

United Phosphorus

Performance Highlights

Y/E March (₹ cr)	3QFY2013	2QFY2013	% chg (qoq)	3QFY2012	% chg (yoy)
Net sales	2,255	1802	25.2	1872	20.5
Other income	68	80	0.0	68	0.8
Gross profit	1100	862	27.6	841	30.8
Operating profit	364	272	33.8	291	25.2
Net profit	173	120	44.8	113	53.1

Source: Company, Angel Research

For 3QFY2013, United Phosphorus (UPL)' revenue grew by 20.5% yoy to ₹2,255cr and net PAT grew by 53.1% to ₹173cr. The Management has maintained its positive revenue growth guidance of 15% and OPM (incl. other income) growth guidance of 19-20% for FY2013. For FY2014, also the company expects to post a high double digit growth. Even after factoring in conservative numbers, the stock is quoting at an attractive valuation of 8.0x FY2014E EPS and hence, **we maintain our Buy rating on the stock.**

Robust Net Profit growth: The company has reported a top-line of ₹2,255cr, a growth of 20.5% yoy. The sales growth during the quarter was led by the international markets, which grew by 23% yoy, while the domestic markets grew by 5% yoy during the period. Overall, the volumes during the quarter rose by 15% yoy, while price variance and exchange contributed around 2% and 4% respectively. On the operating front, the company reported an EBITDA margin expansion of 61bp to 16.1% (15.5% in 3QFY2012). This along with the lower taxation and income from associates, aided a 53.1% yoy growth in net profit to ₹173cr.

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 current valuations of 8.0x 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)	11.4	11.2	9.1	8.0
P/BV (x)	1.7	1.5	1.3	1.2
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	₹137
Target Price	₹170

Investment Period	12 Months
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Stock Info

Sector	Agrichemical
Market Cap (₹ cr)	6,223
Net Debt (₹ cr)	2,030
Beta	0.7
52 Week High / Low	169/105
Avg. Daily Volume	230178
Face Value (₹)	2
BSE Sensex	19,991
Nifty	6,050
Reuters Code	UNPO.BO
Bloomberg Code	UNTP@IN

Shareholding Pattern (%)

Promoters	28.9
MF / Banks / Indian Fls	27.4
FII / NRIs / OCBs	34.1
Indian Public / Others	9.6

Abs. (%)	3m	1yr	3yr
Sensex	7.3	16.0	22.2
UPL	16.0	(8.2)	(12.0)

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Exhibit 1: 3QFY2013 Performance (Consolidated)

Y/E March (₹ cr)	3QFY2013	2QFY2013	% chg (qoq)	3QFY2012	% chg (yoy)	9MFY2013	9MFY2012	% chg
Net sales	2,255	1,802	25.2	1,872	20.5	6,238	5,415	15.2
Other income	68	80		68	0.8	218	205	6.4
Total income	2,324	1,882	23.5	1,939	19.8	6,456	5,619	14.9
Gross profit	1100	862	27.6	841	30.8	3001	2,391	25.5
Gross margin (%)	48.8	47.9		44.9		48.1	44.2	
Operating profit	364	272	33.8	291	25.2	989	867	14.1
Operating margin (%)	16.1	15.1		15.5		15.9	16.0	
Financial cost	101	82	23.5	83	22.6	299	346	
Depreciation	96	87	10.7	78	22.5	252	213	18.0
PBT	235	183	28.0	197	19.1	656	513	28.0
Provision for taxation	69	46	49.8	63	9.4	185	128	43.9
PAT Before Exc. And MI	166	138	20.8	135	23.5	471	384	22.7
Minority	3	18		9		(8)	(4)	
Income from Associate	11	0		(12)		17	(23)	
Extra ordinary Income/(Exp.)	0	0		(1)		0	(12)	
Reported PAT	173	120	44.8	112	54.3	496	354	40.3
Adjusted PAT	173	120	44.8	113	53.1	496	365	35.8
EPS (₹)	3.9	2.6		2.4		10.9	7.7	

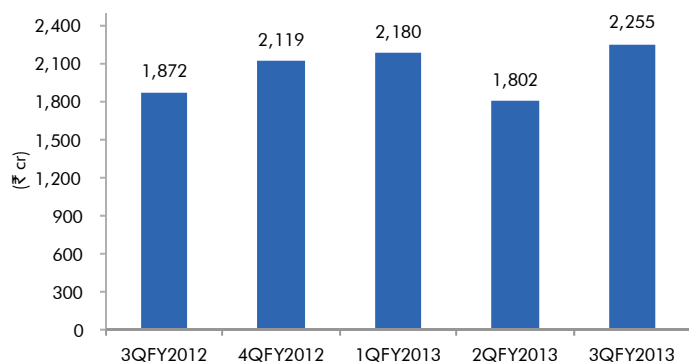
Source: Company, Angel Research

Double digit top-line growth

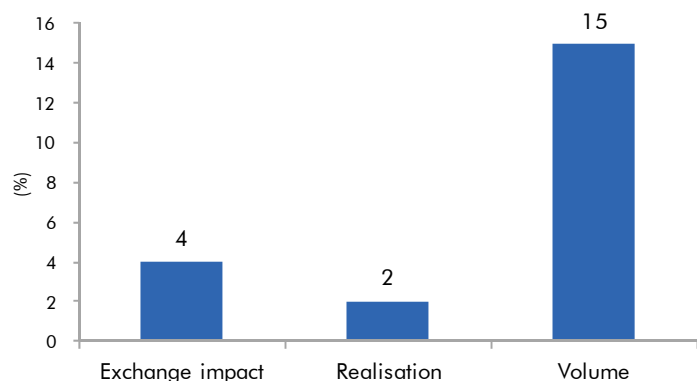
UPL reported a top-line of ₹2,255cr for 3QFY2013, a growth of 20.5% yoy. The sales growth during the period was led by the international markets, which grew by 23% yoy, while the domestic markets grew by 5% yoy during the period.

In the exports segment, USA and Latin America were the main drivers, registering a growth of 44% yoy and 25% yoy respectively. Other key regions like Europe and ROW grew by (1% yoy) and 20% yoy respectively. India on the other hand grew by 5% yoy.

Overall, the volumes during the quarter rose by 15% yoy, while price variance and exchange contributed around 2% and 4% respectively.

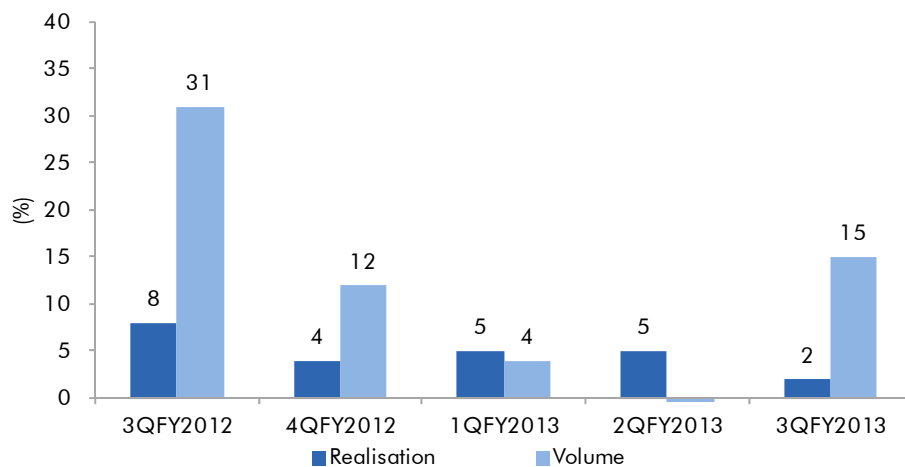
Exhibit 2: Sales performance


Source: Company, Angel Research

Exhibit 2:
Exhibit 3: Growth break-up


Source: Company, Angel Research

Exhibit 4: Volume and realisation break-up (yoy)

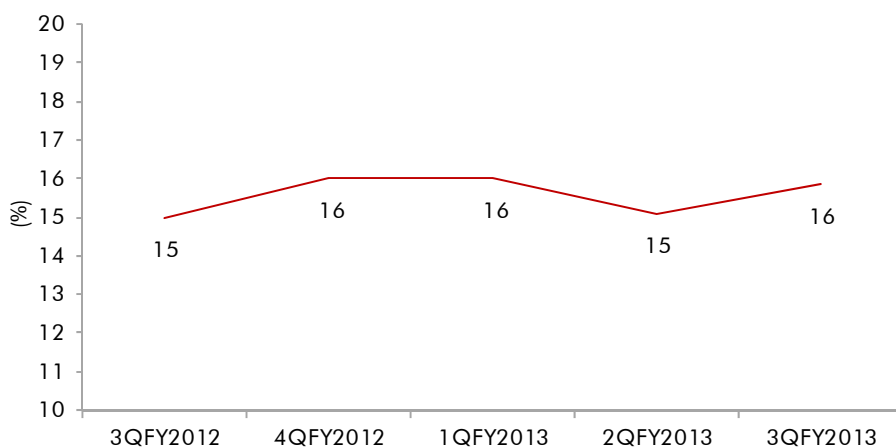


Source: Company, Angel Research

EBITDA margin remains steady

During 3QFY2013, the gross profit margin expanded by 383bp on back of an improved sales mix. However, due to a significant rise in other expenses, margin expansion was restricted to 61bp only.

Exhibit 5: EBITDA margin trend

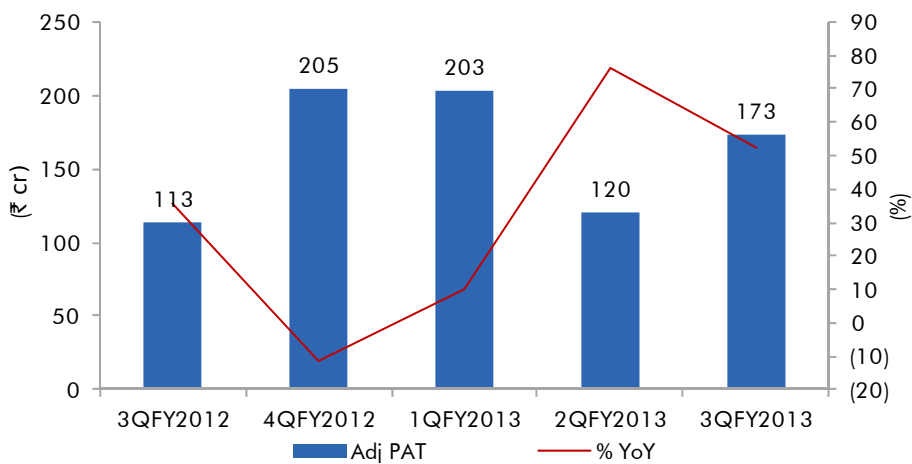


Source: Company, Angel Research

Adj net profit grew 53.1% yoy

While the operating profit grew only by 25.2% yoy, the adjusted net profit still posted a 53.1% yoy growth aided by other income, higher income from associates and lower taxation during the quarter. The net profit came in at ₹173cr vs ₹113cr during the corresponding period of last year.

Exhibit 6: 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. The top six innovators 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, which is 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, global agrichem players have been logging in-line growth with global GDP. Going ahead, over CY2013-14, 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 healthy growth due to a) increasing penetration and wresting market share from innovators and b) patent expiries worth US\$3bn–4bn (2007) during 2009-14.

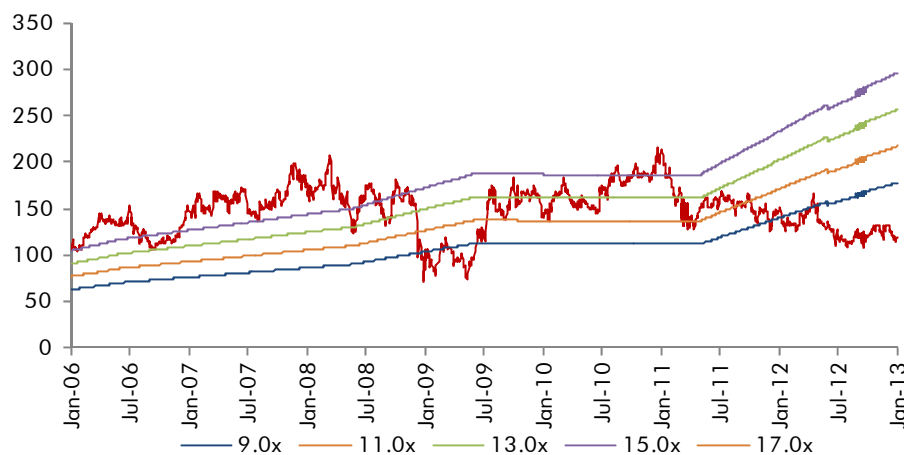
We estimate UPL to post a 10.0% and 18.4% CAGR in sales and PAT, respectively, over FY2012-14. The stock is trading at attractive valuations of 8.0x FY2014E EPS. Hence, **we maintain our Buy recommendation on the stock with a target price of ₹170.**

Exhibit 7: 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 8: P/E band



Source: Company, Angel Research

Exhibit 9: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		CAGR (%)	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	PAT
Rallis	Neutral	2,554	131	-	-	18.7	16.2	1.8	1.5	12.2	10.4	22.9	22.7	15.0	20.3
United Phosphorus	Buy	6,223	137	170	24.1	9.1	8.0	0.9	0.7	5.2	4.4	15.6	15.5	10.0	18.4

Source: Company, Angel Research, Bloomberg

Background

United Phosphorus Limited (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 had revenue of about US\$1.3mn for year ended 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	-	-	42	301	301	301
Long Term Provisions	-	-	31	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 / Intangibles	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)	12.9	10.9	11.4	11.2	9.1	8.0
P/CEPS	9.1	7.9	8.2	7.4	6.1	5.5
P/BV	2.2	2.0	1.7	1.5	1.3	1.2
Dividend yield (%)	1.1	1.5	1.5	1.8	1.8	1.8
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

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	UPL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
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%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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