

Industry	Price	Base Case – Fair Value	Bull Case – Fair Value	Recommendation	Add on dips to	Time Horizon
Agriculture	Rs. 673	757	803	Buy at CMP	Rs 580-590 Band	2 quarters

HDFC Scrip Code	CORINTEQNR
BSE Code	506395
NSE Code	COROMANDEL
Bloomberg	CRIN: IN
CMP Jun 14, 2020	673
Equity Capital (Rs cr)	29.3
Face Value (Rs)	1
Equity Share O/S (cr)	29.3
Market Cap (Rs cr)	19726
Book Value (Rs)	148
Avg. 52 Wk Volumes	582311
52 Week High	699.9
52 Week Low	336.5

### Our Take

Coromandel International is the second largest phosphatic fertilizer companies in India (after IFFCO) and had 16.3% market share as on FY19. On all-India basis, it has 15-16% market share while in its home markets of Andhra Pradesh, Telangana and other adjacent states, it holds > 50% share. Coromandel International has diversified portfolio of products and services that ensures presence across the entire value chain of agricultural activities – from ‘Seed to Harvest’ cycle. Company’s retail stores and agronomists ensure the last mile advisory and delivery of superior crop management solutions. Coromandel has a diversified products portfolio with the non-subsidy businesses contributing significantly to the company’s share of revenues and profitability. This means, company is not over exposed to the risk of changing government policies and subsidies. In FY20, the company registered ~1% decline in revenues however EBITDA margin surged 230bps on lower RM costs. PAT for the year increased 48% on strong operational performance and lower tax expenses. Coromandel continues to make progress in achieving a higher degree of backward integration. As internally produced raw materials take a higher share in the overall cost structure, margin and production visibility improves considerably as is visible in FY20. Moreover, the India Meteorological Department (IMD) has announced that it expects Southwest monsoon rainfall to be 105% of long period average. This augurs well for the consumption of fertilizers and agrochemicals. Strong presence across value chain, Leadership position, Low leverage and a prudent management team are some of the key positives for the company.

### View & Valuations

We estimate ~8% revenue CAGR led by 11% growth from Crop Protection segment over FY20-22E. We believe margin could remain at around current levels in FY21, estimate 60bps expansion to 13.9% in FY22E. Healthy revenues, strong EBITDA and lower finance costs would ensure 13% PAT CAGR over FY20-22E. Decline in key RM cost, a higher manufacturing volume mix, and a better product mix aided in achieving higher EBITDA/T in FY20. This is likely to be maintained at current levels given the buoyant demand on account of the expectation of normal rainfall. The key raw materials such as Phosphoric Acid (~-14% yoy) and Ammonia (~-21% yoy) prices have declined significantly, which led to higher operating margin for FY20.

The newly commenced operations at the phosphoric acid plant (in Oct’19) would provide cost savings as it will be operational through FY21. Coromandel’s asset-light business model permits healthy RoEs and valuations remain reasonable. The stock trades at 14.7x FY22E earnings, based upon ~16.5x and 17.5x FY22E EPS, we arrive at a base case fair value of Rs. 757 and Bull case fair value at Rs 803 over the next 2 quarters.

Share holding Pattern % (Mar 31, 2020)	
Promoters	61.6
Institutions	23.2
Non Institutions	15.2
Total	100.0

### Fundamental Research Analyst

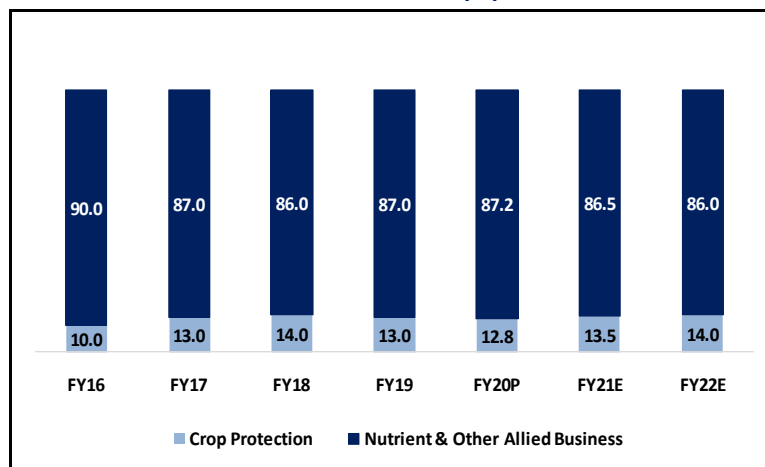
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**Financial Summary**

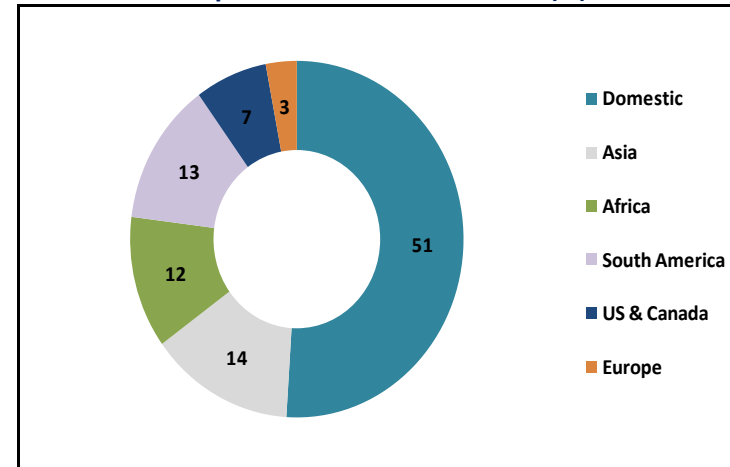
Particulars (Rs cr)	Q4 FY20	Q4 FY19	YoY (%)	Q3 FY20	QoQ (%)	FY19	FY20P	FY21E	FY22E
Total Revenues	2869	2638	8.8	3279	-12.5	13,225	13,137	14,109	15,210
EBITDA	390.2	259.2	50.5	432.2	-9.7	1443	1731	1887	2087
Depreciation	41	27	51.9	42	-2.4	114	158	178	198
Other Income	11.5	8.6	33.7	9	27.8	37	40	51	69
Interest Cost	43.4	65.3	-33.5	45.9	-5.4	251	235	177	147
Tax	80	53	50.9	90	-11.1	372	314	399	456
APAT	234	110	112.0	264	-11.4	743	1065	1183	1352
EPS (Rs)						24.6	36.4	40.5	46.3
RoE (%)						23.0	27.8	25.0	24.2
P/E (x)						27.2	18.4	16.6	14.5
EV/EBITDA						15.5	12.9	11.9	10.7

(Source: Company, HDFC sec)

**Revenues Mix (%)**



**Crop Protection Revenues Mix (%)**



(Source: Company, HDFC sec)

**Key Triggers:**

**Crop Protection segment**

Coromandel is among India’s top 5 players in crop protection chemical business and it focuses on off-patented molecules as well. It has the capability to manufacture 15 technical items and is globally the third- producer of Mancozeb. It has a wide product portfolio of more than 60 brands including several organo-phosphates. During FY19, Crop Protection business registered 8% growth, led by increase from both domestic and international operations. The business has taken progressive steps towards upgrading its portfolio from old generics to patented combinations or recently off patented molecules. The

company introduced five new products, including two in-house patented combination molecules, which received encouraging response from the market. The business received 75 new registrations in international markets, taking the overall count to ~1000. On the manufacturing side, Coromandel is in the process of completing its Mancozeb facility at Dahej, Gujarat. New plants have been added in Ankleshwar and Sarigam for manufacturing recently off-patented technical products. Company keeps further strengthening its product development structure, with scaling up of Technology Transfer, Business development, regulatory and R&D functions. Revenues for FY20 declined ~7% yoy at Rs 1685cr. A fire accident at the Sarigam unit impacted agrochemical revenues in FY20, while margins came under pressure due to escalation in cost of inputs sourced from China. This creates a low base for FY21, helped more by cost pressures that are easing.

### **Growth Opportunities in Crop Protection Business**

Company derives ~13% of its revenues from Crop Protection which contributes to 19% of PBIT. Domestic business contribution stands at ~51% while 14% from Asia, 12% from Africa and 13% from South America and the balance from others. By 2022-23, around 26 Crop Protection molecules are going off patent. This provides a tremendous opportunity to generic manufacturers, who can now introduce new products and boost their revenues. Apart from this, company has a very strong position in the market with little competition as nearly one-third of the domestic revenues are derived from unique products. It has a huge network of retail centres in the south and west markets through which it services around 3 million farmers.

### **Mana Gromor - A one-step solution**

Mana Gromor is a one stop solution for the farmers. It provides an entire range of Multi-Brand Farming Solution. Coromandel Retail operates around 800 stores in Andhra Pradesh, Telangana, Karnataka and Maharashtra, offers the entire range of agri-input products and services to around 3 million farmers with a customer value proposition of 'Quality, Trust and Farm Advice'. The Retail centres are called 'Mana Gromor Center' in Andhra Pradesh & Telangana, 'Namma Gromor Center' in Karnataka and 'Aapla Gromor Center' in Maharashtra. The company is currently expanding stores in Maharashtra. These stores provide fertilisers, crop protection products, seeds, animal feed, farm equipment, agriculture insurance services, agri-credit, soil testing services and other related activities. Mana Gromor not only saves distributor's margin but also gives business insights from the ground level.

### **Phosphatic fertilizer divisions**

The phosphatic fertiliser category has two sub-divisions viz. NPK or complex (nitrogen, phosphorus and potassium) and DAP (di-ammonium phosphate). Urea comes under a separate nitrogenous fertiliser category which the company does not manufacture but trades in. Company has significant presence and brand equity in high agricultural inputs consuming South, West and East India markets. Higher raw material prices have prompted farmers to replace DAP (di-ammonium phosphate) fertiliser with complex or NPK (nitrogen, phosphorus, potassium) fertilisers.

NPK is priced lower as it has lower phosphorus content and can be manufactured in higher volume as compared to DAP for any given quantity of phosphoric acid. As the volume contribution from NPK and unique grade fertilisers increases, it will also result in higher realisation for the company.

Coromandel entered into speciality nutrients in 2006 and is amongst the leading player in the segment. The business comprises of Water Soluble Fertiliser, Secondary and Micro nutrients and is one of the fastest growing segments in agri inputs space in India. The company employs a team of agronomists which is supported by an integrated marketing team for spreading awareness and generating demand for its products.

#### **Backward Integration to Help Improve Margins**

China's new environmental policies have caused price increase in key raw materials of the company. But now the heat will be reduced and margin will improve as company has started focusing on backward integration. Company along with its wholly owned subsidiary CFL Mauritius, holds 14% equity stake in Foskor Pty Limited, South Africa, and 15% equity stake in TIFERT, strategic investments of the Company to secure supply of Phosphoric acid. Company's strategic investment in both this companies is aimed at securing uninterrupted supply of phosphoric acid for its operations at Kakinada and Visakhapatnam.

These investments will reduce the costs and price uncertainty for a key raw material for the company. Coromandel has done capex at Vizag fertiliser unit and this will be self sufficient in its acid requirement after this expansion. Coromandel has recently expanded its production capacity of phosphoric acid, the most important input for phosphate fertiliser, from 0.2mtpa to 0.3mtpa. With this, Coromandel now captively produces ~50% of its acid requirement. This expansion should help the company boost fertiliser EBITDA/tonne further. The company sees more room to expand in acid production.

#### **Kaleshwaram Irrigation Project to give further boost to growth**

The Kaleshwaram Lift Irrigation Project (KLIP) in Telangana is the longest in Asia at ~1,800 kms to be built at cost of about Rs 800bn. The state government expects this project to add 0.8mn hectares of irrigated area, covering c.3mn hectares in the state. It is to be completed by 2022-23. The additional areas should cover the state's entire water requirement by covering all districts. The project has several phases and was inaugurated in June 2019. The state government has spent about Rs 480bn by the end of FY19 and is presently seeking central support for further funding. This will lead to further increase in irrigated acres and could boost to consumption of nutrients/fertilizers. It is to be noted that Coromandel has a large presence in the states like Telangana, Andhra Pradesh and Maharashtra.

#### **Healthy financials and strong return ratio metrics**

For Q4 FY20, revenues grew 9% yoy at Rs 2869cr, benefits of lower RM costs and cost control resulted into strong 380bps margin surge to 13.6%. We estimate ~8% revenue CAGR led by 12% growth from Crop Protection segment over FY20-22E. We project 60bps expansion to 13.9% in FY22E. Healthy revenues, strong EBITDA and lower finance costs would ensure 13% PAT CAGR over FY20-22E. Company has strong balance sheet with only working capital loans and that too declined ~44% on better working capital management. Receivable days except subsidy receivables have seen steady improvement from 59 days in FY17 to 48 days in FY20. We expect debt/equity to improve from 0.5x in FY20 to 0.3x in FY22. Coromandel has very strong return ratios of > 20%, which is commendable. In future, direct transfer of subsidy to farmers could potentially be a key trigger.

### Key Risks/Concerns:

- Crop Care Federation of India (CCFI) has set up a technical task force to prepare a product wise response on the set of 27 products proposed to be banned by the Govt. Coromandel manufactures four products namely Mancozeb, Malathion, Acephate, Monocrotophos and these are the part of the banned list. The combined revenues derived by the company from these products are around Rs 800cr (~45% of Crop protection revenues). Company will submit requisite data in the offense of the same.
- The farm related sectors are widely believed to be insulated from the supply chain and demand disruption due to COVID-19 or the economic slowdown. There could be operational issues and delay in pick-up in consumption in Nutrient and Crop Protection segments due to liquidity constraints and supply chain/distribution bottlenecks.
- The failure of the monsoon (and / or adverse climatic conditions) coming on top of the COVID-19 related setback could put pressure on demand for farm inputs for the forthcoming Kharif season. Increase in working capital and delay in release of DBT related subsidies are added worries. The shortages of inputs may lead to a spike in the cost of raw materials including sulphuric acid and phosphoric acid.
- Intensification of competition, soft global agrochem market and continued long delays in subsidy disbursements are some other risks faced by the company.

### Company Background

Coromandel International is the flagship company of the Murugappa Group, which owns ~60% of Coromandel through sister company E.I.D. Parry (India). Coromandel International is India's leading agriculture solutions provider, offering diverse products and services across the agri inputs value chain. It operates in two major segments: Nutrient & other allied businesses which include Fertilisers, Speciality Nutrients, Organic Compost, and Crop Protection. The Company is the second largest manufacturer and marketer of Phosphatic fertiliser in India. The Speciality Nutrients business focuses on water soluble fertiliser and secondary & micro nutrient segments. The Company is a leading marketer of Organic fertilizer in India. The Company's Crop Protection business offers a wide range of technical and formulation products and has recently added bio pesticide solutions to its portfolio. Its products are marketed in India as well as in international geographies. Coromandel has successfully pioneered the rural retail model in India and operates a network of around 800 rural retail outlets across Andhra Pradesh, Telangana, Karnataka, and Maharashtra. The Company has 16 manufacturing facilities, producing a wide range of Nutrient and Crop Protection products which are marketed through network of dealers and its own retail outlets. It has around 4.5mt of manufacturing capacity. Coromandel accounts for ~22% of India's total phosphate fertilizer production capacity. Its largest facilities for DAP and NPK fertilisers are at Visakhapatnam and Kakinada (both in AP), while its single super phosphate (SSP) facilities are spread across India. Over the years, Coromandel's plants have developed the flexibility to produce around 13 products from multiple rock and acid combinations.

**Financials**
**Income Statement**

(Rs Cr)	FY18	FY19	FY20P	FY21E	FY22E
<b>Total Income</b>	<b>10947</b>	<b>13225</b>	<b>13137</b>	<b>14109</b>	<b>15210</b>
Growth (%)	9.1	20.8	-0.7	7.4	7.8
Operating Expenses	9720	11782	11406	12222	13122
<b>EBITDA</b>	<b>1227</b>	<b>1443</b>	<b>1731</b>	<b>1887</b>	<b>2087</b>
Growth (%)	24.9	17.6	19.9	9.1	10.6
<b>EBITDA Margin (%)</b>	<b>11.2</b>	<b>10.9</b>	<b>13.2</b>	<b>13.4</b>	<b>13.7</b>
Depreciation	98	114	158	178	198
<b>EBIT</b>	<b>1129</b>	<b>1329</b>	<b>1573</b>	<b>1710</b>	<b>1890</b>
Other Income	58	37	40	51	69
Interest	178	251	235	177	147
<b>PBT</b>	<b>1009</b>	<b>1115</b>	<b>1377</b>	<b>1584</b>	<b>1811</b>
Tax	345	372	314	399	456
<b>RPAT</b>	<b>664</b>	<b>743</b>	<b>1065</b>	<b>1183</b>	<b>1352</b>
Growth (%)	39.1	8.5	47.9	11.1	14.3
EPS	22.7	24.6	36.4	40.5	46.3

**Balance Sheet**

As at March	FY18	FY19	FY20P	FY21E	FY22E
<b>SOURCE OF FUNDS</b>					
Share Capital	<b>29.2</b>	<b>29.3</b>	<b>29.2</b>	<b>29.3</b>	<b>29.2</b>
Reserves	2867	3329	4288	5121	6016
<b>Shareholders' Funds</b>	<b>2896</b>	<b>3358</b>	<b>4317</b>	<b>5150</b>	<b>6045</b>
Lease Liabs	0	0	375	330	230
Net Deferred Taxes	125	112	58	63	73
Long Term Provisions & Others	25	25	32	39	47
<b>Total Source of Funds</b>	<b>3047</b>	<b>3495</b>	<b>4782</b>	<b>5582</b>	<b>6395</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1373	1500	2097	2045	2137
Long Term Loans & Advances	314	321	260	263	272
<b>Total Non Current Assets</b>	<b>1687</b>	<b>1821</b>	<b>2357</b>	<b>2307</b>	<b>2409</b>
Inventories	2263	3241	2697	2903	3075
Trade Receivables	1577	1824	1734	2002	2104
Short term Loans & Advances	3035	2822	2745	2882	3117
Cash & Equivalents	552	159	78	433	718
Other Current Assets	732	706	540	556	617
Total Current Assets	8159	8753	7794	8777	9632
<b>Short-Term Borrowings</b>	<b>2728</b>	<b>2954</b>	<b>1644</b>	<b>1513</b>	<b>1319</b>
Trade Payables	3379	3762	3347	3591	3901
Other Current Liab & Provisions	662	305	317	333	357
Short-Term Provisions	32	56	59	63	67
Total Current Liabilities	6798	7080	5369	5502	5646
<b>Net Current Assets</b>	<b>1361</b>	<b>1674</b>	<b>2426</b>	<b>3275</b>	<b>3986</b>
Total Application of Funds	3047	3495	4782	5582	6395

(Source: Company, HDFC sec)

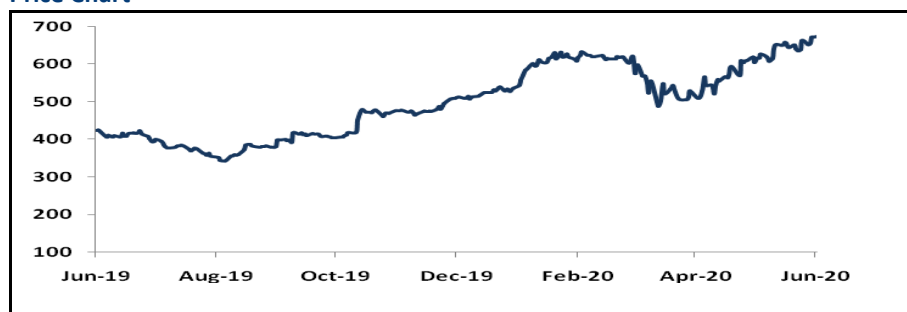
**Cash Flow Statement**

(Rs Cr)	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	1,009	1,093	1,379	1,582	1,808
Non-operating & EO items	-328	-339	-40	-51	-69
Interest Expenses	178	251	235	177	147
Depreciation	98	114	158	178	198
Working Capital Change	284	-710	-834	-494	-427
Tax Paid	-345	-372	-314	-399	-456
<b>OPERATING CASH FLOW ( a )</b>	<b>895</b>	<b>36</b>	<b>585</b>	<b>992</b>	<b>1,201</b>
Capex	-85	-231	-755	-125	-290
Free Cash Flow	810	-195	-170	867	911
Investments	145	-6	61	-3	-9
Non-operating income	58	37	40	51	69
<b>INVESTING CASH FLOW ( b )</b>	<b>118</b>	<b>-201</b>	<b>-654</b>	<b>-77</b>	<b>-230</b>
Debt Issuance / (Repaid)	-24	-14	327	-33	-82
Interest Expenses	-178	-251	-235	-177	-147
FCFE	608	-460	-78	658	682
Share Capital Issuance	0	0	0	0	0
Dividend	-229	-229	-422	-351	-457
<b>FINANCING CASH FLOW ( c )</b>	<b>-432</b>	<b>-494</b>	<b>-330</b>	<b>-560</b>	<b>-686</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>581</b>	<b>-658</b>	<b>-399</b>	<b>355</b>	<b>285</b>
Closing Cash	749	-106	-240	433	718

**Key Ratios**

	FY18	FY19	FY20P	FY21E	FY22E
<b>PROFITABILITY</b>					
EBITDA Margin	11.2	10.9	13.2	13.4	13.7
EBIT Margin	10.3	10.1	12	12.1	12.4
APAT Margin	6.1	5.4	8.1	8.4	8.9
RoE	22.9	23	27.8	25	24.2
<b>RoCE</b>	<b>19.6</b>	<b>20.6</b>	<b>24.5</b>	<b>24.1</b>	<b>24.5</b>
Solvency Ratio					
Net Debt/EBITDA (x)	1.8	1.9	1.1	0.7	0.4
D/E	0.9	0.9	0.5	0.4	0.3
<b>Interest Coverage</b>	<b>6.3</b>	<b>5.3</b>	<b>6.7</b>	<b>9.7</b>	<b>12.8</b>
<b>PER SHARE DATA</b>					
EPS	22.7	24.6	36.4	40.5	46.3
CEPS	26	28.5	41.8	46.5	53
BV	107	115	147.6	176.1	206.7
<b>Dividend</b>	<b>6.5</b>	<b>6.5</b>	<b>12</b>	<b>10</b>	<b>13</b>
<b>Turnover Ratios (days)</b>					
Debtor days	53	50	48	52	51
Inventory days	66	76	75	75	74
<b>Creditors days</b>	<b>129</b>	<b>113</b>	<b>114</b>	<b>114</b>	<b>115</b>
<b>VALUATION</b>					
P/E	29.5	27.2	18.4	16.6	14.5
P/BV	6.3	5.8	4.5	3.8	3.2
EV/EBITDA	18.3	15.5	12.9	11.9	10.7
EV / Revenues	2	1.7	1.7	1.6	1.5
Dividend Yield (%)	1	1	1.8	1.5	1.9

(Source: Company, HDFC sec)

**Price Chart**


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