CRISIL RESEARCH

INDEPENDENT EQUITY RESEARCH

Punjab Chemicals and Crop Protection Ltd

Q3FY11 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

Disclaimer:

Punjab Chemicals and Crop Protection Ltd

High debt continues to remain a concern

Fundamental Grade 1/5 (Poor fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Chemicals

Punjab Chemicals and Crop Protection Ltd's (Punjab Chemicals') Q3FY11 revenues and earnings were in line with CRISIL Equities' expectations driven by sales from the agrochemicals business. Although we remain positive on the domestic and export agrochemicals market, given the rising interest rate scenario, high gearing and stretched financials of Punjab Chemicals, we maintain our fundamental grade of **1/5**. We also retain our earnings estimates.

Q3FY11 result analysis

- Punjab Chemical's Q3 standalone revenues grew 9.6% y-o-y to Rs 847 mn mainly due to 11% y-o-y growth in agrochemicals. Since the company was focussing more on the agrochemical business, the bulk drugs and intermediate segment's revenues declined 19% y-o-y. On a q-o-q basis, overall revenues declined 9.5%.
- On a consolidated basis, revenues grew 12.8% y-o-y to Rs 4,860 mn in 9MFY11. Overseas subsidiaries in Europe and South America contributed Rs 2,400 mn (~50%) to the top line during the same period.
- EBITDA margins improved by 513 bps to 1.1% y-o-y in Q3FY11 on lower raw material costs. EBITDA margins declined 518 bps q-o-q. The company reported consolidated EBITDA margin of 9.8% in 9MFY11 compared to 5.9% in 9MFY10.
- Increase in interest expenses during Q3FY11 widened the net loss from Rs 82 mn in Q3FY10 to Rs 139 mn in Q3FY11.

Valuations: Current market price has strong upside

We continue to value Punjab Chemicals based on the EV/sales method. We maintain our earnings estimates and fair value of Rs 126 per share based on 0.8x FY12 revenues. Given the current market price, we upgrade our valuation grade to **5/5** from **3/5**.

KEY FORECAST (CONSOLIDATED)

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	7,387	5,822	6,735	8,137	9,238
EBITDA	1,097	356	714	910	1,068
Adj PAT	4	-560	-198	-6	101
Adj EPS-Rs	0.6	-77.9	-26.3	-0.7	12.7
EPS growth (%)	-104	nm	nm	nm	nm
Dividend yield	5.4	nm	nm	nm	3.2
RoCE (%)	13.6	0.2	5.9	9.3	12.2
RoE (%)	0.4	(79.1)	(49.1)	(1.5)	22.6
PE (x)	55.9	nm	nm	nm	7.4
P/BV (x)	1.0	1.5	2.0	1.8	1.5
EV/EBITDA (x)	4.7	17.1	8.3	6.6	5.4

NM: Not meaningful; CMP: Current Market Price
Source: Company, CRISIL Equities estimate

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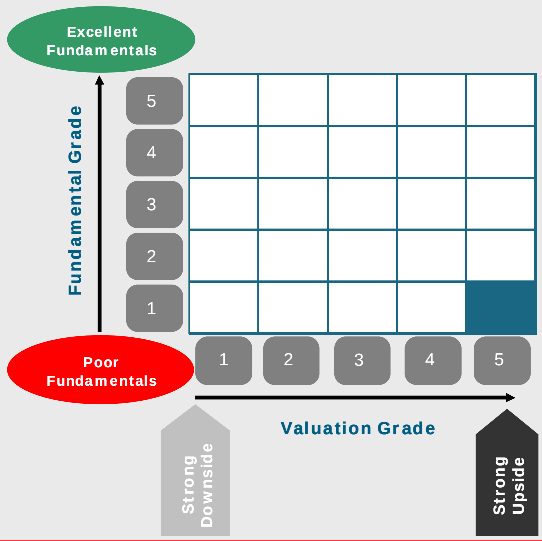
March 07, 2011

Fair Value Rs 126
CMP Rs 94

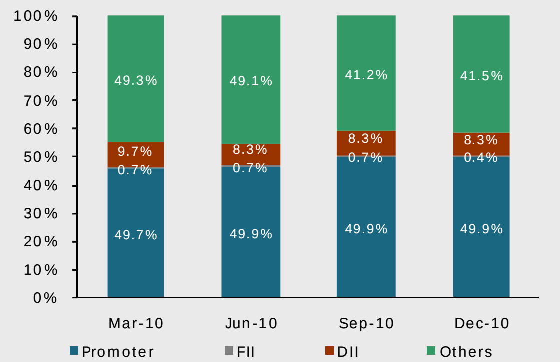
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5538
NSE ticker	PUNJABCHEM
Face value (Rs per share)	10
Shares outstanding (mn)	7.5
Market cap (Rs mn)/(US$ mn)	709/15.8
Enterprise value (Rs mn) /(US$ mn)	6126/136.2
52-week range (Rs) (H/L)	173/88
Beta	1.3
Free float (%)	50.1%
Avg daily volumes (30-days)	5,250
Avg daily value (30-days) (Rs mn)	0.56

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
PUNJABCHEM	-12%	-20%	-26%	-42%
NIFTY	3%	-8%	1%	9%

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Punjab Chemicals and Crop Protection Ltd

Q3FY11 Result Summary (Standalone)

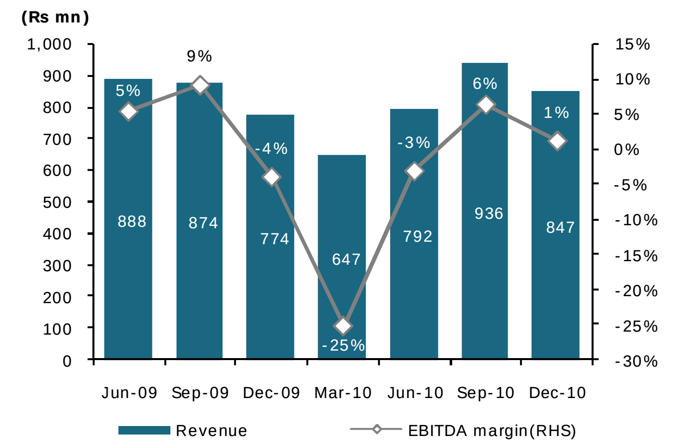
(Rs mn)	Q3FY11	Q2FY11	Q3FY10	q-o-q (%)	y-o-y (%)
Net sales	**847**	**936**	**774**	**(9.5)**	**9.6**
Raw materials cost	564	597	561	(5.5)	0.6
Raw materials cost (% of net sales)	66.6%	63.8%	72.6%	282bps	(596)bps
Employees cost	88	89	82	(0.3)	8.2
Other expenses	186	192	162	(3.3)	14.5
EBITDA	**9**	**58**	**(31)**	**(84.6)**	**(128.6)**
EBITDA margin	**1.1%**	**6.2%**	**-4.1%**	**(518)bps**	**513bps**
Depreciation	30	28	28	7.9	6.4
EBIT	**(21)**	**31**	**(60)**	**nm**	**nm**
Interest and finance charges	131	168	113	(22.2)	16.2
Operating PBT	**(152)**	**(138)**	**(172)**	**10.3**	**(11.9)**
Other income	13	48	46	(74.0)	(72.6)
Extraordinary Income/(expense)	(25)	62	-	(140.4)	nm
PBT	**(164)**	**(27)**	**(126)**	**501.5**	**30.0**
Tax	-	-	(44)	nm	nm
PAT	**(164)**	**(27)**	**(82)**	**nm**	**nm**
Adj PAT	**(139)**	**(89)**	**(82)**	**nm**	**nm**
Adj PAT margin	**-16.4%**	**-9.5%**	**-10.6%**	**nm**	**nm**
No of equity shares (mn)	7.2	7.2	7.2	nm	nm
Adj EPS (Rs)	**(19.3)**	**(12.4)**	**(11.4)**	**nm**	**nm**

Source: Company, CRISIL Equities

Growth in the agrochemical business boosts overall sales

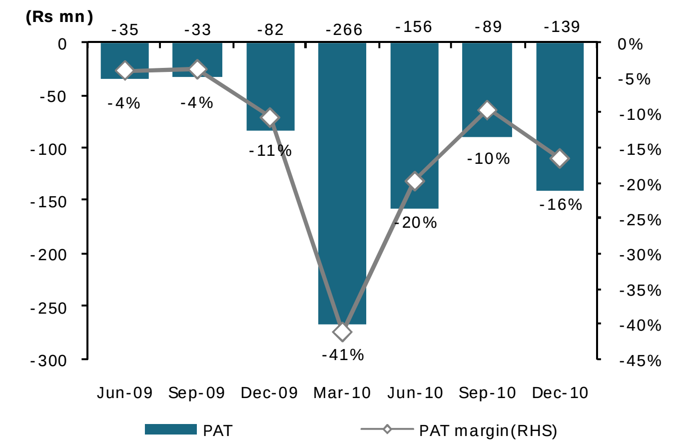
Margins expanded on back of an improved top line

EBITDA margin declined 518 bps q-o-q in Q3



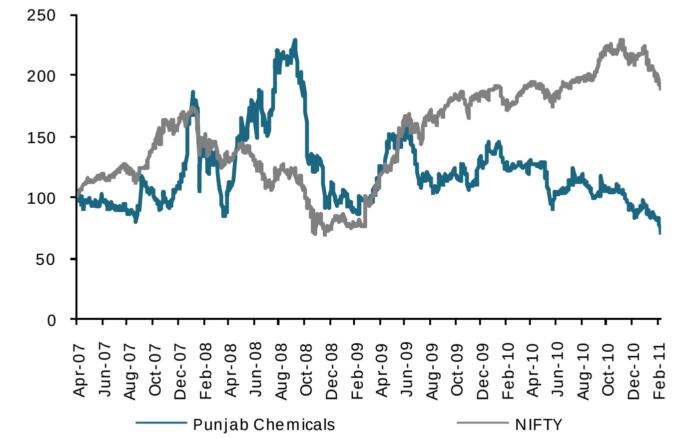
Source: Company, CRISIL Equities

Net losses increased in Q3



Source: Company, CRISIL Equities

Share price movement



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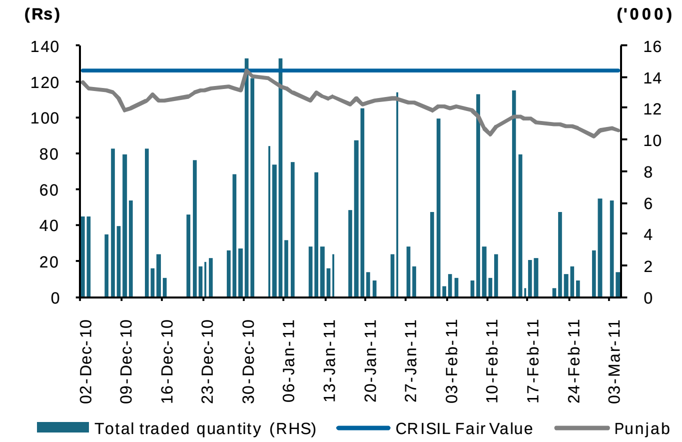
Source: NSE, CRISIL Equities

Fair value movement since initiation



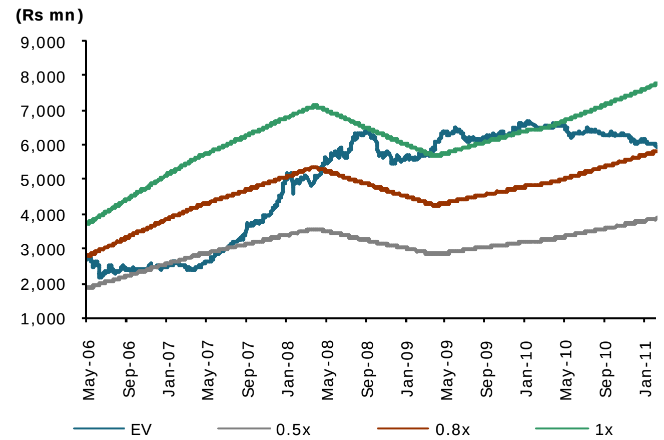
Source: NSE, CRISIL Equities

Punjab Chemicals and Crop Protection Ltd

VALUATION

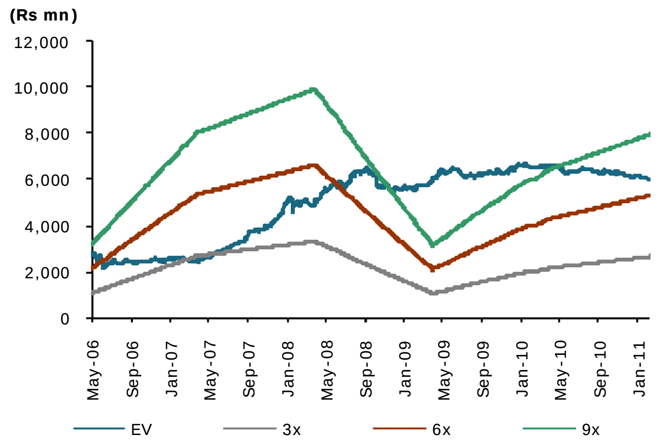
We continue to value Punjab Chemicals based on the EV/sales method. We maintain our earnings estimates and fair value of Rs 126 per share based on 0.8x FY12 revenues. Given the current market price, we upgrade our valuation grade to **5/5** from **3/5**.

One-year forward EV/sales band



Source: NSE, CRISIL Equities

One-year forward EV/EBITDA band



Source: NSE, CRISIL Equities

CRISIL IER reports released on Punjab Chemicals and Crop Protection Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
02-Dec-10	Initiating coverage*	1/5	Rs 126	3/5	Rs 121
07-Mar-11	Q3FY11 result update	1/5	Rs 126	5/5	Rs 94

* For detailed initiating coverage report please visit: **www.ier.co.in**

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Punjab Chemicals and Crop Protection Ltd

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FINANCIALS (CONSOLIDATED)

Income statement

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	**7,387**	**5,822**	**6,735**	**8,137**	**9,238**
EBITDA	**1,097**	**356**	**714**	**910**	**1,068**
EBITDA margin	**14.9%**	**6.1%**	**10.6%**	**11.2%**	**11.6%**
Depreciation	312	342	358	365	372
EBIT	**785**	**14**	**355**	**545**	**696**
Interest	746	759	558	545	528
Operating PBT	**39**	**(745)**	**(203)**	**(0)**	**168**
Other income	19	21	21	16	11
Exceptional inc/(exp)	(13)	(28)	62	-	-
PBT	**45**	**(752)**	**(119)**	**16**	**180**
Tax provision	54	(164)	17	22	79
Minority interest	-	-	-	-	-
PAT (Reported)	**(9)**	**(588)**	**(136)**	**(6)**	**101**
Less: Exceptionals	(13)	(28)	62	-	-
Adjusted PAT	**4**	**(560)**	**(198)**	**(6)**	**101**

Ratios

	FY09	FY10	FY11E	FY12E	FY13E
Growth					
Operating income (%)	27.0	(21.2)	15.7	20.8	13.5
EBITDA (%)	22.8	(67.5)	100.2	27.5	17.3
Adj PAT (%)	(1.0)	nm	nm	nm	nm
Adj EPS (%)	(103.8)	nm	nm	nm	nm
Profitability					
EBITDA margin (%)	14.9	6.1	10.6	11.2	11.6
Adj PAT Margin (%)	0.1	(9.6)	(2.9)	(0.1)	1.1
RoE (%)	0.4	(79.1)	(49.1)	(1.5)	22.6
RoCE (%)	13.6	0.2	5.9	9.3	12.2
RoIC (%)	0.1	(9.1)	(3.4)	(0.1)	1.8
Valuations					
Price-earnings (x)	55.9	nm	nm	nm	7.4
Price-book (x)	1.0	1.5	2.0	1.8	1.5
EV/EBITDA (x)	4.7	17.1	8.3	6.6	5.4
EV/Sales (x)	0.7	1.1	0.9	0.8	0.6
Dividend payout ratio (%)	(121.8)	-	-	-	23.6
Dividend yield (%)	5.4	-	-	-	3.2
B/S ratios					
Inventory days	97	95	93	88	82
Creditors days	85	94	85	85	85
Debtor days	97	110	100	95	90
Working capital days	109	111	108	97	87
Gross asset turnover (x)	3.0	2.1	2.3	2.7	2.9
Net asset turnover (x)	5.2	3.6	4.0	5.0	5.5
Sales/operating assets (x)	3.3	2.4	2.8	3.2	3.4
Current ratio (x)	2.7	2.8	2.9	2.7	2.5
Debt-equity (x)	5.3	12.8	15.3	13.2	10.7
Net debt/equity (x)	5.1	12.1	14.6	12.8	10.4
Interest coverage	1.1	0.0	0.6	1.0	1.3

Per share

	FY09	FY10	FY11E	FY12E	FY13E
Adj EPS (Rs)	0.6	(77.9)	(26.3)	(0.7)	12.7
CEPS	47.9	(30.3)	21.3	45.3	59.6
Book value	146.8	62.2	47.7	51.6	60.9
Dividend (Rs)	1.8	-	-	-	3.0
Actual o/s shares (mn)	6.6	7.2	7.5	7.9	7.9

Balance Sheet

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Liabilities					
Equity share capital	66	72	75	79	79
Reserves	902	375	284	331	404
Minorities	-	-	-	-	-
Net worth	**968**	**447**	**360**	**410**	**483**
Convertible debt	-	-	-	-	-
Other debt	5,132	5,700	5,500	5,400	5,150
Total debt	**5,132**	**5,700**	**5,500**	**5,400**	**5,150**
Deferred tax liability (net)	603	408	425	441	459
Total liabilities	**6,703**	**6,556**	**6,285**	**6,252**	**6,092**
Assets					
Net fixed assets	1,511	1,721	1,632	1,652	1,693
Capital WIP	394	88	88	88	88
Total fixed assets	**1,905**	**1,808**	**1,720**	**1,739**	**1,780**
Investments	**205**	**187**	**187**	**187**	**187**
Current assets					
Inventory	1,614	1,367	1,476	1,672	1,772
Sundry debtors	1,955	1,764	1,862	2,134	2,294
Loans and advances	439	725	505	610	693
Cash & bank balance	175	279	256	147	138
Marketable securities	-	-	-	-	-
Total current assets	**4,183**	**4,136**	**4,099**	**4,563**	**4,897**
Total current liabilities	**1,547**	**1,506**	**1,410**	**1,693**	**1,994**
Net current assets	**2,636**	**2,630**	**2,690**	**2,870**	**2,903**
Intangibles/Misc. expenditure	**1,958**	**1,930**	**1,689**	**1,456**	**1,223**
Total assets	**6,703**	**6,556**	**6,285**	**6,252**	**6,092**

Cash flow

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	58	(724)	(181)	16	180
Total tax paid	(34)	(31)	-	(5)	(61)
Depreciation	312	342	358	365	372
Working capital changes	(436)	109	(82)	(290)	(41)
Net cash from operations	**(100)**	**(304)**	**95**	**86**	**449**
Cash from investments					
Capital expenditure	(613)	(218)	(29)	(151)	(180)
Investments and others	(61)	18	-	-	-
Net cash from investments	**(674)**	**(200)**	**(29)**	**(151)**	**(180)**
Cash from financing					
Equity raised/(repaid)	-	82	49	56	-
Debt raised/(repaid)	694	568	(200)	(100)	(250)
Dividend (incl. tax)	(12)	-	-	-	(28)
Others (incl extraordinaries)	(51)	(42)	62	0	(0)
Net cash from financing	**632**	**607**	**(89)**	**(44)**	**(278)**
Change in cash position	(143)	104	(23)	(110)	(8)
Closing cash	175	279	256	147	138

Quarterly financials*

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Net Sales	**774**	**647**	**792**	**936**	**847**
Change (q-o-q)	-12%	-16%	22%	18%	-9%
EBITDA	**(32)**	**(164)**	**(26)**	**58**	**9**
Change (q-o-q)	-140%	419%	-84%	-328%	-85%
EBITDA margin	**-4.1%**	**-25.3%**	**-3.2%**	**6.2%**	**1.1%**
PAT	(82)	(266)	(156)	(27)	(164)
Adj PAT	**(82)**	**(266)**	**(156)**	**(89)**	**(139)**
Change (q-o-q)	nm	nm	nm	nm	nm
Adj PAT margin	**-10.6%**	**-41.1%**	**-19.7%**	**-9.5%**	**-16.4%**
Adj EPS	**(11.4)**	**(36.9)**	**(21.6)**	**(12.4)**	**(19.3)**

Note: All ratios are computed on Adj PAT

* Standalone numbers

Source: Company, CRISIL Equities estimate

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