due to price benefits. Recent government data on production, demand and price trend gives hope of positive to stable business amid the lockdown and challenging times like the ongoing pandemic. The urea prices have remained range-bound between USD 250 per MT to USD 260 per MT, on year-to-date basis. The DAP fertilisers actually saw the prices touch USD 313 for each MT from USD 296 per MT at the end of March 2020. In addition to this, the production being energy efficient has remained competitive against urea imports.

Financial performance

The company has seen single digit sales growth over the last three years. Slow growth rate was largely attributed to the low price realisations and lower capacity. After its new capacity, the trend can be expected to change. The demand for urea-based fertilisers have always been there and now with nearly double capacity, the sales growth will certainly achieve higher double digit rate in the recent future.

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The net profit, though, grew at CAGR of 25 per cent over the last three years, along with an operating margin at 16 per cent.

Valuations & outlook

The stock is currently trading at PE multiple of 4.4x and TTM EPS of Rs 26. The stock is trading at 0.44 times of its annual sales, which is very attractive valuations. Though, there are 21 per cent declines in urea sales in both March and April, we may expect sales drop of more than 40 per cent, which is already discounted currently. Owing to the fears leverage of the newly-added capacity and a drop in the sales due to the lockdown, the stock price tanked nearly 45 per cent in March 2020.

The newly-added capacity would be a key for value unlocking of the company. In the current as well as the next fiscal, we may see volume growth for urea and DAP due to the supportive regulatory scenario. Further, a healthy cash generation can be achieved on the back of higher capacity. Hence, we recommend BUY the scrip with a price target of Rs 175.

Inc/Exp Statement (Consolidated)					
Description	201903	201803	201703	201603	201503
Net Sales	10177.49	7609.59	7553.45	9007.95	9737.74
Total Income	10284.80	7751.07	7697.15	8964.26	9843.29
Total Expenditure	8972.88	6798.81	6878.64	8251.86	9003.66
PBIDT	1311.92	952.25	818.51	712.40	839.63
PAT	468.17	456.16	356.25	106.08	279.52
Dividend %	20.00	19.00	19.00	19.00	19.00
Adj. EPS(Rs)	14.18	11.99	8.70	5.31	7.12

Quarter On Quarter (Consolidated)					
Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	3832.04	3566.14	7.46	2807.21	36.51
Total Expenditure	3149.55	3008.58	4.69	2449.18	28.6
PBIDT (Excl OI)	682.49	557.56	22.41	358.03	90.62
PAT	478.27	368.93	29.64	130.04	267.79
PBIDTM% (Excl OI)	17.81	15.63	13.95	12.75	39.69
PBIDTM%	18.00	16.89	6.57	9.24	94.81
PATM%	12.48	10.35	20.58	4.63	169.55
Adj. EPS(Rs)	11.54	9.19	25.57	3.87	198.19