

Urea sales from new capacity boosts performance

Chambal reported a strong 4QFY19 on the back of the newly commissioned Urea plant in Gadepan-3. Sales/EBITDA/Adj. PAT growth came in at 147.0/458.5/415.7% YoY to ₹ 26.1/4.1/2.4bn respectively. Gross margin contraction was due to higher RM prices, margins contracted by 730 bps YoY. The company reported a PAT of ₹ 919mn on account of an exceptional item of ₹ 1.97bn, which arose as the Ministry of Chemicals has not paid the additional fixed costs to urea units in India.

Other highlights

The company operated at an energy efficiency below the mandated levels of 5.0 mn Kcal/ton. As per the management the efficiency in their plants was below 4.9 mn Kcal/ton. The Gadepan-3 unit is operating at full capacity utilisation currently. Sales of Urea (including Gadepan-3 plant) grew by 84.4% YoY to 7.8 Lakh MT. Subsidy outstanding as on 31st March-19 stands at ₹ 38.2 bn which has increased from ₹ 19.7bn in FY19 (this is after adjusting for ₹ 7.0bn and ₹ 3.8bn received through special banking arrangements). The current channel inventory in the industry for Urea is to the tune of 5.0mn tons, however inventory of the company is currently 0.15 mn tons.

Outlook and valuation

We believe that the company is expected to generate a healthy free cash flows for FY20E and FY21E (₹ 9.0 bn and ₹ 5.5bn respectively) due to the newly commissioned capacity. Healthy free-cash flow generation is likely to help Chambal pare down its debt (company target of reducing ₹ 4.2bn for FY20E and FY21E). This, coupled with faster recognition in subsidy receivables should fasten debt reduction. We value Chambal at 9.5x FY21 EPS and arrive at a target price of ₹ 185. We resume coverage and recommend investors to Accumulate.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	26,108	10,569	147.0	28,072	(7.0)
Total Expense	21,928	9,821	123.3	24,491	(10.5)
EBITDA	4,181	749	458.5	3,581	16.7
Depreciation	689	88	686.5	167	311.6
EBIT	3,492	661	428.2	3,414	2.3
Other Income	835	436	91.7	(757)	(210.3)
Interest	1,191	364	227.4	379	214.4
EBT	1,163	733	428.2	2,278	(48.9)
Tax	244	253	(3.3)	748	(67.3)
RPAT	919	480	91.3	1,530	(40.0)
APAT	2,477	480	415.7	1,530	61.9
			(bps)		(bps)
Gross Margin (%)	50.3	57.6	(728)	35.1	1517
EBITDA Margin (%)	16.0	7.1	893	12.8	326
NPM (%)	3.5	4.5	(103)	5.5	(193)
Tax Rate (%)	21.0	34.5	(1347)	32.8	(1180)
EBIT Margin (%)	13.4	6.3	712	12.2	121

CMP	₹ 163
Target / Upside	₹ 185 / 14%
BSE Sensex	37,985
NSE Nifty	11,407

Script Details

Equity / FV	₹ 4,162mn / ₹ 10
Market Cap	₹ 68bn
	US\$ 964mn
52-week High/Low	₹ 182/₹ 134
Avg. Volume (no)	298,706
NSE Symbol	CHAMBLFERT
Bloomberg Code	CHMB IN

Shareholding Pattern Mar'19(%)

Promoters	57.9
MF/Banks/FIs	15.6
FIs	6.4
Public / Others	20.1

Valuation (x)

	FY19E	FY20E	FY21E
P/E	9.1	9.5	8.3
EV/EBITDA	12.7	10.8	9.4
ROE (%)	27.6	22.3	21.2
RoACE (%)	9.7	9.9	10.8

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	100,945	111,672	122,862
EBITDA	12,128	13,624	15,235
PAT	7,425	7,108	8,113
EPS (₹)	17.8	17.1	19.5

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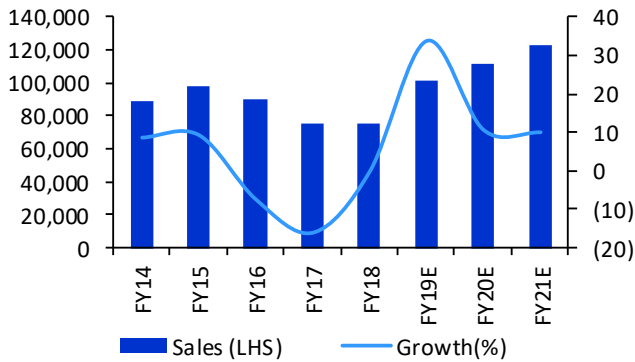
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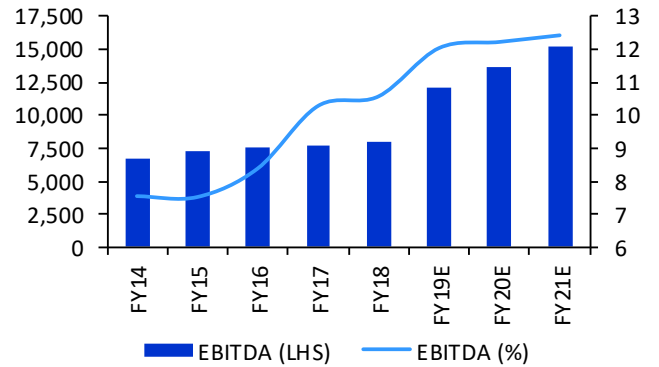


Exhibit 1: Sales (₹ mn) and Sales growth(%)



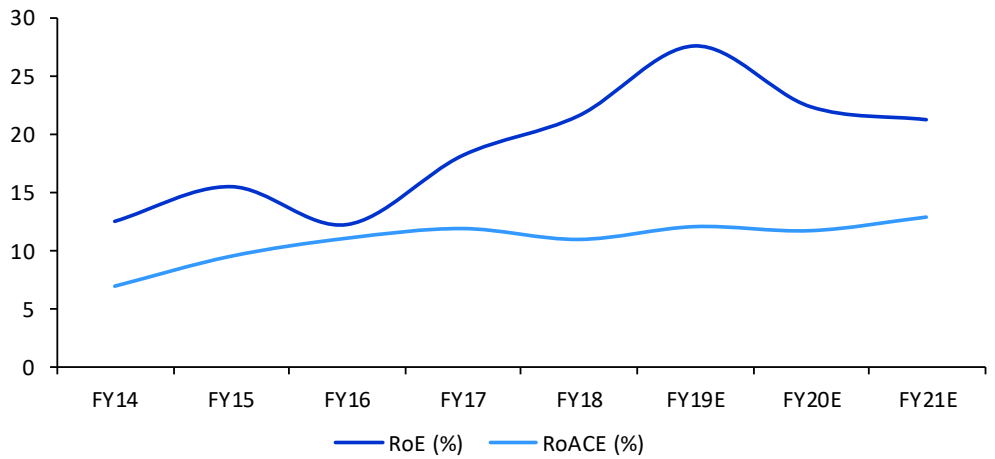
Source: Company, DART

Exhibit 2: EBITDA (₹ mn) and EBITDA (%)



Source: Company, DART

Exhibit 3: ROE and RoCE (%)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	75,410	100,945	111,672	122,862
Total Expense	67,445	88,817	98,048	107,627
COGS	46,325	60,818	69,236	76,175
Employees Cost	1,494	1,267	2,233	2,457
Other expenses	19,627	26,732	26,578	28,996
EBIDTA	7,965	12,128	13,624	15,235
Depreciation	854	1,188	1,350	1,420
EBIT	7,111	10,940	12,274	13,815
Interest	1,552	2,457	4,521	4,790
Other Income	1,415	1,416	1,600	1,650
Exc. / E.O. items	0	0	0	0
EBT	6,974	9,900	9,353	10,675
Tax	2,449	2,474	2,245	2,562
RPAT	4,988	7,425	7,108	8,113
Minority Interest	(34)	0	0	0
Profit/Loss share of associates	429	0	0	0
APAT	4,988	7,425	7,108	8,113

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	4,162	4,162	4,162	4,162
Minority Interest	(874)	(980)	(980)	(980)
Reserves & Surplus	20,893	24,670	30,630	37,495
Net Worth	25,056	28,832	34,792	41,657
Total Debt	60,790	86,938	82,438	77,238
Net Deferred Tax Liability	2,131	1,905	1,905	1,905
Total Capital Employed	87,104	116,696	118,156	119,820

Applications of Funds

Net Block	12,399	69,180	68,807	68,387
CWIP	41,286	1,086	900	900
Investments	2,071	2,757	2,757	2,757
Current Assets, Loans & Advances	38,877	66,240	66,026	68,877
Inventories	7,951	13,231	12,238	13,464
Receivables	25,347	48,274	47,422	50,491
Cash and Bank Balances	776	811	2,442	998
Loans and Advances	3	2	2	2
Other Current Assets	4,799	3,677	3,677	3,677
Less: Current Liabilities & Provisions	7,529	22,567	20,334	21,100
Payables	3,034	9,882	7,649	8,415
Other Current Liabilities	4,494	12,685	12,685	12,685
	<i>sub total</i>			
Net Current Assets	31,348	43,673	45,692	47,776
Total Assets	87,104	116,696	118,156	119,820

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	38.6	39.8	38.0	38.0
EBIDTA Margin	10.6	12.0	12.2	12.4
EBIT Margin	9.4	10.8	11.0	11.2
Tax rate	35.1	25.0	24.0	24.0
Net Profit Margin	6.6	7.4	6.4	6.6
(B) As Percentage of Net Sales (%)				
COGS	61.4	60.2	62.0	62.0
Employee	2.0	1.3	2.0	2.0
Other	26.0	26.5	23.8	23.6
(C) Measure of Financial Status				
Gross Debt / Equity	2.4	3.0	2.4	1.9
Interest Coverage	4.6	4.5	2.7	2.9
Inventory days	38	48	40	40
Debtors days	123	175	155	150
Average Cost of Debt	2.9	3.3	5.3	6.0
Payable days	15	36	25	25
Working Capital days	152	158	149	142
FA T/O	6.1	1.5	1.6	1.8
(D) Measures of Investment				
AEPS (₹)	12.0	17.8	17.1	19.5
CEPS (₹)	14.0	20.7	20.3	22.9
DPS (₹)	2.3	2.4	2.8	3.0
Dividend Payout (%)	19.0	13.4	16.2	15.4
BVPS (₹)	60.2	69.3	83.6	100.1
RoANW (%)	21.6	27.6	22.3	21.2
RoACE (%)	7.8	9.7	9.9	10.8
RoAIC (%)	9.3	10.8	10.6	11.8
(E) Valuation Ratios				
CMP (₹)	163	163	163	163
P/E	13.6	9.1	9.5	8.3
Mcap (₹ Mn)	67,655	67,655	67,655	67,655
MCap/ Sales	0.9	0.7	0.6	0.6
EV	127,668	153,537	147,405	143,650
EV/Sales	1.7	1.5	1.3	1.2
EV/EBITDA	16.0	12.7	10.8	9.4
P/BV	2.7	2.3	1.9	1.6
Dividend Yield (%)	1.4	1.5	1.7	1.8
(F) Growth Rate (%)				
Revenue	(0.2)	33.9	10.6	10.0
EBITDA	2.6	52.3	12.3	11.8
EBIT	4.0	53.8	12.2	12.6
PBT	23.9	41.9	(5.5)	14.1
APAT	36.2	48.9	(4.3)	14.1
EPS	36.2	48.9	(4.3)	14.1
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	12,495	(1,013)	12,614	10,794
CFI	(18,205)	(19,365)	(814)	(1,000)
CFF	6,063	20,658	(10,169)	(11,238)
FCFF	(12,145)	(18,761)	11,801	9,794
Opening Cash	(294)	(5)	275	1,906
Closing Cash	(5)	275	1,906	462

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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