



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Head of research: Kunal Bhatia 022 67141442

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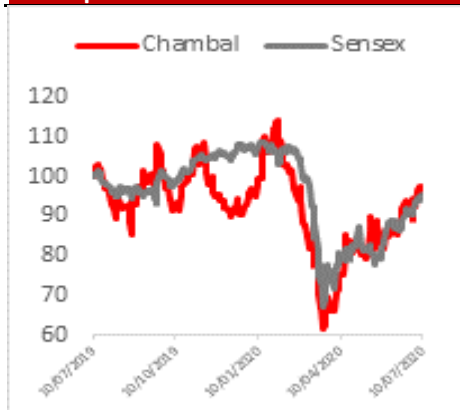
BUY

Current Price	155
52 Week Range	219
Upside/Downside	41%
52W range	186/95

Key Share Data

Market Cap (Rs.bn)	65
Market Cap (US\$ mn)	918
No of o/s shares (mn)	416.2
Face Value	10
Monthly Avg. vol (BSE & NSE) Nos'000	1844
BSE Code	500085
NSE Code	CHAMBALFERT
Bloomberg	CHMB IN

Price performance



% Shareholding

	Mar-20	Dec-19
Promoters	59.8	59.0
Public	40.2	41.0
Others	0.00	0.00
Total	100.0	100.0

Financials (Rs. Mn)

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY19	100,945.2	35.2	12,127.8	12.0	4,822.1	1.2	16.3	9.5	17	8
FY20	122,059.0	20.9	19,023.6	15.6	12,236.6	153.8	26.9	5.8	21	11
FY21E	129,382.5	6.0	20,339.1	15.7	10,814.4	(11.6)	26.0	6.0	20	12
FY22E	129,068.7	(0.2)	20,847.5	16.2	11,420.7	5.6	27.4	5.6	20	12

Chambal Fertilizers is one of the largest private sector fertilizer producers in India. It is promoted by Zuari Industries Limited in the year 1985. With state of the art Gadepan-III plant overall capacity has increased to 3.5mtpa. Chambal is likely to benefit from efficient energy consumption over the period. Further reduced gas price is likely to reduce working capital requirement for the company. **The company plans to reduce its debt: equity ratio from current 2.7x to 1.3x over next two years. We are positive on the prospects of Chambal Fertilisers and expect cheap valuations to lead to re-rating of the stock.**

Macro Outlook: 2020 has been a year of turmoil including but not limited to the ongoing pandemic. Despite this, domestically there are sprouts of good news such as expected good rainfall, a very good sowing and harvest of Kharif crop, and the rural India being comparatively less impacted by the pandemic. **Due to this, it is expected that Chambal will witness good volume numbers during the current financial year.**

Volume to increase by 6%: In FY21E company is expected to post volume growth of 6% driven by increased production at Gadepan-I and Gadepan-II plant. Overall volume is expected at 3.4mt for FY21E. Apart from this if the company gets government approval to operate at higher capacity then it can increase Gadepan-III capacity by 10%. It will further improve production by 1.2lakh tonnes.

Reduced gas Price to reduce working capital requirement: Reduction in international gas prices has reduced pooled gas price by \$2/t. This is likely to reduce Chambal's gas price by \$2/t in FY21E. Reduced gas price is likely to reduce working capital requirement for Chambal by Rs10bn in FY21E. As overall cost of debt for the company is 5.3% this is likely to reduce Chambal's interest cost by Rs530mn.

Focus on debt reduction: Chambal has debt: equity ratio of 2.7x in FY20. Long term debt of the company stands at Rs44bn. Management plans to reduce debt: equity ratio to 1x over next two years. Overall, it plans to repay Rs6bn debt every year. Strong cash flows are likely to facilitate debt repayment. This is likely to save around Rs300mn on interest cost in FY21E.

Outlook & Valuation: We expect Chambal to post volume growth of 6% in FY21E at 3.4mnt. Reduced working capital requirement and debt repayment is likely to reduce interest cost by Rs800mn during the year. This is likely to improve PBT by 12% yoy in FY21E. We expect Chambal to post EPS of Rs26 in FY21E and Rs27.4 in FY22E. At CMP the stock is trading at 6x FY21E and 5x FY22E earnings respectively. We feel current valuations compelling and expect it to get re-rated. **We value Chambal at 8x FY22E and recommend 'BUY' with target price of Rs219 offering 41% upside.**



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