Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Coromandel International Limited

Strong show as expected

Fertiliser	Sharekhan code: COROMANDEL	Result Update

3R MATRIX

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 790**	
Price Target: **Rs. 1,000**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

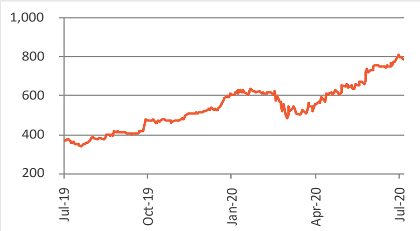
Company details

Market cap:	Rs. 23,145 cr
52-week high/low:	Rs. 829/336
NSE volume: (No of shares)	4.3 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	11.8 cr

Shareholding (%)

Promoters	60
FII	4
DII	21
Others	15

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.7	39.3	92.6	112.0
Relative to Sensex	-3.2	19.8	94.9	111.4

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Coromandel International with unchanged PT of Rs. 1,000.
- Company set to report healthy revenue and earnings CAGR of 11% and 17.5%, respectively, over FY2020-22E.
- Coromandel to speed up investments in high-growth crop protection business which is expected to enhance profitability.
- Q1 performance strong with revenue, EBITDA and PAT rising 51%, 111% and 4x y-o-y, respectively.

Coromandel International reported a robust revenue growth of 50.8% y-o-y at Rs 3,213 crore (marginally ahead of our estimates of Rs. 3,150 crore). Input cost pressures shrunk gross margins by 427 bps y-o-y to 29%, but operating leverage led by economies of scale helped EBITDA margin expand 367 bps y-o-y to 12.8% (66 bps below our expectation of 13.5%). Despite a 38.2% y-o-y increase in depreciation, PAT surged 4x y-o-y to Rs. 251 crore (5.7% ahead of our expectation of Rs. 237 crore) owing to healthy operating performance, fall in interest expenses (down 45.4% y-o-y) and lower tax incidence of 26.3% as against 34.3% during Q1FY2020. Revenue in nutrient & other allied business grew by 49.2% y-o-y to Rs. 2,807 crore led by a 75% y-o-y rise in phosphatic fertiliser sales volumes that drove up market share by 16%, while in crop protection business revenue grew by 55.1% y-o-y to Rs. 420 crore, led by growth in both domestic and export markets. Contribution of unique-grade sales increased to 27% as compared to 23% inQ1FY2020. Profitability at EBIT level improved significantly by 1075 bps y-o-y to 12.9% for the crop protection business while for the nutrient & other allied business it improved by 243 bps y-o-y to 13.2 %. The company intends to accelerated investments in high growth business of crop protection, which is expected to boost overall profitability. The subsidy and non-subsidy business' contribution to revenue and EBITDA stood at 80:20 and 79:21 as compared to 79:21 and 84:16, respectively, a year ago.

Key positives

- Strong volume growth of 75% in phosphatic fertilser leading to market share increase to 16%.
- Share of unique-grade sales increased to 27% as compared to 23% during Q1FY20.

Key negatives

- Subsidy receivables rose to Rs 2,586 crore as compared to 1,777 crore; however, company received Rs. 367 crore in July 2020.
- Contraction in gross margin led by input cost pressures owing to higher raw material pricing and change in product mix.

Our Call

Valuation: Maintain Buy with unchanged PT of Rs 1,000: We expect the company to deliver healthy revenue and robust earnings CAGR of 11% and 17.5%, respectively, over FY2020E-FY2022E, driven by increased demand 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 ratio of 0.4x and has generated return ratios of above 20% in the last three years. At CMP, the stock trades at 18.2x and 15.7x its FY2021E and FY2022E earnings of Rs. 43.4 and Rs. 50.2 per share, respectively. We maintain our Buy rating on the stock with unchanged PT of Rs. 1,000.

Key Risks

- Lower demand due to poor monsoon, regulatory changes might affect 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	FY18	FY19	FY20	FY21E	FY22E
Revenue	11,083	13,225	13,137	14,877	16,179
OPM (%)	11.3	10.9	13.2	13.5	13.6
Adjusted PAT	691	744	1,065	1,271	1,470
% y-o-y growth	44.9	7.7	43.1	19.3	15.7
Adjusted EPS (Rs.)	23.6	25.4	36.3	43.4	50.2
P/E (x)	33.4	31.0	21.7	18.2	15.7
P/B (x)	8.0	6.9	5.4	4.5	3.7
EV/EBITDA (x)	20.1	17.9	14.3	12.3	10.9
RoNW (%)	23.9	23.8	27.7	26.8	25.8
RoCE (%)	22.0	22.4	25.1	27.3	26.8

Source: Company; Sharekhan estimates

Robust numbers: Coromandel International reported robust revenue growth of 50.8% y-o-y at Rs 3,213 crore (marginally ahead of our estimates of Rs 3,150 crore). Revenue growth was led by healthy increase of over ~50% in both the nutrient & other allied business as well as the crop protection business owing to expectation of a normal monsoon and its timely arrival, healthy procurement of rabi harvest by the government and announcement of minimum support price for the Kharif crops before the start of the season. Input cost pressures (higher phosphoric acid prices) led to gross margin contraction of 427 bps y-o-y to 29.0% resulting in gross profit growth of 31.5% y-o-y to Rs. 932 crore. However operating leverage led by economies of scale helped in EBITDA margin expansion of 367 bps y-o-y to 12.8% (66 bps below our expectation of 13.5%). This resulted in a 111.2% y-o-y growth in EBITDA at Rs 412 crore. Employee expense, freight & distribution expense and other expense were lower at 3.8%, 6.0% and 6.4% of sales, respectively, as compared to 5.2%, 9.3% and 9.6% of sales during Q1FY2020. Despite a 38.2% y-o-y increase in depreciation, PAT witnessed a phenomenal increase of 4x y-o-y to Rs 251 crores (5.7% ahead of our expectation of Rs 237 crore) owing to healthy operating performance, a fall in interest expenses (down 45.4% y-o-y) and lower tax incidence of 26.3% as against 34.3% during Q1FY2020.

Revenue mix broadly remained the same, profitability improves substantially in crop protection segment: Revenue from the nutrient & other allied business grew by 49.2% y-o-y to Rs 2,807 crore led by phosphatic fertiliser sales volume increase of 75% y-o-y (8.3 lakh tonnes, 7.6 lakh manufactured and balance 0.6 lakh traded) and increase in market share to 16% as compared to 13.2% during Q1FY2020 while in the crop protection business it grew by 55.1% y-o-y to Rs 420 crore led by growth in both domestic and exports market. Hence, the revenue mix broadly remained the same during the quarter at 87:13 for Nutrient & other allied business: Crop protections on y-o-y basis. Profitability at EBIT level improved significantly by 1075 bps y-o-y to 12.9% in crop protection business while in the nutrient & other allied business it improved by 243 bps y-o-y to 13.2%.

Cash flows to remain healthy and help meet capex funding: The company is expected to generate a healthy operating cashflow which is expected to help it in fuelling its growth momentum. Coromandel International wants to enhance its investment outlay in high growth crop protection business as the demand off-take is encouraging both in the domestic as well as export market. Also the fertiliser business is a steady growth business and hence the company intends to expand capacity through de-bottlenecking (1.5-2 lakh tonnes) and might also consider setting up a facility for DAP instead of importing the same. The capex requirement is expected to be at Rs. 100-125 crore currently. However in the current scenario of COVID-19 crisis the company is slightly going slow on the capex from a short-term perspective, but capex plans for the medium to long term remain intact. The company is also looking to invest in automation considering the supply constraints of labour post the lockdown.

Results — Rs cr

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Revenue	3,213	2,131	50.8	2,869	12.0
Gross Profit	932	709	31.5	1,004	(7.1)
Employee Expense	122	111	9.8	117	4.0
Freight & Distribution Expense	193	198	(2.5)	211	(8.4)
Other Expense	205	205	(0.0)	285	(28.1)
EBITDA	412	195	111.2	391	5.6
Other Income	11	10	7.3	12	(7.0)
Depreciation	42	30	38.2	45	(6.5)
Interest Expense	43	80	(45.4)	43	0.0
PBT	340	95	257.9	314	8.3
Tax Expense	90	33	174.8	80	12.1
PAT	251	62	301.4	234	7.0
EPS (Rs)	8.5	2.1	300.5	8.0	6.9
%			**YoY(bps)**		**QoQ(bps)**
Gross Profit Margin (%)	29.0	33.3	(427)	35.0	(597)
EBITDA Margin (%)	12.8	9.2	367	13.6	(78)
PAT Margin (%)	7.8	2.9	487	8.2	(36)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View: Large addressable market

Agriculture plays an important role in the Indian economy as it has a contribution of 18% to the GDP, 8% to exports and generates 44% of the employment. This is largely owing to India having the largest cropland globally and also the largest irrigated area and hence it provides a large addressable market.

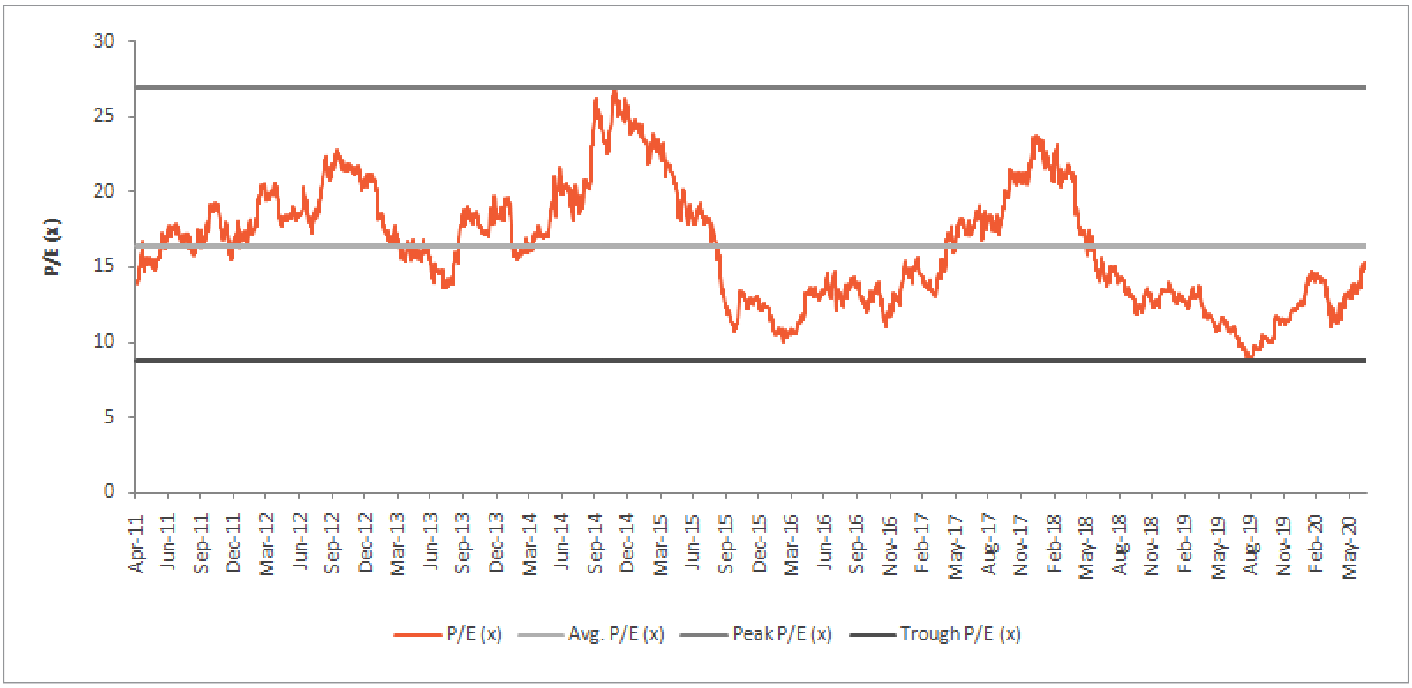
■ Company outlook - Expectation of normal monsoon to boost demand

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 margins. 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: Maintain Buy with unchanged PT of Rs 1,000

We expect the company to deliver healthy revenue and robust earnings CAGR of 11% and 17.5%, respectively, over FY2020E-FY2022E, driven by increased demand 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 ratio of 0.4x and has generated return ratios of above 20% in the last three years. At CMP, the stock trades at 18.2x and 15.7x its FY2021E and FY2022E earnings of Rs. 43.4 and Rs. 50.2 per share, respectively. We maintain our Buy rating on the stock with unchanged PT of Rs. 1,000.

One-year forward P/E (x) band



Source: Sharekhan Research

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 \ largest Single Super Phosphate (SSP) company and also the pioneer and market leader 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's manufacturing facilities are in 16 locations and it 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	4.08
2	L&T Midcap Fund	1.75
3	Kotak Equity Hybrid	2.58
4	UTI Focused Equity Fund Series V	2.16
5	ICICI Prudential Life Insurance Company Limited	2.08
6	Groupe Chimique Tunisien	1.64
7	Investor Education & Protection Fund Authority	1.16

Source: BSE

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

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