Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Coromandel International Ltd

Strong Q3; Raised fertiliser margin guidance

Fertiliser	Sharekhan code: COROMANDEL		
Reco/View: Buy ⇔	CMP: **Rs. 894**	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 41.16
Updated Dec 08, 2022

Severe Risk

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

Source: Morningstar

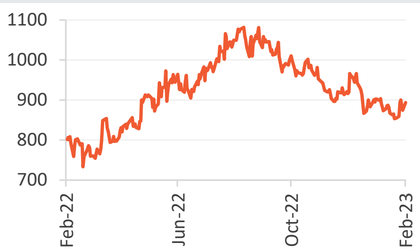
Company details

Market cap:	Rs. 26,277 cr
52-week high/low:	Rs. 1,094/730
NSE volume: (No of shares)	5.0 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	57
FII	10
DII	18
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.0	-3.3	-13.4	11.5
Relative to Sensex	-1.2	-1.2	-17.1	6.5

Sharekhan Research, Bloomberg

Summary

- Q3FY2023 PAT of Rs. 527 crore (up 38% y-o-y) was 22% above our estimate led by strong performance from nutrients and other allied business offsetting muted growth from the CPC business. OPM, at 9.4%, lagged our estimate due to lower gross margins and higher other expenses.
- Revenue/EBIT from nutrients and other allied businesses grew strongly by 72%/59% y-o-y to Rs. 7,710 crore/Rs. 697 crore led by higher subsidy support and better realisation. However, CPC revenue/EBIT growth of 5%/-13% y-o-y was muted as growth in domestic formulation and B2B businesses was offset by headwinds in export markets.
- The management guided for better fertilizer margins of Rs. 5,500-6,000/mt in the coming years led by declining raw material prices and increasing cost efficiencies. It had earlier guided for margins Rs. 5,500/mt for FY23. Phosphoric acid price declined to $1,050/mt in Q3FY23 versus $1,175/tonne in Q2FY23 and the same bodes well for fertiliser margins.
- We maintain Coromandel to Buy with an unchanged PT of Rs. 1,155 as margin/earnings outlook has improved as input price pressures ease and valuation of 11.7x/10.9x FY24E/FY25E EPS seems reasonable.

Coromandel International Limited reported another robust quarter with a beat of 20.1%/21.7% in operating profit/PAT at Rs. 781 crore/Rs. 527 crore, up 43.3%/38.1% y-o-y led by strong performance of the nutrient and other allied segment. However, OPM of 9.4% (down 135 bps y-o-y) was 240 bps below our estimate of 11.8% due lower gross margins of 19.5% (down 484 bps y-o-y) and higher other expenses (up 25% y-o-y). Nutrients and other allied business reported high y-o-y growth of 72%/59% in its revenue/EBIT to Rs. 7,710 crore/Rs. 697 crore primarily led by high subsidy and MRP, efficient sourcing of raw materials, increase in capacity utilization levels and backward integration. However, muted CPC business revenue/EBIT decline of 5%/-13% y-o-y to Rs. 653 crore/Rs. 81 crore was due to sluggish exports while domestic market witnessed strong growth traction.

Key positives

- Strong revenue/EBIT growth of 72%/59% y-o-y from nutrient and other allied business.
- Total Phosphatics (DAP + Complex) volumes grew by 27% y-o-y to 10.5 lakh tonnes.

Key negatives

- Muted revenue growth/EBIT decline of 5%/-13% y-o-y from CPC due to sluggish exports.

Management Commentary

- The management guided that fertilizer margins to sustain at Rs. 5,500-6,000/mt as compared to earlier guidance of Rs. 5,500/mt. The company expects the declining trend of raw materials and cost optimization benefits to continue.
- Company expects the CPC segment to grow by 10-12% going forward once new products kick in and the segment achieves some stability. Focus to sell products at a reasonable margin. Investing in B2C side of business to improve penetration.
- Phosphoric acid price declined to $1,050/mt in Q3FY23 versus $1,175/mt in Q2FY23S.
- The company expects government subsidies to decline going forward (since raw material prices are declining). Demand for NPK is good and is expected to remain strong.
- Company launched 'Gardina' a speciality nutrient product in the urban garden segment and 'Azamax' a bio insecticide. The new products launched in CPC in earlier quarters have beaten company's estimates.
- DAP and complex plant facilities operated at 108% capacity utilisation in Q3FY23 and produced 9.29 Lakh MT of fertilizers.
- Key project update – 1) Sulphuric acid plant expected to be completed by July 2023 and would prove RM security, 2) Started receiving shipments from BMCC in Senegal and would fulfil 20% of company's phosphatic rock requirements, 3) Subsidy outstanding at Rs. 4,359 crore.

Revision in estimates – We have marginally increased our FY23-24 earnings estimate to factor in high margins for the fertiliser business and largely maintained our FY25 earnings estimate.

Our Call

Valuation – Maintain Buy on Coromandel with an unchanged PT of Rs. 1,155: The recent decline in phosphoric acid prices, softening of other key input cost and improving cost optimization benefits 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 13%/16% over FY2022-FY2025E along with high RoE/RoCE of 22%/30% in FY25E. Improved earnings outlook and correction in the stock price makes valuation of 11.7x/10.9x FY24E/FY25E EPS reasonable. Hence, we maintain our Buy rating on Coromandel International 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	26,706	25,804	27,388
OPM (%)	11.2	10.6	12.2	12.3
Adjusted PAT	1,528	2,009	2,243	2,411
% YoY growth	15.0	31.4	11.6	7.5
EPS (Rs.)	52.1	68.5	76.4	82.1
PER (x)	17.2	13.1	11.7	10.9
P/BV (x)	4.1	3.3	2.7	2.2
EV/EBITDA	11.4	8.5	7.1	6.1
ROE (%)	26.6	28.1	25.3	22.4
ROCE (%)	34.2	37.4	33.8	30.1

Source: Company; Sharekhan estimates

Stellar Q3; earnings above estimate on strong performance of nutrient and other allied segment

Q3FY2023 consolidated revenue of Rs. 8,310 crore (up 64% y-o-y) was 51% above our estimate of Rs. 5,511 crore. Revenue from nutrient and other allied segment witnessed strong growth of 72% y-o-y to Rs. 7,710 crore but that from crop protection segment was muted at Rs. 707 crore (up 5% y-o-y). OPM at 9.4% (down 135 bps y-o-y) was 240 bps below our estimate of 11.8% due lower gross margins of 19.5% (down 484 bps y-o-y) and higher other expenses (up 25% y-o-y). Operating profit of Rs. 781 crore (up 43% y-o-y) was 20% above our estimate of Rs. 650 crore. Nutrient and other allied segment EBIT grew strongly by 59% y-o-y to Rs. 697 crore while crop protection business was under pressure and reported steep 13% y-o-y decline in EBIT to Rs. 81 crore. PAT at Rs. 527 crore (up 38% y-o-y) was also 21% above our estimate of Rs. 433 crore reflecting strong growth in nutrients and other allied segments.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	**8,310**	**5,074**	**63.8**	**10,113**	**-17.8**
Total Expenditure	7,529	4,529	66.2	9,056	-16.9
Operating profit	**781**	**545**	**43.3**	**1,057**	**-26.2**
Other Income	40	26	52.9	31	27.3
Interest	57	18	218.9	54	4.8
Depreciation	47	43	9.9	46	2.9
Share of profit of JV	-10	1	-867.7	1	-1882.1
PBT	**706**	**511**	**38.1**	**989**	**-28.6**
Tax	179	130	38.2	248	-27.7
PAT	**527**	**382**	**38.1**	**741**	**-28.9**
Equity Cap (cr)	29	29		29	
EPS (Rs.)	18.0	13.0	38.1	25.3	-28.9
Margins (%)			**BPS**		**BPS**
OPM	9.4	10.7	-134.5	10.5	-105.8
NPM	6.3	7.5	-118.1	7.3	-98.2
Tax rate	25.4	25.4	2.2	25.1	30.7

Source: Company, Sharekhan Research

Segmental Performance Rs cr

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Segment Revenue					
Nutrient and other allied business	7,710	4,484	72.0%	9,461	-18.5%
Crop protection	653	622	5.0%	707	-7.7%
Total revenue	**8,362**	**5,105**	**63.8%**	**10,168**	**-17.8%**
Less: Inter Segment revenue	53	32		55	
Net revenue	**8,310**	**5,074**	**63.8%**	**10,113**	**-17.8%**
Segment EBIT					
Nutrient and other allied business	697	438	59.1%	955	-27.0%
Crop protection	81	93	-12.8%	105	-23.1%
Total EBIT	**778**	**531**	**46.5%**	**1,061**	**-26.6%**
EBIT margin (%)			**BPS**		**BPS**
Nutrient and other allied business	9.0	9.8	-73	10.1	-105
Crop protection	12.4	14.9	-252	14.9	-249
Overall EBIT margin	**9.4**	**10.5**	**-110**	**10.5**	**-112**

Source: Company, Sharekhan Research

Sales volume performance **Lakh tonne**

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
DAP	1.6	1.3	27.1%	1.7	-4.1%
Complex	8.9	7.0	27.1%	10.7	-17.4%
Total Phosphatics	**10.5**	**8.3**	**27.1%**	**12.4**	**-15.5%**
			BPS		BPS
Unique grade share (%)	**40.0**	**24.0**	**1600**	**32.0**	**800**
Manufactured Phosphatics	9.1	7.5	21.2%	11.1	-17.4%
Imported Phosphatics	1.4	0.7	88.9%	1.4	-0.7%
Urea	4.0	1.3	203.0%	3.7	7.8%
MOP	0.0	0.0	-	0.2	-90.0%
SSP	2.2	1.9	16.1%	2.4	-11.1%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Large addressable market

Agriculture plays an important role in India's economy as it contributes 18% to GDP, 8% to exports, and generates 44% of the employment. This is largely as India having the largest cropland globally and the largest irrigated area. Hence, India provides a large addressable market.

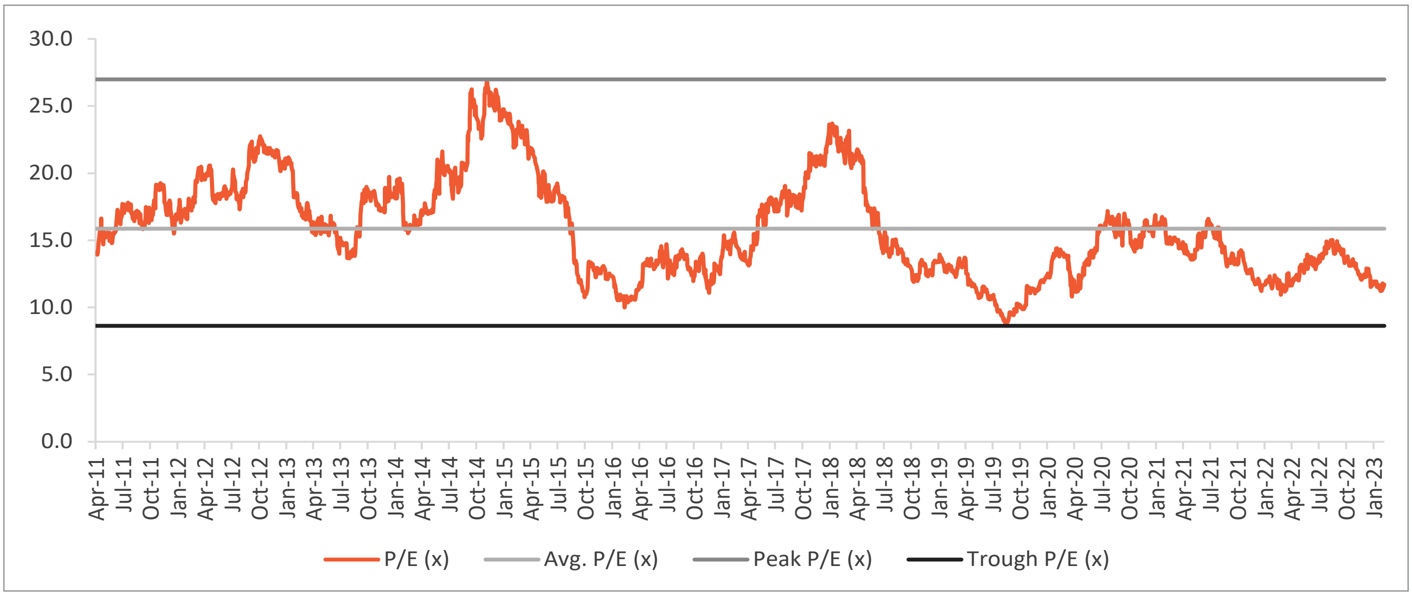
■ Company outlook - Decent growth outlook led by good agronomics and backward integration

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.

■ Valuation - Maintain 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 improving cost optimization benefits 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 13%/16% over FY2022-FY2025E along with high RoE/RoCE of 22%/30% in FY25E. Improved earnings outlook and correction in the stock price makes valuation of 11.7x/10.9x FY24E/FY25E EPS reasonable. Hence, we maintain our Buy rating on Coromandel International with an unchanged PT of Rs. 1,155.

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. However, current valuation captures in growth prospects and provides limited upside potential from current levels.

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

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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