



CMP Rs.144

Recommendation BUY

Target Price Rs.187

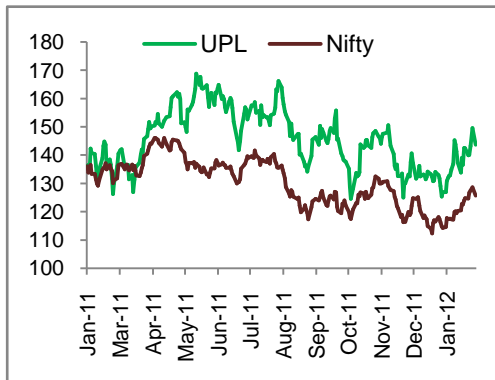
Sector: Chemicals

Key Data

Market Cap (Rs. cr)	6,638
Market Cap (\$ mn)	1,341
O/S Shares, cr	46.2
Face Value, Rs	2
2 Wk Avg Vol, NSE, Lakh	10.0
52 Wk High	171
52 Wk Low	120
Rs/US\$	49.50
Bloomberg	UNTP IN
Reuters	UNPO.BO
NSE	UNIPHOS
BSE	512070

Shareholding Pattern %

	Q3 FY11	Q3 FY12
Promoters	26.55	27.34
FII	35.50	35.46
Inst Inv	17.07	15.62
Public	20.88	21.58



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Q3 FY12 Result Update

Robust growth in sales, however margins under pressure

United Phosphorus Ltd. (UPL) for the quarter ended Dec 2011 reported robust sales growth of 57.8% YoY and 8.6% QoQ. The net sales and other operating income in the quarter stood at Rs.1,929 cr (significantly higher than our est. of Rs.1,716 cr) up from Rs.1,222 cr YoY and Rs.1,776 cr QoQ. The strong growth was led by robust growth in volumes 31%, 19% exchange impact and 8% price hikes in the quarter. The EBITDA in the quarter stood at Rs.348 cr (higher than our est. of Rs.325 cr), however the EBITDA margin in the quarter stood at 18.1% (lower than our est. of 18.9%). The operating margins were impacted by high raw material and employee cost. Employee cost has gone up 29% QoQ due to adverse impact of exchange rate. The PAT in the quarter was Rs.112 cr (significantly lower than our est. of Rs.171 cr) up from Rs.84 cr YoY & Rs.57 cr QoQ and the NPM stood at 5.8%.

Profitability impacted due to higher tax and adverse currency movement

In Q3 FY12 UPL profitability was impacted by higher tax rate due to the merger of a Mauritius based wholly owned subsidiary into the Standalone Company and higher contribution to profit from its India operation (higher tax region). The company has also reversed forex losses it incurred in Q2 FY12 due to forfeit of some hedging contracts, however further adverse movement of exchange rate in Q3 FY12 has nullified the effect. The newly acquired business in Brazil is also reporting losses and the management has guided that the profitability earlier planned for Sipcarn is somewhat deferred and the losses are expected to gradually come down with the increase in synergies.

Robust sales growth backed by growth across the region

The robust growth of 58% YoY in sales was backed by 90% YoY growth in RoW. The growth in RoW was backed by Rs.300 cr contribution from the newly acquired Brazilian operations that were absent in the corresponding quarter last year. After reporting sluggish growth last two quarters the sales has picked up by 31% YoY in the European operation. The company reported slack growth of 15% YoY in India operation due to adverse weather condition in southern India, particularly Andhra Pradesh.

Valuation and Outlook

UPL has show resilient revenue growth and the management expects to achieve its growth target of 30 to 35% in FY12 backed by contribution from its newly acquired Brazilian acquisition. Management also expects EBITDA to remain in the range of 18 to 19%. The company had net loss of Rs.11 cr in the newly acquired Brazilian company Sipcarn and expects to post Rs.30 cr loss in FY12. The management has guided that the new acquired businesses will turn around in next 3 to 4 quarters, which will lead to improvement in operating margins.

We have revised our FY12 and FY13 financials based on the recent updates and management guidance's. We have increased our net sales estimates from Rs.7,675 cr / Rs.8,483 cr to Rs.7,680 cr / Rs.8,502 cr in FY12 / FY13 respectively. However due to forex losses and higher tax rate we have revised downwards our net profit estimates from Rs.745 cr / Rs.867 cr to Rs.530 cr / Rs.783 cr in FY12 / FY13 respectively.

At current market price of Rs.144 the stock is trading at a P/E of 12.5x its FY12E EPS of Rs.11.5 and 8.5x its FY13E EPS of Rs.17.0. We value the stock at P/E of 16.3x the FY12E EPS of Rs.11.5 and 11x its FY13E EPS of Rs.17 and downgrade our target price to Rs.187 (earlier Rs.205). We maintain **BUY** for UPL with upside potential of 30% and an investment horizon of 12 months.

Quarterly Performance

Exhibit 1: Consolidated quarterly income statement

Particulars, Rs. cr	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
Net Sales & Other Op. Inc.	1,222	1,857	1,862	1,776	1,929	57.8%	8.6%
Total Expenditure	1,001	1,490	1,517	1,450	1,580	57.9%	9.0%
Raw Materials	569	1,040	1,023	970	1,030	80.9%	6.2%
Other Expenses	301	316	345	329	355	17.8%	7.9%
Employee Cost	130	133	149	151	195	50.2%	28.9%
EBITDA	221	367	345	325	348	57.3%	7.0%
<i>EBITDA Margin</i>	18.1%	19.8%	18.5%	18.3%	18.1%	-	-
Depreciation	49	66	63	72	78	59.9%	9.1%
EBIT	172	301	282	254	270	56.5%	6.4%
<i>EBIT Margin</i>	14.1%	16.2%	15.1%	14.3%	14.0%	-	-
Other Income	26	25	23	20	11	-59.3%	-45.4%
Interest	89	57	71	192	83	-7.5%	-56.9%
Exceptional Items	-	(14)	-	(14)	(1)	-	-
PBT	109	255	233	67.0	196.6	79.9%	193.4%
Tax	27	6	47	15	63	135.1%	314.6%
PAT	83	249	187	52	134	62.1%	158.2%
Less: Minority Interest	4	3	1	(13)	9	-	-
Add: Shares of Associates	5	(30)	(2)	(8)	(12)	-	-
Consolidated Net Profit	84	217	184	57	112	34.0%	97.4%
<i>NPM</i>	6.9%	11.7%	9.9%	3.2%	5.8%	-	-
EPS, Rs.	1.8	4.7	4.0	1.2	2.4	34.0%	97.4%

Source: Company, SIHL Research

Exhibit 2: Revenue by region

Particulars, Rs. cr	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
North America	222	410	511	299	359	61.7%	20.1%
India	332	303	536	569	381	14.8%	-33.0%
Europe	202	449	376	223	265	31.2%	18.8%
Rest of the World	492	720	462	704	934	89.8%	32.7%
Total	1,248	1,882	1,885	1,795	1,939	55.4%	8.0%

Source: Company, SIHL Research

Financials

Exhibit 3: Consolidated annual income statement

Particulars, Rs cr	FY10	FY11	FY12E	FY13E
Net Sales & Other Op. Inc.	5,459	5,805	7,680	8,502
Total Expenditure	4,463	4,694	6,275	6,877
Raw Materials	2,954	2,988	4,167	4,527
Other Expenses	1,007	1,191	1,425	1,601
Employee Cost	502	515	684	749
EBITDA	995	1,111	1,406	1,625
Depreciation	215	214	292	305
EBIT	780	897	1,114	1,320
Interest	220	197	424	287
Other Income	61	94	68	89
Loss on Foreign Exchange	-	115	-	-
Exceptional Items	(27)	(14)	(18)	(21)
PBT	594	664	740	1,101
Tax	81	73	178	264
PAT	513	591	562	836
Minority Interest	(6)	(10)	(2)	(28)
Shares of Associates	19	(23)	(30)	(25)
Consolidated Net Profit	526	558	530	783
EPS, Rs.	11.4	12.1	11.5	17.0

Source: Company, SIHL Research

Exhibit 4: Consolidated balance sheet statement

Particulars, Rs. cr	FY10	FY11	FY12E	FY13E
Source of Funds				
Shareholder's Funds	2,992	3,726	4,124	4,747
Minority Interest	14	18	18	18
Total Debts	2,419	2,529	3,529	3,229
Total Liabilities	5,425	6,273	7,671	7,995
Application of Funds				
Net Fixed Assets	1,813	2,387	3,245	3,280
Investments	761	823	823	823
Net Current Assets	2,863	3,056	3,595	3,883
Miscellaneous Expenses not written off	-	-	-	-
Deferred Tax Assets / Liabilities	(11)	8	8	8
Total Assets	5,425	6,273	7,671	7,995

Source: Company, SIHL Research

Exhibit 5: Consolidated cash flow statement

Particulars, Rs cr	FY 10	FY 11	FY 12E	FY 13E
Net Income +Depreciation	741	771	822	1,088
Non-Cash Adjustments	80	(14)	-	-
Change in Working Capital	450	(188)	(806)	(305)
Cash Flow from Operations	1,271	569	16	782
Capital Expenditure	(232)	(955)	(1,150)	(340)
Change in Investment Dec/(Inc)	(41)	(62)	-	-
Other Items	-	-	-	-
Cash Flow used in Investing	(273)	(1,017)	(1,150)	(340)
Issue of Equity	-	-	-	-
Issue/(Repay Debt)	285	289	1,000	(300)
Dividend Paid	(77)	88	(133)	(159)
Other Financing Cash Flows	-	(20)	-	-
Cash Flow from Financing	208	357	867	(459)
Net Cash	1,207	(91)	(267)	(17)

Source: Company, SIHL Research

Exhibit 6: DuPont analysis

Particulars	FY10	FY11	FY12E	FY13E
Profit Margin	9.6%	9.6%	6.9%	9.2%
Asset Turnover, x	1.0	0.9	1.0	1.1
Equity Multiplier, x	1.8	1.7	1.9	1.7
RoE	17.6%	15.0%	12.9%	16.5%

Source: Company, SIHL Research

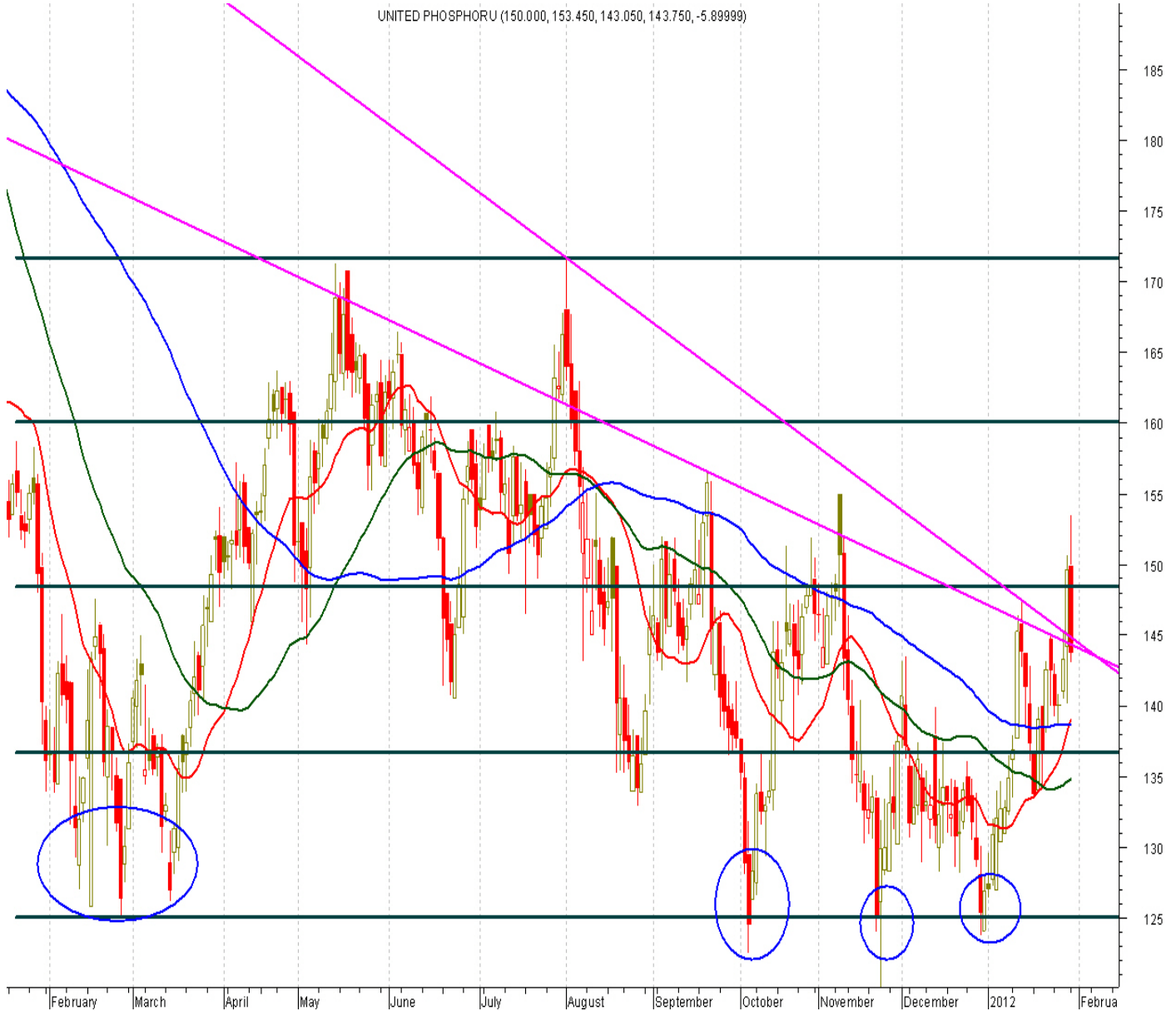
Exhibit 7: Ratio analysis

Particulars	FY 10	FY 11	FY 12E	FY 13E
Margins				
EBITDA	18.2%	19.1%	18.3%	19.1%
EBIT	14.3%	15.5%	14.5%	15.5%
PAT	9.6%	9.6%	6.9%	9.2%
Valuation				
RoE	17.6%	15.0%	12.9%	16.5%
RoCE	14.4%	14.3%	14.6%	16.5%
EPS, Rs.	11.4	12.1	11.5	17.0
BV, Rs.	64.8	80.7	89.3	102.8
P/E, x	12.6	11.9	12.5	8.5
P/BV, x	2.2	1.8	1.6	1.4
EV/EBITDA, x	6.9	6.3	5.9	4.9
Debt/Equity, x	0.8	0.7	0.9	0.7
Interest Coverage Ratio, x	3.5	4.5	2.6	4.6

Source: Company, SIHL Research



Technical Corner



We have observed UPL has taken a strong support at the level of 120 for almost a year. On the daily chart it has also given a Simple Price Cross Over Breakout above the SMA of 20 days, 50 days & 100 days signalling an uptrend in the stock. Secondly it has also breached the Downward Sloping Trend Line fortifying our Bullish view on the stock. It is most likely that stock may face a small resistance at 160 level but we expect the selling pressure in the stock at the said level to be absorbed with increasing volume & momentum, leading the price towards the target price zone. Investor can BUY UPL at CMP of Rs.144 with a stop loss of 120 for the target price of 180 – 185.



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