



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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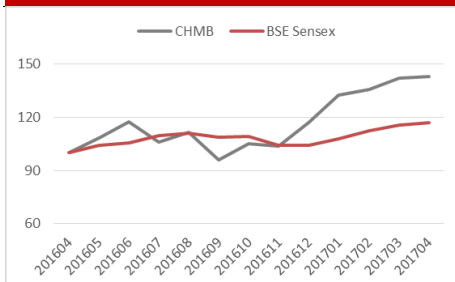
BUY

Current Price	86
Target Price	134
Upside/Downside	55%
52 Week Range	Rs91/54

Key Share Data

Market Cap (Rs.bn)	36.9
Market Cap (US\$ mn)	567
No of o/s shares (mn)	416
Face Value	10.0
Monthly Avg.vol (BSE+NSE) Nos'000	1128
BSE Code	500085
NSE Code	CHAMBLFERT
Bloomberg	CHMB IN Equity

Price performance



% Shareholding	Dec-16	Sep-16
Promoters	57.8	57.3
Institutions	18.9	19.9
Non-Institution	23.3	22.8
Total	100.0	100.0

We are positive on Chambal Fertilisers & Chemicals because we like company's strategy to build the capacity at the right time, which will be reflected in strengthening leadership position in Indian Urea sector. Chambal is well-placed post FY20, to reap the benefits of the reforms such as Direct Benefit Transfer of fertiliser subsidy and possible steps towards removing price regulations on Urea in the long term.

Capex to meet Structural Demand Supply Gap

No new capacities were added during last 16 years except revamp of few existing plants. This has resulted into increasing dependence on imports. With a view to capture this gap, and Government's favourable New Investment Policy, Chambal is setting up a 1.34mn MT brownfield ammonia-urea plant at a capex of Rs 60bn. As per the NIP 2012, the new plant would earn an EBITDA per ton of \$ 130; driven by floor realization of \$ 285 per ton.

It is proposed that only those units whose production starts within five years from the date of notification of the policy would be covered under the policy. The dispensation of guaranteed buy-back under this policy will be available to the units for a period of eight years from the date of start of production. Hence, we are confident that Chambal will start the production by January 2019 as per the deadline.

Outlook & Valuation

We value the company's standalone business based on long term Discounted Cashflow method using FCF model as there exists regulatory clarity on the assured profitability for initial 8 years of the project. With the government introducing DBT (Direct Benefits Transfer), we believe that companies across the sector are likely to benefit in terms of working capital cycle. Chambal Fertiliser has timed its capex to perfection, in our opinion, company will have its new capacity commissioned, by the time the DBT implementation is normalized across the country over next 3 years. We have assumed 10% EBITDA margins during FY18-19 as against 11% in 9MFY17 on a conservative basis.

At CMP, stock trades at 7.9x FY19 EPS of Rs 10.9 which seems expensive being a regulated commodity business, however, company is expected to double its earnings over FY19-21, driven by new plant commissioning. On FY21E EPS of Rs 21.5, the stock trades at 4.0x.

At our derived intrinsic valuation of the stock of Rs 134, it should trade at 6.2x on FY21E EPS. As per our estimates, company can deliver FCF yield of 30%+ from FY21 onwards. Thus, valuations are attractive if an investor has 3-year view. Recommend BUY.

Key Financials (Rs mn) – Standalone

Year	Net Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY15	88821.4	11%	7035.9	7.9%	2367.8	-22%	8.31	10.4	14.8%	11.0%
FY16	95363.0	7%	7727.0	8.1%	862.9	-64%	10.96	7.8	19.6%	10.7%
FY17E	79461.4	-17%	8132.9	10.2%	4087.5	374%	9.82	8.8	15.5%	10.5%
FY18E	84345.1	6%	8440.2	10.0%	4233.6	4%	10.17	8.5	13.9%	8.5%
FY19E	89916.5	7%	8931.9	9.9%	4544.2	7%	10.92	7.9	13.1%	7.1%



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Investment Arguments

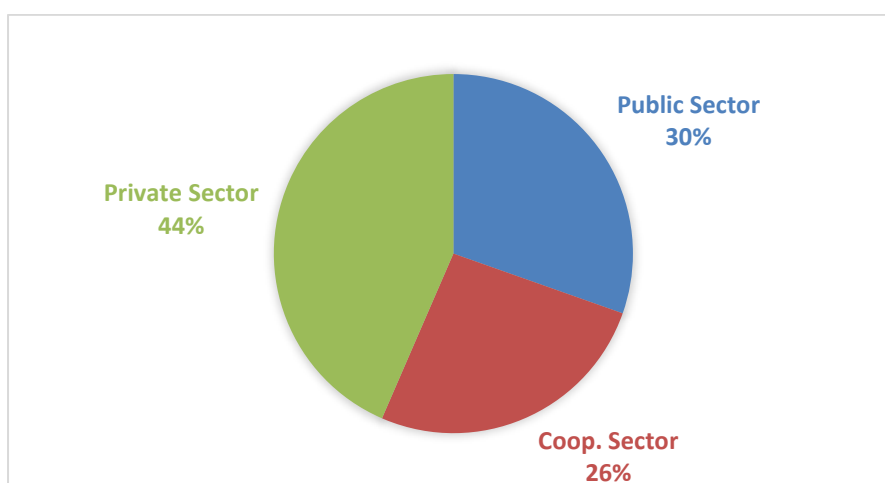
Capex to meet Structural Demand Supply Gap

Assuming 2.5% p.a. growth in Urea demand, total demand for India is expected to reach 354 Lac MT by FY20 – assuming production grows at slower pace of 1% p.a., import dependence could rise to ~99 lac MT. Urea availability is closely linked to the food security of the country. Inputs for all other fertilisers except Urea lie outside India, making the self-sufficiency impossible therein. However, self-sufficiency is necessary in the fertilizer sector and the urea is one sector where it is feasible for Government to achieve the same expeditiously. Therefore, it is prudent to encourage domestic urea capacity addition and pool gas prices to make such investments viable. Following this announcement and the new investment policy notification, Chambal and RCF have firmed up plans to set up urea capacities.

In company's marketing area, import dependence is expected to be around 40 Lac MT of Urea. This can very well absorb the additional production from the new plant set up by the company.

Urea (Lac MT)	FY15	FY16	FY17	FY18	FY19	FY20
Production	226	245	247	250	252	255
Demand	309	320	328	337	345	354
Deficit (Imports)	83	75	81	87	93	99

Source: Company, Dalal & Broacha Research, DoF



Urea (Lac MT)	Installed Capacity		Production		Capacity Utilisation
	FY16	FY15	FY15	FY16	FY16
Public Sector	63.09	69.29	69.29	70.73	112%
Coop. Sector	54.19	63.51	63.51	67.07	124%
Private Sector	90.25	93.05	93.05	106.9	118%
	207.53	225.85	225.85	244.7	118%

Source: Company, Dalal & Broacha Research, DoF



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Market Share of Urea Companies in India

Unit	Location	Sector	Capacity (MT)	% Market Share
Brahmaputra Valley Fertilizers (BVFCL) - Namrup-2	Assam	Public	240000	1.2%
Brahmaputra Valley Fertilizers (BVFCL) - Namrup-3	Assam	Public	315000	1.5%
National Fertilizers Limited (NFL)- Vijaipur 1	Madhya Pradesh	Public	864600	4.2%
National Fertilizers Limited (NFL)- Vijaipur 2	Madhya Pradesh	Public	864600	4.2%
National Fertilizers Limited (NFL)- Nangal	Punjab	Public	478500	2.3%
National Fertilizers Limited (NFL)- Panipat	Haryana	Public	511500	2.5%
National Fertilizers Limited (NFL)- Bhatinda	Punjab	Public	511500	2.5%
Rashtriya Chemicals & Fertilizers (RCF) - Thal	Maharashtra	Public	1706897	8.2%
Rashtriya Chemicals & Fertilizers (RCF) - Trombay	Maharashtra	Public	330000	1.6%
Madras Fertilizers Limited (MFL)- Manali	Tamil Nadu	Public	486750	2.3%
Sub Total			6309347	30.4%
Nagarjuna Fertilizers & Chemicals (NFCL)-Kakinada1	Hyderabad	Private	597300	2.9%
Nagarjuna Fertilizers & Chemicals (NFCL)-Kakinada2	Hyderabad	Private	597300	2.9%
Chambal Fertilizers & Chemicals (CFCL)-Gadepan 1	Rajasthan	Private	864600	4.2%
Chambal Fertilizers & Chemicals (CFCL)-Gadepan 2	Rajasthan	Private	864600	4.2%
TATA Chemicals Limited(TCL)- Barbala	Uttar Pradesh	Private	864600	4.2%
KribhcoShyam Fertilizers Limited (KSFL)- Shahjahanpur	Uttar Pradesh	Private	864600	4.2%
Kanpur Fertilizers & Chemicals Limited (KFCL)- Kanpur	Uttar Pradesh	Private	722000	3.5%
Shriram Fertilizer Limited (SFL)- Kota	Rajasthan	Private	379500	1.8%
Zuari Agro Chemicals Limited (ZACL)- Goa	Goa	Private	399300	1.9%
Gujarat Narmada Valley Fertilizers (GNFVC) -Bharuch	Gujarat	Private	636900	3.1%
Gujarat State Fertilizers & Chemicals (GSFC)- Vadodara	Gujarat	Private	370590	1.8%
Indo-Gulf Fertilizers Limited - Jagdishpur	Uttar Pradesh	Private	864600	4.2%
Manglore Chemicals &Fertilizers - (MCFL)- Manglore	Karnataka	Private	379500	1.8%
Southern Petrochemicals Industries (SPIC)- Tuticorin	Tamil Nadu	Private	620400	3.0%
Sub Total			9025790	43.5%
Indian Farmers Fertilizers Corporative (IFFCO) -Aonla1	Uttar Pradesh	Coop.	864600	4.2%
Indian Farmers Fertilizers Corporative (IFFCO) -Aonla2	Uttar Pradesh	Coop.	864600	4.2%
Indian Farmers Fertilizers Corporative (IFFCO) -Phulpur-1	Uttar Pradesh	Coop.	551100	2.7%
Indian Farmers Fertilizers Corporative (IFFCO) -Phulpur-2	Uttar Pradesh	Coop.	864600	4.2%
Indian Farmers Fertilizers Corporative (IFFCO) -Kalol	Gujarat	Coop.	544500	2.6%
KrishakBharti Cooperative (Kribhco) Hazira	Gujarat	Coop.	1729200	8.3%
Sub Total			5418600	26.1%
Grand Total			20753737	100.0%

Source: Company, Dalal & Broacha Research, DoF



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New Urea Policy 2012 – Salient Features

To reduce the dependence on imported Urea, Government of India announced NIP 2012. As per NIP 2012, Revenue from Urea units will be recognised as under –

Minimum Capex investment:- Rs 30bn

Brownfield expansion – Gas Linkage: -

At delivered gas price of \$ 6.5 per mmbtu

Floor Price: \$ 285 per MT of Urea

Ceiling Price: \$ 310 per MT of Urea

- Each \$ 0.10/mmbtu change in gas price upto \$ 14 /mmbtu will correspondingly change Floor and Ceiling price by \$ 2 per MT of Urea
- Each \$ 10/mmbtu change in gas price beyond \$ 14 /mmbtu will change the floor price by \$ 2 per MT of Urea
- The floor and ceiling prices are based on energy efficiency at 5 gcal/MT. In the event of gas prices > \$ 14 /mmbtu, units to be paid only the floor price
- Urea Revenue from each unit will be recognised at a uniform rate of 90% of IPP (import Parity Price) subject to floating Floor and Ceiling prices.

Time period for the investment policy:-

It is proposed that only those **units whose production starts within five years from the date of notification of the policy would be covered under the policy.** The dispensation of guaranteed buy-back under this policy will be available to the units for a period of eight years from the date of start of production. Hence, we are confident that Chambal will start the production by January 2019 as per the deadline.

Chambal has highest market share among private sector Urea manufacturers. Post completion of Capex, which will add 1.34 mn MT, taking the total capacity to more than 3.0 mn MT, further strengthening its leadership position in the industry.

Details of Capex Plans – Gadepan -3

Gas Cost	\$ 6.5 per ton	Total Project Investment	Rs 60bn
Input / Output Ratio	20x	Debt	Rs 48bn
Total Gas Cost per Ton	\$ 130 per ton	Equity	Rs 12bn
Conversion Cost (Including Manpower/Admin)	\$ 25 per ton	Equity Arrangement (A+B)	
Total Cost	\$ 155 per ton	A. Cash Generation FY17E	Rs 6.5bn
Realisation (Assured by Govt for 8 years)	\$ 285 per ton	B. Estimated Subsidy Receipt (25% of Outstanding Rs 21bn)	Rs 5.25bn
EBIDTA	\$ 130 per ton	Total	Rs 11.75bn



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Projections for Gadepan – 3 Capex

P&L Statement for Gadepan 3 Plant	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Capacity - Gadepan 3	1,340,000	1,340,000	1,340,000	1,340,000	1,340,000	1,340,000	1,340,000	1,340,000
Utilisation Rate	75%	80%	85%	85%	85%	85%	85%	90%
Production (Units)	1,005,000	1,072,000	1,139,000	1,139,000	1,139,000	1,139,000	1,139,000	1,206,000
Assured Urea Price (\$/ton)	285	285	285	285	285	285	285	285
Rs/\$ Assumption	68	68	68	68	68	68	68	68
Revenue	19,477	20,775	22,074	22,074	22,074	22,074	22,074	23,372
EBIDTA Per Ton	8,840	8,840	8,840	8,840	8,840	8,840	8,840	8,840
EBIDTA	8,884	9,476	10,069	10,069	10,069	10,069	10,069	10,661
% Margin	46%	46%	46%	46%	46%	46%	46%	46%
Depreciation	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333
Interest	3,102	2,886	2,612	2,309	1,991	1,658	1,308	940
PBT	2,449	3,257	4,124	4,426	4,744	5,078	5,428	6,387
TAX	808	1,075	1,361	1,461	1,566	1,676	1,791	2,108
PAT	1,641	2,182	2,763	2,966	3,179	3,402	3,637	4,280
ROE	13.6%	15.9%	17.4%	15.9%	14.7%	13.7%	12.9%	13.4%
Cash Profit (PAT+Depr)	4,974	5,515	6,096	6,299	6,512	6,735	6,970	7,613
Project Debt (Rs mn)	48,000	42,000	36,000	30,000	24,000	18,000	12,000	6,000
Working Capital Days	110	108	103	106	109	113	116	113
Working Capital Loans (Rs mn)	2,776	4,580	5,646	6,237	6,624	6,796	6,742	6,450

Source: Company, Dalal & Broacha Research

As per our estimates for Gadepan - 3 plant, will have healthy cashflows due to better profitability for initial 8 years as Government has assured post tax ROE of 12-18%. Further, new investments are given infrastructure status – implying company can access funds at lower cost from banks and on a priority basis, ease of raising funds from ECB route and certain tax concessions like exemption from IT for 10 years. We have assumed 75% utilization rate in FY20 and 80% utilization rate in FY21 as against company's target of 100% capacity utilization from FY20. Based on the cashflows generated by this project, by the end of initial eight year period, company would have almost repaid the debt taken for this expansion as per our estimates. Also, the energy efficiency of the new plant is expected to be far superior than existing industry standards – thereby reducing the performance sensitivity to RM costs in the long term.



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Sensitivity to Exchange Rate							
At Avg Rs / \$ (for FY20-27)	62	63	64	65	66	67	68
Avg EBIDTA Per Ton	8,060	8,190	8,320	8,450	8,580	8,710	8,840
Avg ROE	12.4	12.8	13.2	13.6	14.0	14.3	14.7
Avg Cash Profit / Assets	9.5	9.6	9.8	10.0	10.2	10.4	10.6

Update on the Capex Progress

Stage of Development	Details
A. Pre-feasibility Report	Completed
B. Techno Economic Feasibility Report & its approval	Completed in Sept-2015
C. Finalization of Project site	Completed at start of the project (being Brownfield project).
D. 1st Stage Environment Clearance from MoEF	Obtained from MOEF on 22-April-2010; Validity extended on 22-June-2015
E. Technology Evaluation and Selection or EPC (LSTK) bid preparation & Evaluation.	Completed in April-2011
F. Detailed/Bankable Project/Feasibility Report preparation and approval from the company's Board of Director.	Approval from Board of Directors was originally obtained in Jan-2013. Fresh approval was obtained in Nov-2015.
G. Environment Impact Assessment Report preparation and final clearance from MoEF	Obtained from MOEF on 22-April-2010; Validity extended on 22-June-2015
H. Raw Material and Utilities tie-up for the project	Natural gas - Term-sheet for supply of natural gas is signed with Gas Authority of India Limited (GAIL). Agreement is under finalization for execution. Raw water – Permission obtained from Water Resources Department, Jaipur for construction of low-height dams to augment storage in river bed.
I. Finalization of EPCM or EPC (LSTK) Contractor	Completed in Sept-2015.
J. Achieving Financial Closure	Achieved in March-2016.
K. Award of job to EPCM or EPC Contractor	Letter of Intent (LOI) was issued in Nov-2015.
L. Signing of Agreement between various agencies	Agreements were signed in Jan-2016.
M. Mobilization Advance to EPCM or EPC Contractor	Paid to OSBL contractor in Jan-2016 and to ISBL contract in March-2016.
N. Physical Progress Achieved - 25%	Achieved by 25-Sept-2016
O. Physical Progress Achieved – 50%	March-2017
P. Physical Progress Achieved – 75%	

Source: Company, Dalal & Broacha Research, DoF



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Other important points discussed on Capex Progress:

1. Toyo (which is awarded contract for implementation) has completed similar project in Indonesia and Nigeria on similar timelines. **Toyo has completed CFCL-2 project in 1999 ahead of time. Management targets to achieve 100% utilization by January -2019**
2. The efficiency of the plant 3 will be better due to higher capacity and selection of process equipment.
3. All the necessary arrangements are in place for new equipment required
4. 42.7% of the physical progress has been achieved as on Jan 2017. On an average, monthly progress of about 4% is expected by the management.
5. Management team reviews on weekly basis the detailed progress of pre-commissioning activities in the project schedule.
6. Company has taken insurance to minimize risk arising out of delays.
7. Packaging plant shall be ready by about 4 months prior to actual production from CFG3 plant. During this time, company shall do trial operations with production from existing plants.
8. Arrangements of Water: One Low-height structure is constructed on Parwan river and 2nd low-height structure construction on Kalisindh river is in progress (target completion June-2017)
9. Arrangements of Gas Pipeline: Although existing 2 gas pipelines are sufficient to supply additional gas to CFG3 plants, GAIL is planning 3rd pipeline from Burari (about 30 kms from Gadepan project site).
10. All clearances from OEF and State Pollution control board are in place.
11. Company aims to replace imported urea being distributed in northern states with CFG3 production.
12. About 150 nos employees will be required in Plant 3



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Key Assumptions - Standalone

P&L Assumptions	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Total Capacity	16.79	16.79	16.79	16.79	30.19	30.19	30.19
Capacity Utilisation (Gadepan -I & II)	127%	127%	127%	127%	127%	127%	127%
Capacity Utilisation (Gadepan -III)					75%	80%	85%
Overall Capacity Utilisation	127%	127%	127%	127%	104%	106%	108%
% Volume Growth	15%	0%	0%	0%	47%	2%	2%
Realisation Per Ton (Urea)	19,674	14,376	14,376	15,983	16,588	16,646	15,181
% change		-27%	0%	11%	4%	0%	-9%
EBIDTA margins (Standalone Company)	8.1%	10.2%	10.0%	9.9%	16.6%	16.5%	16.4%
Balance Sheet Assumptions	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Debtor Days	132	132	120	110	105	102	99
Inventory Days	30	40	35	33	30	33	33
Payable Days	21	20	25	25	25	25	25
Working Cap Cycle	142	152	130	118	110	110	107
Change in Working Capital / Net Sales	12%	-9%	-4%	-1%	6%	1%	1%
Debt/Equity	1.9	1.8	2.1	2.5	2.1	1.6	1.2
ROE Trajectory (Du Pont Analysis)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
PAT/PBT	0.74	0.67	0.67	0.67	0.67	0.67	0.67
PBT/PBIT	1.01	0.86	0.84	0.84	0.76	0.80	0.84
PBIT/Sales	0.06	0.09	0.09	0.09	0.13	0.13	0.13
Sales/Assets	1.32	1.02	0.85	0.71	0.90	0.96	1.01
Assets/Networth	3.10	2.94	3.28	3.63	3.15	2.67	2.31
ROE	19.6%	15.5%	13.9%	13.1%	18.9%	18.3%	17.6%
FCF/Current Mcap	-20%	18%	-69%	-59%	11%	29%	32%
Projected EPS	11.0	9.8	10.2	10.9	18.8	21.5	24.6

Source: Company, Dalal & Broacha Research



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Plans to exit Shipping Business

	FY11	FY12	FY13	FY14	FY15	FY16	9MFY17
Revenue	2848.3	3907.6	3096.7	5892.8	7214.5	7604.4	2337.6
% Growth		37.2%	-20.8%	90.3%	22.4%	5.4%	NA
EBIT	466.1	-204.8	-220.6	-135.2	393.9	1227.5	449.9
% EBIT Margin	16.4%	-5.2%	-7.1%	-2.3%	5.5%	16.1%	19.2%
Total Assets	14536.2	15390	15299	15631.3	15467.6	13928.4	7407.6
EBIT / Assets	3.2%	-1.3%	-1.4%	-0.9%	2.5%	8.8%	6.1%

Source: Company, Dalal & Broacha Research

Shipping has major segments like dry bulk, containers and tankers. Company owns and operates coated Aframax tankers and is engaged in transportation of crude oil / petroleum products. The Company also operates in-chartered ships depending upon its business needs. The Company has entered into an agreement for sale of vessel – Ratna Puja in March, 2016. The ship has been delivered to the buyer in April, 2016. This has resulted into provisioning of loss of Rs 1119.9mn in FY16.

9MFY17 performance has not been encouraging. As per the latest data available from the reported results, Shipping division achieved Time Charter Yield Equivalent (TCYE) of \$ 20600 per day in H1FY17 compared to \$ 23130 per day YoY (decline of 11%).

Shipping accounts for about 8% of its standalone revenues, while 6.5% of the company's EBIT, 12% of the Capital Employed and ~17% of the total debt. Company's board has approved plan to sell its shipping business. The proposed transaction will be consummated as and when the company receives commercially viable and acceptable offers. **We have not assigned any value to Shipping business. Based on financials, if the company is able to exit the Shipping business, ROCE of overall entity is likely to improve and management will be able to focus better on the core business.**

Outlook & Valuation

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At CMP, stock trades at 7.9x FY19 EPS of Rs 10.9 which seems expensive being a regulated commodity business, however, company is expected to double its earnings over FY19-21, driven by new plant commissioning. On FY21E EPS of Rs 21.5, the stock trades at 4.0x.

At our derived intrinsic valuation of the stock of Rs 134, it should trade at 6.2x on FY21E EPS. As per our estimates, company can deliver FCF yield of 30%+ from FY21 onwards. Thus, valuations are attractive if an investor has 3-year view. Recommend BUY.

Further, Chambal is likely to divest its non-core operations can act as an additional driver for its return ratios, which we have not factored-in. Possible steps towards removing price regulations on Urea in the long term, can act as a trigger for the sector and Chambal being the leader in the Urea, will benefit the most.



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Key Risks:

1. Delays in project execution.
2. Any unfavourable changes in urea investment policy,
3. Non-receipt or delays in outstanding subsidy leading to higher debt requirement for funding the equity part of urea capex.
4. Uncertainty regarding realization from sale of non-core businesses are the key risks to our argument.

DCF Based Valuation

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
EBIT Consol	5,303	6,123	7,129	7,486	8,028	15,264	16,677	18,184	19,821	21,604	23,549	25,668	26,952
% Growth		15.5%	16.4%	5.0%	7.2%	90.1%	9.3%	9.0%	9.0%	9.0%	9.0%	9.0%	5.0%
EBIT (I-T)	3669	4524	5116	5401	5790	11416	12260	13133	14315	15603	17008	18538	19095
Dep	-1733	-1604	-1004	-954	-904	-4187	-4137	-4087	-4037	-3987	-3937	-3887	-3837
	1936	2920	4112	4447	4886	7228	8123	9046	10278	11616	13070	14651	15257
Capex	-1316	320	-5000	-35000	-25000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000
Change in WC	4148	-11723	7238	3622	1252	-7049	-694	-833	-698	-719	-741	-763	-786
FCFF	4,768	(8,484)	6,349	(26,931)	(18,862)	(1,821)	5,428	6,212	7,579	8,897	10,330	11,888	12,471
FCFF Growth Rate		-278%	-175%	-524%	-30%	-90%	-398%	14%	22%	17%	16%	15%	5%
Weights				1	2	3	4	5	6	7	8	9	10
Cost of Capital %	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
			1.00	0.92	0.85	0.78	0.72	0.67	0.62	0.57	0.52	0.48	0.45
PV FCFF	-	-		(24,840)	(16,047)	(1,429)	3,929	4,147	4,667	5,053	5,411	5,744	5,558

Source: Company, Dalal & Broacha Research

Assumptions

Sum of PV of FCF	(7,808)
Calculation of Terminal Value	
Terminal Growth Rate	3.00%
	12,471
Terminal Value	230,175
PV of Terminal Value	102,574
Enterprise Value	94,766
Add: Cash & Investments	8,156
Less: Debt	47,200
Market Capitalisation (E)	55,722
No. of shares	416
Value per share	134

WACC for explicit forecast Growth	
Expected Market Return (Rm)	15.0%
Risk Free Rate (Rf)	7.0%
Market Risk Premium	8.0%
Beta	0.6
Cost of Equity	11.8%
Cost of Debt	6%
Tax rate	33.0%
Post Tax Cost of Debt	4.0%
WACC	8.42%

Source: Company, Dalal & Broacha Research



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Company Background

Chambal Fertilisers and Chemicals Limited is one of the largest private sector fertilizer producers in India. It was promoted by Zuari Industries Limited in the year 1985. Its two hi-tech nitrogenous fertiliser (urea) plants are located at Gadepan in Kota district of Rajasthan. The two plants produce about 2 million MT of Urea per annum. The first plant was commissioned in 1993 and second plant in 1999. These plants use state-of-the-art technology from Denmark, Italy, United States and Japan.

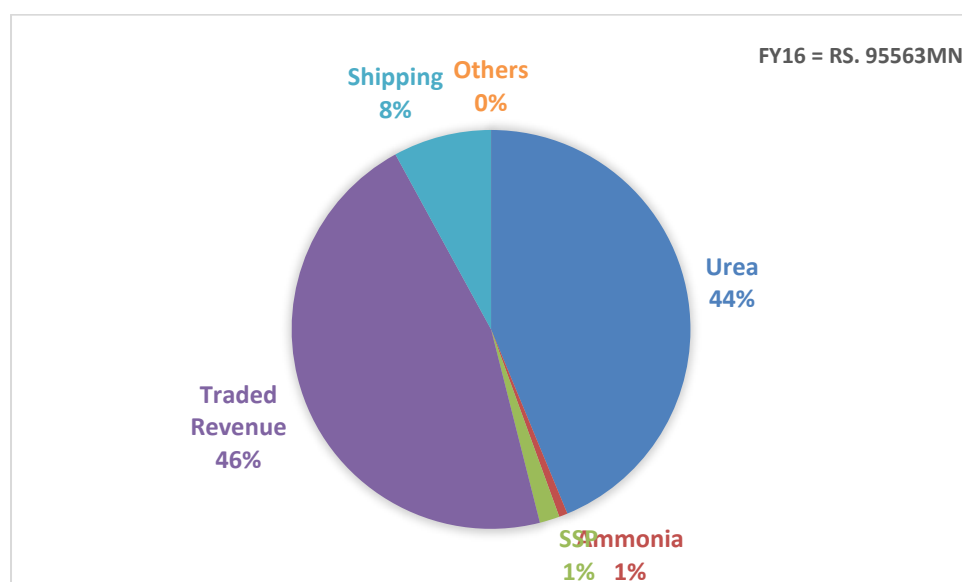
Chambal Fertilisers caters to the need of the farmers in twelve states in northern, eastern, central and western regions of India and is the lead fertiliser supplier in the State of Rajasthan. The Company has a vast marketing network comprising 15 regional offices, 2,000 dealers and 20,000 village level outlets.

The Company dealers provide Urea and other agri-inputs like DAP (Di-Ammonium Phosphate), MOP (Murate of Potash), SSP (Single Super Phosphate), pesticides and seeds. Most of these products are sourced from reputed suppliers and sold under the 'Uttam' umbrella brand.

Chambal Fertilisers has consolidated its position in agri-business and diversified into other sectors. Its shipping division under the name India Steamship operates 5 Aframax tankers with a combined capacity of over 5,00,000 DWT.

In addition, Chambal Fertilisers has other business interests through its subsidiary in the software sector. It also has a joint venture in Morocco for manufacturing phosphoric acid.

Revenue Mix



Plant locations

Two state-of-the-art nitrogenous fertilizer plants at Gadepan, Kota, Rajasthan.



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Chambal Fertilizers & Chemicals Limited											
	FY15	FY16	FY17E	FY18E	FY19E		FY15	FY16	FY17E	FY18E	FY19E
Profit & Loss (Rs mn)						Cash Flow St. (Rs. mn)					
Income from Operations	88,821	95,363	79,461	84,345	89,917	Net Profit	2,368	863	4,087	4,234	4,544
RM Cost	(52,340)	(58,115)	(46,888)	(50,800)	(54,522)	Add: Dep. & Amort.	(1,733)	(1,604)	(1,004)	(954)	(904)
Employee Cost	(1,656)	(1,474)	(1,577)	(1,687)	(1,772)	Cash profits	635	(741)	3,083	3,280	3,640
Other Expenses	(27,790)	(28,048)	(22,863)	(23,418)	(24,691)	(Inc)/Dec in					
Cost of sales	(81,785)	(87,636)	(71,328)	(75,905)	(80,985)	-Sundry debtors	3,911	(8,032)	9,790	1,007	632
Operating Profit	7,036	7,727	8,133	8,440	8,932	-Inventories	(516)	(2,042)	749	368	(519)
Depreciation	(1,733)	(1,604)	(1,004)	(954)	(904)	-Loans/advances	701	(4,988)	(1,951)	436	378
PBIT	5,303	6,123	7,129	7,486	8,028	-Other Current Assets	(144)	310	110	25	(35)
Other income	1,351	1,453	1,660	1,534	1,536	-Sundry creditors	127	2,639	(277)	1,423	382
Interest	(1,582)	(1,413)	(2,688)	(2,701)	(2,782)	-Other current liabilities	153	531	(979)	301	343
Profit before tax	5,071	6,163	6,101	6,319	6,782	-Provisions	(84)	(140)	(206)	63	72
Provision for tax	(1,633)	(1,600)	(2,013)	(2,085)	(2,238)	Change in working capital	4,148	(12,114)	8,422	3,258	837
PAT Bfr Excp Items	3,438	4,563	4,087	4,234	4,544	CF from Oper. activities	4,783	(12,855)	11,506	6,538	4,477
Exceptional Items	(1,070)	(3,700)	-	-	-	CF from Inv. activities	(689)	2,198	(5,895)	(33,649)	(27,883)
Net Profit	2,368	863	4,087	4,234	4,544	CF from Fin. activities	(7,583)	7,154	1,413	17,728	21,864
Adjusted PAT	3,438	4,563	4,087	4,234	4,544	Cash generated/(utilised)	(3,489)	(3,503)	7,024	(9,384)	(1,541)
Balance Sheet						Cash at start of the year	237	214	309	8,156	1,044
Equity capital	4,140	4,162	4,162	4,162	4,162	Cash at end of the year	214	309	8,156	1,044	1,726
Reserves	19,016	19,071	22,207	26,190	30,484	Ratios					
Net worth	23,156	23,233	26,369	30,352	34,646	OPM	7.9%	8.1%	10.2%	10.0%	9.9%
Def. Tax Liab.+Minority Int.	4,271	3,984	3,984	3,984	3,984	NPM	2.7%	0.9%	5.1%	5.0%	5.1%
Secured loans	7,819	7,083	-	-	-	Tax rate	-32.2%	-26.0%	-33.0%	-33.0%	-33.0%
Unsecured loans	28,791	37,752	-	-	-	Growth Ratios (%)					
Total debt	36,610	44,835	47,200	65,178	87,293	Net Sales	11.3%	7.4%	-16.7%	6.1%	6.6%
Other Liab						Operating Profit	14.4%	9.8%	5.3%	3.8%	5.8%
CAPITAL EMPLOYED	64,036	72,053	77,553	99,514	125,923	PAT	-21.9%	-63.6%	373.7%	3.6%	7.3%
Gross block	54,757	52,913	57,913	57,913	57,913	Per Share (Rs.)					
Accumulated depreciation	(29,277)	(30,128)	(31,132)	(32,086)	(32,990)	Net Earnings (EPS)	8.3	11.0	9.8	10.2	10.9
Net block	25,480	22,785	26,781	25,827	24,923	Cash Earnings (CPS)	0.1	0.1	2.0	0.3	0.4
Capital WIP	913	2,437	2,582	36,731	64,614	Dividend	2.3	2.3	1.9	0.5	0.5
Total fixed assets	26,393	25,223	29,363	62,558	89,537	Book Value	55.9	55.8	63.4	72.9	83.2
Goodwill	39	33	33	33	33	Free Cash Flow	18.3	(17.0)	15.5	(59.7)	(50.9)
Investments	4,874	2,250	3,000	2,500	2,500	Valuation Ratios					
Other non current assets	972	662	552	527	562	P/E(x)	10.4	7.8	8.8	8.5	7.9
Inventories	6,937	8,979	8,230	7,862	8,382	P/B(x)	1.5	1.5	1.4	1.2	1.0
Sundry debtors	30,494	38,527	28,737	27,730	27,098	EV/EBIDTA(x)	10.2	10.4	9.2	11.8	13.6
Cash & bank	214	309	8,156	1,044	1,726	EV/SALES(x)	0.8	0.8	0.9	1.2	1.3
Loans & advances	2,818	7,806	9,756	9,320	8,942	Div. Yield(%)	2.7%	2.7%	2.2%	0.6%	0.6%
Other Current Liabilities	(5,338)	(5,869)	(4,890)	(5,191)	(5,534)	FCF Yield(%)	21.3%	-19.7%	18.0%	-69.4%	-59.2%
Sundry creditors	(1,992)	(4,631)	(4,354)	(5,777)	(6,159)	Return Ratios (%)					
Provisions	(1,376)	(1,236)	(1,030)	(1,093)	(1,165)	ROE	14.8%	19.6%	15.5%	13.9%	13.1%
Working capital	31,758	43,886	44,605	33,896	33,291	ROCE	11.0%	10.7%	10.5%	8.5%	7.1%
CAPITAL DEPLOYED	64,036	72,053	77,553	99,514	125,923						

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