

Bayer CropScience

Performance Highlights

Parameters (₹ cr)	3QFY11	3QFY10	% yoy	Angel est.	% Diff
Revenue	531	386	38	511	4
EBITDA	63	41	52	52	21
EBITDA %	11.8	10.7	112bp	10.1	168bp
Reported PAT	36	21	66	34	6

Source: Company, Angel Research

For 3QFY2011, Bayer CropScience's (BCS) results were marginally ahead of our estimates. Total sales grew by 38% yoy to ₹531cr, while EBITDA margin increased by 112bp to 11.8% (10.7%). Reported PAT came in at ₹36cr (₹21cr), up 66% yoy as against our estimate of ₹34cr. Going ahead, we expect BCS to be on a strong growth trajectory on the back of high agro-commodity prices. Given that the stock is currently trading at fair valuations, **we remain Neutral on the stock.**

Steady operating expenses help EBITDA margin expansion: Against BCS's top-line growth of 38%, staff cost and other cost increased by only 12.5% and 19%, respectively, which led to a 112bp expansion in EBITDA margin to 11.8%; however, on 9MFY2011 basis, EBITDA margin declined by 171bp to 12.7%.

Outlook and valuation: During the quarter, sales were affected due to late and slightly above-normal monsoons; however, we believe the same will be booked in 4QFY2011. Thus, we have marginally revised our estimates to factor in the same and expect the company to register CAGR of 19% and 16% in net sales and profit over FY2010–12, respectively. At current levels, the stock is trading at fair valuations of 17x FY2012E EPS. Hence, we remain Neutral on the stock.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	1,483	1,724	2,131	2,451
% chg	19.7	16.3	23.6	15.0
Net profit	100	135	158	181
% chg	92.7	34.7	16.8	14.3
EBITDA (%)	11.5	12.7	12.0	12.3
EPS (₹)	25.4	34.3	40.0	45.7
P/E (x)	30.5	22.7	19.4	17.0
P/BV (x)	6.8	5.5	4.4	3.6
RoE (%)	24.5	26.8	25.3	23.5
RoCE (%)	31.3	33.0	31.9	32.5
EV/Sales (x)	2.1	1.8	1.4	1.2
EV/EBITDA (x)	18.1	14.2	11.8	10.0

Source: Company, Angel Research

NEUTRAL

CMP	₹776
Target Price	-
Investment Period	-

Stock Info

Sector	Agrichemical
Market Cap (₹ cr)	3,066
Beta	0.9
52 Week High / Low	1173/541
Avg. Daily Volume	30606
Face Value (₹)	10
BSE Sensex	18,202
Nifty	5,456
Reuters Code	BAYE.BO
Bloomberg Code	BYRCS@IN

Shareholding Pattern (%)

Promoters	71.1
MF / Banks / Indian Fls	7.8
FII / NRIs / OCBs	3.9
Indian Public / Others	17.2

Abs. (%)	3m	1yr	3yr
Sensex	(9.7)	12.7	2.5
Bayer CropScience	(29.2)	40.9	175.3

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Exhibit 1: Quarterly performance

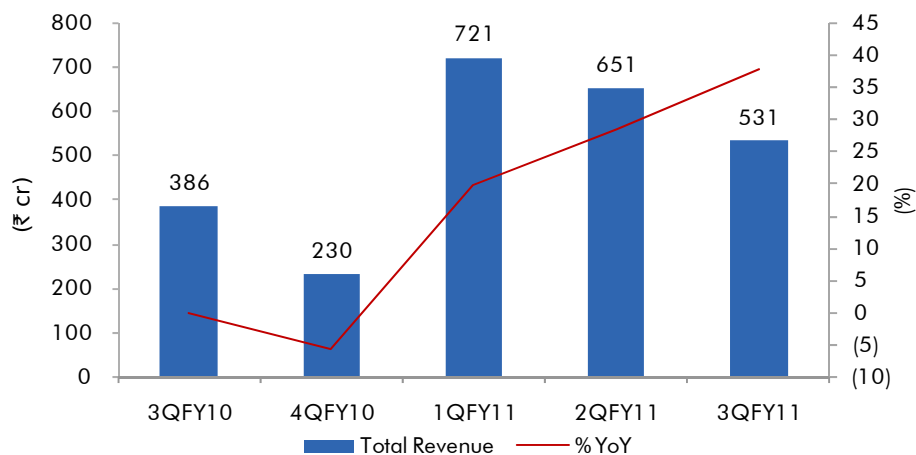
Y/E March (₹ cr)	3QFY11	3QFY10	% chg	9MFY11	9MFY10	% chg
Net sales	495.6	359.5	37.8	1,817.0	1,419.4	28.0
Other Op Inc	35.8	26.0		85.8	74.9	
Total Revenue	531.4	385.5	37.8	1,902.8	1,494.2	27.3
Total RM	324.0	220.9		1,229.1	925.7	
as % of sales	65.4	61.5		67.6	65.2	
Gross Profit	171.6	138.6	23.8	587.9	493.7	19.1
Gross margin (%)	34.6	38.5		32.4	34.8	
Staff cost	38.7	34.4	12.5	124.5	107.2	16.1
as % of sales	7.8	9.6		6.9	7.6	
Other Expenses	106.0	89.1	19.0	307.8	246.2	25.0
as % of sales	20.0	23.1		16.2	16.5	
Total Exp	468.8	344.4		1,661.3	1,279.0	
as % of sales	88.2	89.3		87.3	85.6	
EBITDA	62.6	41.1	52.3	241.5	215.2	12.2
EBITDA %	11.8	10.7	112	12.7	14.4	(171)
Depreciation	8.8	7.8	12.7	23.4	19.5	20.1
EBIT	53.8	33.3		218.1	195.7	
EBIT %	10.1	8.6		11.5	13.1	
Other Income	5.9	3.6		16.1	20.5	
Interest	2.5	3.5	(27.0)	5.9	8.7	(32.3)
PBT (excl exp item)	57.1	33.4	70.8	228.3	207.6	10.0
Extra-ord Items	(1.1)	(2.3)		(2.5)	(8.3)	
PBT (incl exp item)	56.0	31.2		225.9	199.3	
Total tax	20.4	9.8		77.2	68.4	
Tax rate	35.8	29.4		33.8	33.0	
PAT	35.6	21.4	66.4	148.7	130.8	
PAT (%)	6.7	5.5		7.8	8.8	
Adj PAT	36.7	23.6	55.4	151.1	139.1	8.6
Adj PAT (%)	7.4	6.6		8.3	9.8	
Equity	39.5	39.5		39.5	39.5	
EPS	9.0	5.4		37.6	33.1	
Adj EPS	9.3	6.0	55.4	38.3	35.2	8.6

Source: Company, Angel Research

Sales growth ahead of expectation

BCS reported marginally higher-than-expected 3QFY2011 results, wherein total revenue grew by 38% as against our estimate of 33%.

Exhibit 2: Revenue marginally ahead of expectation

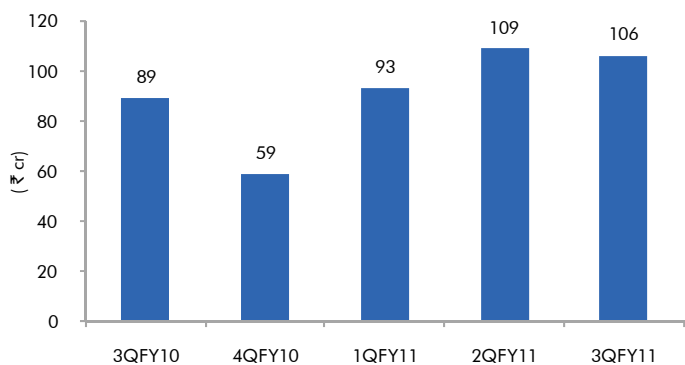


Source: Company, Angel Research

Steady operating expenses help EBITDA margin expansion

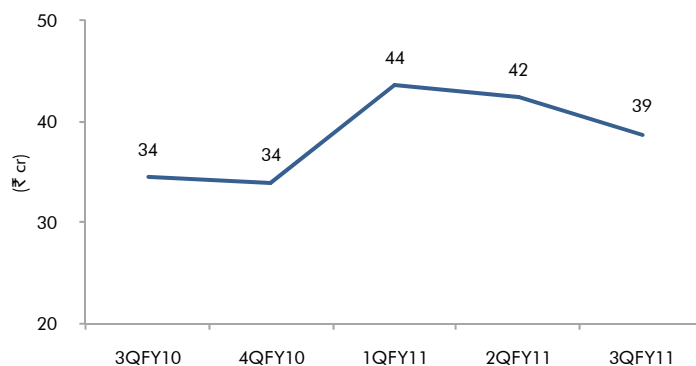
BCS posted top-line growth of 38% in 3QFY2011. At the same time, Staff cost and Other Expenses increased by 12.5% and 19%, respectively. This led to a 112bp expansion in EBITDA margin to 11.8%.

Exhibit 3: Other Expenses



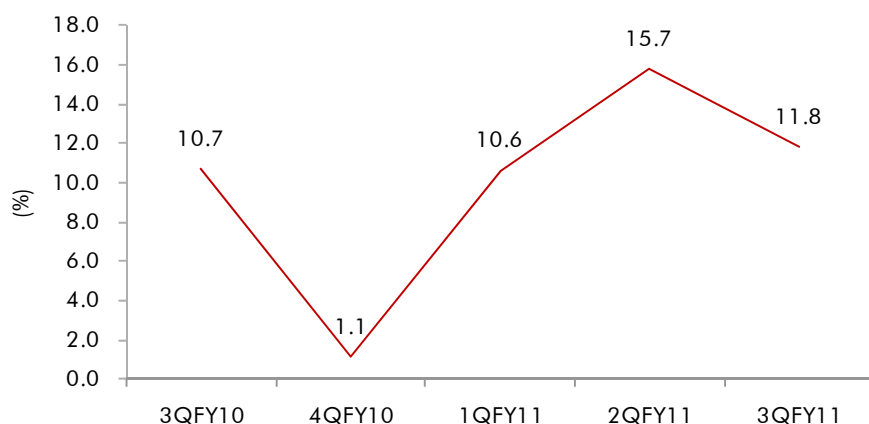
Source: Company, Angel Research

Exhibit 4: Staff cost



Source: Company, Angel Research

Exhibit 5: EBITDA margin trend

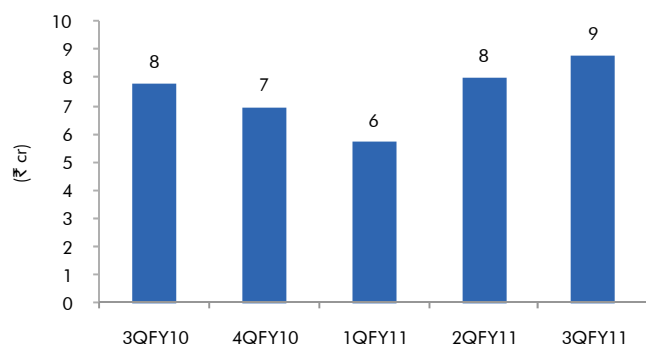


Source: Company, Angel Research

Higher depreciation restricts earnings growth

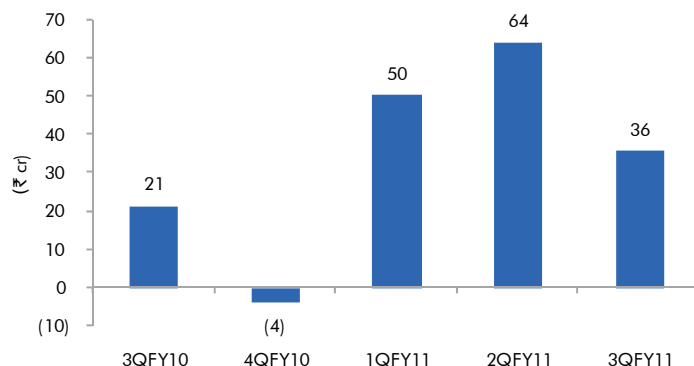
Depreciation for the quarter grew by 13% yoy and 10% qoq to ₹9cr, which was marginally ahead of our expectation of ₹8cr. Reported earnings for the quarter grew by 66% yoy to ₹35.6cr (₹21.4cr); however, post adjusting for extraordinary items, adj. PAT grew by 55% to ₹36.7cr.

Exhibit 6: Depreciation trend



Source: Company, Angel Research

Exhibit 7: PAT trend



Source: Company, Angel Research

Investment arguments

Leader in Indian markets: BCS is a leader in the Indian agrichemical sector with a market share of 23%. The company's domestic revenue registered a steady CAGR of 19% over CY2005–FY2010, which indicates its stronghold in the domestic business. Moreover, going ahead, we believe there exists a substantial opportunity for BCS to grow its domestic business, considering the abysmal penetration of pesticides in India. It may be noted that India consumes an average 0.48kg of pesticides per hectare (ha) compared to 4.5kg/ha in the U.S. and 10.7kg/ha in Japan.

Exports – Riding the outsourcing bandwagon: BCS's export revenue registered a 15% CAGR during CY2005–FY2010. Around 80% of the company's export revenue comes from outsourcing by Bayer AG's group companies. We believe this indicates the company's strong ability to grow internationally despite its parent having a global presence. Globally, Bayer AG has a revenue base of €33bn, of which 17% (€5.6bn) is from crop protection. Hence, if Bayer AG were to outsource 10% of its requirements from its various global subsidiaries, we believe BCS would immensely benefit from the same.

Outlook and valuation

During the quarter, sales were affected across the industry due to late and slightly above-normal monsoons; however, we believe the same will be booked in 4QFY2011. As a result, with BCS being a major player in the domestic market, we expect it to grow at a higher pace than the industry.

We have marginally revised our estimates to factor in higher-than-estimated depreciation cost and expect the company to register CAGR of 19% and 16% in net sales and profit over FY2010–12, respectively. At current levels, the stock is trading at fair valuations of 17x FY2012E EPS. Hence, we maintain our Neutral recommendation on the stock.

Exhibit 8: Key assumptions

Parameters	FY2011E	FY2012E
Revenue growth	23.6	15.0
Gross margin (%)	37.9	38.0
Staff cost (% of sales)	8.2	8.2
Other cost (% of sales)	17.7	17.5
EBITDA margin (%)	12.0	12.3

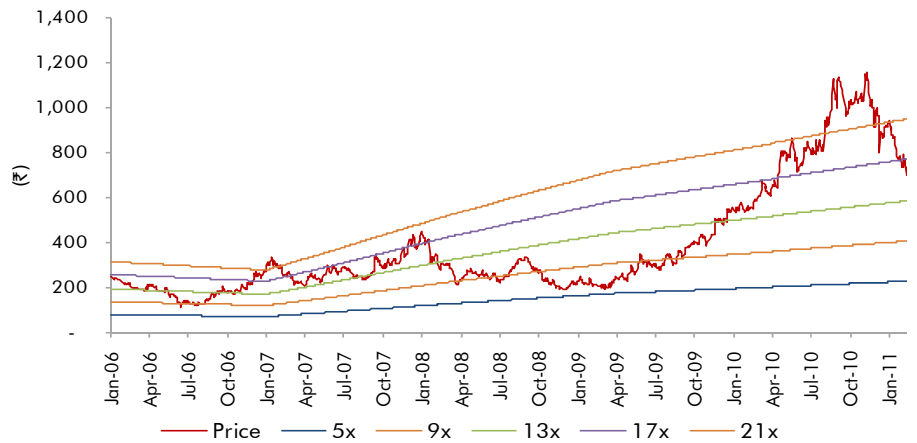
Source: Company, Angel Research

Exhibit 9: Peer valuations

	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E FY11E FY12E	EV/Sales FY11E FY12E	EV/EBITDA FY11E FY12E	RoE (%) FY11E FY12E	CAGR (%) Sales PAT
Rallis	Neutral	2,342	1,201	-	-	18.1 13.5	2.1 1.7	11.1 9.1	27.8 30.8	24.4 32.4
BCS	Neutral	2,897	734	-	-	18.3 16.0	1.3 1.2	11.1 9.5	25.3 23.5	19.2 15.5
United Phosphorus	Buy	6,232	135	198	47	11.3 8.8	1.2 1.1	6.7 5.5	16.6 17.9	6.2 13.4
Nagarjuna Agrichem	NA	199	133	-	-	11.8 6.5	0.6 0.4	5.3 2.9	8.1 13.8	6.7 (28.3)

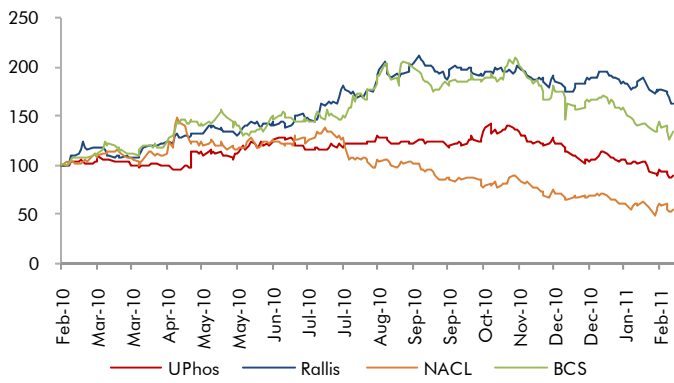
Source: Company, Angel Research, Bloomberg

Exhibit 10: One-year forward P/E



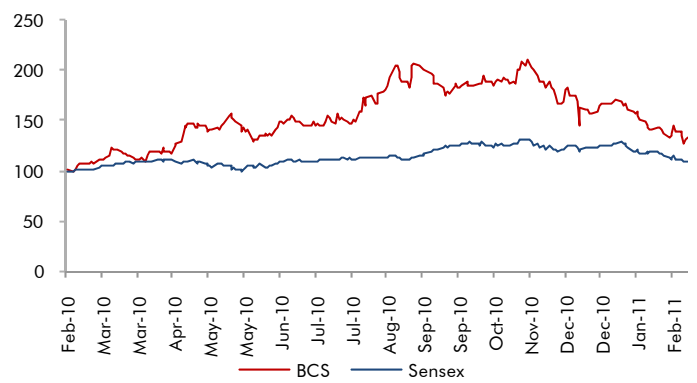
Source: C-line, Angel Research

Exhibit 11: BCS v/s Peers



Source: C-line, Angel Research

Exhibit 12: BCS v/s Sensex – One-year absolute returns



Source: C-line, Angel Research

Profit & loss statement

Y/E March (₹ cr)	CY06	FY08*	FY09	FY10	FY11E	FY12E
Total operating income	775	1,238	1,483	1,724	2,131	2,451
% chg	9.4	59.9	19.7	16.3	23.6	15.0
Total Expenditure	682	1,148	1,313	1,505	1,875	2,149
Net Raw Materials	451	772	892	1,061	1,323	1,519
Other Mfg costs	164	254	286	303	377	429
Personnel	67	122	134	141	175	201
Other						
EBITDA	93	90	170	219	256	301
% chg	9.8	(3.3)	89.3	28.8	16.7	17.9
(% of Net Sales)	12.0	7.3	11.5	12.7	12.0	12.3
Depreciation & Amortisation	29	26	24	26	31	35
EBIT	64	64	146	193	225	266
% chg	3.5	(1.1)	129.9	31.9	16.7	18.5
(% of Net Sales)	8.3	5.1	9.9	11.2	10.6	10.9
Interest & other Charges	9	8	11	13	9	10
Other Income	34	23	22	25	23	18
(% of PBT)	37.7	29.1	13.7	12.3	9.8	6.5
Recurring PBT	89	79	157	205	240	274
% chg	9.7	(11.7)	98.5	30.8	16.8	14.3
Extraordinary Expense/(Inc.)	0	11	6	9	3	-
PBT (reported)	89	68	151	196	237	274
Tax	32	19	56	69	81	93
(% of PBT)	36.0	23.9	35.9	33.7	34.0	34.0
PAT (reported)	57	49	94	127	156	181
Add: Share of earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	(1)	-	-	-	-	-
PAT after MI (reported)	57	49	94	127	156	181
ADJ. PAT	59	52	100	135	158	181
% chg	9.7	(11.7)	92.7	34.7	16.8	14.3
(% of Net Sales)	7.6	4.2	6.8	7.9	7.4	7.4
Basic EPS (₹)	14.4	12.4	23.9	32.2	39.4	45.7
Fully Diluted EPS (₹)	15.0	13.2	25.4	34.3	40.0	45.7
% chg	9.7	(11.7)	92.7	34.7	16.8	14.3

* Note: Number are for 15 months

Balance sheet

Y/E March (₹ cr)	CY06	FY08*	FY09	FY10	FY11E	FY12E
SOURCES OF FUNDS						
Equity Share Capital	39	39	39	39	39	39
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	292	330	411	520	653	806
Shareholders' Funds	331	369	451	560	692	845
Minority Interest	-	-	0	-	-	-
Total Loans	108	69	43	114	45	58
Deferred Tax Liability	-	-	-	-	-	-
Total Liabilities	440	439	494	674	737	904
APPLICATION OF FUNDS						
Gross Block	340	416	441	479	551	617
Less: Acc. Depreciation	188	179	182	187	218	253
Net Block	152	237	259	292	333	364
Capital Work-in-Progress	4	11	11	29	29	29
Goodwill	-	-	-	-	-	-
Investments	4	60	10	63	63	63
Current Assets	481	516	643	679	822	1,065
Cash	27	28	18	15	28	33
Loans & Advances	48	105	101	118	149	172
Other	407	383	523	546	644	860
Current liabilities	204	402	444	396	529	652
Net Current Assets	278	114	199	283	293	412
Mis. Exp. not written off	3	17	14	7	20	36
Total Assets	440	439	494	674	737	904

* Note: Number are for 15 months

Cash flow statement

Y/E March (₹ cr)	CY06	FY08*	FY09	FY10	FY11E	FY12E
Profit before tax	89	79	151	196	240	274
Depreciation	26	41	42	31	40	45
Change in Working Capital	(45)	92	(114)	(72)	(17)	(135)
Less: Other income	(5)	(4)	(3)	(2)	(1)	-
Direct taxes paid	(33)	(72)	(45)	(73)	(81)	(93)
Cash Flow from Operations	37	140	35	82	181	91
(Inc.)/ Dec. in Fixed Assets	(16)	(51)	(48)	(80)	(72)	(66)
(Inc.)/ Dec. in Investments	0	26	3	1	-	-
Inc./ (Dec.) in loans and advances	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(16)	(25)	(45)	(79)	(72)	(66)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(8)	(39)	(27)	71	(69)	13
Dividend Paid (Incl. Tax)	(10)	(11)	(11)	(13)	(18)	(23)
Others	(7)	(6)	(10)	(12)	(9)	(10)
Cash Flow from Financing	(25)	(56)	(48)	46	(96)	(20)
Inc./ (Dec.) in Cash	(4)	60	(58)	50	13	5
Opening Cash balances	24	27	86	28	15	28
Closing Cash balances	19	86	28	15	28	33

* Note: Number are for 15 months

Key ratios

Y/E March	CY06	FY08*	FY09	FY10	FY11E	FY12E
Valuation Ratio (x)						
P/E (on FDEPS)	51.9	58.8	30.5	22.7	19.4	17.0
P/CEPS	34.9	39.1	24.6	18.9	16.2	14.2
P/BV	9.3	8.3	6.8	5.5	4.4	3.6
Dividend yield (%)	0.3	0.3	0.4	0.5	0.6	0.8
EV/Sales	4.1	2.5	2.1	1.8	1.4	1.2
EV/EBITDA	33.8	33.9	18.1	14.2	11.8	10.0
EV / Total Assets	7.2	6.9	6.2	4.6	4.1	3.4
Per Share Data (₹)						
EPS (Basic)	14.4	12.4	23.9	32.2	39.4	45.7
EPS (fully diluted)	15.0	13.2	25.4	34.3	40.0	45.7
Cash EPS	22.2	19.9	31.5	41.0	47.8	54.6
DPS	2.4	2.4	2.8	4.0	5.0	6.0
Book Value	83.9	93.5	114.2	141.7	175.2	214.0
Dupont Analysis						
EBIT margin	8.3	5.1	9.9	11.2	10.6	10.9
Tax retention ratio	64.0	76.1	64.1	66.3	66.0	66.0
Asset turnover (x)	2.0	3.3	3.7	3.4	3.6	3.5
ROIC (Post-tax)	10.7	12.9	23.6	25.0	25.1	25.2
Cost of Debt (Post Tax)	4.9	6.5	12.4	10.9	7.3	13.2
Leverage (x)	0.3	0.1	(0.0)	0.0	(0.0)	(0.1)
Operating ROE	12.2	13.5	23.5	25.7	24.9	24.5
Returns (%)						
ROCE (Pre-tax)	15.3	14.5	31.3	33.0	31.9	32.5
Angel ROIC (Pre-tax)	16.6	17.0	36.8	37.7	38.0	38.2
ROE	19.1	14.9	24.5	26.8	25.3	23.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	3.3	3.5	3.7	4.1	4.2
Inventory / Sales (days)	86	58	65	71	72	72
Receivables (days)	91	58	47	42	50	65
Payables (days)	86	74	89	73	80	85
Working capital cycle (ex-cash) (days)	107	50	33	47	46	48
Solvency ratios (x)						
Net debt to equity	0.2	(0.1)	0.0	0.1	(0.1)	(0.0)
Net debt to EBITDA	0.9	(0.2)	0.1	0.2	(0.2)	(0.1)
Interest Coverage (EBIT / Interest)	7.5	8.4	13.5	15.0	25.7	25.7

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Disclosure of Interest Statement

Bayer CropScience

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)