

October 29, 2018

United Phosphorus Limited

Q2 FY19 Result Update

United Phosphorus Ltd. (UPLL) reported Q2 FY19 revenues at INR 4257 crore up 13% Y-o-Y and 3% Q-o-Q. Gross margin 1851 crore from 1610 crore up 15% Y-o-Y. Gross margin stood at 43.5%. EBITDA after forex gain/ loss stood at INR 787 crore down 1.3% Q-o-Q and up 16% Y-o-Y. The company reported PAT (before minority) at INR 284 crore; down 46% Q-o-Q and up 5.3% Y-o-Y.

LATAM remains key region:

LATAM revenues increased from INR 1385 crore in Q2 FY18 to INR 1742 crore in Q2 FY19. LATAM contributed 41% to its Q2 FY19 revenues. All key countries in Latam, with the exception of Argentina, registered strong growth in the quarter. In Argentina the focus is to improve quality of business. Strong campaign in South Cone to drive UPL's leadership in fungicide resistance management in soybean.

India performed well inspite of irregular monsoon:

India sales grew by 8% yoy to INR 1070 crore. Growth was primarily driven by positive acceptance of newly launched brands like Sweep power, Avancer glow and Delma by the farmers. Monsoon in Maharashtra disrupted cotton growth. Rabi season is expected to turn out good with full reservoirs and no problem of water shortage. The management expects significant growth in biological portfolio.

Arysta integration on schedule:

Approvals received in USA, Brazil, Colombia, Ukraine, South Africa and FIRB, Australia. The management expects to achieve US\$ 200 mn+ cost synergies validated through a detailed bottoms-up analysis. Arysta integration process to be completed very soon and can provide opportunities to UPL to diversify its revenue stream to certain extent in the years to come resulting into stability in the financial performance in long run.

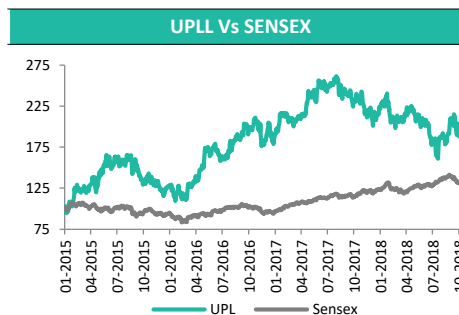
Further, bio solutions forms 8% of the Arysta's overall revenue, which has estimated market size of US\$ 6bn. It has an estimated growth outlook of 14% CAGR as against other segments such as herbicides, insecticides and fungicides which have a growth outlook of less than 5% CAGR for next 5 years. Thus, increasing dependency on other segments like Bio-stimulants and seed treatment can lead UPL to outpace industry growth in medium to long run along with better operational performance visibility.

STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	622.70	778	
		25% ▲	

Market Data	
Industry	Agrochemicals
Sensex	33349
Nifty	10054
Bloomberg Code	UPLL:IN
Face Value (INR)	2
52-w H/L	848.7/ 537.9
Market Cap (INR Crores)	31862

Valuation Data	FY18	FY19E	FY20E
P/E (x)	18.6	13.2	11.7
EV/EBITDA (x)	11.6	8.5	7.9
EPS (INR)	37.9	45.3	53.35



Shareholding Pattern			
	Sep'18	Jun'18	Mar'18
Promoters	25.97	25.81	25.77
FIIIs	42.37	40.7	41.41
DIIIs	8.97	9.5	10.42
Others/ Retail	22.69	23.99	22.4

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	14,048.2	16,312.0	17,378.0	19,161.2	20,496.2
Growth (%)	-	16%	30%	27%	20%
EBITDA	2617.7	2984.9	3505.0	4081.3	4406.7
Growth (%)	-	14%	44%	47%	18%
PAT	939.8	1708.0	1925.4	2301.3	2637.2
Growth (%)	-	82%	69%	56%	32%
P/E	31.6	21.4	18.6	13.2	11.7
EPS	21.9	33.7	37.9	45.3	53.35
RoCE	21%	20%	21%	22%	22%
RoE	16%	23%	21%	20%	18%

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale



(INR Crores)	Q2FY19	Q1FY19	Q-o-Q	Q2FY18	Y-o-Y
Revenue from operations	4,257.00	4,134.00	2.98%	3,770.00	12.92%
COGS	1876	1839	2.01%	1656	13.29%
Employee benefit expenses	467	454	2.86%	446	4.71%
Other expenses	1075	994	8.15%	949	13.28%
Total Expenditure	3418	3287	3.99%	3051	12.03%
EBITDA	839	847	-0.94%	719	16.69%
EBITDA margin	19.71%	20.49%	-3.81%	19.07%	3.34%
Forex loss/ gain	-52	-50	4.00%	-42	23.81%
EBITDA (after forex gain/ loss)	787	797	-1.25%	677	16.25%
Other Income	32	123	-73.98%	76	-57.89%
Depreciation & Amortization	181	175	3.43%	165	9.70%
EBIT	638	745	-14.36%	588	8.50%
Exceptional item	-57	-4	1325.00%	-31	83.87%
Finance cost	181	175	3.43%	182	-0.55%
PBT	400	566	-29.33%	375	6.67%
Tax Expenses	116	52	123.08%	75	54.67%
Profit After Tax	284	514	-44.75%	300	-5.33%

Source: Company, NSPL Research

Valuation:

LATAM market had witnessed decent growth during Q2FY19 largely led by overturn in economic situation, better campaigning in southern cone and regulated inventory. Going ahead, management expects several new registrations in this region. Further, strong order book in Brazil also provides decent revenue visibility ahead.

Arysta integration process to be completed very soon and can provide opportunities to UPL to diversify its revenue stream to certain extent in the years to come resulting into stability in the financial performance in long run.

Further, bio solutions forms 8% to the Arysta's overall revenue, which has estimated market size of US\$ 6bn with estimated growth outlook of 14% CAGR as against other segments such as Herbicides, Insecticides and Fungicides have growth outlook of less than 5% CAGR for next 5 years.

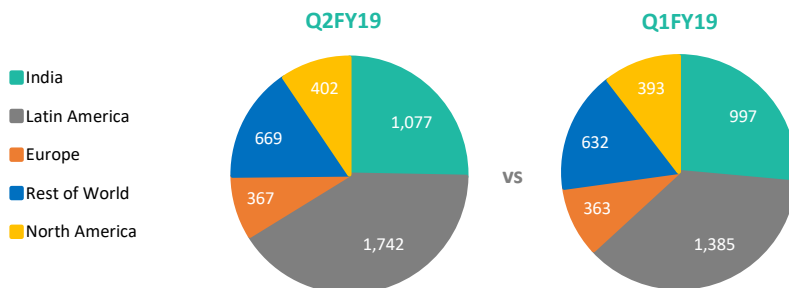
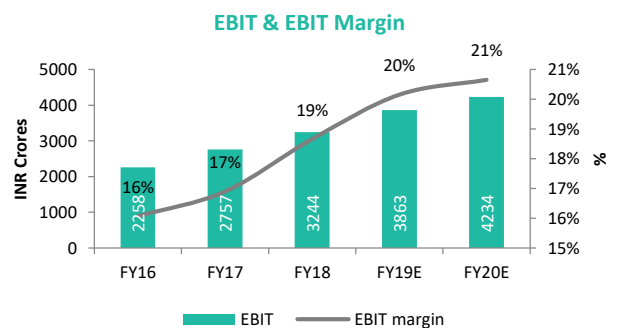
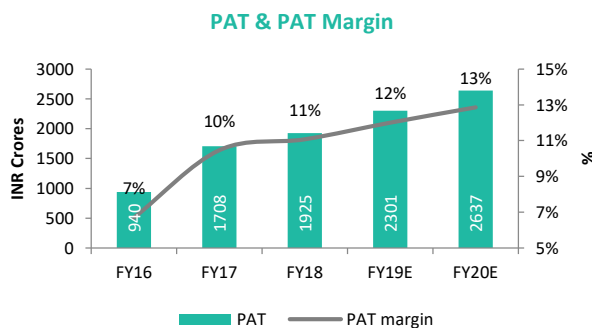
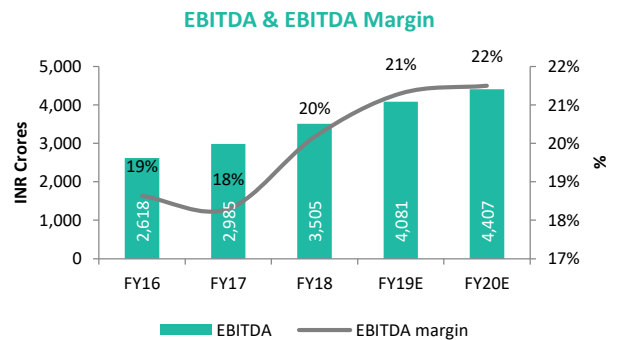
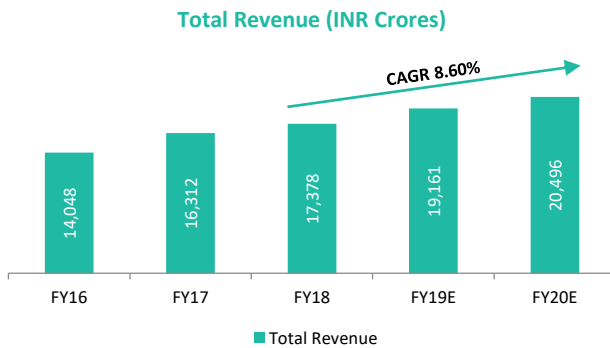
Thus, increasing dependency on other segments like Bio-stimulants and seed treatment can lead UPL to outpace industry growth in medium to long run along with better operational performance visibility.

At CMP of INR 622.7, the company is trading at 11.7x FY20E EPS of 53.4 and EV/EBITDA multiple of 7.9. We value the company using average of P/E and EV/EBITDA methodology giving an exit multiple of 14 and 10 respectively on FY 20 basis, achieving a target price of INR 778, upside of 25%.



Conference call highlights:

- During the quarter, sales volume grew by 8% and prices increased by 4%. UPLL also reported favourable exchange impact by 2% leading to net increase in sales to 14%.
- Working capital situation: Net working capital increased by 5 days. Inventory increased to 12 days to INR 128 crores. Receivables decreased by 4 days to 118 days and payables increased by 3 days to 138 days.
- **India:**
 - The management lamented on the uneven distribution of monsoon in India which impacted sales during the quarter.
 - Major crop to be affected due to this was cotton. Acreage higher than previous year.
 - New products which were introduced during the quarter were well received.
 - Rabi crop prognosis ahead of the season is good in southern region due to good water level.
 - As compared to previous quarter, replacement sales were poor.
- **LATAM:**
 - Overall region wise sales growth was good but Argentina faced certain problems because of economic slowdown and currency depreciation.
 - The company conducted a campaign in south cone i.e. Bolivia and Paraguay to replicate the success of fungicide resistance management in Brazil. Also, the management is positive to establish price increase through their campaign.
 - Good sales expected in Brazil in next quarter and several new registrations were done in this region.
- **Europe:**
 - Dry season in north Europe affected sugar beet crop.
 - Overall, there was not much problem because of less opening inventory and southern Europe facing drought for past 2 years had good season.
- **ROW:**
 - Australia was affected because of dry weather during the quarter.
 - Africa, southeast Asia and China had positive growth.
- North America also was dry during the quarter which resulted sowing to be delayed by 30 days and affected pre-emergence herbicide sales. They received 4 important registrations of differentiated and unique products.



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	14,048.2	16,312.0	17,378.0	19,161.2	20,496.2
COGS	6,780.5	7,816.2	8,112.0	8,814.2	9,325.8
Employee Expenses	1,433.5	1,626.9	1,713.0	1,897.0	1,967.6
Other Expenses	3,216.5	3,884.0	4,048.0	4,368.8	4,796.1
EBITDA	2,617.7	2,984.9	3,505.0	4,081.3	4,406.7
D&A	675.6	671.6	675.0	674.1	673.5
Other income	315.7	443.6	414.0	455.4	500.9
EBIT	2,257.8	2,757.0	3,244.0	3,862.7	4,234.1
Interest Expense	704.1	735.1	783.0	740.7	752.9
PBT	1,202.0	1,922.1	2,305.0	2,896.9	3,300.4
Tax	164.8	188.8	275.0	521.4	594.1
PAT	939.8	1,708.0	1,925.4	2,301.3	2,637.2
EPS in INR	21.9	33.7	37.9	45.3	51.8

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Equity and liabilities					
Shareholder's funds					
Share capital	85.7	101.4	102.0	102.0	102.0
Reserves and surplus	5,802.4	7,214.4	9,067.0	11,459.3	14,174.7
Compulsory convertible pref shares	0.0	82.0			
Shareholder's funds	5,888.1	7,397.7	9,169.0	11,561.3	14,276.7
Minority Interest	43.8	33.0	19.0	31.9	28.0
Non-current liabilities					
Long-term borrowings	2,317.9	5,350.1	5,873.0	5,285.7	4,757.1
Deferred tax liabilities (Net)	118.5	168.9	88.0	125.1	127.3
Trade payables	7.8	9.7	0.0	5.8	5.2
Other long term liabilities	473.5	378.3	232.0	444.8	404.1
Long-term provisions	43.1	58.0	20.0	40.4	39.5
Non-current liabilities	2,960.8	5,965.0	6,213.0	5,901.8	5,333.2
Current liabilities					
Short-term borrowings	2,505.2	707.8	634.0	602.3	572.2
Trade payables	3,954.1	4,874.7	5,675.0	5,312.6	5,621.0
Other current liabilities	1,552.0	1,308.7	1,242.0	958.1	1,024.8
Short-term provisions	82.2	93.3	91.0	88.8	91.0
Current liabilities	8,093.4	6,984.4	7,642.0	6,961.8	7,309.0
Total Equity and liabilities	16,986.0	20,380.2	23,043.0	24,456.9	26,946.9

Assets					
Tangible assets	2,311.2	2,522.2	2,874.0	4,074.0	5,574.0
Intangible assets	1,157.5	1,169.0	1,131.0	1,187.6	1,246.9
Net Block	3,468.7	3,691.2	4,005.0	5,261.6	6,820.9
Capital work in progress	312.5	633.3	1,090.0	1,122.1	905.0
Intangible asset under development	171.7	158.9	229.0	186.7	191.5
Goodwill on consolidation	416.6	418.8	432.0	450.0	430.9
Investments accounted using equity method	175.3	174.0	386.0	400.0	420.0
Non-current investments	160.3	204.7	641.0	554.5	476.4
Deferred tax assets	509.3	670.1	529.0	620.0	600.0
Long-term loans and advances	185.7	225.2	151.0	225.7	231.7
Other non-current assets	404.4	546.2	548.0	592.9	600.0
Trade receivables	0.5	0.4	1.0	0.6	0.7
Non-current assets	5,804.8	6,722.8	8,012.0	9,414.1	10,677.1
Current Assets					
Current Investments	0.0	0.3	7.0	2.4	3.3
Inventories	3,786.5	4,155.9	4,538.0	4,930.8	5,217.0
Trade receivables	5,099.7	5,656.3	6,056.0	6,677.4	7,142.7
Cash and bank balances	1,189.2	2,894.0	2,894.0	2,004.8	2,409.0
Short-term loans and advances	270.1	119.1	147.0	222.1	185.3
Other current assets	835.8	831.8	1,389.0	1,205.2	1,312.5
Current assets	11,181.2	13,657.4	15,031.0	15,042.7	16,269.8
Total Assets	16,986.0	20,380.2	23,043.0	24,456.9	26,946.9

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Operating profit before working capital changes	1396.0	2585.0	2839.0	2712.1	3325.2
Operating profit after working capital changes	-1719.0	-999.0	-2093.0	-1756.6	-1309.4
Less income tax paid	-442.0	-341.0	-249.0	-521.4	-594.1
Cash Flow from Operating	1396.0	2585.0	2839.0	2712.1	3325.2
Cash Flow from Investing	-1719.0	-999.0	-2093.0	-1756.6	-1309.4
Cash Flow from Financing	469.0	140.0	-801.0	-1809.7	-1611.6
Incr/(Decr) in Balance Sheet Cash	146.0	1726.0	-55.0	-854.2	404.2
Cash at the Start of the Year	1046.0	1177.0	2880.0	2859.0	2004.8
Cash at the End of the Year	1177.0	2880.0	2859.0	2004.8	2409.0

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Capital Employed (%)	21%	20%	21%	22%	22%
Return on Equity (%)	16%	23%	21%	20%	18%
Return on Assets (%)	6%	8%	8%	9%	10%
Margin Trend					
EBITDA Margin (%)	19%	18%	20%	21%	22%
Net profit Margin (%)	7%	10%	11%	12%	13%
Valuation Ratios					
P/E	31.6	21.4	18.6	13.2	11.7
EV/EBITDA	14.31	13.88	11.58	8.48	7.86

Source: Company, NSPL Research



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

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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