

United Phosphorus

Performance Highlights

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (yoy)
Net sales	3,050	2729	11.8	3010	1.3
Other income	131	51	155.2	51	157.1
Gross profit	1652	1362	21.4	1469	12.5
Operating profit	579	450	28.5	538	7.5
Adj. net profit	306	190	60.7	264	15.9

Source: Company, Angel Research

For 3QFY2016, United Phosphorus (UPL) posted sales of ₹3,050cr, a yoy growth of 1.3%. Overall, growth was driven by price and volume growth of 3% and 11% respectively, while exchange had a weigh down effect by 13%, which impacted the sales. On the operating front, the OPM came in at 19.0% V/s 17.9% in 3QFY2015. This is in spite of lower sales as the GPM improved to 54.2% V/s 48.8% in 3QFY2015 on back of healthy volume growth and price rise. This aided the Adj. net profit to come in at ₹306cr V/s ₹264cr in 3QFY2015, a yoy growth of 15.9%. The Management has maintained its guidance of 12-13% volume growth with 100bps margin expansion in FY2016. **We maintain our Buy recommendation on the stock with a price target of ₹480.**

Quarterly highlights: For the quarter, UPL posted sales of ₹3,050cr, a yoy growth of 1.3%. USA and Latin America posted a 12% and 14% yoy growth, respectively, during the quarter. Other key markets like India, Europe and ROW posted a dip of 17%, 9% and 8% yoy, respectively. Overall, growth was driven by price and volume growth of 3% and 11% respectively, while exchange had a weigh down effect by 13%. On the operating front, the OPM came in at 19.0% V/s 17.9% in 3QFY2015. This is in spite of lower sales as the GPM improved to 54.2% V/s 48.8% in 3QFY2015 on back of healthy volume growth and price rise. This aided the Adj. net profit to come in at ₹306cr V/s ₹264cr in 3QFY2015, a yoy growth of 15.8%.

Outlook and valuation: We expect UPL to post a CAGR of 9.9% and 15.8% in sales and PAT respectively, over FY2015-17E. The Management has maintained its guidance of 12-13% volume growth with 100bp margin expansion in FY2016. **We recommend a Buy a price target of ₹480.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Total revenue	10,580	11,911	12,500	14,375
% chg	17.4	12.6	4.9	15.0
Adj. profit	1,040	1,147	1,277	1,537
% chg	38.0	10.2	11.4	20.4
EBITDA (%)	17.3	18.3	18.3	18.3
EPS (₹)	24.3	26.7	29.8	35.9
P/E (x)	17.1	15.5	13.9	11.6
P/BV (x)	3.4	3.0	2.6	2.2
RoE (%)	21.0	20.6	20.0	20.3
RoCE (%)	17.7	19.9	18.7	19.5
EV/Sales (x)	2.4	2.1	2.0	1.7
EV/EBITDA (x)	13.9	11.6	10.8	9.0

Source: Company, Angel Research; Note: CMP as of February 2, 2016

BUY

CMP	₹416
Target Price	₹480

Investment Period	12 Months
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Stock Info

Sector	Agrichemical
Market Cap (₹ cr)	17,811
Net Debt (₹ cr)	1,113
Beta	1.1
52 Week High / Low	576/359
Avg. Daily Volume	158531
Face Value (₹)	2
BSE Sensex	24,539
Nifty	7,456
Reuters Code	UNPO.BO
Bloomberg Code	UNTP@IN

Shareholding Pattern (%)

Promoters	29.8
MF / Banks / Indian Fls	22.0
FII / NRIs / OCBs	38.4
Indian Public / Others	9.8

Abs. (%)	3m	1yr	3yr
Sensex	(7.6)	(15.7)	24.1
UPL	(9.3)	5.7	215.8

3-year price chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91-22-3935 7800 ext. 6806

sarabjit@angelbroking.com

Exhibit 1: 3QFY2016 Performance (Consolidated)

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (yoy)	9MFY2016	9MFY2015	% chg
Net sales	3,050	2,729	11.8	3,010	1.3	8,790	8,348	5.3
Other income	131	51	155.2	51	157.1	210	155	35.6
Total income	3,181	2,780	14.4	3,061	3.9	9,001	8,503	5.9
Gross profit	1652	1362	21.4	1469	12.5	4524	4192	7.9
Gross margin (%)	54.2	49.9		48.8		51.5	50.2	
Operating profit	579	450	28.5	538	7.5	1554	1460	6.4
Operating margin (%)	19.0	16.5		17.9		17.7	17.5	
Financial cost	182	135	34.1	138	31.6	419	394	
Depreciation	123	111	10.6	109	13.0	343	321	6.7
PBT	405	255	58.9	342	18.4	1003	900	11.4
Provision for taxation	73	77	(5.8)	60	21.0	219	194	12.7
PAT Before Exc. And MI	332	178	86.9	282	17.9	784	706	11.0
Minority Income/ (Exp.)	(8)	(2)		(23)		(5)	(40)	
Income from Associate/ (Exp)	(14)	13		9		4	29	
Extra ordinary Income/(Exp.)	(24)	(8)		(18)		(36)	10	
Reported PAT	287	185	54.8	249	15.0	747	704	6.1
Adjusted PAT	306	190	60.7	264	15.9	775	696	11.3
EPS (₹)	7.1	4.4		6.0		18.1	16.2	

Source: Company, Angel Research

Top-line growth supported mainly by USA and Latin America

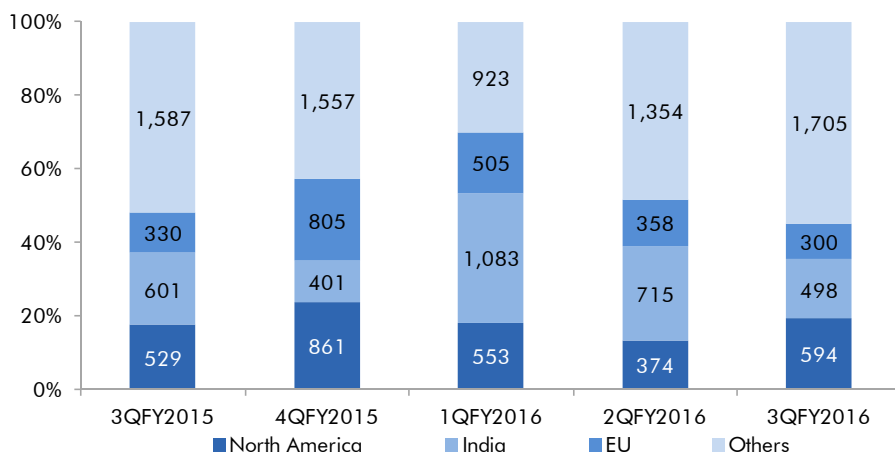
During the quarter, United Phosphorus posted sales of ₹3,050cr, a yoy growth of 1.3%. Sales were impacted as all the key markets were under pressure, while USA and Latin America posted a 12% and 14% yoy growth, respectively, during the quarter. Other key markets like India, Europe and ROW posted a dip of 17%, 9% and 8% yoy, respectively. Overall, growth was driven by price and volume growth of 3% and 11% respectively, while exchange had a weigh down effect by 13%.

India (₹498cr) posted a 17% yoy dip in revenue owing to serious drought conditions affecting agrochemical usage, both in Kharif & Rabi crops. However, UPL's new products and power brands continued to register healthy growth. Europe (₹300cr) posted a 9% yoy dip due to devaluation of the Euro, which impacted growth in INR terms. Going forward, European markets are likely to be flat or posting de-growth.

Latin America (₹1,279cr) posted a 14% yoy growth on back of high demand of fungicide. UPL expects to maintain the growth momentum on the back of new product launches. Ease of export tax on agricultural commodities in Argentina is to further aid demand for agrochemicals.

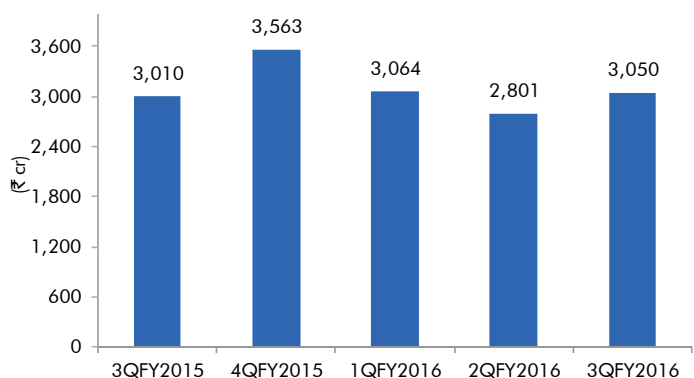
UPL's North America (₹594cr) business registered a 12% yoy revenue growth led by healthy demand for its newly launched products. However, low pest infestation in field crops, dry weather conditions in Western USA and higher competitive intensity continued to weigh on the company's overall performance in the region. Extreme winter snowfall in many parts of North America could delay sowing and impact 4QFY2016 performance; the business could shift to the next season.

Exhibit 2: Sales Break-up (Marketwise)



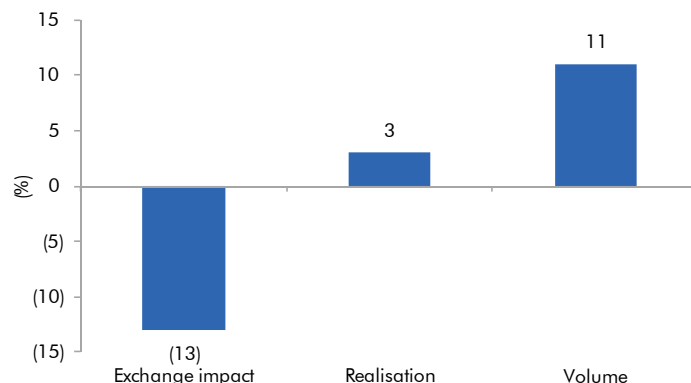
Source: Company

Exhibit 3: Sales performance (including export incentives)



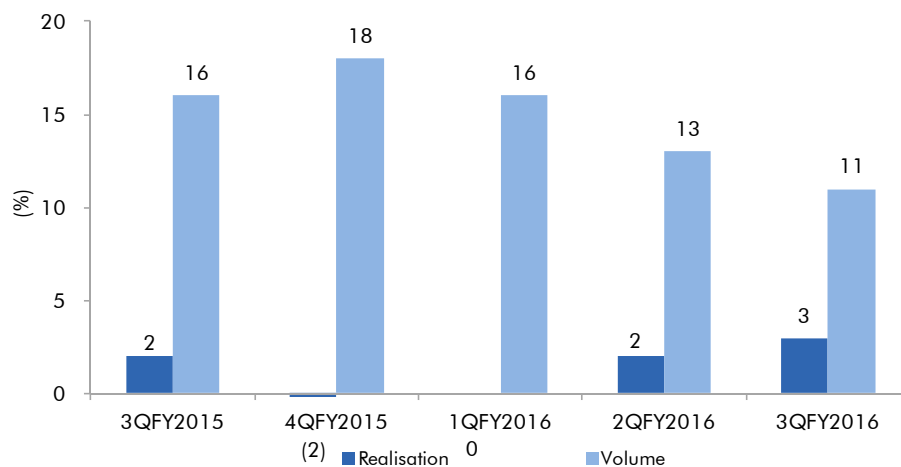
Source: Company, Angel Research

Exhibit 4: Growth break-up



Source: Company, Angel Research

Exhibit 5: Volume and realisation break-up (yoy)

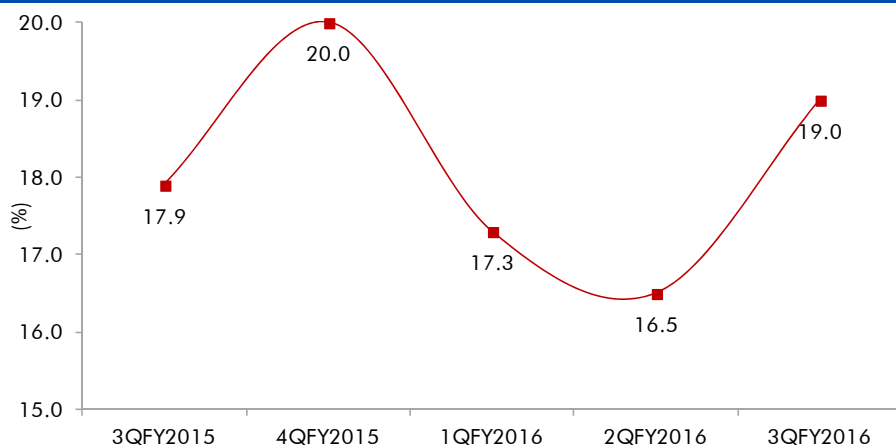


Source: Company, Angel Research

EBITDA margin improves

On the operating front, the OPM came in at 19.0% V/s 17.9% in 3QFY2015, in spite of lower sales, as the GPM improved to 54.2% V/s 48.8% in 3QFY2015 on back of healthy volume growth and price rise.

Exhibit 6: EBITDA margin trend

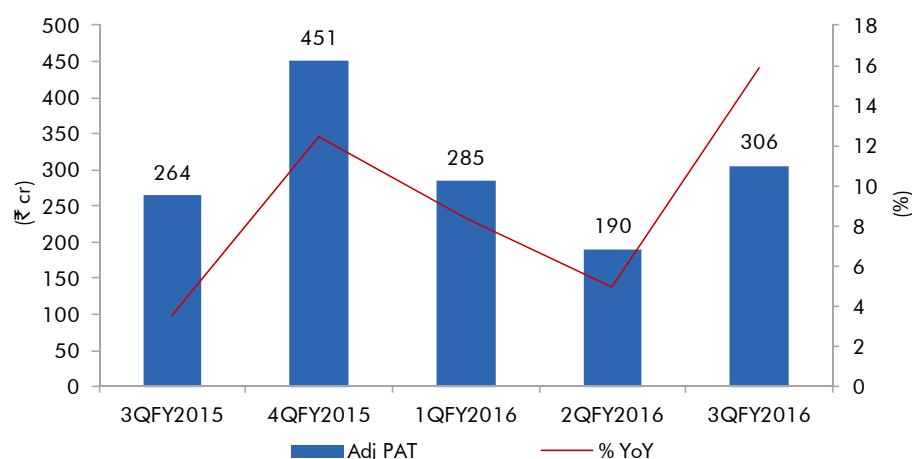


Source: Company, Angel Research

Adj net profit grew 15.8% yoy

This aided the Adj. net profit to come in at ₹306cr V/s ₹264cr in 3QFY2015, a 15.8% yoy growth. While the sales growth was meager, higher other income lead the PAT growth to be robust. Other income during the quarter came in at ₹131cr V/s ₹51cr in 3QFY2015, a yoy growth of 157.1%.

Exhibit 7: Adjusted PAT trend



Source: Company, Angel Research

Concall Highlights

- The company expects to maintain the growth momentum in Latin America on the back of new product launches. Ease of export tax on agricultural commodities in Argentina is to further aid demand for agrochemicals.
- Low pest infestation in field crops, dry weather conditions in Western USA and higher competitive intensity continue to weigh on the company's overall performance in the region.
- The Management expects to report a flat performance or possibly a de-growth in Europe for FY2016. Challenges persist in South Europe which faces a dry season with low disease pressure.

Investment arguments

Innovators dominant in the off-patent space; Generic firms in a sweet spot

The global agrichem industry, valued at US\$53bn (CY2014), is dominated by the top six innovators, viz Bayer, Syngenta, Monsanto, BASF, DuPont and Dow, which enjoy a large market share of the patented (28%) and off-patent (32%) market. The top six innovators enjoy a large share of the off-patent market due to high entry barriers for pure generic players. Thus, one-third of the total pie worth US\$18bn, which is controlled by the top six innovators through proprietary off-patent products, provides a high-growth opportunity for larger integrated generic players like UPL.

Generic segment's market share to increase

Generic players have been garnering a high market share; their share has increased from 32% levels in 1998 to 40% by 2006-end. The industry registered a CAGR of 3% over 1998-2006, while generic players outpaced the industry with a CAGR of 6%. Going ahead, given the opportunities and a drop in the rate of new molecule introduction by innovators, we expect generic players to continue to outpace the industry's growth rate and augment their market share in the overall pie. Historically, global agrichem players have been logging in-line growth with global GDP. Going ahead, over CY2015-16, the global economy is expected to grow by 3-4%. Assuming this trend plays out in terms of growth for the agrichem industry, and the same rate of genericisation occurs, then the agrichemical generic industry could log in 6-8% yoy growth during the period and garner a market share of 44-45%.

A global generic play

UPL figures among the top five global generic agrichemical players with presence across major markets including the US, EU, Latin America, and India. Given the high entry barriers by way of high investments, entry of new players is restricted. Thus, amidst this scenario and on account of having a low-cost base, we believe UPL enjoys an edge over competition and is placed in a sweet spot to leverage the upcoming opportunities in the global generic space.

Outlook and valuation

Over the last few years, the global agriculture sector has been reviving on the back of rising food prices. Food security is also a top priority for most governments; reducing food loss is one of the easiest ways to boost food inventory. Hence, we believe agrichemical companies would continue to do well in the wake of heightened food security risks, and strong demand is likely to be witnessed across the world. Overall, we expect the global agrichemical industry to perform well from here on. Generics are expected to register a healthy growth due to a) increasing penetration and wresting market share from innovators and b) patent expiries worth US\$3bn–4bn during the next five years.

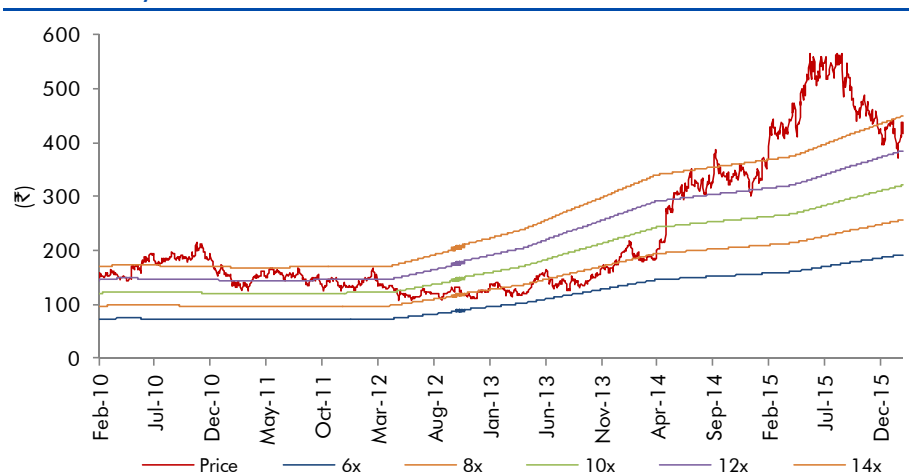
We estimate UPL to post a 9.9% and 15.8% CAGR in sales and PAT, respectively, over FY2015-17E. The stock is trading at 11.6x FY2017E EPS, which we believe, provides some room for appreciation. Hence we recommend a BUY rating on the stock.

Exhibit 8: Key assumption

	FY2016E	FY2017E
Sales growth	4.9	15.0
EBITDA margin	18.3	18.3
Tax rate	20.0	20.0

Source: Company, Angel Research

Exhibit 9: P/E band



Source: Company, Angel Research

Exhibit 10: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		CAGR (%)	
						FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	Sales	PAT
Rallis	Neutral	3,075	158	-	-	22.0	18.3	2.5	2.1	17.6	14.8	16.5	18.0	3.7	3.4
United Phosphorus	Buy	17,811	416	480	15.4	13.9	11.6	2.0	1.7	10.8	9.0	20.0	20.3	9.9	15.8

Source: Company, Angel Research, Bloomberg

Company background

United Phosphorus (UPL) is a global generic crop protection, chemicals and seeds company. The company is fully backward and forward integrated by taking advantage of the consolidation opportunities within the agrochemical industry. UPL is the largest Indian agrochemical company and had revenue of about ₹11,911cr for the year ended March 2015.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	7,534	9,010	10,580	11,911	12,500	14,375
Other operating income	137	184	191	45	45	45
Total operating income	7,671	9,195	10,771	11,956	12,545	14,420
% chg	33.2	19.9	17.1	11.0	4.9	14.9
Total Expenditure	6,328	7,568	8,751	9,736	10,207	11,738
Net Raw Materials	4,058	4,687	5,441	6,016	6,413	7,374
Other Mfg costs	590	741	1,034	1,164	1,113	1,279
Personnel	686	853	946	1,043	1,094	1,259
Other	994	1,287	1,330	1,513	1,588	1,826
EBITDA	1,206	1,442	1,829	2,175	2,293	2,637
% chg	28.1	19.6	26.8	19.0	5.4	15.0
(% of Net Sales)	16.0	16.0	17.3	18.3	18.3	18.3
Depreciation & Amortisation	292	354	407	425	486	507
EBIT	1,051	1,273	1,613	1,796	1,852	2,175
% chg	25.3	21.1	26.7	11.4	3.1	17.4
(% of Net Sales)	13.7	13.8	15.0	15.0	14.8	15.1
Interest & other Charges	415	429	487	517	362	362
Other Income	97	73	131	131	131	131
(% of PBT)	13	8	10	9	8	7
Recurring PBT	734	917	1,257	1,410	1,622	1,945
% chg	11.4	25.0	37.1	12.2	15.0	19.9
Extraordinary Expense/(Inc.)	(5)	27	85	(2)	-	-
PBT (reported)	729	944	1,172	1,413	1,622	1,945
Tax	128	203	222	244	324	389
(% of PBT)	17.6	21.5	18.9	17.3	20.0	20.0
PAT (reported)	601	741	950	1,169	1,298	1,556
Add: Share of earnings of asso.	(40)	32	30	21	23	26
Less: Minority interest (MI)	5	(2)	7	43	43	43
Prior period items	-	-	24	-	1	2
PAT after MI (reported)	556	775	950	1,144	1,277	1,537
ADJ. PAT	561	754	1,040	1,147	1,277	1,537
% chg	1.6	34.3	38.0	10.2	11.4	20.4
(% of Net Sales)	7.5	8.4	9.8	9.6	10.2	10.7
Basic EPS (₹)	12.2	17.0	24.3	26.7	29.8	35.9
Fully Diluted EPS (₹)	12.2	17.0	24.3	26.7	29.8	35.9
% chg	1.6	40.1	42.5	10.2	11.4	20.4

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity Share Capital	92	89	86	86	86	86
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	4,081	4,557	5,162	5,775	6,837	8,160
Shareholders' Funds	4,173	4,645	5,247	5,860	6,923	8,246
Minority Interest	250	234	172	44	88	131
Total Loans	3,389	4,203	2,873	2,781	2,781	2,781
Other Long term liabilities	301	395	311	594	594	594
Long Term Provisions	51	51	53	53	53	53
Deferred Tax Liability	(6)	(13)	57	45	45	45
Total Liabilities	8,158	9,516	8,714	9,378	10,484	11,850
APPLICATION OF FUNDS						
Gross Block	4,687	5,386	6,039	6,792	7,092	7,392
Less: Acc. Depreciation	2,605	3,173	3,580	4,005	4,491	4,998
Net Block	2,082	2,213	2,459	2,787	2,601	2,394
Capital Work-in-Progress	306	378	378	378	378	378
Goodwill / Intangibles	1,141	1,277	1,212	1,449	1,449	1,449
Investments	795	1,025	737	764	764	764
Long Term Loan & Adv.	321	277	389	418	439	504
Current Assets	5,625	7,154	7,572	8,372	9,880	12,141
Cash	1,566	1,548	1,023	1,010	1,587	2,604
Loans & Advances	602	852	771	586	1,182	1,359
Other	3,458	4,754	5,779	6,776	7,111	8,178
Current liabilities	2,111	2,807	4,033	4,789	5,026	5,780
Net Current Assets	3,514	4,346	3,539	3,582	4,854	6,361
Others	-	-	-	-	-	-
Total Assets	8,158	9,516	8,714	9,378	10,484	11,850

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	729	944	1,172	1,413	1,622	1,945
Depreciation	292	354	407	425	486	507
Change in Working Capital	318	(806)	171	(86)	(715)	(556)
Less: Other income	-	-	-	-	-	-
Direct taxes paid	(128)	(203)	(222)	(244)	(324)	(389)
Cash Flow from Operations	1,211	288	1,528	1,508	1,069	1,507
(Inc.)/ Dec. in Fixed Assets	(989)	(771)	(653)	(753)	(300)	(300)
(Inc.)/ Dec. in Investments	29	(231)	-	-	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(961)	(1,002)	(653)	(753)	(300)	(300)
Issue of Equity	-	-	(3)	-	-	-
Inc./ (Dec.) in loans	(989)	(908)	1,413	(192)	(0)	(0)
Dividend Paid (Incl. Tax)	(134)	(129)	(201)	(214)	(214)	(214)
Others	1,738	1,733	(2,612)	(362)	23	24
Cash Flow from Financing	615	696	(1,403)	(768)	(192)	(190)
Inc./ (Dec.) in Cash	866	(18)	(525)	(13)	577	1,017
Opening Cash balances	700	1,566	1,548	1,023	1,010	1,587
Closing Cash balances	1,566	1,548	1,023	1,010	1,587	2,604

Key Ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	34.2	24.4	17.1	15.5	13.9	11.6
P/CEPS	22.5	16.6	12.3	11.3	10.1	8.7
P/BV	4.6	4.0	3.4	3.0	2.6	2.2
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6	0.6
EV/Sales	3.4	2.9	2.4	2.1	2.0	1.7
EV/EBITDA	21.0	18.0	13.9	11.6	10.8	9.0
EV / Total Assets	3.1	2.7	2.9	2.7	2.4	2.0
Per Share Data (₹)						
EPS (Basic)	12.2	17.0	24.3	26.7	29.8	35.9
EPS (fully diluted)	12.2	17.0	24.3	26.7	29.8	35.9
Cash EPS	18.5	25.0	33.8	36.7	41.1	47.7
DPS	2.5	2.5	2.5	2.5	2.5	2.5
Book Value	90.4	105.0	122.4	136.7	161.5	192.4
DuPont Analysis						
EBIT margin	13.7	13.8	15.0	15.0	14.8	15.1
Tax retention ratio	82.4	78.5	81.1	82.7	80.0	80.0
Asset turnover (x)	1.4	1.4	1.5	1.6	1.6	1.7
ROIC (Post-tax)	15.8	15.4	18.5	20.3	18.8	20.9
Cost of Debt (Post Tax)	11.3	8.9	11.2	15.1	10.4	10.4
Leverage (x)	0.5	0.5	0.5	0.3	0.2	0.1
Operating ROE	18.0	18.6	21.9	22.0	20.8	21.9
Returns (%)						
ROCE (Pre-tax)	14.4	14.4	17.7	19.9	18.7	19.5
Angel ROIC (Pre-tax)	19.5	20.0	23.2	24.7	23.5	26.2
ROE	14.2	17.1	21.0	20.6	20.0	20.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.8	1.9	1.9	1.8	2.0
Inventory / Sales (days)	78	78	83	86	89	85
Receivables (days)	93	102	83	86	89	85
Payables (days)	102	108	69	72	74	71
WCcycle (ex-cash) (days)	105	96	92	78	85	89
Solvency ratios (x)						
Net debt to equity	0.5	0.4	0.6	0.4	0.3	0.2
Net debt to EBITDA	2.1	1.5	1.8	1.0	0.8	0.5
Interest Coverage (EBIT / Int.)	2.5	3.0	3.3	3.5	5.1	6.0

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

	UPL
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 (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)