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DALAL STREET INVESTMENT JOURNAL

MID BRIDGE
THE MIDCAP MARVEL

January 2020

COMPANY NAME	:	**Coromandel International**
BSE Code	:	**506395**
Time Duration	:	**1 year**
CMP	:	**₹584 (as on 16 Jan., 2020)**
Target Price	:	**₹770**

The Mid Bridge recommendation for January is Coromandel International Limited. The company is engaged in the business of manufacturing of specialty nutrients, organic compost, fertilisers and crop protection chemicals. It is a flagship company of the Murugappa Group, having dominance in southern part of India. The business activity of the company is divided into two main segments-crop protection and nutrients & allied products. The company has a strong presence in southern part of the country. Down south, in states such as Andhra Pradesh and Telagana, Coromandel International enjoys nearly 60 per cent market share.

Opportunity in Non-Urea fertilisers segment

The company is a dominant player in non-urea fertilisers segment. Changeover of the traditional urea-based farming is its key driver. Excessive use of urea is detrimental for the soil and the crop. Due to its cost incentive nature, it is widely-used in major parts of the country. Hence, non-urea fertilisers have seen a rise in demand. Coromandel International has nearly 50 per cent share of such products as consolidated revenue by the end of FY19. Further, the company has reported a rise in its market share of phosphatic fertilisers segment to 16 per cent till H1FY20. Going ahead, a rise in demand in this segment can be expected to be a major revenue driver.

Government Incentives

The agricultural segment gets an ample support from the government due to its strategic importance for the growth of the economy. Weak rural economy impacts the demand of the fertiliser. Hence, the government puts a lot of emphasis on the rural health. The government schemes are intended towards a higher output and farmer income. Coromandel International, being one of the major fertiliser players, with a wide range of products, is certainly a major beneficiary of these schemes. Government hiked the subsidy of non-urea-based fertilisers to Rs 22,875 in the current fiscal. The aim is to make the fertilisers and other farm nutrients available at affordable prices. This is expected to boost the sentiment of the sector, which is facing a declining trend in volumes since the last few quarters.

DBT to bring Working Capital stability

The Direct Benefit Transfer (DBT) is an important trigger of the segment. The scheme is introduced to bring transparency in the fertiliser subsidy allocation by transferring the subsidy capital to the fertiliser company and bring down the end-product price in the market. FY19 was the first year of the scheme, when it was fully-implemented.

The scheme's proper implementation is good for the working capital of the company. The fertiliser companies faced several issues due to delayed outlay of the subsidy amount, which in turn, kept their working capital under pressure. After the implementation of DBT, the amount was first received by the company and its benefits were given via reduced pricing. This does not only work in favour of the farmers, but also reduces working capital pressure on the financials of the company. Coromandel International, being one of the largest firms has an edge ahead to benefit from the scheme. As of end of September quarter of the current fiscal subsidy and non-subsidy, its share stood at 84 per cent and 16 per cent, respectively. The company reported a subsidy outstanding of Rs 1,849 crore till Q2FY20, which is below Rs 2,600 crore on YoY basis.

Operating Performance to Improve

The Phosphoric acid is one of the key raw materials for the company. The company had planned backward integration in its Visakhapatnam plant. The expansion is complete and operational since the previous quarter. This makes the Visakhapatnam plant self-sufficient for its phosphoric acid needs, which will bring down the operational expenses and also, help to gain operational margins. The raw material prices are also expected to be range-bound. The management mentioned after the second quarter that the phosphoric acid prices for the third quarter is fixed at USD 625 per metric tonne, as compared to the earlier quarters. Hence, we expect more operational profits in the near future.

The GST rates of phosphoric acid were reduced from 12 per cent to 5 per cent in FY19. This helped the company sustain EBITDA margins in the recent past when the company witnessed a decline in volumes. The revised duty structure and GST credit accumulation can be expected to further help phosphatic fertiliser manufacturers.

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Financial Performance

The revenues of the company grew at 7 per cent CAGR between FY14 and FY19. The revenues declined in FY17, due to the subdued monsoon. Looking at its operational performance, EBITDA has grown at a CAGR of 12 per cent since FY14 to FY19. The raw materials' prices also have been supportive since FY17. The EBITDA margins of the company have expanded from 7.5 per cent in FY15 to 10.9 per cent till FY19. The company also stands ahead of its peers on PAT margins. Its net profit margins stood at 10.6 per cent, which is amongst the highest in comparison to its peers. In recent quarters, though, due to low volumes (on account of fire incident in Q4FY19) and extended monsoon, it reported revenue degrowth.

Valuation and Outlook

The stock is currently trading at TTM EPS Rs 28 and PE multiple of 20x. Going ahead, we expect volume pick up from its stronghold region, South India, due to high reservoir levels after strong monsoon. The Rabi season is predominantly dependent on these reservoirs, hence boosting consumption sentiments.

In addition to this, DBT scheme is likely to play its part in revenue growth. The margins are expected to sustain after newly added phosphoric acid capacity and low GST rates. Hence, we recommend to BUY the scrip with a target price of Rs 770.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	13224.56	11082.92	10030.75	11481.42	11306.43
Total Income	13261.64	11142.61	10085.57	11547.91	11363.03
Total Expenditure	11781.51	9826.48	9048.07	10714.61	10452.95
PBIDT	1480.13	1316.13	1037.50	833.30	910.08
PAT	719.64	691.91	477.67	359.62	401.79
Dividend %	650.00	650.00	500.00	400.00	450.00
Adj. EPS(Rs)	24.63	23.64	16.35	12.27	13.79

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	4857.98	2130.74	127.99	5008.30	-3.00
Total Expenditure	4144.99	1935.44	114.16	4342.03	-4.54
PBIDT (Excl OI)	712.99	195.30	265.07	666.27	7.01
PAT	503.47	62.58	704.52	366.04	37.55
PBIDTM% (Excl OI)	14.68	9.17	60.09	13.30	10.38
PBIDTM%	14.87	9.63	54.41	13.50	10.15
PATM%	10.36	2.94	252.38	7.31	41.72
Adj. EPS(Rs)	17.22	2.13	708.45	12.50	37.76

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