

- UPL reported a sales growth of 2.6% YoY to Rs 91.2bn (D.est: Rs 95.6bn) – largely in-line with our estimates.
- EBITDA/PAT remained higher than our estimate but lower than consensus at Rs 22.0bn (up by 4.8% YoY) and Rs 7.26bn (down 4.5% YoY).
- Sales were higher by 2.6% on account of a negative forex impact of 5% (due to real depreciation of 30%), a positive volume growth of 7% and realisation growth of 1%.
- A favourable geographic and product mix helped in improvement of gross margins 470 bps YoY to 54.9%.
- A higher interest cost took a drag on PAT (down 4.5% YoY to Rs 7.27bn), largely due to early retirement of debt which entailed a higher interest outflow and forex loss of Rs 1.9bn (we thus have increased our interest cost assumption in FY21E).

The company recorded volume growth across all geographies except Latam, which de-grew by 8% YoY (due to drought in Brazil and Argentina). Sales in Europe grew strongly by the introduction of a new bio-logical variant named Agros coupled with sales from Penncozeb, Syllit and Cyperkill. Performance in North America was decent (up 5% YoY) owing to strong sales of Glufosinate herbicide and differentiated solutions. Sales growth of 21% in India was supported by pre-emergent herbicides. ROW growth of 41% YoY was led to a double digit volume growth in South Africa, New Zealand and Australia.

Outlook and valuation

UPL Ltd was able to clock cost/revenue synergies of USD 35/55 mn respectively for 3QFY21, with 9MFY21 synergies were at USD 188/354mn going over and above the targeted synergy (USD 200/350 mn). We have fine-tuned our estimates and are factoring in a net debt reduction of USD 335/414 mn. We value UPL on EV/EBITDA methodology and arrive at a target price of Rs 609/share (@ 7.5x FY23E EV/EBITDA). We downgrade our rating to Accumulate due to the recent run up in the stock price.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	91,260	88,920	2.6	89,390	2.1
Total Expense	69,240	67,900	2.0	72,720	(4.8)
EBITDA	22,020	21,020	4.8	16,670	32.1
Depreciation	5,420	4,950	9.5	5,330	1.7
EBIT	16,600	16,070	3.3	11,340	46.4
Other Income	670	200	235.0	750	(10.7)
Interest	7,450	5,150	44.7	3,430	117.2
EBT	10,600	10,370	2.2	6,550	61.8
Tax	1,090	1,990	(45.2)	1,120	(2.7)
RPAT	7,940	7,010	13.3	4,630	71.5
APAT	7,269	7,613	(4.5)	6,479	12.2
			(bps)		(bps)
Gross Margin (%)	54.9	50.2	467	49.6	533
EBITDA Margin (%)	24.1	23.6	49	18.6	548
NPM (%)	8.7	7.9	82	5.2	352
Tax Rate (%)	10.3	19.2	(891)	17.1	(682)
EBIT Margin (%)	18.2	18.1	12	12.7	550

CMP	Rs 566
Target / Upside	Rs 609 / 8%
NIFTY	14,648

Scrip Details

Equity / FV	Rs 1,530mn / Rs 2
Market Cap	Rs 433bn
	USD 6bn
52-week High/Low	Rs 601/ 240
Avg. Volume (no)	1,16,08,100
Bloom Code	UPLL IN

Price Performance	1M	3M	12M
Absolute (%)	21	27	12
Rel to NIFTY (%)	17	2	(10)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	27.9	27.9	27.9
MF/Banks/FIs	12.9	15.9	16.4
FIIIs	40.6	37.2	35.4
Public / Others	18.6	19.0	20.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	16.4	12.4	11.0
EV/EBITDA	8.5	7.4	6.6
ROE (%)	15.3	17.7	17.5
RoACE (%)	9.9	11.0	11.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	3,77,340	4,11,617	4,40,457
EBITDA	78,487	87,263	93,377
PAT	28,264	34,800	39,511
EPS (Rs.)	34.5	45.5	51.6

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Exhibit 1: Actual vs DART Estimates

Particulars	Actual	Estimated	Variance	Comment
Revenue	91,260	95,625	(4.6)	Higher than expected de-growth in LATAM
EBITDA	22,020	18,356	20.0	Higher than expected Gross margin
EBITDA Margin(%)	24.1	19.2	493.3	Same
PAT	7,269	5,756	26.3	Lower than expected tax rate

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars - Rs Mn	FY21E			FY22E			FY23E		
	New	Previous	Chg(%)	New	Previous	Chg(%)	New	Previous	Chg(%)
Revenue	3,77,340	3,77,340	-	4,11,617	4,16,048	(1.1)	4,40,457	4,42,284	(0.4)
EBITDA	78,487	74,336	5.6	87,263	85,706	1.8	93,377	91,110	2.5
EBITDA Margin(%)	20.8	19.7	110Bps	21.2	20.6	60Bps	21.2	20.6	60Bps
PAT	28,264	23,039	22.7	34,800	33,814	2.9	39,511	37,759	4.6
EPS(Rs)	34.5	30.1	22.7	45.5	44.2	2.9	51.6	49.4	4.6

Source: DART, Company

Concall Highlights

Business Performance

- Sales grew by 2.6% to Rs 91.26bn on the back of strong volume growth, favourable product mix and price increases which also contributed to Gross margin expansion of 467bps to 54.9%.
- Sales growth was a function of Volume gain of +7%, Pricing impact of +1% while there was 5% negative effect due to currency headwinds.
- Strong volumes growth was seen in Europe, India, North America and ROW while LATAM saw de-growth impacted by delay in planting season in Brazil/Argentina caused by drought.
- Company is taking pricing increases to offset higher RM cost prices and expects RM prices to soften from Q2FY22 onwards.
- Pricing improvements are expected to continue in Q4FY21.
- Gross margins expanded by 467bps YoY to 54.9% driven by price increases take in local currency, savings in COGS and synergy benefits.
- Other expenditure rose by 13.7% YoY to Rs 18.55bn which includes a provision of Rs 395.2mn with regards to Excise liability for the period April 2008 to December 2013 for Jammu state as per the order of the Supreme court.
- Finance cost increase includes a one-time interest payment of Rs 750mn relating to prepayment of US \$410 mn bonds maturing on Oct 2021.
- This interest is in relation to interest payment due from the date of retiring of bonds on 20th Dec 2020 till the date of maturity Oct 2021.
- The company was able to save Rs 320mn in Finance cost on account of early retirement of bonds.
- Finance cost includes a Rs 1.99bn charge on account of mark to market forex losses related to advance orders, borrowings and loans and advances recognized during the quarter.

LATAM

- Revenues declined by 8% YoY to Rs 38.49bn due to delayed planting season in Brazil which suffered from dry weather and unfavourable Forex impact.
- Latam continues to be impacted by forex devaluation, however Price hikes taken during the quarter helped the company to partially offset the negative impact.
- Synergy benefits derived through the combined portfolio of UPL and Ayrsta helped the company to gain market share in Brazil.
- Recent run up in grain commodity prices along with rainfall in the current month will be a big positive going into Q4FY21.
- Soybean prices which are currently at a 4 year high will help farmer to generate higher margins which will in-turn lead to higher agrochemical sales.

North America

- Revenues were up by 5% YoY to Rs 13.52bn due to favourable weather conditions and market share gains.
- Strong growth in Differentiated & Sustainable Solutions led to improvement in margins.
- Glufosinate saw increased demand on the back of robust ramp up of resistant-traits acres

Europe

- Revenues were up by 30% to Rs 11.2bn driven by Improved mix, driven by strong sales of Differentiated & Sustainable Solutions and moderate Post-Patent growth.
- Company has seen strong demand for Argos which is a biological solution and is a replacement for a banned product in Europe which finds usage as a sprout inhibitor on stored potatoes.
- Appreciating Euro currency benefitted revenues from this region and the management expects the same momentum to continue in H1FY22 driven by new product launches and expects more growth to come from this region.

ROW

- ROW revenues grew by 6% YoY to Rs 18.99bn registering a double digit growth in Africa, Australia and New Zealand, benefiting from a normalized season.

India

- Excess rainfall in the Southern part of India reduced the market growth after a strong H1FY21.
- Good herbicide sales in the resistant phalaris infested wheat acres of North India.

Synergy Benefits

- Company has achieved cumulative cost synergies of US \$188 mn as on 31st Dec 2020 and is well on course to over achieve its targeted cost synergy of US \$200mn.

- Revenue synergies achieved till 31st December 2020 stand at US \$ 354mn which is well ahead of its target of achieving US \$ 350 mn + synergy by end of FY22.

Working Capital Cycle

- Net working capital days improved by 19 days to 117 days as at 31st December 2020 driven by improvement in accounts payables.
- Net working capital days for 9MFY21 stood at 117 vs 136 days for same period last year.
- Company targets to reduce its Working capital cycle by 3 to 5 days by the end of FY21.

Debt Position

- Gross debt as on 31st Dec 2021 stood at Rs 278.37bn with a reduction of Rs 3.98bn during Q3FY21.
- Net debt position stood at Rs 24.24bn.

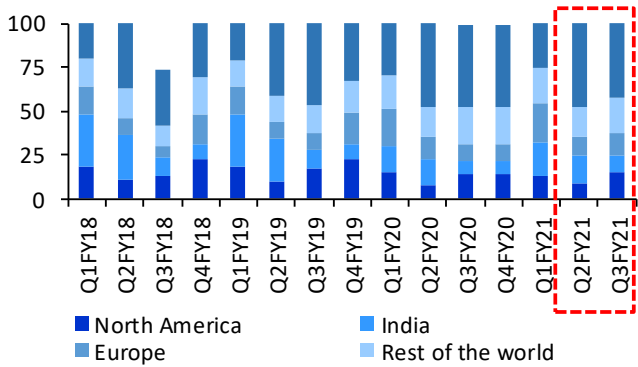
Mancozeb Issue

- Ban on Mancozeb which is effective from Feb 2021 onwards will not have any major impact as the company's share of this product is very low in Europe and the company has products under its pipeline which will serve as a replacement to Mancozeb.

Guidance

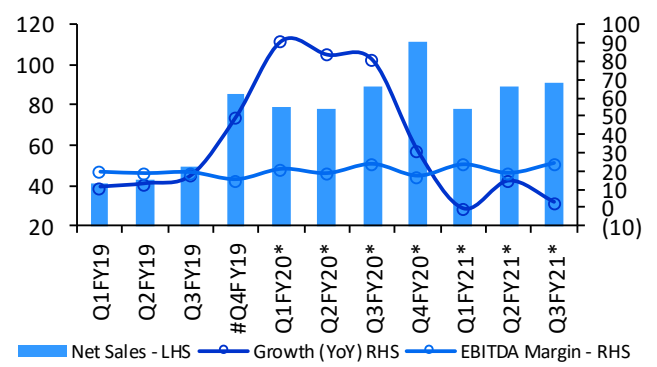
- Management has maintained its guidance of 6-8% Revenue Growth and 10-12% EBITDA growth for full year FY21.
- Management expects to meet the higher end of its stated guidance for FY21 with Q4FY21 expected to be strong on the back of volume growth and Pricing increases.
- Management has guided for a Net debt to Ebitda target of 2x by the end of FY21.
- Differentiated and sustainable products are expected to drive the EBITDA margin to levels of 24-25% over the next 2-3 years.
- Management expects the growth momentum to continue and expects to clock in double digit growth numbers atleast for the next 3-4 years.
- Innovation index target forecast set at 21.7%.
- Capex outlay for FY21 is expected to be ~Rs 17.0bn.

Exhibit 3: Quarterly Geographic Mix (%)



Source: DART, Company

Exhibit 4: Sales (bn) Growth (%) and EBITDA Margin (%)

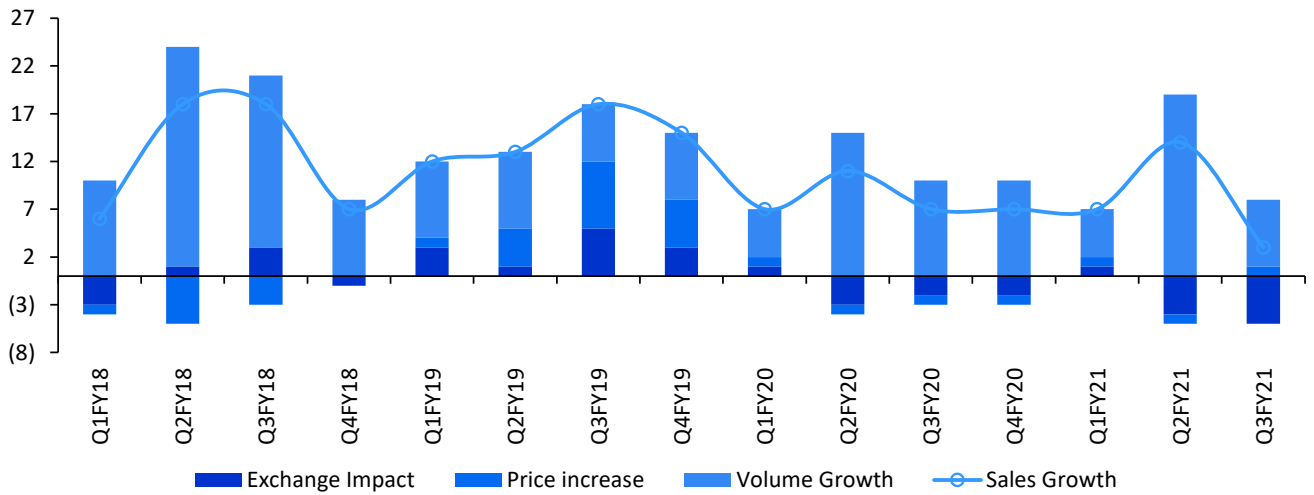


Source: DART, Company

Includes 2 months Arystas numbers,

* Full impact of Arystas performance

Exhibit 5: Volume + Price + Forex (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	3,57,560	3,77,340	4,11,617	4,40,457
Total Expense	2,89,830	2,98,853	3,24,354	3,47,080
COGS	1,87,430	1,78,104	1,98,399	2,12,300
Employees Cost	33,910	41,507	39,515	42,284
Other expenses	68,490	79,241	86,440	92,496
EBIDTA	67,730	78,487	87,263	93,377
Depreciation	20,120	21,601	22,310	23,591
EBIT	47,610	56,885	64,953	69,786
Interest	14,810	18,093	16,991	15,441
Other Income	1,040	2,500	2,625	2,756
Exc. / E.O. items	(6,230)	(2,360)	0	0
EBT	27,610	38,932	50,587	57,101
Tax	5,860	7,786	10,117	11,420
RPAT	17,760	26,376	34,800	39,511
Minority Interest	4,020	4,800	5,700	6,200
Profit/Loss share of associates	30	30	30	30
APAT	22,259	28,264	34,800	39,511

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,530	1,530	1,530	1,530
Minority Interest	33,120	37,920	43,620	49,820
Reserves & Surplus	1,61,430	1,80,854	2,08,291	2,39,520
Net Worth	1,62,960	1,82,384	2,09,821	2,41,050
Total Debt	3,16,550	2,86,550	2,61,550	2,36,550
Net Deferred Tax Liability	11,220	11,220	11,220	11,220
Total Capital Employed	5,23,850	5,18,074	5,26,211	5,38,640

Applications of Funds

Net Block	3,46,790	3,45,579	3,37,269	3,34,679
CWIP	20,730	24,140	31,140	31,140
Investments	5,580	5,580	5,580	5,580
Current Assets, Loans & Advances	3,11,180	3,14,594	3,34,371	3,58,082
Inventories	78,500	93,043	1,01,495	1,08,606
Receivables	1,18,670	1,13,719	1,24,049	1,32,740
Cash and Bank Balances	67,520	52,062	51,524	56,774
Loans and Advances	19,170	19,170	19,170	19,170
Other Current Assets	27,320	36,600	38,133	40,791
Less: Current Liabilities & Provisions	1,60,430	1,71,819	1,82,149	1,90,840
Payables	1,02,330	1,13,719	1,24,049	1,32,740
Other Current Liabilities	58,100	58,100	58,100	58,100
<i>sub total</i>				
Net Current Assets	1,50,750	1,42,775	1,52,222	1,67,241
Total Assets	5,23,850	5,18,074	5,26,211	5,38,640

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	47.6	52.8	51.8	51.8
EBIDTA Margin	18.9	20.8	21.2	21.2
EBIT Margin	13.3	15.1	15.8	15.8
Tax rate	21.2	20.0	20.0	20.0
Net Profit Margin	5.0	7.0	8.5	9.0
(B) As Percentage of Net Sales (%)				
COGS	52.4	47.2	48.2	48.2
Employee	9.5	11.0	9.6	9.6
Other	19.2	21.0	21.0	21.0
(C) Measure of Financial Status				
Gross Debt / Equity	1.9	1.6	1.2	1.0
Interest Coverage	3.2	3.1	3.8	4.5
Inventory days	80	90	90	90
Debtors days	121	110	110	110
Average Cost of Debt	4.9	6.0	6.2	6.2
Payable days	104	110	110	110
Working Capital days	154	138	135	139
FA T/O	1.0	1.1	1.2	1.3
(D) Measures of Investment				
AEPS (Rs)	29.1	34.5	45.5	51.6
CEPS (Rs)	55.4	62.7	74.7	82.5
DPS (Rs)	6.0	7.0	8.0	9.0
Dividend Payout (%)	20.6	20.3	17.6	17.4
BVPS (Rs)	213.0	238.4	274.3	315.1
RoANW (%)	11.5	15.3	17.7	17.5
RoACE (%)	8.5	9.9	11.0	11.5
RoAIC (%)	10.4	12.3	13.8	14.6
(E) Valuation Ratios				
CMP (Rs)	566	566	566	566
P/E	19.5	16.4	12.4	11.0
Mcap (Rs Mn)	4,33,220	4,33,220	4,33,220	4,33,220
MCap/ Sales	1.2	1.1	1.1	1.0
EV	6,82,250	6,67,707	6,43,246	6,12,995
EV/Sales	1.9	1.8	1.6	1.4
EV/EBITDA	10.1	8.5	7.4	6.6
P/BV	2.7	2.4	2.1	1.8
Dividend Yield (%)	1.1	1.2	1.4	1.6
(F) Growth Rate (%)				
Revenue	63.7	5.5	9.1	7.0
EBITDA	77.6	15.9	11.2	7.0
EBIT	62.3	19.5	14.2	7.4
PBT	57.0	41.0	29.9	12.9
APAT	21.7	27.0	23.1	13.5
EPS	21.7	18.5	31.9	13.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	86,560	62,848	69,785	74,944
CFI	(64,090)	(23,800)	(21,000)	(21,000)
CFF	16,520	(54,505)	(49,323)	(48,694)
FCFF	38,960	39,047	48,785	53,944
Opening Cash	28,530	67,520	52,062	51,524
Closing Cash	67,520	52,062	51,524	56,774

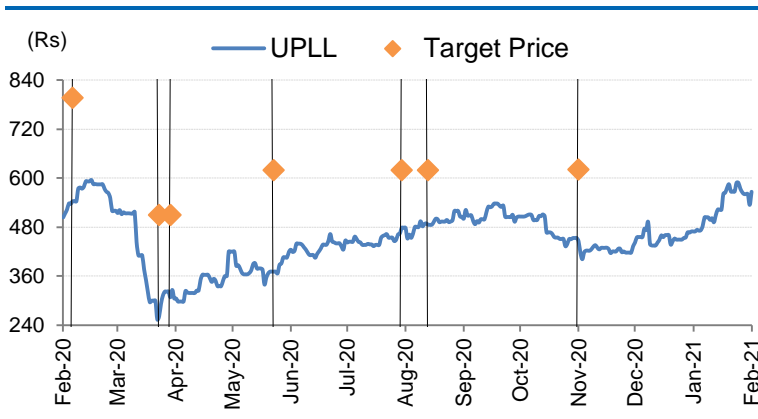
E – Estimates

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.)
Feb-20	Buy	797	543
Mar-20	Buy	509	262
Mar-20	Buy	509	308
May-20	Buy	620	371
Jul-20	Buy	620	478
Aug-20	Buy	620	486
Nov-20	Buy	621	445

*Price as on recommendation date

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