

Retail Equity Research (South India Focus)

# Coromandel International Ltd

Fertilizers

BSE CODE : 506395

NSE CODE: COROMANDEL

BLOOMBERG CODE: CRIN:IN

SENSEX : 41,340

## Accumulate

12M Investment Period

Rating as per Mid Cap

**CMP Rs.745 TARGET Rs. 837 RETURN 13%**

(Closing: 05-11-20)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↓

**EARNINGS** ↓

### Unique-grade fertilizers drive margins

Coromandel International (CRIN) is one of the leading private sector fertilizer producers in the country with significant presence in South India. They are one of the leading producers of NPK and SSP grade fertilizers.

- CRIN's total revenues declined by 5% YoY and grew by 43% QoQ to Rs.4,611cr in Q2FY21 with N-P-K fertilizer volumes declining on a YoY basis
- The share of unique-grade fertilizer volume increased from 39% in Q2FY20 to 45% in Q2FY21, with EBITDA margins expanding 360bps YoY to 18.4%.
- The crop protection business saw a 25% YoY growth to Rs.637cr in revenues on the back of strong demand in both domestic and international markets.
- We expect increasing share of unique-grade fertilizers and crop protection products to aid profit growth in the long term
- We downgrade our rating from "Buy" to "Accumulate" based on 17x FY22E EPS and a target price of Rs.837, as we feel that the current valuations have factored in these assumptions.

### Muted volume growth

CRIN's total revenues declined by 5% YoY and grew by 43% QoQ to Rs.4,611cr in Q2FY21, with N-P-K fertilizer volumes declining on a YoY basis after the stellar Q1FY21 performance. Q1FY21 saw higher volume offtake on anticipation of higher rainfall and reservoir levels, which absorbed some of the volumes in Q2FY21. Total fertilizer volumes were at 26.4 Lakh tons in H1FY21 vs 23.0 Lakh tons in H1FY20. The company expects a decent rabi season this year and hence volumes should see a steady offtake in the coming year. CRIN is also in the process of de-bottlenecking its fertilizer plants, which will further increase its manufacturing capacities.

### Crop protection business continues momentum

The crop protection business (14% of total revenues) saw a 25% growth YoY to Rs.637cr in revenues during the quarter on the back of strong demand in both domestic and international markets. The new launches this year continue to gain traction as the company focuses on increasing the share of crop protection business revenue going forward. The company is also focusing on acquiring or manufacturing off-patented molecules in the coming years.

### Unique-grade fertilizers aid margin expansion

The share of unique-grade fertilizer volume increased from 39% in Q2FY20 to 45% in Q2FY21. This led to EBITDA margin expansion by 360bps to 18.3% on a YOY basis. Additionally, the backward integration measures undertaken last year have offset the increase in price of Phosphoric acid, which is a key raw material in the fertilizer manufacturing process. The company is looking to expand its phosphoric acid capacity in the next few years. The company is currently sourcing ~50% of its phosphoric acid requirements through imports. Subsidy payout during the year has so far has been lower for complex fertilizer players although the company expects a higher pay-out during the 2nd half of the year.

### Outlook and valuation

We expect revenue/net profit to grow at a CAGR of 11%/16% during FY20-FY22E. Volumes of unique-grade complex fertilizers should see increased offtake in the coming years in its key markets of AP and Telangana on the back of rabi season sowing. The crop protection business is also expected to continue its momentum as new launches and production capacity expansion will see increased share of revenues from the segment in the long term. EBITDA margin is expected to be at around 14% in the next two years on the back of increasing share of unique-grade fertilizers and backward integration. At the current valuations, we feel that these assumptions have been factored in. Hence, we downgrade our rating from "Buy" to "Accumulate" with a target price of Rs.837 based on 17x FY22E EPS.

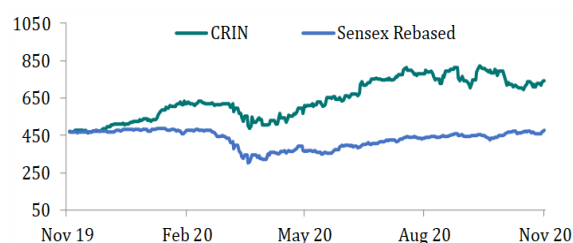
### Company Data

Market Cap (Rs cr)	Rs.21,828
Outstanding Shares (cr)	29.3
Free Float	40.4
Dividend Yield	1.6%
52 week high (Rs)	Rs.838
52 week low (Rs)	Rs.444
6m average volume (cr)	0.06
Beta	0.7
Face value (Rs)	Rs.1

Shareholding (%)	Q4FY20	Q1FY21	Q2FY21
Promoters	61.3	59.6	59.6
FPI's	3.5	4.3	5.9
MFs/Institutions	20.0	21.2	19.6
Public	15.2	14.9	14.9
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 year
Absolute Return	-5.7%	22.2%	58.6%
Absolute Sensex	8.7%	30.6%	2.2%
Relative Return*	-14.4%	-8.5%	56.4%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	13,136	14,943	16,195
Growth (%)	(0.7)	13.8	8.4
EBITDA	1,731	2,099	2,321
EBITDA Margin(%)	13.2	14.0	14.3
PAT Adj.	1,064	1,318	1,441
Growth (%)	42.9	23.8	9.3
Adj.EPS	36.4	45.0	49.3
Growth (%)	42.9	23.8	9.3
P/E	20.4	16.5	15.1
P/B	5.1	4.1	3.4
EV/EBITDA	14.2	11.1	10.0
ROE (%)	27.7	27.3	24.3
D/E	0.4	0.3	0.3

 Joe V Samuel  
 Research Analyst

## Quarterly Financials (Consolidated)

(Rs cr)	Q2FY21	Q2FY20	YoY Growth (%)	Q1FY21	QoQ Growth (%)	H1FY21	H1FY20	YoY Growth (%)
<b>Sales</b>	<b>4,611</b>	<b>4,858</b>	<b>(5.1)</b>	<b>3,213</b>	<b>43.5</b>	<b>7,824</b>	<b>6,989</b>	<b>12.0</b>
<b>EBITDA</b>	<b>843</b>	<b>713</b>	<b>18.2</b>	<b>412</b>	<b>104.4</b>	<b>1,255</b>	<b>908</b>	<b>38.2</b>
EBITDA margins %	18.3	14.7	360bps	12.8	550bps	16.0	13.0	300bps
Depreciation	42	42	0.5	42	(0.5)	84	72	16.4
<b>EBIT</b>	<b>801</b>	<b>671</b>	<b>19.3</b>	<b>370</b>	<b>116.3</b>	<b>1,173</b>	<b>836</b>	<b>40.1</b>
Interest	25	66	(61.9)	43	(41.8)	69	146	(52.9)
Other Income	8	10	(13.7)	11	(23.4)	19	20	(3.0)
Exceptional Items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>785</b>	<b>615</b>	<b>27.7</b>	<b>340</b>	<b>131.0</b>	<b>1,125</b>	<b>710</b>	<b>58.5</b>
Tax	197	111	77.2%	90	119.5	286	144	99.4
Share of profit from Associate	2	0.4	248.8	3	(40.0)	4	0.3	1328
<b>Reported PAT</b>	<b>589</b>	<b>504</b>	<b>16.8</b>	<b>251</b>	<b>135.0</b>	<b>839</b>	<b>566</b>	<b>48.2</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adj PAT</b>	<b>589</b>	<b>504</b>	<b>16.8</b>	<b>251</b>	<b>135.0</b>	<b>839</b>	<b>566</b>	<b>48.2</b>
No. of Shares	29.3	29.3	-	29.3	-	-	-	-
<b>Adj EPS (Rs)</b>	<b>20.0</b>	<b>17.2</b>	<b>16.8</b>	<b>8.6</b>	<b>135.0</b>	<b>28.6</b>	<b>19.3</b>	<b>48.2</b>

## Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	15,530	17,177	14,943	16,195	-3.8%	-5.7%
EBITDA	2,141	2,477	2,099	2,321	-1.9%	-6.3%
Margins (%)	13.8	14.4	14.0	14.3	20bps	(10)bps
Adj. PAT	1,311	1,530	1318	1441	0.5%	-5.8%
EPS	44.8	52.3	45.0	49.3	0.5%	-5.8%

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	<b>11,083</b>	<b>13,225</b>	<b>13,136</b>	<b>14,943</b>	<b>16,195</b>
% change	9.1	18.9	-0.7	13.8	8.4
<b>EBITDA</b>	<b>1256</b>	<b>1443</b>	<b>1,731</b>	<b>2,099</b>	<b>2,321</b>
% change	27.9	14.9	19.9	21.3	10.6
Depreciation	99	114	158	192	210
EBIT	979	1,079	1,337	1,708	1,894
Interest	178	251	235	199	218
Other Income	60	37	40	49	53
<b>PBT</b>	<b>1,038</b>	<b>1,093</b>	<b>1,378</b>	<b>1,757</b>	<b>1,947</b>
% change	45.7	5.2	26.1	27.5	10.8
Tax	347	372	314	439	506
Tax Rate (%)	33.4	34.1	22.7	25.0	26.0
<b>Reported PAT</b>	<b>691</b>	<b>720</b>	<b>1,065</b>	<b>1,318</b>	<b>1,441</b>
Adj.*	0	24	1	0	0
<b>Adj. PAT</b>	<b>691</b>	<b>744</b>	<b>1,065</b>	<b>1,318</b>	<b>1,441</b>
% change	44.9	7.7	42.9	23.8	9.3
No. of shares (cr)	25.4	25.4	25.4	25.4	25.4
Adj EPS (Rs)	24	25	36	45	49
% change	44.9	7.7	42.9	23.8	9.3
DPS (Rs)	7	7	8	8	8

### BALANCE SHEET

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	555	159	78	319	480
Account Receivable	4,205	4,218	4,050	4,585	5,014
Inventories	2,262	3,241	2,697	3,085	3,749
Other Cur. Assets	731	706	539	696	754
Investments	221	201	211	236	261
Gross Fixed Assets	2,459	2,519	2,989	3,244	3,594
Net Fixed Assets	1,316	1,301	1,614	1,676	1,816
CWIP	37	176	49	140	100
Intangible Assets	22	24	23	31	28
Other Assets	90	120	458	478	479
<b>Total Assets</b>	<b>9,848</b>	<b>10,574</b>	<b>10,148</b>	<b>11,737</b>	<b>13,214</b>
Current Liabilities	4,063	4,106	3,727	4,066	4,024
Provisions	24	32	36	41	44
Debt Funds	2,728	2,954	1,625	1,842	2,225
Other Liabilities	136	123	444	435	411
Equity Capital	29	29	29	29	29
Reserves & Surplus	2,867	3,329	4,288	5,323	6,480
Shareholder's Fund	2,896	3,358	4,318	5,352	6,510
<b>Total Liabilities</b>	<b>9,848</b>	<b>10,574</b>	<b>10,148</b>	<b>11,737</b>	<b>13,214</b>
BVPS	99	115	148	183	223

### CASH FLOW

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,137	1,206	1,536	1,949	2,157
Non-cash adj.	329	264	536	392	428
Changes in W.C	-754	-460	312	-734	-1,191
<b>C.F. Operation</b>	<b>263</b>	<b>526</b>	<b>1,862</b>	<b>975</b>	<b>678</b>
Capital exp.	-123	-273	-256	-345	-310
Change in inv.	0	-330	0	0	0
Other invest.CF	162	4	37	-88	-66
<b>C.F - Investment</b>	<b>32</b>	<b>-597</b>	<b>-222</b>	<b>-442</b>	<b>-373</b>
Issue of equity	17	5	14	0	0
Issue/repay debt	444	232	-1,357	209	359
Dividends paid	-281	-229	-124	-283	-283
Other finance.CF	-180	-251	-240	-199	-218
<b>C.F - Finance</b>	<b>-1</b>	<b>-244</b>	<b>-1,723</b>	<b>-293</b>	<b>-144</b>
Chg. in cash	294	-315	-83	240	161
Closing cash	555	159	78	319	480

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	11.3	10.9	13.2	14.0	14.3
EBIT margin (%)	10.4	10.1	12.0	12.8	13.0
Net profit mgn.(%)	6.2	5.4	8.1	8.8	8.9
ROE (%)	23.9	23.0	27.7	27.3	24.3
ROCE (%)	20.9	21.7	24.4	27.1	25.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	138	116	115	105	108
Inventory (days)	96	108	120	103	112
Payables (days)	151	140	143	130	134
Current ratio (x)	2.0	2.1	2.1	2.3	2.6
Quick ratio (x)	1.2	1.1	1.1	1.2	1.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.6	5.3	4.8	4.8	4.7
Total asset T.O (x)	1.2	1.3	1.3	1.4	1.3
Int. covge. ratio (x)	6.5	5.3	6.7	9.6	9.7
Adj. debt/equity (x)	0.9	0.9	0.4	0.3	0.3
<b>Valuation</b>					
EV/Sales (x)	2.1	1.8	1.9	1.6	1.4
EV/EBITDA (x)	18.9	16.5	14.2	11.1	10.0
P/E (x)	31.4	29.2	20.4	16.5	15.1
P/BV (x)	7.6	6.5	5.1	4.1	3.4

## Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
1st January 2020	Buy	656
4th June 2020	Buy	821
29th July 2020	Buy	942
6th November 2020	Accumulate	837

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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