Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Coromandel International Ltd

Robust Q4; Improving margin outlook and eyeing inorganic opportunities

Fertiliser	Sharekhan code: COROMANDEL

Reco/View: Buy	↔	CMP: **Rs. 894**	Price Target: **Rs. 1,070**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 48.52
Updated Apr 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

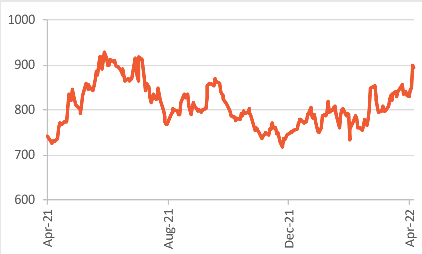
Company details

Market cap:	Rs. 26,236 cr
52-week high/low:	Rs. 956 / 710
NSE volume: (No of shares)	4.5 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	58
FII	7
DII	21
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	13.3	14.2	20.6
Relative to Sensex	15.0	15.0	19.3	3.6

Sharekhan Research, Bloomberg

Summary

- Q4FY2022 results were strong with 51% beat in PAT at Rs. 290 crore (up 86% y-o-y) due to sharp beat in EBITDA margin and higher other income. Revenue growth was also strong at 50% y-o-y to Rs. 4,227 crore (marginally ahead of our estimates).
- Revenue/EBIT from nutrients and other allied business grew strongly by 56%/92% y-o-y to Rs. 3,683 crore/Rs. 325 crore; EBIT margin was up 166 bps y-o-y to 8.8%. Crop protection revenue/ EBIT up 8%/14% y-o-y, while EBIT increased 67 bps y-o-y.
- NBS rates for the upcoming Kharif season largely cover raw material cost rise and the same has improved the margin outlook (management has guided for fertiliser margin of Rs. 4,000-4,500/ tonne). CPC business to grow at high-teen rates and new products to improve margin.
- We retain Buy on the stock with an unchanged PT of Rs. 1,070. Cash balance of Rs. 1,753 crore provides scope for inorganic growth and the same could accelerate growth in the CPC business. The stock trades at 15.5x/13.4x its FY2023E/FY2024E EPS.

Coromandel International Limited (Coromandel) reported strong Q4FY2022 results with beat of 1%/27%/51% in revenue/EBITDA/PAT at Rs. 4,227 crore/Rs. 380 crore/Rs. 290 crore, up 50%/65%/86% y-o-y, led by sharply higher-than-expected margin (OPM at 9%, up 85 bps y-o-y and 184 bps above our estimate of 7.1%) and higher other income (up 66% y-o-y). Robust performance was primarily driven by strong show from nutrient and other allied business, which witnessed 56%/92% y-o-y increase in revenue/EBIT to Rs. 3,683 crore/Rs. 325 crore given benefit of selective price hike, benefit of backward integration and cost control, better utilisation and the same is reflected in resilient EBIT margin of 8.8% (up 166 bps y-o-y) despite elevated raw-material cost environment. Performance of the crop protection business was decent with 8%/14% y-o-y rise in revenue/EBIT to Rs. 556 crore/Rs. 73 crore, but margin improved by only 67 bps y-o-y to 13.2% as raw-material cost remained elevated while new formulation products benefited the segment.

Key positives

- Revenue from nutrient and other allied business grew strongly by 49.6% y-o-y in Q4FY2022.
- Better-than-expected OPM of 9%, up 85 bps y-o-y and 184 bps above our estimates.
- Sharp 2.4x y-o-y rise in cash and bank balance to Rs. 1,753 crore in FY2022.

Key negatives

- Gross margin declined by 491 bps y-o-y to 25.6%, which was below our estimate of 26.5%.

Management Commentary

- Nutrient-based subsidy (NBS) rates for phosphatic and potassic fertilisers for H1FY2023 largely covers rise in raw-material cost; thus, management has guided for fertiliser margin of Rs. 4,000-4,500/tonne for manufactured products.
- CPC business to sustain high-teen revenue growth and margin to improve led by launch of new products and higher capacity utilisation.
- Capex plan of Rs. 700 crore-800 crore for FY2023 with sulphuric acid plant (Rs. 400 crore capex) as the major project.
- Exploring inorganic opportunities in the crop protection business and may announce something on this front in the current fiscal.

Revision in estimates – We have fine tuned our FY2023-FY2024 earnings estimates to factor in FY2022 P&L and balance sheet.

Our Call

Valuation – Maintain Buy on Coromandel with an unchanged PT of Rs. 1,070: Higher fertiliser subsidy, selective recent price hikes, and backward integration would help protect margin and strong growth outlook for the CPC business (product launches), which 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/PAT to grow at 10%/13% over FY2022-FY2024E along with high RoE of 23-24%. Moreover, a strong balance sheet would help Coromandel pursue inorganic growth opportunities and report sustained strong growth over the medium to long term. Hence, we maintain our Buy rating on Coromandel with an unchanged price target (PT) of Rs. 1,070. At the CMP, the stock trades at 15.5x its FY2023E EPS and 13.4x its FY2024E EPS.

Key Risks

1) Lower demand due to poor monsoons and regulatory changes might affect revenue growth momentum and 2) adverse variations in raw-material prices, delay in the ability to pass on price hikes, and adverse currency fluctuations might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	14,213	19,111	20,949	23,054
OPM (%)	14.2	11.2	10.9	11.4
Adjusted Net Profit	1,329	1,528	1,695	1,959
% YoY growth	*24.8*	*15.0*	*10.9*	*15.6*
EPS (Rs.)	45.3	52.1	57.7	66.7
PER (x)	19.7	17.2	15.5	13.4
P/BV (x)	5.1	4.1	3.4	2.9
EV/EBITDA	12.7	11.4	10.5	8.6
ROE (%)	28.1	26.6	24.2	23.3
ROCE (%)	31.4	34.2	30.4	29.6

Source: Company; Sharekhan estimates

Robust Q4, PAT beats estimates by 51% led by sharp margin beat and higher other income

Coromandel reported strong Q3FY2022 numbers with consolidated revenue of Rs. 4,227 crore (up 49.6% y-o-y), marginally ahead of our estimate of Rs. 4,172 crore. Revenue growth was supported by a 56% y-o-y increase in revenue from the nutrient and other allied segment to Rs. 3,683 crore, while that from crop protection was up by 8% y-o-y to Rs. 556 crore. Operating profit margin (OPM) at 9% (up 85 bps y-o-y) was significantly higher than our estimate of 7.1% due to lower-than-expected operating cost (as a percentage of revenue declined by 576 bps y-oy to 16.7%), offsetting slight miss in gross margin at 25.7% (down 491 bps y-o-y). As a result, operating profit grew by 65% y-o-y to Rs. 380 crore and was 27% above our estimate of Rs. 298 crore. PAT at Rs. 290 crore (up 85.9% y-o-y) was also 51% above our estimate, led by better-than-expected margin and higher other income (up 63.3% y-o-y).

Q4FY22 conference call highlights

- **Fertiliser margin outlook:** Management has guided for fertiliser margin of Rs. 4,000-4,500/tonne as government subsidy of Rs. 60,939 crore for April-September 2022 largely factors in increased raw-material price.
- **CPC growth outlook:** Management indicated that its crop business is expected to continue with high growth rate, given low base and new product launches (six products launched in FY2022 and the company plans to launch four more products in June 2022). Ramp-up of new-generation products and higher capacity utilisation would drive margin improvement.
- **Capex plan:** The company has planned capex of Rs. 700 crore-800 crore for FY2023. Key projects – 1) sulphuric acid plant (expected to be commissioned by June 2023) at an estimated capex of Rs. 400 crore, 2) debottlenecking of fertiliser plants to expand capacity to 1350 TPD versus 1100 TPA currently, 3) further expansion of liquid fertiliser plant at Vizag, and 4) herbicide plant in crop protection business.
- **Inorganic growth ambitions:** The company is also eyeing inorganic opportunities in the crop protection business, which compliments its existing business and may announce something on this front in the current fiscal.
- **Subsidy/Non-subsidy mix:** Subsidy/non-subsidy revenue share stood at 81%/19% in FY2022 as compared to 78%/22% in FY2021. Subsidy/non-subsidy EBITDA share stood at 70:30 in FY2022 versus 72%/28% in FY2021.
- **Other updates:** 1) Phosphoric acid prices are yet to be finalised for Q1FY2023, 2) the company is exploring contract manufacturing opportunities, 3) total phosphatics volume (DAP + Complex fertilisers) grew marginally by 1.7% y-o-y in Q4FY22 to 6 lakh tonne (manufactured/imported at 5.1/0.7 lakh tonne, up/down 6%/28% y-o-y), and 4) subsidy received from the government at Rs. 7,077 crore in FY2022 versus Rs. 5,040 crore in FY2021 and outstanding subsidy amount is at Rs. 294 crore versus Rs. 590 crore in FY2021.

Results (consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenues	4,227	2,825	49.6	5,073	-16.7
Total Expenditure	3,847	2,595	48.3	4,529	-15.1
Reported operating profit	**380**	**230**	**65.3**	**544**	**-30.2**
Other Income	77	47	63.3	27	185.9
Interest	21	16	30.3	18	20.0
Depreciation	45	47	-2.8	43	6.0
Share of profit of JV	-1	0	NA	1	NA
Reported PBT	**389**	**213**	**82.3**	**511**	**-23.9**
Tax	99	57	72.6	130	-23.6
Reported PAT	**290**	**156**	**85.9**	**382**	**-24.1**
Equity Cap (cr)	29	29		29	
Reported EPS (Rs.)	9.9	5.3	85.9	13.0	-24.1
Margins (%)			**BPS**		**BPS**
OPM	9.0	8.1	85.2	10.7	-173.9
NPM	6.9	5.5	133.9	7.5	-66.6
Tax rate	25.5	26.9	-144.5	25.4	11.4

Source: Company; Sharekhan Research

Segmental Performance Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Segment Revenue					
Nutrient and other allied business	3,683	2,365	55.7%	4,484	-17.9%
Crop protection	556	515	7.9%	622	-10.5%
Total revenue	**4,239**	**2,880**	**47.2%**	**5,105**	**-17.0%**
Less: Inter Segment revenue	12			32	
Net revenue	4,227	2,880	46.7%	5,074	-16.7%
Segment EBIT					
Nutrient and other allied business	325	169	91.9%	437	-25.7%
Crop protection	73	65	13.7%	93	-20.9%
Total EBIT	**398**	**234**	**70.3%**	**530**	**-24.9%**
EBIT margin (%)			**BPS**		**BPS**
Nutrient and other allied business	8.8	7.2	166	9.8	-93
Crop protection	13.2	12.5	67	14.9	-172
Overall EBIT margin	**9.4**	**8.1**	**130**	**10.4**	**-103**

Source: Company; Sharekhan Research

Sales volume performance lakh tonne

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
DAP	0.8	0.6	31.7%	1.3	-35.7%
Complex	5.1	5.2	-1.9%	7.0	-26.4%
Total Phosphatics	**6.0**	**5.9**	**1.7%**	**8.3**	**-27.8%**
			BPS		**BPS**
Unique grade share (%)	**31.0**	**52.0**	**-2100**	**24.0**	**700**
Manufactured Phosphatics	5.4	5.1	6.1%	7.5	-28.0%
Imported Phosphatics	0.5	0.7	-28.4%	0.7	-26.4%
Urea	0.0	0.4	-100.0%	0.0	NA
MOP	2.3	0.9	139.4%	1.3	70.5%
SSP	1.6	1.8	-11.2%	1.9	-14.1%

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 the employment. This is largely due to India having the largest cropland globally and the largest irrigated area. Hence, India provides a large addressable market.

■ Company Outlook – Goofed agronomics and capex plan to drive strong growth

The company delivered healthy CAGRs of 14%, 17%, and 26% at revenue, EBITDA, and PAT level, respectively, during FY2017-FY2021. We believe the trend of delivering higher growth in earnings compared to revenue will continue on account of increasing margins (given the focus on NPK). About 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 a Japanese innovator for the 9/3 molecule, which is suitable for Indian markets.

■ Valuation – Maintain Buy on Coromandel with an unchanged PT of Rs. 1,070

Higher fertiliser subsidy, selective recent price hikes, and backward integration would help protect margin and strong growth outlook for the CPC business (product launches), which 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/PAT to grow at 10%/13% over FY2022-FY2024E along with high RoE of 23-24%. Moreover, a strong balance sheet (debt free) would help Coromandel pursue inorganic growth opportunities and report sustained strong growth over the medium to long term. Hence, we maintain our Buy rating on Coromandel with an unchanged price target (PT) of Rs. 1,070. At the CMP, the stock trades at 15.5x its FY2023E EPS and 13.4x its FY2024E EPS.

One-year forward P/E (x) band

Source: Sharekhan Research

About company

Coromandel was incorporated in 1961 by 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 $5 billion Murugappa Group and is the fifth largest Indian agro chemical company. Coromandel is India's largest private sector phosphatic fertiliser company and the largest single super phosphate (SSP) company. The company is also the pioneer and market leader in specialty nutrients. Coromandel 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 located 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co Ltd/India	5.0
2	DSP Investmnet Managers Pvt Ltd	3.5
3	Life Insurance Corp of India	2.1
4	Group Chimique Tunisien SA	1.6
5	UTI Asset Management Co Ltd	1.5
6	SBI Funds Management Ltd	1.4
7	INVESTOR EDUCATION & PROTECTN FD	1.2
8	Vanguard Group Inc/The	1.2
9	Axis Asset Management Co Ltd/India	0.9
10	L&T Mutual Fund Trustee Ltd/India	0.9

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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