Research

AGROCHEMICAL SPACE LOOKS BRIGHT

RESEARCH:: COMPANY:: UNITED PHOSPHORUS Ltd

(Mid Cap) *30th June'2010*

Long Term Buy

CMP	181
Target price	236
Potential Upside	30.38%
Projected EPS	14.73
Investment period	6-12 months

Stock Info (TTM Basis)

Sector	Agrochemicals
Market cap	8582.48 Cr
Sales Growth	10.4%
Face value	2.00
Book Value	75
EPS	12.72
52 week H/L	199.45/133
Avg. Daily Vol (2wk)	6.40 lakh
Incorporation	1969
Listed At	BSE
Equity capital	87.91Cr

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United Phosphorus Limited (UPL), incorporated in1969, is a leading global producer of crop protection products, intermediates, specialty chemicals and other industrial chemicals. UPL is present across value added Agri inputs ranging from seeds to crop protection and post harvest activity. It is the largest manufacturer of agrochemicals in India and offers a slew of products that includes insecticides, Fungicides, Herbicides, Fumigants, PGR and Rodenticides. Its customer base is spread across 86 countries, The company ranks amongst the top 5 post- patent agrochemical manufacturers in the world.

Key Investment Rationale

- **United Phosphorus (UPL) has purchased global non-mixture mancozeb fungicide business and related assets from DuPont, including existing inventory, manufacturing and formulation production facilities in Barranquilla, Colombia.**

- **The company is exploring inorganic growth opportunity aggressively as it has excellent capacity to address inorganic growth opportunity due to reduced debt and improved operational cash flow.**

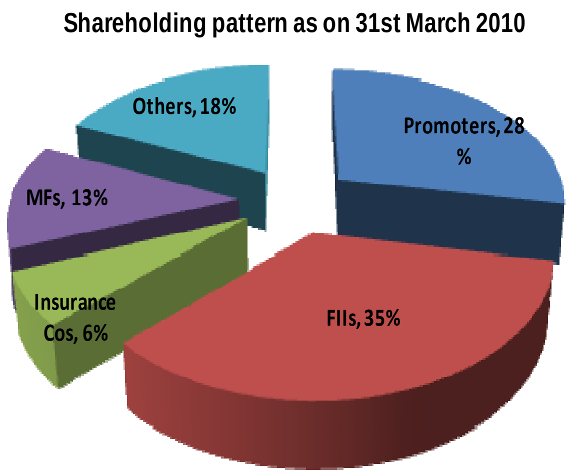
Future Outlook

At the current price of 181, the stock is trading at a P/E of 12.28x of estimated FY11 earnings. We thus recommend a 'BUY' with a target price of 236

Particulars (in Cr)	FY09	FY10	FY11*
Total Income	4993.45	5513.32	6025
% Change	31.96	10.41	9.28
PBIDT	996.58	1025.41	1174.8
% Change	54.63	2.89	14.5
APAT	494.65	558.75	647
% Change	214.68	12.9	15.79
AEPS	11.26	12.72	14.73
P/E	9.66	11.81	12.28
P/BV	1.66	2.54	2.3
Equity	87.91	87.91	87.91

Source Company Reports, Fairwealth Research Estimate **(consolidated)**
**Estimated*

Company Profile



The promoters have increased their holding from 21.36% at the end of FY09 to 27% at the end of FY10. The FII Holding has been constant

United Phosphorus Limited is a global generic crop protection, chemicals and seeds company with its headquarters in India (Mumbai). UPL along with the group company is listed on the Indian stock exchange, with a combined market capitalization of approx $2.5 billion.

The company ranks amongst the top 5 post-patent agrochemical manufacturers in the world.

United Phosphorus Limited has its own subsidiary offices in Argentina, Australia, Bangladesh, Brazil, China, Canada, Denmark, Indonesia, France, Hong Kong, Japan, Korea, Mauritius, Mexico, New Zealand , Russia, Spain, Taiwan, South Africa, USA, UK, Vietnam & Zambia.

PRODUCT CATEGORIES

Agrochemicals

- **Beet Up contact**
- **Chlorban**
- **Copter**
- **Cyrux**

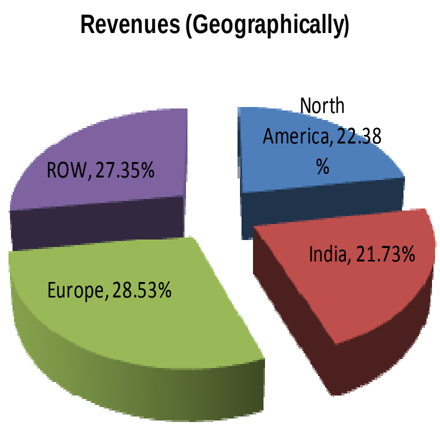
Speciality Chemicals

- **Phosphorus Red (RXP)**
- **Triethyl Phosphite (TEPI)**
- **2-Hydroxy Quinoxaline (2-HQ)**
- **Phosphorus Trichloride (PTC)**

Industrial Chemicals

- **Phosphorus Trichloride (PTC)**
- **Phosphorus Pentasulphide (PPS)**
- **Phosphorus Oxychloride (POC)**
- **Triethyl Phosphite (TEP)**

Revenues By Geography



During the full year ended March 2010 the contribution from Europe was the highest at 28.53%, North America contributed 22.38, India 21.73% and Rest of the world 27.35%. In FY10, North American Business grew 5% to1234 crore while the Indian business expanded16% to Rs 1198 crore. Revenue from the European business was down to Rs 1573 crore while Rest of the World market revenue grew 26% to Rs 1490 crore

Quarterly Results:

Particulars (in Cr)	Mar 10	Mar 09	Var Y-o-Y	Dec 09	Var QoQ
Net Sales	1445.86	1351.2	7.01%	1111.18	30.12%
Other Income	23.26	11.36	104.75%	8.29	180.58%
Other Operating Income	70.09	40.52	72.98%	38.5	82.05%
Total Income	1539.21	1403.08	9.70%	1157.97	32.92%
Total Expenditure	1241.2	1108.77	11.94%	955.52	29.90%
PBIDT	298.01	294.31	1.26%	202.45	47.20%
Interest	35.98	87.51	-58.88%	59.57	-39.60%
PBDT	262.03	206.8	26.71%	142.88	83.39%
Depreciation	55.79	63.79	-12.54%	54.08	3.16%
PBT	206.24	143.01	44.21%	88.8	132.25%
Tax	13.39	3.78	254.23%	24.7	-45.79%
Fringe Benefit Tax	-	1.63	0.00%	-	0.00%
Deferred Tax	-	-13.16	0.00%	-	0.00%
PAT	192.85	150.76	27.92%	64.1	200.86%
Profit After Tax	219.55	64.1	242.51%	176.28	24.55%
EPS	4.99488	1.45831	242.51%	4.01047	24.55%
CEPS	6.26413	2.90957	115.29%	5.24081	19.53%
OPM	20.61%	21.78%	_	18.22%	_
NPM	13.34%	11.16%	_	5.77%	_

Improved performance from the Indian and the Latin American market enabled the company to post decent top-line growth during the quarter ended March 2010. The total income appreciated by 9.7% YoY to Rs. 1539 crore. However the restructuring of the overseas units besides the bleak performance in the American and the European market continued to exert pressure on the overall performance.

Although the price has stabilized recently, the overall raw material cost continued to remain high thus denting the OPM by nearly 120 bps to 20.61%.. The consolidated other income increased to Rs 5.54 crore. Significantly lower interest cost and depreciation allowance, which fell by 59% and 13% respectively, resulted in the consolidated profit before tax before EO posting an impressive 44% growth to Rs 206.24 crore.

Financials of the Company

Past 5 year Performance

Particulars (in Cr.)	201003	200903	200803	200703	200603
Net Sales	5290.04	4802.12	3515.52	2449.76	1795.37
Other Income	53.04	61.79	53.3	45.33	6.59
Other Operating Income	170.24	129.54	215.06	-	-
Total Income	5513.32	4993.45	3783.88	2495.09	1801.96
Total Expenditure	4487.91	3996.87	3139.4	1890.33	1312.26
PBIDT	1025.41	996.58	644.48	604.76	489.7
Interest	193.79	291.89	168.82	104.61	98.81
PBDT	831.62	704.69	475.66	500.15	390.89
Depreciation	214.7	192.68	152.22	165.57	140.2
PBT	616.92	512.01	323.44	334.58	250.69
Tax	81.35	25.77	14.13	13.08	8.08
Fringe Benefit Tax	-	3.08	1.98	2.2	2.63
Deferred Tax	-	-1.93	26.26	37.22	22.05
Profit After Tax	535.57	485.09	281.07	282.08	217.93
Extra-ordinary Items	-23.18	-9.56	-100.08	-6.49	-
Adjusted Profit	558.75	494.65	381.15	288.57	217.93
EPS (Unit Curr.)	11.97	10.37	12.8	13.93	11.64
CEPS	17.06	15.41	19.72	23.8	19.1
OPM (%)	19.38	20.75	18.33	24.69	27.28
NPM (%)	10.12	10.1	8	11.51	12.14

The revenue of the Company has grown at a CAGR of 26% over the last 5 years. The consolidated revenue during FY10 period increased 10.1%to Rs 5513.32 crore in comparison to Rs.4993.45cr in the FY09. However the raw material cost remained higher at 54% of net adjusted sales, which was 400 bps higher compared to the previous fiscal, thus decreasing the OPM marginally by nearly 135 bps to 19.38%. The interest cost fell by 34% to Rs 193.79 crore whereas the depreciation allowance increased 11% to Rs 214.70 crore.

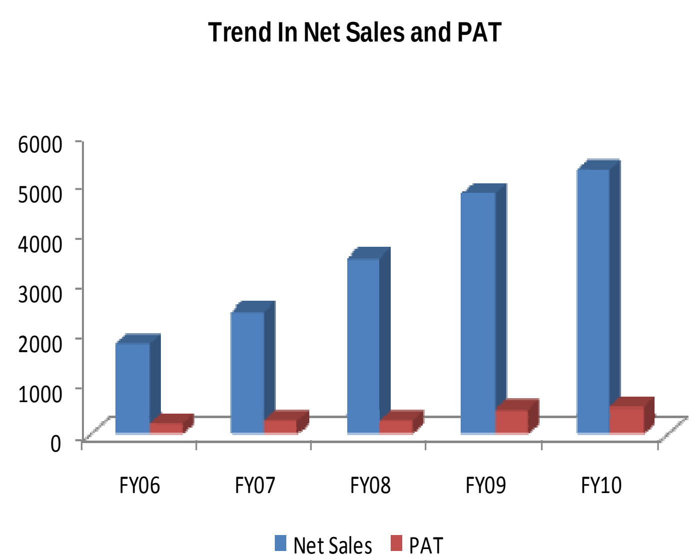
The bottom line of the company grew by 10.4% to Rs.535.57crore in Y10 as against Rs.485.09crore in FY09.

The EPS for FY10 stood at Rs.11.97 in comparison to Rs.10.37 in FY09.

BALANCE SHEET

Particulars (in Cr)	200903	200803	200703	200603	200503	200403
Total Shareholders' Funds	2672.96	2237.96	1495.36	1277.46	786.66	488.13
Minority Interest	9.54	5.98	4.89	0.04	6.21	5.25
Secured Loans	457.35	233.49	342.84	435.41	379.06	489.84
Unsecured Loans	1676.8	1421	1685.87	869.79	280.6	180.78
Total Debt	2134.15	1654.49	2028.71	1305.2	659.66	670.62
Total Liabilities	4816.65	3898.43	3528.96	2582.7	1452.53	1164
Net Block	1725.47	1457.54	1798.37	1051.74	938.27	700.12
Capital Work in Progress	123.88	141.76	75.25	35.1	38.02	19.96
Investments	433.24	742.95	390.96	223.7	10.82	9.75
Net Current Assets	2491.34	1524.52	1266.49	1230.24	404.42	357.08
Net Deferred Tax	42.72	31.19	-2.76	40.92	59.03	72.22
Total Assets	4816.65	3898.43	3528.96	2582.7	1452.53	1164

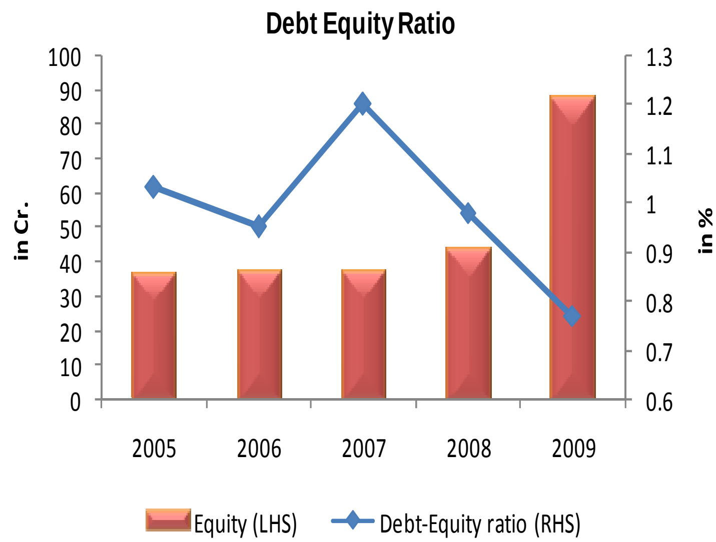
Net Sales And PAT



The top line of the company has consistently increased in the previous 5 years. The consolidated revenue during FY10 increased 10.1% to Rs 5513.32 crore primarily driven by excellent performance of the domestic as well as the Latin American operations.

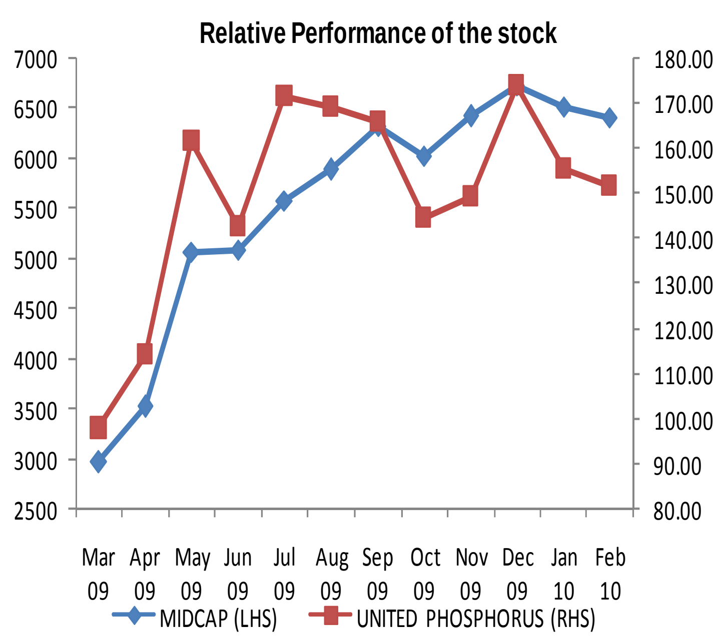
PAT grew by 10.36% from 485.09 Cr. in FY09 to 535.37 in FY10

UPL dilutes equity to fund its inorganic growth plans



The debt-equity ratio of the company has been continuously decreasing since 2007. It decreased from 1.2 in 2007 to 0.77 in 2009. There was a huge equity dilution in FY09 to fund the organization's inorganic growth plans. The equity at the end of FY09 stood at 87.91 crore , up from 43.93 crore in FY08. A lower debt in the company's balance sheet will result in lower interest cost thereby increasing the PBT

Comparison of UPL with BSE MIDCAP index



The share price has moved in line with BSE Midcap Index. The stock showed a steep upward movement during the period March 2009 to May 2009. The current performance of the stock has been decent.

Why to invest in shares of United Phosphorus Ltd?

SECTOR

Agrochemicals are classified as Insecticides, Herbicides and Fungicides. Global Agrichemical industry has grown at an average 7.1% over CY2001-08 to US $41.7 billion. For CY2008, the industry registered outstanding growth of 25% Y-o-Y on the back of volume growth and increase in price. On the other hand, the Indian Agrichemical Industry was estimated at around US$1 billion i.e. Rs 5,000 crore at the end of FY2009. In FY2009, overall industry witnessed marginal volume decline, but saw a price increase of 10-12%.

North America, with a share of 26% in total consumption, is the largest consumer of agrichemicals globally. The Asia-Pacific and EU regions consume almost the same amount of agrichemicals. India's consumption of agrichemical is one of the lowest in the world, standing at 0.48kg per hectare. This compares very poorly with other countries that have less arable land under coverage. For instance, countries like Taiwan, Japan, Holland and Korea have higher consumption than India. We believe this
highlights the under usage of agrochemicals by Indian farmers and unexploited opportunity at bay for the agrochemical companies. India produces approximately 16% of the world's total food grain production and uses only around 2% of pesticides.

Agriculture accounts for 18%ofsize of Indian economy. The Agrochemical industry's size is estimated at US$1bn (Rs 5,000 crore) i.e. 0.1% of the country's total GDP and 0.6% of the Agriculture GDP. This demonstrate the gross under penetration of agrochemical and the opportunity that is available to the companies in the Sector.

Agrochemicals have high entry barriers and are protected by patents to encourage innovation similar to the Pharmaceutical industry. Going ahead, many molecules are likely to go off patent throwing the market open for generic players. As per estimates, total likely available opportunity through patent expiry stands at US $3.6 billion.

COMPANY

- UPL has 21 manufacturing sites (9 in India ,4 in France, 2 in Spain, 1 each in UK, Vietnam, Argentina Netherlands, Italy, China) having close support from on-site technical services and quality control.

- UPL is one of the world's few companies to manufacture complex organo-phosphorus compounds starting from the basic raw material, rock phosphate ore .This strategy has now been extended to other products, the most recent being an integrated caustic chlorine plant using the latest membrane technology, creating basic building blocks for agrochemicals and specialty chemicals.

- Capability in applied R&D is one of UPL's major corporate strengths. R&D strategy is to continue to invest in innovative formulations that are environment and user friendly, which are essential to the growth of agro chemical companies

- Substantial investment to maintain and improve high standards of environmental careAll the units are certified under the ISO 9001 for quality assurance, 14001 for Environment Pollution Control norms and OHSAS.

FUNDAMENTALS

- United phosphorus is trading at a P/E of 11.81. The industry P/E is 23.08.
- The capital expenditure for the current fiscal is Rs 200 crore.
- UPL's quality control (QC) approach is based on the clear target of "Zero Defect". Each stage of production from raw material sourcing, through manufacturing to post-production are closely monitored.

Key Concerns

Currency Fluctuation: UPL obtains a major part of its revenues from its overseas operations. Hence it runs the risk of rupee appreciation

Dependent on Monsoons: Since UPL caters to the agriculture industry, monsoons play a very crucial role. Any delay in the monsoons may affect the demand.

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