

# GOLDMINE STOCKS PVT. LTD

## Research Division

Member: National Stock Exchange of India Ltd,  
Bombay Stock Exchange Ltd.

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## Chambal Fertilizers and Chemicals Ltd [09/03/2013]

Rs.Cr.

Equity	416.20
Reserves	1284.95
Acc.Dep	2951.00
Debt	1620.16
FV	10.00
Exp.NP	378.00
Cash Pr.	603.00
EPS	9.08
CEPS	14.49
Debt:Equi	0.95
Book Value	49.96
Cash Book Value	126.27
M.Price	57.00
M.Cap	2372.34
P/E	6.28
Dividend Expected	2.30
Dividend Yield (%)	4.04
Total Worth	4652.15
Sales	8094.00

### Shareholding Pattern

Promoters	55.14
FII	8.33
Institutions	9.86
Corp.Bodies	6.25
Public	20.42

**Background:** Chambal fertilizers is amongst the top five fertilizer companies of India. It was promoted by Zuari Industries in 1985. Two nitrogenous fertilizer plants in Rajasthan, one built in 1993 and another in 1999. The company also trades and sells other products like DAP, MOP, SSP, seeds, agrochemicals etc all under one roof under the brand name 'UTTAM'. Programs like 'Uttam Bandhan' for helping farmers improve farm productivity and other help and assistance. Website named 'uttamkrishi.com' also opened.

The company is into Urea Manufacture, Textiles and Shipping. Both Textiles and Shipping are not doing well and are a drag on the company. Only Shipping business is losing money and the company may do well, if it disposes off the Shipping business. The capital employed in Shipping sector is around Rs 1500 crores and if the company can manage to get out of shipping business, it can realize around Rs 1500-1600 crores and can become a debt free company. The company also has about 33.33% stake in a Morocco based joint venture manufacturing phosphoric acid. The company has revenues of around Rs 2100 crores and good net profits. Pays good dividend to Chambal Fertilizers. Chambal fertilizers derives around Rs 2200 crores of revenues from trading of agri goods like DAP, other agro chemicals, even urea to the extent it is not able to supply. Despite that the company is doing extremely well on various parameters like Return on Equity and Return on Capital Employed. The dividend payout is also good.

### Future Growth Triggers:

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India currently produces around 22 million tons of urea and consumes around 29 million tons of urea. So we import about 7 million tons of urea every year. A figure that could go up, if new investments are not made. India has not seen any new investments in the urea manufacturing in the last decade due to government policy of capping urea prices and providing subsidies to the companies whenever it feels. So the first issue is regarding free pricing of urea, which may happen sooner than later. May be it happens post 2014 elections. Secondly the government as per new urea policy will assure around 12-20% post tax return on fresh capital infused by the manufacturers for setting up of new plants. Earlier returns were less than 12%.

The company currently produces 2.2 million tons of urea and the new capacity to produce around 1.30 million tons at Kota, Rajasthan may start getting constructed. The company could start new production after about three years. The company's main markets namely Rajasthan, Uttar Pradesh and other north and north eastern states totalling 11. Most of the areas where the company supplies fertilizers and agro chemicals are well irrigated and hence the company does not face glut when monsoons are weak. The results of last several years and even that of 12-13 will substantiate the above fact.

**Risks:** The company currently sources part of its gas requirements through international sources, which is quite expensive as compared to domestic sources. It is still able to do well but the basic problem is about continuous gas availability. The Government may delay urea free pricing until next general elections. Any coalition led by Congress or BJP will definitely go for freeing urea pricing. However if a third front government comes in urea may not be freely priced for some time more. The company is doing well even in controlled urea pricing regime. Another factor is some sort of reduction in overall urea usage, if urea pricing is freed as overusage of urea currently may give way to balanced usage of urea.

Some sort of inventory build up in the fertilizer sector is being reported, which could be a temporary phenomenon.

**Technical and Comments:** The stock is technically quite weak and is below all its recent averages like 21, 50, 100 and 200 day moving averages, which suggests that there could be some sort of negative news coming up of some sort of stagnancy at these lower levels. We feel that one could observe the sector and the company closely and start accumulating in very small quantities for the very long term considering that we could see further erosion in prices in the medium term. From the current price of Rs 57, the stock could climb to around Rs 95-100 in the next couple of years.

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