

# UNITED PHOSPHORUS

## Weak performance

India Equity Research | Miscellaneous



United Phosphorus (UNTP) posted a revenue growth of 4.8% YoY (below our estimate) in Q2FY13, primarily owing to de-growth in North America and the India region, led by drought conditions and delayed monsoon, respectively. UNTP has shown a volume growth of negative 2% which is the lowest in the past nine quarters. However, the management maintained its FY13 revenue growth and EBITDA margin guidance, expecting better H2FY13. We maintain 'BUY'.

### Muted revenue growth results in below estimate results

UPL's net sales grew by mere 4.8% YoY to INR18.6bn primarily contributed by forex, price (rate) and volume growth at 2%, 5% and negative 2% YoY respectively. North America region has shown a revenue de-growth of 8.8% YoY primarily on account of serious drought conditions. India region revenue de-grew by 13.7% YoY due to delayed monsoon and drought conditions in some of the states. Europe and rest of world region have shown a strong sales growth of 21.4% and 18.3% YoY respectively. EBITDA grew by 1.8% to INR3.3bn. Finance cost includes forex loss of INR0.1bn (Q2FY12 – INR1.1bn) during the quarter. PAT grew by 68% YoY to INR1.2bn v/s our estimate of INR1.7bn. Below expected sales and EBITDA led to lower than expected result.

### Key highlights

- Despite witnessing adverse climatic conditions in H1FY13, the management maintains its FY13 revenue growth guidance of 15% YoY with EBITDA (incl other income) margin of 19%. Tax rate for FY13 is expected to be 20%. Gross debt and cash stood at INR41bn and INR11bn, respectively as on Sept 30, 2012.
- Management has guided that the announced share buy-back is underway with 6.8mn shares bought until now, out of the total intended 19.2mn at a price of INR150/share.

### Outlook and valuations: Attractive; maintain 'BUY'

Management continues to maintain its FY13 guidance, given the positive outlook across regions. But we believe that one has to watch the US region closely in near term as it could pose further risks owing to adverse weather conditions. We have trimmed FY13E estimate by ~4% considering lower EBITDA margin. We maintain our 'BUY' rating with revised target price of INR160 (earlier INR167) based on 10x FY13E EPS.

#### Financials (Consolidated)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
Net rev. (INR mn)	18,560	17,716	4.8	22,142	(16.2)	76,547	85,870	95,511
EBITDA (INR mn)	3,261	3,205	1.8	3,864	(15.6)	13,674	15,284	17,582
Adj. profit (INR mn)	1,198	713	68.0	2,029	(41.0)	5,962	7,305	9,021
Adj. EPS (INR)	2.6	1.5	68.0	4.4	(41.0)	12.9	16.0	19.7
Diluted P/E (x)						9.2	7.4	6.0
EV/EBITDA (x)						5.6	4.7	3.8
ROAE (%)						15.1	16.5	17.8

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

#### MARKET DATA (R: UNPO.BO, B: UNTP IN)

CMP	: INR 118
Target Price	: INR 160
52-week range (INR)	: 170 / 104
Share in issue (mn)	: 461.1
M cap (INR bn/USD mn)	: 55 / 1,014
Avg. Daily Vol. BSE/NSE ('000)	: 1,364.4

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters*	28.1	27.7	27.7
MF's, FI's & BKs	16.2	16.9	16.6
FII's	35.7	33.2	34.0
Others	20.1	22.3	21.7
* Promoters pledged shares (% of share in issue)	:		1.0

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	3.4	(9.6)	(13.0)
3 months	8.9	(2.9)	(11.9)
12 months	8.8	(17.5)	(26.3)

Manish Mahawar

+91 22 6623 3481  
manish.mahawar@edelcap.com

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**Table 1: Revenue mix by segment – Consolidated****(INR mn)**

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
India	4,910	5,690	(13.7)	6,220	(21.1)	17,190	18,050	20,757
Sales - Out of India	13,912	12,272	13.4	16,277	(14.5)	60,447	68,721	75,744
- North America	2,270	2,490	(8.8)	5,820	(61.0)	16,340	17,974	18,873
- Europe	2,710	2,233	21.4	4,210	(35.6)	14,210	14,871	15,614
- ROW	8,932	7,549	18.3	6,247	43.0	29,897	35,876	41,257
<b>Total sales</b>	<b>18,822</b>	<b>17,962</b>	<b>4.8</b>	<b>22,497</b>	<b>(16.3)</b>	<b>77,637</b>	<b>86,770</b>	<b>96,501</b>

Source: Company, Edelweiss research

Note: Revenue includes other income

**Financial snapshot - Consolidated****(INR mn)**

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
Revenue	18,560	17,716	4.8	22,142	(16.2)	76,547	85,870	95,511
Raw material costs	9,397	9,433	(0.4)	11,415	(17.7)	40,580	45,254	49,945
Gross profit	9,163	8,283	10.6	10,727	(14.6)	35,967	40,616	45,566
Employee costs	1,986	1,511	31.4	2,063	(3.7)	6,856	7,900	8,692
Other expenses	3,915	3,567	9.8	4,800	(18.4)	15,438	17,432	19,293
Total operating expenses	5,902	5,078	16.2	6,863	(14.0)	22,293	25,332	27,985
EBITDA	3,261	3,205	1.8	3,864	(15.6)	13,674	15,284	17,582
Net finance expense (income)	869	1,918	(54.7)	1,109	(21.7)	4,147	3,389	3,389
Depreciation	820	719	14.0	734	11.7	2,924	3,289	3,657
Other income	262	246	6.4	354	(26.1)	1,089	900	990
PBT	1,834	814	125.5	2,375	(22.8)	7,693	9,506	11,526
Income tax expense	457	151	202.9	703		1,280	1,901	2,305
Core PAT	1,377	663	107.8	1,672	(17.7)	6,413	7,605	9,221
Min. Int. / Loss (Gain) from assoc.	179	(51)		(357)		451	300	200
PAT after minority interest	1,198	713	68.0	2,029	(41.0)	5,962	7,305	9,021
Exceptional items	0	(144)		0		406	0	0
Net profit	1,198	570	110.4	2,029	(41.0)	6,368	7,305	9,021
Adjusted EPS	2.6	1.5	70.5	4.4	(40.2)	12.9	16.0	19.7

**as % of revenues**

COGS	50.6	53.2		51.6		53.0	52.7	52.3
Gross profit	49.4	46.8		48.4		47.0	47.3	47.7
Employee costs	10.7	8.5		9.3		9.0	9.2	9.1
Other expenses	21.1	20.1		21.7		20.2	20.3	20.2
Total operating expenses	31.8	28.7		31.0		29.1	29.5	29.3
EBITDA	17.6	18.1		17.5		17.9	17.8	18.4
Net profit	6.5	4.0		9.2		7.8	8.5	9.4

## Company Description

UNTP, incorporated in 1969, is a global player in the agro-chemicals industry with strong presence in off-patent market of US and Europe. UNTP ranks among the Top 5 generics agro-chemicals companies in the world. Agrochemicals comprise ~80% of its revenues, while the rest of business includes industrial chemicals and intermediaries. UNTP has acquired seed business of Advanta to augment its presence across various agri-inputs. Historically, the company has managed to deliver high growth rates (35% CAGR during FY05-09) based on its strategy to acquire small agro-chemical companies and tail-end brands of big players in US and Europe.

## Investment Theme

UNTP is a direct proxy for increase in demand for food crops due to rising commodity prices, high population growth and high demand for bio-fuel. It has historically focused on acquisitions of smaller companies and brands to achieve higher growth than the market. We expect 11% CAGR revenue growth and earnings growth of 23% over FY12-14E, reflecting strength in the base business. Moreover large acquisitions like Mancozeb, RiceCo, SIB, DVA Agro, provide further upside.

## Key Risks

### **Demand concerns due to cyclical and seasonal effects**

The agro-chemical industry, in general, is cyclical with demands for some products seasonal in nature. Seasonal usage follows varying agricultural seasonal patterns, weather conditions and pest related pressures. This volatility impacts the overall demand for agro chemicals. This seasonality risk is somewhat mitigated for UNTP, given its geographic reach and non-dependence on any one geography for sales.

### **Volatility in input prices and company's limited ability to pass on costs**

The company operates broadly under the concept of 'pass-through', where lower raw material costs benefits are passed on to consumers as lower prices and vice versa. High volatility in prices of raw materials for agro chemicals, leads to lower price realization and can cause margin pressures given that the average holding period of inventory is 3-4 months.

### **Increase in GM crops usage negative for agro chemicals**

Growth in GM crops (biotech products) poses a structural risk to agro-chemicals usage, as GM crops have more resistance to pests and diseases relative to non-GM crops. This could typically lead to reduction in pesticide usage.

### **Forex risk**

UNTP, like most companies with a large export interface, faces risks from an appreciating INR. Further at the operational level company has higher exposure to EUR (given the large exposure from Cerexagri operations) which has been recently been volatile. Most of the forex liabilities are in USD. However, the company has a natural hedge on its imports and on manufacturing done at its international locations.

## Financial Statements (Consolidated)

## Key assumptions

		FY10	FY11	FY12	FY13E	FY14E
<b>Macro</b>	GDP(Y-o-Y %)	8.4	8.4	6.5	6.4	7.0
	Inflation (Avg)	3.6	9.9	8.8	7.0	6.0
	Repo rate (exit rate)	5.00	6.75	8.50	7.25	6.75
	USD/INR (Avg)	47.4	45.6	47.9	53.5	50.0
<b>Company</b>	India revenue growth (%)	16.0	24.7	15.1	5.0	15.0
	North America revenue growth (%)	5.3	4.0	27.4	10.0	5.0
	Europe revenue growth (%)	-0.9	-22.1	16.0	4.7	5.0
	RoW revenue growth (%)	25.9	27.4	57.7	20.0	15.0

## Income statement

		FY10	FY11	FY12	FY13E	FY14E
						(INR mn)
<b>Year to March</b>		<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Income from operations		54,585	57,607	76,547	85,870	95,511
Materials cost		29,542	29,017	40,580	45,254	49,945
Employee cost		5,018	5,146	6,856	7,900	8,692
Selling, admin and general expenses		10,029	12,745	15,438	17,432	19,293
Total expenses		44,589	46,908	62,873	70,586	77,929
EBITDA		9,996	10,699	13,674	15,284	17,582
Depreciation and amortisation		2,147	2,138	2,924	3,289	3,657
Interest		1,938	3,120	4,147	3,389	3,389
Other income		343	1,375	1,089	900	990
Profit before tax		6,254	6,816	7,693	9,506	11,526
Provision for tax		854	731	1,280	1,901	2,305
Core profit after tax		5,400	6,085	6,413	7,605	9,221
Minority interest & others		(128)	337	451	300	200
Adjusted profit after minority interest		5,529	5,747	5,962	7,305	9,021
Extraordinary items		267	171	406	0	0
Profit after tax		5,796	5,919	6,368	7,305	9,021
Diluted shares (mn)		464	462	462	458	458
Adjusted EPS (INR) diluted		11.9	12.4	12.9	16.0	19.7
CEPS (INR)		17.5	17.1	19.2	23.2	27.7
Dividend per share (INR)		2.0	2.0	2.5	2.8	3.0
Dividend payout (%)		15.9	16.1	19.4	17.5	15.2

## Common size metrics- as % of net revenues

		FY10	FY11	FY12	FY13E	FY14E
<b>Year to March</b>		<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Cost of revenues		54.1	50.4	53.0	52.7	52.3
Operating Expenses		27.6	31.1	29.1	29.5	29.3
EBITDA margins		18.3	18.6	17.9	17.8	18.4
Net profit margins		10.1	10.0	7.8	8.5	9.4

## Growth metrics (%)

		FY10	FY11	FY12	FY13E	FY14E
<b>Year to March</b>		<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Revenues		10.7	5.5	32.9	12.2	11.2
EBITDA		5.8	7.0	27.8	11.8	15.0
PBT		24.5	9.0	12.9	23.6	21.2
Adjusted EPS		12.3	4.5	3.7	23.7	23.5

<b>Balance sheet</b>						(INR mn)
<b>As on 31st March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	
Equity capital	879	924	924	915	915	
Reserves & surplus	29,039	36,337	40,808	45,985	53,400	
Total shareholders Funds	29,918	37,261	41,731	46,901	54,315	
Borrowings	23,818	26,787	33,891	33,891	33,891	
Deferred tax liability (net)	115	(78)	(57)	(57)	(57)	
Minority interest	140	180	2,499	2,499	2,499	
<b>Sources of funds</b>	<b>54,366</b>	<b>64,149</b>	<b>78,064</b>	<b>83,233</b>	<b>90,648</b>	
Gross block	22,143	22,909	27,325	31,325	34,825	
Depreciation	12,286	13,109	14,712	18,001	21,658	
Net block	9,856	9,800	12,613	13,324	13,167	
Capital work in progress	406	568	1,338	1,338	1,338	
Intangible assets & Goodwill	7,866	13,409	21,335	21,335	21,335	
Investments	7,612	8,232	7,945	7,945	7,945	
Inventories	10,084	14,055	18,779	21,066	23,431	
Sundry debtors	12,135	14,795	24,453	24,702	27,476	
Cash and bank balances	15,778	15,659	7,002	10,755	15,082	
Loans and advances	5,207	5,457	9,068	9,068	9,068	
Other current assets						
Total current assets	43,203	49,966	59,301	65,591	75,056	
Current liabilities	13,413	16,274	22,386	24,217	26,110	
Provisions	1,164	1,552	2,083	2,083	2,083	
Total current liabilities and provisions	14,577	17,825	24,469	26,300	28,193	
Net current assets	28,626	32,141	34,833	39,291	46,863	
<b>Uses of funds</b>	<b>54,366</b>	<b>64,149</b>	<b>78,064</b>	<b>83,233</b>	<b>90,648</b>	
Book value per share (INR)	68	81	90	103	119	

<b>Free cash flow</b>						(INR mn)
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	
Net profit	5,529	5,747	5,962	7,305	9,021	
Add : Depreciation and non-cash items	2,587	4,285	6,929	3,289	3,657	
Gross cash flow	8,116	10,032	12,891	10,594	12,677	
Less: Changes in WC	(4,499)	1,884	16,115	705	3,245	
Operating cash flow	12,614	8,148	(3,224)	9,889	9,432	
Less: Capex	2,285	6,960	5,665	4,000	3,500	
<b>Free cash flow</b>	<b>10,330</b>	<b>1,188</b>	<b>(8,889)</b>	<b>5,889</b>	<b>5,932</b>	

<b>Cash flow metrics</b>					
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Operating cash flow	12,614	8,148	(3,224)	9,889	9,432
Financing cash flow	(213)	(309)	2,562	(2,135)	(1,606)
Investing cash flow	(2,162)	(7,958)	(7,995)	(4,000)	(3,500)
Net cash flow	10,239	(119)	(8,657)	3,754	4,326
Capex	(2,285)	(6,960)	(5,665)	(4,000)	(3,500)

**Profitability and liquidity ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	19.5	17.1	15.1	16.5	17.8
ROACE (%)	17.4	16.7	17.1	16.5	17.6
Inventory days	166	152	148	161	163
Debtors days	79	85	94	104	100
Payable days	178	187	174	188	184
Cash conversion cycle	67	50	67	77	78
Current ratio	3.0	2.8	2.4	2.5	2.7
Debt/ EBITDA	2.4	2.5	2.5	2.2	1.9
Debt/equity	0.8	0.7	0.8	0.7	0.6

**Operating ratios (x)**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	1.1	1.0	1.1	1.1	1.1
Fixed asset turnover	5.8	5.9	6.8	6.6	7.2
Equity turnover	1.9	1.7	1.9	1.9	1.9

**Valuation parameters**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Adjusted diluted EPS (INR)	11.9	12.4	12.9	16.0	19.7
EPS YoY growth (%)	12.3	4.5	3.7	23.7	23.5
CEPS (INR)	17.5	17.1	19.2	23.2	27.7
Diluted PE (x)	9.9	9.5	9.2	7.4	6.0
Price/BV(x)	1.7	1.5	1.3	1.2	1.0
EV/Sales (x)	1.0	1.0	1.0	0.8	0.7
EV/EBITDA (x)	5.3	5.4	5.6	4.7	3.8
Dividend yield (%)	1.7	1.7	2.1	2.4	2.5

**Peer comparison valuation**

	Price (INR)	Market cap (INR mn)	P/E (x)		P/BV (x)		ROE (%)	
			2013E	2014E	2013E	2014E	2013E	2014E
Rallis India	141	27420	18.3	14.4	5.5	4.3	24.9	26.4
PI Industries	537	13438	11.4	8.6	3.1	2.4	31.1	31.4
United Phosphorus	118	54700	7.4	6.0	1.2	1.0	16.5	17.8

Source: Bloomberg, Edelweiss research



**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	<a href="mailto:vikas.khemani@edelcap.com">vikas.khemani@edelcap.com</a>	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	<a href="mailto:nischal.maheshwari@edelcap.com">nischal.maheshwari@edelcap.com</a>	+91 22 4063 5476
Nirav Sheth	Head Sales	<a href="mailto:nirav.sheth@edelcap.com">nirav.sheth@edelcap.com</a>	+91 22 4040 7499

**Coverage group(s) of stocks by primary analyst(s): Miscellaneous**

AIA Engineering, Balkrishna Industries, Educomp Solutions, Everonn Systems, EID Parry India, Escorts, Jain Irrigation, Opto Circuits India Ltd, PI Industries, Shree Renuka Sugars, Supreme Industries, Sintex Industries Ltd, Solar Industries, United Phosphorus, VIP Industries

**Recent Research**

Date	Company	Title	Price (INR)	Recos
23-Oct-12	<b>Coromandel International</b>	Result disappoints, better times ahead; <i>Result Update</i>	280	Buy
18-Oct-12	<b>Fertilisers</b>	Better times ahead; <i>Sector Update</i>		
12-Oct-12	<b>Sugar</b>	Recommendations on sugar decontrol; <i>EdelFlash</i>		

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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