United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,680	UNTP IN
	REUTERS CODE
S&P CNX: 3,131	UNPO.BO

Equity Shares (m)	187.2
52-Week Range (Rs)	315/173
1,6,12 Rel. Perf. (%)	-9/-27/-15
M.Cap. (Rs b)	42.0
M.Cap. (US$ b)	0.9

28 July 2006

Buy

Previous Recommendation: Buy

Rs225

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/06A	18,020	2,179	10.8	19.8	20.8	2.6	18.0	17.0	2.2	8.2
03/07E	21,581	2,858	14.2	31.1	15.9	2.2	16.1	15.2	1.7	6.5
03/08E	22,973	3,242	16.1	13.4	14.0	1.9	15.8	15.4	1.4	5.4

United Phosphorus' 1QFY07 results are in line with estimates with sales and PAT growth of 18% and 41% respectively. These results are not strictly comparable as they are consolidated for acquisitions of Cequisa (Jun'05), SWAL (Jul'05) and Reposo (Nov'05).

- Revenues grew 18% YoY to Rs4.8b primarily driven by 23% growth in domestic business (to Rs1.3b) and 28% growth in EU business (to Rs1.2b). However, on like-to-like basis, growth would be in region of 7-8%.
- EBITDA margins expanded marginally by 30bp to 25.3% due tighter cost control. EBITDA margin expansion would have been higher but for 10-12% decline in caustic chlorine prices (a key product of Industrial chemicals division).
- Also, lower tax provisioning (12% of PBT v/s 17.2% in 1QFY06) boosted net profit growth to 41% to Rs541m.
- Advanta (recently acquired seeds business) reported a 22% YoY growth in revenues to Rs915m, with a EBITDA margins of 19-20%.

UPL has made considerable progress, emerging as a leading generic player in the global crop protection industry. IPO of Advanta Seeds would unlock the value and free-up resources for UNTP to pursue its growth plans. Current valuations at 15.9x FY07E and 14x FY08E consolidated EPS (fully diluted excl Advanta acqn) do not fully reflect strong business fundamentals and any upsides from potential acquisitions. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY06				FY07E				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Gross Revenues	**4,075**	**4,381**	**3,847**	**5,717**	**4,804**	**5,343**	**4,579**	**6,855**	**18,020**	**21,581**
YoY Change (%)	*21.3*	*22.7*	*26.3*	*34.5*	*17.9*	*22.0*	*19.0*	*19.9*	*26.7*	*19.8*
Total Expenditure	3,055	3,255	2,914	3,899	3,589	4,007	3,492	4,780	13,123	15,867
EBITDA	**1,020**	**1,126**	**933**	**1,818**	**1,215**	**1,336**	**1,088**	**2,075**	**4,897**	**5,714**
Margins (%)	*25.0*	*25.7*	*24.2*	*31.8*	*25.3*	*25.0*	*23.8*	*30.3*	*27.2*	*26.5*
Depreciation	326	353	351	373	360	370	380	389	1,402	1,499
Interest	230	212	206	340	241	190	180	126	988	737
PBT after EO Expense	**464**	**561**	**376**	**1,106**	**614**	**776**	**528**	**1,560**	**2,507**	**3,478**
Tax	5	22	44	17	22	97	66	249	107	435
Deferred Tax	75	68	100	-23	51	39	26	57	221	174
Rate (%)	*17.2*	*16.0*	*38.5*	*-0.5*	*12.0*	*17.5*	*17.5*	*19.7*	*13.1*	*17.5*
Reported PAT	**384**	**472**	**231**	**1,111**	**541**	**640**	**435**	**1,253**	**2,179**	**2,869**
PAT	**384**	**472**	**231**	**1,111**	**541**	**640**	**435**	**1,253**	**2,179**	**2,869**
YoY Change (%)	78.4	50.9	53.8	24.3	40.8	35.7	88.1	12.8	38.6	31.7
Margins (%)	*9.4*	*10.8*	*6.0*	*19.4*	*11.3*	*12.0*	*9.5*	*18.3*	*12.1*	*13.3*

E: MOSt Estimates

Note: In the interest of timeliness, this report has not been edited.

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Consolidation of acquisition drives sales growth

Consolidate revenues for 1QFY07 grew 18% YoY to Rs4.8b, but are not strictly comparable as they are consolidated for acquisitions of Cequisa (Jun'05), SWAL (July'05) and Reposo (Nov'05). However, on like-to-like basis, growth would be in region of 7-8%.

Revenue growth was primarily driven by 23% growth in domestic business (to Rs1.3b) boosted by "*Current*" (a wheat herbicide) and "*Total*" during the year. Adjusting for SWAL acquisition, organic growth in domestic business was around 7-8%.

International business grew by 16% YoY (to Rs3.5b) led by EU business which grew by 28% YoY (to Rs1.2b). This growth was on account of consolidation of acquisitios of Cequisa (Jun'05) and Reposo (Nov'05). The organic growth in Exports business would be near 8%. The growth in international business would have been higher but for lower growth in US business. US business grew by just 9% (to Rs1.6b) as business was impacted due to hot and dry weather resulting in lower pest and fungus pressure.

TREND IN MARKET-MIX (RS M)

	1QFY07	1QFY06	YOY (%)	4QFY06	QOQ (%)
Domestic Business	1,290	1,050	22.9	1,390	-7.2
Contribution(%)	*26.9*	*25.8*		*24.3*	
International Business					
US	1,590	1,460	8.9	1,225	29.8
Contribution(%)	*33.2*	*35.9*		*21.5*	
EU	1,180	920	28.3	1,415	-16.6
Contribution(%)	*24.6*	*22.6*		*24.8*	
RoW	730	640	14.1	1,680	-56.5
Contribution(%)	*15.2*	*15.7*		*29.4*	
Total Intern. Rev.	**3,500**	**3,020**	**15.9**	**4,320**	**-19.0**
Contribution(%)	*73.1*	*74.2*		*75.7*	
Total	**4,790**	**4,070**	**17.7**	**5,710**	**-16.1**

Source: Company/ Motilal Oswal Securities

Tighter cost control leads to stable margins

EBITDA margins for the quarter expanded marginally by 30bp to 25.3% due tighter cost control. EBITDA margin expansion would have been higher but for 10-12% decline in caustic chlorine prices (a key product of Industrial chemicals division).

Interest and finance cost for the quarter was higher due to forex loss of Rs60m. However, the interest cost has actually declined by 22% (to Rs180m) due to swapping of rupee loan with US$75m ECB loan (at LIBOR+200bp). Also, lower tax provisioning (12% of PBT v/s 17.2% in 1QFY06) boosted net profit growth to 41% to Rs541m.

Maintains guidance for FY07

The management maintained guidance of 15-20% sales growth and 35-40% PAT growth. The sales growth would be driven by 20% growth in US business, 15-20% growth in Asia & LatAm business and 7-10% growth in Europe business. The management is confident of achieving 20% growth in US business despite subdued performance in 1QFY07, led by 2/3 product launches (including 1 product launch in 1QFY07) during the year.

Robust product pipeline for regulated market

Although, United Phosphorous didn't make any product filing in US during the quarter, it received approvals for and launched 2 products (incl. Tebuconazole) in 1HCY06. The full impact of these launches would only be realized in FY07. These 2 products hold significant potential as there is very less competition (1-2 players) and are of reasonable size (US$40-100m). Also, the company plans to launch 2/3 more products in US in FY07 and around 14-15 over next 3 years with addressable market of US$2.5-2.7b.

Enters seeds business through Advanta acquisition

UPL recently acquired seed business of Advanta at EV of EUR100m, marking its entry into high potential seeds business. Globally, seed business is a growing business as compared to agri-chem. In India, the size of the seed industry is currently around US$1b and has been growing in range of 25% CAGR for last 5-7years.

Advanta has a portfolio of proprietary and highly differentiated germplasm and had total sales of Eur61m with gross margins of 35-37% and EBITDA margins of 18% (EBITDA of Eur11m). It has operations in Australia (~59% of sales), Argentina (~11%), India (~17%) and

Thailand (~13%). It is one of the largest seed company in Australia.

Our estimates do not factor-in the Advanta acquisition as UNTP does not consolidate financials in line with its plans to divest majority stake.

SUNSAT program at Advanta creates 'option value' for investors

Advanta is currently working on "SUNSAT" program involving R&D on hybrid non-GM biotech sunflower seeds which provides oil quality capable of reducing LDL (bad) cholesterol. The oil produced has properties catering to the needs of various sectors of the food industry like margarine. It has collaborated with Unilever, the largest player in margarine business globally (~60% market share). The company expects to launch this product in 2009. If commercialized, this product represents a substantial commercial opportunity, resulting in 'option value' for investors.

Planning IPO for seeds business

The management is planning an IPO for the seeds business of Advanta, so as to unlock its investments in Advanta for funding its growth plans in agri-chem business. Having seeds and agri-chem business in separate entity would enable to the management to pursue its growth plan for each business without impacting the balance sheet of other business.

The promoters plan to merge UniPhos Seeds & Biogenetics (UPSB), currently 100% owned by the promoters, into Advanta India (the seeds business acquired by UNTP). UPSB expects to have revenue of Rs350-400m for FY07 led by launch of Bt Cotton seeds (expected to garner revenue of Rs150m), with EBITDA margins of around 40-45%. The merged entity would have presence across all major crops and vegetable seeds.

Advanta India (post merger) would make a private placement to group of financial investors and subsequently come out with an IPO by November 2006. UNTP's eventually stake in Advanta India will reduce to 49% with the balance stake held by public (through IPO) and by the promoters of UPSB (by virtue of merger of UPSB with Advanta).

Strong growth; fair valuations

UPL's business has undergone a significant transformation over the last couple of years, with the company being able to overcome its major problem areas – loss making chlorine and power businesses (in Search Chem), restricted ability to seed growth and vagaries of the domestic market. The acquisitions (*Surflan*, *Blazer*, AgValue, SWAL, Cequisa, and Reposo), turnaround in the chlorine business and faster growth in the more profitable regulated markets have also raised UPL's cash generation ability and reduced its dependence on the monsoon-sensitive domestic market. We expect the company to further improve its performance led by a combination of fresh registrations and inorganic initiatives.

UPL has made considerable progress, emerging as a leading generic player in the global crop protection industry. IPO of Advanta Seeds would unlock the value and free-up resources for UNTP to pursue its growth plans. Current valuations at 15.9x FY07E and 14x FY08E consolidated EPS (fully diluted excl Advanta acqn) do not fully reflect strong business fundamentals and any upsides from potential acquisitions. Maintain **Buy.**

United Phosphorus: an investment profile

United Phosphorus is a US$300m company with a strong presence in crop protection and industrial chemicals. With around 70% of its revenues coming from international markets, the company has emerged as the sixth largest generic player in the world. United Phosphorus' growth strategy is built around filing its own registrations globally and acquiring tail end brands of global majors in regulated markets.

Key investment argument

- One of the largest (and most competitive) global generic players in crop protection – well poised to leverage the increasing conversion to generics globally.
- Recent FCCB issue and improving cash flows give it a war chest to scale up new registrations and acquisitions.
- Increasing share of global revenues (69% in FY06) to improve profitability and reduce dependence on the volatile Indian market.

Key investment risks

- Volatility in raw material prices, Rupee appreciation could subdue margins, if adequate price hikes cannot be taken.
- Business is working capital intensive, thereby restricting the free cash available to seed growth.

Recent developments

- Planning to divest stake in Advanta through Private-placement and IPO by November 2006

Valuation and view

- Has emerged as a truly global player and is just at the beginning of an exciting growth phase – expect adjusted earnings (fully diluted) CAGR of 21% over FY06-08.
- Valuations of 15.9xFY07E and 14x FY08E EPS (fully diluted) does not fully reflect the strong growth potential and any upsides from potential acquisitions. Maintain Buy with price target of Rs300.

Sector view

- Regulated markets of US and Europe are excellent growth avenues for Indian crop protection companies, with their low-cost base and strong chemistry skills.
- High degree of consolidation in the market, strong entry barriers and limited price erosion make the generics opportunity very attractive for established players.
- Companies that have achieved critical scale and established strong relationships with major distributors are expected to benefit the most.

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	15.3	11.4	34.6
FY08	17.3	15.4	12.2

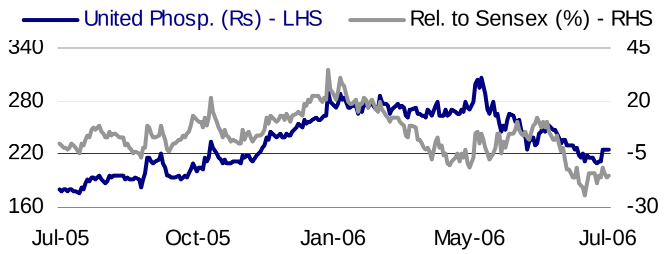
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
225	300	33.3	Buy

SHAREHOLDING PATTERN (%)

	JUN.06	MAR.06	JUN.05
Promoters	29.6	29.6	33.1
Domestic Institutions	19.8	17.3	18.0
FIIs/FDIs	35.6	40.7	35.0
Others	15.0	12.4	14.0

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED INCOME STATEMENT (Rs Million)

Y/E MARCH	2004	2005	2006	2007E	2008E
Net Revenue	**11,084**	**14,226**	**18,020**	**21,581**	**22,973**
Change (%)	*15.2*	*28.3*	*26.7*	*19.8*	*6.5*
Total Expenditure	8,164	10,667	13,123	15,867	16,819
EBITDA	**2,920**	**3,559**	**4,897**	**5,714**	**6,153**
Margin (%)	*26.3*	*25.0*	*27.2*	*26.5*	*26.8*
Depreciation	913	978	1,402	1,499	1,526
Int. and Finance Charges	880	838	988	737	685
PBT before EO Expense	**1,127**	**1,742**	**2,507**	**3,478**	**3,943**
EO Expense/(Income)	145	0	0	0	0
PBT after EO Expense	982	1,742	2,507	3,478	3,943
Tax	-35	170	328	609	690
Tax Rate (%)	*-3.5*	*9.8*	*13.1*	*17.5*	*17.5*
Reported PAT	**1,016**	**1,572**	**2,179**	**2,869**	**3,253**
PAT Adj for EO Items	**1,162**	**1,572**	**2,179**	**2,869**	**3,253**
Change (%)	*59.8*	*35.3*	*38.6*	*31.7*	*13.4*
Margin (%)	*10.5*	*11.0*	*12.1*	*13.3*	*14.2*
Less: Minority Interest	10.9	11.8	0.0	11.0	11.0
Net Profit	**1,151**	**1,560**	**2,179**	**2,858**	**3,242**

CONSOLIDATED BALANCE SHEET (Rs Million)

Y/E MARCH	2004	2005	2006E	2007E	2008E
Equity Share Capital	293	331	374	374	374
Preference Share Capital	239	38	0	0	0
Reserves & Surplus	4,350	7,497	16,040	18,632	21,556
Net Worth	**4,881**	**7,867**	**16,415**	**19,007**	**21,931**
Minority Interest	52	62	74	87	102
Total Loans	6,718	6,634	10,298	9,713	9,364
Capital Employed	**11,651**	**14,563**	**26,787**	**28,807**	**31,396**
Gross Block	10,709	13,804	15,122	15,472	15,823
Less: Accum. Deprn.	3,708	4,422	5,824	7,323	8,849
Net Fixed Assets	**7,001**	**9,383**	**9,299**	**8,149**	**6,975**
Capital WIP	200	380	99	100	100
Investments	97	108	3,057	3,057	3,057
Curr. Assets	**7,722**	**9,368**	**20,367**	**25,325**	**29,875**
Inventory	2,897	3,966	4,913	5,901	6,284
Account Receivables	3,267	3,637	4,667	5,606	5,969
Cash and Bank Balance	256	336	8,998	11,673	15,345
Others	1,303	1,429	1,789	2,145	2,278
Curr. Liability & Prov.	**4,152**	**5,324**	**6,461**	**8,077**	**8,667**
Account Payables	3,983	5,134	6,141	7,376	7,854
Provisions	169	190	320	701	812
Net Current Assets	**3,570**	**4,044**	**13,906**	**17,248**	**21,209**
Misc Expenditure	782	647	427	253	56
Appl. of Funds	**11,651**	**14,563**	**26,787**	**28,807**	**31,396**

E: MOSt Estimates

RATIOS

Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	**7.9**	**9.4**	**11.6**	**15.3**	**17.3**
Fully diluted EPS	**7.9**	**9.0**	**10.8**	**14.2**	**16.1**
Cash EPS	14.1	15.3	19.1	23.3	25.5
BV/Share	26.4	43.4	85.4	100.2	116.9
DPS	0.6	0.7	1.0	1.3	1.5
Payout (%)	18.3	10.7	9.8	9.3	9.8
Valuation (x)					
P/E		24.9	20.8	15.9	14.0
Cash P/E		14.6	11.7	9.6	8.8
P/BV		5.2	2.6	2.2	1.9
EV/Sales		3.4	2.2	1.7	1.4
EV/EBITDA		13.5	8.2	6.5	5.4
Dividend Yield (%)		0.3	0.4	0.6	0.7
Return Ratios (%)					
RoE	26.4	24.5	18.0	16.1	15.8
RoCE	18.2	19.8	17.0	15.2	15.4
Working Capital Ratios					
Asset Turnover (x)	1.0	1.0	0.7	0.7	0.7
Debtor (Days)	108	93	95	95	95
Inventory (Days)	95	102	100	100	100
Leverage Ratio					
Debt/Equity (x)	1.8	0.9	0.6	0.5	0.4

CONSOLIDATED CASH FLOW STATEMENT (Rs Million)

Y/E MARCH	2004	2005	2006E	2007E	2008E
Oper. Profit/(Loss) before Tax	2,920	3,559	4,897	5,714	6,153
Direct Taxes Paid	35	-170	-328	-609	-690
(Inc)/Dec in WC	-472	-394	-1,199	-668	-289
CF from Operations	**2,483**	**2,995**	**3,370**	**4,437**	**5,175**
EO Expense	145	0	0	0	0
CF from Operating incl EO	**2,337**	**2,995**	**3,370**	**4,437**	**5,175**
(Inc)/Dec in FA	-2,358	-3,540	-1,036	-351	-351
(Pur)/Sale of Investments	-13	-11	-2,949	0	0
CF from Investments	**-2,371**	**-3,551**	**-3,985**	**-351**	**-351**
Issue of Shares	1,044	1,726	6,814	176	201
(Inc)/Dec in Debt	148	-84	3,664	-585	-349
Interest Paid	-880	-838	-988	-737	-685
Dividend Paid	-186	-168	-213	-266	-319
CF from Fin. Activity	**126**	**636**	**9,278**	**-1,412**	**-1,152**
Inc/Dec of Cash	**92**	**80**	**8,663**	**2,674**	**3,672**
Add: Beginning Balance	164	256	336	8,998	11,673
Closing Balance	**256**	**336**	**8,998**	**11,673**	**15,345**

E: MOSt Estimates

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Disclosure of Interest Statement	United Phosphorus
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No