Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Idea

Coromandel International Limited

Nurturing growth

Agri Inputs	Sharekhan code: COROMANDEL	Initiating Coverage

Summary

- Initiating coverage on Coromandel International with a Buy rating, valuing it at 20x FY2022 EPS with a PT of Rs. 1,000
- Company among India's top integrated agri solutions provider; significant backward integration drives margins, cashflows and return ratios
- Hopes of normal monsoon and MSP hikes for kharif crop bodes well for demand
- We believe Coromandel would clock earnings CAGR of 17.5% over FY2020-22E, led by increase share of non-subsidy business

Coromandel International Limited (CRIN), India's second-largest phosphatic fertiliser producer, primarily operates in (1) specialty nutrients and other allied business and (2) crop protection. CRIN is a dominant player in the domestic phosphatic fertiliser market with a share of 15%, while it has a significant presence in South India with a market share of 55-60%. CRIN is the fifth-largest manufacturer of crop protection products with 10,000 dealers and over 60 brands. The company has also ventured into the retail business by setting up around 750+ rural retail centers in Andhra Pradesh, Telangana, Karnataka and Maharashtra. Long-term prospects for CRIN are healthy, backed by (1) government thrust to double farm incomes, (2) likely shift in Indian farmers' preference toward higher-fertiliser-consuming crops, (3) rise in share of unique-grade phosphatic fertilisers, (4) company's long-term growth initiatives on product innovation and capacity expansion and (5) backward integration to boost margins. The company's conservative approach in allocating capital rightly helped it generate healthy cash flows on a sustainable basis, resulting in a strong balance sheet with a focus on expanding capacity through internal accruals. Further, the company has been posting strong return ratios (3-year average ratios are above 20%) that are expected to remain strong going ahead. The likelihood of a normal monsoon coupled with increase in minimum support price for the kharif crop and also low dependence on China for key raw materials would bode well for company.

Our Call

Valuation: Initiate stock idea coverage with a Buy rating and price target of Rs 1,000: We expect the company to deliver healthy revenue and robust earnings CAGRs of 11.0% and 17.5%, respectively, over FY2020E-FY2022E, driven by increased demand offtake for products owing to expectation of good monsoons and rise in share of non-subsidy business. Moreover, the company has a lean balance sheet with a debt/equity of 0.4x and has generated return ratios of above 20% in the last three years. At CMP, stock trades at 17.4x and 15.0x its FY2021E and FY2022E earnings of Rs. 43.4 and Rs. 50.2 per share, respectively. We initiate coverage on CRIN with a Buy recommendation and price target (PT) of Rs. 1,000.

Key risk

- Lower demand due to poor monsoon, regulatory changes might impact revenue growth momentum.
- Availability of key raw materials and adverse price variation in the same, delay in ability to pass on price hikes, adequately coupled with adverse currency fluctuations might affect margins.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	13,225	13,137	14,877	16,179	17,797
OPM (%)	10.9	13.2	13.5	13.6	13.7
Adjusted PAT	744	1,065	1,271	1,470	1,680
% y-o-y growth	*7.7*	*47.8*	*19.3*	*15.7*	*14.3*
Adjusted EPS (Rs.)	25.4	36.3	43.4	50.2	57.3
P/E (x)	29.6	20.7	17.4	15.0	13.2
P/B (x)	6.6	5.1	4.3	3.6	3.0
EV/EBITDA (x)	17.2	13.7	11.8	10.5	9.1
RoNW (%)	23.8	27.7	26.8	25.8	24.5
RoCE (%)	22.4	25.1	27.3	26.8	26.8

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

Reco/View

Reco:	**Buy**
CMP:	**Rs. 754**
Price Target:	**Rs. 1,000**

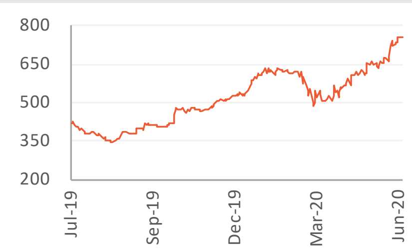
Company details

Market cap:	Rs. 22,083 cr
52-week high/low:	Rs. 769/336
NSE volume: (No of shares)	3.9 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	11.2 cr

Shareholding (%)

Promoters	62
FII	4
DII	20
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17.0	38.6	97.3	81.0
Relative to Sensex	9.3	20.1	103.8	93.0

Sharekhan Research, Bloomberg

Executive Summary

3R Research Positioning Summary

- **Right Sector:**
  Government's initiatives to boost farm output would drive demand for agri-input and crop protection products.
- **Right Quality:**
  Leading phosphatic fertiliser with market share of ~15%. Healthy balance sheet with strong return ratios.
- **Right Valuation:**
  Company trades at rich valuation as compared to peers, given consistent outperformance given normal monsoon, high brand equity and leadership depth.

Valuation and return potential

- Revenue/earnings to clock 11.0%/ 17.5% CAGR over FY2020-22E
- Stock trades at 15x/13x its FY2022E/ FY2023 earnings; 5-year high/mean/low multiples are at 23.7x/14.4x/8.7x on one-year forward (is it P/E basis)
- We initiate coverage on Coromandel International with a Buy rating and price target of Rs. 1,000 (based on 20x of FY2022E)

Catalysts

Long-term triggers

- Higher-share of non-subsidy business
- Innovation in new-generation fertilisers and specialty nutrients segment
- Market share gains in Mancozeb

Medium Term Triggers

- Rise in farm minimum support prices
- Better-than-expected rainfall

Key Risks: Erratic monsoons, regulatory risks, and volatile input prices

Earnings and Balance sheet highlights

- Revenue/EBITDA/net profit clocked a CAGR of 9%/21%/31% over FY2017-20
- Healthy balance sheet with net debt/ equity at 0.4x; generated robust OCF of Rs. 1,906 crore for FY2020; we expect CRIN to generate OCF of Rs. 1,131 crore and Rs. 1,490 crore in FY2021E and FY2022E.
- EBITDA margin expanded to 13.2% in FY2020 from 9.8% in FY2017; 3-year average RoE and RoCE remained above 20%

Source: Company; Sharekhan Research

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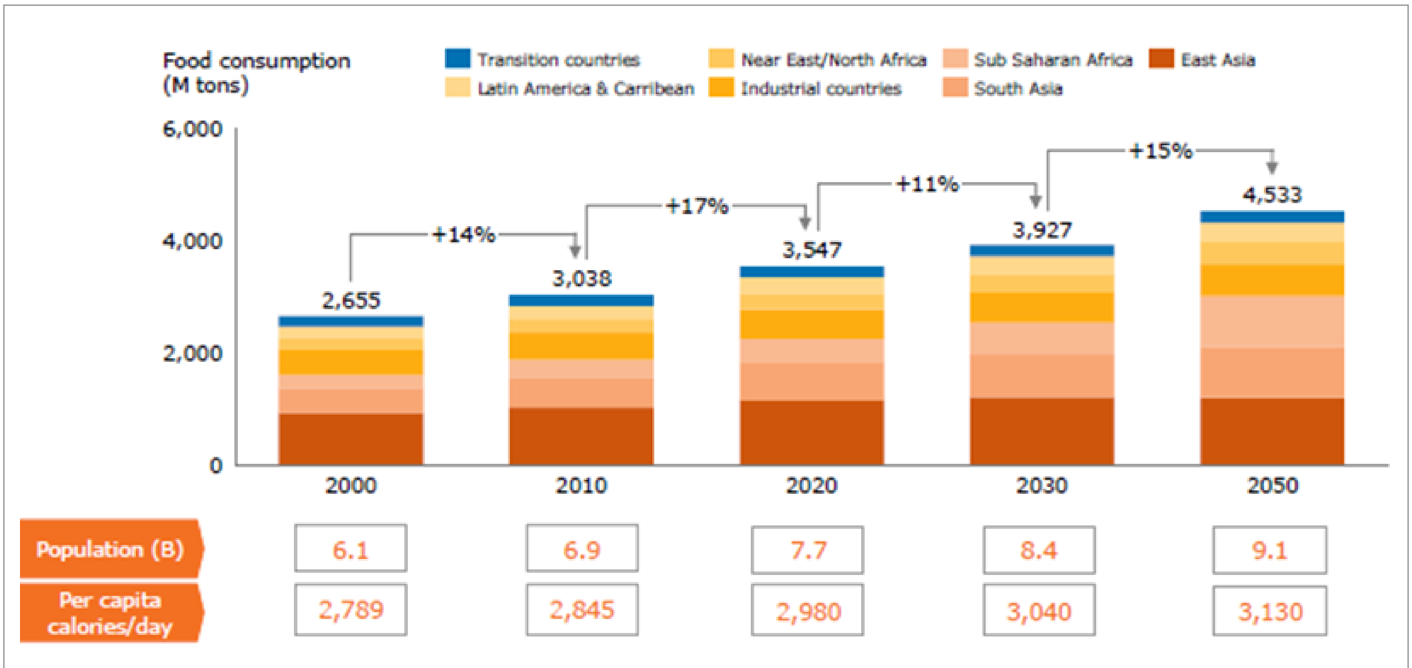
Why we like agri inputs space: A large addressable market

Agriculture is a critical pillar of the Indian economy as it contributes 18% of GDP, 8% of exports and generates 44% of jobs. This is largely owing to India having the largest cropland globally and also the largest irrigated area hence provides a large addressable market. Also expectation of normal monsoon and increase in minimum support price for Kharif crops is expected to boost demand for agri-inputs.

Rising population to drive food consumption

Global population growth is projected to increase from ~7.5 billion in 2020 to 8.5 billion in 2030 and more than 9.5 billion in 2050. Increasing population is one of the main drivers for future food demand. Besides, initiatives on hunger and poverty eradication and increasing calorie intake per capita are expected to drive up food consumption worldwide. Farmers will need to increase crop output, either by cultivating a greater amount of agricultural land or by enhancing productivity on existing land through fertilisers and irrigation and adopting new methods such as precision farming.

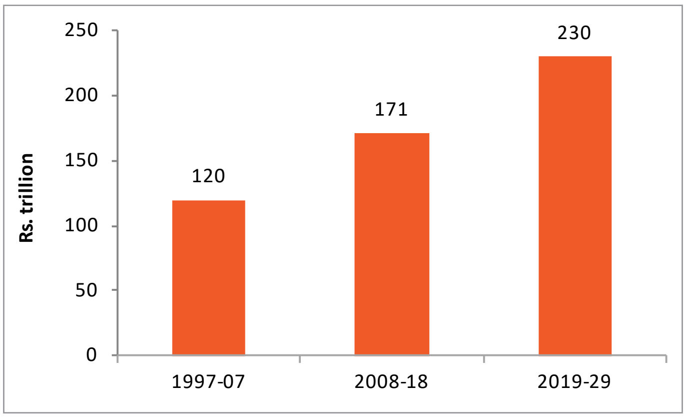
Strong increase in food demand expected



Source: FAOSTAT; BCG analysis, Company

India is a country of ~1.3 billion, or over 17% of the world population. However, it has only 2.4% and 4.0% of global land and water resources, respectively. India should to ensure food security for its growing population, which is forecasted to exceed that of China by 2022.

Gross value added by Agri sector (cumulative)



Source: Company; Sharekhan Research

Agriculture - A key driver of Indian economy

Agriculture plays an important role in the Indian economy as it contributes 18% to GDP, 8% to the exports and generates 44% of the employment. This is largely because has India has the largest cropland and irrigated area globally. India has the third-largest agricultural producer globally and ranks first in terms of pulses with a 21% share, second for seed cotton, fruits & vegetables and sugarcane with a share of 22%, 11% and 18%, respectively and third-largest for cereals with a 10% share. However, India significantly lags China and world in terms of yield for hectare. Given shrinking of arable land and water scarcity, we believe that efficient and judicious usage of agri-inputs would help India improve its yield per hectare.

Area, production, and yield trend for Food grains and horticulture

	Food grains			Horticulture			
Year	Area (mn ha)	Production (mn MT)	Yield kg/ha)	Area (mn ha)	Production (mn MT)	Yield kg/ha)	Area under irrigation (%)
1990–91	127.8	176.4	1,380	12.8	96.6	7.6	35.1
1995–96	121.0	180.4	1,491	15.0	140.1	9.3	40.1
2000–01	121.1	196.8	1,626	16.6	145.8	8.8	43.4
2005–06	121.6	208.6	1,715	18.7	182.8	9.8	45.5
2010–11	126.7	244.5	1,930	21.8	240.5	11.0	47.8
2011–12	124.8	259.3	2,078	23.2	257.2	11.1	49.8
2012–13	120.8	257.1	2,129	23.6	268.8	11.4	51.2
2013–14	125.0	265.0	2,120	24.2	277.3	11.5	51.9
2014–15	124.3	252.0	2,028	23.4	280.9	12.0	53.1
2015–16	122.7	252.2	2,056	24.4	286.1	11.7	-
2016-17	129.2	275.1	2,129	24.8	300.6	12.1	-
2017-18	127.6	284.8	2,233	25.4	311.7	12.3	-
2018-19	124.2	283.4	2,281	25.6	314.9	12.3	-

Source: GoI, Sharekhan Research

Agricultural productivity levels in India are low as compared to China, Brazil and USA owing to i) falling per capital land holding, ii) low mechanization in farm lands, iii) imbalanced usage of nutrients and iv) lower consumption of crop protection products, hence improvement in productivity levels remains a key challenge.

Huge scope for yield improvement with the use of agri inputs

	India						China			World	
Crop	Area (mn ha)	Production (mn MT)	Production Rank	Yield (Kg/ha)	Yield (% of World)	Yield (% of China)	Produc-tion	Yield	Production Rank	Production	Yield
Paddy	43.2	163.7	2	3,790	82.8	55.2	211	6,866	1	756.1	4,577
Wheat	30.4	92.3	2	3,034	89.2	56.2	133.2	5,396	1	749	3,401
Maize	9.9	25.9	7	2,616	46.4	43.8	263.6	5,967	2	1,100	5,632
Pulses	30.8	18.15	1	588	61.4	33.9	4.5	1,732	4	83.5	958
Sugarcane	4.95	348.4	2	70,394	100.4	110.1	140	63,948	3	1,861	70,134
Groundnut	5.8	7.46	2	1,287	80.1	35	16.36	3,678	1	44.9	1,606

Source: GoI, Sharekhan Research

Increasing yield though use of agrichemical is the way ahead

Tonnes/hectare	Soyabean	Pulses	Cereal
World	2.3	0.9	3.7
India	1.4	0.6	2.9
China	1.9	1.7	5.7
Brazil	2.6	0.9	4.0
USA	2.7	1.8	6.8

Source: Company Data; Sharekhan Research

India lags behind in agriculture productivity

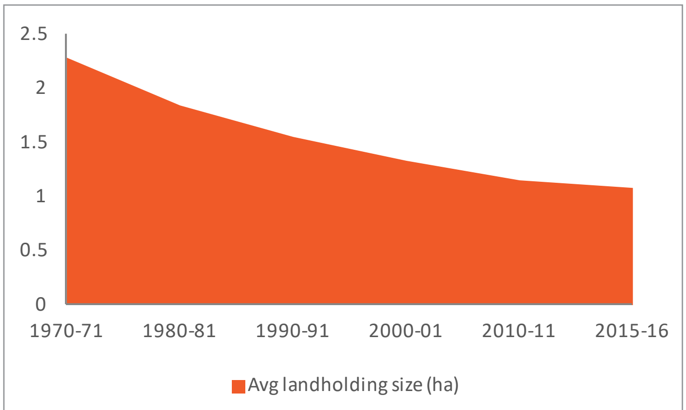
Rice		Wheat		Pulses	
Rank	**Yield**	**Rank**	**Yield**	**Rank**	**Yield**
China	6,866	China	5,396	India	588
India	3,790	India	3,034	Canada	2,011
Indonesia	5,236	Russia	2,684	Myanmar	1,508
Bangladesh	4,586	USA	3,541	China	1,732
Vietnam	5,574	Canada	3,470	USA	2,034
World	4,577	World	3,401	World	958

Source: Company Data; Sharekhan Research

Further, a large population and growing urban and rural incomes will drive agricultural demand, while overseas consumption would drive India's agricultural exports from India. India's agri-exports have increased from $22 billion in 2015-16 to $28 billion in FY2020 and it is estimated that the number would reach $60 billion by 2022.

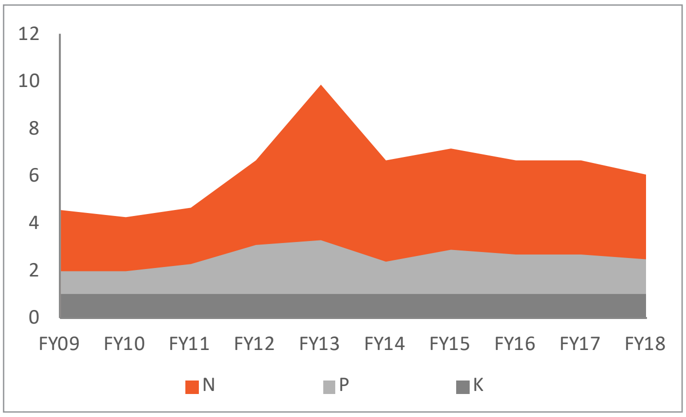
India' agriculture sector faces multiple challenges throughout the production cycle such as (1) small land holdings, (2) degrading soil quality, (3) limited access to quality seeds, fertilisers and pesticide, (4) low mechanisation, (5) underdeveloped supporting infrastructure, and (6) imbalanced nutrient usage. The opportunities and imperatives for value creation in the agri sector over the next 10 years are large. We believe there are huge opportunities for agri-input companies (including fertiliser companies) for bridging the productivity gap.

Falling per capita land holding



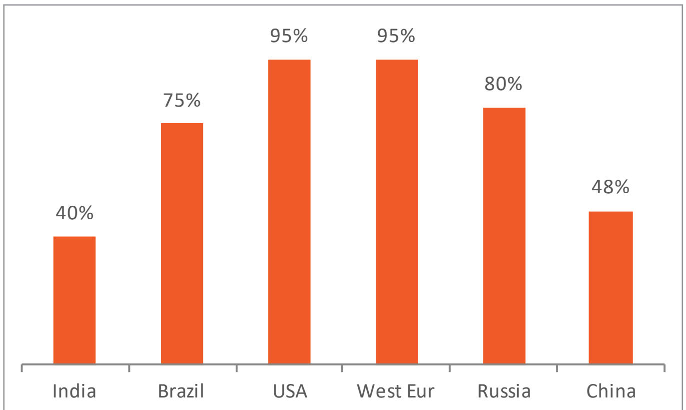
Source: Ministry of Agri, Company; Sharekhan Research

Imbalanced Nutrient Usage



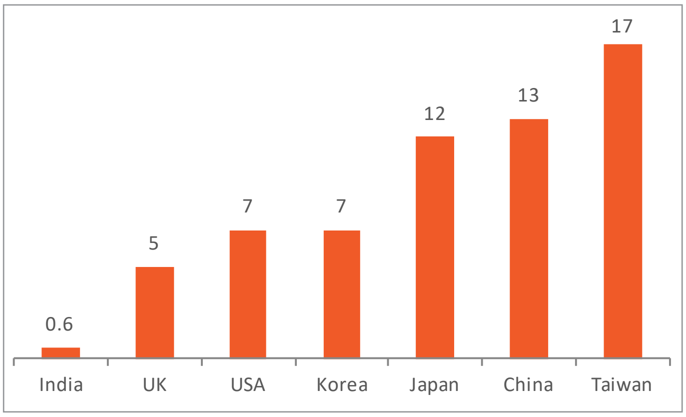
Source: FAI, Company; Sharekhan Research

Low mechanization



Source: Company; World Bank, Sharekhan Research

Low crop protection consumption



Source: Company; World Bank, Sharekhan Research

Maharashtra acreage trend (in lakh ha)

Particular	Normal Area	FY17	FY18	FY19	FY20
Rice	15.1	15.6	14.4	15.5	14.8
Pulses	21.1	25.9	22.9	21.3	19.3
Coarse Cereals	20.8	24.1	21.3	18.0	19.3
Oilseeds	41.6	42.6	41.1	42.9	42.4
Sugarcane	9.4	6.3	9.4	11.0	8.4
Cotton	40.6	38.1	42.1	42.5	44.1
Total	**148.5**	**152.6**	**151.2**	**151.2**	**148.2**

Source: Agricoop; Sharekhan Research

Karnataka acreage trend (in lakh ha)

Particular	Normal Area	FY17	FY18	FY19	FY20
Rice	8.9	9.4	6.0	9.6	8.1
Pulses	15.1	18.8	15.4	16.3	16.6
Coarse Cereals	21.2	22.4	21.8	19.7	21.6
Oilseeds	9.1	10.5	8.1	8.6	8.2
Sugarcane	4.5	4.2	4.5	5.0	5.8
Cotton	5.4	4.4	4.9	4.4	5.9
Total	**64.2**	**69.6**	**60.6**	**63.5**	**66.4**

Source: Agri Coop; Sharekhan Research

Expectation of normal monsoon to increases demand off-take for agri inputs

The India Meteorological Department (IMD) has predicted normal monsoon for the current year at 100% of its long period average with an error if +5% or -5%. Sowing of kharif crops gathered pace as the monsoon reached fresh parts of the country with total acreage under different crops rising almost 39% more than the same period last year. According to data from the agriculture ministry, kharif crops have been sown in around 13.13 million hectares of land, which is 39 per cent more than the same period last year. The southwest monsoon during the same period was 114.7 millimeters, which is 30 per cent more than normal; Further Prime Minister of India launched Rs 50,000 crore 'Garib Kalyan Rojgar Yojna' covering 116 districts with more than 25,000 migrant workers in six states. Good and timely rainfall is expected to boost food output in India, one of the world's top producer and consumers of a range of agricultural commodities. This is expected to enhance demand for agri-inputs including fertiliser in India.

Increase in minimum support price

The cabinet had approved minimum support price (MSP) for 14 kharif crops, wherein farmers to get 50-83% more than their cost of produce for crop year 2020-21. The MSP for paddy has been raised by Rs. 52/ quintal to Rs 1828/quintal, jowar and bajara MSP are at Rs 2620/ quintal and Rs 2150/quintal respectively, while MSP for cotton has been raised by 50% or Rs 260 to Rs 5515/ quintal and MSP for ragi, moong and groundnut have also been raised by 50%.

Government focus on agriculture to drive domestic consumption

The government is continuously focusing on means to double the farmer's income such as i) increasing the output through enhancing the crop productivity and knowing the cropping intensity, ii) improving realisation of produce through price discovery, remunerative pricing and crop diversification, iii) reducing cost by balanced application of agri-inputs and effectively utilising the available resources and iv) by providing risk coverage for crop, live stock & non farm income. Introduction of new pricing scheme (NPS) for urea and nutrient based subsidy (NBS) scheme for complex fertilisers have helped lower the subsidy contribution from 60% in FY2011 to 27% in FY2019. Introduction of NPS lead to increased production, cost rationalisation and improvement of cash flows for urea manufacturing companies. Decontrol of prices and nutrient based subsidy regime for complex fertilisers resulted in efficient production of fertilisers entailing a higher profitability for fertiliser companies and increased availability of fertilisers to the farmers. We also expect that efforts to boost crop yields and farmers' awareness regarding crop protection benefits will drive domestic demand.

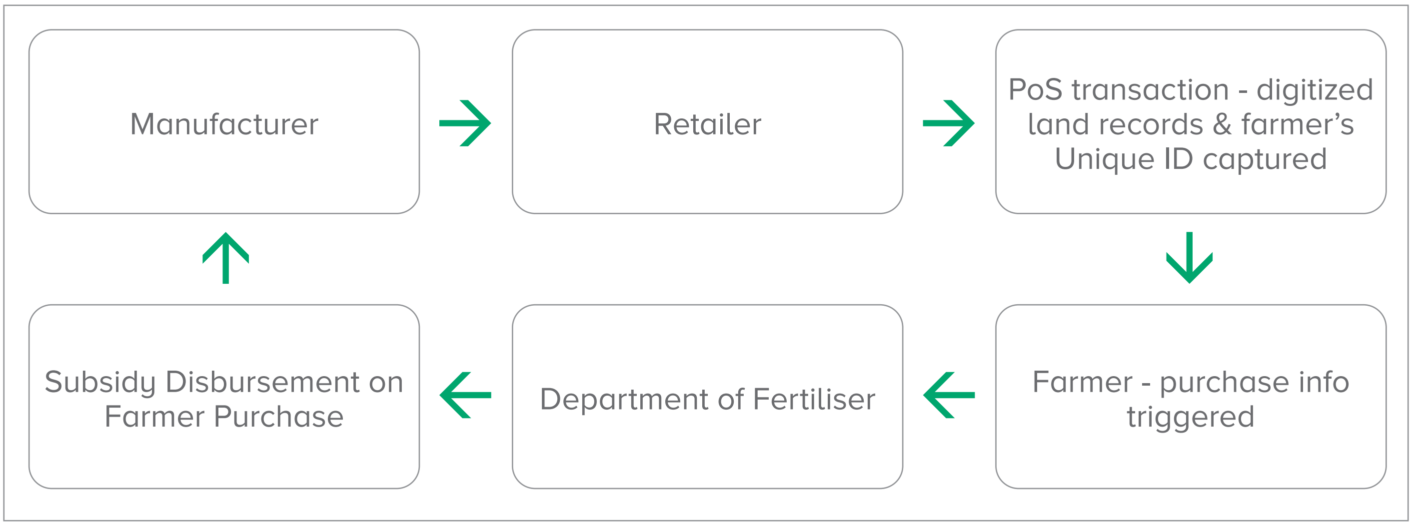
Increase in farm gate price and reduction in subsidy

%	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Farm gate price	40	48	63	65	65	66	73	70	73
Subsidy	60	52	37	35	35	34	27	30	27

Source: Company Data; Sharekhan Research

Direct benefit transfer 2.0 to help in improve the soil health

The government has launched Direct Benefit Transfer (DBT) 2.0 Launched wherein the soil health card will be linked to fertiliser purchase. This will help in i) digitization of land records and improve rural connectivity, ii) improve soil health which in turn will help the famers to make informed purchases, iii) help in prevention of fertiliser leakages and diversions and iv) help manufacturers to receive subsidy payments periodically. This is expected to improve nutrient usage & promote balanced application along with enhancement of transparency level in subsidy disbursements.

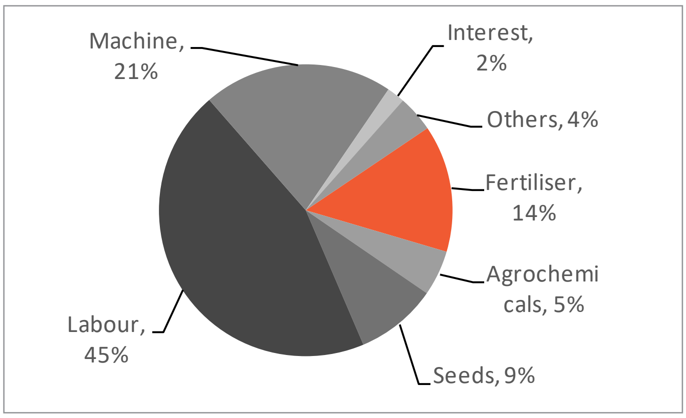


Source: Company Data; Sharekhan Research

Indian fertiliser industry set to rise

Farm economics provides better understanding on farmers' affordability and the ultimate structure of the agri-inputs sector. Within agri inputs, fertiliser is the largest cost component (~50%+) for a farmer. Historically, the tendency of farmers towards urea procurement remains higher than for complex fertilisers due to lower prices. However, we believe that Indian farmer's preference is likely to shift towards higher-fertilizer-consuming crops would drive the demand for specialty nutrients.

Cost of production for farmers



Source: Industry; Sharekhan Research

Agricultural growth is mainly dependent on advances in farming technologies and increased use of chemical fertilisers. The fertilisers contain the three basic nutrients for agriculture: nitrogen (N), phosphorous (P) and potassium (K). Nitrogen is primarily provided by nitrogenous fertilisers such as urea (46% N) or ammonia fertilisers, e.g. ammonium sulfate (20.6% N). Further shares of nitrogen are contained in complex fertilisers that combine all three plant nutrients (NPK). Phosphate comes in the form of straight phosphatic fertilisers such as single-super phosphate (16% P205) or as part of a complex fertiliser. Potassic fertiliser is available as straight potassic fertiliser, such as muriate of potash (60% K20) or sulfate of potash (50% K20) or as complex NPK fertiliser components.

Indian nutrient demand currently stands at 16.74 million tonnes for N, 6.71 million tonnes for P205 and 2.51 million tonnes for K, with consumption on N being higher at 64% while 55% if fertiliser sales being contributed by Urea. Demand for these products outstrips the available domestic capacity leading to imports. Though demand for Urea and NPK is significantly met by domestic manufacturing, however for Potash India relies completely on imports.

Million tonnes	Urea	NPK	Potash
Demand	31.7	18.6	3.0
Domestic Capacity	24.8	15.8	-
Imports	6.9	2.8	3.0

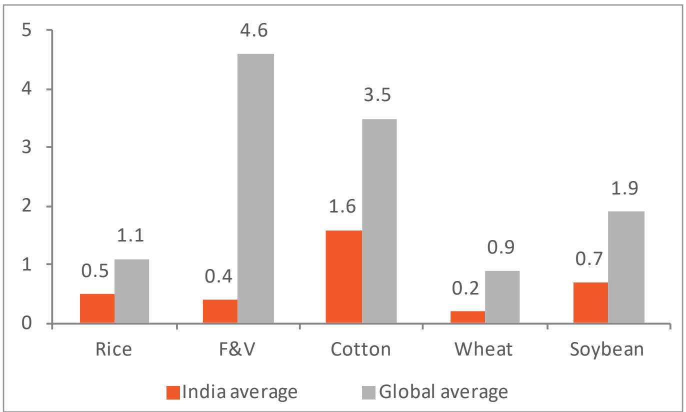
Source: Company Data; Sharekhan Research

In terms of production and consumption of (N+P205), India is the third largest globally.

Million tonnes	China	USA	India
Production	59.0	21.4	16.5
Consumption	48.7	25.5	20.5

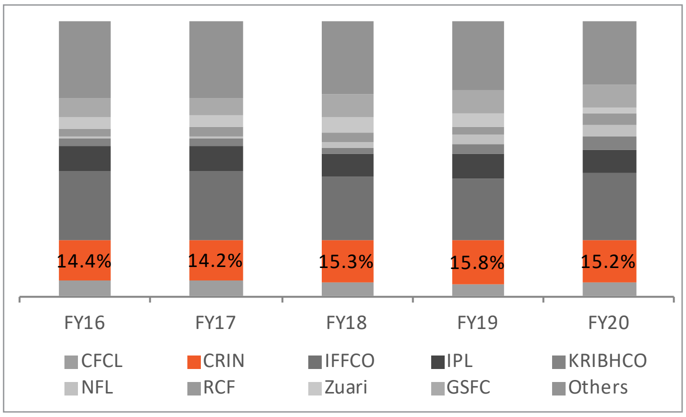
Source: Company Data; Sharekhan Research

Fertiliser consumption across crops remains lower



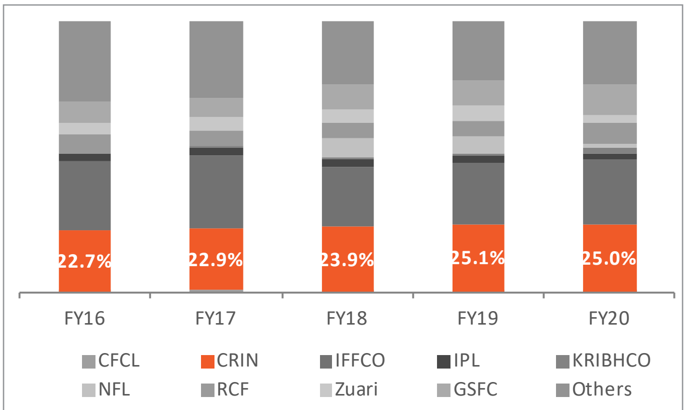
Source: Ken Research 2016, Ministry of Commerce, BCG Analysis; Sharekhan Research

Market share of DAP + NPK in India



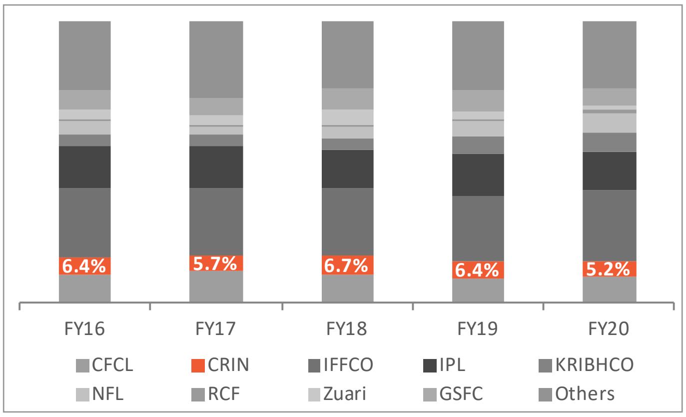
Source: GOI, Company; Sharekhan Research

Market share of NPK in India



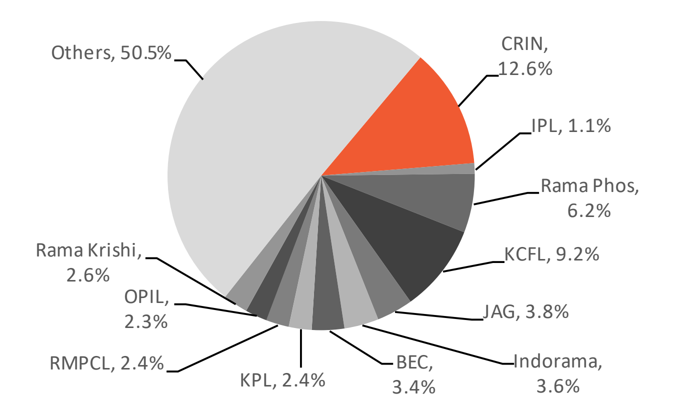
Source: GOI, Company; Sharekhan Research

Market share of DAP in India



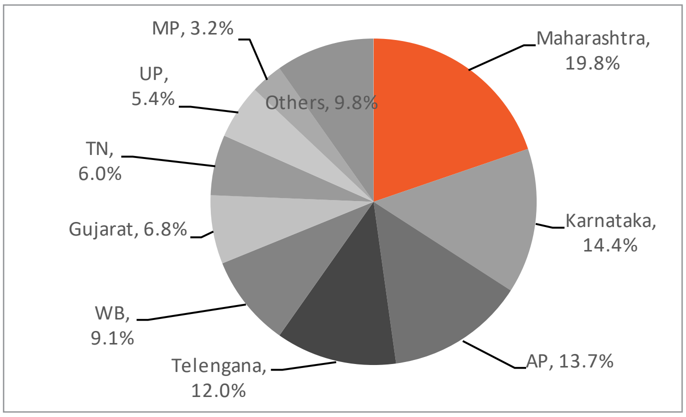
Source: GOI, Company; Sharekhan Research

Market share of SSP in India (FY2020)



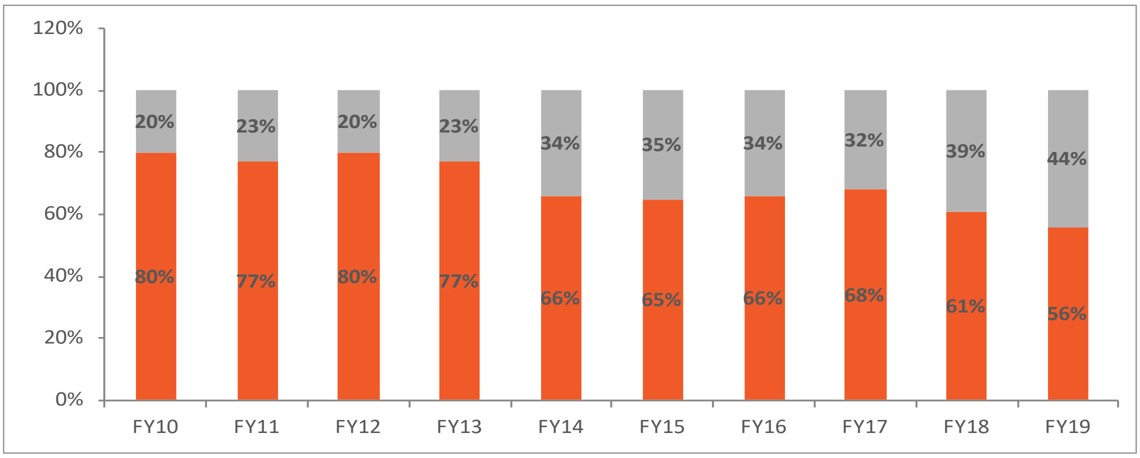
Source: GOI, Company; Sharekhan Research

Top 9 states contributes to 90% of the Phosphatic fertiliser consumption in India



Source: GOI, Company; Sharekhan Research

Falling share of generic products in specialty nutrients business



Source: Company, Sharekhan Research

Raw material prices trend favourably for industry

Particulars (USD/ton)	Apr-20	Apr-19	y-o-y (%)	Mar-20	m-o-m (%)	Avg FY20	Avg FY19	y-o-y (%)	World	hin
Ammonia	244	255	-4%	250	-2%	240	329	-27%	756.1	4,577
Rock Phosphate	99	120	-18%	99	0%	108	128	-16%	749	3,401
Phosphoric Acid	590	728	-19%	590	0%	648	752	-14%	1,100	5,632
Sulphur	79	118	-33%	74	7%	88	151	-42%	83.5	958
MOP	280	290	-3%	280	0%	286	270	6%	83.5	958
Urea	255	262	-3%	257	-1%	270	279	-3%	1,861	70,134
DAP	316	393	-20%	313	1%	333	421	-21%	44.9	1,606

Source: Sharekhan Research

Strong sales momentum continues

Company wise sales	May-20	May-19	y-o-y (%)	Apr-20	YTD FY21	YTD FY20	y-o-y (%)	hin
CRIN	354116	212006	67%	275478	629594	305622	106%	4,577
GSFC	191648	156763	22%	134991	326640	274418	19%	3,401
GNFC	70,905	52,718	34%	17,122	88,026	79,066	11%	5,632
Chambal Fertilisers	480400	323029	49%	382206	862605	549349	57%	5,632
Deepak Fertilisers	40,994	32,752	25%	36,137	40,994	58,084	-29%	5,632
RCF	272459	266231	2%	135614	408073	466020	-12%	958
NFL	330252	324704	2%	303145	633396	481000	32%	958
Mangalore Chemicals	66,328	84,719	-22%	28,636	94964	129645	-27%	70,134
Zuari Group	245577	338757	-28%	179384	424961	502463	-15%	1,606

Source: Sharekhan Research

Growing need for micro irrigation & water soluble fertiliser

Agriculture is the largest consumer of water and as 54% of India faces high to extremely high water stress, the need for micro irrigation & water soluble fertiliser increases significantly. The area under micro irrigation stands at 10 million hectares in 2017 up from 3.1 million hectares in 2005 and has the potential of reaching 69 million hectares. The benefits of micro irrigation & usage of water soluble fertiliser are i) it increase in the water use efficiency by 50% to 90%, ii) enhances productivity by 40% to 50% and increases Farmer's income by ~42%.

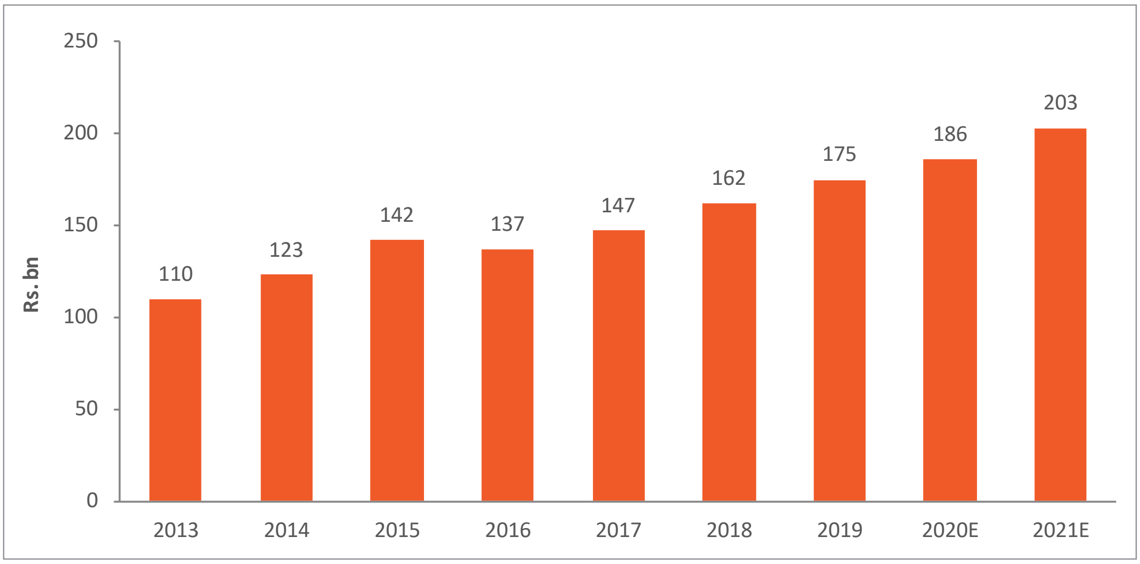
Million hectares	2005	2010	2012	2015	2017
Area under micro irrigation	3.1	4.9	6.1	7.7	10.0

Source: Company Data; Sharekhan Research

Healthy growth in crop protection industry

The Indian crop protection market witnessed a healthy increase from $4.4 billion in 2015 to $6.3 billion in 2020. Domestic market grew by ~7% to $3.1 billion, while exports grew by ~9% to $3.2 billion. Increased pest incidence in various crops is expected to boost sales of insecticides, while rising labour cost and low consumption (16%) as compared globally (47%) is expected to enhance sales of herbicides. Also opportunities are available in the generic space as molecules have been going off-patent.

Expect healthy growth in crop protection industry



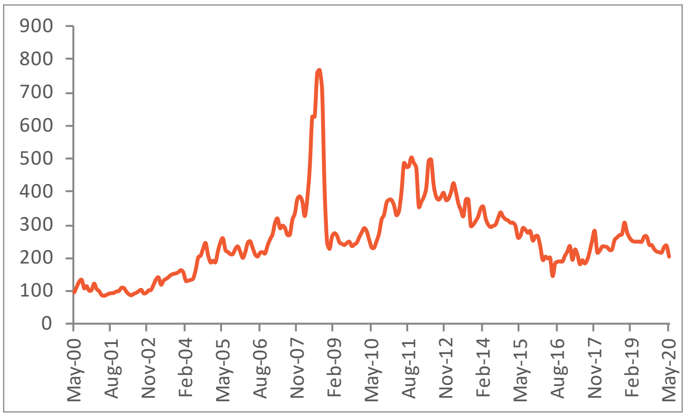
Source: Ministry of Agri, Sharekhan Research

Medium-term catalysts: Expectation of normal monsoons and increase in minimum support price to boost demand off-take of agri inputs.

Long-term triggers: Structural changes in the industry to improve efficiency and reduce dependence on subsidy.

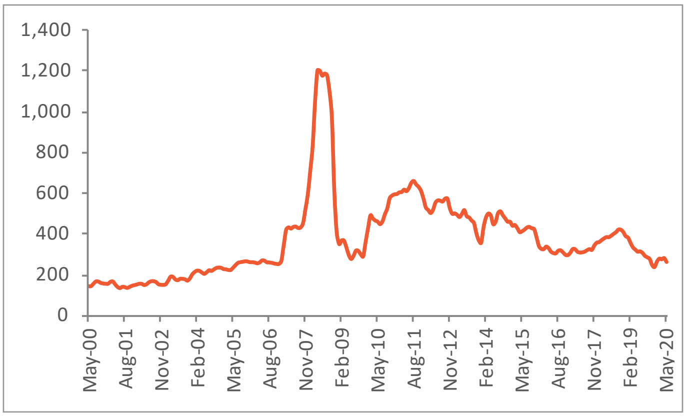
Price trend of Key Fertilisers and Raw materials

Price trend of urea



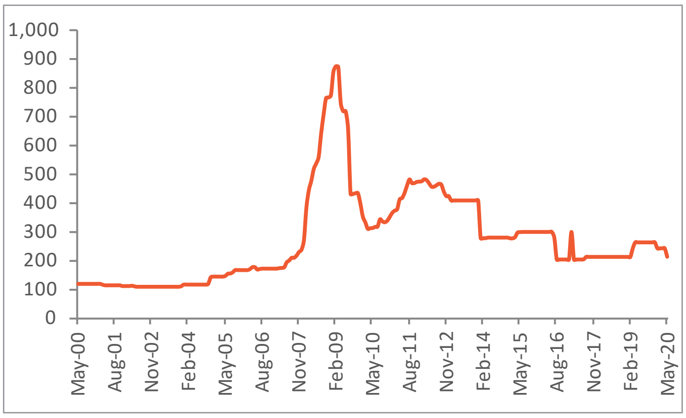
Source: Bloomberg; Sharekhan Research

Price trend of DAP



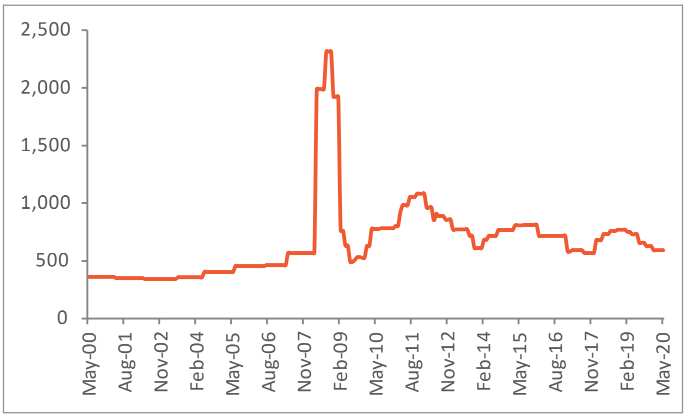
Source: Bloomberg; Sharekhan Research

Price trend of MoP



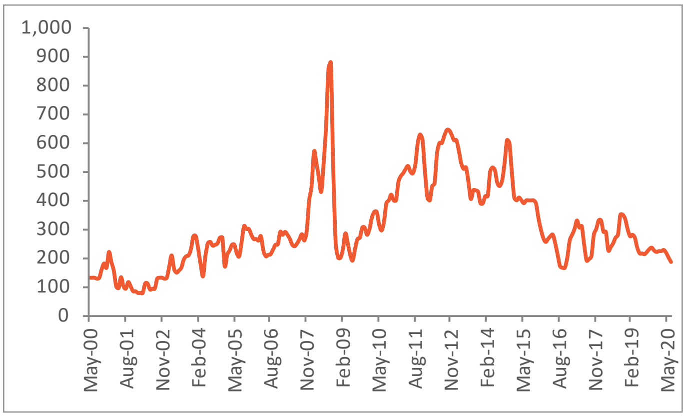
Source: Bloomberg; Sharekhan Research

Price trend of Phosphoric acid



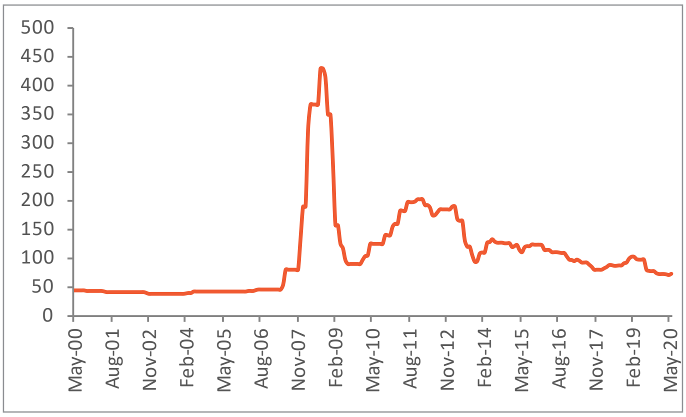
Source: Bloomberg; Sharekhan Research

Price trend of Ammonia



Source: Bloomberg; Sharekhan Research

Price trend of Rock Phosphate



Source: Bloomberg; Sharekhan Research

Why we like Coromandel International: High brand equity in key markets

We believe Coromandel International is on a robust growth path owing to its leadership position and strong balance sheet. Moreover, expectations of a good monsoon and a rise in MSPs is expected to result in healthy demand for Coromandel's products.

Market leadership position: Coromandel International is India's largest complex fertiliser marketer and own 22% of the domestic phosphatic capacity. It has a diversified presence in southern, western & eastern markets with significant presence in Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra, Chhattisgarh, West Bengal, and Orissa. With its strong brand positioning, it has a market leadership position in highly irrigated and agriculture dominated Southern States. This helps the company to register robust revenue growth and higher profitability ahead of its peers.

Backward integrated player: Among the key players in complex fertiliser space in India, Coromandel International is highly backward integrated as it has captive production of phosphoric acid and has also entered into long term relationships with key raw material suppliers. This helps the company achieve operating efficiencies owing to economies of scale led by raw material procurement, lower handling & transportation costs. The company in order to maximise profitability also has an advantage of adjusting its product-mix so as to suit prevailing raw material prices and subsidy regime. Prior to the commissioning of the Vizag Phosphoric acid (phosphoric acid) plant expansion, the company used to import 65-70% of its phosphoric acid requirements with the remaining 30-35% produced in its own plants. However, post commissioning of the expanded capacity in Oct 2019, almost 50% of its requirement will be produced by the company. Also Rock Phosphate, the main ingredient in phosphoric acid production is imported completely, but the company has various joint ventures for its sourcing. This is likely to help in further margin expansion.

Strong global footprint: The company has tie-ups with various global technology institutes and global companies such as IRRI, IITB Monash, GCT, GETAX, ICL, and OCP either for technical knowhow or for sourcing of key raw materials. It has a technology tie-up with global major like Shell, JV Partnership with global water soluble major SQM Chile and a farm mechanisation JV with Yanmar, Japan. The company has strategic investment in Foskor, Africa and Tifert, Tunisia for sourcing of phosphoric acid. The company also has pact with QAFCO in Middle East for supply of urea and ammonia. The company sources ammonia and sulphur from Japan, Rock Phospate from Morocco, Israel, Togo Algeria and MOP from Canpotex – Canada. Moreover, the company has a strong presence in markets like Latin America, Africa, China, South East Asia, and Middle East for sale of its products.

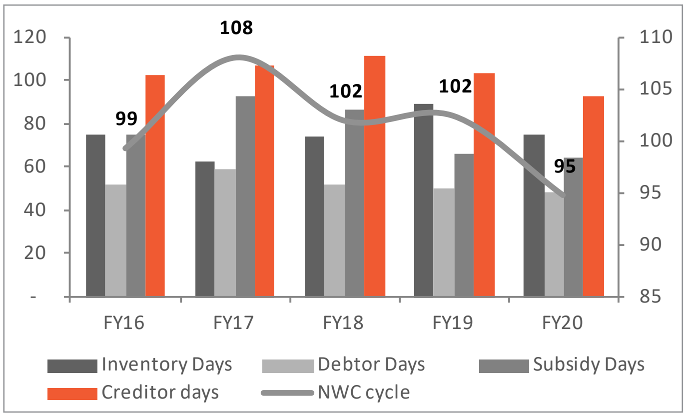
Year	Key milestones
2006	Commences specialty & organic Business
2008	Makes a foray into Retail
2010	Makes a joint venture with SQM for water soluble fertiliser business
2011	Makes acquisition of crop protection company Sabero
2012	Enters into technology tie-up with Shell
2013	Makes acquisition of Single Super Phosphate company Liberty
2014	Enters in joint venture with Yanmar for farm mechanization
2018	Makes acquisition of company in Biological product segment

Source: Sharekhan Research

Flexibility to produce wide range of complex fertilisers: Coromandel International has a greater flexibility to produce 13 different grades of fertilisers according to requirement of soil without affecting profitability. Coromandel can produce complex fertilisers with high P contains and also produce with lower contain of P. Coromandel have wide range of product to produce in complex fertiliser like 20:20:0:13, 14:35:14, 28:28:0, 10:26:26 and 12:32:16. Coromandel International can produce new products within a short period owing to its strong R&D and technology tie-up.

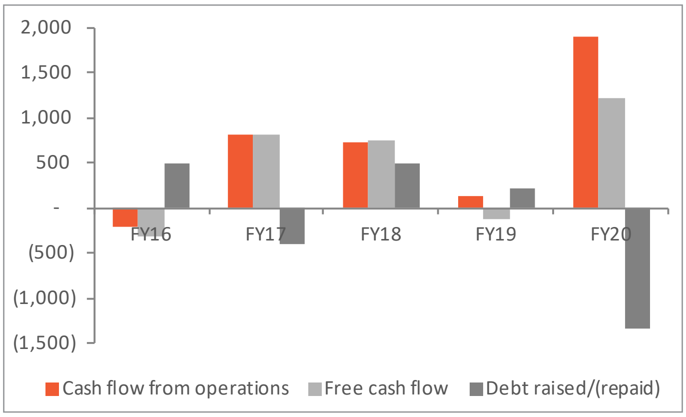
Cash generating machine, leads to lean balance sheet: The company has been a cash-generating machine as its cumulative cash flow from operations during the last five years stood at Rs. 3,376 crore while free cash flow stood at Rs 2349 crore. Also during the last five years the company's gross debt reduced from Rs 2627 crore to Rs 1625 crore a reduction of Rs 1000+ crores, while net debt reduced by Rs 882 crore during the same period. The company has been continuously focusing on improving its working capital requirement as a result of which it reduced from 108 days in FY2017 to 95 days in FY2020. The improvement is largely owing to lower subsidy receivables. This has resulted in a leaner and stronger balance sheet, hence net debt/equity improved from 0.9x in FY2016 to 0.4x in FY2020.

Improved working capital cycle



Source: Company Data; Sharekhan Research

Strong cash flow generation leading to debt reduction

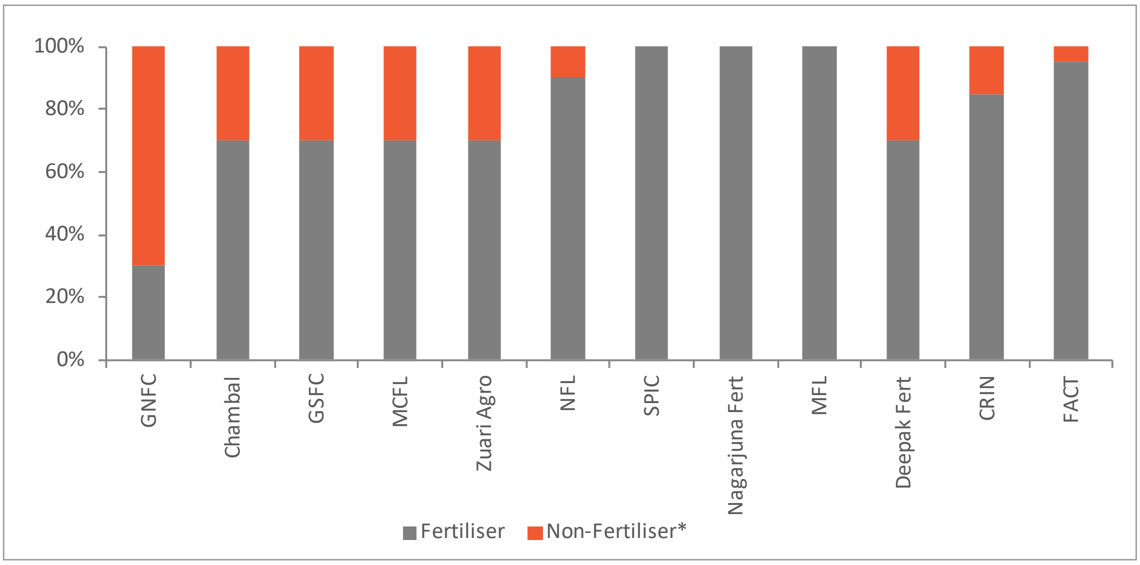


Source: Company Data; Sharekhan Research

To incur capex of Rs. 300-400 crore gradually: The management is hopeful that the cash level would continue to remain healthy going ahead despite incurring a capex of Rs. 300-400 crore during FY2021. The areas where capex will be incurred are i) to develop new products in high margin crop protection segment, ii) increasing footprint of retail business, iii) augmentation of capacity for future growth in fertilisers and iv) on R&D for developing new molecules and speciality nutrients. The company also intends to expand fertiliser plant capacity through debottlenecking.

Limited presence in Urea helps in lower subsidy receivable: Also CRIN is well placed among others in terms of business areas considering negligible presence in urea business, so its exposure to subsidy receivables is limited.

Expect healthy growth in crop protection



Source: Sharekhan Research

Coromandel International

Nutrient and Other Allied Business

Phosphatic fertiliser

DAP, Complex Fertilisers, SSP/MOP

The company manufactures and markets a wide range of fertilisers making it a leader in its addressable markets & the second largest phosphatic fertiliser player in India.

Speciality Nutrient & Organic fertiliser

G-Sulphur, Water Soluble, Organic Manure

The company has also introduced a range of Speciality Nutrient products including Organic Fertilisers.

Retail

Agri Inputs, Agri Services

The company has ventured into the retail business and currently has more than 800 rural retail centers in the agri -segments.

Crop Protection

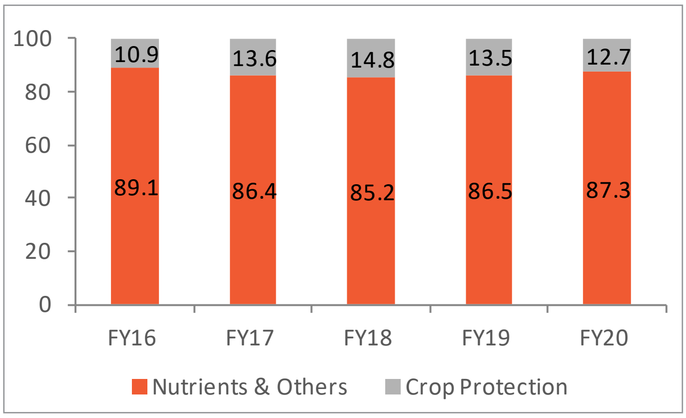
Crop Protection

Technicals, Formulations, Bio-products

The company produces insecticides, fungicides and herbicides and markets these products in India and across the globe in its crop protection business.

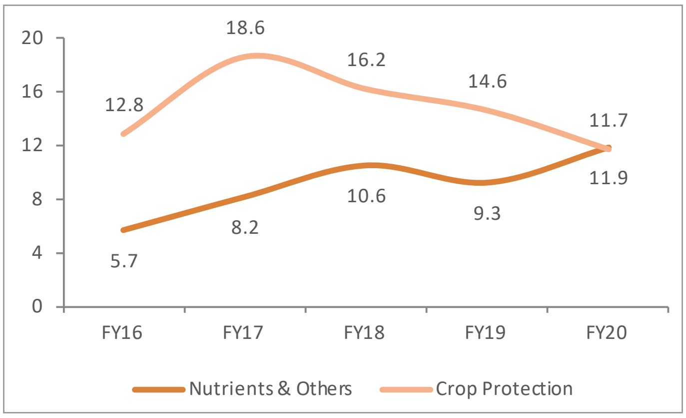
Source: Company Data; Sharekhan Research

Revenue mix



Source: Company; Sharekhan Research

Segment EBIT margin



Source: Company; Sharekhan Research

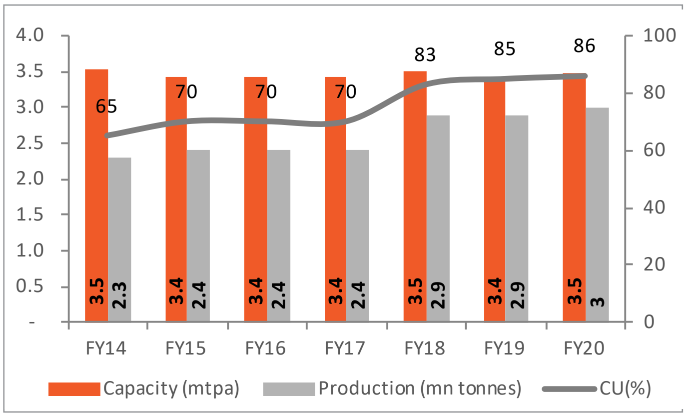
Phosphatic fertiliser business: CRIN is the largest marketer of complex fertilisers in India having a 22% share in the overall phosphatic fertiliser capacity in India. The company's manufacturing facilities are located at i) Kakinada with capacity of 1.9 mtpa and manufacturers products with high nutrient efficiency and also has flexibility to manufacture multiple grades, ii) Vizag with capacity of 1.2 mtpa having integrated phosphoric acid production of 0.2 mtpa and captive sulphuric acid plant, iii) Ennore with capacity of 0.3 mtpa with integrated phosphoric acid production of 0.05 mtpa. The company has the ability to manufacture 13 different grades and provides value addition to its customers through customized offering by providing then unique grades based on their respective usage. The company has a diversified presence in southern, western and eastern markets in India.

Key Milestones in Phosphatic Fertiliser Business

Year/ Duration	Key events
1961	Started as a JV between IMC, Chevron and EID Parry
1980-1990	Brought our Chevron & IMC stake, expanded CFL – Vizag plant capacity and revamped Ennore/Ranipet Plant
1990-2003	EID Parry's farm input business merged & Coromandel become a major player in Southern India
2003-2011	Acquired Godavari Fertiliser and become the 2nd largest player in phosphatic fertilisers
2011-2014	Conducted C Train expansion and acquired Single Super Phosphate company Liberty Phosphates

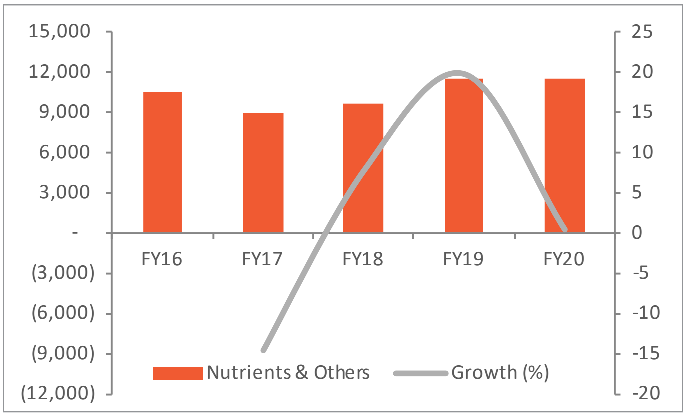
Source: Company Data; Sharekhan Research

Capacity, Production and utilisation rate



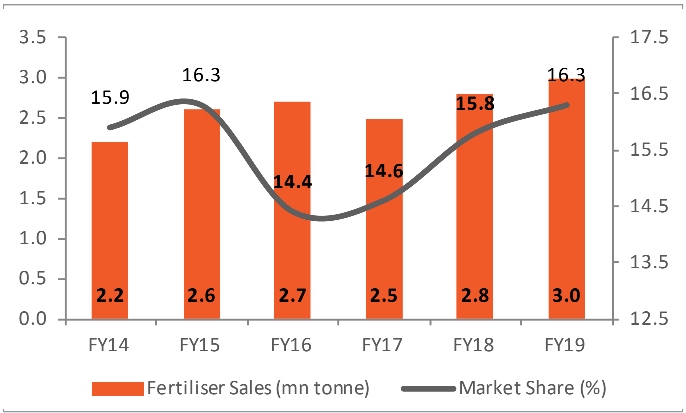
Source: Company Data; Sharekhan Research

Revenue & Growth



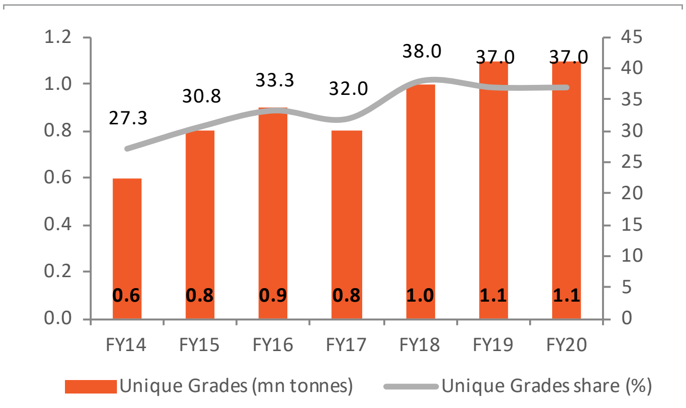
Source: Company Data; Sharekhan Research

Increasing quantity sold leading to market share gains



Source: Company Data; Sharekhan Research

Contribution of Unique grade sales increasing



Source: Company Data; Sharekhan Research

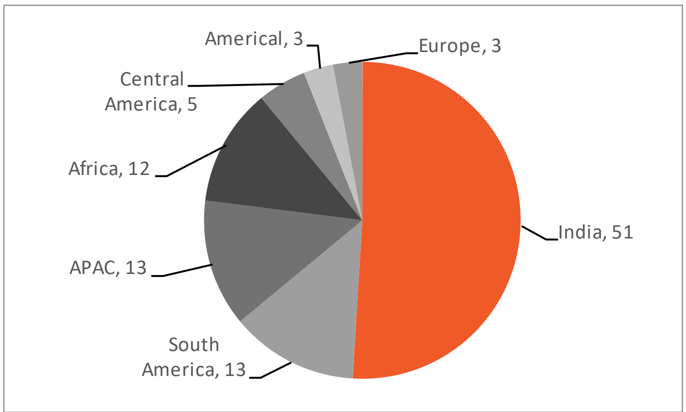
Crop Protection Business: Coromandel International is India's fifth-largest crop protection company. It manufacturing 15 technicals and is the third largest manufacturer of Mancozeb globally. The company has a manufacturing capacity of 80,000+ tonnes per annum across six locations and has a wide product portfolio of 60+ brands. The company has ~1000+ global registrations and derives ~49% of the revenues from exports. The company has presence in both B2B and B2C business and has a distribution reach of over 10000+ retailers. The company has a diversified presence across the globe through 8 subsidiaries and the company's product is sold across 81+ countries. The company introduced four new products in FY2019 and intends to introduce 2-3 new products each year going forward. The company expects healthy growth in both domestic as well as exports market. The acquisition of Bio logicals' business (manufacturing facility in Cuddalore, Tamil Nadu) has been a synergistic fit as it registered 15% revenue CAGR during FY15-19 and had an export contribution of 60% with significant presence in USA, Europe & Canada.

Key milestones in crop protection business

Year	Key events
1990s	Acquired pesticides unit of BPM
2006	Acquired FICOM and set up Jammu Unit I
2009	Expansion to Latin America
2010	Acquired Pasura Bio Tech and set up Jammu Unit II
2011	Acquired Sabero
2015	Established office and R&D center in China
2018	Acquired Bio logical product company

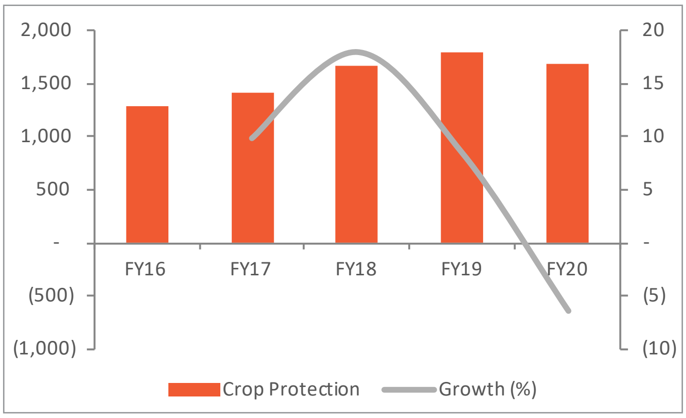
Source: Company Data; Sharekhan Research

Diversified presence across the globe



Source: Company Data; Sharekhan Research

Revenue & Growth



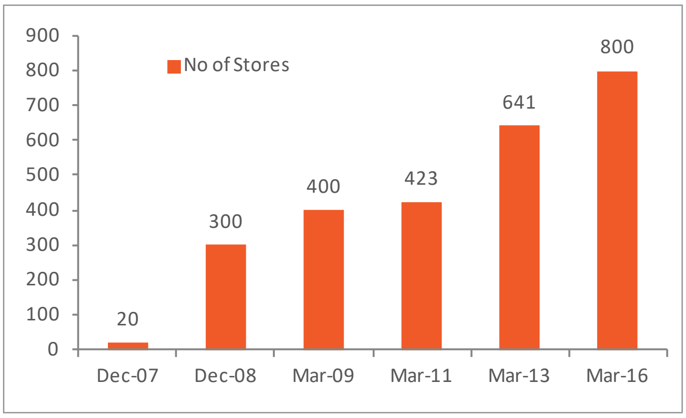
Source: Company Data; Sharekhan Research

Retail business: The company provides one stop shop for agriculture needs through its rural retail chain wherein its offers both products and services required by the farmers to enhance their productivity in their farmlands. The company has a significant presence in Telangana, Andhra Pradesh and Karnataka while is expanding its reach in Maharashtra. The company caters to ~ 3 million farmers every year through its rural retail chain. The company tries to maximize its own product visibility through the rural retail chain and hence the captive products contributed 70% of the retail sales in FY2019, also the company focuses on non fertilisers sales which constitutes ~45% of revenues in FY2019.

Offerings under rural retail stores

Source: Company Data; Sharekhan Research

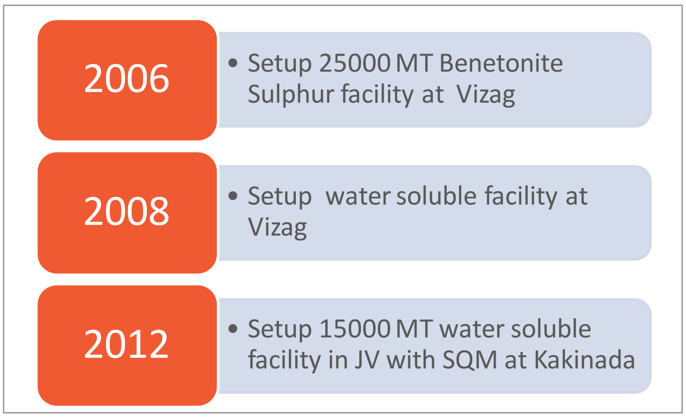
Retail store presence



Source: Company Data; Sharekhan Research

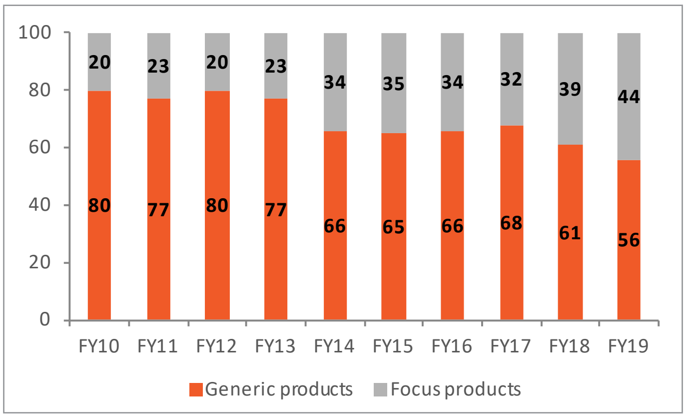
Speciality nutrients business: The company set up India's first bentonite sulphur manufacturing facility and is among the market leaders in water soluble fertilisers and sulphur segments. The company formed a joint venture with a global water soluble fertiliser manufacturer SQM. The company exclusively manufacturers water soluble fertiliser grades such as Speedfol, Insta, Superia, Ultrasol, etc. In the last four years, the company introduced seven crop specific grades for cotton, chilli, cereals, potato, pulses, fruits & vegetables. Also over the years the company has been focusing on improving the revenue share of focus product thereby reducing the same for generics.

Offerings under rural retail stores



Source: Company Data; Sharekhan Research

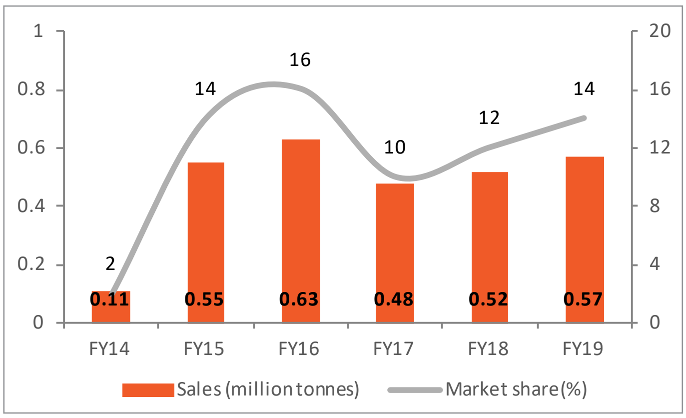
Retail stores foot print over a period of 10 years



Source: Company Data; Sharekhan Research

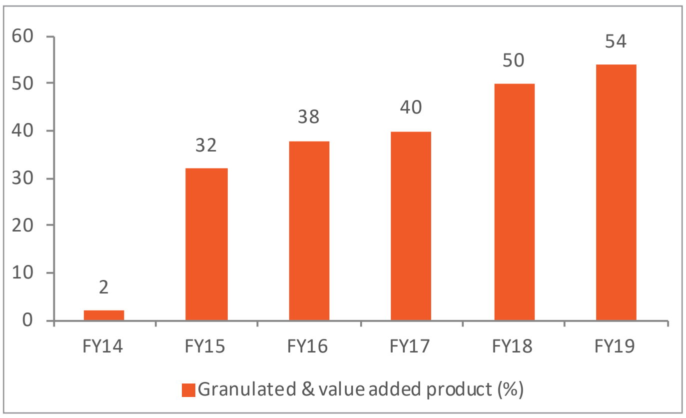
Single super phosphate business: The company setup the India's first fertiliser plant in 1906 in Ranipet with manufacturing capacity of ~ 1 mtpa and also started manufacturing single-super phosphate. The company expanded its presence in the single super phosphate business through acquisition of liberty phosphate in 2013. Over the years, with a focused product approach, the company has been able to enhance its share of granulated & value added products.

Volumes sold and market share



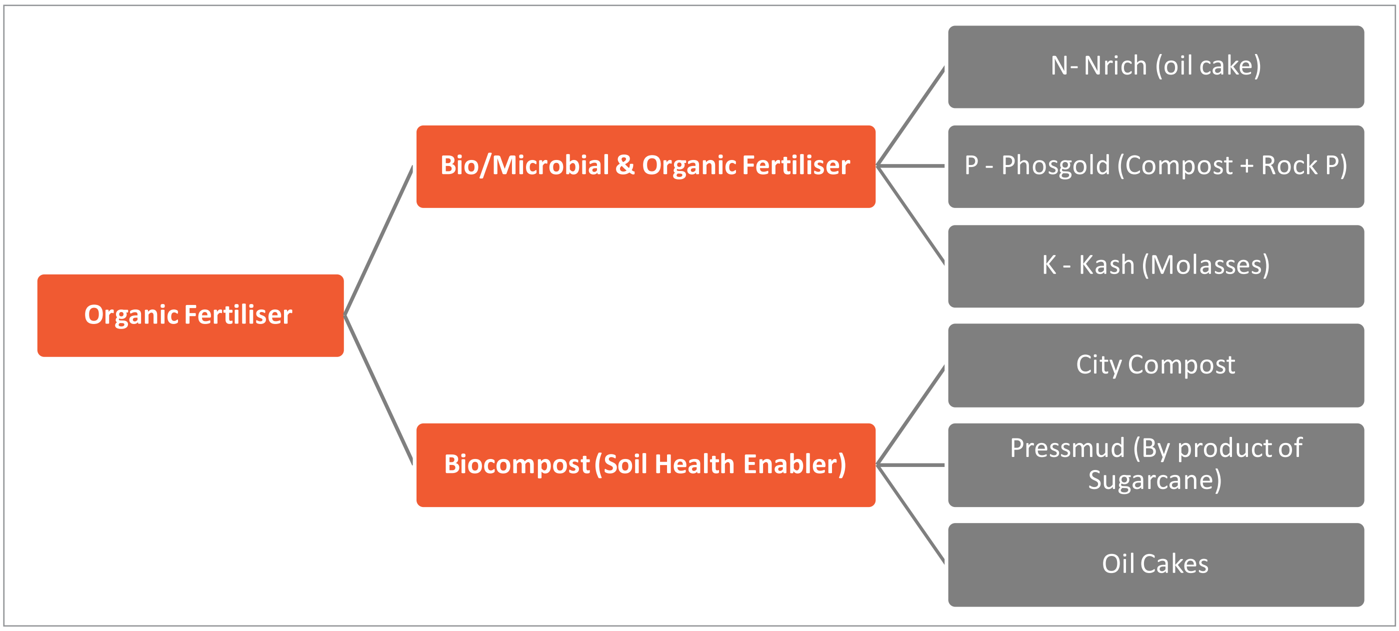
Source: Company Data; Sharekhan Research

Increasing share of granulated & value added products



Source: Company Data; Sharekhan Research

Various product categories



Source: Company Data; Sharekhan Research

Farm mechanisation business: To venture into farm mechanization business the company entered in to joint venture with Yanmar and Mitsui and formed Yanmar Coromandel Agrisolutions wherein Coromandel and Yanmar held a 40% stake each and the balance 20% was held by Mitsui. The company has a market leadership position in Tamil Nadu, Andhra Pradesh and Kerala for rice transplanters. The company introduced a combine harvester in FY18 and has service centers in across Andhra Pradesh, Telangana, Odisha & Tamil Nadu. The company has been expanding this business through synergies in association with its chain of rural retail stores and has been enhancing the product portfolio by introducing new variants and products from the Yanmar product basket suitable for Indian market. To expand this business, CRIN is also partnering with government agencies for getting penetration into custom hiring centers.

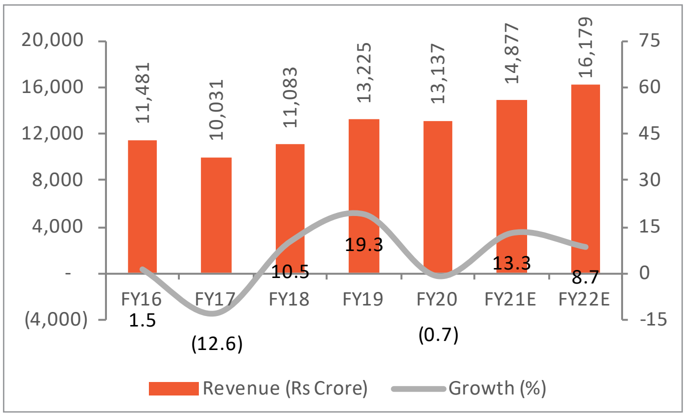
Mechanization in various stages of Agri value chain

Agri value chain	Soil & seed bed preparation	Seeding & Planting	Plant Protection	Irrigation	Harvesting & Threshing
Usage for	-	Paddy transplanters	Power Sprayers	Drip	Combine Harvester
Coromandel presence	40%	29%	34%	37%	65%

Source: Company Data; Sharekhan Research

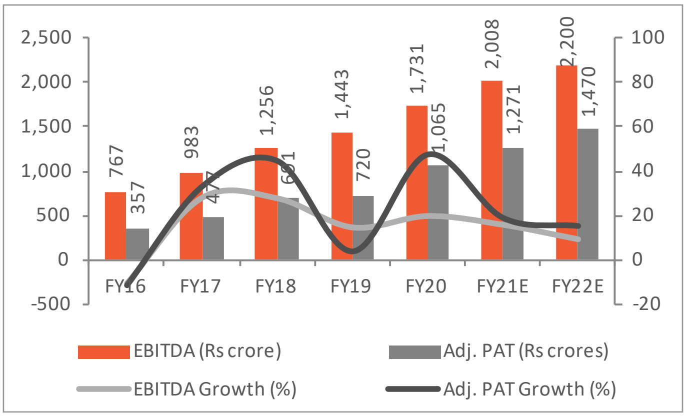
Financials in charts

Revenue growth at a healthy pace



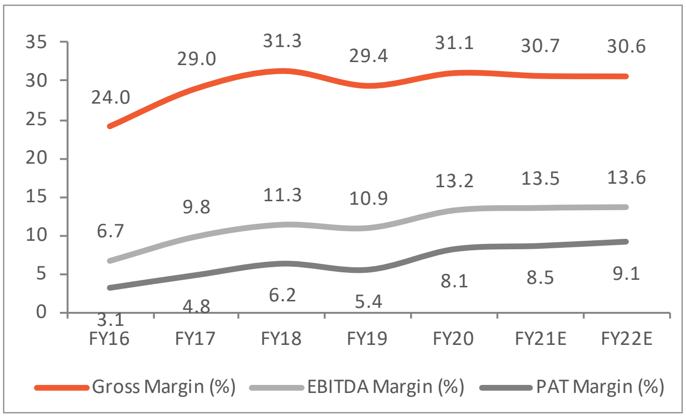
Source: Company Data; Sharekhan Research

Profit to grow at a steady pace



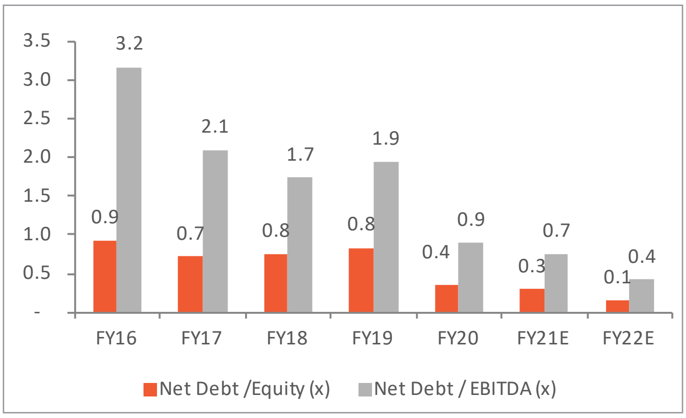
Source: Company Data; Sharekhan Research

Operates at healthy profile



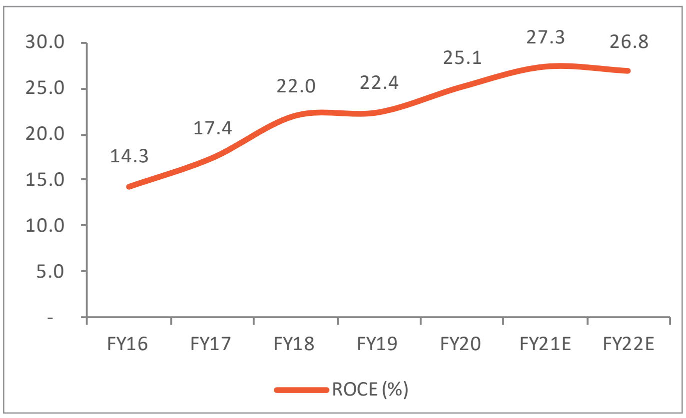
Source: Company Data; Sharekhan Research

Balance sheet to strengthen further



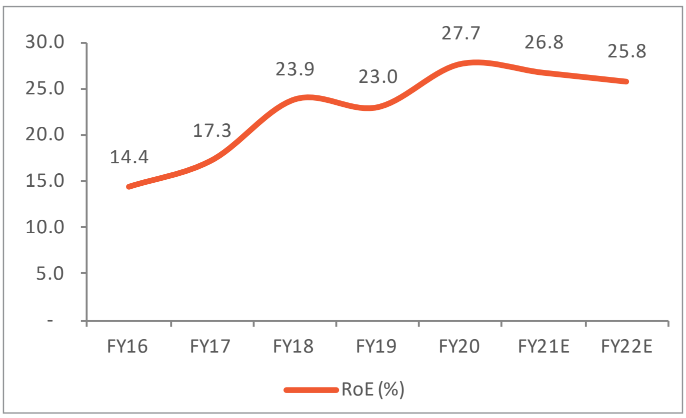
Source: Company Data; Sharekhan Research

RoCE to remain robust in excess of 25%



Source: Company Data; Sharekhan Research

RoE to moderate but remain above 25%



Source: Company Data; Sharekhan Research

Valuation: Potential for being rerated

The company trades at a premium valuation owing to its strong presence in south India and high brand recall coupled with strong balance sheet

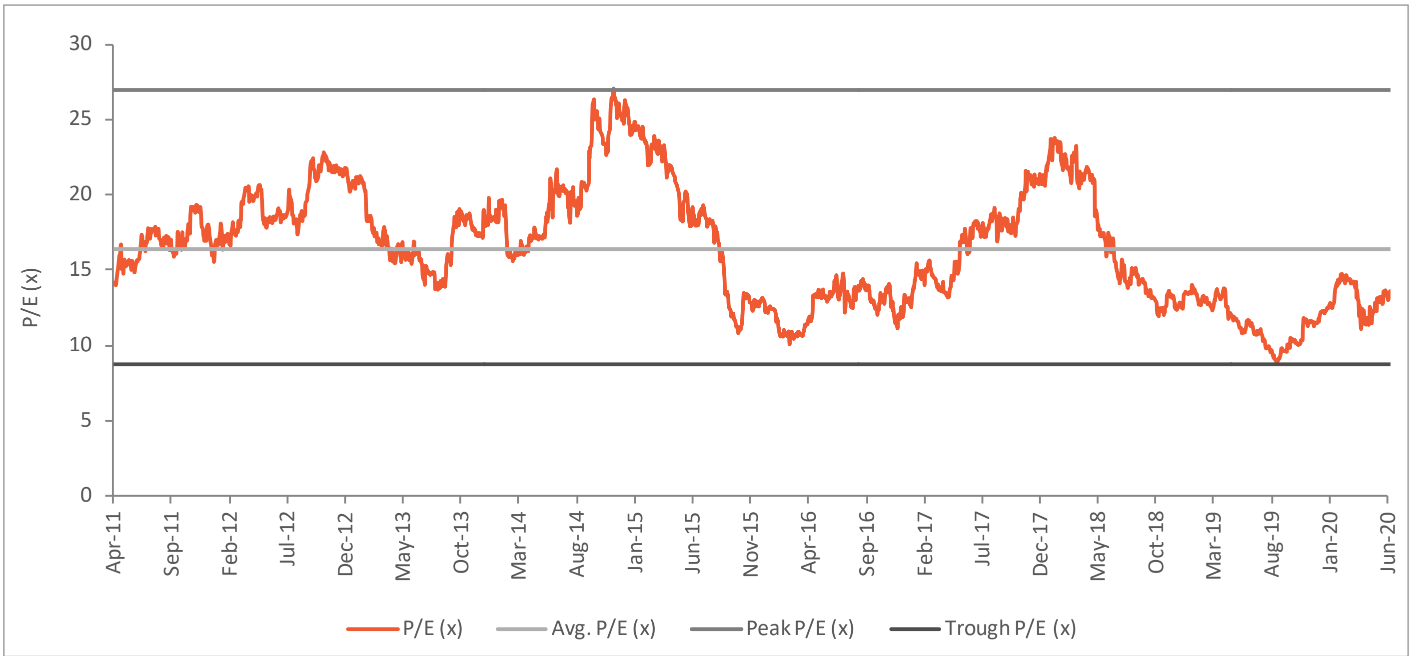
Company outlook

Expectation of normal monsoon to boost demand: The company has delivered a healthy CAGR of 9.4%. 20.8% and 30.4% at revenue, EBITDA and PAT level during FY2017-2020 and we believe the trend of delivering higher growth in earnings than revenue will continue owing to a rise in margin. The company has a lean balance sheet with net debt/equity ratio falling to 0.4x in FY20 from 0.8x in FY19. Moreover, the company likes to undertake expansion of projects through internal accruals and hence is able to enhance margins and cashflow generation capabilities and also generate superior return ratios.

Valuation

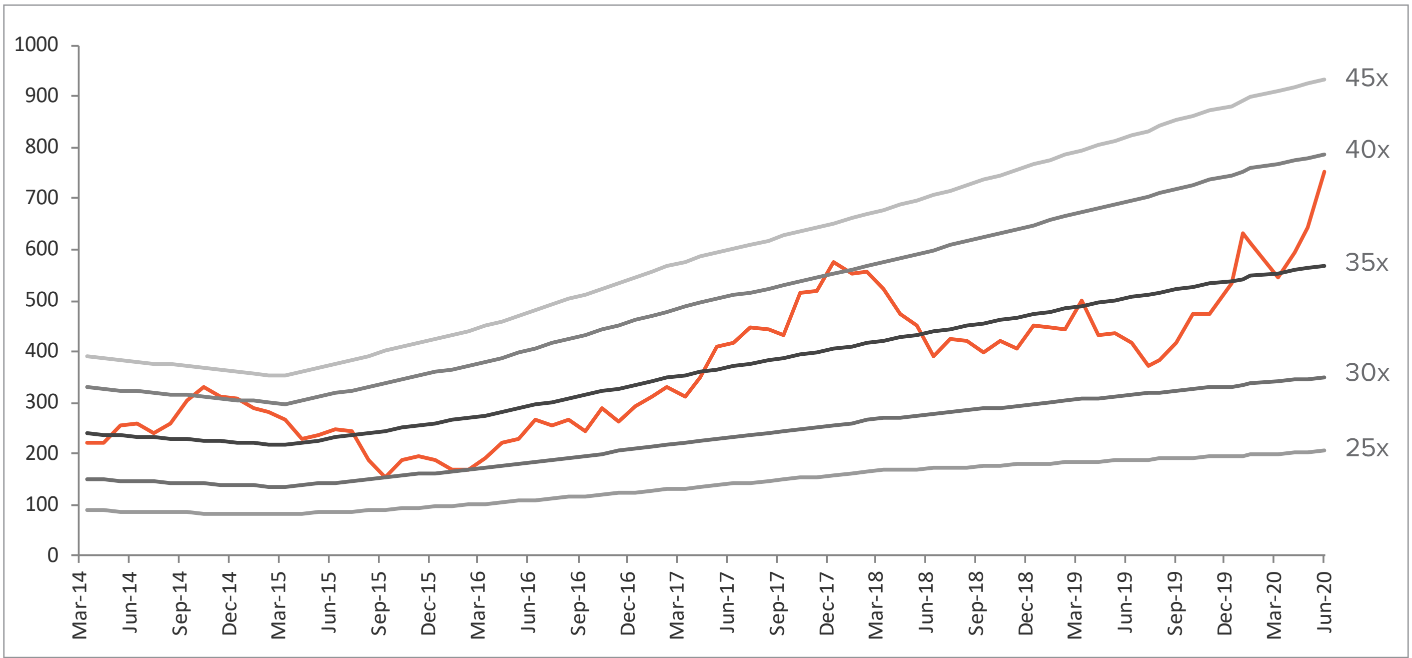
Initiate stock idea coverage with a Buy rating and price target of Rs. 1,000: We expect Coromandel International to deliver healthy revenue and robust earnings CAGRs of 11.0% and 17.5%, respectively, over FY2020E-FY2022E, driven by increased demand offtake for its product owing to expectation of good monsoon and increase in share of non-subsidy business. Also the company has a lean balance sheet with debt/equity of 0.4x and has generated return ratios of over 20% in the last three years. At CMP, the stock trades at 17.4x and 15.0x its FY2021E and FY2022E earnings of Rs 43.4 and Rs.50.2 per share, respectively. We initiate our coverage on CRIN with a Buy recommendation and price target (PT) of Rs. 1,000.

One-year forward P/E (x) band



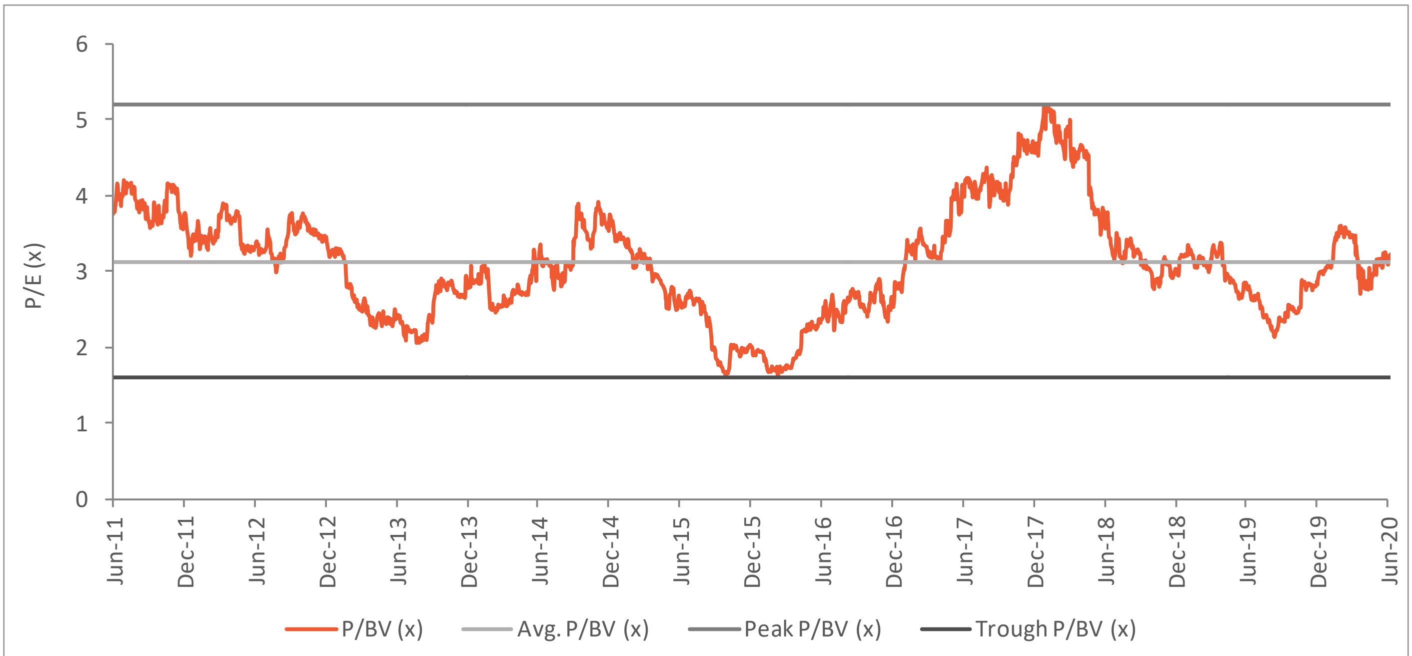
Source: Sharekhan Research

One-year forward EV/EBIDTA (x) band



Source: Sharekhan Research

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer comparison

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Coromandel Int.	754	29	22,097	17.4	15.0	11.8	10.5	26.8	25.8
Chambal Fertilisers	142	42	5,906	5.4	5.1	7.1	6.9	24.9	21.8
Dhanuka AgriTech	709	5	3372	19.3	17.0	15.2	13.5	23.2	23.5
PI Industries	1505	14	20,780	37.2	28.3	22.9	17.5	19.4	21.2
UPL	426	76	32,510	11.7	9.9	7.1	6.3	16.2	18.4

Source: Sharekhan Research, Bloomberg

Financials

Statement of Profit and Loss Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**13,225**	**13,137**	**14,877**	**16,179**	**17,797**
Raw Material Cost	9,340	9,056	10,312	11,223	12,383
Employee Cost	411	461	511	581	640
Other Expenses	2,031	1,889	2,046	2,174	2,336
Total Operating Expense	**11,782**	**11,406**	**12,869**	**13,979**	**15,359**
Operating Profit	**1,443**	**1,731**	**2,008**	**2,200**	**2,438**
Other Income	37	40	46	51	56
Depreciation	114	158	176	185	193
EBIT	**1,366**	**1,613**	**1,879**	**2,065**	**2,301**
Interest & Other finance charge	251	235	239	169	134
Profit before tax	**1,092**	**1,378**	**1,640**	**1,897**	**2,167**
Tax Expenses	372	313	369	427	488
Profit/Loss from associates	1	1	0	0	0
APAT	**744**	**1,065**	**1,271**	**1,470**	**1,680**
Exceptional & Extra ordinary Items	24	0	0	0	0
RPAT	**720**	**1,065**	**1,271**	**1,470**	**1,680**

Source: Company; Sharekhan Research

Balance Sheet Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Sources of Fund					
Equity Capital	29	29	29	29	29
Reserves & Surplus	3,329	4,288	5,137	6,185	7,443
Networth	**3,358**	**4,318**	**5,167**	**6,215**	**7,472**
Minority	0	0	0	0	0
Deferred Tax Liability (Net)	112	58	58	58	58
Total Borrowings	2,954	1,625	1,739	1,351	1,188
Non Current Liabilities	25	407	407	407	407
Total Capital Employed	**6,450**	**6,407**	**7,370**	**8,030**	**9,125**
Application of Funds					
Net Block	1,309	2,032	2,282	2,407	2,507
CWIP	191	65	65	65	65
Investments	201	211	211	211	211
Current Assets, Loans & Advances					
Inventory	3,241	2,697	3,057	3,324	3,657
Sundry Debtors	4,218	4,050	4,687	5,098	5,607
Cash & Bank Balances	159	78	236	437	1,016
Loans & Advances	471	529	529	529	529
Other Current Assets	783	484	464	450	435
Total	**8,873**	**7,840**	**8,974**	**9,839**	**11,245**
Less: Current Liabilities & Provisions					
Trade Payables	3,762	3,348	3,770	4,100	4,510
Other Current Liabilities & Provisions	362	393	393	393	393
Total	**4,124**	**3,741**	**4,164**	**4,493**	**4,903**
Net Current Assets	**4,749**	**4,098**	**4,811**	**5,346**	**6,341**
Total Assets	**6,450**	**6,407**	**7,370**	**8,029**	**9,125**

Source: Company; Sharekhan Research

Cash Flow Statement Rs cr

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Cash flow from operating activities	135	1,906	1,131	1,490	1,589
Cash flow from investing activities	-248	-692	-426	-310	-293
Cash flow from financing activities	-282	-1,295	-547	-979	-718
Net Change in cash and cash equivalents	-396	-81	158	201	579
Opening Cash	555	159	78	236	437
Closing Cash	159	78	236	437	1,016
Free Cash Flow	-114	1,214	705	1,180	1,296

Source: Company; Sharekhan Research

Key Ratios

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Margins (%)					
Gross Profit Margin	29.4	31.1	30.7	30.6	30.4
Operating Margin	10.9	13.2	13.5	13.6	13.7
EBIT Margin	10.3	12.3	12.6	12.8	12.9
Tax Rate	33.4	22.8	22.5	22.5	22.5
Net Profit Margin	5.6	8.1	8.5	9.1	9.4
As a percentage of revenue (%)					
Raw Material Expense	70.6	68.9	69.3	69.4	69.6
Employee Expense	3.1	3.5	3.4	3.6	3.6
Other Expense	15.4	14.4	13.8	13.4	13.1
Financial ratios					
Debt/ Equity (x)	0.9	0.4	0.3	0.2	0.2
Inventory Days	89	75	75	75	75
Debtor Days	116	113	115	115	115
Payable Days	103	93	93	93	93
Working Capital Days	102	95	98	98	98
AEPS (Rs)	25.4	36.3	43.4	50.2	57.3
CEPS (Rs)	29.3	41.7	49.4	56.5	63.9
DPS (Rs)	6.5	12.0	12.0	12.0	12.0
BVPS (Rs)	114.8	147.4	176.3	212.1	255.0
RoNW (%)	23.8	27.7	26.8	25.8	24.5
RoCE (%)	22.4	25.1	27.3	26.8	26.8
Valuation ratios					
CMP (Rs)	754	754	754	754	754
P/E (x)	29.6	20.7	17.4	15.0	13.2
Market Cap (Rs crore)	22,100	22,100	22,100	22,100	22,100
Market Cap/ Sales (x)	1.7	1.7	1.5	1.4	1.2
Enterprise Value (Rs crore)	24,895	23,646	23,602	23,013	22,272
EV/Sales (x)	1.9	1.8	1.6	1.4	1.3
EV/EBITDA (x)	17.2	13.7	11.8	10.5	9.1
P/BV (x)	6.6	5.1	4.3	3.6	3.0
Dividend Yield (%)	0.9	1.6	1.6	1.6	1.6
Growth ratios (%)					
Revenue	19.3	(0.7)	13.2	8.8	10.0
EBITDA	14.9	20.0	16.0	9.6	10.8
EBIT	12.3	18.1	16.5	9.9	11.4
PBT	5.1	26.2	19.0	15.7	14.3
APAT	7.7	43.1	19.3	15.7	14.3
EPS	7.6	42.8	19.3	15.7	14.3

Source: Company; Sharekhan estimates

About company

Coromandel Fertilisers Ltd was incorporated in the year 1961, by the synergistic efforts of EID Parry Ltd a leading business house in India associated with agriculture and two major US companies namely Chevron Chemical Company and International Minerals and Chemicals Corporation. Coromandel International is part of US$ 5 billion Murugappa Group and is the 5th largest Indian agro chemical company. It is India's largest private sector phosphatic fertiliser company and India's largest Single Super Phosphate (SSP) company with being the pioneers & market leaders in Specialty Nutrients. It is also the No. 1 organic manure player in India and has the largest rural retail chain across India. The company manufacturing facilities are in 16 locations and has a presence across 81+ countries. The company has a strong distribution reach and caters to its customers through a strong 2000+ market development team along with 20000+ dealers and 750+ rural retail centres.

Investment theme

We like Coromandel International owing to its leadership position in key businesses led by high backward integration through joint ventures for sourcing of key raw materials and strong distribution reach. This helps the company to deliver healthy performance on a consistent and sustainable basis. The company has been generating healthy cash flows which has helped the company to look for inorganic acquisition at different intervals in related businesses. Conservative and calibrated approach capital allocation in the right business has yield synergies for the company and has also helped the company to maintain a lean and strong balance sheet.

Key Risks

Lower demand off-take due to poor monsoon or due to regulatory changes might impact revenue growth momentum. Availability of key raw material and adverse price variation in same along with delay in the ability to pass on price hikes adequately coupled with adverse currency fluctuations might affect margins.

Additional Data

Key management personnel

M. M. Murugappan	Chairman
V Ravichandran	Vice Chairman
Sameer Goel	Managing Director
B V R Mohan Reddy	Director
M M Venkatachalam	Director
Prasad Chandran	Director
Sumit Bose	Director
Aruna B. Advani	Director
Nagarajan Ramamurthy	Director
Karat Venugopal Parameshwar	Director

Source: Bloomberg

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Equity & Bond Fund	3.91
2	L&T Midcap Fund	1.60
3	Kotak Equity Hybrid	3.07
4	UTI Focused Equity Fund Series V	2.11
5	ICICI Prudential Life Insurance Company Limited	2.08
6	Groupe Chimique Tunisien	1.64
7	Investor Education & Protection Fund Authority	1.17

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research