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Stock Rating
Overweight

Industry View
Attractive

Initiation

United Phosphorus

Initiation of Coverage: Scaling Up in Global Agrochemical Generics

Initiating coverage: Overweight; Rs345 price target. UPL is among the fastest-growing crop protection generics companies globally, and its proposed acquisition of Cerexagri would make it among the top four crop protection generics players globally. With an improved product portfolio and stronger product pipeline, UPL seems well positioned to benefit from global off-patent crop protection opportunities through a mix of new product launches and acquisitions, which we estimate will drive 34.1% earnings CAGR over F2006-09.

Higher margins and lower-cost advantage: UPL's margins are higher than most Crop Protection generics, and margins have expanded on the back of improved cost efficiency. UPL has also benefited from its lower cost base in India, allowing it to raise margins of its acquired companies by shifting manufacturing base to India.

Mix shift to off-patent crop protection – a generics opportunity: While crop protection market has low growth (1-2%), the generics companies have the opportunity to gain share of the off-patent market where current penetration is low (~31% of addressable generics crop protection market). Moreover, almost 15-17% of current crop protection market is expected to come off patent over 2006-12, creating an attractive opportunity for generic crop protection companies.

Valuation: UPL is trading at 12.5xF08E (13.9x CY07e) earnings, in line with its global crop protection peers, despite UPL's stronger earnings growth. We set our price target at Rs345, based on our base-case DCF-based valuation for UPL and valuing UPL's investment in Advanta at Book Value as on March 31, 2006.

Key Ratios and Statistics

Reuters: UNPO.BO Bloomberg: UNTP.IN
India Chemicals

Price target	Rs345.00
Shr price, close (Nov 21, 2006)	Rs280.65
Mkt cap, curr (mn)	Rs52,518
52-Week Range	Rs316.40-204.00
Sh out, basic, curr (mn)	187.1
EV, curr (mn)	Rs60,572
Net debt/cap (07e) (%)	46.1
ROE (07e) (%)	23.1
Sh out, basic, per-end (07e) (mn)	187
S'hldr eqty (07e) (mn)	Rs15,421
RNOA (07e) (%)	12.2

Fiscal Year (Mar)	2006	2007e	2008e	2009e
ModelWare EPS (Rs)*	12.46	14.68	22.50	27.91
EPS, basic, rpt'd (Rs)	12.54	15.64	22.92	27.53
Rev, net (Rs mn)	17,954	21,974	37,128	40,470
ModelWare net inc (Rs mn)	2,163	2,946	4,515	5,601
P/E	21.0	19.1	12.5	10.1
P/BV	3.9	3.7	2.4	2.0
EV/EBITDA	11.9	11.3	7.4	6.0
Div yld (%)	0.5	0.6	0.8	1.0

* = Please see explanation of Morgan Stanley ModelWare later in this note.
e = Morgan Stanley Research estimates

Financial Summary

Profit & Loss Statement

(Rs Mln)	FY06	FY07e	FY08e	FY09e
Net Revenues	17,954	21,974	37,128	40,470
yoy growth %	0	22	69	9
Expenses				
Raw Materials	8,051	10,054	17,139	18,939
Personnel	1,103	1,180	2,657	2,805
Other Operating expenses	3,329	4,142	7,866	7,916
Transport charges	641	791	1,344	1,478
Total Expenses	13,123	16,167	29,007	31,139
EBITDA	4,831	5,807	8,122	9,332
% of net revenue	26.9	26.4	21.9	23.1
Depreciation and Amortisation	1,402	1,570	1,885	2,006
EBIT	3,429	4,237	6,237	7,325
% of net revenue	19.1	19.3	16.8	18.1
Interest expense	988	966	1,259	1,151
Interest income	(66)	(146)	(321)	(520)
PBT	2,507	3,416	5,299	6,695
Tax	328	512	847	1,192
PAT	2,179	2,905	4,453	5,503
Associate income	0	43	87	123
PAT including associate income	**2,163**	**2,942**	**4,466**	**5,552**
ModelWare EPS	11.6	14.7	22.5	27.9

Source: Company data, Morgan Stanley Research
e=Morgan Stanley Research estimates
*= PAT calculation excludes Advanta income

Balance Sheet

(Rs Mln)	FY06	FY07e	FY08e	FY09e
Intangible Fixed Assets	4,351	7,886	7,271	6,598
Net Fixed Assets + CWIP	6,166	11,302	11,306	11,333
Investments	2,237	2,237	2,237	2,237
Miscellaneous Ex not written off	10	10	10	10
Equity investments in associates	4,584	1,656	1,743	1,841
Total Non Current Assets	17,348	23,090	22,567	22,019
Receivables	5,720	6,759	10,911	11,826
Inventories	5,386	7,438	12,913	14,529
Cash	4,158	5,974	7,740	10,809
Other Current Assets	449	659	1,114	1,214
Total Current Assets	15,714	20,829	32,678	38,378
Deferred Tax Asset	413	413	413	413
Total Assets	**33,475**	**44,333**	**55,658**	**60,809**
Current Liabilities	7,912	8,598	15,004	16,360
Secured Loans	12,211	19,177	15,337	13,987
Deferred Tax Liability	4	4	4	4
Deferred payment Liability	924	1,132	2,030	2,180
Total Non Current Liabilities	13,139	20,313	17,372	16,171
Share Holders Equity	12,775	15,422	23,281	28,278
Minority Interest	0	0	0	0
Total Liabilities	**33,826**	**44,333**	**55,658**	**60,809**

Source: Company data, Morgan Stanley Research e=Morgan Stanley Research estimates
We assume cash will be used for future acquisitions. We have hence not assumed that excess cash is to be used for repayment of debt.

Cash Flow Statement

(Rs Mln)	FY06	FY07e	FY08e	FY09e
Operating profit before tax	2,507	3,410	5,226	6,621
Add Interest in P&L	740	821	937	631
Depreciation and amortisation	1,402	1,570	1,885	2,006
Other cash flows	(153)	216	0	0
(Incr)/decr in Net Working Capital	(1,969)	(2,407)	(2,777)	(1,126)
Direct tax paid (net)	(219)	(512)	(847)	(1,192)
Interest paid, net	(794)	(821)	(937)	(631)
Total Cash Flow From Operations	1,513	2,278	3,488	6,310
(Incr)/decr of Fixed Assets	(1,452)	(5,390)	(743)	(809)
(Incr)/decr of Investments	(3,862)	0	0	0
Impact of Advanta IPO restructuring	0	2,971	0	0
Purchase of Intangible assets	(1,024)	(4,506)	(606)	(624)
Sundry loans	(710)	0	0	0
Others	45	0	0	25
Total Cash Flow From Investment	(7,003)	(6,924)	(1,348)	(1,409)
Proceeds from issuance of preference capital	(37)	0	0	0
Proceeds from issuance of debt	9,981	6,750	0	(1,350)
Others	(492)	0	0	0
Dividends	(141)	(294)	(447)	(556)
Total Cash Flow From Financing	9,311	6,456	(447)	(1,906)
Net change in cash	3,822	1,810	1,693	2,995

Source: Company data, Morgan Stanley Research
e=Morgan Stanley Research estimates
*= F07 includes impact of reduction in loans and advances post Advanta IPO and restructuring

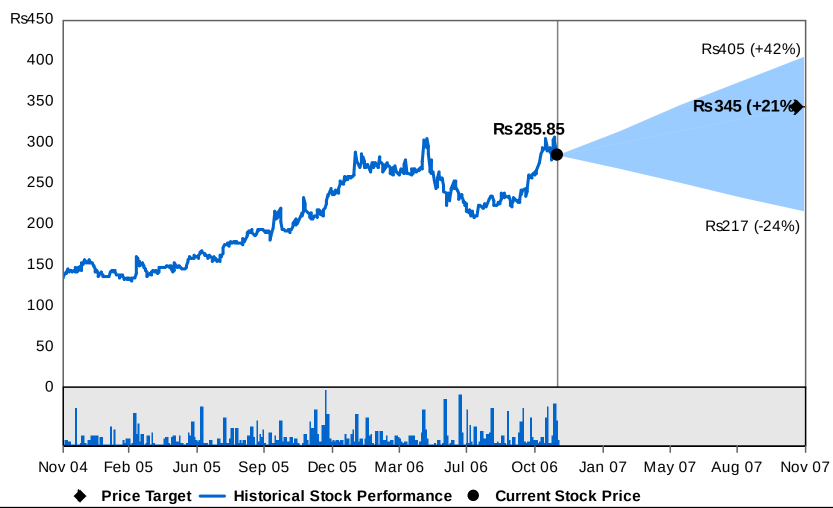
Ratio Analysis

(Rs Mln)	FY06	FY07e	FY08e	FY09e
Per Share				
ModelWare EPS	12.5	14.7	22.5	27.9
Book Value	68	77	116	141
Valuation				
P/E	21.0	19.1	12.5	10.1
P/BV	3.9	3.7	2.4	2.0
EV/EBIDTA	10.5	11.3	7.4	6.0
Returns				
EBITDA Margin (%)	26.9	26.4	21.9	23.1
ROE (%)	15.7	19.1	19.4	19.8
NPM (%)	12.0	13.4	12.0	13.7
RNOA (%)	16	13	18	21
Dividend Yield (%)	0.5	0.6	0.8	1.0
Capitalisation & Coverage				
Total Debt/Equity	1.0	1.2	0.7	0.5
EV/ Net Sales	3.4	3.0	1.6	1.4

Source: Company data, Morgan Stanley Research
e=Morgan Stanley Research estimates

Risk-Reward Snapshot: United Phosphorus

Risk-Reward View



Price Target Rs345		
Bull Case Rs405	17.5x Bull Case F08e EPS (20.8x CY07e EPS)	Assume successful integration of Cerexagri and improvement in Cerexagri's margins by 5% in F08. Strong product pipeline drives 11.8% revenue CAGR in F09-18. Assume 40% of free cash flows during F08-10e to be invested for inorganic growth. Stable EBITDA margins in F09-18e at 22.9%. Generics market share increases to 8% in F18 from 4.3% in F06.
Base Case Rs345	15.5x Base Case F08e EPS (17x CY07e EPS	Assume successful integration of Cerexagri and improvement in Cerexagri's margins by 2.5% in F08. Moderate product pipeline and organic growth within existing portfolio drives 10.3% revenue CAGR over F09-18e. Average EBITDA margin over F09-18e is 21.9%. No acquisitions assumed. Generics market share increases moderately, to 7.6% in F18 from 4.3% in F06.
Bear Case Rs217	10.5x Bear Case 08e EPS (12.1x CY07e EPS)	Assume no improvement in Cerexagri's margins in F08. Weak product pipeline drives 5.9% revenue CAGR in F09-18; no acquisitions. Avg EBITDA of 20% over F09-18e. No organic growth expected. Generics market share increases marginally, to 5.0% in F18 from 4.3% in F06.

Investment Thesis

- **Crop protection generics opportunity:** 70% of crop protection market is off patent and generics have only 23% market share. 17% of existing crop protection market expected to come off patent over next 6 years.
- **Well positioned to gain share:** Improving product portfolio and stronger product pipeline. Inorganic growth opportunity from value-accretive acquisitions.
- **Higher margins and lower cost:** Higher margins and low-cost manufacturing base in India increase resilience to potential margin pressure from price erosion or increasing raw material costs.

Key Value Drivers

- **Product registrations:** Registration of key products in regulated markets and their market size affect long-term growth and margins.
- **Product pipeline:** Number of products expected to be launched and market size for these products drive organic growth. Gaining share of products going off patent drives growth in the generic crop protection business.
- **Geographical mix of business:** NAFTA and European Markets have stringent registration norms and higher entry barriers, leading to higher gross margins. Latin American markets have higher growth potential.
- **Access to markets:** Distribution network is consolidated, and access to distribution network affects market penetration.

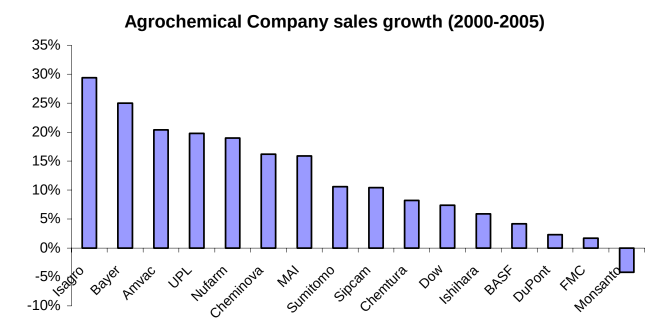
Potential Catalysts

- **New product registrations**
- **Value accretive acquisitions**

Summary and Investment Conclusion

Initiating coverage with Overweight rating, Rs345 PT
We initiate coverage on United Phosphorus (UPL) with an Overweight rating and price target of Rs345. UPL ranks among the fastest-growing global crop protection generic companies, with 70% of its revenues generated from international markets. UPL's proposed acquisition of Cerexagri propels it to the third position in the crop protection generics space. We believe UPL is well positioned to gain share of the attractive global off-patent crop protection market through a mix of new product launches and strategic acquisitions, which should drive earnings CAGR of 34.1% over F2006–09. Our investment thesis centers on the following key points:

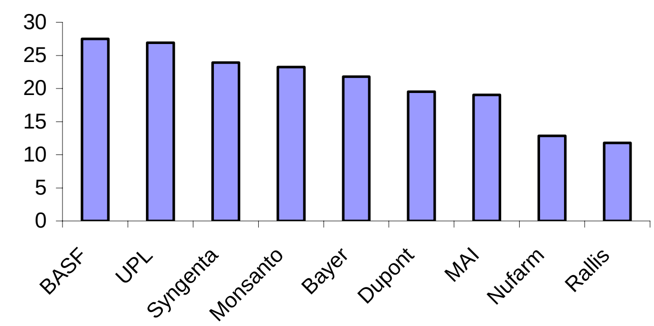
Exhibit 1
**UPL:
Among Fastest-Growing Agrochem Companies**



Source: Phillips McDougall, Morgan Stanley Research

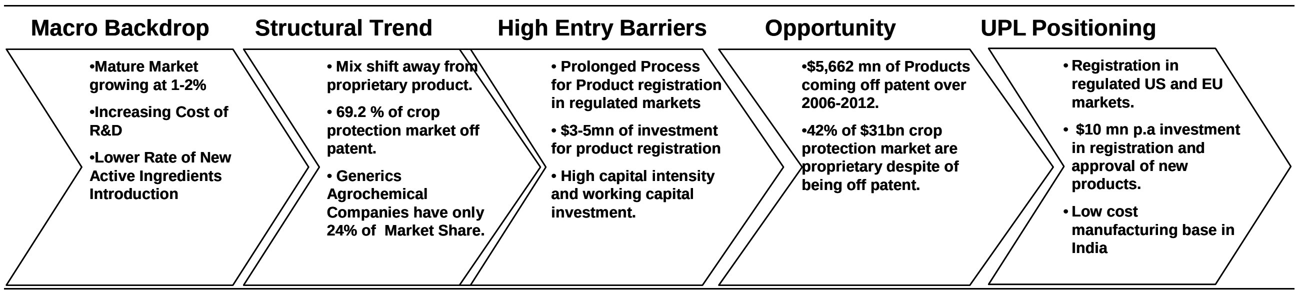
Well Positioned to Gain Share of Generics Crop Protection Opportunities
UPL ranks among the fastest-growing global crop protection generics companies, albeit from a small base, and its proposed acquisition of Cerexagri makes it among the top four crop protection generics players globally. It has built a global footprint and critical mass through a mix of organic growth and acquisitions. UPL has several growth opportunities in the more profitable regulated markets of the US and Europe, where entry barriers are high. UPL plans to launch at least two products annually in the US market, which we expect to drive organic growth. UPL's product portfolio has improved, and the company has launched new products, including Tebuconazole (US market size->US$100mn, an anti soy rust product). Moreover, UPL's product pipeline looks attractive; in F2007, the company plans to launch in the US 3-4 products with a combined market size of US$300mn. This should drive organic growth in the US market in F2008. In addition, UPL has a strong track record of making value-accretive acquisitions to expand its product portfolio and increase market penetration, which should help the company to gain market share in the crop protection generics market.

Exhibit 2
UPL's EBITDA Margin – Higher Than Most Peers'



Source: Company data, Morgan Stanley Research
Note: EBITDA margins are calculated based on the last completed fiscal year for each respective company. ,

Advantages of Higher Margins and Lower Costs in India
UPL's margins, which are higher than those of most generics companies, expanded from 22.3% in F2003 to 26.9% in F2006. While UPL benefits from a presence in regulated markets, where high entry barriers prevent commoditization of the product post patent expiry, it also benefits from its lower-cost manufacturing base in India. India is emerging as a global sourcing base for agrochemicals, as the cost base is significantly lower.



Source: Phillips Mc Dougall, Nufarm, Morgan Stanley Research, Access to a lower-cost chemistry skill base and lower capital costs (~20% to 50% lower) translates into significant cost savings for UPL. Higher margins and a lower cost base improve resilience to margin pressure from potential competitive pricing and higher raw materials costs. We expect UPL's recent Cerexagri deal to be dilutive to overall group margins, as Cerexagri margins are significantly below UPL's EBIDTA margins. While this provides scope for improvement in operational efficiencies, we think it is more challenging and could take longer to achieve, given the size, scale of Cerexagri's operations, and cross-border nature of the deal. Execution risks are higher here, in our view.

Valuation Looks Attractive

UPL is trading at 12.48x F2008E (13.7x CY07e) earnings, in line with its global crop protection peers, despite UPL's much stronger earnings growth. We set our price target at Rs345, based on our DCF-based base-case valuation for UPL excluding Advanta. Our DCF valuation values UPL's investment in its Advanta subsidiary (pre restructuring) at book value as on 31 March 2006.

Company Description

United Phosphorus Limited (UPL) is the largest producer in India of crop protection products with a wide range of products that include fumigants, fungicides, insecticides, rodenticides, and herbicides. The company ranks amongst the top 5 generic agrochemical companies in the world.

Industry View: Attractive

Organic growth, attractive valuations, strong GRMs and impressive pickup in demand, are key triggers for the industry.

MSCI Country: India

Asia Strategist's Recommended Weight: 2.4%
MSCI Asia/Pac All Country Ex Jp Weight: 6.9%

Investment Positives

Mix Shift towards Off-Patent Products – Opportunity for Generics Companies

A lower rate of introduction of new active ingredients and the expected expiry of patents on several active ingredients present an attractive opportunity for generics companies like UPL, despite slower growth in the overall crop protection market. According to Nufarm, active ingredients having a market of around US$5.6bn (17% of the current crop protection market) are to go off patent over 2006-12. Moreover, despite almost 70% of the crop protection market being off patent, generics account for only 23% of the crop protection market. Our market sizing analysis suggests that the addressable market and the generics market could grow at around 4% and 5.4%, respectively, over the next six years. This offers a potential opportunity for generics players like UPL to expand market share within the off-patent market.

High Entry Barriers – Lower Risks of Commoditisation in Regulated Markets

The crop protection market is characterized by high entry barriers, such as 1) heavy regulation, especially in the EU and the US; 2) complex, costly processes, as patents and registrations involve high capital investment and long time to market; and 3) an entrenched and consolidated distribution network, which involves selling to a consolidated network of national distributors. High entry barriers lower competition, especially in the regulated crop protection markets of the US and Europe. This prevents commoditization of crop protection agrochemicals even after patent expiry, thereby resulting in less price erosion. However, US registration procedure allows a data compensation route that reduces the time frame.

Strong Growth – Mix of Organic and Inorganic-

UPL is among the fastest-growing global generics companies (albeit from a smaller base) and among the only Indian generics players focusing on the regulated and more profitable US and European markets. The company has grown at a CAGR of 23% over F02-F06 through a blend of inorganic growth and new product registrations in regulated markets of the US and Europe. The international market accounts for around 70% of the group's business.

70% of Revenues from International Markets with Focus on Profitable Regulated Markets

UPL continues to focus on consolidating its presence in the regulated markets of the EU and the US with 46% of revenue (F06) coming from these markets. The higher regulatory barriers mean the gross margins are higher in these markets, translating into higher margins compared with those of its domestic peers. UPL earns around 60% and 50% of its gross margins from the US and EU markets, respectively.

Improving Product Pipeline – Positive for Growth and Margins

In addition to scaling up its presence in the markets through the inorganic route, UPL is pursuing the strategy of filing at least two registrations in US for products going off patent. UPL has launched Tebuconazole, one of the leading fungicides (market> US$100mn) in the US in 4Q F06 and is expected to launch Imidacloprid (US$800mn market globally and over US$200mn in the US). Imidacloprid is one of Bayer's largest and most profitable molecules. In our view, it is likely to be a key growth driver for UPL's revenues in the US market. In addition, UPL expects to launch two more herbicides with a market size of around US$70mn-80mn in 4Q F07, which should contribute to the group's growth over the next year. We expect the newer products like Imidacloprid to have better margins than older products, and this should cushion margin pressure from higher competition and potential increases in crude oil prices.

Low-Cost Manufacturing Base in India = Higher Margins than Peers'

UPL has benefited from owning its own manufacturing facility and having a lower cost structure at its India manufacturing base. India provides access to a low-cost chemistry skill base, lower capital costs, and lower environmental hurdles – which translate into a lower cost base. As a result, UPL's EBIDTA margins (26.7% in F06) are higher than for most of its peers.

Improving Cost Efficiency through Shifting Manufacturing Base to India

UPL has pursued the strategy of acquiring companies and thereafter transferring the acquired companies' production base to India, where costs are lower. This has enabled UPL to expand margins of the acquired product and enhance its return on invested capital.

Advanta Acquisition – Seed Opportunities and Synergies

The recent acquisition of Advanta (Netherlands), in which the company plans to retain around a 49% stake, provides UPL with a presence in the faster-growing seeds business and expands UPL's addressable market. This is in line with the strategy pursued by most of the crop protection companies globally. We expect synergies with Advanta's seeds business in the distribution network and seed treatment opportunities.

Investment Concerns

Overall Crop Protection Market – Mature; Low Growth
Overall Crop Protection industry is a mature industry that is expected to grow at a rate of 1-2% annually. With increasing costs of R&D, research on new active ingredients has declined, leading to a slower rate of introduction of new products in this market. Gaining share of the expanding off-patent market and growing inorganically are the main growth opportunities for generics crop protection companies, rather than growth in the overall market.

Acquisitions Led Growth – Higher Risks
While growth through acquisitions to expand the product portfolio, build critical mass, and improve market penetration is an appropriate strategy in a mature crop protection market, we believe that inorganic growth has higher risks, as 1) acquisitions could induce earnings volatility, depending on the timing and the nature of the acquisition; 2) execution risk is higher, and 3) UPL runs the risk of value destruction, if the price paid is not right. UPL-Cerexagri deal has much higher integration risks, given the size, scale of Cerexagri's operation, and cross-border nature of the deal. However, UPL has been successful in making value-accretive acquisitions and integrating the acquired companies within its fold.

Cerexagri Deal – Dilutive to UPL's Margins
While Cerexagri's gross margins are in line with UPL's gross margins, the EBITDA margins are sub 10% vs. UPL's 26.9% and are likely to be a drag on UPL's margins in the medium term. Management expects to raise Cerexagri's margins to UPL's levels through operational and cost efficiencies, but this could take longer, in our view, given the scale of Cerexagri's operations.

Competitive Pricing and Defensive Strategies by Originators/Innovators
Originators/innovator companies are reducing prices on the products going off patent in order to make it unattractive for the generics players to invest in the registration needed to enter the market. In addition, innovator companies like Bayer are also planning to protect the market share of large products (cf. Imidacloprid) going off patent by blending them with on-patent active ingredients and entering into supply agreements with other large generics players. This could increase the difficulty in gaining market share even after patent expiry, as well as intensify competition among generics players. In addition, greater competitive pricing by generics to garner market share could adversely impact margins

Vulnerability to Seasonal Conditions
Performance of crop protection companies in the near term is highly influenced by seasonal and weather conditions. Demand for crop protection products is affected when seasonal conditions are not appropriate for cultivation or pest pressure is low. In addition, demand for crop protection products is also affected by adverse factors like hurricanes and other acts of nature. These factors could affect demand and hence the financial performance of the companies. UPL's strategy involves expanding its presence across regions to reduce the business risk from seasonal conditions.

Product Risk and Risk of Obsolescence
UPL's business model is to invest in obtaining product registrations in regulated markets. Given the regulated nature of the crop protection market, risk exists in changes in regulatory or environmental policies, the inability to comply with new regulatory or registration requirements, and the introduction of a newer product by an originator. These changes may render products obsolete and thus hurt the company's financial performance.

Rising Crude Prices Could Exert Gross Margin Pressure
Agrochemical manufacturing is an energy-intensive process, with energy required to produce chemical feedstocks, chemical intermediates, and active ingredients. In addition, some of the basic building blocks, especially organic compounds, are derivatives of petroleum and therefore dependent on crude oil prices. Increases in crude oil prices could adversely affect gross margins by boosting raw materials costs as well as freight costs.

Rising Usage of Genetically Modified Crops May Adversely Affect Demand
Increased usage of genetically modified seeds that are resistant to pests and diseases could adversely impact demand for crop protection products.

Exposed to Commodity Prices, Currency and Regulatory/Policy Risks: Demand for crop protection products is dependent on the strength of the farm economy in the region, which in turn is influenced by commodity prices and currency. UPL's crop protection business may be adversely impacted by changes in regulatory policies or increasing stringent requirements to meet regulatory norms. Moreover, changes in policies related to farm subsidies could also affect demand for crop protection products in the region.

Valuation

Price target of Rs345 set at our base-case DCF (ex Advanta) We have based our price target on the DCF base-case valuation of UPL. Our valuation adjusts UPL's investment in Advanta pre restructuring (as on 31 March 2006) as a subsidiary at book value.

Our base-case DCF for UPL. Our DCF model assumes a 12.0% WACC and 3% terminal growth. We build in a revenue CAGR of 31.1% over F06-09E (10.3% over F09-18E) and average EBITDA margins of 23.6% over F07-09E (21.9% over F09-18e).

Our price target implies P/E of 16.8x on CY07e, and 15.3x on F08e.

Our price target is based on our base-case DCF valuation of UPL. Our DCF-based valuation adjusts for UPL's investment in Advanta (pre restructuring) at book value as on 31 March 2006. UPL has restructured its holding of Advanta through a series of transactions, and Advanta plans to issue new shares through a pre issue placement and initial public offering.

UPL - DCF Approach

Our base case DCF valuation assumes a 12.0% WACC (based on a 14.9% cost of equity, 8% post-tax cost of debt, and target debt to equity ratio of 0.49) and a terminal growth rate of 3%. (See Exhibit 3 for our key DCF assumptions.)

Exhibit 3

Cost of Capital Assumptions

Risk-Free Rate (%)	**7.7**	**Risk-Free Rate (%)**	**7.7**
ERP (%)	6.0	Debt Spread (BP)	350
Beta	1.2	Tax Rate (%)	20
Cost of equity (%)	**14.9**	**Taxed Cost of Debt (%)**	**9.0**
Equity %()- (Avg)	51		
Debt (%)	49		
WACC (%)	12.0		

Source: Company data, Morgan Stanley Research

Exhibit 4

Summary of Valuation-DCF

PV of Cash Flow ex Advanta	29047
Terminal Value	44258
Firm Value	73305
Less Net Financial Obligation*	3469
Equity Value	69836
Number of Shares O/s	201
Per Share	347.9
Perpetuity growth rate (%)	3

Source: Company data, Morgan Stanley Research

* Includes Investment in Advanta as a Financial Asset at Book Value as on 31 March 2006

Our Key Base-Case DCF Assumptions

- **Revenues:** Our long-term DCF base case assumes revenues to grow at a CAGR of 31.1% over F06-09e and a CAGR of 10.3% over F09-18e. This assumes UPL expands its market share in the generics crop protection market from around 4.3% in F06 to around 7.6% in F18e.

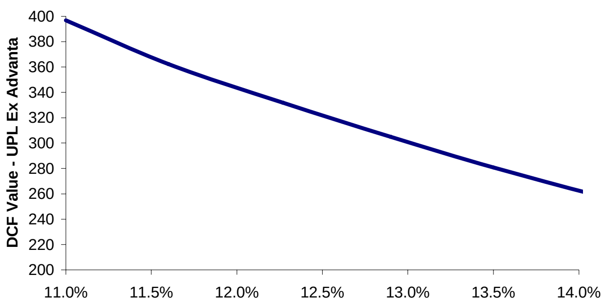
- **Margins:** We assume a modest compression in gross margins due to competitive pricing and increasing raw materials costs. We currently forecast gross margins to decline from 45.5% in F06 to 41.5% in F09. Our long-term DCF assumes an average gross margin of 39.1%. However, we assume UPL will continue to improve upon cost efficiencies in line with its past, which would cushion gross margin pressure. Our long-term DCF assumptions imply an average EBITDA margin of 21.9% over F09-18e.

Advanta Subsidiary - Assumption

UPL announced its acquisition of Advanta Netherland Holdings, (pro forma revenues of ~€61mn, EBITDA of ~€11mn) in an all-cash transaction in February. UPL plans to retain only 49.9% of Advanta. UPL has subsequently restructured its holding in Advanta through a series of complex transactions. According to the Draft Red Herring Prospectus, Advanta India plans to issue new shares through a pre issue placement and initial public offering; the company has filed the Draft Red Herring Prospectus and is currently in the silent period. Our DCF-based valuation adjusts for UPL's Investment in Advanta at book value (pre restructuring process) as on 31 March 2006.

Exhibit 5

UPL Ex Advanta DCF Sensitivity to WACC



Source: Company data, Morgan Stanley Research

Scenarios – Intrinsic Valuation

Bull Case Rs 405 – Strong product pipeline with inorganic growth: Our bull case scenario assumes successful integration of Cerexagri's business and margin improvement through better cost efficiencies. We assume 5% EBIDTA margin expansion in Cerexagri's acquired business in F2008. Our long-term DCF bull case assumes revenues to grow at a CAGR of 12% over F09-18e through strong product pipeline. We assume UPL to expand its market share in the crop protection generic market from around 4.3% in F06 to about 8% in F18. We assume 40% of the free cash flows are invested in acquisitions over F08-12e. Our long-term DCF assumptions imply an average EBITDA margin of 21.9% over F09-18e.

Bear Case Rs 217 – Weak product pipeline with no inorganic growth: Our bear case scenario assumes no margin improvement in Cerexagri's acquired business in F2008. Our long-term DCF bear case assumes revenues to grow at a CAGR of 5.9% over F09-18e as weak product pipeline makes it difficult for UPL to gain market share. We assume UPL marginally increases its market share from around 4.3% in F06 to about 5.0% in F18. We assume no inorganic growth from acquisitions in this scenario. Our long-term DCF assumptions imply an average EBITDA margin of 20% over F09-18e.

Risks to our Price Target

- **Exposed to Regulatory Policy Risks and Risk of Product Obsolescence:** As UPL invests time and capital in obtaining product registrations across various countries and regions, there are risks of obsolescence due to 1) introduction of a better product, and 2) changes in regulatory policy. In addition, UPL also would need to re-register for its existing registrations, meet the standards, and comply with stringent international standards. Inability to obtain registrations and comply with regulations could adversely impact UPL's business.

- **Influenced by Weather, Seasonal Factors and Disease Pressure:** Demand for UPL's crop protection products is influenced by weather conditions and pest pressure. Adverse weather conditions in UPL's key markets and lack of disease pressure could adversely affect UPL's business.

- **Execution Risks Related to Inorganic Growth:** UPL plans to grow through a blend of organic growth and inorganic acquisition. UPL has the potential risks of 1) inability to integrate its acquisition successfully; 2) value destruction in case the price paid is not appropriate.

- **Risks of Price Erosion:** UPL is present in the generic segment of the crop protection market. While high entry barriers limit competition, price erosion due to competition between the large generics players and predatory pricing by originators could adversely impact the group's gross margins.

- **Currency Risk:** International markets account for more than 70% of the group's sale and hence the company's' revenue and profitability are vulnerable to adverse movement in currency.

- **Oil and Raw Material Price Risk:** Raw materials, many of which are derivatives of crude oil, and freight costs comprise a significant proportion of the group's cost structure and are influenced by movement in crude prices. Sharp increases in crude prices could adversely affect production costs and hence affect profitability.

- **Inventory Carrying Risk:** UPL's business is a working-capital-intensive business, and UPL's working capital intensity is increasing as the company expands its international presence. UPL bears the risk of carrying inventory in the absence of demand for crop protection agrochemicals. This situation could adversely affect the company's financial performance.

Exhibit 6

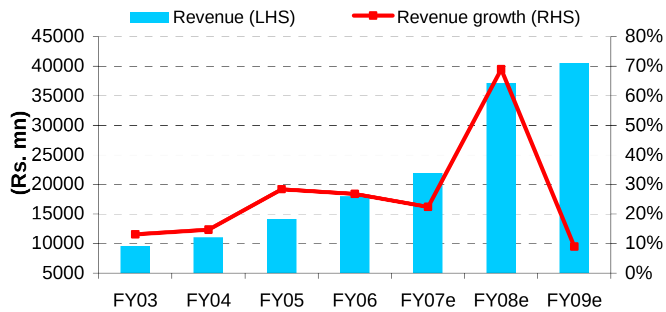
Crop Protection Industry Comps

	Currency	CMP	Mkt. Cap.	EV/Sales			EV/EBITDA			P/E Ratio		
			($mn)	2005	2006e	2007e	2005	2006e	2007e	2005	2006e	2007e
Innovators												
Bayer*	EUR	39.90	37,346	1.4x	1.3x	1.2x	8.7x	6.5x	6.0x	18.3x	15.1x	15.4x
Syngenta*	CHF	211.80	13,901	2.2x	2.3x	2.0x	11.1x	12.1x	10.3x	27.7x	24.5x	19.7x
BASF*	EUR	70.48	46,023	0.9x	0.7x	0.7x	4.5x	3.9x	3.6x	11.1x	9.2x	8.6x
Dow	USD	41.03	39,192	1.0x	1.0x	1.0x	5.7x	6.3x	6.0x	9.4x	9.7x	10.0x
Monsanto	USD	46.27	25,138	NA	3.4x	3.2x	NA	14.6x	13.0x	35.3x	33.0x	27.3x
Isagro	EUR	7.55	155	1.0x	NA	NA	6.3x	NA	NA	11.1x	NA	NA
Dupont	USD	47.87	44,031	1.9x	1.8x	1.7x	9.7x	9.4x	8.8x	20.5x	16.6x	15.1x
MEAN			29,398	1.4x	1.7x	1.6x	7.7x	8.8x	8.0x	19.0x	18.0x	16.0x
MEDIAN			37,346	1.2x	1.5x	1.5x	7.5x	7.9x	7.4x	18.3x	15.8x	15.2x
Generics												
Cheminova	DKK	158.00	489	1.1x	1.0x	1.0x	NA	10.9x	8.4x	15.6x	39.6x	17.4x
FMC	USD	70.96	2,723	1.5x	1.4x	1.3x	7.8x	7.2x	6.6x	16.2x	13.0x	11.2x
Chemtura	DKK	158.00	489	1.1x	1.0x	1.0x	7.6x	10.9x	8.4x	15.6x	39.6x	17.4x
Kumiai	JPY	226.00	166	NA	NA	NA	NA	NA	NA	NA	NA	NA
MAI	ILS	20.17	2,026	1.3x	1.3x	1.2x	5.4x	6.7x	6.1x	10.6x	13.3x	11.6x
Nufarm	AUD	9.50	1,251	1.3x	1.3x	1.2x	NA	9.5x	8.7x	13.4x	12.9x	11.7x
UPL	INR	285.85	1,185	3.9x	3.1x	2.0x	14.8x	11.8x	8.7x	28.2x	21.3x	15.0x
MEAN			1,190	1.7x	1.5x	1.3x	8.9x	9.5x	7.8x	16.6x	23.3x	14.1x
MEDIAN			1,185	1.3x	1.3x	1.2x	7.7x	10.2x	8.4x	15.6x	17.3x	13.3x
Crop Protection												
MEAN			15,294	1.5x	1.6x	1.5x	8.3x	9.1x	7.9x	17.8x	20.7x	15.0x
MEDIAN			19,266	1.3x	1.4x	1.3x	7.6x	9.1x	7.9x	16.9x	16.6x	14.3x
Global Chemicals												
Sumitomo	JPY	753.00	10,548	NA	1.2x	1.1x	NA	NA	7.2x	NA	13.4x	13.8x
Nippon Soda	JPY	477.00	623	62.9x	1.0x	1.0x	NA	NA	8.9x	NA	46.7x	12.0x
MEAN			5,586	63	1.1x	1.0x	NA	NA	8.1x	NA	30.0x	12.9x
MEDIAN			5,586	63	1.1x	1.0x	NA	NA	8.1x	NA	30.0x	12.9x
Domestic players												
United Phosphoı	INR	285.85	1,185	3.9x	3.1x	2.0x	14.8x	11.8x	8.7x	28.2x	21.3x	15.0x
NOCIL	INR	23.65	85	NA	NA	NA	NA	NA	NA	NA	NA	NA
BASF India	INR	226.15	142	1.0x	0.1x	0.1x	NA	NA	NA	NA	11.9x	8.6x
Tata Chemical	INR	224.95	1,076	1.7x	1.3x	1.0x	NA	6.3x	5.5x	NA	9.1x	7.6x
Monsanto India	INR	1513.80	290	NA	NA	NA	NA	NA	NA	NA	NA	NA
Rallis	INR	282.65	75	NA	NA	NA	NA	NA	NA	NA	NA	NA
MEAN			476	2.2x	1.5x	1.0x	14.8x	9.0x	7.1x	28.2x	14.1x	10.4x
MEDIAN			216	1.7x	1.3x	1.0x	14.8x	9.0x	7.1x	28.2x	11.9x	8.6x
Overall Industry												
MEAN			7,071	21.9x	1.1x	1.0x	4.1x	7.7x	8.0x	17.8x	20.4x	12.0x
MEDIAN			5,586	1.4x	1.1x	1.0x	7.6x	7.7x	8.0x	16.9x	16.6x	12.9x

Source: FactSet, Morgan Stanley Research
e = FactSet, Morgan Stanley Research estimates
Data as of 20 November
* based on Morgan Stanley estimates

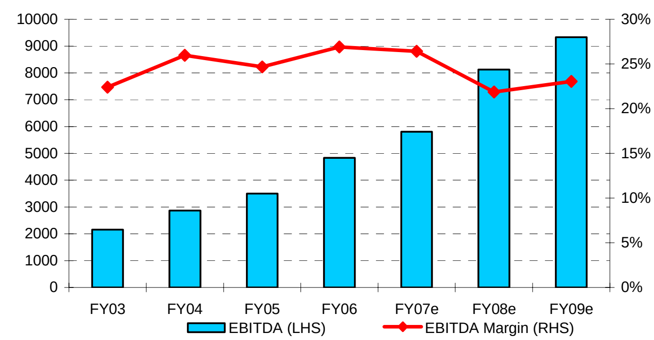
United Phosphorus – At a Glance

Exhibit 7
Revenues and Trends in Revenue Growth



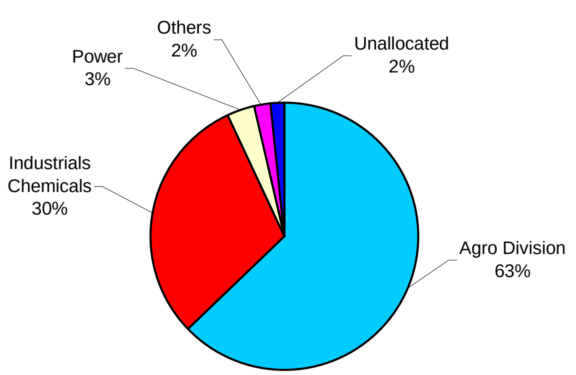
Source: Company data, Morgan Stanley Research

Exhibit 8
EBITDA and EBITDA Margin Trends



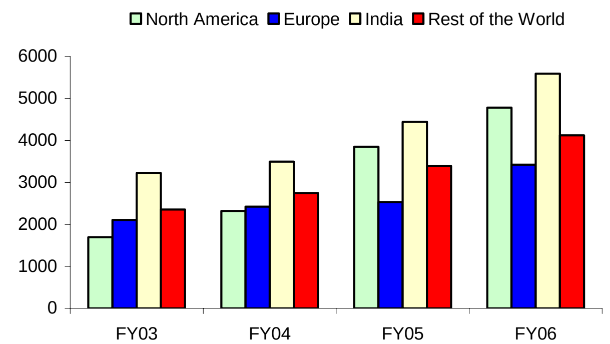
Source: Company data, Morgan Stanley Research

Exhibit 9
UPL Standalone Segmental Revenues (F06)



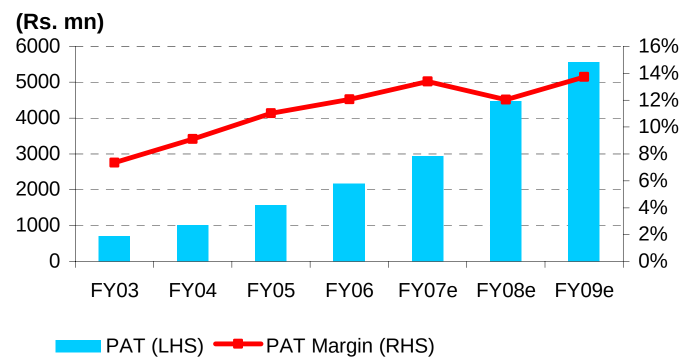
Source: Company data, Morgan Stanley Research

Exhibit 10
Revenue Mix Based on Geography



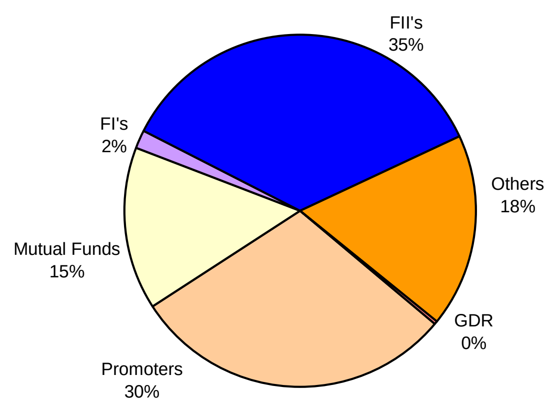
Source: Company data, Morgan Stanley Research

Exhibit 11
PAT and PAT Margin Trends



Source: Company data, Morgan Stanley Research

Exhibit 12
Shareholding Structure (as of Sept 06)



Source: Company data, Morgan Stanley Research

Sizing Up the Crop Protection Opportunity

Key Points

Mature Industry with Low Growth: The crop protection industry is a mature industry and growth expectations remain low at 1-2 percent over the next five years. According to Phillips Mc Dougall, the current size of the market is US$31.2bn, with NAFTA and Europe being the largest markets.

High Entry Barriers Prevent Commoditisation of Products Post Patent Expiry: The crop protection market is characterized by high entry barriers, such as 1) heavy regulation, especially in the EU and the US; 2) complex, costly processes, as patents and registrations involve high capital investment and long time to market; and 3) an entrenched and consolidated distribution network. This reduces the number of players and prevents commoditization of crop protection product post patent expiry. However, the US market allows a data compensation route, which reduces the registration time

Opportunity for Generics Firms Like UPL: Active ingredients having a market of around US$5.6bn (15% of the current crop protection market) are expected to go off patent over 2006-12. Moreover, despite almost 70% of the crop protection market being off patent, generics account for only 23% of the crop protection market. This presents an opportunity for generics companies like to UPL to gain share in the expanded off-patent crop protection generics market.

UPL is targeting the global generics protection opportunity with a focus on the mature but higher margin regulated markets of EU and US. Phillips McDougall, a market research agency, estimates the crop protection market at $31.2bn with NAFTA and the Europe being the largest markets in terms of geography.

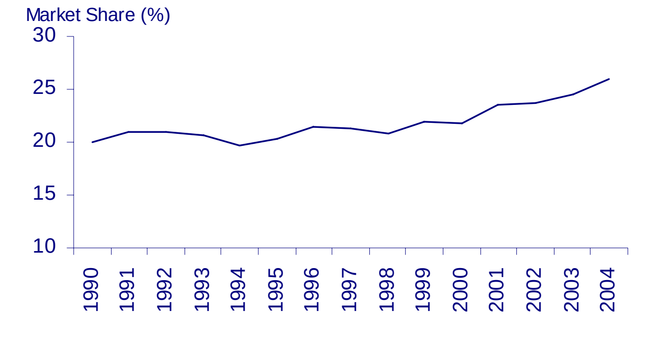
While around 70% of the crop protection market is off patent, there is opportunity for generics to increase their penetration and expand their market share here. Moreover, while we expect the overall market to grow at only 1-2% over the next 5 years, several patented active ingredients are expected to go off patent, and this forms an attractive opportunity for generic companies like UPL, in our view.

Sizing the Generics Crop Protection Opportunity

Overall, the crop protection industry is seeing limited growth, as it has solutions for most problems and hence is mature. In addition, the long period involved in discovery, high and rising R&D costs, and longer registration procedures have resulted in a decline in the number of new products reaching the market.

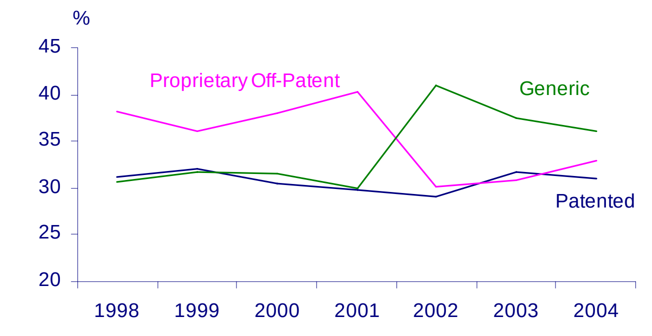
While growth in the overall crop protection industry remains muted, UPL is targeting the off-patent segment of the crop protection market, which is growing at a faster rate as more crop protection active ingredients come off patent. According to Phillips McDougall, around 70% of existing crop protection products are off patent, and the generics companies have only a 33% share of the off-patent market. This provides an opportunity for generics companies like UPL to increase their share within the off-patent market. In addition, according to Nufarm, active ingredients having a market around $5.6bn are expected to come off patent over the period 2006-12, which offers an attractive growth opportunity for generics players like UPL. We estimate that the addressable market and the generics market could grow at around 4% and 5.4%, respectively, over the next six years.

Exhibit 13
Generic Companies' Share of World Market



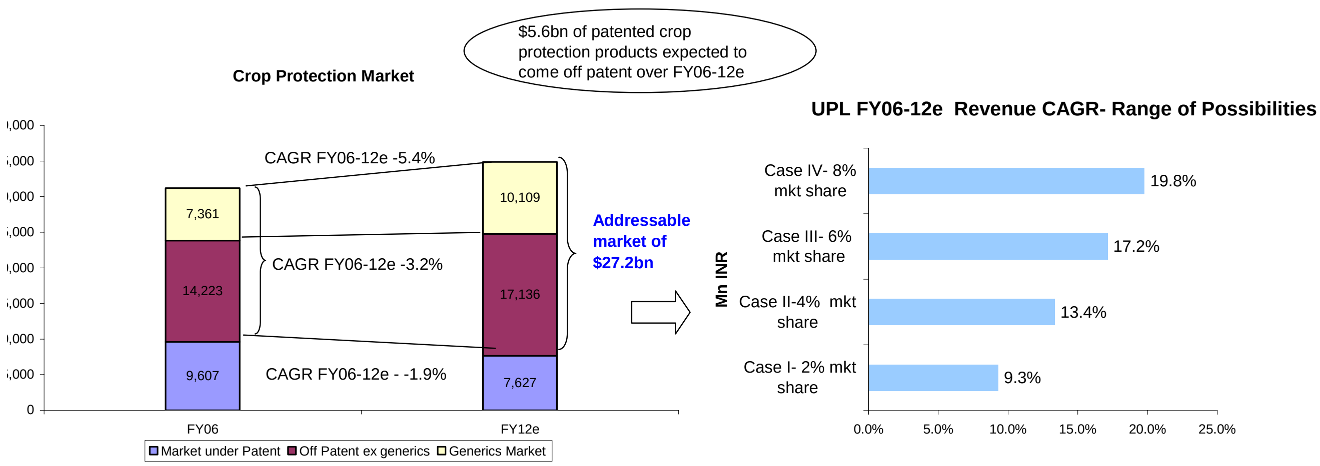
Source: Phillips McDougall, Morgan Stanley Research

Exhibit 14
Proprietary vs. Off-Patent Market Share



Source: Phillips McDougall, Morgan Stanley Research

Exhibit 15
Generic Crop Protection Opportunity – What It Could Mean for UPL



Assumption

1. USD 5.6 bn of Crop Protection Products come off patent over FY06-12.
2. Generic Market share of the offpatented market increases by 50bps every year.

UPL FY2012 Revenues Organic - Range of Possibilities. Scenarios Assumptions
Existing Molecules grow at 3%
New Registration market share % of incremental off patent market
Case I - 2.0%
Case II - 4.0%
Case III - 6.0%
Case IV - 8.0%

Source: Company data, Nufarm, Philips McDougall, Morgan Stanley Research

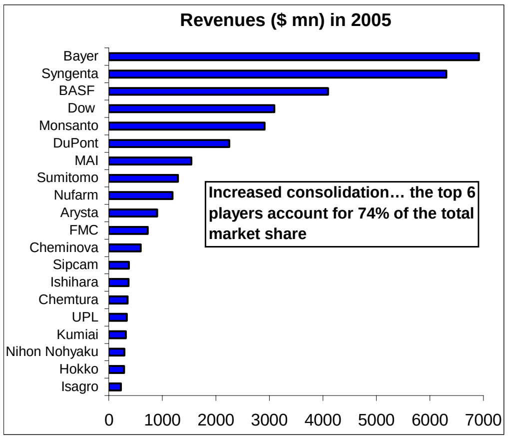
Scenarios – What It Means to UPL

We estimate UPL currently has around 3.6% of the crop protection generics market and around 1.3% of crop protection market. We believe that, by gaining critical mass in the key crop protection markets, UPL has the opportunity to increase its market share.

We looked at a range of scenarios to understand the potential organic growth opportunity for UPL in the crop protection generics market. If UPL succeeds in gaining a 4.0% market share of the incremental generics opportunity, while maintaining 3.0% organic growth in its existing portfolio, the company could grow at a CAGR of around 13.4% over F06-12.

Exhibit 16

Crop Protection Companies: UPL Aiming to Move into Tier II



Type	Players	Strategy
Tier I	Syngenta, Bayer Crop Science, Dow Agro Science, Monsanto, Dupont	•Controls 72 % of market share and revenues in the range of $ 2000-7000 mn •Rationalising Product Portfolio by divesting low margin, low growth products. •Defending market share in important off patent products by product branding, mixing with patented ingredient, deals with distributor
Tier II	Makteshim, Cheminova,Nufarm, Arysta, Sumitomo Chemical, FMC	•Controls 17% of market share with revenues in the range of $500 -$2000 mn •Targetting products coming off patents •Investing in registration of new off patents in regulated markets of US and EU • Mergers among peers and gain access to each other's markets and acquisitions of Tier III companies to increase level of consolidation. •Expanding presence in the Latin American Market, which has higher growth
Tier III	Sipcam, Ishihara, Chemtura, Kumiai, Nihon Nohyaku, Hokko, Isagro	• Controls 11% of market share and revenues are less $ 500 mn •Sell technicals, intermediates to Tier I and Tier II companies •Presence mainly in non protected markets. •Consolidation to gain scale, expand portfolio and presence across markets.

Source: Company data, Morgan Stanley Research

Exhibit 17

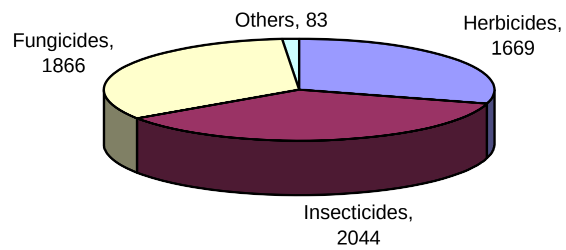
Generic Crop Protection Industry Attractiveness

Suppliers' Power: Low	• Raw materials (RM) are sourced from chemical companies with around 30% of group's requirement met through imports, largely from China. • Multiple sources are available for RM supply. Usually, UPL does not enter into long-term price contracts. • RM, primarily derivatives of crude oil, is exposed to risk of increase in crude oil prices. • UPL sources a portion of RM internally (around 30%) from its industrial chemical division.
Customers' Power: High	• Access to and strong relationship with distribution network is important for crop protection products. • Distribution of agrochemicals is highly consolidated in the regulated markets of EU and US. (Other markets have a relatively fragmented distribution network.) • Top 8 distributors account for > 80% of the market in US. • Product portfolio, brand, pricing are important for the generics vendor to differentiate its products.
Competitors Medium-High	• High entry barriers, high capital intensity, stringent registration norms and time frame involved limit the number of players in the regulated markets (US, EU) and prevent commoditization of the post patent generic active ingredients • Strong competition from innovator companies, which control 67-70% of the off-patent crop protection. With few new chemical entities being launched, a large proportion of the innovator's sales are derived from off-patent products. • Innovators defend their market share by product differentiation through formulation/branding, mixing with patented products, and entering supply agreements with other generics players. • Strong competition from other generics players having registration for given active ingredients.
Entry Barriers: US/EU – High, Others- Medium	• Processes related to registration have more stringent approval requirements in regulated markets of EU and US. • The product registration process requires US$3mn to US$5mn of investment and around 3 years (up to 5 years in Europe) though a shorter data compensation route available in US. • Capital intensity and working capital requirement are high and process to manufacture is complex. • Other markets have relatively lower requirements for registration.
Substitutes: Medium	• Genetically modified pest- and disease-resistant seeds are potential substitutes for crop protection market and could impact demand for crop protection products.

Source: Company data, Morgan Stanley Research

Exhibit 18

Number of Products Coming Off Patent in F06-12, Worth US$5,662mn*



Source: Nufarm, Morgan Stanley Research
*= Figures in million

Imidacloprid Could Be a Potential Growth Opportunity for UPL

Imidacloprid (broad-spectrum insecticide) is one of the largest and most profitable compounds of Bayer Cropscience, with a market size of almost US$800mn. The compound went off patent in July 2006. UPL has filed registration for Imidacloprid in the US, and the company expects to launch the product in 4Q F07. We believe that the overall market for the product in the US will be over US$100mn. This should be a growth driver for UPL, though competition will be higher, too. We expect to get better visibility on UPL's success in 4QF07 and 1Q F08 because the sale of insecticides declines in the US during winter.

Some of the large generics companies have filed several product registrations in the US market and are looking to offer the product through a large number of distributors. However, we believe UPL has the opportunity to take some market share given the large size of the Imidacloprid market and UPL's low cost base.

Competitive Pricing from Originators

While the high entry barriers prevent new entrants from entering the protected market, the generics market is seeing intensifying competition from the existing originators looking to defend their market share post patent expiry as the number of new molecules introduced declines. Off-patent products account for a significant proportion of the originator revenues, and the originators are reducing prices on the products to make it unattractive for the generics players to make the investments needed in registration to enter the market.

Product Rationalisation by Originators – Inorganic Growth Opportunity

In addition to the organic growth through filing new registrations, UPL is also pursuing the strategy of growing inorganically through the acquisition of tail-end brands divested by large originators as a part of their product rationalization process.

Defensive Strategies by Originators

We expect competition to be strong here as originator Bayer looks to defend its market share while other large generic companies are looking to gain market share of the lucrative Imidacloprid market. According to our European Chemical's analyst, some of the defensive strategies adopted by Bayer include:

- Migrating some of the existing imidacloprid users to patented second and third generation neo nicotinoids as well as blending it with compounds still on patent.

- Entering supply agreements with other generics companies like Maktheshim Agan (Israel) and Cheminova (Denmark). Bayer will supply the technicals from a new low-cost manufacturing base in India.

Large originator companies have been looking at rationalizing their product portfolios to focus more on larger and high-margin products. .Besides, one consequence of the consolidation in the crop protection industry has been that some of the M&A transactions have been approved by antitrust authorities under the condition that certain products be divested or licensed to third parties. Divestment of active ingredients as a part of product rationalization or anti trust requirements forms an acquisition opportunity for the generics players like UPL. While the products being divested are smaller and low-margin products, from the perspective of large originator companies, they could still be attractive opportunity for UPL for the following reasons:

- They could help UPL gain scale faster. While some of these comprise a small proportion of revenues for the large innovator companies, they would be significant compared with UPL's size.

- While these products are generally older compounds with relatively low margins, UPL has the potential to expand margins of these products by leveraging its low-cost manufacturing base in India.

In line with this strategy, UPL has recently acquired three brands from Bayer – Asulam, Tricholrofon, and Oxydemethon – for €27.5mn.

Exhibit 19

Crop Science Active Ingredient (AI) Reduction Targets

Company	Starting point	Current AI	Target
Syngenta	121	76	76
BCS	128	108	94
BASF	312	123	60

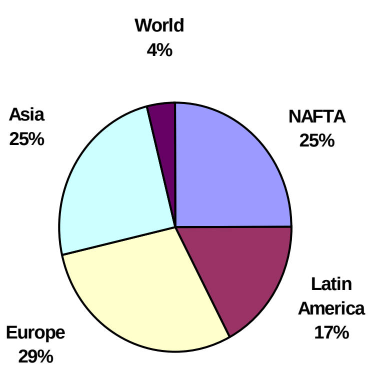
Source: Company data, Morgan Stanley Research

We think the opportunity here is smaller now as Syngenta has already completed the process of rationalization and Bayer is largely through with its product rationalization process and may divest two more AI by the end of this year. Bayer plans to divest around 20 more AI between 2006 and 2010. In addition, BASF could divest around 63 AIs, having inherited a large number of smaller compounds as a part of its Cynamid acquisition.

Exhibit 20

Crop Protection Market – Regional Outlook and UPL's Strategy

Region wise Crop protection market



Region	Market Opportunity	UPL's strategy
NAFTA	•Market growth @ CAGR 06-10e -0.9%, fungicides -2.8% •Regulated market- high entry barriers, hence high margins **• Outlook- near term drivers** ✓ Asian Soybean Rust- potential demand driver for Tebuconazole ✓Drought recovery in Central America ×Strengthening of dollar to impact export potential. ×Increase in Genetically Modified (GM) area	• 27% of UPL's revenues, gross margins around 60% •To file at least 2 registrations in USA annually •Grow inorganically by acquiring brands and thereafter grow 15-20% organically •New product launches- Tebuconazole (Market size $100mn), Bromacil and Imida Cloprid to drive growth in F07
Europe	•Market growth @ CAGR 06-10e 0.8%, insecticides 1.6 % •Regulated market- similar to NAFTA **•Outlook- near term drivers** ✓Drought recovery in South Europe ✓Shift in Market to new EU states ×Decline in Maize acreage with Increase in cultivation of cereal ×EU expansion	•19% of UPL's revenues, gross margins around 55% •Expand product portfolio •Plans to acquire more registrations in Europe, existing products have an addressable market of US $1 bn •Cerexagri scales up UPL's presence in Europe and enhances distribution network
India	✓Low overheard cost ✓Competitive market, to grow at 5-6 % in medium term ×High level of price competition ×Dependence on monsoons is major risk to UPL revenues	•UPL is the only domestic player with presence in the EU and US markets •30% of its revenues, gross margins around 17% •Reduce presence gradually owing to high price competition
Rest of World	***Latin America:*** ✓ Improvement in farm economies and Increase usage of sugarcane for ethanol production ×Strengthening of Real (Brazil) × Increased GM area × Drought in Brazil ***Africa / Middle East:*** ✓ Development of specialty crop markets for export ×Continued economic and Political problems ×Infrastructure requirements	•Accelerate on product registrations •Increasing focus towards Brazil •Acquisition of small and medium sized companies, and get access to African markets. •Tie up with ISK, a Japanese R&D company, to produce their proprietary products and in future distribute the same.

Source: Phillips McDougall, Morgan Stanley Research

UPL: Acquisitions Key to Its Growth Strategy

Unlike most of the other Indian players in the crop protection market, UPL has focused on the higher-margin international markets for expanding its business. The company has focused on acquisitions to gain presence and consolidate its presence especially in the regulated markets of US and Europe. The pace of acquisitions has increased in terms of both value and volume. The company has strategically shifted some of the manufacturing activities of the acquired companies/brands to low-cost manufacturing bases like India to enhance cost efficiencies and thereby expand margins further. While the recent acquisition of Cerexagri is a good strategic fit, as it complements UPL's portfolio and strengthens its presence in Europe, we think integration will be a greater management challenge, given the cross-border nature of the deal and the size of Cerexagri's operations.

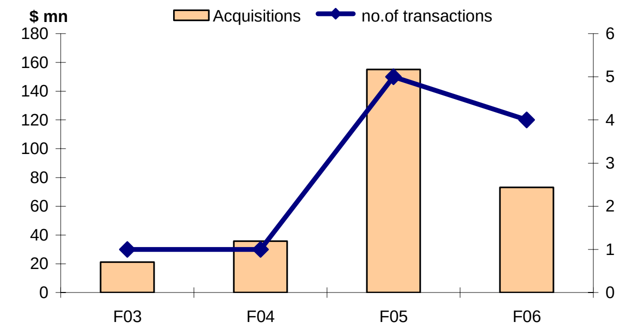
Pace of Acquisitions Has Accelerated

UPL has continuously focused on expanding its presence and portfolio in the regulated and higher-margin markets like the US and Europe through the inorganic route. Exhibit 21 suggests that the pace of acquisition has quickened in both value and number over the last two years. The company's acquisition strategy has been two-fold

1) **Brand/ Product Acquisition:** acquiring brands from leading innovators. This includes acquiring tail-end brands divested by large innovators as a part of their portfolio rationalization process. They may be attractive for UPL, given their smaller cost base and the company's ability to reduce costs by shifting manufacturing to a low-cost base like India. UPL's recent acquisition of three brands from Bayer – 1) Asulox, Asilan (herbicide, AI Asulam); 2) Diptirex (insecticide, AI- Trichlorfon), and 3) Metasystox (insecticide, AI Oxydemethon) – have been in line with this strategy.

2) **Small and Medium-sized Companies:** Acquisition of small and medium-sized companies to get access to some product registrations as well as access to distribution in various markets, e.g.: acquisition of Reposo in Argentina, and Cequisa in Spain.

Exhibit 21
UPL: Value and Number of Acquisitions



Source: Phillip McDougal, Morgan Stanley Research

Provides Access to New Registrations and Markets

The US and European crop protection markets are mature, with high entry barriers due to stringent registration norms and longer time to market. We believe UPL's strategy of ramping up its presence and gaining access to new product registrations in these markets through the inorganic route appears to be an appropriate strategy. UPL's acquisition of AgValue in 2004 helped UPL gain scale in the US market. In addition, UPL has benefited from the product filings of the acquired companies, which are likely to contribute to organic growth for the group going forward, in our view. UPL has received approval for Bromacil, a $40mn non-crop herbicide, which it obtained as part of its AgValue acquisition. In addition, UPL has recently acquired Advanta to establish its presence in the faster-growing seeds business. However, the company plans to reduce its stake to only 49.9% through a mix of pre IPO placement and IPO. Management wants to retain Advanta as a separate entity, as management believes this would enable both the crop protection and seeds businesses to access finances required for funding growth.

Margin Expansion from Shifting Production to India

We believe the key to UPL's inorganic strategy centers on acquiring product/brands and thereby improving cost efficiency by shifting the production base to India. UPL has succeeded in integrating its past acquisitions and has managed to enhance margins of acquired products by shifting the manufacturing base to its facilities in India, which have a much lower cost structure. Cost synergies hence margin improvement is higher in case of products, especially insecticides, where UPL already is a manufacturer/supplier of intermediates for the products. India provides access to a lower-cost chemistry skill base, cheaper labour, and lower environmental hurdles. In addition, capital costs are significantly lower in India.

Exhibit 22

UPL's Recent Acquisitions

	Company/Brand	Value US$ mn
2003	Cypermethrin /Bifenthrin	NA
2003	Agricola - UK- Surflan	21.3
2004	Agvalue - USA	35.8
2005	Cequisa - Spain	14.0
2005	SWAL - India	5.2
2005	Reposo-Argentina	11.0
2006	CropServe	3.8
2006	Advanta Seeds	125.0
2006	Bayer's 3 brands	54.4
2006	Bensulfuron	15.0

Source: Company data, Morgan Stanley Research

Exhibit 23

Advanta Acquisition

Seed Industry

- Global Commercial Seed Industry-$19bn, Indian Seed Industry~$1bn
- Faster growth compared to agrochemicals
- Revenues tend to be more stable over longer periods

Attractive Opportunity

- Diversify its business mix & jumpstart presence in fast growing seed business
- Revenues tend to be more stable over longer periods.
- Synergies with existing crop protection business - common distribution channels and captive seed treatment business

Seed Industry -Risks

- Unorganised Industry in India
- Highly Inventory intensive; High lead time to produce
- Need to continuously update the germplasm; High R&D
- Need to have a continuous pipeline of Hybrid.

Advanta

- Originally a JV between Royal Vanderhave and Zeneca
- Sold to Syngenta and then to Fox and Paine
- Presence: Australia (59% of sales),India (17%),Thailand (13%) Argentina,
- Main Crops: Oil seeds, Sorghum, Corn and Rice
- Developing SUNSAT-new breeding program in sunflower

UPL's Rationale for Acquiring Advanta

- Largest independent company in Asia-Pac region
- Strong market position in regions and products (Australia, Thailand)
- Access to proprietary germplasm portfolio
- Experienced management team

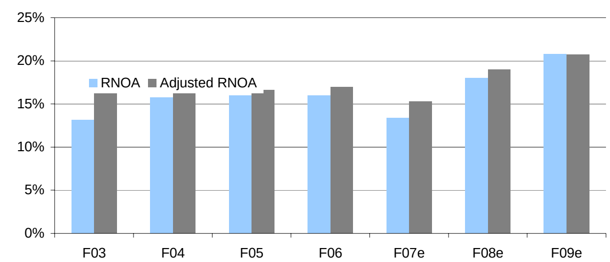
Source: Company data, Advanta DRHP, Philips McDougall, Morgan Stanley Research

Acquisition Growth, but at a Price

UPL has successfully integrated acquisitions in the past and has been able to generate value through improving cost efficiencies. While we believe UPL's strategy of gaining presence in the regulated markets through acquisitions is appropriate given the mature nature of the industry, we think there are risks: 1) acquisitions induce earnings volatility depending on timing and the nature of the acquisition; 2) execution risk is higher , and 3) UPL runs the risk of value destruction if the price paid is not right. Management has outlined the criteria that a potential acquisition should allow it to recover its investment in 3-4 years. We believe that this acquisition discipline is a positive. .Moreover, management has demonstrated a track record of successfully integrating acquisitions within its fold. However, we believe that the risk profile of the group and the management challenge increase as the company makes larger acquisitions.

Exhibit 24

UPL's Return on Invested Capital

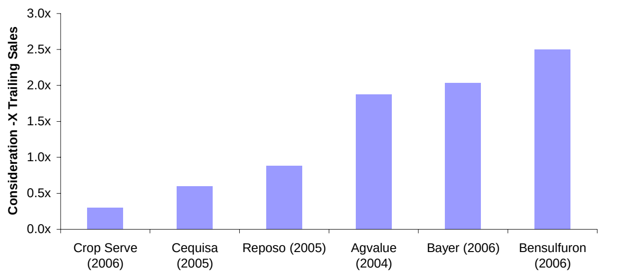


Source: Company data, Morgan Stanley Research

Acquisition Considerations – Scenarios Analysis

We looked at potential acquisition scenarios and potential value creation for acquisitions at a given price based on Residual Operating Invested Capital analysis. We looked at hypothetical and simplified acquisition scenarios to evaluate the financial performance required to generate value from a given acquisition. If we assume UPL acquires a product paying 1.4x trailing sales (in line with the recent historic average), our model suggests that the acquired brand/product should have a gross margin of over 55% (vs. UPL's gross margin of ~45%) to have a cash payback of less than four years (higher in case we assume a discounted payback). This assumes that additional overhead related to the product is 10% of revenues.

Exhibit 25
UPL's Past Acquisition EV to Sales Multiples



Source: Company data, Morgan Stanley Research

Exhibit 26
Simplified ROIC Analysis for UPL Acquisitions

	I	II	III
EV to Sales	**1.5**	**2.0**	**2.5**
Price Paid	150	200	250
Revenues	100	100	100
Gross Profit	**50**	**50**	**50**
Gross Margin* (%)	**50**	**50**	**50**
Other Overhead Costs**	10	10	10
Op costs % of Revs	10	10	10
Amortisation over 15 years	10.0	13.3	16.7
EBIT	30.0	26.7	23.3
Tax rate (%)	20	20	20
NOPAT	24.0	21.3	18.7
ROIC (%)	16	11	7
WACC (%)	12	12	12
Cash Payback years*	4.4	5.8	7.1

Source: Company data, Morgan Stanley Research
* gross margins assumed are higher than UPL's gross margins
** Assumes incremental overheads at 10% of sales for product acquisitions

However, valuation multiples have been rising with a greater number of active buyers and increasing deal momentum by generic players looking to acquire new products from originators. UPL's recent acquisition of Bensulfuron was valued at 2.5x trailing sales, which was higher than the historic multiples paid by UPL in the past. However, we note that the valuation must be viewed from the perspective of margins on these products. According to the company, the gross margin for Bensulfuron is higher than for the group .Our analysis suggests that the Bensulfuron acquisition could be value-accretive only if the product delivers gross margins of over 70%.

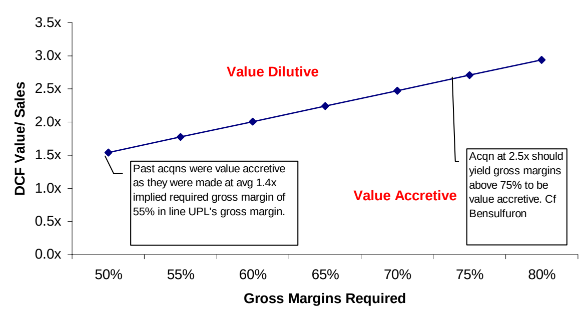
Exhibit 27
Simplified ROIC Analysis – Bensulfuron Acquisition

	I	II	III
EV to Sales	2.5	2.5	2.5
Price Paid	250	250	250
Revenues	100	100	100
Gross Profit	65	70	75
Gross Margin (%)	**65**	**70**	**75**
Other Overhead Costs	10	10	10
Op Costs of Revs	10	10	10
Amortisation over 15 years	16.7	16.7	16.7
EBIT	38.3	43.3	48.3
Tax rate (%)	20	20	20
NOPAT	30.7	34.7	38.7
ROIC (%)	12	14	15
WACC (%)	12	12	12
Cash Payback Years*	5.3	4.9	4.5

Source: Company data, Morgan Stanley Research
Note: Simplified back of the envelope analysis

We also used a DCF-based approach to determine the acquisition breakeven EV to sales multiple for a brand having a given gross margin. However, one caveat is that our analysis here is simplified and based on assumptions outlined in Exhibit 22.

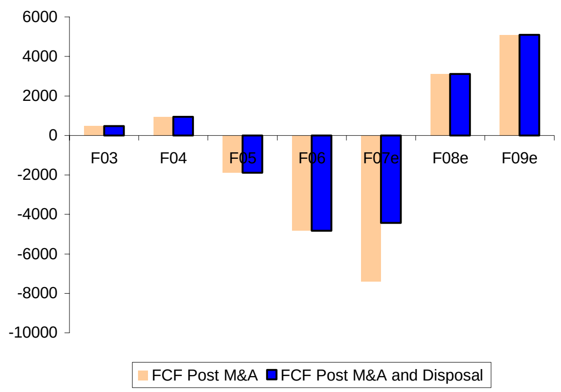
Exhibit 28
DCF Value/ Sales vs. Breakeven Gross Margins *



Source: Company data, Morgan Stanley Research
* Simplified back of the envelope analysis for UPL brand acquisitions. Assumed higher than group gross margins, as gross margins in US and EU could be higher.

Exhibit 29

Free Cash Flow – Provides Opportunity for Future Acquisitions



Source: Company data, Morgan Stanley Research
*F07 assumes UPL's exposure to Advanta reduces to €30mn post Advanta IPO

Exhibit 30

DCF-based Acquisition Breakeven – Assumptions

Summary of Assumptions

Revenue CAGR Year 0-10 (%)	0
Gross Margin yr 1 (%)	50
Other Overheads of Sales	10
Amortisation period	15 years
Tax Rate (%)	20
WACC (%)	12
Terminal Growth (%)	-3

Source: Company data, Morgan Stanley Research

Impact of Cerexagri Acquisition

POSITIVES: Strategically Sound – 1) Catapults UPL to Tier II of crop protection generic players. UPL becomes a top 5 crop protection generic player; 2) improves market positioning in the mature European market.

Complementary Portfolio, Improves UPL's Product Mix – UPL predominantly an insecticide/ herbicide player, while Cerexagri has a strong fungicide portfolio. Fungicides accounted for 7% of UPL's portfolio, and with Cerexagri coming under its fold, UPL would increase its presence in fungicides to 34%.

Revenue Synergies – 1) Improves scale and strengthens presence in Europe. 2) Cross-selling opportunities – Use Cerexagri's distribution channel to improve penetration of UPL's product in Europe. 3) Provides presence in the niche vegetable and fruit treatment market.

Deal Is Accretive to Earnings on Our Estimate: Earnings-neutral in F07, 20% accretive in F08, assuming UPL manages to lift margins of Cerexagri by 2.5% in F08 through rationalization and shifting costs to India. Deal is value-accretive if UPL manages to raise margins by 12%, which we believe is achievable.

Cost Synergies/Margin Upside: Some overlap in distribution and production and shifting costs to India could enable the group to lift margins of Cerexagri business.

NEGATIVES: Margin Dilutive – Deal is margin-dilutive as Cerexagri's margins are sub 10% vs. UPL's margins of 26.9%, which will be a drag on UPL's margin in medium term. Management confident of raising Cerexagri's margins to UPL's levels, but the time frame is uncertain and risks are much higher, in our view

Execution Risks Are Higher – Large cross-border deals have higher execution risk compared to brand acquisitions. Cerexagri has 630 employees (~30% of UPL's employee base) and nine plants in Europe, and hence execution risks of transferring costs to India or rationalizing costs in Europe could be higher and could take longer.

Need to Digest Recent Acquisitions – UPL has announced five acquisitions over the last 1.5 years, which increases the risk profile of the group as it digests these acquisitions.

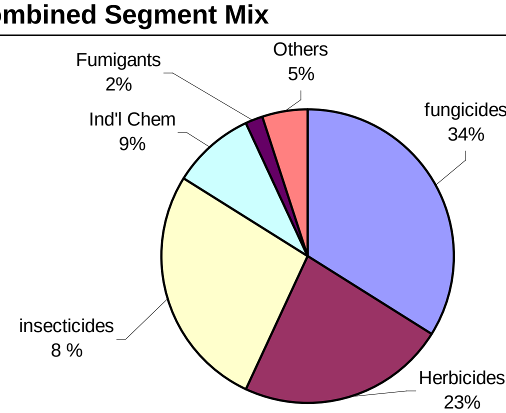
UPL Announces Proposed Acquisition of Cerexagri
UPL has proposed to buy Arkema's (France) shareholding in Cerexagri group of companies for €111 million. Cerexagri is a crop science business unit of Arkema with annual revenues of €200mn ($250mn). It derives 73% of revenues from fungicides, and its main markets are the US and Europe, accounting for 82% of its revenues.

Cerexagri specializes in plant protection products, mainly fungicides and post-harvest treatment products, with the fruits and vegetables segment accounting for about 80% of sales. Cerexagri's main products are:

- Dithiocarbamates (EBDCs) – second largest producer
- Copper and sulfur (15% of portfolio)
- Thiophanate Methyl
- Decco – accounts for 15% of sales and is used for fruit coating (mainly in markets such as Israel, California, Florida, France, Spain, and China)

Scales up UPL's size, making it a top tier generics player
With the Cerexagri acquisition, UPL expects to become the third largest crop protection generic company globally. Cerexagri has a high proportion of fungicide products in its portfolio, which complements UPL's predominantly herbicide and insecticide portfolio.

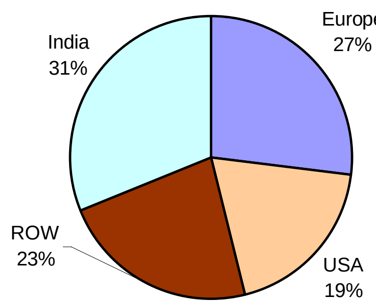
Exhibit 31
Combined Segment Mix



Source: Company data, Morgan Stanley Research

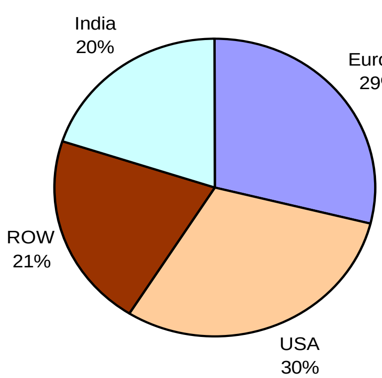
UPL-Cerexagri- Product Mix

Exhibit 32
UPL Regional Revenue Mix



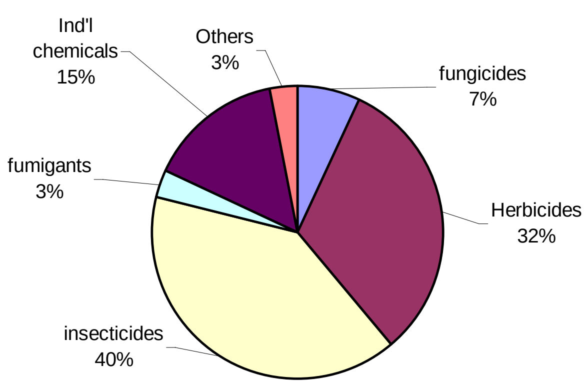
Source: Company data, Morgan Stanley Research

Exhibit 33
Combined Regional Revenue Mix



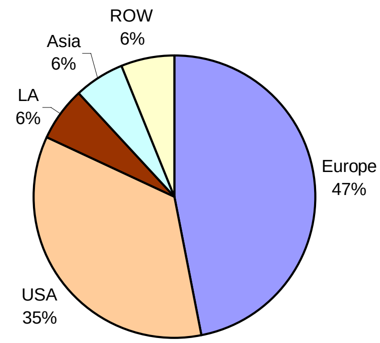
Source: Company data, Morgan Stanley Research

Exhibit 34
UPL's Segment Mix



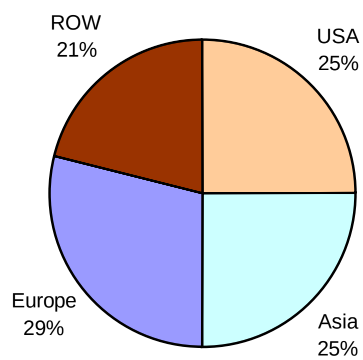
Source: Company data, Morgan Stanley Research

Exhibit 35
Cerexagri Regional Revenue Mix



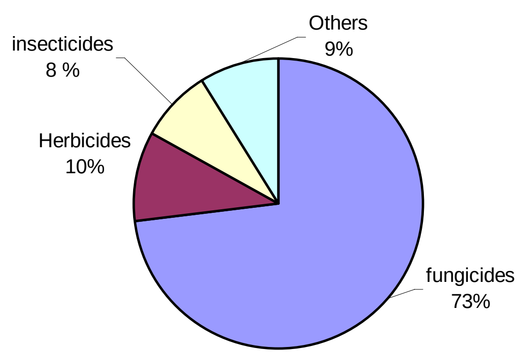
Source: Company data, Morgan Stanley Research

Exhibit 36
World Crop Protection Market



Source: Company data, Morgan Stanley Research

Exhibit 37
Cerexagri's Segment Mix



Source: Company data, Morgan Stanley Research

Exhibit 38

Highlights of UPL-Cerexagri Deal

Company	Facts	Business	Comments
Key Products	Dithiocarbamates (EBDCs) Copper, Thiophanate Methyl, Sulfur Decco Miscellaneous Products Aquatic herbicide (Endothall) Acetamiprid, Micro-encapsulation.	• has around 10-12 products • Fungicides account for 73% of revenues • 2nd largest producer of EBDCs, used for 100 different crops and used to combat 400 diseases. • Decco is global leader in fruit coating business (to increase shell life)	✓ Diversifies UPL's product mix- Revenues from fungicides would now account for 34% of revenues compared to 7% previously. ✓ Strengthens UPL's presence in Europe and potential of leveraging cross selling opportunities. ✓ Scales up UPL's capacity and it would be among the large players in Generics crop protection space.
Markets	World wide presence	• Higher presence in US(35% of revenues) and Europe(47% of revenues)	✓ increases presence US and Europe markets ✓ Strengthens distribution presence
Operations & Distribution	9 plants spread across Netherlands, France, China , Spain and Italy	• Strong distribution network in its key markets, owing to presence in business for 70 years	✓ Scales up UPL's size ✓ UPL's insignificant presence in fungicides enables low product overlap ✓ provides opportunities for cross selling ✓ Manufacturing base in China could be leveraged as alternate low cost base × Chances of overlap of distribution channels present × Cost rationalization and Integration is a challenge and key risk given Cerexagri's size. Cerexagri has 9 plants and 630 employees and hence shifting and rationalizing costs is a key management challenge × Transfer of Management - Cerexagri has an established management team with substantial experience in European markets and their transfer to UPL is important.
Financial Highlights	Flat revenue growth in 2005 Revenues of ~$250 mn in 2005	• Margin details not disclosed • Gross margins similar to UPL - Management • Ebitda margins sub 10%, lower than UPL • Debt of $1.25mn	✓ Contributes to strong organic growth for UPL × Potential for improving cost efficiencies exist. × Acquisition is Margin Dilutive. × Existing inefficiencies due to higher overheads
Valuation	$140 mn (€111mn)-acquisition price	• Valued @ 0.56 times of its revenues	✓ Valuation looks reasonable
Means of Financing	Debt funded acquisition	• Debt raised for $150 mn @ libor+160bps	× Higher Interest costs impact F07 earnings × F07- Interest cost kicks in though revenue from the acquisition begins to come in only in F08. × Company's leverage has increased to 1.2 (Debt to Equity)

Source: Company data, Morgan Stanley Research

Understanding the Impact of the Deal

Cerexagri's revenues are around 61% of UPL's, and its margins are significantly lower than UPL's. While the company has not disclosed the margins on the Cerexagri business, management mentioned during the conference call that Cerexagri's gross margins are similar to UPL's, though the EBIDTA margins are sub 10% given the higher cost base in Europe. Management believes it will be able to enhance Cerexagri's margins through cost rationalization and improving operating efficiencies. Management is confident of meeting its 3–4-year payback criteria. As the deal is still subject to Arkema's and Cerexagri's work council consultation and antitrust approvals in some countries, management has not commented on the integration and improving cost efficiencies or a time frame for achieving such efficiencies. While management has successfully demonstrated the ability to enhance margins of acquired companies/products through shifting the production base to India, we think the challenge here is greater, given Cerexagri's size and scale of operations. Moreover, Cerexagri has some nine plants in Europe and 630 employees (almost 30% of UPL's employee base). Hence, we think the process could take longer. We currently assume Cerexagri's EBITDA margin to be 10% and have built in 250bps of improvement in EBITDA margins in the business.

We looked at the impact of the UPL-Cerexagri transaction on UPL's financials. Our analysis suggests that the deal is EPS-accretive on our estimates – by 11% in F08 even if we assume no cost or revenue synergies from the transaction. However, we believe the deal's ROIC exceeds UPL's cost of capital only when UPL manages to enhance Cerexagri's margins above 12%. While we think improvement in Cerexagri's margins is achievable, the challenge is significantly higher, in our view. We plan to focus on the management execution of the integration going forward. We estimate the group's margins will decline from 26.3% to 22%, due to the impact of Cerexagri's consolidation in F06, even if we assume that Cerexagri' s EBITDA margin increases by 2.5%.

Exhibit 39

Cerexagri Scenario I: We Expect Deal to Be EPS-Accretive in F08 and Margin-Dilutive

	F2006			F2007				F2008			
	UPL	Cerexagri	Proforma	UPL	Cerexagri	Transaction	Proforma	UPL	Cerexagri	Transaction	Proforma
Revenue	17954	11024	28978	21974	0		21974	25069	12059		37128
									18%		
EBITDA	4831	1102	5934	5807.3	0	0	5807	6614.5	1206	301.5	8122
EBITDA Margins	0	10%		26.4%			26.4%	26.4%	10%		21.9%
Amortisation of Goodwill						0.0				0.0	
EBIT	**3429**	**992**	**4421**	4231.1	**0**	**0**	**4231**	4774.0	**1088**	**301**	**6163**
EBIT Margins	19.1%	9%	15%	19.3%			19.3%	19.0%	9%		16.6%
Financial Income	66	-	66	145.5	0	0	146	321.5	-	0	321
Financial Expense	988		988	844.4		122	966	770.4		488	1259
Pre Tax Income	**2507**	**992**	**3499**	3532.3	**0**	**-122**	**3410**	4325.0	**1088**	**-187**	**5226**
Tax	328	327	655	551.8	0	40	512	648.8	359	161	847
Tax Rate	0	33%	19%	16%			15%	15%	33%		16%
Net Profit	**656**	**665**	**1321**	**2980.4**	**0**	**-82**	**2899**	**3676.2**	**729**	**-26**	**4379**
EPS	**12**			**15.06**			**14.68**	**18.7**			**22.5**
Accretition/Dilution							-3%				20%
Number of Shares				**200.7**				**200.7**			
										GoodWill	
Net Operating Assets	17169			17981		6581	24562	20381		6581	26962
Average NOA							18530				
NOPLAT	2743			3173			3173	3580			4622
Marginal Tax Rate	**20%**			**25%**			**25%**	**25%**			**25%**
RNOA	**16%**			**17.6%**			**17.1%**	**17.6%**			**17.1%**

Exchange Rate		55.12	58.18	59.11
CeraGiri Assumptions	**2005**	**2006**	**2007**	**2008**
Revenues	200	200	202	204
yoy change		0%	1%	1%
EBITDA		20.0	20.2	20.4
EBITDA Margins		10%	10%	10%
Depreciation And Amortisation		2.0	2.0	2
EBIT		18.0	18.2	18.4
EBIT Margins		9%	9%	9%
Financial Income		0.0	0.0	0.0
Pre Tax Income		18.0	18.2	18.4
Tax		5.9	6.0	6.1
Tax Rate		33%	33%	33%
Net Profit		12.1	12.2	12.3
EPS		6%	6%	6%
Cost Synergies			**0.0**	**5.1**
Margin Expansion			**0.0%**	**2.5%**

Transaction Assum	**EUR**	**INR**	
Acquisition Price	111	6457.8	
Net Debt	1	58.2	
EV	112	6516.0	
Restructuring Costs (	11.2	65.2	
Capital needed	**123.2**	**6581.1**	6975

Assumptions

- Scenario- Assumes 2.5% margin expansion in Ceraxigiri
- Assumes Cerexagri current EBITDA margins of 10%
- Assumes no revenies from Cerexagri in F07
- Marginal Tax rate assumed here is 33% though Arkema tax rate is around 10%
- Assumes No Amortisation of Goodwill
- Transaction funded by USD 150 mn debt, Interest cost assumed 7%
- No Revenue Synergies assumed - provides upside

Conclusion	**Transaction is 20% accretive in F08 in case there are 2.5% Margin expansion, revenue synergies not factored**
	Transaction is Margin Dilutive - UPL EBITDA Margins decline - 26.3% to 22% in F08
	RNOA decreases in F08 by 40 bps
	We have not assumed Revenue synergies which is likely given cross selling opportunities to distribution channel

Source: Company data, Morgan Stanley Research

Exhibit 40

Cerexagri Scenario II – No Margin Expansion; Deal Is EPS-Accretive in F08 but Margin-Dilutive

	F2006			F2007				F2008			
	UPL	Cerexagri	Proforma	UPL	›xagri	Transaction	Proforma	UPL	Cerexagri	Transaction	Proforma
Revenue	17954	11024	28978	21974	0		21974.0	25069	12059		37128.5
yoy change											
EBITDA	4831	1102	5934	5807.3	0	0	5807.3	6614.5	1206	0.0	7820.4
EBITDA Margins	0	10%		26.4%			26.4%	26.4%	10%		21%
Amortisation of Goodwill						0.0	0			0.0	
EBIT	**3429**	**992**	**4421**	4231.1	**0**	**0**	**4231.1**	4774.0	**1088**	**0**	**5861.7**
EBIT Margins	19.1%	9%	15%	19.3%			19.3%	19.0%	9%		15.8%
Financial Income	66	-	66	145.5	0	0	145.5	321.5	-	0	321.5
Financial Expense	988		988	844.4		81	925.8	770.4		488	1258.7
Pre Tax Income	**2507**	**992**	**3499**	3532.3		**-81**	**3450.9**	4325.0	**1088**	**-488**	**4924.5**
Tax	328	327	655	551.8	0	27	525.0	648.8	359	161	846.6
Tax Rate	0	33%	19%	16%			15%	15%	33%		17%
Net Profit	**656**	**665**	**1321**	**2980.4**	**0**	**-55**	2925.9	**3676.2**	**729**	**-327**	4077.9
EPS	**12**			**15.1**			**14.68**	**18.7**			**20.7**
Accretion/Dilution							-3%				11%
Number of Shares				**200.7**				**200.7**			
Net Operating Assets	17169			17981.3		6581	24562	**20381.2**		6581	**26962.3**
Average Net Op Assets							18530				
NOPLAT	2743			3173.3			3173	3580			4396
Marginal Tax Rate	**20%**			**25%**			**25%**	**25%**			**25%**
RNOA	**16%**			**17.6%**			**17.1%**	**17.6%**			**16.3%**

Ceraxagri- Stand Alone

Exchange Rate		55.12	58.18	59.11
Ceraxagri Assumptions	**2005**	**2006**	**2007**	**2008**
Revenues	200	200	202	204
yoy change		0%	1%	1%
EBITDA		20.0	20.2	20.4
EBITDA Margins		10%	10%	10%
Depreciation And Amortisation		2.0	2.0	2
EBIT		18.0	18.2	18.4
EBIT Margins		9%	9%	9%
Financial Income		0.0	0.0	0.0
Pre Tax Income		18.0	18.2	18.4
Tax		5.9	6.0	6.1
Tax Rate		33%	33%	33%
Net Profit		12.1	12.2	12.3
EPS		6%	6%	6%
Cost Synergies			**0.0**	**0.0**
Margin Expansion			**0%**	**0%**

Transaction Assumption

	EUR	INR
Acquisition Price	111	6457.8
Net Debt	1	58.2
EV	112	6516.0
Restructuring Costs	11.8	65.2
Capital needed	**123.8**	**6581.1**

6975

Assumptions

Scenario- Assumes No cost savings from the Ceraxigiri Transaction
Revenue Synergies not factored
Assumes 0 month of Consolidation in F07
Marginal Tax rate assumed here is 33% though Arkema tax rate is around 10%
Assumes No amortisation of Goodwill though company
Transaction funded by USD 150 mn debt, Interest cost assumed 7%

Conclusion **Transaction is 10% accretive in F08 in case there are no cost savings and revenue synergies**
Transaction is Margin Dilutive - UPL EBITDA Margins decline - 26.3% to 21% in F08

Source: Company data, Morgan Stanley Research

Exhibit 41

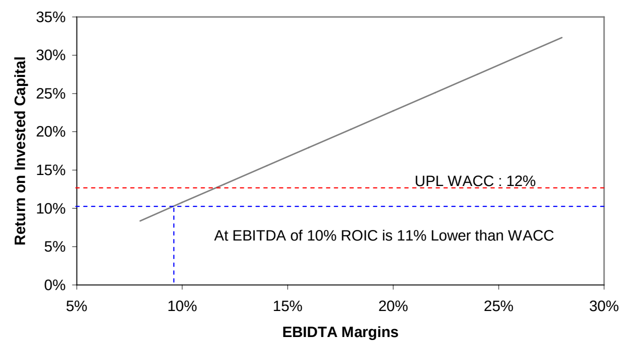
Cerexagri Acquisition: Simplified ROIC Analysis

€mn	F07e	F08e	F09e	F10e	F11e	F12e
Revenues	**200**	**200**	**200**	**200**	**200**	**200**
% Change		0	0	0	0	0
EBITDA		24	28	32	34	38
EBITDA Margin (%)		**12**	**14**	**16**	**17**	**19**
Depreciation		2	2	2	2	2
EBITA		22	26	30	32	36
EBITA Margin (%)	0	11	13	15	16	18
Amortisation of Goodwill		-	-	-	-	-
EBIT		**22.0**	**26.0**	**30.0**	**32.0**	**36.0**
EBIT Margin (%)		11	13	15	16	18
Tax		7.3	8.6	9.9	10.6	11.9
Tax rate (%)		33	33	33	33	33
NOPAT		**14.7**	**17.4**	**20.1**	**21.4**	**24.1**
% change						
Sales Multiple of Acquisition	0.56					
Price Paid	**112.0**	**112**	**112**	**112**	**112**	**112**
ROIC (%)		**13.2**	**15.6**	**17.9**	**19.1**	**21.5**
WACC (%)		**12.0**	**12.0**	**12.0**	**12.0**	**12.0**
ROIC Spread (%)		1	4	6	7	10

Source: Company data, Morgan Stanley Research
Assumes no revenue synergies, no amortization of goodwill.
Assuming 200bps margin expansion over F08-09.

Exhibit 42

ROIC on Deal Exceeds WACC for EBITDA >11%



Source: Company data, Morgan Stanley Research

Earnings Outlook

Our Earnings Model

Group revenue growth: We forecast revenues to show a CAGR of 31.1% in F06-09, driven by a mix of organic and inorganic growth. We forecast revenue growth of 22.4% in F07 and 69% in F08. Our model currently forecasts organic growth of 13.1% in F07 and 11.6% in F08.

Group operating margins: We forecast EBITDA margins of 26.4% and 21.9% for F07 and F08, respectively. We expect a modest decline in EBITDA margins due to price erosion and higher raw materials costs; moreover, the consolidation of the Cerexagri acquisition in the financials is margin-dilutive. We assume Cerexagri's margins improve by 250bps in F08. Our model forecasts average EBITDA margins of 23.8% over the period F07-11.

ModelWare EPS: We currently forecast ModelWare EPS of Rs14.68 in F07 and Rs22.50 in F08. This implies an EPS CAGR of 34.1% over F06-09.

NAFTA: We currently forecast NAFTA revenues to grow 24.5% and 90.2% in F07 and F08, respectively. We believe Tebuconazole and Imidacloprid will be the key growth drivers for UPL in the US in F07. Our long-term DCF assumes US revenues grow at a CAGR of 11.6% over F09-18.

Europe: We currently forecast EU revenues to grow at 20.4% in F07 and 144.8% in F08 (organic 2.8% in F07, 5.2% in F08, at cc), driven by consolidation of Cerexagri.

Rest of the World: We currently forecast rest of the world revenues to grow at 31% in F07 and 61% in F08 (organic 5% in F07, 7.2% in F08, at cc). We expect the CropServe acquisition and full-year consolidation of the Reposo acquisition to contribute to inorganic growth in F07. Our long-term DCF assumes ROW revenues grow at a CAGR of 11.2% over F09-18.

India: We forecast Indian revenues to grow at 16.2% in F07 and 8.5% in F08, implying organic growth of 10.8% in F07 and 6.5% in F08. Our long-term DCF model assumes Indian revenues grow at a CAGR of 6.6% over F09-F18.

Exhibit 43
Summary of Forecasts

	FY06	FY07e	FY08e	FY09e
Net Revenues	17,954	21,974	37,128	40,470
Growth (%)		22.4	69.0	9.0
EBITDA	4,831	5,807	8,122	9,332
EBITDA margins (%)	26.9	26.4	21.9	23.1
Growth (%)		20.2	39.9	14.9
PAT	2,179	2,905	4,453	5,503
Net margins (%)	12.1	13.2	12.0	13.6
PAT including associate income	2,163	2,942	4,466	5,552
Net margins (%)	12.0	13.4	12.0	13.7

Source: Company data, Morgan Stanley Research.
e= Morgan Stanley Research estimates

Exhibit 44
Regional Forecasts

Year End March 31 (million)	FY06	FY07e	FY08e	FY09e
India	5590	6494	7046	7546
yoy change (%)		16.2	8.5	7.1
% of group sales	31.2	29.6	19.0	18.6
North America	4,780	5,949	11,317	12,533
yoy change (%)		24.5	90.2	10.7
% of group sales	26.7	27.1	30.5	31.0
Europe	3,420	4,117	10,077	10,912
yoy change (%)		20.4	144.8	8.3
% of group sales	19	19	27	27.0
Rest of world	4,120	5,413	8,688	9,479
yoy change (%)		31	61	9
% of group sales	23	25	23	23
Total	17910	21974	37128	40470

Source: Company data, Morgan Stanley Research.
e= Morgan Stanley Research estimates

NAFTA Growth Driven by New Product Launches

NAFTA is one of the key growth markets and among the most profitable markets for UPL. Management has guided to a growth of 20% in the US market backed by new product launches and acquisitions. However, growth in the US in H1 2006 was lower due to lack of disease pressure. We expect growth in this region to be largely driven by a stronger product pipeline.

Exhibit 45
NAFTA – Stronger Product Pipeline

USD	US Product Launches	Market Size
4Q F06	Tebuconazole	~120mn
4Q F06	Bromacil	35-40mn
2Q F07	Pronamide	12-15mn
4Q F07	Imidacloprid	200mn
4Q F07	Two More Herbicide	70-80mn

Source: Company data, Morgan Stanley Research

UPL also plans to launch Imidacloprid, a broad-spectrum insecticide, in 4Q F07, which we expect to be a key growth driver for UPL in the US markets. It is one of the most profitable molecules of Bayer with a market size of US$800mn globally and around US$200mn. However, there are risks of strong competition from originators and other generics players. Sale of Insecticides decline in US during winter and we expect the demand to pick up towards the end of 4Q F07. Hence, we may not have clear visibility of UPL's success until 1Q F08. According to the management, UPL would launch two new herbicides with a combined market size of around US$70-80mn in 4Q F07, which should contribute to group's growth in NAFTA. In addition, we expect group to see inorganic growth coming from recent acquisition of Bayer Products. We have not assumed any revenues from the Cerexagri acquisition in F07.

Exhibit 46

Organic Growth – Summary of Forecasts

	F06	F07	F08
Group	**17954**	**21974**	**37128**
Inorganic- New Acqn			
Bayer Acqn (6mnths)		776	
Crop Serve (6mnths)		233	
Dupont Acqn (6mnths)		140	
Cerexagri (0 mnth)			
Total		1147.5	0.0
Prev yr acqn consolidation			
Cequisa			
SWAL		175	
Reposo		354	
Bayer Acqn (6mnth)			802.6
Crop Serve (6mnths)			241
Dupont Acqn (6mnths)			144
Cerexagri (12 mnth)			11410
Total		529	12598
Underlying Revenues		20297	24531
Organic Growth (%)		**13.1**	**11.6**

Source: Company data, Morgan Stanley Research e= Morgan Stanley Research estimates

Europe –Strengthened by Cerexagri Deal

UPL's growth strategy in Europe includes registering existing products across more countries in Europe. We expect the Cerexagri acquisition to strengthen UPL's presence in the European market. In addition, Cerexagri's strong presence in distribution should increase cross-selling opportunities and enhance market penetration of UPL's products. We expect the benefits of the deal to come through only in F08. The growth in the EU market should be driven largely by acquisitions in F07. The company acquired Cequisa, a Spain-based crop protection company with revenues of €19.3mn, in June F06. In F06, Cequisa's financials were consolidated for nine months, so the impact for the full year is likely to contribute to growth in European revenues. We currently forecast revenues in Europe to grow at 20.4% in F07 and 144.8% (consolidation of Cerexagri revenues) in F08, implying organic growth of 2.8% and 5.2%, respectively. Our long-term DCF assumes European revenues grow at a CAGR of 10.2% over F09-18.

Rest of World – Focus on Latin American Markets

UPL's growth strategy in the rest of world is focused on accelerating product registrations as well as acquisition of small and medium-sized companies. UPL expects growth in Rest of World to come from Vietnam, Australia, and Latin American markets. UPL has expanded its presence in the Latin American market through its acquisition of Reposo, Argentina. The company plans to increase its focus on the Brazilian crop protection market (Brazil being among the fastest growing markets in Latin America). However, the farm sector in this market suffers from lower export income due to appreciation of the Brazilian currency. This has influenced farmers' capacity to pay for their cropping inputs. Hence, the company strategy in Brazil involves tying up with existing players for distribution. UPL has around 8-10 registrations pending in the market and expects to get one or two registrations by December. We forecast rest of the world revenues to grow at 31% in F07 and 61% in F08 (organic 5% in F07, 7.2% in F08). We expect the CropServe acquisition and the impact of the full-year consolidation of the Reposo acquisition to contribute to inorganic growth in F07. Our long-term DCF assumes ROW revenues grow at a CAGR of 11.2% over F09-18.

India – Decent Growth in 1H07

UPL's Indian business has registered decent growth in F06, at 28%, driven by a mix of acquisitions, launch of new products, and improvement of product mix, as well as the SWAL acquisition. The impact of full-year consolidation will contribute to the group's inorganic growth in F07. Management had previously guided growth at sub 10% in F07, though UPL has reported robust growth in the Indian market in 1H07 as the group has benefited from synergies in distribution with the SWAL acquisition. UPL's acquisition of SWAL in F06 has also consolidated UPL's position in the Acephate market, where UPL is the largest player. Moreover, management expects the SWAL acquisition will help UPL consolidate its position in the AP crop protection market. While Indian business has been seeing price erosion, UPL has managed to improve its gross margins from 25% around two years back to 30% currently, driven by productivity improvements and better rationalization of the product mix.

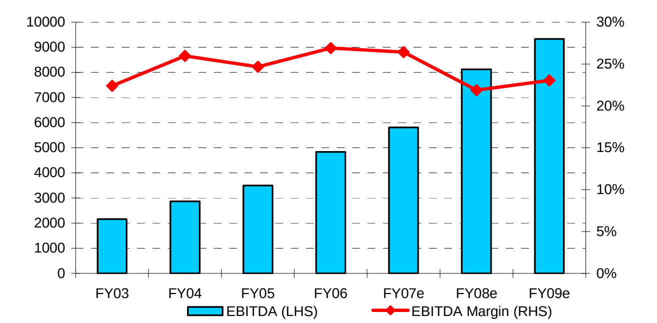
Advanta Acquisition – Not Consolidated

UPL announced the acquisition of Advanta, a leading supplier of seeds and seed technologies, in 4QF06, with (pro forma revenues of around €61mn and EBITDA of around €11mn in F05). Though the company had invested around €100mn in the acquisition, UPL plans to dilute its exposure to 49.9%. According to UPL, the company's exposure to Advanta post restructuring will decrease to around €30-35 mn.

UPL has restructured its holding in Advanta through a series of complex transactions. According to the Draft Red Herring Prospectus, Advanta India plans to issue new shares through a pre issue placement and initial public offering. The company has filed the Draft Herring Prospectus and is currently in the silent period. As UPL's stake in Advanta would be 49.9% post restructuring and IPO, the company plans to retain Advanta as a separate entity and report income from Advanta as income from associates. We have computed our earnings estimates accordingly. We have also assumed Rs2,974mn in cash inflow in F07 from Advanta to UPL post the restructuring and IPO. UPL is in the process of restructuring Advanta, and hence we expect to get better visibility on the tax rate, debt, and interest cost post restructuring once Advanta is listed; we plan to adjust our estimates subsequently. We expect UPL to deploy the cash in future acquisition transactions, in line with its strategy.

Exhibit 47

UPL's EBIDTA Margins



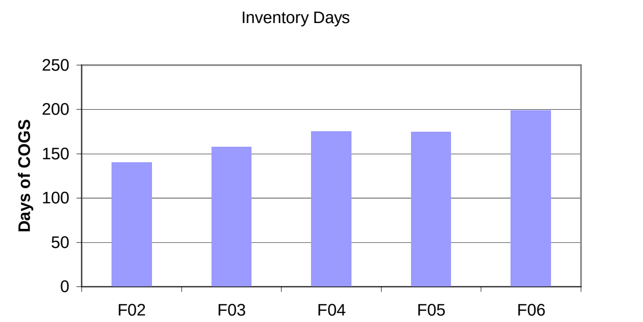
Source: Company data, Morgan Stanley Research e= Morgan Stanley Research estimates

Operating Efficiency Cushion Gross Margin Pressure

Our model forecasts group EBITDA to grow at a CAGR of 24.5% over F06-09. Our forecasts assume a modest decline in gross margins due to competitive pricing and higher raw materials cost. Moreover, consolidation of Cerexagri's lower-margin business will be dilutive to overall group margins. We expect UPL to expand Cerexagri's margins by 250bps in F08. We forecast gross margins to decline from 45.5% in F06 to 40.7% in F08. However, we expect a lower increase in other overheads and the transfer of production of acquired brands to India to offset some of the gross margin pressure. We forecast EBITDA margins to decline from 26.9% in F06 to 26.4% in F07 and 21.9% in F08. Our long-term DCF model assumes average EBITDA margins of 21.9% over F09-18.

Exhibit 48

Inventory Days Have Been Rising



Source: Company data, Morgan Stanley Research

Working Capital and Capital Expenditure

UPL's working capital intensity is increasing as the company expands its regional presence. Inventory carrying days have increased as the company's production base is largely in India and the end-markets spread across regions. The company's inventory days (of cost of sales) have increased from 158 days in F03 to 199 days in F06. We expect the working capital intensity to increase. Management expects the net working capital requirement to be around 100-110 days of sales. We have modeled an increase in inventory and debtor days. In addition to, investment in working capital, we expect UPL to invest in plant and machinery as well as in product registrations around US$20-30mn every year. Our long-term forecast assumes the company invests an average of 1.6% of sales in PPE and around US$12.5mn in product registrations.

Tax Rate – Benefits from Accumulated Losses

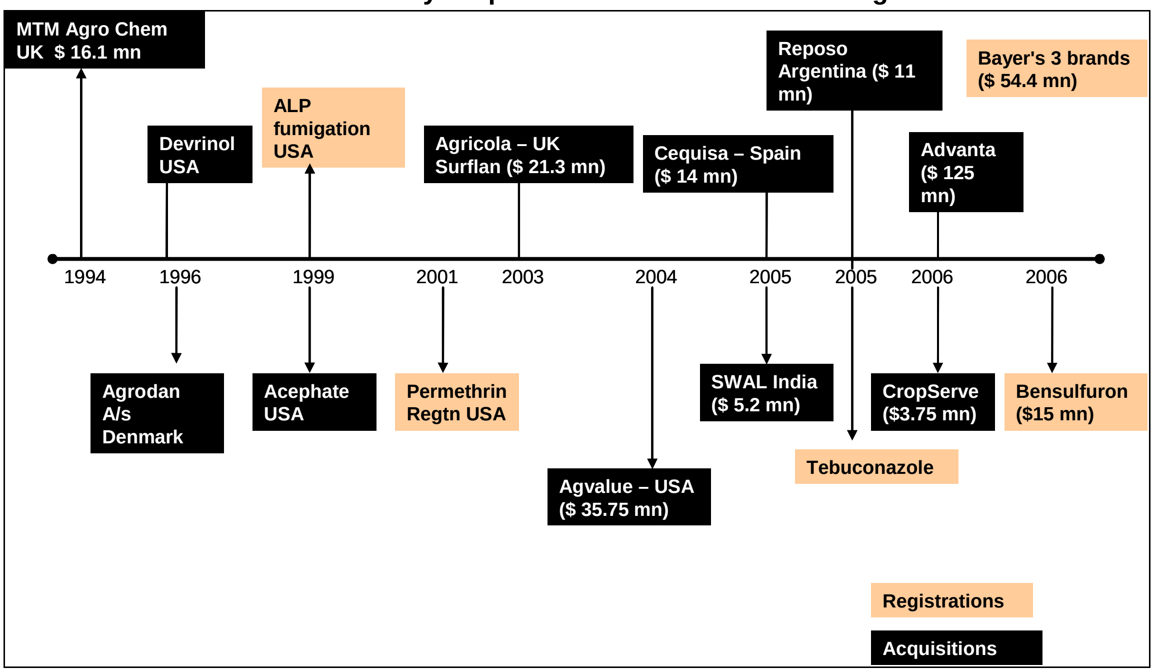
UPL's effective tax rate has been low in the past as it benefits from a tax shield from accumulated losses in SearchChem (its industrial chemical business). In addition, UPL operates through a complex network of subsidiaries, and some of its profitability comes from its subsidiaries based in Mauritius and other places where tax rates are significantly lower. UPL's effective tax rate was 13% in F06 and management has guided to a tax rate of 15-20% in F07. We expect the tax rate to increase as the tax shield ends. However, UPL would continue to benefit from a low tax at some of its subsidiaries. We currently assume a tax rate of 15% in F07 and 16.2% in F08. Our long-term forecast assumes an average tax rate of 20% over F09-18.

Appendix: Company Background

UPL is engaged in the business of agrochemicals and other specialty chemicals; it is the only Indian company having a significant presence in the global generics market (accounting for around 70% of its revenues). The company has grown to its current scale through a spree of acquisitions and regular product registrations in the regulated US and European markets. The company has strategically integrated its acquisitions by transferring the production base to India (lower cost of production compared with the US and European markets).

Exhibit 49

UPL's Growth Has Been Driven by Acquisitions and New Product Registrations



Source: Company data, Morgan Stanley Research

Exhibit 50

History of Acquisitions

Target Co	Parent Company	Product	Sales *	Consideration*	Rationale for Acquisition
Bensulfuron (Sept 06)	DuPont	Herbicide	6	15	• Higher gross margins • Registration rights in more than 30 countries • UPL gets world-wide rights excluding Asia Pacific region
Asulam (Aug 06)	Bayer	Herbicides	34.4	54.4	• Product has presence in highly profitable global markets • UPL gets world-wide rights
Trichlorfon (Aug 06)	Bayer	Insecticides			• gross margins higher than UPL's gross margins • UPL gets world wide rights
ODM (Aug 06)	Bayer	Insecticides			• Non US and non EU rights
Cropserve (S Africa) (2006)		Agrochemicals	10	3.8	• Becomes a 100% subsidiary of UPL (earlier 20%) • Company has presence in multiple geographies • Through CropServe, UPL gets 4% stake in Villa (largest crop protection chemical distributor in South Africa).
Advanta Seeds (2006)	Zeneca Seeds	Seeds	76.3	125	• Has operations in Australia, Asia and South America • Vehicle for UPL's entry into the seeds business
Reposo (S.A.I.C) (2005)	Reposo	Crop Protection	12.5	11.0	• Manufacturing base in Argentina • A debt-free company with more than 30 registrations • Platform for UPL to strengthen and expand its presence in Latin America (fastest growing markets in the world)
SWAL Corp (2005)	Jumbo Group	Agrochemicals	15.8	5.2	• SWAL - oldest domestic player manufacturing formulation and marketing of agrochemicals • Consolidates UPL's position in domestic agrochem market; and increases presence in Maharashtra, Kerala and TN
Cequisa (2005)	Cequisa	Crop Protection	24.6	14.0	• Distributor and registrant of crop protection products in Spain • Company with 400 registrations • Platform to strengthen and expand its presence in southern Europe and northern Africa
AG Value (2004)	AG Value	Crop Protection	20.4	35.8	• California-based crop protection product company • Consolidation of position in North America, a key agricultural and specialty market
Acifluorfen Compound (2003)	BASF	Herbicides	NA	NA	• Presence in soya bean and peanut markets in Brazil • UPL's rationale for acquisition was to consolidate its position in the US, where the products Ultrablazer and Storm offered significant opportunities
Surflam (2003)	Dow	Herbicides	NA	21.3	• Presence in nut, fruit and other specialty crop markets • UPL's rationale for acquisition was to expand margins from 20-25% by shifting manufacturing base to India
Blazer (Acifluorfen)	BASF	Herbicides	15-18	NA	• Bulk of the sales in US • UPL's rationale for acquisition was to expand margins from 20-25% by shifting manufacturing base to India

Source: Company data, Morgan Stanley Research
E=Morgan Stanley Research estimates
* Sales and consideration are in US$ mn

Exhibit 51

Profit & Loss Statement

Year End March 31 (Rs million)	FY06	FY07e	FY08e	FY09e
Revenue from continuing operations	17954	21974	37128	40470
yoy growth %		22.4	69.0	9.0
Operating Costs				
Raw Material Cost	8051	10054	17139	18939
Other Operating Expenses	3329	4142	7866	7916
Staff Costs	1103	1180	2657	2805
Transport charges	641	791	1344	1478
Total Operating Costs	13123	16167	29007	31139
% of Sales	73	74	78	77
EBITDA	4,831	5,807	8,122	9,332
% of Sales	27	26.4	21.9	23
Depreciation and Amortisation	1402	1570	1885	2006
EBIT	3429	4237	6237	7325
% of Sales	19	19	17	18
Interest expense	988.1	966.5	1258.7	1150.7
Interest income	-66	-146	-321	-520
Profit Before Tax	2507	3416	5299	6695
% of Sales	14	16	14	17
Tax	328	512	847	1192
Effective Tax rate (%)	13	15	16	18
Profit After Tax before Advanta income	2179	2905	4453	5503
% of Sales	12	13	12	14
Associate income	0	43	87	123
PAT after associate income	2163	2942	4466	5552
% of Sales	12	13	12	14
Weighted Average Basic Shares	171	187	194	201
Weighted Average Diluted shares	174	201	201	201
ModelWare EPS	11.6	14.7	22.5	27.9

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

Exhibit 52
Cash Flow Statement

(Rs Mln)	FY06	FY07e	FY08e	FY09e
Operating profit before tax	2,507	3,410	5,226	6,621
Add Interest in P&L	740	821	937	631
Depreciation and amortisation	1,402	1,570	1,885	2,006
Other cash flows	(153)	216	0	0
(Incr)/decr in Net Working Capital	(1,969)	(2,407)	(2,777)	(1,126)
Direct tax paid (net)	(219)	(512)	(847)	(1,192)
Interest paid, net	(794)	(821)	(937)	(631)
Total Cash Flow From Operations	1,513	2,278	3,488	6,310
(Incr)/decr of Fixed Assets	(1,452)	(5,390)	(743)	(809)
(Incr)/decr of Investments	(3,862)	0	0	0
Impact of Advanta IPO restructuring	0	2,971	0	0
Purchase of Intangible assets	(1,024)	(4,506)	(606)	(624)
Sundry loans	(710)	0	0	0
Others	45	0	0	25
Total Cash Flow From Investment	(7,003)	(6,924)	(1,348)	(1,409)
Proceeds from issuance of preference capital	(37)	0	0	0
Proceeds from issuance of debt	9,981	6,750	0	(1,350)
Others	(492)	0	0	0
Dividends	(141)	(294)	(447)	(556)
Total Cash Flow From Financing	9,311	6,456	(447)	(1,906)
Net change in cash	3,822	1,810	1,693	2,995

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates
*= F07 includes impact of reduction in loans and advances post Advanta IPO and restructuring

Exhibit 53

Balance Sheet

Year End March 31 (INR million)	FY06	FY07e	FY08e	FY09e
Assets				
Intangible Fixed Assets	4351	7886	7271	6598
Gross Fixed Assets	10,646	16,387	17,029	17,677
Accumulated Depreciation	4,480	5,084	5,723	6,344
Tangible Fixed Assets	6166	11302	11306	11333
Equity Investment in Associates	4584	1656	1743	1841
Investments	2237	2237	2237	2237
Miscellaneous Ex not written off	10	10	10	10
Total Non current assets	17348	23090	22567	22019
Cash and Cash Equivalents	4158	5974	7740	10809
Inventories	5386	7438	12913	14529
Sundry Debtors	4298	6020	10172	11088
Other Current Assets	449	659	1114	1214
Loans and Advances	1423	739	739	739
Total Current Assets	15714	20829	32678	38378
Deferred Tax asset	413	413	413	413
Total Assets	**33475**	**44333**	**55658**	**60809**
Liabilities				
Trade & Other Creditors	3772	4711	8030	8873
Provisions	279	344	617	662
Other Current Liabilities	3861	3543	6358	6825
Total current Liabilities	7912	8598	15004	16360
Debt	12211	19177	15337	13987
Deferred Tax Liability	4	4	4	4
Deferred payment Liability	924	1132	2030	2180
Total Non current Liabilities	13139	20313	17372	16171
Equity shareholders funds	12775	15422	23281	28278
Minority Interest	0	0	0	0
Total Equity & Liabilities	**33826**	**44333**	**55658**	**60809**
Net Debt/(Cash)	8053	13203	7597	3179

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Morgan Stanley
ModelWare℠

ModelWare is Morgan Stanley's new system for helping investors and analysts to uncover value, free from the distortions and ambiguities created by accounting data. Morgan Stanley has dissected and fundamentally redefined the components of corporate valuation, giving clients more consistent definitions, more comparable data, and more flexible analytic tools. ModelWare makes investment insights easier by making value more visible.

Past inconsistencies in financial reporting made it difficult to compare performance among companies and across sectors and regions. Even within US GAAP, flexibility complicates comparisons. And accounting standards were developed to analyze historical data, not to facilitate projections. In response, Morgan Stanley analysts spent two years reviewing our entire coverage universe of company metrics. They defined more than 2,000 general and industry-specific metrics that eliminated inconsistencies stemming from regional differences, historical precedents and accounting conventions. The team applied these metrics across also all 1900+ companies we cover, and created flexible tools and services that let analysts redefine and use the data with maximum creativity. Because ModelWare provides complete transparency, users see every component of every calculation, to choose elements or recombine them as they wish.

ModelWare EPS illustrates the approach. It represents ModelWare EPS as ModelWare net income divided by average fully diluted shares outstanding. ModelWare net income sums net operating profit after tax (NOPAT), net financial income or expense (NFE) and other income or expense. ModelWare adjusts reported net income to improve comparability across companies, sectors and regions. Among these adjustments: We exclude goodwill amortization and items deemed by analysts to be "one-time" events; we capitalize operating leases where their use is significant (e.g., in transportation and retail); and we convert inventory to FIFO accounting when LIFO costing is used. For more information on these adjustments and others, as well as additional background, please see *Morgan Stanley ModelWare (ver. 1.0): A Road Map for Investors*, by Trevor Harris and team, August 2, 2004.

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Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following companies covered in this report: Reliance Industries.

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Global Stock Ratings Distribution

(as of October 31, 2006)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Underweight to hold and sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**801**	**38%**	**309**	**44%**	**39%**
Equal-weight/Hold	**942**	**45%**	**308**	**44%**	**33%**
Underweight/Sell	**345**	**17%**	**78**	**11%**	**23%**
Total	**2,088**		**695**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Industry Coverage:India Chemicals

Company (Ticker)	Rating (as of)	Price (11/21/2006)
Bhaskar Basu, CFA		
United Phosphorus (UNPO.BO)	O (11/22/2006)	Rs280.65
Vinay Jaising		
Reliance Industries (RELI.BO)	O (06/15/2006)	Rs1273.90

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