

Coromandel International Limited

Target Price : Rs 371
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Recommend 'BUY'

We expect Coromandel International Limited to post a PAT growth of over 31% on average from FY11-FY13E, coupled with a strong RoE of over 34%. Considering the company's strong business models, future growth and return ratios, we recommend a 'BUY' on the stock, with the target price of Rs 371 (i.e. 13x FY13E EPS). Our valuation is based on Discounted Cash Flow Analysis Technique (DCF).

Panning to set up a New plant at Punjab

Company is planning to set up a single super phosphate plant in Punjab. The plant would have a capacity of 800 tonne per day including 400 tonne per day granulator plant and this would entail an investment of Rs 116 over two years. With the prices of phosphates going up, it will make sense to have SSP plant in the portfolio. The required sulphur for the project will be sourced from the HPCL refinery.

Key points from Management's press statement

- ❖ The company has evolved a strategy to derisk its business from subsidized segments. Now, about 28 per cent of the profits come from the non-subsidy segment and the effort is to increase to 50 per cent over the years.
- ❖ The company is also focusing on tying up raw material supplies with overseas partners. And company will think of a new plant when they have the raw material supply agreements in place.
- ❖ An additional 8,00,000 tonne capacity will be created once new unit at Kakinada, entailing an investment of about Rs 350 crore, is ready by the mid next year. The current capacity is 3.2 million tonne. The company so far has invested over Rs 100 crore for this project. On a yearly basis, it has Rs 100 crore capex.
- ❖ Group chairman said that "Efforts are on to consolidate agriculture and allied segments in the Murugappa group with Coromandel".
- ❖ According to its managing director Kapil Mehan, the company is also strengthening its service offerings by scaling up its farm mechanization plant in Andhra Pradesh from 8,000 acre to 20,000 acre in a year. The company offers transplantation and other services to paddy farmers and harvesting also for sugarcane farmers. The company now charges around Rs 4,500 to 5,000 per acre for these services.

Stock Data(as on 10/12/2011)

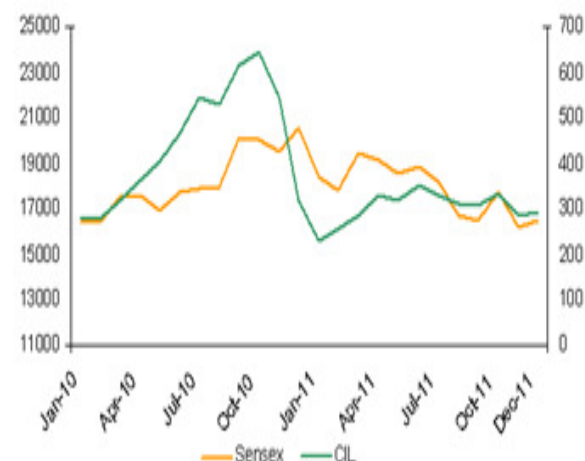
Current Price	Rs 287.55
Target Price	Rs 371
Percentage Up/Down	29%
Stock Beta	1.18
52 week range High/Low	Rs 359.90/215.10
Market Cap	Rs 8387.01Cr
Shares Outstanding	28.18Cr
Average daily volume	143411
NSE code	COROMANDEL
BSE Code	506395
Reuters code	CORF.NS
Bloomberg code	CRIN:IN

Major share-holders

Shareholders	% Holding
Promoters	64.00%
Foreign	6.69%
Domestic Inst.	8.45%
Public & Other	20.86%

Key Financials	2010	2011	2012E	2013E
Revenues	653,090	771,752	746,470	812,155
Profit before tax	70,859	98,572	126,236	141,740
PAT	46,768	69,366	98,173	110,350
EPS (Rs)	16.67	24.61	34.83	39.15
EPS growth(%)	-16	47.64	41.53	12.40
P/E	22.26	15.07	10.65	9.48
ROE(%)	32.59	36.43	39.20	34.44
ROCE(%)	30.49	59.26	57.53	70.70

Performance of Sensex Vs CIL

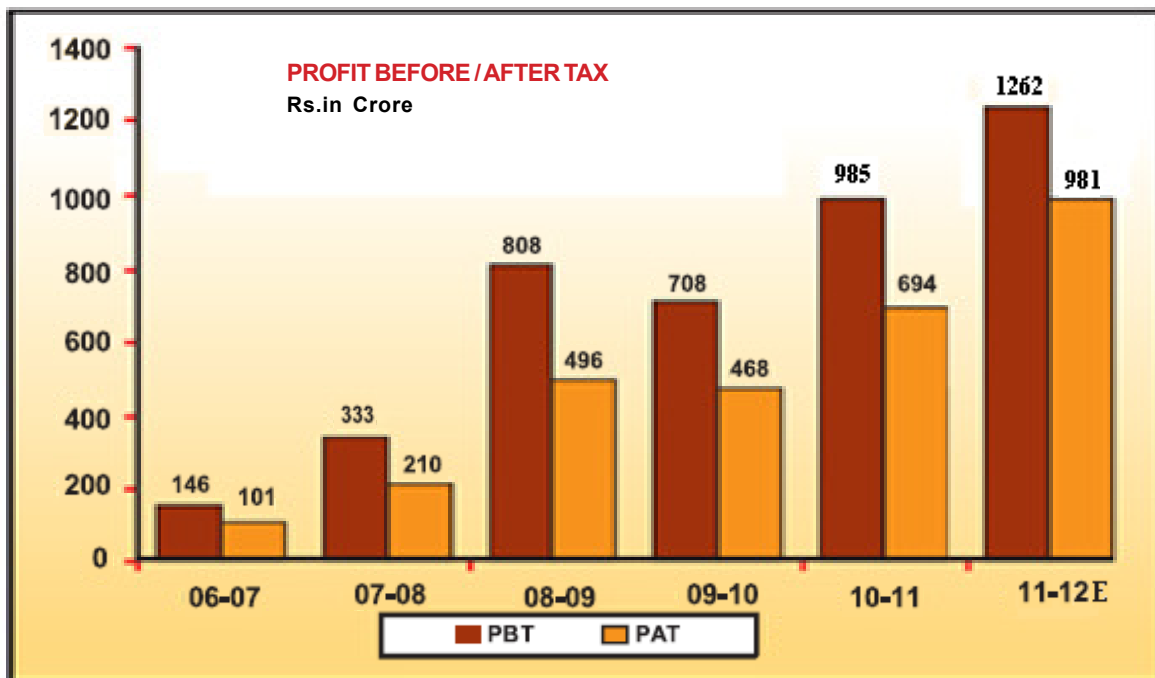


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Cons P & L Account(Rs in Lakhs)	2009A	2010A	2011A	2012E	2013E
Income					
Sales (Gross)	220,196	286,641	332,199	408,031	486,823
Less: Excise duty	4,667	3,589	5,693	4,378	4,835
Sales (net)	215,529	283,053	326,506	403,654	481,988
Government Subsidies	721,969	356,420	426,289	327,564	314,024
Other income	29,282	13,617	18,957	15,253	16,143
Net	966,781	653,090	771,752	746,470	812,155
Expenditure					
Manufacturing and Other Expenses	871,877	568,471	658,291	604,919	654,256
Interest	8,472	7,819	8,682	8,789	9,318
Depreciation	5,613	5,942	6,207	6,527	6,840
Net	885,963	582,231	673,180	620,234	670,415
Profit before tax	80,818	70,859	98,572	126,236	141,740
Tax Expense					
Current Tax	31,300	23,491	29,605	28,793	31,877
Profit after taxation	49,638	46,768	69,366	98,173	110,350

Company Description

Coromandel International Limited is in the business segments of Fertilisers, Speciality Nutrients, Crop Protection and Retail. Coromandel manufactures a wide range of fertilisers and markets around 2.9 million tons making it a leader in its addressable markets and the second largest phosphatic fertiliser player in India.



Balance Sheet Data

	2009A	2010A	2011A	2012E	2013E
SOURCES OF FUNDS					
Shareholders' Funds					
Capital	2,797.94	2,805.46	2,818.34	2,818.34	2,818.34
Reserves and Surplus	109,916.11	140,693.35	187,593.23	247,593.23	317,592.95
Total	112,714.05	143,498.81	190,411.57	250,418.98	320,411.29
Loan Funds					
Secured Loans	29,705.28	46,559.85	38,768.71	45,770.92	45,381.48
Unsecured Loans	142,284.71	145,219.54	108,347.42	95,630.69	77,603.87
Total	292,650.75	343,824.91	345,673.19	400,067.32	451,497.36
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	120,497.69	129,959.79	134,421.12	141,975.01	148,392.98
Less : Depreciation	44,094.27	49,555.88	55,050.92	61,511.43	68,530.85
Net Block	76,403.42	80,403.91	79,370.20	80,463.58	79,862.13
Total	79,183.60	81,731.46	85,319.49	87,857.58	95,907.21
Investments	16,331.04	21,104.61	21,232.52	24,210.03	25,930.11
Current Assets, Loans and Advances					
Inventories	134,751.05	92,642.27	151,312.12	160,340.97	198,114.28
Sundry Debtors	10,433.30	14,271.30	20,517.67	27,952.03	36,323.85
Total	372,638.62	336,223.88	417,026.03	467,142.29	585,113.45
Less: Current Liabilities and Provisions					
Liabilities	163,306.67	85,796.12	164,677.59	165,367.36	237,851.97
Provisions	12,195.84	9,438.92	13,227.26	13,775.23	17,601.44
Total	175,502.51	95,235.04	177,904.85	179,142.59	255,453.41
Net Current Assets	197,136.11	240,988.84	239,121.18	287,999.70	329,660.04
TOTAL	292,650.75	343,824.91	345,673.19	400,067.32	451,497.36

Cash flow Statement	2010A	2011A	2012E	2013E
CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit Before Tax	70,858.66	98,571.81	126,235.94	141,740.07
Adjustments for:				
Depreciation	5,923.16	6,174.05	6435.57	6708.16
Interest expense	7,537.13	8,421.63	9409.93	10514.21
Interest income	-6,814.52	-6,720.12	-6627.03	-6535.22
Dividend income	-655.25	-1,255.78	-2406.69	-4612.40
Operating Profit Before Working Capital Changes	75,404.83	101,769.93	129,083.36	144,302.01
Cash Generated From Operations	79,948.75	112,558.61	199,705.78	270,381.71
Interest received	6,781.84	7,446.93	8177.24	8979.18
Net Cash from Operating Activities	62,379.83	90,510.07	172,155.89	236,085.51
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	-9,027.96	-9,543.09	-10087.61	-10663.21
Net Cash used in Investing Activities	-13,109.93	-8,720.53	-6,912.20	-1,752.51
CASH FLOW FROM FINANCING ACTIVITIES				
Increase/(Decrease) in working capital finance	26,026.83	-53,163.96	28849.95	30374.34
Dividends paid (including tax thereon)	-16,190.17	-19,443.08	-23349.56	-28040.93
Net Cash from Financing Activities	-2,418.55	-72,843.72	8,108.72	11,007.34

Outlook, going forward

Indian economy has grown over 8% in the last couple of years and in that agriculture has contributed a significant part at 6.6% in 2010-11 against a growth of only 0.46% in 2009-10. Food grain production touched an all time high of 235 million MT with record production of wheat and pulses. Increase in soil productivity through efficient use of crop inputs is the only way going forward to meet a growing demand for food by a rising population.

Government has implemented nutrient based subsidy from 1st April 2010 for Phosphatic fertilizers. This new policy is a welcome change for the industry as it helps players to leverage on their strong brands backed by intensive extension activities.

Global availability of various raw materials required for fertilizer manufacture including Rock phosphate, sulphur, phosphoric acid etc., has become tight. In this context, the Company has benefitted from its global tie ups, which would help ensure continued supply of required raw materials at competitive international prices. The Company is also in the process of identifying and developing new sources of raw materials.

Plant protection segment

Company which is also engaged in the business of plant protection for a long time, recorded an all time high growth of 23%, becoming the No.1 brand in AP due to its strong distribution and retail network. It also extended its reach to new export markets of Africa and Far East sectors. The acquisition of a new formulation unit in Jammu has facilitated in catering to northern markets as well. Company has also started introducing new products through in house R&D. It is also looking at opportunities to expand its presence both nationally and internationally.

Outlook & Valuation

The acquisition of Gujarat based agrochemical company Sabero Organics would continue to strengthen its top line growth. Sabero has a wide portfolio of 8-9 products across various categories like insecticides, herbicides and fungicides. Strong synergy benefit is expected from this acquisition going forward.

The growth will be further supported by increasing its capacity in Kakinada and also by increasing its retail stores. Along with this an increase in prices by the company would also boost its financial performance going forward. On account of this we recommend a BUY on the stock with a target of Rs 371, ie a percentage appreciation of over 29% from current levels.

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