UPL

UPL Corporation Ltd, international arm of the UPL (United Phosphorus Ltd), has entered into an agreement to acquire Arystra Lifesciences for US$4.2bn, making it to Top 5 in the world. UPL will now have sales of US$5bn & 20%+EBDITA margins (pre synergies).Transaction provides UPL a perfect match with powerful synergies across geographies, crops and products, strengthened through best-in-class manufacturing & differentiated R&D capabilities. Acquisition is funded part by equity of US$1.2bn & Debt of US$3bn. It expects Net Debt/ EBDITA of 2.5-2.7x after accounting for synergies V/s 3.2-3.5x as of now. On EPS front, the transaction will add Rs10-12 in FY2020. The merger is expected to close in late CY2018 and early CY2019. We recommend a HOLD.

Expanded & diversified product portfolio: UPL boasts of an agrochemical product portfolio that is spread out across geographies and crops. The acquisition will not only boost UPL's product portfolio for crops where it already has a strong presence, but also in those where it has limited presence (e.g. wheat, barley, nuts and a wide variety of specialty crops). According to management, Arysta has a strong presence in bio solutions (among top eight global players) and seed treatment (ranked fourth globally).

Strengthened presence in Europe: The overseas revenue mix for UPL is tilted in favor LataM (33% of its sales) as of now; Europe contributes just 13% of its sales. However, post the acquisition of Arysta (for which Europe revenue contribution is at 39% and LataM is at 36% of sales), UPL will have a more balanced geographical revenue mix, with LataM accounting for 33-34% of sales & Europe's contribution rising to 24% of sales.

Cost synergies to improve: Arysta relies on contract manufacturers for raw material sourcing from low-cost manufacturing countries like India, China and Eastern Europe. The company also almost entirely sources its AIs from third-party manufacturers. Management has guided for cost synergies of US$100-120mn in the first year of consolidation and US$200mn annually thereafter.

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	**16,312**	**17,378**	**19,811**	**38,656**
% chg	*16.1*	*6.5*	*14.0*	*71.2*
Adj. Net profit	**1,800**	**2,086**	**2,221**	**2,637**
% chg	71.3	15.9	6.5	18.7
EBITDA margin (%)	17.8	19.8	18.8	19.7
EPS (₹)	**35.5**	**41.1**	**43.8**	**52.0**
P/E (x)	17.8	15.4	14.5	12.2
P/BV (x)	4.3	3.5	2.9	2.5
RoE (%)	27.1	25.2	22.1	20.1
RoCE (%)	19.1	19.8	20.3	19.0
EV/Sales (x)	1.9	1.8	1.5	1.4
EV/EBITDA (x)	10.8	9.0	8.2	6.9

Source: Company, Angel Research Note: CMP as of June 24, 2018,FY20 represents a merged no's

HOLD

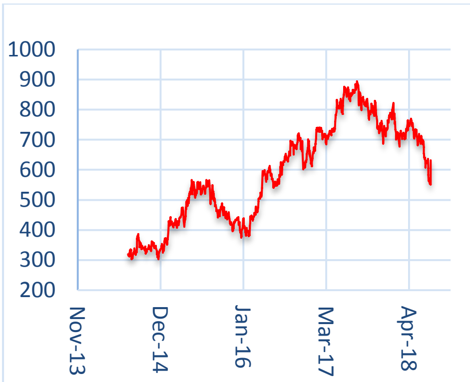
CMP	₹633
Target Price	₹680
Investment Period	12 Months

Stock Info	
Sector	Agrichemicals
Market Cap (₹ cr)	32,112
Net Debt (₹ cr)	2,579
Beta	1.4
52 Week High / Low	902/534
Avg. Daily Volume	54,588
Face Value (₹)	1
BSE Sensex	36,719
Nifty	11,085
Reuters Code	UPLL.BO
Bloomberg Code	UPLL.IN

Shareholding Pattern (%)	
Promoters	27.7
MF / Banks / Indian FIs	13.8
FII / NRIs / OCBs	50.1
Indian Public / Others	8.4

Abs.(%)	3m	1yr	3yr
Sensex	6.6	13.9	40.4
UPL	(16.3)	(27.1)	97.9

3-year price chart



Source: Company, Angel Research

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Outlook & Valuations: While the acquisition of Arysta would drive significant benefits, it would also result in a highly leveraged balance sheet for UPL. FY2020 net D/E would jump from 0.1 to 1.9x and FY2020 net debt to EBITDA would rise from 0.4 to 3.3x. Thus, the ROE and ROCE of the company will come down to 22.1% & 20.3% to 20.1% & 19.0% respectively. In addition, the EPS has come down from Rs54.1 to Rs52.0 for FY2020E, on back of the acquisition because of the interest and depreciation expenses increasing more than the synergy benefits, especially during first year of acquisitions. We, we believe that the stock will given the financials, will trade lower multiples. **Thus, we recommend a hold with a price target of Rs680.**

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DISCLAIMER

Disclosure of Interest Statement	**Aurobindo Pharmaceuticals**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to -15%)	*Sell (< -15%)*	