

United Phosphorus

Performance Highlights

Y/E March (` cr)	1QFY2018	4QFY2017	% chg (qoq)	1QFY2017	% chg (yoy)
Net sales	3,723	5341	(30.3)	3452	7.8
Other income	101	147	(31.3)	66	52.0
Gross profit	2204	2569	(14.2)	1852	19.0
Operating profit	691	1037	(33.4)	612	12.8
Adj. net profit	491	740	(33.6)	387	27.1

Source: Company, Angel Research,

UPL posted good set of numbers for 1QFY2018. Sales came in at `3,723cr v/s. `3,644cr, a yoy growth of 7.8%. On operating front, the Gross profit margins came in at 59.2% v/s. 53.6% in 1QFY2017, which in part aided the OPM to come in at 18.6% v/s. 17.7% in 1QFY2017. The expansion in OPM was lower than the expansion in gross profit margins mainly aided by a lower sales growth during the quarter. Thus, net profit came in at `475cr v/s. `362cr in 1QFY2017, a yoy growth of 31.2%. Adj. net profit came in at `491cr v/s. `387cr, a yoy growth of 27.1%. Management maintained FY2018 guidance for 12-15% revenue growth, 50-75 bps Ebitda margin expansion, and a 20-22% effective tax rate. **We maintain recommend a reduce given the valuations.**

Quarterly highlights: UPL posted good set of numbers for 1QFY2018. Sales came in at `3,723cr v/s. `3,644cr, a yoy growth of 7.8%. On operating front, the Gross profit margins came in at 59.2% v/s. 53.6% in 1QFY2017, which in part aided the OPM to come in at 18.6% v/s. 17.7% in 1QFY2017. The expansion in OPM was lower than the expansion in gross profit margins mainly aided by a lower sales growth during the quarter. The PBT during the quarter, posted a yoy growth of 37.2%, aided by a 52.0% yoy growth in other income (`101cr v/s. `66cr in 1QFY2017). Thus, net profit came in at `475cr v/s. `361cr in 1QFY2017, a yoy growth of 31.6%. Adj. net profit came in at `491cr v/s. `387cr a yoy growth of 27.1%.

Outlook and Valuation: We expect UPL to post a CAGR of 16.0% and 13.3% in its sales and PAT respectively over FY2017-19E. **At the current market price, we recommend a reduce, given the valuations.**

Key financials (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Total revenue	14,048	16,312	18,922	21,949
% chg	17.9	16.1	16.0	16.0
Adj. profit	1,051	1,800	1,834	2,310
% chg	(8.3)	71.3	1.9	25.9
EBITDA (%)	16.1	17.8	18.0	18.5
EPS (`)	24.5	35.5	36.2	45.6
P/E (x)	36.2	25.0	24.5	19.5
P/BV (x)	6.5	6.1	5.1	4.2
RoE (%)	17.9	27.1	22.7	23.8
RoCE (%)	15.4	19.1	19.8	21.6
EV/Sales (x)	3.4	2.9	2.5	2.1
EV/EBITDA (x)	21.4	16.3	13.9	11.3

Source: Company, Angel Research; Note: CMP as of August 4, 2017

Please refer to important disclosures at the end of this report

REDUCE

CMP	`887
Target Price	820

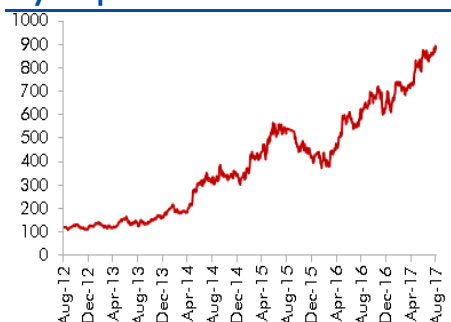
Investment Period	12 months
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Stock Info	
Sector	Agrichemical
Market Cap (` cr)	45,034
Net Debt (` cr)	3,231
Beta	1.0
52 Week High / Low	902/584
Avg. Daily Volume	1,06,314
Face Value (`)	2
BSE Sensex	32,325
Nifty	10,066
Reuters Code	UNPO.BO
Bloomberg Code	UNTP@IN

Shareholding Pattern (%)	
Promoters	27.9
MF / Banks / Indian Fls	14.0
FII / NRIs / OCBs	51.3
Indian Public / Others	6.8

Abs. (%)	3m	1yr	3yr
Sensex	8.0	16.6	25.7
UPL	10.3	47.3	165.1

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2018 Performance (Consolidated)

Y/E March (` cr)	1QFY2018	4QFY2017	% chg (qoq)	1QFY2017	% chg (yoy)	FY2017	FY2016	% chg
Net sales	3,723	5,341	(30.3)	3,452	7.8	16,312	14,048	16.1
Other income	101	147	(31.3)	66	52.0	444	316	40.5
Total income	3,824	5,488	(30.3)	3,518	8.7	16,755	14,364	16.6
Gross profit	2204	2569	(14.2)	1852	19.0	8496	7268	16.9
Gross margin (%)	59.2	48.1		53.6		52.1	51.7	
Operating profit	691	1037	(33.4)	612	12.8	2904	2266	28.2
Operating margin (%)	18.6	19.4		17.7		17.8	16.1	
Financial cost	80	213	(62.4)	106	(24.5)	735	704	
Depreciation	158	187	(15.3)	169	(6.5)	672	676	-0.6
PBT	554	785	(29.4)	404	37.2	1941	1202	61.5
Provision for taxation	48	56		44	10.1	189	165	14.6
PAT Before Exc. And MI	506	729	(30.6)	360	40.5	1753	1037	69.0
Minority Income/ (Exp.)	0	1		2		6	12	
Income from Associate/ (Exp)	(12)	13		2		(19)	(85)	
Extra ordinary Income/(Exp.)	(19)	1		(28)		(73)	(111)	
Reported PAT	475	741	(35.9)	362	31.2	1,727	940	83.8
Adjusted PAT	491	740	(33.6)	387	27.1	1800	1051	71.3
EPS (`)	9.7	14.6		9.0		35.5	24.5	

Source: Company, Angel Research,

Top-line growth mainly led by ROW & North America

In sales, the company posted gross revenues of `5,341cr v/s. `4,434cr in 4QFY2016, growth of 20.5% yoy. The growth was driven by volume (10% yoy), while pricing dip was around 1% and exchange gains deducted 3% to the top-line rise.

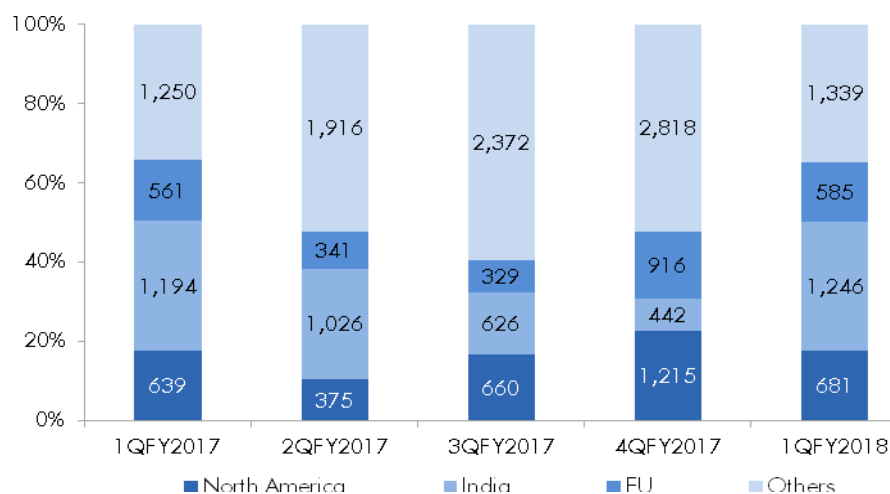
In terms of geography – Latin America (`737cr, up 6.0% yoy), India (`1,246cr, rose by 4%), ROW (`602cr, yoy rise of 9.0%), Europe (`585cr, yoy growth of 4.0%). USA (`681cr), the key market, posted a yoy growth of 7.0%.

Latin America sales grew by 6.0%. Poor commodity prices and high inventories effecting cash flow and advance purchases in the region. Also, Mexico suffered severe drought situation in the quarter, leading to 25% replanting of corn.

Indian sales grew lower during the quarter, on the back of the GST implementation. Company's vegetable seeds business is facing challenges due to low prices. During the quarter the company launched 3 new products (1 plant health product), 4 launches planned for 2QFY2018.

European sales grew 4% during the quarter. Higher beet acreage and extended season positively impact its herbicide portfolio. Also, its fungicide business was affected by dry, hot weather in Southern Europe.

Exhibit 2: Sales break-up (Marketwise)



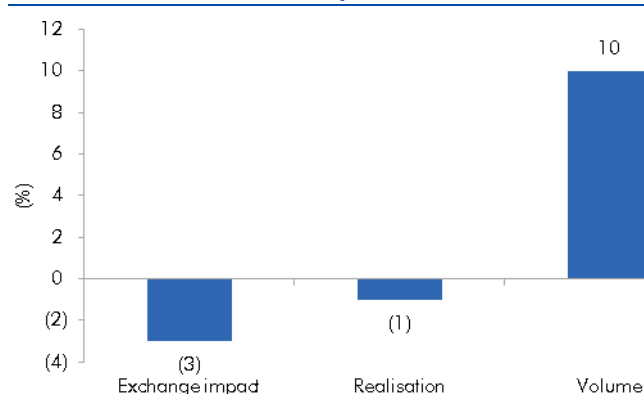
Source: Company

Exhibit 3: Sales performance (including export incentives)



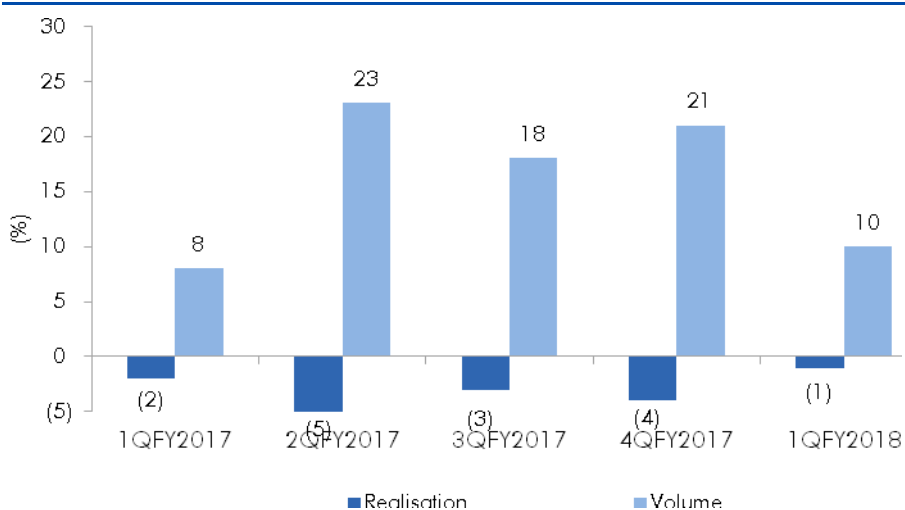
Source: Company, Angel Research

Exhibit 4: Growth break-up



Source: Company, Angel Research

Exhibit 5: Volume and realization break-up (yoy)

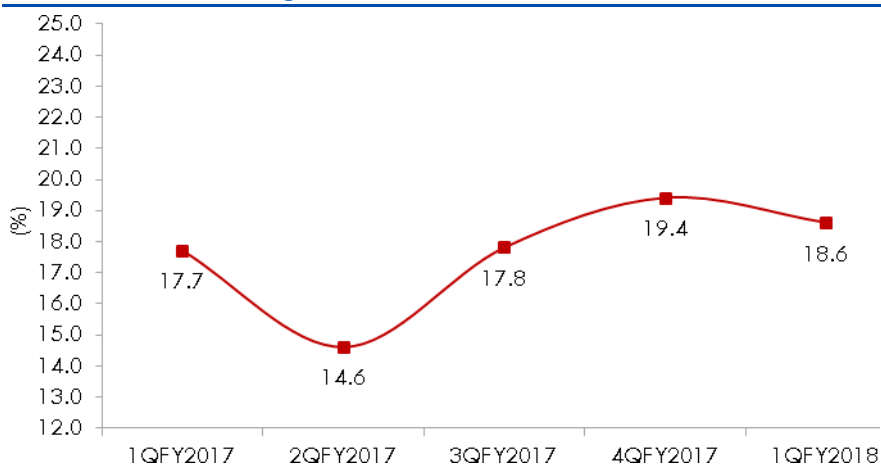


Source: Company, Angel Research

EBITDA margin expands

On EBITDA front, the company posted an EBITDA of 18.6% v/s. 17.7% in 1QFY2017. The expansion in OPM was less than the gross margin expansion (was 59.2% v/s. 53.6% in 1QFY2017), on the back of forex losses, which was around `59cr v/s. `25cr in 1QFY2017.

Exhibit 6: EBITDA margin trend

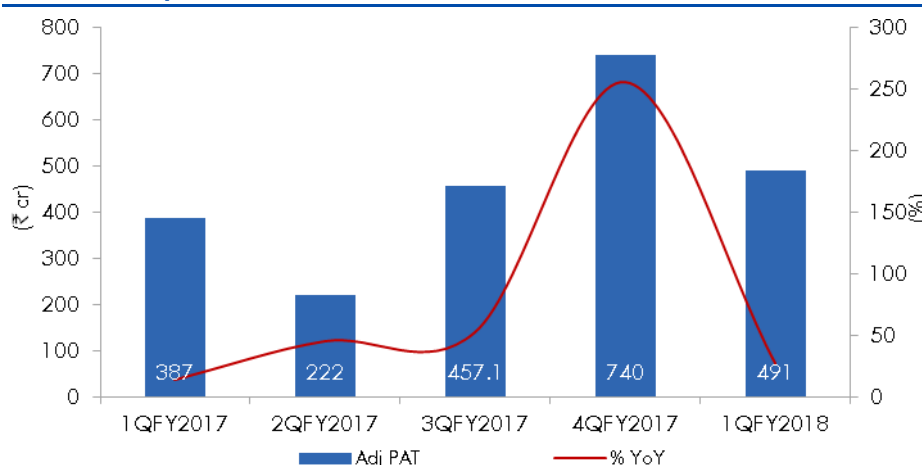


Source: Company, Angel Research

Adjusted Net Profit grew 27.1% yoy

Along with this, dip of 6.5% in the depreciation, 24.5% dip in the finance expenses & 52.0% yoy growth in other income aided the PBT to grow by 37.2% yoy. However, a loss from the Associate of `12cr during the quarter v/s. `2cr profit in 1QFY2017, lead Adj. PAT to come in at `491cr v/s. `387cr in 1QFY2017, growth of 27.1% yoy.

Exhibit 7: Adjusted PAT trend



Source: Company, Angel Research

Investment arguments

Innovators dominant in the off-patent space; Generic firms in a sweet spot

The global agrichemical industry, valued at US\$56bn (CY2015), is dominated by the top six innovators, viz. Bayer, Syngenta, Monsanto, BASF, DuPont and Dow, which enjoy a large market share of the patented (23%) and off-patent (54%) market. The top six innovators enjoy a large share of the off-patent market due to high entry barriers for pure generic players. Thus, of the total pie worth US\$30bn, which is controlled by the top six innovators through proprietary off-patent products, provides a high-growth opportunity for larger integrated generic players like UPL.

Generic segment's market share to increase

The industry registered a CAGR of 3% over 1998-2006, while generic players outpaced the industry with a CAGR of 6%. Going ahead, given the opportunities and a drop in the rate of new molecule introduction by innovators, we expect generic players to continue to outpace the industry's growth rate and augment their market share in the overall pie. Historically, global agrichem players have been logging in-line growth with global GDP. Going ahead, over CY2016-17, the global economy is expected to grow by 3-4%. Assuming this trend plays out in terms of growth for the agrichemical industry and the same rate of genericization occurs, the agrichemical generic industry could log in 6-8% yoy growth during the period and garner a higher market share.

A global generic play

UPL is the third largest global generic agrichemical player with presence across major markets including the US, EU, Latin America, and India. Given the high entry barriers by way of high investments, entry of new players is restricted. Thus, amidst this scenario and on account of having a low-cost base, we believe UPL enjoys an edge over competition and is placed in a sweet spot to leverage the upcoming opportunities in the global generic space.

Advanta – An Entry into seeds business

During FY2016, UPL announced a merger of Advanta with itself. With this, the company has made its foray into the seed business, thus, widening its business offerings in the Agri-business. The company had sales of around US\$204mn in 2015, with OPM of around 15-16%. It is the 11th largest seeds company globally, with world leadership in Sorghum. Along with this, it also completes the company's business portfolio, in-line with the other major Agri-businesses, who have around 5-20% (Monsanto and DuPont have around 65% of their sales mix through seeds) of their sales mix through seeds business. While the acquisition improves the presence of the company in the low capital intensive industry coupled with the propriety products, which will yield long term profitability; the near term challenges include high R&D cost coupled with long legislation period for the product commercialization.

According to the industry numbers, the international seeds sector is growing at 6% per annum. In value terms, the Indian hybrid seed sector, estimated to be worth

₹12,000cr comprises some 14 states seeds corporations and two national-level corporations, 20 large players including multinationals and around 500 small regional players. About 10 domestic and multinational companies control over 80% of the market. The market has been growing at 15-20% annually over the past several years, and is projected to reach around ₹18,000cr by 2018. Though we have included the Advanta numbers in our projections, we have been conservative on the same.

Outlook and valuation

Over the last few years, the global agriculture sector has been reviving on the back of rising food prices. Food security is also a top priority for most governments, and reducing food loss is one of the easiest ways to boost food inventory. Hence, we believe agrichemical companies would continue to do well in the wake of heightened food security risks, and strong demand is likely to be witnessed across the world. Overall, we expect the global agrichemical industry to perform well from here on. Generics are expected to register a healthy growth due to – (a) increasing penetration and wresting market share from innovators, and (b) patent expiries worth US\$3bn–4bn during the next five years.

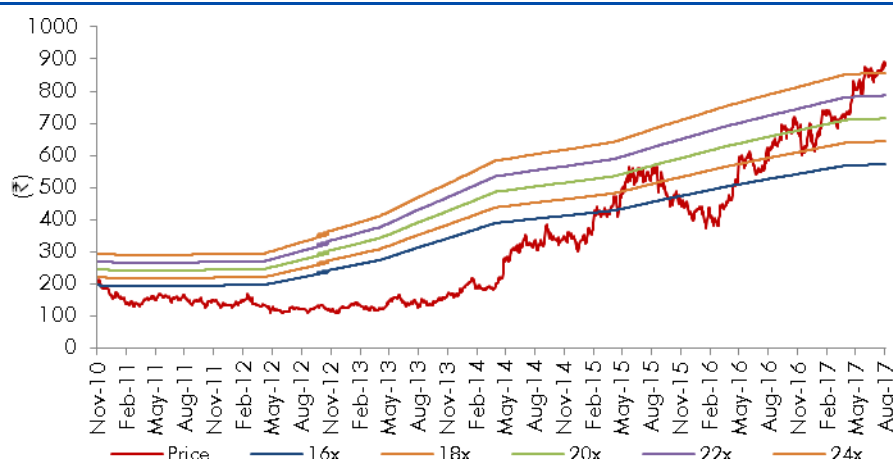
We estimate UPL to post a 16.0% and 13.3% CAGR in sales and PAT respectively over FY2017-19E. The stock is trading at 19.5x FY2019E EPS, which we believe provides very little room for appreciation. Hence, we recommend a reduce rating on the stock.

Exhibit 8: Key assumption

	FY2018E	FY2019E
Sales growth	16.0	16.0
EBITDA margin	18.0	18.5
Tax rate	20.0	20.0

Source: Company, Angel Research

Exhibit 9: P/E band



Source: Company, Angel Research

Exhibit 10: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		CAGR (%)	
						FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	Sales	PAT
Rallis	Reduce	4,743	243	209	(14.3)	25.8	23.1	2.1	1.9	13.7	12.4	15.8	16.0	11.5	21.6
UPL	Reduce	45,034	887	820	(8.0)	23.8	19.8	2.4	2.0	13.5	11.3	22.7	23.8	16.0	13.3

Source: Company, Angel Research, Bloomberg, All numbers in FY18 and FY19 are expected numbers

Company background

United Phosphorus (UPL) is a global generic crop protection, chemicals and seeds company. The company is fully backward and forward integrated by taking advantage of the consolidation opportunities within the agrochemical industry. UPL is the largest Indian agrochemical company and had revenue of about ₹11,911cr for the year ended March 2015. During FY2016, UPL announced its merger with Advanta. With this, the company has made its foray into the seed business, thus, widening its business offerings in the Agri-business.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Sales	10,580	11,911	14,048	16,312	18,922	21,949
Other operating income	191	45	-	128	128	128
Total operating income	10,771	11,956	14,048	16,440	19,049	22,077
% chg	17.1	11.0	17.5	17.0	15.9	15.9
Total Expenditure	8,751	9,736	11,782	13,407	15,515	17,887
Net Raw Materials	5,441	6,016	6,780	7,816	9,067	10,517
Other Mfg costs	942	842	1,250	1,452	1,646	1,800
Personnel	946	1,043	1,434	1,627	1,887	2,189
Other	1,422	1,835	2,318	2,512	2,914	3,381
EBITDA	1,829	2,175	2,266	2,904	3,407	4,062
% chg	26.8	19.0	4.2	28.2	17.3	19.2
(% of Net Sales)	17.3	18.3	16.1	17.8	18.0	18.5
Dep. & Amortization	407	425	676	672	736	792
EBIT	1,613	1,796	1,590	2,361	2,799	3,398
% chg	26.7	11.4	(11.5)	48.5	18.6	21.4
(% of Net Sales)	15.0	15.0	11.3	14.4	14.7	15.4
Interest & other Charges	487	517	704	735	788	788
Other Income	131	131	316	316	316	316
(% of PBT)	10	9	26	16	14	11
Recurring PBT	1,257	1,410	1,202	1,941	2,327	2,926
% chg	37.1	12.2	(14.8)	61.6	19.9	25.7
Extraordinary Exp./ (Inc.)	85	(2)	(111)	(73)	-	-
PBT (reported)	1,172	1,413	1,313	1,941	2,327	2,926
Tax	222	244	165	189	465	585
(% of PBT)	18.9	17.3	12.6	9.7	20.0	20.0
PAT (reported)	950	1,169	1,148	1,753	1,862	2,341
Add: Share of earnings of asso.	30	21	(85)	(19)	(21)	(24)
Less: Minority interest (MI)	7	43	12	6	6	6
Prior period items	24	-	-	-	-	1
PAT after MI (reported)	950	1,144	940	1,727	1,834	2,310
ADJ. PAT	1,040	1,147	1,051	1,800	1,834	2,310
% chg	38.0	10.2	(8.3)	71.3	1.9	25.9
(% of Net Sales)	9.8	9.6	7.5	11.0	9.7	10.5
Basic EPS (₹)	24.3	26.7	24.5	35.5	36.2	45.6
Fully Diluted EPS (₹)	24.3	26.7	24.5	35.5	36.2	45.6
% chg	42.5	10.2	(8.3)	44.8	1.9	25.9

Balance Sheet (Consolidated)

Y/E March (' cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity Share Capital	86	86	86	183	183	183
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	5,162	5,775	5,803	7,214	8,590	10,441
Shareholders' Funds	5,247	5,860	5,889	7,398	8,773	10,625
Minority Interest	172	44	44	33	39	45
Total Loans	2,873	2,781	5,258	6,058	6,058	6,058
Other Long term liab.	311	594	449	446	446	446
Long Term Provisions	53	53	53	-	-	-
Deferred Tax Liability	57	45	(390)	(501)	(501)	(501)
Total Liabilities	8,714	9,378	11,303	13,434	14,815	16,672
APPLICATION OF FUNDS						
Gross Block	6,039	6,792	9,315	10,115	10,915	11,715
Less: Acc. Depreciation	3,580	4,005	5,870	6,542	7,278	8,070
Net Block	2,459	2,787	3,445	2,632	3,637	3,645
Capital Work-in-Progress	378	378	484	484	484	484
Goodwill / Intangibles	1,212	1,449	417	1,747	1,747	1,747
Investments	737	764	335	379	379	379
Long Term Loan & Adv.	389	418	591	811	664	770
Current Assets	7,572	8,372	11,207	13,657	15,512	18,473
Cash	1,023	1,010	1,189	2,894	3,167	4,404
Loans & Advances	771	586	840	1,380	1,581	1,582
Other	5,779	6,776	9,178	9,383	10,764	12,487
Current liabilities	4,033	4,789	5,176	6,277	7,608	8,825
Net Current Assets	3,539	3,582	6,031	7,380	7,904	9,647
Others	-	-	-	-	-	-
Total Assets	8,714	9,378	11,303	13,434	14,815	16,672

Cash Flow Statement (Consolidated)

Y/E March ('cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	1,172	1,413	1,313	1,941	2,327	2,926
Depreciation	407	425	676	672	736	792
Change in Working Capital	171	(86)	(2,443)	135	(103)	(612)
Less: Other income	-	-	-	-	-	-
Direct taxes paid	(222)	(244)	(165)	(189)	(465)	(585)
Cash Flow from Operations	1,528	1,508	(619)	2,559	2,494	2,521
(Inc.)/ Dec. in Fixed Assets	(653)	(753)	(2,630)	(800)	(800)	(800)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(653)	(753)	(2,630)	(800)	(800)	(800)
Issue of Equity	(3)	-	-	98	-	-
Inc./ (Dec.) in loans	1,413	(192)	(2,331)	(744)	(0)	(0)
Dividend Paid (Incl. Tax)	(201)	(214)	(214)	(642)	(458)	(458)
Others	(2,612)	(362)	5,973	1,331	(963)	(25)
Cash Flow from Financing	(1,403)	(768)	3,427	43	(1,421)	(484)
Inc./ (Dec.) in Cash	(525)	(13)	179	1,705	273	1,237
Opening Cash balances	1,548	1,023	1,010	1,189	2,894	3,167
Closing Cash balances	1,023	1,010	1,189	2,894	3,167	4,404

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	36.6	33.2	36.2	25.0	24.5	19.5
P/CEPS	26.3	24.2	22.0	18.2	17.5	14.5
P/BV	7.2	6.5	6.5	6.1	5.1	4.2
Dividend yield (%)	0.6	0.7	0.7	1.0	1.0	1.0
EV/Sales	4.3	3.8	3.4	2.9	2.5	2.1
EV/EBITDA	25.1	21.0	21.4	16.3	13.9	11.3
EV / Total Assets	5.3	4.9	4.3	3.5	3.2	2.8
Per Share Data (₹)						
EPS (Basic)	24.3	26.7	24.5	35.5	36.2	45.6
EPS (fully diluted)	24.3	26.7	24.5	35.5	36.2	45.6
Cash EPS	33.8	36.7	40.3	48.8	50.7	61.2
DPS	4.0	5.0	5.0	7.0	7.0	7.0
Book Value	122.4	136.7	137.4	145.9	173.0	209.6
DuPont Analysis						
EBIT margin	15.0	15.0	11.3	14.4	14.7	15.4
Tax retention ratio	81.1	82.7	87.4	90.3	80.0	80.0
Asset turnover (x)	1.5	1.6	1.6	1.6	1.8	1.9
ROIC (Post-tax)	18.5	20.3	16.0	21.2	20.8	23.3
Cost of Debt (Post Tax)	11.2	15.1	15.3	11.7	10.4	10.4
Leverage (x)	0.5	0.3	0.5	0.6	0.4	0.2
Operating ROE	21.9	22.0	16.3	26.5	24.7	26.5
Returns (%)						
ROCE (Pre-tax)	17.7	19.9	15.4	19.1	19.8	21.6
Angel ROIC (Pre-tax)	23.2	24.7	18.3	23.7	26.1	29.3
ROE	21.0	20.6	17.9	27.1	22.7	23.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.9	1.7	1.7	1.8	2.0
Inventory / Sales (days)	83	86	84	84	84	84
Receivables (days)	83	86	84	84	84	84
Payables (days)	69	72	68	70	70	71
WCcycle (ex-cash) (days)	92	78	96	104	89	83
Solvency ratios (x)						
Net debt to equity	0.6	0.4	0.3	0.7	0.4	0.3
Net debt to EBITDA	1.8	1.0	0.8	1.8	1.1	0.8
Interest Coverage (EBIT / Int.)	3.3	3.5	2.3	3.2	3.6	4.3

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UPL

1. Financial interest of research analyst or Angel or his Associate or his relative
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives
3. Served as an officer, director or employee of the company covered under Research
4. Broking relationship with company covered under Research

No
No
No
No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)