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Equity Research Desk

ALPHA

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Coromandel International Ltd. – Murugappa Group

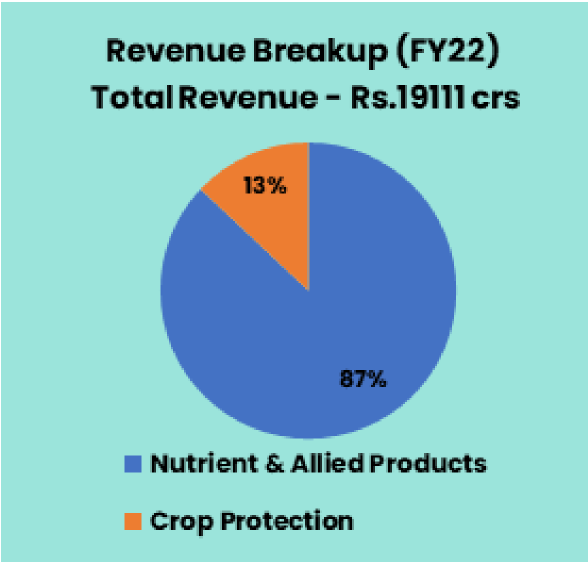
Market Data	
CMP	Rs. 915
Date	17-Nov-22
Target Price	Rs. 1080
Upside Potential	18.00%
52 Week High/Low	1094/709
Market Cap	Mid Cap
NSE Code	COROMANDEL
Sector	Fertilizer
Rating	Buy

Coromandel International is the flagship company of the Murugappa Group, which owns ~56% 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. 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. The company has the capacity to manufacture over 3.5 million tonnes per annum of fertilisers and pesticides, and ~1 million tonnes per annum of single super phosphate.

Products & Services: It operates in two major segments namely CPC (Crop Protection Chemicals) and NAB (Nutrients and Allied Business). The NAB segment comprises i) phosphatic fertilisers (di-ammonium phosphate, complexes, single super phosphate, muriate of potash), ii) specialty nutrients and organic fertilisers (G sulphur, water soluble fertilisers, organic manure) and iii) the retail business that provides Agri inputs and Agri services. The CPC segment comprises technical, formulations and biopesticides.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	57.44	57.48	-0.04
FPI	9.93	8.04	1.89
DII	18.69	20.06	-1.37
Public & Others	13.93	14.43	-0.50
Pledged	0.04	0.04	0.00

Subsidiaries: The Company has 12 subsidiary companies, 1 associate company and 1 joint venture as on Mar'22.



Margins - FY22	
Gross Profit	26%
EBITDA	11%
PAT	8%

Key Rationale

- **Strong Position –** The company is the second-largest player in the phosphatic-fertilizer industry in India, wherein its market share has improved to 17.90% in fiscal 2022, from 15.30% previously. Its market position is underpinned by an entrenched and leading position in Andhra Pradesh and Telangana. The company has also been gradually increasing the sale of non-subsidy-based products, including crop protection, specialty nutrients (secondary and micro-nutrients [sulphur, zinc, calcium and boron], water-soluble fertilizers and compost), and bio products. During April 2018, it also acquired the bio-pesticides business of E.I.D. Parry (India) Ltd, along with the latter's wholly owned subsidiary, Parry America, Inc, USA, which has further diversified the product profile under the crop protection business. The company's brand, Gromor, has a strong recall amongst customers and commands a premium in its key markets.
- **Backward Integration –** CIL has secured around 70% supply of Phosphoric Acid (PA), a key raw material for the production of phosphoric fertilisers, through own production facilities or sourcing from its joint venture - Tunisian Indian Fertilisers, which supplies 50% of its output to CIL - while the rest are procured from open market. Additionally, in order to further strengthen the availability of rock phosphate for its in-house production of PA, the company is undertaking an acquisition of a 45% equity stake in Senegal (Africa)-based rock phosphate mining company BMCC. The acquisition would help the company meet around 33% of its rock phosphate requirement. CIL is also expanding its Sulphuric Acid production capacities, which would be completed over FY23-FY24.
- **Q2FY23 –** Consolidated revenues stood at Rs.10113 crs up 65% YoY in Q2FY23 were largely driven by superior revenue growth in fertilizer business. Nutrient and other allied products revenues were up 73% YoY to Rs.9461 crs, while the crop protection reported flat revenue growth (+1% YoY) to Rs.707 crs. For Q2FY23, EBITDA stood at Rs.1057 crs up 42% YoY from Rs.743 crs in Q2FY22. PAT stood at Rs.741 crs which is up 43% YoY for the same period.
- **Financial Performance –** The Revenue has grown at a CAGR of 14% from Rs.10031 crs in FY17 to Rs.19111 crs in FY22. Similarly, the PAT has grown at a CAGR of 26% from Rs.477 crs in FY17 to Rs.1528 crs in FY22. The company's 5 Year average ROE stands at a strong 26% (FY18-22) and the 5 Year average ROCE stands at 28% for the same period. Over the medium term, while the company has moderate annual capex plans of Rs.700-900 crs, the cash accruals earned of around Rs.1300 - 1500 crs should be adequate to fund these capex requirements as well as its incremental working capital requirements, if any.

Ratios - FY22	
ROE	24%
ROCE	32%
Div. Yield	1.30%
PE Ratio	18.00
Face Value	1.00
EPS	Rs. 52.08

Industry Analysis

The agriculture sector in India has experienced buoyant growth in the past two years. The sector, which is the largest employer of workforce within the country, accounted for a sizeable 18.8% (2021- 22) in GVA of the country registering a growth of 3.6% in 2020-21 and 3.9% in 2021-22. India is the second-largest consumer and the third-largest producer of fertilisers globally. The Indian fertiliser ecosystem comprises the private, Government and cooperative sectors. Over the years, the fertiliser sector in India has played a major role in shaping the Indian farms and driving agricultural prosperity. Fertilizers production increased by 11.8% in September 2022 over September 2021. Its cumulative index increased by 11.5% during April to September 2022-23 over the corresponding period of previous year. Globally, India is the fourth-largest producer of agrochemicals after the United States, Japan and China. The agrochemicals market in India is expected to grow at 8% CAGR reaching $4.7 bn by FY25.

Growth Drivers

According to the United Nations, India's population is set to reach 1.5 billion by 2030. With growing population and increased demand for food, the Indian agriculture market could witness high demand for fertilizers.

India has the second-largest arable land area in the world (after the US) – but the crop yield (the amount of crop harvested per unit of land area) remains much lower compared to many countries on account of the highly fragmented farmland and lack of irrigation facilities.

The government plans to introduce production-linked incentive (PLI) scheme to promote domestic manufacturing of agrochemicals.

Peer Analysis

Competitors: Chambal Fertilisers Ltd., GNFC Ltd., etc.

Coromandel has maintained strong return ratios over the years and its peer lacks the consistency in maintaining them. Coromandel has the largest revenue among its peers in terms of value with a strong net debt free balance sheet. Apart from this, Coromandel is generating strong free cashflows over the years.

Company	CMP	Mcap.	5 Yr Avg.ROE	5 Yr Avg.ROCE	P/E	EPS
Coromandel	915	26926	26.00%	28.00%	18	52.08
Chambal	285	11943	27.00%	16.00%	8	37.62
GNFC	576	8927	17.00%	20.00%	5	109.62

Outlook

Management envisaged that new product launches coupled with branding of their products both in the Nutrition and CPC segment is likely to reap benefits in the medium term. The company continues with its endeavour to invest on R&D, expansion in distribution reach, and identifying newer off-patented molecules. CIL has launched 4 new formulations (3 insecticides and 1 fungicides) in the CPC segment in 1HFY23. The company has raised its manufacturing fertilizer's profitability guidance from EBITDA/MT of ~Rs.4,500 for FY23 to ~Rs.5,500. Further, the management indicated to maintain similar per tonne margins in FY24. Going forward, the key growth levers will include: a) the management's focus on increasing penetration in its existing markets, b) debottlenecking to raise capacity and strengthen its back-end supply chain, c) efforts to lower the cost of raw material, while maintaining the same level of quality, and establish an alternative sourcing destination (which will aid cost savings), d) launch of three-to-four molecules in the CPC segment, e) inorganic growth, and f) its focus on profitable growth in the Retail business by reorganizing stores based on consumption patterns.

Valuation

We believe the company to report robust growth in sales on the back of capacity expansion and backward integration. Considering the healthy balance sheet and consistent ROE of ~26% for the last 5 years, we recommend a BUY rating in the stock with the target price (TP) of Rs.1080, 15x FY24E EPS.

Risks

- **Monsoon Risk –** 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.

- **Raw Material Risk -** Availability of key raw materials and adverse price variation in the same, delay in ability to pass on price hikes, adequately coupled with adverse currency fluctuations might affect margins.

- **Regulatory Risk -** The fertiliser industry is highly regulated and any change in the regulations or ban on some products will affect the revenue growth momentum.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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