

July 26, 2011

Reco BUY	Previous Reco BUY
CMP Rs157	Target Price Rs215

EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,575
Sensex	18,518

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(3)	1	(12)
Rel. to Sensex	4	2	3	(15)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri-input & Chemicals
Bloomberg	UNTP@IN
Equity Capital (Rs mn)	922
Face Value(Rs)	2
No of shares o/s (mn)	461
52 Week H/L	220/126
Market Cap (Rs bn/USD mn)	72/1,628
Daily Avg Volume (No of sh)	333865
Daily Avg Turnover (US\$m)	1.2

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	27.8	26.6	26.6
FII/NRI	37.1	37.7	38.0
Institutions	18.0	17.2	17.1
Private Corp	9.9	11.2	11.4
Public	7.2	7.3	7.0

Source: Capitaline

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- UPL announced acquisition of 51% stake in DVA Agro Brazil for \$150mn from its parent DVA Agro
- DVA Agro Brazil operates in Brazilian agrochemical market across the segments with revenues of \$130mn in CY2010
- We understand that DVA margins are slightly lower than UPL's (19%) however with debt free (only working capital) status it expected to be EPS accretive for UPL
- Acquisition (2nd in last six months) to strengthen UPL's foothold in fast growing Brazilian agchem market. We believe this to be favourable for UPL and reiterate BUY

UPL acquires 51% stake in DVA Agro Do Brasil for \$150mn

UPL has acquired 51% stake in DVA Agro Do Brasil (DVA Agro Brazil) for \$150mn. UPL has acquired this 51% stake from DVA Group, Germany and other shareholders while the remaining 49% stake will continue to be held by the existing shareholders. UPL plans to finance the acquisition through cash held in its Balance Sheet.

DVA Agro Brasil produces, markets, sells and distributes crop protection products and specialties in the Brazilian agrochemicals market. The company is a group entity of the DVA Group, Germany and was established in 2005. It has been growing rapidly over the last few years and generated revenues of \$130mn in CY2010. DVA Brazil has minimal debt on its books and is wholly equity funded.

Aggressive Acquisition strategy- second acquisition in Brazil in CY11

UPL's acquisition of 51% stake in DVA Agro Brazil marks its second acquisition in this financial year in the fast growing Brazilian crop protection market which is estimated at US\$ 7 bn. UPL had earlier acquired 50% stake in Sipcarn Isagro Brazil (SIB) in April 2011. SIB was a 50:50 joint venture between two Italian groups Sipcarn-Oxon and Isagro. UPL, through its subsidiary had purchased 50% stake in SIB, earlier held by Isagro S.P.A.. SIB is producer and distributor of agrochemicals in the Brazilian market. It operates a formulation plant in Brazil which produces various formulation types for agrochemicals products.

Deal to be beneficial for UPL

UPL through its subsidiary, United Phosphorus do Brasil Ltda, operates in the Brazilian agrochemical market. The company has succeeded in registering few of its products in the Brazilian market however it still lacks the distributional access. With the acquisition of stake in SIB & now through DVA, UPL will be able to penetrate the Brazilian market with its formulations. DVA Brazil currently sources active ingredients (AI) from its parent DVA Germany and sells its formulations in Brazil. However, we expect that with UPL's low cost manufacturing facilities company to benefit from supplying some of the AIs to DVA Brazil.

Deal to be EPS accretive, Maintain BUY with target price of Rs 215

UPL has acquired 51% stake in DVA Brazil for \$150mn valuing the company at EV/Sales of 2.3x. DVA is debt free company (with only working capital loan), EBITDA margins slightly lower than UPL's margins of 19%. We view the deal to be positive for UPL and be EPS accretive. Further, this acquisition provides UPL access to Brazilian agrochem market and cross selling opportunities arising from SIB and DVA's marketing expertise. We re-iterate our BUY rating on the stock with a TP of Rs 215.

Financial Snapshot

	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	54,633	10,021	18.3	5,593	12.1	(8.1)	19.7	12.1	6.8	2.3
FY11	58,045	11,106	19.1	6,620	14.3	18.3	19.7	10.7	6.5	1.9
FY12E	65,375	13,185	20.2	8,723	18.9	31.8	21.4	8.1	6.0	1.6
FY13E	71,740	14,608	20.4	9,934	21.5	13.9	20.5	7.1	5.0	1.3

UPL strengthens its foothold in fast growing Brazilian market

UPL's acquisition of 51% stake in DVA Agro Brasil marks its second entry into the Brazilian crop protection market. The Brazilian crop protection market ranks amongst the top 5 largest crop protection markets globally and is estimated to be around \$7bn. UPL's Brazilian operations are still at a very nascent stage and this deal gives UPL access to a larger market with a wider product offering. We believe this acquisition would be beneficial for UPL over the longer term through expansion of its product offering in Brazil's fast growing crop protection market.

About DVA Agro Brasil

DVA Agro Brasil, based out of Sao Paulo in Brazil is a group entity of the DVA Group, Germany. DVA Agro Brasil produces, markets, sells and distributes crop protection products and specialties in the Brazilian agrochemicals market. The company operates formulation plant in Brazil and is currently expanding its capacities to include wider range of crop protection products. The Brazilian unit was established in 2005 and generated revenues of \$130mn in CY2010.

DVA Agro Brasil produces and distributes post-patent crop protection and nutrition products in Brazil. Its products portfolio includes agricultural crop protection, nutritional, human health and animal health products. Agricultural crop protection products include pesticides, herbicides, fungicides, special fertilizers.

About DVA Group Germany

DVA Group, Germany is a conglomerate with interests in steel, plastics, agrochemicals, health and nutrition. The crop protection unit of DVA was founded in 1993 and markets generic crop protection products in many countries worldwide.

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	54,633	58,045	65,375	71,740
Growth (%)	10.8	6.2	12.6	9.7
Expenditure	44,612	46,939	52,191	57,132
Materials Consumed	29,542	29,881	38,191	41,415
Employee Cost	5,018	5,146	6,642	7,645
Other Exp	10,052	11,912	7,358	8,072
EBITDA	10,021	11,106	13,185	14,608
Growth (%)	6.1	10.8	18.7	10.8
EBITDA margin (%)	18.3	19.1	20.2	20.4
Depreciation	2,147	2,138	2,438	2,681
EBIT	7,874	8,968	10,747	11,927
EBIT margin (%)	14.4	15.5	16.4	16.6
Other Income	343	937	939	939
Interest expenses	1,938	2,309	1,300	1,039
PBT	6,279	7,596	10,385	11,826
Tax	814	731	1,662	1,892
Effective tax rate (%)	13.0	9.6	16.0	16.0
Adjusted PAT	5,465	6,865	8,723	9,934
Growth (%)	(7.5)	25.6	27.1	13.9
Net Margin (%)	10.0	11.8	13.3	13.8
(Profit)/loss from JVs/Ass/MI	128.2	(245.3)	-	-
Adjusted PAT After JVs/Ass/MI	5,593	6,620	8,723	9,934
E/O items	-	(1,006)	-	-
Reported PAT	5,593	5,614	8,723	9,934
PAT after MI	5,593	6,620	8,723	9,934
Growth (%)	(8.1)	18.3	31.8	13.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	5,936	6,659	9,447	10,888
Depreciation	2,147	2,138	2,438	2,681
Interest Provided	1,503	2,031	1,300	1,039
Other Non-Cash items	(970)	(36)	-	-
Chg in working cap	4,499	(1,884)	(13,107)	(2,319)
Tax paid	-813	-885	-1,662	-1,892
Operating Cashflow	12,302	8,023	-1,584	10,396
Capital expenditure	(2,285)	(6,960)	(3,000)	(3,000)
Free Cash Flow	10,017	1,063	-4,584	7,396
Other income	313	125	939	939
Investments	122	(1,391)	-	-
Investing Cashflow	435	-1,266	939	939
Equity Capital Raised	-	2,888	-	-
Loans Taken / (Repaid)	2,840	(58)	(4,000)	(4,251)
Interest Paid	(1,522)	(1,095)	(1,300)	(1,039)
Dividend paid (incl tax)	(769)	(1,024)	(1,621)	(1,621)
Income from investments	0	0	0	0
Others	-761	-1027	0	0
Financing Cashflow	-213	-316	-6,921	-6,911
Net chg in cash	10,239	-520	-10,567	1,424
Opening cash position	5,539	16,178	15,659	5,092
Closing cash position	15,778	15,658	5,092	6,515

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	879	924	924	924
Reserves & surplus	29,039	36,337	43,439	51,752
Net worth	29,918	37,260	44,363	52,676
Minority Interest	140	180	280	380
Secured Loans	4,044	4,646	4,646	2,646
Unsecured Loans	19,774	20,273	16,273	14,022
Loan Funds	23,818	24,919	20,919	16,669
Net deferred liabilities	490	296	196	96
Total Liabilities	54,366	62,655	65,758	69,820
Gross Block	30,009	36,317	38,476	41,476
Less: Depreciation	12,286	13,109	15,547	18,228
Net block	17,723	23,209	22,929	23,248
Capital work in progress	406	658	1,500	1,500
Investments	7,612	8,232	8,232	8,232
Current Assets	43,242	49,914	50,750	56,090
Inventories	10,084	14,055	23,627	25,925
Sundry debtors	12,135	14,795	16,626	18,244
Cash & bank balance	15,778	15,659	5,092	6,515
Loans & advances	4,693	4,662	4,662	4,662
Other current assets	553	743	743	743
Current lia & Prov	14,616	19,358	17,653	19,250
Current liabilities	13,591	18,117	16,412	18,009
Provisions	1,025	1,241	1,241	1,241
Net current assets	28,626	30,557	33,097	36,840
Misc. exp	-	-	-	-
Total Assets	54,366	62,655	65,758	69,820

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.3	19.1	20.2	20.4
Net Margin	10.2	11.4	13.3	13.8
ROCE	16.1	16.9	18.2	19.0
ROE	19.7	19.7	21.4	20.5
RoIC	23.4	26.1	24.1	22.8
Per Share Data (Rs)				
FDEPS	12.1	14.3	18.9	21.5
CEPS	17.6	19.0	24.2	27.3
BVPS	68.1	80.7	96.1	114.1
DPS	2.5	2.0	3.0	3.0
Valuations (x)				
PER	12.1	10.7	8.1	7.1
P/CEPS	8.7	8.1	6.4	5.6
P/BV	2.3	1.9	1.6	1.3
EV / Sales	1.2	1.2	1.2	1.0
EV / EBITDA	6.8	6.5	6.0	5.0
Dividend Yield (%)	1.6	1.3	2.0	2.0
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.2	0.0
Net Debt/EBIDTA	0.0	0.1	0.6	0.1
Working Cap Cycle (days)	57.6	67.5	133.1	133.1

Recommendation History: United Phosphorus – UNTP IN

Date	Reports	Reco	CMP	Target
29/04/2011	United Phosphorus Q4FY11 Result Update	Buy	152	215
25/01/2011	United Phosphorus Q3FY11 Result Update	Buy	155	210
29/12/2010	United Phosphorus Company Update	Buy	161	230
27/10/2010	United Phosphorus Q2FY11 Result Update	Buy	202	230

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/07/2011	Chambal Fertilisers Q1FY12 Result Update	Buy	88	110
22/07/2011	Coromandel International Q1FY12 Result Update	Buy	333	435
22/07/2011	Rallis India Q1FY12 Result Update	Buy	159	209
21/07/2011	JK Paper Q1FY12 Result Update	Buy	46	61

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