



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

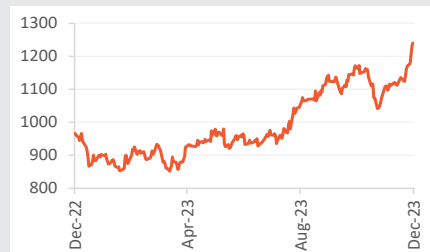
Company details

Market cap:	Rs. 36,509 cr
52-week high/low:	Rs. 1251/839
NSE volume: (No of shares)	4.1 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	11.7	10.3	29.2	28.3
Relative to Sensex	4.7	5.9	18.6	17.2

Sharekhan Research, Bloomberg

Coromandel International Ltd

Strong growth prospects and reasonable valuation

Fertiliser

Sharekhan code: COROMANDEL

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,240

Price Target: Rs. 1,430



Summary

- The tighter global fertiliser market will result in higher prices of imported fertilisers, while higher government subsidies could boost demand for fertilisers and improve company's financial performance in short term.
- Focus on CDMO and specialty chemical is the right step and could drive meaningful growth in the medium to long term apart from strong contribution from core fertiliser/CPC business. The introduction of innovative products like Nano DAP not only provides incremental revenue along with margin improvement as management expects Nano DAP to generate ~20% OPM.
- Future technology like drones for the agrochemical space will provide a new platform to expand into the adjacent market and offer new services. The company also has a strong order pipeline which provides decent revenue visibility.
- We maintain Buy with a revised PT of Rs. 1,430, given a healthy earnings growth outlook and reasonable valuation of 13.7x its FY2026E EPS.

Lower availability of fertilisers in the global market could potentially tighten the global fertiliser market and increase the price of imported fertilisers. An additional government fertiliser subsidy of Rs. 13,351 crore could boost demand and improve the company's financial performance. Coromandel International Limited (Coromandel) plans to diversify its revenue stream through expansion into specialty chemicals and CDMO. To develop these capacities, the company has announced a capex plan of Rs. 1,000 crore in the CDMO and specialty chemical space. The company plans to build three multipurpose plants (MPP). The company has identified molecules for potential manufacturing and plans to invest further in specific areas. The company also sees opportunities in CDMO due to China + 1 policy. In FY2024, the company plans to do a capex of Rs. 500 crore on the sulfuric acid plant at Visakhapatnam, the Nano DAP plant, and increase SSP's granulation facilities. The company's investment in Dhaksha, a drone startup, has gained momentum, with orders for logistic drones from the Indian Army and agriculture drones from IFFCO. The company plans to scale up Nano DAP sales by commissioning the Nano DAP plant at Kakinada in Q3FY2024.

- Tighter global supply and additional government subsidy improve short-term outlook:** China's 15 major trading firms have agreed to limit total exports of urea. This move could tighten the global fertiliser market and increase the price of imported fertilisers, which bode well for domestic fertiliser producers. The government of India has also sought approval for additional allocation of Rs. 13,351 crore in fertiliser subsidy to counter rising fertiliser prices. Additional spending by the government will lead to higher demand for fertilisers, which will improve the financial performance of domestic agri-input companies.
- Foray into the specialty chemicals space and capex to drive future growth:** The company plans to utilise its existing assets for the production of specialty chemicals. Management has already identified the molecules that it can potentially manufacture using the existing manufacturing facility. During Q2FY2024, the company gained traction in this space and delivered token shipment to customers. In the medium term, the company plans to invest further in building up its own capabilities and infrastructure in specific areas where the company is gaining traction. The company also foresees opportunities in CDMO, given the China + 1 policies of Japanese and European innovators. The company has announced capex plan of Rs. 1,000 crore in CDMO and the specialty chemical space with the plan to build three MPPs, which will diversify its business stream and could drive meaningful growth in the medium to long term. The company has already acquired 50 acres of land at Dahej and started the preparatory work for establishing the largescale multi-purpose plant. The company plans to fund this capex mainly through internal accrual. The new plants are expected to come online in the next 24-36 months. In FY2024, the company plans to do capex of Rs. 500 crore on the sulfuric acid plant at Visakhapatnam (already commissioned), Nano DAP plant, and increase in SSP's granulation facilities.
- Expansion of innovative products and future technologies to diversify its revenue stream:** The company's recent investment in Dhaksha, a differentiated drone startup, has started to gain momentum and bagged orders for its logistics drones from the Indian Army and agriculture drones from IFFCO. The current order book stood at Rs. 165 crore. For the execution of these orders, the company has set up a new manufacturing facility, which is expected to be commissioned in December 2024 as well as leverage its existing site. The company has also introduced Gromor Drive Initiative, which is a drone spraying service. Under this initiative, the company is offering drone-based agri inputs applications through its trained pilots. The company also plans to commission Nano DAP plant at Kakinada in Q3FY2024. This plant has the potential to generate revenue of Rs. 600 crore at full capacity. As Nano DAP capacity is modular, the company can build the new capacity within 8 to 10 months.

Our Call

Valuation - Maintain Buy on Coromandel with a revised PT of Rs. 1,430: 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. The valuation of 14.9x/13.7x 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. 1,430.

Key Risks

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

Valuation (Consolidated)

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)	23.8	18.1	16.2	14.9	13.7
P/BV (x)	5.7	4.6	3.7	3.1	2.6
EV/EBITDA	16.1	12.0	9.8	8.6	7.4
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

New sulphuric acid plant will secure the supply of key raw material:

With an investment of Rs. 400 crore, the company has commissioned a 1,650-tonne per day sulphuric acid plant in Visakhapatnam to boost further backward integration of its capacity. The company has stabilised production and is now operating it 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 put up a 6 MLD of desalination plant, which will help the company fulfill close to one-third of the facility's water requirement. At current market prices, management believes the payback period for the project would be two to three years. 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.

New Nano DAP plant to drive growth

From September, the company started producing Nano DAP in limited quantities at its pilot plant in Vizag. The company is getting a positive response from farmers. The company is planning to commission a Nano DAP plant at Kakinada in Q3FY2024 after the regulatory approvals. For Nano DAP, the company's current capacity stood at 1 crore bottles per year. The company plans to sell each bottle at an MRP of ~Rs. 600. As the company's Nano DAP unit is a modular facility, it can quickly add new capacity, once the existing capacity is fully utilised.

Investment in drone technology and services will lead to a diversified revenue stream

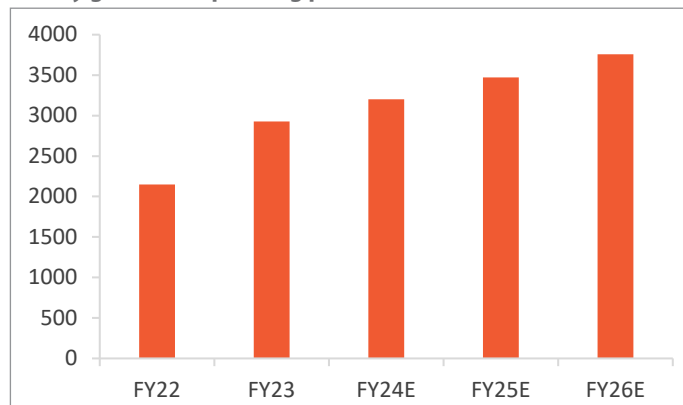
The company has bagged an order for logistic drones from the Indian Army and agriculture drones from IFFCO. The company has also received the fourth type certificate for its battery drones. As part of its drone spraying services, Coromandel has introduced Gromor Drive Initiative. Under this, the company has started offering drone-based agri input applications through its trained pilots. Recently, the company acquired 16.53% equity in XMachines, an AI-based robotic startup focusing on a variety of agricultural operations such as planting, weed control, and pest control.

Volume growth in the exports and crop protection business

The company's crop protection business improved its performance in exports and domestic formulation segments and registered healthy volume growth. The export segment of the business has also gained traction with a major increase coming from South American and African markets.

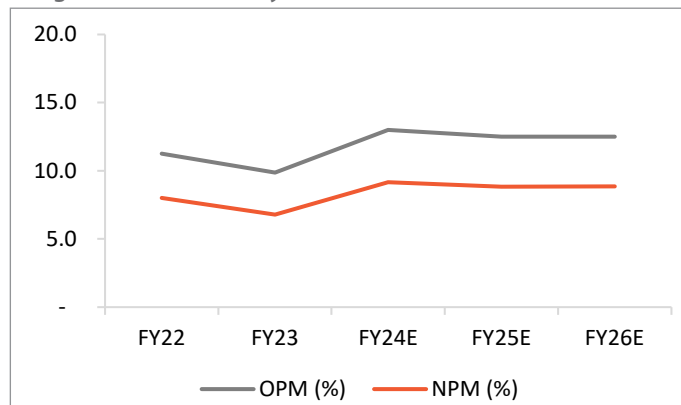
Financials in charts

Steady growth in operating profit



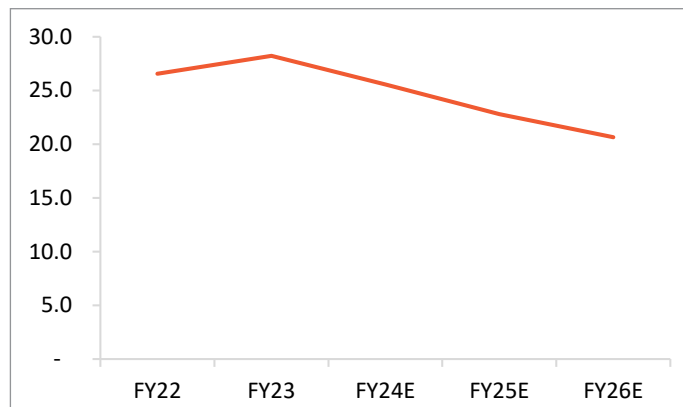
Source: Company, Sharekhan Research

Margins to remain steady



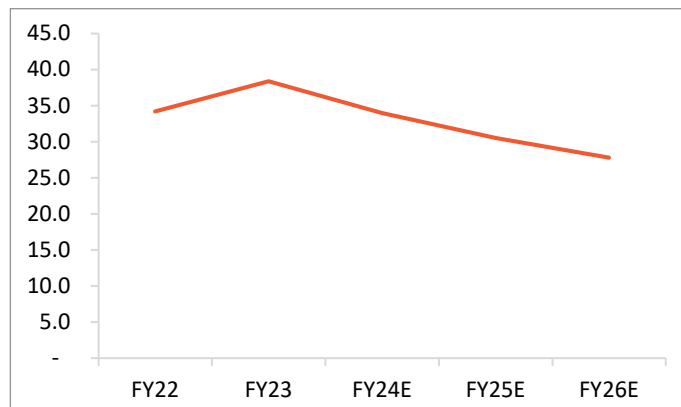
Source: Company, Sharekhan Research

RoE trend



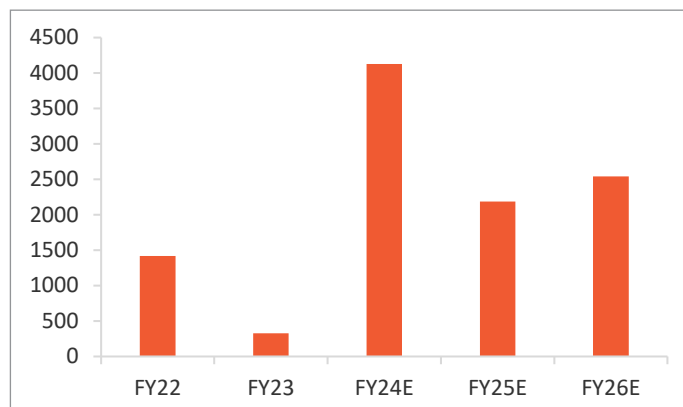
Source: Company, Sharekhan Research

RoCE trend



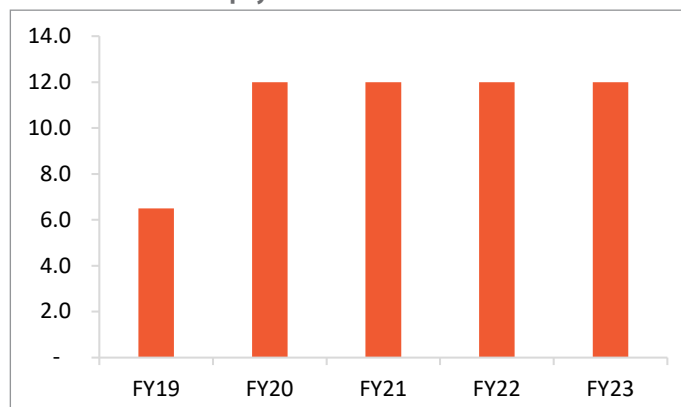
Source: Company, Sharekhan Research

Trend in free cash flows



Source: Company, Sharekhan Research

Consistent dividend payout



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.

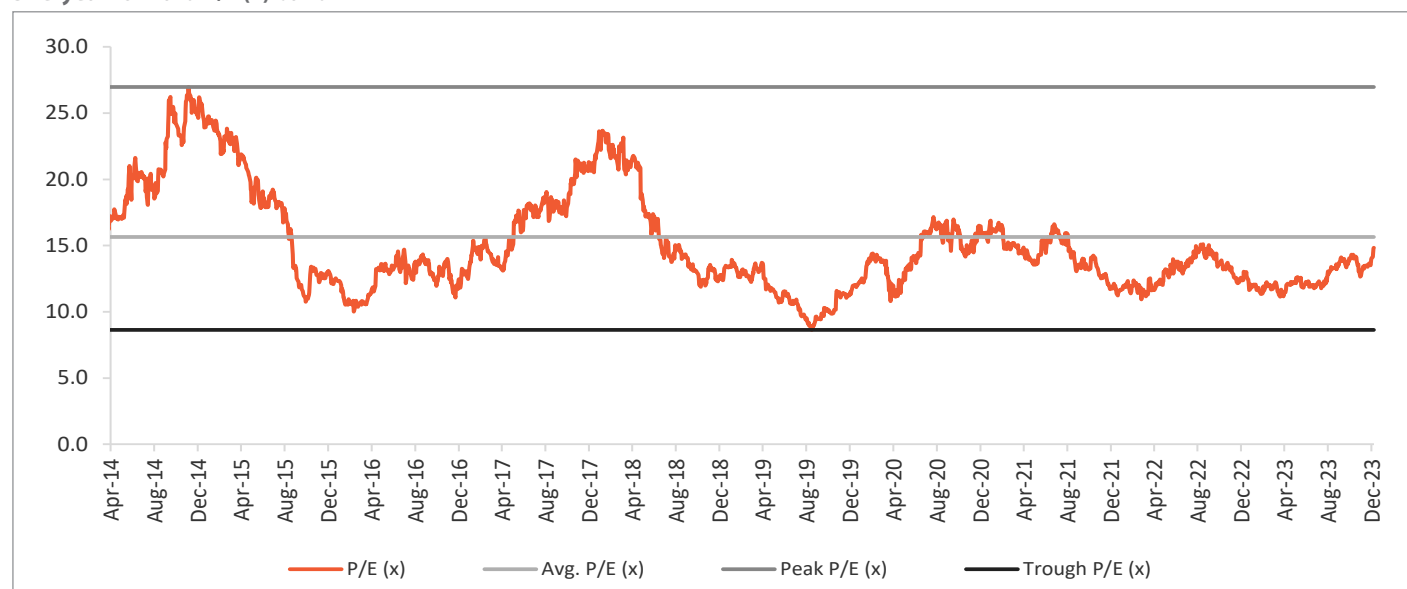
■ Company outlook - Decent growth outlook led by good agronomics and backward integration

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 with 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. The expansion into innovative products (Nano DAP) and future technologies (Drone) will diversify its revenue stream and drive future growth.

■ Valuation - Maintain Buy on Coromandel with a revised PT of Rs. 1,430

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. The valuation of 14.9x/13.7x its FY2025E/FY2026E EPS seems reasonable, considering the healthy growth outlook. Hence, we maintain our Buy rating with a revised PT of Rs. 1,430.

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 more than 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co	4.9
2	DSP Investment Managers Pvt Ltd	3.1
3	SBI Funds Management Ltd	1.8
4	Axis Asset Management Co Ltd/India	1.6
5	Vanguard Group Inc/The	1.4
6	UTI Asset Management Co Ltd	1.4
7	Sundaram Asset Management Co Ltd	0.8
8	Dimensional Fund Advisors LP	0.7
9	Franklin Resources Inc	0.6
10	BlackRock Inc	0.6

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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