Agri Products & Chemicals

Urea & Agrochemicals - Better play in the near term

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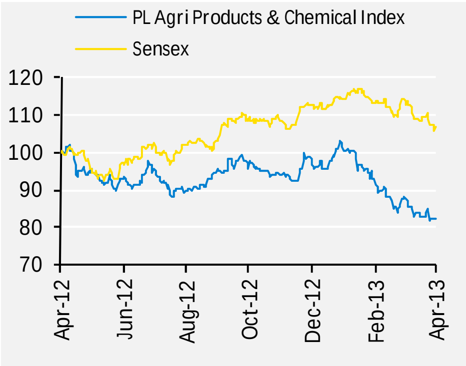
Sector Update

PL Agri Products & Chemicals v/s Sensex



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	**(6.3)**	**(2.1)**	**7.1**
Agri Products Index	**(5.9)**	**(14.7)**	**(17.2)**
Chambal Fertilisers	(8.6)	(27.2)	(37.2)
Coromandel Int.	(14.1)	(37.6)	(36.3)
Deepak Fertilisers	(1.6)	(27.9)	(28.8)
Dhanuka Agritech	(2.2)	11.1	44.6
GSFC	(12.9)	(30.1)	(37.7)
Rallis India	(5.4)	(19.7)	(5.5)
Tata Chemicals	(2.9)	(1.6)	(5.3)
United Phosphorus	(6.7)	(5.1)	(8.5)

While the agri-inputs industry witnessed robust growth from FY06-11, the last two years have seen growth plumetting due to multiple issues ranging from pressure on farmers' cash flows to deficient monsoons. However, we expect growth to revive in FY14E supported by improvement in farmers' cash flow positions, expectation of normal monsoons, improved farmer sentiments and pick-up in demand. On the agrochemicals side, we expect pick-up in pesticide consumption, new products launches and low penetration of agrochemicals in India to drive growth over the medium-term. In the fertiliser space, we prefer urea over complex fertiliser in the near-term. Urea demand remains steady and we expect urea to continue to benefit from the wide differential in prices. We remain cautiously optimistic on complex fertiliser companies as inventory overhang remains our biggest concern. Our channel checks suggest that the system is holding on to 6m mt of complex fertiliser inventory which is double the normal levels. Hence, even if complex fertiliser consumption improves, it is likely to limit company level volume growth in FY14E. Chambal Fertiliser, Dhanuka Agritech & United Phosphorus are our top picks.

- **Expect agri-inputs consumption to pick-up in FY14E supported by improvement in industry environment:** We expect agri-inputs consumption to pick up in FY14E, supported by improvement in crop prices, stabilizing costs, expectation of normal monsoons and improved farmer sentiments. Crop prices have recovered by 25-30% from their lows over the last few months and PL Crop Index is currently trading at an all-time high. On the other hand, agri-inputs costs have stabilized leading to improvement in farmers' cash flow position.

- **Chambal Fertiliser, Dhanuka Agritech, United Phosphorus - our top picks:** We are wary of the near-term headwinds considering how the agri-inputs sector is shaping up and issues surrounding complex fertiliser consumption. We prefer *Chambal Fertiliser* (core urea business remains steady, attractive valuation upside), *Dhanuka Agritech* (asset-light model, higher profitability & return ratios, strong revenue visibility, valuation discount to domestic peers) and *United Phosphorus* (earnings growth combined with improvement in return ratios, no further deterioration in working capital, attractive valuation upside) and position them as our top picks.

- **Urea demand expected to remain steady; Recommend 'BUY' on Chambal:** Urea demand has grown at a CAGR of 3% over FY02-11 and we expect demand to remain steady, given the wider acceptance and huge differential between urea and complex fertiliser prices. We recommend '**BUY**' on Chambal (target Rs70), primarily due to its steady profile of earnings and attractive valuation upside.

- **Agrochemicals demand expected to rebound in FY14E; recommend 'BUY' on Dhanuka:** We expect domestic market to rebound in FY14E supported by improvement in farmers' cash flow positions, normal monsoons, low usage of agrochemicals and lower base effect. Dhanuka, with a strong product portfolio, exciting upcoming launches, asset-light model and higher margins/return ratios, remains a relatively unexplored company in the agrochemicals space. Dhanuka is currently trading at 7.8x FY14E earnings which is at a discount of 30-35% to its domestic peers. We value Dhanuka at Rs160 (implying 10.5x FY14E earnings) & recommend '**BUY**'.

- **Earnings growth combined with improvement in return ratios, to trigger re-rating in UPL:** UPL's higher exposure to emerging markets positions it well to deliver sustainable revenue growth over the medium term. EBITDA margins are likely to improve by 60bps over the next two years, driven by a turnaround in DVA (expect DVA to contribute 20-30bps of improvement), significant cost savings initiatives and shift in product mix. We expect UPL to register 12.5%/14.1% CAGR in Revenue/PAT over FY12-15E. RoE/ROCEs are likely to improve ~150bps to 17.8%/12.6% from FY13E-FY15E. With sustainable earnings growth and improvement in return ratios, stock is likely to get re-rated. We value UPL at 9x FY14 earnings and recommend '**BUY**' with target of Rs170 (42% upside to CMP).

- **Expect complex fertiliser volume recovery to be gradual:** We expect complex fertiliser volume recovery to be a slow-paced affair over the next two years. Our interaction with farmers/retailers suggests that farmer is reluctant to purchase complex fertiliser at such high prices even though his crop economics remain favourable. However, sustained improvement in famers' cash flow position, gradual acceptance of higher prices, inclination to use complex fertiliser after skipping consumption for couple of years and expectation of normal monsoons are likely to spur complex fertiliser consumption gradually. Further, we would like to highlight that urea is not a complete substitute for P & K fertilisers.

- **Cautious optimism on complex fertiliser companies as inventory overhang remains our biggest concern:** We remain cautiously optimistic on complex fertiliser companies as the steep rise in prices continues to battle with farmers' knee-jerk reaction to such high prices. Our channel checks suggest that complex fertiliser inventory remains high in the system at 4.0-4.5m mt compared to normal inventory level of 2.0-2.5m mt. Additionally, companies are also carrying 1.5-2.0m mt of inventory (normal level of 1m mt). Such high level of inventory remains our core concern as even if consumption improves in FY14E supported by normal monsoons, huge inventory in system is likely to limit company level sales volumes. We recommend '**Accumulate**' on Coromandel (target Rs240) driven by gradual recovery in complex fertiliser volumes over the next two years, strong growth in non-subsidy business, improvement in Sabero, easing of raw material prices and comfortable valuations.

- **Fertiliser margins have witnessed severe pressure; however, softening in raw material prices should provide some relief:** Industry has witnessed significant pressure on margins over the last few quarters due to high raw materials prices and weak demand. Aggregate fertiliser margins declined by 300bps YoY to 7.3% in Q3FY13. However, softening of raw materials prices incl. ammonia, phosphoric acid and potash over the last few months are expected to provide some relief. Ammonia prices have corrected to US$600/mt (Q3FY13 average of US$700/mt) currently driven by improvement in global supply. Similarly, phosphoric acid prices also declined to US$770/mt currently compared to US$900/mt in Sep'12.

- **Working Capital requirements likely to ease over the next couple of quarters:** Though we have witnessed significant deterioration in working capital over the last few quarters, we believe working capital requirements are likely to ease over the next couple of quarters. Pending subsidy receivables are likely to be received soon as budgetary funds have been allocated. We also expect working capital requirements to reduce with the improvement in demand post the onset of monsoons.

Valuations Primer

Exhibit 1: Valuation Metrics

Name	Rating	CMP (Rs)	TP (Rs)	*% Upside*	Sales (Rs m)		Sales Gr. (%)		EBITDA (Rs m)		EBITDA Margin (%)	
					FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Chambal Fertilizers	Buy	51	70	*36.7*	75,470	79,212	(9.7)	5.0	8,247	8,771	10.9	11.1
Coromandel International	Acc	183	240	*31.4*	101,049	113,021	14.5	11.8	9,964	11,368	9.9	10.1
Deepak Fertilisers	Acc	100	130	*30.0*	26,936	28,947	7.6	7.5	3,734	4,165	13.9	14.4
Dhanuka Agritech	BUY	118	160	*35.6*	6,979	8,100	15.5	16.1	1,054	1,239	15.1	15.3
GSFC	Acc	55	70	*28.3*	60,192	63,892	(4.1)	6.1	9,163	9,969	15.2	15.6
Rallis India	Acc	118	140	*18.6*	16,223	18,411	14.3	13.5	2,557	2,974	15.8	16.2
Tata Chemicals	Acc	315	354	*12.2*	161,015	170,735	6.3	6.0	24,474	26,222	15.2	15.4
United Phosphorus	BUY	120	170	*42.0*	99,069	109,467	12.4	10.5	17,733	19,923	17.9	18.2

Source: Company Data, PL Research

Exhibit 2: Valuation Metrics

Name	PAT (Rs m)		PAT Gr. (%)		EPS (Rs)		PE (x)		Net Debt / Equity (x)		RoE (%)		RoCE (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Chambal Fertilizers	3,351	3,684	6.9	9.9	8.1	8.9	6.4	5.8	1.1	0.9	16.5	16.1	8.0	8.4
Coromandel International	5,722	6,747	40.6	17.9	20.2	23.8	9.0	7.7	0.6	0.4	20.8	21.5	13.2	14.6
Deepak Fertilisers	1,821	2,136	18.4	17.3	20.6	24.2	4.8	4.1	0.4	0.4	13.1	14.0	10.6	11.4
Dhanuka Agritech	759	874	19.8	15.2	15.2	17.5	7.8	6.8	0.1	0.1	25.7	24.2	22.5	21.7
GSFC	5,938	6,384	4.8	7.5	14.9	16.0	3.7	3.4	(0.1)	(0.2)	13.9	13.2	12.5	12.2
Rallis India	1,526	1,853	30.0	21.4	7.8	9.5	15.0	12.4	0.1	0.1	22.8	23.7	18.9	21.2
Tata Chemicals	9,025	10,025	20.8	11.1	35.4	39.3	8.9	8.0	0.6	0.5	12.6	12.8	9.7	10.2
United Phosphorus	8,460	10,022	18.9	18.5	19.1	22.6	6.3	5.3	0.6	0.5	17.4	17.8	11.9	12.6

Source: Company Data, PL Research

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(All Prices as on April 10, 2013)

Complex Fertilisers

Urea sales remain steady, while complex fertilisers demand continues to be impacted

Complex fertiliser demand has been impacted by the steep rise in prices and the wide differential between urea and complex fertiliser prices

Complex fertiliser sales continue to be impacted by the steep increase in prices over the last 18 months and the wide differential between urea/decontrolled fertiliser prices. Resultant, on a YTD basis (Apr'12- Feb'13), urea sales increased by 1.3% YoY, while complex fertiliser sales declined by 18% YoY during the same period. Complex fertiliser sales were also impacted in H1FY13 due to low phosphoric acid availability and unfavourable weather conditions.

Exhibit 3: On YTD basis, complex fertilizer sales declined by 18% YoY, while urea sales increased by 1.3% (m MT)

	J'11	S'11	D'11	M'12	J'12	S'12	D'12
Urea	5.9	8.1	8.0	7.4	5.6	8.0	8.5
YoY gr.	*8.7%*	*22.2%*	*-0.4%*	*4.7%*	*-5.5%*	*-0.8%*	*6.3%*
Complex Fertiliser	4.9	8.2	8.0	8.1	4.3	6.8	6.0
YoY gr.	*-10.9%*	*-18.4%*	*0.3%*	*49.6%*	*-13.4%*	*-18.0%*	*-25.1%*

Source: Ministry of Fertilisers, PL Research

Jan/Feb'13 complex fertiliser sales declined by 8% YoY

Preliminary data from the Ministry of Fertilisers indicates that complex fertiliser sales declined by 8% YoY during Jan/Feb'13. On the other hand, urea sales increased by 4.5% YoY during the same period.

Inventory overhang remains our biggest concern

Our interactions with industry and channel checks suggest that the system is carrying 6m mt of complex fertiliser inventory, which is double the normal level. Even if consumption picks-up in FY14E, such high level of inventory is likely to limit company level sales volumes

Our channel checks with companies/dealers/retailers suggest that complex fertiliser inventory remains high in the system at 4.0-4.5m mt compared to normal inventory level of 2.0-2.5m mt. Additionally, companies are also carrying 1.5-2.0m mt of inventory (normal level of 1m mt). Such high level of inventory remains our core concern as even if consumption improves in FY14E supported by normal monsoons & improvement in farmers' sentiments, huge inventory in system is likely to limit company level sales volumes.

Expect complex fertiliser volume recovery to be gradual; monsoons hold the key

Recovery of complex fertiliser volumes is likely to be a slow-paced affair over the next two years driven by improvement in crop prices, stabilizing costs and expectation of normal monsoons

We expect complex fertiliser volume recovery to be gradual over the next two years. Our interaction with farmers/retailers suggests that farmer is reluctant to purchase complex fertiliser at such high prices even though his crop economics remain favourable. Hence, he has resorted to using more of urea while cutting down on complex fertiliser consumption. However, improvement in crop prices (25-30%

increase in crop prices from their lows), stabilizing costs, rise in Minimum Support Prices (MSPs) and expectation of normal monsoons are likely to spur complex fertiliser consumption gradually.

Though monsoons have always played an important role in India's agrarian economy, their onset assumes greater importance this year. We believe if monsoons turn out to be normal, inventory in the system is likely to be restored to its usual level. Further, we would like to highlight that urea is not a complete substitute for P & K fertilisers and if a farmer under applies P and K fertilizers for one season, it will not have any major impact on productivity. However, if a farmer misses applying P & K nutrients for more than two or three seasons, then it begins to take a toll on productivity.

Q4FY13E will be a dampener for fertiliser companies

Q4FY13E is likely to be a non-event for complex fertiliser sales due to high base effect

We expect Q4FY13E to be a dampener for fertiliser companies due to high base effect. Q4FY12 witnessed aggressive clearance of inventory by companies to benefit from high subsidies of FY12. FY13 witnessed subsidies being cut to the extent of 27% on Di-Ammonium Phospate (DAP) & 10% on Muriate of Potash (MoP). Resultant, industry-wide complex fertiliser sales increased by 50% YoY during Q4FY12 as inventory shifted from the books of companies to the books of dealers/retailers.

Exhibit 4: Aggressive clearance of inventory during Q4FY12

Complex Fertiliser Sales (m MT)	Q4FY11	Q4FY12	*YoY gr.*	Jan/Feb'13
Chambal Fertilisers	34,530	249,266	*622%*	93,544
Coromandel Fertilisers	442,221	779,522	*76%*	333,749
Deepak Fertilisers	31,825	102,967	*224%*	29,041
GSFC	266,803	305,323	*14%*	242,125
IFFCO	1,472,186	1,821,299	*24%*	942,756
Indian Potash	922,121	1,188,540	*29%*	416,265
RCF	345,332	403,645	*17%*	143,691
Tata Chemicals	168,896	292,210	*73%*	131,387

Source: Ministry of Fertilisers, PL Research

Trading volumes expected to decline in FY14E due to huge inventory in system

We are likely to witness decline in trading volumes during FY14E as high level of inventory in the system discourages players to opt for trading

Huge inventory in system is likely to restrict trading opportunities for players. 9MFY13 witnessed companies resorting to trading to benefit from attractive margins as well as boost trading volumes at a time when phosphoric acid availability was constrained for some players. However, we are likely to witness a significant decline in trading activity during FY14E as system is overfed with inventory.

Exhibit 5: Trading volumes saw a spurt during 9MFY13 (MT)

	9MFY12	9MFY13	YoY gr.
Chambal Fertilisers	427,883	536,861	*25%*
GSFC	0	251702	*NA*
RCF	79158	161571	*104%*
Tata Chemicals	292799	348486	*19%*

Source: Ministry of Fertilisers, PL Research

FY14E DAP subsidy likely to be reduced by Rs2,000/mt; MoP subsidy likely to be reduced by Rs2,700/mt

Media reports indicate that govt. is likely to reduce the subsidy on DAP by 14% and MoP by about 19% for FY14E. The Fertiliser Ministry has proposed a subsidy cut of Rs2,000/mt on DAP and Rs2,700/mt on MoP for FY14E. Revised subsidy is expected to be pegged at Rs12,350/mt on DAP (FY13 subsidy of Rs14,350/mt) and Rs11,740/mt on MoP (FY13 subsidy of Rs14,440/mt).

Expected subsidy reduction matches with the decline in prices of global raw materials, thereby, leaving limited room for companies to slash farm gate prices

Exhibit 6: Expected subsidy rates for FY14E

Subsidy (Rs / MT)	FY13	Likely FY14	Absolute change	YoY chng.
DAP	14,348	12,348	(2,000)	*-14%*
MoP	14,440	11,740	(2,700)	*-19%*

Source: Industry, PL Research

Expected subsidy reduction in line with decline in global prices of raw materials

We believe the expected reduction in subsidy rates is in line with the decline in global prices of raw materials such as phosphoric acid, potash and sulphur. As compared to last year, phosphoric acid prices are down by 27% YoY, while potash prices are lower by 16% YoY. ***However, with the proposed reduction in subsidy rates, we believe there is limited room for slashing farm gate prices of decontrolled fertilizers by the companies.***

Soil health continues to deteriorate...

NBS regime has not been very successful in its initial years as soil health continues to deteriorate. Steep increase in prices of complex fertilisers seems to be the primary culprit

Fertiliser consumption in India has always been skewed towards urea due to its easy availability and the massive subsidy enjoyed by it. Resultant, the NPK consumption ratio in India averaged at 6:2.5:1 from 1985-86 to 2009-10 (optimum consumption ratio stands at 4:2:1). In order to address the issue of balanced fertilization and also to reduce its subsidy, the govt. resorted to introduction of Nutrient Based Subsidy (NBS) in April 2010. However, the NBS regime has not been very successful in its initial years as the nutrient consumption ratio deteriorated to 10:4:1 in 2011-12 due to steep increase in prices of decontrolled fertilisers.

...However, NBS will not be rolled back

Media reports time and again have been pointing at rollback of NBS. However, we would like to clarify that government is not considering rollback of NBS in the near future. The Budget Document for FY14E clearly states that "*Nutrient-Based Subsidy regime has been working well in the P&K sector. What is now urgently required are certain pricing reforms in the urea sector with an immediate price correction for urea. This is not only essential from the viewpoint of size of the subsidy bill but also from the viewpoint of balanced use of N, P&K nutrients*."

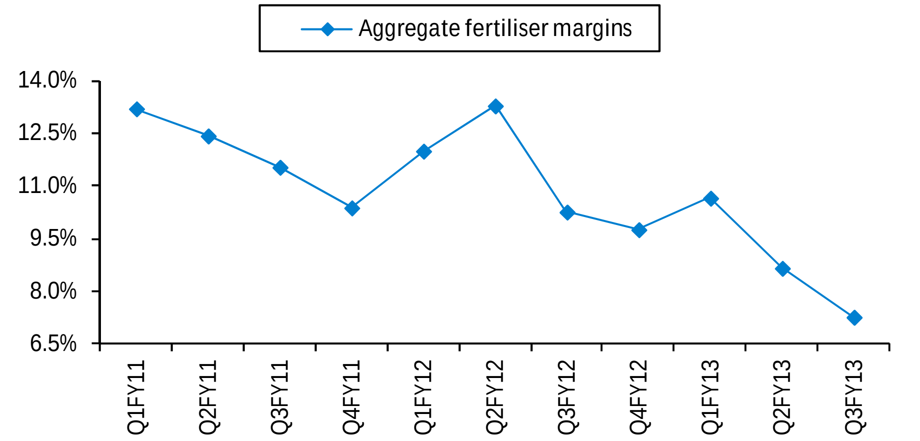
Marketing of complex fertiliser in small bags allowed - positive for players

The Union Department of Agriculture and Cooperation (DAC) has decided to allow marketing of decontrolled fertilizers in small bags of 5Kg, 10Kg, 25Kg and 40Kg (previously fertiliser was sold in 50kg bag). We believe this move by the Ministry to allow sales of complex fertilisers in small bags is positive for companies as well as the farmers and is a step in the right direction to promote balanced usage of nutrients.

Margins under pressure due to increase in RM costs & weak demand

Industry has witnessed significant pressure on margins over the last few quarters due to increased raw material costs, higher discounts offered to clear inventory, high inventory carrying costs etc. Ammonia prices shot up to US$710/mt in Nov'12 from US$470/mt in April'12. Companies also resorted to increasing discounts in order to clear inventory. Increase in inventory carrying costs due to substantial inventory held with companies also created pressure on margins. Consequently, aggregate fertiliser margins declined by 300bps YoY to 7.3% in Q3FY13.

Exhibit 7: Aggregate fertiliser EBIT margins



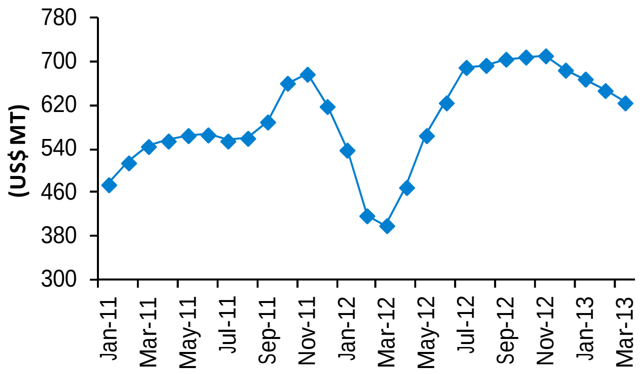
Source: Company Data, PL Research

Fertiliser margins have witnessed pressure over the last few quarters due to high raw materials prices, weak demand, rupee depreciation, inventory build-up etc. However, recent softening in ammonia and phosphoric acid prices would provide much necessary relief

...However, softening in phosphoric acid, ammonia & potash prices during the last few months are expected to provide some relief

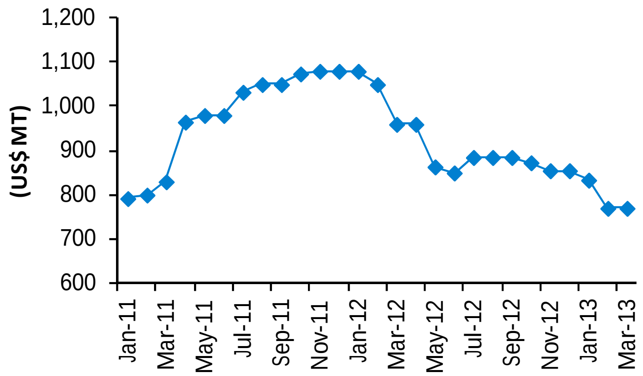
We believe margins would witness gradual improvement over the next few quarters driven by softening in raw materials prices & improvement in demand. Easing of ammonia & phosphoric acid prices during the last few months is likely to bring some relief. Ammonia prices have corrected to US$600/mt currently driven by improvement in global supply. Similarly, phosphoric acid prices also declined to US$770/mt currently compared to US$900/mt in Sep'12. Recently, India has also signed potash contracts at US$427/mt which is lower by US$50-60/mt compared to last year.

Exhibit 8: Ammonia Prices



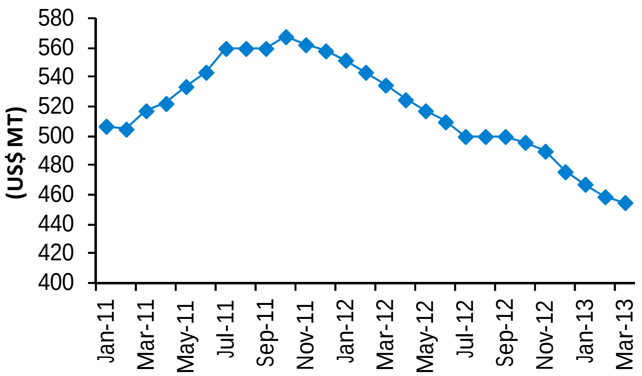
Source: Bloomberg, PL Research

Exhibit 9: Phosphoric Acid prices ($ MT)



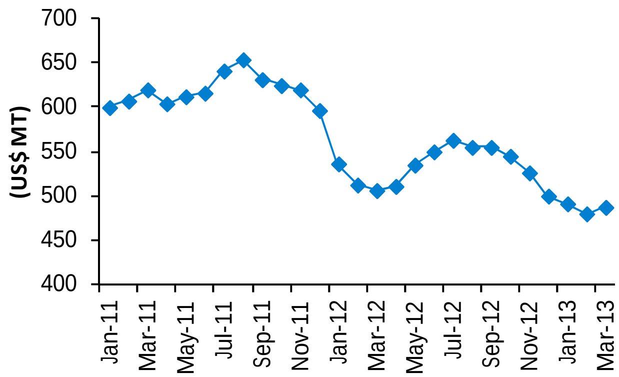
Source: Bloomberg, PL Research

Exhibit 10: Potash prices ($ MT)



Source: Bloomberg, PL Research

Exhibit 11: Global DAP prices ($ MT)



Source: Bloomberg, PL Research

Working Capital has deteriorated significantly due to huge subsidy receivables, extended debtors days, higher inventory...

Over the last few quarters, we have witnessed significant deterioration in working capital requirements due to multiple issues - huge subsidy receivables pending from govt., extended debtors days offered to get rid of inventory and high inventory. Companies have not received pending fertiliser subsidy since July 2012 which has resulted in ballooning of working capital requirements. Companies have also increased the credit days offered to 70-80 days (compared to normal credit offered of 30-45 days) in order to clear inventory.

Working Capital situation is likely to ease in subsequent quarters as pending subsidy receivables are now being cleared by govt

...However, subsidy is likely to be cleared soon as budgetary funds are now available at govt's disposal

Though we have witnessed significant deterioration in working capital over the last few quarters, we believe working capital requirements are likely to ease over the next couple of quarters. Pending subsidy receivables are likely to be received soon as budgetary funds have been allocated. We also expect working capital requirements to reduce with the improvement in demand post the onset of monsoons.

Urea

Urea decontrol out of the frame; urea price hike imminent, timing uncertain

Though the govt. introduced NBS on decontrolled fertilisers in April 2010, it has shied away from deregulating urea, which is the most widely used fertiliser in India. We believe there are multiple issues related to decontrol of urea and with elections round the corner, govt. is not going to undertake any unnecessary risk, especially after the steep rise in prices of decontrolled fertilisers.

Urea decontrol seems a distant affair. However, urea price hikes have become necessary in order to address the wide differential between urea and complex fertiliser prices

On the contrary, we believe urea price hikes are imminent and it would not be surprising if govt. increases urea prices marginally (10-15%) over the next few months. It is politically not possible to hike urea prices at one-go since urea constitutes 50-60% of the total fertilizer demand in the country & farmers are already bearing the brunt of steep hike in decontrolled fertilizer prices. From govt's viewpoint, hike in urea prices by 10% will enable it to save Rs15bn of subsidy annually, while it will also promote balanced usage of fertilizers. From the company's viewpoint, complex fertilizer players like Zuari, Coromandel, GSFC and Deepak will benefit marginally if urea prices are hiked since there is a wide differential in prices. Urea players like Chambal, RCF, GNFC will benefit to the extent of reduction in working capital (subsidy disbursement from govt. normally takes 45 days).

New Urea Investment Policy will lead to capacity addition in the longer term

Recently, the Govt. announced the new Urea Investment Policy (UIP). The New UIP is aimed at boosting indigenous production of urea, while at the same time, reducing India's dependency on imported urea over the long-term. As per the draft guidelines of the new policy, govt. will assure 12-20 % post-tax return (as against <12% earlier) on fresh capital infused by the companies for setting up of new plants as well as for expansion and revamp of the existing ones. Under this policy, gas cost (which is the main feedstock of urea) is a pass-through and government would cover the entire cost of natural gas. Our interaction with companies suggests that the revised guidelines are acceptable to the industry and industry is likely to go ahead with setting up of new capacities.

Post the announcement of the New Urea Investment Policy which promises assured returns, companies have decided to go ahead with new capacity additions. However, gas availability remains a major concern

Exhibit 12: Companies who intend to set up new urea capacities

Companies	New capacity planned (m MT)	Location
Zuari Industries	1.3	Belgaum, Karnataka
Matix Fertilisers	1.3	Raniganj, West Bengal
Chambal Fertiliser	1.2	Gadepan, Rajasthan
KRIBHCO	0.5	Hazira, Gujarat
IFFCO	1.3	Krishnapatnam, Andhra Pradesh
Indo Gulf Fert	1.0	Jagdishpur, Uttar Pradesh
RCF	1.3	Thal, Maharashtra
Tata Chem	1.2	Babrala, Uttar Pradesh

Source: Industry, PL Research

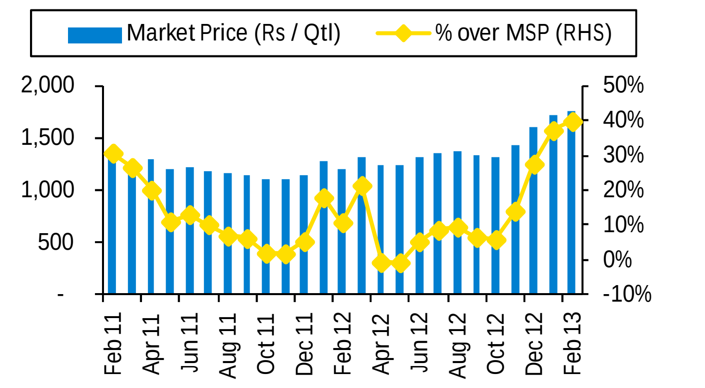
Industry lobbying aggressively for increase in urea fixed costs reimbursement by Rs350/mt but nothing fruitful has emerged

Urea industry has been pushing aggressively for increase in fixed costs reimbursement by Rs350/mt over the existing fixed cost under NPS-III due to escalation of costs. However, nothing fruitful has emerged as of now and companies continue to get reimbursed at old rates.

Crop prices have recovered from their lows

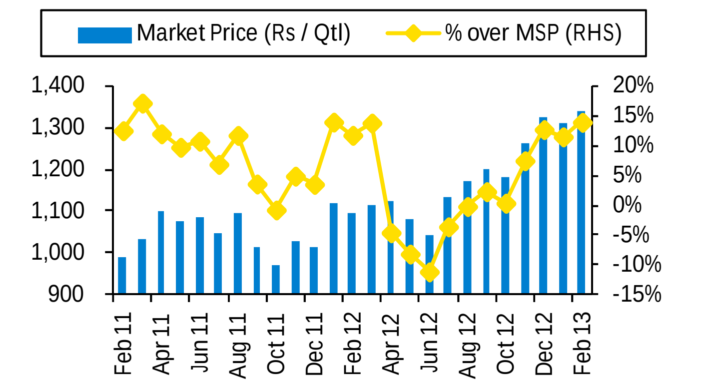
PL Crop Index, which tracks prices of key crops, has recovered smartly from the lows witnessed in last 12-15 months and is currently trading at an all-time high. Paddy & wheat, which comprise significant weightage of the crop index, are higher by 46%/23% YoY. Similarly, soyabean and maize prices are also higher by 41%/22%, respectively.

Exhibit 1: Paddy



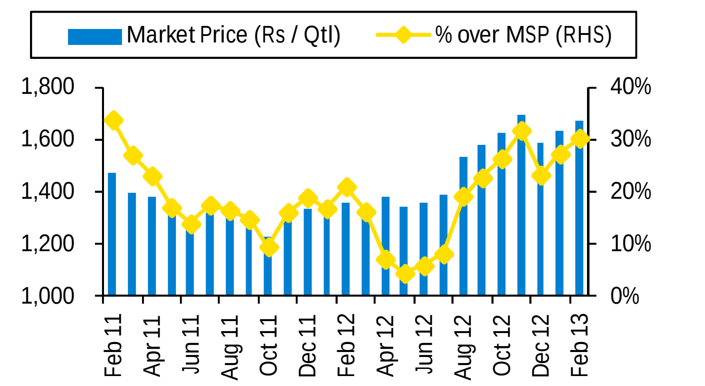
Source: APMC, PL Research

Exhibit 2: Maize



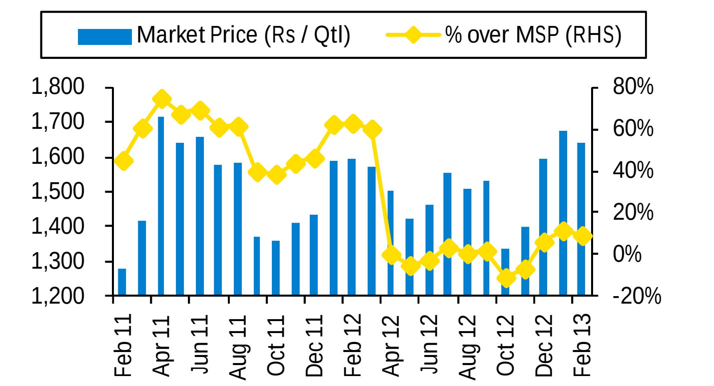
Source: APMC, PL Research

Exhibit 3: Wheat



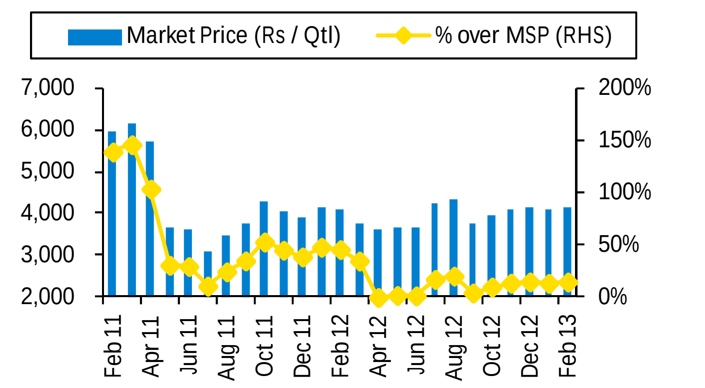
Source: APMC, PL Research

Exhibit 4: Jowar



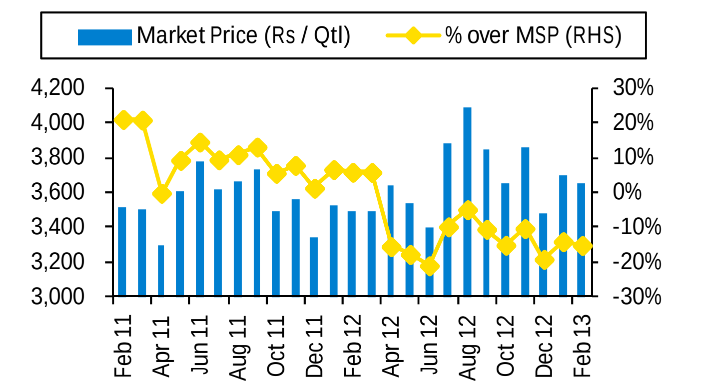
Source: APMC, PL Research

Exhibit 5: Cotton



Source: APMC, PL Research

Exhibit 6: Urad



Source: APMC, PL Research

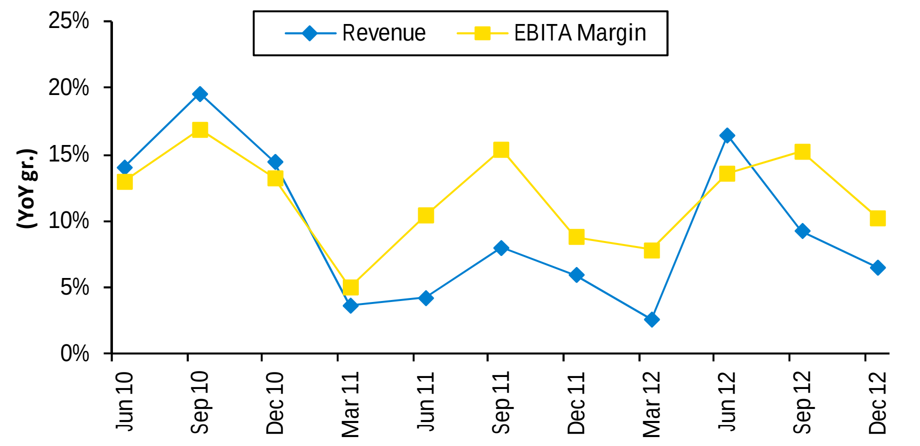
Agro Chemicals

Domestic market has witnessed two consecutive bad seasons (Rabi of 2011, Kharif of 2012)...

Domestic agrochemicals market has witnessed two consecutive bad seasons – Rabi (2011), Kharif (2012). While Rabi was impacted due to pressure on farmers' cash flows (lower crop prices, high fertilizer/labour/power costs), Kharif was impacted due to delayed rainfall which impacted sowing patterns and hence, agri-inputs consumption. Consequently, 9MFY13 has witnessed disappointing performance, with industry-wide volume growth likely to be slightly negative.

Aggregate revenues for the top 9 domestic agrochemicals companies indicates revenues increased by 6.5% YoY during Q3FY13, while EBITDA increased by 23.0% during the same period due to low base effect. Aggregate EBITDA margins improved to 10.2% from 8.8% last year.

Exhibit 7: Aggregate financial performance for domestic agrochem companies



Source: Company Data, PL Research

...However, we expect market to rebound during FY14E

We expect domestic market to rebound in FY14E as concerns are receding and industry conditions are likely to improve over the next few quarters. Improvement in crop prices (25-30% increase in crop prices from their lows), stabilizing costs and rise in MSPs have boosted farmer sentiments and agri-inputs consumption is likely to improve. In light of this, the current rabi season this year has witnessed improved performance with supportive weather conditions, improved profitability at the farmers' level and lower base of last year.

COMPANIES

Prabhudas Lilladher

Chambal Fertilizers & Chemicals

Steady earnings profile; valuations offer attractive upside

Company Update

April 11, 2013

Balwindar Singh
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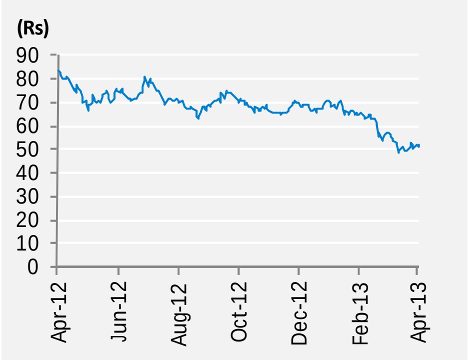
+91-22-66322239

Rating	**BUY**
Price	Rs52
Target Price	Rs70
Implied Upside	34.6%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			21.6
Shares o/s (m)			416.2
3M Avg. Daily value (Rs m)			70.8
Major shareholders			
Promoters			55.10%
Foreign			8.30%
Domestic Inst.			16.20%
Public & Other			20.40%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(8.6)	(25.4)	(37.9)
Relative	(2.2)	(24.2)	(44.7)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	8.1	8.2	*-1.6*
2015	8.9	8.6	*3.3*

Price Performance (RIC:CHMB.BO, BB:CHMB IN)



Source: Bloomberg

- **Urea sales remain steady:** Wide differential between Urea and Complex fertiliser prices have resulted in low-priced urea being substituted against high-priced complex fertilisers. Preliminary data from the Ministry of Fertilisers indicates that while urea sales for the industry increased by 1.3% during 11MFY13, decontrolled fertiliser sales declined by 18% during the same period. Chambal, being a proxy play to urea (75% of total EBIT in FY12), has turned out to be a major beneficiary of this trend.

- **Chambal to set up new urea plant, Gadepan SSP plant commences production:** Post the announcement of the New Urea Investment Policy (UIP), Chambal has decided to go ahead with capacity expansion of 1.3m mt of urea. The new UIP safeguards interest of all stakeholders and provides assured 12-20% post-tax returns on the fresh capital infused by the companies. Company's Single Super Phospate (SSP) plant at Gadepan with a capacity of 2lakh mt has commenced production during Q2FY13.

- **Valuations offers attractive upside; recommend 'BUY' with target price of Rs70:** Chambal's higher exposure to urea has helped it to withstand pressure on agri-inputs consumption over the last few quarters. We expect urea demand to remain steady and Chambal, being one of the most efficient players, is well-positioned to benefit from it. At CMP of Rs52, stock trades at historically low valuations of 6.5x FY14E earnings (long term average of 10x one-year forward earnings). We value Chambal at Rs70 (potential upside of 35%), implying 8.6x FY14E earnings. Dividend yield of ~4% limits downside risk. However, company's unrelated diversification into Shipping, Textiles & IT remains a major drag on the company's profitability and return ratios.

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	75,382	83,611	75,470	79,212
Growth (%)	*32.6*	*10.9*	*(9.7)*	*5.0*
EBITDA (Rs m)	8,216	8,184	8,247	8,771
PAT (Rs m)	2,996	3,134	3,351	3,684
EPS (Rs)	7.2	7.5	8.1	8.9
Growth (%)	*24.5*	*4.6*	*6.9*	*9.9*
Net DPS (Rs)	1.9	2.0	2.0	2.0

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*10.9*	*9.8*	*10.9*	*11.1*
RoE (%)	*18.3*	*17.3*	*16.5*	*16.1*
RoCE (%)	*7.6*	*7.5*	*8.0*	*8.4*
EV / sales (x)	0.7	0.6	0.6	0.6
EV / EBITDA (x)	6.3	5.9	5.5	5.1
PE (x)	7.2	6.9	6.5	5.9
P / BV (x)	1.3	1.1	1.0	0.9
Net dividend yield (%)	*3.7*	*3.9*	*3.9*	*3.9*

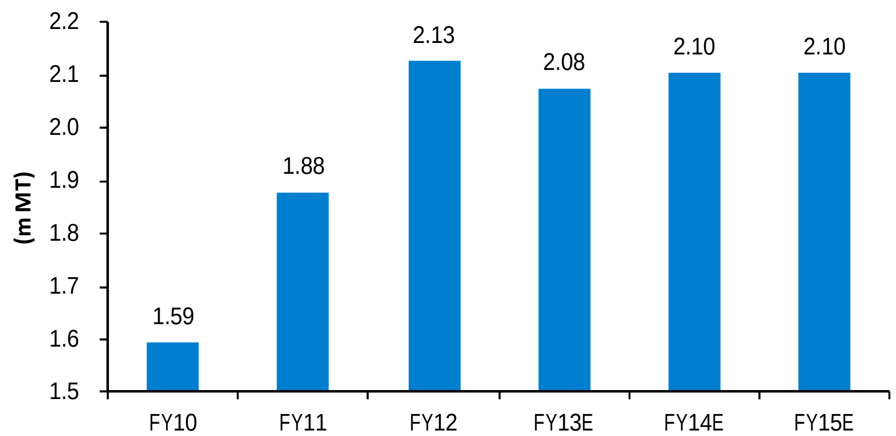
Source: Company Data; PL Research

Investment Argument

Urea sales remain steady

Urea sales remain steady due to wide differential between urea and decontrolled fertiliser prices which have induced farmers to use more of the low-priced urea while cutting down on high-priced complex fertilisers. Preliminary data from the Ministry of Fertilisers indicates that, while urea sales for the industry increased by 1.3% during 11MFY13, decontrolled fertiliser sales declined by 18% during the same period. Chambal, being a proxy play to urea, has been one of the major beneficiaries of this shift in consumption pattern towards urea. The company's manufactured urea sales volumes remained flat during 9MFY13. For FY13E, the company expects to manufacture 20.8lakh mt of urea.

Exhibit 1: Chambal's urea volumes have remained steady



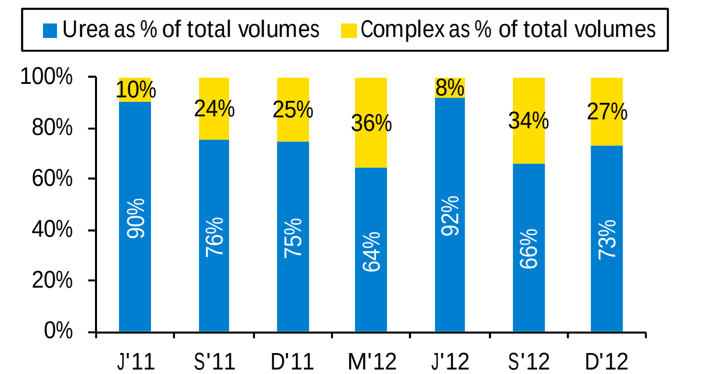
Source: Company, PL Research

Focus on trading has supported absolute profitability in 9MFY13

9MFY13 witnessed companies resorting to trading to boost volumes and benefit from attractive trading margins. Consequently, trading contributed 35% to Chambal's EBIT in 9MFY13 compared to 27% last year

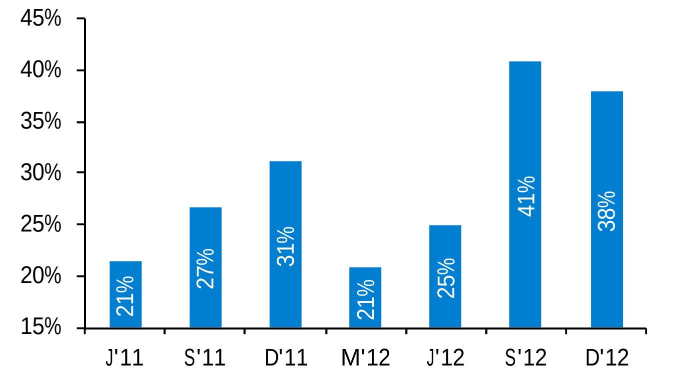
Chambal's renewed focus on trading has supported absolute profitability over the last few quarters. In 9MFY13, we have witnessed companies resorting to trading of complex fertilisers as trading became an attractive alternative. Chambal's 9MFY13 trading volumes stood at 5.4lakh mt, an increase of 26% YoY. Consequently, trading contributed 35% to EBIT in 9MFY13 compared to 27% last year. However, we expect trading opportunities to decline in FY14E due to huge inventory of complex fertilisers in the system.

Exhibit 2: Chambal's trading volumes have seen a spurt



Source: Ministry of Fertilisers, PL Research

Exhibit 3: Chambal's proportion of trading in total EBIT has increased



Source: Company Data, PL Research

Stable earnings trajectory

Higher exposure to urea has helped Chambal to withstand pressure on agri-inputs consumption

Chambal Fertilisers is the best proxy play on urea as manufactured urea earnings constituted 75% of total EBIT in FY12. Urea sales have remained stable despite moderation in rural growth and shrinking farm profitability as farmers have relentlessly shifted to low-priced urea over high-priced complex fertilisers. Industry-wide urea sales have increased at a CAGR of 3% over the last decade and we expect growth to continue. Chambal, being a leading private player in the domestic urea space, comprising of 1.85m mt of installed capacity, with 8% domestic market share (by capacity), remains a major beneficiary in this space.

Chambal to set up new urea capacity of 1.3m mt at Gadepan

Recently, the Govt. announced the new UIP which is aimed at boosting indigenous production of urea, while at the same time, reducing India's dependency on imported urea over the long term.

As per the draft guidelines of the new policy, govt. will assure 12-20% post-tax returns on the fresh capital infused by the companies for setting up of new plants as well as for expansion and revamp of the existing ones. Under this policy, gas cost (which is the main feedstock for urea) is a pass-through and government would cover the entire cost of natural gas. Our interaction with companies suggests that the revised guidelines are acceptable to the industry and industry is likely to go ahead with setting up of new capacities. Chambal's Board of Directors has already approved setting up of a new urea plant at the existing site at Gadepan and Kota with annual capacity of 1.3m mt of urea. Financial closure is expected to be achieved soon and project construction will start by mid-June'13.

Industry pushing aggressively for fixed cost reimbursement increase; however, nothing fruitful has emerged as of now

Urea industry has been pushing aggressively for increase in fixed costs reimbursement by Rs350/mt over the existing fixed cost under NPS-III due to escalation of costs. However, nothing fruitful has emerged as of now and companies continue to get reimbursed at old rates.

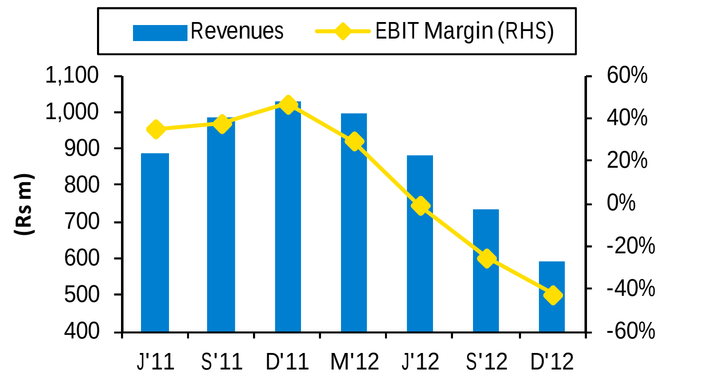
Unrelated business diversification continues to drag profitability

Though urea business remains stable, Chambal's unrelated diversification in Shipping, Textiles and IT remains a major drag on profitability and return ratios

Chambal's unrelated diversification outside its core business of fertilisers has not been very successful. Shipping business continues to remain under pressure due to global macro-slowdown. In our recent interaction, management highlighted that shipping environment is likely to remain tough for the next one year and improvement is expected only in 2014. Chambal had earlier proposed to demerge its shipping business as the shipping business had a meagre contribution to profitability, while it had deployed huge assets resulting in dilution of RoE/RoCE. However, the demerger could not go through because of adverse dynamics of shipping industry at that point of time.

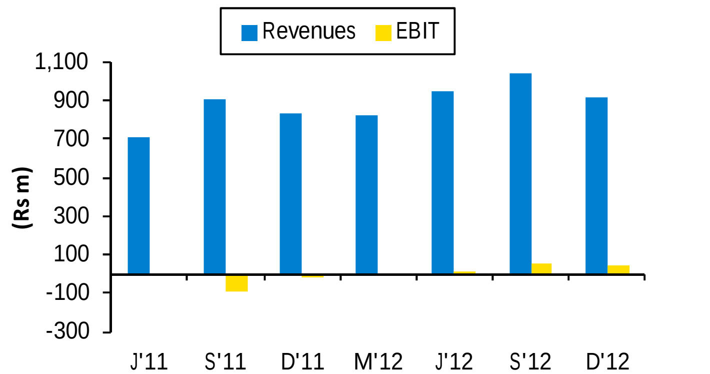
Chambal's textiles business which contributed 5% to top-line and 2% to EBIT in 9MFY13 has also been under pressure over the last few quarters. In the software business, Chambal's investment till date stands at US$95m and software business is likely to post loss (after tax) of around US$12-13m in FY13.

Exhibit 4: Shipping continues to be a laggard



Source: Company Data, PL Research

Exhibit 5: Textiles business- muted performance



Source: Company Data, PL Research

Urea price hike will proportionately reduce dependence on govt. subsidy

Though the Finance Minister in his Budget Speech avoided talking about urea price hikes and long-overdue reforms in urea sector, we believe urea price hikes are imminent and it would not be surprising if govt. increases urea prices marginally (10-15%) over the next few months. These reforms have been due since long but more importantly, it has become necessary to address the wide differential between urea and complex fertiliser prices. Hike in urea prices will benefit Chambal to the extent of proportionately reduced dependence on govt. subsidy.

IMACID likely to breakeven this year

IMACID is likely to only breakeven this year due to loss of production during Q1FY13

IMACID's performance was impacted this year as non-agreement over phosphoric acid price negotiations rendered production unviable, resulting in loss of production for a significant part of the year. Nonetheless, IMACID is likely to breakeven during this year.

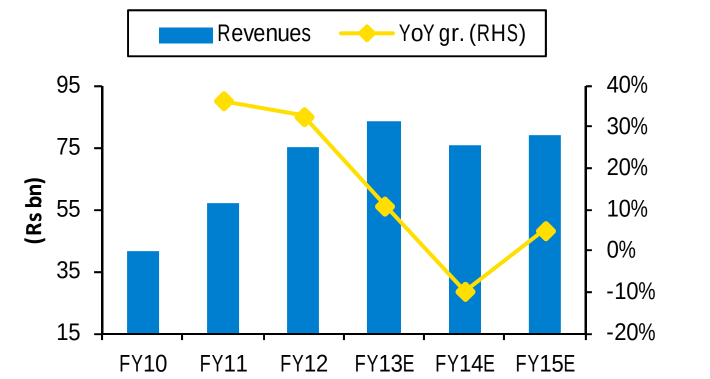
Chambal to set up SSP plant at Dahej; Gadepan SSP plant commences production

Chambal Fertilisers plans to set up a SSP plant at Dahej, Gujarat, with an annual capacity of 5lakh mt, involving an outlay of Rs1.2bn. Company's SSP plant at Gadepan, with a capacity of 2lakh mt, involving a capital outlay of Rs325m has already commenced production during Q2FY13.

Financials

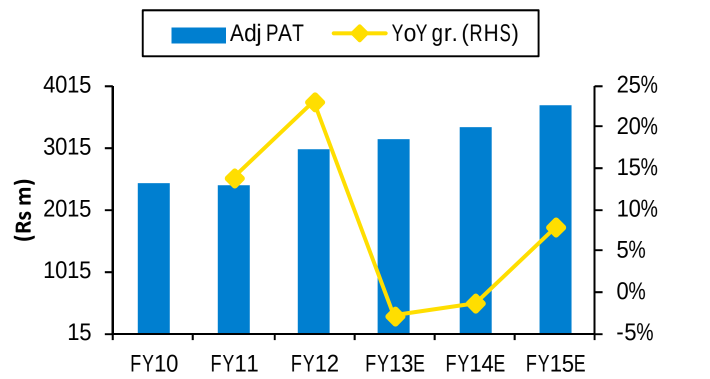
We expect Chambal Fertiliser to report revenue CAGR of 1.7% over FY12-15E. Though the company is likely to report 10.9% top-line growth in FY13E, we expect FY14E revenues to decline by 9.7% YoY due to lower trading volumes. Huge inventory of complex fertiliser in the system is likely to limit trading opportunities over the next couple of quarters. However, EBITDA margins are likely to improve by 110bps to 10.9% due to lower contribution of trading (which carries lower margins than manufactured urea). We expect adjusted PAT to increase at a CAGR of 7.1% over FY12-15E. We have modelled for consolidated adjusted EPS of Rs8.1/8.9 for FY14E/15E.

Exhibit 6: Growth to be impacted in FY14E due to lower trading



Source: Company, PL Research

Exhibit 7: Adj. PAT & Adj. PAT growth % YoY

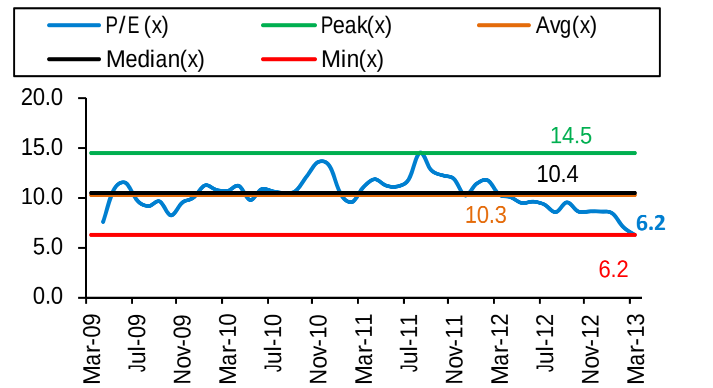


Source: Company, PL Research

Valuation

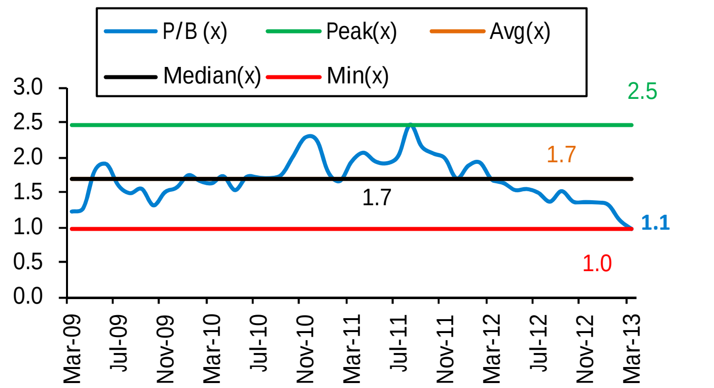
Chambal is trading at attractive valuations of 6.5x FY14E earnings of Rs8.1, which is a discount of 35% to its long-term average of 10x. Core urea business remains strong. At a time when complex fertiliser players are struggling due to demand destruction, players like Chambal have benefited from the shift towards urea. We recommend '**BUY**' and value Chambal at Rs70 (potential upside of 35%), implying 8.6x FY14E earnings. At CMP of Rs52, stock also offers attractive dividend yield of 4%.

Exhibit 8: 1yr. forward PE



Source: Bloomberg, PL Research

Exhibit 9: 1yr. forward P/BV



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**75,382**	**83,611**	**75,470**	**79,212**
Raw Material Expenses	42,862	50,062	45,189	47,443
Gross Profit	32,520	33,549	30,281	31,769
Employee Cost	3,388	3,805	3,391	3,553
Other Expenses	20,916	21,561	18,642	19,445
EBITDA	**8,216**	**8,184**	**8,247**	**8,771**
Depr. & Amortization	3,084	2,838	2,842	2,842
Net Interest	497	737	567	617
Other Income	800	604	550	500
Profit before Tax	**4,635**	**4,609**	**4,838**	**5,312**
Total Tax	1,934	1,625	1,587	1,708
Profit after Tax	**2,701**	**2,984**	**3,251**	**3,604**
Ex-Od items / Min. Int.	(294)	(150)	(100)	(80)
Adj. PAT	**2,996**	**3,134**	**3,351**	**3,684**
Avg. Shares O/S (m)	**416.2**	**416.2**	**416.2**	**416.2**
EPS (Rs.)	**7.2**	**7.5**	**8.1**	**8.9**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	17,012	19,178	21,561	24,278
Total Debt	34,744	29,744	27,744	27,744
Other Liabilities	5,006	5,006	5,006	5,006
Total Liabilities	**56,762**	**53,928**	**54,312**	**57,029**
Net Fixed Assets	27,616	28,278	28,936	29,594
Goodwill	3,211	3,211	3,211	3,211
Investments	1,431	1,705	2,205	2,705
Net Current Assets	24,494	20,724	19,950	21,508
Cash & Equivalents	*4,796*	*2,955*	*4,188*	*4,824*
Other Current Assets	*30,879*	*29,756*	*27,191*	*28,370*
Current Liabilities	*11,181*	*11,987*	*11,430*	*11,686*
Other Assets	10	10	10	10
Total Assets	**56,762**	**53,928**	**54,312**	**57,029**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	(5,815)	8,212	8,168	5,640
C/F from Investing	(737)	(2,896)	(2,950)	(3,000)
C/F from Financing	8,302	(7,159)	(3,985)	(2,005)
Inc. / Dec. in Cash	1,750	(1,842)	1,233	636
Opening Cash	3,048	4,797	2,955	4,188
Closing Cash	4,797	2,955	4,188	4,824
FCFF	(11,497)	4,401	4,701	2,103
FCFE	(899)	(599)	2,701	2,103

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**13,644**	**23,407**	**20,885**	**15,770**
EBITDA	**1,916**	**1,951**	**2,105**	**2,213**
% of revenue	*14.0*	*8.3*	*10.1*	*14.0*
Depr. & Amortization	560	547	576	570
Net Interest	179	124	157	160
Other Income	175	175	125	130
Profit before Tax	**1,178**	**1,280**	**1,372**	**1,483**
Total Tax	366	455	412	445
Profit after Tax	**771**	**1,095**	**961**	**1,038**
Adj. PAT	**812**	**895**	**961**	**1,038**

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	32.6	10.9	(9.7)	5.0
EBITDA (%)	16.3	(0.4)	0.8	6.4
PAT (%)	24.5	4.6	6.9	9.9
EPS (%)	24.5	4.6	6.9	9.9
Profitability				
EBITDA Margin (%)	10.9	9.8	10.9	11.1
PAT Margin (%)	4.0	3.7	4.4	4.7
RoCE (%)	7.6	7.5	8.0	8.4
RoE (%)	18.3	17.3	16.5	16.1
Balance Sheet				
Net Debt : Equity	1.8	1.4	1.1	0.9
Net Wrkng Cap. (days)	110	93	93	93
Valuation				
PER (x)	7.2	6.9	6.5	5.9
P / B (x)	1.3	1.1	1.0	0.9
EV / EBITDA (x)	6.3	5.9	5.5	5.1
EV / Sales (x)	0.7	0.6	0.6	0.6
Earnings Quality				
Eff. Tax Rate	41.7	35.3	32.8	32.2
Other Inc / PBT	17.3	13.1	11.4	9.4
Eff. Depr. Rate (%)	5.5	4.7	4.5	4.2
FCFE / PAT	(30.0)	(19.1)	80.6	57.1

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Revenue Gr. (%)				
Urea	24.6	19.8	1.5	1.1
Trading	69.8	13.4	(32.2)	10.0
Textiles	37.2	(3.3)	10.0	8.0
Shipping	(3.5)	(9.9)	(5.0)	—
EBIT margins (%)				
Urea	16.7	13.9	14.0	14.4
Trading	6.1	7.8	6.2	6.5
Textiles	(3.1)	4.1	5.0	6.0
Shipping	6.0	(6.3)	(3.0)	—

Source: Company Data, PL Research.

Coromandel International

Inventory overhang remains the biggest concern

April 11, 2013

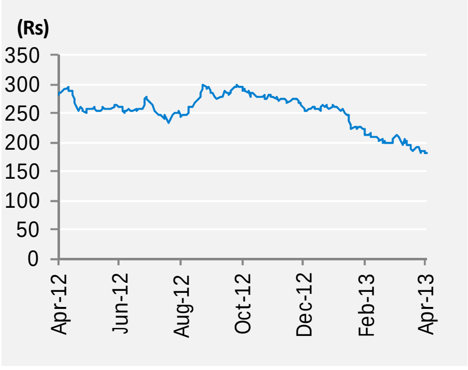
Balwinder Singh
balwindarsingh@plindia.com
+91-22-66322239

Rating	**Accumulate**
Price	Rs183
Target Price	Rs240
Implied Upside	31.1%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			51.6
Shares o/s (m)			282.6
3M Avg. Daily value (Rs m)			38.8
Major shareholders			
Promoters			63.80%
Foreign			7.30%
Domestic Inst.			11.70%
Public & Other			17.20%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(11.2)	(36.7)	(36.5)
Relative	(4.8)	(35.6)	(43.3)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	20.2	23.5	*-13.8*
2015	23.8	28.4	*-16.0*

Price Performance (RIC: CORF.BO, BB: CRIN IN)



Source: Bloomberg

- **Expect complex fertiliser volume recovery to be gradual:** We expect complex fertiliser volume recovery to be gradual over the next two years. Improvement in crop prices (25-30% increase in crop prices from their lows), stabilizing costs, rise in Minimum Support Prices (MSPs) and expectation of normal monsoons are likely to spur complex fertiliser consumption gradually. We would also like to highlight that urea is not a complete substitute for P & K fertilisers.

- **Non-subsidy business remains a major growth driver:** Non-subsidy business (15% to revenues and 35% to EBITDA in 9MFY13) remains a major growth driver for Coromandel and has been growing @25-30% annually. Sabero's performance is improving and has posted profits after several quarter of losses. Management remains very bullish on the non-subsidy business and plans to scale-up its contribution to 50% over the next 2-3 years.

- **Kakinada expansion comes on stream; TIFERT to commence production:** Coromandel's expansion of NPK capacity at Kakinada has come on stream. Commencement of production at Kakinada C-train will boost Coromandel's proportion of manufactured fertilisers in total fertiliser volumes and eventually lead to improvement in margins. TIFERT is likely to commence production soon which will secure Coromandel's sourcing of raw materials for the expanded capacity.

- **Valuations attractive; recommend 'Accumulate' with target price of Rs240:** Coromandel is trading at attractive valuations of 9.0x FY14E P/E, 7.0x EV/EBITDA which is at a discount of 30% to its 3-year average (post the introduction of NBS, Coromandel has traded at an average P/E of 13x based on 1-yr forward earnings). We value Coromandel at Rs240 (based on 12x forward earnings of Rs20.2) and recommend '**Accumulate**' on the stock.

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	97,900	88,243	101,049	113,021
Growth (%)	*33.4*	*(9.9)*	*14.5*	*11.8*
EBITDA (Rs m)	9,971	7,268	9,964	11,368
PAT (Rs m)	6,229	4,069	5,722	6,747
EPS (Rs)	22.0	14.4	20.2	23.8
Growth (%)	*20.4*	*(34.7)*	*40.6*	*17.7*
Net DPS (Rs)	7.0	7.0	7.0	7.0

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*10.2*	*8.2*	*9.9*	*10.1*
RoE (%)	*28.6*	*16.4*	*20.8*	*21.5*
RoCE (%)	*15.9*	*10.4*	*13.2*	*14.6*
EV / sales (x)	0.7	0.8	0.7	0.6
EV / EBITDA (x)	7.1	10.0	7.0	5.8
PE (x)	8.3	12.7	9.0	7.7
P / BV (x)	2.2	2.0	1.8	1.5
Net dividend yield (%)	*3.8*	*3.8*	*3.8*	*3.8*

Source: Company Data; PL Research

Company Update

Investment Argument

Complex fertiliser volumes declined by 18% in 11MFY13…

Complex fertiliser volumes continue to remain under pressure due to steep increase in their prices over the last couple of years. Further, the wide differential between urea and complex fertiliser prices has induced farmers to use more of urea while cutting down on their complex fertiliser consumption. Consequently, complex fertiliser volumes have declined by 18% during 11MFY13, while urea sales have increased by 1.5% during the same period.

…However, we expect volumes to pick up gradually over the next two years

We expect recovery of complex fertiliser volumes to be a slow-paced affair over the next two years, driven by improvement in crop prices, stabilizing costs and expectation of normal monsoons

We expect recovery of complex fertiliser volumes to be gradual over the next two years. Our interaction with farmers/retailers suggests that farmer is reluctant to purchase complex fertiliser at such high prices even though his crop economics remain favourable. Hence, he has resorted to using more of urea while cutting down on complex fertiliser consumption. However, improvement in crop prices (25-30% increase in crop prices from their lows), stabilizing costs, rise in MSPs, inclination to use complex fertiliser after skipping consumption for couple of years and expectation of normal monsoons are likely to spur complex fertiliser consumption gradually.

Kakinada expansion comes on stream

Coromandel has commissioned the complex fertiliser plant, C-train at Kakinada and the production of fertilisers has already commenced. This will boost Coromandel's NPK capacity by 4,25,000mt, 15% of the current capacity. We believe that the expansion of Kakinada capacity will increase Coromandel's proportion of manufactured fertilisers in total fertiliser volumes and eventually lead to improvement in margins.

While Kakinada's expansion will boost production of manufactured fertilisers, commissioning of TIFERT will secure raw material access for the expanded capacity. However, the bigger issue facing the complex fertiliser industry is steep rise in prices and huge inventory in the system

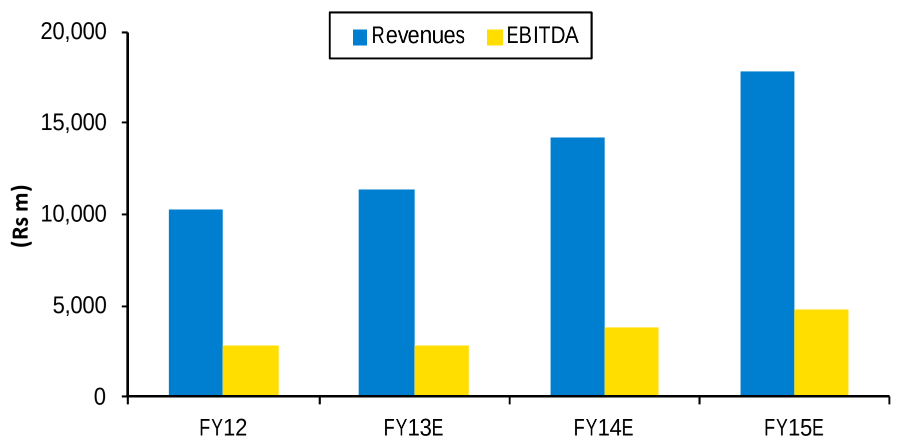
TIFERT commissioning to secure availability of raw materials

Tunisian Indian Fertilisers (TIFERT), Coromandel's joint venture for phosphoric acid production in Tunisia, is expected to start commercial production soon. Coromandel holds 15% in this joint venture and is entitled to 180,000mt of phosphoric acid annually. We believe commissioning of TIFERT will secure availability of raw materials and boost Coromandel's production of manufactured fertilisers.

Non-subsidy business remains strong

Coromandel's non-subsidy business contributed 15% to revenues and 35% to EBITDA in 9MFY13. Non-subsidy business remains a major growth driver for Coromandel and has been growing @25-30% p.a. since the last couple of years. Management remains very bullish on the non-subsidy business and plans to scale up its contribution to 50% over the next 2-3 years. Coromandel is the only agri-inputs player whose retail business model has been successful. The company currently operates 623 stores and plans to increase the number of stores to 1000 over the next few years. Margins in non-subsidy business are 2.5x-3x compared to fertilisers business.

Exhibit 1: Non subsidy business - major growth driver



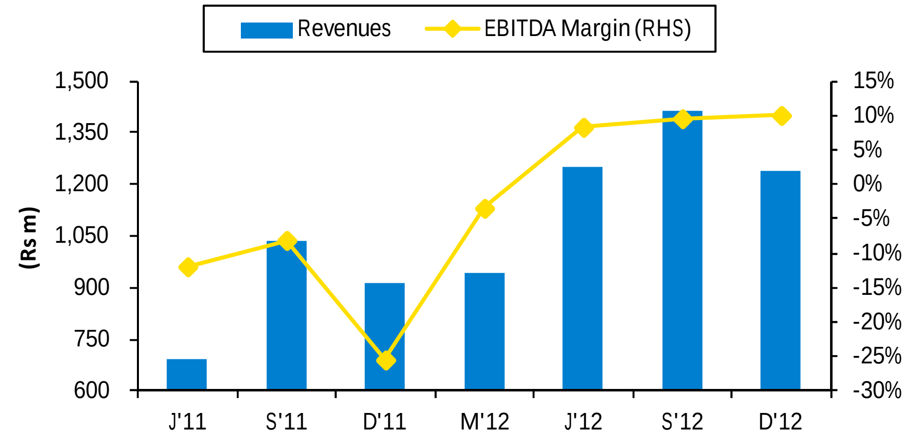
Source: Company Data, PL Research

Sabero performance improves

Sabero is currently operating at 60-65% capacity utilization and has obtained approvals to scale it up to 75%. EBITDA margins are likely to improve with the improvement in capacity utilization

Sabero Organics has turned around and posted profits after six consecutive quarters of losses. Sabero is currently operating at 60-65% capacity utilization and has obtained approvals to scale it up to 75%. EBITDA margins at Sabero are likely to improve to 13-14% (currently 10-11%), going forward. Sabero has restarted work on the Dahej expansion of synthetic pyrethroids and targets to complete it in CY13. We believe Sabero will be an important contributor to Coromandel's non-subsidy business over the next 2-3 years.

Exhibit 2: Sabero's performance improving



Source: Company Data, PL Research

Liberty Phospate - a perfect fit

Acquisition of Liberty Phospate will strengthen Coromandel's product portfolio and market positioning in Northern/Eastern markets

Recently, Coromandel announced acquisition of *Liberty Phospate*, a leading SSP player with a market share of 14% domestically. Coromandel plans to acquire 82% of Liberty @ Rs241/share valuing the company at ~Rs4bn. Liberty generated sales of Rs4.9bn and net profits of Rs535m during FY12.

Liberty Phospate has an established brand and strong distribution network. Company's "DOUBLE HORSE" brand is well-recognised in the marketplace. Liberty's fertilisers have a pan-India presence with the primary markets being Rajasthan, Madhya Pradesh, Gujarat, Haryana, Uttar Pradesh, Karnataka and Maharashtra. We believe Liberty's acquisition will enhance Coromandel's product portfolio and strengthen its market position in Northern/Eastern markets.

Working Capital requirements likely to ease over the next few months

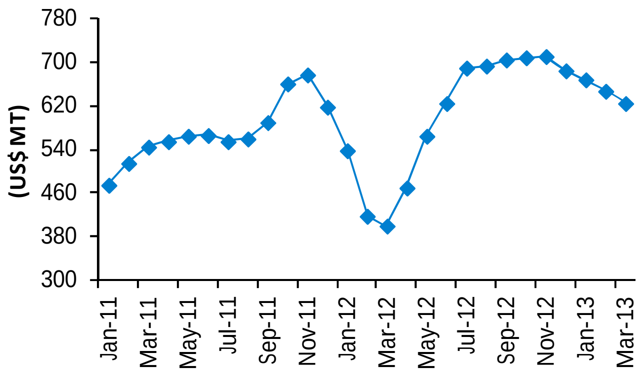
Working capital situation has deteriorated significantly over the last few quarters due to huge subsidy receivables and build-up of inventory. Companies have not received subsidy receivables since the last 6-7 months which has put pressure on the working capital. Lower complex fertiliser demand at the farmers' level has also resulted in build-up of inventory. However, we expect working capital requirements to ease over the next few months as subsidy receivables are cleared by the govt. after allocation of budgetary grants. Improvement in domestic market over the next couple of quarters would also result in easing the working capital requirements.

Raw material prices have softened over the last few months

Sudden spurt in ammonia prices was driven by global supply shortages. However, prices have started to cool off and are currently trading at $600/mt

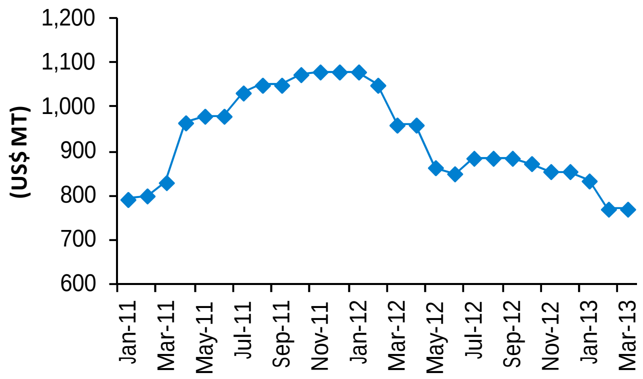
Raw material prices including phosphoric acid and ammonia have softened over the last few months. Phosphoric acid prices have corrected by 13% to US$770/mt currently (from US$885/mt in Sep'12). Similarly, ammonia prices have also corrected by 15% to US$600/mt currently (from US$710/mt in Nov'12) due to improvement in global supply. We believe global prices of these raw materials are likely to remain in the similar range over the next few quarters due to weak global fertiliser demand and improvement in supply of these raw materials.

Exhibit 3: Ammonia prices



Source: Bloomberg, PL Research

Exhibit 4: Phosphoric Acid prices



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Source: Bloomberg, PL Research

FY14E DAP subsidy likely to be reduced by Rs2,000/mt; MoP subsidy likely to be reduced by Rs2,700/mt

Media reports indicate that govt. is likely to reduce the subsidy on DAP by 14% and MoP by about 19% for FY14E. The Fertiliser Ministry has proposed a subsidy cut of Rs2,000/mt on DAP and Rs2,700/mt on MoP for FY14E. Revised subsidy is expected to be pegged at Rs12,350/mt on DAP (FY13 subsidy of Rs14,350/mt) and Rs11,740/mt on MoP (FY13 subsidy of Rs14,440/mt).

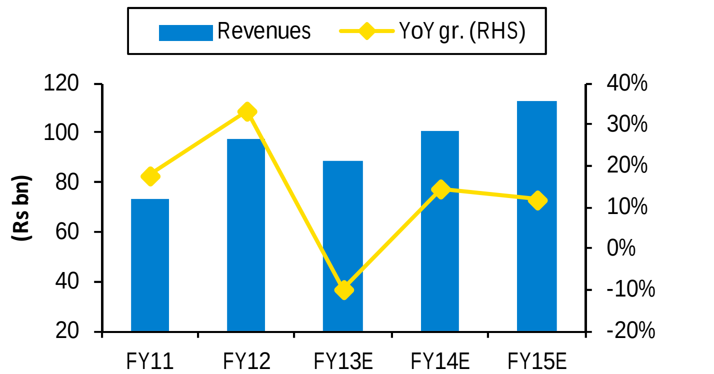
Expected subsidy reduction in line with decline in global prices of raw materials

We believe the expected reduction in subsidy rates is in line with the decline in global prices of raw materials such as phosphoric acid, potash and sulphur. As compared to last year, phosphoric acid prices are down by 27% YoY, while potash prices are lower by 16% YoY. ***However, with the proposed reduction in subsidy rates, we believe, there is limited room for slashing farmgate prices of decontrolled fertilizers by the companies.***

Financials

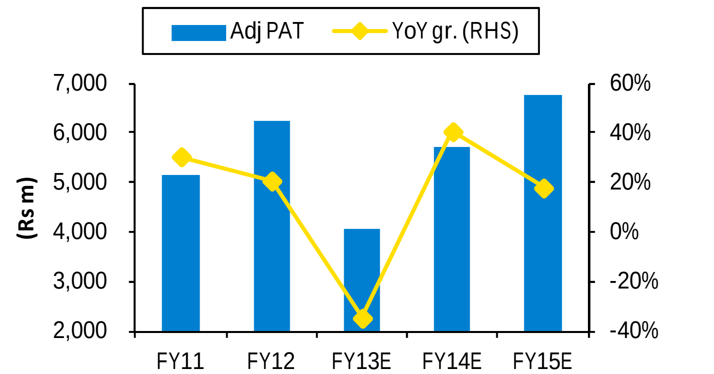
We expect Coromandel to report revenue CAGR of 5% over FY12-15E. Though we expect total revenues to decline by 10% YoY during FY13E, we expect growth to revive in FY14E supported by improvement in complex fertiliser volumes, consistent growth in non-subsidy business, acquisition of Liberty Phospate and ramp-up in Sabero Organics. EBITDA margins are likely to improve by 150bps, driven by higher contribution of non-subsidy business (which has 2.5x fertiliser margins), ramp-up in Sabero, softening of raw materials prices, improvement in fertiliser scenario, commencement of TIFERT and higher production of manufactured fertilisers. We expect Adj. PAT to increase at a CAGR of 3% over FY12-15E. We expect EPS to decline by 35% YoY to Rs14.4 in FY13E. However, EPS is likely to bounce back to Rs20.2/23.8 in FY14E/15E.

Exhibit 5: Growth to revive in FY14E/FY15E



Source: Company Data, PL Research

Exhibit 6: Earnings driven by revenue growth & margin improvement

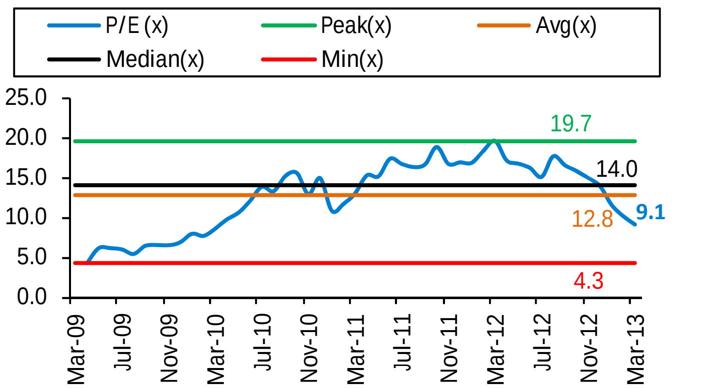


Source: Company Data, PL Research

Valuations

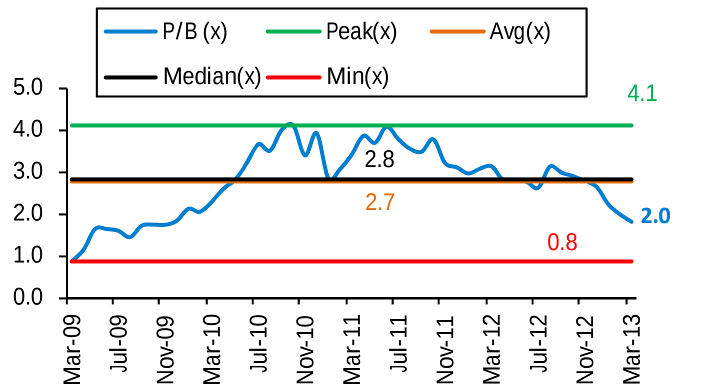
Coromandel is trading at attractive valuations of 9.0x FY14E P/E, 7.0x EV/EBITDA which is at a discount of 30% to its 3-year average (post the introduction of NBS, Coromandel has traded at an average P/E of 13x based on 1-yr forward earnings). We value Coromandel at Rs240 (based on 12x forward earnings of Rs20.2) and recommend '**Accumulate**'.

Exhibit 7: 1yr. forward PE



Source: Bloomberg, PL Research

Exhibit 8: 1yr. forward P/BV



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**97,900**	**88,243**	**101,049**	**113,021**
Raw Material Expenses	76,026	65,160	73,437	83,047
Gross Profit	21,874	23,083	27,613	29,974
Employee Cost	2,107	2,327	2,513	2,715
Other Expenses	9,796	13,488	15,135	15,892
EBITDA	**9,971**	**7,268**	**9,964**	**11,368**
Depr. & Amortization	596	701	960	960
Net Interest	513	1,357	890	680
Other Income	729	695	720	840
Profit before Tax	**8,862**	**5,211**	**8,114**	**9,728**
Total Tax	2,632	1,133	2,272	2,821
Profit after Tax	**6,229**	**4,078**	**5,842**	**6,907**
Ex-Od items / Min. Int.	246	1,684	120	160
Adj. PAT	**6,229**	**4,069**	**5,722**	**6,747**
Avg. Shares O/S (m)	**282.6**	**282.6**	**282.6**	**283.0**
EPS (Rs.)	**22.0**	**14.4**	**20.2**	**23.8**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	24,003	25,753	29,157	33,586
Total Debt	28,760	25,260	23,260	21,260
Other Liabilities	1,348	1,348	1,348	1,348
Total Liabilities	**54,111**	**52,360**	**53,765**	**56,194**
Net Fixed Assets	14,756	17,788	18,328	18,868
Goodwill	3,470	3,470	3,470	3,470
Investments	2,169	2,169	2,169	2,169
Net Current Assets	33,717	28,933	29,798	31,687
Cash & Equivalents	*9,847*	*3,931*	*5,049*	*6,598*
Other Current Assets	*49,409*	*57,182*	*52,658*	*54,237*
Current Liabilities	*25,539*	*32,179*	*27,909*	*29,148*
Other Assets	—	—	—	—
Total Assets	**54,112**	**52,360**	**53,765**	**56,194**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	940	5,686	8,546	8,888
C/F from Investing	(7,971)	(3,733)	(1,500)	(1,500)
C/F from Financing	7,355	(7,869)	(5,928)	(5,838)
Inc. / Dec. in Cash	324	(5,916)	1,118	1,550
Opening Cash	9,523	9,847	3,931	5,049
Closing Cash	9,847	3,931	5,049	6,598
FCFF	(6,293)	(364)	5,436	5,868
FCFE	6,988	(3,864)	3,436	3,868

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**18,545**	**25,678**	**24,245**	**19,775**
EBITDA	**2,108**	**2,374**	**1,284**	**1,503**
% of revenue	*11.4*	*9.2*	*5.3*	*7.6*
Depr. & Amortization	170	171	180	180
Net Interest	354	229	394	380
Other Income	184	219	143	150
Profit before Tax	**1,584**	**1,974**	**710**	**943**
Total Tax	442	434	21	236
Profit after Tax	**1,151**	**2,370**	**684**	**702**
Adj. PAT	**1,151**	**1,532**	**684**	**702**

Source: Company Data, PL Research.

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	33.4	(9.9)	14.5	11.8
EBITDA (%)	25.3	(27.1)	37.1	14.1
PAT (%)	20.7	(34.7)	40.6	17.9
EPS (%)	20.4	(34.7)	40.6	17.7
Profitability				
EBITDA Margin (%)	10.2	8.2	9.9	10.1
PAT Margin (%)	6.4	4.6	5.7	6.0
RoCE (%)	15.9	10.4	13.2	14.6
RoE (%)	28.6	16.4	20.8	21.5
Balance Sheet				
Net Debt : Equity	0.8	0.8	0.6	0.4
Net Wrkng Cap. (days)	26	44	50	38
Valuation				
PER (x)	8.3	12.7	9.0	7.7
P / B (x)	2.2	2.0	1.8	1.5
EV / EBITDA (x)	7.1	10.0	7.0	5.8
EV / Sales (x)	0.7	0.8	0.7	0.6
Earnings Quality				
Eff. Tax Rate	29.7	21.7	28.0	29.0
Other Inc / PBT	8.2	13.3	8.9	8.6
Eff. Depr. Rate (%)	3.7	3.5	4.4	4.1
FCFE / PAT	112.2	(95.0)	60.0	57.3

Source: Company Data, PL Research.

Prabhudas Lilladher

Deepak Fertilisers & Petrochemicals

Chemicals segment to drive growth

Company Update

April 11, 2013

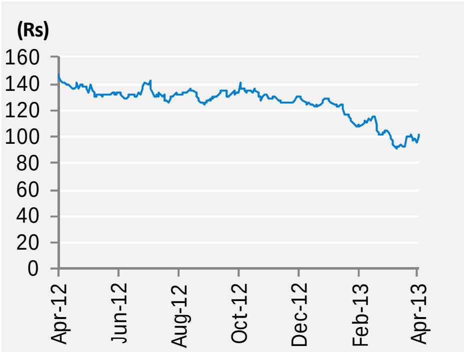
Balwindar Singh
balwindarsingh@plindia.com
+91-22-66322239

Rating	**Accumulate**
Price	Rs101
Target Price	Rs130
Implied Upside	28.7%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			8.9
Shares o/s (m)			88.2
3M Avg. Daily value (Rs m)			9.7
Major shareholders			
Promoters			43.30%
Foreign			13.20%
Domestic Inst.			15.50%
Public & Other			28.00%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(3.4)	(24.2)	(30.5)
Relative	3.0	(23.0)	(37.3)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	20.6	23.6	*-12.4*
2015	24.2	26.4	*-8.3*

Price Performance (RIC: DPFE.BO, BB: DFPC IN)



Source: Bloomberg

- **Gradual gain in domestic TAN market share:** Deepak Fertilisers is gradually replacing imported cheap fertiliser-grade ammonium nitrate with its high quality technical ammonium nitrate. We expect Deepak to produce 224,000mt of TAN in FY13E which would increase upto 302,000mt in FY14E (management guidance of 320,000mt). Consequently, Deepak's domestic market share in TAN is expected to increase from 33% in FY13E to 42% in FY14E.

- **Margins expected to rebound with softening of ammonia; improvement in IPA realizations:** We expect EBITDA margins to rebound over the next year driven by softening in ammonia prices and improvement in IPA realizations. Ammonia prices have softened by 15% to US$600/mt, currently driven by improvement in global supply. IPA margins are likely to witness improvement this quarter as increased costs have been passed on. Consequently, we expect EBITDA margins to rebound by 150bps YoY over the next two years to 14.4%.

- **Trading has supported fertiliser performance:** Though industry-wide fertiliser business has been under pressure since the last few quarters, Deepak fared well as compared to its peers. On a 9MFY13 basis, Deepak's total fertiliser revenues increased by 14% YoY (manufactured revenues increased by 6% YoY, while traded increased 21% YoY).

- **Recommend 'Accumulate' with target price of Rs130:** Deepak is currently trading at 4.9x FY14E earnings, which is a discount of 25% to its long-term average. With ramp-up in TAN operations, softening of raw materials costs and improvement in margins, we expect earnings to rebound sharply over the next two years. We recommend '**Accumulate**', with target price of Rs130 (potential upside of 29%) implying 6.3x 1-year forward earnings. Dividend yield of 5.5% prevents further downside risk.

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	23,428	25,029	26,936	28,947
Growth (%)	*49.4*	*6.8*	*7.6*	*7.5*
EBITDA (Rs m)	4,240	3,236	3,734	4,165
PAT (Rs m)	2,350	1,538	1,821	2,136
EPS (Rs)	26.6	17.4	20.6	24.2
Growth (%)	*23.7*	*(34.6)*	*18.4*	*17.3*
Net DPS (Rs)	5.5	5.5	5.5	5.5

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*18.1*	*12.9*	*13.9*	*14.4*
RoE (%)	*20.5*	*12.1*	*13.1*	*14.0*
RoCE (%)	*14.3*	*9.8*	*10.6*	*11.4*
EV / sales (x)	0.7	0.6	0.6	0.5
EV / EBITDA (x)	3.6	4.8	4.1	3.5
PE (x)	3.8	5.8	4.9	4.2
P / BV (x)	0.7	0.7	0.6	0.6
Net dividend yield (%)	*5.4*	*5.4*	*5.4*	*5.4*

Source: Company Data; PL Research

Investment Argument

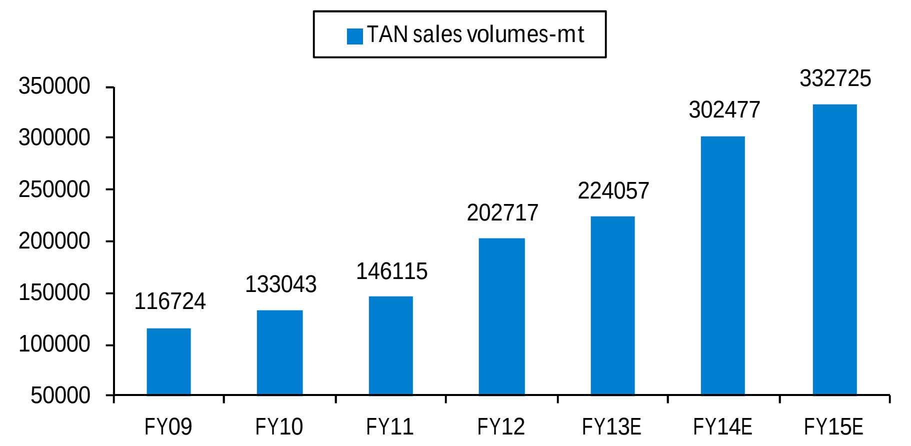
Deepak is gradually gaining market share in TAN

TAN is the single largest product for Deepak and contributed 38%/28% to chemicals/total revenues in H1FY13, respectively. The company has recently expanded its TAN capacity by 3,00,000mt (total capacity stands at 432,000mt currently) and is gradually replacing imported cheap fertiliser-grade ammonium nitrate with its high quality technical ammonium nitrate. Deepak's TAN is priced at a premium of 15-20% to imported low grade ammonium nitrate.

With a steady ramp-up in TAN production, Deepak's domestic market share is likely to increase to 42% in FY14E from 33% in FY13E

We expect Deepak to produce 224,000mt of TAN in FY13E, implying a capacity utilization of 52%. In FY14E, company expects to produce 320,000mt (capacity utilization of 75%) including exports of 50,000-70,000mt. With the steady increase in production of TAN, we expect Deepak's domestic market share to increase from 33% in FY13E to 42% in FY14E (domestic TAN demand stands at 600,000mt). We have modelled for TAN volumes of 302,000mt in FY14E.

Exhibit 1: Ramp-up in TAN to drive growth

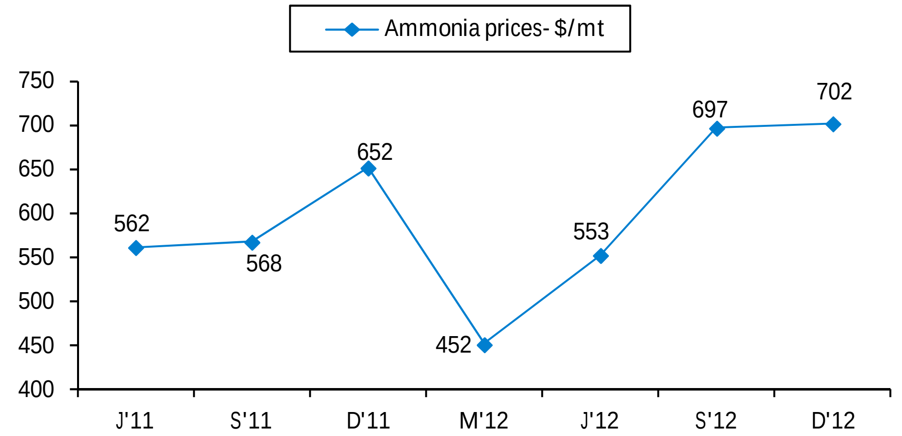


Source: Company Data, PL Research

TAN margins under pressure due to high ammonia prices...

EBITDA margins in TAN declined to 18% in Q3FY13 (from 25% in FY12) due to steep increase in ammonia prices over the last few quarters. Ammonia prices increased to US$710/mt in Nov'12 compared to US$400/mt in Mar'12 due to tight supply globally. Unplanned maintenance shutdown at couple of plants in Trinidad & Tobago combined with delay in commissioning of new plants which were expected to come on board during Jan'12 squeezed supply globally resulting in sudden spurt in global ammonia prices.

Exhibit 2: Ammonia prices increased sharply due to tight supply globally



Source: Bloomberg, PL Research

...However, we expect margins to rebound as ammonia prices are gradually cooling off

TAN margins have come under pressure lately due to increase in ammonia prices. However, recent softening in ammonia prices is likely to lead to rebound in margins

Ammonia prices have softened by 15% over the last three months and are currently ruling at US$600/mt. We believe the sudden spurt in ammonia prices was driven by supply shortages and ammonia prices are likely to come down to US$500-600 levels with improvement in supply. Plants in Trinidad & Tobago which were shut down for technical reasons are expected to resume production soon. Similarly, couple of new plants, whose commissioning has been delayed for almost a year now, are expected to come on board over the next few months. There is also a new plant in Algeria which is awaiting clearance for gas from the government of Algeria. Resumption/commencement of production at these sites is expected to increase supply of 4-5lakh mt of ammonia in the market. We expect TAN margins to rebound to 22-23% with decline in prices of ammonia over the next couple of quarters.

IPA margins likely to witness improvement in Q4FY13E

IPA margins are likely to witness improvement during this quarter backed by pass-through of costs in IPA

IPA's EBIT margins declined to 9% in Q3FY13 (from 15-16% in FY12) due to steep increase in Refinery Grade Propylene (RGP) prices which increased by 40% YoY to Rs69,000/mt in Q3FY13 compared to Rs50,000/mt in Q3FY12. However, margins are likely to witness improvement in Q4FY13E as increased raw material (RGP) prices have been passed on. Generally, raw material cost increases are passed on with a lag effect of 2-3 months. Increase in global prices of IPA has also supported margins as domestic IPA prices are Import Parity Price (IPP) linked.

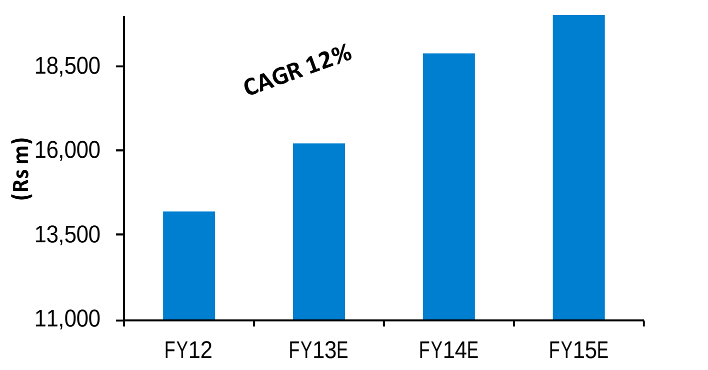
High gas prices render methanol production unviable

High gas prices have rendered methanol production unviable due to which methanol plant has shut down during the last two quarters. Deepak's break-even gas cost for production of methanol is US$8.5/mmbtu. However, with spot gas prices ruling above US$11-12/mmbtu, Deepak has refrained from production of methanol.

Chemicals growth to be driven by increased capacity utilization in TAN; expect margins to improve by 100bps over the next two years

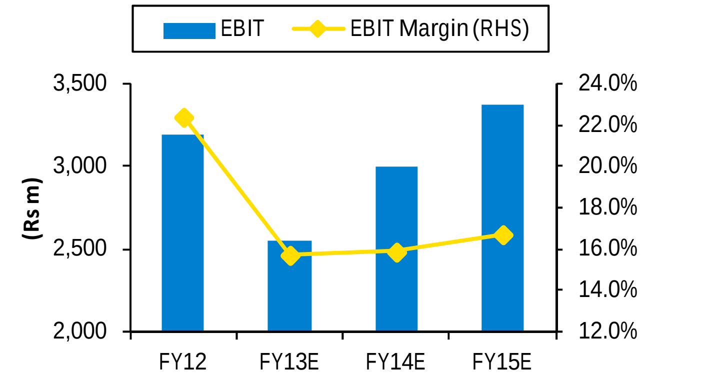
We expect chemicals segment to record 12% CAGR in revenues over FY12-15E driven primarily by increased capacity utilization of TAN plant. We have modelled for TAN sales volumes of 302,000/333,000mt in FY14E/FY15E (FY13E volumes of 224000mt). Chemicals margins are likely to improve by 100bps to 16.7% by FY15E driven by softening in ammonia prices and pass-through of costs in IPA (chemicals margins dipped by 600bps in 9mFY13 due to high ammonia & propylene prices).

Exhibit 3: Chemicals revenues to grow at a CAGR of 12%



Source: Company Data, PL Research

Exhibit 4: Improvement in IPA & TAN margins likely in FY14E/15E



Source: Company Data, PL Research

Capex to increase complex fert capacity to 6,00,000mtpa

Deepak Fertilisers has announced capex of Rs3.6bn to enhance the capacity of its NPK complex fertilisers to 6,00,000 mtpa (current capacity is 2,29,000mtpa). Company also plans to set up a greenfield bentonite sulphur project at a cost of Rs550m near Panipat, Haryana. Both these projects are expected to be completed within 30 months of their commencement. Company plans to finance the capex through debt/equity in the ratio of 2:1.

Fertilisers- Trading has supported fertiliser segment performance

Fertilisers contributed 38%/28% to revenues/EBIT during 9mFY13, respectively. Fertiliser business has been under pressure since the last few quarters due to huge inventory in system, high raw material prices, pressure on farmers' cash flow, delay in subsidy receivables etc. However, Deepak fared better than its peers. On a 9MFY13 basis, Deepak's total fertiliser revenues increased by 14% YoY (manufactured fertiliser revenues increased by 6% YoY, while traded revenues increased 21% YoY), while EBIT declined by 10% YoY. Trading of specialty fertiliser has also been robust over the last few quarters and supported fertiliser segment performance.

Strike at K-1 not to have any material impact on Q4FY13E results

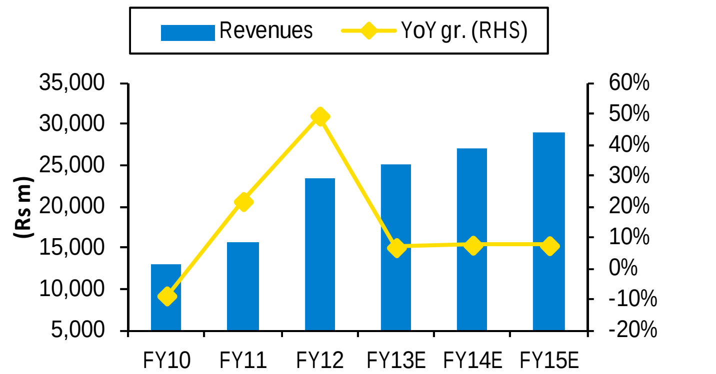
Though the strike continues, our interactions suggest that it is not going to have any material impact on Q4FY13E results

One of Deepak's plants at Taloja is under a strike since January 3, 2013 due to dispute over a disciplinary action taken by the management, productivity and wage settlement issues. In the absence of workers, management staff is operating the plant. Though the new TAN plant continues to operate normally, the IPA & Ammonium Nitro-phospate (ANP) plant are operating at sub-optimal capacity utilization. However, our interaction with management suggests that the extent of production loss is limited and it is not going to have any significant impact on Q4FY13E results.

Financials

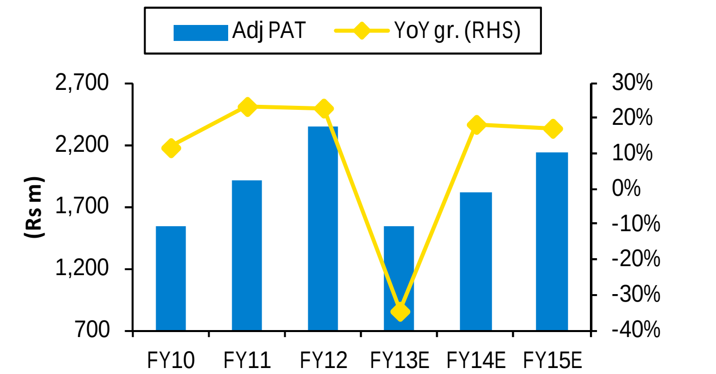
We expect Deepak to report revenue CAGR of 7.3% over FY12-15E driven primarily by growth in the chemicals segment. Chemicals revenues are expected to grow at a CAGR of 12% led by ramp-up in TAN operations. We expect EBITDA margins to rebound by 150bps over the next two years to 14.4% led by improvement in chemicals margins (9MFY13 EBITDA margins dipped by 600bps YoY to 13.0% due to high ammonia and propylene prices). We expect company to report EPS of Rs20.6/24.2 in FY14E/15E (FY13E earnings are at Rs17.4).

Exhibit 5: Revenues to grow at a CAGR of 7.3%



Source: Company Data, PL Research

Exhibit 6: PAT to bounce back supported by improvement in margins

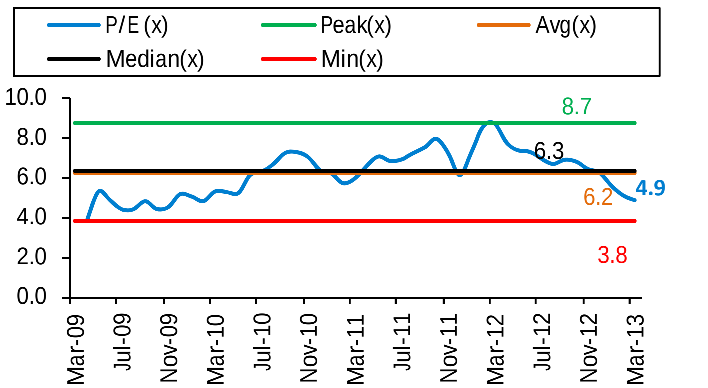


Source: Company Data, PL Research

Valuations

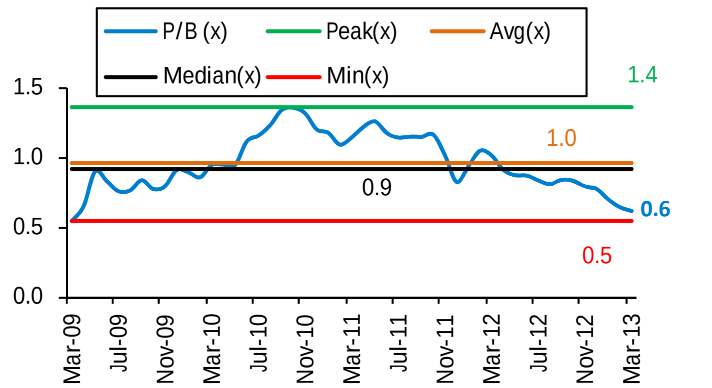
Deepak is currently trading at 4.9x FY14E earnings, which is a discount of 25% to its long-term average. With ramp-up in TAN operations, softening of raw materials costs and improvement in margins, we expect earnings to rebound sharply over the next two years. We recommend '**Accumulate**' with target price of Rs130 (potential upside of 29%) implying 6.3x 1-year forward earnings. Dividend yield of 5.5% prevents further downside risk.

Exhibit 7: 1yr. forward PE



Source: Bloomberg, PL Research

Exhibit 8: 1yr. forward P/BV



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**23,428**	**25,029**	**26,936**	**28,947**
Raw Material Expenses	15,250	17,214	18,194	19,524
Gross Profit	8,178	7,815	8,741	9,423
Employee Cost	1,413	1,538	1,661	1,744
Other Expenses	2,525	3,041	3,345	3,513
EBITDA	**4,240**	**3,236**	**3,734**	**4,165**
Depr. & Amortization	821	977	1,000	1,000
Net Interest	219	187	240	240
Other Income	394	544	480	480
Profit before Tax	**3,200**	**2,072**	**2,494**	**2,925**
Total Tax	771	534	673	790
Profit after Tax	**2,429**	**1,538**	**1,821**	**2,136**
Ex-Od items / Min. Int.	(520)	—	—	—
Adj. PAT	**2,350**	**1,538**	**1,821**	**2,136**
Avg. Shares O/S (m)	**88.2**	**88.2**	**88.2**	**88.2**
EPS (Rs.)	**26.6**	**17.4**	**20.6**	**24.2**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	12,235	13,219	14,486	16,067
Total Debt	7,793	7,793	7,793	7,293
Other Liabilities	1,156	1,156	1,156	1,156
Total Liabilities	**21,183**	**22,167**	**23,434**	**24,516**
Net Fixed Assets	14,146	14,468	15,468	16,968
Goodwill	127	127	127	127
Investments	976	976	976	1,000
Net Current Assets	5,933	6,595	6,862	6,420
Cash & Equivalents	*1,457*	*1,142*	*1,385*	*1,529*
Other Current Assets	*9,396*	*10,105*	*10,096*	*9,620*
Current Liabilities	*4,919*	*4,652*	*4,619*	*4,729*
Other Assets	—	—	—	—
Total Assets	**21,183**	**22,167**	**23,434**	**24,516**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	1,021	2,269	3,517	4,441
C/F from Investing	(2,037)	(1,299)	(2,000)	(2,524)
C/F from Financing	(317)	(1,285)	(1,274)	(1,774)
Inc. / Dec. in Cash	(1,333)	(315)	243	144
Opening Cash	2,790	1,457	1,142	1,385
Closing Cash	1,457	1,142	1,385	1,529
FCFF	(2,261)	539	1,797	2,721
FCFE	(2,130)	539	1,797	2,221

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**6,341**	**6,934**	**6,234**	**5,521**
EBITDA	**1,022**	**803**	**696**	**715**
% of revenue	*16.1*	*11.6*	*11.2*	*13.0*
Depr. & Amortization	227	250	251	250
Net Interest	114	5	28	40
Other Income	103	153	149	140
Profit before Tax	**682**	**547**	**418**	**425**
Total Tax	177	141	101	115
Profit after Tax	**455**	**406**	**316**	**310**
Adj. PAT	**505**	**406**	**316**	**310**

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	49.4	6.8	7.6	7.5
EBITDA (%)	23.1	(23.7)	15.4	11.5
PAT (%)	23.6	(34.6)	18.4	17.3
EPS (%)	23.7	(34.6)	18.4	17.3
Profitability				
EBITDA Margin (%)	18.1	12.9	13.9	14.4
PAT Margin (%)	10.0	6.1	6.8	7.4
RoCE (%)	14.3	9.8	10.6	11.4
RoE (%)	20.5	12.1	13.1	14.0
Balance Sheet				
Net Debt : Equity	0.5	0.5	0.4	0.4
Net Wrkng Cap. (days)	93	109	102	85
Valuation				
PER (x)	3.8	5.8	4.9	4.2
P / B (x)	0.7	0.7	0.6	0.6
EV / EBITDA (x)	3.6	4.8	4.1	3.5
EV / Sales (x)	0.7	0.6	0.6	0.5
Earnings Quality				
Eff. Tax Rate	24.1	25.8	27.0	27.0
Other Inc / PBT	12.3	26.3	19.2	16.4
Eff. Depr. Rate (%)	4.1	4.6	4.5	4.3
FCFE / PAT	(90.6)	35.0	98.7	104.0

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Sales volumes- mt				
TAN	202,716	224,057	302,477	332,725
Nitric Acid	131,084	121,784	130,309	135,522
IPA	71,010.6	79,459.6	81,843.4	81,843.4
Methanol	63,258.0	19,031.2	20,934.3	24,074.5
Manufactured fertilisers	176,203	163,026	171,178	179,736

Source: Company Data, PL Research.

Prabhudas Lilladher

Dhanuka Agritech

Leading domestic player; valuations yet to catch up

Company Update

April 11, 2013

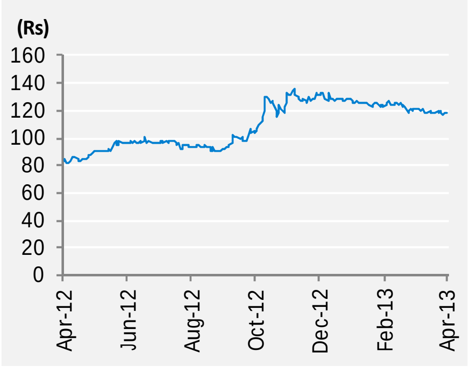
Balwindar Singh
balwindarsingh@plindia.com
+91-22-66322239

Rating	**BUY**
Price	Rs119
Target Price	Rs160
Implied Upside	34.5%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			5.9
Shares o/s (m)			50.0
3M Avg. Daily value (Rs m)			14.6
Major shareholders			
Promoters			75.00%
Foreign			8.80%
Domestic Inst.			7.40%
Public & Other			8.80%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(1.4)	13.8	41.5
Relative	5.0	15.0	34.7
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	15.2	14.8	*2.7*
2015	17.5	17.8	*-1.7*

Price Performance (RIC:DHNP.BO, BB:DAGRI IN)



Source: Bloomberg

- **Asset-light model enables Dhanuka to generate superior profit margins and return ratios:** Dhanuka's focus on marketing & distribution enables it to operate on an asset-light model, thereby, generating higher profit margins and superior return ratios. Company's EBITDA/PAT margins stood at 15.0%/10.8% for FY12 compared to industry average of 12.4%/7.9%, respectively. Dhanuka also reported higher RoE/RoCE of 29.7%/29.3% for FY12 compared to 25.5%/26.0% for the industry. Despite being a distribution-focused player, Dhanuka's margins and return ratios are better than the industry average due to higher proportion of specialty products (which carry higher margins) and lower sourcing costs.

- **Tie-ups with MNCs has strengthened product portfolio and created strong product pipeline:** Dhanuka generated ~42% of its revenues in 9MFY13 through tie-ups with MNCs which have played an important role in Dhanuka's success by strengthening its product portfolio and creating a strong product pipeline. Dhanuka currently has 6-7 new specialty molecules in its pipeline and plans to launch two products annually over the next 3-4 years. We expect growth to be driven primarily from new product launches which have high success ratio due to increased acceptance of newer technology by farmers. Nonetheless, existing products also offer strong growth potential. Company's top 10 products contributed ~50% of FY12 revenues and have grown at a CAGR of 17% over FY09-12.

- **Recommend 'BUY' with target price of Rs160:** Dhanuka is currently trading at 7.8x FY14E earnings which is at a discount of 30-35% to its domestic agrochemicals peers. With strong revenue visibility, better margin profile, higher RoEs/ROCEs, we believe that the stock is likely to get re-rated over the medium term. We recommend '**BUY**' with target price of Rs160 (potential upside 35%).

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	5,292	6,040	6,979	8,100
Growth (%)	*7.8*	*14.1*	*15.5*	*16.1*
EBITDA (Rs m)	794	853	1,054	1,239
PAT (Rs m)	571	633	759	874
EPS (Rs)	11.4	12.7	15.2	17.5
Growth (%)	*11.8*	*10.9*	*19.8*	*15.2*
Net DPS (Rs)	2.2	2.3	2.5	2.8

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*15.0*	*14.1*	*15.1*	*15.3*
RoE (%)	*29.7*	*26.4*	*25.7*	*24.2*
RoCE (%)	*24.0*	*22.5*	*22.5*	*21.7*
EV / sales (x)	1.2	1.0	0.9	0.8
EV / EBITDA (x)	7.9	7.4	6.0	5.0
PE (x)	10.4	9.4	7.8	6.8
P / BV (x)	2.8	2.2	1.8	1.5
Net dividend yield (%)	*1.9*	*1.9*	*2.1*	*2.4*

Source: Company Data; PL Research

Investment Arguments

Marketing & Distribution focused player

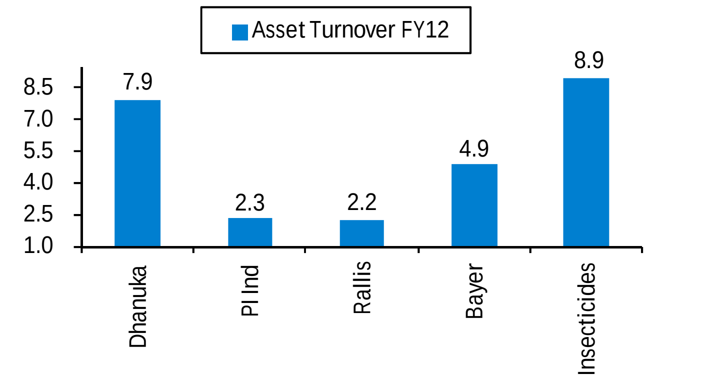
Dhanuka Agritech is primarily marketing and distribution focused player. Our channel checks reveal that Dhanuka ranks amongst the leading companies domestically in terms of distribution network - which is the key for success in an agrochemicals business. The company procures technicals (raw materials) from outside and formulates it at its own unit. Dhanuka boasts of one of the largest distribution networks in India with over 7,000 direct distributors/dealers selling to over 70,000 retailers. Dhanuka's products are used by over 10 million farmers across India.

Asset-light model translates into higher return ratios

Dhanuka operates on an asset-light model with its focus being primarily on marketing & distribution. Dhanuka is engaged in formulations and has not forayed into manufacturing of technicals which is highly capital-intensive. Consequently, company enjoys asset turnover as high as 8x, while the industry average is around 3x.

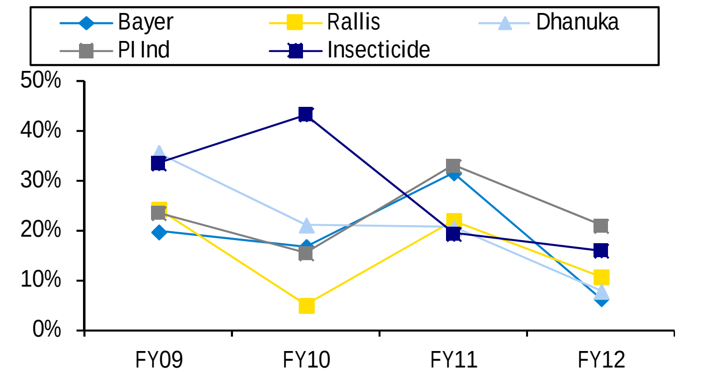
Over FY08-12, Dhanuka's revenues grew at a CAGR of 21%, higher than the likes of *Bayer Crop* & *Rallis India* whose CAGR stood at 18% & 15%, respectively. Company's EBITDA/PAT margins stood at 15.0%/10.8% for FY12 compared to industry average of 12.4%/7.9%, respectively. Dhanuka's margins are well above the industry average due to higher proportion of specialty products which carry higher margins, cash discounts secured on cash purchases of raw materials. Consequently, Dhanuka was able to report higher RoE/RoCE of 29.7%/29.3% for FY12 compared to 25.5%/26.0% for the industry.

Exhibit 1: Dhanuka commands higher asset turnover than peers



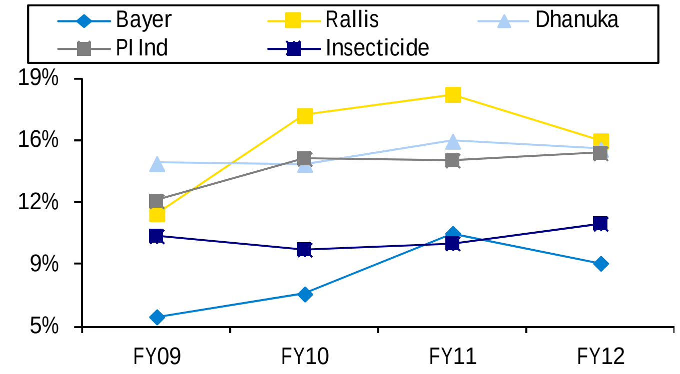
Source: Company Data, Accord, PL Research

Exhibit 2: Sales growth over the last 4 years



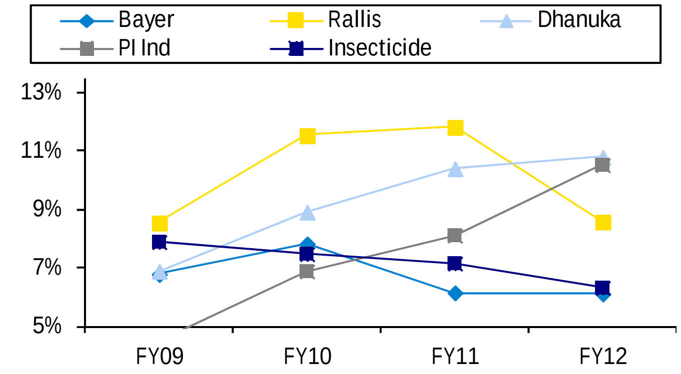
Source: Company Data, Accord, PL Research

Exhibit 3: EBITDA margins for Dhanuka are next to Rallis



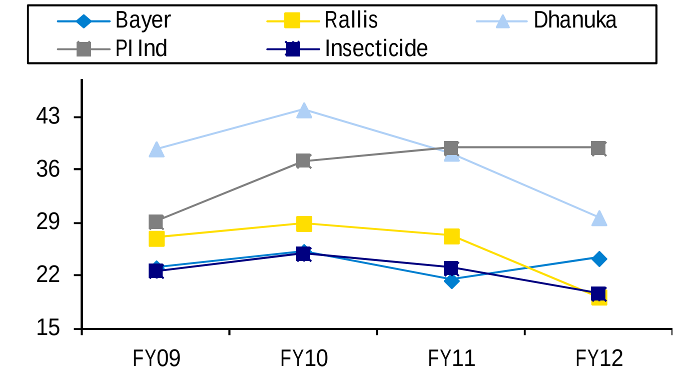
Source: Company Data, Accord, PL Research

Exhibit 4: Dhanuka has superior PAT margins than peers



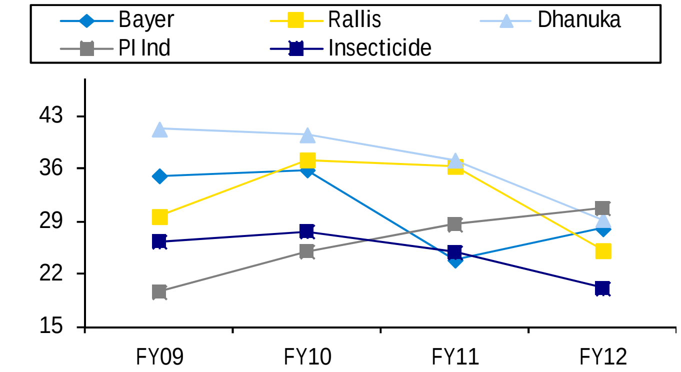
Source: Company Data, Accord, PL Research

Exhibit 5: Asset-light model translates into higher RoE for Dhanuka



Source: Company Data, Accord, PL Research

Exhibit 6: Dhanuka's RoCEs are the highest



Source: Company Data, Accord, PL Research

Tie-ups with MNCs contributed ~42% of revenues in 9MFY13

Dhanuka generated ~42% of its revenues in 9MFY13 through tie-ups with MNCs. Tie-ups with global MNCs have been an integral part of Dhanuka's success and has enabled the company to cash in on its strong distribution network established over the last 2-3 decades.

Muted growth in developed markets of North America, Europe and Japan has forced global agrochemicals giants to look for new growth opportunities in emerging markets. Though these MNCs possess strong technical expertise and product portfolio, they lack the distribution network domestically which is a key factor for success. MNCs also look to partner with companies who have strong farmer relationships, active farmer engagement initiatives, reputed management and credible history of successful product launches. Currently, Dhanuka has tie-ups with three US and five Japanese companies for the marketing of specialty molecules. In FY12, of the top 10 products, six products were under tie-ups and collectively contributed ~40% of revenues.

Exhibit 7: Products under tie-ups

Tech partner	Brand
Insecticide	
DuPont	Dunet
DuPont	Dhawa Gold
FMC Corp	Aatank
FMC Corp	Markar
FMC Corp	Brigade
Chemtura	Dimilin
Sumitomo	Caldan
Mitsui	Nukil
Mitsui	Bombard
Herbicide	
DuPont	Qurin
DuPont	Hook
FMC Corp	Nabood
Nissan	Targa Super
Fungicide	
DuPont	Cursor
DuPont	HiDice
Chemtura	Vitavax
Sumitomo	Sheathmar
Hokko	Kasu-B
DuPont	Luster

Source: Company Data, PL Research

Strong product pipeline – on track to launch two specialty molecules every year

Dhanuka's strong relationships with global counterparts have enabled the company to create a sustainable product pipeline. Company has consistently launched 3-4 products every year including a mix of specialty molecules as well as branded generics. Introduction of these products have helped to sustain the growth momentum over the years and create a strong product portfolio.

Dhanuka has built strong product pipeline of 6-7 new specialty molecules and plans to launch two annually over the next 3-4 years. Additionally, company plans to launch 2-3 new variants of existing molecules annually. During FY13, company has launched *Fuzi Super*, *Fluid* & *Luster*. Fuzi Super is a paddy herbicide under a co-marketing arrangement. Fluid, an insecticide, has been launched under a co-marketing arrangement with Bayer. Dhanuka recently launched Luster, a fungicide in collaboration with *DuPont*. Luster will initially target paddy.

Exhibit 8: New product launches have been consistent

Year	Category	Brand	Tech Partner
FY11	Insecticide	Ad-Fyre	NA
FY11	PGR	Dhanzyme Gold	NA
FY11	Fungicide	Zerox	NA
FY11	Fungicide	Mykel	NA
FY12	Insecticide	Brigade	FMC Corp
FY12	Fungicide	Vitavax Ultra	Chemtura
FY12	Activator	Wetcit	Oro Agri
FY12	Insecticide	Bombard	Mitsui
FY13	Herbicide	Fuzi Super	Kumai
FY13	Insecticide	Fluid	Bayer
FY13	Fungicide	Luster	DuPont

Source: Company Data, PL Research

Targa Super sales were impacted in FY13E

Domestic agrochemicals industry has witnessed two consecutive bad seasons - Rabi (2011) and Kharif (2012). Kharif was impacted due to delayed monsoons which postponed sowing and hence, impacted agri-inputs consumption. Company's key product "Targa Super" (20% of revenues in FY12) which is essentially an herbicide catering to soyabean, cotton and gram was impacted severely and management indicated a 15-20% decline in sales of this product in FY13E. Key markets for Targa Super include Madhya Pradesh, Gujarat and Maharashtra where sowing was impacted due to weak monsoons. However, management remains confident of a bounceback in Targa Super in FY14E supported by normal monsoons.

Focus on working capital reduction to further improve Balance Sheet

Dhanuka Agritech is virtually a debt-free company, with net debt/equity ratio of 0.1 in FY12. However, company's high working capital requirements compared to peers have been a major cause of concern.

Exhibit 9: Dhanuka has the highest working capital cycle

Working Capital Cycle	FY08	FY09	FY10	FY11	FY12
Dhanuka Agritech	167	141	148	169	163
PI Industries	77	91	69	97	97
Rallis India	75	44	8	23	31
Bayer Crop	10	46	60	72	80
Insecticides India	93	117	102	87	121

Source: Company Data, Accord, PL Research

Management highlighted that they have increased their focus on working capital reduction and are taking appropriate steps to rationalize inventory/debtors/creditors which is expected to lead to reduction in overall working capital requirements. We expect working capital to improve marginally by 5 days to 160 days by FY15E.

Growth to be driven primarily by new product launches; existing products also offer good growth potential

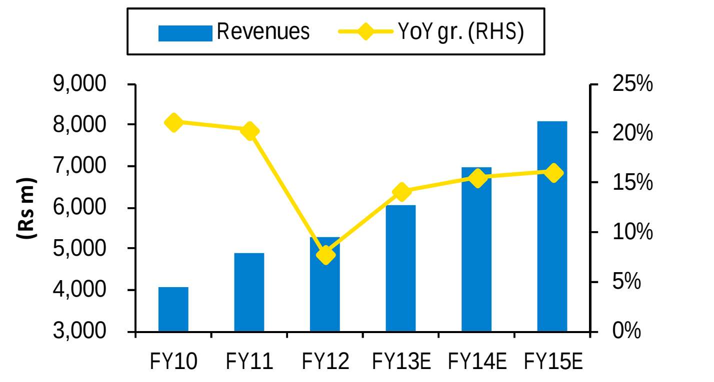
We expect Dhanuka to clock revenue CAGR of 15% over FY12-15E. We expect growth to be driven primarily from new product launches which have high success ratio due to increased acceptance of newer technology by farmers. Dhanuka has built a strong pipeline of products and introduction of two specialty molecules annually in niche areas (where competition has limited products) are likely to drive growth. Also, new products launched in last two years (Fuzi Super, Fluid, Vitavax Ultra, Brigade, Lustre) have received very encouraging response from farmers and are likely to emerge stronger over the next couple of years.

Though we expect growth to be driven primarily from new products launches, nonetheless existing products also offer good growth potential. Company's top 10 products contributed ~50% of FY12 revenues and have grown at a CAGR of 17% over FY09-12.

Financials

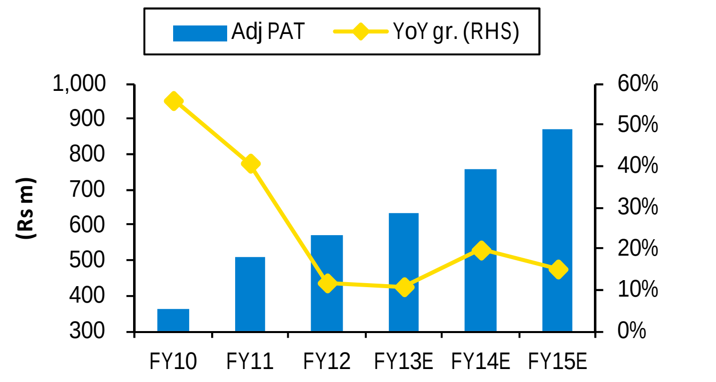
We expect Dhanuka's revenues to grow at a CAGR of 15% over FY12-15E. EBITDA margins are likely to improve by 120bps over the next two years to 15.3% driven by introduction of new specialty molecules which carry higher margins and rebound in Targa Super sales. We expect Adj. PAT to grow at a CAGR of 15% during the same period. We have modelled for EPS of Rs 15.2/17.5 for FY14E/15E.

Exhibit 10: Growth to be driven by new products launches



Source: Company Data, PL Research

Exhibit 11: Adj. PAT to grow at a CAGR of 15.2% over FY12-15E

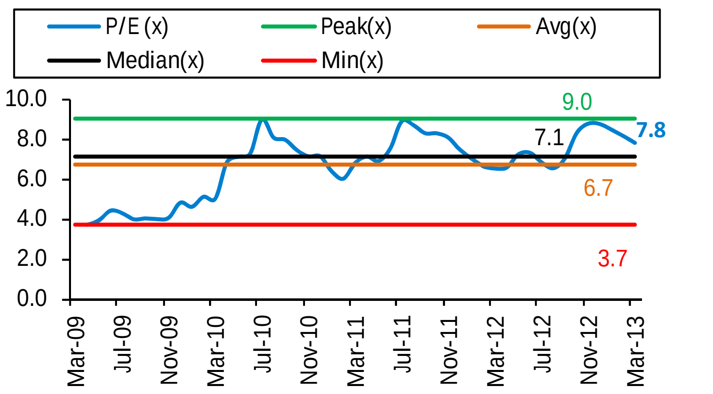


Source: Company Data, PL Research

Valuations

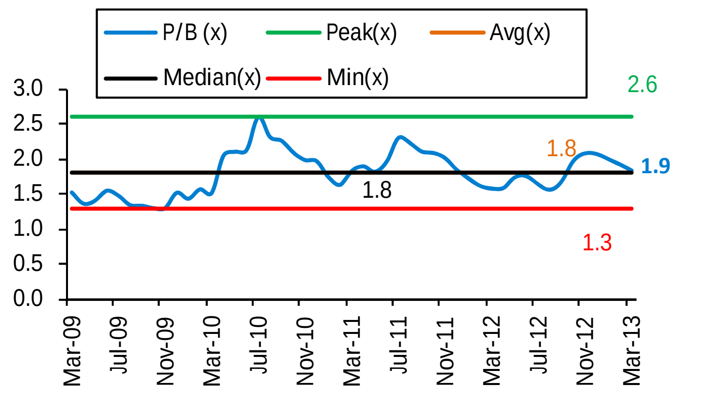
Dhanuka is currently trading at 7.8x FY14E earnings which is a discount of 30-35% to its domestic agrochemicals peers. With strong revenue visibility, better margin profile, higher RoEs/ROCEs, we believe, stock is likely to get re-rated over the medium term. We recommend '**BUY**' with target price of Rs160 (potential upside of 35%).

Exhibit 12: 1yr. forward PE



Source: Company Data, Bloomberg, PL Research

Exhibit 13: 1yr. forward P/BV



Source: Company Data, Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**5,292**	**6,040**	**6,979**	**8,100**
Raw Material Expenses	3,426	3,972	4,512	5,243
Gross Profit	1,866	2,068	2,467	2,857
Employee Cost	416	483	541	606
Other Expenses	656	733	872	1,013
EBITDA	**794**	**853**	**1,054**	**1,239**
Depr. & Amortization	45	45	48	52
Net Interest	49	16	7	7
Other Income	6	19	30	30
Profit before Tax	**700**	**791**	**998**	**1,180**
Total Tax	129	158	240	307
Profit after Tax	**571**	**633**	**759**	**874**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**571**	**633**	**759**	**874**
Avg. Shares O/S (m)	**50.0**	**50.0**	**50.0**	**50.0**
EPS (Rs.)	**11.4**	**12.7**	**15.2**	**17.5**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	2,146	2,645	3,257	3,967
Total Debt	394	394	394	394
Other Liabilities	159	159	159	159
Total Liabilities	**2,699**	**3,197**	**3,810**	**4,519**
Net Fixed Assets	393	465	627	785
Goodwill	—	3	3	3
Investments	153	153	153	153
Net Current Assets	2,153	2,576	3,027	3,578
Cash & Equivalents	*87*	*54*	*71*	*149*
Other Current Assets	*3,323*	*3,999*	*4,465*	*5,076*
Current Liabilities	*1,258*	*1,476*	*1,509*	*1,648*
Other Assets	—	—	—	—
Total Assets	**2,699**	**3,197**	**3,809**	**4,519**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	589	257	411	490
C/F from Investing	(198)	(121)	(210)	(210)
C/F from Financing	(353)	(170)	(184)	(201)
Inc. / Dec. in Cash	38	(34)	17	79
Opening Cash	50	87	54	71
Closing Cash	87	54	71	149
FCFF	496	171	323	403
FCFE	315	171	323	403

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**1,081**	**2,063**	**1,397**	**1,499**
EBITDA	**158**	**306**	**158**	**231**
% of revenue	*14.6*	*14.8*	*11.3*	*15.4*
Depr. & Amortization	11	11	12	12
Net Interest	5	2	6	4
Other Income	5	5	5	5
Profit before Tax	**142**	**294**	**140**	**215**
Total Tax	30	57	24	47
Profit after Tax	**112**	**237**	**117**	**168**
Adj. PAT	**112**	**237**	**117**	**168**

Source: Company Data, PL Research.

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	7.8	14.1	15.5	16.1
EBITDA (%)	4.6	7.4	23.6	17.6
PAT (%)	11.8	10.9	19.8	15.2
EPS (%)	11.8	10.9	19.8	15.2
Profitability				
EBITDA Margin (%)	15.0	14.1	15.1	15.3
PAT Margin (%)	10.8	10.5	10.9	10.8
RoCE (%)	24.0	22.5	22.5	21.7
RoE (%)	29.7	26.4	25.7	24.2
Balance Sheet				
Net Debt : Equity	0.1	0.1	0.1	0.1
Net Wrkng Cap. (days)	194	194	193	190
Valuation				
PER (x)	10.4	9.4	7.8	6.8
P / B (x)	2.8	2.2	1.8	1.5
EV / EBITDA (x)	7.9	7.4	6.0	5.0
EV / Sales (x)	1.2	1.0	0.9	0.8
Earnings Quality				
Eff. Tax Rate	18.4	20.0	24.0	26.0
Other Inc / PBT	0.9	2.5	3.0	2.5
Eff. Depr. Rate (%)	6.8	6.3	6.3	6.3
FCFE / PAT	55.1	27.1	42.6	46.1

Source: Company Data, PL Research.

Prabhudas Lilladher

Gujarat State Fertilisers & Chemicals

Strong Balance Sheet protects downside risk

Company Update

April 11, 2013

Balwindar Singh
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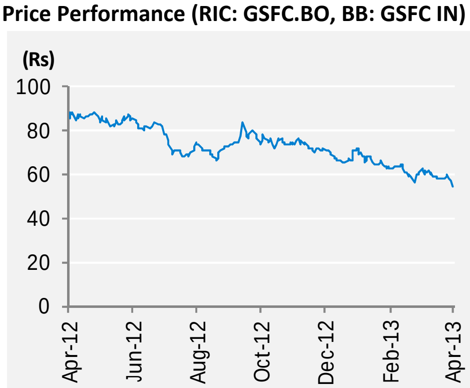
+91-22-66322239

Rating	**Accumulate**
Price	Rs55
Target Price	Rs70
Implied Upside	27.3%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			21.9
Shares o/s (m)			398.5
3M Avg. Daily value (Rs m)			36
Major shareholders			
Promoters			37.80%
Foreign			11.60%
Domestic Inst.			36.10%
Public & Other			14.50%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(10.1)	(27.7)	(38.1)
Relative	(3.7)	(26.5)	(44.9)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	14.9	15.7	*-4.9*
2015	16.0	17.1	*-6.3*

Price Performance (RIC: GSFC.BO, BB: GSFC IN)



Source: Bloomberg

- **Caprolactam-Benzene spreads recover to US$1100/mt:** Caprolactam-benzene spreads have recovered to US$1100/mt currently from their lows of US$800/mt as witnessed in Dec'12 led by improvement in caprolactam prices. Caprolactam prices increased to US$2400/mt, -15% YoY currently compared to US$2200/mt in Nov'12 driven by robust demand from the downstream market and low inventory levels in the market place. On the contrary, benzene prices softened by 10% to US$1300/mt resulting into spreads improving to US$1100/mt.

- **Expect capro-benzene spreads to remain in US$1100-$1300 band:** We expect capro-benzene spreads to remain range-bound and trade within US$1100-1300/mt band. Globally, caprolactam capacities to the tune of ~1m mt (25-30% of global demand) are expected to come on stream in the near-term which would significantly increase supply. However, benzene prices are expected to remain at elevated levels due to strong downstream demand and refinery shutdowns in Europe etc. Consequently, we expect spreads to remain range-bound.

- **GSFC's opportunistic trading boosted fertiliser volumes this fiscal:** Though industry-wide complex fertiliser volumes declined by 18% during 9mFY13, GSFC's total complex fertiliser volumes increased by 9% during the same period as company resorted to trading. However, we expect trading volumes to decline in FY14E due to huge inventory in the system.

- **Recommend 'Accumulate' with target of Rs70:** GSFC continues to trade at attractive valuations of 3.7x FY14E earnings, 50% discount to book value and EV/EBITDA of 1.8x. Company's current cash balance of Rs6.6bn (at end of H1FY13) translates into cash/share of Rs17 which is equivalent to 30% of the current market cap. We recommend '**Accumulate**' with target price of Rs70 (potential upside of 27%) due to attractive valuations and limited downside risk.

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	53,018	62,741	60,192	63,892
Growth (%)	*12.6*	*18.3*	*(4.1)*	*6.1*
EBITDA (Rs m)	11,291	8,505	9,163	9,969
PAT (Rs m)	7,490	5,665	5,938	6,384
EPS (Rs)	18.8	14.2	14.9	16.0
Growth (%)	*5.0*	*(24.4)*	*4.8*	*7.5*
Net DPS (Rs)	1.5	1.4	1.4	1.4

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*21.3*	*13.6*	*15.2*	*15.6*
RoE (%)	*23.6*	*15.0*	*13.9*	*13.2*
RoCE (%)	*20.6*	*13.4*	*12.5*	*12.2*
EV / sales (x)	0.4	0.3	0.3	0.2
EV / EBITDA (x)	1.7	2.4	1.8	1.4
PE (x)	2.9	3.9	3.7	3.4
P / BV (x)	0.6	0.5	0.5	0.4
Net dividend yield (%)	*2.7*	*2.5*	*2.5*	*2.5*

Source: Company Data; PL Research

Fertilisers

Fertiliser business going through tough times...

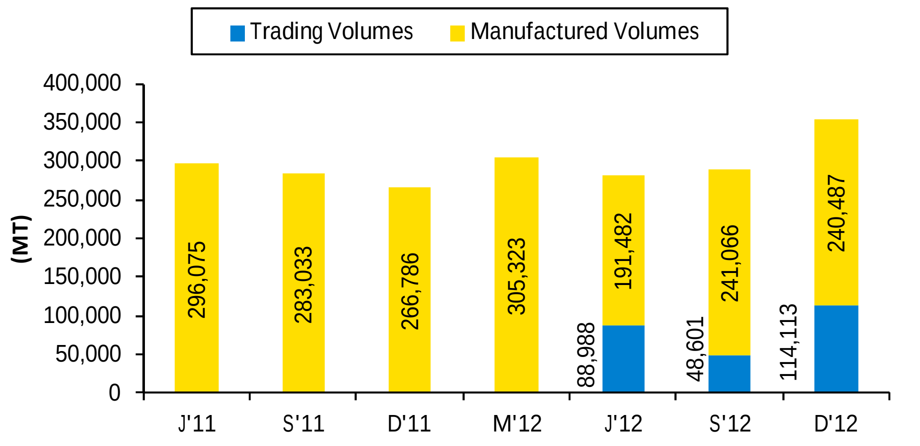
Fertiliser business has been under pressure since the last few quarters due to huge inventory in system, delay in subsidy receivables, wide differential between urea & complex fertiliser prices and high raw material prices. Resultant, industry-wide complex fertiliser volumes declined by 18% YTDFY13, while urea sales volumes increased by 1.3% during the same period. However, GSFC's total complex fertiliser (incl. trading) volumes increased by 9% during the same period driven by increase in trading volumes.

...However, GSFC's opportunistic trading has supported fertiliser volumes

While industry-wide complex fertiliser sales declined by 18% YTDFY13, GSFC's total complex fertiliser volumes increased by 9% YoY during the same period driven by increase in trading volumes

Though complex fertiliser sales have been under pressure, GSFC's opportunistic trading has supported fertiliser volumes. We believe GSFC resorted to trading over the last few quarters due to attractive trading margins as well as tight supply of phosphoric acid which hampered production of manufactured fertilisers for some players. However, we expect trading opportunities to decline in FY14E due to huge inventory of complex fertilisers in the system.

Exhibit 1: GSFC resorted to trading to boost volumes & benefit from attractive margins



Source: Ministry of Fertilisers, PL Research

TIFERT commencement to boost availability of raw materials

TIFERT, GSFC's joint venture for phosphoric acid production in Tunisia, is expected to commence production soon. We believe commissioning of TIFERT will secure availability of raw materials and boost GSFC's production of manufactured fertilisers.

Long-term potash requirements secured through investment in Karnalyte

GSFC's strategic arrangement with Karnalyte will help it to secure its long-term potash requirements. GSFC intends to utilize part of the potash procured for production of high grade NPK fertilizers at Sikka

Recently, GSFC has entered into a strategic arrangement with *Karnalyte Resources Inc.* to secure its long-term potash supply arrangement. GSFC will subscribe 19.98% equity in Karnalyte at US$8.15/share involving an outflow of C$45m (~Rs2.5bn). Phase-1 of this project is currently under the construction phase and it would take 3-4 years to start commercial production. GSFC has agreed for a committed offtake of 350,000mt p.a. from the first phase of Karnalyte's planned potash mine near Wynyard, Saskatchewan.

Since India completely depends on global potash suppliers for its requirements, we believe this arrangement will help to secure GSFC's potash availability in the longer run. Company intends to utilize a portion of the potash procured for production of high grade NPK fertilizers at Sikka, for which new facilities are being constructed.

Working Capital situation likely to ease in the subsequent quarters

Working capital situation has deteriorated considerably over the last few quarters due to pressure on farmers' cash flows, huge subsidy receivables from govt. and build-up of inventory. At the end of Q3FY13, GSFC's subsidy receivable from govt. stood at Rs10bn. We believe working capital requirements are likely to ease over the next few months after release of subsidy by the govt. (post budgetary allocation) and rebound in domestic markets over the next couple of quarters.

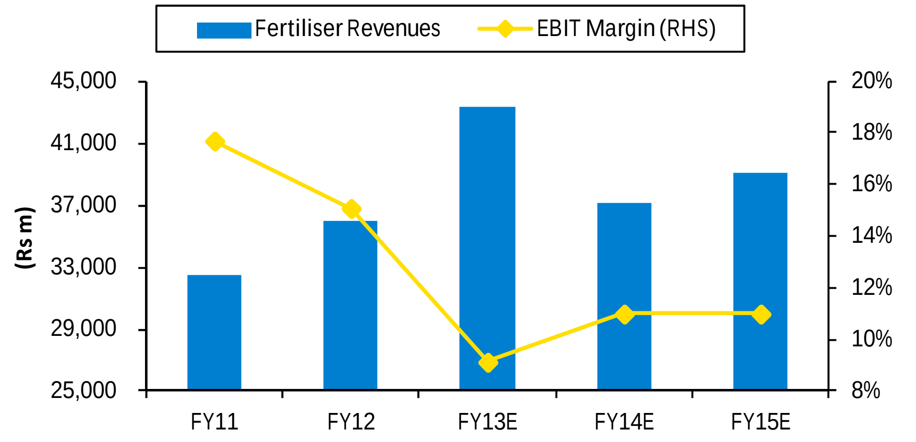
Fertiliser - we model for fertiliser revenues CAGR of 3% over FY12-15E; margins to improve by 190bps over the next 2 years

Decline in trading activity during FY14E due to huge complex fertiliser inventory in system is likely to result in lower fertiliser revenues for FY14E

We expect fertiliser revenues to increase at a CAGR of 3% over FY12-15E. Though fertiliser revenues are expected to increase by 21% YoY during FY13E driven by higher trading volumes, we expect trading volumes to decline in FY14E leading to decline in overall fertiliser revenues by 14% during FY14E.

We expect EBIT margins to improve by 190bps over the next two years to 11.0% by FY15E. EBIT margins had fallen sharply by 650bps YoY to 8.8% during 9MFY13 due to tough industry environment as well as higher trading volumes which carry lower margins.

Exhibit 2: Trading activity expected to decline in FY14E



Source: Company Data, PL Research

Chemicals

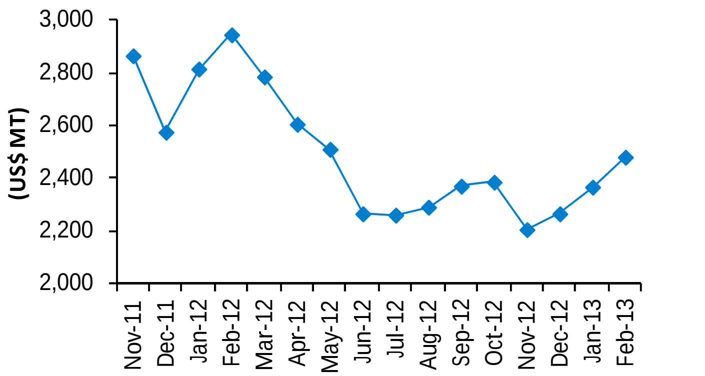
Caprolactam prices recover by 10% over the last three months to US$2400/mt; benzene prices soften by 10% to US$1300/mt…

Caprolactam prices have recovered from their lows driven by robust demand from downstream market and low levels of inventory. However, benzene prices have witnessed some softening leading to improvement in spreads to US$1100/mt currently from US$800/mt in Dec'12

Caprolactam prices have recovered from their lows of US$2200/mt in Nov'12 and are currently ruling at US$2400/mt, -15% YoY. Improvement in caprolactam prices have been driven by robust demand from the downstream market and low inventory levels in the market place. Some restocking operations in Asia following the Lunar New Year have also resulted in strong demand from Chinese-end users.

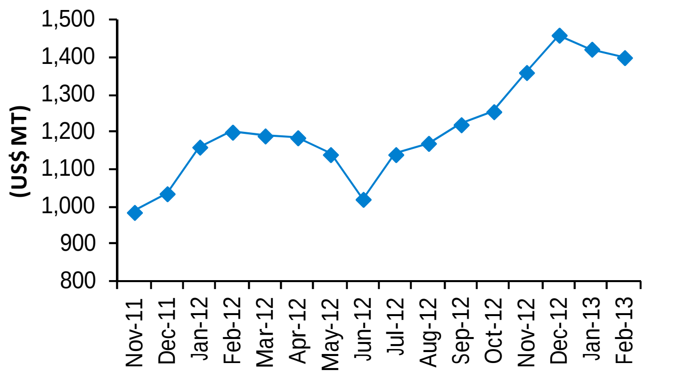
On the other hand, benzene prices have declined to US$1300/mt currently from US$1460/mt in Dec'12. Benzene prices have softened over the last couple of months due to subdued regional demand from the downstream market and unfavorable market fundamentals. On a YoY basis, benzene prices remain higher by 10%.

Exhibit 3: Caprolactam Prices



Source: Bloomberg, PL Research

Exhibit 4: Benzene prices

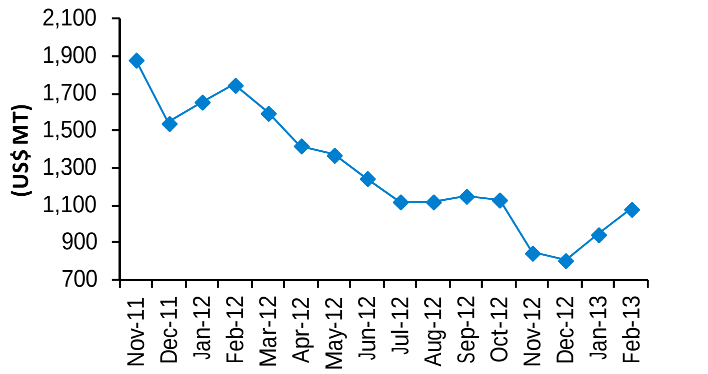


Source: Bloomberg, PL Research

….resulting in capro-benzene spreads improving to US$1100/mt

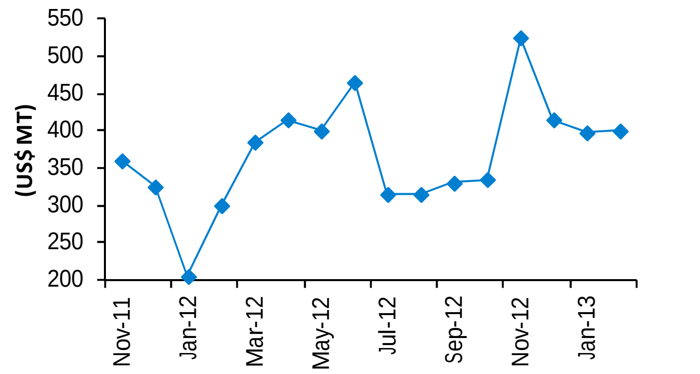
Driven by improvement in caprolactam prices, caprolactam-benzene spreads improved to US$1100/mt, -32% YoY currently from their lows of US$800/mt in Dec'12.

Exhibit 5: Capro-Benzene Spreads



Source: Bloomberg, PL Research

Exhibit 6: Nylon-Capro Spreads



Source: Bloomberg, PL Research

Expect capro prices to remain range-bound, while benzene prices to remain at elevated levels; we expect spreads to remain in US$1100-1300 band

We expect caprolactam prices to remain range-bound within US$2400-2600/mt due to new capacities coming online. Caprolactam capacities to the tune of ~1m mt (equivalent to 25-30% of global demand) are expected to come on stream in 2012 and 2013 which would significantly increase supply. Further, with demand remaining sluggish, we expect caprolactam prices to remain range-bound.

Spreads are likely to remain range bound over the next couple of quarters

On the other hand, benzene prices are expected to remain at elevated levels of US$1300-1400/mt due to scheduled plant shutdowns in March-May'13 resulting in production loss of 30,000mt. Outside Asia, benzene consumption in US is expected to increase driven by strong demand from downstream styrene monomer (SM) plants. Tight supply in Europe due to refinery shutdowns is also expected to support benzene prices. Consequently, we expect caprolactam-benzene spreads to remain in US$1100-1300/mt band.

Anone modernization project to reduce benzene consumption by 4%

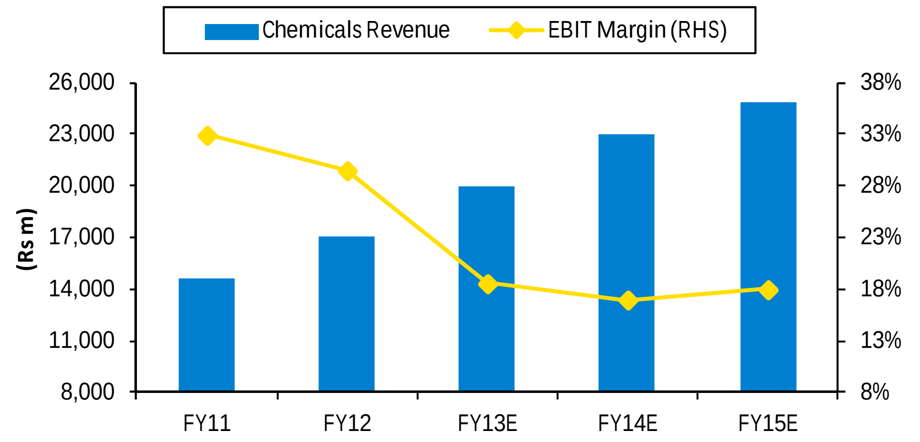
GSFC's anone modernization project involving a capex of Rs500m was completed during Q3FY13. The anone modernization project is expected to reduce benzene consumption by 4% and support chemicals segment profitability.

Methanol project, involving a capex of Rs3bn, is mechanically complete and commercial production is likely to start soon. Methanol plant is expected to generate revenues of Rs3.5bn annually (capacity of 1.6lakh mt p.a.).

Expect chemicals revenues to grow at a CAGR of 13.3% over FY12-15E

We expect chemicals revenues to grow at a CAGR of 13.3% over FY12-15E. EBIT margins, which dipped to 9.2% in Q3FY13, are expected to improve with the recent improvement in caprolactam-benzene spreads. We have modeled for chemicals margins of 17.0%/18.0% in FY14E/15E.

Exhibit 7: Sustained revenue growth in chemicals business

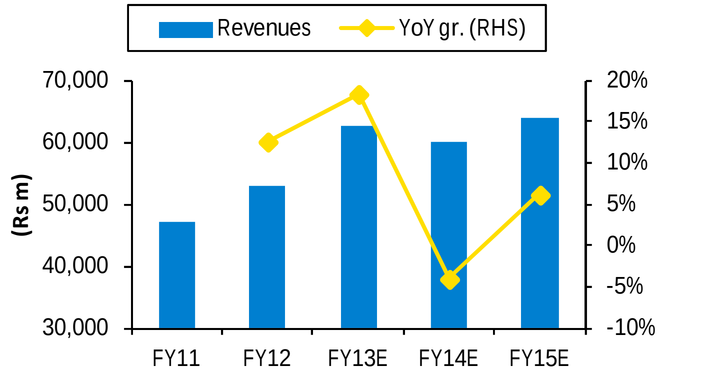


Source: Company Data, PL Research

Financials

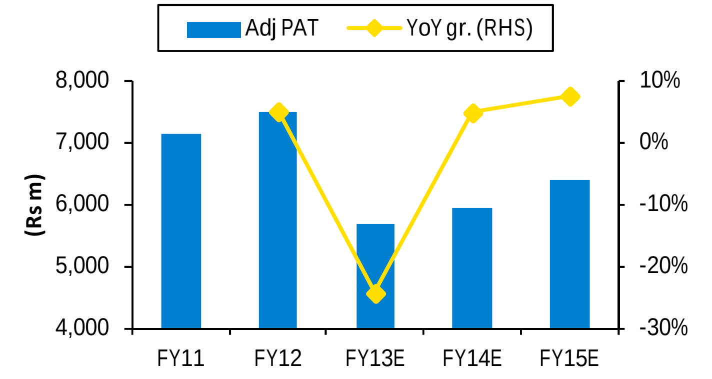
We expect revenues to grow at a CAGR of 6.4% over FY12-15E, driven primarily by growth in the chemicals business. EBITDA margins which dipped to 13.6% in 9MFY13 are expected to improve by 200bps to 15.6% over the next two years. We have modeled for earnings of Rs14.9/16.0 in FY14E/15E (FY13E earnings are expected to be at Rs14.2).

Exhibit 8: Revenues to grow at a CAGR of 6.4% over FY12-15E



Source: Company Data, PL Research

Exhibit 9: Adj. PAT & PAT growth YoY

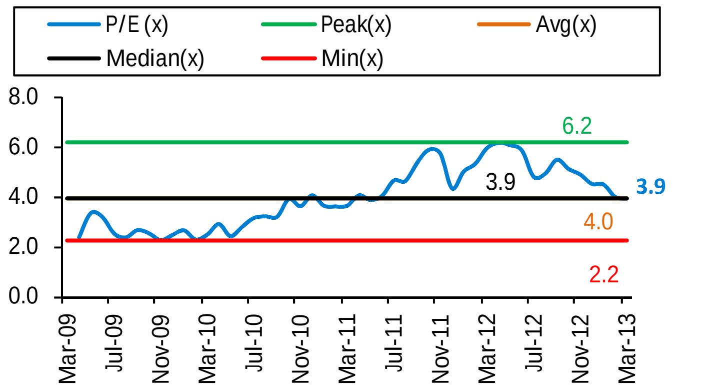


Source: Company Data, PL Research

Valuations

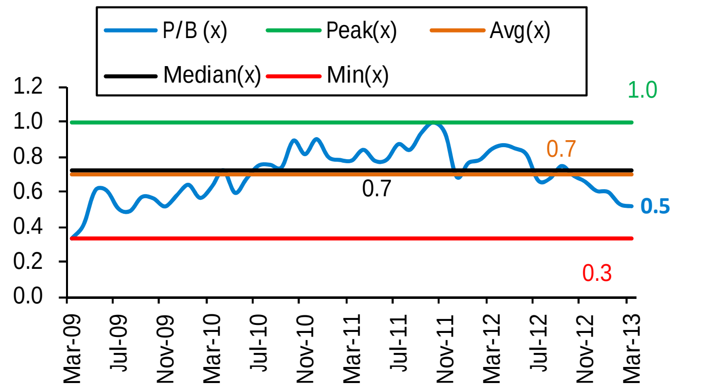
GSFC continues to trade at attractive valuations of 3.7x FY14E earnings, 50% discount to book value & EV/EBITDA of 1.8x. Company's current cash balance of Rs6.6bn (at end of H1FY13) translates into cash/share of Rs17 which is equivalent to 30% of the current market cap. We recommend '**Accumulate**' with target price of Rs70 (potential upside of 27%) due to attractive valuations and limited downside risk.

Exhibit 10: 1yr. forward PE



Source: Bloomberg, PL Research

Exhibit 11: 1yr. forward P/BV



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**53,018**	**62,741**	**60,192**	**63,892**
Raw Material Expenses	29,514	41,388	39,313	40,325
Gross Profit	23,504	21,353	20,879	23,567
Employee Cost	3,936	4,192	4,611	5,073
Other Expenses	8,278	8,656	7,105	8,526
EBITDA	**11,291**	**8,505**	**9,163**	**9,969**
Depr. & Amortization	1,292	1,351	1,560	1,600
Net Interest	(1,221)	(1,125)	(1,260)	(1,160)
Other Income	1,366	1,451	1,500	1,400
Profit before Tax	**11,220**	**8,280**	**8,863**	**9,529**
Total Tax	3,558	2,614	2,925	3,145
Profit after Tax	**7,662**	**5,665**	**5,938**	**6,384**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**7,490**	**5,665**	**5,938**	**6,384**
Avg. Shares O/S (m)	**398.5**	**398.5**	**398.5**	**398.5**
EPS (Rs.)	**18.8**	**14.2**	**14.9**	**16.0**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	35,168	40,185	45,474	51,210
Total Debt	6,170	6,170	5,670	5,170
Other Liabilities	2,474	2,474	2,474	2,474
Total Liabilities	**43,811**	**48,829**	**53,618**	**58,854**
Net Fixed Assets	18,114	20,764	23,204	25,604
Goodwill	—	—	—	—
Investments	4,327	4,327	4,327	4,327
Net Current Assets	21,370	23,738	26,087	28,923
Cash & Equivalents	*8,976*	*7,901*	*11,061*	*13,528*
Other Current Assets	*24,247*	*29,645*	*26,905*	*27,579*
Current Liabilities	*11,853*	*13,808*	*11,879*	*12,183*
Other Assets	—	—	—	—
Total Assets	**43,811**	**48,828**	**53,618**	**58,854**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	5,405	3,899	8,549	7,855
C/F from Investing	(3,958)	(4,000)	(4,000)	(4,000)
C/F from Financing	1,402	(974)	(1,388)	(1,388)
Inc. / Dec. in Cash	2,849	(1,075)	3,161	2,467
Opening Cash	6,127	8,976	7,901	11,061
Closing Cash	8,976	7,901	11,061	13,528
FCFF	1,549	(427)	7,309	6,615
FCFE	3,796	(427)	6,809	6,115

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**14,118**	**14,160**	**16,728**	**17,734**
EBITDA	**2,372**	**2,028**	**1,742**	**2,363**
% of revenue	*16.8*	*14.3*	*10.4*	*13.3*
Depr. & Amortization	292	340	348	370
Net Interest	(452)	(428)	(85)	(160)
Other Income	548	460	194	250
Profit before Tax	**2,532**	**2,115**	**1,479**	**2,153**
Total Tax	805	611	488	710
Profit after Tax	**1,727**	**1,505**	**1,370**	**1,442**
Adj. PAT	**1,727**	**1,505**	**991**	**1,442**

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	12.6	18.3	(4.1)	6.1
EBITDA (%)	0.3	(24.7)	7.7	8.8
PAT (%)	5.0	(24.4)	4.8	7.5
EPS (%)	5.0	(24.4)	4.8	7.5
Profitability				
EBITDA Margin (%)	21.3	13.6	15.2	15.6
PAT Margin (%)	14.1	9.0	9.9	10.0
RoCE (%)	20.6	13.4	12.5	12.2
RoE (%)	23.6	15.0	13.9	13.2
Balance Sheet				
Net Debt : Equity	(0.1)	—	(0.1)	(0.2)
Net Wrkng Cap. (days)	117	123	121	110
Valuation				
PER (x)	2.9	3.9	3.7	3.4
P / B (x)	0.6	0.5	0.5	0.4
EV / EBITDA (x)	1.7	2.4	1.8	1.4
EV / Sales (x)	0.4	0.3	0.3	0.2
Earnings Quality				
Eff. Tax Rate	31.7	31.6	33.0	33.0
Other Inc / PBT	12.2	17.5	16.9	14.7
Eff. Depr. Rate (%)	3.4	3.2	3.6	3.6
FCFE / PAT	50.7	(7.5)	114.7	95.8

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Revenues- (Rs m)				
Fertiliser	35,919	43,284	37,165	39,023
Chemicals	17,099	20,023	23,027	24,869
EBIT Margin (%)				
Fertiliser	15.1	9.1	11.0	11.0
Chemicals	29.5	18.6	17.0	18.0

Source: Company Data, PL Research.

Prabhudas Lilladher

Rallis India

Long-term story intact

Company Update

April 11, 2013

Balwindar Singh
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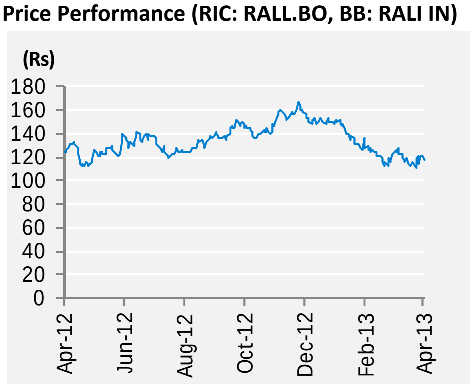
+91-22-66322239

Rating	**Accumulate**
Price	Rs118
Target Price	Rs140
Implied Upside	18.6%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			23.0
Shares o/s (m)			194.5
3M Avg. Daily value (Rs m)			49.8
Major shareholders			
Promoters			50.10%
Foreign			10.80%
Domestic Inst.			15.10%
Public & Other			24.00%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(3.4)	(18.2)	(5.5)
Relative	3.0	(17.1)	(12.3)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	7.8	8.3	*-5.3*
2015	9.5	10.0	*-4.8*

Price Performance (RIC: RALL.BO, BB: RALI IN)



Source: Bloomberg

- **Metahelix's strong product pipeline to drive growth:** Metahelix has a strong product portfolio across corn, millets, paddy and vegetable seeds and enjoys a strong pan-India presence through its "Dhaanya Seeds" brand. It boasts of a strong R&D team and has ~24 crops in the BT pipeline and over 150 in hybrid pipeline. During FY12, Metahelix launched 10 hybrid seeds and going forward, it plans to roll out several new hybrids over the next 2-3 years. We believe Metahelix's strong product portfolio positions it well to grow at 25% p.a. annually over the medium term.

- **Rallis to benefit from its leadership position in domestic markets once industry environment improves:** We expect domestic agrochemicals industry to rebound over the next year and Rallis being one of the leading players, is expected to be a major beneficiary of it. Our channel checks with companies, dealers/retailers corroborate that Rallis ranks amongst the top 3 companies in terms of distribution network domestically. A recent study by Gallop also indicates that Rallis occupies 7 brands out of the top 12 brands domestically.

- **New product launches & ramp-up in Dahej key growth drivers:** We expect new product launches in the domestic market and ramp-up in exports business to be the key growth drivers in the medium-term. During FY12, Rallis launched 10 new products (company launches 3-4 new products annually) which have been well-received in the marketplace.

- **Recommend 'Accumulate' with target price of Rs140:** Rallis is currently trading at 15.0x FY14E earnings of Rs7.8 (long-term average of 18x based on 1-yr forward earnings). Rallis continues to trade at a premium of 30% to domestic peers which, we believe, will continue over the medium term. We value Rallis at 18x FY14E earnings resulting in target price of Rs140 (potential upside of 19%) and recommend '**Accumulate**'.

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	12,781	14,199	16,223	18,411
Growth (%)	*19.9*	*11.1*	*14.3*	*13.5*
EBITDA (Rs m)	2,086	2,136	2,557	2,974
PAT (Rs m)	1,156	1,174	1,526	1,853
EPS (Rs)	5.9	6.0	7.8	9.5
Growth (%)	*(8.1)*	*1.5*	*30.0*	*21.4*
Net DPS (Rs)	2.2	2.2	2.5	2.5

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*16.3*	*15.0*	*15.8*	*16.2*
RoE (%)	*21.9*	*20.0*	*22.8*	*23.7*
RoCE (%)	*18.5*	*16.7*	*18.9*	*21.2*
EV / sales (x)	1.9	1.7	1.5	1.3
EV / EBITDA (x)	11.7	11.6	9.4	7.9
PE (x)	19.9	19.6	15.0	12.4
P / BV (x)	4.2	3.7	3.2	2.7
Net dividend yield (%)	*1.9*	*1.9*	*2.1*	*2.1*

Source: Company Data; PL Research

Investment Arguments

Domestic market has witnessed two consecutive bad seasons (Rabi of 2011, Kharif of 2012)...

Domestic agrochemicals market has witnessed two consecutive bad seasons – Rabi (2011), Kharif (2012). While Rabi was impacted due to pressure on farmers' cash flows (lower crop prices, high fertilizer/labour/ power costs), kharif was impacted due to delayed rainfall which impacted sowing patterns and hence, agri-inputs consumption. Consequently, YTDFY13 has witnessed disappointing performance with industry-wide volume growth likely to be slightly negative.

...However, we expect market to rebound during FY14E

Expect domestic agrochemicals market to rebound in FY14E supported by improvement in crop prices, stabilizing costs, expectation of normal monsoons and improvement in farmers' sentiments

We expect domestic market to rebound in FY14E as concerns are receding and industry conditions are likely to improve over the next few quarters. Improvement in crop prices (25-30% increase in agri-produce prices from their lows), stabilizing costs, and rise in Minimum Support Prices (MSPs) have boosted farmers' sentiments and agri-inputs consumption is likely to improve. In light of this, the continuing rabi season this year has witnessed improved performance with supportive weather conditions, improved profitability at the farmers' level, and lower base of last year.

Rallis scores in distribution network which is the key for success in agrochemicals business

Wide distribution network and access to remote corners of the country is the key to success in domestic agrochemicals market. Our channel checks with companies, dealers/retailers corroborate that Rallis ranks amongst the top 3 companies in terms of distribution network domestically. The company boasts of ~2500 dealers and 35000 retailers who reach out to 0.5m farmers. Rallis aims to double its farmer reach to 1.0m over the next two years.

Rallis stands to benefit from the rebound in domestic markets due to its leadership positioning, strong distribution network, farmer engagement initiatives, strong product portfolio, consistent new products launches

Active interactions with farmers through Rallis Kisan Kutumb & Samrudh Krishi

Rallis has built very strong relationships with farmers over the years and this activity has now been formalized under the name of *Rallis Kisan Kutumb (RKK)*. Rallis has compiled a digitized database of over 700,000 RKK farmers and communicates with them via mobile, internet, newsletters. The company also has free dedicated helplines to address farmers' issues. RKK organizes crop seminars with experts, farmer meetings and demonstration plots. It also organizes "Prerna Visits" to facilitate knowledge transfer, wherein farmers from one locality are taken to other locations, to observe and learn good crop management practices from other farmers.

The Samrudh Krishi programme involves holistic agro-advisory services to farmers through multiple touch-points. Farmers are introduced to knowledgeable crop-advisors who visit each farmer's plot and provide him with customized recommendations. Rallis plans to scale-up this initiative after an encouraging response from farmers in the two pilot belts in Maharashtra and Gujarat.

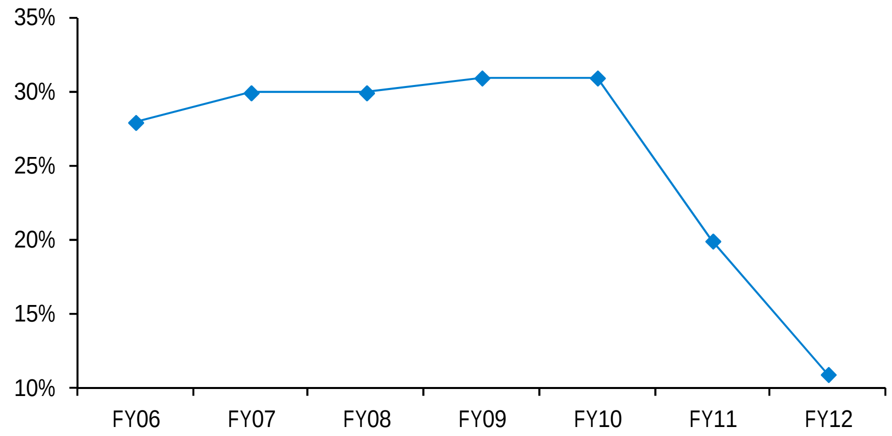
New Product Launches - integral to growth

Rallis strives consistently to introduce new products in the domestic market and match up to farmers' requirements. Over the last 6-7 years, Rallis registered 55 products and launched 32 products domestically. The company has a policy of launching 3-4 new products annually. During FY12, company launched 10 products which have been well-received in the marketplace.

The "Innovation Turnover Index", which measures revenues from products newly introduced in the last four years, stood at 11% for FY12. Innovation Turnover Index has declined during the last two years (Index stood above 25% between FY05-FY10) due to key products "Applaud" & "Takumi" which came out of the Index during this period.

Innovation Turnover Index declined sharply during the last two years due to two key products Applaud & Takumi which came out of the index. However, index is expected to rebound driven by recent products launches which have received encouraging response

Exhibit 1: Innovation Turnover Index



Source: Company Data, PL Research

Exhibit 2: New Products Launched

Year	Category	Product	Details
2007	Insecticide	Applaud	Paddy
	Insecticide	Taqat	
2008	Insecticide	Royal	
	Insecticide	Sedna	
	Insecticide	Takumi	
	Fungicide	Ishan	
2009	Insecticide	Mantis	
2010	Insecticide	Ergon	
2011	Insecticide	Toran	Cotton
	Herbicide	Tarak	Rice crop
	Plant growth Regulator	Ralligold	
2012	Insecticide	Neon	For cotton jassids & tea mites
	Insecticide	Sonic	Paddy & sugarcane
	Insecticide	Taffin	Cotton, chillies
	Herbicide	Honcho	Onion
	Herbicide	Cylo	Rice crop
	Herbicide	Fycol	
	Herbicide	Vaar	Soyabean post emergence herbicide
	Fungicide	Saras	Grapevine, chilli & potato
	Fungicide	Ditaf	Grapes, potato
	Plant growth Regulator	Tata Bahaar	To improve yield

Source: Company Data, PL Research

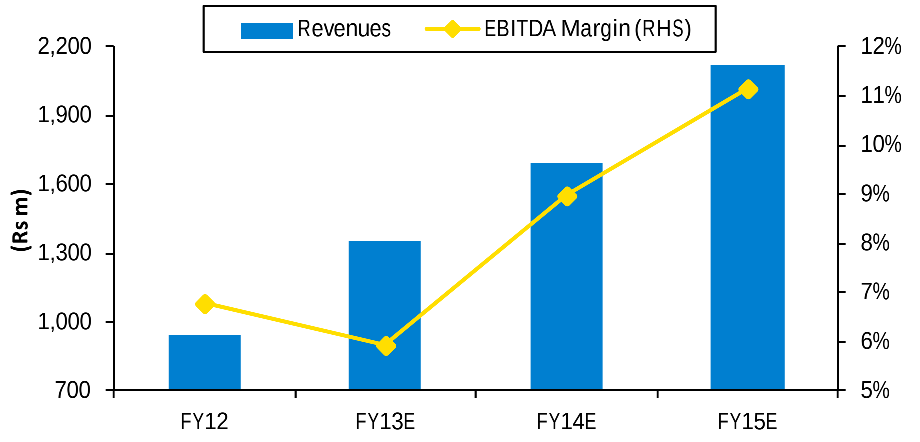
Metahelix- strong product pipeline to drive growth

Rallis acquired 53.5% in Metahelix in Dec'10 through an infusion of Rs1bn funded largely through internal accruals. Rallis's current shareholding in Metahelix stand at 77.02% and the company plans to increase its shareholding to 100% over the next 2-3 years.

Metahelix's strong product portfolio, upcoming products launches & access to Rallis's distribution network positions it well to grow @25% p.a. annually

Metahelix has a strong portfolio across corn, millets, paddy, and vegetable seeds and enjoys a strong pan-India presence through its "Dhaanya Seeds" brand. Metahelix boasts of a strong R&D team and has ~24 crops in BT pipeline and over 150 in hybrid pipeline. During FY12, Metahelix launched 10 hybrid seeds and conducted extensive field trails to strengthen its presence in the marketplace. Metahelix plans to roll out several new hybrids and market them through the 2,500 strong retail network of Rallis and 700 exclusive outlets of Tata Chemicals. Rallis' management had guided for cumulative sales of Rs10bn in five years. We believe Metahelix is likely to remain a strong growth driver, going forward, due to a strong distribution network and healthy product pipeline. Metahelix's strong product portfolio positions it well to grow at 25% p.a. annually over the medium term. We also expect EBITDA margins to improve with the introduction of newer products and improved operating leverage (9MFY13 EBITDA margins stood at 8%).

Exhibit 3: Metahelix to drive growth



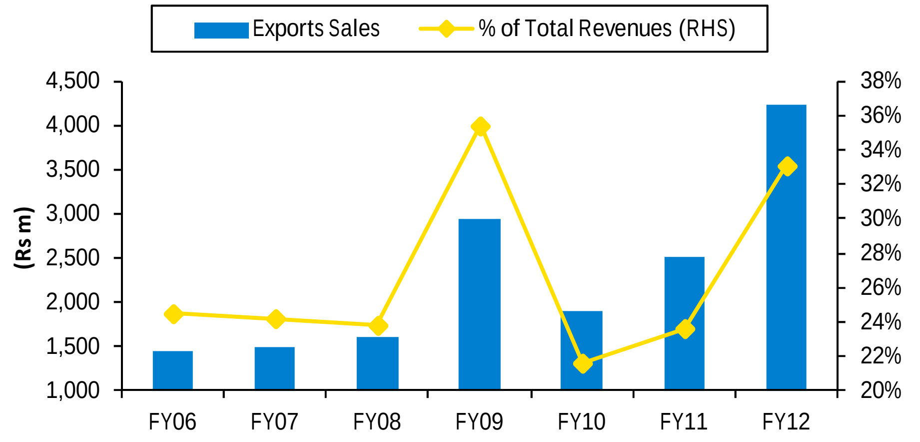
Source: Company Data, PL Research

Dahej - CRAMS led opportunity

Ramp-up in Dahej exports remains a primary growth driver for Rallis

During FY12, Rallis successfully commissioned the Dahej facility and started commercial production from it. The Dahej facility primarily targets exports by way of contract manufacturing for global players. This facility has the potential to generate cumulative sales of Rs5bn over three years and also enjoys tax exemption for the initial five years. We expect ramp-up in Dahej operations to be the key growth driver over the medium term.

Exhibit 4: Rallis exports sales & contribution to revenues



Source: Company Data, PL Research

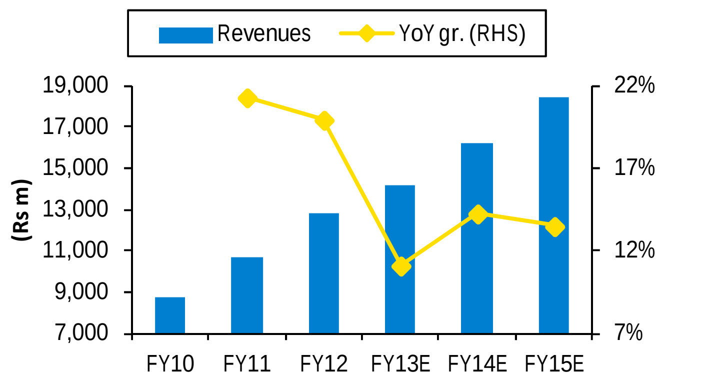
Zero Waste Agro Organics- emerging opportunities

Rallis plans to acquire majority stake of 51% in Maharashtra-based Zero Waste Agro Organics (ZWAOPL) in an all-cash deal for Rs290m. ZWAOPL makes organic manure from waste of sugarcane mills. Rallis has guided for cumulative sales of Rs1bn in the next five years.

Financials

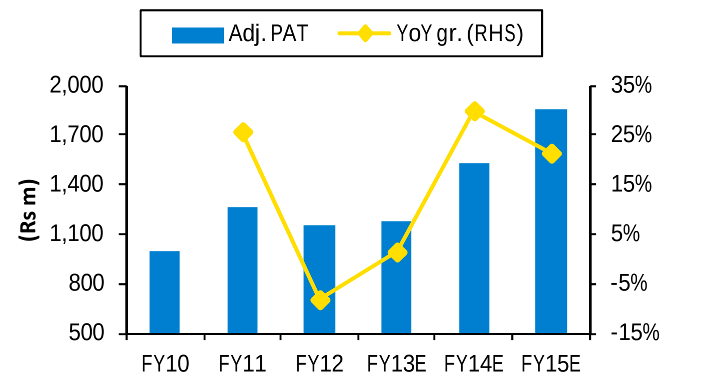
We expect revenues to grow at a CAGR of 12.9% over FY12-15E. Strong growth in Metahelix, ramp-up in exports and new product launches are likely to remain the primary growth drivers over the next two years. We also expect domestic agrochemicals market to rebound after two consecutive disappointing seasons which would support standalone performance. EBITDA margins, which dipped by 250bps YoY to 15.8% in 9MFY13, are expected to rebound over the next two years driven by improvement in industry scenario, margin improvement at Metahelix (higher operating leverage). We expect adjusted PAT to increase at a CAGR of 17.0% over FY12-15E. We have modelled for earnings of Rs7.8/9.5 for FY14E/15E.

Exhibit 5: Revenues to grow at a CAGR of 12.9% over FY12-15E



Source: Company Data, PL Research

Exhibit 6: Earnings expected to bounce-back over next 2 years

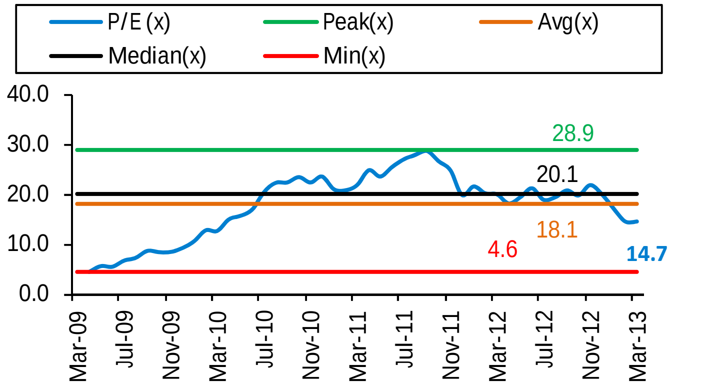


Source: Company Data, PL Research

Valuations

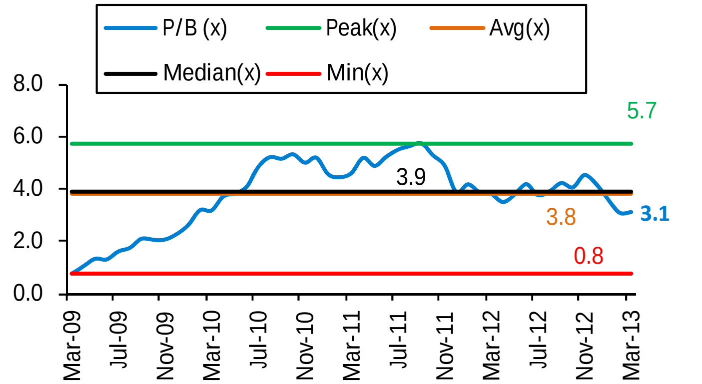
Rallis is currently trading at 15.0x FY14E earnings of Rs7.8 (long-term average of 18x based on 1-yr forward earnings). Rallis continues to trade at a premium of 30% to domestic peers, which we believe, will continue over the medium term. We value Rallis at 18x FY14E earnings resulting in target price of Rs140 (potential upside of 19%) and recommend '**Accumulate**'.

Exhibit 7: 1yr. forward P/E



Source: Bloomberg, PL Research

Exhibit 8: 1yr. forward P/BV



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**12,781**	**14,199**	**16,223**	**18,411**
Raw Material Expenses	7,428	8,368	9,480	10,709
Gross Profit	5,353	5,831	6,743	7,702
Employee Cost	902	1,029	1,165	1,316
Other Expenses	2,364	2,666	3,020	3,412
EBITDA	**2,086**	**2,136**	**2,557**	**2,974**
Depr. & Amortization	287	313	328	328
Net Interest	96	132	56	16
Other Income	35	65	84	84
Profit before Tax	**1,704**	**1,691**	**2,173**	**2,630**
Total Tax	532	517	632	737
Profit after Tax	**1,171**	**1,174**	**1,542**	**1,893**
Ex-Od items / Min. Int.	(314)	—	16	40
Adj. PAT	**1,156**	**1,174**	**1,526**	**1,853**
Avg. Shares O/S (m)	**194.5**	**194.5**	**194.5**	**194.5**
EPS (Rs.)	**5.9**	**6.0**	**7.8**	**9.5**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	946	616	1,727	1,739
C/F from Investing	(740)	(300)	(300)	(403)
C/F from Financing	(242)	(194)	(1,221)	(1,205)
Inc. / Dec. in Cash	(37)	122	206	131
Opening Cash	122	112	234	440
Closing Cash	112	234	440	572
FCFF	(515)	120	1,462	1,499
FCFE	(158)	620	962	999

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	19.9	11.1	14.3	13.5
EBITDA (%)	21.8	2.4	19.7	16.3
PAT (%)	(8.1)	1.5	30.0	21.4
EPS (%)	(8.1)	1.5	30.0	21.4
Profitability				
EBITDA Margin (%)	16.3	15.0	15.8	16.2
PAT Margin (%)	9.0	8.3	9.4	10.1
RoCE (%)	18.5	16.7	18.9	21.2
RoE (%)	21.9	20.0	22.8	23.7
Balance Sheet				
Net Debt : Equity	0.3	0.3	0.1	0.1
Net Wrkng Cap. (days)	31	55	48	51
Valuation				
PER (x)	19.9	19.6	15.0	12.4
P / B (x)	4.2	3.7	3.2	2.7
EV / EBITDA (x)	11.7	11.6	9.4	7.9
EV / Sales (x)	1.9	1.7	1.5	1.3
Earnings Quality				
Eff. Tax Rate	31.3	30.6	29.1	28.0
Other Inc / PBT	2.0	3.8	3.9	3.2
Eff. Depr. Rate (%)	5.2	5.4	5.4	5.1
FCFE / PAT	(13.6)	52.8	63.0	53.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	5,530	6,206	7,167	8,455
Total Debt	1,506	2,006	1,506	1,006
Other Liabilities	192	192	192	192
Total Liabilities	**7,228**	**8,404**	**8,864**	**9,652**
Net Fixed Assets	3,986	3,973	3,945	3,917
Goodwill	1,783	1,783	1,783	1,783
Investments	1,109	1,109	1,299	1,602
Net Current Assets	480	1,670	1,968	2,481
Cash & Equivalents	*112*	*234*	*440*	*572*
Other Current Assets	*4,236*	*5,541*	*5,684*	*6,133*
Current Liabilities	*3,868*	*4,106*	*4,157*	*4,224*
Other Assets	(131)	(131)	(131)	(131)
Total Assets	**7,228**	**8,404**	**8,865**	**9,652**

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**3,453**	**4,855**	**3,425**	**2,466**
EBITDA	**415**	**967**	**466**	**287**
% of revenue	*12.0*	*19.9*	*13.6*	*11.7*
Depr. & Amortization	74	77	80	82
Net Interest	36	36	31	29
Other Income	16	18	16	16
Profit before Tax	**305**	**854**	**356**	**176**
Total Tax	62	273	121	61
Profit after Tax	**242**	**616**	**220**	**122**
Adj. PAT	**213**	**591**	**247**	**122**

Source: Company Data, PL Research.

Tata Chemicals

Challenging business environment; near-term muted

April 11, 2013

Balwindar Singh
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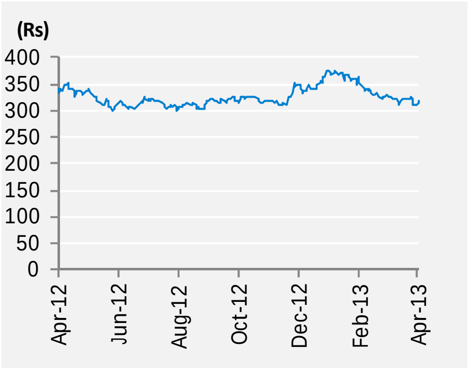
+91-22-66322239

Rating	**Accumulate**
Price	Rs318
Target Price	Rs354
Implied Upside	11.3%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			81.0
Shares o/s (m)			254.8
3M Avg. Daily value (Rs m)			180.6
Major shareholders			
Promoters			31.10%
Foreign			15.90%
Domestic Inst.			31.40%
Public & Other			21.60%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(3.6)	0.6	(5.1)
Relative	2.9	1.8	(11.9)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	35.4	38.2	*-7.3*
2015	39.3	41.5	*-5.3*

Price Performance (RIC: TTCH.BO, BB: TTCH IN)



Source: Bloomberg

- **Tata Chemicals (Europe & Africa) - No near-term respite:** Tata Chemicals (Europe) continues to struggle and is likely to remain a laggard for the next few quarters. Since soda ash demand is closely correlated to growth in the economy, slowdown in the UK economy has hurt demand for soda ash. While demand is likely to remain subdued, we believe margins are also likely to remain under pressure since new contracts for CY13 have already been signed at similar rates.

- **Tata Chemicals (North America) - Weak global soda ash prices to keep margins under check:** We believe margins are likely to remain range-bound in the near term due to pricing pressures in exports market. The US subsidiary exports ~30-35% of its production globally. However, since the Chinese economy is struggling with a slowdown, it has resulted into build-up of inventories and consequent pressure on realizations in exports market. Soda ash contracts for CY13 have also witnessed a price decline of ~2% due to weak global prices.

- **Domestic soda ash business remains strong:** Domestic soda ash business remains strong driven by stable volumes and healthy margins. Indian soda ash operations have benefited from currency depreciation since it has strengthened its competitive position vis-à-vis Chinese exporters. We believe domestic soda ash business will continue to remain strong and drive standalone business performance.

- **Recommend 'Accumulate' with target price of Rs354:** Tata Chemicals is currently trading at 9.0x FY14E earnings of Rs35.4 (long-term average of 10.2x 1-yr forward earnings). We value TCL at 10x FY14E earnings resulting into target price of Rs354 and recommend '**Accumulate**'. Though near-term business environment remains tricky, company's diversified product portfolio provides ample growth opportunities in the longer-term.

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	137,998	151,407	161,015	170,735
Growth (%)	*24.8*	*9.7*	*6.3*	*6.0*
EBITDA (Rs m)	22,974	21,805	24,474	26,222
PAT (Rs m)	9,144	7,474	9,025	10,025
EPS (Rs)	35.9	29.3	35.4	39.3
Growth (%)	*30.1*	*(18.3)*	*20.8*	*11.1*
Net DPS (Rs)	10.0	10.0	10.0	10.0

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*16.6*	*14.4*	*15.2*	*15.4*
RoE (%)	*15.4*	*11.2*	*12.6*	*12.8*
RoCE (%)	*10.6*	*8.8*	*9.7*	*10.2*
EV / sales (x)	0.9	0.9	0.8	0.7
EV / EBITDA (x)	5.4	6.0	5.1	4.6
PE (x)	8.9	10.8	9.0	8.1
P / BV (x)	1.3	1.2	1.1	1.0
Net dividend yield (%)	*3.1*	*3.1*	*3.1*	*3.1*

Source: Company Data; PL Research

Company Update

Investment Arguments

Tata Chemicals (Europe & Africa) - Struggle continues with no near-term respite

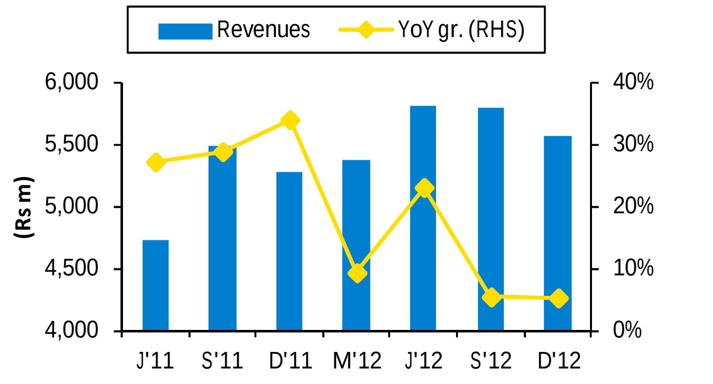
Tata Chemicals (Europe) continues to struggle and is likely to remain a laggard for the next few quarters. UK soda ash operations have been hurt by demand-side issues as UK economy continues to fight with slowdown in growth. Since soda ash demand is closely correlated to growth in the economy, slowdown in the UK economy has hurt demand for soda ash.

Soda ash demand is likely to remain subdued in the UK as economy continues to fight with slowdown in growth. Weak demand has forced TCL to transport goods to far-flung areas resulting into pressure on margins

Weak demand has forced the company to transport soda ash to far-flung areas resulting into pressure on margins. We believe demand is likely to remain subdued in UK in the near-term, while margins are also expected to remain under pressure since new contracts for CY13 have been signed at similar/marginally higher rates. UK operations have also restructured its borrowing covenants due to continued pressure on business.

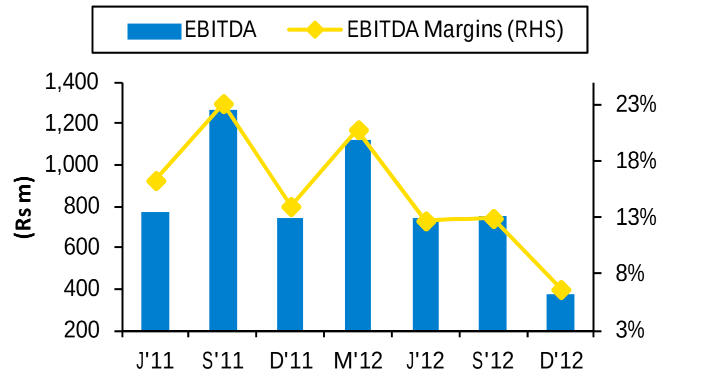
African operations were impacted in CY12 due to heavy rains and floods. African operations continue to be plagued by production issues and we believe, ramp-up is still a couple of quarters away.

Exhibit 1: Top-line growth has tapered off



Source: Company Data, PL Research

Exhibit 2: Margins under pressure



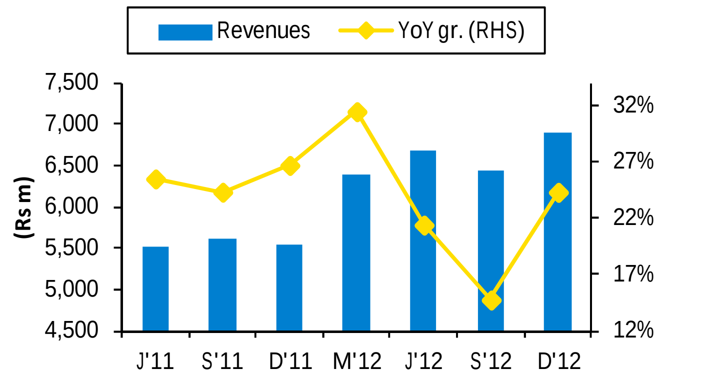
Source: Company Data, PL Research

Tata Chemicals (North America) – Near-term margin pressures likely to remain

Though volume growth remains strong in the North American unit, weak global soda ash prices have resulted into pressure on margins

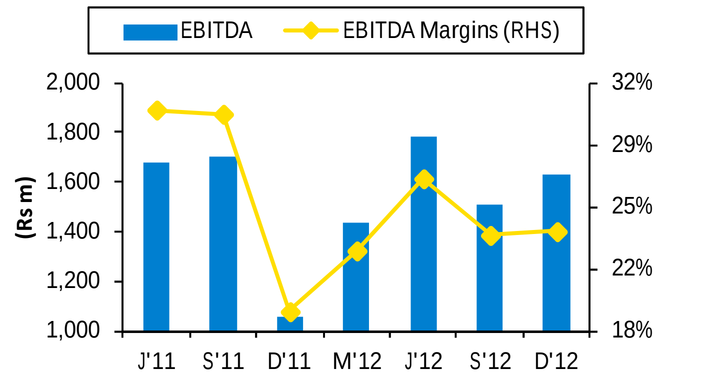
Q3FY13 witnessed strong volume growth at the North American unit helped by higher capacity utilization. However, margins remained lower than expectations due to unfavourable product mix and weak prices in exports market. The US subsidiary exports ~30-35% of its production globally. However, since the Chinese economy is struggling with a slowdown, it has resulted into build-up of inventories and consequent pressure on realizations in exports market. We believe margins are likely to remain range-bound in the near term due to pricing pressures in the exports market. Soda ash contracts for CY13 have also witnessed pricing decline of ~2% due to weak global prices.

Exhibit 3: Volume growth remains strong



Source: Company Data, PL Research

Exhibit 4: Margins have cooled off from their highs

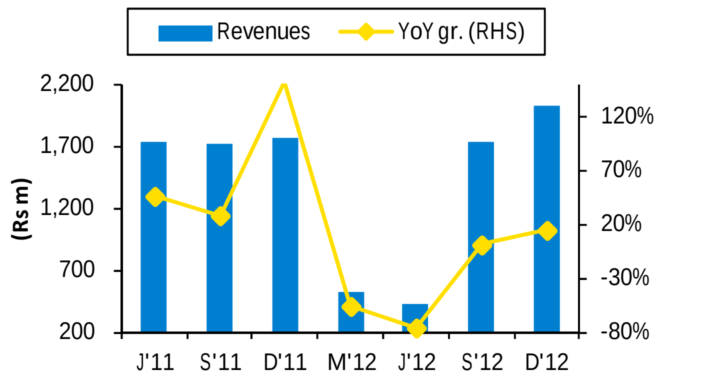


Source: Company Data, PL Research

IMACID- weak phosphoric acid prices drag profitability

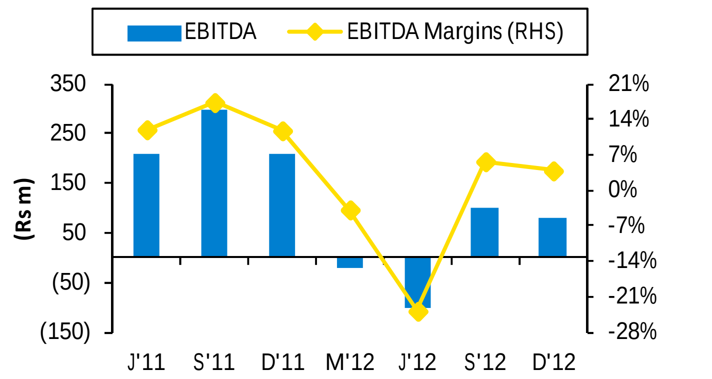
IMACID's performance was impacted this year as non-agreement over phosphoric acid price negotiations rendered production unviable resulting in loss of production for 3-4 months. Though production resumed in Q2FY13, profitability has remained under pressure due to weak phosphoric acid prices.

Exhibit 5: IMACID performance impacted in H1FY13



Source: Company Data, PL Research

Exhibit 6: IMACID's profitability remains under pressure



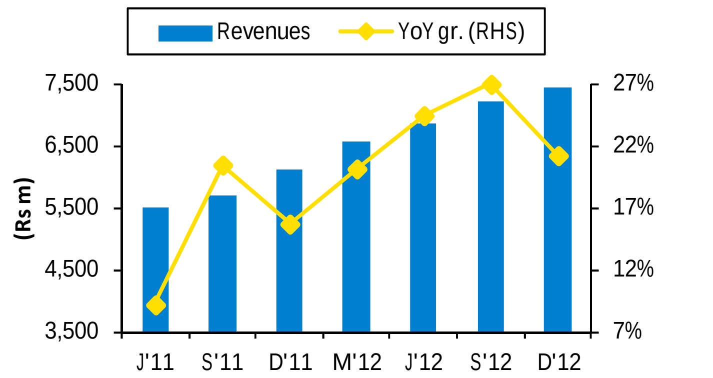
Source: Company Data, PL Research

Indian soda ash business- encouraging outlook

Domestic soda ash business continues to drive standalone performance. Margins have benefited from rupee depreciation; expect margins to remain strong as rupee is likely to remain weak in near-term

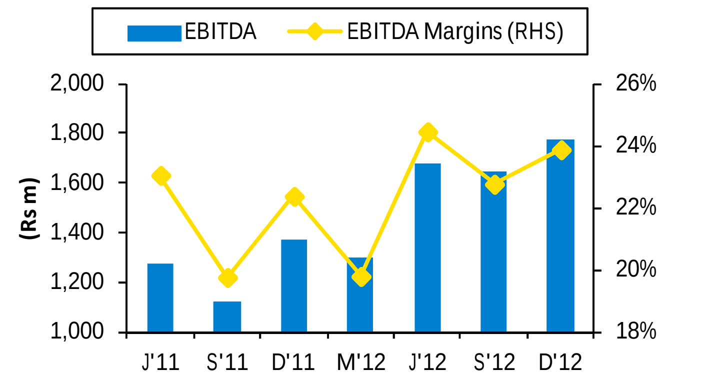
Domestic soda ash business remains strong driven by stable volumes and healthy realizations. Indian soda ash operations have benefited from currency depreciation since it has strengthened its competitive position vis-à-vis Chinese exporters. We believe domestic soda ash business will continue to remain strong and drive standalone business performance.

Exhibit 7: Volume growth remains strong



Source: Company Data, PL Research

Exhibit 8: Margins have benefited from rupee depreciation



Source: Company Data, PL Research

Domestic complex fertiliser business- affected by inventory overhang in system; huge subsidy receivables

Complex fertiliser business continues to remain under pressure due to huge inventory in system, wide differential between urea/complex fertiliser prices and huge subsidy receivables (TCL's current subsidy receivables stand at Rs15bn and subsidy has not been received since last 6-7 months). However, we expect domestic complex fertiliser business to recover modestly in FY14E.

Urea business remains strong

Urea business remains strong due to wide differential between urea and complex fertiliser prices which has induced farmers to use more of cheaply-priced urea than high-priced complex fertilisers.

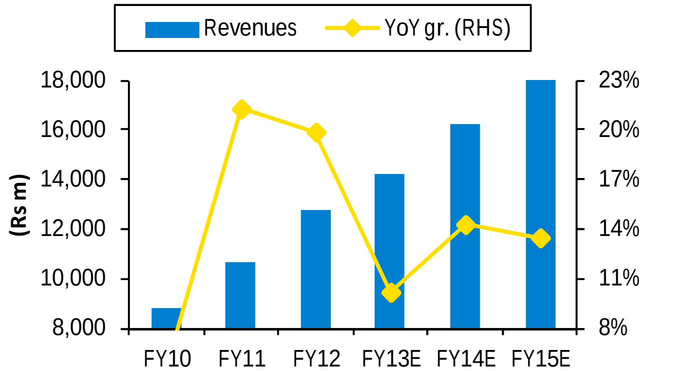
Rallis - muted FY13E; long-term story intact

Domestic agrochemicals market has been under pressure since the last few quarters. However, we expect domestic market to rebound in FY14E as concerns are receding and industry conditions are likely to improve over the next few quarters. In light of this, the continuing rabi season this year has witnessed improved performance with supportive weather conditions and improved profitability at the farmers' level, lower base of last year.

Rallis will be a key beneficiary of the rebound in domestic agrochemicals market. Ramp-up in Dahej, new product launches and strong product portfolio of Metahelix remain primary growth drivers

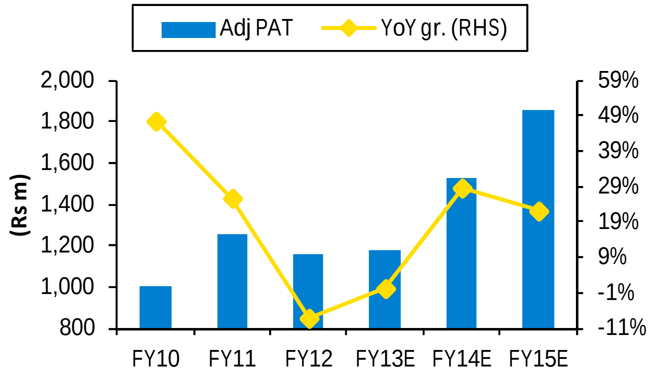
Rallis remains a leader in terms of distribution network, which is the key for success in agrochemicals business. Improvement in domestic agrochemicals market, ramp-up in Dahej, new product launches and strong product pipeline in Metahelix remain key growth drivers for Rallis. We expect Rallis' revenues to grow at a CAGR of 12.9% over FY12-15E, while adjusted PAT is expected to increase at a CAGR of 17.0% over FY12-15E.

Exhibit 9: Long-term growth intact



Source: Company Data, PL Research

Exhibit 10: Earnings expected to bounce back



Source: Company Data, PL Research

Consumer business - relatively stable

TCL's consumer business lends stability to the overall portfolio. Tata Salt is a household name in India and enjoys a market share of >65%. The company has introduced number of variants in the salt business which has received a very encouraging response. During 9MFY13, branded salt sales grew by 6% YoY. Sales volumes of pulses also witnessed steady growth during this period. The company has recently launched '*Tata i-shakti Besan'* in Delhi & 'DAL ON CALL' in Mumbai.

New Urea Investment Policy (UIP) announced; Tata Chemicals to go ahead with capacity expansion at Babrala

Post the announcement of the New UIP, which promises an assured 12-20% post-tax return on fresh capital, Tata Chemicals has decided to go ahead with its capacity expansion plan of urea at Babrala. Company plans to double its capacity to 2m mt (current urea capacity of 0.8m mt) at Babrala over the next 3-4 years.

EPM Potash Mining, Gabon urea plant - long term story

Tata Chemicals, through its overseas subsidiaries, holds 25.7% stake in EPM Mining Ventures Inc. (EPM), Canada. EPM is an exploration stage potash development company controlling over 123,000 acres on the Sevier Lake in Millard County, Utah. EPM intends to produce Sulfate of Potash (SOP - fertiliser) using an environmental-friendly solar evaporation process. However, commercial production is still a few years away.

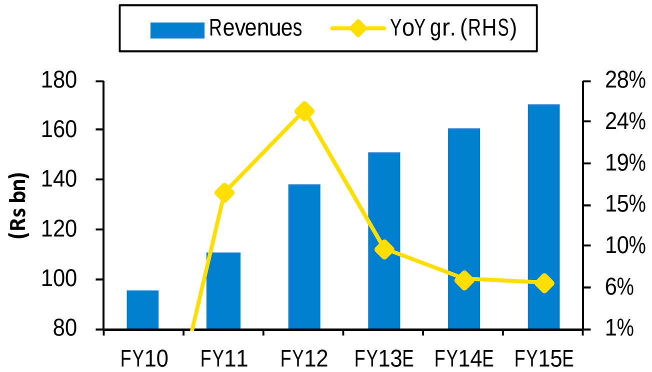
Gabon urea plant & EPM Potash mining are more of a long-term story as commercial production is still few years away

Tata Chemicals plans to invest US$290m to acquire 25.1% stake in the urea manufacturing project in the Republic of Gabon. *Olam Int'l* will hold 62.9%, while the remaining 12% will be held by Govt. of Gabon. The first phase of the planned project with 1.3m mt p.a. urea capacity is expected to commence in 3-4 years and the capacity could be doubled in the next phase. The necessary gas feedstock supply arrangement is tied up at a 25-year fixed price natural gas contract with the local government of Gabon. Phase-1 is expected to generate an EBITDA of US$300-350m.

Financials

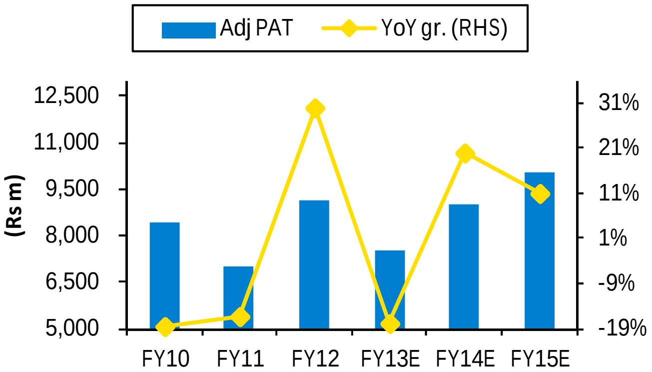
We expect consolidated revenues to increase at a CAGR of 7.4% over FY12-15E. However, EBITDA is likely to increase by only 4.5% CAGR during the same period due to decline in EBITDA during FY13E. EBITDA margins which declined by 260bps YoY to 14.4% during 9mFY13 are expected to recover only modestly to 15.4% by FY15E. We expect TCL's consolidated adjusted PAT to increase at a CAGR of 3.1% during FY12-15E. We have modelled for earnings of Rs35.4/39.3 in FY14E/15E (FY13E expected earnings are at Rs29.5).

Exhibit 11: Revenues to increase at a CAGR of 7.4% over FY12-15E



Source: Company Data, PL Research

Exhibit 12: Adj. PAT to increase at a CAGR of 3.1% during FY12-15E

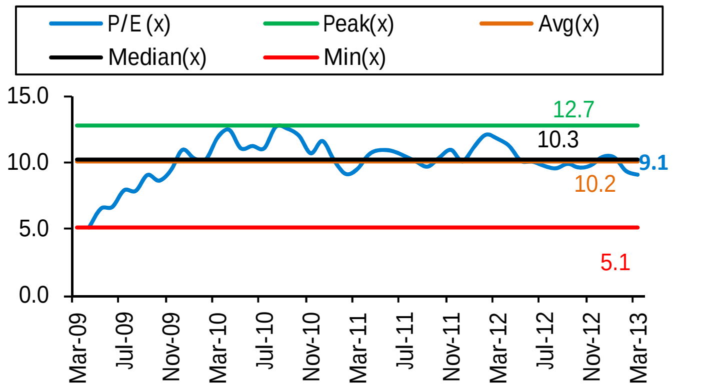


Source: Company Data, PL Research

Valuations

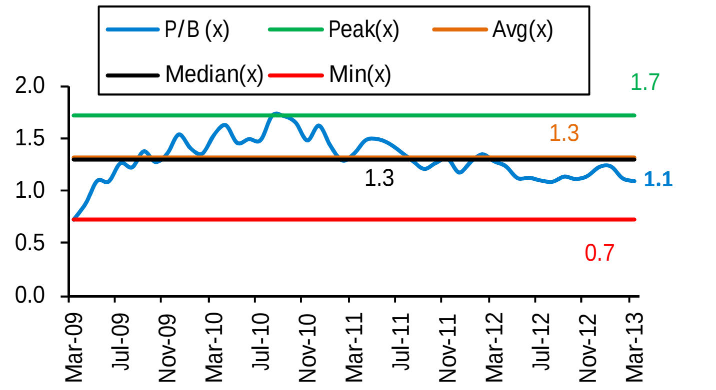
TCL is currently trading at 9.0x FY14E earnings of Rs35.4 (long-term average of 10.2x 1-yr forward earnings). We value TCL at 10x FY14E earnings resulting into target price of Rs354 (potential upside of 11%) and recommend '**Accumulate**'. Though near-term business environment remains tricky, company's diversified product portfolio provides ample growth opportunities in the long term.

Exhibit 13: 1yr. forward PE



Source: Bloomberg, PL Research

Exhibit 14: 1yr. forward P/BV



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**137,998**	**151,407**	**161,015**	**170,735**
Raw Material Expenses	85,559	78,317	82,691	87,971
Gross Profit	52,439	73,090	78,324	82,764
Employee Cost	11,454	11,295	11,860	12,453
Other Expenses	18,012	39,991	41,990	44,090
EBITDA	**22,974**	**21,805**	**24,474**	**26,222**
Depr. & Amortization	5,087	5,599	5,828	5,828
Net Interest	3,042	3,387	3,336	3,456
Other Income	1,228	1,300	1,444	1,444
Profit before Tax	**14,845**	**12,819**	**15,310**	**16,938**
Total Tax	3,439	3,124	4,063	4,428
Profit after Tax	**11,406**	**9,695**	**11,247**	**12,510**
Ex-Od items / Min. Int.	1,727	2,003	2,221	2,486
Adj. PAT	**9,144**	**7,474**	**9,025**	**10,025**
Avg. Shares O/S (m)	**254.8**	**254.8**	**254.8**	**254.8**
EPS (Rs.)	**35.9**	**29.3**	**35.4**	**39.3**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	64,180	68,737	74,802	81,865
Total Debt	59,461	59,461	57,961	56,461
Other Liabilities	18,279	18,279	18,279	18,279
Total Liabilities	**141,920**	**146,477**	**151,042**	**156,605**
Net Fixed Assets	48,990	49,391	49,563	51,735
Goodwill	64,034	64,034	64,034	64,034
Investments	11,787	11,787	11,787	11,787
Net Current Assets	17,109	21,265	25,658	29,050
Cash & Equivalents	*16,780*	*10,719*	*13,196*	*15,667*
Other Current Assets	*48,240*	*56,706*	*55,789*	*58,042*
Current Liabilities	*47,911*	*46,159*	*43,327*	*44,659*
Other Assets	—	—	—	—
Total Assets	**141,920**	**146,477**	**151,041**	**156,605**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	12,439	9,698	19,939	22,317
C/F from Investing	(7,947)	(6,000)	(6,000)	(8,000)
C/F from Financing	(1,953)	(9,760)	(11,462)	(11,846)
Inc. / Dec. in Cash	2,539	(6,062)	2,477	2,471
Opening Cash	14,241	16,780	10,719	13,196
Closing Cash	16,780	10,719	13,196	15,667
FCFF	(1,331)	(3,145)	6,938	6,932
FCFE	6,982	(3,145)	5,438	5,432

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**30,661**	**41,518**	**41,968**	**37,260**
EBITDA	**4,948**	**6,165**	**5,362**	**5,331**
% of revenue	*16.1*	*14.8*	*12.8*	*14.3*
Depr. & Amortization	1,368	1,402	1,378	1,452
Net Interest	861	696	1,021	809
Other Income	383	449	163	306
Profit before Tax	**2,719**	**4,067**	**2,963**	**3,070**
Total Tax	450	1,158	733	783
Profit after Tax	**1,076**	**2,568**	**2,241**	**1,879**
Adj. PAT	**1,563**	**2,327**	**1,749**	**1,879**

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	24.8	9.7	6.3	6.0
EBITDA (%)	23.3	(5.1)	12.2	7.1
PAT (%)	30.1	(18.3)	20.8	11.1
EPS (%)	30.1	(18.3)	20.8	11.1
Profitability				
EBITDA Margin (%)	16.6	14.4	15.2	15.4
PAT Margin (%)	6.6	4.9	5.6	5.9
RoCE (%)	10.6	8.8	9.7	10.2
RoE (%)	15.4	11.2	12.6	12.8
Balance Sheet				
Net Debt : Equity	0.7	0.7	0.6	0.5
Net Wrkng Cap. (days)	27	55	60	54
Valuation				
PER (x)	8.9	10.8	9.0	8.1
P / B (x)	1.3	1.2	1.1	1.0
EV / EBITDA (x)	5.4	6.0	5.1	4.6
EV / Sales (x)	0.9	0.9	0.8	0.7
Earnings Quality				
Eff. Tax Rate	23.2	24.4	26.5	26.1
Other Inc / PBT	8.3	10.1	9.4	8.5
Eff. Depr. Rate (%)	5.1	5.3	5.2	4.9
FCFE / PAT	76.4	(42.1)	60.2	54.2

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Standalone sales (Rs m)				
Inorganic chemicals	23,880	29,440	33,856	36,565
Fertilisers	52,543	52,869	52,081	55,749
EBIT Margins (%)				
Inorganic chemicals	21.2	23.0	23.0	23.0
Fertilisers	8.4	6.6	6.0	6.0

Source: Company Data, PL Research.

Prabhudas Lilladher

United Phosphorus

Poised for a re-rating!

Company Update

April 11, 2013

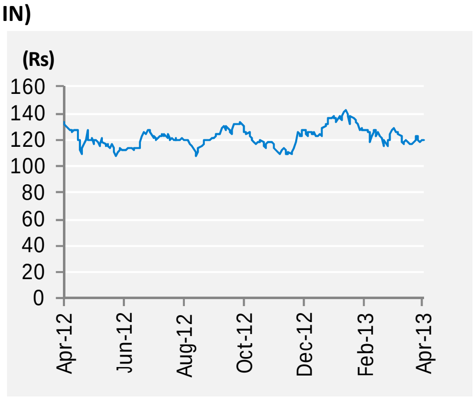
Balwindar Singh
balwindarsingh@plindia.com
+91-22-66322239

Rating	**BUY**
Price	Rs120
Target Price	Rs170
Implied Upside	41.7%
Sensex	18,414
Nifty	5,559

(Prices as on April 10, 2013)

Trading data			
Market Cap. (Rs bn)			53.0
Shares o/s (m)			442.6
3M Avg. Daily value (Rs m)			260.2
Major shareholders			
Promoters			28.87%
Foreign			31.51%
Domestic Inst.			16.64%
Public & Other			22.98%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(5.5)	(4.5)	(9.6)
Relative	1.0	(3.3)	(16.4)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2014	19.1	18.4	*4.2*
2015	22.6	21.5	*5.5*

Price Performance (RIC: UNPO.BO, BB: UNTP IN)



- **Concerns overdone, CMP factors in all negatives:** United Phosphorus (UPL) continues to trade at ~50% discount to peers due to investor concerns related to piling up of debt, further deterioration in working capital, margin dilutive acquisitions and decline in return ratios. However, we believe, concerns are overdone and CMP factors in all negatives. We would like to highlight that despite decline in return ratios from their peak, current RoE/RoA at 16.4%/6.1% are significantly higher than the global generic players, *Nufarm* & *Makhteshim-Agan (MAI)*.

- **Working capital unlikely to deteriorate further:** Despite increasing contribution from Brazil which has longer credit cycles, we do not expect working capital to deteriorate further. On the contrary, we have modelled for working capital improvement of three days over the next two years to 143/142 in FY14E/FY15E. We believe there is room for improvement in inventory/receivables across multiple geographies as unfavourable weather conditions this year have resulted in piling up of inventory and longer credit days. However, rebound in these markets over the next two years would result in marginal improvement of working capital.

- **Earnings growth, combined with improvement in return ratios, to trigger re-rating:** UPL's higher exposure to emerging markets positions it well to deliver sustainable revenue growth over the medium term. EBITDA margins are likely to improve by 60bps over the next two years, driven by a turnaround in DVA (expect DVA to contribute 20-30 bps of improvement), significant cost savings initiatives and shift in product mix. We expect UPL to register 12.5%/14.1% CAGR in Revenue/PAT over FY12-15E. RoE/ROCEs are likely to improve ~150bps to 17.8%/12.6% from FY13E-FY15E. With sustainable earnings growth and improvement in return ratios, stock is likely to get re-rated. We value UPL at 9x FY14 earnings and recommend '**BUY**' with target of Rs 170 (42% upside to CMP).

Key financials (Y/e March)	**2012**	**2013E**	**2014E**	**2015E**
Revenues (Rs m)	76,936	88,143	99,069	109,467
Growth (%)	*33.6*	*14.6*	*12.4*	*10.5*
EBITDA (Rs m)	14,054	15,477	17,733	19,923
PAT (Rs m)	6,735	7,115	8,460	10,022
EPS (Rs)	14.6	16.1	19.1	22.6
Growth (%)	*9.0*	*10.2*	*18.9*	*18.5*
Net DPS (Rs)	2.5	2.8	3.0	3.0

Profitability & Valuation	**2012**	**2013E**	**2014E**	**2015E**
EBITDA margin (%)	*18.3*	*17.6*	*17.9*	*18.2*
RoE (%)	*17.1*	*16.4*	*17.4*	*17.8*
RoCE (%)	*13.4*	*11.1*	*11.9*	*12.6*
EV / sales (x)	1.0	1.0	0.8	0.7
EV / EBITDA (x)	5.7	5.6	4.7	4.0
PE (x)	8.2	7.5	6.3	5.3
P / BV (x)	1.3	1.2	1.0	0.9
Net dividend yield (%)	*2.1*	*2.3*	*2.5*	*2.5*

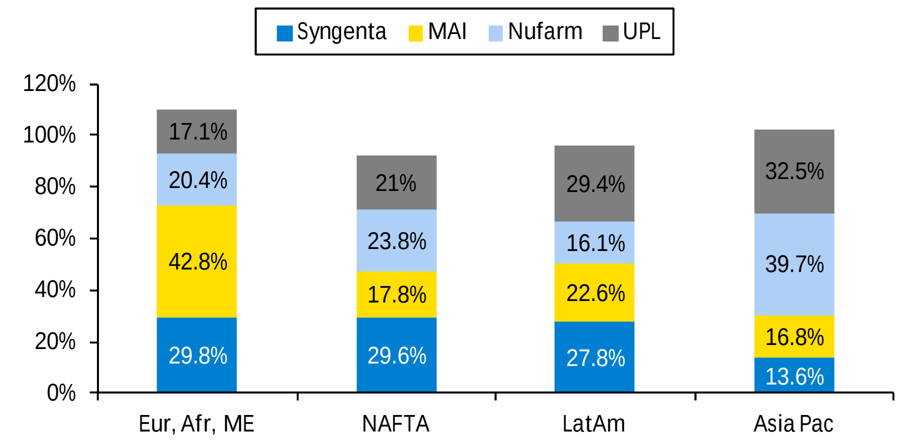
Source: Company Data; PL Research

Comparison with global peers

Higher share of revenues from high growth markets of AsiaPac & LatAm bodes well for UPL

UPL generates ~60% of its revenues collectively from high growth markets of Asia Pacific & Latin America, which is the highest, compared to the likes of global giants Syngenta (42%), MAI (40%) and Nufarm (56%). Higher exposure to these emerging economies positions UPL well to ride the next growth boom in these markets which are growing at a higher rate of 12-15% annually compared to global agrochemicals market growth rate of 4-5%. UPL has lower exposure to developed economies of Europe & North America which are growing in mid-single digits. Europe & North America collectively contribute to ~40% of revenues for UPL compared to 60% for Syngenta and MAI and 44% for Nufarm.

Exhibit 1: UPL generates 60% of its revenues from high growth markets of LatAm& AsiaPac

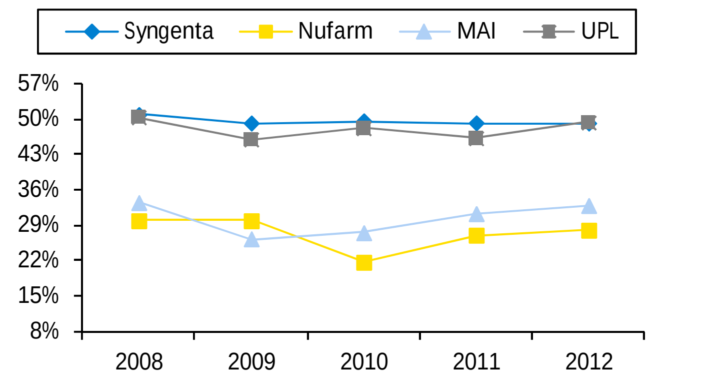


Source: Bloomberg, PL Research

UPL's margins are better than other generic players

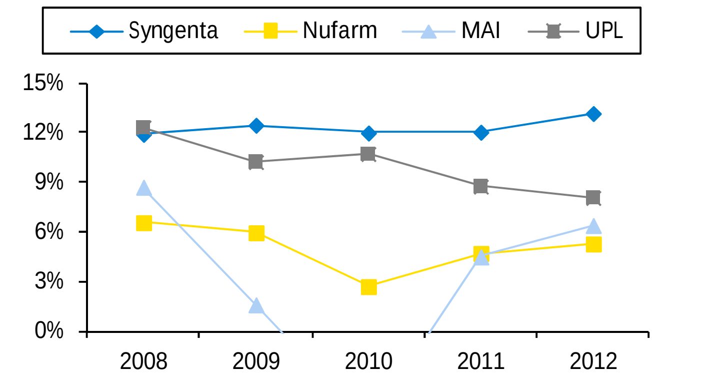
UPL's gross margins at ~50% are comparable to innovator companies like Syngenta, while they are higher than other generic players (Nufarm & MAI) who clock margins of ~30%. PAT margins for UPL are in the range of 8-9% compared to 5-6% for Nufarm & MAI.

Exhibit 2: UPL's gross margins are comparable to innovators



Source: Company Data, Bloomberg, PL Research

Exhibit 3: UPL's net margins are higher than global generic players

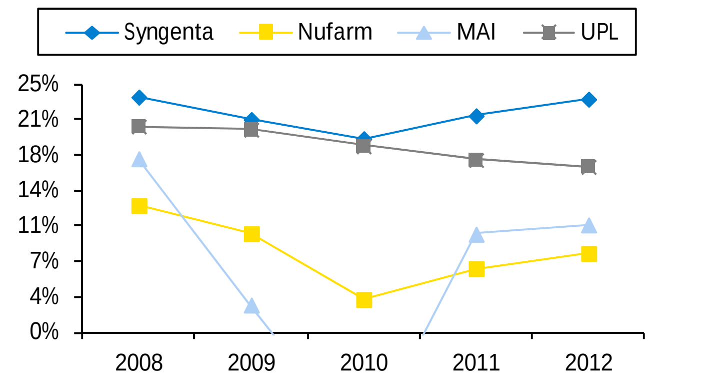


Source: Company Data, Bloomberg, PL Research

Despite decline in RoEs/RoAs from their peak, current return ratios are higher than global generic players

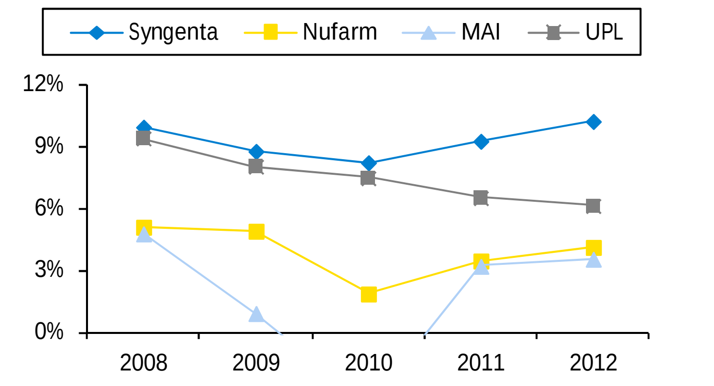
UPL has embarked on a typical strategy of acquiring global companies in financial distress and turning them around over a period of time. Though this strategy has enabled the company to clock revenue CAGR of 27% over FY07-12 (compared to industry average of 6-7%), it has resulted in dilution of ROEs/ROAs from their peak, piling up of debt and stretched working capital requirements. However, despite decline in return ratios from their peak, current return ratios are higher than global generic players. UPL's RoE/RoA stand at 16.4%/6.1% compared to 8-10% RoE & 3-4% RoA for Nufarm & MAI.

Exhibit 4: RoEs for UPL remain higher than global generics players



Source: Company Data, Bloomberg, PL Research

Exhibit 5: Despite decline in RoAs, they still remain higher



Source: Company Data, Bloomberg, PL Research

Latin America - Brazil & Argentina fastest growing market globally; twin acquisitions in Brazil positions UPL well to ride the growth boom

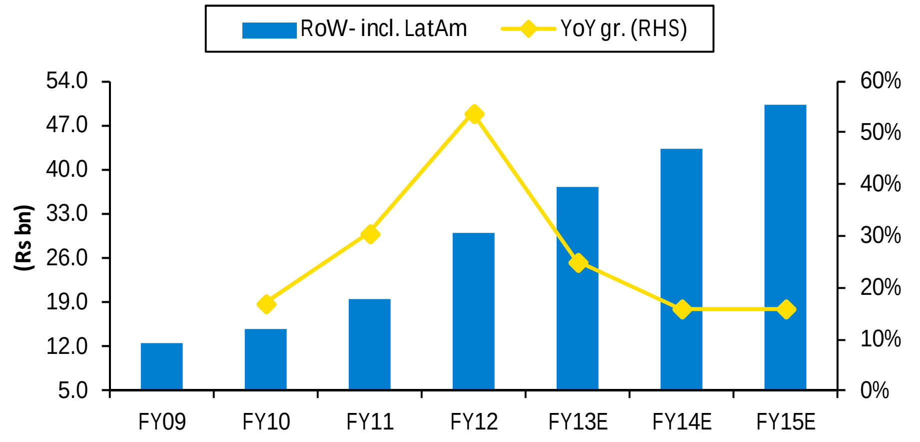
Latin American market is pegged at US$12-13bn and accounts for 25% of the global agrochemicals consumption. Latin America is the fastest growing geography globally and has been growing at a CAGR of more than 15% over the last few years. Growth in Latin America has been driven primarily from Brazil and Argentina where expansion in farming land area due to increased production of soyabean, corn and sugarcane have led to increased usage of pesticides. We expect this trend to continue over the medium term driven by firm crop prices, increase in acreages, newer product combinations etc.

Brazilian agrochemicals market is the fastest growing market globally and is estimated to reach US$10bn in 2012. Over the last few years, Brazil has emerged as the single largest agrochemicals market globally climbing from 4th place in 2006 to the top position. UPL, with twin acquisitions of *Sipcam Isagro Brazil* (SIB) & *DVA Agro*, is well-positioned to ride the growth boom in this geography. Though UPL through its subsidiary, *United Phosphorus do Brasil Ltda*, operated in the Brazilian agrochemical market prior to acquisition of stakes in SIB & DVA, it was still at a very nascent stage with limited product registrations and distribution access. Acquisition of stakes in these entities provided UPL overnight access to product registrations, wider product basket and more importantly, distribution network.

RoW market- opening up new avenues for growth

RoW market (excl. LatAm) contributed 14% to consolidated UPL revenues in 9MFY13. RoW market is a pretty large territory for UPL and includes key markets of Australia, Japan, China, Africa, Middle East etc. Management expects RoW market to be a key growth driver over the medium term driven by expansion in newer geographies as well as launch of new products in existing geographies to gain further ground. Expansion in China, Africa, and Middle East will be a major focus area for UPL, going forward. UPL also expects Australian market to rebound in FY14 after a disappointing performance in FY13 which was impacted by floods. In anticipation of this, company has lined up a slew of products to be launched in Australia during FY14. We believe expansion in newer geographies of China and Africa combined with new product launches in Australia and other geographies will enable UPL to post 15-16% YoY growth within this region over the medium term.

Exhibit 6: UPL's RoW revenues (incl. LatAm)- Rs (bn) & YoY growth



Source: Company Data, PL Research

DVA turnaround to contribute 20-30bps of margin improvement

We expect DVA Agro's margins to improve by 250-300bps over the medium term (DVA had margins of 10-11% at the time of acquisition) driven by consolidation of supply chain in Latin America, improved product profile (higher contribution of fruits & vegetables which carry higher margins) and better customer mix. Since DVA is primarily a marketing & distribution focused organization, it had outsourced all its supply chain related costs. Consolidating DVA's supply chain with UPL's existing LatAm supply chain will enable DVA to reap benefits and lower its sourcing costs. We expect DVA to contribute 20-30bps of margin improvement to UPL's consolidated business.

Exhibit 7: DVA Agro financials (Rs m)

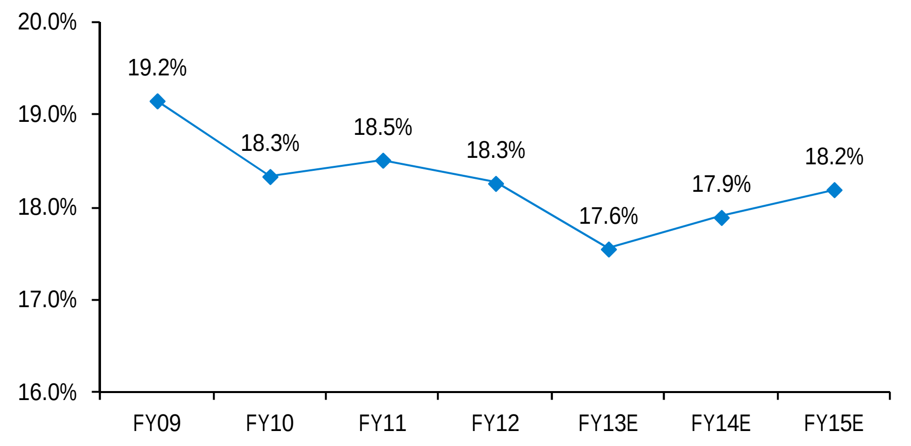
	FY12	FY13E	FY14E	FY15E
Revenues	6,468	10,996	13,196	15,835
YoY gr. (%)		*70.0*	*20.0*	*20.0*
% of consolidated revenues	*8.4*	*12.5*	*13.3*	*14.5*
EBITDA	712	1,265	1,715	2,217
EBITDA margins (%)	*11.0*	*11.5*	*13.0*	*14.0*

Source: Company Data, PL Research

EBITDA margins likely to improve driven by turnaround in DVA, shift in product mix, cost savings initiatives

We expect UPL's EBITDA margins to improve by 60bps over the next two years to 18.2% (from 17.6% in 9MFY13). EBITDA margin improvement is likely to be driven by shift in product mix, rationalization of costs and turnaround of DVA. UPL is consciously increasing the proportion of proprietary branded products in its portfolio which carry higher margins. The company has undertaken massive cost restructuring exercises which are expected to materialise over the medium term and contribute significantly to margin improvement. Turnaround in DVA is expected to contribute 20-30 bps of margin improvement to UPL's consolidated business.

Exhibit 8: EBITDA Margins to improve driven by multiple opportunities



Source: Company Data, PL Research

Working Capital unlikely to deteriorate further

UPL's working capital cycle deteriorated from 86 days in FY10 to 137 days in FY12 due to increasing contribution of Brazil (which has credit days as high as 250-300 days), pressure in domestic market and unfavourable weather conditions in major geographies which delayed receivables and led to stocking-up of inventory. Brazil's credit cycle is unusually high due to huge bargaining power at the farmers' level. Average farm land size holding in Brazil stands at about 72 hectares compared to 1.3 hectares for India. However, despite increasing contribution of Brazil, we do not expect working capital to deteriorate further from the current levels.

On the contrary, we expect working capital to improve marginally by three days over the next two years as there is room for improvement in receivables/inventory across multiple geographies. Domestic market has remained under pressure for two consecutive seasons resulting in build-up of inventory and extended credit cycle. Similarly, unfavourable weather conditions this year in North America as well as other geographies have resulted in stretching the working capital requirements. We believe rebound in these markets over the next two years would result in marginal improvement of working capital and somewhat ease the cash flow situation. We have modelled for working capital of 143/142 days in FY14E/15E (FY13E working capital cycle of 145 days).

Exhibit 9: Working Capital Cycle (Rs m)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Sales	23,112	35,155	48,021	52,900	56,497	75,342	86,562	97,330	107,553
Inventories	10,435	10,853	16,849	10,084	14,055	18,779	24,901	27,466	30,056
Debtors	5,697	8,541	11,406	12,135	14,795	24,453	28,459	31,999	35,360
Creditors	12,504	12,514	15,402	9,796	11,092	15,035	18,972	21,333	23,573
Net WC	3,628	6,880	12,853	12,423	17,759	28,197	34,387	38,132	41,843
Net WC Days	57	71	98	86	115	137	145	143	142

Source: Company Data, PL research

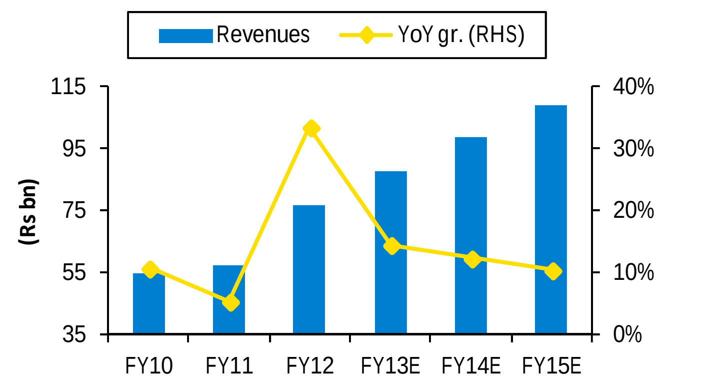
Financials

Expect revenues to grow at a CAGR of 12.6% over FY12-15E

We expect UPL's revenue to grow at a CAGR of 12.6% over FY12-15E, driven primarily by organic growth opportunities across UPL's geographies. Domestic market has been under pressure since the last two seasons; however, we expect domestic market to rebound in the next two years (we have modelled for 8% CAGR domestically over FY12-15E). We expect RoW market (incl. Latin America) to increase at a CAGR of 19% YoY during the same period, driven by growth opportunities in Brazil and Argentina & expansion in China, Africa and Middle East.

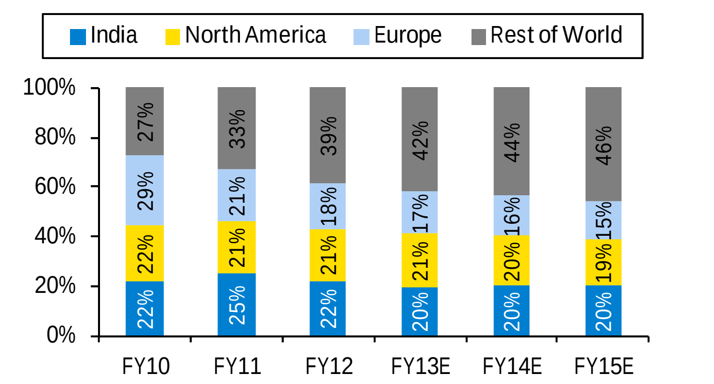
Over FY09-12, UPL clocked revenue growth of 16% YoY, driven primarily by inorganic growth opportunities, while organic growth remained muted. However, we expect organic growth to rebound in the next two years led by multiple growth opportunities in India, RoW and North American markets.

Exhibit 10: Revenues to grow at a CAGR of 12.6% over FY12-15E



Source: Company Data, PL Research

Exhibit 11: RoW contribution set to rise driven by Brazil

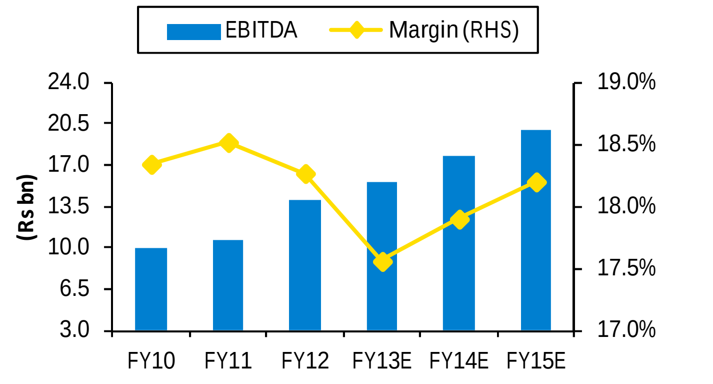


Source: Company Data, PL Research

EBITDA likely to grow at 12.3% CAGR over FY12-15E, Expect PAT to increase by 14% CAGR during the same period

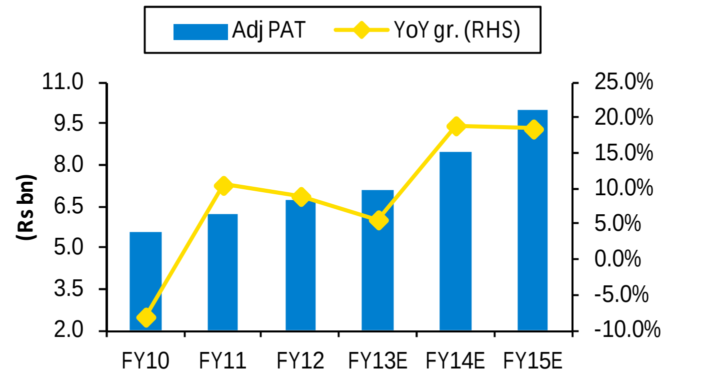
We expect EBITDA to grow at a CAGR of 12.3% over FY12-15E. EBITDA margins, which dipped to 17.6% in 9MFY13, are expected to recover by 60bps over the next two years to 18.2% in FY15E (management has guided for 100-200bps improvement over the next two years). We expect UPL's PAT to increase by 14% CAGR over FY12-15E. With sustainable earnings growth and improvement in margin profile, we expect RoE/RoCE to improve by 150bps to 17.8%/12.6% by FY15E. We expect UPL to generate FCFF of Rs2.9bn/Rs5.3bn in FY14E/FY15E.

Exhibit 12: EBITDA to grow at 12.3% CAGR over FY12-15E



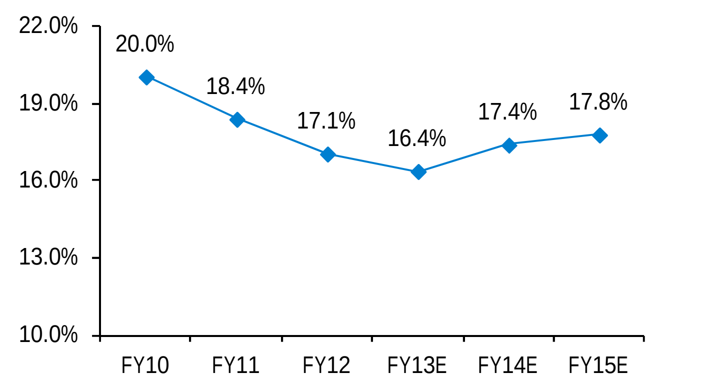
Source: Company Data, PL Research

Exhibit 13: Adj. PAT to increase by 14% CAGR over FY12-15E



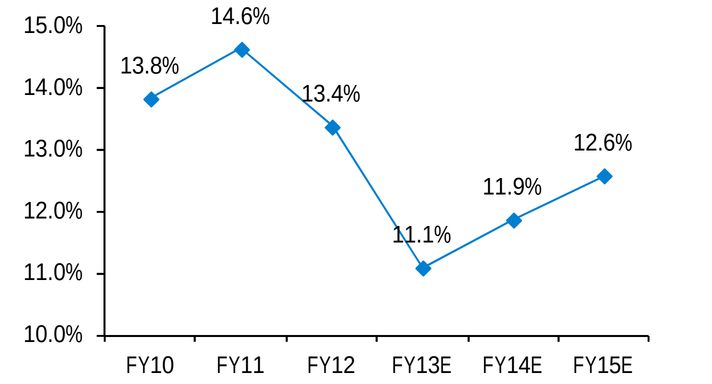
Source: Company Data, PL Research

Exhibit 14: RoEs to improve by 150bps from 2013E-15E



Source: Company Data, PL Research

Exhibit 15: RoCEs to improve to 12.6% by FY15E



Source: Company Data, PL Research

Valuation

Earnings growth, combined with improvement in return ratios, to trigger re-rating

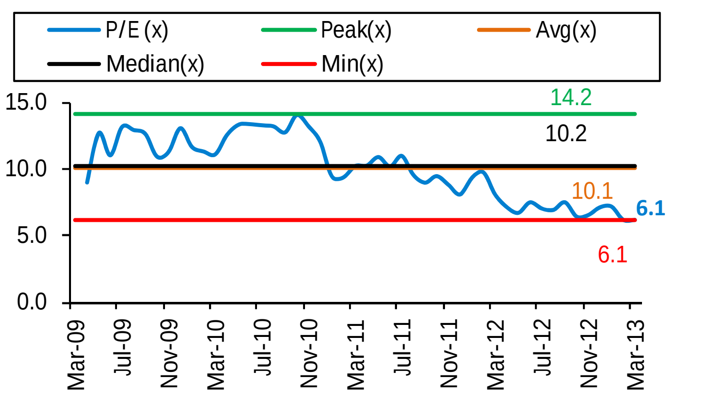
UPL, through its higher exposure to emerging markets, is comfortably placed to deliver sustainable growth in revenues over the medium term. EBITDA margins are likely to improve led by shift in product mix, rationalization of costs and turnaround of DVA. We expect UPL to register 12.6%/14% CAGR in revenues/PAT over FY12-15E. Balance sheet concerns related to pile-up of debt and higher working capital requirements are likely to recede as UPL focuses its energies on integration, going forward, rather than acquisition. Consequently, we expect RoE/ROCE to improve by ~150bps to 17.8%/12.6% from FY13E- FY15E. With sustainable earnings growth and improvement in return ratios over the medium term, stock is likely to get re-rated.

UPL is trading at 50% discount to peers; expect valuation gap to bridge; recommend 'BUY 'with target price of Rs170

UPL continues to trade at a significant discount to peers due to investor concerns related to high debt position, further deterioration in working capital requirements, turnaround in DVA and a decline in RoE/ROCEs. However, we believe, concerns are overdone and current price factors in all the negatives. Despite decline in return ratios from their peak, current return ratios are higher than global generic players. Sustainable earnings growth, DVA turnaround and marginal improvement in working capital over the next two years are likely to dispel investor concerns and re-rate the stock.

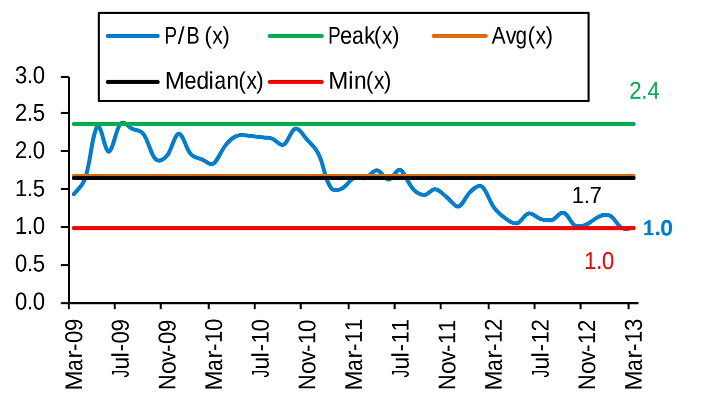
At CMP of Rs120, UPL trades at 6.3x FY14E earnings which is a discount of ~50% to industry average and 30% discount to its 3-year average. We recommend '**BUY**' & value UPL at 9x FY14 earnings of Rs19.1, resulting in target price of Rs170 (upside potential of 42%).

Exhibit 16: 1yr. forward PE



Source: Company Data, Bloomberg, PL Research

Exhibit 17: 1yr. forward P/BV



Source: Company Data, Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	**76,936**	**88,143**	**99,069**	**109,467**
Raw Material Expenses	41,421	44,706	50,129	55,390
Gross Profit	35,515	43,437	48,940	54,076
Employee Cost	6,856	8,795	9,907	10,947
Other Expenses	14,605	19,165	21,300	23,207
EBITDA	**14,054**	**15,477**	**17,733**	**19,923**
Depr. & Amortization	2,924	3,435	3,909	4,188
Net Interest	2,477	2,604	2,917	2,718
Other Income	701	997	1,046	1,099
Profit before Tax	**8,654**	**9,438**	**10,907**	**13,017**
Total Tax	1,514	2,587	2,727	3,254
Profit after Tax	**7,139**	**6,850**	**8,180**	**9,762**
Ex-Od items / Min. Int.	(3,466)	(303)	320	340
Adj. PAT	**6,735**	**7,115**	**8,460**	**10,022**
Avg. Shares O/S (m)	**461.8**	**442.6**	**442.6**	**442.6**
EPS (Rs.)	**14.6**	**16.1**	**19.1**	**22.6**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	41,731	45,170	52,087	60,567
Total Debt	32,447	40,947	39,947	37,947
Other Liabilities	6,956	5,447	5,947	5,947
Total Liabilities	**81,133**	**91,564**	**97,981**	**104,460**
Net Fixed Assets	13,951	14,766	15,107	15,419
Goodwill	21,335	21,335	21,335	21,335
Investments	9,895	10,413	10,413	10,413
Net Current Assets	34,956	44,054	50,130	56,297
Cash & Equivalents	*7,002*	*7,954*	*8,822*	*10,579*
Other Current Assets	*50,350*	*60,647*	*67,715*	*73,866*
Current Liabilities	*22,396*	*24,547*	*26,407*	*28,148*
Other Assets	997	997	997	997
Total Assets	**81,133**	**91,564**	**97,981**	**104,460**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	(3,224)	5,816	12,145	14,157
C/F from Investing	(6,599)	(4,355)	(4,250)	(4,500)
C/F from Financing	2,562	1,278	(6,527)	(7,400)
Inc. / Dec. in Cash	(7,260)	2,739	1,368	2,257
Opening Cash	16,712	7,002	7,954	8,822
Closing Cash	7,002	7,954	8,822	10,579
FCFF	(15,954)	(1,846)	2,912	5,300
FCFE	1,520	6,654	1,912	3,300

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	**22,142**	**18,560**	**22,956**	**24,484**
EBITDA	**3,864**	**3,261**	**4,042**	**4,309**
% of revenue	*17.5*	*17.6*	*17.6*	*17.6*
Depr. & Amortization	734	820	961	920
Net Interest	575	557	732	740
Other Income	254	202	280	260
Profit before Tax	**2,555**	**1,884**	**2,348**	**2,649**
Total Tax	703	457	685	742
Profit after Tax	**2,029**	**1,198**	**1,735**	**1,922**
Adj. PAT	**2,209**	**1,248**	**1,735**	**1,922**

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	33.6	14.6	12.4	10.5
EBITDA (%)	31.7	10.1	14.6	12.3
PAT (%)	9.0	5.6	18.9	18.5
EPS (%)	9.0	10.2	18.9	18.5
Profitability				
EBITDA Margin (%)	18.3	17.6	17.9	18.2
PAT Margin (%)	8.8	8.1	8.5	9.2
RoCE (%)	13.4	11.1	11.9	12.6
RoE (%)	17.1	16.4	17.4	17.8
Balance Sheet				
Net Debt : Equity	0.6	0.7	0.6	0.5
Net Wrkng Cap. (days)	149	166	163	161
Valuation				
PER (x)	8.2	7.5	6.3	5.3
P / B (x)	1.3	1.2	1.0	0.9
EV / EBITDA (x)	5.7	5.6	4.7	4.0
EV / Sales (x)	1.0	1.0	0.8	0.7
Earnings Quality				
Eff. Tax Rate	17.5	27.4	25.0	25.0
Other Inc / PBT	8.1	10.6	9.6	8.4
Eff. Depr. Rate (%)	10.7	10.9	10.9	10.4
FCFE / PAT	22.6	93.5	22.6	32.9

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Revenues growth (%)				
India	15.0	3.0	12.0	10.0
North America	32.1	14.7	7.0	5.0
Europe	16.2	7.2	4.0	3.0
Rest of World	53.8	25.0	16.0	16.0

Source: Company Data, PL Research.

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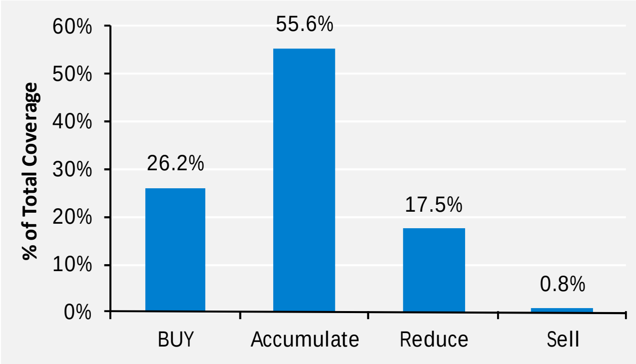
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly