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Stock Update Coromandel International

14 September-2020



Coromandel International Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Farm Inputs	Rs 748.3	Buy at LTP and add on dips to Rs 638-642 band	Rs 812	Rs 886	2 quarters

HDFC Scrip Code	CORINTEQNR
BSE Code	506395
NSE Code	COROMANDEL
Bloomberg	CRIN: IN
CMP Sep 11, 2020	748.3
Equity Capital (Rscr)	29.3
Face Value (Rs)	1
Equity Share O/S (cr)	29.3
Market Cap (Rscr)	21938
Book Value (Rs)	148
Avg. 52 Wk Volumes	733131
52 Week High	830.7
52 Week Low	379.3

Share holding Pattern % (Jun, 2020)	
Promoters	59.6
Institutions	27.1
Non Institutions	13.3
Total	100.0

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Our Take:

In Q1FY21, Coromandel International reported robust performance, led by higher manufacturing volumes, strong growth in crop protection business (off a lower base), and operating leverage. PAT more than quadrupled on higher EBITDA (2.1x YoY), lower tax rate, and lower interest cost. We believe traction in the fertiliser space is likely to sustain through Q2FY21 given continued demand for agri-inputs. Crop protection segment reported strong ~55% yoy growth led by good demand across domestic and international markets. Despite production loss in April, the company has been able to witness growth across product verticals.

Normal southwest monsoon predictions for the current year have augured well for the consumption of fertilizers and agrochemicals, thus providing a good start to FY21.

On Jun-15, 2020, we had issued a buy on Coromandel (<https://www.hdfcsec.com/hsl.research.pdf/Coromandel-International-Initiating-Coverage-15062020.pdf>) at Rs 673 for bull case Target of Rs 803. The stock hit a high of Rs 831 and our target got achieved on July 21. The company had recorded robust performance in Q4FY20 and Q1FY21 and the second quarter result is expected to be strong too. We have revised upwards our revenue estimates by 1%/2% and PAT estimates by 8%/6% for FY21/FY22. Given strong outlook for agriculture sector and robust numbers for Q1FY21, we have increased our bull case target price for the stock.

View & Valuation:

We estimate ~9% revenue CAGR led by 15% growth from Crop Protection segment over FY20-22E. We project 120bps expansion in OPM to 14.4% in FY22E. Healthy revenues, strong EBITDA and lower finance costs could lead to 16% PAT CAGR over FY20-22E. Decline in key raw material cost, a higher manufacturing volume mix and better product mix aided in achieving higher EBITDA/Ton in FY20. This is likely to see further improvement given the buoyant demand on account of the expectation of normal rainfall. The newly commenced operations at the phosphoric acid plant (in Oct'19) would provide cost savings as it will be operational through FY21. Its asset-light business model permits strong return ratios and valuations remain reasonable. The stock trades at 15.2x FY22E earnings, based upon ~16.5x and ~18x FY22E EPS, we arrive at a base case fair value of Rs. 812 and Bull case fair value at Rs 886 over the next 2 quarters. Investors can buy the stock at LTP and add on dips to Rs.638-642 band (13x FY22E EPS).

Financial Summary

Particulars (Rs cr)									
	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Total Revenues	3213	2131	50.8	2869	12.0	13,225	13,137	14,231	15,512
EBITDA	412.5	195.3	111.2	390.7	5.6	1443	1731	2011	2229
Depreciation	42	30.5	37.7	45	-6.7	114	158	185	212
Other Income	11	10	7.0	12	-7.0	37	40	48	59
Interest Cost	43	80	-45.5	43	0.2	251	235	168	144
Tax	89.6	33	171.5	80	12.0	372	314	429	485
APAT	251	62	301.6	234	7.0	743	1065	1273	1439
EPS (Rs)						24.6	36.4	43.5	49.2
RoE (%)						23.0	27.8	26.8	25.5
P/E (x)						30.4	20.6	17.2	15.2
EV/EBITDA (x)						17.1	14.3	12.3	11.1

(Source: Company, HDFC sec)

Helped by higher crop sowing (up 9% YoY), the fertiliser demand expanded 24% YoY during July with both urea and phosphatic fertilisers registering 20% plus growth with non urea sales growing even faster helped by imports of DAP. Raw material prices have started to rise after making a low in May 2020 but are still much lower on YoY basis. While August 2020 volumes for Coromandel were lower by ~7% YoY, YTD FY21 volumes are up 20%+.

Key Takeaways from Annual Report - FY20

- Coromandel has realigned its export strategy and took two major decisions in FY20: 1) enter into high-value, low-volume niche products; and 2) transition from B2B to B2C and implement backward integration in key molecules to maintain competitiveness.

- Company has increased its R&D spends by 25% in FY20. R&D spending is mainly for new product development in the crop protection segment. R&D spends increased 62%/25% in FY19 and FY20 respectively.
- Coromandel aims to launch 4-5 new products every year in the crop protection segment. We believe that this is achievable as R&D has gained momentum over the past two years. It has introduced 6 new products in the crop protection segment in FY20 vs. 5 new products in FY19.
- Coromandel accounts for ~22% of the domestic production capacity in India. Single Super Phosphate (SSP) business maintained its leading position in the market with a market share of 14%.
- The company relaunched grade 24-24-0-8 under the brand name 'GroSmart' which has been well-received by the farmers.
- Crop Protection business took progressive steps toward upgrading its portfolio from old generics to patented combinations or recently off-patented molecules.
- The company received 62 new registrations in the international markets, taking the overall count to more than 1,000 registrations.
- The retail business operates ~750 retail stores which are supported by around 2,000 members' team. Over the years, Coromandel Retail Centres have evolved as a 'Complete Farming Solution Multi-Brand Platform' offering a range of agri-input products and services to around 3mn farmers.

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Total Income	10947	13225	13137	14231	15512
Growth (%)	9.1	20.8	-0.7	8.3	9.0
Operating Expenses	9720	11782	11406	12220	13284
EBITDA	1227	1443	1731	2011	2229
Growth (%)	24.9	17.6	19.9	16.2	10.8
EBITDA Margin (%)	11.2	10.9	13.2	14.1	14.4
Depreciation	98	114	158	185	212
EBIT	1129	1329	1573	1826	2017
Other Income	58	37	40	48	59
Interest	178	251	235	168	144
PBT	1009	1115	1377	1706	1932
Tax	345	372	314	429	485
RPAT	664	743	1065	1273	1439
Growth (%)	39.1	8.5	47.9	19.5	13.1
EPS	22.7	24.6	36.4	43.5	49.2

Source: Company, HDFC sec Research

Balance Sheet

As at March	FY18	FY19	FY20	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	29	29	29	29	29
Reserves	2867	3329	4288	5158	6090
Shareholders' Funds	2896	3358	4317	5187	6119
Long Term Debt	0	0	375	330	260
Net Deferred Taxes	125	112	58	63	73
Long Term Provisions & Others	25	25	32	39	47
Total Source of Funds	3047	3495	4782	5619	6499
APPLICATION OF FUNDS					
Net Block	1373	1500	2097	2262	2430
Long Term Loans & Advances	314	321	260	263	272
Total Non Current Assets	1687	1821	2357	2525	2702
Inventories	2263	3241	2697	2994	3179
Trade Receivables	1577	1824	1734	1988	2146
Short term Loans & Advances	3035	2822	2745	2827	2884
Cash & Equivalents	552	159	78	246	671
Other Current Assets	732	706	540	556	617
Total Current Assets	8159	8753	7794	8612	9498
Short-Term Borrowings	2728	2954	1644	1467	1261
Trade Payables	3379	3762	3347	3653	4014
Other Current Liab & Provisions	662	305	317	333	357
Short-Term Provisions	32	56	59	63	67
Total Current Liabilities	6798	7080	5369	5518	5701
Net Current Assets	1361	1674	2426	3095	3797
Total Application of Funds	3047	3495	4782	5619	6499

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	1009	1093	1379	1701	1924
Non-operating & EO items	-328	-339	-40	-48	-59
Interest Expenses	178	251	235	168	144
Depreciation	98	114	158	185	212
Working Capital Change	284	-710	-834	-502	-278
Tax Paid	-345	-372	-314	-429	-485
OPERATING CASH FLOW (a)	895	36	585	1076	1459
Capex	-85	-231	-755	-350	-380
Free Cash Flow	810	-195	-170	726	1079
Investments	145	-6	61	-3	-9
Non-operating income	58	37	40	48	59
INVESTING CASH FLOW (b)	118	-201	-654	-305	-330
Debt Issuance / (Repaid)	-24	-14	327	-33	-52
Interest Expenses	-178	-251	-235	-168	-144
FCFE	608	-460	-78	525	883
Share Capital Issuance	0	0	0	0	0
Dividend	-229	-229	-422	-403	-507
FINANCING CASH FLOW (c)	-432	-494	-330	-604	-703
NET CASH FLOW (a+b+c)	581	-658	-399	168	426

Source: Company, HDFC sec Research

Key Ratios

	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY					
EBITDA Margin	11.2	10.9	13.2	14.1	14.4
EBIT Margin	10.3	10.1	12.0	12.8	13.0
APAT Margin	6.1	5.4	8.1	8.9	9.3
RoE	22.9	23.0	27.8	26.8	25.5
RoCE	19.6	20.6	24.5	25.8	26.0
Solvency Ratio					
Net Debt/EBITDA (x)	1.8	1.9	1.1	0.8	0.4
D/E	0.9	0.9	0.5	0.3	0.2
Interest Coverage	6.3	5.3	6.7	10.9	14.0
PER SHARE DATA					
EPS	22.7	24.6	36.4	43.5	49.2
CEPS	26.0	28.5	41.8	49.8	56.5
BV	106.9	114.8	147.6	177.3	209.3
Dividend	6.5	6.5	12.0	13.5	17.0
Turnover Ratios (days)					
Debtor days	53	50	48	51	51
Inventory days	66	76	75	77	75
Creditors days	129	113	114	114	115
VALUATION					
P/E	33.0	30.4	20.6	17.2	15.2
P/BV	7.0	6.5	5.1	4.2	3.6
EV/EBITDA	20.1	17.1	14.3	12.3	11.1
EV / Revenues	2.3	1.9	1.9	1.7	1.6
Dividend Yield (%)	0.9	0.9	1.6	1.8	2.3

Source: Company, HDFC sec Research



One Year Price Chart



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