

- UPL Ltd's 1QFY21 performance exhibits the company's acumen and its ability to navigate through tough times. UPL reported a strong operating performance on the back of margin improvement whilst demonstrating prudence in working capital management.
- Sales came in-line with our estimates at Rs 78.3bn (D.est: Rs 81.4bn), EBITDA/APAT came ahead of our estimates at Rs 18.3/5.7bn (D.est: Rs 13.5/1.91bn).
- Gross margin expansion of 360 bps and controlled other expenses amidst the pandemic led to a decent EBITDA growth of 10.9% YoY to Rs 18.3bn (assuming exchange difference on debtors/creditors in opex). Interest and depreciation were up by 71.2% and 17.0% YoY to Rs 7.0/5.2bn respectively.
- UPL had raised USD 500mn through bonds to buy-back their existing USD 500mn notes which are due to mature in Oct-2021, the issue was worth Rs 37.7bn and is now a part of company's gross debt. The company has already repaid Rs 6.19bn through the same. The company had also raised USD 400 mn via perpetual bonds (which are a part of their equity) at a coupon of 5.35-5.45%.
- The closing cash of the company stood at Rs 104.6bn. Consequentially, the company's gross debt inclusive of perpetual bonds stands at ~Rs 350 bn.

Outlook and valuation

We like UPL's geographic diversification and believe that revenues from Latam and North America will improve in the ensuing quarters due to higher corn and soybean acerages, price hikes fructifying closer to demand season, US-China trade war tailwinds. We like UPL's strategy of conserving cash amidst turbulent times, at the same time keeping a close watch on their debt position (the company has ~Rs 104.0bn of Cash and ~Rs 350.0bn of gross debt on books inclusive of perpetual bonds). The company envisages growing at 6-8% on sales and 8-10% on EBITDA. While there has been a beat on our EBITDA/PAT by Rs 4.7/3.7 bn respectively, our FY21 estimates are largely intact due to 2 accounts 1) normalisation in gross margins over the next 9 months 2) currency impact in opex to be captured in the ensuing quarters. Also, we maintain our EBITDA growth within the guidance range of 8-10% YoY given by the management. We value UPL at 8.5x EV/EBITDA and have a target price of Rs 620/share. Maintain our buy rating on the stock.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	78,330	79,060	(0.9)	111,410	(29.7)
Total Expense	60,010	62,540	(4.0)	92,370	(35.0)
EBITDA	18,320	16,520	10.9	19,040	(3.8)
Depreciation	5,220	4,460	17.0	5,950	(12.3)
EBIT	13,100	12,060	8.6	13,090	0.1
Other Income	670	390	71.8	210	219.0
Interest	5,510	3,980	38.4	1,870	194.7
EBT	8,010	7,750	3.4	9,720	(17.6)
Tax	1,430	770	85.7	2,110	(32.2)
RPAT	5,510	6,250	(11.8)	6,170	(10.7)
APAT	5,707	6,904	(17.3)	7,611	(25.0)
			(bps)		(bps)
Gross Margin (%)	54.7	51.1	355	43.9	1077
EBITDA Margin (%)	23.4	20.9	249	17.1	630
NPM (%)	7.0	7.9	(87)	5.5	150
Tax Rate (%)	17.9	9.9	792	21.7	(386)
EBIT Margin (%)	16.7	15.3	147	11.7	497

CMP	Rs 478
Target / Upside	Rs 620 / 30%
BSE Sensex	37,660
NSE Nifty	11,074

Scrip Details

Equity / FV	Rs 1,530mn / Rs 2
Market Cap	Rs 366bn
	US\$ 5bn
52-week High/Low	Rs 618/Rs 240
Avg. Volume (no)	6,920,550
NSE Symbol	UPL
Bloomberg Code	UPLL IN

Shareholding Pattern Jun'20(%)

Promoters	27.9
MF/Banks/FIs	12.9
FII	40.6
Public / Others	18.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	16.4	13.6	11.1
EV/EBITDA	8.6	7.8	6.8
ROE (%)	10.4	13.5	15.4
RoACE (%)	8.5	8.9	9.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	357,560	377,340	416,048
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) – Q1FY21

Particulars	Actual	Estimated	Variance (%)	Comment
Revenue	78,330	81,471	(3.9)	In-line
EBITDA	18,320	13,592	34.8	Gross Margin expansion and controlled other expenses
EBITDA Margin (%)	23.4	16.7	670.6	
PAT	5,707	1,916	197.8	Gross Margin expansion and controlled other expenses

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY21E			FY22E		
	New	Previous	Change (%)	New	Previous	Change (%)
Revenue	3,77,340	3,77,340	-	4,16,048	4,16,048	-
EBITDA	74,336	74,336	-	81,545	81,545	-
EBITDA Margin(%)	19.7	19.7	-	19.6	19.6	-
PAT	26,964	26,964	-	32,975	32,975	-
EPS(Rs)	35.2	35.2	-	43.1	43.1	-

Source: DART, Company

Concall highlights

LATAM:

- The company has continued taking price hikes in local currency to curb the effect of currency devaluation in Brazil.
- The said devaluation has resulted into a shift in orders closer to the demand season, which typically is in the 2nd quarter.
- Soy and Corn acreage has increased in the Latam region.
- The management has guided to launch a Soyabean fungicide in Brazil with a market size of USD 0.5bn.
- The company was able to reduce its fixed cost by 8% YoY in 1QFY21.

North America:

- Sales in North America declined due to pre-buying witnessed in 4QFY20.
- The management is expecting the herbicides and fungicides business to grow on the back of US- China trade war.
- The company expects their Glufosinate based products to do well as restrictions on Glyphosate and Dicamba bode well for other herbicides.

Europe:

- Herbicides demand was good in Northern and Central Europe. However, Southern Europe region faced Covid-19 related changes.
- Western Europe region business was affected due to dry weather.

India:

- The company posted record growth in India which grew by 27% YoY in 1QFY21 on the back of growth from the branded business which grew by 36% YoY in 1QFY21 and focus of the company on margins than volumes.
- The company's PRONUTIVA package solutions serviced as a value creating component to farmers in their total offerings.

ROW:

- Rest of the world grew by 10% YoY in 1QFY21 aided by recovering demand from early opening of economies and from growth in Herbicides in Vietnam.
- The company faced currency fluctuation in Africa in 1QFY21.

Other Operational Highlights:

- The company was able to increase gross profit margins by 20 bps by providing incentives to the country teams to sell differentiated high margin products and focus on launch of new products.
- With the help of synergies from acquisition of Arysta, investment in backward integration and sourcing of raw materials at lower prices. the company was able to cut down production costs considerably.
- Cotton, Sugarcane and corn was impacted in 1QFY21 by lower prices and weak hold on the prices. Whereas Wheat, rice and Soybean were stronger.
- The management anticipates US- China trade war will help UPL to gain supply share in the absence of importing goods from China.

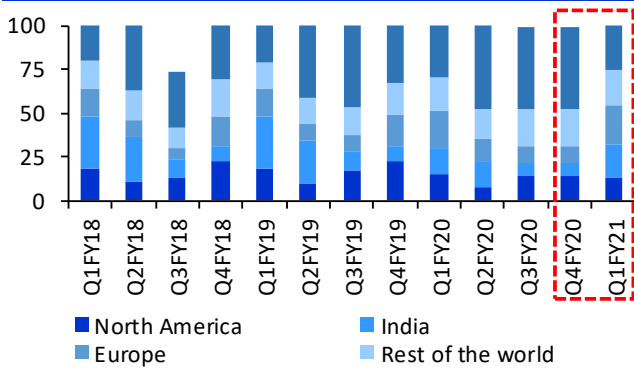
Financial Highlights:

- UPL had raised USD 500mn through bonds to buy-back their existing USD 500mn notes which are due to mature in Oct-2021, the issue was worth Rs 37.7bn and is now a part of company's gross debt. The company has already repaid Rs 6.19bn through the same.
- The company had also raised USD 400 mn via perpetual bonds (which are a part of their equity) at a coupon of 5.35-5.45%.
- The closing cash of the company stood at Rs 104.6bn.
- Consequentially, the company's gross debt inclusive of perpetual bonds stands at ~Rs 350 bn.

Guidances:

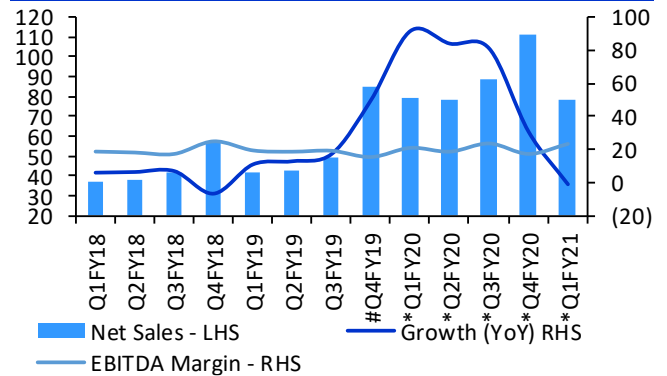
- The management expects to grow their revenue by 6-8% and EBITDA by 8-10% in FY21.
- The management has guided to bring down Net Debt/EBITDA to 2x by FY21.
- The management anticipates an increase in payable days by 15-20 days by the end of FY21.

Exhibit 3: Quarterly Geographic Mix (%)



Source: Company, DART

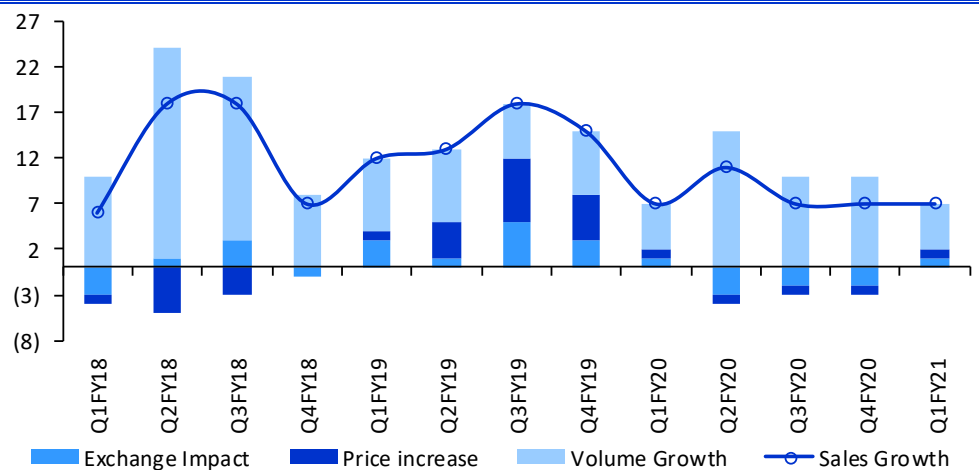
Exhibit 4: Sales (Rs bn) Growth (%) and EBITDA margin (%)



Source: Company, DART

#Includes 2 months Arystas Numbers,
*Full Impact of Arystas Performance

Exhibit 5: Volume + Price + Forex (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	218,370	357,560	377,340	416,048
Total Expense	180,240	289,830	303,004	334,503
COGS	109,040	187,430	188,670	208,024
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	146,130	191,290	203,939	222,190
Net Worth	147,150	192,820	205,469	223,720
Total Debt	288,610	286,690	276,690	261,690
Net Deferred Tax Liability	14,660	11,220	11,220	11,220
Total Capital Employed	484,960	523,850	530,999	539,250

Applications of Funds

Net Block	321,490	346,790	345,579	329,563
CWIP	18,550	20,730	16,140	27,140
Investments	7,060	5,580	5,580	5,580
Current Assets, Loans & Advances	277,250	311,180	335,519	360,451
Inventories	91,330	78,500	93,043	102,587
Receivables	116,790	118,670	124,057	131,084
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	139,390	160,430	171,819	183,484
Payables	98,470	102,330	113,719	125,384
Other Current Liabilities	40,920	58,100	58,100	58,100
sub total				
Net Current Assets	137,860	150,750	163,700	176,967
Total Assets	484,960	523,850	530,999	539,250

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)	478	478	478	478
P/E	20.0	16.4	13.6	11.1
Mcap (Rs Mn)	365,785	365,785	365,785	365,785
MCap/ Sales	1.7	1.0	1.0	0.9
EV	625,865	584,955	579,825	557,998
EV/Sales	2.9	1.6	1.5	1.3
EV/EBITDA	16.4	8.6	7.8	6.8
P/BV	2.5	1.9	1.8	1.6
Dividend Yield (%)	1.7	2.9	3.1	3.3
(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	FY20E	FY21E	FY22E
CFO	(14,340)	86,560	50,197	67,923
CFI	(293,070)	(64,090)	(15,800)	(17,000)
CFF	306,930	16,520	(39,267)	(44,096)
FCFF	(305,620)	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

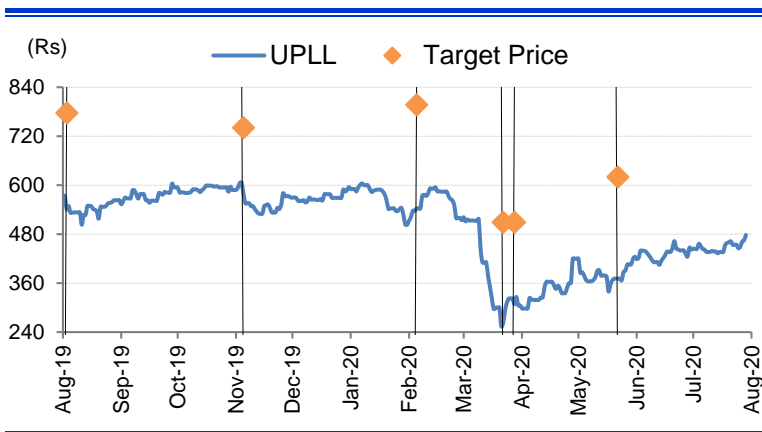
E – Estimates

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.)
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
May-20	Buy	620	371

*Price as on recommendation date

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