

United Phosphorus

Performance Highlights

Y/E March (` cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)
Net sales	3,770	3723	1.3	3541	6.5
Other income	76	101	(24.8)	82	(7.3)
Gross profit	2114	2204	(4.1)	1892	11.7
Operating profit	677	691	(2.0)	548	23.5
Adj. net profit	263	492	(46.6)	214	23.0

Source: Company, Angel Research,

UPL posted robust numbers for 2QFY2018. In sales, the company posted gross revenues of `3,770cr v/s `3,541cr in 2QFY2017, growth of 6.5% yoy. The sales growth was driven by volume (11% yoy), while price dip was 2% and exchange losses deducted 3% from the top-line rise. On EBITDA front, the company posted an EBITDA of 18.0% v/s 15.5% in 2QFY2017. Consequently, Adj. PAT came in at `263cr v/s `214cr in 2QFY2017, growth of 23.0% yoy. The management has maintained guidance of 12-15% revenue growth and 50-75bps improvement in EBITDA margin.

We recommend our Accumulate rating on the stock.

Quarterly highlights: In sales, the company posted gross revenues of `3,770cr v/s `3,541cr in 2QFY2017, growth of 6.5% yoy. The growth was driven by volume (11% yoy), while price dip was 2% and exchange losses deducted 3% from the top-line rise. In terms of geography, revenues were higher overall – India (`997cr, up 10% yoy), Latin America (`1,385cr, up 5% yoy), ROW (`632cr, yoy rise of 5%), Europe (`363cr, posted a yoy growth of 7%). US (`393cr) sales posted a yoy growth of 5%. On EBITDA front, the company posted an EBITDA of 18.0% v/s 15.5% in 2QFY2017. Consequently, Adj. PAT came in at `263cr v/s `214cr in 2QFY2017, growth of 23.0% yoy.

Outlook and Valuation: We expect UPL to post a CAGR of 15.0% and 11.3% in its sales and PAT respectively over FY2017-19E. The management has maintained guidance of 12-15% revenue growth and 50-75bps improvement in EBITDA margin.

We recommend an Accumulate.

Key financials (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Total revenue	14,048	16,312	18,759	21,572
% chg	17.9	16.1	15.0	15.0
Adj. profit	1,051	1,800	1,848	2,267
% chg	(8.3)	71.3	2.7	22.7
EBITDA (%)	16.1	17.8	18.4	18.7
EPS (`)	24.5	35.5	36.5	44.7
P/E (x)	30.8	21.2	20.7	16.9
P/BV (x)	5.5	5.2	4.4	3.6
RoE (%)	17.9	27.1	22.8	23.4
RoCE (%)	15.4	19.1	19.9	21.2
EV/Sales (x)	3.4	2.9	2.5	2.1
EV/EBITDA (x)	21.4	16.3	13.7	11.4

Source: Company, Angel Research; Note: CMP as of November 21, 2017,

ACCUMULATE

CMP	`754
Target Price	`805
Investment Period	12 months

Stock Info

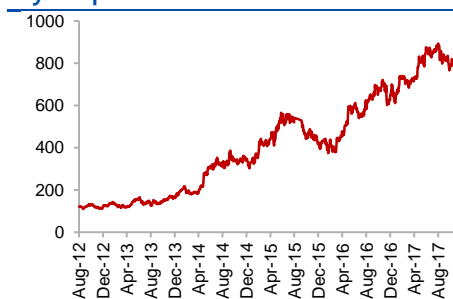
Sector	Agrichemical
Market Cap (` cr)	38,340
Net Debt (` cr)	1,113
Beta	1.0
52 Week High / Low	902/584
Avg. Daily Volume	100,243
Face Value (`)	2
BSE Sensex	33,478
Nifty	10,327
Reuters Code	UNPO.BO
Bloomberg Code	UNTP@IN

Shareholding Pattern (%)

Promoters	27.9
MF / Banks / Indian FIs	13.8
FII / NRIs / OCBs	50.4
Indian Public / Others	8.0

Abs. (%)	3m	1yr	3yr
Sensex	7.0	29.9	18.2
UPL	(5.5)	24.0	115.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2018 Performance (Consolidated)

Y/E March (₹ cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)	1HFY2018	1HFY2017	% chg
Net sales	3,770	3,723	1.3	3,541	6.5	7,493	7,051	6.3
Other income	76	101	(24.8)	82	(7.3)	177	169	4.7
Total income	3,846	3,824	0.6	3,623	6.2	7,670	7,220	6.2
Gross profit	2114	2204	(4.1)	1892	11.7	4318	3802	13.6
Gross margin (%)	56.1	59.2		53.4		57.6	53.9	
Operating profit	677	691	(2.0)	548	23.5	1368	1187	15.3
Operating margin (%)	18.0	18.6		15.5		18.3	16.8	
Financial cost	182	80	127.5	180	1.1	262	339	
Depreciation	165	158	4.4	154	7.1	323	323	0.0
PBT	406	554	(26.7)	296	37.2	960	694	38.4
Provision for taxation	75	48		43	74.4	123	86	43.0
PAT Before Exc. And MI	331	506	(34.6)	253	30.8	837	608	37.8
Minority Income/ (Exp.)	0	0		1		0	0	
Income from Associate/ (Exp)	(62)	(12)		(31)		(74)	(29)	
Extra ordinary Income/(Exp.)	(31)	(19)		(56)		(50)	(49)	
Reported PAT	238	475	(49.9)	166	43.4	714	530	34.7
Adjusted PAT	263	492	(46.6)	214	23.0	758	572	32.3
EPS (₹)	5.2	9.7		4.4		14.9	11.3	

Source: Company, Angel Research

Top-line growth mainly led by India and Europe

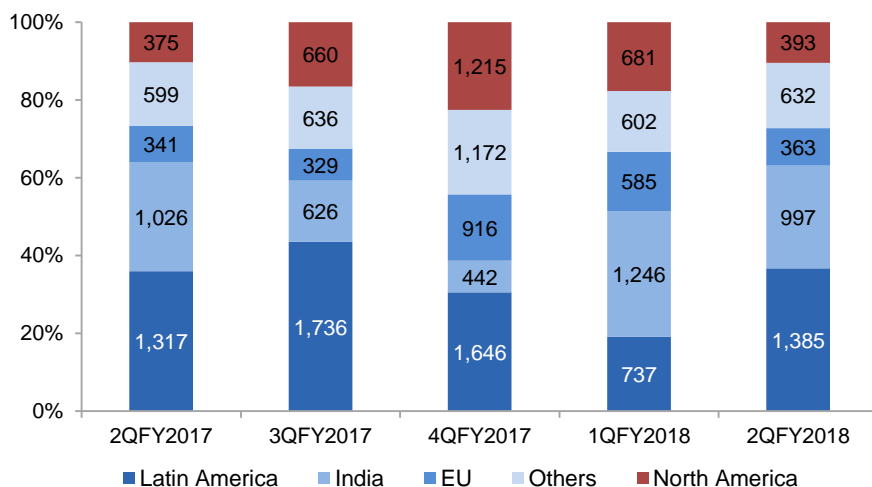
In sales, the company posted gross revenues of ₹3,770cr v/s ₹3,541cr in 2QFY2017, growth of 6.5% yoy. The growth was driven by volume (11% yoy), while price dip was around 2% and exchange losses deducted 3% from the top-line rise. In terms of geography, revenues were higher overall – India (₹997cr, up 10% yoy), Latin America (₹1,385cr, up 5% yoy), ROW (₹632cr, yoy rise of 5%), Europe (₹363cr, posted a yoy growth of 7%). US (₹393cr) sales posted a yoy growth of 5%.

In India, the growth of the company is driven by the power brands. Poor rainfall affected Southern States. However, Rabi prospects should improve after late rains. Potential 3 million hectares of rice expected to be planted in Rabi in South.

In Europe, business grew in Potato, Oil Seed Rape and Cereals (herbicides). Sugar Beet herbicide pipeline dry, increased acreage and product shortage provides good opportunities for UPL.

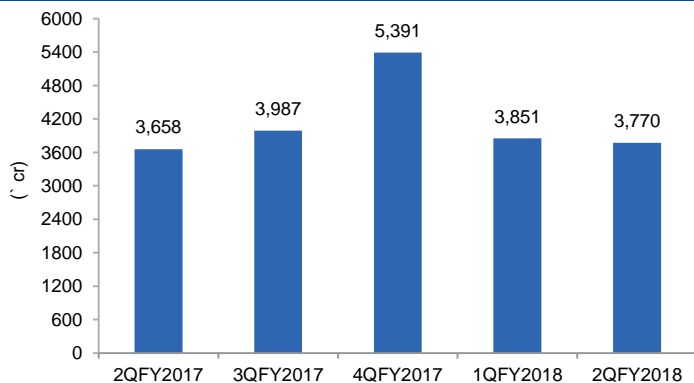
For Latin America, there was revival in Mexico with good rains, though late. Management is expecting better 3QFY2018 as distributors/farmers were playing wait and watch before ordering. Also, collaboration with Bayer on joint promotion of fungicides on Asian Rust in Brazil should be beneficial.

Exhibit 2: Sales Break-up (Marketwise)



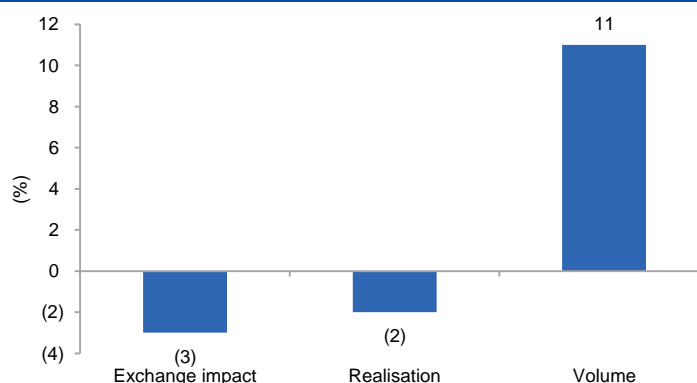
Source: Company

Exhibit 3: Sales performance (including export incentives)



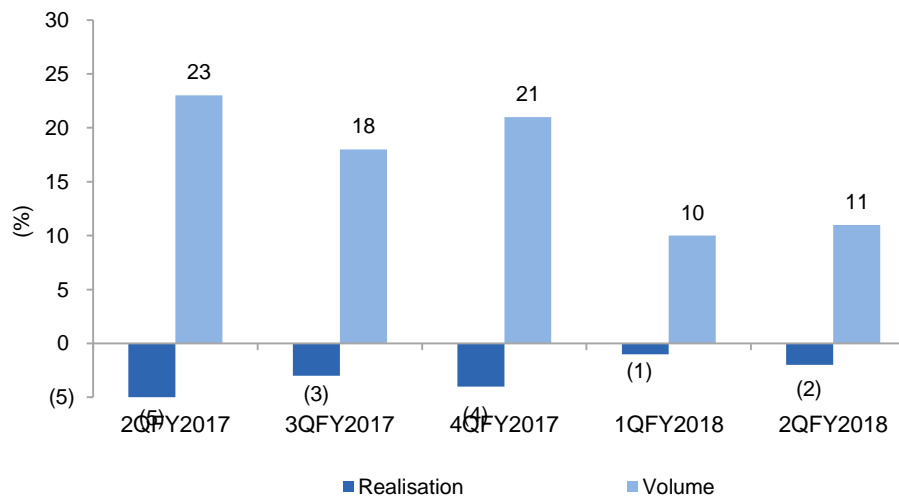
Source: Company, Angel Research

Exhibit 4: Growth break-up



Source: Company, Angel Research

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

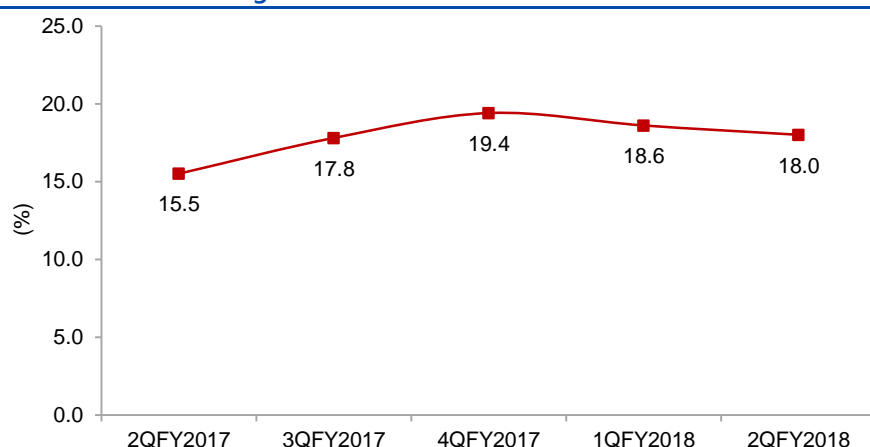


Source: Company, Angel Research

EBITDA margin expands

On the operating front, the gross margin came in at 56.1% (v/s 53.4% in 2QFY2017), which aided the OPM for the quarter to come in at 18.0% (v/s 15.5% in 2QFY2017). The expansion in OPM was slightly less than the gross margin expansion, on the back of staff expenses, which rose by 11.8% yoy.

Exhibit 6: EBITDA margin trend

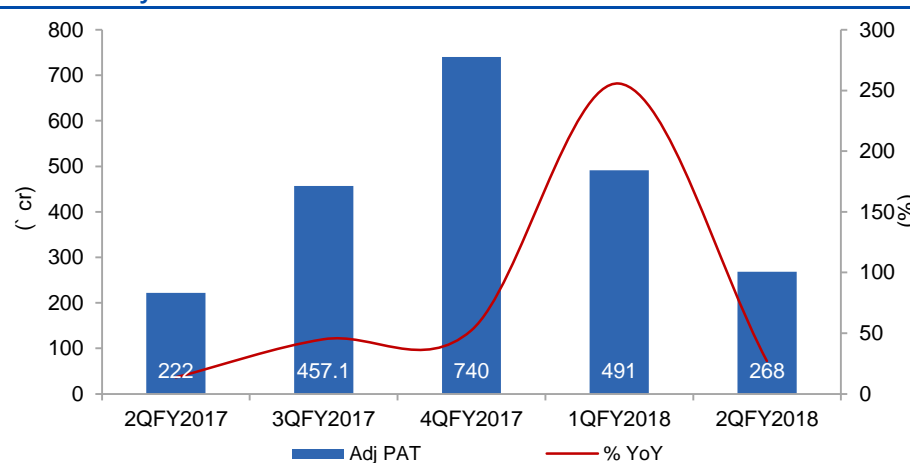


Source: Company, Angel Research

Adjusted Net Profit grew 23.0% yoy

The company posted a 23.0% yoy growth in its Adjusted PAT, excluding the extra ordinaries and profits from associates and subsidiaries. The Reported PAT was `238cr V/s `166cr in 2QFY2017; a yoy rise of 43.4%.

Exhibit 7: Adjusted PAT trend



Source: Company, Angel Research

Investment arguments

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

The global agrichemical industry, valued at US\$56bn (CY2015), is dominated by the top six innovators, viz. Bayer, Syngenta, Monsanto, BASF, DuPont and Dow, which enjoy a large market share of the patented (23%) and off-patent (54%) market. The top six innovators enjoy a large share of the off-patent market due to high entry barriers for pure generic players. Thus, of the total pie worth US\$30bn, 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

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 CY2017-18, the global economy is expected to grow by 3-4%. Assuming this trend plays out in terms of growth for the agrichemical industry and the same rate of genericization occurs, then the agrichemical generic industry could log in 6-8% yoy growth during the period and garner a higher market share.

A global generic play

UPL is the third largest global generic agrichemical player 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.

Advanta – An Entry into seeds business

During FY2016, UPL announced a merger of Advanta with itself. With this, the company has made its foray into the seed business, thus, widening its business offerings in the Agri-business. The company had sales of around US\$204mn in 2015, with OPM of around 15-16%. It is the 11th largest seed company globally, with world leadership in Sorghum. Along with this, it also completes the company's business portfolio, in-line with the other major Agri-businesses, who have around 5-20% (Monsanto and DuPont have around 65% of their sales mix through seeds) of their sales mix through seeds business. While the acquisition improves the presence of the company in the low capital intensive industry coupled with the propriety products, which will yield long term profitability the near term challenges include high R&D cost coupled with long legislation period for the product commercialization.

According to the industry numbers, the international seed sector is growing at 6% per annum. In value terms, the Indian hybrid seed sector, estimated to be worth `12,000cr comprises some 14 states seed corporations and two national-level corporations, 20 large players including multinationals and around 500 small regional players. About 10 domestic and multinational companies control over 80% of the market. The market has been growing at 15-20% annually over the past several years, and is projected to reach around `18,000cr by 2018. Though, we have included the Advanta numbers in our projections, we have been conservative on the same.

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, and 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.

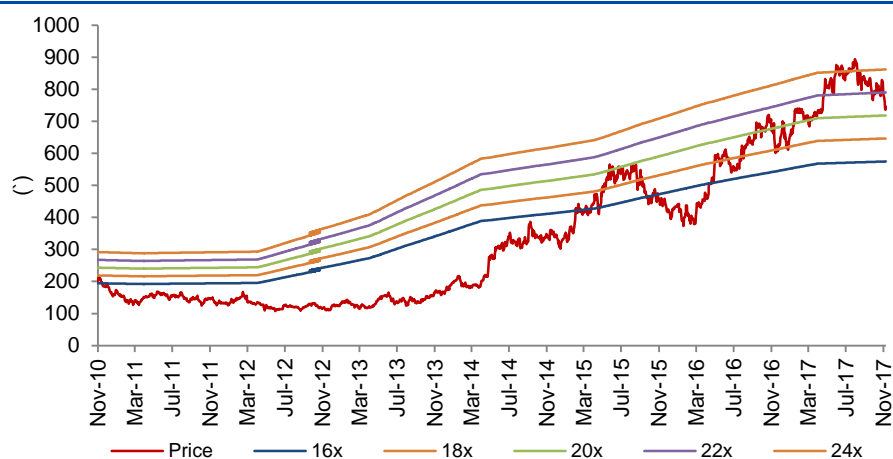
We estimate UPL to post a 15.0% and 11.3% CAGR in sales and PAT respectively over FY2017-19E. The stock is trading at 16.9x FY2019E EPS, which we believe provides little room for appreciation. Hence, we recommend an Accumulate rating on the stock.

Exhibit 8: Key assumption

	FY2018E	FY2019E
Sales growth	15.0	15.0
EBITDA margin	18.4	18.7
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 (%)	
						FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	Sales	PAT
Rallis	Sell	4,501	230	189	(18.3)	25.0	20.8	2.3	2.0	15.1	12.7	15.5	16.9	10.5	24.9
UPL	Accumulate	44,006	754	805	7.0	20.7	16.9	2.5	2.1	13.7	11.4	22.8	23.4	15.0	12.2

Source: Company, Angel Research, Bloomberg, All numbers in FY17 and FY18 are expected numbers

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. During FY2016, UPL announced its merger with Advanta. With this, the company has made its foray into the seed business, thus, widening its business offerings in the Agri-business.

Profit & Loss Statement (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Sales	10,580	11,911	14,048	16,312	18,759	21,572
Other operating income	191	45	-	128	100	100
Total operating income	10,771	11,956	14,048	16,440	18,859	21,672
% chg	17.1	11.0	17.5	17.0	14.7	14.9
Total Expenditure	8,751	9,736	11,782	13,407	15,306	17,537
Net Raw Materials	5,441	6,016	6,780	7,816	8,989	10,337
Other Mfg costs	942	842	1,250	1,452	1,557	1,726
Personnel	946	1,043	1,434	1,627	1,871	2,152
Other	1,422	1,835	2,318	2,512	2,889	3,323
EBITDA	1,829	2,175	2,266	2,904	3,453	4,035
% chg	26.8	19.0	4.2	28.2	18.9	16.9
(% of Net Sales)	17.3	18.3	16.1	17.8	18.4	18.7
Dep. & Amortisation	407	425	676	672	736	792
EBIT	1,613	1,796	1,590	2,361	2,817	3,343
% chg	26.7	11.4	(11.5)	48.5	19.3	18.7
(% of Net Sales)	15.0	15.0	11.3	14.4	14.9	15.4
Interest & other Charges	487	517	704	735	788	788
Other Income	131	131	316	316	316	316
(% of PBT)	10	9	26	16	13	11
Recurring PBT	1,257	1,410	1,202	1,941	2,345	2,871
% chg	37.1	12.2	(14.8)	61.6	20.8	22.5
Extraordinary Exp./ (Inc.)	85	(2)	(111)	(73)	-	-
PBT (reported)	1,172	1,413	1,313	1,941	2,345	2,871
Tax	222	244	165	189	469	574
(% of PBT)	18.9	17.3	12.6	9.7	20.0	20.0
PAT (reported)	950	1,169	1,148	1,753	1,876	2,297
Add: Share of earnings of asso.	30	21	(85)	(19)	(21)	(24)
Less: Minority interest (MI)	7	43	12	6	6	6
Prior period items	24	-	-	-	-	-
PAT after MI (reported)	950	1,144	940	1,727	1,848	2,267
ADJ. PAT	1,040	1,147	1,051	1,800	1,848	2,267
% chg	38.0	10.2	(8.3)	71.3	2.7	22.7
(% of Net Sales)	9.8	9.6	7.5	11.0	9.9	10.5
Basic EPS (`)	24.3	26.7	24.5	35.5	36.5	44.7
Fully Diluted EPS (`)	24.3	26.7	24.5	35.5	36.5	44.7
% chg	42.5	10.2	(8.3)	44.8	2.7	22.7

Balance Sheet (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity Share Capital	86	86	86	183	183	183
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	5,162	5,775	5,803	7,214	8,604	10,413
Shareholders' Funds	5,247	5,860	5,889	7,398	8,788	10,596
Minority Interest	172	44	44	33	39	45
Total Loans	2,873	2,781	5,258	6,058	6,058	6,058
Other Long term liab.	311	594	449	446	446	446
Long Term Provisions	53	53	53	-	-	-
Deferred Tax Liability	57	45	(390)	(501)	(501)	(501)
Total Liabilities	8,713	9,378	11,303	13,434	14,830	16,645
APPLICATION OF FUNDS						
Gross Block	6,039	6,792	9,315	10,115	10,915	11,715
Less: Acc. Depreciation	3,580	4,005	5,870	6,542	7,278	8,070
Net Block	2,459	2,787	3,445	2,632	3,637	3,645
Capital Work-in-Progress	378	378	484	484	484	484
Goodwill / Intangibles	1,212	1,449	417	1,747	1,747	1,747
Investments	737	764	335	379	379	379
Long Term Loan & Adv.	389	418	591	811	658	757
Current Assets	7,572	8,372	11,207	13,657	15,467	18,306
Cash	1,023	1,010	1,189	2,894	3,214	4,452
Loans & Advances	771	586	840	1,380	1,581	1,582
Other	5,779	6,776	9,178	9,383	10,672	12,272
Current liabilities	4,033	4,789	5,176	6,277	7,542	8,674
Net Current Assets	3,539	3,582	6,031	7,380	7,924	9,633
Others	-	-	-	-	-	-
Total Assets	8,714	9,378	11,303	13,434	14,830	16,645

Cash Flow Statement (Consolidated)

Y/E March (` cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	1,172	1,413	1,313	1,941	2,345	2,871
Depreciation	407	425	676	672	736	792
Change in Working Capital	171	(86)	(2,443)	135	(70)	(569)
Less: Other income	-	-	-	-	-	-
Direct taxes paid	(222)	(244)	(165)	(189)	(469)	(574)
Cash Flow from Operations	1,528	1,508	(619)	2,559	2,542	2,520
(Inc.)/ Dec. in Fixed Assets	(653)	(753)	(2,630)	(800)	(800)	(800)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(653)	(753)	(2,630)	(800)	(800)	(800)
Issue of Equity	(3)	-	-	98	-	-
Inc./ (Dec.) in loans	1,413	(192)	(2,331)	(744)	(0)	(0)
Dividend Paid (Incl. Tax)	(201)	(214)	(214)	(642)	(458)	(458)
Others	(2,612)	(362)	5,973	1,331	(963)	(24)
Cash Flow from Financing	(1,403)	(768)	3,427	43	(1,422)	(482)
Inc./ (Dec.) in Cash	(525)	(13)	179	1,705	320	1,238
Opening Cash balances	1,548	1,023	1,010	1,189	2,894	3,214
Closing Cash balances	1,023	1,010	1,189	2,894	3,214	4,452

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	31.1	28.2	30.8	21.2	20.7	16.9
P/CEPS	22.3	20.6	18.7	15.5	14.8	12.5
P/BV	6.2	5.5	5.5	5.2	4.4	3.6
Dividend yield (%)	0.5	0.7	0.7	0.9	0.9	0.9
EV/Sales	4.3	3.8	3.4	2.9	2.5	2.1
EV/EBITDA	25.1	21.0	21.4	16.3	13.7	11.4
EV / Total Assets	5.3	4.9	4.3	3.5	3.2	2.8
Per Share Data (₹)						
EPS (Basic)	24.3	26.7	24.5	35.5	36.5	44.7
EPS (fully diluted)	24.3	26.7	24.5	35.5	36.5	44.7
Cash EPS	33.8	36.7	40.3	48.8	51.0	60.3
DPS	4.0	5.0	5.0	7.0	7.0	7.0
Book Value	122.4	136.7	137.4	145.9	173.3	209.0
DuPont Analysis						
EBIT margin	15.0	15.0	11.3	14.4	14.9	15.4
Tax retention ratio	81.1	82.7	87.4	90.3	80.0	80.0
Asset turnover (x)	1.5	1.6	1.6	1.6	1.8	1.9
ROIC (Post-tax)	18.5	20.3	16.0	21.2	20.9	23.1
Cost of Debt (Post Tax)	11.2	15.1	15.3	11.7	10.4	10.4
Leverage (x)	0.5	0.3	0.5	0.6	0.4	0.2
Operating ROE	21.9	22.0	16.3	26.5	24.9	26.1
Returns (%)						
ROCE (Pre-tax)	17.7	19.9	15.4	19.1	19.9	21.2
Angel ROIC (Pre-tax)	23.2	24.7	18.3	23.7	26.3	29.0
ROE	21.0	20.6	17.9	27.1	22.8	23.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.9	1.7	1.7	1.8	1.9
Inventory / Sales (days)	83	86	84	84	85	85
Receivables (days)	83	86	84	84	85	85
Payables (days)	69	72	68	70	71	71
WCycle (ex-cash) (days)	92	78	96	104	89	84
Solvency ratios (x)						
Net debt to equity	0.6	0.4	0.3	0.7	0.4	0.3
Net debt to EBITDA	1.8	1.0	0.8	1.8	1.1	0.8
Interest Coverage (EBIT / Int.)	3.3	3.5	2.3	3.2	3.6	4.2

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4. Broking relationship with company covered under Research	No

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)
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