NALANDA RESEARCH

# Coromandel International Ltd.

*- Healthy soil, Healthy crop*

**Company Update** **October 12,2018**

NALANDA RESEARCH

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# Coromandel International Ltd.

### India's largest integrated Agri solutions provider

**STRONG BUY** *

| Downside Scenario | Current Price | Price Target | Upside Scenario |
|---|---|---|---|
| | 382.15 | 495 (30% ▲) | |

We initiate coverage on Coromandel International Ltd. (CRIN) with a 'BUY' rating and a price target of INR 495, implying a 30% upside potential from current levels. Our view stems from the fact that they are India's second largest phosphatic fertiliser manufacturer, contributing around a fifth of domestic capacity. Furthermore increasing contribution from the crop protection business will boost top-line.

### DBT Rollout:

The fertiliser industry witnessed the phased roll out of Direct Benefit Transfer (DBT) scheme, that intends to bring traceability across the fertiliser value chain and promote balanced nutrient practices. Considering the mammoth scale and complexity involved in connecting more than 2,00,000 retailers, the industry, along with the Department of fertilisers (DoF), effectively took up the challenge and executed its implementation.

DBT signals a significant shift in operating philosophy for the industry, and we expect its scope to be enhanced further in coming years, which will also help the industry to ease the working capital situation.

### Crop Protection acquisition from EID Parry:

Crop Protection business has shown growth across the domestic and export sectors, despite decline in raw material supplies. With the addition of Bio Pesticide operations post acquisition of the business from EID Parry, we expect CRIN to expand their market presence and product offerings in the Indian, North American and European markets.

### Government Policies:

During the year, government continued its initiatives targeting doubling of farmer's income by 2022, spanning in the areas of crop insurance, soil health & balanced nutrition, income security, market & credit access and infrastructure development.

### Capacity expansion for phosphoric acid production:

Phosphoric Acid capacity augmentation project at Vizag, which aims to supplement additional one lakh ton of acid, is progressing as per the plan and is likely to come up in 2019-20, making the unit self-sufficient for its acid needs.

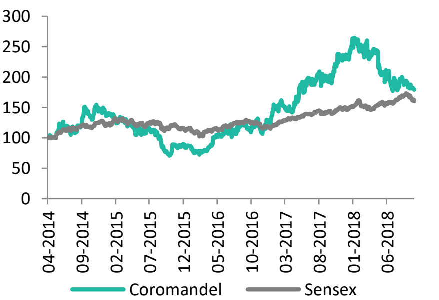
| Financial Snapshot | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|---|
| Net Revenues (INR Crores) | 11,481.4 | 10,030.8 | 10,946.7 | 12,243.3 | 12,883.4 | 13,564.0 |
| EBITDA (INR Crores) | 766.8 | 982.7 | 1,226.9 | 1,554.8 | 1,810.5 | 2,047.5 |
| PAT (INR Crores) | 357.4 | 477.0 | 663.6 | 831.6 | 1,006.5 | 1,155.8 |
| P/E | 31.2 | 23.4 | 16.9 | 13.5 | 11.1 | 9.7 |
| EPS in INR | 12.3 | 16.4 | 22.7 | 28.4 | 34.4 | 39.5 |
| EV/ EBITDA | 10.4 | 11.4 | 14.3 | 8.5 | 7.4 | 6.5 |
| D/E | 1.0 | 0.8 | 0.9 | 0.7 | 0.7 | 0.6 |

*Source: NSPL Research*

| Market Data | |
|---|---|
| Industry | Agrochemicals |
| Sensex | 34,001 |
| Nifty | 10,235 |
| Bloomberg Code | CRIN:IN |
| Face Value (INR) | 1 |
| 52-w H/L | 588/ 340 |
| Market Cap (INR Crores) | 11,174 |

| Valuation Data | FY18 | FY19E | FY20E |
|---|---|---|---|
| P/E (x) | 16.9 | 13.5 | 11.1 |
| EV/EBITDA | 14.3 | 8.5 | 7.4 |

**Coromandel International Ltd. Vs SENSEX**




| Share Holding Pattern | Q1 FY19 | Q4 FY18 | Q3 FY18 |
|---|---|---|---|
| Promoters | 61.8% | 61.81% | 61.71% |
| FIIs | 4.36% | 5.58% | 5.85% |
| DIIs | 12.11% | 10.49% | 9.24% |
| Retail | 21.73% | 22.12% | 23.2% |
| **Total** | **100%** | **100%** | **100%** |

| 7.4% ▲ | 18.6% ▲ | 20.3% ▲ |
|---|---|---|
| Total Revenue CAGR FY18 -21E | EBITDA Growth CAGR FY18 -21E | PAT growth CAGR FY18-21E |

** Read last page for disclaimer & rating rationale*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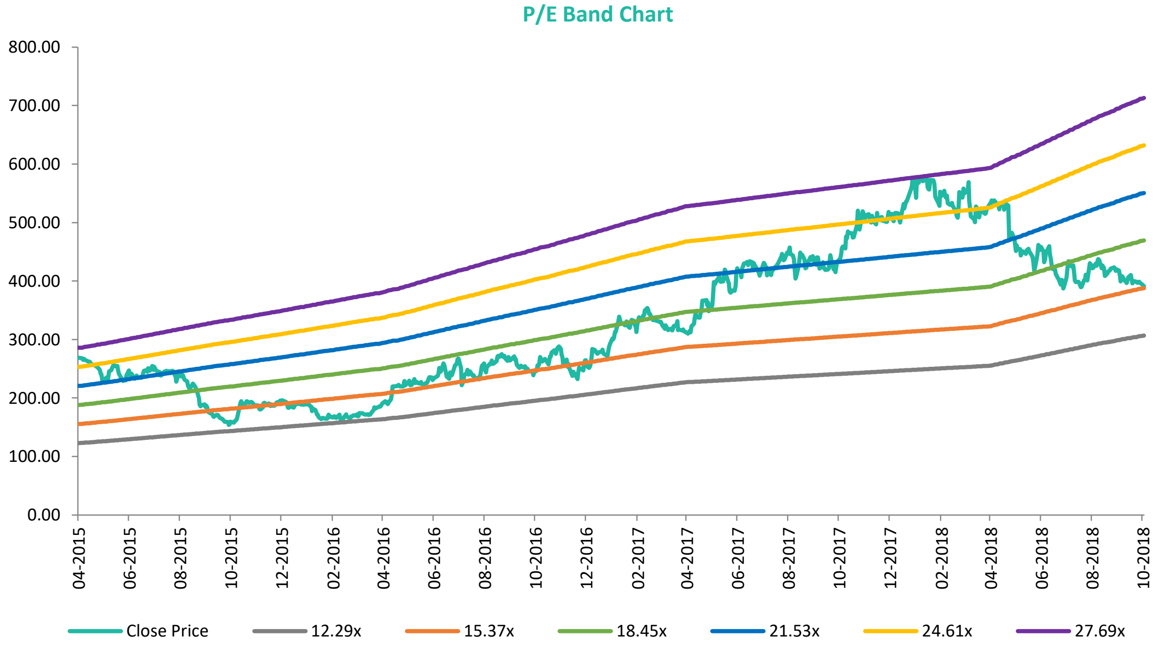
## Valuation:

**We expect the company to notch re-rating in its valuations on the back of:**

- Up gradation of DBT procedure will fasten the process of transferring subsidies to the company and thus easing the working capital
- Acquisition of bio pesticides division from EID Parry will result in incremental revenues from the crop protection segment.
- Higher focus on speciality nutrients
- Government policies which are aligned to help the farmers in the country will also benefit CRIN.
- Capacity addition for captive consumption of phosphoric acid will bring the raw material cost further down.

At CMP of INR 382.15, the company is trading at 7.4x FY20E EV/ EBITDA and 11.1x FY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 10x for EV/EBITDA and 13x for PE to arrive at an average target price of INR 495 which is an upside of 30%.




*Source: NSPL Research*

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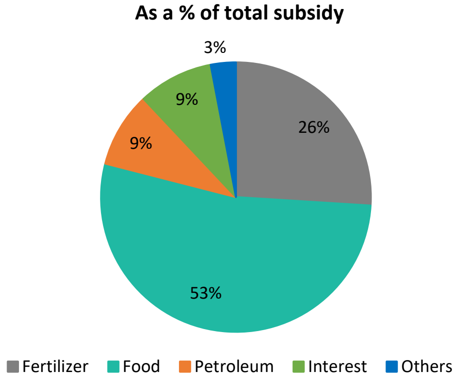
## Investment Rationale:

## Government Subsidies and DBT Rollout:

Fertiliser subsidy in Urea is the difference between the retention price of fertilisers and the price at which fertilisers are made available to farmers. The difference is paid to industry as subsidy. The Nutrient Based Subsidy (NBS) policy governs the subsidy for P&K fertilisers. Under NBS, the subsidy is given to manufacturers/importers on the basis on the nutrient contents of the fertiliser. The nutrient content is measured on the basis of per kg.

Fertilisers, after oil and food, account for the third biggest share of India's total subsidy bill. The total fertiliser subsidy in 2017-18 was INR 64,974 crore and in 2018-19 is INR 70,080 crore. Under fertilisers, the government has set aside INR 44,989.5 crore for the urea sector in 2018-19 as against INR 42,721.7 crore for 2017-18. The outlay on phosphatic and potassic (P&K) fertilisers under the Nutrient Based Subsidy Scheme has been increased to INR 25,090.35 crore in 2018-19, up from INR 22,251.8 crore in 2017-18.




*Source: NSPL Research*

| Subsidy (INR Crores) | 2018-19 | 2017-18 |
|---|---|---|
| **Fertiliser** | **70,080** | **64,974** |
| a) Urea | 44,990 | 42,722 |
| b) Nutrient based subsidy | 25,090 | 22,252 |
| **Food** | **1,69,323** | **1,40,282** |
| **Petroleum** | **24,933** | **24,460** |
| a) LPG subsidy | 20,378 | 15,656 |
| b) Kerosene subsidy | 4,555 | 8,804 |
| **Interest** | **20,917** | **23,635** |
| **Others** | **10,774** | **7,572** |
| **Total** | **2,96,027** | **2,60,923** |

*Source: NSPL Research*

### Background on fertiliser Subsidy Policy

The subsidy to urea was under the provisions of the Retention Price Scheme (RPS) till 2003. Under RPS, the difference between retention price and the statutory sale price was paid as subsidy to each urea unit. Later the RPS regime was dismantled and a Concession Scheme for urea units based on the prices of feedstock used and the vintage of plants was introduced in 2003. This was called New Pricing Scheme or NPS.

It had various phases like NPS-I (2003-2004), NPS-II (2004-2006) and NPS-III (2006 onwards). The difference between the cost of production and the selling price/MRP is paid as subsidy/concession to manufacturers. Urea is the only controlled fertiliser, which is sold at statutory uniform sale price. The Phosphatic and Potassic fertilizes are under a decontrolled regime and are sold at indicative maximum retail prices (MRPs).

### Urea Decontrol

There has been a long pending demand of decontrol of Urea but decontrolling urea is a politically sensitive issue. The Planning Commission's Soumitra Choudhary panel had recommended that the NBS policy, which is applicable only on P and K fertilisers needs to be extended for urea also. This has become all the more desirable to maintain the ratio between MRP of urea vis-a-vis P and K fertilisers, which is essential for balanced fertilisation.

### Nutrient Based Subsidy (NBS) scheme

The government implemented Nutrient Based Subsidy (NBS) policy from 1st April 2010 for fertilisers other than Urea to ensure balance use of fertilisers. The fertilisers included in this scheme include 22 grades of decontrolled fertilisers namely DAP, MAP, TSP, DAP Lite, MOP, SSP, Ammonium Sulphate and 15 grades of complex fertilisers.

These fertilisers are provided to the farmers at the subsidized rates based on the nutrients (N, P, K & S) contained in these fertilisers. Additional subsidy is also provided on the fertilisers fortified with secondary and micronutrients as per the fertiliser Control Order. This subsidy given to the companies is fixed annually on the basis of its nutrients content (i.e. Nitrogen, Phosphate, Potash and Sulphur). Under this scheme, Maximum Retail Price (MRP) of fertilisers has been left open and manufacturers/marketers are allowed to fix the MRP at reasonable level.

The Indian government spends close to 1% of the country's gross domestic product on fertiliser subsidies every year. Only 35% of this subsidy reaches farmers, according to the Economic Survey of India 2015-'16.

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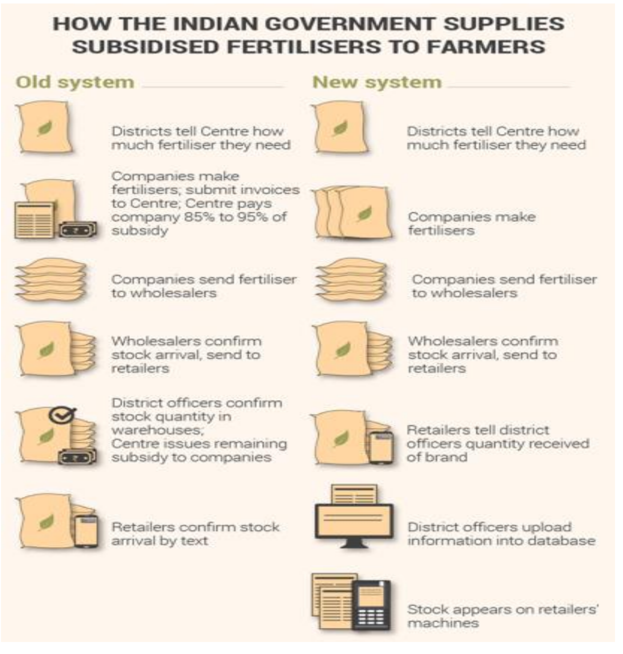
## DBT Rollout:

In February 2011, an inter-ministerial Task Force headed by Nandan Nilekani (former chairman of the Unique Identification Authority of India) recommended a planned approach for implementing DBT (direct benefit transfer) for fertiliser subsidies in India. The Task Force was also asked to design appropriate IT solutions for the same.

Step I – Tracking of movement of fertilisers up to the retail points and release of part subsidy through Industry on acknowledgement of receipt of fertilisers by retailers; Phase II – Part subsidy to manufacturers based on retail sales of fertilisers to buyers; Phase III – Entire subsidy to retail customers based on sales made; and Phase IV – Subsidy to farmers based on details of sale made.




*Source: NSPL Research*

This program does not follow the traditional form of a DBT. Rather than transferring the subsidy benefits directly to identified beneficiaries, subsidy payments continue to be made to fertiliser manufacturers.

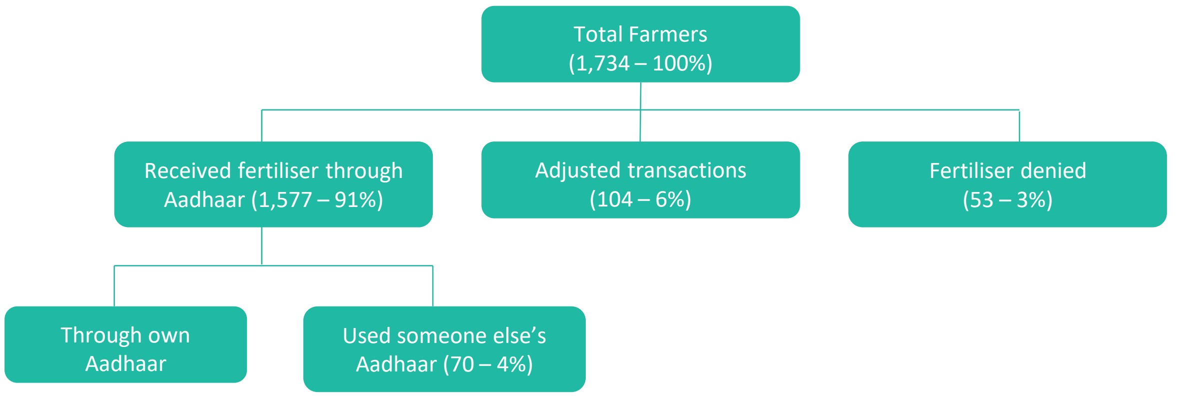
In case of Urea, the prices that end users pay are not reflective of world market conditions, but rather remain based upon the nutrient content of the fertilisers and the vintage of the manufacturing facility. A pilot of this program was implemented across 16 districts of Madhya Pradesh, Himachal Pradesh, Andhra Pradesh, Rajasthan, Telangana, Bihar, Maharashtra, Karnataka, Gujarat, Kerala and West Bengal during Rabi (dry season) 2016–17.

An integrated fertiliser management system (IFMS) was also launched, with support from the Indian National Informatics Centre (NIC), to record and monitor all transactions from the importing or manufacturing stage to final retail purchases at the farmer level. While the pilot districts were still learning from implementation and identifying key bottlenecks and gaps, the central government issued orders for a nationwide rollout, with effect from June 1, 2017.

Preparations for this wide scale rollout at the state level included the establishment of state-level committees for the management and implementation of the program and the appointment of a central government recruited state-coordinator to work closely with the State Department of Agriculture. The program has already been implemented in a state-wise, phased manner through Kharif (monsoon season) 2018.

In addition, the government's promise to clear all outstanding subsidy along with the implementation of the DBT scheme stand to benefit the fertiliser companies who could expect some relief in their working capital. Apart from the proper recording of sales at the retail front, the shift of the subsidy accruement to point of sales makes forecasting of product demand an absolute necessary and critical step for the fertiliser companies. Any piling up of channel inventories would lead to expanding the subsidy reimbursement cycle and increase working capital requirements and thereby costs for the companies.

**Assessment of AeFDS (Aadhaar enabled Fertiliser Distribution System) Pilot**




*Source: NSPL Research, department of fertilisers*

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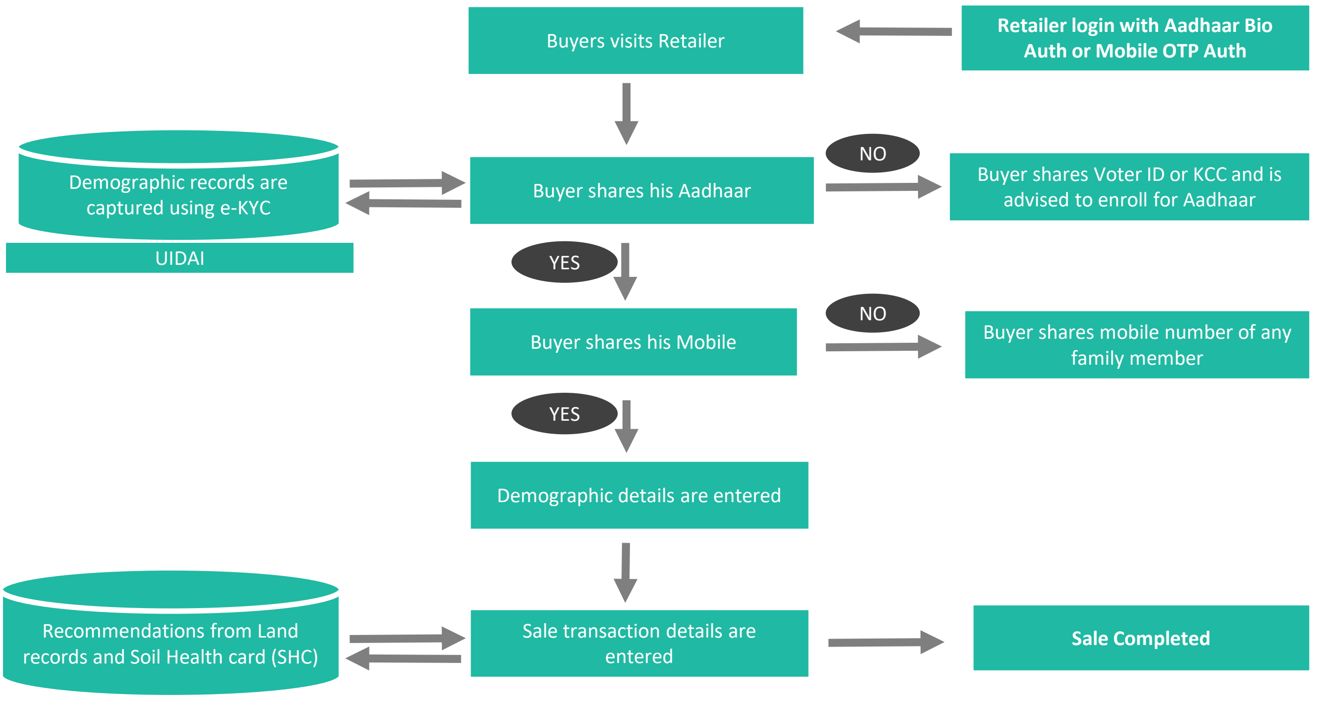
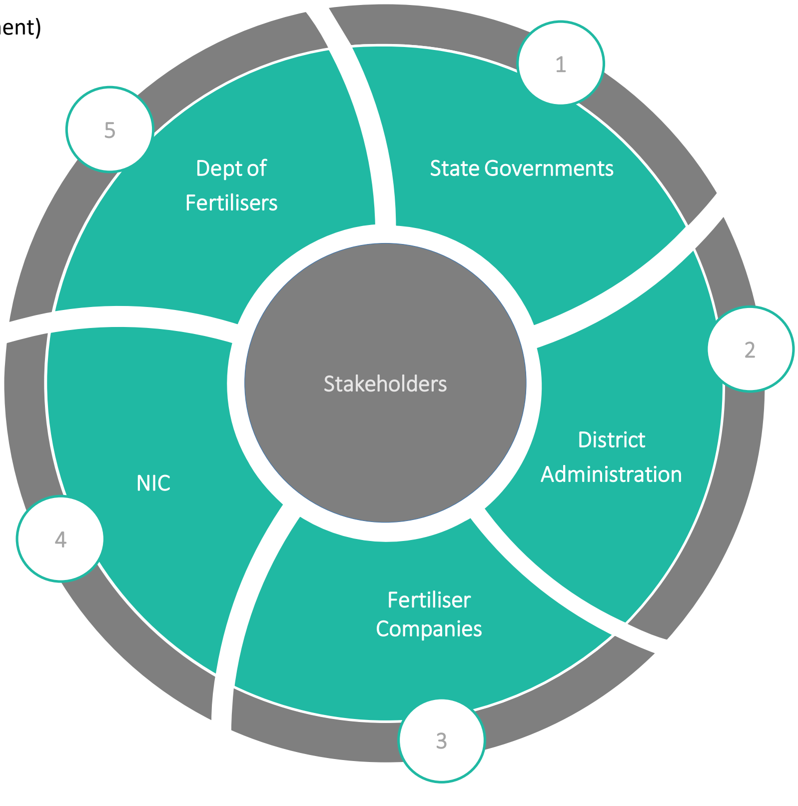
DBT Process Flow




*Source: NSPL Research, department of fertilisers*

## Key Stakeholders

1. State Governments (Agriculture Department)
2. District Administration
3. Fertiliser Companies (LFS)
4. Technology Partner (NIC)
5. Owner (DoF)




*Source: NSPL Research, department of fertilisers*

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## Crop Protection:

The company's major products in crop protection include Mancozeb, Acephate, Monocrotophos and Profenofos. These constitute 85 - 90% of volumes, with Mancozeb making up ~50%. Coromandel is the second largest manufacturer of Malathion and is the major manufacturer of Phenthoate in Asia. By taking over M/s Sabero Organics in 2011, Coromandel has added many technicals to its range of products and is currently among the top 5 Indian companies in Indian Pesticide Industry. The Company has global registrations in 62 countries and has strong presence in export markets of Latin America, SE Asia & Africa.

During FY 17-18, they acquired the Bio pesticide business from E.I.D Parry (India) Limited which would enable the business to gain entry in high growth bio pesticide segment in Indian, North American and European markets. The acquisition has been effective from 01 April, 2018 and provides a synergistic fit to its crop protection product portfolio. The transaction is valued at INR 338 crore and includes purchase of bio-pesticides business of E.I.D. Parry together with its R&D unit, captive plantations and its wholly-owned subsidiary Parry America, Inc.

The bio-pesticides business is engaged in the manufacture and marketing of neem-based Azadirachtin technical and formulations, plant extract-based bio-stimulants, micronutrients, microbials, and so on, and has brands that are well established in India and globally. The business has a manufacturing facility in Tamil Nadu and manufactures Azadirachtin using technology sourced from Trifolio, Germany, which they have improved over a period of time. It has an R&D unit which has carried out extensive study and have made significant progress on bio-stimulants, microbials and household pesticide segment for domestic and global markets.

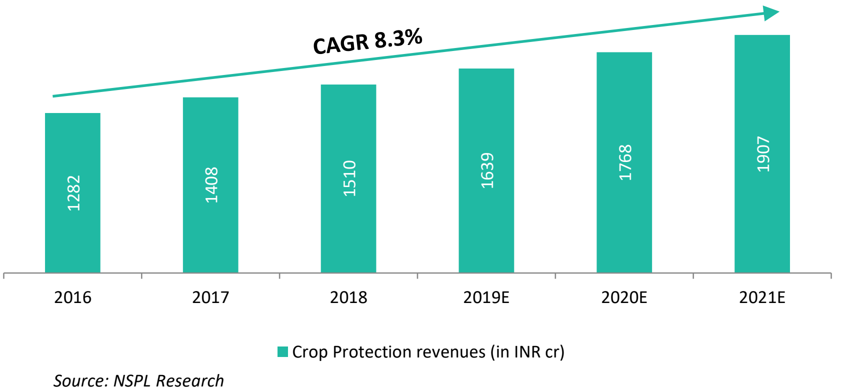
Parry America, Inc, a 100% subsidiary of E.I.D. Parry headquartered in US sources Azadirachtin technical from bio-pesticides business in India, formulates and markets the products in North and South America, Canada and adjacent markets of US.

For 2018-19, their crop protection SBU plans to scale up its volumes across all its business segments - exports, formulations and domestic B2B. In exports, market access will be improved by deploying teams closer to the key geographies for better consumer understanding and dealer engagement. On the product front, portfolio expansion with new registrations of own and third party products along with label expansions on additional crops have been planned. They will establish subsidiaries in key identified markets to sustain and build platforms for future growth. On the domestic front, business will focus on high potential states through scaling up its demand generation activities. Integration of Bio division is expected to provide synergies in exports and domestic markets. New capabilities will be built for manufacturing new generation high-value molecules.

The company's crop protection chemicals (CPC) business has three R&D centers at Ankleshwar, Sarigam and Hyderabad. The newly established Hyderabad R&D center is concentrating on development of new off patent molecules, synthesizing impurities for various products to ease the registration process. It also carries on development work on different type of agrochemicals formulation and technology transfer for manufacture of technical grade products and advanced intermediates for technical grade products, from pilot to the manufacturing plant.

The R&D Centre is also concentrating on the development of new combination products with the aim to market at least two/three new combination product each year with a large number of combination products under different stages of development.

**Crop Protection revenues (in INR cr)**




*Source: NSPL Research*

## Capacity expansion at Vizag for captive production of Phosphoric Acid:

CRIN is currently in the process of expanding their capacity at Vizag plant to increase the production of phosphoric acid from 700 tonnes per day to 1,000 tonnes per day and other auxiliary facilities at Vizag to achieve daily complex fertiliser production of 3,900 tonnes.

The estimated project cost of the proposed up gradation and installations will be INR 250-300 crore. Out of the planned capex for capacity expansion, INR 26.42 crore would be used for environmental management programmes.

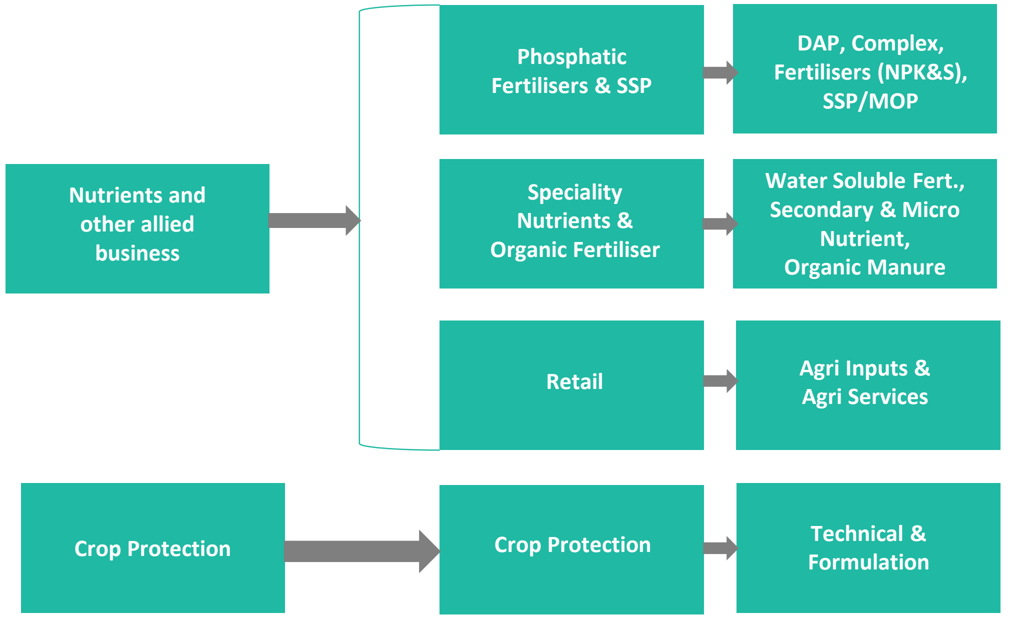
## Company Profile:

Coromandel International Ltd (CRIN), formerly Coromandel Fertilisers Ltd, was established in 1961. The company went public in 1964. It is promoted by the Murugappa group. Coromandel was formed by the joint efforts of two major companies of the US, namely Chevron Chemical Co and International Minerals and Chemicals Corp. Coromandel is a leading manufacturer of a wide range of fertilisers and pesticides.

The company has phosphatic fertiliser plants at Visakhapatnam & Kakinada in Andhra Pradesh and Ennore & Ranipet in Tamil Nadu. It produces phosphatic fertilisers, plant protection chemicals, speciality nutrients, sulphur bentonite and potash. Some of the major products of the Coromandel International Limited are complex fertilisers, including di-ammonium phosphate (DAP), single super phosphate (SSP), speciality fertilisers etc.

## CRIN has two business segments:

a) Nutrient & other allied businesses
b) Crop Protection




*Source: NSPL Research*

## Phosphatic Fertilisers:

CRIN has 16% market share in phosphatic fertilisers. They have gained magnitude by means of expansion and acquisition and current capacity stands at 3.5 million tons. They account for around 22% of the domestic manufacturing capacity. Its production facilities at Visakhapatnam, Kakinada and Ennore provides considerable presence in South, East and West India markets. Coromandel, with its integrated manufacturing facilities at Visakhapatnam and Ennore, features among the lowest cost producers in India. In addition, Coromandel markets imported DAP & MOP and along with its Urea handling contracts at Kakinada in Andhra Pradesh and Kandla in Gujarat, offers complete nutrient solutions to the Indian farmers.

After the DBT roll out and introducing neem coated Urea a year ago, government has mandated the industry to market Urea in 45 kilogram (kg) bags instead of traditional 50 kg bags from 2018-19 onwards. The Phosphoric acid project for captive consumption, envisaged to add another 1 lakh tons of acid at Visakhapatnam unit will be completed in 2019-20.

## Single Super Phosphate (SSP):

It is a multi nutrient fertiliser containing phosphorus (14.5 %), Sulphur (11%) and Calcium (21 %). SSP can be applied as a basal fertiliser with other chemicals and organic fertilisers. It has tremendous impact on plant growth and also assist in maintaining soil health and protection against pest and diseases. Single Superphosphate is produced by reacting naturally occurring phosphate rock with sulphuric acid. This process converts insoluble phosphates into forms more readily available to plants.

Capacity consolidation was carried out through debottlenecking Udaipur, Baroda and Nimrani units, improving the operational efficiencies and production output. Post GST implementation, the government has mandated that the sale of SSP can only be done in manufacturer's brand names.

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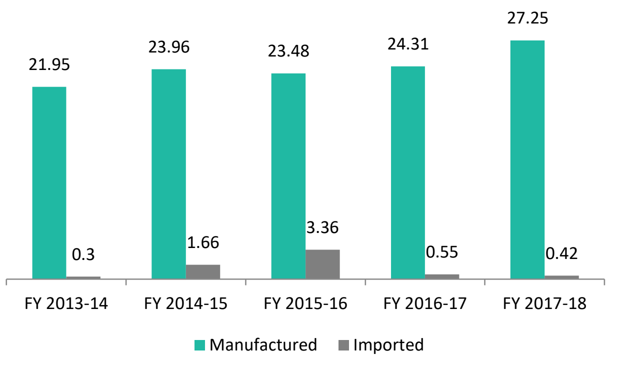



*Source: NSPL Research, CRIN annual report 2018*

| Sales in MT | 2016 | 2017 | 2018 | 2019* |
|---|---|---|---|---|
| Urea | 6,56,874.3 | 9,20,298.1 | 9,33,671.9 | 4,86,214.0 |
| DAP | 6,28,763.1 | 5,08,146.6 | 5,97,819.8 | 3,97,408.0 |
| MOP | 97,955.0 | 1,80,854.1 | 1,69,172.2 | 54,181.5 |
| COMPLEXES | 21,16,812.5 | 19,88,754.0 | 21,57,840.0 | 14,64,904.0 |
| **till date* | | | | |

*Source: NSPL Research, mfms.nic.in*

**Speciality nutrients:**

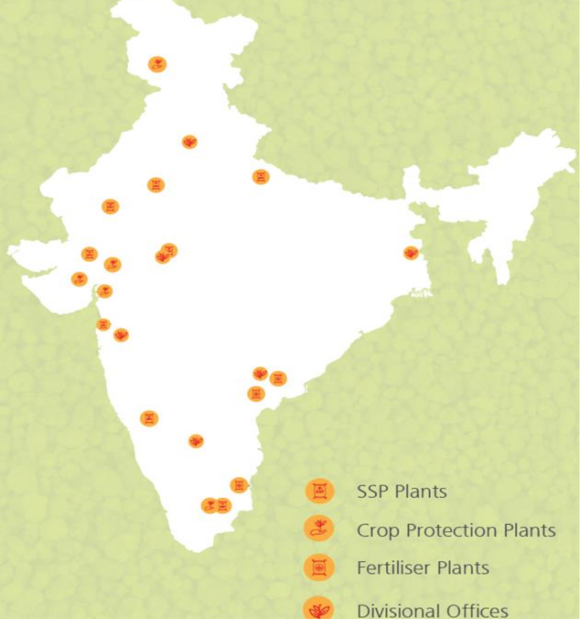
Coromandel has a speciality nutrients division (SND) to market speciality nutrients. This compliments their efforts in improving the Indian farm productivity by upgrading the quality of Indian soils and focuses on the marketing of concept products for Indian agriculture. New crop specific water soluble fertiliser products were introduced during the year which have received good response from the market. With the government's thrust towards promoting balanced nutrition and water use efficiency, the business expects significant growth opportunities in coming years. Recently, Coromandel has entered into a joint venture agreement with Sociedad Quimicay Minera, Chile to set up a water soluble fertiliser (WSF) plant for manufacturing WSF at Coromandel's Kakinada Plant.

**Retail:**

The retail arm of Coromandel was started in the year 2007 with 2 outlets in Andhra Pradesh and by 2013-14 the business expanded to over 665 retail centers in rural Andhra Pradesh and Karnataka. Coromandel's retail centers are located at Mandal, Andhra Pradesh. Each retail center has an average area of 1750 square feet with a catchment area of 30-40 villages and about 5,000 farmer families. Currently, they operate a network of around 800 rural retail outlets across Andhra Pradesh, Telangana, Karnataka and Maharashtra.

To improve farm advisory services, 'Gromor Advisory Council' comprising of scientists from leading agriculture universities was constituted and nutritional package of practices for eight crops were developed. They expanded to Western Maharashtra by opening four new stores during the year. They also partnered with the Andhra Pradesh Government to open five new Custom Hiring & Service Centres (CHSC) for providing farm mechanization services. Each retail center has an average area of 1750 square feet with a catchment area of 30-40 villages and about 5,000 farmer families.

**Pan India Presence:**




*Source: NSPL Research, CRIN annual report 2018*

**SSP plants at:**
- Udaipur, Rajasthan
- Baroda, Gujarat
- Nimrani, Madhya Pradesh
- Hospet, Karnataka
- Ranipet, Tamil Nadu
- Raibareli, UP
- Kota, Rajasthan
- Pali, Rajasthan

**Crop protection plants at:**
- Sarigam and Dahej in Gujarat

**We are operating through 6 Divisional offices:**
- Vijayawada, AP
- Bangalore, Karnataka
- Pune, Maharashtra
- Kolkata, West Bengal
- Indore, MP
- Delhi

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**Milestones:**

- 2006 - Entry into Specialty Nutrient and Organic Fertiliser segment
- 2007 - Merger with erstwhile Godavari Fertiliser and Chemicals Ltd.
- 2008 - Expansion in Retail segment through opening 300 outlets in Andhra
- 2010 - Established JV with SQM Chile for realizing the growth opportunities in Water Soluble Fertiliser space
- 2011 – Acquisition of erstwhile Sabero Organics providing access to international markets
- 2012 - Technology tie up with Shell Technology for new product development
- 2013 - Acquisition of erstwhile Liberty Phosphate Ltd providing foothold in West, Central and North India markets
- 2014 - Established JV with Yanmar and Mitsui for capturing growth opportunities in farm mechanization space
- 2015 - Set up Crop Protection R&D Center at Hyderabad for new product development and process improvement
- 2016 – Strengthened marketing structure by setting up Integrated Nutrient Management team with Agronomist support
- 2017 - Expansion of Retail operations in Maharashtra
- 2018 - Acquisition of Bio Pesticide business from EID Parry

*Source: NSPL Research*

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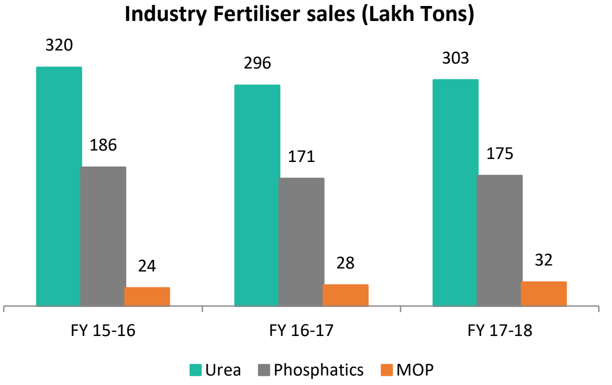
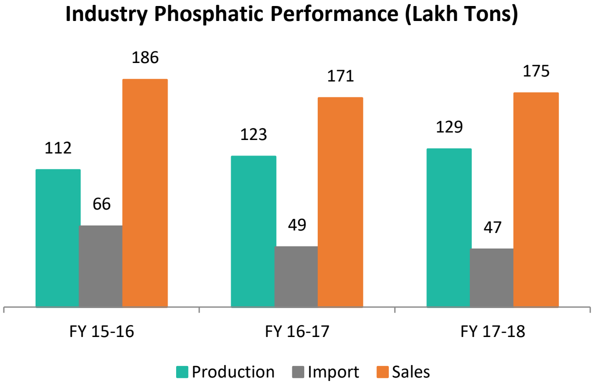
## Industry:

The domestic fertiliser industry benefitted from demand revival due to near normal south west monsoons, lower channel stocks, stable raw material prices and exchange rates. As a result, all the fertiliser segments have shown growth in 2017-18. Phosphatics Industry grew by 3% in FY17-18 to 175 lakh tons.




*Source: NSPL Research, CRIN annual report 2018*




*Source: NSPL Research, CRIN annual report 2018*

Fertiliser availability is likely to improve in the coming years as a result of increasing capacities and continuous R&D activities. Further, government's plan for reviving the defunct Urea units and investing in joint ventures overseas will help target nutrient self sufficiency. Overall urea sales recorded a growth of 2% in FY2018. Non-urea fertiliser sales volume also grew at a fair rate during FY2018 driven by healthy sales of DAP, MOP and complexes.

The Cabinet Committee on Economic Affairs (CCEA) has approved an increase in the nutrient-based subsidy (NBS) rates for phosphate and sulphur for financial year 2018-19 while reducing the same for potash and keeping it unchanged for nitrogen in a meeting held on March 28, 2018.

| Nutrients based Subsidy (INR/KG) | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|
| 'N' (Nitrogen) | 20.875 | 15.854 | 18.989 | 18.901 |
| 'P' (Phosphate) | 18.679 | 13.241 | 11.997 | 15.216 |
| 'K' (Potash) | 15.5 | 15.47 | 12.395 | 11.124 |
| 'S' (Sulphur) | 1.677 | 2.044 | 2.24 | 2.722 |
| Urea | NA | NA | 5.36 | 5.36 |

*Source: NSPL Research, Department of fertilisers*

The subsidy for phosphate (P) has been increased to INR 15.22/kg from INR 11.99/kg (27% increase) while the rate for sulphur (S) has been raised by 22% to INR2.72/kg from 2.24/kg. The subsidy for Potash (K) has been reduced by 10% to INR 11.12/kg from INR 12.4/kg. With the revision in NBS rates the subsidy for Di-ammonium phosphate (DAP) will rise by nearly 16% while for various grades of complex fertilisers the increase in subsidy will be 4%-10% y-o-y. The subsidy for Muriate of Potash (MOP) will decline by 10% y-o-y. The revision in NBS rates comes on the back of rising international DAP and sulphur prices owing to higher raw material prices and tightening phosphatic supplies from China.

Government has also approved a special banking arrangement for the fertiliser sector which will help in reducing subsidy backlog at the end of FY2018 and the interest costs for the fertiliser sector.

## Market Dynamics

The increasing population growth has led to food security concern and increased awareness among the farmers about the uses of fertilisers. Some of the other factors driving the growth of the market are high government subsidies and growing investments in the fertiliser industry. There is a shortage of raw materials in the country and the consequent dependency on imports is leading to volatile prices in the fertiliser industry. However, the new policies will help in stabilizing the raw material prices during the coming years.

## Market Segmentation

The region's fertiliser market is classified on the basis of type and crop application. By type, the market is segmented into nitrogen, phosphorus, potash and other macro fertilisers, wherein nitrogen-based fertilisers account for the highest market share. By application, the market is segmented into crop and non-crop. The nitrogen fertiliser market is the largest market in India and the urea market is also expected to grow at fast pace with the introduction of the new fertiliser policy.

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## Management profile:

### Mr. M. M. Murugappan

**Chairman**

Mr. M. M Murugappan, aged 62 yrs. holds a Master's degree in Chemical Engineering from the University of Michigan, USA. He has held the position of Managing Director of CUMI in the past. Besides serving as the Chairman of CUMI, Tube Investments of India, Cholamandalam MS General Insurance Company Limited, he is on the Boards of several companies including Mahindra & Mahindra, IIT Madras Research Park, Cyient and TI Financial Holdings Limited. Mr. M. M. Murugappan was elected as a fellow of the Indian Ceramic Society and is also a member of the American Institute of Chemical Engineers, Indian Institute of Chemical Engineers, Plastics & Rubber Institute. He is also a member of the Board of Governors, IIT Madras.

### Mr. V Ravichandran

**Vice Chairman**

Mr. V Ravichandran is an Engineering Graduate and holds a Post Graduate Diploma in Management from IIM, Ahmedabad. He is also a Cost Accountant and a Company Secretary. After having served Ashok Leyland Limited initially for a short period, he joined the Murugappa Group and worked in the Parry Group of Companies mainly in the fields of finance and marketing. He also headed the Crop Protection business. He was the Managing Director of Coromandel International Limited. Currently, Mr. Ravichandran is Lead Director (Fertilisers & Sugars) on the Murugappa Corporate Board. He serves on the Board of E.I.D. Parry India Ltd.

### Mr. Sameer Goel

**Managing Director**

Mr. Sameer Goel holds a Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad, and Bachelor's degree in Economics from St. Stephens College, New Delhi. He started his career in 1987 with GlaxoSmithKline Consumer Healthcare (GSK) as Area Sales Manager. In his career with GSK, spanning more than 25 years, he has held various roles in India, UK, UAE, West and South Africa, and was Vice President for Africa when he moved from GSK. Prior to joining Coromandel, he was with Cipla Limited as Country Head - India. He has extensive experience in managing businesses, driving sales across multiple geographies and building B2C businesses. Mr. Sameer Goel had served on the Advisory Board of Lagos Business School; he was a Member of Africa Economist Forum and a Member of the Commercial Directors Forum in India.

### Jayshree Satogopan

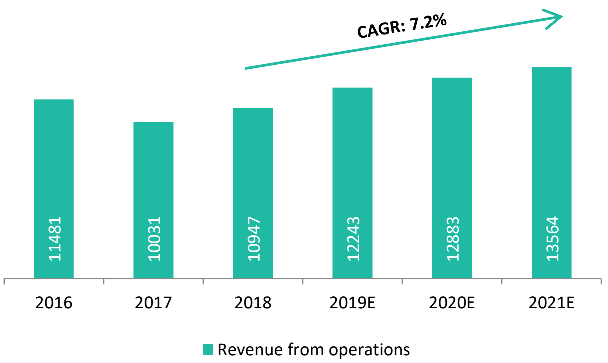
**CFO**

Mrs. Jayashree Satagopan has been the Chief Financial Officer & Executive Vice President of Coromandel International Limited since November 01, 2017. Mrs. Satagopan served as the Chief Financial Officer of PI Industries Ltd. from July 28, 2015 to October 20, 2017. Mrs. Satagopan served as the Chief Financial Officer of International Paper APPM Limited (formerly, The Andhra Pradesh Paper Mills Limited) from September 27, 2012 to May 1, 2014 and served as its Senior Vice President. Mrs. Satagopan served as Non-Executive Director of International Paper APPM Limited from July 22, 2014 to April 24, 2015.

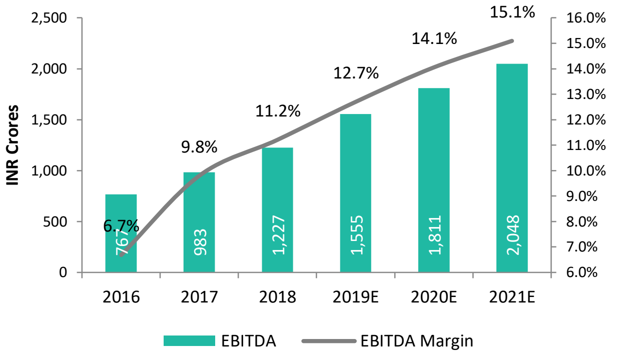
| Category & Name of the Shareholders (June 2018) | Total no. shares held | Shareholding % |
|---|---|---|
| **Institutions** | | |
| **Mutual Funds** | **3,10,49,768** | **10.62** |
| DSP BLACKROCK EQUITY OPPORTUNITIES FUND | 61,66,731 | 2.11 |
| L&T MUTUAL FUND TRUSTEE LTD-L AND T MID CAP FUND | 58,62,917 | 2.01 |
| KOTAK EQUITY OPPORTUNITIES FUND | 30,90,673 | 1.06 |
| FRANKLIN TEMPLETON MUTUAL FUND A/C FRANKLIN INDIA PRIMA FUND | 33,21,372 | 1.14 |
| UTI LONG TERM ADVANTAGE FUND SERIES V | 43,91,459 | 1.5 |
| **Alternate Investment Funds** | **15,31,544** | **0.52** |
| **Foreign Portfolio Investors** | **1,27,36,342** | **4.36** |
| **Financial Institutions/ Banks** | **2,32,349** | **0.08** |
| **Insurance Companies** | **26,17,673** | **0.9** |

*Source: BSE India, NSPL Research*

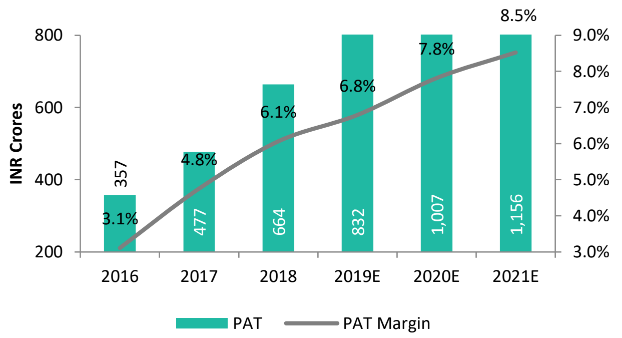
### Revenue from operations (INR Cr)



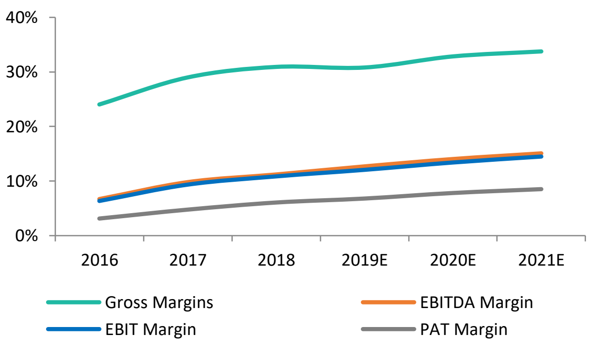

### EBITDA & EBITDA Margin



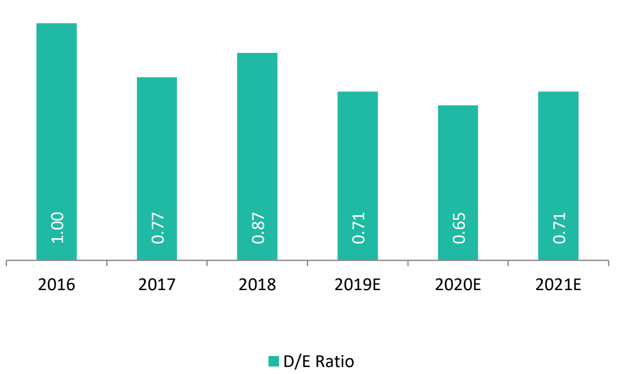

### PAT & PAT Margin



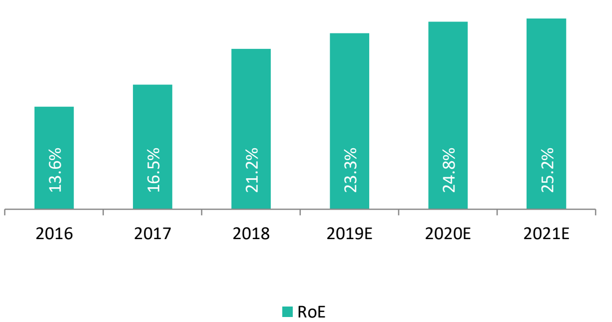

### Margins



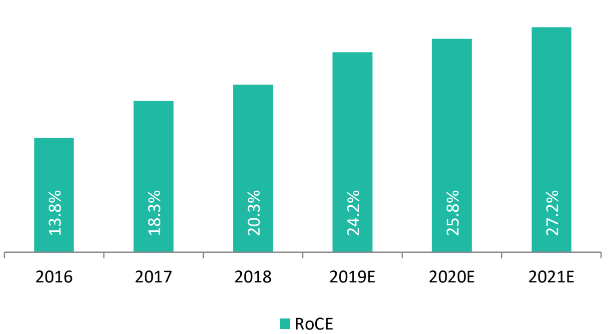

### D/E Ratio



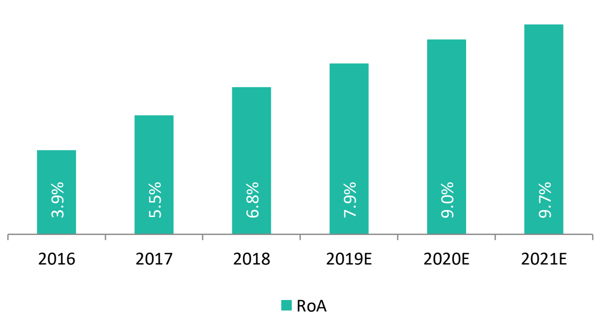

### RoE




### RoCE




### RoA




*Source: NSPL Research*

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| Profit & Loss (INR crores) | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|---|
| **Net sales** | **11,481.4** | **10,030.8** | **10,946.7** | **12,243.3** | **12,883.4** | **13,564.0** |
| COGS | 8,723.1 | 7,121.0 | 7,559.3 | 8,468.5 | 8,647.9 | 8,980.1 |
| Employee Expenses | 291.9 | 310.8 | 351.0 | 374.5 | 406.7 | 444.6 |
| Other Expenses | 1,699.7 | 1,616.3 | 1,809.4 | 1,845.4 | 2,018.4 | 2,091.7 |
| **EBITDA** | **766.8** | **982.7** | **1,226.9** | **1,554.8** | **1,810.5** | **2,047.5** |
| D&A | 106.1 | 100.7 | 97.6 | 125.0 | 132.6 | 136.3 |
| Other income | 66.5 | 54.8 | 58.4 | 45.7 | 48.6 | 54.6 |
| **EBIT** | **727.2** | **936.8** | **1,187.7** | **1,475.4** | **1,726.5** | **1,965.8** |
| Interest Expense | 220.9 | 223.8 | 178.3 | 209.9 | 195.7 | 208.1 |
| **PBT** | **531.2** | **713.0** | **1,009.4** | **1,265.5** | **1,530.9** | **1,757.8** |
| Exceptional Items | 25.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax | 171.6 | 235.3 | 345.2 | 432.7 | 523.5 | 601.1 |
| Share of profit/ (loss) of joint ventures and associate | -2.2 | -0.7 | -0.6 | -1.2 | -0.8 | -0.9 |
| **PAT** | **357.4** | **477.0** | **663.6** | **831.6** | **1,006.5** | **1,155.8** |
| **EPS in INR** | **12.3** | **16.4** | **22.7** | **28.4** | **34.4** | **39.5** |

| Balance Sheet | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| EQUITY AND LIABILITIES | | | | | | |
| Equity | | | | | | |
| Equity share capital | 29.1 | 29.2 | 29.2 | 29.2 | 29.2 | 29.2 |
| Other equity | 2,604.8 | 2,861.6 | 3,096.6 | 3,539.4 | 4,022.7 | 4,549.8 |
| **Equity attributable to owners of the Company** | 2,634.0 | 2,890.8 | 3,125.9 | 3,568.6 | 4,051.9 | 4,579.1 |
| Non-current liabilities | | | | | | |
| Financial liabilities | | | | | | |
| Borrowings | 44.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial liabilities | 1.6 | 1.2 | 1.3 | 1.5 | 1.6 | 1.6 |
| Provisions | 17.8 | 14.2 | 14.4 | 17.3 | 17.6 | 18.5 |
| Deferred tax liabilities (net) | 167.9 | 149.5 | 129.0 | 204.4 | 213.1 | 201.3 |
| Other non-current liabilities | 10.7 | 10.2 | 9.8 | 11.5 | 12.1 | 12.5 |
| | 242.1 | 175.1 | 154.4 | 234.7 | 244.4 | 233.9 |
| **Current liabilities** | | | | | | |
| Financial liabilities | | | | | | |
| Borrowings | 2,582.6 | 2,228.4 | 2,728.4 | 2,532.8 | 2,640.2 | 2,650.4 |
| Trade payables | 3,232.9 | 2,934.5 | 3,359.0 | 3,712.2 | 3,732.4 | 3,934.2 |
| Other financial liabilities | 353.9 | 312.2 | 243.3 | 339.5 | 345.7 | 346.8 |
| Provisions | 7.9 | 14.7 | 9.1 | 12.0 | 14.0 | 13.1 |
| Current tax liabilities (net) | 38.7 | 16.4 | 22.0 | 25.7 | 21.3 | 23.0 |
| Other current liabilities | 89.6 | 72.8 | 85.3 | 92.3 | 96.4 | 103.0 |
| **Total liabilities** | 6,305.6 | 5,579.1 | 6,447.0 | 6,714.5 | 6,849.9 | 7,070.5 |
| **Total equity and liabilities** | **9,181.7** | **8,645.0** | **9,727.3** | **10,517.8** | **11,146.3** | **11,883.4** |
| ASSETS | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 1,310.1 | 1,315.9 | 1,293.5 | 1,647.9 | 1,739.8 | 1,676.6 |
| Capital work-in-progress | 30.9 | 13.7 | 35.9 | 26.8 | 25.4 | 29.4 |
| Goodwill | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other intangible assets | 9.1 | 11.3 | 11.1 | 10.5 | 11.0 | 10.9 |
| Intangible assets under development | 10.8 | 8.3 | 10.6 | 11.0 | 11.5 | 12.5 |
| Financial assets | | | | | | |
| Investments | | | | | | |
| Investments in joint ventures | 14.7 | 16.8 | 16.2 | 15.9 | 16.3 | 16.1 |
| Other investments | 462.3 | 371.6 | 205.1 | 216.4 | 227.6 | 240.0 |
| Other financial assets | 15.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income tax assets (net) | 0.6 | 0.3 | 0.5 | 0.5 | 0.4 | 0.5 |
| Other non-current assets | 79.7 | 70.3 | 89.1 | 89.2 | 95.7 | 103.2 |
| | 1,934.3 | 1,808.3 | 1,662.2 | 2,018.5 | 2,128.0 | 2,089.4 |
| **Current assets** | | | | | | |
| Inventories | 2,345.8 | 1,724.6 | 2,227.1 | 2,274.4 | 2,321.6 | 2,489.5 |
| Financial assets | | | | | | |
| Investments | 0.3 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| Trade receivables | 1,641.9 | 1,621.7 | 1,523.4 | 1,790.8 | 1,906.5 | 1,957.2 |
| Government subsidies receivable | 2,367.1 | 2,557.0 | 2,626.9 | 3,020.9 | 3,323.0 | 3,655.3 |
| Cash and cash equivalents | 174.5 | 146.7 | 441.9 | 487.3 | 408.8 | 484.6 |
| Bank balances other than cash and cash equivalents | 23.3 | 21.1 | 108.9 | 57.1 | 71.5 | 91.0 |
| Loans | 480.0 | 522.3 | 407.8 | 425.4 | 444.0 | 462.4 |
| Other financial assets | 42.4 | 37.9 | 21.6 | 38.1 | 37.7 | 36.2 |
| Other current assets | 172.3 | 205.3 | 707.3 | 405.3 | 505.0 | 617.9 |
| | 7,247.4 | 6,836.7 | 8,065.0 | 8,499.3 | 9,018.3 | 9,794.0 |
| **Total assets** | **9,181.7** | **8,645.0** | **9,727.3** | **10,517.8** | **11,146.3** | **11,883.4** |

*Source: NSPL Research*

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| Cash Flow (INR Crores) | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|---|
| PBT | 529.1 | 712.3 | 1,008.8 | 1,264.3 | 1,530.0 | 1,756.9 |
| Operating profit before working capital changes | 942.8 | 993.3 | 1,334.5 | 1,562.7 | 1,815.6 | 2,052.4 |
| Operating profit after working capital changes | 191.9 | 1,180.3 | 602.6 | 1,699.4 | 1,282.2 | 1,581.0 |
| Less income tax paid | (173.5) | (265.1) | (347.0) | (432.7) | (523.5) | (601.1) |
| Cash Flow from Operating | 18.4 | 915.2 | 255.6 | 1,266.7 | 758.7 | 979.9 |
| (Incr)/ Decr in Gross PP&E | (107.6) | (89.8) | (114.3) | (470.2) | (224.0) | (77.9) |
| Cash Flow from Investing | (61.4) | (78.6) | 40.6 | (426.9) | (225.6) | (77.6) |
| Cash Flow from Financing | 8.5 | (864.4) | (1.0) | (794.4) | (611.6) | (826.5) |
| Incr/(Decr) in Balance Sheet Cash | (34.6) | (27.8) | 295.2 | 45.3 | (78.5) | 75.8 |
| Cash at the Start of the Year | 208.8 | 174.5 | 146.7 | 441.9 | 487.2 | 408.8 |
| Cash at the End of the Year | 174.5 | 146.7 | 441.9 | 487.2 | 408.8 | 484.6 |

| RATIOS | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|---|
| **Profitability** | | | | | | |
| Return on Capital Employed (%) | 14% | 18% | 20% | 24% | 26% | 27% |
| Return on Equity (%) | 14% | 16% | 21% | 23% | 25% | 25% |
| Return on Assets (%) | 4% | 6% | 7% | 8% | 9% | 10% |
| **Margin Trend** | | | | | | |
| EBITDA Margin (%) | 7% | 10% | 11% | 13% | 14% | 15% |
| Net profit Margin (%) | 3% | 5% | 6% | 7% | 8% | 9% |
| **Solvency** | | | | | | |
| Total Debt / Equity | 1.0 | 0.8 | 0.9 | 0.7 | 0.7 | 0.6 |
| **Valuation Ratios** | | | | | | |
| P/E | 31 | 23 | 17 | 13 | 11 | 10 |
| P/B | 4.2 | 3.9 | 3.6 | 3.1 | 2.8 | 2.4 |
| EV/ EBITDA | 10.4 | 11.4 | 14.3 | 8.5 | 7.4 | 6.5 |

| QUARTERLY – RESULTS | Q1 FY19 | Q4 FY18 | Q3 FY18 | Q2 FY18 | Q1 FY18 | Q4 FY17 | Q3 FY17 | Q2 FY17 |
|---|---|---|---|---|---|---|---|---|
| Gross Sales | 2528.45 | 2411.82 | 2694.87 | 3646.86 | 2305.07 | 2289.62 | 2270.8 | 3575.18 |
| Excise Duty | 0 | 0 | 0 | 0 | 44.16 | 30.54 | 35.62 | 55.97 |
| Net Sales | 2528.45 | 2411.82 | 2694.87 | 3646.86 | 2260.91 | 2259.08 | 2235.18 | 3519.21 |
| Total Expenditure | 2314.81 | 2226.87 | 2376.57 | 3079.22 | 2092.16 | 1987.06 | 1998.37 | 3134.65 |
| **EBITDA** | **213.64** | **184.95** | **318.3** | **567.64** | **168.75** | **272.02** | **236.81** | **384.56** |
| Other Income | 8.84 | 16.94 | 12.46 | 17.97 | 12.53 | 12.75 | 11.81 | 18.17 |
| Depreciation | 25.57 | 23.79 | 24.77 | 24.92 | 24.89 | 25.37 | 25.61 | 25.38 |
| EBIT | 196.91 | 178.1 | 305.99 | 560.69 | 156.39 | 259.4 | 223.01 | 377.35 |
| Interest | 64.42 | 50.64 | 42.24 | 41.28 | 44.13 | 47.26 | 52.86 | 58.59 |
| PBT | 132.49 | 127.46 | 263.75 | 519.41 | 112.26 | 212.14 | 170.15 | 318.76 |
| Tax | 49.26 | 34.6 | 90.43 | 185.93 | 42.12 | 71.59 | 60.99 | 106.26 |
| Deferred Tax | -6.98 | 3.25 | 1.19 | -9.05 | -2.51 | -3.72 | -2.65 | -0.89 |
| Total Tax | 42.28 | 37.85 | 91.62 | 176.88 | 39.61 | 67.87 | 58.34 | 105.37 |
| **PAT** | **90.21** | **89.61** | **172.13** | **342.53** | **72.65** | **144.27** | **111.81** | **213.39** |

*Source: NSPL Research*

| Coromandel International Ltd. | | | | Rating Legend | |
|---|---|---|---|---|---|
| Date | CMP (INR) | Target Price (INR) | Recommendation | **Strong Buy** | More than 15% |
| October 12, 2018 | 382.15 | 495 | Strong Buy | **Buy** | 5% - 15% |
| | | | | **Hold** | 0 – 5% |
| | | | | **Reduce** | -5% - 0 |
| | | | | **Sell** | Less than -5% |

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Except for the historical information contained herein, statements in this report, which contain words such as 'will', 'would', etc., and similar expressions or variations of such words may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements are not predictions and may be subject to change without notice. NSPL undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. NSPL accepts no liabilities for any loss or damage of any kind arising out of use of this report.

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Following table contains the diSHCRosure of interest in order to adhere to utmost transparency in the matter;

| DiSHCRosure of Interest Statement | |
|---|---|
| **Details of Nalanda Securities Pvt. Limited (NSPL)** | • NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI<br>• **SEBI Registration Number: INH000004617** |
| **Details of Disciplinary History of NSPL** | No disciplinary action is / was running / initiated against NSPL |
| **Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest** | No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates') |
| **Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company** | NO |
| **Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document** | NO |
| **Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document** | NO |
| **Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months** | NO |
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| **Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months** | NO |
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| **Has research analyst served as an officer, director or employee of the subject company** | NO |
| **Has research analyst or NSPL engaged in market making activity for the subject company** | NO |
| **Other diSHCRosures** | NO |

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Vaibhav Chowdhry

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