

February 05, 2019

United Phosphorus Limited

Q3FY19 Result Update

United Phosphorus Ltd. (UPLL) reported Q3 FY19 revenues at INR 4,921 crore up 17% Y-o-Y and 16% Q-o-Q. EBITDA stood at INR 938 crore up 19% Q-o-Q and 31% Y-o-Y. UPLL took a price increase of 7% during the quarter. EBITDA margin during the quarter was 19% as against 18.4% previous quarter and 17% same quarter previous year. The company reported adjusted PAT at INR 563 crore; up 65% Q-o-Q and down 1% Y-o-Y. Adjusted PAT margin during the quarter was 11% as against 8% QoQ and 14% YoY. During the quarter, UPLL reported INR 91 crore of exceptional item which comprised of certain cost on Arysta Lifescience Inc., certain litigation cost in USA and LatAm restructuring expenses.

New product launches and innovation remain key strategies:

UPLL's focus in Brazil is to counter the Asian Rust pest, which has the highest market size (estimated at \$1,817m) among all pests. The company's newest product Tridium (mixture of mancozeb, tebuconazole and axozystrobin) is a step up to the value chain of mancozeb and acts on several points of the fungi, making the resistance difficult. Where Unizeb Gold (brand of mancozeb) is sold at ~\$4/unit in Brazil, Tridium fetches a realization of \$8-10/unit. Going forward, UPLL's strategy would be to seek formulations that are a combination of products and already available AI's to create a unique product proposition.

UPLL launched multiple products in LATAM in FY18 – six herbicides, 13 fungicides, seven insecticides and two seed treatment products. Further, the company collaborated with Bayer to promote fungicides targeting Asian Rust in Brazil. Under the collaboration, UPLL will cross-market Bayer's Fox, while Bayer will cross-market UPLL's Unizeb. The insecticide, Sperto (Acetamiprid + Bifenthrin), which was launched last year with a mixture of active ingredients, is effective in the control of sucking plagues in five crops in Brazil.

Arysta acquisition finalized:

The purchase by UPL Limited (UPLL) of Arysta LifeScience, the maker of such products like Batalium herbicide in wheat, has been finalized. The completion of the \$4.2 billion transaction signed in July 2018 strengthens UPLL's position as a global leader in agricultural solutions. The company has footprint in 76 countries and sales in over 130 countries. UPLL is making the acquisition through its international arm UPLL Corporation, and a new board has been constituted for the entity.

Brazil key market after acquisition:

In Brazil, UPLL primarily engages in soybean and maize (together account for 63% of the country's total plantation area) and Arysta in sugarcane and cotton (19% of the country's total plantation area). Moreover, UPLL has a strong presence in fungicides, while Arysta has a robust platform of bio solutions and seed treatment in Brazil. The combined entity, thus, would become the fifth largest agrochemicals player in Brazil, with ~10% market share (v/s UPLL's current market share of 4.5%).

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	14,048	16,312	17,378	19,709	22,549	25,127
Growth (%)	-	16%	7%	13%	14%	11%
EBITDA	2617.7	2984.9	3505.0	4198.1	4509.7	4774.2
Growth (%)	-	14%	17%	20%	7%	6%
PAT	939.8	1708.0	1925.4	2393.7	2713.1	2941.9
Growth (%)	-	82%	13%	24%	13%	8%
P/E	21.8	21.5	19.2	16.4	14.5	13.3
EV/EBITDA	9.2	13.4	11.6	10.3	9.6	9.1
EPS in INR	21.9	33.7	37.9	47.1	53.3	57.7
RoCE	21%	20%	21%	23%	22%	21%
RoE	16%	23%	21%	21%	19%	17%

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

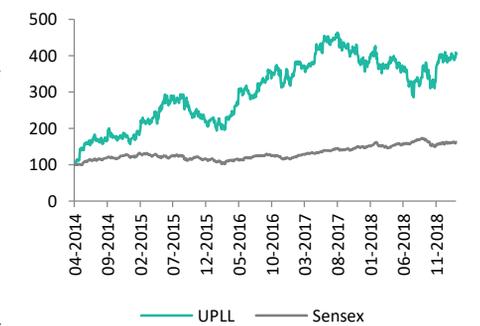
STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	770.25	950	
		23% ▲	

Market Data	
Industry	Agrochemicals
Sensex	36,583
Nifty	10,912
Bloomberg Code	UPLL:IN
Face Value (INR)	2
52-w H/L	800/ 537.9
Market Cap (INR Crores)	39,208

Valuation Data	FY18	FY19E	FY20E
P/E (x)	19.2	16.4	14.5
EV/EBITDA (x)	11.6	10.3	9.6

UPLL Vs SENSEX



	Shareholding Pattern		
	Dec'18	Sep'18	Jun'18
Promoters	27.93	27.92	27.76
FII's	41.94	42.37	40.7
DII's	9.9	8.97	9.5
Others/ Retail	20.23	20.74	22.04



Quarterly Performance	Dec 18	Sep 18	QoQ	Dec 17	YoY
Sales	4,921	4,257	15.6%	4,194	17.3%
Expenses	3983	3470	14.8%	3478	14.5%
EBITDA	938	787	19.2%	716	31%
EBITDA Margin	19.1%	18.5%	3.1%	17.1%	11.7%
Other Income	37	32	15.6%	119	-68.9%
Depreciation	182	181	0.6%	169	7.7%
EBIT	793	638	24.3%	666	19.1%
EBIT Margin	16.1%	15.0%	7.5%	15.9%	1.5%
Interest	202	181	11.6%	111	82%
Exceptional Items	91	57	59.6%	7	1200%
Profit before tax	500	400	25%	548	-8.8%
Tax	28	116	-75.9%	-14	-300%
PAT	472	284	66.2%	562	-16%
PAT Margin	9.6%	6.7%	43.8%	13.4%	-28.4%

Source: Company, NSPL Research

Valuation:

In our view, the company is well placed to strengthen its presence across crops and geographies, especially post Arysta acquisition, which would significantly strengthen UPLL's position in Europe (~21% of the global agrochemical market).

Arysta adds a lot of good points, the complementarity of geographies, the product portfolio, huge strength in biological and new actives which is a value addition to the portfolio of UPLL.

At CMP of INR 770.25, the company is trading at 14.5x FY20E EPS of 53.3 and EV/EBITDA multiple of 9.6. We value the company using average of P/E and EV/EBITDA methodology giving an exit multiple of 17 and 11 respectively on FY 20 basis, achieving a target price of INR 950, upside of 23%.



Conference call highlights:

- The management announced that they have successfully closed the Arysta transaction and that the company is now part of UPLL. The management also mentioned that in the fourth quarter they will be consolidating Arysta numbers as well.
- As of 31st Dec 2018, capex done is of INR 1246 crore.

India:

- Revenues from Indian market during the quarter fell by 21% from INR 614 crore to 486 crore (YoY).
- Sweep Power (non-selective Herbicide) crossed liquidation of 1,000 KL in the year of launch
- Sales of Shagun which is a wheat herbicide grew 50% YoY
- Inconsistency in rainfall has resulted in a decline in Indian market

Latin America (Incl. Brazil):

- Revenues from this region during the quarter grew by 26% from INR 1,806 crore to 2,284 crore (YoY).
- AMUSE – A resistance management spray program - have pushed sales of UNIZEB (Fungicide) family in South Cone region.
- Despite less rains in Brazil, which affected soyabean plantation, UPLL was able to show a better performance.
- New Government in Brazil has led to stability thereby improving market sentiment.
- Successful launch and acceptance of STRIM (Herbicide) in Argentina and South Cone (southernmost areas of South America).
- Overall the market in Brazil grew by 18% with Insecticide segment leading the way.

Europe:

- Revenues from this region during the quarter grew by 37% from INR 374 crore to 511 crore (YoY).
- UPL continued to grow in spite of the overall European market down by 10%
- Q3 sales have been strong, particularly for Mancozeb WG in France and for Metamitron technical in Russia
- Better planning of Metamitron led to improved volumes in spite of drop in sugar beat acreages
- Good growth in Sulphur and Copper products on the back of improved weather conditions in Italy and Spain
- Across Europe, UPLL was able to pass on the cost increase to the market which has helped in maintaining margins
- Propanil Sales were impacted as annual permit was not granted

North America:

- Revenues from this region during the quarter grew by 21% from INR 713 crore to 866 crore (YoY).
- Good advance collection from distribution, assured sales
- Business alliance with Americot – a cotton seed company, will drive sales of UPL Branded products in cotton
- Lifeline continues to grow despite increase in acreage of Dicamba-tolerant seeds

Rest of world:

- Revenues from this region during the quarter grew by 13% from INR 687 crore to 774 crore (YoY).
- Tarang - a non-selective Herbicide was well accepted in Indonesia, Philippines and Vietnam which led to strong volume growth
- During the quarter, there was significant growth of Ulala (Insecticide) in Pakistan.
- Introduced 2 new herbicides in China.
- STRIM & Fist (Herbicides) Super were launched in China

Near-term risk; Dry spells in Europe might dent performance:

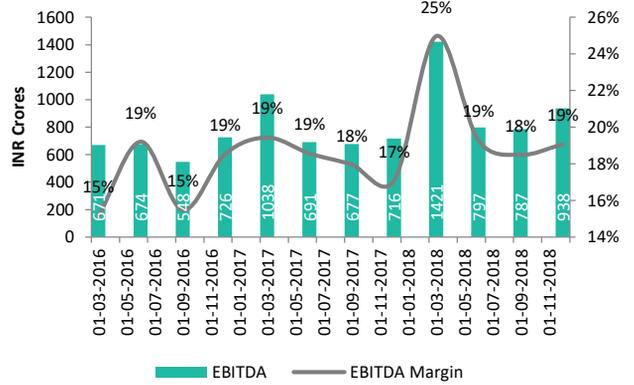
Post integration of Arysta's acquisition, the combined entity's revenue exposure to Europe will increase to 24% (earlier 13%). Dry spells and heat wave in the region might have a bearing on the region's performance and, consequently, on overall earnings. This is likely to have an adverse volume impact on sales of fungicides and herbicides in the region. On the brighter side, management expects strong performance in Latin America to mitigate some of the impact of expected weakness in its performance in Europe. Management does not anticipate any business challenges in India as well as the U.S.



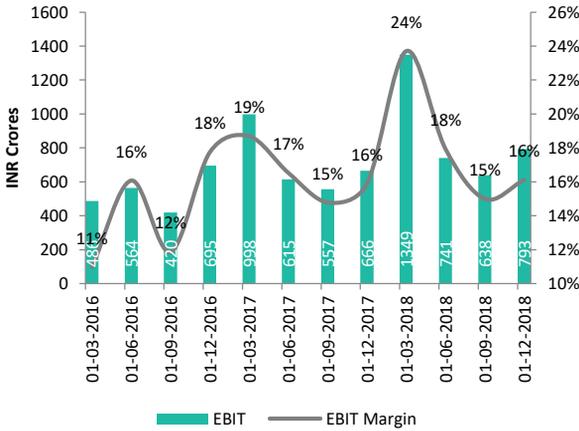
Sales in INR Crores



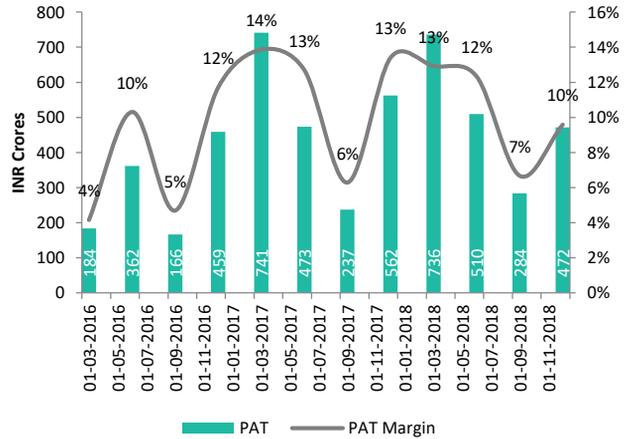
EBITDA & EBITDA Margin



EBIT & EBIT Margin



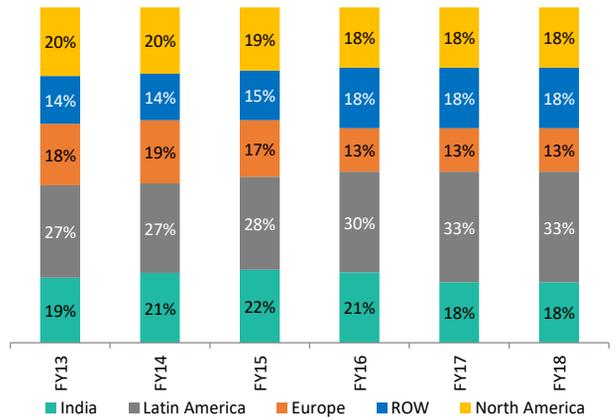
PAT & PAT Margin



QoQ Margin Comparison



Geographical mix of Revenue



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	14,048.2	16,312.0	17,378.0	19,709.3	22,548.5	25,127.1
COGS	6,780.5	7,816.2	8,112.0	9,066.3	10,597.8	12,061.0
Employee Expenses	1,433.5	1,626.9	1,713.0	1,951.2	2,164.7	2,412.2
Other Expenses	3,216.5	3,884.0	4,048.0	4,493.7	5,276.4	5,879.7
EBITDA	2,617.7	2,984.9	3,505.0	4,198.1	4,509.7	4,774.2
D&A	675.6	671.6	675.0	674.1	673.5	674.2
Other income	315.7	443.6	414.0	455.4	500.9	551.0
EBIT	2,257.8	2,757.0	3,244.0	3,979.4	4,337.1	4,651.0
Interest Expense	704.1	735.1	783.0	740.7	752.9	758.9
PBT	1,202.0	1,922.1	2,305.0	3,009.8	3,393.2	3,690.7
Tax	164.8	188.8	275.0	541.8	610.8	664.3
PAT	939.8	1,708.0	1,925.4	2,393.7	2,713.1	2,941.9
EPS in INR	21.9	33.7	37.9	47.1	53.3	57.7
Balance Sheet (INR Crores)						
	FY16	FY17	FY18	FY19E	FY20E	FY21E
Share capital	85.7	101.4	102.0	102.0	102.0	102.0
Reserves and surplus	5,802.4	7,214.4	9,067.0	11,551.6	14,342.9	17,362.3
Shareholder's funds	5,888.1	7,397.7	9,169.0	11,653.6	14,444.9	17,464.3
Minority Interest	43.8	33.0	19.0	31.9	28.0	26.3
Non-current liabilities						
Long-term borrowings	2,317.9	5,350.1	5,873.0	5,285.7	4,757.1	4,281.4
Deferred tax liabilities (Net)	118.5	168.9	88.0	125.1	127.3	113.5
Trade payables	7.8	9.7	0.0	5.8	5.2	3.7
Other long term liabilities	473.5	378.3	232.0	457.5	444.6	470.5
Long-term provisions	43.1	58.0	20.0	40.4	39.5	33.3
Non-current liabilities	2,960.8	5,965.0	6,213.0	5,914.5	5,373.7	4,902.4
Current liabilities						
Short-term borrowings	2,505.2	707.8	634.0	602.3	572.2	543.6
Trade payables	3,954.1	4,874.7	5,675.0	5,464.6	6,387.7	7,269.7
Other current liabilities	1,552.0	1,308.7	1,242.0	985.5	1,127.4	1,256.4
Short-term provisions	82.2	93.3	91.0	88.8	91.0	90.3
Current liabilities	8,093.4	6,984.4	7,642.0	7,141.2	8,178.4	9,159.9
Total Equity and liabilities	16,986.0	20,380.2	23,043.0	24,741.3	28,024.9	31,552.9
Assets						
Non-current assets						
Net Block	3,468.7	3,691.2	4,005.0	5,261.6	6,820.9	8,383.3
Capital work in progress	312.5	633.3	1,090.0	1,122.1	1,253.0	1,345.0
Intangible asset under development	171.7	158.9	229.0	186.7	191.5	202.4
Goodwill on consolidation	416.6	418.8	432.0	460.0	480.0	510.0
Investments	175.3	174.0	386.0	400.0	420.0	450.0
Non-current investments	160.3	204.7	641.0	696.2	785.6	793.4
Deferred tax assets	509.3	670.1	529.0	620.0	660.0	720.0
Long-term loans and advances	185.7	225.2	151.0	232.2	254.9	265.6
Other non-current assets	404.4	546.2	548.0	609.9	600.0	601.0
Trade receivables	0.5	0.4	1.0	0.6	0.7	0.8
Non-current assets	5,804.8	6,722.8	8,012.0	9,589.2	11,466.6	13,271.5
Current Assets						
Current Investments	0.0	0.3	7.0	2.4	3.3	4.2
Inventories	3,786.5	4,155.9	4,538.0	5,071.8	5,928.6	6,747.2
Trade receivables	5,099.7	5,656.3	6,056.0	6,868.4	7,857.9	8,756.5
Cash and bank balances	1,189.2	2,894.0	2,894.0	1,741.2	1,120.7	802.7
Short-term loans and advances	270.1	119.1	147.0	228.4	203.9	243.1
Other current assets	835.8	831.8	1,389.0	1,239.7	1,443.9	1,727.8
Current assets	11,181.2	13,657.4	15,031.0	15,152.0	16,558.3	18,281.4
Total Assets	16,986.0	20,380.2	23,043.0	24,741.3	28,024.9	31,552.9

Source: Company, NSPL Research

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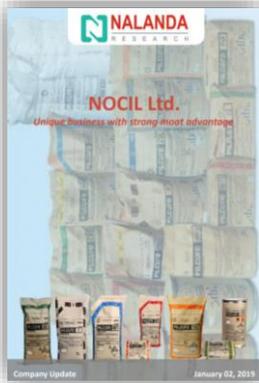


Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Operating profit before working capital changes	1396.0	2585.0	2839.0	2448.5	2300.5	2555.5
Operating profit after working capital changes	-1719.0	-999.0	-2093.0	-1756.6	-1309.4	-1311.3
Less income tax paid	-442.0	-341.0	-249.0	-541.8	-610.8	-664.3
Cash Flow from Operating	1396.0	2585.0	2839.0	2448.5	2300.5	2555.5
Cash Flow from Investing	-1719.0	-999.0	-2093.0	-1756.6	-1309.4	-1311.3
Cash Flow from Financing	469.0	140.0	-801.0	-1809.7	-1611.6	-1562.2
Incr/(Decr) in Balance Sheet Cash	146.0	1726.0	-55.0	-1117.8	-620.5	-318.0
Cash at the Start of the Year	1046.0	1177.0	2880.0	2859.0	1741.2	1120.7
Cash at the End of the Year	1177.0	2880.0	2859.0	1741.2	1120.7	802.7

RATIOS	2016	2017	2018	2019E	2020E	2021E
Margins						
EBITDA Margins	18.6%	18.3%	20.2%	21.3%	20.0%	19.0%
EBIT Margin	16.1%	16.9%	18.7%	20.2%	19.2%	18.5%
PAT Margins	6.7%	10.5%	11.1%	12.1%	12.0%	11.7%
Return Ratios						
ROCE	21.1%	20.5%	20.7%	22.7%	21.9%	20.9%
ROA	5.5%	8.4%	8.4%	9.7%	9.7%	9.3%
ROE	16.0%	23.1%	21.0%	20.5%	18.8%	16.8%
Debt Ratios						
Debt to Equity	0.8	0.8	0.7	0.5	0.4	0.3
Debt to Assets	0.3	0.3	0.3	0.2	0.2	0.2
Interest Coverage	3.2	3.8	4.1	5.4	5.8	6.1
Valuation Ratios						
P/E	21.8	21.5	19.2	16.4	14.5	13.3
EPS in INR	21.9	33.7	37.9	47.1	53.3	57.7
BPS	137.4	145.9	180.5	229.2	283.8	342.7
EV/ EBITDA	9.2	13.4	11.6	10.3	9.6	9.1
P/BV	3.5	5.0	4.0	3.4	2.7	2.2

Source: Company, NSPL Research

OUR RECENT REPORTS



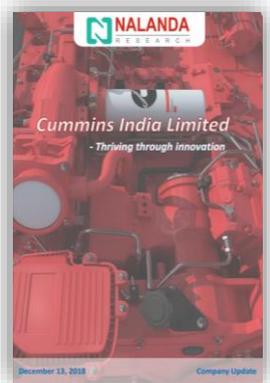
NOCIL Ltd.



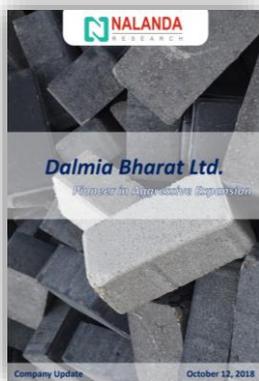
JK Cement Ltd.



Suprajit Engineering Ltd.



Cummins India Ltd.



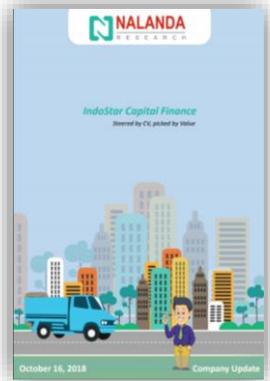
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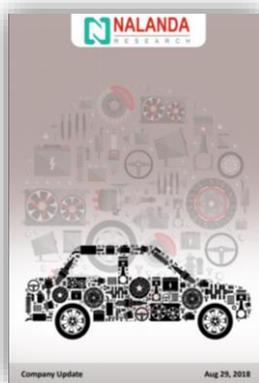
Coromandel International



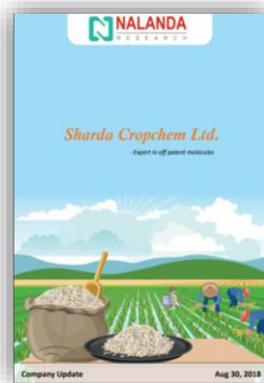
Meghmani Organics



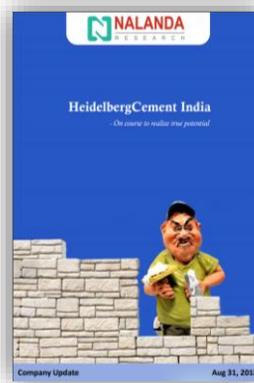
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Sharda Cropchem



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United Phosphorus Limited				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
February 05, 2019	770.25	950	Strong Buy	Buy	5% - 15%
October 29, 2018	622.70	778	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
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