



<b>Report Date</b>	July 23, 2008.
<b>Company Name</b>	<b>Coromandel Fertilisers Ltd.</b>
<b>Recommendation</b>	<b>BUY</b>

<b>CMP – Rs. 134.10</b>	<b>Target Price – Rs. 170-</b>	<b>Mkt. Cap. Rs. 1,792 crore</b>
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### **Investment Rationale**

- CFL, a part of Murugappa Group (63.7% subsidiary of EID Parry) is the most efficient producer and also one of the largest producer of complex fertilizers and DAP in the country. During Q1 FY09, company has reported consolidated net sales of Rs.1400.39 crore. However, it is not comparable to that of Q1 FY08, in view of substantial spurt in raw material prices which in turn led to considerable increase in the subsidy element in sales. OPM% declined to 11.6% (17.4%) due to spurt in raw material prices. PBT (before extraordinary items) was Rs.147.74 crore. After accounting for extraordinary income of Rs.158.59 crore received as per the Business Assistance Agreement with Fosker Ltd S.A, PAT stood at Rs.193.83 crore.
- CFL produces wide range of fertilisers for almost all kinds of crops and meeting the needs of all types of farmers – small and big commercial farmers. Its products are marketed all over the country through a network of over 10,000 dealers.
- Government’s new nutrient-based pricing policy, has led to reduction in prices of complex fertilizer which in turn will enhance use of complex fertilisers. Moreover, system of actual freight reimbursement has been extended to all types of fertilizers, which will ensure easy availability of fertilizers throughout the country. Consequently, there will be increase in demand for complex fertilizers and is highly positive for CFL, which is the most efficient and among the largest producer of complex fertilizers and DAP.
- Post merger of GFCL (Godavari Fertilisers) with CFL, the merged entity has a combined fertilizer capacity of 2.7 to 2.8 MTPA thru debottlenecking. In order to meet increased demand for fertilizers, and improve its profits thru volume game, Company is planning to increase capacity of fertilisers to 5 million TPA.
- CFL has tie-ups with Fosker SA and Group Chimique Tunisien, Tunisia for its key raw material - Phosphatic Acid (PA). As per the Business Assistance Agreement with Fosker, CFL would help increase efficiency of Fosker and in turn would be allowed to increase its stake in Fosker. (CFL had 2.5% stake in Foskor Ltd.) Fosker’s performance has improved and CFL has received remuneration from Fosker. Consequent to this, company has increased its stake in equity of Fosker to 16% thru its newly formed subsidiary CFL Mauritius Ltd. Current valuation of Fosker is USD 2.5 billion.
- Moreover, CFL has invested 15% in equity holding in JV in Tunisia with GSFC and Tunisian Government. Project cost estimated is USD 515 million and CFL’s equity contribution to this project is expected to be USD 29 million. Plant is expected to be commissioned by 2010. These strategic investments are aimed at securing uninterrupted supply of phosphoric acid. CFL has formed a 50:50 JV with Getax Ocean Trades, Singapore to explore opportunities for rock phosphate mining.
- Company plans to put up an Ammonia-Urea complex with capacity of 1.2 million TPA, mostly outside India, thru formation of a subsidiary or JV. This will entail big capex. CFL has assets valued at Rs.800-1,000 crore that can be sold for Ammonia-Urea project.
- In order to diversify, CFL wants to structure its business model in such a manner that 50% of income comes from subsidy based fertilisers and 50% of income comes from high margin niche business like pesticides, JVs, retail, port related activities and by-products. CFL is into agrochem business, being one of the leading suppliers of agrochem in India and exporting them to various countries across the globe. CFL aims to grow its agrochem turnover thru organic growth. CFL is also planning foray into water soluble fertilizer. In line with its diversification plans, Pesticide formulation unit at Jammu was commissioned during FY08. Company also commissioned a 10 tpd and a 3 tpd water soluble fertilizer plant at Vizag and Kakinada respectively. CFL also plans to expand its rural retail business by increasing its Mana Gromor Centres. During FY08, company has set up 20 such retail outlets.
- With global food crisis, there will be increased focus on development of agriculture. CFL - an efficient and low cost company - is all set to take advantage of growth opportunities in view of its strong market position, increased synergies due to merger and its raw material tie-ups in place. However, company faces challenges in view of uncertainty on fertilizer subsidy front, which increases burden on its working capital. Government gives bonds for part of the subsidy. As these bonds do not form part of SLR, they are traded at a discount. Thus, issuance of bonds do not solve working capital problem of fertilizer companies.

### **Valuation**

- At CMP of Rs.134.10, the share is trading at 7.2 times FY 2009 consolidated EPS of Rs.18.5 and 5.8 times FY 2009 expected consolidated EPS of Rs.23 We have not upgraded our EPS estimates and will wait for H1 FY09 to do so in view of delayed monsoons. However, management is very bullish about CFL’s future prospects. In view of excellent growth prospects of the company, we recommend to “BUY” at CMP from a long term perspective.

<b>Financial Summary</b>		<b>Rs. Crore</b>		
<b>Consolidated</b>	<b>FY 2009</b>	<b>FY 2008</b>	<b>%</b>	<b>FY 2008</b>
<b>Rs. Crore</b>	<b>Q1</b>		<b>Change</b>	<b>12 months</b>
Net Sales	1,400.39	420.06	233.4%	3,757.34
Total Expenses	1,238.20	346.79	257.0%	3,344.56
EBITDA	162.19	73.27	121.4%	412.78
<b>EBITDA (%)</b>	<b>11.6%</b>	<b>17.4%</b>		<b>11.0%</b>
Interest Expenses / (Income)	15.55	21.81	-28.7%	69.85
Depreciation	12.44	11.68	6.5%	52.21
Other Income	13.54	3.71	265.0%	43.21
P.B.T. before Extra Ordinary Items	147.74	43.49	239.7%	333.93
Extra Ordinary Income / (Exp.)	158.59	-		-
P.B.T. after Extra Ordinary Items	306.33	43.49	604.4%	333.93
Net Profit	193.83	25.87	649.2%	210.09
Equity Capital (FV Rs 2/-)	27.98	25.57		27.98
EPS for the period (Rs)	6.68	2.02	230.2%	15.02

### **Disclosures**

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