Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Coromandel International Ltd

Strong Q2; Raised fertilizer margin guidance

Fertiliser	Sharekhan code: COROMANDEL

Reco/View: Buy ↑	CMP: Rs. 953	Price Target: Rs. 1,155 ↔

↑ 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 Updated Oct 08, 2022				41.16
Severe Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

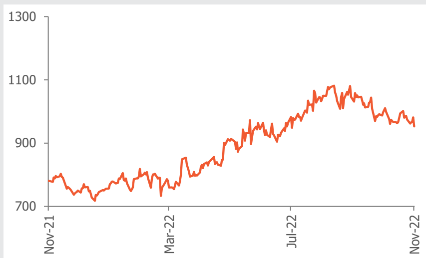
Company details

Market cap:	Rs. 27,995 cr
52-week high/low:	Rs. 1,094 / 710
NSE volume: (No of shares)	5.7 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	57
FII	10
DII	19
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	(4.5)	(9.2)	4.4	22.0
Relative to Sensex	5.0	4.4	9.4	1.5

Sharekhan Research, Bloomberg

Summary

- Q2FY2023 PAT of Rs. 741 crore (up 43% y-o-y) was 20% above our estimate led by strong performance from nutrient and other allied business offsetting muted growth from the CPC business. OPM at 10.5% was in line with our estimate as benefit of operating leverage helped to offset lower-than-expected gross margin.
- Revenue/EBIT from nutrients and other allied businesses grew strongly by 73%/56% y-o-y to Rs. 9,461 crore/Rs. 955 crore led by higher subsidy support and better realisation. However, CPC revenue/EBIT growth of 0.8%/-12% y-o-y was muted as the growth in domestic sales (up 7% y-o-y) was offset by the decline in exports revenue (down 12% q-o-q) due to lower Mancozeb sales (45% of CPC revenue).
- The management raised its fertilizer margin guidance to Rs. 5,500/tonne for FY23 from its earlier guidance of Rs 4,500/tonne on the back of strong performance in H1FY23. Phosphoric acid price declined to $1,175/mt in Q2FY23 versus $1,715/tonne in July 2022 and the same bodes well for fertiliser margins.
- We upgrade Coromandel to Buy (from Hold) with an unchanged PT of Rs. 1,155 as margin/earnings outlook has improved as input price pressures eases and valuation of 13x/11.6x FY24E/FY25E EPS has turned reasonable post 9% correction in its stock price in last 3 months.

Coromandel International Limited reported another robust quarter with a beat of 20.9%/20.4% in operating profit/PAT at Rs. 1,057 crore/Rs. 741 crore, up 42.2%/42.6% y-o-y as OPM of 10.5% (down 164 bps y-o-y) was in-line with our estimates, as benefit of operating leverage helped to offset lower-than-expected gross margin of 18.6% (down 499 bps y-o-y and versus estimate of 22%). Nutrient and other allied business reported high y-o-y growth of 73%/56% in its revenue/EBIT to Rs. 9,461 crore/Rs. 955 crore primarily led by high subsidy and MRP, efficient sourcing of raw materials, increase in capacity utilization levels and backward integration. However, disappointing CPC business revenue/EBIT y-o-y growth of 0.8%/-12% to Rs. 707 crore/Rs. 105 crore was due to muted exports while domestic market witnessed strong growth traction.

Key positives

- Strong revenue/EBIT growth of 73%/56% y-o-y from nutrient and other allied business.
- Total Phosphatics (DAP + Complex) volumes grew by 11% y-o-y to 12.4 lakh tonnes.

Key negatives

- Disappointing revenue growth/EBIT decline of 0.8%/-12% y-o-y from CPC due to muted exports.

Management Commentary

- The management raised its fertilizer margin guidance to Rs. 5,500/tonne for FY23 from its earlier guidance of Rs 4,500 given in last call on the back of strong performance in H1FY23.
- Phosphoric acid price declined to $1,175/mt in Q2FY23 versus $1,715/tonne in July 2022.
- Maintained FY23 capex guidance of Rs. 800-900 crore and said the projects are progressing well.
- Company launched new liquid fertiliser 'Acumist Calcium' in Q2 and the four new products in crop protection business launched in Q1 are performing well.
- Utilisation levels of CPC plants declined to 53% in Q2FY23 versus 77% in Q2FY22; DAP and complex plant facilities operated at 107% capacity utilisation.

Revision in estimates – We have increased our FY23 and FY24 earnings estimate to factor high margin for fertiliser business. We have also introduced our FY25 earnings estimate in this report.

Our Call

Valuation – Upgrade Coromandel to Buy with an unchanged PT of Rs. 1,155: The recent decline in phosphoric acid prices, softening of other key input cost and government subsidy support has improved margin outlook for fertilizer business while CPC business would benefit from product launches. Moreover, higher adoption of complex fertilisers (as compared to urea) by farmers bodes well for Coromandel. We expect revenues/PAT to grow at 12%/16% over FY2022-FY2025E along with high RoE/RoCE of 23%/29% in FY25E. Improved earnings outlook and recent correction in the stock price makes valuation of 13x/11.6x FY24E/FY25E EPS reasonable. Hence, we upgrade Coromandel to Buy (from Hold) with an unchanged PT of Rs. 1,155.

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	FY22	FY23E	FY24E	FY25E
Revenue	19,111	22,495	24,706	27,184
OPM (%)	11.2	11.4	11.6	11.8
Adjusted PAT	1,528	1,913	2,146	2,410
% YoY growth	15.0	25.2	12.1	12.3
Adjusted EPS (Rs)	52.1	65.2	73.1	82.1
P/E (x)	18.3	14.6	13.0	11.6
P/BV (x)	4.4	3.6	2.9	2.4
EV/EBITDA	12.2	10.0	8.4	7.0
ROE (%)	26.6	26.9	24.6	22.8
ROCE (%)	34.2	33.8	31.3	29.2

Source: Company; Sharekhan estimates

Stellar Q2; earnings above estimate on strong performance of nutrient and other allied segment

Q2FY2023 consolidated revenues of Rs 10,113 crore (up 64.5% y-o-y) was 19% above our estimate of Rs 8,471 crore. The revenue from nutrient and other allied segment witnessed strong growth of 72.7% y-o-y to Rs 9,461 crore but that from crop protection was muted at Rs. 707 crore (up only 0.8% y-o-y). OPM at 10.5% (down 164 bps y-o-y) was broadly in line with our estimate of 10.3% as benefit of operating leverage helped to offset lower-than-expected gross margin of 18.6% (down 499 bps y-o-y and versus estimate of 22%). As a result, operating profit of Rs 1,057 crore (up 42.2% y-o-y) was 21% above our estimate of Rs. 874 crore. Nutrient & other allied segments' EBIT grew strongly by 56% y-o-y to Rs 955 crore while crop protection business disappointed with sharp 12% y-o-y decline in EBIT to Rs. 105 crore. PAT at Rs 741 crore (up 42.6% y-o-y) was also 20% above our estimate of Rs615 crore reflecting strong growth in nutrient and other allied segment.

Q2FY23 conference call highlights

- **Good agronomics bodes well for demand outlook:** Fourth consecutive year of favourable monsoon (106% of long-term average). A good Rabi season is expected as reservoir levels are at 117% of long-term average and 108% of last year. Thus, domestic fertiliser/agrochemical demand is expected to be strong led by higher price realisations for crops and good monsoons.
- **Management raises fertiliser margin guidance:** Management raised its fertilizer margin guidance to Rs. 5,500/tonne for FY23 from its earlier guidance of Rs 4,500/ tonne given in last call on the back of strong performance in H1FY2. Prices of raw materials except for ammonia are declining since July 2022.
- **Capex plans –** The company maintained its capex guidance of Rs. 800 crore-900 crore for FY2023 and said its projects are progressing well. At present, the company is spending on debottlenecking of existing capacities and will look for further capacity additions during favorable market conditions. Its liquid fertilizer plant is getting operationalized and another liquid fertilizer plant for Nano DAP is going through regulatory approvals. The multipurpose plant in Ankleshwar will be setup in January 2023 which will manufacture three technicals.
- **New product launches:** Company launched liquid fertiliser 'Acumist Calcium' (Speciality Nutrient product) in Q2. The 4 new products launched in Crop Protection business in Q1 have received encouraging response from the market. During the year the Crop Protection business has received 5 patent registrations for novel combinations and the company is looking to launch the products in the next Rabi season.
- **Subsidy metrics:** Company received subsidy of Rs. 3,866 crores versus Rs. 1,671 crore in Q2FY22. The subsidy outstanding as on Q2FY23 was Rs. 4,176 crore versus Rs 1,698 crores in Q2FY22. The subsidy approved by Cabinet for the NBS Rabi 2022-23 was Rs. 51,875 crore.
- **Other updates –** 1) Market share in complex fertilisers increased from 26.6% in Q2FY22 to 28.8% in Q2FY23. Primary market share in NP/NPKs remained flat y-o-y at 19.2%. 2) DAP and complex plant facilities operated at 107% capacity utilization level and utilisation levels of CPC plants declined to 53% in Q2FY23 versus 77% in Q2FY22, 3) The Company has opened 54 Pradhan Mantri Kisan Samruddhi Kendra (PMKSK) in the key agriculture districts in six states to drive balanced nutritional practises and help the farmers to increase their productivity.

Results (consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	10,113	6,148	64.5	5,729	76.5
Total Expenditure	9,056	5,404	67.6	5,044	79.6
Operating profit	1,057	743	42.2	685	54.2
Other Income	31	19	64.9	54	-41.9
Interest	54	19	182.7	27	104.1
Depreciation	46	42	8.6	45	2.6
Share of profit of JV	1	0	NA	2	NA
PBT	**989**	**701**	**41.0**	**669**	**47.7**
Tax	248	182	36.4	170	45.7
Reported PAT	**741**	**519**	**42.6**	**499**	**48.4**
Equity Cap (cr)	29	29		29	
Reported EPS (Rs)	25.3	17.7	42.6	17.0	48.4
Margins (%)			**BPS**		**BPS**
OPM	10.5	12.1	-163.8	12.0	-151.2
NPM	7.3	8.4	-112.5	8.7	-138.9
Tax rate	25.1	25.9	-84.4	25.4	-34.2

Source: Company; Sharekhan Research

Segmental Performance Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Segment Revenue					
Nutrient and other allied business	9,461	5,478	72.7%	5,111	85.1%
Crop protection	707	701	0.8%	661	7.0%
Total revenue	**10,168**	**6,180**	**64.5%**	**5,771**	**76.2%**
Less: Inter Segment revenue	55	33		42	
Net revenue	**10,113**	**6,147**	**64.5%**	**5,729**	**76.5%**
Segment EBIT					
Nutrient and other allied business	955	612	56.1%	602	58.6%
Crop protection	105	120	-12.0%	87	21.5%
Total EBIT	**1,061**	**732**	**44.9%**	**689**	**53.9%**
EBIT margin (%)			**BPS**		**BPS**
Nutrient and other allied business	10.1	11.2	-108	11.8	-169
Crop protection	14.9	17.1	-217	13.1	178
Overall EBIT margin	**10.5**	**11.9**	**-142**	**12.0**	**-154**

Source: Company; Sharekhan Research

Sales volume performance Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
DAP	1.7	1.8	-6.0%	1.0	74.5%
Complex	10.7	9.4	14.0%	6.3	70.4%
Total Phosphatics	**12.4**	**11.2**	**10.8%**	**7.3**	**71.0%**
			BPS		**BPS**
Unique grade share (%)	**32.0**	**45.0**	**-1300**	**30.0**	**200**
Manufactured Phosphatics	**11.1**	**9.3**	**19.3%**	**6.9**	**60.8%**
Imported Phosphatics	**1.4**	**2.0**	**-29.7%**	**0.4**	**251.3%**
Urea	3.7	2.0	82.8%	1.6	126.2%
MOP	0.2	0.1	81.8%	0.0	400.0%
SSP	2.4	2.3	7.5%	1.6	52.8%
MOP	1.3	2.8	-52.2%	0.2	780.0%
SSP	1.9	1.6	17.1%	1.9	-0.5%

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.

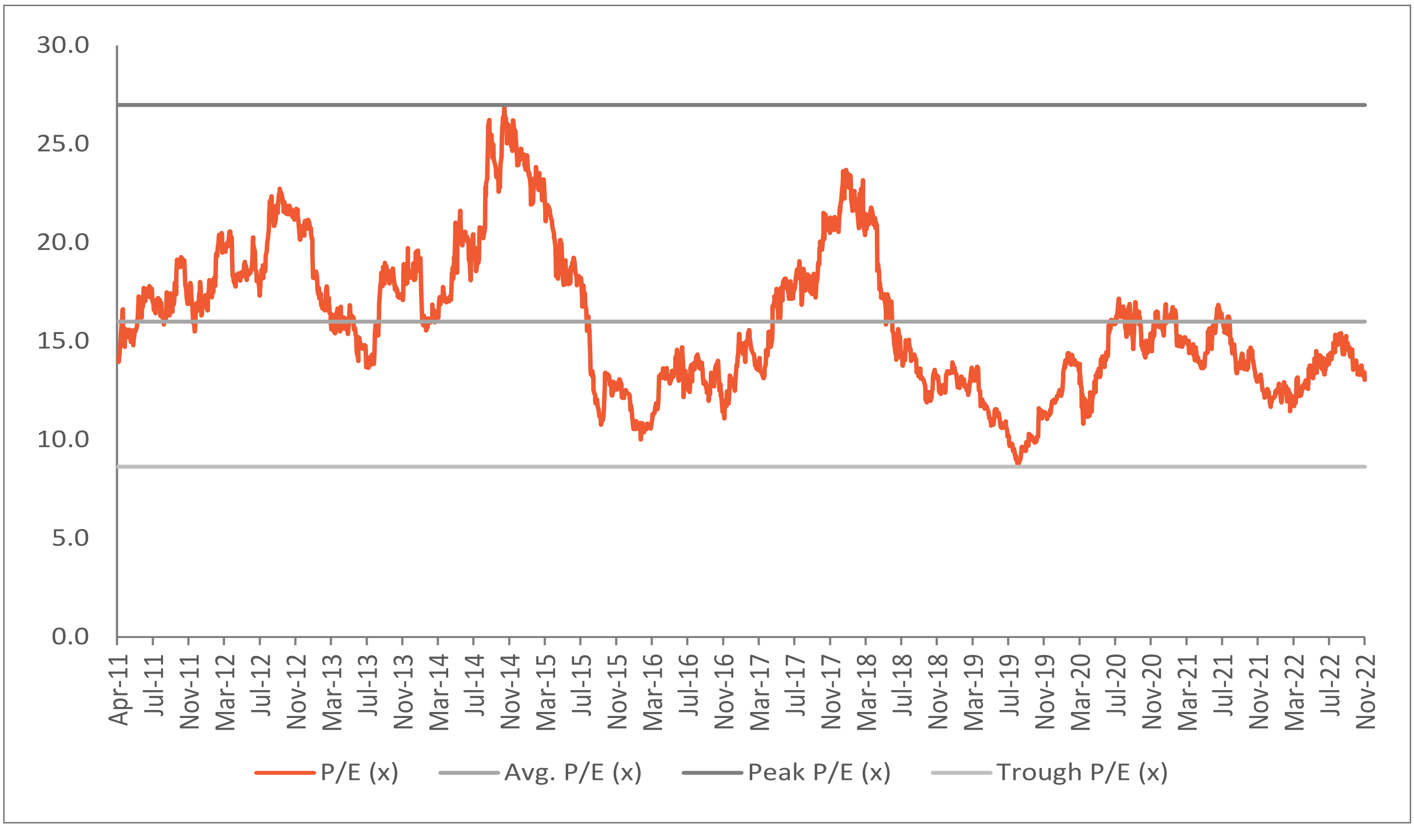
■ Company outlook – Decent growth outlook led by good agronomics and backward integration

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. Additionally, benefit of backward integration (phosphoric acid – already done and sulphuric acid – expected by Q2FY22) to drive decent 16% PAT CAGR over FY22-25E.

■ Valuation – Upgrade Coromandel to Buy with an unchanged PT of Rs. 1,155

The recent decline in phosphoric acid prices, softening of other key input cost and government subsidy support has improved margin outlook for fertilizer business while CPC business would benefit from product launches. Moreover, higher adoption of complex fertilisers (as compared to urea) by farmers bodes well for Coromandel. We expect revenue/PAT to grow at 12%/16% over FY2022-FY2025E along with high RoE/RoCE of 23%/29% in FY25E. Improved earnings outlook and recent correction in the stock price makes valuation of 13x/11.6x FY24E/FY25E EPS reasonable. Hence, we upgrade Coromandel to Buy (from Hold) with an unchanged PT of Rs. 1,155.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

About the 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

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.

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; *appointment with effect from 1st June 2022*

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 (old data)

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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