

1 January 2018

Coromandel Intl. – BUY

CMP : 569
Target Price : 689
Upside : 21%+
Stop Loss : 487 (closing basis)

Investment Thesis

Recently, the stock price of Coromandel International Ltd. (Coromandel) corrected by ~2% from 52-week high of Rs.574 despite reporting good set of numbers in the recent quarters.

Being India's second largest phosphatic fertilizer player, Coromandel has presence across major nutrient segments. It manufactures a wide range of fertilizers and market around 4 million tons (mn tn) annually, making it a leader in its addressable markets. After the acquisition of erstwhile Sabero Organics, Coromandel's crop protection business has expanded its presence globally. With its coverage across wide range of products consisting of Insecticides, Fungicides and Herbicides, Coromandel ranks among the top player in India. The company has a strategic investment with TIFERT, Tunisia based company (manufactures phosphoric acid which is a key raw material for operating phosphatic fertilizer plants) to secure uninterrupted supply of phosphoric acid. Coromandel has cost advantage which translates into higher margins and return on capital as it is the lowest cost manufacturer of phosphatic fertilizers in India.

Coromandel is amongst few players present only in complex fertilizers. It has negligible exposure to the subsidy-led low RoE urea business. In products like 28:28:0, it has a virtual monopoly, resulting in superior pricing power. Liberty's acquisition makes Coromandel the market leader in Single Superphosphate (SSP), which is gaining popularity. One of the most integrated players in the fertilizer business, it has also expanded its footprint in agro-chemicals. We believe increasing proportion of profitability from non-subsidy business makes Coromandel a unique play on Indian agriculture. While increase in urea prices would result in greater demand for its complex fertilizers, urea de-canalization could open up a huge opportunity for distribution of imported urea in India.

Financials

- During the past 5 years, revenue of Coromandel grew at a CAGR of 0.3% while PAT de-grew at a CAGR of 5.7% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	113,064	115,219	100,308	115,354	132,657
EBITDA	8,535	7,717	9,820	11,293	12,987
% growth	-6.0	-9.6	27.2	15.0	15.0
PAT	4,018	3,610	4,770	5,509	6,363
EPS (INR)	13.8	12.4	16.4	18.9	21.8
P/E (x)	41.0	45.6	34.6	29.9	25.9
RoE (%)	18.2%	14.9%	16.5%	17.3%	18.2%

- Coromandel reported 3.6% YoY growth in revenue in Q2FY18 to Rs.36,469mn as fertilizer volume grew by 6.0% YoY to 1.4mntn while crop protection revenue grew by 11% YoY in the quarter.

Stock Data

Market Cap (INR MN)	164,519
Market Cap (\$ MN)	2,564.60
Shares O/S (in MN)	291.70
Avg. Volume (3 month)	173,000
52-Week Range (Rs.)	574 / 229

Shareholding Pattern

Promoters	61.99%
FII's	5.16%
Institutions	7.58%
Others (incl. body corporate)	25.27%

Performance (%)	1M	6M	1Yr
Absolute	11.5%	34.4%	106.3%
BSE 500	1.8%	13.9%	38.2%

Key Ratios

Div Yield	0.9%
TTM PE	24.5x
ROE	18.2%
TTM EPS (INR)	23.1/-

- Coromandel's EBITDA gained significantly by 47.6% YoY in Q2FY18 to Rs.5,679mn as the raw material cost to revenue remains flat at 49.8% of the revenue. As a result, the EBITDA margin has also improved by 464bps to 15.6% in Q2FY18.
- Coromandel's net profit increased by 60.5% YoY to Rs.3,425mn mainly due to better operating performance.

Key Business Highlights

- Coromandel is into manufacturing and trading of farm inputs consisting of fertilizers, crop protection, specialty nutrients and organic compost. Its business divisions include Fertilizers, Specialty Nutrients, Crop Protection and Retail.
- Coromandel offers various products in fertilizer segment, including Nitrogen, Phosphatic and Potassic in various grades. Its specialty nutrients consist of water soluble fertilizer, sulfur products, micro nutrients and organic manure. Its crop protection products consist of insecticides, fungicides and herbicides.
- Coromandel has manufacturing facilities in Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Uttar Pradesh, Rajasthan, Gujarat, and Jammu and Kashmir.

Valuation

- Due to imbalanced nutritional practices and low manure usage, the Indian soils have become less responsive to the nutrient application. Recognizing this, Coromandel has developed solutions around improving nutrient uptake efficiency and balanced crop nutrition. Specialty nutrients, which comprises of water soluble fertilizer, Sulphur products, micro nutrients and organic manure offers significant growth opportunities in India. Coromandel commands market leadership position in most of the segments and continue to innovate to offer best farming solutions to gain market share.
- Coromandel is one of the most integrated players in the fertilizer business, which enables it to capture most parts of the fertilizer value chain – from manufacturing to distribution. It has strong brand recall in Gromor and Godavari, especially in key markets such as Andhra Pradesh. Coromandel has significant operating and financial levers going ahead over the next two years. Fertilizer capacity utilization of the company increased to 72% in FY17 from just 62% in FY16, which the company wants to be ramped up to around 90% by FY20E. Further, Coromandel is largely focused on organic growth thus envisaging limited capex over the next two years (largely maintenance capex amounting to Rs.1.00bn annually). Improving asset utilization, stable fertilizer and non-fertilizer margins and improving working capital situation will generate significant free cash over the next two years, which will result in net debt to equity declining from 0.9x in FY16 to less than 0.5x in FY19E.
- With India's second largest phosphatic fertilizer player, crop protection business expanded globally, amongst few players in complex fertilizers, Indian soils less responsive to nutrient application and lower capex due to increase in capacity utilization, we value Coromandel at 31.50x FY18E EPS of Rs.21.90 to arrive at target price of Rs.689.00, an upside of ~21%.

Risk & Concern

- Any change in the government's subsidy policies could impact its existing business, thus posing a risk factor.
- Genetically modified seeds possess self-immunity towards natural adversaries which have the capability to negatively impact the business of agrochemicals.
- Regulatory intervention in market pricing can impact margins of the

Graphs & Charts

Figure 1: Net Sales Trend

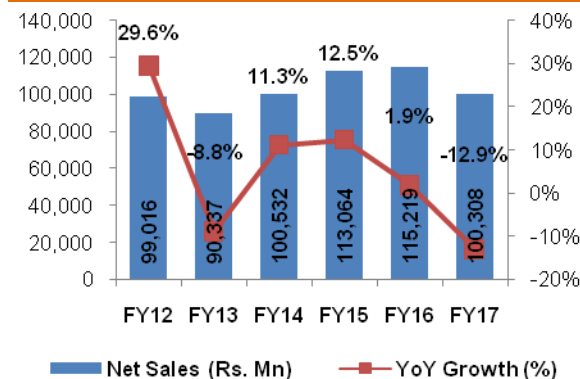


Figure 2: EBITDA & EBITDA Margin Trend

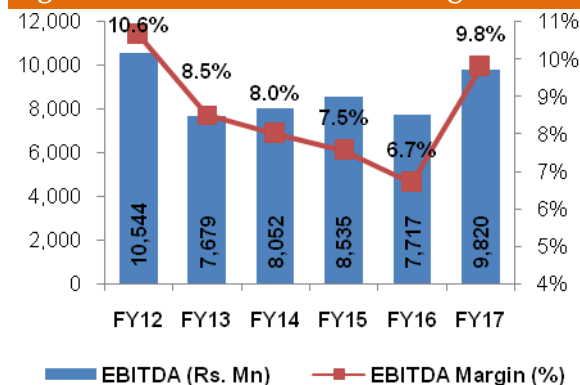


Figure 3: PAT Trend

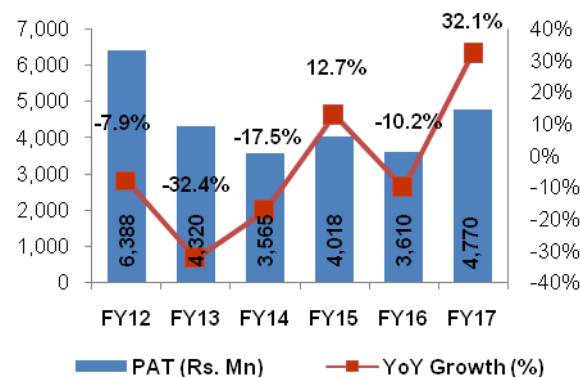
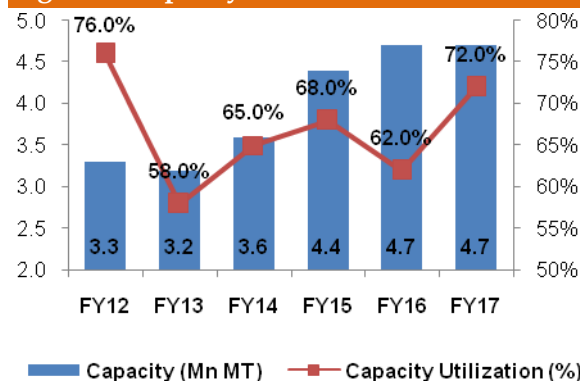


Figure 4: Capacity Utilization Trend



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