

April 30, 2010

Rating	BUY
Price	Rs148
Target Price	Rs200
Implied Upside	35.1%
Sensex	17,497

(Prices as on April 29, 2010)

Trading Data

Market Cap. (Rs bn)	68.7
Shares o/s (m)	464.7
Free Float	72.05%
3M Avg. Daily Vol ('000)	1,172.2
3M Avg. Daily Value (Rs m)	179.5

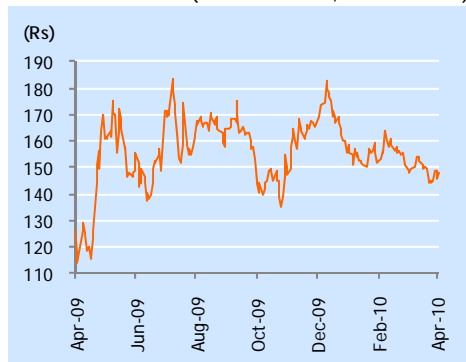
Major Shareholders

Promoters	27.95%
Foreign	34.87%
Domestic Inst.	19.05%
Public & Others	18.13%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.7)	5.2	29.5
Relative	0.5	(3.8)	(24.0)

Price Performance (RIC: UNPO.BO, BB: UNTP IN)



Source: Bloomberg

■ **Better-than-expected PAT:** United Phosphorus' (UPL's) net sales grew by ~9% YoY to Rs15,160m (our expectation was Rs15,145m). UPL had made a commendable ~20% volume growth during Q4FY10 which has been offset by a ~7% decline in price. However, UPL's EBITDA margins have fallen by 90bps to 20.6% mainly on account of lower agrochemical prices on YoY basis. Adjusted PAT grew by ~35% YoY to Rs2,136m (our expectation Rs1,290m). Better-than-expected result was mainly due to a foreign exchange gain of Rs610m and lower tax rate of ~6% (we expected ~20%) during Q4FY10.

■ **Conference call highlights:** Management is guiding for ~10% growth in the net sales that is mainly led by a better volume growth. UPL is aggressively looking for acquisitions and in the event of any acquisition during FY11, net sales are expected to grow by ~15%. At present, the global agrochemicals market as well as prices has stabilized. UPL is expecting EBITDA margin of 21% in FY11 (~200bps higher than FY10) which will improve due to better cost efficiency and margin improvement in Cerexagri. Management has given a guidance of ~35% growth in PBT during FY11 on account of lower interest outgo, while tax rate is likely to go upto 15-20% v/s 13% in FY10. We expect adjusted PAT to grow by ~28% during FY11. UPL has a gross debt and cash of Rs24bn and Rs18bn, respectively in March, 2010.

■ **Upgrade earnings, Maintain 'BUY':** We are upgrading our FY11E and FY12E EPS by ~10% and ~5%, respectively due to better EBITDA margins. UPL is trading at a discount (~10x) P/E as compared to its global peers (12x-20x) on the basis of FY11E EPS, despite higher earnings CAGR and better RoE compared to global peers. We are positive on the stock on account of a diversified agriculture-based business model, its growth potential and discounted valuation. At present, stock is trading at ~10x at its consolidated FY11E EPS as against its historical forward trading band of 6x-20x. We maintain our 'BUY' rating on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	49,735	54,950	60,489	66,496
Growth (%)	32.2	10.5	10.1	9.9
EBITDA (Rs m)	9,867	10,334	12,572	13,892
PAT (Rs m)	4,927	5,563	7,144	8,353
EPS (Rs)	10.6	12.0	15.4	18.0
Growth (%)	24.9	12.9	28.4	16.9
Net DPS (Rs)	1.4	1.9	1.4	1.6

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	19.8	18.8	20.8	20.9
RoE (%)	20.1	19.6	20.8	19.8
RoCE (%)	18.2	15.0	16.4	17.0
EV / sales (x)	1.7	1.4	1.2	1.0
EV / EBITDA (x)	8.5	7.2	5.5	4.5
PE (x)	13.9	12.3	9.6	8.2
P / BV (x)	1.7	1.5	1.4	1.3
Net dividend yield (%)	1.0	1.3	0.9	1.1

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	15,160	13,917	8.9	11,497	54,603	49,317	10.7
Consumption of Raw Material	8,156	6,926	17.8	5,748	29,542	24,512	20.5
<i>As % of Net Sales</i>	<i>53.8</i>	<i>49.8</i>		<i>37.9</i>	<i>212.3</i>	<i>176.1</i>	
Employee Cost	1,339	1,358	(1.4)	1,234	5,018	4,794	4.7
<i>As % of Net Sales</i>	<i>8.8</i>	<i>9.8</i>		<i>8.1</i>	<i>36.1</i>	<i>34.4</i>	
Other Expenditure	2,660	2,704	(1.6)	2,563	10,052	10,563	(4.8)
<i>As % of Net Sales</i>	<i>17.5</i>	<i>19.4</i>		<i>16.9</i>	<i>72.2</i>	<i>75.9</i>	
Expenditure	12,155	10,987	10.6	9,545	44,612	39,868	11.9
Operating Profit	3,004	2,930	2.5	1,952	9,991	9,449	5.7
<i>OPM (%)</i>	<i>19.8</i>	<i>21.1</i>		<i>17.0</i>	<i>18.3</i>	<i>19.2</i>	
Other Income	154	85	82.1	83	343	418	(18.0)
EBITDA	3,159	3,015	4.8	2,035	10,334	9,867	4.7
<i>Margin (%)</i>	<i>20.6</i>	<i>21.5</i>		<i>17.6</i>	<i>18.8</i>	<i>19.8</i>	
Depreciation	558	638	(12.6)	541	2,147	1,927	11.4
PBIT	2,601	2,377	9.4	1,494	8,187	7,940	3.1
Interest	360	875	(58.9)	596	1,938	2,919	(33.6)
Profit before tax	2,241	1,502	49.2	898	6,249	5,021	24.4
<i>Margin (%)</i>	<i>14.8</i>	<i>10.8</i>		<i>7.8</i>	<i>11.4</i>	<i>10.2</i>	
Tax	134	(78)	(272.9)	247	814	269	202.2
<i>Tax Rate (%)</i>	<i>6.0</i>	<i>(5.2)</i>		<i>27.5</i>	<i>13.0</i>	<i>5.4</i>	
PAT before Minority Interest	2,107	1,579	33.4	651	5,435	4,752	14.4
Minority Interest	(29)	(4)	612.2	10	(128)	(175)	(26.7)
Adjusted PAT	2,136	1,584	34.9	641	5,563	4,927	12.9
Ex-Items	267	101	165.1	-	267	101	165.1
Reported PAT	1,869	1,483	26.1	641	5,296	4,826	9.7

Geographical Revenue Breakup (Incl Other Income)

(Rs m)

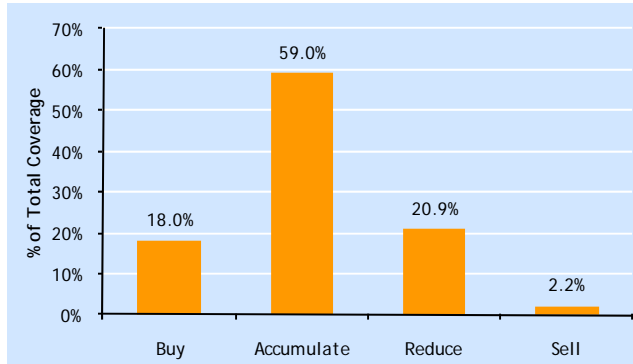
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
North America	3,285	3,036	8.2	1,841	12,340	11,716	5.3
<i>Contribution in Revenue (%)</i>	<i>21.4</i>	<i>21.7</i>		<i>12.0</i>	<i>22.5</i>	<i>23.6</i>	
India	2,045	1,971	3.8	3,123	11,980	10,331	16.0
<i>Contribution in Revenue (%)</i>	<i>13.4</i>	<i>14.1</i>		<i>20.4</i>	<i>21.8</i>	<i>20.8</i>	
Europe	5,437	5,853	(7.1)	2,673	15,730	15,873	(0.9)
<i>Contribution in Revenue (%)</i>	<i>35.5</i>	<i>41.8</i>		<i>17.5</i>	<i>28.6</i>	<i>31.9</i>	
Rest of the world	4,548	3,142	44.7	3,942	14,896	11,815	26.1
<i>Contribution in Revenue (%)</i>	<i>29.7</i>	<i>22.4</i>		<i>25.7</i>	<i>27.1</i>	<i>23.8</i>	
Total Income	15,314	14,002	9.4	11,580	54,946	49,735	10.5

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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