Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Coromandel International Limited

Good show on margin beat

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. 789**	
Price Target: **Rs. 1,000**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

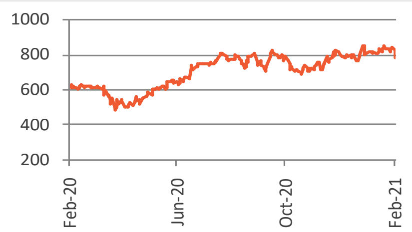
Company details

Market cap:	Rs. 23,140 cr
52-week high/low:	Rs. 880/444
NSE volume: (No of shares)	5.7 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.4 cr

Shareholding (%)

Promoters	58
FII	7
DII	19
Others	16

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	7.6	1.2	24.8
Relative to Sensex	-7.3	-16.1	-33.6	-0.1

Sharekhan Research, Bloomberg

Summary

- Q3FY2021 operating profit at Rs. 499 crore (up 15.6% y-o-y) was ahead of our estimate, led by 95 bps beat in OPM at 14.1%, given strong gross margin at 32.7% (up 118 bps y-o-y) and operating efficiencies. PAT at Rs. 333 crore (up 25.8% y-o-y) further benefited from lower interest cost.
- Good agronomics, new product launch and capex of Rs. 750 crore-900 crore over FY2021E-FY2022E is expected to drive 18% PAT CAGR over FY2020-FY2023E along with high RoE of 25%.
- Likely clearance of past subsidy dues given additional allocation of Rs. 65,000 crore for fertiliser subsidy would reduce working capital and further strengthen the balance sheet (Coromandel received Rs. 1,366 crore in January as against outstanding subsidy of Rs. 2,853 crore as of December 2020).
- We maintain our Buy rating on Coromandel International with unchanged PT of Rs. 1,000. At the CMP, the stock trades at 15.1x its FY2022E EPS and 13.3x its FY2023E EPS (at a discount of 18% to its historical average one-year forward PE multiple of 16.3x).

Coromandel International Limited (Coromandel) reported Q3FY2021 revenue of Rs. 3,533 crore (up 7.8% y-o-y), which was marginally below our estimate of Rs. 3,586 crore. Total phosphatic (DAP + Complex fertilisers) sales volumes increased by 7.9% y-o-y to 7.6 lakh tonne and gross margin was strong with 118 bps y-o-y improvement to 32.7%. Operating profit margin (OPM) also expanded by 96 bps y-o-y to 14.1% (95 bps above our estimate of 13.2%), led by strong gross margin (better product mix and favourable raw-material sourcing) and operating efficiencies. Consequently, operating profit increased by 15.6% y-o-y to Rs. 499 crore, above our estimate of Rs. 473 crore. EBIT margin from nutrient and other allied business improved by 57 bps y-o-y to 13.4% and crop protection EBIT margin was up by 208 bps y-o-y to 17.5%. PAT at Rs. 333 crore (up 25.8% y-o-y) was also above our estimate of Rs. 297 crore, given beat in margin and lower interest cost (down 55.3% y-o-y). Management is optimistic of double-digit revenue growth for the crop protection business and expects price hike for DAP (given 15% q-o-q jump in phosphoric acid prices). Good agronomics and capex of Rs. 750 crore-900 crore over FY2021E-FY2022E is expected to drive 18% PAT CAGR over FY2020-FY2023E along with high RoE of 25%. Likely clearance of past subsidy dues given the increase in allocation for fertiliser subsidy by Rs. 65,000 crore would reduce the working capital requited and strengthen the balance sheet. Hence, we maintain our Buy rating on Coromandel with an unchanged price target (PT) of Rs. 1,000. At the CMP, the stock trades at 15.1x its FY2022E EPS and 13.3x its FY2023E EPS (at a discount of 18% to its historical average one-year forward PE multiple of 16.3x).

Key positives

- Better-than-expected OPM at 14.1% (up 96 bps y-o-y) led by strong gross margin and lower operating cost.
- Share of unique-grade sales increased to 50% in Q3FY2021 as compared to 38% in Q3FY2020 and 45% in Q2FY2021.
- Total phosphatic (DAP + Complex fertilisers) sales volume increased by 7.9% y-o-y to 7.6 lakh tonne.

Key negatives

- Subsidy receivables remain high at Rs. 2,853 crore as of December versus Rs. 1,670 crore as of December 2019.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 1,000: We have marginally increased our FY2021 earnings estimates to factor in slightly higher margins assumption and lower interest cost. We have fine-tuned our FY2022 and FY2023 earnings estimates. Favourable agronomics (higher reservoir level, normal monsoons, and higher crop sowing), new product launches, backward integration in phosphatic acid, and capex plan of Rs. 750 crore-900 crore over FY2021E-FY2022E would drive strong 18% PAT CAGR over FY2020-FY2023E along with high RoE of 25%. Higher allocation for fertiliser subsidy would help reduce outstanding subsidy amount (Coromandel received Rs. 1,366 crore in January 2021 as against outstanding subsidy of Rs. 2,853 crore as of December 2020) and would strengthen the balance sheet. Hence, we maintain our Buy rating on Coromandel with an unchanged PT of Rs. 1,000. At the CMP, the stock trades at 15.1x its FY2022E EPS and 13.3x its FY2023E EPS (at a discount of 18% to its historical average one-year forward PE multiple of 16.3x).

Key Risks

- Lower demand due to poor monsoons, regulatory changes might affect revenue growth momentum.
- Adverse variations in raw-material prices, delay in the ability to pass on price hikes, and adverse currency fluctuations might affect margins.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	13,225	13,137	14,662	15,957	17,481
OPM (%)	10.9	13.2	14.5	14.5	14.7
Adjusted Net Profit	744	1,065	1,409	1,532	1,734
% YoY growth	7.7	43.1	32.3	8.7	13.2
EPS (Rs.)	25.4	36.3	48.1	52.3	59.2
PER (x)	31.0	21.7	16.4	15.1	13.3
P/BV (x)	6.9	5.4	4.4	3.6	3.0
EV/EBITDA	17.9	14.3	11.4	10.2	9.0
ROE (%)	23.8	27.7	29.3	26.1	24.5
ROCE (%)	22.4	25.1	29.9	29.5	28.7

Source: Company; Sharekhan estimates

Better-than-expected margin at 14.1% (up 96 bps y-o-y) and lower interest cost led to beat in PAT: Coromandel's Q3FY2021 consolidated revenue came in at Rs. 3,533 crore (up 7.8% y-o-y), which was marginally below our estimate of Rs. 3,586 crore. Revenue from nutrient and other allied business stood at Rs. 3,045 crore (up 7.2% y-o-y) and that from crop protection business was at Rs. 511 crore (up 10.6% y-o-y). Gross margin was strong at 32.7% (up 118 bps y-o-y) and in-line with our estimate. OPM at 14.1% (up 96 bps y-o-y) was above our estimate of 13.2%, given lower-than-expected operating cost. EBIT margin form nutrient and other allied business improved by 57 bps y-o-y to 13.4% and crop protection EBIT margin was up by 208 bps y-o-y to 17.5%. Consequently, nutrient and other allied business EBIT grew by 12% y-o-y to Rs. 409 crore and crop protection EBIT increased by 25.4% y-o-y to Rs. 89 crore in Q3FY2021. PAT at Rs. 333 crore (up 25.8% y-o-y) was also above our estimate of Rs. 297 crore, given beat in EBITDA margin and lower interest cost (down 55.3% y-o-y).

Q3FY2021 conference call highlights

Industry performance and agro environment in India

- Primary sales of phosphatic fertilisers declined by 4% y-o-y to 57.2 lakh tonne versus 59.8 lakh tonne in Q3FY2020. This was due to the early start of Kharif season last year. The consumption of phosphatic fertilisers at farm level was also down by 5% y-o-y to 75 lakh tonne versus 79 lakh tonne in Q3FY2020.
- Primary sales of complex phosphatic fertilisers was at 28 lakh tonnes versus 26 lakh tonnes in Q2FY2021, which indicates building of channel inventory in the system.
- Phosphoric acid prices for Q4FY2021 have been finalised at $795/tonne (up 15% q-o-q) versus $689/tonne in Q3FY2021. The industry has not taken any pricing action for DAP but firming up of raw-material cost is expected to result in price increases by the industry.
- The government has allocated additional Rs. 65,000 crore for fertiliser subsidy in Q4FY2021 with the aim to clear past dues of the fertiliser industry. The move would help reduce working capital requirement post dues are cleared by the government.

Company-specific highlights

- **Market share improved in Q3FY2021 –** The company's market share increased to 14.3% in Q3FY2021, up 1.6 percentage points y-o-y. Market share stood at 15.3% in 9MFY2021 versus 15.6% in 9MFY2020.
- **Plant utilisation rate and volume –** Capacity utilisation in the phosphatic space stood at 86% in Q3FY2021 versus 85% in 2QFY2021 and 65% in Q1FY2021. Phosphatic volume stood at 8.2 lakh tonne in Q3FY2021 versus 7.6 lakh tonne in Q3FY2020. Manufactured product sales declined by 5% y-o-y, which was offset by the increase in imported product sales volume during the quarter. SSP sales volumes grew by 6.7% y-o-y to 1.6 lakh tonne. Share of unique-grade sales stood at 50% in Q3FY2021 versus 38% in Q3FY2020.
- **Subsidy/non-subsidy mix for revenue/EBITDA –** Subsidy/non-subsidy revenue mix was at 78:22 in Q3FY2021 versus 77:23 in Q3FY2020. Subsidy/non-subsidy EBITDA break-up stood at 70:30 in Q3FY2021 versus 73:27 in Q3FY2020.
- **Subsidy outstanding** was at Rs. 2,853 crore as of December 2020 versus Rs. 1,670 crore as of December 2019 and Rs. 2,862 crore as of September 2020. Subsidy outstanding includes Rs. 2,114 crore claim from the Department of Fertilisers. The company received a subsidy of Rs. 786 crore in Q3FY2021 versus Rs. 972 crore in Q3FY2020. Given this disbursement by the government, Coromandel has Rs. 1,353 crore in January 2021 for the subsidy.
- **Capex guidance –** Management has guided for capex of Rs. 350 crore-400 crore for FY2021 and Rs. 400 crore-500 crore for FY2022. The company is focused on accelerating its capital projects and is setting up a large evaporator plant at Vizag to improve the availability of concentrated phosphoric acid. Moreover, the company has successfully recommissioned its sulphuric acid plant at Ranipet and a pilot liquid fertilizer plant is being set up at Vizag.
- **Outlook –** Management expects the crop protection business to grow in double digits, led by the increase in product portfolio and technical products, while margins are sustainable at 17%-18% levels. Margin guidance of Rs. 4,000-4,200/mt on full-year basis given support from the high share of unique grade products, new product launches, and benefit of backward integration.
- The company has received registration for Quizalofop Ethyl, a selective systemic herbicide for soyabean and other vegetative crops.

Results Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Sales	3,533	3,279	7.8	4,611	-23.4
Total Expenditure	3,034	2,847	6.6	3,768	-19.5
Reported operating profit	499	432	15.6	843	-40.8
Adjusted operating profit	**499**	**432**	**15.6**	**843**	**-40.8**
Other Income	9	9	-2.4	8	7.7
EBITDA	508	441	15.2	851	-40.3
Interest	21	46	-55.3	25	-18.8
Depreciation	42	41	3.6	42	0.8
Share of profit of JV	1	0		2	
Reported PBT	**446**	**354**	**25.8**	**786**	**-43.2**
Adjusted PBT	446	354	25.8	786	-43.2
Tax	113	90	25.7	197	-42.5
Reported PAT	333	265	25.8	589	-43.5
Adjusted PAT	**333**	**265**	**25.8**	**589**	**-43.5**
Equity Cap (cr)	29	29		29	
Reported EPS (Rs.)	11.4	9.0	25.6	20.1	-43.5
Adjusted EPS (Rs.)	11.4	9.0	25.6	20.1	-43.5
Margins (%)			**BPS**		**BPS**
Adjusted OPM	14.1	13.2	95.5	18.3	-415.3
Adjusted NPM	9.4	8.1	135.2	12.8	-335.2

Source: Company; Sharekhan Research

Segmental Performance Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Segment Revenue					
Nutrient & Other allied business	3,045	2,841	7.2	4,014	(24.1)
Crop protection	511	463	10.6	637	(19.7)
Total	3,557	3,303	7.7	4,651	(23.5)
Inter Segment revenue	24	25	(4.4)	40	(41.0)
Net revenues	3,533	3,279	7.8	4,611	(23.4)
Segment EBIT					
Nutrient & Other allied business	409	365	12.0	706	(42.1)
Crop protection	89	71	25.4	139	(35.4)
Total EBIT	**498**	**436**	**14.2**	**845**	**(41.0)**
EBIT margin			**BPS**		**BPS**
Nutrient & Other allied business	13.4	12.8	57	17.6	-418
Crop protection	17.5	15.4	208	21.7	-425
Overall EBIT margin	**14.1**	**13.3**	**79**	**18.3**	**-422**

Source: Company; Sharekhan Research

Volume performance lakh tonne

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
DAP	1.1	1.2	-8.3%	1.8	-38.9%
Complex	7.1	6.4	10.9%	9.4	-24.5%
Total Phosphatics	**8.2**	**7.6**	**7.9%**	**11.2**	**-26.8%**
			BPS		BPS
Unique grade share (%)	**50**	**38**	**1200**	**45**	**500**
Manufactured Phosphatics	7.1	7.5	-5.3%	9.5	-25.3%
Imported Phosphatics	1.1	0.1	NA	1.7	-35.3%
Urea	0.5	0.4	25.0%	1.9	220
MOP	2.8	1.5	86.7%	0.8	170
SSP	1.6	1.5	6.7%	2.0	55.4

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector view - Large addressable market**

Agriculture plays an important role in the Indian economy as it contributes 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 the largest irrigated area. Hence, India provides a large addressable market.

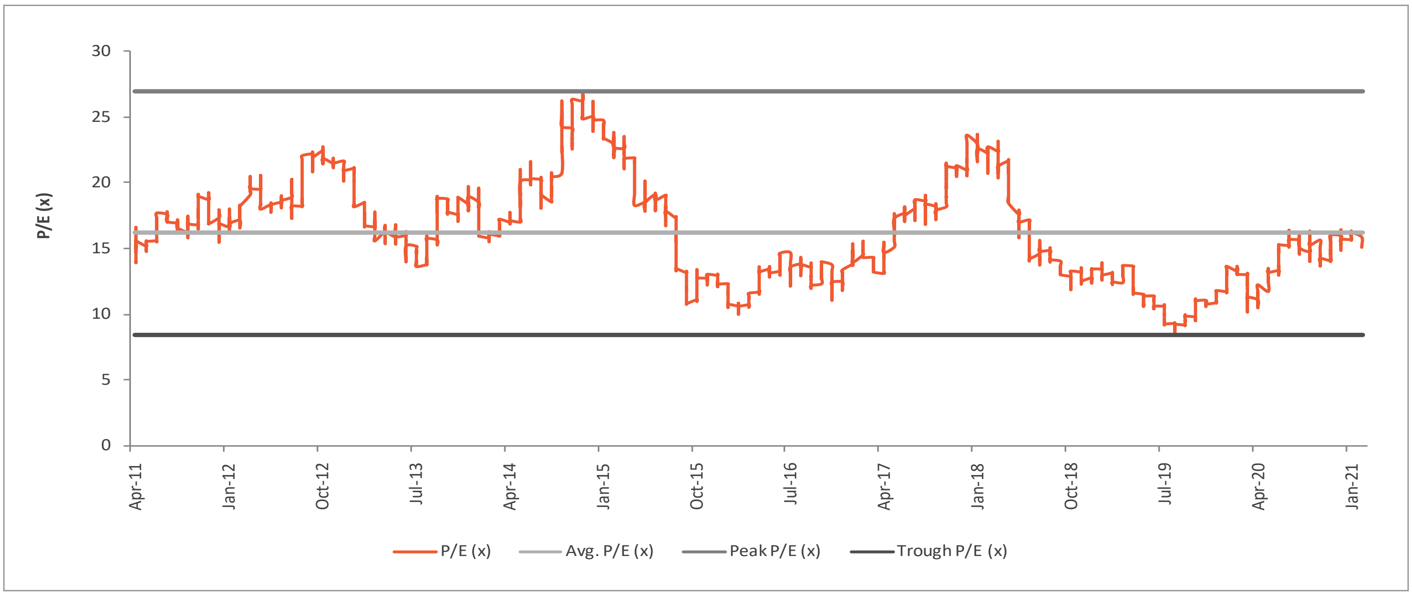
■ **Company outlook - Expectation of normal monsoon to boost demand**

The company has delivered a healthy CAGR of 9.4%. 20.8%, and 30.4% at revenue, EBITDA and PAT level during FY2017-FY2020. We believe the trend of delivering higher growth in earnings than revenue will continue owing to rise in margins. Close to 30-35 molecules in the agri-input space have gone off-patent recently or are likely to go off-patent soon. This provides a strong growth opportunity to Coromandel. Given the huge opportunity, the company plans to set up multi product plants (MPP), which are capable of producing new-generation molecules. The company is also working with Japanese innovator for 9/3 molecule, which is suitable for Indian markets.

■ **Valuation - Maintain Buy with an unchanged PT of Rs 1,000**

We have marginally increased our FY2021 earnings estimates to factor in slightly higher margins assumption and lower interest cost. We have fine-tuned our FY2022 and FY2023 earnings estimates. Favourable agronomics (higher reservoir level, normal monsoons, and higher crop sowing), new product launches, backward integration in phosphatic acid, and capex plan of Rs. 750 crore-900 crore over FY2021E-FY2022E would drive strong 18% PAT CAGR over FY2020-FY2023E along with high RoE of 25%. Higher allocation for fertiliser subsidy would help reduce outstanding subsidy amount (Coromandel received Rs. 1,366 crore in January 2021 as against outstanding subsidy of Rs. 2,853 crore as of December 2020) and would strengthen the balance sheet. Hence, we maintain our Buy rating on Coromandel with an unchanged PT of Rs. 1,000. At the CMP, the stock trades at 15.1x its FY2022E EPS and 13.3x its FY2023E EPS (at a discount of 18% to its historical average one-year forward PE multiple of 16.3x).

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Coromandel was incorporated in 1961 by the synergistic efforts of EID Parry Limited, 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 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 the largest single super phosphate (SSP) company. It is 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 the country. The company's manufacturing facilities are in 16 locations. The company is also present across 81+ countries. The company has a strong distribution reach and caters to its customers through a strong 2,000+ market development team along with 20,000+ dealers and 750+ rural retail centres.

Investment theme

We like Coromandel because of 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 deliver healthy performance on a consistent and sustainable basis. The company has been generating healthy cash flows, which have helped the company to look for inorganic acquisition at different intervals in related businesses. Conservative and calibrated approach towards capital allocation in the right business has yielded synergies for the company and has helped the company to maintain a lean and strong balance sheet.

Key Risks

Lower demand offtake due to poor monsoon or regulatory changes might impact revenue growth momentum. Adverse variation in raw-material prices and delay in the ability to pass on price hikes 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: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Investment Managers Pvt Ltd	3.7
2	Kotak Mahindra Asset Management Co Ltd/India	2.7
3	UTI L-T Adv Fund Series	1.7
4	Groupe Chimique Tunisien SA	1.6
5	L&T Mutual Fund Trustee LI	1.6
6	UTI Asset Management Co Ltd	1.5
7	ICICI Prudential Life Insurance Co	1.4
8	Motilal Oswal Asset Management Co	1.3
9	L&T Mutual Fund Trustee Ltd/India	1.2
10	Ambadi Investment Ltd	1.2

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

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