

# Coromandel International (CRIN IN)

Interesting year ahead

INDIA | AGRI INPUTS | Quarterly Update

28 July 2016

## Top takeaways from Q1FY17

- The drop in farm-gate prices of complex fertilisers (due to government intervention), coupled with lower sales of 0.5mn MT (-3% yoy) resulted in revenues contracting.
- EBIDTA was impacted by discounts offered to channel partners for the inventory write-down undertaken on stocks carried over from FY16.
- Non-receipt of subsidies in the quarter (current outstanding of Rs 19bn) necessitated working capital borrowings and a drawdown of cash in the books. These resulted in higher interest outgo and lower other income.
- PAT shrank 48% yoy to Rs 79mn, primarily on weaker margins and higher interest burden.

**Macro highlights:** Kharif sowing picked up steam towards the end of Q1FY17 and sowing is currently 3% higher yoy (July 2016). Pulses, coarse cereals, and oilseeds are seeing a robust increase while cotton has registered a sharp contraction in acreage under cultivation. Channel inventories were high in Q1FY17 (~5mn MT for DAP and complex fertilisers) but are expected to moderate in Q2FY17 as sowing picks up. A rise in reservoir levels has also contributed to an improved outlook for Kharif 2016 (monsoon).

## Management concall takeaways

- ✘ Government intervention in the quarter resulted in reduction of farm-gate prices (per kg) for fertilisers such as DAP/MOP (by Rs 2.5/5.0) and by Rs 1 for complex fertilisers.
- ↔ Price of phosphoric acid corrected to US\$ 615/MT (vs. US\$ 715/MT in Q4FY16), but is not reflected in the OPM in Q1FY17. Cost savings are expected to flow through in Q2.
- ✓ All discounts because of price correction in inventories held in the channel have been accounted for; no further margin hit is seen in the near term on this count.
- ✓ Coromandel received Rs 5bn in subsidy dues in June 2016, bringing down its outstanding subsidy bill to Rs 19bn at the end of the quarter.

**Outlook and valuation:** Lower raw material and fuel prices hold the promise of improved profitability in coming quarters. Management is hopeful that the impact of normal monsoons will translate into better offtake in Rabi 2016 (October-March). However, concerns persist about the rate of inventory depletion in the channel, unchanged subsidy dues, and government action on farm-gate pricing. Hence we have put our recommendation on the stock 'Under Review' and will modify it after studying their impact in greater detail.

## Under Review

CMP RS 245

### COMPANY DATA

O/S SHARES (MN) :	291
MARKET CAP (RSBN) :	47
MARKET CAP (USDBN) :	0.7
52 - WK HI/LO (RS) :	302 / 146
LIQUIDITY 3M (USDMN) :	0.3
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Mar 16	Dec 15	Sep 15
PROMOTERS :	62.1	62.1	62.1
FII / NRI :	6.3	8.3	5.5
FI / MF :	7.8	7.8	7.7
NON PRO :	13.4	2.8	6.0
PUBLIC & OTHERS :	10.4	19.0	18.7

### Key Financials

Rs mn	FY14	FY15	FY16
Net Sales	100,532	113,064	115,219
EBIDTA	8,052	8,535	7,717
Net Profit	3,565	4,018	3,610
EPS, Rs	12.2	13.8	12.4
PER, x	19.2	17.0	19.0
EV/EBIDTA, x	9.6	9.7	11.0
P/BV, x	3.0	3.1	2.8
ROE, %	15.9	17.9	15.6
Debt/Equity (%)	0.7	1.0	0.9

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(Rs mn)	Q1FY17	Q1FY16	% yoy	FY16	FY15	% yoy
Sales	20,595	22,040	(6.6)	115,219	113,064	1.9
EBITDA	886	928	(4.5)	7,717	8,535	(9.6)
EBITDA margin (%)	4.3	4.2	9bps	6.7	7.5	-85bps
Interest	651	599	8.6	2,204	2,096	5.1
Depreciation	244	261	(6.6)	1,065	1,046	1.8
Other income	125	156	(19.7)	656	566	15.8
PBT	117	224	(47.7)	5,104	5,959	(14.3)
Exceptional Items	-	-	-	250	(39)	-
Tax	38	72	(47.9)	1,744	1,902	(8.3)
Tax rate (%)	32.1	32.2	-11bps	34.2	31.9	226bps
Min. Int & Others	34	65	-	-	-	-
PAT	114	216	(47.5)	3,610	4,018	(10.2)

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
<b>Net sales</b>	<b>90,337</b>	<b>100,532</b>	<b>113,064</b>	<b>115,219</b>
Growth, %	-8.8%	11.3%	12.5%	1.9%
<b>Total income</b>	<b>90,337</b>	<b>100,532</b>	<b>113,064</b>	<b>115,219</b>
Raw Material expenses	68,173	74,845	86,371	87,299
Operating expenses	12,187	14,930	15,380	17,243
Employee expenses	2,298	2,705	2,779	2,960
<b>EBITDA (Core)</b>	<b>7,679</b>	<b>8,052</b>	<b>8,535</b>	<b>7,717</b>
Growth, %	-27.2%	4.9%	6.0%	-9.6%
Margin, %	9%	8%	8%	7%
Depreciation	711	961	1,046	1,065
<b>EBIT</b>	<b>6,968</b>	<b>7,092</b>	<b>7,489</b>	<b>6,652</b>
Growth, %	-29.9%	1.8%	5.6%	-11.2%
Margin, %	8%	7%	7%	6%
Interest paid	2,102	2,403	2,096	2,204
Other Non-Operating Income	701	608	566	656
Non-recurring Items	0	-126	-39	250
<b>Pre-tax profit</b>	<b>5,567</b>	<b>5,297</b>	<b>5,959</b>	<b>5,104</b>
Tax provided	1,231	1,521	1,902	1,744
<b>Profit after tax</b>	<b>4,336</b>	<b>3,776</b>	<b>4,057</b>	<b>3,360</b>
Minority Int & Sh. Of Asso.	-17	-84	0	0
<b>Net Profit</b>	<b>4,320</b>	<b>3,692</b>	<b>4,057</b>	<b>3,360</b>
Growth, %	-35.9%	-14.5%	9.9%	-17.2%
Margin, %	4.8%	3.7%	3.6%	2.9%
<b>Net Profit (adjusted)</b>	<b>4,336</b>	<b>3,776</b>	<b>4,057</b>	<b>3,360</b>
No. of Eq. Sh O/S (m nos)	283	286	291	291

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Cash & bank	5,346	4,722	3,176	2,030
Debtors	18,201	14,835	14,464	18,093
Inventory	14,775	17,529	22,592	23,521
Loans & advances	7,554	6,196	7,673	7,163
Other current assets	13,882	11,264	17,930	20,248
<b>Total current assets</b>	<b>59,758</b>	<b>54,545</b>	<b>65,834</b>	<b>71,055</b>
Investments	1,599	3,418	3,522	3,890
Gross fixed assets	25,960	25,553	22,985	23,747
Less: Depreciation	7,397	8,212	9,189	10,181
Add: Capital WIP	4,201	744	465	417
<b>Net fixed assets</b>	<b>22,764</b>	<b>18,085</b>	<b>14,261</b>	<b>13,983</b>
Misc Exp not w/o	0	0	0	0
<b>Total assets</b>	<b>84,121</b>	<b>76,048</b>	<b>83,617</b>	<b>88,927</b>
Current liabilities	28,552	32,453	37,433	38,692
Provisions	1,992	1,927	1,228	2,047
<b>Total current liabilities</b>	<b>30,544</b>	<b>34,381</b>	<b>38,660</b>	<b>40,739</b>
Debt	28,671	16,711	21,061	22,228
Deferred Tax Liability	1,877	1,890	1,875	1,711
<b>Total liabilities</b>	<b>61,092</b>	<b>52,982</b>	<b>61,597</b>	<b>64,678</b>
Paid-up capital	283	286	291	291
Reserves & surplus	21,683	22,526	21,729	23,958
Shareholders' equity	21,966	22,812	22,020	24,249
Minority Interest	1,063	254	0	0
<b>Total equity &amp; liabilities</b>	<b>84,121</b>	<b>76,048</b>	<b>83,617</b>	<b>88,927</b>

Source: Company, PhillipCapital India Research Estimates

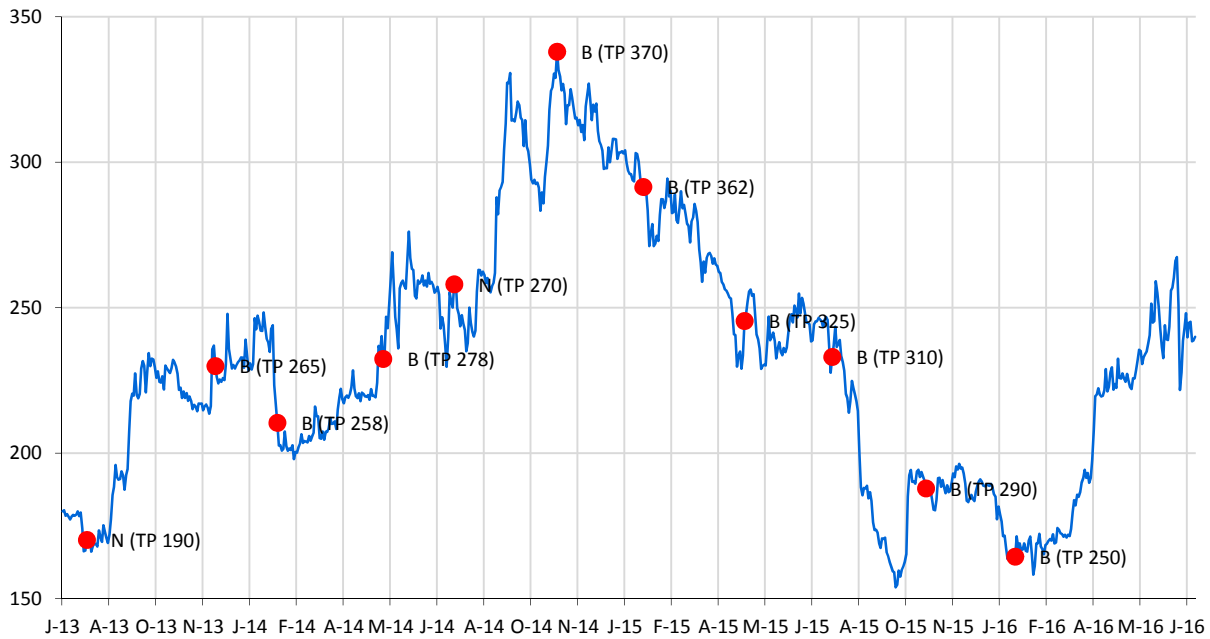
### Cash Flow

	FY13	FY14	FY15	FY16
Pre-tax profit	5,567	5,171	5,920	5,354
Depreciation	711	961	1,046	1,065
Chg in working capital	2,546	6,683	(7,456)	(3,635)
Total tax paid	(1,207)	(1,112)	(1,425)	(1,612)
Other operating activities	2,235	2,907	2,776	3,020
<b>Cash flow from operating activities</b>	<b>9,853</b>	<b>14,609</b>	<b>861</b>	<b>4,192</b>
Capital expenditure	(2,585)	(1,114)	(921)	(1,058)
Chg in investments	(4,564)	38	(1,848)	90
Other investing activities	736	574	609	413
<b>Cash flow from investing activities</b>	<b>(6,413)</b>	<b>(502)</b>	<b>(2,161)</b>	<b>(555)</b>
Free cash flow	3,440	14,107	(1,300)	3,637
Equity raised/(repaid)	26	(44)	33	3
Debt raised/(repaid)	(5,626)	(9,238)	3,693	(865)
Dividend (incl. tax)	(1,674)	(1,511)	(1,625)	(876)
Other financing activities	(2,014)	(2,649)	(2,742)	(2,270)
<b>Cash flow from financing activities</b>	<b>(9,288)</b>	<b>(13,442)</b>	<b>(642)</b>	<b>(4,008)</b>
Net chg in cash	(5,848)	665	(1,941)	(371)

### Valuation Ratios

	FY13	FY14	FY15	FY16
<b>Per Share data</b>				
Dil. EPS (INR)	14.8	12.2	13.8	12.4
Growth, %	(32.4)	(17.5)	12.7	(10.2)
Book NAV/ FD share (INR)	75.4	78.3	75.6	83.2
CEPS (INR)	17.8	15.8	17.4	16.0
CFPS (INR)	(20.7)	2.3	(6.7)	(1.3)
DPS (INR)	4.5	4.5	4.5	4.5
<b>Return ratios</b>				
Return on assets (%)	8.1	8.6	8.9	7.5
Return on equity (%)	18.8	15.9	17.9	15.6
Return on capital employed (%)	14.3	18.5	17.9	15.2
<b>Turnover ratios</b>				
Sales/Total assets (x)	1.7	2.5	2.6	2.4
Sales/Net FA (x)	4.0	5.6	8.0	8.4
Working capital/Sales (x)	0.3	0.2	0.2	0.2
Fixed capital/Sales (x)	0.2	0.2	0.1	0.1
Receivable days	71.5	52.3	45.4	55.8
Inventory days	64.4	68.2	77.8	78.8
Payable days	124.4	126.3	128.9	129.6
Working capital days	11.5	(5.8)	(5.7)	5.0
<b>Liquidity ratios</b>				
Current ratio (x)	2.0	1.6	1.7	1.7
Quick ratio (x)	1.5	1.1	1.1	1.2
Interest cover (x)	3.4	2.9	3.4	3.1
Dividend cover (x)	0.3	0.4	0.3	0.4
Total debt/Equity (%)	131%	73%	96%	92%
Net debt/Equity (%)	106%	53%	81%	83%
<b>Valuation</b>				
PER (x)	15.8	19.2	17.0	19.0
PEG (x) - y-o-y growth	(0.5)	(1.1)	1.3	(1.9)
Price/Book (x)	3.1	3.0	3.1	2.8
Yield (%)	1.9	1.9	1.9	1.9
EV/Net sales (x)	1.0	0.8	0.7	0.7
EV/EBITDA (x)	11.7	9.6	9.7	11.0
EV/EBIT (x)	11.8	10.0	10.3	11.6

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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