



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 Aug 08, 2023

35.67

High Risk

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

Source: Morningstar

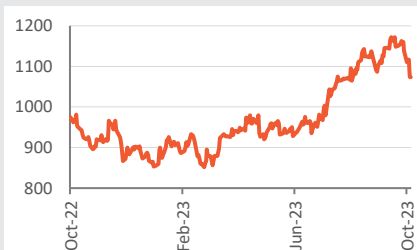
Company details

Market cap:	Rs. 31,591 cr
52-week high/low:	Rs. 1,185 / 839
NSE volume: (No of shares)	4.3 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.6 cr

Shareholding (%)

Promoters	57
FII	7
DII	21
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.5	9.5	13.9	10.1
Relative to Sensex	-1.9	13.1	9.5	3.7

Sharekhan Research, Bloomberg

Coromandel International Ltd

Decent Q2; healthy growth prospects and reasonable valuation

Fertiliser

Sharekhan code: COROMANDEL

Reco/View: Buy



Upgrade



CMP: Rs. 1,073

Price Target: Rs. 1,222



Maintain

Downgrade

Summary

- Q2FY2024 PAT of Rs. 755 crore (up 2% y-o-y) was 6% below our estimate due to continued margin pressure in the CPC business, which offsets resilient performance from nutrients and other allied business.
- Nutrient and other allied business and CPC segments reported revenue decline of 33% y-o-y due to reduction in subsidy rates but reported much higher EBIT margin of 15.7% (up 563 bps) due to stable raw-material prices and benefit of backward integration. The CPC segment reported muted revenue growth of 3% y-o-y as volume growth was offset by weak realisation and EBIT margin declined by 297 bps y-o-y to 11.9% amid pressure on realisation.
- Management expects full-year fertiliser margin to sustain at Rs. 5,000/tonne. Focus on new business stream i.e., specialty chemical/CDMO and future technology (drone for the agrochemical space) and innovative products (Nano-DAP), strong margin for fertilisers makes us constructive on growth prospects.
- We maintain a Buy rating on Coromandel with a revised PT of Rs. 1,222, given a healthy earnings growth outlook and reasonable valuation of 11.9x its FY2026E EPS. Focus on CDMO, specialty chemical and Drone business is the right step and could drive meaningful growth in the medium to long term apart from strong contribution from the core fertiliser/CPC business.

For Q2FY2024, Coromandel reported consolidated revenue of Rs. 6,988 crore, down 31% y-o-y, below our estimate of Rs. 8,596 crore. Revenue declined on a y-o-y basis due to subpar monsoon and lower government subsidy. OPM at 15.2% (up 470 bps y-o-y) was above our estimate of 13.1% due to better-than-expected gross margin at 26.8% (up 812 bps y-o-y), partially offsetting higher employee cost and other expenses. Operating profit of Rs. 1,059 crore was flat on y-o-y but was 6% below our estimate of Rs. 1,125 crore. Revenue from the nutrient and other allied segment witnessed a decline of 33% y-o-y to Rs. 6,302 crore, but revenue from the crop protection segment grew by 3% y-o-y to Rs. 730 crore. Thus, nutrient and other allied segments' EBIT grew by 3.8% y-o-y to Rs. 991 crore. The crop protection (CPC) segment was hit due to high channel inventory and a decline in realisation, causing a steep a 17% contraction in EBIT to Rs. 87 crore. However, the CPC segment witnessed strong volume growth in both exports (20% y-o-y growth) and domestic markets. Consolidated PAT at Rs. 755 crore (up 2% y-o-y) was 6% below our estimate of Rs. 802 crore due to lower profitability in the CPC segment.

Key positives

- Nutrient and other allied business segments reported growth of 563 bps in EBIT margin.

Key negatives

- CPC segment disappointed with a 297 bps y-o-y decline in EBIT margin.
- Total phosphatics (DAP + Complex) volumes declined by 7% y-o-y to 11.59 lakh tonne.

Management Commentary

- Fertiliser EBITDA margin guidance of Rs. 5,000/tonne on an annual basis.
- NBS subsidy rate has been lowered by the government for H2FY2024 while input cost has been on an upward trend and, thus, expect subsidy rate to be revised upwards or a likely hike in MRP to sustain margin.
- The CPC segment is still witnessing concern of high inventory level and, thus, continues to impact product prices. Recovery in the large agrochemical user market like Brazil would be the outlook for CPC product prices.
- Capex plan of Rs. 580 crore for FY2024, which would focus on the sulphuric acid plant (already commissioned), Nano DAP plant (expected to be commissioned in Q3FY2024), and MPP for CPC. For CPC, the company has an overall capex plan of Rs. 1,000 crore for setting up three MPPs and current evaluation projects given weak product prices.
- The company has recently received drone orders from Indian Army and IFFCO valued around at Rs. 165 crore. The company has also acquired 16.53% equity in XMachines, an AI-based robotics startup.

Revision in estimates – We have fine-tuned our FY2024-FY2025 earnings estimates to factor in lower revenue and better margin assumption. We have introduced our FY2026 earnings estimates in this report.

Our Call

Valuation – Maintain Buy on Coromandel with a revised PT of Rs. 1,222: The recent investment in backward integration has improved the margin outlook for the fertiliser business, while the 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 PAT to grow by 10% over FY2023-FY2026E along with a high RoE/RoCE of 21%/28% in FY2026E. A potential foray into CDMO/specialty chemicals and ramping up of the drone business would further support medium to long-term earnings growth. Valuation of 12.9x/11.9x its FY2025E/FY2026E EPS seems reasonable, considering the healthy growth outlook. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 1,222 (the increase in PT reflects rollover of valuation multiples to FY2026E EPS).

Key Risks

- Lower demand due to poor monsoons and regulatory changes might affect revenue growth momentum and
- Unfavourable 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	FY23	FY24E	FY25E	FY26E
Revenue	19,111	29,628	24,614	27,766	30,054
OPM (%)	11.2	9.9	13.0	12.5	12.5
Adjusted Net Profit	1,528	2,013	2,255	2,452	2,662
YoY growth (%)	15.0	31.7	12.0	8.7	8.6
EPS (Rs)	52.1	68.5	76.7	83.4	90.5
PER (x)	20.7	15.8	14.1	12.9	11.9
P/BV (x)	5.0	4.0	3.3	2.7	2.3
EV/EBITDA	13.9	10.4	8.4	7.2	6.2
ROE (%)	26.6	28.2	25.6	22.8	20.7
ROCE (%)	34.2	38.4	34.0	30.5	27.8

Source: Company; Sharekhan estimates

Q2FY2024 earning conference call highlights

- ♦ **Quarterly performance:** The company's key operating markets were impacted by sub-normal monsoon. Revenue from the subsidy-based business stood at 84% during the quarter, much lower than 89% in Q2FY2023.
- ♦ **Crop nutrient:** The segment's sales were lower mainly due to lower subsidies rates. However, stable raw-material prices coupled with backward integration resulted in improved margins.
- ♦ **Crop protection:** This segment of the company reported healthy volume growth in both exports and domestic formulations segments. However, higher channel inventory and lower commodity prices impacted price realisation. The export segment of the business grew by 29% with a major increase coming from South America and Africa markets. The segment's manufacturing units were operating at a higher capacity of 65% versus 51% last year. Management is currently evaluating the opportunities in the specialty chemicals and CDMO space. Management has initiated regulatory and infrastructure activities at the new Dahej site.
- ♦ **Fertiliser EBITDA margin guidance:** Management expects full-year fertiliser margin to sustain at Rs. 5,000/tonne.
- ♦ **Channel inventory:** Brazil is one of the largest consumers of agrochemicals. Currently, Brazil's agrochemical market is experiencing a high level of channel inventory. This led to the dumping of agrochemicals by Chinese suppliers at lower prices. Management believes this to be a short-term phenomena and expects that once the Brazil market picks up, pricing of the product will recover.
- ♦ **New sulphuric acid plant:** The company has commissioned its 1,650 tonne per day sulphuric acid plant at Visakhapatnam with an investment of Rs. 400 crore to improve its backward-integration capabilities. Production from the newly commissioned plant has been stabilised and the company has now started operating the plant at the desired capacity, which will support the company's requirements towards downstream processes involving phosphoric acid and phosphatic fertiliser production. In addition, the company has also set up a 6 MLD of desalination plant, which will help the company in meeting close to one-third of the plant's water requirement.
- ♦ **Drone start-up:** The company has recently received orders from Indian Army and IFFCO for logistics drones and agricultural drones, respectively. The current order book stood at Rs. 165 crore. During the quarter, the company has also acquired 16.53% equity in XMachines, an AI-based robotics start-up that specialises in various agricultural tasks, including planting, weed management, and pest control.
- ♦ **New product launch:** During the quarter, the company introduced Nano DAP, a patented nanotechnology-based fertiliser and received encouraging initial customer feedback from customers.
- ♦ **Future capex plan:** The company is planning to set up three multipurpose multiproduct plants. The company plans to incur a capex of Rs. 1,000 crore for the three plants.

Results (Consolidated)

					Rs cr
Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Revenue	6,988	10,113	-30.9	5,693	22.7
Total Expenditure	5,929	9,056	-34.5	4,984	19.0
Operating profit	1,059	1,057	0.2	709	49.3
Other Income	45	31	44.0	45	0.7
Interest	46	54	-14.8	41	14.1
Depreciation	54	46	17.9	48	12.2
PBT	1,000	989	1.1	665	50.3
Tax	245	247	-0.9	170	44.1
Reported PAT	755	742	1.8	491	53.5
Equity Cap (cr)	29	29		29	
EPS (Rs.)	25.7	25.3	1.8	16.9	52.7
Margins (%)			BPS		BPS
OPM	15.2	10.5	469.9	12.5	269.4
NPM	10.8	7.3	346.6	8.7	211.9
Tax rate	24.5	25.0	-49.0	25.6	-105.0

Source: Company; Sharekhan Research

Segmental Performance

					Rs cr
Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Segment Revenue					
Nutrient and other allied business	6,302	9,461	-33.4%	5,201	21.2%
Crop protection	730	707	3.3%	547	33.4%
Total revenue	7,032	10,168	-30.8%	5,748	22.3%
Less: Inter-Segment revenue	44	55		55	
Net revenue	6,988	10,113	-30.9%	5,693	22.7%
Segment EBIT					
Nutrient and other allied business	991	955	3.8%	672	47.6%
Crop protection	87	105	-17.3%	55	58.6%
Total EBIT	1,078	1,061	1.7%	727	48.4%
EBIT margin (%)			BPS		BPS
Nutrient and other allied business	15.7	10.1	563	12.9	281
Crop protection	11.9	14.9	-297	10.0	190
Overall EBIT margin	15.4	10.5	495	12.8	267

Source: Company; Sharekhan Research

Sales volume performance

					(lakh tonne)
Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
DAP	1.7	1.7	-3.5%	1.4	17.0%
Complex	9.94	10.7	-7.3%	7.1	39.2%
Total Phosphatics	11.6	12.4	-6.8%	8.6	35.6%
			BPS		BPS
Unique grade share (%)	40.0	32.0	800	27.0	1300
Manufactured Phosphatics	10.3	11.1	-7.1%	7.6	35.5%
Imported Phosphatics	1.3	1.4	-3.6%	1.0	36.1%
Urea	0.8	3.7	-78.7%	2.2	-64.6%
MOP	0.4	0.2	85.0%	0.1	236.4%
SSP	2.1	2.4	-12.8%	1.8	18.4%

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 biggest cropland globally and the largest irrigated area. Hence, India provides a large addressable market.

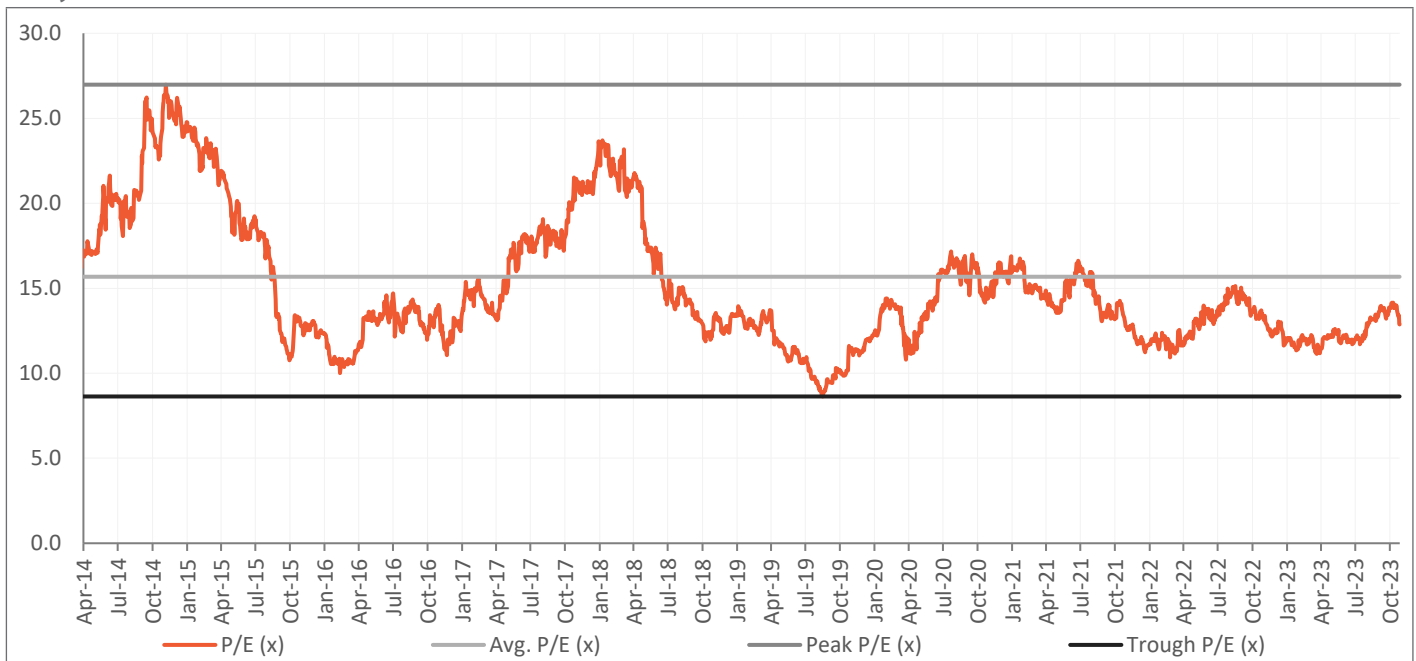
■ Company Outlook – Decent growth outlook led by good agronomics and backward integration

The company delivered strong CAGRs of 44%, 20%, and 23% at revenue, EBITDA, and PAT level, respectively, during FY2021-FY2023. We believe the trend of delivering higher growth in earnings compared to revenue will continue, led by 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 with 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 Buy on Coromandel with a revised PT of Rs. 1,222

The recent investment in backward integration has improved the margin outlook for the fertiliser business, while the 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 PAT to grow by 10% over FY2023-FY2026E along with a high RoE/RoCE of 21%/28% in FY2026E. A potential foray into CDMO/specialty chemicals and ramping up of the drone business would further support medium to long-term earnings growth. Valuation of 12.9x/11.9x its FY2025E/FY2026E EPS seems reasonable, considering the healthy growth outlook. Hence, we maintain our Buy rating with a revised PT of Rs. 1,222 (the increase in PT reflects rollover of valuation multiples to FY2026E 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 U.S. companies, namely Chevron Chemical Company and International Minerals and Chemicals Corporation. Coromandel is part of the \$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 the 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 look for inorganic acquisitions at different intervals in related businesses. A conservative and calibrated approach towards capital allocation in the right business has yielded synergies for the company and has helped the company maintain a lean and strong balance sheet. The company's focus on foray into CDMO and specialty chemical is the right step to diversify its business stream and the same could drive meaningful growth in the medium to long term. Coromandel's valuation seems attractive considering strong growth prospects and high return ratios.

Key Risks

- 1) Lower demand due to poor monsoons and regulatory changes might affect revenue growth momentum and
- 2) Unfavourable 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

A. Vellayan	Chairman
Arun Alagappan	Executive Vice Chairman
Jayashree Satagopan	President – Corporate and CFO
Sankarasubramanian S	Executive Director – Nutrient Business
Raghuram Devarakonda	Executive Director – CPC, Bio and Retail Business

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co	4.90
2	DSP Investment Managers Pvt Ltd	3.04
3	SBI Funds Management Ltd	1.97
4	Groupe Chimique Tunisien SA	1.63
5	Axis Asset Management Co Ltd/India	1.58
6	UTI Asset Management Co Ltd	1.45
7	INVESTOR EDUCATION & PROTECTN FD	1.28
8	Vanguard Group Inc/The	1.43
9	Life Insurance Corp of India	1.05
10	Sundaram Asset Management Co Ltd	0.79

Source: Bloomberg

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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 deteriorating 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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