Sharekhan
by BNP PARIBAS

UPL Limited

Encouraging outlook, Focus on deleveraging continues

Sector: Agri Chem
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 478**	
Price Target: **Rs. 550**	↑

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 36,540 cr
52-week high/low:	Rs. 617/240
NSE volume: (No of shares)	59.9 lakh
BSE code:	512070
NSE code:	UPL
Sharekhan code:	UPL
Free float: (No of shares)	55.10 cr

Shareholding (%)

Promoters	28
FII	49
DII	13
Others	10

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8	24	-5	-17
Relative to Sensex	3	5	0	-19

Sharekhan Research, Bloomberg

Revenue dipped marginally by 1% y-o-y to Rs 7,833 crore (9% lower than our estimate of Rs. 8,598 crore), largely led by a 1% fall in realisation. India, rest of the world and Europe registered a revenue growth of 27%, 10% and 1%, respectively while in Latin America and North America revenue witnessed a decline of 16% and 14%, respectively. Easing of input cost pressures and product mix changes drove up gross margins by 785 bps to 54.7% while adjusted EBITDA margin improved by 508 bps to 21.8% (205 bps higher than our estimates of 19.7%). Adjusting for the forex loss and extraordinary items, adjusted PAT grew by 70.7% y-o-y to Rs. 599 crore. Owing to supply chain disruptions led by the COVID-19 crisis, sales in most regions got postponed from Q1 to Q2. Also, a steep devaluation in the Brazilian Real has led to a postponement of orders in Brazil closer to the demand season. However, in North America pre buying in Q4FY2020 led by COVID-19 impacted sales in Q1FY2021.The net working capital cycle improved to 84 days (lower by 34 days) led by extended credit period availed from creditors, and better collection as while inventory days remained similar at 106 days. The company incurred a capex of Rs. 532 crores during Q1FY2021. Though gross debt increased, net debt almost stood unchanged at Rs. 22,000 crore. The company stated that it is holding on to cash & cash equivalents of Rs 10,462 crore as compared to Rs. 6,752 crores and the company wants to retain higher cash & cash equivalents in the current environment of COVID-19 crisis.

Key positives

- Branded business grew by 36% with strong performance in Insecticides and Herbicides
- Adjusted EBITDA margin improved by 508 bps to 21.8%, ahead of our estimates.

Key negatives

- Revenue in Latin America and North America lower by 16% and 14%, respectively.

Our Call

Valuation: Retain Buy with a revised PT of Rs. 550: We expect the company to report revenue and earnings CAGR of 8.7% and 20.0% during FY2020-2022E. The company is expected to generate healthy cashflows and repay debt. The management expects to deliver revenue growth of 6-8%, EBITDA growth of 10-12% and achieve a net debt/equity of 2x during FY2021E. At CMP, the stock is trading at 12.8x/10.6 its FY2021E/FY2022E earnings. The stock is trading at reasonable valuation and hence, we reiterate our Buy rating on the stock with a revised PT of Rs. 550.

Key Risks

- Slowdown in the global agrochemical industry and delay in flow of benefits from Arysta's integration might impact performance.
- Currency fluctuation might have an impact, as UPL has a significant presence in various geographies.
- Fresh ongoing US-China trade war post COVID-19 crisis might have an impact on commodity prices.

Valuation — Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	17,378	21,837	35,756	38,438	42,281
OPM (%)	20.2	17.5	18.9	19.7	20.6
Adjusted PAT	2,085	1,942	2,399	2,865	3,457
% YoY growth	15.3	(6.9)	23.5	19.4	20.6
Adjusted EPS (Rs.)	27.3	25.4	31.4	37.5	45.2
P/E (x)	17.5	18.8	15.3	12.8	10.6
P/B (x)	4.0	2.5	2.2	2.0	2.1
EV/EBITDA (x)	11.5	16.4	8.6	7.5	6.7
RoNW (%)	25.3	16.3	15.5	16.5	19.1
RoCE (%)	21.6	9.7	9.3	10.2	12.4

Source: Company; Sharekhan estimates,
Arysta's financials included in FY2019 numbers since February 1, 2019; hence, they are not comparable

Revenue misses estimates, margins exceed hopes: Revenue was marginally down by 1% y-o-y to Rs 7,833 crore (9% lower than our estimate of Rs 8598 crore), largely led by a 1% fall in realisation. India, rest of the world and Europe registered a revenue growth of 27%, 10% and 1%, respectively while in Latin America and North America revenue witnessed a decline of 16% and 14%, respectively. Easing of input cost pressures and product mix changes drove up gross margins by 785 bps to 54.7% while adjusted EBITDA margin improved by 508 bps to 21.8% (205 bps higher than our estimates of 19.7%). Adjusting for the forex loss and extraordinary items, adjusted PAT grew by 70.7% y-o-y to Rs. 599 crore.

COVID-19 crisis impacted revenue growth momentum: Owing to supply chain disruptions amid COIVD-19 crisis, sales in most of the regions got postponed from Q1 to Q2. Moreover, a steep devaluation in Brazilian Real led to postponement of orders in Brazil closer to the demand season. However, in North America pre-buying in Q4FY2020 led by COVID-19 impacted sales in Q1FY2021.

Revenue in India and Rest of the world grows while declines in Latin America and North America: In Latin America, revenue was down by 16% y-o-y to Rs 2015 crore led by shift in sales from Q1 to Q2 owing to currency fluctuation and supply chain issued as a result of COVID-19. However, there has been an increase in soy and corn acreage led by good agronomic conditions. This has helped UPL to hike prices in local currency to compensate for the devaluation. North America revenue fell by 14% y-o-y to Rs 1027 crore owing to pre-buying at the end of Q4FY2020 as a result of COVID-19 crisis. However, good agronomic conditions coupled with China-USA tariff war remains a tailwind as customers hedge risks. Also, the company intends to capitalize on the healthy demand outlook for Glufosinate in USA. In Europe, northern region was relatively better off owing to herbicide campaign and robust crop prices in Russia and Central Europe due to lower yields; however the southern regions like Spain, France and Italy were impacted due to COVID-19. In India region revenue grew by 27% y-o-y to Rs 1511 crore led by 36% y-o-y growth in branded business coupled with strong performance in Insecticides and Herbicides. Also the company focused on enhanced sales of Pronutiva package in Biosolutions. In rest of the world revenue grew by 10% y-o-y to Rs 1578 crore led by increased sale of herbicides in Vietnam despite adverse forex impact in Africa.

Working Capital cycle improves further: The net working capital cycle improved to 84 days (lower by 34 days) led by extended credit period availed from creditors, hence payable days stood at 138 days (higher by 23 days) and better collection leading to receivable days being at 116 days (lower by 8 days), while inventory days remained similar at 106 days. The company incurred capex of Rs. 532 crore. Gross debt increased to Rs. 32,587 crore from Rs. 28,812 crore in March 2020. However, net debt almost stood at the same levels of Rs 22000 crore. The company stated that it is holding on to cash and cash equivalents of Rs 10462 crores as compared to Rs. 6,752 crore and the company wants to retain cash in the current environment of COVID-19 crisis.

Results Rs cr

Particulars	Q1FY21	Q1FY20	YoY(%)	Q4FY20	QoQ(%)
Net Sales	7,833	7,906	(0.9)	11,141	(29.7)
Gross Profit	4,284	3,703	15.7	4,893	(12.4)
Gross Profit Margin (%)	54.7	46.8	785	43.9	1,077
EBIDTA	1,832	1,312	39.6	1,904	(3.8)
Adj EBITDA	1,704	1,318	29.3	2,169	(21.4)
Other Income	67	39	71.8	21	219.0
Depreciation	522	446	17.0	595	(12.3)
Interest	551	398	38.4	187	194.7
PBT	801	435	84.1	972	(17.6)
Tax	143	77	85.7	211	(32.2)
Reported PAT	551	285	93.3	617	(10.7)
Adjusted PAT	599	351	70.7	853	(29.8)
AEPS (Rs)	7.9	4.6	70.7	11.2	(29.8)
			YoY (BPS)		**QoQ (BPS)**
EBIDTA Margins (%)	23.4	16.6	679	17.1	630
Adj EBITDA Margin (%)	21.8	16.7	508	19.5	229
Adjusted PAT Margin (%)	7.6	4.4	321	7.7	(1)

Source: Company; Sharekhan Research
*Note: *Denotes Q4FY2019 numbers not comparable as Arysta's financials included since February 1, 2019*

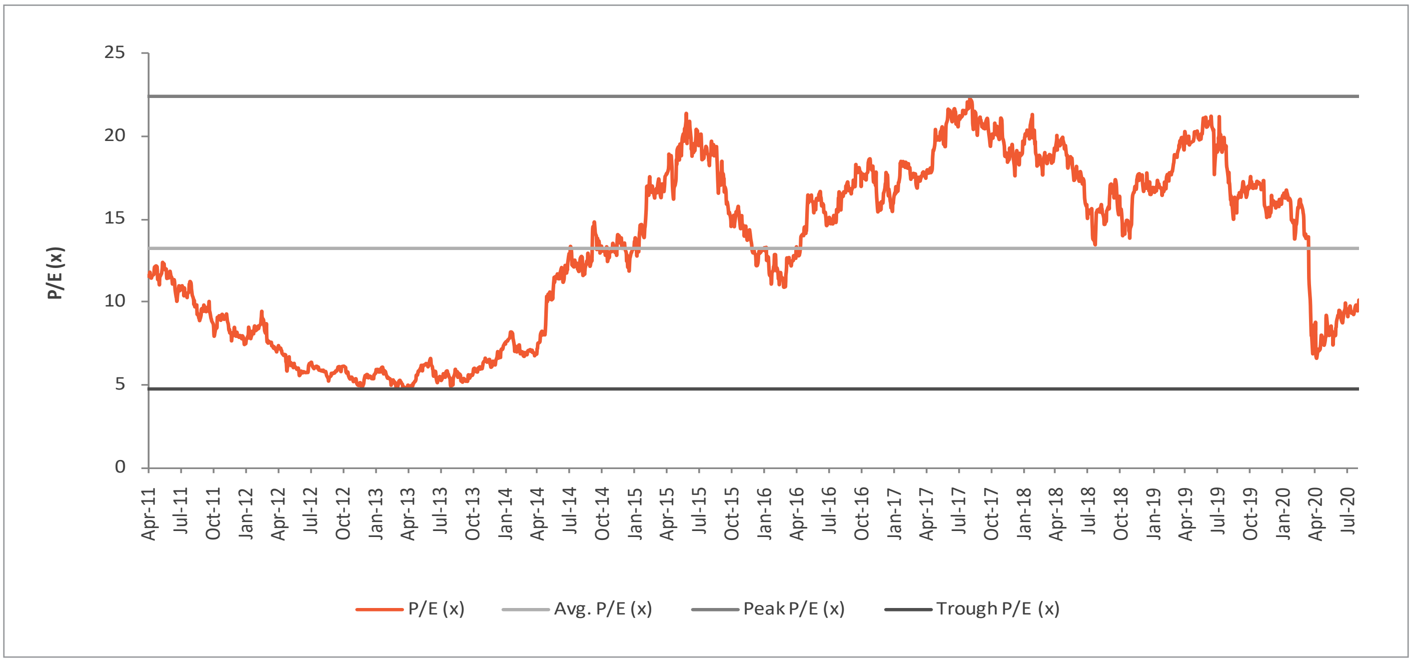
Outlook

Encouraging outlook and focus on deleveraging continues: The management anticipates good agronomic conditions in most key markets which is expected to drive robust demand going forward. Revenue synergies through cross-selling of products and price hikes in a few markets to drive revenue growth momentum while cost synergies and cost efficiencies would enhance margins. The company is expected to generate healthy cashflow and repay debt. The management expects to deliver revenue growth of 6-8%, EBITDA growth of 10-12% and achieve a net debt/equity of 2x during FY2021E.

Valuation

Retain Buy with a revised PT of Rs. 550: We expect the company to report revenue and earnings CAGR of 8.7% and 20% during FY2020-2022E. At the CMP, the stock is trading at 12.8x/10.6 its FY2021E/FY2022E earnings. The stock is trading at reasonable valuation and hence, we reiterate our Buy rating on the stock with a revised PT of Rs. 550.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

UPL is a global leader in agricultural solutions and has a healthy mix of high-value crops and high-growth geographies. The company is well positioned to achieve sustainable growth as it is present across the agricultural input segment, ranging from seeds to crop-protection products and post-harvest activities. Arysta's acquisition strengthens UPL's global positioning and helps it to emerge as an end-to-end solutions provider in the global agri input space. The company has manufacturing facilities across 48 locations (earlier 34) and is present across more than 138 countries. The company's thrust on research and innovation has helped it garner 1,023 patent and over 12,400 registrations. The acquisition has strengthened UPL's long-term growth prospects as product registration has doubled from its earlier levels of 6,500, considering the fact that it takes between 2-5 years for getting products registered. The company has a workforce representation of over 75 countries with total employee strength of over 10,300.

Investment theme

UPL has moved up in global ranking to the fifth position post Arysta's acquisition (earlier seventh).The company has successfully integrated 25+ companies post the acquisition in the past 20 years. The company is among the top five post patent agrochemical manufacturers in the world and is the largest producer of agrochemicals in India.UPL has mostly outperformed the industry's growth rate. The acquisition (UPL + Arysta) brings in a prudent mix of own manufacturing and outsourcing, which is expected to lead to improved margin profile coupled with capital efficiencies resulting in better return ratios. New product launches in key geographies and flowing of synergy benefits of Arysta's acquisition are likely to fuel growth at a faster pace.

Key Risks

- Slowdown in the global agrochemical industry and a delay in flow of benefits from Arysta's integration might impact performance.
- Currency fluctuation might have an impact, as UPL has a significant presence in various geographies.
- Fresh ongoing U.S.-China trade war post the COVID-19 crisis might have an impact on commodity prices.

Additional Data

Key management personnel

Rajnikant Devidas Shroff	Chairman cum Managing Director
Sandra Rajnikant Shroff	Vice Chairman
Jaidev Rajnikant Shroff	Global CEO of the Group
Vikram Rajnikant Shroff	Executive Director
Arun Chandrasen Ashar	Executive Director Finance
Diego Casanello	Global COO - Crop Protection
Sagar Kaushik	Global Head – Corporate Affairs
Rajendra Darak	Group CFO
Anand Vora	Global CFO Chief Financial Officer
Sandeep Deshmukh	Company Secretary & Compliance office

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	JP Morgan Chase Bank, Na	8.27
2	Life Insurance Corporation Of India	6.03
3	Government Pension Fund Global	2.91
4	Kontiki Master Fund	2.25
5	Euro Pacific Growth Fund	1.77
6	New World Fund Inc	1.56
7	HDFC Hybrid Equity Fund	1.34
8	SBI ETF Nifty 50	1.24
9	ICICI Prudential Life Insurance Company Limited	1.22
10	Vanguard Total International Stock Index Fund	1.21

Source: Bloomberg

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