

## How Govt intervention made a bad quarter worse for Coromandel, GSFC

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The government's unexpected decision to cut prices of complex fertilizers, notably diammonium phosphate (DAP) and muriate of potash, made a bad quarter worse for Coromandel International Ltd and Gujarat State Fertilizers and Chemicals Ltd (GSFC).

Net profit of both the companies roughly halved in the June quarter as price cuts forced them to write down the value of inventories.

"Sharp correction in fertilizer prices ahead of the consumption season has impacted pipeline stocks which affected the performance of fertilizer business," Sameer Goel, managing director of Coromandel International, said in a statement.

Of course, the June quarter was anyway expected to be unexciting due to high inventories in the retail system. Excluding urea, fertilizer volumes at both Coromandel International and GSFC fell from a year ago. Revenue fell in the range of 4-7%.

But if the government did not intervene in prices, these companies would not have seen this kind of pressure on earnings. In fact, Coromandel International's operating profit would have risen if price cuts were not abruptly announced, says an analyst at Emkay Global Financial Services Ltd.

Emkay Global estimates GSFC's inventory write-down loss on DAP alone at Rs.15 crore. The inventory write-downs weighed on fertilizer business revenue and profitability, impacting earnings of both companies.

Investors gave divergent reactions to the results announcement last week. While Coromandel International shares gained, the GSFC stock fell. Two factors are leading to this. One is the quantum of price correction. Compared with GSFC, Coromandel International saw a deeper correction when the government announced the price cuts.

The second is the outlook. Coromandel International sounded more optimistic about prospects. According to analysts, the company is done with most inventory write-downs. With key raw material prices like phosphoric acid falling and demand improving on good monsoon rains, Coromandel International expects to do well in the rest of the fiscal year. "Management sounded optimistic about FY17 due to the better monsoon outlook," Edelweiss Securities Ltd said in a note.

GSFC's fertilizer business is also expected to recover on falling input costs. But weak profitability at the chemical business is expected to weigh on the earnings recovery. Its key chemical product caprolactam continues to see subdued margins.

Even then, aided by a favourable base, analysts forecast GSFC's earnings per share to clock double-digit growth in the current fiscal year. But the estimated growth is way lower than Coromandel International's earnings forecast. This explains the divergent stock moves.

