

MARCH 07, 2011

UPDATE

Coverage view:

Price (Rs): 136

Target price (Rs): 220

BSE-30: 18,223

Much-awaited Brazilian acquisition materializes—marginally positive. UPL has entered into a pact to acquire Isagro's 50% stake in Sipcam Isagro Brazil (SIB). In CY2008-09, SIB reported (1) revenues of US\$115/130 mn with (2) EBITDA margin of 2/17% and (3) debt of US\$70 mn, mainly for working capital. We view the acquisition as marginally positive as (1) it helps UPL enter the high-growth Brazilian market adding US\$65 mn to its top line and (2) we believe the acquisition cost is reasonable. However, risks remain as acquisition is (1) margin dilutive—17% in CY2008 versus UPL's 19% in 9MFY11, (2) receivable cycle in Brazil is longer (>200 days) and (3) JV has significant debt (3X debt/EBITDA). We leave estimates unchanged and await closure of the deal. Maintain BUY, PT of Rs220.

Company data and valuation summary

United Phosphorus

Stock data

52-week range (Rs) (high,low) 220-125

Market Cap. (Rs bn) 62.7

Shareholding pattern (%)

Promoters 26.5

FIs 35.6

MFs 11.3

Price performance (%)

Absolute (0.4) (24.8) (15.7)

Rel. to BSE-30 (1.5) (17.7) (21.4)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	12.9	17.6	20.7
EPS growth (%)	8.3	37.3	17.1
P/E (X)	10.5	7.7	6.6
Sales (Rs bn)	57.2	63.8	70.0
Net profits (Rs bn)	5.9	8.2	9.6
EBITDA (Rs bn)	10.8	13.1	14.4
EV/EBITDA (X)	5.7	4.3	3.5
ROE (%)	17.5	19.4	19.1
Div. Yield (%)	1.4	1.5	1.8

UPL enters Brazil, revenue addition of US\$65 mn

UPL has entered into an agreement to acquire Isagro's 50% stake in its 4-year-old Brazilian JV—Sipcam Isagro Brazil (SIB). SIB derives 100% of its revenues from Brazil, producing and distributing agchem products across the three key crop protection segments. SIB also has a formulation facility in Brazil and as per our discussion with UPL, there are no plans to downsize plant operations currently. As per the agreement terms, SIB will continue to distribute products by erstwhile JV partner Isagro. SIB enjoys strong market shares in the Brazilian market in two crops—46% in cotton and 4% in soybean.

Why Brazil—high-growth market where UPL had minimal presence

We believe UPL had less than 10% exposure to the high-growth Latin American agchem market with limited presence in Brazil. This was due to a cautious approach adopted by UPL on account of (1) credit practices prevalent in the Brazilian market and (2) longer registration timelines saddled by bureaucratic delays. Despite this, the country remains a promising market on the radar of all global agchem companies as (1) Brazil comprises 13-15% of global agchem sales and 2/3rd of US\$7.6 bn Latin American market, (2) Latin America is the fastest growing agchem market in the world, registering growth of 9% in CY2009 in nominal terms, (3) Brazil is one of the few countries witnessing expansion in acreage under crop cultivation, (4) the market is dominated by few key crops—soybean (45%), corn (13%), sugar (9%) and cotton (8%) and (5) the market is dominated by off-patent molecules which enjoy market share of 55% in CY2008 versus 48% in CY2004.

Acquisition marginally positive; we leave estimates unchanged and await closure of deal

We view this acquisition as marginally positive. However, risks remain as it is (1) margin dilutive—17% in CY2008 versus UPL's 19% in 9MFY11, (2) receivable cycle in Brazil is longer (>200 days), (3) JV has significant debt (3X debt/EBITDA), mainly for working capital, and (4) while Sipcam is an established Italian agchem firm (US\$465 mn sales), the Brazilian JV was formed in CY2006 only.

QUICK NUMBERS

- UPL enters Brazil, revenue addition of US\$65 mn
- Brazil—high-growth market where UPL had minimal presence
- We view this acquisition as marginally positive
- However, risks remain

Priti Arora
priti.arora@kotak.com
Mumbai: +91-22-6634-1551

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Sipcam Isagro Brazil (50% share of Isagro), (Euro mn)

	9M2010	2009	2008
	qualitative comments indicating performance of JV in 2010		
Revenues		41	46
EBITDA		1	8
EBITDA, %	recovery of margin in Brazilian JV		
Amortisation		1	1
Net financial charges	higher financial charges for Sipcam Isagro Brasil S.A., which by itself paid interests and commissions of Euro 4.8 mn + 9M2010 witnessed lengthening payments terms		
PBT		(5)	3
Tax		(2)	1
PAT		(3)	2

Source: Kotak Institutional Equities estimates, Company

UPL—profit and loss statement, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Net sales	35,155	48,021	52,900	57,211	63,807	69,972
Operating expenses						
Materials	(18,146)	(24,512)	(29,542)	(28,700)	(31,660)	(34,341)
Selling and administration	(4,927)	(6,161)	(6,387)	(7,437)	(8,295)	(9,096)
Employee cost	(4,017)	(4,794)	(5,018)	(5,117)	(5,316)	(5,848)
R&D	(90)	(306)	(310)	(286)	(319)	(350)
Others	(3,071)	(3,806)	(3,356)	(4,325)	(5,105)	(5,948)
Total expenditure	(30,250)	(39,578)	(44,612)	(45,866)	(50,695)	(55,583)
EBITDA	4,905	8,444	8,288	11,346	13,112	14,389
Depreciation and amortisation	(1,522)	(1,927)	(2,147)	(2,002)	(2,225)	(2,350)
EBIT	3,383	6,517	6,141	9,343	10,887	12,039
Net finance cost	(1,688)	(1,761)	(1,825)	(2,179)	(2,150)	(1,700)
Other income	2,462	265	1,932	(34)	1,000	1,000
Pretax profits before extra-ordinaries	4,156	5,021	6,249	7,131	9,737	11,339
Current tax	(141)	(263)	(408)	(1,189)	(1,655)	(1,928)
Deferred tax	(263)	19	(442)	—	—	—
Fringe benefit tax	(20)	(31)	—	—	—	—
Reported net profit	3,733	4,747	5,399	5,942	8,082	9,411
(Profit)/loss in minority interest	(10)	(25)	(59)	—	—	—
Share of profit/(loss) in associate	222	200	188	4	80	150
Prior adjustments (net)	(226)	(268)	(35)	—	—	—
Reported net profit after minority interes	3,719	4,654	5,492	5,946	8,162	9,561
Exceptional items	(1,144)	(95)	(231)	—	—	—
Reported net profit after minority interes	2,575	4,559	5,262	5,946	8,162	9,561

Source: Kotak Institutional Equities estimates, Company

UPL—balance sheet statement, March fiscal year-ends, 2008-2013E (Rs mn)

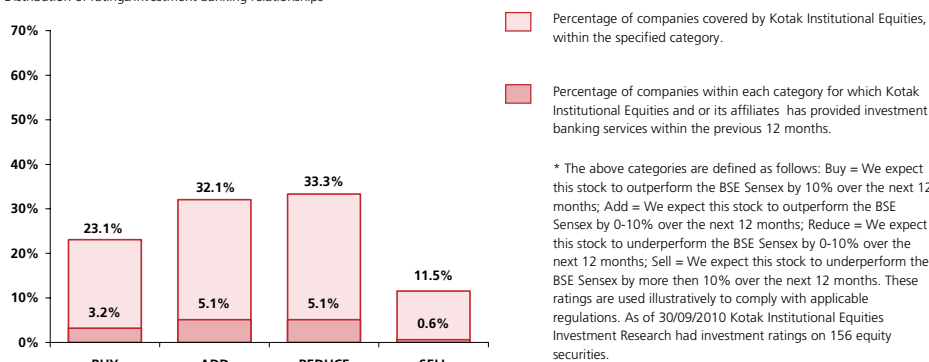
	2008	2009	2010	2011E	2012E	2013E
Balance sheet						
Net worth	22,380	26,730	29,918	38,036	45,133	53,362
Debt	15,683	20,665	23,818	22,326	18,002	15,207
Current liabilities	13,473	16,260	14,616	15,070	18,105	21,667
Minority Interests	60	95	140	140	140	140
Deferred payment liabilities	862	677	375	375	375	375
Deferred tax liabilities	254	338	780	780	780	780
Total equity and liabilities	52,711	64,765	69,648	76,728	82,534	91,532
Cash and cash equivalents	8,446	5,539	15,778	17,000	17,000	20,000
Current assets	23,635	35,635	27,465	33,325	39,356	45,704
Net assets incl intangibles	15,993	18,494	18,128	18,126	17,901	17,551
Investments	4,070	4,332	7,612	7,612	7,612	7,612
Deferred tax asset	563	765	665	665	665	665
Misc. expenditure	5	—	—	—	—	—
Total assets	52,711	64,765	69,648	76,728	82,534	91,532
Free cash flow						
Operating cash flow, excl. w. capital	6,553	8,018	8,863	9,312	11,261	12,342
Working capital	(2,615)	(9,471)	6,273	(5,420)	(3,024)	(3,051)
Capital expenditure	2,827	(3,620)	427	(2,000)	(2,000)	(2,000)
Investments	(159)	(268)	286	—	—	—
Free cash flow	6,607	(5,340)	15,849	1,893	6,237	7,291

Source:0020Kotak Institutional Equities estimates, Company

"I, Priti Arora, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120

Copyright 2011 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.