



Rating  
**Buy**

Asia  
India

Energy  
Chemicals

Company  
**UPL Alert**

Reuters  
UPLL.BO

Bloomberg  
UPLL IN

Exchange  
BSE

Ticker  
UPLL

Date  
25 July 2017

## Breaking News

Price at 24 Jul 2017 (INR)	868.40
Price target - 12mth (INR)	950.00
52-week range (INR)	876.00 - 577.55
Bombay Stock Exchange (BSE 30)	32,246

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## Evaluating a potential bid for Platform Specialty's agrochem business

### UPL bidding >USD4bn for Platform's agrochem business? Unlikely in our view

As per media reports (Reuters), UPL is exploring a bid of >USD4bn for the agrochemicals business of Platform Specialty Products. This will reportedly rival a bid of c.USD4.25bn already made by a consortium of Blackstone Group and CVC Capital Partners. While it is still early days, likelihood of a mega acquisition may emerge as an overhang on the stock given potential equity dilution to fund it. We also highlight that while UPL has had an exemplary track record of turning around acquired companies, the deal sizes have been <USD200mn and at valuation of <5x EV/EBITDA. Given the large deal size and likely valuation of >10x EV/EBITDA (vs UPL's stated threshold of <6x EV/EBITDA for acquisitions), we see low probability of a serious bid by UPL.

### UPL may have to dilute equity to fund the deal

As of March 2017, UPL had net debt of USD525mn with D/E of 0.5x and net debt/ EBITDA of 1.1x. Management's stated target is to keep net D/E to below 1x and net debt/ EBITDA below 2x which implies it has only c.USD850-900mn at its disposal (based on FY18 balance sheet) for any potential acquisition. Based on reported deal value of c.USD4.25bn, UPL may thus have to dilute equity if it acquires > 20% share in Platform. However, with promoter (Shroff family) holding in the company being low at 27.9%, we believe that any large equity dilution to fund the deal is unlikely. In that case, if UPL does indeed successfully bid for the deal, it will either need to have a minority stake (<20%) or opt for higher leverage both of which are unlikely in our view.

### Reported potential deal valuation

The reported deal value of c.USD4.25bn would imply CY16 EV/EBITDA of 10.6x for the business. This compares favorably with 16-17x EV/EBITDA for the ongoing M&A (Syngenta-ChemChina, Bayer-Monsanto) in the global agrochem industry, though we note that these are innovator companies while Platform is an off-patent supplier. The potential deal value also compares favorably with UPL's valuation of 15x FY17 EV/EBITDA (12.8x FY18 EV/EBITDA).

### About Platform Specialty's agrochemical business

Platform Specialty had built an agrochemicals business through acquisitions of three entities (Chemtura AgroSolutions, Agriphar and Arysta LifeSciences) in 2HCY14 paying USD4.9bn in the process. In CY16, the business generated revenue of USD1.8bn and EBITDA of USD401mn implying an EBITDA margin of 22.1%. Revenue and EBITDA for the business has however declined 19% and 17% respectively over CY14-16 largely due to exchange impact. This compares unfavorably with a 13% growth in revenue (in USD) for UPL during the same period. Similar to UPL, Platform sells its products in >100 countries globally with LatAm contributing about one-third of revenue. However, unlike UPL, Platform has negligible active ingredient manufacturing facilities (which it sources from third parties) thereby making its supply chain more vulnerable.

### Stock data

Market cap (INRm)	440,294
Market cap (USDm)	6,843
Shares outstanding (m)	507.0
Major shareholders	Shroff family (27.8%)
Free float (%)	72
Avg daily value traded (USDm)	19.0

Source: Deutsche Bank

### Key data

FYE 3/31	2016A	2017E	2018E
Sales (INRm)	140,482	163,118	184,400
Net Profit (INRm)	9,397.6	17,272.9	22,909.3
DB EPS (INR)	20.99	35.51	45.18
PER (x)	22.5	24.5	19.2
Yield (net) (%)	1.1	0.8	1.2

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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