Exchange:	BSE
Sector:	Agriculture
Ticker Symbol:	COROMANDEL

BUY

Target Price: INR 590	**Current Price: INR 514.60**	**Upside: 14.7%**
(March 31, 2018)	**(November 12, 2017)**	

Coromandel International Limited is company engaged in the business offering farming solutions through Fertilisers, pesticides and manure. It is a part of the INR 395 bn Murugappa group headquartered in Secundarabad, India.

For the valuation, we deployed a 3 stage DCF model. At 9.90% WACC, the model gives a target price of INR 590 at an upside of 14.5%. Valuation using multiples like P/E and EV/EBITDA gives a target price of 602 and 607 respectively. Plot of P/E vs ROCE amongst the peers in the fertilizer industry shows that the company is attractive (cheap) based on current valuation.

INVESTMENT THESIS

Direct Benefit Transfer (DBT), Nutrient Based Subsidy (NBS): Coromandel is poised to be the biggest beneficiary in the complex Indian fertiliser space with the implementation positive policy measures as DBT, NBS. NBS will benefit in the long term by easing working capital pressure and lesser volatility in earnings, due to its raw material linkages, scale of operations, operational efficiencies.

Strategic Partnerships: The fertiliser segment, has of long term tie-ups with Foskor, South Africa and Group Chemique, Tunisia, for phosphoric acid along with supply agreements for Ammonia and Sulphur with Mitsui. Furthermore, its stake in Andhra Pradesh Gas Power Plant removes volatility in power supply.

Robust Marketing and improved operations: The company's marketing strength comes by means of direct contact with farmers through Mana Gromor Centres. The company has also witnessed improvement in operational efficiency in Retail & Single Super Phosphate (SSP) businesses after streamlining its supply chain and process efficiencies.

Expansion across Portfolio: The company's crop protection segment is also likely to benefit from the addition of new capacities for its key molecule, Mancozeb. This will be supported by brownfield expansion at Dahej plant (10,000TPA). We expect it to provide the company with scale and help it take advantage of the demand in international markets.

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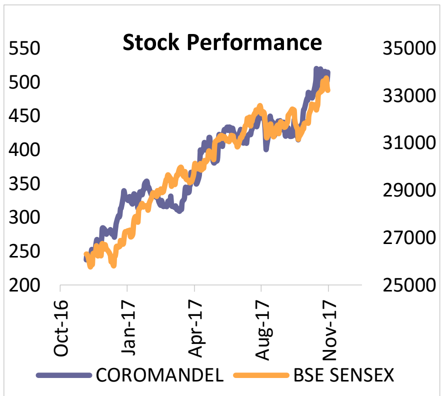
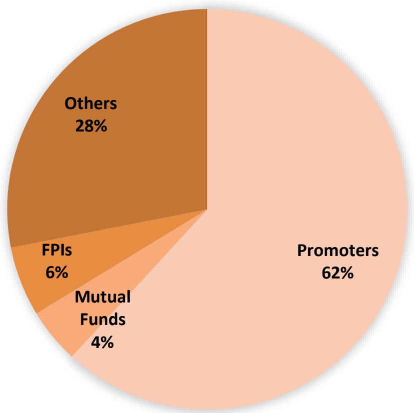
Market Overview

Bloomberg Ticker	CRiN IN
Sector	Fertilisers
Exchange	BSE
Industry	Fertilisers
Current Price	INR 541.6
Market Cap (INR bn)	150.38
53 wk H/l	INR 229.5 / INR 542.9
Avg Volume ('000)	310.8
P/E	22.31
EPS Trailing 12m	23.07
Target Price	INR 559



ABOUT THE COMPANY

SHAREHOLDING PATTERN



Source: BSE

CREDIT RATING	
CRISIL	
Long Term	*AA+*
Short Term	*A1+*
Outlook	*Stable*

Source: CRISIL

Coromandel International Limited (formerly Coromandel Fertilisers Limited) was incorporated in 1961. A flagship company of the INR 395 bn Murugappa Group, it offers farming solutions through Fertilisers, Crop protection, Specialty Nutrients and Organic compost. It is headquartered in Secundarabad, Telangana. The company is a subsidiary of E.I.D. Parry (India) Limited, which holds 60.74% of the equity share capital.

It operates in the business of fertilisers, specialty nutrients, crop protection, rural retail and is India's largest private sector Phosphatic fertiliser producer and is also the lead in organic manure producer. It has a wide portfolio of over 60 brands. In FY17, the company earned revenues of INR 102.39 bn and an EBITDA of INR 10.36 bn.

The company has 15 manufacturing facilities in India, located in the 9 Indian states. It has a network of over 800 rural retail outlets under its retail network in its core market of Andhra Pradesh, Karnataka and Telangana, which is the largest rural retail chain across India. Also, it has over 9000 retail touchpoints.

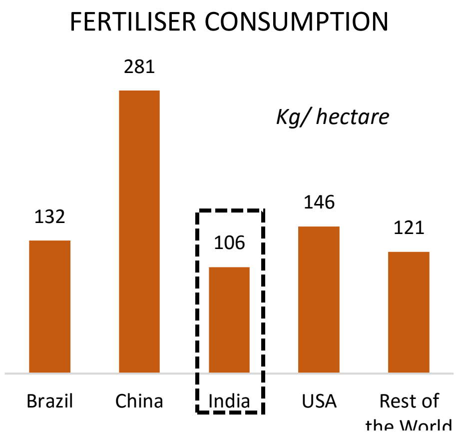
The company caters to 2 mn farmers, covering a total retail space of 0.7 mn square feet. Its market extends beyond India, to 71 countries, including China and several Latin American, African, South East Asian and Middle East countries. It has a 40% share in the exports in the sector. The company has 13 subsidiaries. It also holds strategic positions in the following firms to secure supply of Phosphoric acid, a key raw material:

- Foksor Pty Ltd (14% stake)
- Tunisian Indian Fertilisers (TIFERT) (15% stake)

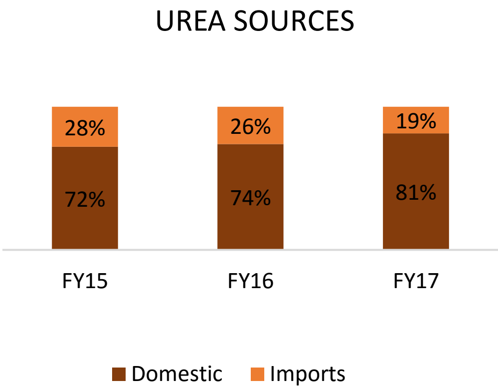
Furthermore, it also holds a stake of 8.13% in Andhra Pradesh Gas Power Corporation Limited to ensure its power requirements are met.

INDUSTRY OVERVIEW

India is the third largest agricultural producer in the world. Despite this, there are several issues that plague the sector, such as low mechanisation, rain fed irrigation, lower crop yield, less nutrient and crop protection usage, etc. These factors provide culminate into a good scope for agriculture support industries as follows:



Source: FAO, IFA



Source: Ministry of Commerce & Industry

INCREASING PEST PROBLEM

Number of Pests in crops	1940	2017
Rice	10	17
Wheat	2	19
Sugarcane	2	43
Ground Nut	4	12
Mustard	4	12
Pulses	6	34

Impetus for improving agriculture: The Indian government aims to double farm income by 2022. The budgetary allocation for agricultural development is INR 5.5bn. It plans on improving irrigation, developing infrastructure and storage.

Make in India: To reduce reliance on imports, the government of India is encouraging domestic production. This involves connecting fertiliser units with new gas pipelines and bringing n the support of the cash rich coal and oil Public sector companies. One such policy target is to become self – sufficient in Urea by 2022. The policy push's impact can be seen in the reducing share of urea imports over the past 3 years.

Scarcity of Nutrients: Over 90 mn agricultural land has nutrient deficient soil and over 50% districts have low nutrient content. This scarcity relates to all the three basic nutrient components – Nitrogen, Phosphorous and Potassium.

Unbalanced Nutrient Applications: One of the major reasons behind low crop yield in India is the insufficient and grossly unbalanced nutrition. Since Urea is available at a subsidised price, it is over applied. Potassium and Phosphorous are deregulated and therefore face lower demands.

Increased Pest Problem: Increase in the pest numbers serves as a healthy signal for herbicide manufacturing. As such, the crop protection (kg/ hectare) in India stands at 0.6, much lower than that of advanced economies, which lies at 7 for USA, 12 for Japan and 13 for China.

Increased scope for Water Soluble Fertilisers: 54% of India faces extremely high rain shortfall. The recurring droughts of 2014, 2015 and 2016 led the Indian government to shift towards micro irrigation, which is ideal for water soluble fertilisers. The initiative, More Crop Per Drop that aims to increase micro irrigation coverage from the present 8 mn hectare to 69 mn.

FINANCIAL ANALYSIS

Solvency Analysis:

	FY 14	FY 15	FY 16	FY 17
Debt to Capital	44.4%	51.0%	50.4%	43.5%
Debt to Equity	0.62	0.97	0.93	0.79
Interest Coverage Ratio	3.4	3.85	3.32	4.18

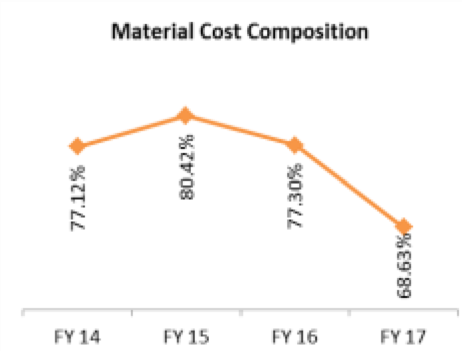
Debt to capital and Debt to equity ratios have declined recently signalling towards a positive financial health of the company. Improving leverage scenario has led to improvement in interest coverage ratio which improves the solvency of the firm and it can raise debt at a preferable rate giving it an advantage as farm mechanisation strengthens in India.

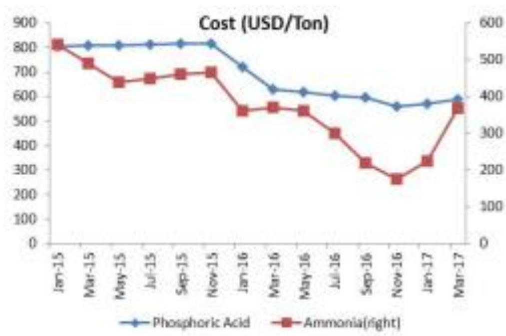
Liquidity Analysis:

	FY 14	FY 15	FY 16	FY 17
Current Ratio	1.15	1.13	1.15	1.22
Quick Ratio	0.77	0.73	0.77	0.91

Current Ratio and Quick Ratio of the firm has improved from FY 16 to FY 17 giving a positive outlook as far as the liquidity is concerned.

Material Expense:





We can see a decline in the material cost composition from FY 16 to FY 17 due to softer raw material prices as can be seen in graph consisting of the cost of Phosphoric Acid and Ammonia. With prices, likely to be locked in using contracts, we can expect that it leads to higher margins for next 1-2 quarters.

Activity Ratio Analysis:

	FY 14	FY 15	FY 16	FY 17
Total Asset Turnover Ratio	1.22	1.61	1.29	1.20
Inventory Turnover Ratio	5.69	5.09	4.97	5.91
Receivables Turnover Ratio	3.24	2.91	2.47	2.05
Payables Turnover Ratio	2.31	2.35	2.02	1.80
Cash Conversion Cycle	18.9	41.8	40.5	37.0

Improved inventory turnover is reflective of how efficiently the inventory has been managed over past year. This has improved the cash conversion cycle and will lead to faster realisation of revenues.

Profitability Analysis:

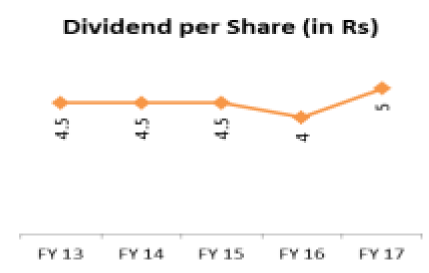
	FY 14	FY 15	FY 16	FY 17
Net Profit Margin	3.67%	3.57%	3.14%	4.75%
ROCE	19.79%	18.89%	15.87%	18.55%
ROE	15.42%	18.62%	15.18%	16.95%

The profitability margins have improved in the past one year. A lot of this can be attributed to the operational efficiency as can be seen from the turnover analysis. Also, the raw material prices have softened over the past year leading to higher margins.

With agricultural reforms targeting doubling farmers' income by 2022, improved minimum support prices and government's focus towards improving soil health and rural technology, we can expect an upward trajectory as far as profitability for Coromandel International is concerned.

Following factors will also support the financials:

- Higher contribution from unique grade fertilisers and crop protection segment
- Higher operating leverage due to better utilization rate in fertilisers and higher usage of captive phosphoric acid (Management is targeting 90% utilization in FY18)
- Low channel inventory due to higher liquidation of channel inventory and healthy demand



Dividend Per Share:
Dividend per share has been stable for the company. From FY 16 to FY 17, the DPS increased from INR 4 to INR 5. This is a positive signal for the investors as it signals towards a stable cash flow from operations as far as the business is concerned.

VALUATION

Fundamental Analysis: Stable cash flow projections and the relatively growing business owing to the farm mechanisation prospects in India are the reasons we chose a 3 step DCF valuation technique. In the first 4 years, we estimated the free cash flow to the firm (FCFF) and then followed the subsequent steps:

1. Next 4 years, we assumed a growth rate of 10%.
2. Finally, we assumed a terminal growth rate of 4% and obtained the present value of the free cash flows to the firm.

WACC Determination: Using the CAPM model, we determined the cost of equity. We assumed the risk free to be 6.96% in line with the yield on 10yr. Treasury bond in India. The market return rate was determined using CAGR of 5-year return on SENSEX index. Historical beta of 1.06 was used from Bloomberg.

The company has a cost of debt of 8.5% derived from interest cost and outstanding debt. According to CRISIL, its long-term rating is AA+ and its short-term rating is A1+.

We assumed the terminal growth rate to be 4%.

Risk free rate	**6.96%**
Market return rate	12.68%
Risk Premium	5.72%
Beta	1.06
Long Term Rating	AA+
Short Term Rating	A1+
Cost of debt	8.5%
Cost of equity	13.02%
Debt/Equity	0.79
WACC	9.90%
Terminal Growth Rate	4.00%
Tax Rate	30%

(in Rs mn)	2018 E	2019 E	2020 E	2021 E
EBIT	10500	12420	14120	16000
EBIT after tax	7350	8694	9884	11200
YoY growth	19.0%	18.3%	13.7%	13.3%
Depreciation & Amortisation	1074	1145	1220	1298
Working Capital Change	2833	1326	1032	987
Capex	-2000	-2100	-2205	-2315
FCFF	9257	9065	9931	11169

Assuming growth rate to be 10% for next 4 years from 2022 to 2025 and terminal growth rate of 3% thereafter,

PV (2022-2025)	30694		
PV (terminal)	114675		
PV (2018-2021)	31066		
PV (Total FCFF value)	176435		
Market value of debt	4236		
Market value of equity	172199		
Shares Outstanding	292	Entry Price	515
Share price	590	Upside	14.5%

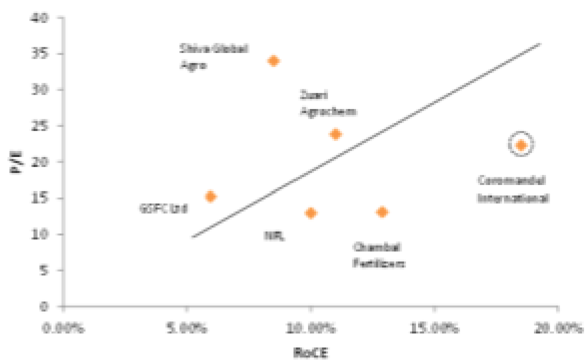
Sensitivity Analysis

		WACC								
	590	8.30%	8.70%	9.10%	9.50%	9.90%	10.30%	10.70%	11.10%	11.50%
Terminal growth	0%	764	707	657	613	575	540	510	482	457
	1%	770	712	661	617	578	544	513	485	460
	2%	775	717	666	622	582	547	516	488	462
	3%	781	722	671	626	586	551	519	491	465
	4%	787	727	675	630	*590*	554	522	494	468
	5%	792	732	680	634	594	558	526	497	471
	6%	798	737	684	638	597	561	529	500	473
	7%	803	742	689	642	601	565	532	503	476

Attractiveness in the sector (P/E vs RoCE plot):

We create a scatter plot of P/E ratio and Return on Capital Employed (in %) for all the major firms in the fertilizers industry. From the plot, we can clearly observe that Coromandel International is cheap as compared to its peer group and thus attractive at its current valuation.

Technical Analysis: We observe that Coromandel International has been trading in a channel with the lower end of the channel clearly being the support on 3 occasions. Using Fibonacci Retracement Analysis, we consider the 123.6% level (price level 627) as our target profit price.



INVESTMENT RISKS:

Delay in Kakinada plant: Any delay in the execution plan of Kakinada plant on ground of increasing pollution or land acquisition might pose a great threat to the balance sheet of Coromandel international. The incurred cost for the plant will be an opportunity cost and might be risky for out valuation.

Supplier Side risk: Even when Coromandel has already tied up for two raw materials like up for phosphoric acid and rock phosphates, any issue from supplier side may be hazardous for company. Also, Cost of raw materials might shoot due to high volatility associated with crude oil prices, which direct increases the cost of production.

Fluctuations of exchange rates: Large part of revenue comes from government as part of subsidy; any fluctuation is the exchange rate will lead to under recovery of the subsidy revenue; direct impact on the business profitability of the company.

Lower expected GDP growth for 2018- The expected GDP growth for 2018 has reduced from 7.4% to 6.9% (*Fitch rating*) after the GDP growth flattered in the first quarter of the current fiscal year. The last quarter's economic activity has been disrupted by firms who were trying to manage their inventories ahead of implementation of GST.

Regulatory Risks:

- Poor handling of hazardous material like ammonia in Kakinada might create problem in approval like previous case of Kakinada; impacting operations
- Pollution concern from pollution control board might delay operations
- With government's continuous rural focus and increase farm produce, government is expected to focus more on subsidy disbursements front.

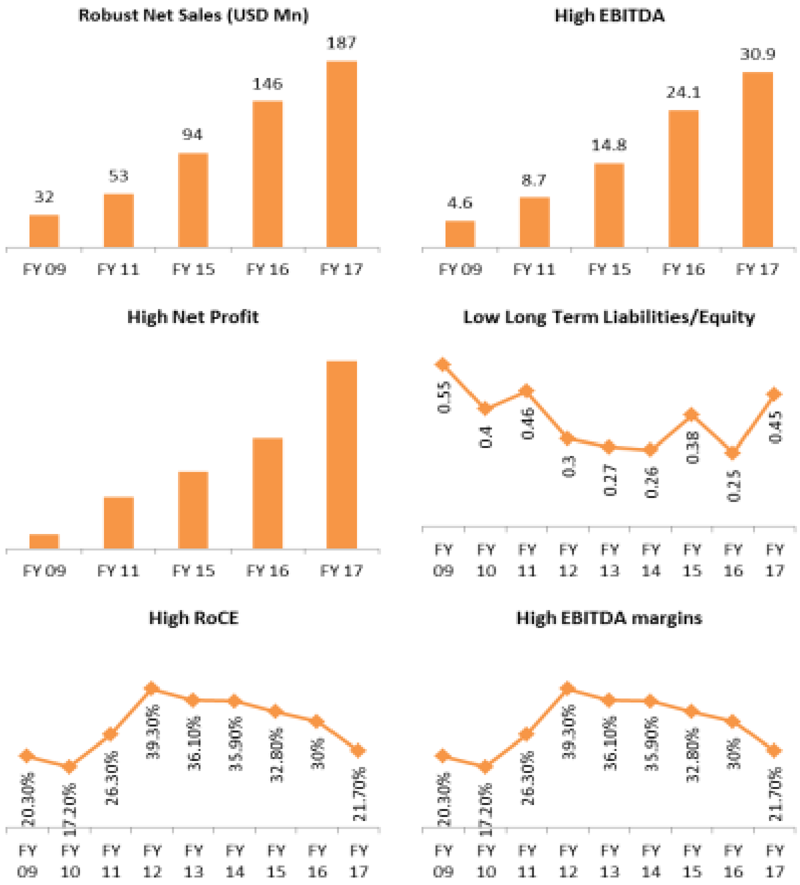
OTHER INVESTMENT RECOMMENDATIONS:

1. SUPRAJIT ENGINEERING LIMITED: BUY

Ticker (Bloomberg)	Industry	Current Price	Target Price	Market Cap	P/E	52 wk Range	Avg. Daily Trading Vol. (3m)
SEL IN	Auto	INR 273.70	INR 322	INR38.88(bn)	52.79	Rs 175-338	Rs 39.7(mn)/day

About the Company: Through its strategic acquisitions and 20 plants across the globe, Suprajit has cemented itself as India's largest manufacturer of automotive cables (Top 5 cable manufacturers in the world) with a total capacity of nearly 340 mn (cables and lamps). Top 10 customers include Hero MotoCorp, TVS Motors, Renault/Nissan etc.

Robust Financials:



Investment Thesis:

- **Positive India Story:** Passenger vehicles, commercial vehicles and 2 & 3 wheelers segments are expected to grow by 27%, 30% and 10% respectively leading to a demand for the auto-components.

- **Low Concentration Risk:** Diversification of revenue across categories (Automotive-2-wheeler- Aftermarket- Non-Automotive split: 24:37:23:16) and geographies (Global-Domestic split: 40:60) reduces concentration risk.
- **Low cost structure:** With "Automatic Headlight On" becoming mandatory, Phoenix Lamps' long life bulbs can command a premium over LED bulbs given the lower cost structure.
- **Mandatory Combi brake system/ Anti-lock brake system for 2 wheelers** provides a growth opportunity.

Valuation:

Considering a forward P/E ratio of 28x, based on projected earnings of FY 18 earnings, target price is INR 322. The deliverable % is 74.75% which refers to bullishness for the stock, strengthening our recommendation.

Investment Risks:

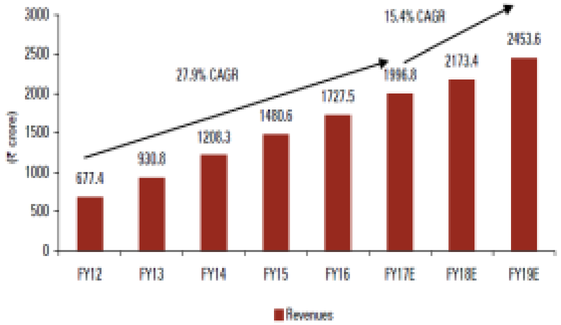
- Significant exposure of revenue to exports. (Currency fluctuation)
- Prolonged impact of GST implementation.
- Introduction of electric vehicles can be a risk.
- Delay in certification of H7 product line in US and Europe.

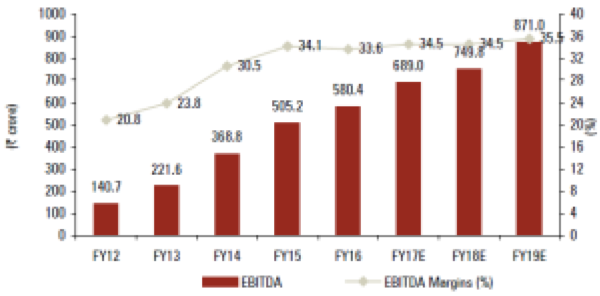
2. AJANTA PHARMA LTD

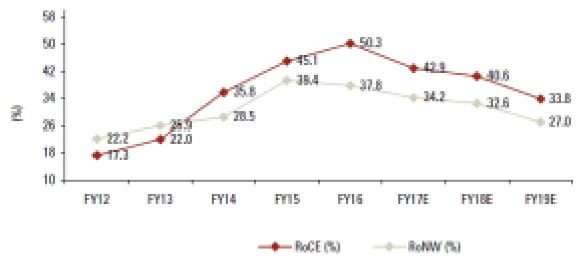
Ticker (Bloomberg)	Industry	Current Price	Target Price	Market Cap	P/E	52 wk Range	Volume
AJP IN	Biotech & Pharma	INR 1,205.20	INR 1542.5	INR 106.075B	20.93	Rs 1,106.00 - 1,990.80	85,250

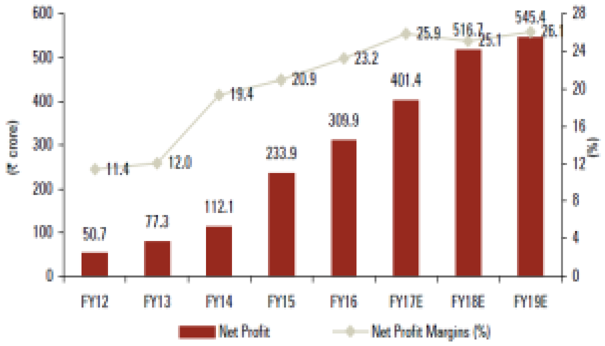
About the company: Established in 1973 as repackaging unit, soon it ventured into new therapy area of ophthalmic products and introduced ophthalmic based herbal products. For FY17 the Exports: Domestic formulation ratio was 68:32 They focus on first to market products in India. It is ranked 33 in pharmaceutical industry in India (share of market 62%).

Robust Financials:









Investment Thesis:

- **Growing Asian Business:** Improved repatriation situation in south-east Asia & rapid growth in south east Asian leading to a CAGR of 18% over FY17-20.
- **Lack of competition in Africa:** African international business does not see this incumbent company as any threat; hence improving market revenue and increasing topline in Africa.
- **Boost in EBITDA margin:** Increase in utilization of newly commercialized facilities at Dahej, Guwahati to boost up EBITDA.

Valuation:

Considering a forward P/E ratio of 25x, based on projected earnings of FY 18 earnings (61.7), come out to a target price of 1542.5. Expected to deliver a CAGR of 14% in revenue and 11% in earnings over FY17-20. %.

Investment Risks:

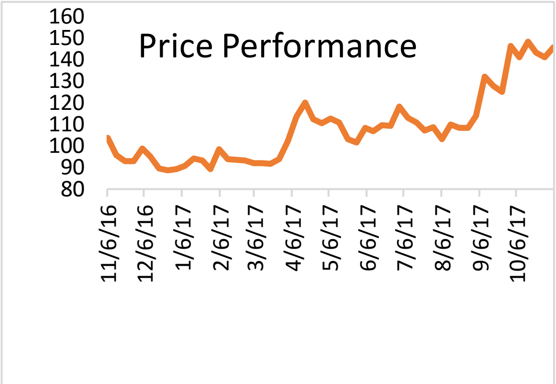
- Significant exposure of revenue to exports
- Prolonged impact of GST implementation.
- Increased USFDA scrutiny across the globe regarding cGMP issues
- Increased competition in the domestic formulation space
- Conversion of Indian market to generic; delay in approval

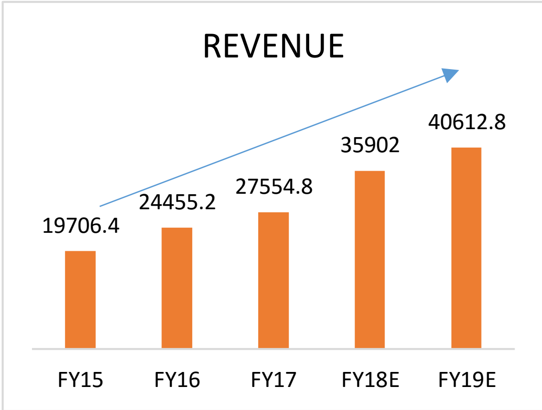
3. MINDA CORPORATION LIMITED

Ticker	Industry	Current Price	Target Price	Market Cap	P/E	52 wk Range	Avg Daily Trading Volume
MDA IN	Auto	143.55	INR 169	Rs 30.05 Bn	31.27	Rs 85-154	Rs 7.13 (Mn)/day

About the Company: Minda Corporation Ltd. (MCL) is a diversified auto-ancillary company with a product portfolio encompassing from Safety Security and Restraint Systems, Driver Information and Telematics system, Interior systems for Auto OEMs across the globe. It caters to all the key segments of PV, CV, 2/3 wheelers, tractors, off-road vehicles as well as after markets with 34 manufacturing facilities including 28 in India and 3 each in Europe and Southeast Asia.

Robust Financials:





Investment Thesis:

- **Diversified revenue stream** due to a wide variety of product portfolio.
- **Expansion** of Greenfield plant in Mexico and Die Casting plant at Pune is expected to aid **revenue growth**
- **Setup of New Technology Centre** in Pune to increase engineering capabilities quality and efficiency
- Geared to tap **potential growth opportunities** by focussing on new technologies in legacy and non-legacy products.
- **Acquisition of Panalfa Autoelektrik** in April 2016 has held Minda Corporation to gain exposure in Commercial Vehicle, Agriculture Machinery, Stationary Engine and Construction Equipment. Leveraging the client tale of Panalfa Autoelektrik would result in growth in CV portfolio.
- Acquisition of EI Labs adds to technological expertise in connected mobility & IoT

Investment Risks:

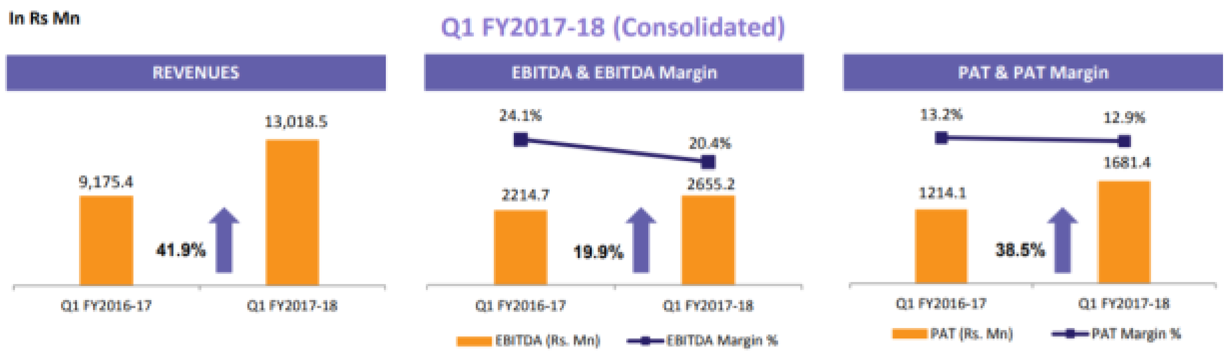
- Revenue ramp up and market share gains across businesses are contingent on success of new model launches by OEMs
- Delay in localisation efforts across businesses like Minda VAST and Minda Furukawa can impact the company's operating margin and profitability
- Volatility in commodity prices may adversely impact the company's manufacturing cost and margin

4. VAKRANGEE LIMITED

Ticker (Bloomberg)	Industry	Current Price	Target Price	Market Cap	P/E	52 wk Range	Avg. Daily Trading Vol. (3m)
VKI IN	Software	INR 562.3	INR 652	INR269(bn)	55.14	Rs 233.05-606	Rs 483.8(mn)/day

About the Company: Vakrangee acts as Business Correspondent (BC) by various banks under "common BC" and "National BC" agreements to facilitate financial inclusion in sub-service areas of India. Vakrangee kendras are franchises which provide services like BFSI, G2C (UID, NREGA etc.) and B2C (ecommerce, logistics, DTH recharge etc.). Major customers include IRCTC, FedEx, Bank of India, SBI and Amazon.

Robust Financials:



Investment Thesis:

- **The number of Vakrangee Kendras to reach 75k by 2020:** The projections are based on the recent tie-up with Indian Oil Corporation (IOC) and the rate at which Kendras are opening currently
- **New Services to increase revenue per Kendra:** Revenue per Kendra is expected to grow at a CAGR of 9% and reach INR 0.93 million by 2020 because continued addition of new services
- **Legacy Businesses scaled down to reduce DSO:** Vakrangee plans to reduce its DSO to 60 by 2020 by exiting asset-heavy legacy businesses.

Valuation:

Considering a forward P/E ratio of 42x, based on projected earnings of FY 18 earnings, we come out to a target price of 652.

Investment Risks:

- **Shift in Government Policies** – Financial inclusion policies will impact company earnings
- **Rapid changes in technology** – Cost-effective disruptive technologies entering the market
- **Heavy reliance on franchise model** – Low margins from franchisees