

- UPL reported an encouraging set of numbers, Sales were in line with estimates at Rs 111.4 bn (D.est: Rs 111.2bn), EBITDA came in lower than our estimates at Rs 19.0bn (D.est: Rs 23.2bn). APAT stood at Rs 7.6bn. On a comparable basis, sales grew by 26.0% YoY while EBITDA grew by 25.0% YoY.
- Growth was led by a 29% volume growth, 2% price de-growth and a negative 2% currency impact in Q4FY20.
- The management has guided for a revenue growth of 7-10% for the medium term.

UPL's Q4FY20 performance was driven by strong volume growth coming across geographies (except Europe). UPL was able to deliver strong synergies of Rs 7.72bn for FY20 (~USD 110mn, ahead of their guidance) and has maintained a cumulative synergy guidance of ~USD 550 mn in FY22E. The management believes that the company has a strong post patent and proprietary combined pipeline of USD 3.0-3.5 bn in sales reaching maturity in 5-8 years. UPL's growth in FY20 was strongly led by Bio-solutions (~18% YoY). UPL is expected to conserve cash and is likely to taper down its capex (D.est: Rs 15.8bn). UPL significantly improved its WC to 97 days and believes there is still scope of improvement in its receivables and payable days. After successfully reducing its net debt by Rs 44bn, UPL's balance sheet looks comfortable with expected FCFF of Rs 85.5 bn over FY21-22E.

Outlook and valuation

We like UPL's geographic diversification and believe that a volume growth of 29% in Q4FY20 is impressive considering a challenging market scenario. UPL is likely to enjoy low cost of borrowing due to diverse currency borrowing profile (44%: USD, 40%: EUR, 10% JPY). We believe UPL will continue to grow above industry average with a strong product portfolio after Arysta's acquisition. UPL's long term prospects of growth are intact with a strong post patent & proprietary pipeline. We value UPL at 8.5x EV/EBITDA and have a Buy rating with a target price of Rs 620/share.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19*	YoY (%)	Q3FY20	QoQ (%)
Revenue	1,11,410	85,250	30.7	88,920	25.3
Total Expense	92,370	72,340	27.7	67,900	36.0
EBITDA	19,040	12,910	47.5	21,020	(9.4)
Depreciation	5,950	4,310	38.1	4,950	20.2
EBIT	13,090	8,600	52.2	16,070	(18.5)
Other Income	210	480	(56.3)	200	5.0
Interest	1,870	4,050	(53.8)	5,150	(63.7)
EBT	9,720	2,040	376.5	10,370	(6.3)
Tax	2,110	(310)	(780.6)	1,990	6.0
RPAT	6,170	2,060	199.5	7,010	(12.0)
APAT	7,611	5,225	45.7	7,613	0.0
			(bps)		(bps)
Gross Margin (%)	43.9	41.7	217	50.2	(629)
EBITDA Margin (%)	17.1	15.1	195	23.6	(655)
NPM (%)	5.5	2.4	312	7.9	(235)
Tax Rate (%)	21.7	(15.2)	3690	19.2	252
EBIT Margin (%)	11.7	10.1	166	18.1	(632)

* Q4FY19 includes only 2 months of Ayrstas Performance

CMP	Rs 371
Target / Upside	Rs 620 / 67%
BSE Sensex	30,712
NSE Nifty	9,039

Script Details

Equity / FV	Rs 1,530mn / Rs 2
Market Cap	Rs 284bn
	USD 4bn
52-week High/Low	Rs 1,044/Rs 240
Avg. Volume (no)	61,21,460
NSE Symbol	UPL
Bloomberg Code	UPLL IN

Shareholding Pattern Mar'20(%)

Promoters	27.9
MF/Banks/FIs	12.3
FIIIs	41.9
Public / Others	17.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	12.8	10.5	8.6
EV/EBITDA	7.4	6.7	5.8
ROE (%)	10.4	13.5	15.4
RoACE (%)	8.5	8.9	9.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	3,57,560	3,77,340	4,16,048
EBITDA	67,730	74,336	81,545
PAT	22,259	26,964	32,975
EPS (Rs.)	29.1	35.2	43.1

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Exhibit 1: Actual vs DART Estimates (Rs mn) – Q4FY20

Particulars	Actual	Estimated	Variance (%)	Comment
Revenue	1,11,410	1,11,250	0.1	-
EBITDA	19,040	23,238	(18.1)	Higher than anticipated other expenses and COGS
EBITDA Margin (%)	17.1	20.9	(380bps)	-
PAT	7,611	10,841	(29.8)	Miss on EBITDA

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY21E			FY22E			Comments
	New	Previous	Chg (%)	New	Previous	Chg (%)	
Revenue	3,77,340	3,76,246	0.00	4,16,048	4,14,454	0.4	
EBITDA	74,336	63,962	16.2	81,545	76,260	6.9	Expecting improvement in Gross margin due to falling RM cost
EBITDA Margin(%)	19.7	17.0	270bps	19.6	18.4	120 ps	
PAT	26,964	20,920	28.9	32,975	30,606	7.7	Lowering of Interest cost estimates due to debt repayment
EPS(Rs)	35.2	27.3	28.9	43.1	40.0	7.7	

Source: DART, Company

Concall highlights

Business Updates

- All factories and business units of the company were under operation during the ongoing Covid – 19 crises and were well supported by local governments across the globe.
- The company saw an improvement in its Net working capital days which came down from 119 days in FY19 to 80 days in FY20.
- Inventory days improved from 116 days in FY19 to 81 days in FY20.
- Payable days saw a fall from 123 days in FY19 to 119 days in FY20 on the back of challenges faced in China which resulted in high procurement of RM and intermediates on cash or short credit terms.
- The company was successful in meeting its guided debt reduction target of \$ 500 mn in FY20 and the Net debt as on 31st March 2020 stood at Rs 220.6 bn (net reduction of Rs 44.0 bn)
- Sales grew by 13% YoY to Rs 357.56 bn in FY20 with volumes contributing 16% while Price and FX having a negative impact of 1% and 2 % respectively.
- The management expects to bring down the Net Debt to EBITDA by 2 levels which currently stands at 2.9x.
- The company is working on increasing prices in local currencies to offset the negative impact from strong sudden FX devaluation in emerging markets.
- The management said that the company has been successful in scaling up its business in Asia outside of India through the Laoting Yoloo acquisition.
- UPL's Post Patent pipeline accounts for US\$ 2,000 to 2,500 Mn with projects reaching sales maturity progressively in 5 to 8 years while the Proprietary pipeline accounts for US\$ 1,000 to 1,500 Mill with projects reaching sales maturity over the same period.
- The management mentioned that the recently announced draft of imposing a ban on 27 key pesticides will not have any impact on the exports of the company. The management said that the company is ready with replacements in case the ban is finalized and the new portfolio if replaced will lead to higher margins. The management assured that the global supply

chain will not be impacted and the company is sufficiently covered for ensuring alternate sourcing for its critical products.

- The management said that they have maintained sufficient cash balance in its account considering the uncertainty surrounding the Covid-19 pandemic and will assess the situation over the next 2 quarters to make a decision to divert its funds to further bring down its debt.
- The management expects that with sharp decline in Brazilian Real, the region will see buying of products closer to the sowing season and does not expect any forward buying by its customers.
- The company's product portfolio is designed around 3-4 key crops in each geography with no crop accounting for more than 12-15% of the share. Key crops globally include Wheat, Rice, Corn, Soybean and Cotton with Soybean being the biggest.
- The management said that in spite of the company having huge registrations under its belt it will continue to incur significant amount towards registration cost (US\$ 150 mn every year) as every crop develops some kind of immunity towards its products over a period of time and the company has to keep investing in newer molecules to develop alternatives.
- NAM and Asia saw strong revenue growth YoY of 45% and 36% respectively during the current quarter due to phasing of Legacy Arystas business from Q3FY20 to Q4FY20.

Geographic Performance

LATAM –

- Revenues grew by 14% YoY to Rs 137.64 bn in FY20 driven by complete portfolios offered by the company in key crops of Soy, Corn, Sugarcane and Cotton. Strong devaluation in the Brazilian Real during the month of March 2020 has resulted in high Forex losses which the company expects to offset through increase in prices in local currencies.

NAM –

- The company was successful in growing its revenues from this region by 13% YoY to Rs 56.3 bn in FY20 despite majority areas suffering from floods over the last year. The company was able to benefit from the China-US trade war situation through helping its customers hedge against this risk.

Europe –

- Europe region saw a revenue decline of 7% YoY to Rs 53.7 bn in FY20 as areas of West and East Europe were plagued with continued spells of Dry/Hot weather. However, the company witnessed strong growth from its Bio solutions business in this region.

India –

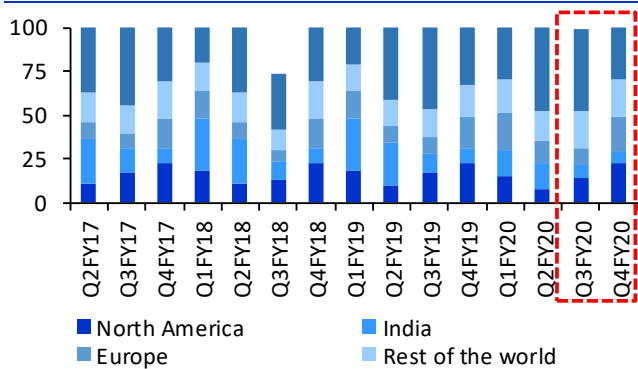
- Revenues grew by 11% YoY to Rs 38.2 bn in FY20 on the back of a positive Rabi season.

Rest of the World –

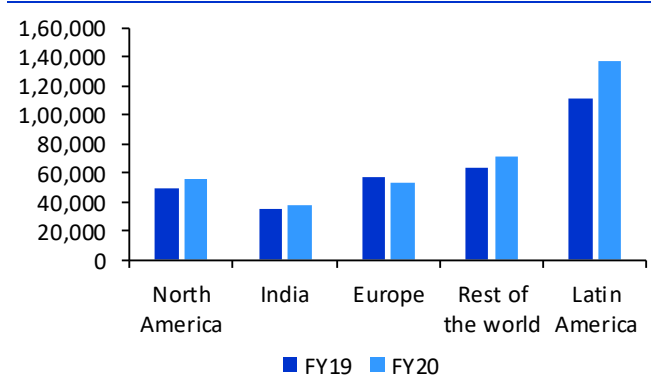
- Revenues grew by 12% YoY to Rs 71.5 bn in FY20 driven by strong growth in Japan and Indonesia.

Guidance and Targets

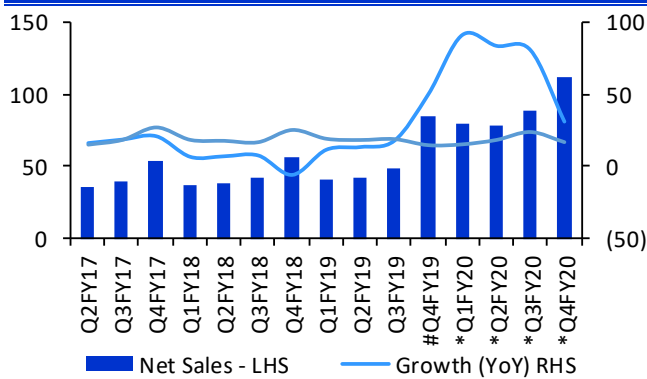
- Capex target for FY21 is set at ~US\$ 260-275 mn.
- The management maintains its Cost and Revenues synergy run rate guidance's of \$ 150 mn and \$ 200 mn respectively upto year 2 i.e FY21.

Exhibit 3: Quarterly Geographic Mix (%)


Source: Company, DART

Exhibit 4: Geographic Mix FY19 vs FY20 (Rs Mn)


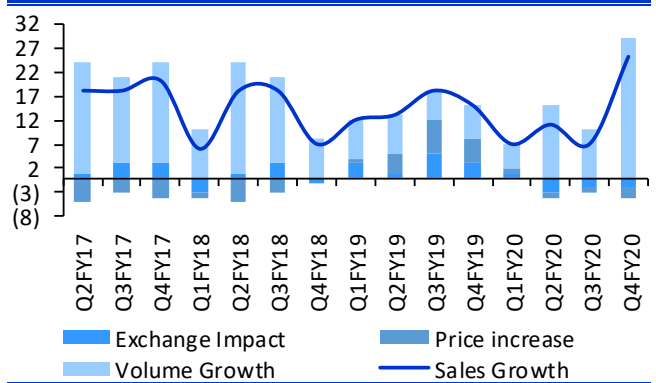
Source: Company, DART

Exhibit 5: Sales (Rs bn) Growth (%) and EBITDA margin (%)


Source: Company, DART

#Includes 2 months Arystas Numbers,

*Full Impact of Arystas Performance

Exhibit 6: Volume + Price + Forex (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	2,18,370	3,57,560	3,77,340	4,16,048
Total Expense	1,80,240	2,89,830	3,03,004	3,34,503
COGS	1,09,040	1,87,430	1,88,670	2,08,024
Employees Cost	20,950	33,910	37,734	39,941
Other expenses	50,250	68,490	76,600	86,538
EBIDTA	38,130	67,730	74,336	81,545
Depreciation	8,800	20,120	21,601	22,016
EBIT	29,330	47,610	52,735	59,530
Interest	9,630	14,810	15,493	14,402
Other Income	2,400	1,040	1,092	1,147
Exc. / E.O. items	(4,510)	(6,230)	0	0
EBT	17,590	27,610	38,334	46,275
Tax	1,980	5,860	6,900	8,329
RPAT	14,910	17,760	26,964	32,975
Minority Interest	840	4,020	4,500	5,000
Profit/Loss share of associates	140	30	30	30
APAT	18,297	22,259	26,964	32,975

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	1,020	1,530	1,530	1,530
Minority Interest	34,540	33,120	37,620	42,620
Reserves & Surplus	1,46,130	1,91,290	2,03,939	2,22,190
Net Worth	1,47,150	1,92,820	2,05,469	2,23,720
Total Debt	2,88,610	2,86,690	2,76,690	2,61,690
Net Deferred Tax Liability	14,660	11,220	11,220	11,220
Total Capital Employed	4,84,960	5,23,850	5,30,999	5,39,250

Applications of Funds

Net Block	3,21,490	3,46,790	3,45,579	3,29,563
CWIP	18,550	20,730	16,140	27,140
Investments	7,060	5,580	5,580	5,580
Current Assets, Loans & Advances	2,77,250	3,11,180	3,35,519	3,60,451
Inventories	91,330	78,500	93,043	1,02,587
Receivables	1,16,790	1,18,670	1,24,057	1,31,084
Cash and Bank Balances	28,530	67,520	62,650	69,477
Loans and Advances	10,540	19,170	19,170	19,170
Other Current Assets	30,060	27,320	36,600	38,133
Less: Current Liabilities & Provisions	1,39,390	1,60,430	1,71,819	1,83,484
Payables	98,470	1,02,330	1,13,719	1,25,384
Other Current Liabilities	40,920	58,100	58,100	58,100
Net Current Assets	1,37,860	1,50,750	1,63,700	1,76,967
Total Assets	4,84,960	5,23,850	5,30,999	5,39,250

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	50.1	47.6	50.0	50.0
EBIDTA Margin	17.5	18.9	19.7	19.6
EBIT Margin	13.4	13.3	14.0	14.3
Tax rate	11.3	21.2	18.0	18.0
Net Profit Margin	6.8	5.0	7.1	7.9
(B) As Percentage of Net Sales (%)				
COGS	49.9	52.4	50.0	50.0
Employee	9.6	9.5	10.0	9.6
Other	23.0	19.2	20.3	20.8
(C) Measure of Financial Status				
Gross Debt / Equity	2.0	1.5	1.3	1.2
Interest Coverage	3.0	3.2	3.4	4.1
Inventory days	153	80	90	90
Debtors days	195	121	120	115
Average Cost of Debt	5.4	5.1	5.5	5.4
Payable days	165	104	110	110
Working Capital days	230	154	158	155
FA T/O	0.7	1.0	1.1	1.3
(D) Measures of Investment				
AEPS (Rs)	23.9	29.1	35.2	43.1
CEPS (Rs)	35.4	55.4	63.5	71.9
DPS (Rs)	8.0	14.0	15.0	16.0
Dividend Payout (%)	33.4	48.1	42.6	37.1
BVPS (Rs)	192.4	252.1	268.6	292.4
RoANW (%)	12.5	10.4	13.5	15.4
RoACE (%)	9.3	8.5	8.9	9.8
RoAIC (%)	10.1	10.4	11.4	12.7
(E) Valuation Ratios				
CMP (Rs)	371	371	371	371
P/E	15.5	12.8	10.5	8.6
Mcap (Rs Mn)	2,83,930	2,83,930	2,83,930	2,83,930
MCap/ Sales	1.3	0.8	0.8	0.7
EV	5,44,010	5,03,100	4,97,970	4,76,143
EV/Sales	2.5	1.4	1.3	1.1
EV/EBITDA	14.3	7.4	6.7	5.8
P/BV	1.9	1.5	1.4	1.3
Dividend Yield (%)	2.2	3.8	4.0	4.3
(F) Growth Rate (%)				
Revenue	25.7	63.7	5.5	10.3
EBITDA	8.8	77.6	9.8	9.7
EBIT	3.6	62.3	10.8	12.9
PBT	(26.6)	57.0	38.8	20.7
APAT	(11.9)	21.7	21.1	22.3
EPS	(11.9)	21.7	21.1	22.3

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	(14,340)	86,560	50,197	67,923
CFI	(2,93,070)	(64,090)	(15,800)	(17,000)
CFF	3,06,930	16,520	(39,267)	(44,096)
FCFF	(3,05,620)	38,960	34,397	50,923
Opening Cash	29,010	28,530	67,520	62,650
Closing Cash	28,530	67,520	62,650	69,477

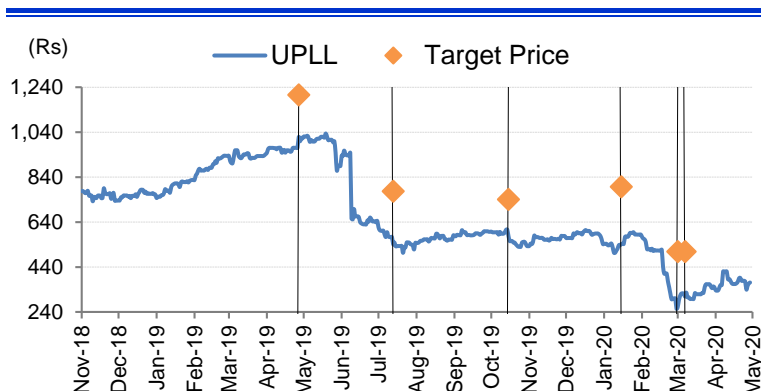
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-19	Buy	1,206	1,019
Aug-19	Buy	777	541
Nov-19	Buy	741	578
Feb-20	Buy	797	543
Mar-20	Buy	509	262
Mar-20	Buy	509	308

*Price as on recommendation date

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