

May 31, 2011

Reco Previous **Reco**
Buy Buy

CMP **Target Price**
Rs 317 Rs 435

EPS change FY12E/13E (%) NA
Target Price change (%) NA
Nifty 5,560
Sensex 18,503

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	24	17	57
Rel. to Sensex	3	22	26	47

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri-input & Chemicals
Bloomberg	CRIN@IN
Equity Capital (Rs mn)	282
Face Value(Rs)	1
No of shares o/s (mn)	282
52 Week H/L	376/199
Market Cap (Rs bn/USD mn)	89/1,975
Daily Avg Volume (No of sh)	100206
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	64.1	64.1	64.2
FII/NRI	10.1	9.8	8.6
Institutions	9.0	8.9	9.8
Private Corp	2.2	2.3	2.2
Public	14.6	15.0	15.2

Source: Capitaline

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- Coromandel announced acquisition of Gujarat based agro chemical player - Sabero Organics, with investment of Rs 4.7 bn for 73% stake (42% promoters' and 31% via open offer)
- Valuations at EV / EBITDA of 14.6x, EV/Sales of 1.7x at deal price of Rs 160 / share (78% premium to yesterday's close) do not mirror true potential due to poor FY11 results
- Sabero's large portfolio of active ingredients (backward integrated) to support Coromandel's strong presence in formulations and drive synergy benefits
- Acquisition to also give Coromandel an opportunity to enter into exports markets. We view this acquisition positive for Coromandel and maintain our BUY recommendation

Coromandel acquires Sabero for Rs 4.7 bn

Coromandel International has announced acquisition of Gujarat based agro chemical player - Sabero Organics with an investment of Rs 4.7 bn. Company has plans to acquire promoters' stake of 42.2% at Rs 160 / share and non compete fee of Rs 38.5 / share resulting into cost of Rs 2.8 bn. The board has also approved open offer upto 31% (resulting into investment of Rs 1.8 bn).

Valuations do not reflect true potential of Sabero

At acquisition price of Rs 160 / share (78% premium to yesterday's close price) the deal is valued at EV/EBITDA of 14.6x and EV/Sales of 1.7x. Sabero has net debt of Rs 870 mn as on Mar'2011. We will like to highlight that Sabero's results were adversely affected in FY11 on account of lower production. Plant operations were affected due to debottlenecking. Sabero reported revenues of Rs 4.1 bn, EBITDA of Rs 469 mn and PAT of Rs 106 mn in FY11.

We expect strong synergy benefit going forward

Sabero has wide product portfolio in active ingredients which includes 8-9 key products like Mancozeb, Glyphosate, Monocrotophos, Acephate etc across the category like Insecticide, Herbicide and fungicide. However, Sabero has weak presence in formulations and branded products sales only accounted for 10% of company's revenues. On the other hand Coromandel enjoys strong brand presence and has significant presence in formulations. This acquisition will complement Coromandel's presence in agrochemicals market and will drive synergy benefits. Sabero also has presence in exports market (~55% of revenues) and has 240 registrations in 50 countries which will help Coromandel to mark its presence in these markets.

Acquisition still remains meager with ~2% contribution to PAT

Agrochemicals business contributes 6-7% to Coromandel's revenues and ~15% to bottomline. This acquisition remains small in size for Coromandel contributing 5% to revenues and ~2% to profits. However growth in agrochemicals business has been strong and we expect this acquisition will help Coromandel to drive growth in agrochemicals segment.

Financial Snapshot

Rs Mn

	Net	EBITDA	EPS	EPS	RoE	EV/				
YE-Mar	Sales	(Core)	(%)	PAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	62,388	5,787	9.3	3,953	14.1	(17.5)	30.1	22.5	16.9	5.9
FY11	73,588	8,139	11.1	4,561	18.8	33.6	30.3	16.8	11.8	4.5
FY12E	97,619	11,250	11.5	7,419	26.4	40.5	33.6	12.0	8.1	3.7
FY13E	112,424	13,785	12.3	9,069	32.3	22.2	33.1	9.8	6.6	2.9

Sabero Organics

Business Overview

Sabero Organics Gujarat Ltd. was established in 1991 and was promoted by the Chuganee family. The company is a generic agrochemical player with a global presence and manufactures specialty and crop protection chemicals. It has over 240 products registered in more than 50 countries and enjoys dominant market share in some of its key products.

Domestic sales accounted for 42% of total revenues in FY10 while exports accounted for 58% of the total revenues. Within the last couple of years, the company has entered into a few new markets, which are important for agrochemicals like Brazil, USA, Argentina etc and revenue contribution from these markets is likely to ramp up in the near future.

Sabero's Products Portfolio

SOL's products portfolio comprises of a balanced mix of fungicides, insecticides, herbicides and specialty chemicals.

Fungicides - Fungicides is the largest business segment of the company and it contributed ~40% to the company's revenues in FY10. Within this segment, Mancozeb is the highest selling product of Sabero. Mancozeb is the largest consumed fungicide in the world and Sabero is one of the leading producers of Mancozeb in India as well as globally.

Insecticides - Insecticides is the second largest segment of Sabero and it contributed ~34% of the total sales in FY10. The company's largest selling insecticide products within this segment are Acephate, Monochrotophos and Chlorpyrifos.

Herbicides - Herbicides accounted for ~20% of total revenues in FY10. Glyphosate is the largest consumed herbicide in the world and Sabero is one of the top players in Glyphosate both in India and globally.

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	62,388	73,588	97,619	112,424
Growth (%)	(33.6)	18.0	32.7	15.2
Expenditure	56,601	65,449	86,369	98,640
Materials Consumed	48,875	56,951	77,021	79,008
Power & Fuel	694	763	839	1762
Other Manufacturing Exp	1,706	1,877	2,065	4,336
Employee Cost	1,450	1,595	1,754	3,683
Other Exp	3,876	4,264	4,690	9,850
EBITDA	5,787	8,139	11,250	13,785
Growth (%)	(24.8)	40.6	38.2	22.5
EBITDA margin (%)	9.3	11.1	11.5	12.3
Depreciation	594	619	827	964
EBIT	5,193	7,520	10,423	12,820
EBIT margin (%)	8.3	10.2	10.7	11.4
Other Income	1,362	821	1,424	1,500
Interest expenses	782	839	723	723
PBT	5,773	7,502	11,123	13,596
Tax	1,819	2,941	3,704	4,528
Effective tax rate (%)	31.5	39.2	33.3	33.3
Adjusted PAT	3,953	4,561	7,419	9,069
Growth (%)	(17.3)	15.4	62.7	22.2
Net Margin (%)	6.3	6.2	7.6	8.1
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	3,953	4,561	7,419	9,069
E/O items	736.0	1,861.6	-	-
Reported PAT	4,689	6,423	7,419	9,069
PAT after MI	3,953	4,561	7,419	9,069
Growth (%)	(17.3)	15.4	62.7	22.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	4,411	6,681	9,700	12,097
Depreciation	594	619	827	964
Interest Provided	782	839	723	723
Other Non-Cash items	2,115	1,687	(990)	(429)
Chg in working cap	526	826	669	(4,171)
Tax paid	-1,819	-2,941	-3,704	-4,528
Operating Cashflow	6,608	7,712	7,225	4,657
Capital expenditure	(2,210)	(4,000)	(1,500)	(2,000)
Free Cash Flow	4,398	3,712	5,725	2,657
Other income	1,362	821	1,424	1,500
Investments	(60)	-	-	-
Investing Cashflow	1,302	821	1,424	1,500
Equity Capital Raised	(600)	-	-	-
Loans Taken / (Repaid)	3,271	(6,000)	-	-
Interest Paid	(782)	(839)	(723)	(723)
Dividend paid (incl tax)	(1,399)	(1,403)	(1,964)	(2,525)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	490	-8,242	-2,687	-3,248
Net chg in cash	6,190	-3,709	4,461	908
Opening cash position	3,415	9,605	5,895	10,356
Closing cash position	9,605	5,895	10,356	11,265

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	281	281	281	281
Reserves & surplus	14,735	19,581	24,046	30,160
Net worth	15,015	19,861	24,326	30,441
Minority Interest				
Secured Loans	5,946	5,946	5,946	5,946
Unsecured Loans	14,523	8,523	8,523	8,523
Loan Funds	20,470	14,470	14,470	14,470
Net deferred tax liability	855	855	855	855
Total Liabilities	36,340	35,186	39,651	45,765
Gross Block	13,074	14,538	18,538	20,038
Less: Depreciation	4,962	5,580	6,407	7,372
Net block	8,112	8,958	12,131	12,666
Capital work in progress	1,464	4,000	1,500	2,000
Investment	1,693	1,693	1,693	1,693
Current Assets	35,101	37,937	44,791	50,921
Inventories	9,264	15,121	16,314	18,789
Sundry debtors	1,398	2,056	3,477	4,004
Cash & bank balance	9,605	5,895	10,356	11,265
Loans & advances	14,834	14,865	14,643	16,864
Other current assets	-	-	-	-
Current lia & Prov	10,031	17,402	20,463	21,515
Current liabilities	9,069	16,441	19,502	20,553
Provisions	961	961	961	961
Net current assets	25,071	20,535	24,327	29,406
Misc. exp	-	-	-	-
Total Assets	36,340	35,186	39,651	45,765

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	9.3	11.1	11.5	12.3
Net Margin	6.3	7.2	7.6	8.1
ROCE	20.0	23.3	31.7	33.5
ROE	30.1	30.3	33.6	33.1
RoIC	21.9	31.9	41.9	45.1
Per Share Data (Rs)				
EPS	14.1	18.8	26.4	32.3
CEPS	16.2	21.0	29.4	35.8
BVPS	53.5	70.8	86.7	108.5
DPS	10.0	7.0	9.0	9.0
Valuations (x)				
PER	22.5	16.8	12.0	9.8
P/CEPS	19.5	15.1	10.8	8.9
P/BV	5.9	4.5	3.7	2.9
EV / Sales	1.6	1.3	0.9	0.8
EV / EBITDA	16.9	11.8	8.1	6.6
Dividend Yield (%)	1.6	2.2	2.8	2.8
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.3	0.1	0.0
Net Debt/EBIDTA	1.6	0.8	0.2	0.1
Working Cap Cycle (days)	9	4	1	7

Recommendation History: Coromandel International – CRIN IN

Date	Reports	Reco	CMP	Target
25/04/2011	Coromandel Intl Q4FY11 Result Update	Buy	324	435
13/01/2011	Coromandel Intl Q3FY11 Result Update	Buy	279	435
21/10/2010	Coromandel Intl Q2FY11 Result Update	Buy	674	870
22/07/2010	Coromandel Intl Q1FY11 Result Update	Buy	508	565

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/05/2011	Tamilnadu Newsprint Q4FY11 Result Update	Buy	127	180
30/05/2011	GNFC Q4FY11 Result Update	Buy	103	157
30/05/2011	GSFC Q4FY11 Result Update	Buy	356	530
24/05/2011	Tata Chemicals Q4FY11 Result Update	Accumulate	352	400

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