Published Date:	Monday 8th June, 2020	Publication:	WEALTH (The Economic Times) [New Delhi]
Journalist:	Bureau	Page No:	21
MAV/CCM:	366,534/203.63	Circulation:	75,935

UPL: Grabbing the opportunities

The company is expected to gain further market share from Chinese agrochemical companies.

With a revenue and adjusted net profit growth of 31% and 44% respectively y-o-y for the fourth quarter of 2019-20, United Phosphorus Ltd (UPL) has surprised the market once again. Despite the Covid-19 disruptions, the company was able to generate positive volume growth from all regions including Latin America and the US. Since India listed agriculture as an essential category, domestic lockdown during April and May did not impact UPL much. Also, as per IMD forecast, monsoon is expected to be normal this year and that is good news for all agrochemical companies.

Analysts are getting attracted to the counter because of its inherent strength. The company has gained market share over the past five years. Its fourth quarter revenue growth in dollars was placed at 22%, compared to 7% for global peers and showing continuous improvement in its market share. UPL is expected to benefit from businesses shifting from China during the 'post Covid-19 period'. In other words, companies like UPL will be able to grab the space vacated by Chinese agrochemical companies. It also plans to reduce its raw material dependency on China. It has already brought it down to around 10% and with additional investments, hopes to become self reliant soon.

In addition to lower overheads, synergies from Arysta acquisition and gaining market share in key products have also helped UPL improve its Ebitda margin by 300 bps in the fourth quarter and this positive trend is expected to continue. Though a part of this can be attributed to acquisition, net profit and EPS, the company is expected to double between 2019-20 and 2021-22 *(see table)*.

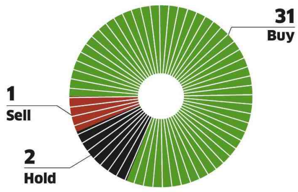
UPL's focus on research and development (R&D) in recent years has started yielding results and has helped it generate more than 1,000 patents registrations worldwide. It also plans to monetise part of its R&D pipeline on proprietary and generic products and this is expected to fetch around $3 billion revenues in the coming years.

Recent correction has brought down valuations of UPL, which was a low debt company. However, its leverage increased due to Arysta acquisition. Management's continued focus on deleveraging (plans to reduce its net debt/Ebitda ratio to around 2 from 2.9 in 2019-20) is another factor that should improve market's sentiments towards this counter. Increasing dividend per share to ₹6 for 2019-20 also shows management's confidence about 2020-21.

Selection Methodology: We pick up the stock that has shown maximum increase in "consensus analyst rating" during the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (ie 5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search will be restricted to stocks with at least 10 analysts covering it. You can see similar consensus analyst rating changes during the last one week in ETW 50 table.

—**Narendra Nathan**

Analysts' views



UPL's focus on R&D in recent years has helped it generate more than 1,000 patents. It also plans to monetise part of its R&D pipeline on proprietary and generic products. This is expected to fetch around $3 billion revenues in the coming years, making the company a favourite of analysts.

Fundamentals

	Actual 2019	Actual 2020	Consensus Estimate 2021	Consensus Estimate 2022
Revenue (₹ cr)	21,609	3,53,756	38,371.17	41,649.85
Ebitda (₹ cr)	3,813	7,104	7,952.35	8,968.92
Net profit (₹ cr)	1,447	1,776	2,925.62	3,505.11
EPS (₹)	18.95	23.24	37.16	47.08

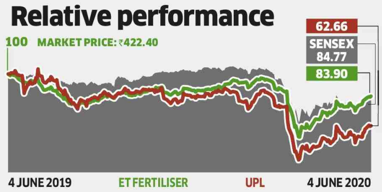
Valuations

	PBV	PE	Dividend Yield (%)
UPL	2.20	18.18	1.26
Bayer Cropscience	12.88	51.13	0.25
PI Industries	9.42	45.64	0.26
Rallis India	3.39	23.59	1.12
Bharat Rasayan	7.11	19.28	0.02

Latest brokerage calls

Reco Date	Research House	Advice	Target Price (₹)
4 June	Prabhudas Lilladher	Buy	497
26 May	IIFL	Buy	680
25 May	Phillip Securities	Buy	660
24 May	IDFC Securities Ltd	Outperform	706
24 May	Ambit Capital Pvt Ltd	Buy	675

Relative performance



UPL compared with ET Fertiliser and Sensex. Stock price and index values normalised to a base of 100. Source: ETIG and Bloomberg.

WHAT EXPERTS ADVISE

BUY

*STOCK PRICES AS ON 4 JUNE

Stock	Research House	Advice	Stock Price* (₹)	1-Year Target Price (₹)	Potential Upside (%)	Comment
Advanced Enzyme Tech	Emkay	Buy	156	214	37	Strong balance sheet, positive indicators from pharma and nutrition segments, greater penetration of its product and its subsidiary Evoxx churning profits augur well for the company's growth prospects.
Granules India	Anand Rathi	Buy	185	227	23	Its dominance in key active pharma ingredients like paracetamol, ibuprofen, metformin, etc would help it emerge as a prime beneficiary of the surge in demand led by Covid-19 outbreak.
HDFC	Jefferies	Buy	1,764	2,110	20	Despite lockdown easings, normal NBFCs will continue to face challenges. This should generate opportunities for players like HDFC for portfolio acquisitions leading to upside in earnings and re-rating.
Bharat Petroleum	IDBI Capital	Buy	357	418	17	Post relaxations, demand for petroleum products are improving. With 67% m-o-m increase, revenue in May was down only 30% y-o-y. Refinery is also now running at 83% of capacity utilisation level.
Lemon Tree Hotels	Nirmal Bang	Buy	22	25	15	In order to reduce the impact of Covid-19, management has decided to raise capital and make certain changes in the operations of the hotels to improve efficiencies.

SELL

Stock	Research House	Advice	Stock Price* (₹)	1-Year Target Price (₹)	Potential Downside (%)	Comment
Britannia Industries	HDFC Sec	Reduce	3,451	2,852	-17	Maintain 'reduce' due to rich valuations, 38 times its expected EPS in 2021-22. Fourth quarter revenues lagging behind other food companies, rising gross debt and non-current investments are other worries.
United Spirits	Edelweiss	Reduce	579	504	-13	Remain concerned about discretionary consumption slowdown of alcohol as consumers are not returning to the on-premise channel in a hurry and likely higher taxes due to deteriorating state finances.