

# THE BEST STOCK TO ADD TO YOUR PORTFOLIO THIS MONTH IS HERE!

**JUNE 2020**

**Coromandel International**

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- Shortlisting basis our top Mojo Scores
- Doing detailed Investment Case
- Looking at the future of this company and sector
- Single focus on maximizing returns with minimal risk



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## STOCK OF THE MONTH

# Coromandel International

<b>CMP</b>	<b>Rs. 669.0</b> Price as of 10 June 2020
<b>Decision</b>	<b>BUY</b>

### SUMMARY

- One of the finest players in the fertilizer industry with impeccable financial record
- The company maintained its growth trajectory in FY 20 where its net profit grew by 48 percent (March quarter net profit increased by 112 percent)
- Recently, the company's Managing Director-Sameer Goel tenure got extended till 31st January 2023. The company has done well under his leadership. His extension gives excellent comfort to the investors
- The company's borrowings for the year ended March 2021 decreased to Rs 1625 crore as against last year of Rs 2954 crore. Most of the loans are of a short-term nature.
- The agriculture sector is likely to remain insular from corona impact, and hence the company should be able to report growth in FY21
- The new government stimulus package is targeted towards rural economy and agriculture. This augurs well for Coromandel
- The company's operating cash flow from operation for FY 20 increased smartly to Rs 1862 crore as against last year of Rs 526 crore
- The company has increased its dividend payout ratio. Dividend per share increased to Rs 12 per share as against the previous year of Rs 6.50 per share. The present price is cum dividend.
- The company enjoys a healthy ROE of 27.7 percent
- Our technical indicator suggests a Bullish trend

### WHO SHOULD BUY

Risk Appetite	<b>Low Risk</b>
Expectations	<b>High Return</b>
Portfolio Sector Exposure	<b>&lt;30% (Fertilizers)</b>
<i>If sector exposure &gt; 30%, use Portfolio Optimizer tool</i>	

### STOCK INFO

BSE	506395
NSE	COROMANDEL
Market Cap	Mid Cap (Rs. 19,600 Cr.)
Sector	Fertilizers
52 w H/L (Rs.)	336.50/699.90
Average Vol (6M)	Rs. 22.7 Cr.
Equity Capital (Rs.)	29.3 Cr.
Book Value per share (Rs.)	147.38

### STOCK PERFORMANCE

Price as of 10 June 2020

Period	1M	YTD	6M	3Y
Coromandel Int. (%)	9.8	25.7	55	55.7
Sector Index (%)	13.4	7.6	-1.8	-17.8
Sensex (%)	8.2	-17.0	-13.92	9.55

### KEY RATIOS

PE ratio	18.06
PB ratio	4.46
Dividend Yield	1.83%
ROE	24.67%
ROCE	25.13%
D/E	0.45
EPS	7.99
EPS (diluted)	7.96

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- By research team  
(research@marketsmojo.com)

## INVESTMENT ARGUMENT

A part of the reputed Murugappa group Coromandel international has an impeccable financial record. The company did exceptionally well under the leadership of Sameer Goel-MD of the company. Goel is an IIM Ahmedabad Alumni and worked with Glaxo SmithKline Healthcare company for almost 25 years. Before joining in October 2015, Goel worked with Cipla as a country head. Under Goel leadership, Coromandel saw smart growth in profitability. In March 2015, Coromandel had a net profit of Rs 402 crore, and the same increased to Rs 1065 crore for March 2020.

Coromandel International's main business is the manufacturing and sale of phosphatic fertilizers. It also has crop protection business accounting for 12 percent of the consolidated revenue. The company's product range includes Bio Pesticides, Specialty Nutrients, Organic Manure, and Retail.

When India Inc is facing pressure due to demand slowdown, Coromandel is likely to perform well in FY21. Despite the COVID crisis, the agriculture sector will remain insular to demand shock. The Government stimulus package on Agri and the rural economy also augurs well for the company. This year Southwest monsoon is expected to be good, resulting in better demand for fertilizers and crop protection. This makes us believe that Coromandel should do well in FY21. Even Kaleshwaram project will increase water availability in the northern districts of Telangana- a key market for Coromandel.

For the year ended 2020. The company's sales were almost at the same level, but EBITDA improved by 20 percent to Rs 1732 crore. Net profit increased by a healthy 48 percent to Rs 1065 crore. There are a couple of reasons the company did well. Firstly, last year, India received above-normal monsoon helping farmers to produce more. Due to better monsoon, reservoir levels are also good in the company's key markets. The company, at the same time, focused on cost and operational efficiencies. In the second phase of FY 20 company's crop protection business (which did not do well in the first half) did well, helping the company to report better financial numbers. In the last few years, the company started focusing more on manufactured products and reducing its trading volume, helping to expand margins. For FY21, management has guided that their manufacturing volume will increase by 6 percent. India very recently saw a locust attack. The company has two products, Malathion and Nemazole, to use against locust attack. This could also offer some business opportunities.

Recently EID Parry (promoter) sold almost 2 percent stake in the open market, yet scrip did not correct. On the contrary, the scrip surged post-sell suggests that demand for the company's share is very high. Typically big sell in the open market creates pressure on the counter. This gives more comfort to us, suggesting buy on the counter.

But there are a couple of concerns too. Recently Agriculture ministry floated a draft proposal giving 45 days window to agrochemical manufacturers to respond. The draft proposal talks about banning 27 pesticides that include products manufactured by the Coromandel too. There are four company's products that can be prohibited - Mancozeb, Malathion, Acephate, and Monocrotophos. These four products account for about 6.5 percent of the consolidated revenue. Any adverse ruling on this could impact the company's profitability and sentiments on the counter.

The second concern is about the release of the subsidy. Almost 78 percent of the company's revenue is from the subsidy segment. This year government finances would be stretched due to slowdown and stimulus. This can result in a delay in realizing a subsidy impacting the company's working capital cycle. One good thing is that for the year ended March 2020, Coromandel subsidy receivable has marginally decreased to Rs 2316 crore against the previous year's figure of Rs 2393 crore. Coromandel has a very low debt-equity ratio, and higher working capital loans should not be much of the worry.

At present, the company has a score of 75. It boasts of Good Quality with a Positive Current Financial Trend. The company currently has a Fair Valuation. Technical indicators are Bullish, suggesting further upside.

We recommend buying on the counter.

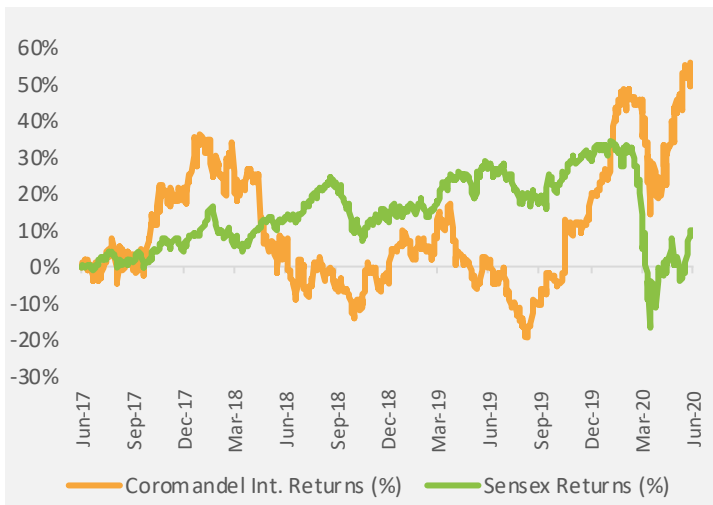
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- By research team  
(research@marketsmojo.com)

## Exhibit 1

### Coromandel Inter. vs Benchmark (Returns)



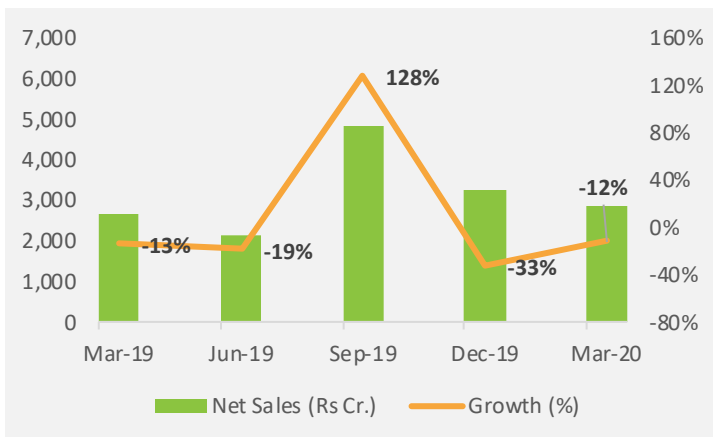
## Exhibit 2

### Coromandel Inter. Price Movement



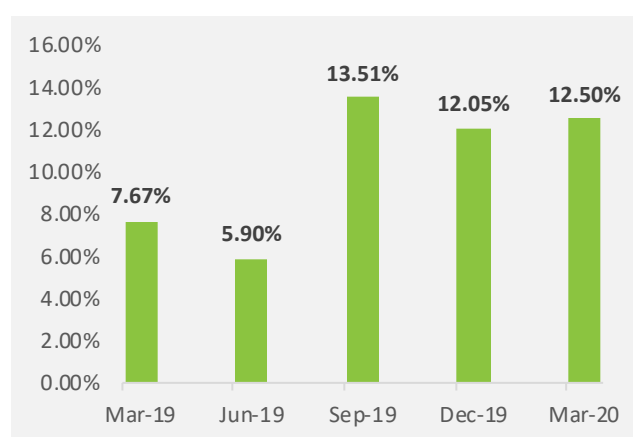
## Exhibit 3

### Sales Growth



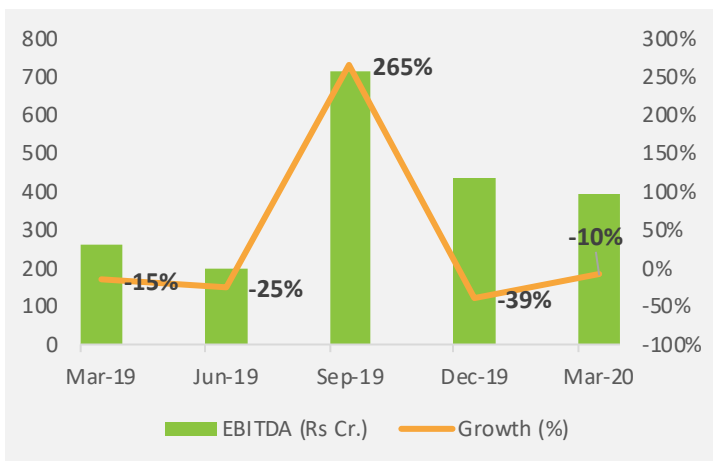
## Exhibit 4

### Gross Profit Margin



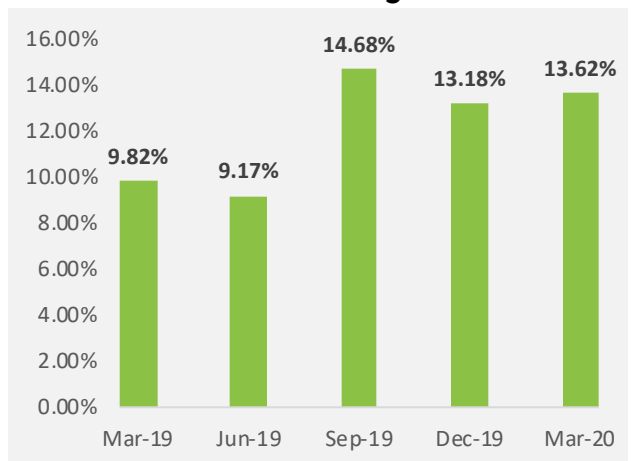
## Exhibit 5

### EBITDA Growth



## Exhibit 6

### EBITDA Margin

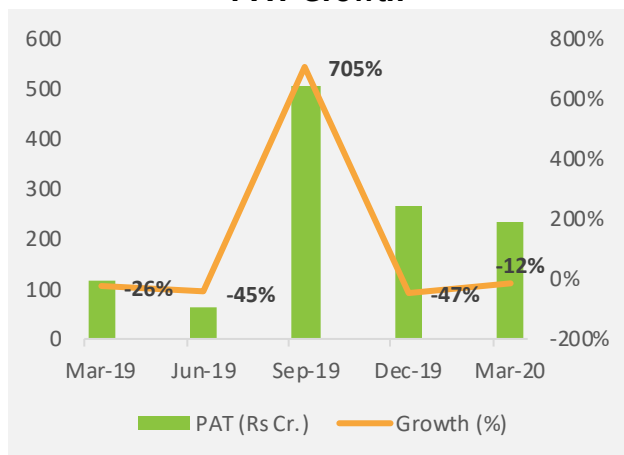


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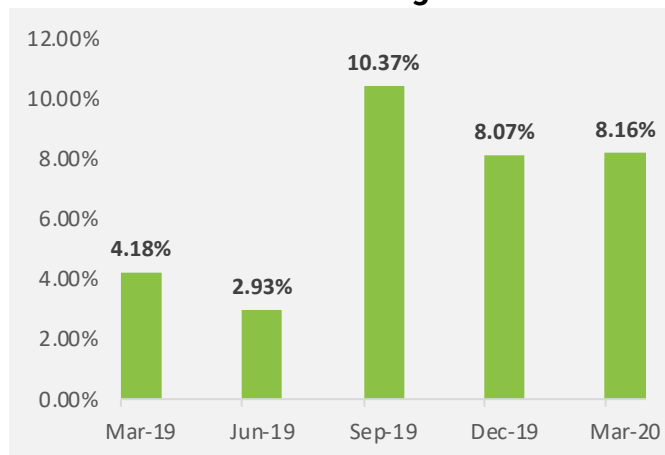
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**Exhibit 7**  
**PAT Growth**



**Exhibit 8**  
**PAT Margin**



**Exhibit 9**  
**Variance Analysis**

	Mar'20	Dec'19	QoQ	Mar'19	YoY	Comments
Total Operating income	2,869.32	3,278.65	-12%	2,638.34	9%	Fell in QoQ but grew YoY
Total Expenditure (Excl. Depreciation)	2,478.61	2,846.67	-13%	2,379.36	4%	Expenditures have decreased QoQ
Operating Profit (PBDIT) excl Other Income	390.71	431.98	-10%	258.98	51%	Operating Profit has increased YoY
Other Income	11.5	9.08	27%	8.62	33%	
Operating Profit (PBDIT)	402.21	441.06	-9%	267.6	50%	
Interest	43.43	45.91	-5%	65.28	-33%	
Depreciation	45.05	40.8	10%	35.09	28%	
Profit Before Tax	313.73	354.35	-11%	167.23	88%	Fell QoQ but grew YoY
Tax	79.96	89.91	-11%	53.33	50%	
Profit After Tax	233.77	264.44	-12%	113.9	105%	Grew by over 100% (YoY)

**Exhibit 10**  
**Margins**

	Mar-20	Dec-19	Sep-19	Jun-19	Mar-19	Avg. (4 Qtrs)	Comments
GPM	12.50%	12.05%	13.51%	5.90%	7.67%	10.33%	Higher than Average (4 Qtrs) - Promising
OPM	13.62%	13.18%	14.68%	9.17%	9.82%	12.09%	Higher than Average (4 Qtrs) - Promising
NPM	8.16%	8.07%	10.37%	2.93%	4.18%	6.74%	Higher than Average (4 Qtrs) - Promising

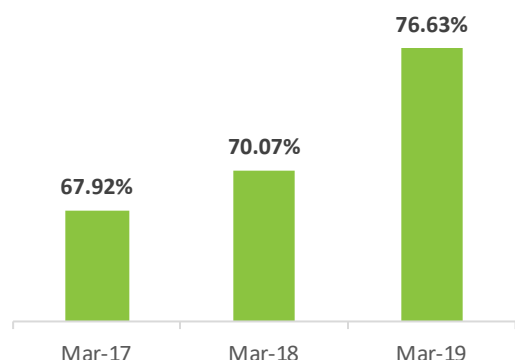
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## Exhibit 11

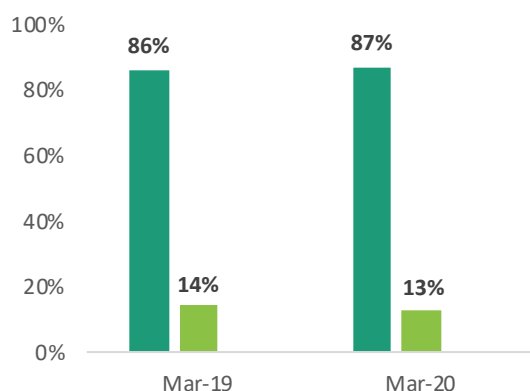
### Raw Materials (% Gross Sales)



Total Raw Material Cost (RMC) as % Gross Sales has increased in the last year

## Exhibit 12

### Finished Goods (% Gross Sales)



Nutrient & other Allied Business remained the highest in the category.

There hasn't been any major change, in the segment wise revenue figures.

■ Nutrient & other Allied Business ■ Crop Protection

## COMPANY BACKGROUND

Coromandel Fertilizers (CFL) is engaged in manufacturing of fertilizers, plant protection chemicals and specialty nutrients. CFL markets around 2.5 million tones of phosphatic fertilizers making it a market leader and it is the second largest phosphatic fertilizer player in India.

Coromandel has also ventured into the retail business setting up more than 425 rural retail centers in the Agri and Lifestyle segments. In its endeavor to be a complete plant nutrition solutions company.

Coromandel has also introduced a range of Specialty Nutrient products including Organic Fertilizers.

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