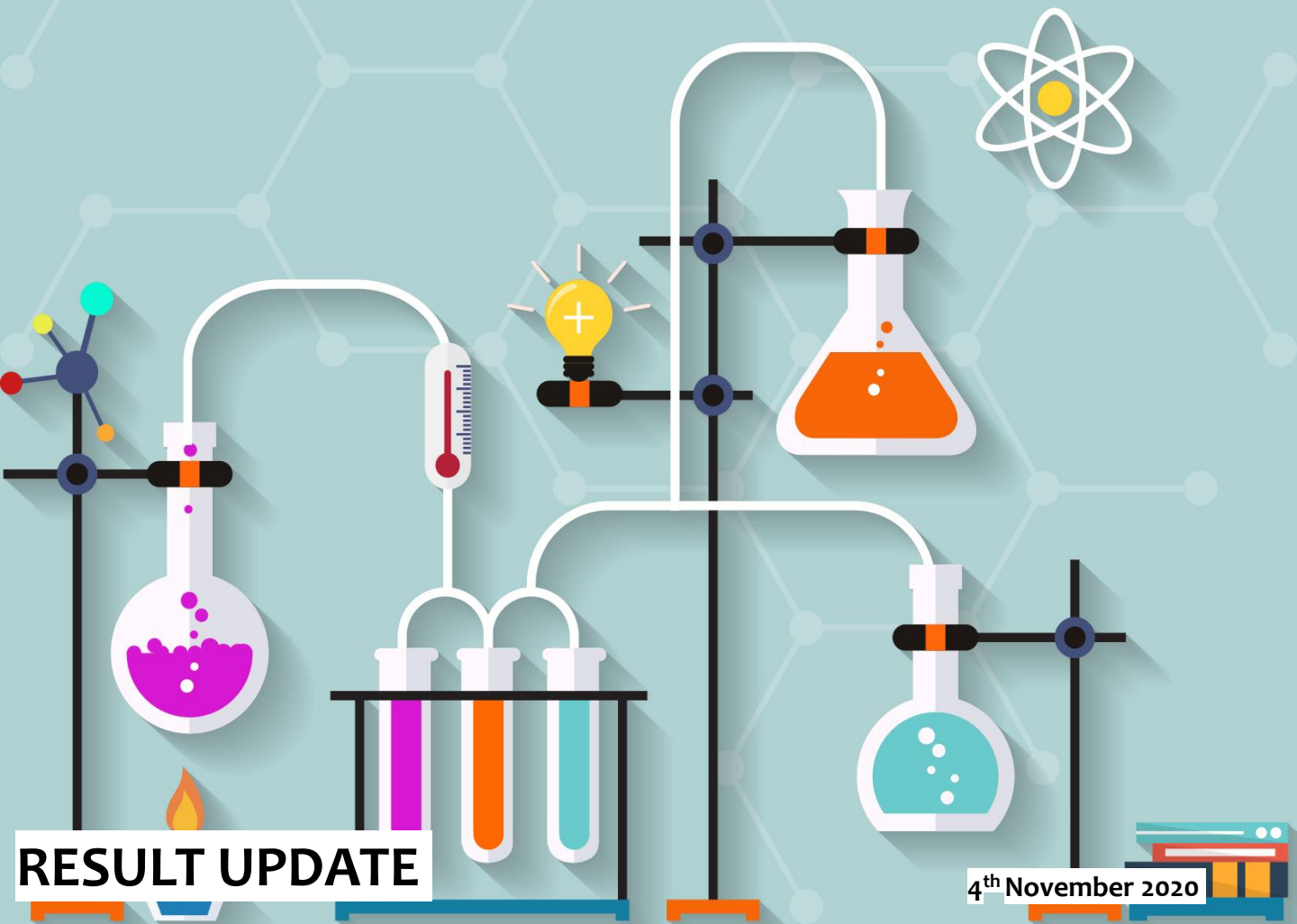


UPL Ltd.



RESULT UPDATE

4th November 2020

UPL Ltd

Strong quarter; EBITDA margin to improve with synergy benefits

CMP INR 417	Target INR 622	Potential Upside 49%	Market Cap (INR Mn) 3,19,043	Recommendation BUY	Sector Agrochemicals
-----------------------	--------------------------	--------------------------------	--	------------------------------	--------------------------------

Result highlights

- UPL Ltd reported consolidated Revenue growth of 14.4% YoY (up 14.1% QoQ) to INR 89.4 bn.
- EBITDA for the quarter grew 15.2% YoY (down 9.0% QoQ) to INR 16.7 bn while EBITDA margin remained flat YoY at 18.6% (-474bps QoQ) in Q2FY21 (from 18.5% last year).
- Company reported Net Profit growth of 179% YoY (down 16.0% QoQ) to INR 4.6bn. Adjusted for exceptional items, Adjusted Net Profit grew 43.1% YoY (up 17.0% QoQ) to INR 6.7bn. Reported NPM for the quarter came in at 5.2% (+300bps YoY, -185bps QoQ) while Adjusted NPM stood at 7.5% (+151bps YoY, flat QoQ).
- Exceptional Items for the quarter mainly include cost related to restructuring, severance and litigation costs related to the Group's business in the Europe and Latin America.

MARKET DATA

Shares outs (Mn)	765
Equity Cap (INR Mn)	225,940
Mkt Cap (INR Mn)	3,19,043
52 Wk H/L (INR)	617/240
Volume Avg (3m K)	5,450
Face Value (INR)	2
Bloomberg Code	UPL IN

KEY FINANCIALS

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,73,780	2,18,370	3,57,560	3,84,031	4,18,091
EBITDA	35,050	38,130	67,730	82,567	94,071
Adj. PAT	21,237	19,420	23,990	27,938	35,372
EPS Diluted (INR)	41.6	38.0	31.3	36.4	46.1
EBITDA Margin (%)	20.2%	17.5%	18.9%	21.5%	22.5%
NPM (%)	12.2%	8.9%	6.7%	7.3%	8.5%

Source: Company, KRChokseyResearch

Strong performance in Q2FY21; management maintains guidance:

UPL's growth in Q2FY21 was largely led by volume growth of 19% YoY due to market share gains in key territories combined with favorable weather patterns in Brazil, US, Andean and parts of EU. Growth in volume was somewhat offset by prices declining -1.0% YoY and -4.0% YoY forex impact.

Geography wise, Latin America grew 12.4% YoY (47% of revenue) on the back of strong volume growth witnessed in Chile, Argentina and Paraguay and partially offset the adverse exchange impact. Europe grew 6.2% YoY (11% of revenue) due to benefit of integration; North America grew 8.7% YoY (9% of revenue) due to better weather conditions; India grew 17.9% YoY (16% of revenue) driven by herbicides in Rice and Soybeans supported by intensification of monsoons while RoW grew 27.2% YoY (17% of revenue) due to higher contribution from South East Asia with new product launches as well as better weather conditions in South Africa, Australia, New Zealand.

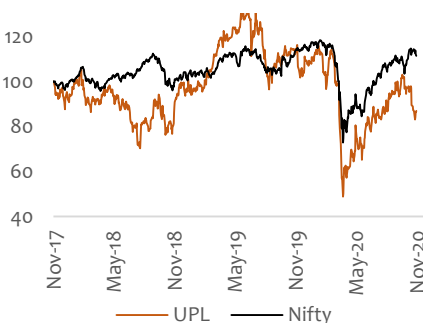
Forex movement affects GPS; cost savings holds up EBITDA margin:

Currency devaluation in Brazil and several countries in LATAM (e.g. Mexico), impacted Gross Profit Margin in quarter. Company reported GPM of 40% in Q2FY21 against 42% in Q2FY20. Though, through cost savings in overheads & employee cost, company was able to maintain EBITDA margin at Q2FY20 level, at around 18.6% (+14bps YoY, -474bps QoQ).

Update on Debt:

As of 30th September 2020, UPL's net debt was INR 238.4 bn, higher by INR 17.8 bn compared to 31st March 2020 mainly due to an increase in working capital of INR 29.2 bn, in line with the seasonality of the business. Company to reduce net debt in H2FY21 and maintain an investment grade credit rating.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	40,261
NIFTY	11,811

SHARE HOLDING PATTERN(%)

Particulars	Sep-20 (%)	Jun-20 (%)	Mar-20 (%)
Promoters	27.9	27.9	27.89
FIIIs	37.2	40.6	43.50
DIIIs	16.2	13.4	11.45
Others	18.7	18.4	17.16
Total	100	100	100

8.1%

Revenue CAGR between FY20 and FY22E

21.4%

Adj PAT CAGR between FY20 and FY22E

UPL Ltd

Concall Highlights:

(i) FY2021 Outlook: Company has maintained its guidance of 6-8% growth in revenue and 10-12% in EBITDA. The growth will be driven by a focus on differentiated solutions as well as new product launches (ii) Price increases in local currencies and cost savings will support margins (iii) Company's Net debt has increased marginally by ~INR 17bn QoQ in Q2FY21 due to higher working capital requirements (iv) UPL has guided for net debt reduction of USD700-750mn YoY in 2HFY21. Company intends to keep Net debt/EBITDA at 2.0x by FY21 as against 2.9x currently, with net debt reduction 2HFY21 (v) Management has highlighted that the company is outperforming its guidance for cost as well as revenue synergy by achieving revenue synergy of USD 299 mn in just 5 quarter of integration (vs target of USD 350mn in 3 years) and cost synergy of USD 153 mn currently (vs target of USD 200mn in 2 years).

Valuation & Outlook:

Change in geography mix towards low margin regions, lower prices & currency devaluation in Brazil and several countries in LATAM (e.g. Mexico), impacted Gross Profit Margin of UPL in Q2FY21, though company was able to maintain EBITDA margin with cost savings in overheads & employee costs. Management expects EBITDA margin improvement in full year numbers & going forward EBITDA margin to be in the range of 23-25% in next few years. UPL today is the number one bio solutions company and the largest supplier of organic portfolio of products in the world. The value of the company's pipeline is valued currently at USD 2.0 bn to USD 2.5 bn of peak sales, reaching maturity in the next five to eight years. Moreover, the company has highlighted that they expect USD 5.0 bn of additional market value from products becoming off-patent in the next five years, and that being backwards integrated with scale renders UPL to take a large share of this market. Since our last earnings update on the stock (at INR 487/share), the stock has corrected 14.4%. At a CMP of INR 417, UPL is trading at a valuation of 11.5/9.0x FY21/22E EPS. **We continue to apply PE multiple of 13.5x on our FY22E EPS of INR 46.1/share and maintain our Target Price of INR 622/share with a potential upside of 49%. Accordingly, we maintain our "BUY" rating on the stock. The potential downside to our recommendation in near term arises from the resignation of company's auditors at UPL Corp & allegations regarding director numerations.**

Sales Growth (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Volume	15.0	10.0	29.0	0.0%	19%
Price	-1.0	-1.0	-2.0	-1.0%	-1.0%
Exchange	-3.0	-2.0	-2.0	0.0%	-4.0%

Segmental Revenue	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ	YoY
North America	6.2	12.9	25.4	10.3	7.7	-24.7%	24.7%
India	12.0	7.5	7.0	15.1	14.1	-6.8%	17.4%
Europe	9.1	7.7	20.4	17.0	10.2	-40.0%	12.3%
LATAM	37.7	42.0	34.2	20.2	42.3	110.1%	12.3%
ROW	13.3	18.8	24.4	15.8	15.0	-4.8%	13.0%
Total	78.3	88.9	111.4	78.3	89.4	14.1%	14.2%

UPL Ltd

Financials:

Income Statement:

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,73,780	2,18,370	3,57,560	3,84,031	4,18,091
Raw Material Cost	81,120	1,09,040	1,87,430	1,84,335	2,04,865
Gross Profit	92,660	1,09,330	1,70,130	1,99,696	2,13,227
Gross Margin (%)	53.3%	50.1%	47.6%	52.0%	51.0%
Employee Costs	17,130	20,950	33,910	40,323	43,900
Other Direct Expenses	40,480	47,260	65,180	76,806	75,256
Total Operating Expenses	57,610	68,210	99,090	1,17,130	1,19,156
EBITDA	35,050	38,130	67,730	82,567	94,071
EBITDA Margin (%)	20.2%	17.5%	18.9%	21.5%	22.5%
Depreciation	6,750	8,800	20,120	24,657	23,695
Other income	4,140	2,400	1,040	1,920	2,090
EBIT	28,300	29,330	47,610	57,910	70,375
EBIT Margin (%)	16.28%	13.43%	13.32%	15.08%	16.83%
Finance Cost	7,830	9,630	14,810	20,068	21,255
Exceptional Items	-630	-7,500	-9,540	-2,360	0
Profit before Tax (PBT)	23,980	17,590	27,610	37,402	51,210
Tax Expense	2,363	1,980	5,860	8,041	11,522
Profit after Tax (PAT)	21,617	15,610	21,750	29,360	39,688
Share of P/L of associates	-930	140	30	35	50
Minority Interest	80	840	4,020	3,817	4,366
Reported PAT	20,607	14,910	17,760	25,578	35,372
PAT Margin (%)	11.9%	6.8%	5.0%	6.7%	8.5%
Adj. PAT	21,237	19,420	23,990	27,938	35,372
Adj PAT Margin (%)	12.2%	8.9%	6.7%	7.3%	8.5%
Basic EPS	40.4	29.2	23.2	33.4	46.1
Adj Diluted EPS	41.6	38.0	31.3	36.4	46.1

Source: Company, KRChoksey Research

Cashflow Statement:

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Net Cash generated from/(used in) operating activities	28,390	23,560	87,390	61,931	88,764
Net Cash Used In Investing Activities	-20,930	-3,09,200	-26,430	-13,150	-12,230
Net Cash Used in Financing Activities	-8,010	2,88,940	-21,750	-27,449	-49,636
Net Inc/(Dec) in Cash & Cash Eq.	-550	3,300	39,210	21,332	26,899
Cash & Cash Equivalents at the beg	28,800	28,590	28,260	67,240	88,572
Cash & Cash Equivalents at the end	28,250	31,890	67,470	88,572	1,15,470
Adjustments	690	-3,380	50	280	280
Cash & Bank Balance	28,940	28,510	67,520	88,852	1,15,750

Source: Company, KRChoksey Research

UPL Ltd

Balance Sheet

Particulars (INR mn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	1,020	1,020	1,530	1,530	1,530
Reserves and surplus	90,670	1,46,130	1,61,430	1,79,628	2,07,620
Issue of perpetual bond	0	0	29,860	29,860	29,860
Minority Interest	190	34,540	33,120	36,937	41,303
Total Equity	91,880	1,81,690	2,25,940	2,47,955	2,80,312
Long-term borrowings	58,730	2,63,830	2,73,710	2,73,710	2,53,710
Deferred tax liabilities (Net)	880	21,970	27,770	27,770	27,770
Other long term liabilities	2,320	1,360	6,310	6,310	6,310
Long-term provisions	200	200	240	240	240
Total Non-current liabilities	62,130	2,87,360	3,08,030	3,08,030	2,88,030
Short-term borrowings	6,340	24,780	12,980	12,980	11,980
Trade payables	56,750	98,470	1,02,330	1,15,735	1,37,455
Other current liabilities	12,420	30,240	40,449	31,564	34,364
Short-term provisions	910	9,120	11,101	11,923	12,980
Total Current liabilities	76,420	1,62,610	1,66,860	1,72,203	1,96,779
Total Equity and liabilities	2,30,430	6,31,660	7,00,830	7,28,187	7,65,121
Assets					
Net Block	40,050	1,55,220	1,64,380	1,52,873	1,41,408
Capital work in progress	10,900	11,660	10,590	10,590	10,590
Intangible asset under development	2,290	6,890	10,140	10,140	10,140
Goodwill on consolidation	4,320	1,66,270	1,82,410	1,82,410	1,82,410
Investments accounted using equity method	3,860	4,080	3,600	3,600	3,600
Non-current investments	6,480	2,980	1,980	1,980	1,980
Deferred tax assets	5,290	7,310	16,550	16,550	16,550
Long-term loans and advances	1,510	1,560	1,570	1,570	1,570
Other non-current assets	5,480	8,430	15,300	15,300	15,300
Trade receivables	10	40	1,900	1,900	1,900
Total Non-current assets	80,190	3,64,440	4,08,420	3,96,913	3,85,448
Current Investments	0	20	0	0	0
Inventories	45,380	91,330	78,500	89,432	97,364
Trade receivables	60,560	1,16,790	1,18,670	1,26,257	1,37,455
Cash and bank balances	28,940	28,510	67,520	88,852	1,15,750
Short-term loans and advances	1,470	510	400	430	468
Other current assets	13,890	30,060	27,320	26,304	28,636
Total current assets	1,50,240	2,67,220	2,92,410	3,31,274	3,79,673
Total Assets	2,30,430	6,31,660	7,00,830	7,28,187	7,65,121

Source: Company, KRChoksey Research

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin	20.2%	17.5%	18.9%	21.5%	22.5%
Tax rate (%)	9.7%	11.3%	21.2%	21.5%	22.5%
Adj. Net Profit Margin (%)	12.2%	8.9%	6.7%	7.3%	8.5%
RoE (%)	22.4%	8.2%	7.9%	10.3%	12.6%
RoCE (%)	18.0%	6.2%	9.3%	10.8%	12.9%
Current Ratio (x)	2.0	1.6	1.8	1.9	1.9
Adj. EPS (INR per share)	41.6	38.0	31.3	36.4	46.1

Source: Company, KRChoksey Research

UPL Ltd

UPL Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
03-Nov-20	417	622	BUY	Buy	More than 15%
12-Aug-20	487	622	BUY		
05-Jun-20	419	614	BUY		
26-May-20	367	614	BUY		
10-Feb-20	543	667	BUY	Accumulate	5% – 15%
11-Nov-19	555	667	BUY		
5-Aug-19	541	761	BUY	Hold	0 – 5%
23-May-19	1011	1142	ACCUMULATE		
02-Aug-18	636	763	BUY	Reduce	-5% – 0
02-May-18	732	998	BUY		
29-Jan-18	789	1030	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities. KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

www.krchoksey.com