

Bayer CropScience

Performance Highlights

(Rs cr)	1QFY11	1QFY10	% yoy	Angel Est	% Diff
Revenue	721	602	20	736	(2)
EBITDA	76	83	(8)	102	(25)
EBITDA margin (%)	11	14	(320)bp	14	(319)bp
Reported PAT	52	56	(8)	69	(25)

Source: Company, Angel Research

Bayer CropScience (BCS) reported disappointing set of numbers for 1QFY2011. Total sales for the quarter grew 20% yoy to Rs721cr, while EBITDA margin stood at 11% yoy as against our estimate of 14%. Reported PAT came in at Rs52cr (Rs56cr), down 8% yoy. Going ahead, we expect the company to be on strong growth trajectory on the back of high agro-commodity prices. On the bourses, due to the recent run-up in price the stock is currently trading at fair valuations. Hence, **we maintain our Neutral stance on the stock.**

Lower EBITDA margin restricts profit growth: The company's 1QFY2011 results were below our expectations, as sales grew 20% yoy vis-à-vis our estimate of 22% yoy growth. Gross margins declined by 358bp to 27%, which led to 320bp contraction in EBITDA margin to 11% (14%).

Outlook and Valuation: The second quarter is usually the best for the company due to the seasonal nature of the industry. We maintain our estimates and expect BCS to register a CAGR of 15.3% and 22.9% in net sales and profit over FY2010-12E, respectively. We expect the company to post EPS of Rs44.6 and Rs51.8 in FY2011E and FY2012E, respectively. Our revised SOTP target price is Rs824 (Rs722) wherein we have valued the core business at 12x FY2012E EPS fetching Rs621/share, and have factored in 20% (50%) discounted value for the Thane land translating into Rs203/share post tax. However, at current levels, the stock is trading close to our revised target post the recent run-up in the price. Hence, we maintain our Neutral rating on the stock.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Total Revenues	1,483	1,724	1,995	2,294
% chg	19.7	16.3	15.7	15.0
Adj Profit	100	135	176	205
% chg	92.7	34.7	30.1	16.1
EBITDA Margin (%)	11.5	12.6	12.6	12.8
EPS (Rs)	25.4	34.3	44.6	51.8
P/E (x)	32.6	24.2	18.6	16.0
P/BV (x)	7.3	5.9	4.6	3.7
RoE (%)	24.5	26.8	27.7	25.5
RoACE (%)	31.3	35.1	33.9	32.8
EV/Sales (x)	2.2	1.8	1.6	1.3
EV/EBITDA (x)	19.4	14.6	12.4	10.3

Source: Company, Angel Research

NEUTRAL

CMP	Rs830
Target Price	-

Investment Period	-
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Stock Info	
Sector	Agrichemical
Market Cap (Rs cr)	3,280
Beta	0.4
52 Week High / Low	911/293
Avg. Daily Volume	41,217
Face Value (Rs)	10
BSE Sensex	17,977
Nifty	5,399
Reuters Code	BAYE.BO
Bloomberg Code	BYRCS@IN

Shareholding Pattern (%)	
Promoters	71.1
MF / Banks / Indian FIs	9.1
FII / NRIs / OCBs	4.0
Indian Public / Others	15.9

Abs. (%)	3m	1yr	3yr
Sensex	2.9	19.4	15.5
Bayer CropScience	4.6	177.8	221.0

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Exhibit 1: Quarterly performance

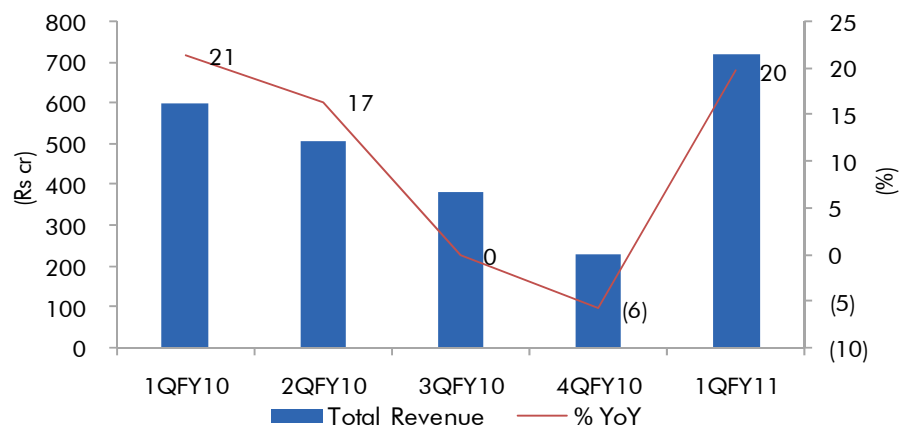
Y/E March (Rs cr)	1QFY11	1QFY10	% chg	FY10	FY09	% chg
Net sales	696	578		1,625	1,483	
Other Op Inc	24	24		99	0	
Total Revenue	721	602	20	1,724	1,483	16
Total RM	508	400	27	1061	892	19
as % of sales	73	69		65	60	
Gross Profit	189	177	6	564	591	(4)
Gross margin (%)	27.1	30.7		34.7	39.8	
Staff cost	44	37	16	141	134	5
as % of sales	6	6		8	9	
Other Expenses	93	81	15	305	286	6
as % of sales	13	13		18	19	
Total Exp	644	519	24	1506	1313	15
as % of sales	89	86		87	89	
EBITDA	76	83	(8)	218	170	28
EBITDA margin (%)	10.6	13.8		12.6	11.5	
Depreciation	6	6	(3)	26	24	10
EBIT	71	77	(8)	191	146	31
EBIT %	-	-		11	10	
Other Income	6	11	(48)	25	22	17
Interest	1	2	(18)	11	11	6
PBT (excl exp item)	75	87	(13)	205	157	31
Extra-ord Items	1	0		(9)	(6)	
PBT (incl exp item)	76	87	(12)	196	151	30
Total tax	24	31		69	56	
Tax rate	-	-		34	36	
PAT	52	56	(8)	127	94	35
PAT (%)	-	-		8	6	
Adj PAT	51	56	(9)	135	100	35
Adj PAT (%)	7	10		8	(2)	
Equity	40	40		40	40	
EPS (Rs)	13	14	(8)	32	24	35
Adj EPS (Rs)	13	14	(9)	34	25	35

Source: Company, Angel Research

Sales growth below expectation

BCS reported lower-than-expected 1QFY2011 results wherein total revenues grew by 20% as against our estimate of 22%.

Exhibit 2: Sales growth below expectation

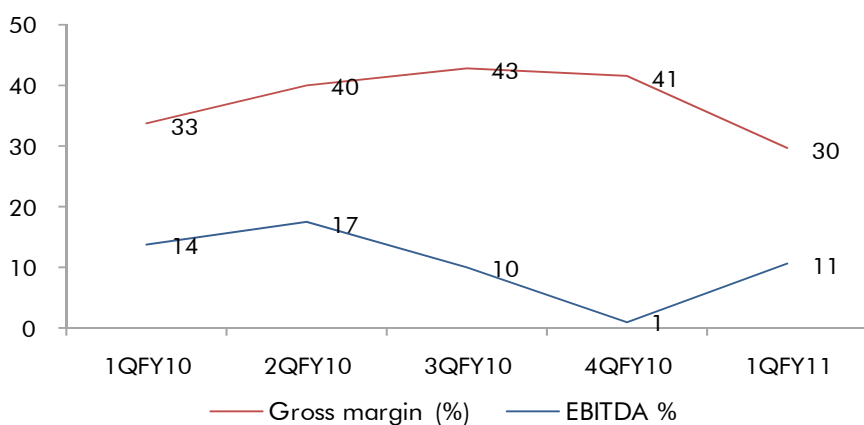


Source: Company, Angel Research

Contraction in gross margin leads to decline in EBITDA margin

Gross margins declined by 358bp to 27.1% (30.7%). As a result, overall EBITDA margin fell by 320bp to 10.6% (13.8%).

Exhibit 3: Margin trend

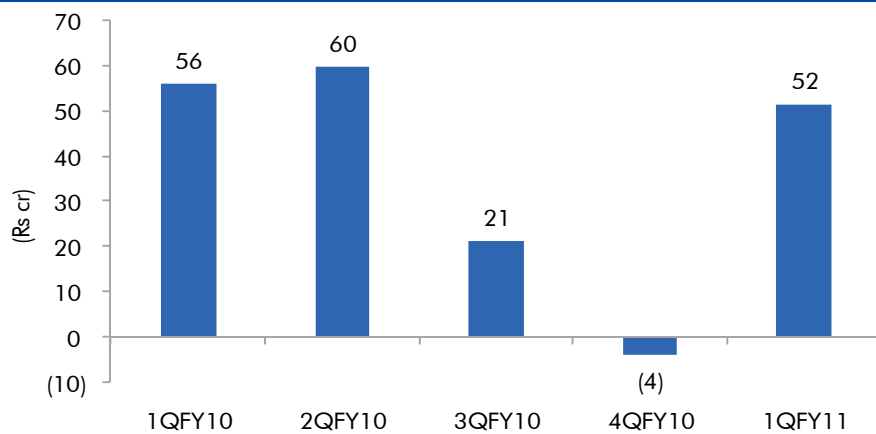


Source: Company, Angel Research

Overall earnings below estimates

Total earnings for the quarter dipped by 8% yoy v/s our estimate of 22% yoy growth due to lower EBITDA margin. BCS reported PAT of Rs52cr (Rs56cr).

Exhibit 4: PAT trend



Source: Company, Angel Research

Investment Arguments

Leader in Indian markets: BCS is a leader in the Indian agrichemical sector with a market share of 23%. The company's domestic revenues registered steady CAGR of 19% over CY2005-FY2010, which indicates its stronghold in the domestic business. Moreover, going ahead, we believe there exists substantial opportunity for BCS to grow its domestic business considering the abysmal penetration of pesticides in India. It may be noted that India consumes an average 0.48kg of pesticides per hectare (ha) compared to 4.5kg/ha in USA and 10.7kg/ha in Japan.

Exports - Riding the outsourcing bandwagon: BCS's export revenues registered 15% CAGR during CY2005-FY2010. Around 80% of the company's export revenues come from outsourcing by Bayer AG's group companies. We believe this indicates the company's strong ability to grow internationally despite its parent having a global presence. Globally, Bayer AG has a revenue base of Euro33bn, of which 17% (Euro5.6bn) is from crop protection. Hence, if Bayer AG were to outsource 10% of its requirements from its various global subsidiaries, we believe that BCS would immensely benefit from the same.

Outlook and Valuation

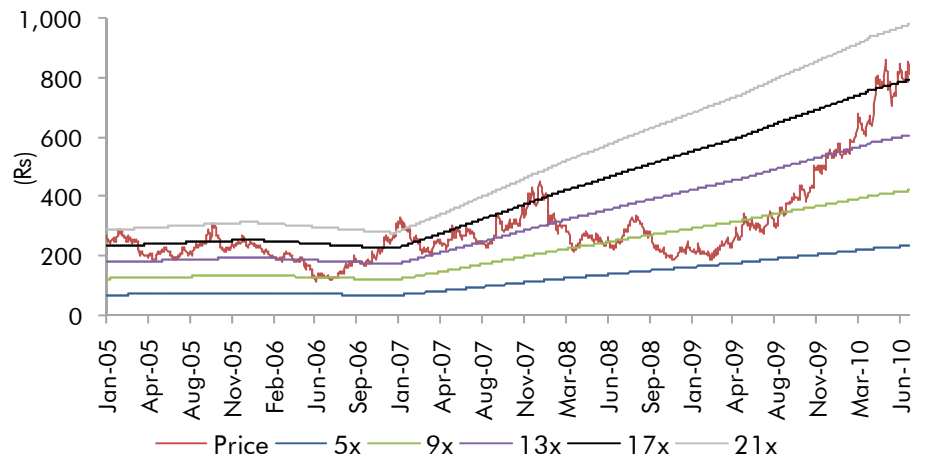
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Exhibit 5: Key Assumption

	FY2011E	FY2012E
Revenue Growth	15.7	15.0
Gross Margins	38.5	38.5
Staff cost (% of sales)	8.2	8.2
Other cost (% of sales)	17.7	17.5
EBITDA Margins	12.6	12.8

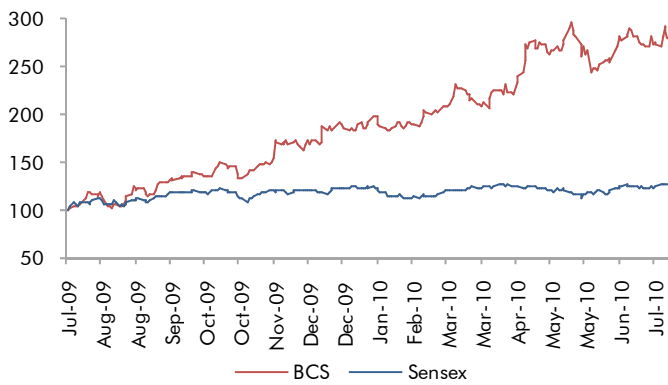
Source: Company, Angel Research; Note: * - numbers are for 15 months

Exhibit 6: One-year forward P/E band



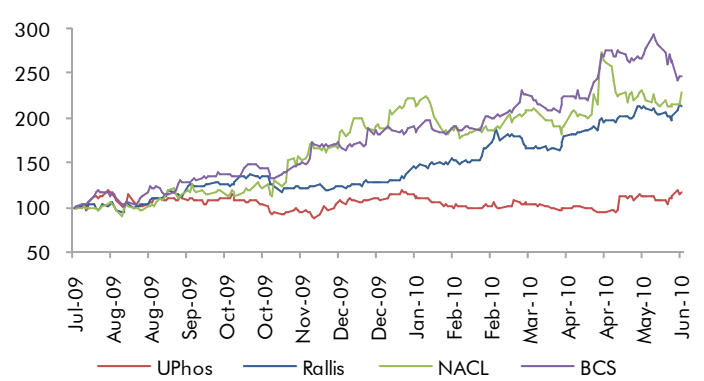
Source: Company, Angel Research

Exhibit 7: BCS v/s Sensex - One-year absolute returns



Source: Company, Angel Research

Exhibit 8: BCS v/s peers - Relative performance



Source: Company, Angel Research

Profit & Loss

Y/E March (Rs cr)	CY06	FY08*	FY09	FY10E	FY11E	FY12E
Total operating income	775	1,238	1,483	1,724	1,995	2,294
% chg	9.4	59.9	19.7	16.3	15.7	15.0
Total Expenditure	682	1,148	1,313	1,506	1,743	2,000
Net Raw Materials	451	772	892	1,061	1,227	1,411
Other Mfg costs	164	254	286	305	353	401
Personnel	67	122	134	141	164	188
Other						
EBITDA	93	90	170	218	251	294
% chg	9.8	(3.3)	89.3	28.0	15.4	16.8
(% of Net Sales)	12.0	7.3	11.5	12.6	12.6	12.8
Depreciation & Amortisation	29	26	24	26	29	30
EBIT	64	64	146	191	223	263
% chg	3.5	(1.1)	129.9	31.0	16.4	18.2
(% of Net Sales)	8.3	5.1	9.9	11.1	11.2	11.5
Interest & other Charges	9	8	11	11	4	1
Other Income	34	23	22	25	48	47
(% of PBT)	37.7	29.1	13.7	12.3	18.0	15.2
Recurring PBT	89	79	157	205	267	310
% chg	9.7	(11.7)	98.5	30.8	30.1	16.1
Extraordinary Expense/(Inc.)	0	11	6	9	-	-
PBT (reported)	89	68	151	196	267	310
Tax	32	19	56	69	91	105
(% of PBT)	36.0	23.9	35.9	33.7	34.0	34.0
PAT (reported)	57	49	94	127	176	205
Add: Share of earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	(1)	-	-	-	-	-
PAT after MI (reported)	57	49	94	127	176	205
ADJ. PAT	59	52	100	135	176	205
% chg	9.7	(11.7)	92.7	34.7	30.1	16.1
(% of Net Sales)	7.6	4.2	6.8	7.9	8.8	8.9
Basic EPS (Rs)	14.4	12.4	23.9	32.2	44.6	51.8
Fully Diluted EPS (Rs)	15.0	13.2	25.4	34.3	44.6	51.8
% chg	9.7	(11.7)	92.7	34.7	30.1	16.1

Source: Company, Angel Research. Note* - numbers are for 15 months

Balance sheet

Y/E March (Rs cr)	CY06	FY08*	FY09	FY10E	FY11E	FY12E
SOURCES OF FUNDS						
Equity Share Capital	39	39	39	39	39	39
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	292	330	411	520	673	850
Shareholders Funds	331	369	451	560	713	890
Minority Interest	-	-	-	-	-	-
Total Loans	108	69	43	36	4	2
Deferred Tax Liability	-	-	-	-	-	-
Total Liabilities	440	439	494	596	716	891
APPLICATION OF FUNDS						
Gross Block	340	416	441	485	534	587
Less: Acc. Depreciation	188	179	182	208	237	267
Net Block	152	237	259	277	297	320
Capital Work-in-Progress	4	11	11	11	11	11
Goodwill	-	-	-	-	-	-
Investments	4	60	10	10	10	10
Current Assets	481	516	643	720	869	1,088
Cash	27	28	18	124	164	246
Loans & Advances	48	105	101	112	130	149
Other	407	383	523	483	576	693
Current liabilities	204	402	444	442	508	591
Net Current Assets	278	114	199	278	361	497
Mis. Exp. not written off	3	17	14	20	37	53
Total Assets	440	439	494	596	716	891

Source: Company, Angel Research. Note: * - numbers are for 15 months

Cash flow

Y/E March (Rs cr)	CY06	FY08*	FY09	FY10E	FY2011E	FY12E
Profit before tax	89	79	151	205	267	310
Depreciation	26	41	42	38	33	31
Change in Working Capital	(45)	92	(114)	7	(65)	(74)
Less: Other income	(5)	(4)	(3)	(2)	(1)	-
Direct taxes paid	(33)	(72)	(45)	(69)	(91)	(105)
Cash Flow from Operations	37	140	35	181	144	161
(Inc.)/ Dec. in Fixed Assets	(16)	(51)	(48)	(44)	(49)	(53)
(Inc.)/ Dec. in Investments	-	26	3	-	-	-
Inc./ (Dec.) in loans and advances	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(16)	(25)	(45)	(44)	(49)	(53)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(8)	(39)	(27)	(6)	(33)	(2)
Dividend Paid (Incl. Tax)	(10)	(11)	(11)	(13)	(18)	(23)
Others	(7)	(6)	(10)	(11)	(4)	(1)
Cash Flow from Financing	(25)	(56)	(48)	(31)	(55)	(26)
Inc./ (Dec.) in Cash	(4)	60	(58)	106	40	82
Opening Cash balances	24	27	86	18	124	164
Closing Cash balances	19	86	28	124	164	246

Source: Company, Angel research. Note: * - Numbers are for 15 months

Key Ratios

Y/E March	CY06	FY08*	FY09	FY10E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	55.5	62.9	32.6	24.2	18.6	16.0
P/CEPS	37.4	41.8	26.3	20.3	16.0	14.0
P/BV	9.9	8.9	7.3	5.9	4.6	3.7
Dividend yield (%)	0.3	0.3	0.3	0.5	0.6	0.7
EV/Sales	4.3	2.6	2.2	1.8	1.6	1.3
EV/EBITDA	36.1	36.3	19.4	14.6	12.4	10.3
EV / Total Assets	7.6	7.4	6.7	5.3	4.3	3.4
Per Share Data (Rs)						
EPS (Basic)	14.4	12.4	23.9	32.2	44.6	51.8
EPS (fully diluted)	15.0	13.2	25.4	34.3	44.6	51.8
Cash EPS	22.2	19.9	31.5	41.0	51.8	59.5
DPS	2.4	2.4	2.8	4.0	5.0	6.0
Book Value	83.9	93.5	114.2	141.7	180.4	225.2
Dupont Analysis						
EBIT margin	8.3	5.1	9.9	11.1	11.2	11.5
Tax retention ratio	64.0	76.1	64.1	66.3	66.0	66.0
Asset turnover (x)	2.0	3.3	3.7	3.8	4.1	4.0
ROIC (Post-tax)	10.7	12.9	23.6	28.0	29.9	30.1
Cost of Debt (Post Tax)	4.9	6.5	12.4	19.2	13.2	13.2
Leverage (x)	0.3	0.1	-	-	-	-
Operating RoE	12.2	13.5	23.5	27.3	26.4	25.6
Returns (%)						
RoCE (Pre-tax)	15.3	14.5	31.3	35.1	33.9	32.8
Angel RoIC (Pre-tax)	16.6	17.0	36.8	42.3	45.3	45.6
RoE	19.1	14.9	24.5	26.8	27.7	25.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	3.3	3.5	3.7	3.9	4.1
Inventory / Sales (days)	86	58	65	65	65	68
Receivables (days)	91	58	47	45	48	50
Payables (days)	86	74	89	80	79	80
WC cycle (ex-cash) (days)	107	50	33	35	32	36
Solvency ratios (x)						
Net debt to equity	0.2	-	-	-	-	-
Net debt to EBITDA	0.9	-	0.1	-	-	-
Interest Coverage (EBIT / Interest)	7.5	8.4	13.5	16.7	55.7	-

Source: Company, Angel research. Note:* - Numbers are for 15 months

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Disclosure of Interest Statement

	Bayer CropScience
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 Rs 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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