

COROMANDEL INTERNATIONAL LTD (CIL)

Lower volumes, Rising raw material prices puts pressure...

January 12, 2011

Key Data

BSE Code	506395
NSE Code	COROMANDEL
Reuters Code	CORF.BO
Bloomberg Code	CRIN:IN
Sensex	19,534
CMP, Rs	279
No.of Shares, Mn	282
Face Value	1.0
Mcap, Rs Mn	78,583
Mcap, USD Mn @ 47	1,672
52 week H/L	373 / 126
2Wk Avg. Qty(Lakh) BSE	0.19

Share holding, Dec '10

% Holding

Promoter	64.1%
DII's	8.9%
FII's	5.3%
Others	21.7%
Total	100.0%

Share Holding >1%

% Holding

Hitesh Doshi	1.9%
Foskor Ltd.	1.7%
Groupe Chimique Tunisien	1.7%
IDFC Premier Eqty Fund	1.1%
Sundaram MF	1.1%

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Revenues go up by 17% YoY, margins come down

Coromandel Int'l reported 17% rise in sales YoY on the back of rise in realizations from complex fertilisers following price hikes and implantation of NBS scheme. However, cost pressures led to lower profitability and EBIDTA and PAT rose by only 4% YoY, while fell 54% QoQ (not comparable as Q2FY11 had Rs 1970 mn subsidy for prior year). In Q3FY11, company has booked Rs 110 mn subsidy that belongs to previous year. For 9mFY11, subsidy for prior period stands at Rs 2260 mn. Adjusting for prior period subsidy and applicable tax, PAT for 9mFY11 stands at Rs 4687 mn compared to reported PAT of Rs 6218 mn.

Coromandel International	Q3FY11 Reported	Q3FY11 Expected	Q2FY11 Reported	Q3FY10 Reported	QoQ %	YoY %
Total Revenues	20612.4	19,608.5	27,733.6	17,568.1	-26%	17%
EBIDTA	2536.1	2,568.2	5,542.1	2,437.2	-54%	4%
Profit Before Tax	2162.9	2168.2	5152.5	2098.9	-58.0%	3.0%
Profit After Tax	1502.9	1,409.3	3,521.7	1,448.9	-57%	4%
EPS	5.3	5.0	12.5	5.2	-57%	3%
EPS TTM	25.1	24.8	25.0	26.0	1%	-3%
EBIDTA Margin %	11.5	11.9	19.3	11.8	-780 bps	-33 bps
PAT Margin%	7.3	7.2	12.8	8.3	-543 bps	-91 bps
P/E (Annualised EPS)	13.1	13.9	5.6	6.7		
P/E (TTM)	11.1	11.2	11.2	10.7		

Source: Company, Sunidhi Research

Rising Phosphoric Acid and Ammonia prices to put further pressure on margins

Phosphoric Acid, MOP and Ammonia are key raw materials for Coromandel International. Phosphoric Acid price for Q4FY11 is \$830 per tonne (v/s \$780 for Q3 and \$775 for Q2). Ammonia (accounted for 17% of total raw material cost in FY10) prices too have gone up by 15-20% since Sept'10 and may put pressure on margins.

Reduced NBS for FY12, Global fertiliser prices remain high

NBS for FY12 have been reduced by 18-20% by Government of India. It is believed that Indian buyers due to their significance in world markets should be able to bargain better prices following the lower subsidy announcement by Indian government and difficulty to pass on increased costs to farmers due to fertiliser demand being price sensitive and the issue being politically sensitive.

Valuations & view

We like CIL for its leadership position in complexes (2nd largest complexes & Potassic manufacturer after IFFCO). Its efforts to increase revenues and profitability from non-subsidy business will pay off in longer term and help CIL emerge as leading Agri solution provider to farmers.

At cmp of Rs 279, CIL is trading at P/E multiple of 12.8x and 10.7x on its FY11 and FY12 EPS consensus estimates. We believe that there may be margin pressure in FY12 due to higher raw material prices in world markets, lower subsidy announced by government and limited extent to which rise in cost can be passed on to farmers. We believe, the consensus estimates are not reflecting the risk of lower margins in FY12. We don't have rating on the stock currently.



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