8 August 2016

1QFY17 Results Update | Sector: Fertilizers

Coromandel International

BSE SENSEX	S&P CNX
28,183	8,711

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Bloomberg	CRIN IN
Equity Shares (m)	291.3
M.Cap.(INRb)/(USDb)	75.4/ 1.1
52-Week Range (INR)	274/146
1, 6, 12 Rel. Per (%)	5/34/12
Avg Val, (INR m)	68
Free float (%)	37.9

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Sales	115.2	118.7	132.0
EBITDA	7.7	8.9	11.2
NP	3.4	4.3	6.2
EPS (INR)	11.8	14.7	21.3
EPS Gr. (%)	-14.9	24.3	45.0
BV/Sh. (INR)	83.2	90.7	103.6
RoE (%)	14.9	16.9	21.9
RoCE (%)	10.8	12.6	16.6
P/E (x)	21.9	17.6	12.2
P/BV (x)	3.1	2.9	2.5

Estimate change ↓

TP change ↑

Rating change ↔

CMP: INR259 TP: INR300 (+16%) Buy

Results below estimates; Outlook positive due to normal monsoon

- **Results below estimates:** Coromandel International's (CRIN) overall revenues fell 6.6% YoY to INR20.5b (est. of INR24.4b) in 1QFY17. EBITDA declined 5% YoY to INR886m (est. of INR1,075m), while margins improved 10bp YoY to 4.3% (est. of 4.4%). Nutrients to Crop Protection revenue mix stood at 82:18, while EBIT mix was 36:64. Margins in Fertilizer declined sharply on account of higher dealer discounts and inventory losses with the company aligning prices with the raw material price decline (government intervention). Consequently, PAT de-grew 48% YoY to INR79m (est. of INR323m) in 1QFY17. Subsidy outstanding fell to INR18.8b in 1QFY17 from INR23.7b in 4QFY16.
- **High channel inventory impacts sales:** CRIN registered 20% YoY growth in production volumes, but sales were down 6.6% YoY, mainly due to high channel inventory and delayed monsoon, especially in Maharashtra, Karnataka and West Bengal. Successive price corrections (in line with raw material price decline) primarily contributed to the sales decline. Management highlighted that per tonne DAP prices came down from USD390 to USD340, while potash prices were down from USD325 to USD227.
- **Gains market share in Fertilizers:** Management highlighted that sales volumes have been encouraging for CRIN, as it increased market share from 12.5% to 16.1%. In the key markets of Andhra Pradesh and Telangana, its sales volumes increased 23% YoY to 2.6lakh tonnes. On the export front, the technical business driven by Mancozeb continued to show encouraging traction, with lower cost structure aiding margin expansion. CRIN launched a new insecticide 'Piranha', which was well received for cotton and paddy crops.
- **Valuation and view:** Management highlighted that the full impact of the recent price decline has been taken on inventory in 1QFY17 and that good monsoon should bode well for CRIN. Given the price decline, we cut our revenue/PAT estimates by 6.3%/4.7% and 7.7%/8.2% for FY17 and FY18, respectively. We expect 7% revenue CAGR and 180bp margin expansion over FY16-18, translating to 34% PAT CAGR. We believe CRIN has significant operating and financial levers ahead. Maintain **Buy** with a TP of INR300, 14x FY18E EPS.

Quarterly Performance (INR Million)

Y/E March	FY16				FY17				FY16	FY17E	FY17	Var
Consolidated	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	%
Net Sales	22,041	35,644	27,555	30,209	20,595	35,288	30,310	32,474	115,449	118,652	24,429	-16
YoY Change (%)	17.2	2.8	-7.0	0.8	-6.6	-1.0	10.0	7.5	2.1	2.8	12.0	
Total Expenditure	21,112	32,508	25,902	28,205	19,709	32,641	27,915	29,487	107,726	109,753	23,354	
EBITDA	929	3,137	1,653	2,004	886	2,647	2,394	2,988	7,722	8,899	1,075	-18
Margins (%)	4.2	8.8	6.0	6.6	4.3	7.5	7.9	9.2	6.7	7.5	4.4	
Depreciation	261	282	247	275	244	275	270	265	1,064	1,064	275	
Interest	599	497	542	567	651	550	480	450	2,205	2,138	495	
Other Income	156	245	142	116	125	160	170	190	658	688	180	
PBT before EO expense	225	2,603	1,006	1,278	117	1,982	1,814	2,463	5,112	6,386	485	-76
Extra-Ord expense	0	0	-250	0	0	0	0	0	-250	0	0	
PBT	225	2,603	1,256	1,278	117	1,982	1,814	2,463	5,362	6,386	485	-76
Tax	72	868	453	351	38	661	599	788	1,744	2,107	162	
Rate (%)	32.0	33.4	36.0	27.5	32.1	33.4	33.0	32.0	32.5	33.0	33.4	
Reported PAT	153	1,735	804	927	79	1,321	1,216	1,675	3,618	4,279	323	-75
Adj PAT	153	1,735	644	927	79	1,321	1,216	1,675	3,449	4,279	323	-75
YoY Change (%)	-53.0	-3.6	-47.9	35.0	-48.0	-23.9	88.9	80.7	-14.6	24.0	123.1	
Margins (%)	0.7	4.9	2.3	3.1	0.4	3.7	4.0	5.2	3.0	3.6	1.3	

E: MOSL Estimates

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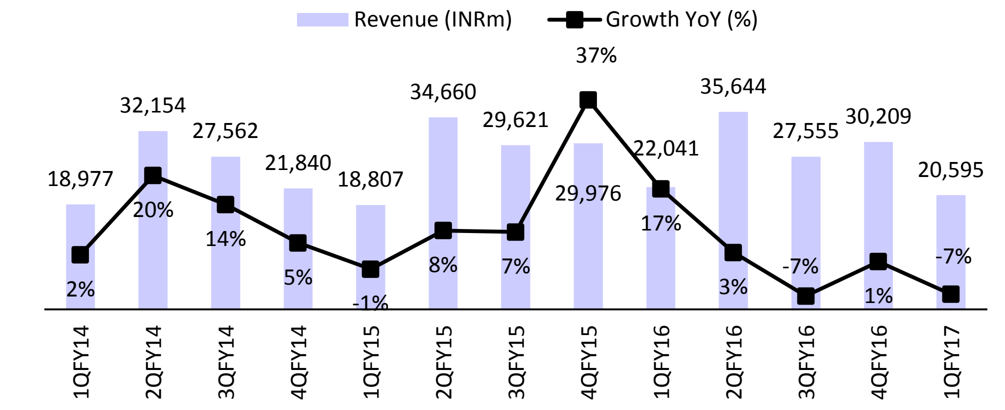
Results below estimates

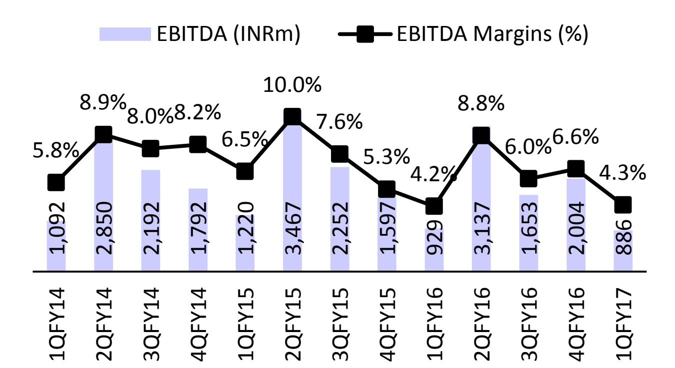
- Coromandel's overall revenue de-grew 6.6% YoY to INR20.5b (est. of INR24.4b) in 1QFY17.
- EBITDA de-grew 5% YoY to INR886m (est. of INR1,075m) while margins improved 10bp YoY to 4.3% (est. of 4.4%). Nutrients to Crop Protection revenue mix stood at 82:18 for 1QFY17 while EBIT mix was 36:64.
- Margins in fertilizer declined sharply on account of higher dealer discounts and inventory losses to align prices in-line with raw material price decline (government intervention).
- Consequently, PAT de-grew 48% YoY to INR79m (est. of INR323m) in 1QFY17. Subsidy outstanding stood at INR18.8b in 1QFY17 down from 23.7b in 4QFY16.

Exhibit 1: Revenue trend



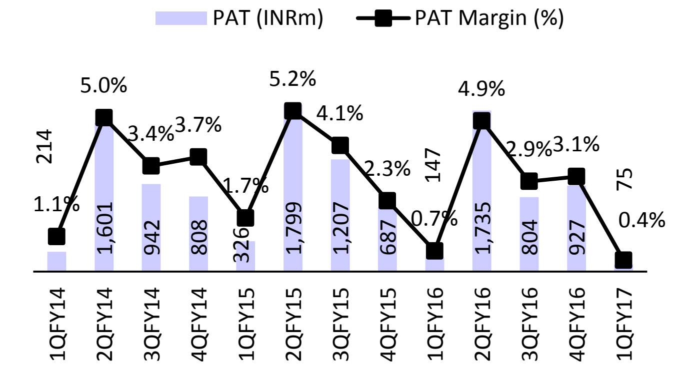
Source: MOSL, Company

Exhibit 2: EBITDA trend



Source: MOSL, Company

Exhibit 3: PAT trend



Source: MOSL, Company

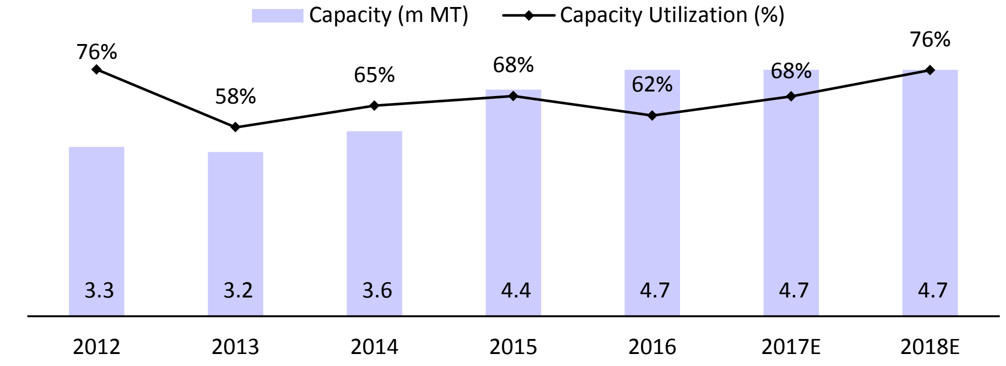
High Channel inventory impact sales growth

- CRIN registered 20% growth in production volumes on YoY basis but sales was down 6.6% YoY mainly due to high channel inventory and delayed start to monsoon especially in Maharashtra, Karnataka and West Bengal.
- Also, the large impact was on account of successive price corrections which have been taken inline with decrease in raw material prices.
- Management highlighted that DAP prices came down from $390 to $340 per tonne while potash prices were down from $325 to $227 per tonne.

Gains market share in Fertilizers

- The management highlighted that sales volume has been encouraging for CRIN as it has gained market share, up from 12.5% to 16.1%.
- In its key markets of AP and Telangana, its sales volume increased by 23% reaching 2.6lakh tons. On the export front, the technical business driven by Mancozeb continued to show encouraging traction with lower cost structure aiding margin expansion.
- CRIN launched new insecticide called Piranha which has been well received for cotton and paddy crops.

Exhibit 4: Capacity utilization to improve



Source: Company, MOSL

Valuation and view

We value CRIN at 14x FY18E EPS, which we believe is justified considering:

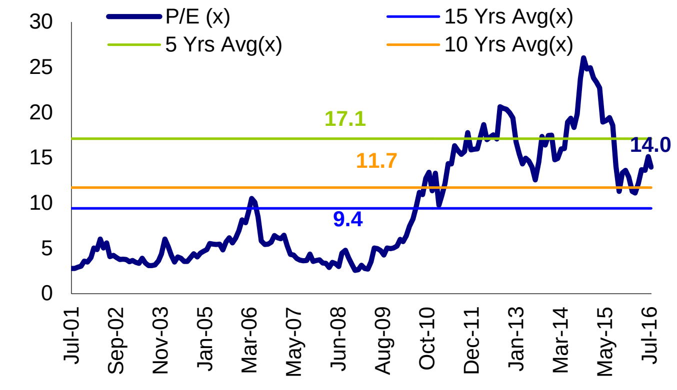
Significant operating and financial levers over next two years

CRIN has significant operating and financial levers ahead over the next two years. Fertilizer capacity utilization currently stands at just 62% which we expect to be ramped up to 76% by FY18. Further, CRIN is largely focused on organic growth thus envisaging limited capex over the next two years (largely maintenance capex amounting to INR1b 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. This will result in net debt to equity declining from 0.9x in FY16 to 0.4x in FY18. Similarly, we expect RoCEs/ RoEs for the company expanding from 11% / 15% to 17% / 22% respectively over FY16-18.

Profitability mix to improve in favor of non-subsidy business

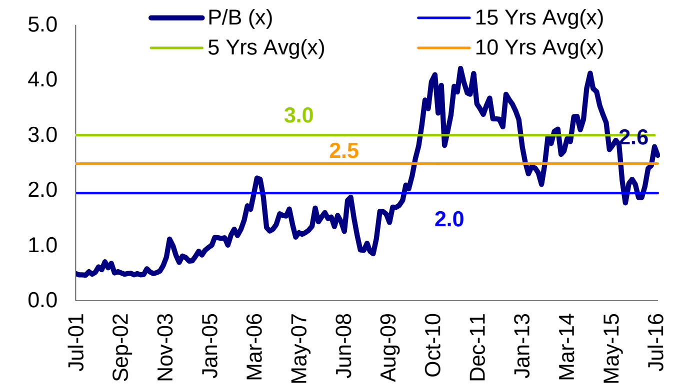
The subsidy business accounted for ~64% of CRIN's EBITDA in FY16. EBITDA margin is ~6% in the subsidy business as against ~15% in the non-subsidy business. By FY18, we expect the EBITDA contribution of non-subsidy business increase from 36% to 38%. The shift in EBITDA mix in favor of the more lucrative non-subsidy business would enhance the return on capital for the company.

Exhibit 5: Price to earnings (one year forward)



Source: MOSL, Company

Exhibit 6: Price to book (one year forward)



Source: MOSL, Company

We value the stock at 14x FY18E EPS and arrive at a target price of INR300 – 16% upside. Maintain **Buy** rating.

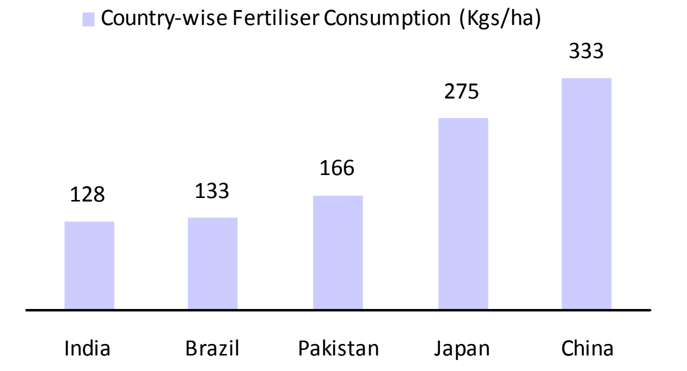
Exhibit 7: Key assumptions

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Revenue mix							
Phosphatic Fertilizers	90%	90%	80%	82%	83%	80%	79%
Non-subsidy business	10%	10%	20%	18%	17%	20%	21%
Revenues (INR m)							
Phosphatic Fertilizers	89,114	81,303	80,426	92,713	95,784	95,181	104,488
Non-subsidy business	9,902	9,034	20,106	20,352	19,435	23,471	27,554
Total	**99,016**	**90,337**	**100,532**	**113,064**	**115,219**	**118,652**	**132,041**

Source: MOSL, Company

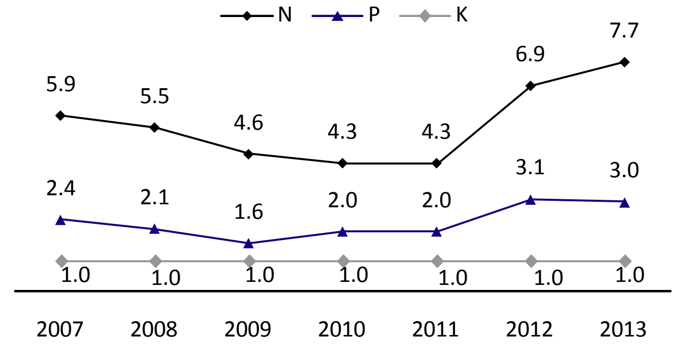
Story in charts: Best play in fertilizers

Exhibit 8: India has lowest fertilizer penetration



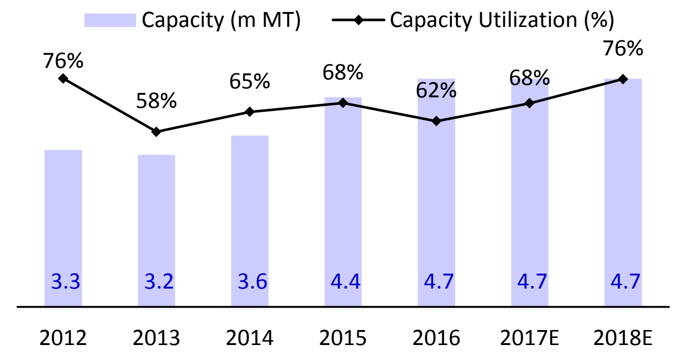
Source: MOSL, Company

Exhibit 9: NPK ratio skewed at 7.7:3:1 v/s ideal of 4.2:2:1



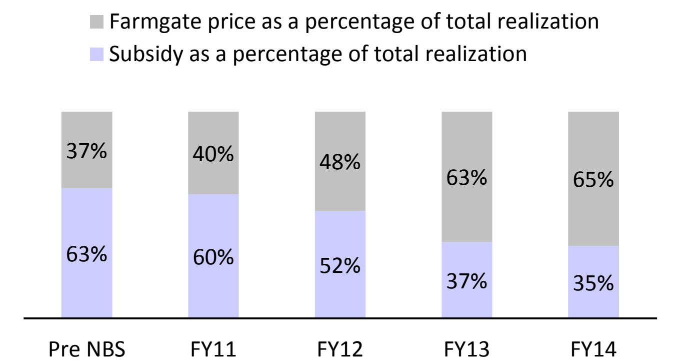
Source: MOSL, Company

Exhibit 10: Revenue growth set to accelerate



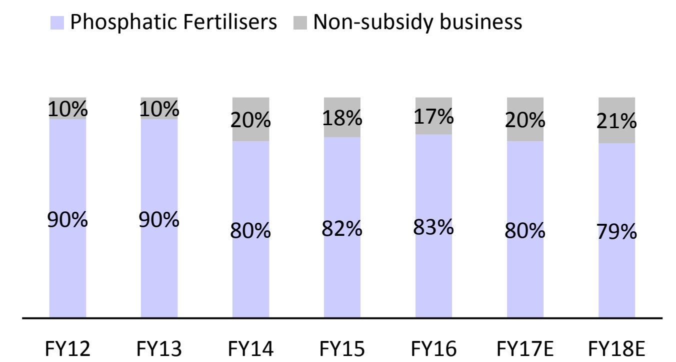
Source: MOSL, Company

Exhibit 11: Dependence on subsidy is declining every year



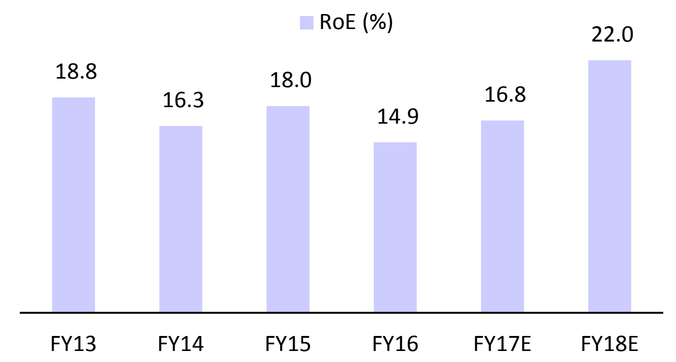
Source: MOSL, Company

Exhibit 12: Non-subsidy business contribution to rise to 21%



Source: MOSL, Company

Exhibit 13: RoE set to improve to 22% in FY18E



Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement (INR Million)

Y/E Mar (INR m)	2012	2013	2014	2015	2016	2017E	2018E
Total Income from Operations	**99,016**	**90,337**	**100,532**	**113,064**	**115,219**	**118,652**	**132,041**
Change (%)	29.6	-8.8	11.3	12.5	1.9	3.0	11.3
EBITDA	**10,544**	**7,679**	**8,052**	**8,535**	**7,717**	**8,899**	**11,224**
Margin (%)	10.6	8.5	8.0	7.5	6.7	7.5	8.5
Depreciation	597	711	961	1,046	1,065	1,064	1,107
EBIT	**9,947**	**6,968**	**7,092**	**7,489**	**6,652**	**7,835**	**10,117**
Int. and Finance Charges	1,261	2,102	2,403	2,096	2,204	2,138	1,579
Other Income	780	701	608	566	656	688	723
PBT bef. EO Exp.	**9,467**	**5,567**	**5,297**	**5,959**	**5,104**		
EO Expense/(Income)	-355	0	-126	-39	250	**6,386**	**9,261**
PBT after EO Exp.	**9,111**	**5,567**	**5,171**	**5,920**	**5,354**	0	0
Current Tax	2,906	106	1,545	1,879	1,744	**6,386**	**9,261**
Deferred Tax	-140	1,125	-24	23	0	2,107	3,056
Tax Rate (%)	30.4	22.1	29.4	32.1	32.6	0	0
Less: Mionrity Interest	-43	17	84	0	0	33.0	33.0
Reported PAT	**6,388**	**4,320**	**3,565**	**4,018**	**3,610**	0	0
Adjusted PAT	**6,635**	**4,320**	**3,654**	**4,045**	**3,441**	**4,279**	**6,205**
Change (%)	-4.3	-34.9	-15.4	10.7	-14.9	**4,279**	**6,205**
Margin (%)	6.7	4.8	3.6	3.6	3.0	24.3	45.0

Consolidated - Balance Sheet (INR Million)

Y/E Mar (INR m)	2012	2013	2014	2015	2016	2017E	2018E
Equity Share Capital	283	283	283	291	291	291	291
Total Reserves	23,721	21,683	22,526	21,729	23,958	26,139	29,897
Net Worth	**24,003**	**21,966**	**22,810**	**22,020**	**24,249**	**26,430**	**30,188**
Minority Interest	158	1,063	254	0	0	0	0
Deferred Liabilities	1,104	2,326	2,358	2,204	1,711	1,711	1,711
Total Loans	29,434	29,458	18,429	22,878	22,228	17,728	13,228
Capital Employed	**54,699**	**54,812**	**43,850**	**47,102**	**48,188**	**45,869**	**45,127**
Gross Block	16,193	21,269	22,070	22,981	24,233	25,233	26,233
Less: Accum. Deprn.	6,704	7,397	8,212	9,189	10,254	11,317	12,424
Net Fixed Assets	**9,489**	**13,872**	**13,858**	**13,793**	**13,980**	**13,916**	**13,809**
Goodwill on Consolidation	3,470	4,691	3,483	3	3	3	3
Capital WIP	5,267	4,201	744	465	0	0	0
Total Investments	**1,495**	**1,599**	**3,416**	**3,522**	**3,890**	**3,890**	**3,890**
Curr. Assets, Loans&Adv.	**59,930**	**59,758**	**54,544**	**65,834**	**71,055**	**67,243**	**70,558**
Inventory	19,218	14,775	17,529	22,592	23,521	23,093	24,965
Account Receivables	9,579	18,201	14,835	14,464	18,093	17,508	19,484
Cash and Bank Balance	9,847	5,346	4,722	3,176	2,030	4,537	4,404
Loans and Advances	21,286	21,436	17,459	25,602	27,411	22,105	21,705
Curr. Liability & Prov.	**25,381**	**29,757**	**32,663**	**36,843**	**40,739**	**39,183**	**43,133**
Account Payables	21,163	24,014	27,081	30,880	34,691	32,507	35,569
Other Current Liabilities	2,716	3,751	3,655	4,736	4,001	4,314	4,801
Provisions	1,502	1,992	1,927	1,228	2,047	2,361	2,764
Net Current Assets	**34,549**	**30,001**	**21,881**	**28,991**	**30,316**	**28,061**	**27,425**
Deferred Tax assets	429	449	468	328	0	0	0
Appl. of Funds	**54,699**	**54,812**	**43,850**	**47,102**	**48,188**	**45,869**	**45,127**

E: MOSL Estimates

Financials and Valuations

Ratios							
Y/E Mar	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**
Basic (INR)							
EPS	**23.5**	**15.3**	**12.9**	**13.9**	**11.8**	**14.7**	**21.3**
Cash EPS	25.6	17.8	16.3	17.5	15.5	18.3	25.1
BV/Share	84.9	77.6	80.6	75.6	83.2	90.7	103.6
DPS	7.0	4.5	4.5	4.5	4.0	6.0	7.0
Payout (%)	36.0	34.7	42.0	39.2	38.7	49.0	39.4
Valuation (x)							
P/E				18.7	21.9	17.6	12.2
Cash P/E				14.8	16.7	14.1	10.3
P/BV				3.4	3.1	2.9	2.5
EV/Sales				0.8	0.8	0.7	0.6
EV/EBITDA				11.0	12.2	10.0	7.5
Dividend Yield (%)				1.7	1.5	2.3	2.7
FCF per share				-0.2	10.2	36.2	26.3
Return Ratios (%)							
RoE	30.5	18.8	16.3	18.0	14.9	16.9	21.9
RoCE	16.9	11.4	11.7	12.7	10.8	12.6	16.6
RoIC	23.1	13.3	12.7	13.6	10.9	13.2	18.3
Working Capital Ratios							
Asset Turnover (x)	1.8	1.6	2.3	2.4	2.4	2.6	2.9
Inventory (Days)	70.8	59.7	63.6	72.9	74.5	71.0	69.0
Debtor (Days)	35	72	53	46	56	53	53
Creditor (Days)	78	97	98	100	110	100	98
Working Capital Turnover (Days)	91	100	62	83	90	72	64
Leverage Ratio (x)							
Debt/Equity	1.2	1.3	0.8	1.0	0.9	0.7	0.4

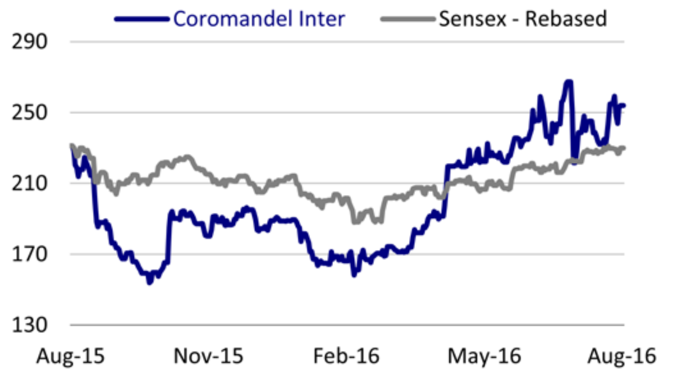
Consolidated - Cash Flow Statement							(INR Million)
Y/E Mar (INR m)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**
NP/(Loss) Before Tax and EO Items	9,111	5,567	5,171	5,920	5,104	6,386	9,261
Depreciation	597	711	961	1,046	1,065	1,064	1,107
Interest & Finance Charges	728	1,521	1,858	1,605	1,548	1,449	856
Direct Taxes Paid	-2,760	-1,207	-1,112	-1,425	-1,744	-2,107	-3,056
(Inc)/Dec in WC	-7,370	2,546	6,683	-7,456	-2,471	4,762	503
CF from Operations	**306**	**9,139**	**13,560**	**-310**	**3,502**	**11,553**	**8,670**
Others	648	702	1,051	1,173	250	0	0
CF from Operating incl EO	**954**	**9,841**	**14,611**	**863**	**3,752**	**11,553**	**8,670**
(inc)/dec in FA	-2,361	-2,585	-1,114	-921	-787	-1,000	-1,000
Free Cash Flow	**-1,407**	**7,255**	**13,497**	**-59**	**2,965**	**10,553**	**7,670**
(Pur)/Sale of Investments	-3,668	-2,282	-962	-19	368	0	0
Others	-1,731	-187	282	-827	656	688	723
CF from Investments	**-7,760**	**-5,054**	**-1,794**	**-1,767**	**237**	**-312**	**-277**
Issue of Shares	37	26	-44	33	0	0	0
Inc/(Dec) in Debt	10,618	-5,626	-9,238	3,693	-650	-4,500	-4,500
Interest Paid	-1,310	-2,014	-2,649	-2,159	-2,204	-2,138	-1,579
Dividend Paid	-2,296	-1,674	-1,511	-2,208	-1,398	-2,097	-2,447
Others	0	0	0	0	-883	0	0
CF from Fin. Activity	**7,048**	**-9,288**	**-13,442**	**-642**	**-5,135**	**-8,735**	**-8,526**
Inc/Dec of Cash	**242**	**-4,501**	**-624**	**-1,546**	**-1,146**	**2,507**	**-133**
Add: Beginning Balance	9,605	9,847	5,346	4,722	3,176	2,030	4,537
Closing Balance	**9,847**	**5,346**	**4,722**	**3,176**	**2,030**	**4,537**	**4,404**

Corporate profile

Company description

Coromandel International (CRIN) is the flagship company of the Murugappa Group and is a subsidiary of EID Parry (India) Limited (EIDP), which holds 62.56% of its equity. CRIN has multi-locational production facilities, and manufactures and markets a wide range of phosphatic fertilizers, crop protection products, specialty nutrients like sulphur pastelles, water-soluble fertilizers, micronutrients, and organic fertilizers. It exports its crop protection products to countries across the globe. CRIN also provides agricultural inputs/solutions and offers lifestyle products through its rural retail centers, branded *Mana Gromor Centers*. Fertilizer business contributed 80% of revenue and 64% of EBITDA in FY14, while the plant protection business contributed 20% of revenue and 36% of EBITDA.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	62.1	62.1	62.1
DII	6.9	9.5	7.4
FII	4.8	4.6	6.7
Others	26.2	23.8	23.8

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI Prudential Life Insurance Company Ltd	5.2
Groupe Chimique Tunisien	1.7
Franklin Templeton Mutual Fund A/C Franklin Indiaprima Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
A Vellayan	Chairman
V Ravichandran	Vice Chairman
Sameer Goel	Managing Director
P Varadarajan	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
A Vellayan	B V R Mohan Reddy*
V Ravichandran	Prasad Chandran*
Sameer Goel	Ranjana Kumar*
M M Venkatachalam	Sumit Bose*

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory
V Kalyanaraman	Cost Auditor
Jyothi Satish	Cost Auditor

Source: Capitaline

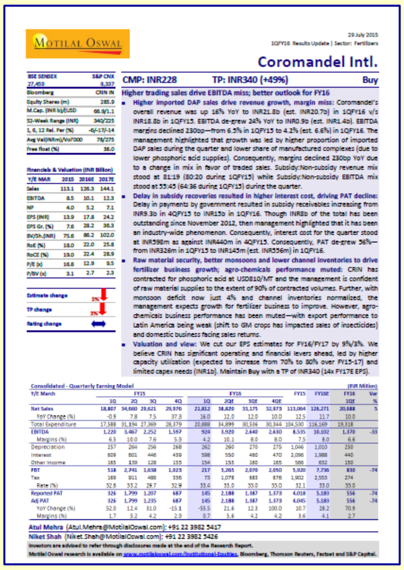
Exhibit 7: MOSL forecast v/s consensus

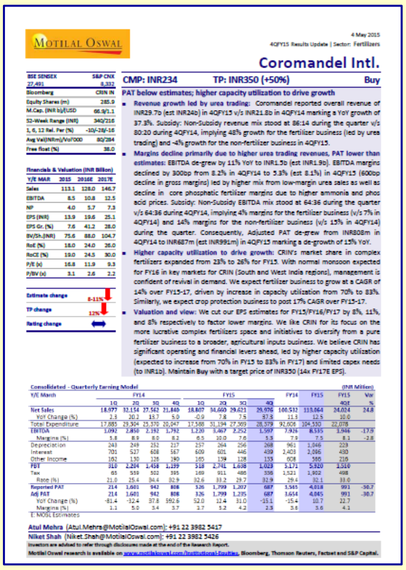
EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	14.7	15.7	-6.2
FY18	21.3	18.7	13.8

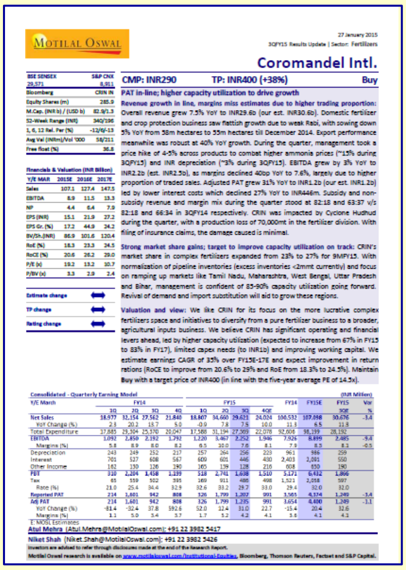
Source: Bloomberg

COROMANDEL GALLERY

COROMANDEL







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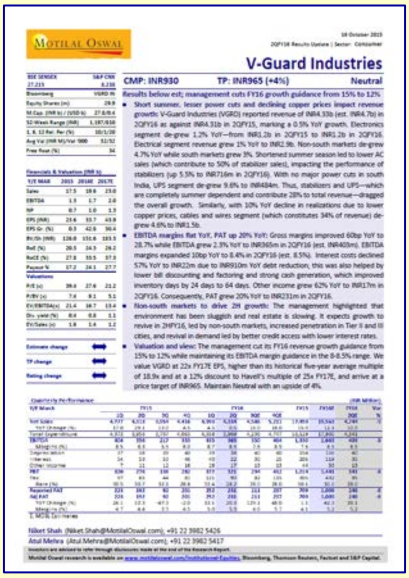

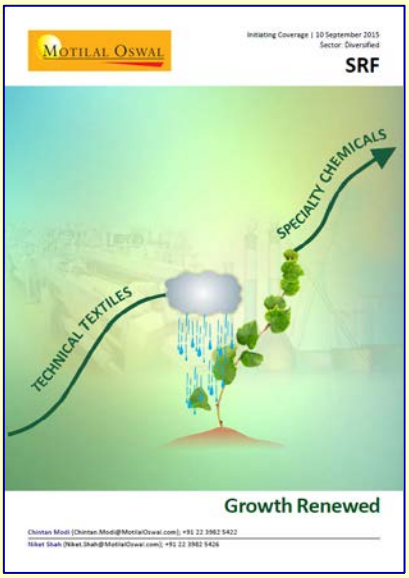

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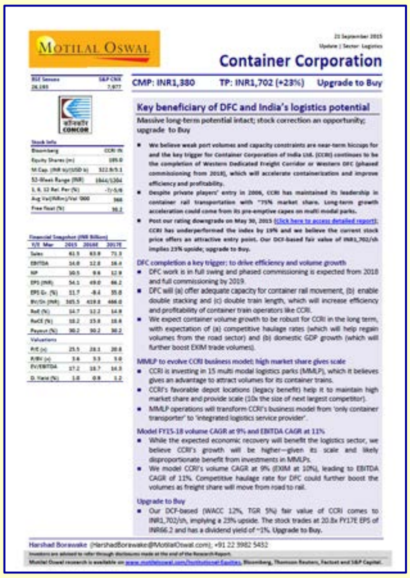

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