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Strong rabi season propels Coromandel's stock, all eyes on earnings now

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The Coromandel International Ltd stock hit a new 52-week high on Thursday, rising 77% from its lows in August 2019. The stock has been on the recovery path since its September quarter results. Fertilizer usage had increased during Q2, helping the company step up production.

Latest data from the ministry of fertilizers shows an acceleration in this trend. Total manufactured sales volumes jumped 33.9% in Q3, up from 8.6% in Q2, shows data compiled by Motilal Oswal Financial Services Ltd. Total sales, including trading vol-

umes, are up 4.9% in December. In the first half of FY20, total sales dropped 13%, indicating a sharp recovery in Q3.

Performance in Q3 was partly aided by a low base in the previous year. Sales in the December quarter of FY19 were impacted by low rains and unfavourable weather conditions.

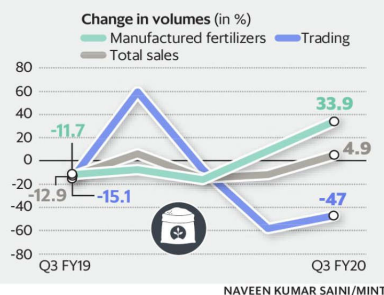
Comparatively, the rabi season this year was far better, aided by a good monsoon and better soil moisture levels. As of 10 January, rabi, or the winter crop, sowing is up 8% from a year ago. During the same time in 2019, crop sowing was down 4.8%.

Water levels in reservoirs at the company's key addressable markets—notably Andhra Pra-

Greener pastures

Coromandel International's fertilizer sales have recovered in the December quarter, helped by higher rabi crop sowing.

Source: Motilal Oswal Financial Services



desh, Telangana, Karnataka and Tamil Nadu—are significantly higher than year-ago levels. As of 9 January, reservoirs in the southern region are 71% full, up from 44% in the year-ago period. Thanks to the improvement in

water availability and irrigation facilities, paddy acreage in Telangana jumped 52%. Paddy acreage in Tamil Nadu also saw notable growth.

Given the high usage of agricultural inputs in the paddy crop,

fertilizer sales are expected to see good growth. However, the benefits will be more pronounced for Coromandel.

The company expanded the capacity at its phosphoric acid plant, a key raw material for fertilizer production. According to analysts at Motilal Oswal, Coromandel's management estimates annual cost savings of around ₹100 crore from the additional capacity. This will boost operating earnings in Q3.

That said, much also depends on policy action. The direct benefit transfer (DBT) of fertilizer subsidies has worsened the working capital situation of producers. DBT facilitates a faster subsidy payment mechanism.

But the change in the way subsidy is booked and large pending dues mean the industry remains under pressure.

"With the subsidy budget expected to be over by the end of December 2019, the subsidy receivables will rise till the end of FY20. As a result, the working capital borrowings of the industry will rise leading to moderation in the credit metrics," rating agency Icria Ltd said in a note.

At almost 16 times FY21 earnings estimates, Coromandel's stock valuations are not particularly cheap. With the stock reflecting the sales recovery, it is important the company sees commensurate earnings gains.