

Coromandel Intl Ltd.

₹ 195

Sowing Season is here

Accumulate



Feb 08, 2013

Company Background

Incorporated in 1964 Coromandel Intl. Ltd. (Coromandel) engaged in manufacturing of fertilizers, plant protection chemicals & speciality nutrients. Coromandel is a part of the Rs. 22,314 crores (USD 4.4 bn) Murugappa Group. The Company generated Net Sales of of Rs. 8,451.4 Crore in 2012-13. Coromandel manufactures a wide range of fertilisers and markets around 2.9 million tons making it a leader in its addressable markets and the second largest phosphatic fertiliser player in India. In its endeavour to be a complete plant nutrition solutions company, Coromandel has also introduced a range of Speciality Nutrient products including Organic Fertilisers. The Crop Protection business produces insecticides, fungicides and herbicides and markets these products in India and across the globe. Coromandel is the 2nd largest manufacturer of Malathion and only the 2nd manufacturer of Phenthoate. Coromandel has also ventured into the retail business setting up more than 425 rural retail centers.

Key Highlights

- ➔ Though Coromandel has just managed to maintain its figures as per industry expectations, its subsidiaries are however performing well Sabero one of its recent acquisitions reported a strong revenue growth of 35% Y-o-Y to Rs120cr and EBITDA income of Rs12.5cr against loss of Rs26.1cr in previous year.
- ➔ Coromandel's Kakinada plant is likely to be commissioned with the regulatory approval. The recent acquisition of Liberty phosphate will help the company to increase the geographic reach and presence in SSP.
- ➔ Coromandel is keen on acquiring Liberty Phosphate Ltd. to make it its key subsidiaries. The entire acquisition will be funded through our internal accruals. The buy will make Coromandel amongst India's leading single super phosphate makers with a total capacity of over one million tonnes.
- ➔ Under a separate agreement, Coromandel is set to acquire 100 per cent stake in Liberty Urvarak Ltd and the business of Tungabhadra Fertilisers through a slump sale. The Liberty Group has a market share of 14 per cent in the SSP segment & clocked a combined net profit of 68 million rupees on sales of 6.45 billion rupees in the fiscal year 2011/12.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	65,268.4	77,143.6	99,315.5
Rev. growth (%)	(32.49)	18.19	28.74
EBITDA (INR mn)	8,709.6	12,333.9	13,540.5
Net profit (INR mn)	4,682.0	6,944.6	6,932.7
Shares outstanding (mn)	140.3	281.8	282.6
EPS (INR)	33.4	24.6	24.5
EPS growth (%)	(5.93)	(26.18)	(0.43)
P/E (x)	4.7	11.6	11.6
RONW (%)	34.7	36.8	30.8
ROCE (%)	14.8	18.8	16.3

Nishant Chopra

nishantc@indiratrade.com

Previous Report

Date	: Apr 26, 2013
Recommendation	: Accum @ 184
Target	: 202
Reached on	: Apr 29, 2013

Market Data

52 Wk Range (₹)	: 180 - 305
Shares in Issue (mn)	: 282.6
Mkt. Cap (₹ bn)	: 54.20
BSE 2 Wk Avg Vol	: 6642

Share Holding Pattern (%)

Promoters	: 63.82
DII's	: 7.32
FII's	: 6.49
Others	: 22.37

Investment Theme

Coromandel as like all other Fertilizer companies is facing the beat of the market. However its vision is still strong. As expected it is focusing more on the turnaround of its acquired subsidiaries which would help it out in the long run to ease out its RM requirements. Muted outlook, lower sales volume and higher prices of complex fertilizer failed to improve sentiment across farmer community, resulting into correction in stock price of nearly all fertilizers in recent times. However, resolution of RM availability, capacity expansion plan, acquisition of Liberty phosphate, and turnaround of Sabero organic coupled with anticipation of better FY14 to support the financials, going forward. Therefore, we believe the recent sharp fall in stock price provides valuable buying opportunity at current level and therefore, we maintain our BUY rating on the Company.

Investing Cash in Good Subsidiaries

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	64424.8	76014.3	17.99	98168.1	29.14
Other Income	1150.0	1739.9	51.30	1732.5	(0.43)
Change in Stocks	(1536.9)	2199.7	(243.13)	2588.7	17.68
Raw Material Con.	41062.0	50361.8	22.65	59103.0	17.36
Employee Exp.	1648.8	1553.7	(5.77)	1864.4	20.00
Indirect Taxes	418.7	690.9	65.01	1018.6	47.43
Other Exp.	12198.8	15013.6	23.07	26977.7	79.69
Operating Exp.	56865.2	65420.3	15.04	86375.0	32.03
Operating Profit	7559.6	10594.0	40.14	11793.1	11.32
Total Interest	957.0	1812.8	89.43	3262.8	79.99
Gross Profit	7752.6	10521.1	35.71	10262.8	(2.46)
Net Dep.	668.2	636.5	(4.74)	565.1	(11.22)
Total Taxation	2402.4	2940.0	22.38	2765.0	(5.95)
Net Profit/Loss	4682.0	6944.6	48.33	6932.7	(0.17)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	27,541.5	32,547.1	32,738.8	48,352.9
Equity Share capital	279.8	280.5	281.8	282.6
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	10,991.6	14,069.3	18,759.3	23,429.3
Long Term Loans	10,118.6	7,264.0	1,463.7	3,193.5
Short Term Loans	6,151.5	10,933.3	12,234.0	21,447.5
USES OF FUNDS	27,541.5	32,547.1	32,738.8	48,352.9
Gross Block	12,049.7	12,995.9	13,442.1	13,978.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,409.5	4,955.5	5,505.1	5,907.7
Net Block	7,640.2	8,040.4	7,937.0	8,071.0
Capital Work in Progress	278.0	132.7	206.4	1,331.3
Investments	10,436.1	10,710.1	6,423.3	6,279.4
Current Assets	28,675.8	25,179.4	37,827.4	57,717.0
Less : Current Liabilities	19,488.6	11,515.5	19,655.3	25,045.8
Total Net Current Assets	9,187.2	13,663.9	18,172.1	32,671.2
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	10,434.6	10,708.8	6,422.9	2,261.9
Mkt Val. Quoted Investments	0.5	0.6	0.4	1,846.6
Contingent Liabilities	4,223.2	3,241.9	4,655.4	4,227.8
Dividend (%)	500	500	700	450

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 12	Sep 12	Dec 12	Mar 13
Net Sales	17,528.20	24,428.00	23,089.40	19,468.40
Cost Of Sales	15,417.80	22,168.40	21,912.20	18,758.90
Operating Profit	2,110.40	2,259.60	1,177.20	709.50
Recurring Income	180.30	193.20	144.40	152.40
Adjusted PBDIT	2,290.70	2,452.80	1,321.60	861.90
Financial Expenses	427.70	378.00	464.20	496.80
Depreciation	141.50	142.00	151.40	150.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1,721.50	1,932.80	706.00	214.60
Tax Charges	440.60	670.00	19.50	93.30
Adjusted PAT	1,280.90	1,262.80	686.50	121.30
Non Recurring Items	0.00	1,073.70	0.00	14.70
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	1,280.90	2,336.50	686.50	136.00

52 Week Index Relative Percentage Appreciation

Coromandel vs SENSEX
Points to Ponder

- Coromandel stands out to be the largest manufacturer and marketer of a wide range in special Fertiliser segments. CIL manufactures phosphatic fertilisers making it a market leader and it is the second largest phosphatic fertiliser player in India. The company has dominant hold in southern India market making it a market leader in complex fertiliser segment.
- Coromandel hold a strong market position in manufacturing of complex fertilizer. It is poised to be the biggest beneficiary in the complex fertiliser space in India through the NBS policy. The company products are based upon the new Nutrient Based Subsidy policy making CIL more competitive in product segment.

Risks Associated

The fertilizer industry is majorly regulated by the government and therefore faces the main risk of non-conducive policies and inter-department disagreements. Further the delay in payment of subsidies by the government as well as since the industry works on seasonal demand & continuous production working capital finance is attracting an interest burden. Pricing of gas for fertilizer units seems to be a major issue along with its availability. The raw material prices and other operating costs are on the rise. Any disruption in the supply of key raw materials directly affects the volumes as evident from the last quarters. An additional credit risk is also attached to the industry, because the sales to dealers involve nonpayment risks, especially if the monsoon is not favorable as key customers of the fertilizer industry are farmers.

Coromandel

In a Nutshell

Coromandel International Ltd., previously Coromandel Fertilizer Ltd. is an Indian manufacturer of phosphatic and other complex fertilizers. Coromandel has huge cash reserves which would give the company great advantage in its capex plans. It has been able to maintain its margins even during the slack period due to its product mix. The company has been focusing on non subsidy products to increase its margin. The company has increased prices of its products which were well absorbed due to rise in MSPs. This coupled with the spillover of key crops sowing due to extended rainfall, would add more sales revenue in the upcoming quarter. It has been paying high dividends consistently and is a safe stock in its sectors. The strategic partnerships with leading companies across the globe for raw materials, coupled with its high efficiency plants, enables it to be a cost leader in domestic complex fertilizers. Continued supply of required raw materials at competitive international prices, technical know-how's will improve the operating cost & advantageous over its peers. Coromandel has a wide distribution network of product marketing through its 423 Retail outlet. These outlets besides providing complete range of farm products they also provide information on crop cultivation, pest management recommendation, symptoms identification details to the farmers. This enables the company to build strong relationships with the farmers and improves the cultivation of crops.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.

