

Coromandel Intl Ltd.**172****Fertilizer Brand of South India !****Buy**

Mar 11, 2016

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. 9497.8 Crore in 2013-14. 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

- ➔ As the global prices of Feedstock Gas are coming down this may be a positive for the urea stocks also particularly with the renewed demand on the rural segment of the economy & the emphasis given to the agriculture sector in the current budget by the Government of India.
- ➔ Coromandel continues to maintain its leadership position in its key markets of southern India amid falling volumes and poor demand environment. In its key market of Andhra Pradesh and Telengana its market share increased from 61% to 68% even as volumes dropped by 21-22% indicating Coromandel's brand strength in these states.
- ➔ While Coromandel's domestic non-fertiliser business remained under stress owing to weak demand due to depleting water levels and saw significant sales return, export business at Sabero showed healthy growth along with improved profitability. Export business was largely driven by increased demand for Mancozeb where volumes increased by 25% led by label expansion in Brazil and demand supply mismatch in key export markets. Consequently, Sabero enjoyed healthy margins upto 17% due to currency tailwinds.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	86,293.1	94,380.2	1,13,262.6
Rev. growth (%)	(13.11)	9.37	20.01
EBITDA (INR mn)	10,221.2	10,378.2	10,935.5
Net profit (INR mn)	4,439.9	3,448.5	4,031.4
Shares outstanding (mn)	283.1	283.2	291.3
EPS (INR)	15.7	12.2	13.8
EPS growth (%)	(36.07)	(22.36)	13.66
P/E (x)	11.79	18.24	19.39
RONW (%)	19.50	16.08	18.58
ROCE (%)	9.55	8.65	9.97

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Info Codes

Reuters	: CORF.BO
Bloomberg	: CRIN@IN
NSE	: COROMANDEL
BSE	: 506395

Market Data

52 Wk Range (`)	: 294 / 146
Shares in Issue (mn)	: 291.3
Mkt. Cap (` bn)	: 49.82
BSE 2 Wk Avg Vol	: 34000

Share Holding Pattern (%)

Promoters	: 62.11
Public	: 37.89
Others	: 00.00

Investment Theme

Coromandel appears to be a good bet because of its focus on the lucrative complex fertilizers space & its initiatives to diversify from a pure fertilizer business to a broader, agricultural inputs business. Coromandel has been able to increase in market share in southern states like Andhra Pradesh & Telangana upto 68% even in weary markets over the last one year. The current support to the stock is given by the falling global feedstock gas prices & government renewed emphasis on a farmer. Going forward, with a focus on customized products, management is sure of further market share gains. The returns from Sabero are also rising coupled with high margins it is garnering due to currency winds. Management expects export business to continue to be in robust growth led by increased demand for Mancozeb, while domestic business could pick up if monsoon normalizes during upcoming kharif. We therefore recommend to buy the stock.

Volumes fall but Market Share up !

Financial Statements

Income Statement

(` mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	86,627.2	94,978.2	9.6	1,14,544.6	20.6
Other Income	678.2	517.1	(23.8)	500.9	(3.1)
Change in Stocks	(1,472.0)	1,239.5	(184.2)	4,075.6	228.8
Raw Material Con.	49,073.1	60,050.5	22.4	71,596.0	19.2
Employee Exp.	2,024.5	2,407.8	18.9	2,706.4	12.4
Indirect Taxes	1,103.1	1,374.2	24.6	1,934.4	40.8
Other Exp.	23,435.0	22,524.1	(3.9)	31,948.8	41.8
Operating Exp.	77,107.7	85,117.1	10.4	1,04,110.0	22.3
Operating Profit	9,519.5	9,861.1	3.6	10,434.6	5.8
Total Interest	3,818.4	4,560.9	19.4	3,842.3	(15.8)
Gross Profit	6,379.3	5,817.3	(8.8)	7,093.2	21.9
Net Dep.	716.0	873.5	22.0	1,168.8	33.8
Total Taxation	1,223.4	1,495.3	22.2	1,893.0	26.6
Net Profit/Loss	4,439.9	3,448.5	(22.3)	4,031.4	16.9

4 Years Balance Sheet

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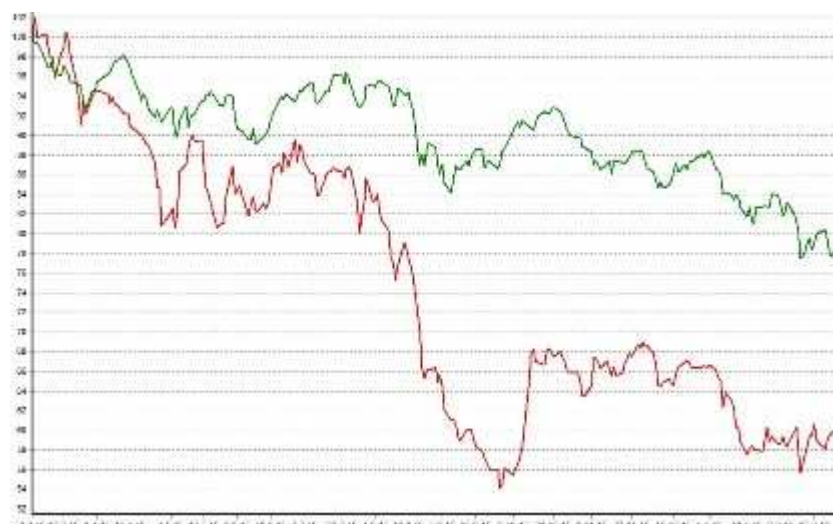
Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	48,352.9	44,458.5	37,510.0	44,464.6
Equity Share capital	282.6	283.1	283.2	291.3
Share Application Money	0.0	0.0	2.6	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	23,429.3	21,473.0	22,047.4	21,354.0
Long Term Loans	3,193.5	8,026.9	3,559.4	2,485.3
Short Term Loans	21,447.5	14,675.5	11,617.4	20,334.0
USES OF FUNDS	48,352.9	44,458.5	37,510.0	44,464.6
Gross Block	13,978.7	17,677.2	19,310.6	22,811.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	5,907.7	6,256.7	7,199.5	9,158.9
Net Block	8,071.0	11,420.5	12,111.1	13,652.8
Capital Work in Progress	1,331.3	279.4	269.2	464.4
Investments	6,279.4	8,795.5	7,440.1	3,541.3
Current Assets	57,717.0	53,513.5	51,348.6	66,203.8
Less : Current Liabilities	25,045.8	29,550.4	33,659.0	39,397.7
Total Net Current Assets	32,671.2	23,963.1	17,689.6	26,806.1
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	2,261.9	3,061.8	3,337.4	3,491.7
Mkt Val. Quoted Investments	1,858.6	3,460.8	3,187.5	49.2
Contingent Liabilities	6,505.1	3,978.3	2,280.6	1,880.4
Dividend (%)	700	450	450	450

Quarterly Income Sheets

(` mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	29,847.7	21,726.7	35,593.3	27,489.6
Cost Of Sales	28,251.5	20,814.0	32,456.7	25,826.8
Operating Profit	1,596.2	912.7	3,136.6	1,662.8
Other Income	130.4	148.4	236.6	137.5
Adjusted PBDIT	1,726.6	1,061.1	3,373.2	1,800.3
Financial Expenses	439.8	594.6	492.8	535.8
Depreciation	265.7	259.1	279.3	244.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1,021.1	207.4	2,601.1	1,019.7
Tax Charges	334.7	71.1	865.2	451.8
Adjusted PAT	686.4	136.3	1,735.9	567.9
Non Recurring Items	0.0	0.0	0.0	250.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	686.4	136.3	1,735.9	817.9

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. Coromandel manufactures phosphatic fertilisers making it a market leader and it is the second largest phosphatic fertiliser player in India. It has dominant hold in south India market making it a market leader in complex fertilisers.
- 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 Nutrient based Subsidy policy.

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 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 good 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 425 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. The recent budget focus to boost rural economy also augurs well for the company. We therefore feel its a good stock to buy.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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