

**January 24, 2012**

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Rating	<b>BUY</b>
Price	Rs274
Target Price	Rs358
Implied Upside	30.7%
Sensex	16,752
Nifty	5,046

**(Prices as on January 23, 2012)**
**Trading data**

Market Cap. (Rs bn)	77.3
Shares o/s (m)	281.8
3M Avg. Daily value (Rs m)	58.8

**Major shareholders**

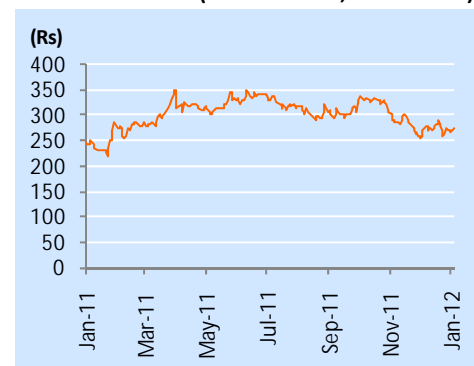
Promoters	64.00%
Foreign	6.69%
Domestic Inst.	8.45%
Public & Other	20.86%

**Stock Performance**

(%)	1M	6M	12M
Absolute	0.3	(17.7)	11.7
Relative	(6.1)	(7.2)	23.6

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	27.6	30.2	-8.7
2014	31.9	34.9	-8.5

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


Source: Bloomberg

■ **In-line Quarter:** Coromandel International's (CRIN's) net sales grew by 24.8% to Rs24.8bn YoY (v/s PLe: Rs26.4bn) despite a decline of 1.3% YoY in fertiliser (manufactured as well as traded) sales volume. It has been offset by higher fertiliser realization that was led by higher subsidy and farm gate prices. Company's sales volume de-grew by 1.3% YoY to 0.83m MT. CRIN's EBITDA grew by 5.6% YoY to Rs2.3bn (PLe: Rs2.1bn). EBITDA margin was lower by 160bps YoY to 9.2% (down 460bps QoQ). We believe that company has done higher trading sales because purchase of traded goods has increased by 2.6x YoY (as % of sales up from 14.2% to 41.5% YoY). Trading business is a low-margin business. Hence, it resulted in lower EBITDA margin on YoY basis. Interest cost has gone up by 39.3% YoY to Rs304m (up 58.3% QoQ) on account of higher rate (up by 200bps) and debt requirement due to higher working capital. PAT grew by 3.4% YoY to Rs1.6bn. Company has charged Rs355.3m (net of tax Rs248.7m) related to non-compete fees of Sabero (considered as exceptional item). Hence, reported PAT stood at Rs1.3bn (PLe: Rs1.3bn).

■ **Business Outlook:** CRIN has indicated that the quarter was difficult on account of lower crop acreage and erratic monsoon in the domestic market, while, global fertilizers prices are coming off. Key thing to watch in the coming quarter are the global fertilizer prices and Rupee-USD movement. In line with our expectation, the company is witnessing a demand contraction in phosphate fertilizers on account of higher prices and de-stocking happening at the dealers/retailers level. Further, field crops like paddy/wheat are seeing higher demand contraction v/s cash crops. CRIN has completed acquisition of *Sabero Organics* during the quarter. The company expects that performance of Sabero is likely to improve during FY13. CRIN has indicated that non-urea inventory in the domestic industry has seen an uptick to 3-3.2m MT (v/s 2m MT average), while CRIN is carrying an inventory of 0.3m MT at the end of the year. The company has indicated a cautious outlook for a short term.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	75,283	85,771	98,004	112,495
Growth (%)	17.7	13.9	14.3	14.8
EBITDA (Rs m)	9,822	9,771	12,276	14,060
PAT (Rs m)	6,620	6,395	7,781	9,014
EPS (Rs)	23.5	22.6	27.6	31.9
Growth (%)	35.1	(3.6)	21.7	15.8
Net DPS (Rs)	.0	7.0	7.0	8.0

**Profitability & Valuation**

	2011	2012E	2013E	2014E
EBITDA margin (%)	13.0	11.4	12.5	12.5
RoE (%)	38.3	29.6	30.2	29.6
RoCE (%)	20.1	18.9	20.6	21.2
EV / sales (x)	1.1	1.0	0.9	0.8
EV / EBITDA (x)	8.6	8.7	6.9	6.2
PE (x)	11.7	12.1	10.0	8.6
P / BV (x)	3.9	3.3	2.8	2.3
Net dividend yield (%)	2.6	2.6	2.6	2.9

Source: Company Data; PL Research

- Maintain 'BUY':** We have downward revised our sales estimate for FY13 by ~12%, considering lower subsidy on non-urea fertilisers. We believe that government is likely to cut the subsidy for FY13, considering lower global fertiliser prices. There is no change in our FY13 EPS as we have considered similar cut in global raw material prices, going forward.. We expect that industry is moving towards lower subsidy/lower farmer prices/lower raw material prices/better volume scenario during FY13 (During FY12, industry has seen higher subsidy/higher farmer prices/higher raw material/lower volume). We expect CRIN to post sales and PAT FY11-14E CAGR of 14.3% and 10.8%, respectively, with a strong RoE of ~30%. CRIN is trading (one-year forward P/E of 10x v/s peers P/E of 8x-10x) at a premium as compared to its domestic peers on the back of differentials in growth, ROE and robust business model. We believe that it would trade at a premium too, going forward. Considering CRIN's strong business models, future growth and return ratios, we maintain '**BUY**' rating on the stock, with the target price of Rs358 (i.e. 13x FY13E EPS).

**Exhibit 1: Q3FY12 Result Overview (Rs m)**

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Sales Volume (m MT)	0.83	0.84	(1.3)	0.91	2.36	2.50	(5.5)
<b>Net Sales</b>	<b>25,501</b>	<b>20,433</b>	<b>24.8</b>	<b>27,241</b>	<b>70,698</b>	<b>63,694</b>	<b>11.0</b>
Raw material consumed	20,158	15,858	27.1	20,734	53,818	46,938	14.7
<i>As % of net sales</i>	<i>79.0</i>	<i>77.6</i>		<i>76.1</i>	<i>76.1</i>	<i>73.7</i>	
Employee expenses	535	473	13.2	533	1,558	1,370	13.7
<i>As % of net sales</i>	<i>2.1</i>	<i>2.3</i>		<i>2.0</i>	<i>2.2</i>	<i>2.2</i>	
Other expenses	2,469	1,888	30.7	2,220	6,734	5,971	12.8
<i>As % of net sales</i>	<i>9.7</i>	<i>9.2</i>		<i>8.1</i>	<i>9.5</i>	<i>9.4</i>	
Total expenditure	23,162	18,219	27.1	23,487	62,110	54,279	14.4
<b>EBITDA</b>	<b>2,339</b>	<b>2,214</b>	<b>5.6</b>	<b>3,754</b>	<b>8,588</b>	<b>9,416</b>	<b>(8.8)</b>
<i>Margin (%)</i>	<i>9.2</i>	<i>10.8</i>		<i>13.8</i>	<i>12.1</i>	<i>14.8</i>	
Depreciation	139	163	(14.4)	136	419	473	(11.5)
<b>PBIT</b>	<b>2,199</b>	<b>2,051</b>	<b>7.2</b>	<b>3,618</b>	<b>8,169</b>	<b>8,943</b>	<b>(8.6)</b>
Other Income	324	331	(2.2)	237	753	776	(3.0)
Interest	304	218	39.3	192	743	642	15.7
<b>Profit before tax</b>	<b>2,219</b>	<b>2,164</b>	<b>2.6</b>	<b>3,662</b>	<b>8,180</b>	<b>9,077</b>	<b>(9.9)</b>
Tax	664	659	0.7	1,100	2,474	2,850	(13.2)
<i>Tax Rate (%)</i>	<i>29.9</i>	<i>30.5</i>		<i>30.0</i>	<i>30.2</i>	<i>31.4</i>	
<b>Adjusted PAT before MI</b>	<b>1,555</b>	<b>1,505</b>	<b>3.4</b>	<b>2,562</b>	<b>5,706</b>	<b>6,227</b>	<b>(8.4)</b>
Ex-Items	249	—		(262)	(14)	—	
<b>Reported PAT</b>	<b>1,306</b>	<b>1,505</b>	<b>(13.2)</b>	<b>2,824</b>	<b>5,719</b>	<b>6,227</b>	<b>(8.2)</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
<b>Net Revenue</b>	<b>75,283</b>	<b>85,771</b>	<b>98,004</b>	<b>112,495</b>
Raw Material Expenses	56,057	65,338	73,265	84,590
Gross Profit	19,226	20,433	24,739	27,905
Employee Cost	1,829	2,085	2,565	2,821
Other Expenses	7,575	8,577	9,898	11,025
<b>EBITDA</b>	<b>9,822</b>	<b>9,771</b>	<b>12,276</b>	<b>14,060</b>
Depr. & Amortization	621	561	834	856
Net Interest	868	1,095	1,095	1,095
Other Income	1,207	1,086	768	768
<b>Profit before Tax</b>	<b>9,540</b>	<b>9,202</b>	<b>11,116</b>	<b>12,877</b>
Total Tax	2,921	2,807	3,335	3,863
<b>Profit after Tax</b>	<b>6,620</b>	<b>6,395</b>	<b>7,781</b>	<b>9,014</b>
Ex-Od items / Min. Int.	27	—	—	—
<b>Adj. PAT</b>	<b>6,620</b>	<b>6,395</b>	<b>7,781</b>	<b>9,014</b>
<b>Avg. Shares O/S (m)</b>	<b>281.8</b>	<b>282.4</b>	<b>282.4</b>	<b>282.4</b>
<b>EPS (Rs.)</b>	<b>23.5</b>	<b>22.6</b>	<b>27.6</b>	<b>31.9</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	8,440	5,069	5,801	6,765
C/F from Investing	(2,487)	(3,755)	(2,080)	(5,580)
C/F from Financing	(5,953)	(3,312)	(2,502)	(3,882)
Inc. / Dec. in Cash	—	(1,998)	1,219	(2,698)
Opening Cash	9,605	9,605	7,607	8,826
Closing Cash	9,605	7,607	8,826	6,128
FCFF	7,972	4,569	1,301	6,265
FCFE	4,140	3,569	1,301	6,265

**Key Financial Metrics**

Y/e March	2011	2012E	2013E	2014E
<b>Growth</b>				
Revenue (%)	17.7	13.9	14.3	14.8
EBITDA (%)	34.5	(0.5)	25.6	14.5
PAT (%)	35.7	(3.4)	21.7	15.8
EPS (%)	35.1	(3.6)	21.7	15.8
<b>Profitability</b>				
EBITDA Margin (%)	13.0	11.4	12.5	12.5
PAT Margin (%)	8.8	7.5	7.9	8.0
RoCE (%)	20.1	18.9	20.6	21.2
RoE (%)	38.3	29.6	30.2	29.6
<b>Balance Sheet</b>				
Net Debt : Equity	0.4	0.3	0.2	0.3
Net Wrkng Cap. (days)	52	43	45	45
<b>Valuation</b>				
PER (x)	11.7	12.1	10.0	8.6
P / B (x)	3.9	3.3	2.8	2.3
EV / EBITDA (x)	8.6	8.7	6.9	6.2
EV / Sales (x)	1.1	1.0	0.9	0.8
<b>Earnings Quality</b>				
Eff. Tax Rate	30.6	30.5	30.0	30.0
Other Inc / PBT	12.7	11.8	6.9	6.0
Eff. Depr. Rate (%)	4.6	4.0	4.5	4.5
FCFE / PAT	62.5	55.8	16.7	69.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	19,567	23,650	27,880	33,011
Total Debt	16,638	15,638	15,638	15,638
Other Liabilities	815	815	1,865	1,865
<b>Total Liabilities</b>	<b>37,020</b>	<b>40,103</b>	<b>45,382</b>	<b>50,514</b>
Net Fixed Assets	11,430	10,953	12,200	12,423
Goodwill	—	—	—	—
Investments	1,705	5,375	5,375	9,875
Net Current Assets	23,885	23,774	27,807	28,215
<i>Cash &amp; Equivalents</i>	9,605	7,607	8,826	6,128
<i>Other Current Assets</i>	32,671	31,746	36,373	41,784
<i>Current Liabilities</i>	18,391	15,579	17,391	19,697
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>37,020</b>	<b>40,103</b>	<b>45,382</b>	<b>50,514</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>11,746</b>	<b>17,957</b>	<b>27,241</b>	<b>25,501</b>
<b>EBITDA</b>	<b>567</b>	<b>2,496</b>	<b>3,754</b>	<b>2,339</b>
<i>% of revenue</i>	4.8	13.9	13.8	9.2
Depr. & Amortization	148	143	136	139
Net Interest	226	246	192	304
Other Income	270	193	237	324
<b>Profit before Tax</b>	<b>780</b>	<b>2,299</b>	<b>3,924</b>	<b>2,468</b>
Total Tax	70	710	1,100	664
<b>Profit after Tax</b>	<b>710</b>	<b>1,589</b>	<b>2,824</b>	<b>1,306</b>
<b>Adj. PAT</b>	<b>393</b>	<b>1,589</b>	<b>2,562</b>	<b>1,555</b>

**Key Operating Metrics**

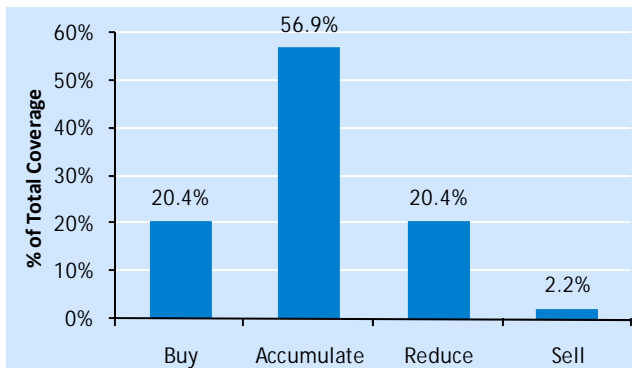
Y/e March	2011	2012E	2013E	2014E
Manufactured Fertilizer Volume (m Mt)	2.7	2.4	2.8	3.2
Fertilizer Sales - Incl Trading (Rs m)	64,731	73,577	78,886	88,931
Pesticide Sales (Rs m)	4,667	5,133	9,938	11,630
Other Sales (Rs m)	5,885	7,062	9,180	11,934

Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

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

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