

EID PARRY INDIA

MIDCAPS

BUY

Target Price: Rs 520

Rerating warranted; Reiterate BUY

Q2: EID reported Q2 PAT of ~800 mn, flat YoY. Cane availability dropped 46% YoY leading to a cascading effect on production and sale of sugar and downstream products, mitigated to some extent by higher sugar realization (+10 YoY) and import of raw sugar. SS16-17 concluded with closing industry stock of 4 MT unevenly spread across country (South has shortage) – Opening stock of 7.7 MT, production at 20.3 MT, import at 0.5 MT, consumption at 24.5 MT.

Outlook: For FY18, EID expects 13-14% decline in cane crushed; average recovery of 10%. Sugar expected to be firm at Rs 37-37.5/ kg. We believe the stock will continue to rerate, as both Coromandel and sugar operations deliver. We reiterate **BUY** with a revised SOTP-based TP of **Rs 520** (Rs 480 earlier).

CMP : Rs 372
Potential Upside : 40%

MARKET DATA

No. of Shares : 177 mn
Free Float : 55%
Market Cap : Rs 66 bn
52-week High / Low : Rs 386 / Rs 231
Avg. Daily vol. (6mth) : 287,186 shares
Bloomberg Code : EID IB Equity
Promoters Holding : 45%
FII / DII : 10% / 6%

Our TP of Rs 520 is based on contribution of Rs 440/share for ~61% holding in Coromandel with 20% holdco discount, Rs 60/share for sugar operations and Rs 20/share for bio-products.

Deep value play

We view EID Parry as a deep value play, with 85% of our SoTP deriving value from Coromandel and only 15% from sugar and bio-products operations. The stock currently trades over 30% discount to its underlying current value of Coromandel, implying that it is not reckoning in sugar and bio-products business. This in our view is unwarranted; even as sugar business suffers intermittently, our continued confidence in EID emanates from the underlying strength in Coromandel which has strong structural tailwinds and can return 50%+ over 3-year horizon.

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Financial summary (Standalone)

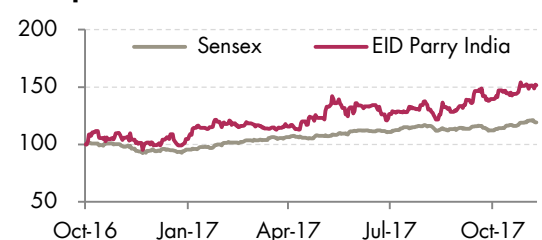
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	26,013	23,652	22,520	24,339
Adj PAT (Rs mn)	(4,631)	2,836	4,089	2,975
Con. EPS* (Rs)	-	-	23.3	16.7
EPS (Rs)	(26.2)	16.0	23.1	16.8
Change YOY (%)	(412.4)	(161.2)	44.2	(27.2)
P/E (x)	(14.2)	23.2	16.1	22.1
RoE (%)	(34.8)	20.9	26.0	16.4
RoCE (%)	(11.2)	16.7	24.6	16.9
EV/E (x)	(24.7)	20.2	14.4	20.2
DPS (Rs)	4.5	5.7	5.7	5.7

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY17	FY18E	FY19E
Crushing (mn MT)	4.4	3.8	4.2
Realization /Kg	37.6	37.5	35.0

Price performance



(...Continued from page 1)

Exhibit 1: Results update – standalone

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	FY18E	FY17	% Chg
Net sales	6,445	5,787	11.4	5,147	25.2	22,520	23,652	(4.8)
EBIDTA	309	669	(53.9)	167	-	5,053	3,542	42.6
Other income	1,010	926	9.1	103	880.4	1,600	1,545	3.6
PBIDT	1,318	1,595	(17.4)	270	-	6,653	5,087	30.8
Depreciation	285	262	8.7	282	1.0	1,093	1,121	(2.5)
Interest	283	310	(8.7)	281	0.5	548	1,399	(60.8)
PBT	750	1,023	(26.6)	(293)	-	5,011	2,567	95.3
Tax	(49)	206	-	(110)	(55.4)	923	(270)	-
Adjusted PAT	799	817	-	(184)	-	4,089	2,836	-
No. of shares (mn)	177	176	0.68	176	0.7	176	176	-
EBIDTA margin (%)	4.8	11.6	-	3.3	-	22.4	15.0	-
PBIDT margin (%)	20.5	27.6	-	5.3	-	29.5	21.5	-
EPS - annualized (Rs)	18.1	18.6	-	(4.2)	-	23.2	16.1	-

Source: Company, Axis Capital

Key takeaways

- ◆ **Sugar and downstream products:** In Q2FY18, cane crushed stood at 500 KT vs. 900 KT last year. Primarily, EID operated only in Tamil Nadu where the output and recovery were lower due to drought. Sugar produced during Q2 was 75 KT, including conversion of raw sugar into white sugar; sugar sold was 130 KT, same as last year's
- ◆ Average sugar realization stood at Rs 37.5/kg
- ◆ Cogeneration power production was down 45% YoY and export was lower 58% YoY. Average power price remains ~Rs 3.65/unit. All plants now have signed PPAs for the next one year atleast. Management believes that in a scenario of falling power tariffs, PPAs are the best way forward versus open access
- ◆ Distillery volumes were up 15% YoY: Reduction in molasses due to shortage of cane was compensated by import of molasses. Alcohol sale was 17 MT, up 13% YoY, with prices firm at Rs 50/litre
- ◆ Bio-pesticides sales stood at Rs 330 mn; Nutraceuticals sales stood at Rs 180 mn
- ◆ Management indicated that the off-take of Spirulina in the European market has improved dramatically after the USFDA approval; Chlorella, the new algae introduced by the company is also selling well. The company expects Nutraceuticals to grow at ~20% CAGR
- ◆ Planned capex of Rs 600 mn for FY18 – investing selectively in Karnataka and Andhra Pradesh for debottlenecking to crush more cane
- ◆ Long-term debt stood at Rs 7 bn

Coromandel International

Over FY17-20E, Coromandel's EBITDA/PAT will grow at 16%/29% p.a. and RoE will expand to ~25% (vs. 17% in FY17). The growth will be led by high-margin/high-RoCE non-fertilizer business (EBITDA CAGR at 22%), whose share in overall EBITDA is likely to grow to ~50% (38% currently). **Higher share of non-fertilizer business in overall profit pool will improve firm-wide margin and return ratios.** Fertilizer business (62% of EBITDA) will achieve sustainable EBITDA of Rs 8.5 bn+ (12% CAGR) by FY20 led by (a) ~90% capacity utilization and (b) EBITDA margin of Rs 2,500/tn.

Strong operating environment in both businesses

- ◆ **Fertilizer business:** Margin supported by (a) higher share of unique grades of fertilizers (branding benefit; zero imports; no domestic competition), where margin is ~2x that of DAP and (b) ~50% increase in manufacturing capacity of Phosphoric Acid (key raw material). DBT (Direct Benefit Transfer) in fertilizer to progressively remove subsidy-related issues (just like LPG)
- ◆ **Non-fertilizer business:** Securing exports registrations of pesticides will unravel B2C opportunity in growth markets. Mana Gromor (agri-retail outlets) will act as one-stop solution for farmers, wherein Coromandel can push more self-produced labels (e.g. unique fertilizer grades) and get direct consumer insights

We maintain BUY on EID Parry; SOTP-based TP of Rs 520

- ◆ **Sugar operations:** Rs 60/share based on 6x FY19E EV/EBITDA which includes our estimate for Silkroad refinery
- ◆ **Coromandel International:** Rs 440/share based on 60.7% shareholding and 20% holding company discount - fertilizer business at EV/EBITDA of 7x; Non-fertilizer business at EV/EBITDA of 16x (FY19E)
- ◆ **Bio-products:** Rs 20/share based on 10x FY19E EV/EBITDA of consol. division

Exhibit 2: SOTP-based price target of Rs 520

	FY19E	Comments
Coromandel (~62%)		
Fair Value (Rs)	570	Fair Value = TP based on Fertilizer biz at EV/EBITDA of 7x; Non-fertilizer biz at EV/EBITDA of 16x (FY19E)
Value/ EID Share (Rs)	440	Assumed 20% Holding company discount
Sugar operations		
FY19E EBITDA (Rs mn)	2,887	Based on 6x EV/EBITDA (FY19E); Includes Silkroad refinery
Value / EID Share (Rs)	60	
Bio-products		
FY19E EBITDA (Rs mn)	425	Based on 10x EV/EBITDA (FY19E) on consol bio-products division
Value/ EID Share (Rs)	20	
EID Target	520	
CMP (Rs)	372	
Upside	40%	

Source: Axis Capital

Financial summary (Standalone)
Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	26,013	23,652	22,520	24,339
Other operating income	-	-	-	-
Total operating income	26,013	23,652	22,520	24,339
Cost of goods sold	(24,460)	(15,266)	(13,341)	(14,900)
Gross profit	1,554	8,386	9,179	9,439
<i>Gross margin (%)</i>	<i>6.0</i>	<i>35.5</i>	<i>40.8</i>	<i>38.8</i>
Total operating expenses	(4,654)	(4,844)	(4,126)	(5,916)
EBITDA	(3,100)	3,542	5,053	3,523
<i>EBITDA margin (%)</i>	<i>(11.9)</i>	<i>15.0</i>	<i>22.4</i>	<i>14.5</i>
Depreciation	(1,120)	(1,121)	(1,093)	(1,114)
EBIT	(4,220)	2,421	3,959	2,409
Net interest	(1,671)	(1,399)	(548)	(444)
Other income	965	1,545	1,600	1,600
Profit before tax	(4,926)	2,567	5,011	3,564
Total taxation	295	270	(923)	(590)
<i>Tax rate (%)</i>	<i>6.0</i>	<i>(10.5)</i>	<i>18.4</i>	<i>16.5</i>
Profit after tax	(4,631)	2,836	4,089	2,975
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	(4,631)	2,836	4,089	2,975
<i>Adj. PAT margin (%)</i>	<i>(17.8)</i>	<i>12.0</i>	<i>18.2</i>	<i>12.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	(4,631)	2,836	4,089	2,975

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	176	176	176	176
Reserves & surplus	12,731	14,044	17,007	18,855
Net worth	12,907	14,220	17,183	19,031
Borrowing	12,493	7,503	6,203	4,903
Other non-current liabilities	197	59	59	59
Total liabilities	25,597	21,782	23,445	23,993
Gross fixed assets	25,074	25,674	26,174	26,674
Less: Depreciation	(10,750)	(11,871)	(12,964)	(14,079)
Net fixed assets	14,324	13,803	13,210	12,595
Add: Capital WIP	242	80	80	80
Total fixed assets	14,566	13,883	13,289	12,675
Total Investment	7,784	7,403	7,703	8,003
Inventory	6,885	7,346	10,656	11,727
Debtors	2,438	2,130	3,003	3,245
Cash & bank	796	791	(1,890)	(1,387)
Loans & advances	2,144	1,001	4,129	4,462
Current liabilities	9,154	11,420	13,455	14,743
Net current assets	3,247	(94)	2,452	3,315
Other non-current assets	-	590	-	-
Total assets	25,597	21,782	23,445	23,993

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	(4,926)	2,567	5,011	3,564
Depreciation & Amortisation	1,120	1,121	1,093	1,114
<i>Chg in working capital</i>	<i>8,392</i>	<i>3,474</i>	<i>(5,227)</i>	<i>(360)</i>
Cash flow from operations	10,538	9,736	3,848	6,853
<i>Capital expenditure</i>	<i>(638)</i>	<i>(438)</i>	<i>(500)</i>	<i>(500)</i>
Cash flow from investing	(1,592)	(58)	(800)	(800)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(6,028)</i>	<i>(4,991)</i>	<i>(1,300)</i>	<i>(1,300)</i>
<i>Dividend paid</i>	<i>(900)</i>	<i>(1,125)</i>	<i>(1,126)</i>	<i>(1,126)</i>
Cash flow from financing	(10,707)	(9,743)	(5,202)	(5,098)
Net chg in cash	(1,761)	(65)	(2,154)	954

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	(26.2)	16.0	23.1	16.8
CEPS (Rs)	(19.8)	22.4	29.3	23.1
DPS (Rs)	4.5	5.7	5.7	5.7
Dividend payout ratio (%)	(17.3)	35.3	24.5	33.7
GROWTH				
Net sales (%)	25.0	(9.1)	(4.8)	8.1
EBITDA (%)	(250.6)	(214.3)	42.6	(30.3)
Adj net profit (%)	(412.4)	(161.2)	44.2	(27.2)
FDEPS (%)	(412.4)	(161.2)	44.2	(27.2)
PERFORMANCE				
RoE (%)	(34.8)	20.9	26.0	16.4
RoCE (%)	(11.2)	16.7	24.6	16.9
EFFICIENCY				
Asset turnover (x)	1.0	1.1	1.0	1.0
Sales/ total assets (x)	0.7	0.7	0.6	0.6
Working capital/ sales (x)	0.2	-	0.1	0.2
Receivable days	34.2	32.9	48.7	48.7
Inventory days	86.3	133.3	222.7	205.6
Payable days	50.1	51.1	63.5	59.9
FINANCIAL STABILITY				
Total debt/ equity (x)	0.9	0.6	0.4	0.3
Net debt/ equity (x)	0.8	0.4	0.5	0.3
Current ratio (x)	1.4	1.0	1.2	1.2
Interest cover (x)	(2.5)	1.7	7.2	5.4
VALUATION				
PE (x)	(14.2)	23.2	16.1	22.1
EV/ EBITDA (x)	(24.7)	20.2	14.4	20.2
EV/ Net sales (x)	2.9	3.0	3.2	2.9
PB (x)	5.1	4.6	3.8	3.5
Dividend yield (%)	1.2	1.5	1.5	1.5
Free cash flow yield (%)	15.1	14.1	5.1	9.7

Source: Company, Axis Capital

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