

May 13, 2014

Balwinder Singh
balwindarsingh@plindia.com
+91-22-66322239

Rating	Accumulate
Price	Rs237
Target Price	Rs240
Implied Upside	1.3%
Sensex	23,871
Nifty	7,109

(Prices as on May 13, 2014)

Trading data

Market Cap. (Rs bn)	66.9
Shares o/s (m)	282.6
3M Avg. Daily value (Rs m)	68.4

Major shareholders

Promoters	63.79%
Foreign	6.80%
Domestic Inst.	5.63%
Public & Other	23.78%

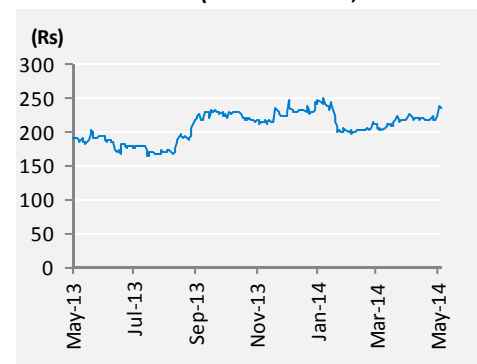
Stock Performance

(%)	1M	6M	12M
Absolute	3.5	10.6	23.2
Relative	(1.9)	(7.6)	2.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2015	18.4	19.8	-7.4
2016	22.7	24.1	-5.6

Price Performance (RIC: CROM.BO, BB: CRIN IN)



Source: Bloomberg

Coromandel reported decent set of results for Q4FY14. Reported PAT stood at Rs808m, 593% YoY in line with est. For FY14, adjusted EPS stood at Rs13.3. For FY15E, management refrained from giving any guidance on volume growth/capacity utilization (last quarter, they had guided for capacity utilization of 85% in FY15E). We believe the looming risk of El-Nino coupled with the chances of resumption of imports might have forced management to avoid giving out guidance. Nevertheless, we have assumed volume growth of 18% (previously 20%) in own manufactured fertilisers (implying capacity utilization of 75%) and EBITDA/mt of Rs2,100 resulting into EPS of 18.4. The key positive surprise this quarter was the improvement in Balance Sheet. Gross debt reduced to Rs16.7bn compared to Rs23bn in Sep'13. Working capital position also improved. We have tweaked our estimates marginally to account for lower volumes and interest cost in FY15E. Though we remain bullish on Coromandel's medium-term prospects, we remain cautious in the near term on valuations front. At our earnings of Rs18.4/22.7 for FY15E/16E, respectively, stock is trading at 12.9x/10.4x FY15E/FY16E earnings. We maintain our view that current valuations seem reasonable and stock performance is likely to remain muted in near-term.

- **Fertiliser EBITDA/mt stood at Rs2,100/mt in line with estimates:** Coromandel reported revenues of Rs21.8bn, 5% YoY in line with estimates. Total complex fertiliser volumes for the quarter stood at 557,501mt (including manufactured volumes of 510,816mt). Consolidated EBITDA stood at Rs1.8bn, 117% YoY, with margins of 8.2% (PL: 8.4%). Our analysis suggests fertiliser EBITDA/mt of Rs2,100/mt during Q4FY14 (Q4FY13: Rs577/mt and Q3FY14 of Rs2,047/mt). Adjusted PAT for the quarter stood at Rs808m, 593% YoY in line.

Contd...2

Key financials (Y/e March)	2013	2014	2015E	2016E
Revenues (Rs m)	89,249	100,183	113,820	127,859
Growth (%)	(8.8)	12.3	13.6	12.3
EBITDA (Rs m)	6,591	8,129	9,835	11,645
PAT (Rs m)	3,469	3,749	5,195	6,426
EPS (Rs)	12.3	13.2	18.4	22.7
Growth (%)	(44.3)	7.9	38.6	23.7
Net DPS (Rs)	4.5	4.5	5.0	5.5

Profitability & Valuation	2013	2014	2015E	2016E
EBITDA margin (%)	7.4	8.1	8.6	9.1
RoE (%)	15.1	16.7	21.2	22.5
RoCE (%)	9.3	11.9	16.0	17.9
EV / sales (x)	1.0	0.8	0.7	0.6
EV / EBITDA (x)	13.8	9.7	7.9	6.5
PE (x)	19.3	17.9	12.9	10.4
P / BV (x)	3.0	2.9	2.5	2.2
Net dividend yield (%)	1.9	1.9	2.1	2.3

Source: Company Data; PL Research

- **Non-subsidy business momentum robust:** At consolidated level, non-subsidy business contribution to top-line stood at 20%, while EBITDA contribution is 36% for Q4FY14. Management highlighted that formulation sale of pesticides was encouraging and retail sales of pesticides were also commendable during the quarter. Non subsidy business continues to post strong growth and is line with management's long term guidance of further increasing share of non-subsidy business.
- **Tweak estimates marginally to account for lower volumes and interest costs; Maintain 'Accumulate', with target price of Rs240:** We have tweaked our estimates marginally to account for lower volumes and lower interest costs due to repayment of debt. Revised EPS stands at Rs18.4/22.7. Though we remain bullish on Coromandel's medium-term prospects (increase in manufactured volumes, Sabero turnaround, strong momentum in non-subsidy business, improvement in margins), we remain cautious in the near term on the valuations front. At our earnings of Rs18.0/22.7 for FY15E/16E, respectively, stock is trading at 12.9x/10.4x FY15E/FY16E earnings. Given the looming risks (El-Nino, resumption of imports putting pressure on volume growth as well as margins etc), we believe current valuations seem reasonable and stock performance is likely to remain muted in near-term.

Exhibit 1: Change in Estimates

	FY15E			FY16E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales (Rs m)	118,458	113,820	(3.9)	132,983	127,859	(3.9)
EBITDA (Rs m)	10,139	9,835	(3.0)	11,956	11,645	(2.6)
<i>Margin (%)</i>	<i>8.6</i>	<i>8.6</i>	<i>8</i>	<i>9.0</i>	<i>9.1</i>	<i>12</i>
APAT (Rs m)	5,103	5,195	1.8	6,445	6,426	(0.3)
AEPS (Rs)	18.0	18.4	2.0	22.8	22.7	(0.4)

Source: PL Research

Exhibit 2: Q4FY14 Result Overview – Consolidated (Rs m)

Y/e March	Q4FY14	Q4FY13	YoY gr (%)	Q3FY14	FY14	FY13	YoY gr (%)
Net Sales	21,840	20,781	5.1	27,562	100,183	89,249	12.3
Expenditure							
Raw Materials	15,986	16,562	(3.5)	20,418	74,806	68,190	9.7
<i>% of Net sales</i>	<i>73.2</i>	<i>79.7</i>		<i>74.1</i>	<i>74.7</i>	<i>76.4</i>	
Personnel	664	568	16.9	728	2,705	2,298	17.7
<i>% of Net sales</i>	<i>3.0</i>	<i>2.7</i>		<i>2.6</i>	<i>2.7</i>	<i>2.6</i>	
Other Expenditure	3,397	2,825	20.3	4,104	14,544	12,171	19.5
<i>% of Net sales</i>	<i>15.6</i>	<i>13.6</i>		<i>14.9</i>	<i>14.5</i>	<i>13.6</i>	
Total Expenditure	20,047	19,955	0.5	25,250	92,054	82,658	11.4
EBITDA	1,792	826	117.1	2,312	8,129	6,591	23.3
<i>Margin (%)</i>	<i>8.2</i>	<i>4.0</i>		<i>8.4</i>	<i>8.1</i>	<i>7.4</i>	
Depreciation	217	190	14.0	252	961	711	35.1
EBIT	1,575	635	148.0	2,060	7,168	5,880	21.9
Interest	567	580	(2.3)	608	2,403	2,102	14.3
Other Income	190	156	21.7	126	608	701	(13.3)
PBT	1,199	211	468.1	1,578	5,373	4,479	20.0
Tax	395	97	307.7	502	1,521	994	53.1
<i>Tax Rate (%)</i>	<i>32.9</i>	<i>45.9</i>		<i>31.8</i>	<i>28.3</i>	<i>22.2</i>	
Adjusted PAT before minority	804	114	604.0	1,076	3,834	3,485	10.0
Minority interest	(4)	12	(135.2)	14	84	17	NA
Adjusted PAT	808	102	692.5	1,062	3,750	3,469	8.1
Extraordinary Income	—	15	NA	120	(191)	852	NA
Reported PAT	808	117	592.6	1,182	3,559	4,321	(17.6)
Adjusted EPS	2.9	0.4	692.5	3.7	13.3	12.3	7.4

Source: Company Data, PL Research

Key takeaways from Conference call

- **Complex fertiliser inventory levels are slightly higher than normal:** FY14 started with pipeline inventory of 7.2m mt (4m mt of DAP +3m mt of NPK). During the year, significant inventory got liquidated. Currently, industry is carrying 4m mt against normal inventory of 2m mt. Excess inventory of 2m mt is concentrated in few states mainly including UP, Maharashtra, Andhra Pradesh
- **Crop protection business:** Crop protection grew by 25-26% YoY incl Sabero in FY14. Turnover clocked of Rs13bn in pesticides in FY14
- **Specialty organics & organics fertilizers-** Specialty fertilisers has grown in FY14. Organic fertilisers saw slight degrowth
- **El-Nino not much of a concern as reservoir levels are good-** Since most of the major reservoirs are carrying good water levels, El-Nino occurrence is not a major concern
- **Bonus debentures redeemed:** Redeemed bonus debentures ahead of repayment. Payment made through internal accruals
- **Current subsidy due is Rs11bn incl. Liberty (Coromandel is Rs10.4bn). Subsidy has been received till Feb'14**
- **Production & sales update for Q4:** 4.75 lakh mt production. Sales- 5.05lakh mt of manufactured. MoP trading- 0.4lakh mt. No NPK trading was done during the quarter
- **Non subsidy business contribution in Q4:** Topline-80% fertiliser/20% non fertiliser, EBITDA-64% fertiliser/36% non fertiliser
- **Phos acid negotiations for Q1FY15** have been done at \$715/mt (Q4FY14 prices was \$680/mt)
- **Phos acid price increase offset by rupee appreciation:** Though phos acid prices have increased, rupee appreciation has offset it resulting into margins being maintained
- **Increasing fertiliser prices have become a complex affair:** Management acknowledged that increasing fertiliser prices have become a complex affair. Since there are so many stakeholders involved in it, raising prices has become a increasingly difficult affair. Price freedom enjoyed post NBS has reduced in the last two years
- **DAP net realization stands at Rs21,500/mt:** Gross DAP realization is Rs22,700/mt. Of this, post accounting for dealers margins, freight, discounts etc. net realization stands at Rs21,500/mt
- **Sabero breakup of revenues:** 60% exports, 40% domestic.

Income Statement (Rs m)

Y/e March	2013	2014	2015E	2016E
Net Revenue	89,249	100,183	113,820	127,859
Raw Material Expenses	68,190	75,941	85,784	95,872
Gross Profit	21,059	24,242	28,036	31,986
Employee Cost	2,298	2,559	2,890	3,230
Other Expenses	12,171	13,554	15,311	17,111
EBITDA	6,591	8,129	9,835	11,645
Depr. & Amortization	711	961	880	880
Net Interest	1,401	1,795	1,080	1,080
Other Income	701	608	720	720
Profit before Tax	4,479	5,373	7,875	9,685
Total Tax	994	1,521	2,520	3,099
Profit after Tax	3,485	3,852	5,355	6,586
Ex-Od items / Min. Int.	1,721	103	160	160
Adj. PAT	3,469	3,749	5,195	6,426
Avg. Shares O/S (m)	282.6	283.0	283.0	283.0
EPS (Rs.)	12.3	13.2	18.4	22.7

Cash Flow Abstract (Rs m)

Y/e March	2013	2014	2015E	2016E
C/F from Operations	2,404	15,441	6,136	6,784
C/F from Investing	(4,130)	692	(1,000)	(1,000)
C/F from Financing	(3,692)	(15,841)	(5,456)	(4,621)
Inc. / Dec. in Cash	(5,418)	292	(319)	1,163
Opening Cash	9,847	4,429	4,721	4,402
Closing Cash	4,429	4,721	4,402	5,565
FCFF	411	15,423	3,387	3,984
FCFE	311	3,475	1,387	2,984

Key Financial Metrics

Y/e March	2013	2014	2015E	2016E
Growth				
Revenue (%)	(8.8)	12.3	13.6	12.3
EBITDA (%)	(33.9)	23.3	21.0	18.4
PAT (%)	(44.3)	8.1	38.6	23.7
EPS (%)	(44.3)	7.9	38.6	23.7
Profitability				
EBITDA Margin (%)	7.4	8.1	8.6	9.1
PAT Margin (%)	3.9	3.7	4.6	5.0
RoCE (%)	9.3	11.9	16.0	17.9
RoE (%)	15.1	16.7	21.2	22.5
Balance Sheet				
Net Debt : Equity	1.1	0.5	0.4	0.3
Net Wrkg Cap. (days)	25	8	6	8
Valuation				
PER (x)	19.3	17.9	12.9	10.4
P / B (x)	3.0	2.9	2.5	2.2
EV / EBITDA (x)	13.8	9.7	7.9	6.5
EV / Sales (x)	1.0	0.8	0.7	0.6
Earnings Quality				
Eff. Tax Rate	22.2	28.3	32.0	32.0
Other Inc / PBT	15.6	11.3	9.1	7.4
Eff. Depr. Rate (%)	3.5	5.3	4.6	4.4
FCFE / PAT	9.0	92.7	26.7	46.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2013	2014	2015E	2016E
Shareholder's Funds	21,965	22,812	26,301	30,906
Total Debt	28,660	16,711	14,711	13,711
Other Liabilities	2,521	2,617	2,617	2,617
Total Liabilities	53,146	42,140	43,629	47,234
Net Fixed Assets	18,073	14,602	14,722	14,842
Goodwill	4,690	3,483	3,483	3,483
Investments	2,612	4,195	4,195	4,195
Net Current Assets	27,771	19,861	21,230	24,715
Cash & Equivalents	4,429	4,721	4,402	5,565
Other Current Assets	53,399	49,047	53,279	58,554
Current Liabilities	30,057	33,907	36,451	39,404
Other Assets	—	—	—	—
Total Assets	53,146	42,140	43,629	47,234

Quarterly Financials (Rs m)

Y/e March	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Net Revenue	18,628	32,154	27,562	21,840
EBITDA	1,049	2,976	2,312	1,792
% of revenue	5.6	9.3	8.4	8.2
Depr. & Amortization	243	249	252	217
Net Interest	540	397	482	377
Other Income	162	130	126	190
Profit before Tax	267	2,330	1,578	1,199
Total Tax	65	559	502	395
Profit after Tax	214	1,601	942	808
Adj. PAT	171	1,727	1,042	808

Key Operating Metrics

Y/e March	2013	2014	2015E	2016E
Complex fertiliser Volumes-mt				
Manufactured - excl. Liberty	1,911,428	2,310,555	2,726,455	2,999,100
Trading	333,274	166,677	200,012	240,015

Source: Company Data, PL Research.

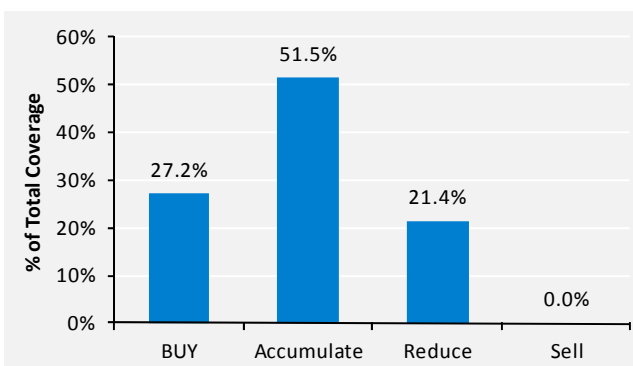


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.