

Coromandel International

 BSE SENSEX 32,515
 S&P CNX 10,077

CMP: INR449
TP: INR523 (+16%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



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	2017	2018E	2019E
Sales	100.3	117.2	131.4
EBITDA	9.8	12.1	13.7
NP	4.8	7.0	8.5
EPS (INR)	16.6	24.1	29.0
EPS Gr. (%)	36.0	45.1	20.4
BV/Sh. (INR)	99.1	114.8	133.7
RoE (%)	17.5	22.5	23.4
RoCE (%)	12.3	15.6	17.1
P/E (x)	27.0	18.6	15.5
P/BV (x)	4.5	3.9	3.4

 Estimate change 

 TP change 

 Rating change 

Strong performance; better monsoon to aid growth

- Exhibits recovery in PAT:** CRIN reported overall revenue of INR22.7b (est. of INR22.2b) in 1QFY18, as against INR20.6b in 1QFY17, marking growth of 10.6%. EBITDA margin expanded significantly by 320bp YoY in 1QFY18 to 7.5% (est. of 4.6%) on account of gross margin expansion of 240bp YoY. EBITDA increased 94% YoY to INR1,715m (est. of INR1,025m). Consequently adj. PAT grew from INR75m in 1QFY17 to INR754m (est. of INR364m) in 1QFY18 on account of significant reduction in finance cost (INR441m v/s INR651m in 1QFY17).
- Better monsoon aids crop acreages:** The country is witnessing better monsoon in 2017 (southwest monsoon 5% above normal level), leading to an increase of 3% in sowing of Kharif crops. Cotton sowing increased impressively by 29%, followed by pulses (+6.9%) and rice (2.4%). CRIN is set to benefit from better monsoon and increased sowing.
- DBT rollout to prove beneficial:** Rollout of direct benefit transfer (DBT) for fertilizers has been pushed to 2018 as distribution of POS machines has not been completed yet due to low availability. However, once implemented, it will significantly ease the subsidy receivables situation for CRIN. DBT rollout is expected to require end-to-end supply chain management and last mile reach, both of which will benefit CRIN on account of the strong brand pull.
- Valuation and view:** We believe increased sowing on account of better monsoon, moderating raw material prices, and regular disbursement of subsidy will be the major triggers for margin expansion. We thus maintain our revenue estimates for FY18 and FY19, and raise our EBITDA/PAT by 9.2%/9.9% for FY18E and by 10.2%/11.4% for FY19E. We expect 14% revenue CAGR (FY17-19) and 32% PAT CAGR. Maintain **Buy** with a TP of INR523, 18x FY19E EPS.

Quarterly Performance

Y/E March	FY17				FY18				FY17	FY18E	FY18		Var
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE			1QE	%	
Consolidated													
Net Sales	20,595	35,752	22,708	22,591	22,770	40,042	27,250	27,154	100,308	117,220	22,272	2	
YoY Change (%)	-6.6	-0.7	-18.4	-25.0	10.6	12.0	20.0	20.2	-13.5	469.2	8.1		
Total Expenditure	19,709	31,906	20,337	19,867	21,055	35,597	24,388	24,059	90,481	105,100	21,247		
EBITDA	886	3,846	2,372	2,724	1,715	4,445	2,861	3,096	9,827	12,121	1,025	67	
Margins (%)	4.3	10.8	10.4	12.1	7.5	11.1	10.5	11.4	9.8	10.3	4.6		
Depreciation	244	254	256	254	245	247	268	264	1,007	1,030	251		
Interest	651	586	529	473	441	375	352	300	2,238	1,402	390		
Other Income	125	177	118	128	124	215	135	170	548	658	138		
PBT before EO expense	117	3,183	1,705	2,125	1,153	4,038	2,376	2,702	7,130	10,346	522	121	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0		
PBT	117	3,183	1,705	2,125	1,153	4,038	2,376	2,702	7,130	10,346	522	121	
Tax	38	1,054	583	679	393	1,244	765	813	2,275	3,311	157		
Rate (%)	32.1	33.1	34.2	31.9	34.1	30.8	32.2	30.1	31.9	32.0	30.2		
Minority Interest & Profit	5	-4	4	3	6	0	0	0	8	6	0		
Reported PAT	75	2,134	1,117	1,443	754	2,794	1,611	1,888	4,847	7,030	364	107	
Adj PAT	75	2,134	1,117	1,443	754	2,794	1,611	1,888	4,847	7,030	364	107	
YoY Change (%)	-49.2	25.9	72.6	56.1	907.1	30.9	44.2	30.9	42.3	8,742.8	386.0		
Margins (%)	0.4	6.0	4.9	6.4	3.3	7.0	5.9	7.0	4.8	6.0	1.6		

E: MOSL Estimates

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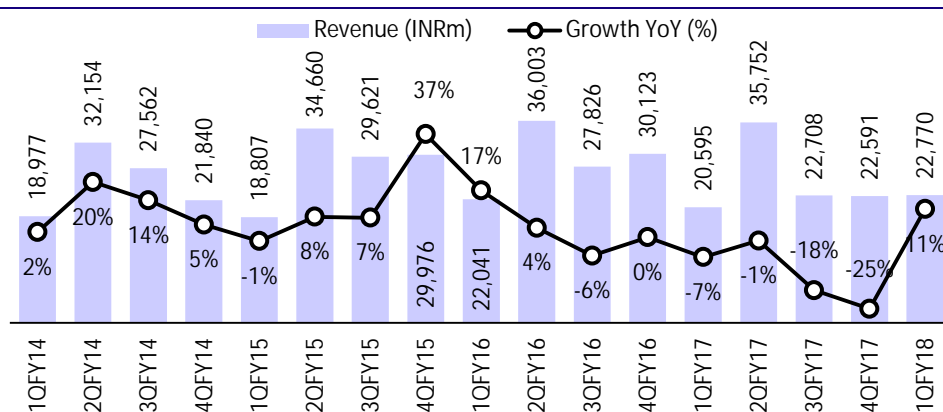
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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Recovery in bottom-line

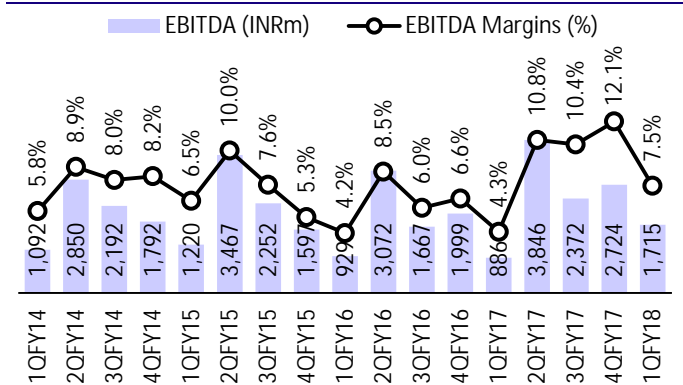
- Coromandel reported overall revenue of INR22.7b (est. INR22.2b) in 1QFY18, as against INR20.6b in 1QFY17, marking growth of 10.6% YoY.
- EBITDA margin increased significantly by 320bp in 1QFY18 to 7.5% (est. 4.6%) on account of gross margin expansion of 240bp. EBITDA increased 94% to INR1,715m (est. of INR1,025m).
- The company witnessed retrospective price correction in 1QFY17, resulting in a low base and thus significant margin expansion YoY.
- Consequently adj. PAT grew from INR75m in 1QFY17 to INR754m (est. INR364m) in 1QFY18 on account of significant reduction in finance cost, which stood at INR441m v/s INR651m in 1QFY17.

Exhibit 1: Revenue trend



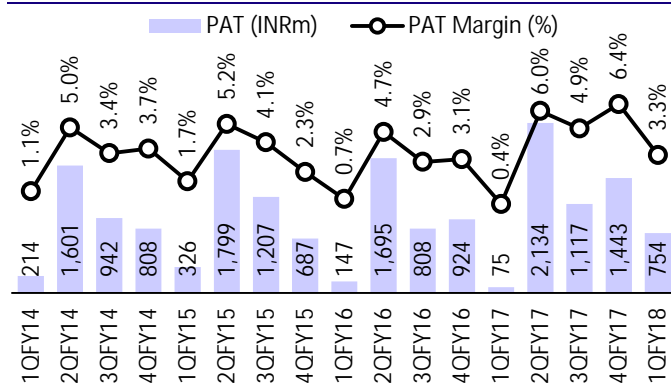
Source: MOSL, Company

Exhibit 2: EBITDA trend



Source: MOSL, Company

Exhibit 3: PAT trend



Source: MOSL, Company

Subsidy receivables situation eased along with growing non-subsidy business:

- CRIN received its pending subsidy till March 2017 with current outstanding subsidy standing at INR17.5b.
- The overall budget allocation for fertilizer subsidy for FY17-18 is maintained at INR700b which is well expected to meet the subsidy requirements for the year. As per the current budget, agriculture credit has increased, so has the coverage on crop insurance and long-term irrigation funds.
- Further, the situation of overdue subsidy is also expected to ease on expectation that the government will clear past dues before the roll out of DBT.

- n On the other hand, CRIN has also increased its focus on non-subsidy segment, evident by the continuous increase in non-subsidy business which stands at 41% in 1QFY18.
- n The major area of focus for CRIN will remain to boost their crop protection business, which witnessed a sales decline of 18% in 1QFY18 on account of annual turnaround activity and transitional uncertainty over GST.
- n Apart from crop protection, CRIN is also enhancing their presence in farm machinery. The company had been allotted 30 districts in Andhra Pradesh whereby they'll provide farm machinery services viz. tractors, harvesters and transplanters through its Mana Gormor Centers. The Yanmar JV will provide the backend support for providing rice transplanters as well as service support.

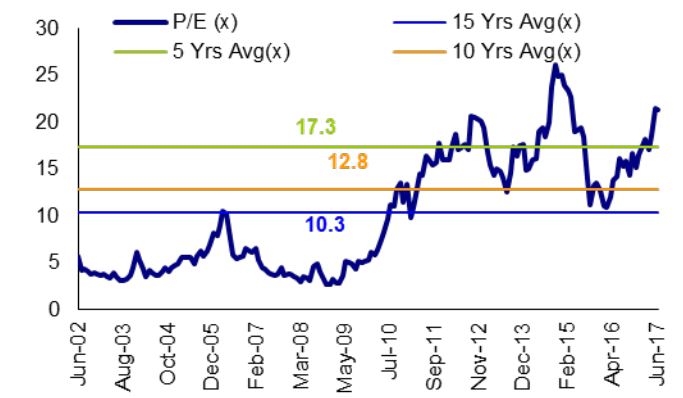
Conference call Takeaways:

- n Kharif sowing increased 3% on account of better monsoon. Southwest monsoon turning out to be 5% above normal levels.
- n The industry is witnessing higher price realization in cotton because of which cotton sowing went up 29%. Pulses sowing was up 6.8% and rice sowing by 2.4%.
- n The GST rate for fertilizers input raw materials has been kept at 18%, which will create an inverted duty structure and result in credit accumulation for domestic manufacturers.
- n The company received environment clearance to expand capacity of Phos. Acid by 1lakh MT, which is expected to commence in mid FY19.
- n The company has collected subsidy up to March 2017, the outstanding level now stands at INR17.5b.
- n The government has pushed the DBT implementation to April 2018 as distribution of POS machine has not been completed due to low availability.
- n The margins are lower QoQ on account of aberration in ammonia prices which increased 36% in 1QFY18.

Valuation and view

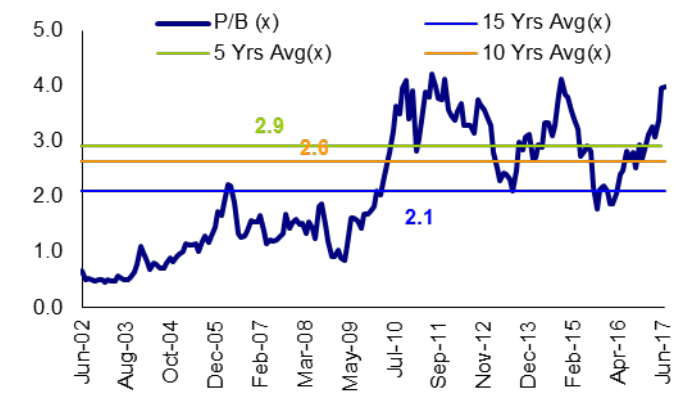
We believe increased sowing on account of a better monsoon, moderating raw material prices and regular disbursement of subsidy will be major trigger factors for margin expansion going forward. We therefore keep our revenue estimates unchanged for FY18 and FY19, and raise our EBITDA/PAT estimates by 9.2%/9.9% for FY18E and 10.2%/11.4% for FY19E. We expect 14% revenue CAGR and 32% PAT CAGR over FY17-19E. Maintain Buy with a TP of INR523, 18x FY19E EPS.

Exhibit 4: Price to earnings (one year forward)



Source: MOSL, Company

Exhibit 5: Price to book (one year forward)



Source: MOSL, Company

Exhibit 6: Key assumptions

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue mix							
Phosphatic Fertilizers	80%	82%	83%	77%	77%	76%	75%
Non-subsidy business	20%	18%	17%	23%	23%	24%	25%
Revenues (INR m)							
Phosphatic Fertilizers	80,426	92,713	95,448	77,685	90,107	100,350	108,007
Non-subsidy business	20,106	20,352	19,367	22,623	27,113	31,000	35,616
Total	100,532	113,064	114,814	100,308	117,220	131,351	143,623

Source: MOSL, Company

Story in charts

Exhibit 7: India has lowest fertilizer penetration

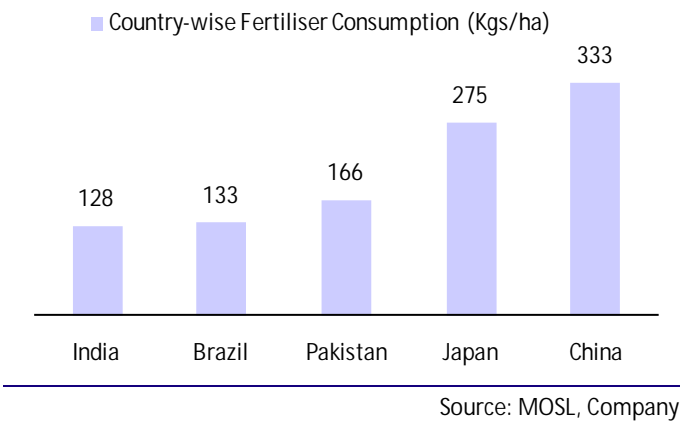


Exhibit 8: Revenue growth set to accelerate

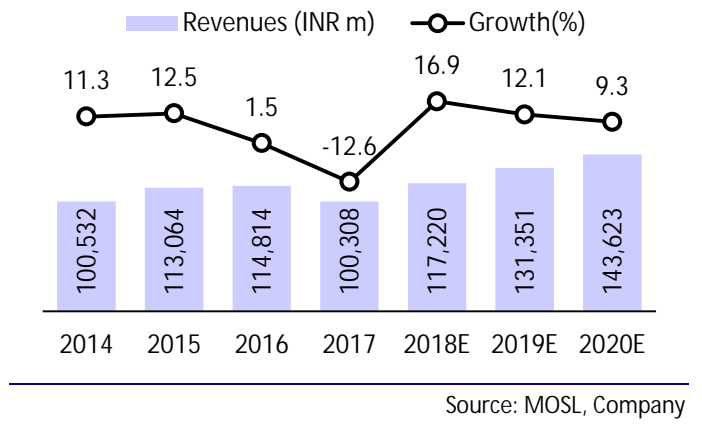


Exhibit 9: Margins set to expand

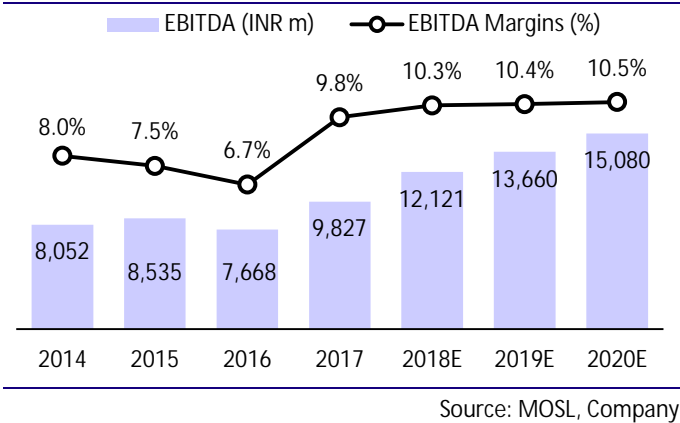


Exhibit 10: Dependence on subsidy is declining every year

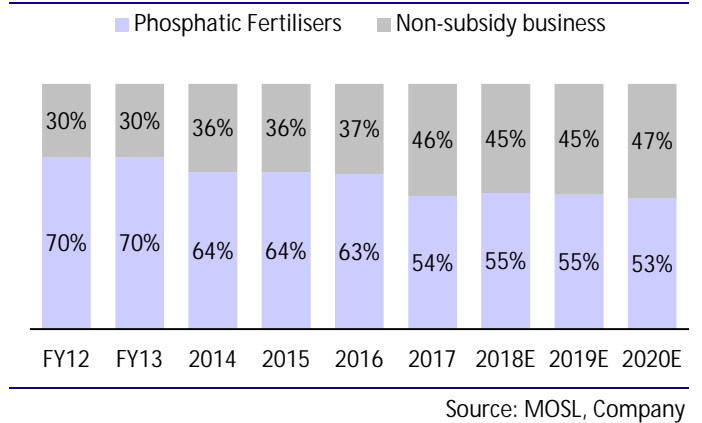


Exhibit 11: Improved capacity utilization

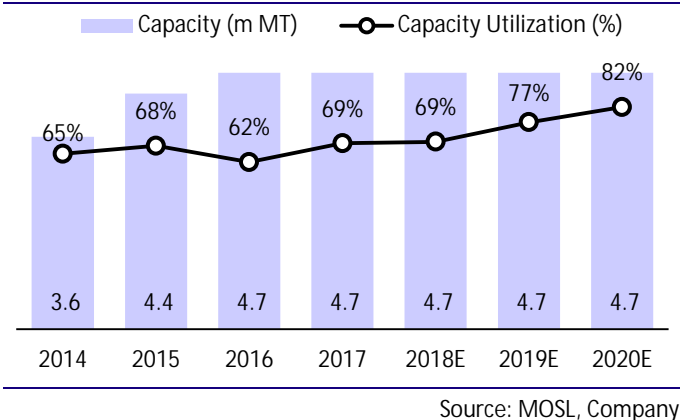
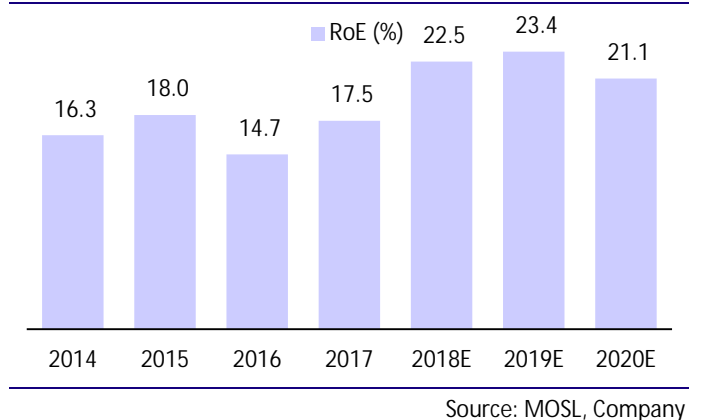


Exhibit 12: RoE set to improve



Financials and Valuations

Consolidated - Income Statement							(INR Million)	
Y/E Mar (INR m)	2014	2015	2016	2017	2018E	FY19E	FY20E	
Total Income from Operations	100,532	113,064	114,814	100,308	117,220	131,351	143,623	
Change (%)	11.3	12.5	1.5	(12.6)	16.9	12.1	9.3	
EBITDA	8,052	8,535	7,668	9,827	12,121	13,660	15,080	
Margin (%)	8.0	7.5	6.7	9.8	10.3	10.4	10.5	
Depreciation	961	1,046	1,061	1,007	1,030	1,071	1,166	
EBIT	7,092	7,489	6,607	8,820	11,091	12,590	13,915	
Int. and Finance Charges	2,403	2,096	2,209	2,238	1,402	827	1,431	
Other Income	608	566	665	548	658	691	725	
PBT bef. EO Exp.	5,297	5,959	5,062	7,130	10,346	12,454	13,208	
EO Expense/(Income)	-126	-39	250	0	0	0	0	
PBT after EO Exp.	5,171	5,920	5,312	7,130	10,346	12,454	13,208	
Current Tax	1,545	1,879	1,716	2,353	3,311	3,985	4,359	
Deferred Tax	-24	23	-161	-78	0	0	0	
Tax Rate (%)	29.4	32.1	29.3	31.9	32.0	32.0	33.0	
Less: Mionrity Interest	84	0	21.8	7.1	0	0	0	
Reported PAT	3,565	4,018	3,736	4,848	7,036	8,469	8,850	
Adjusted PAT	3,654	4,045	3,559	4,848	7,036	8,469	8,850	
Change (%)	-15.4	10.7	-12.0	36.2	45.1	20.4	4.5	
Margin (%)	3.6	3.6	3.1	4.8	6.0	6.4	6.2	

Consolidated - Balance Sheet							(INR Million)	
Y/E Mar (INR m)	2014	2015	2016	2017	2018E	FY19E	FY20E	
Equity Share Capital	283	291	291	292	292	292	292	
Preference Capital	0	0	0	0	0	0	0	
Total Reserves	22,526	21,729	26,048	28,616	33,201	38,695	44,569	
Net Worth	22,810	22,020	26,340	28,908	33,493	38,986	44,861	
Minority Interest	254	0	0	0	0	0	0	
Deferred Liabilities	2,358	2,204	1,679	1,495	1,495	1,495	1,495	
Total Loans	18,429	22,878	26,267	22,284	17,784	15,284	12,784	
Capital Employed	43,850	47,102	54,286	52,686	52,772	55,765	59,139	
Gross Block	22,070	22,981	23,550	24,612	25,612	26,612	27,612	
Less: Accum. Deprn.	8,212	9,189	10,250	11,257	12,287	13,357	14,523	
Net Fixed Assets	13,858	13,793	13,300	13,355	13,325	13,255	13,089	
Goodwill on Consolidation	3,483	3	3	3	3	3	3	
Capital WIP	744	465	309	137	0	0	0	
Total Investments	3,416	3,522	4,772	3,885	3,885	3,885	3,885	
Curr. Assets, Loans&Adv.	54,544	65,834	73,433	69,071	74,164	82,137	89,505	
Inventory	17,529	22,592	23,458	17,246	20,559	23,768	25,960	
Account Receivables	14,835	14,464	16,419	16,217	19,269	20,872	23,216	
Cash and Bank Balance	4,722	3,176	1,978	1,678	2,221	2,229	2,947	
Loans and Advances	17,459	25,602	31,579	33,930	32,115	35,267	37,381	
Curr. Liability & Prov.	32,663	36,843	37,531	33,764	38,605	43,514	47,342	
Account Payables	27,081	30,880	32,329	29,345	31,576	35,383	38,689	
Other Current Liabilities	3,655	4,736	4,945	4,129	4,262	4,775	5,222	
Provisions	1,927	1,228	257	289	2,767	3,356	3,432	
Net Current Assets	21,881	28,991	35,902	35,307	35,559	38,623	42,163	
Deferred Tax assets	468	328	0	0	0	0	0	
Appl. of Funds	43,850	47,102	54,286	52,686	52,772	55,765	59,140	

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018E	FY19E	FY20E
Basic (INR)							
EPS	12.9	13.9	12.2	16.6	24.1	29.0	30.3
Cash EPS	16.3	17.5	15.9	20.1	27.6	32.7	34.3
BV/Share	80.6	75.6	90.4	99.1	114.8	133.7	153.8
DPS	4.5	4.5	4.5	4.5	7.0	8.5	8.5
Payout (%)	42.0	39.2	42.5	32.8	34.8	35.1	33.6
Valuation (x)							
P/E	34.8	32.3	36.8	27.0	18.6	15.5	14.8
Cash P/E	27.6	25.7	28.3	22.4	16.2	13.7	13.1
P/BV	5.6	5.9	5.0	4.5	3.9	3.4	2.9
EV/Sales	1.4	1.3	1.4	1.5	1.2	1.1	1.0
EV/EBITDA	17.9	17.6	20.2	15.4	12.1	10.5	9.3
Dividend Yield (%)	1.0	1.0	1.0	1.0	1.6	1.9	1.9
FCF per share	47.7	-0.2	-8.0	23.6	28.2	19.3	23.7
Return Ratios (%)							
RoE	16.3	18.0	14.7	17.5	22.5	23.4	21.1
RoCE	11.7	12.7	10.6	12.3	15.6	17.1	17.5
RoIC	12.7	13.6	10.7	12.7	16.1	17.8	18.3
Working Capital Ratios							
Asset Turnover (x)	2.3	2.4	2.1	1.9	2.2	2.4	2.4
Inventory (Days)	63.6	72.9	74.6	62.8	64.0	66.0	66.0
Debtor (Days)	53	46	52	58	59	57	58
Creditor (Days)	98	100	103	107	98	98	98
Working Capital Turnover (Days)	62	83	108	122	104	101	100
Leverage Ratio (x)							
Current Ratio	1.7	1.8	2.0	2.0	1.9	1.9	1.9
Interest Cover Ratio	3	4	3	4	8	15	10
Debt/Equity	0.8	1.0	1.0	0.8	0.5	0.4	0.3

Consolidated - Cash Flow Statement

(INR Million)

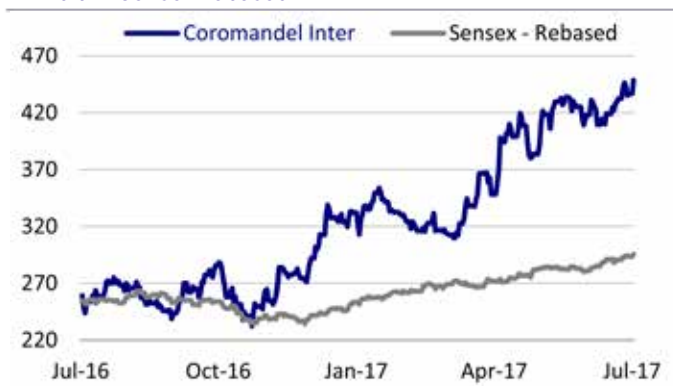
Y/E Mar (INR m)	2014	2015	2016	2017	2018E	FY19E	FY20E
NP/(Loss) Before Tax and EO Items	5,171	5,920	5,062	7,130	10,346	12,454	13,208
Depreciation	961	1,046	1,061	1,007	1,030	1,071	1,166
Interest & Finance Charges	1,858	1,605	1,545	1,690	745	136	706
Direct Taxes Paid	-1,112	-1,425	-1,716	-2,353	-3,311	-3,985	-4,359
(Inc)/Dec in WC	6,683	-7,456	-8,109	296	291	-3,056	-2,822
CF from Operations	13,560	-310	-2,157	7,769	9,101	6,619	7,900
Others	1,051	1,173	250	0	0	0	0
CF from Operating incl EO	14,611	863	-1,907	7,769	9,101	6,619	7,900
(inc)/dec in FA	-1,114	-921	-412	-890	-863	-1,000	-1,000
Free Cash Flow	13,497	-59	-2,319	6,879	8,237	5,619	6,900
(Pur)/Sale of Investments	-962	-19	1,250	-887	0	0	0
Others	282	-827	665	548	658	691	725
CF from Investments	-1,794	-1,767	1,503	-1,229	-205	-309	-275
Issue of Shares	-44	33	0	0	0	0	0
Inc/(Dec) in Debt	-9,238	3,693	3,389	-3,983	-4,500	-2,500	-2,500
Interest Paid	-2,649	-2,159	-2,209	-2,238	-1,402	-827	-1,431
Dividend Paid	-1,511	-2,208	-1,587	-1,589	-2,450	-2,975	-2,975
Others	0	0	-386	970	0	0	0
CF from Fin. Activity	-13,442	-642	-794	-6,840	-8,353	-6,302	-6,907
Inc/Dec of Cash	-624	-1,546	-1,198	-299	543	8	718
Add: Beginning Balance	5,346	4,722	3,176	1,978	1,679	2,221	2,229
Closing Balance	4,722	3,176	1,978	1,679	2,221	2,229	2,947

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-17	Mar-17	Jun-16
Promoter	61.9	62.0	62.1
DII	8.0	7.6	6.9
FII	5.3	5.2	4.8
Others	24.9	25.3	26.2

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI PRUDENTIAL LIFE INSURANCE COMPANY LIMITED	4.9
GROUPE CHIMIQUE TUNISIEN	1.6
GOVERNMENT PENSION FUND GLOBAL	1.3
DSP BLACKROCK OPPORTUNITIES FUND	1.3

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 (%)
FY18	24.1	20.2	19.3
FY19	29.0	24.1	20.6
FY20	30.3	33.3	-9.0

Source: Bloomberg

NOTES

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