



Company Name : **Coromandel International**

BSE Code : **506395**

Time Duration : **1 year**

CMP : **₹222 (as on 5 July, 2016)**

Target Price : **₹288**

The value pick for July is Coromandel International, from house of Murugappa Group. Company is a leading market player in Diammonium phosphate (DAP) segment and second largest Phosphatic fertiliser player. It operates in the business segments of fertilizers, specialty nutrients, crop protection and retail. We believe the company's performance in FY17 will improve significantly with key levers being good monsoon leading to higher sowing; higher fertilizer consumption; and unique offerings and reforms by the government.

Good monsoon prospects : As per RBI, agriculture is expected to contribute 2.6% to the GDP in FY17 which is significantly higher than -0.2% and 1.2% in FY15 and FY16, respectively. The food grain production is expected to reach 253 MMT with an increase in wheat and pulse output. With agricultural output increasing, the fertiliser consumption is expected to pick up by 10-15% from the current consumption of 150 LMT.

High industry growth in DAP and complex segment : Phosphatic fertilizer industry sales have increased by 18% and within that DAP and complex segment have grown by 29% and 8% respectively. This segment contributes 84% to the sales and 64% to the EBITDA. Company is a leader in DAP, operates through subsidiaries and has substantial presence in Andhra Pradesh, Telengana, Tamil Nadu and West Bengal markets. In 2015-16, the phosphatic volumes for the company increased by 5%YoY. The pipeline inventory is lesser for the company vs the industry players in the North, which should benefit the company in the coming quarters.

For complex fertilizers, company is operating in high consumption states of AP, TN and KN. Company has launched unique grades like 17:17:17 and 20:20:0 (with 13 percent elemental Sulphur) during the year. Company has launched differentiated nutrient solutions, which now constitute 33% of the portfolio revenues vs 28% in FY15. For Single Super Phosphate (SSP), company is a market leader with 13.5% market share.

Crop protection: Company has taken measures to improve its manufacturing facility in Sarigam in Gujarat. For FY15-16, exports contributed significantly to the growth of this segment while domestic markets remained under pressure. Company enjoys higher margin in this segment and lower raw material prices. It expects strong demand from LatAm and Africa.

Specialty Nutrients business: This segment comprises of Water Soluble Fertilisers (WSFs) (12% market share), Sulphur products (32% market share) and Micronutrients. The company addresses the specific application need of the crop and the soil. Company has launched Speedfol Cotton and prilled variant of Potassium Nitrate and Micronised Sulphur. Company is seeing lot of government impetus in the near future with stress on organic fertilizers. Though the growth was muted in the year 2015-16, the segment is a potential growth area.

Government regulations: Government has recently announced the farm gate price reduction for public sector units by Rs 2500 per MT. For the company, the current farm gate prices fall around 24800 per MT and after discounts its falls around 22,500. So the actual impact on prices will be around Rs1000 per MT. Also the markets for Coromandel have few players in DAP and we foresee that impact of the same will be minimum on the earnings. As of now the market for private players still has a free play market.

Financials & Valuation: Revenue for FY15-16 was flat at 2% and this also impacted the operating profit and net income which fell by 8 and 10% respectively. Due to this, margins were squeezed by 700 bps. In 2015-16, company has witnessed improvement in sales by 12% and net income by 13%. Company's even in times of drought and pressured margins gained market share in south India however lost its ground in North. Company enjoys high return on net worth (RoNW) of 15 and is the best amongst its peers like Gujarat State Fertiliser & Chemicals (RoNW 2016 of 8) and Rashtriya Chemicals and Fertilizers (RoNW 2016 of 7). Company is currently trading at P/E of 17.8x and commands premium vs its peers due to its market leadership. We see that prices have recently corrected. We see an upside of 30% over a year and recommend a BUY at current levels.

Inc/Exp Statement(Consolidated) (₹ Cr.)					
Description	2016	2015	2014	2013	2012
Net Sales	11522	11306	10053	9034	9902
Total Income	11587	11363	10114	9104	9980
Total Expenditure	10750	10453	9248	8266	8847
PBIDT	837	910	866	838	1132
PAT	361	402	365	434	635
Dividend %	400	450	450	450	700
Adj. EPS(Rs)	12.39	13.79	12.58	15.25	22.60

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer:** The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations.