

Coromandel International ₹ 184

Large Sher of Fertilizer Market Accumulate



Apr 26, 2013

Company Background

Incorporated in 1964 Coromandel Intl. Ltd. (CIL) engaged in manufacturing of fertilizers, plant protection chemicals & speciality nutrients. CIL is a part of the ₹ 22,314 crores (USD 4.4 bn) Murugappa Group. CIL clocked a turnover of ₹ 9,823 crore in 2011-12 (USD 1.93 billion as on March 31, 2012). Coromandel manufactures a wide range of fertilisers and markets around 2.9 million tons making it a leader in its addressable markets and second largest phosphatic fertiliser player in India. In its endeavour to be a total plant nutrition solutions company, CIL has also introduced a range of Speciality Nutrient products like Organic Fertilisers. The Crop Protection business produces insecticides, fungicides and herbicides and markets these products in India and across the globe. CIL is the 2nd largest manufacturer of Malathion and only the 2nd manufacturer of Phenthoate. CIL has also ventured into the retail business setting up more than 425 rural retail centers in the agri and lifestyle segments.

Key Highlights

- ➔ Coromandel's non-subsidy business posted strong growth and contributed 13% to revenues and 38% to EBITDA during FY13. Non-subsidy business posted revenue growth of 26% in FY13.
- ➔ Among Coromandel's primary markets, Coromandel was able to improve its market share from 9.7% to 14.8% in DAP and from 44.7% to 47.5% in NPK.
- ➔ Acquisition of stake in AP Gas Power Corp (APGPCL) will give CIL access to captive power production capacity and lower its costs. Since it is facing acute power shortage, acquisition of APGPCL will be beneficial.
- ➔ Tunisian Indian Fertilisers (TIFERT) is a joint venture (JV) company between India's Coromandel and Gujarat State Fertilisers and Chemicals Ltd (GSFC) and Tunisia's Groupe Chimique Tunisian (GCT) and Campagnie Des Phosphate De Gafsa (CPG) is under commissioning and Coromandel expects first shipment from TIFERT to sail out by second half of May.
- ➔ Management guided capacity utilization for FY 14E on standalone manufactured fertiliser capacity is close to 70-80% further. At the end of Q4FY13, Coromandel's subsidy receivables stood at ₹ 12.6bn.

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	13,525.6
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)	16.3	28.4	28.4
RONW (%)	34.7	36.8	30.8
ROCE (%)	14.8	18.8	16.3

Nishant Chopra

nishantc@indiratrade.com

Previous Report

Date	: Jun 08, 2012
Recommendation	: Accumulate
Price	: ₹ 264
Target	: ₹ 290
Target Reached	: Aug 29, 2012
Peak in 52 Week	: ₹ 305
% High in 1 Yr	: 15.45%

Market Data

52 Wk Range (₹)	: 305 / 180
Shares in Issue (mn)	: 282.6
Mkt. Cap (₹ bn)	: 52.15
BSE 2 Wk Avg Vol	: 13000

Share Holding Pattern (%)

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

Investment Theme

CIL is one of the Flagship companies of Murugappa Group which has grown stronger and stronger over years. While looking out to being a total plant solution company CIL has diversified into retail business also. Its recent takeovers signify the companies aggressiveness towards business. The recent stake in APGPCL will boost captive power availability thereby lowering costs. Coromandel is also one of the key beneficiaries of the Urea import license granted by the Indian government. CIL's management's approach towards business remains tremendously positive and expects a capacity utilization of 80% in FY 14. We therefore place an Accumulate rating on the stock.

Receivable Subsidy of 12 Billion

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	700	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



CIL vs SENSEX

Points to ponder

- CIL 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.
- CIL 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

Management highlighted that industry environment remains challenging due to subdued demand scenario, while over-supply in the system has made things worse. Even though crop economics remains favourable, farmers are reluctant to use complex fertiliser at such high prices. 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 and has an outlook to become the total plant solution providing space. Coromandel has huge cash reserves which would give the company great advantage in its capex plans. The recent numbers of the company has disappointed the investors however looking at its aggressive growth plans and the growth trajectory it followed we feel that the bullish business sentiment possessed by the companies management can be achieved well. To reduce its dependance on subsidies which are never delivered on time, 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. Even though after the prices rose the company managed to better its market share in its key operating markets like Andhra Pradesh, Maharashtra, Karnataka, etc. The company 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 & dvantageous over its peers. CIL is also continuously building up its retail networks to reach out the farmers directly and provide all services related to crop management. This enables the company to build strong relationships with the farmers and improves the cultivation of crops. We therefore remain bullish on the growth expected in the company.

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

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