United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,986	UNTP IN
	REUTERS CODE
S&P CNX: 4,356	UNPO.BO

Equity Shares (m)	187.2
52-Week Range (Rs)	352/216
1,6,12 Rel. Perf. (%)	4/-3/12
M.Cap. (Rs b)	62.4
M.Cap. (US$ b)	1.5

2 August 2007

Buy

Previous Recommendation: Buy

Rs333

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
03/07A	24,709	2,884	14.3	33.4	23.3	4.1	20.5	14.0	2.9	12.0
03/08E	36,893	3,719	18.4	28.9	18.1	3.6	22.7	16.2	1.9	9.1
03/09E	41,913	5,394	26.7	45.0	12.5	2.8	27.1	20.7	1.6	6.8

United Phosphorus' 1QFY08 results are in-line with our estimates at operating level with revenue growth of 76% and EBITDA margins at 20.1%. These results are not strictly comparable as they are consolidated for product acquisitions (from Dow, DuPont and Bayer consolidated from 3QFY07 onwards) and Cerexagri.

- Consolidated revenues (incl Cerexagri) grew by 76% YoY to Rs8.45b, primarily driven by Cerexagri (~Rs2.8b) and 26% growth in India business. While organic revenue growth was around 14%, growth excluding Cerexagri was around 18% and EBITDA margins would be flat at 25%. Rupee appreciation impacted revenues by about 7-8%.
- EBITDA margin declined by 520bp to 20.1%, impacted by Cerexagri consolidation (~9.7% EBITDA margins in 1QFY08) and appreciating rupee. Also, higher depreciation (up 40%), higher net interest cost (up 32%, despite Rs94m forex gain) and higher tax provisioning (at 15.9% vs 12% in 1QFY07) restricted PAT growth to 36.5%.
- UPL has maintained its guidance of 15-20% revenue growth (excl Cerexagri) and EBITDA margins of around 25% (excl Cerexagri). The company expects Cerexagri revenue and EBITDA margins to remain stable. As a result, consolidated revenues are expected to grow around 45% (full year consolidation of Cerexagri), with EBITDA margins of around 18-19% and PAT growth of around 30-35%.
- UNTP has achieved critical mass in its business and with annual cash profits in excess of US$100m, it can aggressively pursue its future growth without putting pressure on its balance sheet. Valuations at 15.7x FY08E EPS and 11.1x FY09E EPS, do not reflect growth potential for the company. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenues	**4,804**	**5,169**	**4,840**	**9,897**	**8,450**	**8,861**	**8,106**	**11,476**	**24,709**	**36,893**
YoY Change (%)	*17.9*	*18.0*	*25.8*	*73.1*	*75.9*	*71.4*	*67.5*	*15.9*	*37.1*	*49.3*
Total Expenditure	3,589	3,824	3,671	7,743	6,754	6,956	6,526	8,852	18,827	29,087
EBITDA	**1,215**	**1,345**	**1,169**	**2,154**	**1,697**	**1,905**	**1,581**	**2,623**	**5,883**	**7,806**
Margins (%)	*25.3*	*26.0*	*24.1*	*21.8*	*20.1*	*21.5*	*19.5*	*22.9*	*23.8*	*21.2*
Depreciation	360	370	409	517	505	500	495	524	1,656	2,023
Interest	241	219	183	403	320	440	445	445	1,046	1,650
PBT before EO Expense	**614**	**755**	**577**	**1,234**	**872**	**965**	**641**	**1,654**	**3,181**	**4,132**
Extra-Ord Expense	0	0	0	76	0	0	0	0	76	0
PBT after EO Expense	**614**	**755**	**577**	**1,158**	**872**	**965**	**641**	**1,654**	**3,105**	**4,132**
Tax	22	4	47	79	139	140	243	201	153	537
Deferred Tax	51	94	174	52	0	0	0	0	372	186
Rate (%)	*12.0*	*13.1*	*38.2*	*11.4*	*15.9*	*14.5*	*38.0*	*12.1*	*16.9*	*17.5*
Reported PAT	**541**	**656**	**357**	**1,026**	**733**	**825**	**397**	**1,453**	**2,580**	**3,409**
Income from associate co	0	0	0	242	4	110	70	125	242	310
Adjusted PAT	**541**	**656**	**357**	**1,335**	**738**	**935**	**467**	**1,578**	**2,885**	**3,719**
YoY Change (%)	40.8	39.1	54.2	20.2	36.5	42.6	31.0	18.2	32.4	28.9
Margins (%)	*11.3*	*12.7*	*7.4*	*13.5*	*8.7*	*10.6*	*5.8*	*13.8*	*11.7*	*10.1*

*E: MOSt Estimates; *Excludes Cerexagri's restructuring cost*

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Cerexagri consolidation drives revenue growth

Consolidated revenues (incl Cerexagri) grew by 76% YoY to Rs8.45b, primarily driven by consolidation of Cerexagri (~Rs2.8b) and 26% growth in India business. International revenues grew by 15% (excl Cerexagri), driven by 24% growth in RoW markets, 14% growth in EU region and 13% growth in US business. While organic revenue growth (excl all acquisition) was around 14%, excluding Cerexagri revenue growth was around 18%. Rupee appreciation impacted revenues by about 7-8%.

TREND IN MARKET-MIX (RS M)

	INCL CEREXAGRI			EXCL CEREXAGRI		
	1Q FY08	YOY (%)	QOQ (%)	1Q FY08	YOY (%)	QOQ (%)
Domestic Business	1,630	26.4	27.6	1,630	26.4	27.6
Contribution(%)	*19.3*			*28.7*		
International Business						
US	2,990	88.1	-2.8	1800	13.2	-21.3
Contribution(%)	*35.3*			*31.7*		
EU	2,670	126.3	-29.8	1340	13.6	-24.4
Contribution(%)	*31.6*			*23.6*		
RoW	1,170	60.3	-64.6	910.0	24.7	-68.4
Contribution(%)	*13.8*			*16.0*		
Total Internat. Rev.	**6,830**	**95.1**	**-33.0**	**4,050**	**15.7**	**-41.6**
Contribution(%)	*80.7*			*71.3*		
Total	**8,460**	**76.6**	**-26.2**	**5,680**	**18.6**	**-30.9**

Source: Company/Motilal Oswal Securities

Cerexagri consolidation, pressure in US business impacts margins

In 1QFY08, gross margins improved by 100bp to 42%. However, EBITDA margin declined by 520bp to 20.1%, impacted by Cerexagri consolidation (~9.7% EBITDA margins in 1QFY08) and appreciating rupee. Excluding Cerexagri, EBITDA margins were flat at 25.1%. Also, higher depreciation (up 40%), higher net interest cost (up 32%, despite Rs94m forex gain) and higher tax provisioning (at 15.9% vs 12% in 1QFY07) restricted PAT growth to 36.5%.

US business stabilizing

After witnessing some pricing pressure in US market (due to shift in acreage towards corn), prices in US markets have stabilized. The new product launched in last year are scaling up well (albeit on a lower base) with stable prices. Further, UPL plans to launch one product during 2QFY08 (name not disclosed) and expects 3-4 more registrations by end-FY08.

Cerexagri acquisition - catapults UPL into big-league…

The integration process for Cerexagri has started, with integration process for the US market over during the quarter. In EU, it has started integration process and expects it to complete in next 2-3 quarters. As the first step, UPL has given redundancy notice to 49 employees (of 220) in France, after consulting labour union and this restructuring is expected to be over by Dec'08. Also, UPL is looking at rationalizing Cerexagri's manufacturing operations, by shifting production either to India or to UPL's existing plants in EU. As a result, margins for Cerexagri for FY08E are expected to remain stable at around gross margin of around 40% and EBITDA margin of around 8-9%. However, post completion of integration, EBITDA margins are likely to improve by 400bp for the consolidated entity (to 22-23%).

ICONA acquisition strengthens LatAm presence

UPL acquired ICONA in Argentina for EV of US$10m. ICONA, with revenues of US$13m and EBITDA of $2m (Sep'06), has 2 manufacturing plants in Argentina and offers strong distribution network in Argentina. This acquisition, combined with Reposo's (acquired in Oct'05) manufacturing and marketing network, strengthens UPL's presence in Argentina. Also, UPL has received 2 registrations and expects further registration in Brazil during the year. Further, it expects to have a marketing & distribution network to be in place in Brazil by end of FY08. This would provide a strong platform for UPL to scale-up its presence in important Latin American market.

Maintains guidance

UPL has maintained its guidance of 15-20% revenue growth (excl Cerexagri) and EBITDA margins of around 25% (excl Cerexagri). The company expects Cerexagri revenue and EBITDA margins to remain stable. As a result, consolidated revenues are expected to grow around 45% (full year consolidation of Cerexagri), with EBITDA margins of around 18-19% and PAT growth of around 30-35%.

Strong growth; reasonable 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 achieved critical mass in its business (3rd largest generic agro-chemical and 11th largest overall in the world) and with annual cash profits in excess of US$100m, it can aggressively pursue its future growth without putting pressure on its balance sheet.

Valuations at 18.1x FY08E EPS and 12.5x FY09E EPS, do not reflect growth potential for the company. Maintain **Buy** with target price to Rs400, based on 17.5x FY09E EPS.

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

- Acquired ICONA, an agro-chemical manufacturer and distributor in Argentina, for EUR10m.

Valuation and view

- Has emerged as a truly global player and is just at the beginning of an exciting growth phase
- Valuations of 18.1x FY08E and 12.1x FY09E EPS (fully diluted) does not fully reflect the strong growth potential and any upsides from potential acquisitions. Maintain **Buy** with price target of Rs400.

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 (%)
FY08	19.9	19.5	2.1
FY09	28.8	27.2	5.9

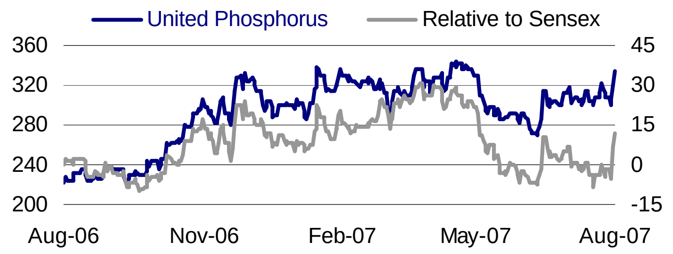
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
333	400	20.1	Buy

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	29.5	29.6	29.6
Domestic Inst	17.3	18.1	17.4
Foreign	39.3	38.1	38.0
Others	13.9	14.2	15.0

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED INCOME STATEMENT					(Rs Million)
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Revenue	**14,226**	**18,020**	**24,709**	**36,893**	**41,913**
Change (%)	*28.3*	*26.7*	*37.1*	*49.3*	*13.6*
Total Expenditure	10,667	13,123	18,827	29,087	32,201
EBITDA	**3,559**	**4,897**	**5,882**	**7,806**	**9,712**
Margin (%)	*25.0*	*27.2*	*23.8*	*21.2*	*23.2*
Depreciation	978	1,402	1,656	2,023	2,104
EBIT	2,581	3,495	4,227	5,782	7,608
Int. and Finance Charges	838	988	1,046	1,650	1,295
PBT before EO Expense	**1,742**	**2,507**	**3,181**	**4,132**	**6,313**
EO Expense/(Income)	0	0	76	1,299	0
PBT after EO Expense	1,742	2,507	3,104	2,834	6,313
Tax	170	328	525	723	1,263
Tax Rate (%)	*9.8*	*13.1*	*16.9*	*25.5*	*20.0*
Profit after Tax	**1,572**	**2,179**	**2,579**	**2,111**	**5,050**
Add: Share of profits of associa	0	0	242	310	344
Less: Minority Interest	12	17	0	0	0
Reported PAT	**1,560**	**2,163**	**2,821**	**2,420**	**5,394**
Adjusted PAT	**1,560**	**2,163**	**2,884**	**3,719**	**5,394**
Change (%)	*34.9*	*38.6*	*33.4*	*28.9*	*45.0*
Margin (%)	*11.0*	*12.0*	*11.7*	*10.1*	*12.9*

CONSOLIDATED BALANCE SHEET					(Rs Million)
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	331	374	374	374	374
Preference Share Capital	38	1	1	1	1
Reserves & Surplus	7,497	12,399	14,939	17,041	22,074
Net Worth	**7,867**	**12,775**	**15,314**	**17,416**	**22,449**
Minority Interest	62	0	12	18	31
Total Loans	6,006	12,643	19,822	18,972	14,806
Capital Employed	**13,935**	**25,418**	**35,148**	**36,407**	**37,287**
Gross Block	13,804	14,997	21,500	22,250	23,000
Less: Accum. Deprn.	4,422	4,480	6,135	8,159	10,263
Net Fixed Assets	**9,383**	**10,517**	**15,365**	**14,091**	**12,737**
Capital WIP	380	351	100	150	200
Investments	108	2,237	2,479	2,788	3,132
Curr. Assets	**9,368**	**20,298**	**26,880**	**34,059**	**37,102**
Inventory	3,966	5,386	7,550	11,273	12,807
Account Receivables	3,637	4,298	6,349	9,480	10,769
Cash and Bank Balance	336	4,158	9,205	7,670	8,170
Other CA	1,429	6,456	3,775	5,636	5,356
Curr. Liability & Prov.	**5,324**	**7,995**	**9,685**	**14,692**	**15,894**
Account Payables	5,134	7,716	9,266	13,835	14,553
Provisions	190	279	419	857	1,340
Net Current Assets	**4,044**	**12,302**	**17,195**	**19,368**	**21,208**
Misc Expenditure	20	10	10	10	10
Appl. of Funds	**13,935**	**25,418**	**35,148**	**36,407**	**37,287**

E: MOSt Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	**9.4**	**11.6**	**15.4**	**19.9**	**28.8**
Fully diluted EPS	**9.0**	**10.7**	**14.3**	**18.4**	**26.7**
Cash EPS	15.3	19.0	24.3	30.7	40.1
BV/Share	47.2	68.2	81.8	93.0	119.9
DPS	0.7	1.0	1.3	1.5	1.7
Payout (%)	10.7	10.0	10.3	15.1	7.2
Valuation (x)					
P/E		31.1	23.3	18.1	12.5
Cash P/E		17.5	13.7	10.9	8.3
P/BV		4.9	4.1	3.6	2.8
EV/Sales		3.8	2.9	1.9	1.6
EV/EBITDA		14.0	12.0	9.1	6.8
Dividend Yield (%)		0.3	0.4	0.5	0.5
Return Ratios (%)					
RoE	24.5	21.0	20.5	22.7	27.1
RoCE	20.9	17.8	14.0	16.2	20.7
Working Capital Ratios					
Asset Turnover (x)	1.0	0.7	0.7	1.0	1.1
Debtor (Days)	93	87	94	94	94
Inventory (Days)	102	109	112	112	112
Leverage Ratio					
Debt/Equity (x)	0.8	1.0	1.3	1.1	0.7

CONSOLIDATED CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	2005	2006	2007	2008E	2009E
Profit/(Loss) before Tax	2,614	3,857	4,836	6,156	8,417
Direct Taxes Paid	-65	-219	-525	-723	-1,263
(Inc)/Dec in WC	-561	-1,969	155	-3,708	-1,341
CF from Operations	**1,988**	**1,669**	**4,466**	**1,725**	**5,814**
EO Expense	139	156	76	1,299	0
CF frm Oper. incl EO exp	**1,849**	**1,513**	**4,390**	**426**	**5,814**
(Inc)/Dec in FA	-3,729	-2,475	-6,252	-800	-800
(Pur)/Sale of Investments	123	-4,527	-242	-310	-344
CF from Investments	**-3,606**	**-7,003**	**-6,493**	**-1,110**	**-1,144**
Issue of Shares	1,620	2,895	0	0	0
(Inc)/Dec in Debt	379	6,578	7,417	-532	-3,808
Dividend Paid	-161	-161	-266	-319	-362
CF from Fin. Activity	**1,837**	**9,311**	**7,151**	**-852**	**-4,170**
Inc/Dec of Cash	**80**	**3,822**	**5,047**	**-1,535**	**500**
Add: Beginning Balance	256	336	4,158	9,205	7,670
Closing Balance	**336**	**4,158**	**9,205**	**7,670**	**8,171**

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