Sharekhan by BNP PARIBAS

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Stock Update

Coromandel International Limited

Margin outlook improves; company eyes inorganic growth

Fertiliser	Sharekhan code: COROMANDEL	Company 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. 908**	
Price Target: **Rs. 1,070**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

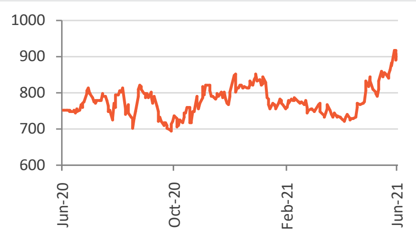
Company details

Market cap:	Rs. 26,646 cr
52-week high/low:	Rs. 923/682
NSE volume: (No of shares)	5.5 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	58
FII	8
DII	21
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.5	20.7	6.8	20.8
Relative to Sensex	3.4	11.9	-4.4	-30.4

Sharekhan Research, Bloomberg

Summary

- Coromandel International's management indicated that after a 140% hike in fertiliser subsidy for DAP, margins of fertiliser business have reverted to Rs. 4,000/tonne. Above normal monsoon bodes well for higher fertiliser demand in the upcoming Kharif season.
- FY22 capex of Rs. 500-600 crore lined up for capacity expansion and backward integration. Evaporator plant at Visakhapatnam to get completed by August 2021 and drive cost-savings as it would improve availability of concentrated phosphoric acid at Kakinada plant.
- Strong balance sheet with cash of Rs. 2,000 crore would help company pursue inorganic growth opportunities, which could accelerate growth in the medium to long term.
- We retain a Buy rating on stock with a revised PT of Rs. 1,070 as normalisation of fertiliser margin, good agronomics and strong growth in CPC business would drive a 15% PAT CAGR over FY21-24E with high RoE of 24%. Stock trades at 15x its FY23E EPS and 13.1x its FY24E EPS.

We interacted with the management of Coromandel International Limited (Coromandel) to get an update on its business outlook. The management indicated that the recent 140% hike in the fertiliser subsidy on DAP to Rs. 24,000/tonne adequately factors in sharp rise in phosphoric acid (key raw material for DAP) prices to $998/tonne for Q1FY2022 (versus $795/tonne in Q4FY2021) and thus margins of the fertiliser business have now normalised to Rs. 4000/tonne (similar to FY2021 level). The management commentary was also positive with respect to fertiliser demand in the upcoming Kharif season as pan-India monsoons are 33% above normal levels. With ~60% of fertiliser volume coming from Andhra Pradesh and Telangana, the management is now focusing on expand in areas such as Maharashtra, Karnataka and Chhattisgarh and the same bodes well for market share gains and above industry volume growth for fertilisers (Coromandel will be able to grow at a 200-300 bps higher rate versus industry growth of 2-4% annually). Additionally, the company is undertaking a capex of ~Rs. 500-600 crore for FY2022, out of which ~Rs150-200 would be spent in the crop protection (CPC) business for capacity expansion/new product launches and ~Rs200-250 crore in fertiliser business for backward integration (sulphur burner for fertilisers). The remaining capex of ~Rs150 crore is related to maintenance capex. The company is focused to launch new products in the CPC business and have already launched 6 new products (4 insecticides, 1 herbicide and 1 fungicide) during April-June 2021 so far as compared to the launch of only one product in FY2021. In addition, the company is setting up a large evaporator plant at Visakhapatnam (expected to get completed by August 2021) and the same would drive cost-savings as it would improve availability of concentrated phosphoric acid at the Kakinada plant. Overall, we believe that good agronomics (above normal monsoon) and capex would drive a 15% CAGR in PAT over FY2021-FY2024E along with a high RoE of 24%. Strong balance sheet with cash of Rs. 2,000 crore would help the company to pursue inorganic growth opportunities, which could accelerate growth in the medium to long term. Hence, we maintain a Buy rating on Coromandel with a revised PT of Rs. 1,070. At CMP, the stock trades at 15x its FY2023E EPS and 13.1x its FY2024E EPS.

Our Call

Valuation - Maintain Buy on Coromandel with a revised PT of Rs. 1,070: We maintain our FY2022-FY2023 earnings estimate and introduce our FY2024 earnings estimate in this report. The hike in fertiliser subsidy allays key concern on margin while above normal monsoon, focus to grow in regions (outside Southern India), strong growth in the CPC business (new product launches) and capex plan (capacity expansion and backward integration) would act as key drivers for earnings growth. Moreover, higher adoption of complex fertilisers (as compared to urea) by farmers bodes well for Coromandel. We expect revenue/operating profit/PAT to grow at 11%/12%15% over FY2021-FY2024E along with a high RoE of 24%. Moreover, a strong balance sheet would help Coromandel pursue inorganic growth opportunities and clock sustained strong growth over medium to long term. Hence, we maintain a Buy rating on Coromandel with a revised PT of Rs. 1,070. At CMP, the stock trades at 15x its FY2023E EPS and 13.1x its FY2024E EPS.

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	FY20	FY21	FY22E	FY23E	FY24E
Revenue	13,137	14,213	15,957	17,481	19,442
OPM (%)	13.2	14.2	14.0	14.3	14.6
Adjusted PAT	1,065	1,329	1,573	1,771	2,028
% y-o-y growth	43.1	24.8	18.4	12.6	14.5
EPS (Rs.)	36.3	45.3	53.6	60.4	69.1
PER (x)	25.0	20.0	16.9	15.0	13.1
P/BV (x)	6.2	5.2	4.2	3.5	2.9
EV/EBITDA	16.3	12.9	11.4	9.7	8.1
ROE (%)	27.7	28.1	27.5	25.4	24.0
ROCE (%)	25.1	31.4	34.1	31.9	30.4

Source: Company; Sharekhan estimates

Sharp hike in DAP fertiliser subsidy allays margin concerns – Fertiliser margins revert to Rs. 4,000/tonne

Recently the government has announced increased the fertiliser subsidy on DAP by 140% to Rs. 1,200/bag with effect from April 01, 2021. This would mean that farmers would get DAP at old rate of Rs. 1,200/bag and the government would bear subsidy of Rs. 1,200/bag (Rs. 500/bag earlier + Rs. 700/bag additional subsidy) or incremental subsidy burden of Rs. 14,775 crore. This would take government fertiliser subsidy provision to Rs. 94,305 crore from a budgeted outlay of Rs. 79,530 crore for FY2022. The move will cushion margin of fertiliser players like Coromandel as they were not hiking DAP prices despite a sharp 60-70% rise in phosphoric acid prices in the recent months. Coromandel's management has indicated that with higher subsidy the company's fertiliser margins are back to normalised level of Rs. 4000/tonne.

Above normal monsoon – key catalyst for higher demand for fertilisers in Kharif season

A good monsoon in the past two years, hike in MSP for various crops and an increase in procurement by the government had positive impact on the demand growth for agri-inputs. Monsoon so far in 2021 has been 33% above normal on a pan-India basis and has been good across regions. This bodes well for sustained higher demand for fertiliser in upcoming Kharif season.

Cumulative rainfall (mm) – Above-average monsoon up to June 16, 2021

Particulars	Actual	Normal	% Departure
East and North East India	166.3	161.8	+3%
North-West India	45.0	27.5	+64%
Central India	104.2	80.0	+30%
Sothern India	104.2	80.0	+30%
Pan-India level	**93.4**	**70.2**	**+33%**

Source: Industry data

Monsoon deviation (Pan-India basis) for last 6 years

Category	16.06.2021	17.06.2020	19.06.2019	13.06.2018	14.06.2017	15.06.2016
All India	33%	32%	-43%	19%	18%	-19%

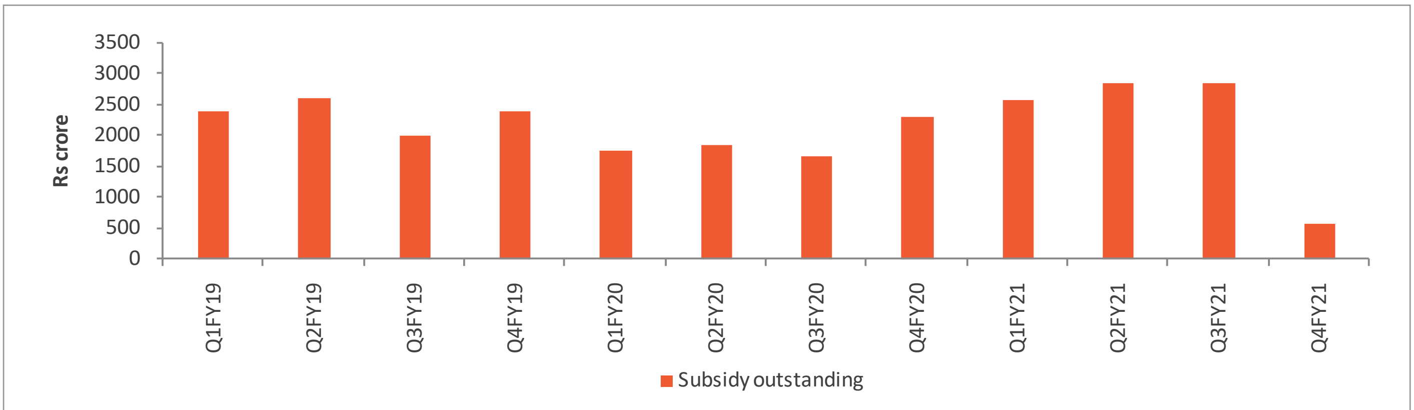
Source: Industry data

Sharp improve in balance sheet with high cash of Rs. 2000 crore – provide scope for organic opportunities

The government has allocated additional Rs. 65,000 crore for fertiliser subsidy in Q4FY2021, which is over and above its budget allocation of Rs. 71,300 crore. The additional subsidy allocation was used to clear past dues of fertiliser companies and this has freed up money tied in working capital and substantially improved cash flows of fertiliser companies. Coromandel also benefited from this and its subsidy outstanding got reduced to Rs. 590 crore as of March 2021 versus Rs. 2,853 crore as of December 2020 and Rs. 2,316 crore as of March 2020. In total the company received subsidy of Rs. 5,041 crore in FY2021 versus Rs. 3,424 crore in FY2020. As a result, Coromandel's cash flow from operations/FCF increased sharply by 2.3x/2.5x y-o-y to Rs. 4150 crore/Rs. 3,953 crore.

The management indicated that the company has Rs. 2000 crore of cash on the books and is looking for inorganics opportunities to fuel growth in the medium term. We believe that acquisition in the CPC would be positive as the business has high growth potential and also has better margin profile than the fertiliser business.

Subsidy outstanding declined sharply to only Rs. 590 crore in Q4FY21



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 GDP, 8% to exports, and generates 44% of employment. This is largely owing to India having the largest crop land globally and the largest irrigated area. Hence, India provides a large addressable market.

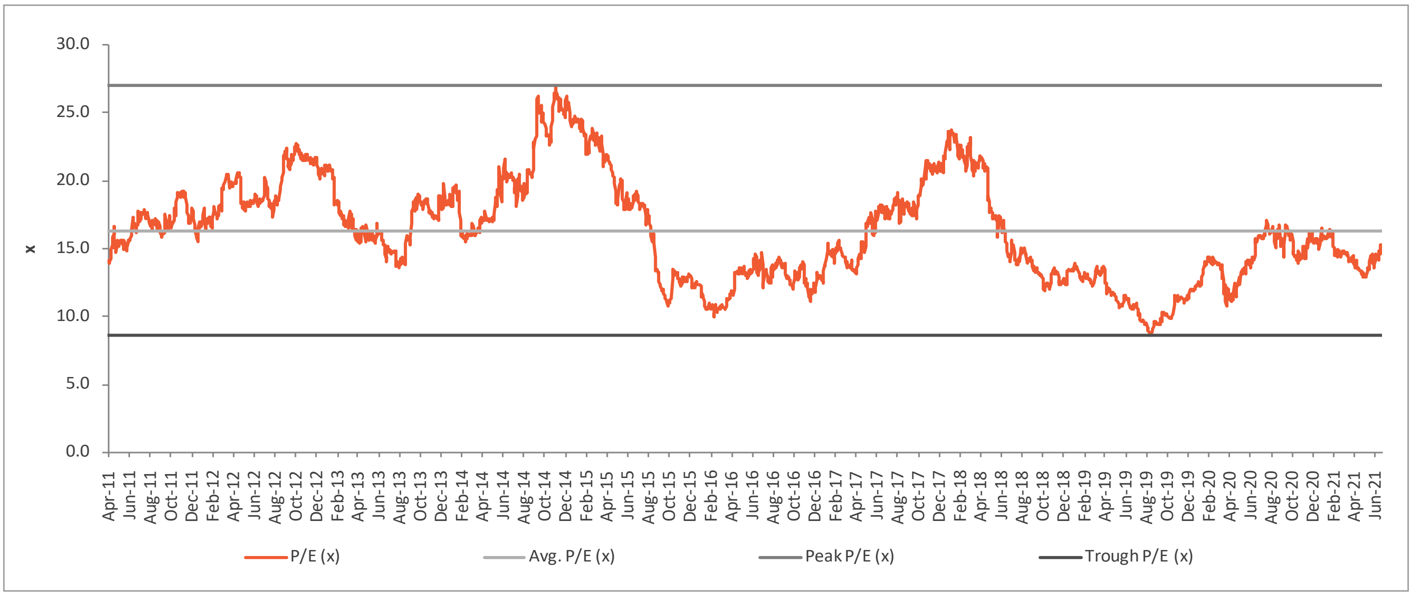
■ Company outlook - Good agronomics and capex plan to drive strong growth

The company has delivered a healthy CAGR of 9%, 20%, and 29% at revenue, EBITDA and PAT level during FY2017-FY2021. We believe that the trend of delivering higher growth in earnings than revenue will continue owing to rise in margins (given the focus on NPK). 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 Coromandel a strong growth opportunity and the company plans to set up multi product plants (MPPs), which are capable of producing new-generation molecules. The company is also working with Japanese innovator for the 9/3 molecule, which is suitable for Indian markets.

■ Valuation - Maintain Buy on Coromandel with a revised PT of Rs. 1,070

We maintain our FY2022-FY2023 earnings estimate and introduce our FY2024 earnings estimate in this report. The hike in fertiliser subsidy allays key concern on margin while above normal monsoon, focus to grow in regions (outside Southern India), strong growth in the CPC business (new product launches) and capex plan (capacity expansion and backward integration) would act as key drivers for earnings growth. Moreover, higher adoption of complex fertilisers (as compared to urea) by farmers bodes well for Coromandel. We expect revenue/operating profit/PAT to grow at 11%/12%15% over FY2021-FY2024E along with a high RoE of 24%. Moreover, a strong balance sheet would help Coromandel pursue inorganic growth opportunities and clock sustained growth over medium to long term. Hence, we maintain a Buy rating on Coromandel with a revised PT of Rs. 1,070. At CMP, the stock trades at 15x its FY2023E EPS and 13.1x its FY2024E EPS.

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 fifth-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

A Vellayan	Chairman
Arun Alagappan	Vice Chairman
Sameer Goel	Managing 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	Kotak Mahindra Asset Management Co. Ltd	3.7
2	DSP Investment Managers Pvt. Ltd	3.4
3	DSP Focus Fund	3.4
4	ICICI Prudential Life Insurance Co. Ltd	1.7
5	Groupe Chimique Tunisien SA	1.6
6	UTI Asset Management Co. Ltd	1.5
7	UTI Focussed Equity Fund	1.4
8	Life Insurance Corporation of India	1.3
9	Investor Education & Protection Fund	1.2
10	Motilal Oswal Asset Management Co. Ltd	1.1

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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