Deutsche Bank

2 December 2011

Coromandel International

Reuters: **CORF.BO** Bloomberg: **CRIN IN** Exchange: **BSE** Ticker: **CORF**

Riding the reform wave; initiating with Buy

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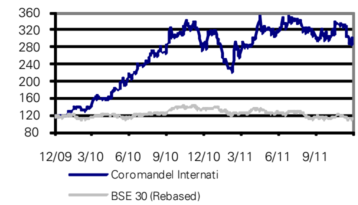
Coverage Change

Buy

Price at 2 Dec 2011 (INR)	**300.15**
Price target - 12mth (INR)	**340.00**
52-week range (INR)	**351.95 - 220.90**
BSE 30	**16,483**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-9.6*	*-0.2*	*4.8*
BSE 30	*-5.6*	*-2.0*	*-17.6*

Stock data

Market cap (INRm)	**84,582**
Market cap (USDm)	**1,643**
Shares outstanding (m)	**281.8**
Major shareholders	**EID Parry (62.78%)**
Free float (%)	**36**
Avg daily value traded (USDm)	**0.0**

Key indicators (FY1)

ROE (%)	**37.7**
Net debt/equity (%)	**37.8**
Book value/share (INR)	**76.68**
Price/book (x)	**3.9**
Net interest cover (x)	**30.8**
Operating profit margin (%)	**12.1**

Robust volume growth to drive EPS CAGR of 15% over FY11-14E
We initiate coverage on CIL with a Buy rating and target price of INR340, implying 13% upside potential. Including a bonus debenture of INR15, our target price implies 18% total return potential. Our positive investment case is premised on 1) robust volume growth in complex fertilisers driven by capacity expansion of 25%, 2) 186bps improvement in EBITDA margins over the next five years driven by higher phosphoric acid availability, and 3) increasing share of margin-accretive non-subsidised businesses. We are 10%/ 5% above consensus on FY12/13 EPS.

Key beneficiary of NBS policy
CIL is the second largest manufacturer of phosphatic fertilisers in India and is a key beneficiary of the nutrient based subsidy (NBS) policy implemented in April 2010. Under this policy, the government announces a fixed subsidy for each nutrient, and the manufacturer is free to pass on any cost increases to the farmer. The implementation of NBS has seen CIL's EBITDA margin jump from 11.1% in FY10 to 12.6% in FY11 and 14.2% in H1FY12. RoEs also rose to 40% in FY11 from 35% in FY10. We forecast CIL's RoE to range 38%-34% over FY12-FY14.

Focusing on increasing share of non-subsidised businesses
CIL is focusing on growing its non-subsidised businesses such as agrochemicals (plant protection, technicals, and formulations) and specialty nutrients (micronutrients, organic compost, etc). Non-subsidised businesses currently contribute c.12% to CIL's revenues and c.26% to EBITDA. CIL aims to increase the share of EBITDA from its non-subsidised businesses to 50% in the next three years. In May 2011, CIL announced its intention to acquire a majority stake in Sabero Organics, which should help CIL get closer to its target EBITDA share of 50% from these businesses.

DCF-based value of INR340; lower production volumes a key risk
We value CIL at INR340, based on DCF with a WACC of 12%. We base our WACC on Deutsche Bank's cost of equity assumptions for India (risk-free rate of 6% and risk premium of 8.5%) and a three-year average beta of 0.85. Key downside risks are lower-than-expected production volumes, lesser availability of imported raw materials, and a delay in planned capacity expansions.

Forecasts and ratios

Year End Mar 31	2010A	2011A	**2012E**	2013E	2014E
Sales (INRm)	63,947.3	75,279.5	**94,349.4**	111,990.5	124,429.8
EBITDA (INRm)	7,100.2	9,450.4	**12,116.3**	13,926.1	15,957.6
Reported NPAT (INRm)	4,682.9	6,936.6	**7,767.1**	9,058.1	10,434.2
DB EPS FD(INR)	16.70	24.66	**27.61**	32.20	37.09
DB EPS growth (%)	-16.5	47.7	**12.0**	16.6	15.2
Price/Book (x)	2.9	4.1	**3.9**	3.1	2.5
PER (x)	6.3	10.6	**10.9**	9.3	8.1
EV/EBITDA (x)	5.6	8.5	**7.7**	6.4	5.2

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:01 December 2011

Running the numbers

Asia

India

Chemicals

Coromandel International

Reuters: CORF.BO Bloomberg: CRIN IN

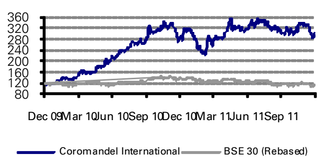
Buy

Price (2 Dec 11)	INR 300.15
Target price	INR 340.00
52-week Range	INR 220.90 - 351.95
Market Cap (m)	INRm 84,582 USDm 1,643

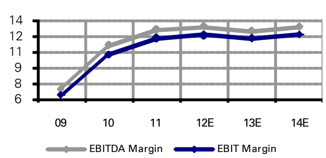
Company Profile

Coromandel International Ltd. (CIL) is a leading fertilizer company of India with its manufacturing facilities of DAP, SSP and other complex fertilizers, making it the second largest player in Indian phosphatic fertilizers markets. Apart from fertilizers it also manufactures crop protection products including insecticides, fungicides, herbicides and plant growth regulators, specialty nutrients and has added retail segment to its business portfolio.

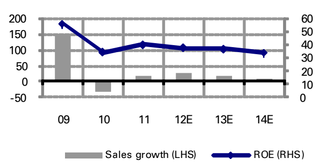
Price Performance



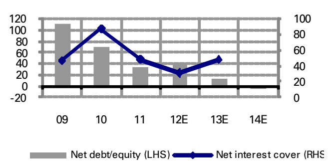
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (INR)	20.00	16.70	24.66	27.61	32.20	37.09
Reported EPS (INR)	20.00	16.70	24.66	27.61	32.20	37.09
DPS (INR)	2.50	2.50	7.00	20.00	10.00	11.00
BVPS (INR)	43.3	53.5	69.4	76.7	97.2	121.4
Weighted average shares (m)	280	280	281	281	281	281
Average market cap (INRm)	17,177	29,568	73,318	84,582	84,582	84,582
Enterprise value (INRm)	30,632	40,067	79,976	92,847	88,474	82,636
Valuation Metrics						
P/E (DB) (x)	3.1	6.3	10.6	10.9	9.3	8.1
P/E (Reported) (x)	3.1	6.3	10.6	10.9	9.3	8.1
P/BV (x)	1.05	2.94	4.12	3.91	3.09	2.47
FCF Yield (%)	nm	15.9	9.0	11.0	10.2	12.4
Dividend Yield (%)	4.1	2.4	2.7	6.7	3.3	3.7
EV/Sales (x)	0.3	0.6	1.1	1.0	0.8	0.7
EV/EBITDA (x)	4.7	5.6	8.5	7.7	6.4	5.2
EV/EBIT (x)	5.1	6.2	9.1	8.1	6.7	5.5
Income Statement (INRm)						
Sales revenue	**93,750**	**63,947**	**75,279**	**94,349**	**111,991**	**124,430**
Gross profit	**14,462**	**15,354**	**19,226**	**23,441**	**26,097**	**29,056**
EBITDA	**6,521**	**7,100**	**9,450**	**12,116**	**13,926**	**15,958**
Depreciation	562	594	621	721	726	913
Amortisation	0	0	0	0	0	0
EBIT	**5,959**	**6,506**	**8,830**	**11,395**	**13,201**	**15,045**
Net interest income(expense)	-129	-75	-183	-370	-280	31
Associates/affiliates	0	6	0	0	0	0
Exceptionals/extraordinaries	1,586	0	0	0	0	0
Other pre-tax income/(expense)	1,319	655	1,211	600	600	600
Profit before tax	**8,735**	**7,086**	**9,857**	**11,625**	**13,521**	**15,676**
Income tax expense	3,140	2,409	2,921	3,952	4,462	5,173
Minorities	0	0	0	-94	1	69
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**5,595**	**4,683**	**6,937**	**7,767**	**9,058**	**10,434**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**5,595**	**4,683**	**6,937**	**7,767**	**9,058**	**10,434**
Cash Flow (INRm)						
Cash flow from operations	**159**	**6,928**	**9,051**	**10,859**	**10,310**	**12,004**
Net Capex	-1,161	-2,215	-2,439	-1,571	-1,673	-1,575
Free cash flow	**-1,002**	**4,713**	**6,612**	**9,289**	**8,638**	**10,430**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,529	-1,619	-1,944	-6,551	-3,275	-3,603
Net inc/(dec) in borrowings	7,082	2,944	-3,945	1,340	0	0
Other investing/financing cash flows	-2,028	-320	-713	-4,344	-989	-989
Net cash flow	**2,522**	**5,718**	**9**	**-267**	**4,373**	**5,838**
Change in working capital	*-7,321*	*1,205*	*1,181*	*1,476*	*-464*	*-401*
Balance Sheet (INRm)						
Cash and other liquid assets	4,253	9,971	9,980	9,714	14,087	19,924
Tangible fixed assets	7,966	9,576	11,430	13,606	14,553	15,215
Goodwill/intangible assets	0	0	0	3,333	3,333	3,333
Associates/investments	2,208	1,327	1,330	1,331	1,331	1,331
Other assets	33,821	25,497	32,671	32,434	36,521	39,309
Total assets	**48,248**	**46,370**	**55,411**	**60,416**	**69,823**	**79,112**
Interest bearing debt	17,708	20,470	16,638	17,978	17,978	17,978
Other liabilities	18,420	10,885	19,206	20,583	24,206	26,595
Total liabilities	**36,128**	**31,355**	**35,844**	**38,561**	**42,184**	**44,573**
Shareholders' equity	12,120	15,015	19,567	21,610	27,392	34,223
Minorities	0	0	0	246	247	316
Total shareholders' equity	**12,120**	**15,015**	**19,567**	**21,856**	**27,639**	**34,539**
Net debt	*13,455*	*10,499*	*6,658*	*8,264*	*3,891*	*-1,946*
Key Company Metrics						
Sales growth (%)	149.5	-31.8	17.7	25.3	18.7	11.1
DB EPS growth (%)	166.2	-16.5	47.7	12.0	16.6	15.2
EBITDA Margin (%)	7.0	11.1	12.6	12.8	12.4	12.8
EBIT Margin (%)	6.4	10.2	11.7	12.1	11.8	12.1
Payout ratio (%)	12.5	15.0	28.4	72.4	31.1	29.7
ROE (%)	55.7	34.5	40.1	37.7	37.0	33.9
Capex/sales (%)	1.2	3.5	3.3	1.7	1.5	1.3
Capex/depreciation (x)	2.1	3.7	4.0	2.2	2.3	1.7
Net debt/equity (%)	111.0	69.9	34.0	37.8	14.1	-5.6
Net interest cover (x)	46.3	86.4	48.2	30.8	47.2	nm

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We rate Coromandel International (CIL) a Buy as a key beneficiary of rising fertiliser demand in India and price deregulation in complex fertilisers. We expect CIL's earnings to increase at a CAGR of 15%, driven by higher sales volumes of manufactured and traded fertilisers. We forecast a fertiliser production CAGR of 7% over FY11-14, driven by capacity expansion at its Kakinada facility and higher availability of phosphoric acid from its new (TIFERT) and existing (FOSKOR) joint ventures. Moreover, CIL's strong presence in the agro-chemicals space (comprising plant protection and specialty nutrients), which has good prospects and is margin-accretive, will likely spearhead the next leg of earnings growth for the company, particularly with the acquisition of Sabero Organics.

Valuation

Coromandel International is in a high-growth stage and is adding new product capacities while further expanding its existing capacities, primarily in the fertilisers space. This increase in revenues and EBITDA from higher production and sales volumes should be realised in the medium to long term, in our view. Therefore, we believe DCF is the best methodology to value the firm.

We value Coromandel International (CIL) at INR340 per share based on DCF with a WACC of 12%. Our DCF is based on our explicit forecast for the next five years (FY12-FY17) and we assume a terminal growth rate of 3% (based on global nominal GDP growth). Our WACC is based on Deutsche Bank's cost of equity assumptions for India (risk-free rate 6% and risk premium 8.5%) and a three-year average beta of 0.85.

Risks

Key downside risks to our call are: i) lower-than-expected sales volumes due to lower production or lower demand; ii) lower farm gate prices of fertilisers, not offset by lower raw material prices; iii) lower raw material availability as most of the raw materials used by CIL are imported through term contracts that are negotiated and renewed periodically; iv) a weaker-than-expected rupee, as most of the raw materials that CIL uses are imported and dollar denominated; and v) a delay in the start-up of new projects, including the setting up of a new SSP plant in Punjab and expansion of its existing complex fertiliser facility in Kakinada.

Valuation and risks

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We value Coromandel International (CIL) at INR340 per share based on DCF with a WACC of 12%. Our DCF is based on our explicit forecast for the next five years (FY12-FY17) and we assume terminal growth rate of 3% (based on global nominal GDP growth). We base our WACC on Deutsche Bank's cost of equity assumptions for India (risk-free rate 6% and risk premium 8.5%) and a three-year average beta of 0.85.

Figure 1: DCF calculation

WACC (%)	12.0%
PV of FCF to FY17	39,436
Terminal WACC (%)	12.0%
Terminal growth rate (%)	3%
PV of terminal value	64,756
EV (INRm)	**104,193**
Less: FY12E net debt	8,264
Equity value (INRm)	**95,928**
Per share value of CIL (INR)	**340**

Source: Deutsche Bank

Figure 2: Key assumptions and DCF model

	FY13E	FY14E	FY15E	FY16E	FY17E	Terminal year
Production volumes (TMT)						
DAP, NPK	2,738	2,985	3,233	3,429	3,626	
SSP	112	212	318	339	339	
Total	**2,850**	**3,197**	**3,551**	**3,768**	**3,965**	
Realisation including subsidy (US$/MT)						
DAP	752	756	760	764	768	
Ammonium phosphatic	654	658	661	665	669	
Single super phosphate	221	223	226	228	231	
Subsidy (INRm)	**57,128**	**62,852**	**68,669**	**73,077**	**77,048**	
DCF model (INRm)						
Post tax EBIT	8,805	10,035	11,819	13,278	14,757	**10,035**
Add: Depreciation	726	913	1,110	1,136	1,161	**1,161**
Capital Expenditure	1,709	1,611	569	580	591	**1,255**
Working capital changes	(464)	(401)	(371)	(258)	(242)	
FCF	7,358	8,936	11,989	13,575	15,086	**9,941**
PV of free cash flow	**6,571**	**7,127**	**8,538**	**8,634**	**8,568**	

Source: Deutsche Bank

Figure 3: WACC assumptions

Risk free rate	6.0%
Risk premium	8.5%
Cost of equity	13.2%
Gross cost of debt	10.0%
Net cost of debt	7.0%
Target debt/capital	20.0%
WACC	**12.0%**

Source: Deutsche Bank

Alternative valuation methodologies yield lower valuation as they do not factor in future volume growth from capacity expansion

If we value CIL on a P/E multiple, using a target FY12E P/E of 10x (stock's average P/E after the NBS implementation), we get a valuation of INR280 per share. If we value CIL on FY12E EV/EBITDA of 7.3x (stock's average EV/EBITDA after the NBS implementation), we get a valuation of INR285 per share. While these methodologies yield a lower valuation than our DCF-based valuation, this is because they do not factor in earnings growth resulting from capacity expansion from FY14 onwards.

Sensitivity analysis

CIL is most sensitive to any change in fertilisers sales volumes. A 5% increase in the volumes of manufactured fertiliser products leads to an increase of c6% in FY13 EPS and c 6% (INR21/sh) in our base case valuation. As CIL increases its exposure in the non-fertilisers segment, its sensitivity to volume changes in the crop protection products will also increase. A 5% increase in the sales volumes of crop protection products increases CIL's FY13 EPS by 1.5% and valuation by 1.8% or INR6/sh.

Figure 4: Sensitivity analysis

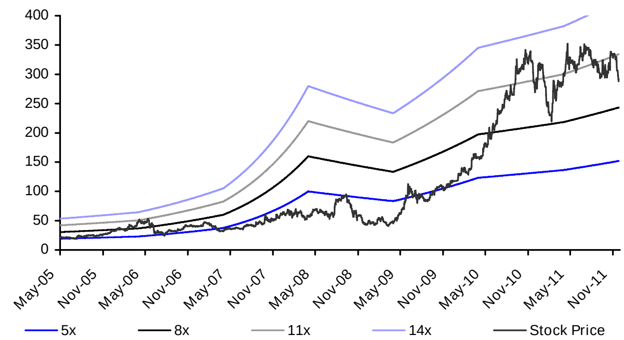
	FY13E EPS	% chg	TP	% chg
Base case	32.2		340	
5% increase in manufactured fertilisers volumes	34.1	5.8%	361	6.1%
5% increase in crop protection volumes	32.7	1.5%	346	1.8%

Source: Deutsche Bank

Band charts

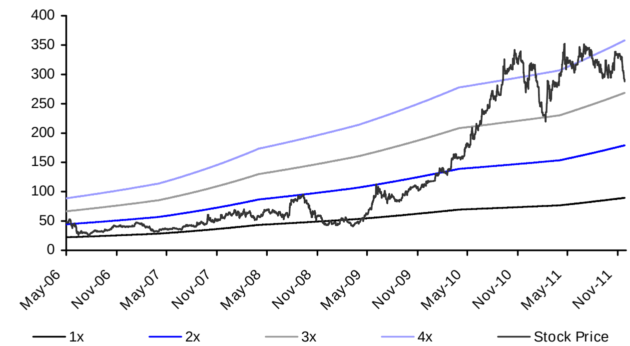
CIL is currently trading at FY12E P/E of 10.6x, P/BV of 3.8x and EV/EBITDA of 7.5x. At our target price, the stock would trade at a FY12E P/E, P/BV and EV/EBITDA of 12.5x, 4.4x and 8.6x, respectively. Following the implementation of NBS, over the past two years the stock has traded between 6.3x-13.1x PER, 2.2x-4.7x P/BV and 5.7x-9.6x EV/EBITDA. We believe valuation at the top end of the range is justified as we expect CIL, through its planned capacity expansions, to be the key beneficiary of a rise in fertiliser demand in India.

Figure 5: One-year forward P/E bands



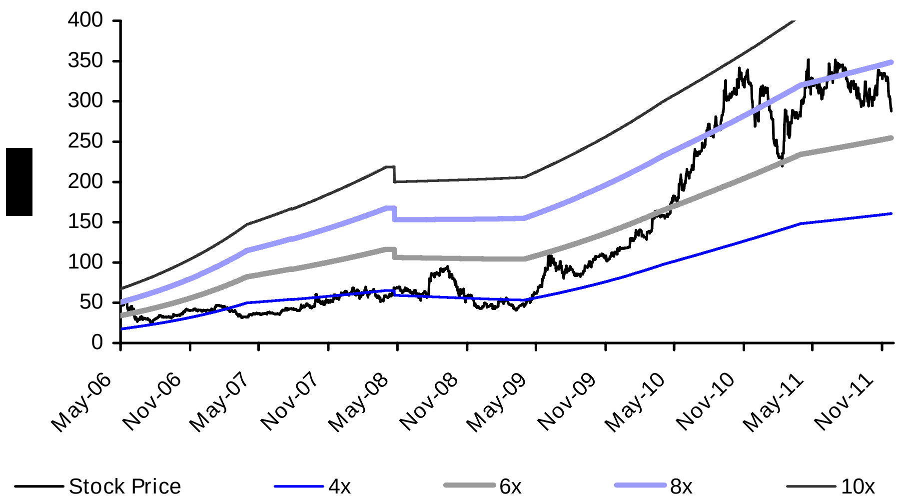
Source: Deutsche Bank

Figure 6: One-year forward P/BV bands



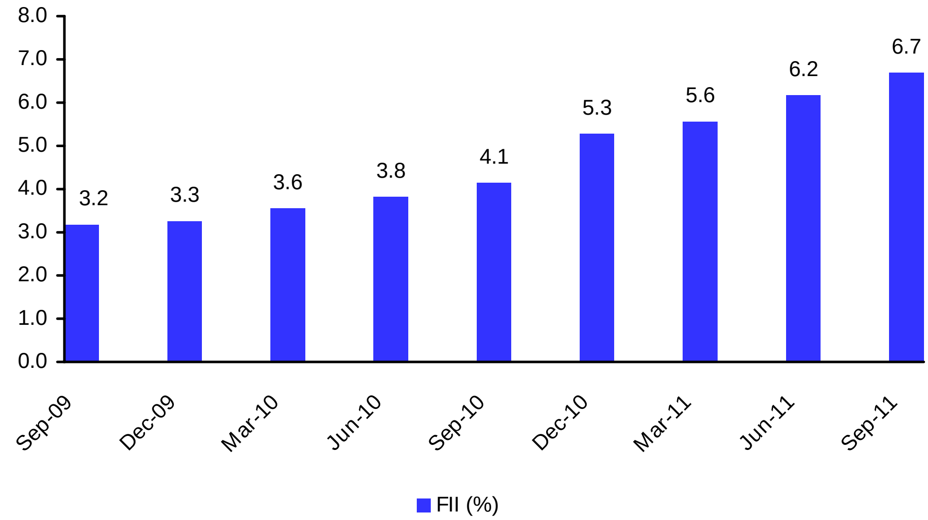
Source: Deutsche Bank

Figure 7: One-year forward EV/EBITDA bands



Source: Deutsche Bank

Figure 8: FII holdings



Source: Deutsche Bank

Risks

The key downside risks to our call are:

i) Lower-than-expected sales volumes: Lower-than-expected sales volumes due to lower production or lower demand would have a negative impact on earnings.

ii) Lower-than-expected product prices: Lower farm gate prices of fertilisers, not offset by lower raw material prices, could lead to lower gross profit on products and lower profitability.

iii) Lower raw material availability: As most of the raw materials used by CIL are imported through term contracts that are negotiated and renewed periodically, a lower availability of raw materials, including phosphoric acid, MOP, rock phosphate, etc., could lead to lower capacity utilisations and hence lower-than-expected revenues and EBITDA.

iv) Weaker-than-expected rupee: As most of the raw materials that CIL uses are imported and dollar-denominated, a weaker Indian rupee could lead to higher raw material costs, thus leading to lower-than-expected profitability.

v) Delay in start-up of new projects: CIL is commissioning a number of new greenfield and brownfield capacity expansion projects, including the setting up of a new SSP plant in Punjab and expansion of its existing complex fertiliser facility in Kakinada. Any delay in start-up would have an adverse effect on the valuations.

Robust volume growth; Buy

We initiate coverage on Coromandel International (CIL) with a Buy rating and a target price of INR340. Our target price implies 13% potential upside from the current market price. Additionally, CIL has announced allotment of a bonus debenture (unsecured redeemable) of INR15 for every equity share held. This will carry an interest rate not exceeding 9% p.a. and is expected to be allotted by March 2012. Including this bonus debenture of INR15, our target price implies total return potential of 18% from the current market price.

CIL should benefit from the rising demand for complex fertilisers in India, in our opinion. With a limited increase in acreage under cultivation, the improvement in crop yields will have to be driven by higher nutrient consumption. Nutrient consumption in India, at 156 kg/ ha, is 62% lower than in China. Lower nutrient consumption has led to lower crop productivity in India. We expect higher MSPs for key crops and improved credit availability for agriculture to drive fertiliser consumption growth.

For the company, we forecast a fertiliser production CAGR of 7% over FY11-14E, driven by capacity expansion at its Kakinada facility and a higher availability of phosphoric acid from its new (TIFERT) and existing (FOSKOR) joint ventures. We expect CIL's trading business volumes to also increase at a 10% CAGR over the next three years, driven by its strong distribution network. Moreover, CIL's strong presence in the highly prospective and margin-accretive agro-chemicals space will likely spearhead the next leg of earnings growth for the company, in our view, particularly with the acquisition of Sabero Organics.

Figure 9: Deutsche Bank vs. consensus

INR/sh	FY12 EPS	FY13 EPS	Valuation
Deutsche Bank estimate	27.6	32.2	340
Bloomberg Finance LP consensus	25.0	30.7	370
% higher/ (lower)	10.3%	4.8%	-8.1%

Source: Deutsche Bank, Bloomberg Finance LP

Robust volume growth to drive EPS growth and ROE

We expect revenues to increase from INR75bn in FY11 to INR124bn in FY14E, primarily from higher production of complex fertilisers. We forecast EBITDA to expand from INR9.5bn in FY11 to INR15.9bn in FY14E, again driven by volumes. We expect net income to rise from INR6.9bn in FY11 to INR10.4bn in FY14E.

We estimate that CIL should achieve an earnings CAGR of 15% over FY11-FY14, driven by a 7% CAGR in fertiliser volumes and an improving contribution from higher–margin, non-subsidised products. The implementation of the NBS policy has seen CIL's EBITDA margin jump from 11.1% in FY10 to 12.6% in FY11. ROEs also rose to 40% in FY11 from 35% in FY10. We estimate CIL's ROEs to range from 38% to 34% over FY12 to FY14.

Figure 10: Financial and operating summary

INRm	FY11	FY12E	FY13E	FY14E
Revenue	75,279	94,349	111,991	124,430
EBITDA	9,450	12,116	13,926	15,958
PAT	6,937	7,767	9,058	10,434
EPS	24.7	27.6	32.2	37.1
Operating Assumptions				
Production volumes(TMT)				
DAP, NPK	2,538	2,294	2,738	2,985
SSP	104	106	112	212
Realisation including subsidy (US$/MT)				
DAP	573	754	752	756
Ammonium phosphatic	471	613	654	658
Single super phosphate	166	215	221	223
Subsidy received (INRm)	42,629	45,651	57,128	62,852

Source: Company data, Deutsche Bank

Capital expenditure and leverage

We expect CIL's capacity expansion to drive an EBITDA CAGR of 19% over FY11-14. CIL has a capex outlay of INR4.8bn over the next three years. It is expanding its fertiliser capacity by about 25% to 4 mmtpa by H1FY14. CIL is also increasing its single super phosphate (SSP) capacity by more than 200% by H1FY14 by setting up an 800 ton/day SSP plant in Punjab with capex of INR1.2bn. The company also plans to increase its MG – retail outlets from the current 540 to 1,000 in the next three years. It proposes to invest INR500m in the retail business for the expansion.

Figure 11: CIL's capex plans

INRm	FY12E	FY13E	FY14E
Capacity expansion in Kakinada	900	800	800
SSP at Punjab	300	500	400
Others (retail, maintenance etc)	371	373	375
Total	1,571	1,673	1,575

Source: Deutsche Bank, company data

CIL had a net debt/ equity of 0.3x in FY11 and we expect it to turn net cash positive from FY14 driven by robust cash flow generation.

Free cash flow yield of more than 10% from FY13 onwards

CIL is a free cash flow (FCF) generating company and we estimate a robust FCF yield of 10.5% in FY13E and 12.6% in FY14E. The FCF generation will be even stronger from FY15 onwards as the new capacity of 0.8mmtpa at Kakinada achieves higher utilisation levels.

Figure 12: CIL cash generation and FCF (INRbn)

	Cash generation	Capex	FCF	FCF yield
FY12E	8.5	1.6	9.3	11.3%
FY13E	9.8	1.7	8.6	10.5%
FY14E	11.3	1.6	10.4	12.6%

Source: Company data, Deutsche Bank estimates

Beneficiary of price deregulation in P, K fertilisers

CIL has benefitted from the implementation of the nutrient based subsidy (NBS) policy in phosphatic (P) and potassic (K) fertilisers in April 2010. The NBS policy reduced the uncertainty on pricing of complex fertilisers. Under this policy, the government announced a fixed price for each nutrient and gave the manufacturers freedom to pass on any price increases to the farmer. The policy has ensured adequate availability of fertilisers even in times of rising prices. One result of this policy is that the price of fertilisers has increased in line with the rise in the international price, e.g., DAP price moved up from INR9.9/kg at the start of FY11 to INR18.5/kg currently.

Well placed to benefit from rising nutrient requirement

CIL should benefit from the rising demand for complex fertilisers in India. With a limited increase in acreage under cultivation, the improvement in crop yields will likely have to be driven by higher nutrient consumption. While nutrient consumption in India, at 156 kg/ ha, is higher than the global average, it is 62% lower than in China. Lower nutrient consumption has led to lower crop productivity in India. We expect higher MSPs for key crops and improved credit availability for agriculture to drive fertiliser consumption growth.

Assured raw material supply gives visibility on volume growth

CIL has a 14% stake in FOSKOR and a 15% stake in TIFERT Tunisia to ensure 0.45 mmtpa of phosphoric acid. Along with its own production of additional 0.23 mmtpa and other supply contracts for 0.35 mmtpa, CIL has total contracted phosphoric acid availability of 1.03mmt (25% higher than its FY11 volumes). CIL has also tied up some long-term supply contracts for 0.5mmtpa of potash (42% higher than its FY11 off-take) and 0.9mmtpa of rock phosphate (35% higher than its FY11 usage).

Figure 13: Phosphoric acid tie-ups

Player	Region	Product	Quantity (mmt)
FOSKOR, GCT, ICL and Sterlite	Tunisia, Israel, India	Phosphoric Acid	0.60
Captive production	India	Phosphoric Acid	0.23
Sub total			0.83
Tifert JV	Tunisia	Phosphoric Acid	0.20
Total contracted post Tifert JV			1.03
Spot purchases		Phosphoric Acid	0.2
Total			1.23

Source: Company data

Share of non-subsidised products in EBITDA to improve

CIL has a well-diversified portfolio of non-subsidised businesses such as agrochemicals (plant protection, technicals, and formulations) and specialty nutrients (micronutrients, organic compost, etc). CIL has expanded these businesses over the years both organically and inorganically through acquisitions. CIL forayed into agrochemicals in FY04 through the merger with EID Parry's farm inputs division and later acquired Ficom Organics in FY07. Non-subsidised businesses currently contribute c.12% to CIL's revenues and c.26% to EBITDA. CIL aims to increase the share of EBITDA from its non-subsidised businesses to 50% in the next three years. CIL is in the process of acquiring a majority stake (73%) in Gujarat-based agro-chemicals player Sabero Organics, which should help CIL get closer to its target EBITDA share of 50% from these businesses. This acquisition will likely impact CIL's margins negatively in FY12 since Sabero is likely to report a loss in FY12 due to low capacity utilisation. However, we expect the robust volume growth in the high margin (gross margin of > 40%) agro-chemicals segment to positively affect margins from FY14 onwards when we expect higher capacity utilisation in Sabero.

Focused on improving its distribution network outside Southern India

CIL is predominantly present in South India (Andhra Pradesh, Tamil Nadu, and Karnataka). However, it has a minuscule presence in the rest of the country, which it is now incrementally focusing on. With the intention of increasing its presence in North India, CIL has announced the setting up of a 800 tpd SSP plant in Punjab, which is scheduled to be operational by H1FY14. This will provide CIL with a toehold in the highly prospective markets of Punjab, Haryana, Uttar Pradesh, and Rajasthan. More importantly, as CIL expands its distribution network, it should help the company to channel higher sales of traded products in the North Indian market. Similarly, CIL's decision to acquire Sabero Organics should help it better understand the market of Western India.

Building brand and goodwill among farmers through farmer education initiatives

CIL not only caters to farmers' fertiliser requirements, but it also has taken initiatives to help and educate farmers. CIL has been helping farmers to sow crops for a nominal fee of INR4,500 per acre. It has already cultivated 5,000 acres under this scheme and aims to cultivate a total of 100,000 hectares by March 2014.

Acquisition of Sabero Organics

Coromandel has announced the acquisition of Gujarat-based agro-chemicals company Sabero Organics Gujarat Ltd. ("Sabero"), wherein it intends to acquire the promoters' stake of 42.2% at INR198.5 per share (including a non-compete fee of INR38.5 per share). CIL will also acquire an additional 31% of the shares, for which it has announced an open offer. The open offer began on 18 November and will close on 7 December 2011.

Sabero is a generic agro-chemicals player with a global presence and manufactures specialty and crop protection chemicals. In FY11, it reported sales of INR4.1bn, EBITDA of INR403m, and a net profit of INR106m. Its key business segment is pesticides, which contributed 95% of FY11 sales. Following the acquisition of Sabero, Coromandel will be among the five players in the Indian agro-chemical market.

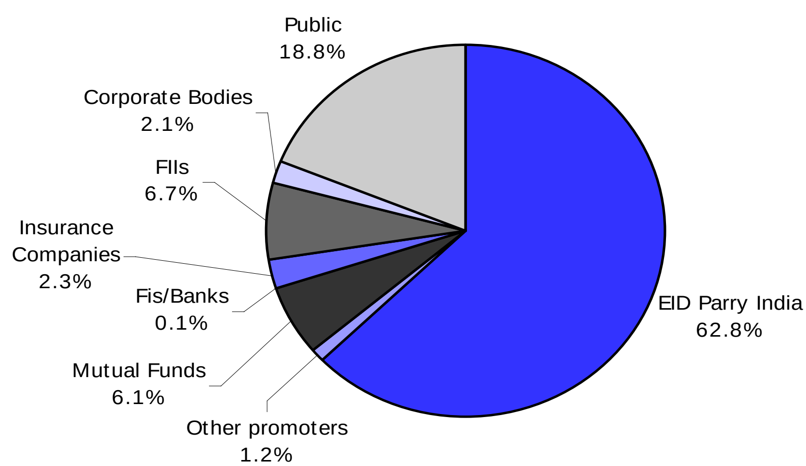
Company background

Company description

Coromandel International Ltd. (CIL) is a leading fertiliser company in India with its manufacturing facilities of DAP, SSP and other complex fertilisers making it the second largest player in India in phosphatic fertilisers. Apart from fertilisers, it also manufactures crop protection products including insecticides, fungicides, herbicides and plant growth regulators, and specialty nutrients, and has added a retail segment to its business portfolio.

EID Parry India Ltd. is the majority shareholder of the company, with a total shareholding of 63%.

Figure 14: Shareholding pattern



Source: Company data

Business description

The company has the following manufacturing locations:

Figure 15: Manufacturing facilities

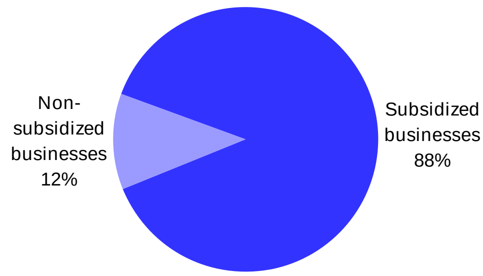
Plant	Capacity (mmt)	Key Products
Fertiliser plants		
Visak	1.30	28:28:00, 14:35:14, 20:20:00, 10:26:26
Kakinada	1.50	DAP, 12:32:16, 14:35:15, 10:26:26
Ranipet	0.12	SSP
Ennore	0.33	20:20:00, 16:20:00
Plant Protection chemicals plants		
Ankleshwar	na	Technicals
Jammu	na	Formulations

Source: Company data

The fertilisers business is the dominant segment with a revenue contribution of c.88% in FY11. It manufactured 2.6m tonnes of fertilisers in FY11, and traded in another 0.5m tonnes.

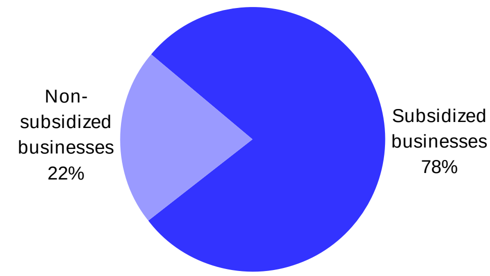
Crop protection is the second largest division of the company. This division along with other non-subsidised businesses contribute only 12% of revenue but more than 25% of the company's EBITDA.

Figure 16: FY11 revenue pie



Source: Company data, Deutsche Bank

Figure 17: FY11 gross margin pie



Source: Company data, Deutsche Bank

Due to the lack of phosphate resources in India, CIL has tied up with a number of international players for the supply of phosphate feedstock:

Figure 18: Feedstock tie-ups

Player	Region	Product	Quantity (mmt)
Phosphoric acid tie-ups			
FOSKOR, GCT, ICL and Sterlite	Tunisia, Israel	Phosphoric Acid	0.60
Captive production	India	Phosphoric Acid	0.23
Sub total			**0.83**
New Tifert JV	Tunisia	Phosphoric Acid	0.20
Total post Tifert JV			**1.03**
Other products			
	Israel, Togo, Algeria	Rock Phosphate	0.9
Canpotex	Canada	MOP	0.5
Mitsui	Japan	Ammonia, Sulphur	Ammonia 0.6
			Sulphur 0.3
JV with SQM	Chile	WSF, MAP	
	Arab Gulf	Urea	0.25

Source: Company data

Management profile

CIL's board is headed by Mr. A Vellayan in the capacity of Chairman. The board of directors comprises nine directors, of which one is an executive director (managing director), three are non-executive non-independent directors, and the rest are independent directors.

Figure 19: CIL board of directors

Name	Designation	Category
A Vellayan	Chairman	Non executive
V Ravichandran	Vice Chairman	Non executive
Kapil Mehan	Managing Director	Executive Director
M M Venkatachalam	Director	Non executive, Non Independent
K Balasubramanian	Director	Non executive, Independent
B V R Mohan Reddy	Director	Non executive, Independent
R A Savoor	Director	Non executive, Independent
M K Tandon	Director	Non executive, Independent
Ranjana Kumar	Director	Non executive, Independent

Source: Company data

Mr. Kapil Mehan is the managing director of CIL. He holds a PGDM from IIM Ahmedabad and is a graduate in Veterinary Science and Animal Health. He joined as MD of CIL in October 2010. Earlier he was associated with Tata Chemicals as CEO for its fertiliser business and took over as executive director in 2008.

Appendix A: Glossary

Figure 20: Glossary

DAP	Di-ammonium phosphate - Widely used complex fertiliser containing 18% nitrogen and 46% phosphorus
MAP	Mono-ammonium phosphate
MOP	Muriate of Potash - Straight potassic fertiliser containing 60% potassium
NBS	Nutrient based subsidy - Policy governing subsidy dole outs for non-urea fertilisers
NPK	Complex fertilisers - May contain varying proportions of nutrients N,P, and K
Salt	Comprises edible salt, salt for industrial use including de-icing, water softening
Soda Ash	Chemically sodium carbonate - It is commonly used in manufacturing of glass
SSP	Single super phosphate - Phosphatic fertiliser containing 16% phosphorus and 11-12% sulphur
TSP	Triple super phosphate
Urea	Most commonly used nitrogen fertiliser
WSF	Water soluble fertilisers

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Coromandel International	CORF.BO	300.15 (INR) 2 Dec 11	8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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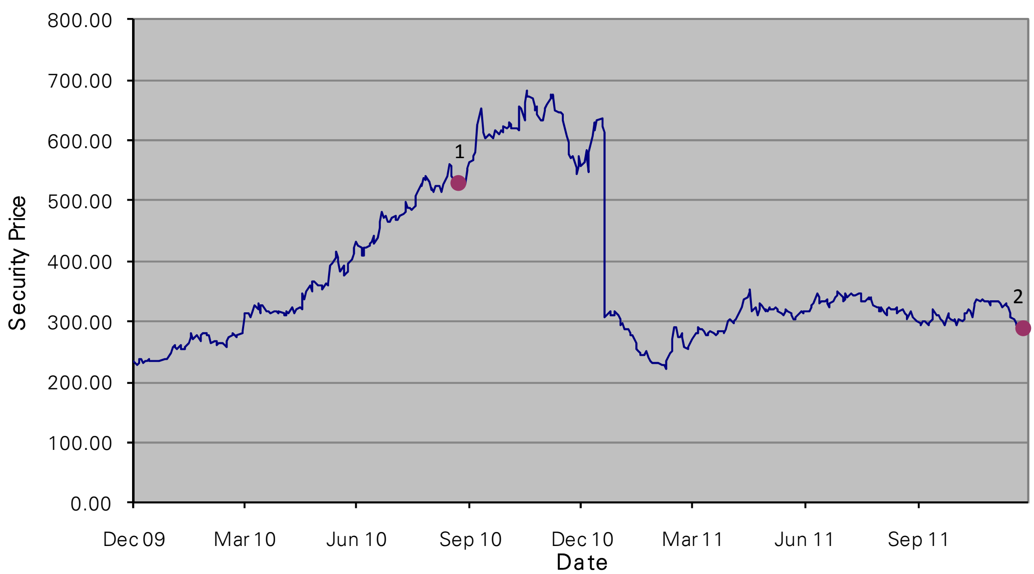
Historical recommendations and target price: Coromandel International (CORF.BO)

(as of 12/2/2011)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	26/8/2010:	Transferred to EMC coverage.	2.	28/11/2011:	Transferred to sector coverage.

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Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock
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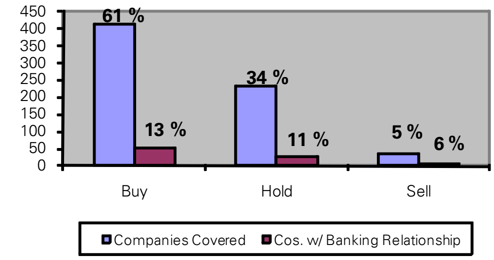

Asia-Pacific Universe

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