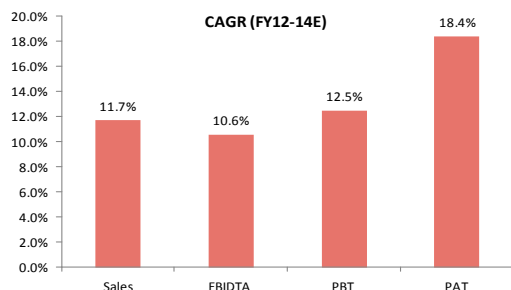


October 25, 2012

Result Update

Agrochemicals
Sector Outlook - Positive



Recommendation	BUY
CMP (₹)	118
Price Target (₹)	171
Upside (%)	45
52 Week H / L ₹	169/105
BSE 30	18710

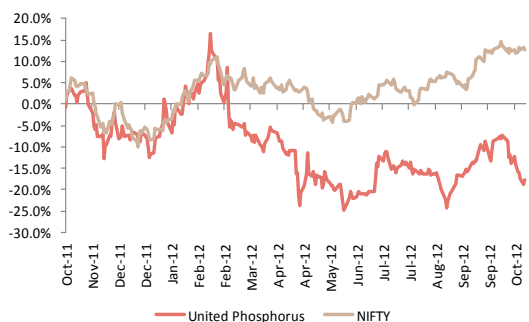
Key Data

No. of Shares, Mn.	455
Mcap, ₹ mn	53900
Mcap, USD Mn @ ₹53	1017
2 W Avg Qty, (BSE+NSE) Mn	0.9

Share holding, Sept'12

Promoters	28.1
FII	35.7
DII	16.2
Public & Others	20.1

Performance	1 M	3 M	6 M	12 M
Stock Return %	-7.2	-3.2	-7.6	-17.3
Relative Return %	-10.1	-13.0	-15.7	-30.0



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United Phosphorus reported just 5% revenue growth for Q2FY13 due to de-growth in India and USA geographies. EBITDA remained flat on YoY basis as margins declined to 17.6% compared to 18.3% YoY, while on QoQ basis; margins went up by 12 bps. Bottom line grew by 108% as Q2FY12 had forex loss of ₹1113 million, which had impacted PAT during that quarter.

USA witnessed severe drought while India too had erratic and delayed monsoon

The drought of 2012 in US is one of the worst in last few decades. Corn prices remained strong and hence area under corn remained healthy while Rice crop got significantly impacted (as it needs much more water). UPL had acquired RiceCo in 2011, which strengthened its position in USA, especially in Rice as RiceCo is single product (rice herbicide) company and had ~\$30 million revenues in 2011. With area under Rice significantly impacted, it posted 9% de-growth in North America on YoY.

Operating margins improves 12 bps QoQ, expect improvement in 2HFY13

Brazil has become very important in UPL's business. Q1FY13 is seasonally weakest quarter in Brazil while it's peak season is from Aug – Feb each year. Due to this seasonality, fixed costs in Brazilian business are apportioned on lower revenues leading to pressure on margins in Q1FY13. Operating conditions in USA and India were challenging. Despite that, margins improved 12 bps QoQ as Brazil's contribution in topline is much more in Q2 compared to Q1.

Topline growth guidance maintained at 15%

UPL had guided for 15% topline growth in FY13 at the beginning of the year at INR:USD of 51. The management maintains the guidance of 15% growth in INR terms at exchange rate of 51. If INR remains at current levels of 53 – 54 throughout the year, growth should be much higher on account foreign exchange variation. Growth in RoW & Europe is expected to be higher due to high organic growth and acquisition of SD Agrichem respectively.

Investments in acquisitions to decline going forward

UPL management indicated that following the Brazilian acquisitions in FY12 which is largest and fast growing market, its global platform is now in place and investments in acquisitions will decline. UPL will now reinforce investments in research and development that strengthens process efficiencies on one hand and product pipeline on the other, which will translate into enhanced margins and ROCE.

Fair value of ₹171/share (Upside of 45%), Maintain “Buy”

UPL is proxy play to global generic agrochemical markets. Weather is key risk to its business with unpredictable crop seasons across geographies such as draught in USA, delayed monsoon in India and very wet season in Europe in the season gone by. UPL is banking very high on Rest of the World markets, especially Brazil. Any weather related issues in this market may impact growth significantly. It is trading at attractive valuations though deterioration in margins, working capital is a concern. It has lower ROAE's compared to smaller Indian peers due to asset heavy model with presence across the globe that includes markets with low margin, higher credit cycles. Despite that, It's ROAE has been 15% - 16% and Net D/E is comfortable at 0.6x. At CMP of ₹118, UPL is trading at P/E of 8.1x and 6.9x for FY13E and FY14E EPS. We maintain estimates and target price at ₹171 based on P/E of 10x for FY14E EPS. Maintain 'Buy'.

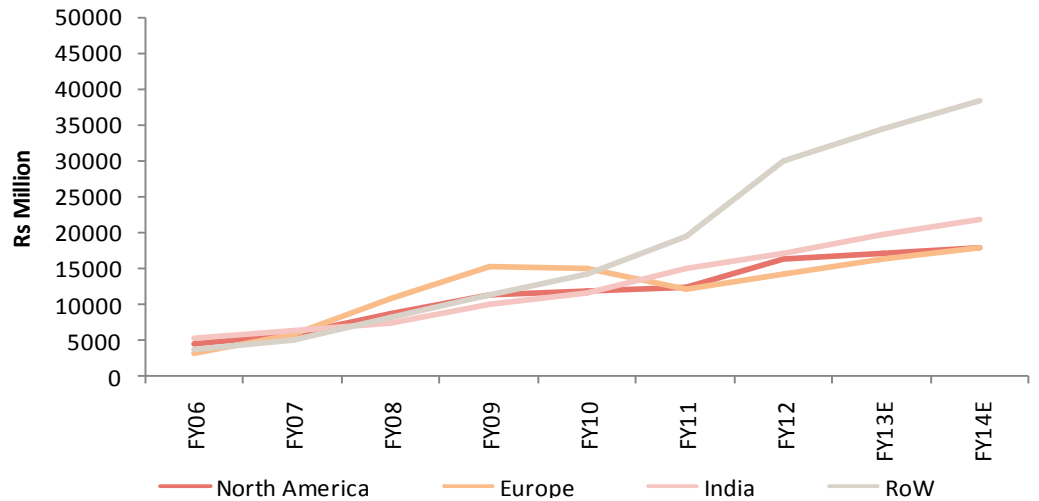
Financials	Revenues ₹mn	EBITDA ₹mn	Net Profit ₹mn	EPS ₹	P/E x	EV/EBITDA x	ROAE %
FY11	57606.8	10698.7	5576.2	12.1	9.8	6.0	15.0
FY12	76547.2	13674.1	5555.5	12.0	9.8	5.9	14.1
FY13E	86852.0	15199.1	6632.6	14.6	8.1	5.3	15.1
FY14E	95547.1	16720.7	7785.6	17.1	6.9	4.6	15.8

Source: Company, Sunidhi Research



Europe and Rest of World (RoW) markets cushion fall in Indian and USA markets

Revenue growth was driven by growth of 22% YoY in Europe and 18% YoY in Rest of World (including Latin America). Currency depreciation too played an important role with 2% positive impact in driving higher growth. India revenue de-grew by 14% YoY. Growth was driven by price (5% up YoY).

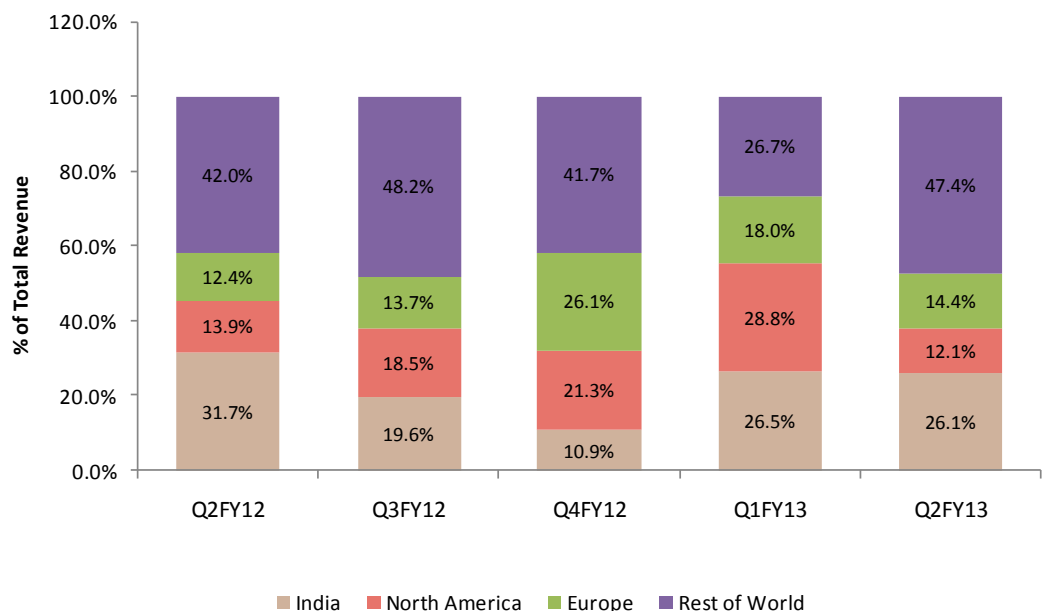


Source: Company, Sunidhi Research

Growing importance of Latin America (mainly Brazil)

This market is fast growing where UPL has done series of acquisitions to strengthen its presence. Brazil’s agrochemical industry is estimated at \$10 billion, largest in the world. UPL has started reporting Latin America separately now (earlier it was part of Rest of World). In the chart below, in order to ensure comparability, we have not removed Latin America from Rest of World (RoW). During Q2FY13, Rest of World (ROW) including Latin America had revenue share of 47.4%. Latin America had revenue share of 31% during Q2FY13, which increased from 28% revenue share in Q2FY12. Indian revenues stood at 26.1%, down from 31.7% YoY as Indian market de-grew by 14% YoY in absolute terms.

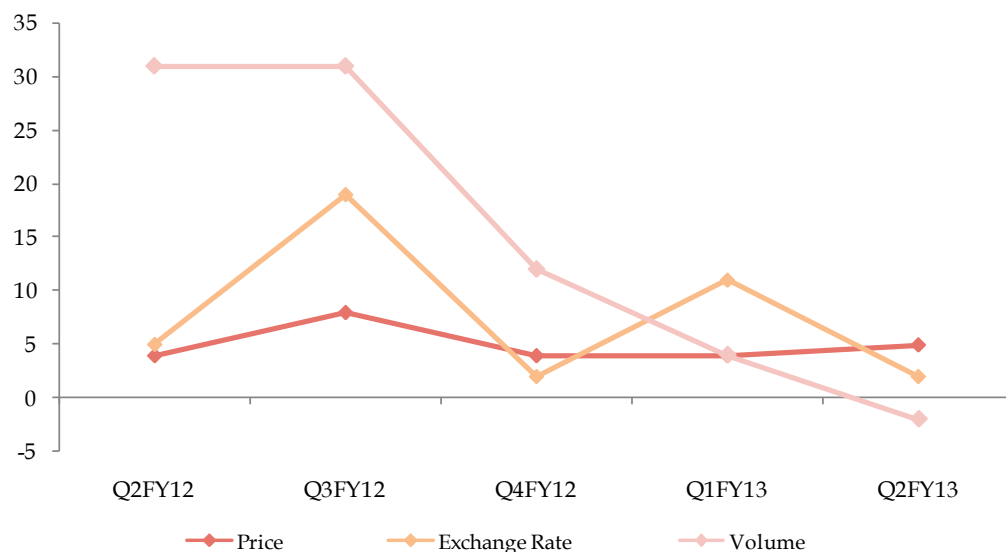
Geographical Revenue Share



Source: Company, Sunidhi Research

**Price, Exchange rate and Volume trend**

Due to draught in USA and challenging weather conditions in India with delay in monsoon, Volume de-growth of 2% was reported during Q2FY13. Price growth of 5% YoY was in-line with previous quarter i.e. Q1FY13 where price growth was reported similar at 5%. Exchange variations led to positive impact of 2% YoY.



Source: Company, Sunidhi Research

Working Capital analysis

Working capital situation deteriorated significantly as inventory and receivable days went up, while payable days went down. This led to net working capital days to reach 113, which is similar to FY12 end, however significantly higher compared to Sept'11 end. As Latin America continue to gain prominence in revenue share, we expect receivable days to remain high as receivable days in Brazil market remains much higher than other markets.

Particulars	FY11	FY12	1HFY12	1HFY13
Revenues ₹ Million (Proportionate)	56500	78880	39570	39820
Inventory Days	91	87	86	96
Receivable Days	96	116	96	109
Payable Days	105	90	107	92
Net Working Capital Days/ Sales	82	113	75	113

Source: Company, Sunidhi Research



Quarterly Financials

₹ million	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YOY	QoQ
Net Sales	17757.0	19288.0	21269.3	22142.1	18560.2	4.5%	-16.2%
Expenditure							
Raw Material Expenses	9699.5	10304.7	11182.9	11415	9397.3	-3.1%	-17.7%
% to sales	54.6%	53.4%	52.6%	51.6%	50.6%		
Employee expenses	1511.2	1948.4	1908.9	2062.8	1986.4	31.4%	-3.7%
% to sales	8.5%	10.1%	9.0%	9.3%	10.7%		
Other expenditure	3291.4	3551.3	4310.3	4800.1	3915.4	19.0%	-18.4%
% to sales	18.5%	18.4%	20.3%	21.7%	21.1%		
Total Expenditure	14502.1	15804.4	17402.1	18277.9	15299.1	5.5%	-16.3%
EBIDTA	3254.9	3483.6	3867.2	3864.2	3261.1	0.2%	-15.6%
Other Income	195.7	106.8	172.6	354.4	261.8	33.8%	-26.1%
Gross Profit	3450.6	3590.4	4039.8	4218.6	3522.9	2.1%	-16.5%
Interest	1918.0	826.4	688.3	1109.4	868.5	-54.7%	-21.7%
Depreciation	719.1	784.8	791.5	733.9	820.1	14.0%	11.7%
PBT	813.5	1979.2	2560.0	2375.3	1834.3	125.5%	-22.8%
Tax	151.0	626.1	36.9	703.1	457.4	202.9%	-34.9%
Profit After Tax	662.5	1353.1	2523.1	1672.2	1376.9	107.8%	-17.7%
Extra-Ordinary Items	143.5	13.1	241.5	0.0	0.0	-100.0%	-
Minority Interest	-134.8	92.2	90.1	(305.3)	192.0	-242.4%	-162.9%
Income from Associate	-84.3	-123.6	-172.8	51.6	13.3	-115.8%	-74.2%
PAT after MI/Associate & EO Items	569.5	1124.2	2018.7	2029.1	1198.2	110.4%	-40.9%
EPS, ₹ (Reported)	1.2	2.4	4.4	4.4	2.6	110.4%	-40.9%
Margin, %							
EBIDTA Margin	18.3%	18.1%	18.18%	17.5%	17.6%		
Adj. PAT Margin	3.2%	5.8%	9.5%	9.2%	6.5%		
Tax Rate	18.6%	31.6%	1.4%	29.6%	24.9%		

Geographical revenue breakup	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY	QoQ
India	5690.0	3810.0	2330.0	6220.0	4910.0	-13.7%	-21.1%
North America	2490.0	3590.0	4550.0	6750.0	2270.0	-8.8%	-66.4%
Europe	2230.0	2650.0	5570.0	4210.0	2710.0	21.5%	-35.6%
Rest of World#	2470.0	9340.0	8900.0	2210.0	3010.0	21.9%	36.2%
Latin America	5070.0			4040.0	5920.0	16.8%	46.5%
Total revenues	17950.0	19390.0	21350.0	23430.0	18820.0	4.8%	-19.7%

Source: Company, Sunidhi Research

RoW for Q3FY12 and Q4FY12 includes revenue from Latin America.



Valuations Summary

Year End-March	FY11	FY12	FY13E	FY14E
Per share (₹)				
EPS	12.1	12.0	14.6	17.1
CEPS	16.7	18.4	21.8	24.6
BVPS	80.7	90.4	101.3	114.9
DPS	2.0	2.5	2.8	3.0
Payout (%)	19.3	24.3	22.1	20.5
Valuation (x)				
P/E	9.8	9.8	8.1	6.9
P/BV	1.5	1.3	1.2	1.0
EV/EBITDA	6.0	5.9	5.3	4.6
Dividend Yield (%)	1.7	2.1	2.3	2.5
Return ratio (%)				
EBIDTA Margin	18.6	17.9	17.5	17.5
PAT Margin	9.7	7.3	7.6	8.1
ROAE	15.0	14.1	15.1	15.8
ROACE	18.4	17.5	14.7	15.0
Leverage Ratios (x)				
Long Term D/E	0.3	0.6	0.7	0.5
Net Debt/Equity	0.0	0.6	0.6	0.5
Interest Coverage	4.6	4.1	4.5	4.8
Current ratio	1.5	1.8	2.0	2.0
Growth Ratios (%)				
Income growth	5.5	32.9	13.5	10.0
EBITDA growth	7.0	27.8	11.2	10.0
PAT growth	5.9	-0.4	19.4	17.4
Turnover Ratios				
F.A Turnover x	1.3	1.3	1.4	1.4
Inventory Days	89.1	89.5	95.0	95.0
Debtors Days	93.7	116.6	120.0	120.0
Payable days	70.3	71.7	75.0	75.0
Income Statement(₹ mn)				
Year End-March	FY11	FY12	FY13E	FY14E
Revenues	57607	76547	86852	95547
Op. Expenses	46908	62873	71653	78826
EBITDA	10699	13674	15199	16721
Other Income	1375	1089	800	700
Depreciation	2138	2924	3284	3412
EBIT	9936	11840	12715	14009
Interest	3120	4146	4206	4277
PBT	6816	7693	8510	9732
Tax	731	1280	1702	1946
PAT	6085	6413	6808	7786
Minority	104	54	75	100
Prior Period Adj	31	222	-	-
Sh. of Associates	-234	-398	-100	100
Ex. ordinary	140	185	-	-
Adj Pat	5576	5556	6633	7786

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY11	FY12	FY13E	FY14E
Equity and Liabilities				
Share Capital	924	924	910	910
Reserves and Surplus	36337	40808	45168	51356
Total Shareholders funds	37261	41731	46078	52266
Minority Interest	180	2499	2574	2674
Non-Current Liability				
Long Term Borrowings	10023	23772	29957	26957
Deferred Tax Liabilities (Net)	731	940	940	940
Long Term Liab/ Provisions	735	3517	3568	3624
Current Liabilities				
Short Term Borrowings	4950	8674	8674	8674
Trade Payables	11092	15035	17586	19360
Other Current Liabilities	16572	5787	7035	7744
Short Term Provisions	1241	1575	1732	1905
Grand Total	82784	103529	118143	124144
Assets				
Non Current Assets				
Fixed Assets	23776	35286	38002	37090
Deferred Tax Assets	809	997	997	997
Non-Current Investments	4678	6695	6695	6695
Long Term Loans and Advances	2199	2587	3283	3614
Trade Receivables	-	613	-	-
Current Assets				
Current Investments	3553	1250	1250	1250
Inventories	14055	18779	22605	24868
Trade Receivables	14795	24453	28554	31413
Cash and Cash Equivalents	15659	7002	10808	11672
Short Term Loans and Advances	2412	5137	4759	5235
Other Current Assets	846	731	1190	1309
Grand Total	82784	103529	118143	124144
Cash flow Statement				
Year End-March	FY11	FY12	FY13E	FY14E
PBT	6816	7693	8510	9732
Depreciation	2138	2924	3284	3412
Interest Exp	3120	4146	4206	4277
Others	-985	-435	-100	100
CF before W.cap	11089	14329	15899	17521
Inc/dec in W.cap	-1884	-16115	-4084	-3336
Op CF after W.cap	9205	-1786	11815	14185
Less Taxes	885	1242	1702	1946
Exceptional & Prior Period Adj	-171	-196	-	-
Net CF From Operations	8148	-3224	10113	12238
Inc/(dec) in F.A + CWIP	-8028	-9348	-6000	-2500
others	-781	2750	-	-
CF from Invst Activities	-8809	-6599	-6000	-2500
Loan Raised/(repaid)	2888	7023	6185	-3000
Equity Raised	-	-	-822	-
Dividend	-1091	-1156	-1472	-1091
Others	-2113	-3305	-4206	-4277
CF from Fin Activities	-316	2562	-307	-8874
Net inc /(dec) in cash	-977	-7260	3806	864
Op. bal of cash	16635	14262	7002	10808
Cl. balance of cash	15659	7002	10808	11672



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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