India Midcaps

VISIT NOTE

COROMANDEL INTERNATIONAL

Moderation in earnings growth

India Equity Research| Fertilisers

Edelweiss
Ideas create, values protect

We recently interacted with the newly appointed CFO of Coromandel International (Coromandel) Ms. Jayashree Satagopalan. She stated that the company has benefited from: i) robust fertiliser volumes; ii) uptick in fertiliser margins driven by improved industry dynamics & favourable product mix change; and iii) strong profitability in agrochemicals riding firm Mancozeb prices. Driven by these positives, we estimate 61% PAT growth and ~700bps improvement in RoCE to 25% in FY18. We maintain our positive stance and 'BUY' on the stock given its pole position in complex fertilisers and expanding portfolio of non-fertiliser business. However, we expect earnings growth to moderate in FY19 to 9% on limited margin improvement due to RM pressures.

Fertiliser volume growth remain solid led by unique grade

In 9mFY18, Coromandel witnessed fertiliser volume growth of 12% led by strong growth in its unique grade products. The share of unique grades in fertilizer revenues has jumped from 28% to 33% over FY14-17 and increased further to 38% by 9mFY18. Growing share of unique grade products enhances the pricing power of the company and reduces dependency on more commoditized fertilisers like DAP.

Crop protection and retail offer growth opportunity

Profitability of Coromandel's agrochemical business has improved—9mFY18 EBIT margin jumped to 18% (13% in FY16)—driven by: i) higher utilisation; and 2) improved realisation of key product Mancozeb and favourable change in product mix. As the company continues to augment capacity and expand its product basket, we expect the growth momentum in its agrochemicals business to sustain. We also expect the company to benefit from retail expansion and possibility of increase in SSG post DBT. Change in product mix towards captive agrochemicals remains key profitability driver

Outlook and valuations: Stable performance ahead; maintain 'BUY'

We believe, Coromandel is a proxy play on domestic agri due to its leadership position in complex fertilisers and expanding agrochemicals portfolio & retail network. We expect it to continue to enjoy rich valuations and we value the stock at 20x FY20E EPS leading to TP of INR673. We maintain **'BUY'**. While DBT will continue to be key near-term catalyst, volatility in fertiliser input (phos acid) & Manacozeb prices could adversely affect our estimates.

Financials

Year to March	FY17	FY18E	FY19E	FY20E
Revenues (INR mn)	101,951	113,498	131,586	147,091
EBITDA (INR mn)	9,827	13,260	13,865	15,895
Adjusted Profit (INR mn)	4,770	7,663	8,344	9,813
Adjusted Diluted EPS (INR)	16.4	26.3	28.6	33.6
Diluted P/E (x)	32.1	20.0	18.4	15.6
EV/EBITDA (x)	17.7	11.7	10.9	9.3
ROAE (%)	17.3	24.1	21.9	21.6

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: CORF.BO, B: CRIN IN)*

CMP	: INR 520
Target Price	: INR 673
52-week range (INR)	: 588 / 338
Share in issue (mn)	: 292.4
M cap (INR bn/USD mn)	: 152 / 2,359
Avg. Daily Vol. BSE/NSE ('000)	: 270.1

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	61.8	61.8	61.8
MF's, FI's & BKs	9.2	9.2	9.2
FII's	5.9	5.9	5.9
Others	23.1	23.1	23.1

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	3.5	0.8	(2.6)
3 months	(6.4)	(4.6)	1.9
12 months	16.6	57.2	40.6

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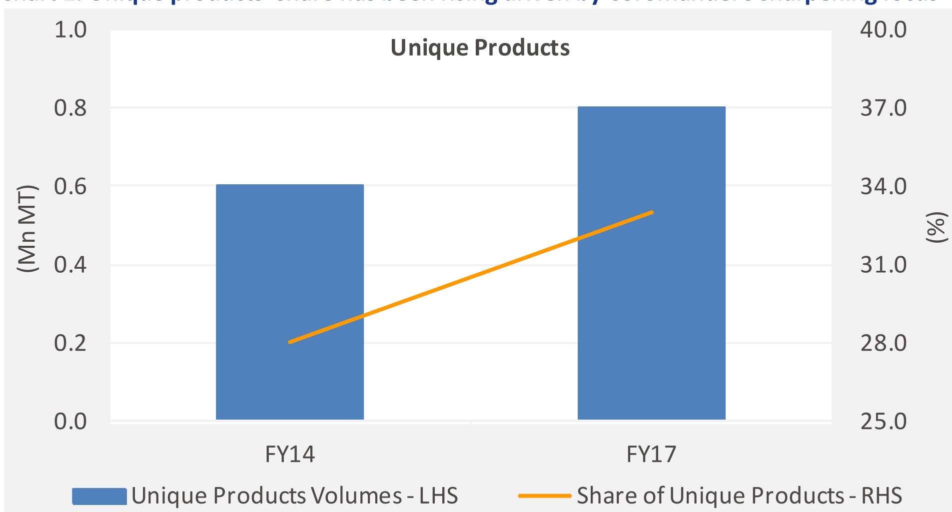
Growing share of unique fertiliser grades products protects margins

Despite government recommendations to use secondary & micronutrients, not many farmers/ growers are aware of the benefits of these nutrients. Therefore, to meet these needs, Coromandel has recently introducted unique grade fertilizers. As an example, to address the issue of lower sulphur, the company has developed a nutrient solution *Gromor Max* with technology support from ShellTM, which can supply nitrogen, phosphorus and sulphur nutrition via single source.

The share of unique grades in fertilizer revenues has jumped from 28% to 33% over FY14-17. And, in 9mFY18 it stands at 38% of revenue versus 33% in FY17. While pricing in common grade fertilizers is limited to +/-5% of competition, unique grades provide pricing flexibility and help protect margins. It also marginally helps create product differentiation in a purely commodiitzed industry. Management aims to create loyatly for these products.

Chart 1: Unique products' share has been rising driven by Coromandel's sharpening focus

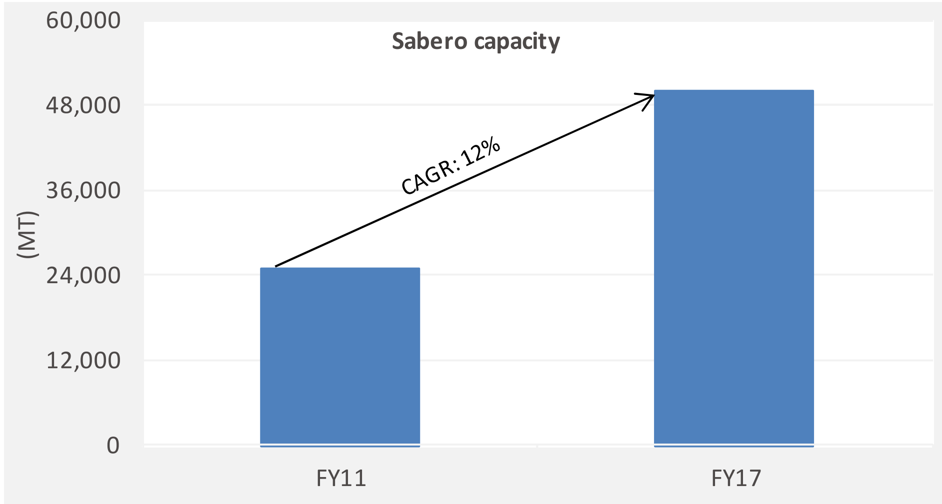


Source: Company, Edelweiss research

Crop protection's margin turning around; capex planned

The company's major products in crop protection include Mancozeb, Acephate, Monocrotophos and Profenofos. These constitute 85-90% of volumes, with Mancozeb making up ~50%.

Chart 2: Sabero has seen continous capacity expansion since acquisition by Coromandel



Source: Company, Edelweiss research

Post acquistion of Sabero, Coromandel has, over the past six years, consistently added to the former's capacity. As a result, Sabero (major part of Coromandel Crop Protection segment post merger) now ranks amongst the largest Mancozeb manufacturers in India. It is looking to further enhance Mancozeb capacity and add new products at Dahej and Sarigram. The new expansion will only need tweaking of existing capacities and is estimated to cost ~INR300-400mn.

Coromandel has been increasing the share of specialties and the export share of its crop protection segment is the highest among domestic agrochemical players.

Chart 3: increasing share of specialty products

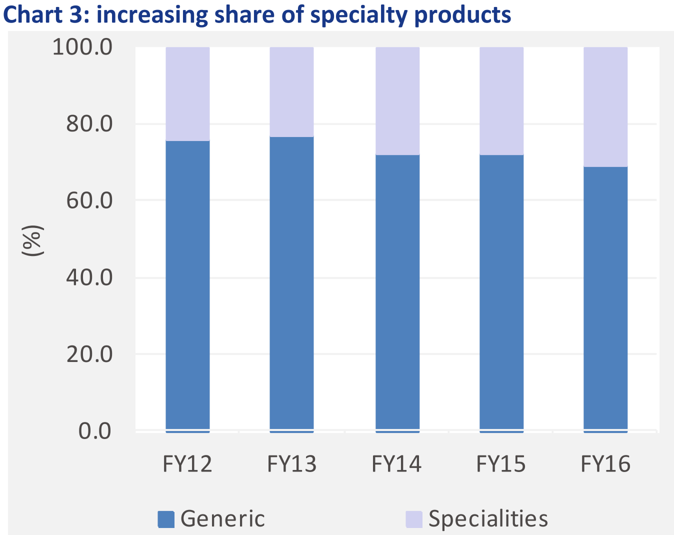
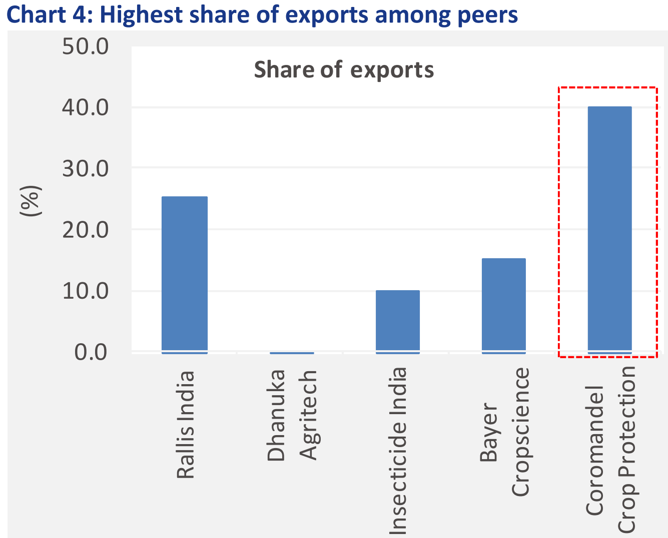


Chart 4: Highest share of exports among peers



Source: Company, Edelweiss research

Focus on driving speciality product portfolio and new launches to support margin

Sabero's margins, at the time of acquisition by Coromandel, were below 10% and remained subdued. However, over the past two years, Coromandel has successfully turned around the performance of Sabero/crop protection division driven by efficienceis and higher share of specialty products.

In FY17, the spike in Mancozeb prices also aided margin for the segment. Looking at the margin profile for the entire crop protection business, it ranks among the highest in the agrochemical space in India.

Chart 5: Sharp improvement in margins post acquisition

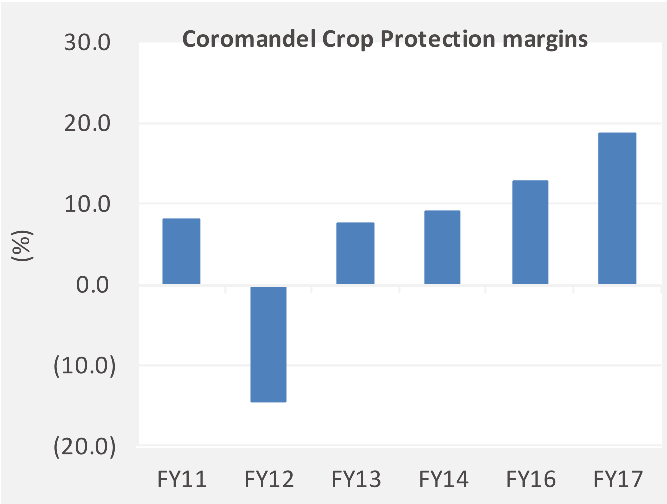
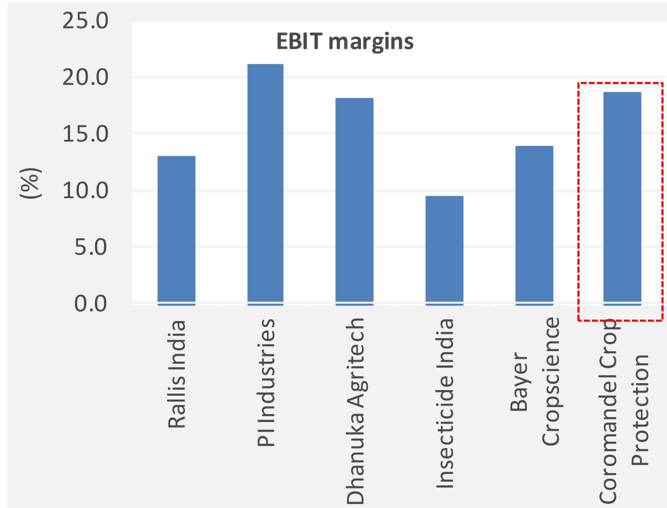


Chart 6: Margin profile also comparable to other players



Note: Margins from FY11-14 for Sabero, FY16-17 for reported Crop Protection segment,
Source: Company, Edelweiss research

Retail: Focus on product extension to drive profitability

Coromandel's retail arm commenced operations in FY07 with two outlets in Andhra Pradesh and by FY18 the business expanded to over 800 retail centers in rural Andhra Pradesh and Karnataka. The company's 800 Mana Gromor stores are spread across three states with a total retail space of 0.7mn sq ft. Its retail centers are located at Mandal headquarters (Mandal is a revenue unit in Andhra Pradesh, which is 1/50th of a district.) Each retail center has an average area of 1,750 sq ft with a catchment area of 30-40 villages and about 5,000 farmer families.

Fig. 1: Retail presence

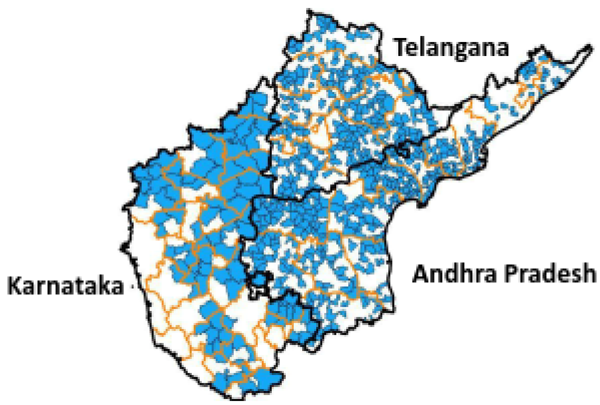
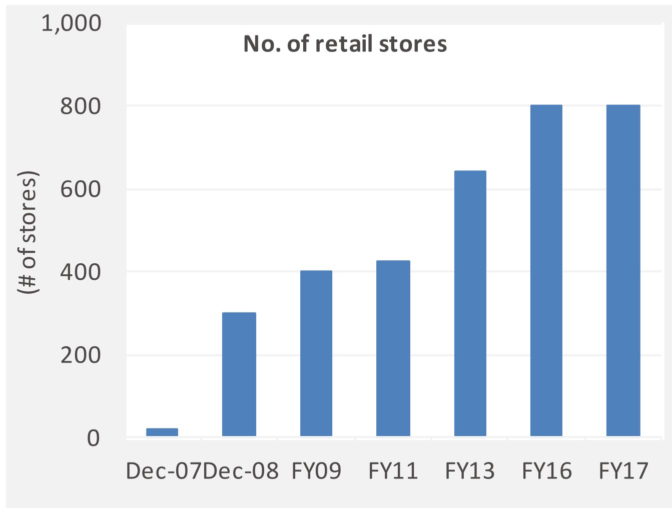


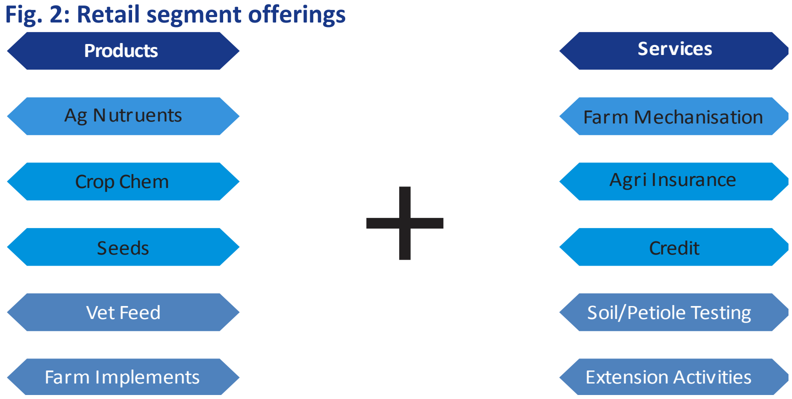
Chart 7: Commenced operations in FY07, added 800 till date



Source: Company, Edelweiss research

Coromandel's Retail Mana Gromor Centers directly connect with around 2.8mn farmers, offering extension services through integrated nutrient trials, scientist connect and technology interventions. In line with the government's call for developing model retail outlets to improve soil and seed testing facilities for farmers, Coromandel has transformed its 450 retail outlets into Krishi Suvidha Kendras, providing balanced nutrient recommendations to growers as per soil and crop needs.

Fig. 2: Retail segment offerings



Source: Company, Edelweiss research

Economics based on agrochemicals and cross selling

Of Coromandel's total manufactured complex fertilizer sales in Andhra Pradesh and Telangana, ~20-25% are via its own stores. Many of the company's specialty fertilizer brands are only avaibale through Gromer stores. The target audience for these stores is primarily high-end farmers. On the fertilizer front, the company also stocks some urea. On the non-fertilizer side, Coromandel's biggest product is sale of agrochemicals, where it sells its own captive brands and also stocks other competitor brands. The company's non-fertilizer captive products also include specialty nutrients. Other traded products (non-captive) which the company deals in are seeds, vet food and manure.

Chart 8: Break-up of retail store sales

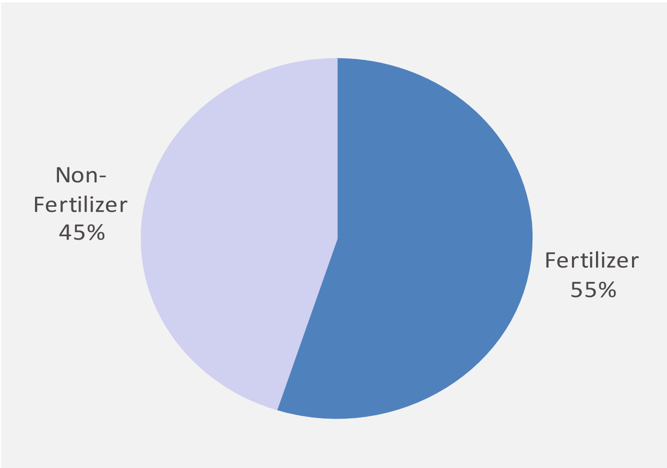
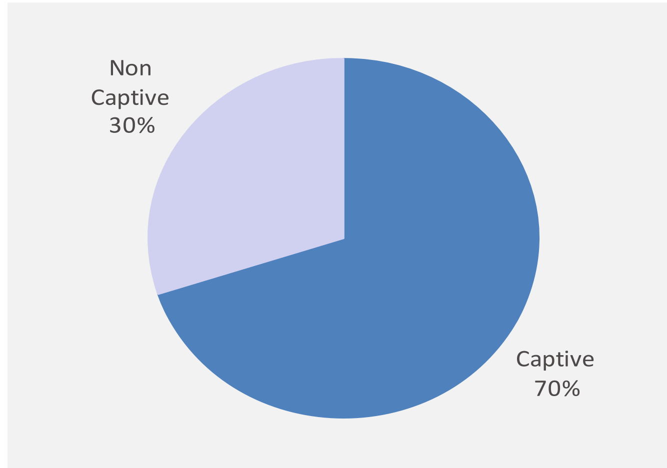


Chart 9: Focus on increasing share of captive agrochemicals

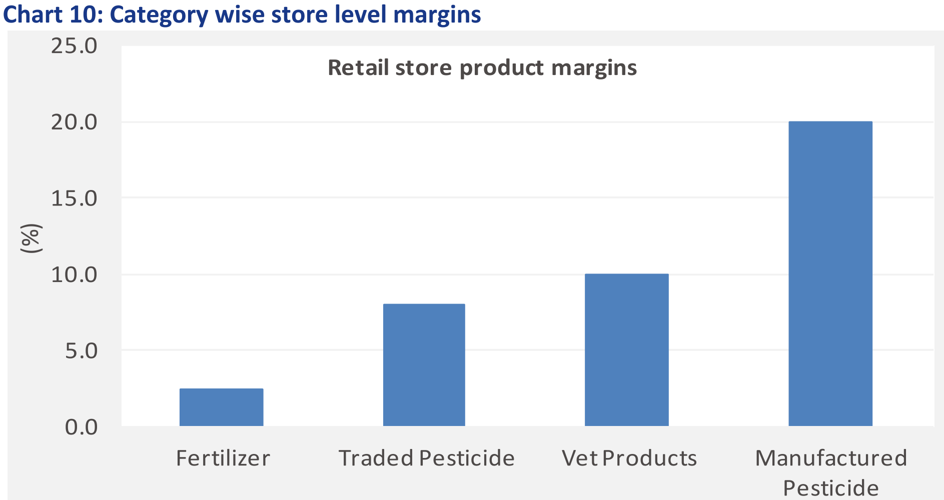


Source: Company, Edelweiss research

Profitability: Agrochemicals leads while fertilizers provide volumes

Of the 800 stores, ~550 have become profitable. Majority of the stores in AP has broken even and most of the loss-making stores are located in Karnataka. While growth in fertilizer sales is stable and provides footfalls, the key driver to improve profitability in these stores will be higher share of agrochemicals (especially, captive brands) and also an increase in cross selling. The company has also tried selling loan products of its group company, Cholamandalam, at some of its stores and has plans to add insurance to its services boutique as well. Looking at product-wise margins, it is clear that maximum contribution will be from sale of agrochemicals/pesticides.

Chart 10: Category wise store level margins



Source: Company, Edelweiss research

Outlook: FY18 exceptional year with performance to stabilise further

Chart 11: EBITDA margins to remain stable

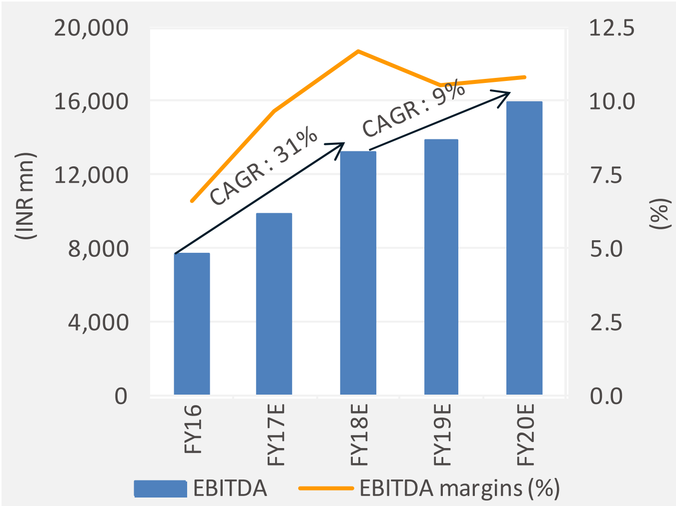
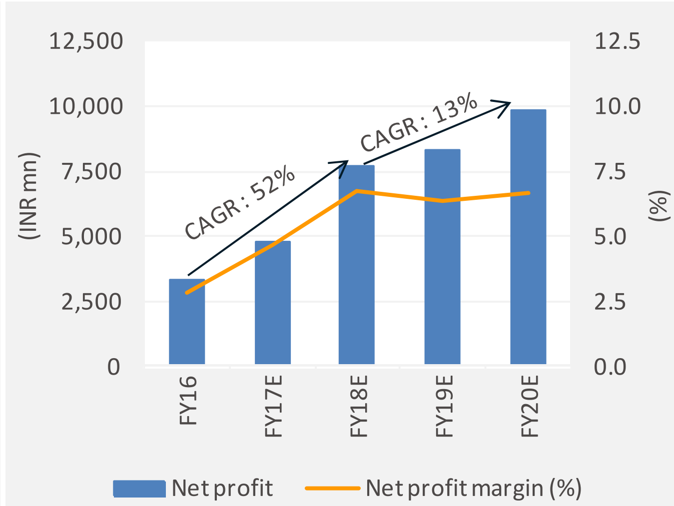


Chart 12: PAT growth is expected to moderate



Source: Company, Edelweiss research

Strong earnings growth driven by fertilizer volume growth and improvement in fertilizer & crop protection margins.

Chart 13: This year has seen strong growth in fertilizer volumes

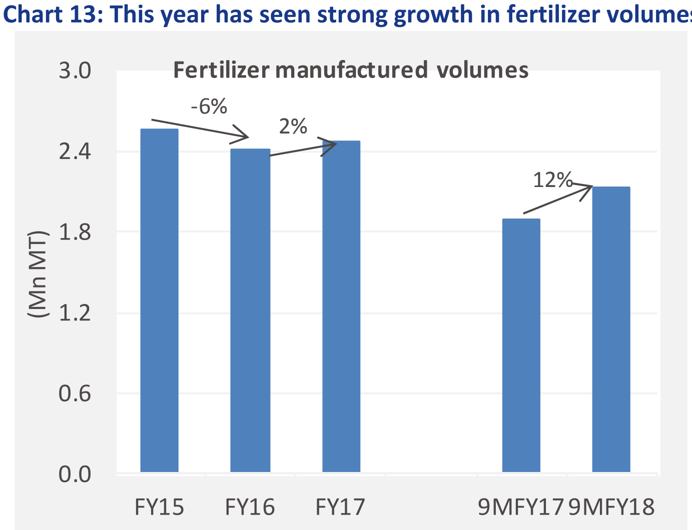
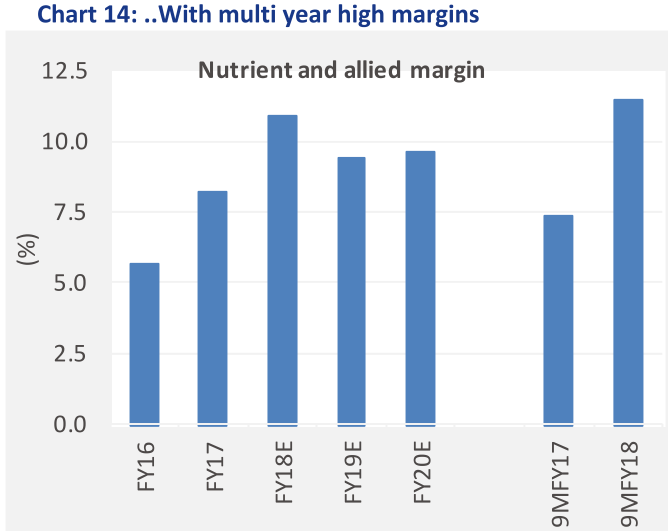


Chart 14: ..With multi year high margins



Source: Company, Edelweiss research

Chart 15: Crop protection margins also expanded in FY17

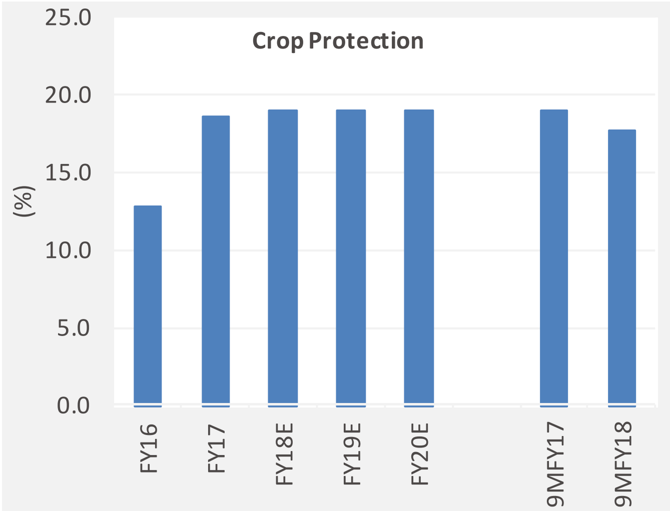
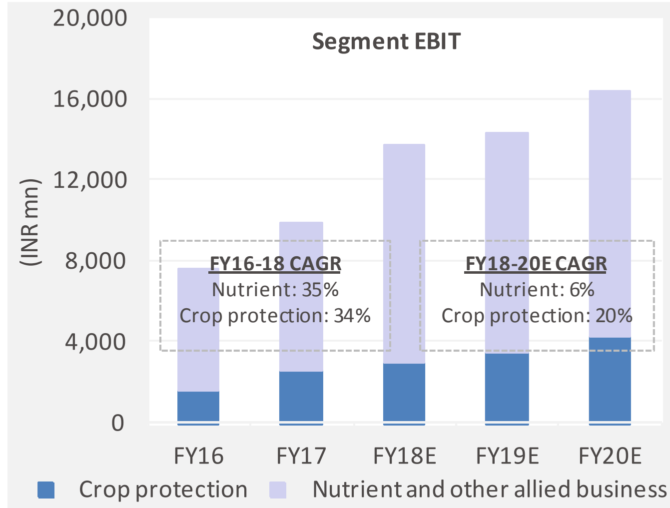


Chart 16: ..Crop protection is stable, fertilizer has peaked



Source: Company, Edelweiss research

We expect fertiliser margins to moderate in FY19E due to increase in raw material costs and crop protection margins to remain stable at ~19%. Even here increasing raw material prices remain a risk but Coromandel has been able to maintain margins this year.

Positive surprises in FY19 can be higher-than-expected fertiliser volume growth driven by: 1) lower channel inventory; 2) better monsoon; and 3) shift towards complex fertiliser driving higher-than-industry volume growth. We expect strong growth in speciality fertiser / micro nutrients can drive margin expansion. While FY18 saw improvement in P&L, FY19 is likely to see balance sheet improvement with reduction in working capital.

Key risks in current years are:

Rising phos acid and ammonia prices.

Any pressure on Mancozeb realisation can adverasely affect agrochemical's margins.

Company Description

Coromandel, incorporated in 1961, is owned by the Murugappa Chettiar Group. The company manufactures and markets fertilisers and pesticides. It is the second largest phosphatic fertiliser player in India (after IFFCO). Its fertilisers are sold under brand names - Gromor, Paramfos, Parry Gold, Parry Super and Godavari. For crop protection, Coromandel produces insecticides, fungicides, herbicides, and markets them in India and abroad. It has also ventured into the retail business, setting up more than 650 rural retail centers in agri and lifestyle segments. Coromandel markets its products all over India through 15 marketing offices and a network of 13,000 dealers besides exporting pesticides to various countries across the globe. Coromandel's fertiliser plants are located at Visakhapatnam (Vizag) and Kakinada in Andhra Pradesh, and Ennore and Ranipet in Tamil Nadu with a combined production capacity of 3.2 mn MT of fertilisers. These plants are state-of-the-art facilities with a good infrastructure support and integration, enabling a high capacity utilisation for Coromandel and also making it the lowest cost producer of complex fertilisers in India.

Investment Theme

Coromandel, the largest private sector phosphatic fertiliser manufacturer in India, is poised to be the biggest beneficiary in the complex fertiliser space in India with the implementation of the nutrient based subsidy (NBS) scheme. NBS will benefit the company in the long term by means reduction in working capital and lesser volatility in earnings, on the back of its raw material linkages, scale of operations and operational efficiencies. The strategic partnerships of Coromandel with leading companies across the globe for raw materials, coupled with its high efficiency plants, have enabled it to be a cost leader in domestic complex fertilisers.

Coromandel is also targeting an improvement in the non-subsidy business substantially over the next four years, contributing as high as 50% to EBITDA (from the current 36%). Specialty nutrients are likely to lead the charge in this division on the back of a strong growth in municipal compost and water soluble fertilisers in India. Coromandel has been posting an RoE of over 15% for the past three years%, which is likely to improve to 19% in FY18E owing to improved metrics.

Key Risks

Any execution delay in capacity expansion at the Kakinada plant will lead to an opportunity loss for the company and downside risks to our estimates.

Though Coromandel has tied up for phosphoric acid and rock phosphates, any issue on the suppliers' front may pose a hazard.

High volatility in crude prices could adversely impact the company's raw material costs.

Poor monsoon could hit fertiliser demand.

Delay in payment of fertiliser subsidies by government can also mar prospects.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Mfg Fert. sales vol (MT)	2,933,000	3,136,000	3,584,500	3,884,500
Tr fert sales vol(MT)	1,185,107	661,946	705,282	757,712
Non-sub rev grw(ex-crop)	15.0	17.0	18.0	18.0
Comp Fert Real. (INR/MT)	26,547	26,547	26,906	27,271
DAP Realisation (INR/MT)	29,652	29,652	30,067	30,489

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	101,951	113,498	131,586	147,091
Materials costs	72,853	79,449	92,110	102,963
Gross profit	29,098	34,049	39,476	44,127
Employee costs	3,108	3,326	3,526	3,702
Other Expenses	16,163	17,464	22,086	24,530
EBITDA	9,827	13,260	13,865	15,895
Depreciation	1,007	980	1,100	1,240
EBIT	8,820	12,279	12,764	14,655
Add: Other income	548.2	884.81	1,259.82	1,376.05
Less: Interest Expense	2,238	1,719	1,563	1,378
Associate profit share	(7)	(5)	(5)	(5)
Profit Before Tax	7,130	11,445	12,461	14,653
Less: Provision for Tax	2,353	3,777	4,112	4,836
Reported Profit	4,770	7,663	8,344	9,813
Adjusted Profit	4,770	7,663	8,344	9,813
Shares o /s (mn)	292	292	292	292
Adjusted Basic EPS	16.4	26.3	28.6	33.6
Adjusted Diluted EPS	16.4	26.3	28.6	33.6
Adjusted Cash EPS	19.5	29.6	32.4	37.9
Diluted shares o/s (mn)	292	292	292	292
Dividend per share (DPS)	6.0	6.0	6.0	6.0
Dividend Payout Ratio(%)	36.6	22.8	21.0	17.8

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	28.5	30.0	30.0	30.0
EBITDA margins	9.6	11.7	10.5	10.8
EBIT margins	8.7	10.8	9.7	10.0
Net Profit margins	4.7	6.8	6.3	6.7

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(12.4)	11.3	15.9	11.8
Adjusted Profit	43.5	60.7	8.9	17.6
EBITDA	28.2	34.9	4.6	14.6
EPS	43.3	60.7	8.9	17.6

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	292	292	292	292
Reserves & Surplus	28,616	34,529	41,123	49,185
Shareholders' funds	28,908	34,821	41,415	49,477
Short term borrowings	22,284	18,160	19,738	14,709
Total Borrowings	22,284	18,160	19,738	14,709
Def. Tax Liability (net)	1,495	1,495	1,495	1,495
Sources of funds	**52,686**	**54,476**	**62,647**	**65,681**
Gross Block	23,755	25,255	29,755	32,255
Net Block	13,159	13,679	17,078	18,338
Capital work in progress	137	137	137	137
Intangible Assets	117	113	113	113
Total net fixed assets	13,412	13,929	17,329	18,588
Non current investments	3,884	3,884	3,884	3,884
Cash and Equivalents	1,680	15,696	21,088	20,474
Inventories	17,246	13,506	15,659	17,504
Sundry Debtors	16,217	18,160	21,054	23,535
Loans & Advances	7,300	7,945	9,211	10,296
Other Current Assets	26,630	20,430	19,738	22,064
Current Assets (ex cash)	67,392	60,041	65,661	73,398
Trade payable	29,345	34,049	39,476	44,127
Other Current Liab	4,418	5,107	5,921	6,619
Total Current Liab	33,764	39,157	45,397	50,746
Net Curr Assets-ex cash	33,629	20,884	20,264	22,652
Uses of funds	**52,686**	**54,476**	**62,647**	**65,681**
BVPS (INR)	99.1	119.4	142.0	169.6

Free cash flow (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	4,770	7,663	8,344	9,813
Add: Depreciation	1,007	980	1,100	1,240
Interest (Net of Tax)	1,499	1,152	1,047	923
Others	2,799	(213)	(639)	(666)
Less: Changes in WC	923	(12,745)	(619)	2,388
Operating cash flow	9,152	22,327	10,472	8,922
Less: Capex	808	1,497	4,500	2,500
Free Cash Flow	**8,344**	**20,830**	**5,972**	**6,422**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	9,152	22,327	10,472	8,922
Investing cash flow	(786)	(712)	(3,340)	(1,374)
Financing cash flow	(8,644)	(7,598)	(1,740)	(8,162)
Net cash Flow	(278)	14,017	5,391	(614)
Capex	(808)	(1,497)	(4,500)	(2,500)
Dividend paid	(1,748)	(1,923)	(1,923)	(1,923)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	17.3	24.1	21.9	21.6
ROACE (%)	18.0	25.3	24.6	25.6
Debtors Days	83	80	78	80
Payable Days	154	146	146	148
Cash Conversion Cycle	31	5	(10)	(10)
Current Ratio	2.0	1.9	1.9	1.8
Gross Debt/EBITDA	2.3	1.4	1.4	0.9
Gross Debt/Equity	0.8	0.5	0.5	0.3
Adjusted Debt/Equity	0.8	0.5	0.5	0.3

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.9	2.1	2.2	2.3
Fixed Asset Turnover	7.7	8.4	8.5	8.3
Equity Turnover	3.7	3.6	3.5	3.2

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	16.4	26.3	28.6	33.6
Y-o-Y growth (%)	*43.3*	*60.7*	*8.9*	*17.6*
Diluted P/E (x)	31.8	19.8	18.2	15.5
P/B (x)	5.3	4.4	3.7	3.1
Dividend Yield (%)	1.2	1.2	1.2	1.2
Adjusted Cash EPS (INR)	19.5	29.6	32.4	37.9
EV / Sales (x)	1.7	1.4	1.2	1.0
EV / EBITDA (x)	17.5	11.6	10.9	9.2

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Coromandel International	2,359	18.2	15.5	10.9	9.2	21.9	21.6
Deepak Fertilizer Ltd	510	10.6	9.1	7.0	6.4	15.8	16.3
Zuari Agro Chemicals	349	9.7	9.3	10.9	11.0	12.7	12.0
Median	-	10.6	9.3	10.9	9.2	15.8	16.3
AVERAGE	-	12.8	11.3	9.6	8.9	16.8	16.6

Source: Edelweiss research

Additional Data

Directors Data

A Vellayan	Chairman	V Ravichandran	Vice Chairman
B V R Mohan Reddy	Director	Nirupama Rao	Additional Director
Prasad Chandran	Director	Ranjana Kumar	Director
Sumit Bose	Director	M M Venkatachalam	Director
Sameer Goel	Managing Director		

Auditors - Deloitte Haskins & Sells

Holding – Top10

	Perc. Holding		Perc. Holding
ICICI Prudential Life Insurance	4.17	Government Pension Fund - Global	1.29
L&T Mutual Fund	1.78	Ambadi Investments Pvt Ltd	1.20
DSP Blackrock Investment Manager	1.68	Norges Bank	1.14
Groupe Chimique Tunisien	1.64	Sundaram Asset Management Co Ltd	1.00
UTI Asset Management Co Ltd	1.33	Parry Infrastructure Comp	0.86

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
09 Feb 2018	Arun Leslie George	Sell	15000.00
18 Aug 2017	K.Muruganandam	Sell	22000.00
18 Aug 2017	M Chandrasekhar	Sell	15121.00
18 Aug 2017	P. Varadarajan	Sell	15000.00
18 Aug 2017	S. Sankarasubramanian	Sell	15000.00

**as per last available data*

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Date: 2018.04.18 20:19:21 +05'30'

Coverage group(s) of stocks by primary analyst(s):

Chambal Fertilisers and Chemicals, Coromandel International, Deepak Fertilizer Ltd, Zuari Agro Chemicals

Recent Research

Date	Company	Title	Price (INR)	Recos
15-Feb-18	**Zuari Agrochemicals**	Strong show continues; *Result Update*	536	Buy
12-Feb-18	**Deepak Fertiliser**	Fertiliser segment drives growth; *Result Update*	367	Buy
02-Feb-18	**Coromandel International**	Fertiliser shines again; *Result Update*	550	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

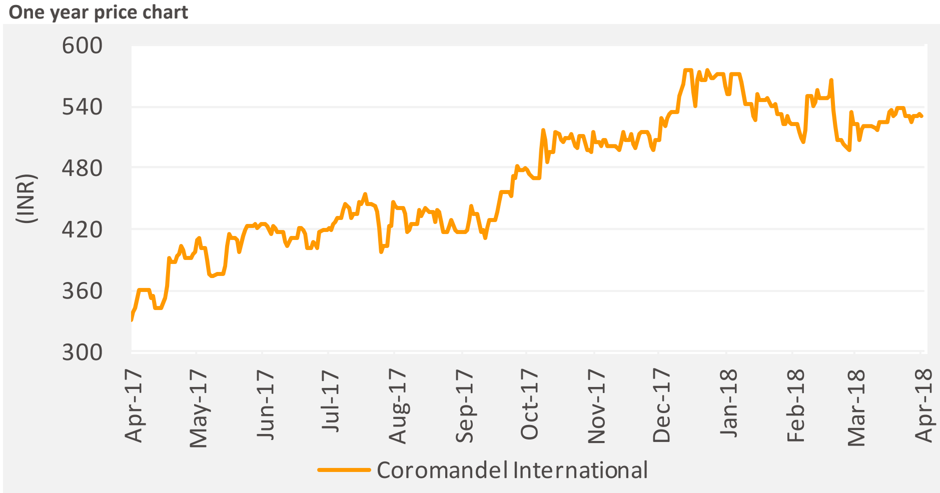
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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