

26 July 2011

MF Global Quarterly Report

Coromandel International

| Valuations expensive ignores cost & regulatory headwinds, downgrade to Sell

FERTILISER
CRIN IN: **Downgrade to SELL**

RS 341

Q1FY12 results beat estimates; inexpensive feed inventory helps: Coromandel's Q1FY12 results have been ahead of ours and consensus estimates, mainly led by (much) inexpensive opening feedstock inventory that helped post a significant margin surprise. We estimate INR appreciation too could have contributed to this margin surprise (almost a benefit of 70ps even after considering hedging costs of 25ps). Overall revenues improved 15% yoy to Rs 18bn. Fertiliser volumes fell 7% yoy to 0.61mmt and non-subsidy businesses revenues improved 11% yoy (doubled qoq). Adj.Ebitda grew by 16% (margins in fertilisers improved 250bps, while that of non-subsidy businesses contracted by 150bps), mainly led by lower input costs. In line with Ebitda growth, adj. PAT improved 16% to Rs 504mn. The adjustment of Rs 290mn relates to a prior period subsidy income.

Excellent Q1 margins unsustainable: Led by input cost inflation (Phosphoric acid contracts renewed at US\$ 1050/mt, up 70/mt qoq; ammonia hovers around ~US\$ 500-550/mt), the industry is expected to take a price hike of about ~10%-15%, effective August. Much higher retail prices are a cause for concern and risks either volume growth or margins over the longer term. We see margin sacrifice more imminent over the long term. Given fiscal compulsions, the government is unlikely to raise subsidies, going forward, and that implies falling international prices could be the only solace; however, our view is that international prices would hold firm in the near term due to bad weather, supply disruption, continuing strong demand and rise in energy costs. All in all, we estimate margins to decline from current levels and assume fertiliser division Ebitda of US\$ 52/mt in FY12E/13E.

Unenthusiastic earnings CAGR of 17%; valuations appear rich in this context: We raise FY12E earnings to factor in excellent Q1 and one-off compensation for loss on sale of bonds by about 8%. We highlight that the company has Rs 10bn of opening feedstock inventory, which against government notification, has been accounted at FY12 subsidy rates than FY11. As a result, we estimate ~11% of the revised profit to be at risk due to the regulatory overhang on the feedstock subsidisation front. We assume volume growth of 11% during FY11-13E, translating into earnings CAGR of 17%. Valuations on FY13E (13.6x PER, 9.5xEV/Ebitda and 3.4xPBR) appear rich in the context of unenthusiastic earnings CAGR; declining margin outlook, no near-term catalysts and regulatory risks. Given expensive valuations we downgrade the stock to Sell (Neutral earlier).

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	93,750	63,947	75,279	83,450	95,721
GROWTH, %	149.5	-31.8	17.7	10.9	14.7
EBIDTA	6,521	7,100	9,450	8,587	10,157
EBIDTA MARGINS, %	7.0	11.1	12.6	10.3	10.6
NET PROFIT	5,596	4,677	6,937	6,275	7,057
NET PROFIT MARGIN, %	6.0	7.3	9.2	7.5	7.4
NET PROFIT (ADJUSTED)	4,486	4,677	5,129	6,162	7,057
EPS, RS	16.0	16.7	18.2	21.9	25.0
EPS GROWTH, %	113.5	4.0	9.2	20.1	14.5
PER, X	21.3	20.5	18.7	15.6	13.6
EV/EBIDTA, X	16.8	15.1	11.0	11.9	9.5
PRICE/BOOK VALUE, X	7.9	6.4	4.9	4.1	3.4
ROE, %	44.7	34.5	29.7	28.7	27.4

Source: Company, MF Global India Research Estimates

TARGET RS 275 (-19%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	282MN
MARKET CAP (RS) :	96BN
MARKET CAP (USD) :	2.2BN
52 - WK HI/LO (RS) :	376 / 218
LIQUIDITY 3M (USD) :	1.7MN
FACE VALUE (RS) :	2

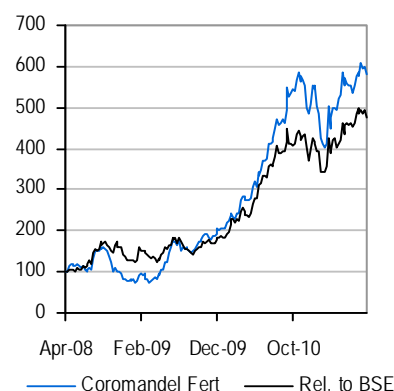
SHARE HOLDING PATTERN, %

PROMOTERS :	64.1
FII / NRI :	10.1
FI / MF :	9.0
NON-PROMOTER CORP. HOLDINGS :	2.2
PUBLIC & OTHERS :	14.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	3.2	5.4	32.5
REL TO BSE	-0.2	9.1	28.5

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

DERIVED QUARTERLY SEGMENTAL BREAK-UP FOR COROMANDEL'S DIFFERENT BUSINESSES

SEGMENT BREAK-UP	Q4FY11	Q1FY11	Q1FY12	YOY %	QOQ %
REVENUE RS MN					
FERTILISER BUSINESS	13,120	11,241	15,000	14	33
NON SUBSIDY BUSINESS	2,351	1,249	2,611	11	109
EBITDA RS MN					
FERTILISER BUSINESS	1,298	497	1,862	43	275
NON SUBSIDY BUSINESS	556	175	581	4	233
FERT EBITDA (RS/MT)	2,123	1,158	3,171	49	174
MFG FERT EBITDA (RS/MT)	2,140	1,226	3,216	50	162
TOTAL FERT EBITDA (US\$/MT)	47	26	71	52	177
MFG FERT EBITDA (US\$/MT)	47	27	72	53	166
% EBITDA MARGINS					
FERTILISER BUSINESS	9.9	4.4	12.4		
NON SUBSIDY BUSINESS	23.7	14.0	22.2		
EBITDA MIX (%)					
FERTILISER BUSINESS	70.0	74.0	76.2		
NON SUBSIDY BUSINESS	30.0	26.0	23.8		

Source: Company, MF Global Research

PEER VALUATION – UREA COMPANIES TO BENEFIT FROM RISING INTERNATIONAL PRICE; PHOSPHATICS EXPENSIVE IN COMPARISON

	M-CAP	P/E (X)			P/BV (X)			EV/EBITDA (X)		
	RS MN	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
*CHAMBAL FERTILISERS	36626	14.9	12.2	10.6	2.3	2.0	1.8	9.1	7.5	6.9
*COROMANDEL INTERNATIONAL	96105	18.7	15.6	13.6	4.9	4.1	3.4	10.9	12.0	10.2
DEEPAK FERTILISERS	14995	7.9	7.0	NA	1.4	1.2	NA	4.8	3.8	NA
NAGARJUNA FERTILISERS	14558	9.0	7.8	NA	0.7	0.7	NA	9.6	7.2	NA
TATA CHEMICALS	95558	14.1	11.7	10.3	1.6	1.5	1.3	7.5	6.5	5.5
ZUARI INDUSTRIES	19843	7.8	6.1	5.6	1.2	1.0	0.9	7.9	5.1	4.7
GSFC	30924	4.1	4.0	NA	1.1	0.9	NA	2.5	2.2	NA
GNFC	15542	8.1	6.4	NA	0.7	0.6	NA	9.7	7.2	NA

Note: *FY11 figures are actual. Source: MF Global India Research Estimates

QUARTERLY & YEARLY RESULTS

RS MN.	Q4FY11	Q1FY11	Q1FY12	YOY%	QOQ%
NET SALES	12490	15,489	17,901	15.6	43.3
GROWTH/(DEGROWTH) %					
(INCREASE) /DECREASE IN STOCK	-1179	-3321	-955	-71.2	-19.0
AS % OF SALES	-9	-21	-5		
CONSUMPTION OF RAW MATERIALS	9824	11,847	12,803	8.1	30.3
AS % OF SALES	79	76	72		
PURCHASE OF TRADED GOODS	382	2,729	1,077	-60.5	182.3
AS % OF SALES	3	18	6		
EMPLOYEE COSTS	455	427	487	14.1	7.0
AS % OF SALES	4	3	3		
OTHER EXPENDITURE	2019	1,953	2,046	4.8	1.3
AS % OF SALES	16	13	11		
TOTAL EXPENSES	11,501	13,635	15,459	13.4	34.4
AS % OF SALES	92	88	86		
EBIDTA	989	1,854	2443	31.7	147.1
DEPRECIATION	149	142	142	0.1	-4.4
EBIT	840	1,712	2301	34.4	173.9
INTEREST	219	185	243	31.7	10.9
OTHER INCOME	196	247	246	-0.4	26.0
EXCEPTIONAL ITEMS					
PBT	816	1,775	2,304	29.8	182.2
TAX	90	560	710	26.8	688.9
TAX RATE %	11	32	31		
PAT	726	1,215	1,594	31.2	119.4
ADJ PAT	504	1,191	1,389	16.7	175.5
EPS RS.	2.58	4.32	5.66	31.0	119.4
ADJ EPS RS.	1.79	4.23	4.93	16.5	175.5
OPM %	7.9	12.0	13.6		
NPM %	4.0	7.7	7.8		
EQ. CAP (SH IN MN)	282	281	282		
EQ. CAP RS MN.	282	281	282		

Source: Company, MF Global India Research

CORO HAS LOST MARKET SHARE IN FY11E; TO REGAIN IT WOULD BE DIFFICULT TO RAISE RETAIL PRICES TOO OFTEN (MT)

	FY08	FY09	FY10	FY11
COROMANDEL INT.				
TRADING	74,186	174,827	251,511	261,945
MANUFACTURED	1,011,574	1,899,364	2,566,001	2,591,644
TOTAL	1,085,760	2,074,191	2,817,512	2,853,589
GR. RATE (%) YOY		91%	36%	1%
INDUSTRY				
TRADING	5,694,512	10,810,599	10,685,456	12,598,128
MANUFACTURED	11,112,913	10,286,034	12,674,132	14,001,519
TOTAL	16,807,425	21,096,633	23,359,588	26,599,647
GR. RATE (%) YOY		26%	11%	14%

Source: Company, MF Global India Research

Valuation & price target

We value Coromandel using the sum-of-parts method. We assign Coromandel's base business at 7.7x FY12E EBITDA (a lower multiple from earlier 8x is attributed to near-term headwinds on rising International price and limit to further increases in retail price). To this, we add the investments (not including investments in Foskor) at book and net debt. We have assumed that Foskor will seek a valuation of US\$ 1bn, thus Coromandel's 14% stake works to Rs 6.7bn or Rs 24/share. We arrive at a price target of Rs 275, which corresponds to PER of 12.6x FY12E EPS and PBR of 3.3x FY12E book. Downgrade to Sell (Neutral earlier).

SUM-OF-THE-PARTS VALUATION

RS MN	REVISED (FY12E)	COMMENTS
EBITDA	66,121	MULTIPLE OF 7.7X EBITDA
ADD: INVESTMETNS	1,705	CONSIDERED AT BOOK
ADD: CASH	13,956	
LESS: DEBT	11,000	
ENTERPRISE VALUE	70,782	
ASSUMING FOSKARS VALUATION AT USD 1BN	6,720	
FAIR VALUE	77,502	
FAIR VALUE RS.	275	
UPSIDE FROM CURRENT LEVELS (%)	-19	
CMP RS.	341	

Source: MF Global India Research Estimates

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	93,750	63,947	75,279	83,450	95,721
GROWTH, %	150	-32	18	11	15
TOTAL INCOME	93,750	63,947	75,279	83,450	95,721
OPERATING EXPENSES	-87,229	-56,847	-65,829	-74,863	-85,564
EBITDA (CORE)	6,521	7,100	9,450	8,587	10,157
GROWTH, %	58.0	8.9	33.1	(9.1)	18.3
MARGIN, %	7.0	11.1	12.6	10.3	10.6
DEPRECIATION	-561	-594	-621	-684	-702
EBIT	5,960	6,506	8,830	7,903	9,456
GROWTH, %	58.0	8.9	33.1	(9.1)	18.3
MARGIN, %	7.0	11.1	12.6	10.3	10.6
INTEREST PAID	-876	-782	-868	-967	-1,012
OTHER NON-OPERATING INCOME	2,066	1,362	1,896	1,493	1,638
NON-RECURRING ITEMS	1,586	0	0	375	0
PRE-TAX PROFIT	8,735	7,086	9,857	8,803	10,082
TAX PROVIDED	-3,140	-2,409	-2,921	-2,529	-3,025
PROFIT AFTER TAX	5,596	4,677	6,937	6,275	7,057
NET PROFIT	5,596	4,677	6,937	6,275	7,057
MF NET PROFIT	4,486	4,677	5,129	6,162	7,057
GROWTH, %	113.5	4.3	9.7	20.1	14.5
NET PROFIT (ADJUSTED)	4,486	4,677	5,129	6,162	7,057
UNADJ. SHARES (M)	280	281	282	282	282
WTD AVG SHARES (M)	280	281	282	282	282

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
PRE-TAX PROFIT	8,735	7,086	9,857	8,803	10,082
DEPRECIATION	561	594	621	684	702
CHG IN WORKING CAPITAL	-6,177	729	1,186	-783	-1,574
TOTAL TAX PAID	-3,170	-2,349	-2,961	-2,529	-3,025
OTHER OPERATING ACTIVITIES	208	869	981	800	800
CASH FLOW FROM OPERATING ACTIVITIES	159	6,928	9,684	6,977	6,985
CAPITAL EXPENDITURE	-1,125	-2,204	-2,474	-1,850	1,565
CHG IN INVESTMENTS	-1,490	515	-12	0	0
OTHER INVESTING ACTIVITIES	-44,733	-453	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-1,661	-2,142	-2,487	-1,850	1,565
FREE CASH FLOW	-1,502	4,786	7,198	5,127	8,551
EQUITY RAISED/(REPAID)	2,573	2,357	3,413	0	0
DEBT RAISED/(REPAID)	7,277	2,762	-3,831	-5,638	0
DIVIDEND (INCL. TAX)	1,637	821	2,308	2,308	2,308
OTHER FINANCING ACTIVITIES	-6,805	-6,194	-2,564	-5,395	-5,395
CASH FLOW FROM FINANCING ACTIVITIES	4,683	-255	-674	-8,726	-3,087
NET CHG IN CASH	3,181	4,531	6,524	-3,599	5,463

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
CASH & BANK	4,253	9,605	9,605	5,611	11,053
DEBTORS	1,015	1,398	2,052	1,667	1,913
INVENTORY	13,475	9,264	15,138	13,660	15,613
LOANS & ADVANCES	10,528	6,235	11,181	9,837	11,064
OTHER CURRENT ASSETS	8,803	8,600	4,300	4,300	4,300
TOTAL CURRENT ASSETS	38,074	35,101	42,276	35,075	43,942
INVESTMENTS	2,208	1,693	1,705	1,705	1,705
GROSS FIXED ASSETS	12,101	13,074	13,529	13,879	14,229
LESS: DEPRECIATION	-4,414	-4,962	-5,515	-6,199	-6,900
ADD: CAPITAL WIP	278	1,464	3,415	4,915	3,000
NET FIXED ASSETS	7,966	9,576	11,430	12,596	10,329
NON-CURRENT ASSETS	0	0	0	0	0
TOTAL ASSETS	48,248	46,370	55,411	49,376	55,976
CURRENT LIABILITIES	16,384	9,069	17,070	13,545	15,396
PROVISIONS	1,242	961	1,321	857	857
TOTAL CURRENT LIABILITIES	17,626	10,031	18,391	14,402	16,253
NON-CURRENT LIABILITIES	18,503	21,324	17,453	11,815	11,815
TOTAL LIABILITIES	36,128	31,355	35,844	26,217	28,068
PAID-UP CAPITAL	280	281	282	282	282
RESERVES & SURPLUS	11,840	14,735	19,286	23,139	27,888
SHAREHOLDERS' EQUITY	12,120	15,015	19,567	23,421	28,170
TOTAL EQUITY & LIABILITIES	48,248	46,370	55,411	49,376	55,976

PER-SHARE DATA

	FY2009	FY2010	FY2011	FY2012E	FY2013E
MF EPS (INR)	16.0	16.7	18.2	21.9	25.0
GROWTH, %	113.5	4.0	9.2	20.1	14.5
BOOK NAV/SHARE (INR)	43.3	53.5	69.4	83.1	100.0
FDEPS (INR)	16.0	16.7	18.2	21.9	25.0
CEPS (INR)	12.4	18.8	20.4	23.0	27.5
CFPS (INR)	(7.7)	15.5	23.7	18.3	16.1
DPS (INR)	5.0	2.5	7.0	7.0	7.0

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011	FY2012E	FY2013E
RETURN ON ASSETS (%)	16.2	10.9	14.7	13.2	14.6
RETURN ON EQUITY (%)	44.7	34.5	29.7	28.7	27.4
RETURN ON INVESTED CAPITAL (%)	18.6	17.8	24.3	21.5	24.8
ROIC/COST OF CAPITAL (X)	2.0	1.9	2.7	2.5	2.9
ROIC - COST OF CAPITAL (%)	9.2	8.4	15.1	12.7	16.2
RETURN ON CAPITAL EMPLOYED (%)	23.6	15.0	19.8	18.5	20.0
COST OF CAPITAL (%)	9.5	9.4	9.1	8.8	8.7
ROCE - COST OF CAPITAL (%)	14.1	5.5	10.7	9.8	11.4
ASSET TURNOVER (X)	4.2	2.4	2.7	2.9	3.3
SALES/TOTAL ASSETS (X)	2.5	1.4	1.5	1.6	1.8
SALES/NET FA (X)	12.2	7.3	7.2	6.9	8.4
WORKING CAPITAL/SALES (X)	0.2	0.3	0.2	0.2	0.2
FIXED CAPITAL/SALES (X)	-	-	-	-	-
RECEIVABLE DAYS	4.0	8.0	9.9	7.3	7.3
INVENTORY DAYS	52.5	52.9	73.4	59.7	59.5
PAYABLE DAYS	53.5	48.8	87.2	63.1	63.1
CURRENT RATIO (X)	2.3	3.9	2.5	2.6	2.9
QUICK RATIO (X)	1.5	2.8	1.6	1.6	1.8
INTEREST COVER (X)	6.8	8.3	10.2	8.2	9.3
DIVIDEND COVER (X)	3.2	6.7	2.6	3.1	3.6
PER (X)	21.3	20.5	18.7	15.6	13.6
PEG (X) - Y-O-Y GROWTH	0.2	5.1	2.0	0.8	0.9
PRICE/BOOK (X)	7.9	6.4	4.9	4.1	3.4
YIELD (%)	1.5	0.7	2.1	2.1	2.1
EV/NET SALES (X)	1.2	1.7	1.4	1.2	1.0
EV/EBITDA (X)	16.8	15.1	11.0	11.9	9.5
EV/EBIT (X)	16.8	15.1	11.0	11.9	9.5
EV/NOPLAT (X)	32.3	22.9	15.9	16.8	13.5
EV/CE	3.4	2.9	2.7	2.8	2.4
EV/IC (X)	4.9	4.1	3.8	3.6	3.4

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET RS	CMP RS	DATE
SELL	275	341	26-JUL-11
NEUTRAL	275	318	26-APR-11
NEUTRAL	295	278	17-JAN-11
NEUTRAL	680 (POST SPLIT 340)	670	26-OCT-10
BUY	424	361	27-APR-10
BUY	363	273	25-JAN-10
BUY	287	220	23-OCT-09
BUY	224	188	14-SEP-09

VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
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JIGNESH SHAH	HEAD – EQUITY DERIVATIVES	91-22-6667 9735	JSHAH@MFGLOBAL.COM

EQUITY RESEARCH

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SAURABH RATHI	RESEARCH ASSOCIATE	91-22-6667 9951	SRATHI@MFGLOBAL.COM
VARUN VIJAYAN	RESEARCH ASSOCIATE	91-22-6667 9992	VVIJAYAN@MFGLOBAL.COM
GANESH DEORUKHKAR	PRODUCTION	91-22-6667 9966	GDEORUKHKAR@MFGLOBAL.COM
ROSHNI KALLOOR	RESEARCH COMPLIANCE OFFICER	91-22-6667 9762	RKALLOOR@MFGLOBAL.COM

TECHNICAL & QUANT RESEARCH

NEPPOLIAN PILLAI	CHIEF TECHNICAL STRATEGIST	91-22-6667 9989	PNEPPOLIAN@MFGLOBAL.COM
SHIKHA KHURANA	QUANT ANALYST	91-22-6667 9948	SKHURANA@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES

SUDHIR PADDIYAR	VP - EQUITY SALES (ASIAPAC)	91-22-6667 9991	SPADIYAR@MFGLOBAL.COM
KINSHUK TIWARI	EQUITY SALES	91-22-6667 9946	KTIWARI@MFGLOBAL.COM
PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
SHIV CHANANI	EQUITY SALES	91-22-6667 9944	SCHANANI@MFGLOBAL.COM
SHUBHANGI AGRAWAL	EQUITY SALES	91-22-6667 9964	SAGRAWAL@MFGLOBAL.COM
PAYAL PANCHAL	ASSOCIATE SALES (DMA)	91-22-6667 9949	PPANCHAL@MFGLOBAL.COM
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INSTITUTIONAL CASH EQUITY SALES TRADING

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