Angel Broking™
Service Truly Personalized

October 23, 2012

United Phosphorus

Performance Highlights

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg (qoq)	2QFY2012	% chg (yoy)
Net sales	**1,802**	**2180**	**(17.4)**	**1721**	**4.7**
Other income	80	69	0.0	75	6.7
Gross profit	862	1039	(17.0)	943	(8.6)
Operating profit	272	353	(22.8)	256	6.5
Net profit	**120**	**203**	**(41.0)**	**68**	**76.0**

Source: Company, Angel Research

For 2QFY2013, United Phosphorus's (UPL) revenue grew by 4.7% yoy to ₹1,802cr and net PAT grew by 76.0% to ₹120cr. The management has maintained its positive revenue guidance of 15% for FY2013 and OPM guidance at 18-20%. In spite of factoring in conservative numbers, the stock is quoting at an attractive valuation of 7.0x FY2014E EPS; hence, **we maintain our Buy rating on the stock.**

Robust net profit growth: UPL reported consolidated revenues of ₹2,180cr, registering a growth of 4.7% yoy. Volumes contracted 2%, the price increased by 5% while the balance 2% was contributed by a favorable impact of exchange. On the operating front, the company reported a flat EBITDA margin at 15.1%, (14.8% in 2QFY2012). However, on account of a 57.2% yoy dip in the interest expenditure, the net profits came in at Rs120cr, registering a growth of 76.0%.

Outlook and valuation: We expect UPL to post a CAGR of 10.0% and 18.4% in its sales and PAT over FY2012-14, respectively. At the current valuation of 7.0x FY2014E EPS, the stock is attractively valued. **Hence, we maintain our Buy recommendation on the stock with a revised target price of ₹170.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E	FY2014E
Total revenue	**5,805**	**7,655**	**8,421**	**9,263**
% chg	7.3	31.9	10.0	10.0
Adj. profit	**552**	**561**	**695**	**787**
% chg	0.6	1.6	23.8	13.2
EBITDA (%)	19.3	16.5	16.5	16.5
EPS (₹)	**12.0**	**12.2**	**15.0**	**17.0**
P/E (x)	9.9	9.7	7.9	7.0
P/BV (x)	1.5	1.3	1.2	1.0
RoE (%)	16.4	14.2	15.6	15.5
RoCE (%)	16.7	16.1	15.0	15.3
EV/Sales (x)	1.2	1.0	0.9	0.7
EV/EBITDA (x)	6.1	6.2	5.2	4.4

Source: Company, Angel Research

BUY

CMP	₹124
Target Price	₹170
Investment Period	12 Months

Stock Info	
Sector	Agrichemical
Market Cap (₹ cr)	5,390
Net Debt (₹ cr)	1,677
Beta	0.7
52 Week High / Low	169/105
Avg. Daily Volume	164597
Face Value (₹)	2
BSE Sensex	18,710
Nifty	5,691
Reuters Code	UNPO.BO
Bloomberg Code	UNTP@IN

Shareholding Pattern (%)	
Promoters	28.0
MF / Banks / Indian Fls	25.0
FII / NRIs / OCBs	38.2
Indian Public / Others	8.8

Abs. (%)	3m	1yr	3yr
Sensex	10.9	11.5	11.3
UPL	(2.5)	(17.3)	(24.8)

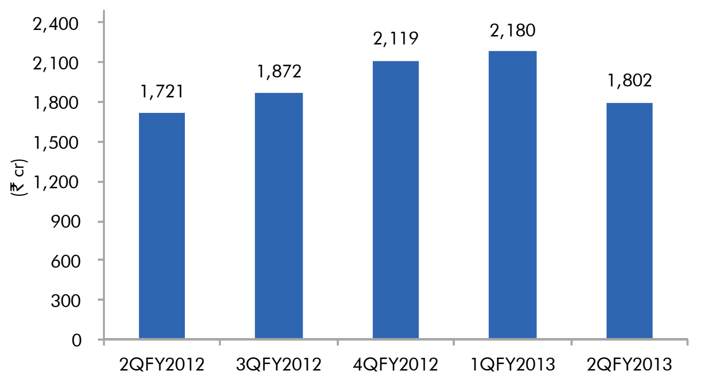
Sarabjit Kour Nangra
+91-22-3935 7800 ext. 6806
sarabjit@angelbroking.com

Single digit top-line growth

UPL reported consolidated revenues of ₹1,802cr, registering a growth of 4.7% yoy. Volumes contracted 2%, the price increased 5% while the balance 2% was contributed by a favorable impact of exchange.

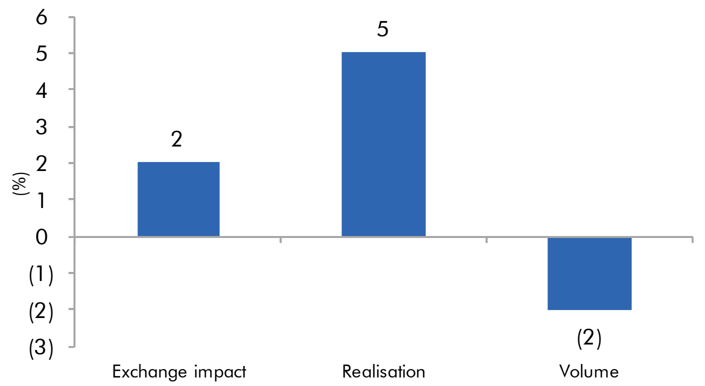
According to the regions, the main growth came in from the EU where revenues increased by 22.1%. The rest of world (RoW) revenues increased by 22.1%. On the other hand, Latin America registered a 17% growth. USA and India on the other hand de-grew by 9% and 14% respectively.

Exhibit 1: Sales performance



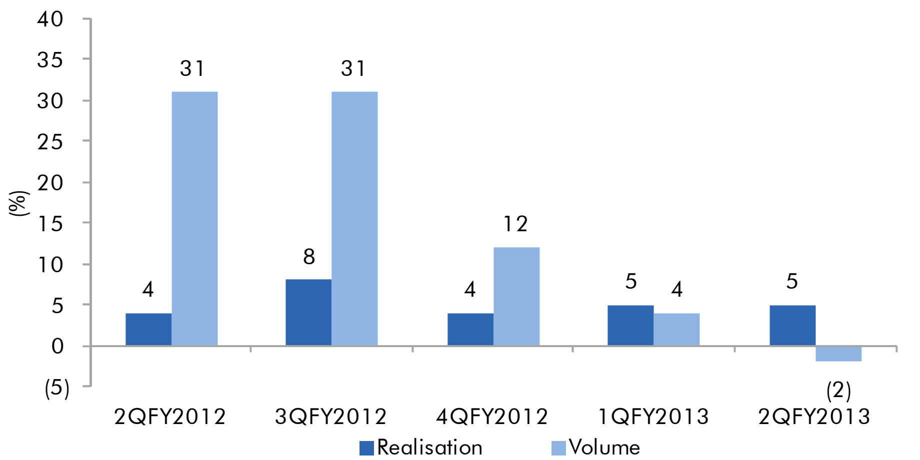
Source: Company, Angel Research

Exhibit 2: Growth break-up



Source: Company, Angel Research

Exhibit 3: Volume and realisation break-up (yoy)

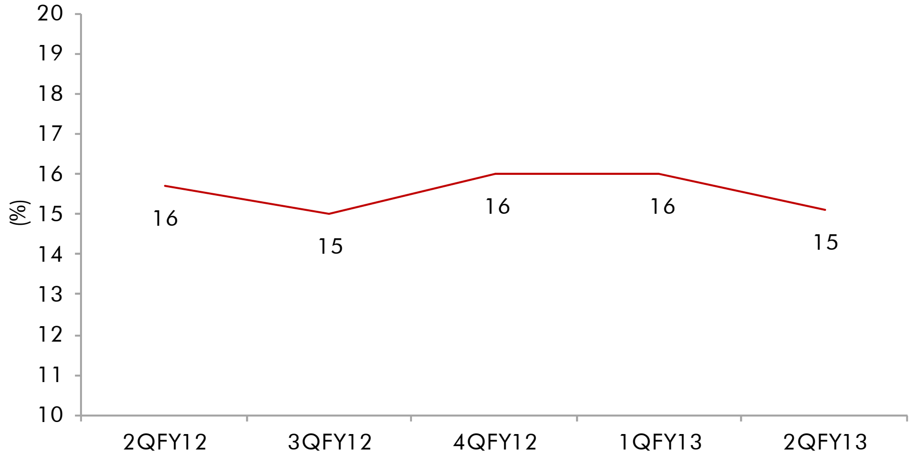


Source: Company, Angel Research

EBITDA margin remains steady

During 2QFY2013, UPL on the operating front, reported a flat EBITDA margin at 15.1%, (14.8% in 2QFY2012). For FY2013, the management expects an OPM of 18-20%.

Exhibit 4: EBITDA margin trend

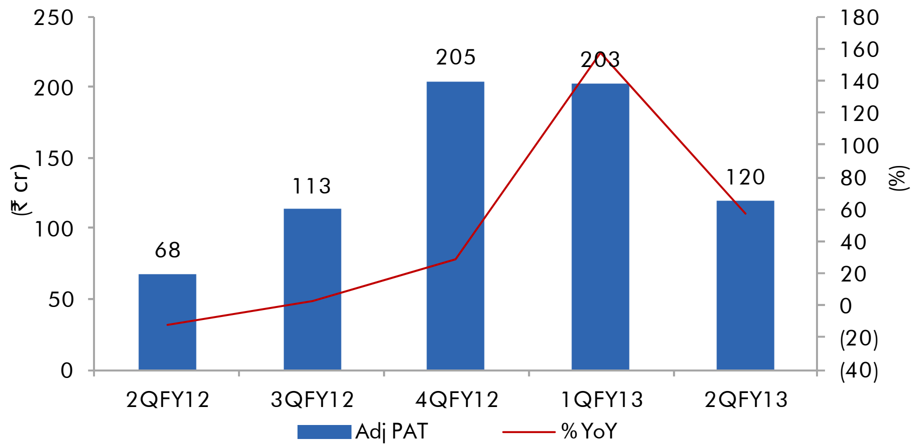


Source: Company, Angel Research

Adj. net profit grew by 76.0% yoy

While the OPM came in flat, however, on account of a 57.2% yoy dip in the interest expenditure, the net profit came in at Rs120cr, registering a growth of 76.0% yoy.

Exhibit 5: Adjusted PAT trend



Source: Company, Angel Research

Investment arguments

Innovators dominant in the off-patent space – Generic firms in a sweet spot

The global agrichem industry, valued at US$40bn (CY2008), is dominated by the top six innovators, viz Bayer, Syngenta, Monsanto, BASF, DuPont and Dow, which enjoy a large market share of the patented (28%) and off-patent (32%) market. Pertinently, the top six innovators also enjoy a large share of the off-patent market due to high entry barriers for pure generic players. Thus, one-third of the total pie worth US$13bn (controlled by the top six innovators through proprietary off-patent products) provides a high-growth opportunity for larger integrated generic players such as UPL.

Generic segment's market share to increase

Generic players have been garnering a high market share, increasing from 32% levels in 1998 to 40% by 2006-end. The industry registered a CAGR of 3% over 1998-2006, while generic players outpaced the industry with a CAGR of 6%. Going ahead, given the opportunities and a drop in the rate of new molecule introduction by innovators, we expect generic players to continue to outpace the industry's growth and increase their market share in the overall pie. Historically, the global agrichem players have been logging growth in-line with global GDP. Going ahead, over CY2009-11E, the global economy is expected to grow by 3-4%. Assuming this trend plays out in terms of growth for the agrichem industry and the same rate of genericisation occurs, the agrichemical generic industry could log in 6-8% yoy growth during the period and garner a market share of 44-45%.

A global generic play

UPL figures among the top five global generic agrichemical players, with presence across major markets, including the US, EU, Latin America and India. Given the high entry barriers by way of high investments, entry of new players is also restricted. Thus, amidst this scenario and on account of having a low-cost base, we believe UPL enjoys an edge over competition and is placed in a sweet spot to leverage the upcoming opportunities in the global generic space.

Outlook and valuation

Over the last few years, the global agriculture sector has been rejuvenating/reviving on the back of rising food prices. Food security is also a top priority for most governments; reducing food loss is one of the easiest ways to boost food inventory. Hence, we believe agrichemical companies would continue to do well in the wake of heightened food security risks, and strong demand is likely to be witnessed across the world. Overall, we expect the global agrichemical industry to perform well from here on. However, generics are expected to register a healthy growth due to a) increasing penetration and wresting market share from innovators and b) patent expiries worth US$3bn–4bn (2007) over 2009-14.

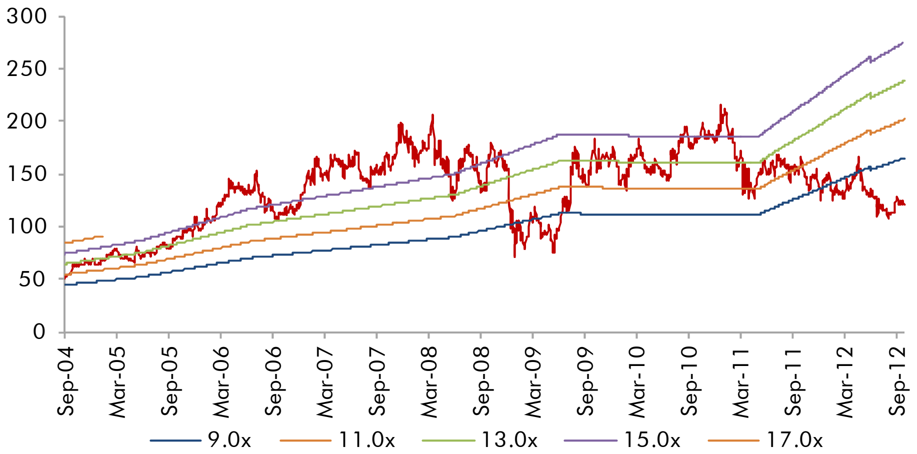
We estimate UPL to post a 10.0% and 18.4% CAGR in sales and PAT, respectively, over FY2012-14. The stock is trading at an attractive valuation of 7.1x FY2014E EPS. Hence, **we maintain our Buy recommendation on the stock with a target price of ₹170.**

Exhibit 6: Key assumption

	FY2013E	FY2014E
Sales growth	10.0	10.0
EBITDA margin	16.5	16.5
Tax rate	20.0	20.0

Source: Company, Angel Research

Exhibit 7: P/E band



Source: Company, Angel Research

Background

United Phosphorus (UPL) is a global generic crop protection, chemicals and seeds company. The company is fully backward and forward integrated by taking advantage of the consolidation opportunities within the agrochemical industry. UPL is the largest Indian agrochemical company and has revenue of about US$1.3mn in March'2011.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr))	FY09	FY10	FY11	FY12	FY13E	FY14E
Net Sales	**4,802**	**5,290**	**5,761**	**7,534**	**8,585**	**9,427**
Other operating income	129	118	137	121	164	164
Total operating income	**4,931**	**5,408**	**5,805**	**7,655**	**8,421**	**9,263**
% chg	*35.4*	*9.7*	*7.3*	*31.9*	*10.0*	*10.0*
Total Expenditure	3,987	4,461	5,018	6,288	7,165	7,868
Net Raw Materials	2,451	2,954	2,902	4,058	4,624	5,078
Other Mfg costs	885	839	1,191	1,267	1,443	1,585
Personnel	479	502	515	686	782	858
Other	172	166	410	277	316	347
EBITDA	**945**	**947**	**1,111**	**1,246**	**1,420**	**1,559**
% chg	*53.2*	*0.2*	*17.3*	*12.2*	*14.0*	*9.8*
(% of Net Sales)	*19.7*	*17.9*	*19.3*	*16.5*	*16.5*	*16.5*
Depreciation& Amortisation	193	215	214	292	339	360
EBIT	**752**	**732**	**897**	**1,075**	**1,246**	**1,364**
% chg	*62.0*	*(2.6)*	*22.5*	*19.9*	*15.9*	*9.5*
(% of Net Sales)	*15.2*	*13.5*	*15.5*	*14.0*	*14.8*	*14.7*
Interest & other Charges	292	145	312	415	422	422
Other Income	42	34	214	109	109	109
(% of PBT)	8	6	32	14	12	10
Recurring PBT	**502**	**621**	**678**	**769**	**933**	**1,051**
% chg	*20.8*	*23.8*	*9.2*	*13.3*	*21.3*	*12.7*
Extraordinary Expense/(Inc.)	(10)	(23)	5	18	-	-
PBT (reported)	**492**	**598**	**664**	**751**	**933**	**1,051**
Tax	27	81	73	128	187	210
(% of PBT)	*5.5*	*13.6*	*11.0*	*17.0*	*20.0*	*20.0*
PAT (reported)	**465**	**517**	**591**	**623**	**746**	**841**
Add: Share of earnings of asso.	20	19	(23)	(35)	(37)	(40)
Less: Minority interest (MI)	2	6	10	5	5	5
Prior period items	27	3	-	27	9	9
PAT after MI (reported)	**456**	**526**	**558**	**556**	**695**	**787**
ADJ. PAT	**466**	**549**	**552**	**561**	**695**	**787**
% chg	*25.3*	*17.9*	*0.6*	*1.6*	*23.8*	*13.2*
(% of Net Sales)	*9.7*	*10.4*	*9.6*	*7.5*	*8.1*	*8.3*
Basic EPS (₹)	**10.6**	**12.5**	**12.0**	**12.2**	**15.0**	**17.0**
Fully Diluted EPS (₹)	**10.6**	**12.5**	**12.0**	**12.2**	**15.0**	**17.0**
% chg	*(37.4)*	*17.9*	*(4.3)*	*1.6*	*23.8*	*13.2*

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS						
Equity Share Capital	88	88	92	92	92	92
Preference Capital	-	-	-	-	-	-
Reserves& Surplus	2,585	2,904	3,634	4,081	4,660	5,331
Shareholders' Funds	**2,673**	**2,992**	**3,726**	**4,173**	**4,752**	**5,423**
Minority Interest	10	14	18	250	255	260
Total Loans	2,134	2,419	1,497	3,245	3,245	3,245
Other Long term liabilities	-	-	-	301	301	301
Long Term Provisions	-	-	-	51	51	51
Deferred Tax Liability	(40)	11	(8)	(6)	(6)	(6)
Total Liabilities	**4,777**	**5,437**	**5,307**	**8,014**	**8,598**	**9,274**
APPLICATION OF FUNDS						
Gross Block	3,302	3,210	3,947	4,687	4,987	5,287
Less: Acc. Depreciation	2,049	1,920	2,174	2,605	2,944	3,303
Net Block	**1,252**	**1,290**	**1,773**	**2,082**	**2,043**	**1,983**
Capital Work-in-Progress	124	41	57	306	306	306
Goodwill / Intangilbles	473	482	548	1,141	1,141	1,141
Investments	**433**	**761**	**823**	**795**	**795**	**795**
Long Term Loan & Adv.	-	-	220	259	295	324
Current Assets	4,117	4,324	4,777	5,671	6,568	7,528
Cash	554	1,578	700	1,566	1,890	2,391
Loans & Advances	738	469	587	326	371	408
Other	2,825	2,277	3,490	3,780	4,307	4,729
Current liabilities	1,623	1,462	2,890	2,240	2,550	2,802
Net Current Assets	**2,494**	**2,863**	**1,886**	**3,432**	**4,019**	**4,726**
Others	-	-	-	-	-	-
Total Assets	**4,777**	**5,437**	**5,307**	**8,014**	**8,598**	**9,274**

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Profit before tax	492	598	664	751	933	1,051
Depreciation	193	215	214	292	339	360
Change in Working Capital	(924)	655	99	(680)	(263)	(206)
Less: Other income	-	-	-	-	-	-
Direct taxes paid	(83)	(81)	(73)	(128)	(187)	(210)
Cash Flow from Operations	**(322)**	**1,387**	**904**	**235**	**822**	**994**
(Inc.)/ Dec. in Fixed Assets	(414)	175	(753)	(989)	(300)	(300)
(Inc.)/ Dec. in Investments	(36)	(328)	(62)	29	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	**(450)**	**(153)**	**(815)**	**(961)**	**(300)**	**(300)**
Issue of Equity	-	-	312	-	-	-
Inc./(Dec.) in loans	(480)	(285)	922	1,747	-	-
Dividend Paid (Incl. Tax)	(51)	(77)	(103)	(116)	(116)	(116)
Others	1,148	152	(455)	(41)	(83)	(77)
Cash Flow from Financing	**617**	**(210)**	**676**	**1,591**	**(198)**	**(193)**
Inc./(Dec.) in Cash	(155)	1,024	(878)	866	324	501
Opening Cash balances	**709**	**554**	**1,578**	**700**	**1,566**	**1,890**
Closing Cash balances	**554**	**1,578**	**700**	**1,566**	**1,890**	**2,391**

Key Ratios

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratio (x)						
P/E (on FDEPS)	11.2	9.5	9.9	9.7	7.9	7.0
P/CEPS	7.9	6.8	7.1	6.4	5.3	4.8
P/BV	1.9	1.7	1.5	1.3	1.2	1.0
Dividend yield (%)	1.3	1.7	1.7	2.1	2.1	2.1
EV/Sales	1.7	1.3	1.2	1.0	0.9	0.7
EV/EBITDA	8.4	7.2	6.1	6.2	5.2	4.4
EV / Total Assets	1.7	1.3	1.3	1.0	0.9	0.7
Per Share Data (₹)						
EPS (Basic)	10.6	12.5	12.0	12.2	15.0	17.0
EPS (fully diluted)	10.6	12.5	12.0	12.2	15.0	17.0
Cash EPS	15.0	17.4	16.6	18.5	22.4	24.8
DPS	1.5	2.0	2.0	2.5	2.5	2.5
Book Value	60.8	68.1	81.2	90.4	102.9	117.4
DuPont Analysis						
EBIT margin	15.2	13.5	15.5	14.0	14.8	14.7
Tax retention ratio	94.5	86.4	89.0	83.0	80.0	80.0
Asset turnover (x)	1.5	1.5	1.5	1.6	1.5	1.6
ROIC (Post-tax)	21.8	18.0	20.2	18.6	17.6	18.5
Cost of Debt (Post Tax)	8.1	5.9	14.2	14.5	10.4	10.4
Leverage (x)	0.5	0.4	0.3	0.4	0.4	0.4
Operating ROE	28.9	22.4	21.8	20.1	20.2	21.6
Returns (%)						
ROCE (Pre-tax)	17.4	14.3	16.7	16.1	15.0	15.3
Angel ROIC (Pre-tax)	20.1	23.4	19.2	22.8	21.5	22.7
ROE	19.0	19.4	16.4	14.2	15.6	15.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.6	1.7	1.6	1.8	1.7	1.8
Inventory / Sales (days)	103	91	76	78	87	89
Receivables (days)	77	85	87	79	87	89
Payables (days)	84	80	96	66	70	71
WCcycle (ex-cash) (days)	112	111	78	74	85	86
Solvency ratios (x)						
Net debt to equity	0.6	0.2	(0.0)	0.2	0.1	0.0
Net debt to EBITDA	1.6	0.6	(0.0)	0.7	0.4	0.0
Interest Coverage (EBIT / Int.)	2.6	5.0	2.9	2.6	3.0	3.2

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important `Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	**UPL**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	