MOTILAL OSWAL

United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,131	UNTP IN
	REUTERS CODE
S&P CNX: 3,805	UNPO.BO

Equity Shares (m)	187.2
52-Week Range (Rs)	315/199
1,6,12 Rel. Perf. (%)	15/4/-16
M.Cap. (Rs b)	55.7
M.Cap. (US$ b)	1.2

3 Novemeber 2006

Buy

Previous Recommendation: Buy

Rs298

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/06A	18,020	2,163	10.7	18.9	27.8	4.4	21.0	17.8	3.4	12.6
03/07E	21,352	2,913	14.4	34.7	20.6	3.6	20.7	16.8	2.6	9.6
03/08E	24,512	3,739	18.5	28.3	16.1	3.0	21.8	18.4	2.2	7.7

* Excluding Advanta

United Phosphorus' 2QFY07 results are marginally better than estimates with margin at 26%. Results are not strictly comparable as they are consolidated for acquisitions of Reposo (Nov'05). Revenues from the products acquired from Bayer and DuPont would be consolidated only from 3QFY07 onwards, and hence were not reflected in 2QFY07 results.

- Revenues grew 18% YoY to Rs5.17b was primarily driven by 18.6% growth in domestic business (to Rs2b) and 17.6% growth in international business. International business growth was driven by US business (up 19.3% to Rs1.4b) and RoW business (up 18.8% to Rs1b). However, EU business reported slower growth at 13.1% Rs724m.
- EBITDA margins expanded marginally by 30bp to 26%. Also, lower tax provisioning (13% of PBT v/s 16% in 2FY06) boosted net profit growth to 39% to Rs656m
- The management has maintained its earlier guidance for FY07E of sales growth of 15-20% and PAT growth of 35-40%. For FY08, the management has guided for revenue growth of 15% and PAT growth of 30-35%.
- We are revising our FY07 and FY08 EPS (fully diluted) estimates upwards by 2.3% (to Rs14.4) and 15% (to Rs18.5), to factor in for recent product acquisitions (from Bayer and DuPont). Our estimates do not factor in UPLs share of profits in Advanta and contribution from Ishihara Sangyo Kaisha (ISK) tie-up.

UPL is well placed to pursue its growth plans through inorganic route, without further equity dilution, by monetizing part of its investment in Advanta (~Rs3b) and strong financials (FY07E: 0.6x leverage and Rs4.5b cash profits). Valuations, at 20.6x FY07E and 16.1x FY08E consolidate fully diluted EPS, do not reflect any upsides from potential acquisitions and upside from Advanta (associates share of profits). Maintain **Buy** with target price of Rs333.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenues	**4,075**	**4,381**	**3,847**	**5,717**	**4,804**	**5,169**	**4,762**	**6,617**	**18,020**	**21,352**
YoY Change (%)	*21.3*	*22.7*	*26.3*	*34.5*	*17.9*	*18.0*	*23.8*	*15.7*	*26.7*	*18.5*
Total Expenditure	3,055	3,255	2,914	3,899	3,589	3,824	3,631	4,438	13,123	15,482
EBITDA	**1,020**	**1,126**	**933**	**1,818**	**1,215**	**1,345**	**1,131**	**2,179**	**4,897**	**5,870**
Margins (%)	*25.0*	*25.7*	*24.2*	*31.8*	*25.3*	*26.0*	*23.8*	*32.9*	*27.2*	*27.5*
Depreciation	326	353	351	373	360	370	395	352	1,402	1,478
Interest	230	212	206	340	241	219	200	219	988	879
PBT after EO Expense	**464**	**561**	**376**	**1,106**	**614**	**755**	**536**	**1,608**	**2,507**	**3,513**
Tax	5	22	44	17	22	4	70	325	107	422
Deferred Tax	75	68	100	-23	51	94	27	-14	221	158
Rate (%)	*17.2*	*16.0*	*38.5*	*-0.5*	*12.0*	*13.1*	*18.0*	*19.3*	*13.1*	*16.5*
Reported PAT	**384**	**472**	**231**	**1,111**	**541**	**656**	**440**	**1,297**	**2,179**	**2,933**
Adjusted PAT	**384**	**472**	**231**	**1,111**	**541**	**656**	**440**	**1,297**	**2,179**	**2,933**
YoY Change (%)	78.4	50.9	53.8	24.3	40.8	39.1	90.0	16.8	38.6	34.6
Margins (%)	*9.4*	*10.8*	*6.0*	*19.4*	*11.3*	*12.7*	*9.2*	*19.6*	*12.1*	*13.7*

E: MOSt Estimates

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All round performance drives revenue growth

Consolidated revenues for 2QFY07 grew 18% YoY to Rs5.17b, primarily driven by 18.6% growth in domestic business (to Rs2b) and 17.6% growth in international business. These results are not strictly comparable as they are consolidated for acquisitions of Reposo (Nov'05). Revenues from the products acquired from Bayer and DuPont would be consolidated only from 3QFY07 onwards, and hence were not reflected in 2QFY07 results. However, on like-to-like basis, growth would be in region of 15%.

International business growth was driven by US business (up 19.3% to Rs1.4b) and RoW business (up 18.8% to Rs1b). However, EU business reported slower growth at 13.1% Rs724m. The growth in international business would have been higher but for lower growth in US business. US business was impacted in 1HFY07 due to adverse climate (hot and dry). However, the management is hopeful of achieving growth of 17-20% for FY07, based on 2 more product launches during the year (in addition to 1 launch in 1QFY07) and contribution from products acquired from Bayer (3) and DuPont (1).

TREND IN MARKET-MIX (RS M)

	2QFY07	2QFY06	YOY (%)	1QFY07	QOQ (%)
Domestic Business	2,016	1,700	18.6	1,290	56.3
Contribution(%)	*39.0*	*38.8*		*26.9*	
International Business					
US	1,396	1,170	19.3	1,590	-12.2
Contribution(%)	*27.0*	*26.7*		*33.2*	
EU	724	640	13.1	1,180	-38.7
Contribution(%)	*14.0*	*14.6*		*24.6*	
RoW	1,034	870	18.8	730	41.6
Contribution(%)	*20.0*	*19.9*		*15.2*	
Total International Rev.	3,153	2,680	17.6	3,500	-9.9
Contribution(%)	*61.0*	*61.2*		*73.1*	
Total	**5,169**	**4,380**	**18.0**	**4,790**	**7.9**

Source: Company/ Motilal Oswal Securities

Tighter cost control leads to stable margins

Gross margins for the quarter improved by 100bp to 42%. However, increase in fixed costs, due to setting-up of new subsidiary and entering into new market, resulted in EBITDA margins expansion of only 30bp to 26%. However, lower tax provisioning (13% of PBT v/s 16% in 2QFY06) boosted net profit growth to 39% to Rs656m.

Acquires three product from Bayer

United Phosphorus acquired three products from Bayer CropScience for EUR43.5m (US$55.8m) including inventories worth EUR3m. The agreement covers three products viz Asulam (herbicide), Oxydementon (insecticide) and Trichlorofon (insecticide). Bayer has retained certain rights related to non-agricultural applications in strategic markets.

These 3 products have sales of around EUR25-37m and enjoy gross margins of around 45%. This acquisition would be funded through its recent US$150m FCCB issue. UPL would continue sourcing these products from Bayer as it would take around 15-18 months for site transfer and other regulatory process. This acquisition further strengthens UPL's product basket. Also, UPL would be able to leverage its India advantage by shifting production of these products to India in 15-18 months, thereby improving the gross margins on these products by 500-1,000bp.

Acquires a herbicide from DuPont

UPL has entered into an agreement with DuPont, for purchase of Bensulfuron-methyl business including Londax® herbicide and all its mixtures for US$15m. Bensulfuron-methyl (~US$6m revenue excl Asia-Pacfic) is a low volume high margin (~75-80% gross margin) product which has been sold for nearly 20 years. The deal is valued at around 2.5x EV/Sales and 3.3x EV/EBITDA. UPL would get worldwide rights excluding the Asia Pacific region. DuPont has registrations for this product for around 35 countries. Although UPL does not have right for Asia-Pacific (which covers around 75% of global rice cultivation area), it intends to promote the use of this herbicide in aquatic application aswell.

UPL would source this product from DuPont (as DuPont would continue to manufacture it for sale in AsiaPac) as it is a low volume (~6-7ton p.a) and entails lots of safety precaution. Hence, we do not forsee any improvement in margins by bringing production of this product to India.

Ishihara Sangyo Kaisha tie-up - long term positive

UPL entered into an agreement with Ishihara Sangyo Kaisha (ISK) for the production of two agrochemicals developed by ISK and is also exploring the possible business alliance of distribution in India and certain other countries.

Also, ISK, UPL, and Mitsui have a plan to establish a joint venture for the development, registration and distribution of ISK products in India. Further, UPL is in discussion about the possible co-operation in the countries other than India. Mitsui would be have minority stake as it would be just a trading partner.

ISK is a chemical company (~US$700m revenues), with more than 90% of the agrochemical sales (~US$350m) coming from their proprietary products. ISK is focused on Japanese market and has tie-up with other players for other markets.

With this venture, ISK will be able to access the manufacturing base as well as domestic marketing network of UPL. Also, this alliance gives UPL access to new patented chemistries of ISK, which can be leveraged by the global distribution network of UPL. UPL would also benefit from getting access to ISKs patented product basket for other markets.

Revising estimates

We are revising our FY07 and FY08 EPS (fully diluted) estimates upwards by 2.3% (to Rs14.4) and 15% (to Rs18.5), to factor in for recent product acquisitions (from Bayer and DuPont). Our estimates do not factor in UPLs share of profits in Advanta and contribution from Ishihara Sangyo Kaisha (ISK) tie-up.

REVISED FORECAST (RS M)

	FY07E			FY08E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	21,352	21,587	-1.1	24,512	23,412	4.7
Net Profit	2,913	2,857	2.0	3,739	3,246	15.2
EPS (Rs)	14.4	14.1	2.3	18.5	16.1	15.0

Source: Company/ Motilal Oswal Securities

Guidance for FY07 and FY08

The management maintained guidance of 15-20% sales growth and 35-40% PAT growth. The sales growth would be driven by 17-20% growth in US business, 13% in Europe business and 15% growth in RoW business. The management is confident of achieving 17-20% growth in US business, despite subdued performance in 1HFY07, based on 2 more product launches during the year (in addition to 1 launch in 1QFY07) and contribution from products acquired from Bayer (3) and DuPont (1).

For FY08, the management has guided for revenue growth of 15%, with stable EBITDA margins and PAT growth of 30-35%.

Robust product pipeline for regulated market

While UPL has filed for four products in 1HFY07, it launched 1 product (and 1 product launched by end of 4QFY06) in 1HFY07 and expects to launch two products in 2HFY07. Also, the company plans to launch three more products in US in FY08 and around 14-15 over next 3 years with addressable market of US$2.5-2.7b.

Merger of promoter's seeds business into Advanta before IPO

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

Promoters have merged their private seeds business (USBPL) with Advanta, with share swap of 7 shares of Advanta for every 4 share of USBPL, resulting in promoter's stake of 20% post-IPO (~28.7% pre-IPO). USBPL expects to have revenue of Rs350-400m for FY07 led by launch of Bt Cotton seeds (expected to garner revenue of Rs150m), with EBITDA margins of around 40-45%. The merged entity would have presence across all major crops and vegetable seeds. Post-merger and IPO, UPLs stake in Advanta would fall to 49.9%, with promoters holding 20% and balance with public.

Strong growth; fair valuations

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

While acquisition of four products would considerably strengthen UPLs' product basket, alliance with ISK is a long-term positive as it gives access to patented product to UPLs' basket, and enhances UPLs position as a leading generic player in the global crop protection industry. UPL is well placed to pursue its growth plans through inorganic route, without further equity dilution, by monetizing part of its investment in Advanta (~Rs3b) and strong financials (FY07E: 0.6x leverage and Rs4.5b cash profits). Valuations, at 20.6x FY07E and 16.1x FY08E consolidate fully diluted EPS, do not reflect any upsides from potential acquisitions and upside from Advanta (associates share of profits). We are upgrading our target price, in line with earnings upgrade, to Rs333 (~18x FY08E EPS). Maintain **Buy**.

United Phosphorus: an investment profile

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

Key investment argument

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

Key investment risks

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

Recent developments

- Acquired three products from Bayer and one product from DuPont
- Entered into broad tie-up with Ishihara Sangyo Kaisha, covering manufacturing and product distribution in India and potentially in other markets

Valuation and view

- Has emerged as a truly global player and is just at the beginning of an exciting growth phase
- Valuations of 20.6xFY07E and 16.1x FY08E EPS (fully diluted) does not fully reflect the strong growth potential and any upsides from potential acquisitions. Maintain **Buy** with price target of Rs333.

Sector view

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

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	15.6	16.4	-4.8
FY08	20.0	20.7	-3.2

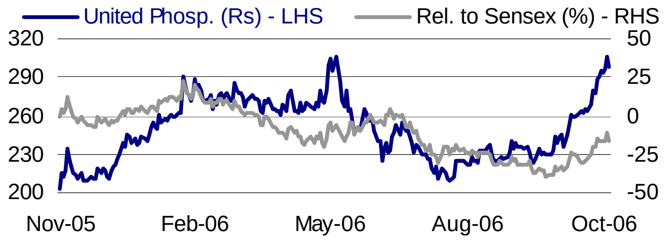
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
298	333	11.7	Buy

SHAREHOLDING PATTERN (%)

	SEP.06	JUN.06	SEP.05
Promoter	29.6	29.6	32.6
Domestic Inst	16.9	19.8	21.6
Foreign	40.1	35.6	33.1
Others	13.4	15.0	12.7

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED INCOME STATEMENT (Rs Million)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Revenue	**14,226**	**18,020**	**21,352**	**24,512**	**27,468**
Change (%)	*28.3*	*26.7*	*18.5*	*14.8*	*12.1*
Total Expenditure	10,667	13,123	15,482	17,674	19,703
EBITDA	**3,559**	**4,897**	**5,870**	**6,837**	**7,765**
Margin (%)	*25.0*	*27.2*	*27.5*	*27.9*	*28.3*
Depreciation	978	1,402	1,478	1,528	1,593
EBIT	2,581	3,495	4,392	5,310	6,172
Int. and Finance Charges	838	988	879	754	736
PBT before EO Expense	**1,742**	**2,507**	**3,513**	**4,556**	**5,437**
EO Expense/(Income)	0	0	0	0	0
PBT after EO Expense	1,742	2,507	3,513	4,556	5,437
Tax	170	328	580	797	1,087
Tax Rate (%)	*9.8*	*13.1*	*16.5*	*17.5*	*20.0*
Profit after Tax	**1,572**	**2,179**	**2,933**	**3,759**	**4,349**
Less: Minority Interest	12	17	20	20	11
Reported PAT	**1,560**	**2,163**	**2,913**	**3,739**	**4,338**
Adjusted PAT	**1,560**	**2,163**	**2,913**	**3,739**	**4,338**
Change (%)	*34.9*	*38.6*	*34.7*	*28.3*	*16.0*
Margin (%)	*11.0*	*12.0*	*13.6*	*15.3*	*15.8*

CONSOLIDATED BALANCE SHEET (Rs Million)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Equity Share Capital	331	374	374	374	374
Preference Share Capital	38	1	1	1	1
Reserves & Surplus	7,497	12,399	15,032	18,452	22,429
Net Worth	**7,867**	**12,775**	**15,407**	**18,828**	**22,805**
Minority Interest	62	0	14	29	45
Total Loans	6,006	12,643	11,407	12,077	11,772
Capital Employed	**13,935**	**25,418**	**26,829**	**30,934**	**34,622**
Gross Block	13,804	14,997	15,472	16,023	16,824
Less: Accum. Deprn.	4,422	4,480	5,958	7,485	9,078
Net Fixed Assets	**9,383**	**10,517**	**9,515**	**8,538**	**7,746**
Capital WIP	380	351	100	150	200
Investments	108	2,237	2,237	2,237	2,237
Curr. Assets	**9,368**	**20,298**	**23,662**	**30,103**	**35,171**
Inventory	3,966	5,386	6,524	7,490	8,393
Account Receivables	3,637	4,298	5,486	6,298	7,058
Cash and Bank Balance	336	4,158	8,389	12,570	16,210
Other CA	1,429	6,456	3,262	3,745	3,510
Curr. Liability & Prov.	**5,324**	**7,995**	**8,695**	**10,104**	**10,742**
Account Payables	5,134	7,716	8,007	9,192	9,538
Provisions	190	279	688	912	1,205
Net Current Assets	**4,044**	**12,302**	**14,967**	**19,999**	**24,429**
Misc Expenditure	20	10	10	10	10
Appl. of Funds	**13,935**	**25,418**	**26,829**	**30,934**	**34,622**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2008E
Basic (Rs)					
EPS	**9.4**	**11.6**	**15.6**	**20.0**	**23.2**
Fully diluted EPS	**9.0**	**10.7**	**14.4**	**18.5**	**21.5**
Cash EPS	15.3	19.0	23.5	28.1	31.7
BV/Share	47.2	68.2	82.3	100.5	121.8
DPS	0.7	1.0	1.3	1.5	1.7
Payout (%)	10.7	10.0	9.1	8.5	8.3
Valuation (x)					
P/E	33.0	27.8	20.6	16.1	13.9
Cash P/E	19.4	15.6	12.7	10.6	9.4
P/BV	6.3	4.4	3.6	3.0	2.4
EV/Sales	4.3	3.4	2.6	2.2	1.8
EV/EBITDA	17.2	12.6	9.6	7.7	6.3
Dividend Yield (%)	0.2	0.3	0.4	0.5	0.6
Return Ratios (%)					
RoE	24.5	21.0	20.7	21.8	20.8
RoCE	20.9	17.8	16.8	18.4	18.9
Working Capital Ratios					
Asset Turnover (x)	1.0	0.7	0.8	0.8	0.8
Debtor (Days)	93	87	94	94	94
Inventory (Days)	102	109	112	112	112
Leverage Ratio					
Debt/Equity (x)	0.8	1.0	0.7	0.6	0.5

CONSOLIDATED CASH FLOW STATEMENT (Rs Million)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Profit/(Loss) before Tax	2,614	3,857	4,991	6,084	7,030
Direct Taxes Paid	-65	-219	-580	-797	-1,087
(Inc)/Dec in WC	-561	-1,969	1,567	-851	-789
CF from Operations	**1,988**	**1,669**	**5,978**	**4,435**	**5,153**
EO Expense	139	156	0	0	0
CF from Operating incl EC	**1,849**	**1,513**	**5,978**	**4,435**	**5,153**
(Inc)/Dec in FA	-3,729	-2,475	-224	-601	-851
(Pur)/Sale of Investments	123	-4,527	0	0	0
CF from Investments	**-3,606**	**-7,003**	**-224**	**-601**	**-851**
Issue of Shares	1,620	2,895	0	0	0
(Inc)/Dec in Debt	379	6,578	-1,095	853	-122
Dividend Paid	-161	-161	-266	-319	-362
CF from Fin. Activity	**1,837**	**9,311**	**-1,361**	**533**	**-484**
Inc/Dec of Cash	**80**	**3,822**	**4,392**	**4,368**	**3,818**
Add: Beginning Balance	256	336	4,158	8,389	12,570
Closing Balance	**336**	**4,158**	**8,550**	**12,756**	**16,387**

E: MOSt Estimates

N O T E S

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