

July 29, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 166	Rs 215
EPS change FY12E/13E (%)	-6/-0.5
Target Price change (%)	NA
Nifty	5,482
Sensex	18,197

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	4	18	(7)
Rel. to Nifty	8	10	19	(9)

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)	771,743
Daily Avg Volume (No of sh)	346512
Daily Avg Turnover (US\$m)	1.2

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	26.6	26.6	26.6
FII/NRI	38.5	37.7	38.0
Institutions	16.7	17.2	17.1
Private Corp	10.6	11.2	11.4
Public	7.7	7.3	7.0

Source: Capitaline

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- Q1FY12 results were in line at the EBITDA level however higher interest costs squeezed APAT. UPL reported revenues of Rs 18.6bn, +27% yoy, APAT of Rs 1.68bn, -13% yoy
- RoW & India remain strong. North American markets improved. Europe returned to positive growth after 7 consecutive quarters of degrowth
- Management upped revenue guidance to 25-30% (previous 12-14%) post DVA acquisition. EBITDA margin guidance maintained at 20-21%
- Revise estimates to factor in DVA acquisition. Maintain margins at previous level of 20.2%. However, higher interest costs lead to EPS decline of 6% in FY12E.

North American markets improve, India & RoW remain strong...

UPL reported revenues of Rs 18.6bn, +27% yoy higher than our estimates of Rs 17.4 bn. Revenue growth was primarily led by volumes which increased by 25% while realizations increased by 1% during the quarter. Organic volumes increased by 17% while acquisitions contributed 8% to volume growth during the quarter. Among its primary growth markets, Rest of the World (RoW) reported strong increase of 35% yoy to Rs 4.6 bn and contributed 25% to revenues while India reported 32% growth and revenues increased to Rs 5.36 bn. Latin America continued to witness strong demand of agrochemicals resulting into higher revenues. Europe returned to growth after 7 consecutive quarters of de growth.. Europe revenues increased by 6% yoy to Rs 3.8 bn despite adverse weather conditions. North American markets improved during the quarter leading to revenues increasing by 32% yoy to Rs 5.1bn.

Nos. in line operationally, however higher interest costs squeeze APAT

UPL reported EBITDA of Rs 3.45bn, +19% yoy in line with our estimate. However, EBITDA margins declined by 120bps yoy to 18.5% lower than our estimates of 20.0% due to increase in raw material, power & transportation costs. Interest costs (adjusted for forex gain of Rs 161mn as against last year exchange loss of Rs 713 mn) increased to Rs 875mn due to higher debt arising out of increased working capital requirement. Consequently, UPL reported APAT of Rs 1.68 bn, -13% yoy, lower than our estimates of Rs 2.1 bn. AEPS for the quarter stood at Rs 3.6,-17% yoy, as against Rs 4.4 last year.

Revise FY12E estimates downward by 6%, maintain BUY with 29% upside

UPL reported strong results during the quarter with volumes growing by 25% (organic volume growth of 17%). Management increased its revenue guidance to 25-30% in FY12 as compared to 12-14% revenue growth guided at the end of FY11. Acquisition of DVA would help company to strengthen its Brazilian operations by providing distributional access. Despite EBITDA margins contracting by 120bps yoy to 18.5%, management maintained its EBITDA margin guidance of 20-21% for FY12. However, we believe maintaining margins at the higher level of the guidance would be difficult given the cost pressures on raw material & power. We have revised our revenue estimates upward to reflect DVA acquisition however our EPS estimates decline by 6% in FY12E factoring in higher interest costs. We maintain our price target of Rs 215 based on 10x FY13E EPS of Rs 21.4 (previous EPS Rs 21.5)

Financial Snapshot

							Rs Mn			
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	54,633	10,021	18.3	5,593	12.1	(8.1)	19.7	13.1	7.3	2.4
FY11	58,045	11,106	19.1	6,620	14.3	18.3	19.7	11.6	7.0	2.1
FY12E	72,789	14,673	20.2	8,174	17.7	23.5	20.2	9.4	5.9	1.8
FY13E	78,721	16,275	20.7	9,879	21.4	20.9	20.6	7.8	4.9	1.5

Key Financials – Quarterly (Consolidated)

Rs Mn

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	14,686	12,569	12,221	18,569	18,621	26.8	0.3
Expenditure	11,794	10,243	10,007	14,896	15,173	28.7	1.9
as % of sales	80.3	81.5	81.9	80.2	81.5		
Consumption of RM	7,647	6,135	5,695	10,403	10,234	33.8	(1.6)
as % of sales	52.1	48.8	46.6	56.0	55.0		
Employee Cost	1,334	1,186	1,298	1,329	1,487	11.5	11.9
as % of sales	9.1	9.4	10.6	7.2	8.0		
Other expenditure	2,813	2,922	3,014	3,163	3,452	22.7	9.1
as % of sales	19.2	23.2	24.7	17.0	18.5		
EBITDA	2,892	2,326	2,215	3,673	3,449	19.2	(6.1)
Depreciation	472	515	491	661	628	33.2	(4.9)
EBIT	2,420	1,811	1,724	3,012	2,820	16.5	(6.4)
Other Income	186	238	262	250	226	21.1	(9.7)
Interest	494	492	538	450	875	77.2	94.5
PBT	2,113	1,557	1,448	2,813	2,171	2.8	(22.8)
Total Tax	156	250	266	58	466	198.1	704.8
Adjusted PAT	1,957	1,307	1,182	2,755	1,705	(12.8)	(38.1)
(Profit)/loss from JV's/Ass/MI	23	0	-12	326	23	(0.0)	
APAT after MI	1,934	1,307	1,194	2,429	1,682	(13.0)	(30.7)
Extra ordinary items	-510	-160	-355	-262	161	(131.6)	(161.6)
Reported PAT	1,424	1,147	839	2,167	1,843	29.5	(15.0)
Reported EPS	3.2	2.6	1.9	4.9	4.0	23.2	(19.1)

Margins (%)						(bps)	(bps)
EBIDTA	19.7	18.5	18.1	19.8	18.5	(117)	(126)
EBIT	16.5	14.4	14.1	16.2	15.1	(134)	(108)
EBT	13.1	10.5	9.7	13.8	10.4	(267)	(335)
PAT	13.2	10.4	9.8	13.1	9.0	(413)	(405)
Effective Tax rate	7.4	16.1	18.4	2.1	21.5	1,406	1,940

Source: Company, Emkay Research

Geographical Break up

Rs Mn

Y/E Mar	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
India	4052	4540	3320	3030	5360
North America	3861	2650	1760	4100	5110
Europe	3540	2070	2020	4490	3760
Rest of the World	3420	3555	5380	7200	4620
Total	14873	12815	12480	18820	18850

Source: Company, Emkay Research

DVA deal to strengthen Brazilian operations

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. With the acquisition of stake in SIB & now through DVA, UPL will be able to penetrate the Brazilian market with its formulations. DVA generated revenues of \$130mn in CY2010.

Revision in estimates

We have revised our estimates to reflect the DVA acquisition & increasing cost pressures. We have revised our revenue estimates upward by 11% in FY12E to incorporate DVA acquisition. However, our EPS declines by 6% in FY12E factoring in higher interest costs. For FY13E, our revenue estimates increase by 10% while EPS remains flat. We expect EBITDA margins to improve in FY13E backed by increase in prices and margin improvement in Brazilian operations.

Rs mn	FY12E			FY13E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	65,375	72,789	11.3%	71,740	78,721	9.7%
EBITDA	13,185	14,673	11.3%	14,606	16,275	11.4%
EBITDA %	20.2%	20.2%	-1bps	20.4%	20.7%	31bps
PAT	8,724	8,274	-5.2%	9,933	9,979	0.5%
EPS	18.9	17.7	-6.4%	21.5	21.4	-0.5%

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	54,633	58,045	72,789	78,721
Growth (%)	10.8	6.2	25.4	8.1
Expenditure	44,612	46,939	58,116	62,446
Materials Consumed	29,542	29,881	43,275	45,937
Employee Cost	5,018	5,146	6,642	7,645
Other Exp	10,052	11,912	8,199	8,864
EBITDA	10,021	11,106	14,673	16,275
Growth (%)	6.1	10.8	32.1	10.9
EBITDA margin (%)	18.3	19.1	20.2	20.7
Depreciation	2,147	2,138	2,600	2,600
EBIT	7,874	8,968	12,073	13,675
EBIT margin (%)	14.4	15.5	16.6	17.4
Other Income	343	937	1,269	1,299
Interest expenses	1,938	2,309	3,000	2,500
PBT	6,279	7,596	10,342	12,474
Tax	814	731	2,068	2,495
Effective tax rate (%)	13.0	9.6	20.0	20.0
Adjusted PAT	5,465	6,865	8,274	9,979
Growth (%)	(7.5)	25.6	20.5	20.6
Net Margin (%)	10.0	11.8	11.4	12.7
(Profit)/loss from JVs/Ass/MI	128.2	(245.3)	(100.0)	(100.0)
Adjusted PAT After JVs/Ass/MI	5,593	6,620	8,174	9,879
E/O items	-	(1,006)	-	-
Reported PAT	5,593	5,614	8,174	9,879
PAT after MI	5,593	6,620	8,174	9,879
Growth (%)	(8.1)	18.3	23.5	20.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	5,936	6,659	9,073	11,175
Depreciation	2,147	2,138	2,600	2,600
Interest Provided	1,503	2,031	3,000	2,500
Other Non-Cash items	(970)	(36)	-	-
Chg in working cap	4,499	(1,884)	(4,493)	(1,235)
Tax paid	-813	-885	-2,068	-2,495
Operating Cashflow	12,302	8,023	8,112	12,546
Capital expenditure	(2,285)	(6,960)	(13,000)	(3,000)
Free Cash Flow	10,017	1,063	-4,888	9,546
Other income	313	125	1,269	1,299
Investments	122	(1,391)	-	-
Investing Cashflow	435	-1,266	1,269	1,299
Equity Capital Raised	-	2,888	-	-
Loans Taken / (Repaid)	2,840	(58)	6,000	(4,251)
Interest Paid	(1,522)	(1,095)	(3,000)	(2,500)
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	1,379	-8,372
Net chg in cash	10,239	-520	-2,241	2,472
Opening cash position	5,539	16,178	15,659	13,418
Closing cash position	15,778	15,658	13,418	15,890

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	879	924	924	924
Reserves & surplus	29,039	36,337	42,889	51,148
Net worth	29,918	37,260	43,813	52,071
Minority Interest	140	180	380	580
Secured Loans	4,044	4,646	4,646	2,646
Unsecured Loans	19,774	20,273	26,273	24,022
Loan Funds	23,818	24,919	30,919	26,669
Net deferred liabilities	490	296	196	96
Total Liabilities	54,366	62,655	75,308	79,415
Gross Block	30,009	36,317	48,476	51,476
Less: Depreciation	12,286	13,109	15,709	18,309
Net block	17,723	23,209	32,767	33,167
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	56,912	62,473
Inventories	10,084	14,055	18,556	20,061
Sundry debtors	12,135	14,795	19,533	21,117
Cash & bank balance	15,778	15,659	13,418	15,890
Loans & advances	4,693	4,662	4,662	4,662
Other current assets	553	743	743	743
Current lia & Prov	14,616	19,358	24,102	25,956
Current liabilities	13,591	18,117	22,862	24,716
Provisions	1,025	1,241	1,241	1,241
Net current assets	28,626	30,557	32,809	36,516
Total Assets	54,366	62,655	75,308	79,415

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.3	19.1	20.2	20.7
Net Margin	10.2	11.4	11.2	12.5
ROCE	16.1	16.9	19.3	19.4
ROE	19.7	19.7	20.2	20.6
RoIC	23.4	26.1	26.8	25.8
Per Share Data (Rs)				
FDEPS	12.1	14.3	17.7	21.4
CEPS	17.6	19.0	23.3	27.0
BVPS	68.1	80.7	94.9	112.8
DPS	2.5	2.0	3.0	3.0
Valuations (x)				
PER	13.1	11.6	9.4	7.8
P/CEPS	9.4	8.8	7.1	6.1
P/BV	2.4	2.1	1.8	1.5
EV / Sales	1.3	1.3	1.2	1.0
EV / EBITDA	7.3	7.0	5.9	4.9
Dividend Yield (%)	1.5	1.2	1.8	1.8
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.2	0.0
Net Debt/EBITDA	0.0	0.1	0.6	0.2
Working Cap Cycle (days)	57.6	67.5	76.4	76.3

Recommendation History: United Phosphorus – UNTP IN

Date	Reports	Reco	CMP	Target
26/07/2011	United Phosphorus Event Update	Buy	157	215
29/04/2011	United Phosphorus Q4FY11 Result Update	Buy	125	215
25/01/2011	United Phosphorus Q3FY11 Result Update	Buy	155	210
29/12/2010	United Phosphorus Company Update	Buy	161	230

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/07/2011	GSFC Q1FY12 Result Update	Buy	397	530
28/07/2011	GNFC Q1FY12 Result Update	Buy	100	135
25/07/2011	Chambal Fertilisers Q1FY12 Result Update	Buy	88	110
22/07/2011	Coromandel International Q1FY12 Result Update	Buy	333	435

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