

**BSE SENSEX** 50,441  
**S&P CNX** 14,956



Bloomberg	UPLL IN
Equity Shares (m)	765
M.Cap.(INRb)/(USD\$b)	481.1 / 6.6
52-Week Range (INR)	636 / 240
1, 6, 12 Rel. Per (%)	19/-2/-12
12M Avg Val (INR M)	3674
Free float (%)	72.2

**Financials Snapshot (INR b)**

Y/E MARCH	FY21E	2022E	2023E
Sales	378.7	411.8	443.4
EBITDA	82.3	92.6	102.0
Adj. PAT	31.7	37.5	43.9
EBITDA Margin (%)	21.7	22.5	23.0
Cons. Adj. EPS (INR)	41.4	49.0	57.4
EPS Gr. (%)	19.0	18.2	17.2
BV/Sh. (INR)	241	425	495

**Ratios**

Net D:E	1.3	1.0	0.8
RoE (%)	18.2	18.8	18.9
RoCE (%)	10.6	11.3	12.3
Payout (%)	20.0	20.0	20.0

**Valuations**

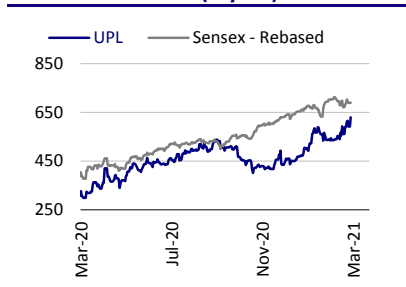
P/E (x)	15.2	12.9	11.0
EV/EBITDA (x)	8.9	7.6	6.6
Div. Yield (%)	1.1	1.6	1.8
FCF Yield (%)	5.8	9.9	11.4

**Shareholding pattern (%)**

As On	Dec-20	Sep-20	Dec-19
Promoter	27.9	27.9	27.9
DII	16.7	16.2	11.5
FII	35.3	37.2	43.5
Others	20.2	18.7	17.2

FII Includes depository receipts

**Stock Performance (1-year)**



**CMP: INR630**

**TP: INR631**

**Neutral**

**Adding Rynaxypyr ahead of time in the kitty**

UPL has announced a long-term strategic collaboration with FMC Corporation. It will toll manufacture and supply Rynaxypyr to FMC in India. FMC will supply the active ingredient (AI) to UPL depending on the market. We have analyzed the market size, use of Rynaxypyr, and impact of the agreement on UPL.

**UPL announces a long-term collaboration with FMC for Rynaxypyr**

- UPL has announced a long-term strategic collaboration with FMC Corporation, a leading global agricultural sciences company.
- The pact allows UPL access to key markets prior to the patent expiry and to commercialize Rynaxypyr Active: FMC's leading insecticide.
- As per the agreement, UPL will toll manufacture and supply Rynaxypyr to FMC in India. FMC will supply the AI to UPL depending on the market.
- The deal adds a key portfolio of products to UPL's business and supports FMC in maximizing the penetration of this important AI.
- Early access to Rynaxypyr formulations in key markets allows UPL to provide farmers with more sustainable product choices.

**Rynaxypyr accounts for 2.7% of the global Crop Protection market**

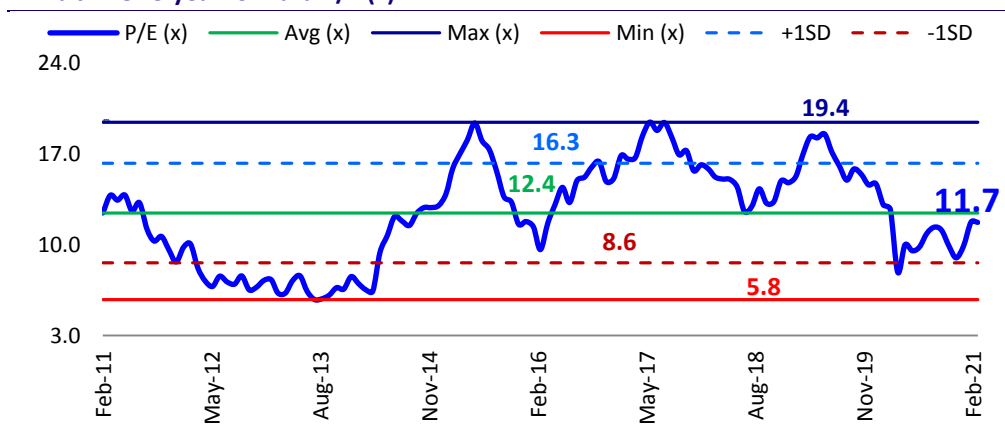
- Rynaxypyr AI was first registered in the Philippines in Jun'07 and in 19 countries in CY08, including the US, Canada, and Australia. Since then, its approved uses have expanded to over 120 countries. In doing so, it has passed rigorous regulatory reviews over the past decade. A major regulatory reassessment is slated to occur in the EU, US, Canada, and Japan within the next few years.
- The molecule was launched in CY07 by DuPont. It had to divest this product when it merged with Dow Chemicals due to regulatory issues. FMC acquired the AI from DuPont in CY17 and launched the same in CY18.
- Rynaxypyr AI is a scientific breakthrough that has become an important tool for growers around the world to protect their crops from harmful insects. The essence of this breakthrough – what scientists call a 'novel mode of action' – is Rynaxypyr AI's highly selective targeting of these insects. The AI attacks the ryanodine receptor in the insect.
- About 30% of Rynaxypyr produced is used by the rice industry. Fruits and vegetables/soybean applications account for 22%/24% of consumption volumes.
- In CY19, the global Rynaxypyr market was valued at USD1.6b (v/s the global Crop Protection market of USD59.8b). The market is expected to expand at a moderate CAGR (4.4%) over CY18-25 and reach USD2.1b by CY25-end.
- Industry sources peg the Rynaxypyr India opportunity at over INR20b (B2C). The market size for manufacturing the AI in India for UPL is INR7-8b (market size for technical is 35-40% of the B2C market of INR20b).

- Composition of matter patents (product patent) for Rynaxypyr is going to expire globally (Europe, US, Brazil, India, and China) over Aug'22 to Apr'23. Process patents too would expire over Dec'25 to Apr'26 (Refer Exhibit: 5-8).
- UPL will launch the formulation with its own trademark in India as well as overseas. It will roll out the combination molecule in key markets globally prior to the patent expiry, which will provide it with a huge opportunity.

**Valuation and view**

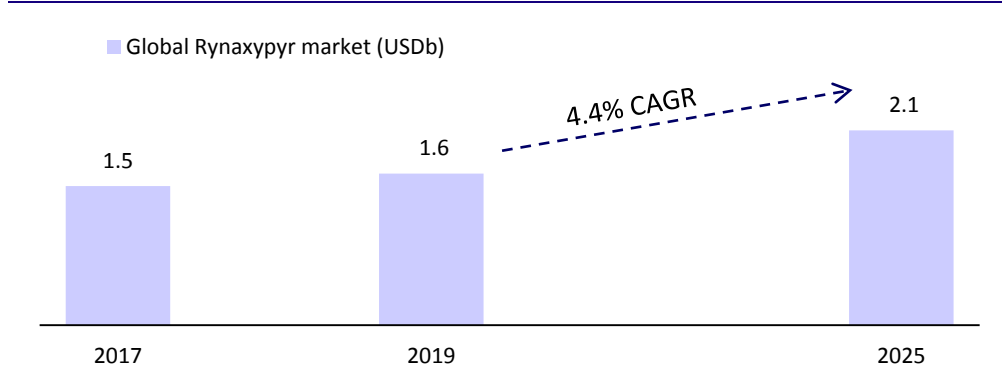
- The pact with FMC will allow UPL to launch Rynaxypyr formulations with its own trademark and combination molecule in key markets, thereby enabling the company to add a new core molecule to its portfolio. Rynaxypyr has a 2.7% market share in the global Crop Protection market. As per an industry source, toll manufacturing and supply of Rynaxypyr to FMC in India will provide UPL with a INR7-8b – a long-term growth opportunity.
- In its 2QFY21 conference call, the management guided at reducing debt by USD700m in 2HFY21. Of this, USD410m of debt has been repaid as on 28th Dec'20. The debt repayment was from its cash balance of INR80b as of Sep'20 as CFO from 1HFY21 was a mere INR1.4b. The cash balance is aided by issuance of USD denominated senior notes of USD500m in Jun'20.
- The company has to repay loans worth USD290m (INR21.2b, assuming a USD:INR conversion rate of 73) by the end of FY21.
- It has a current cash balance of INR35.9b as of Dec'20. Cash generation in 4Q would be critical for debt repayment (in 9MFY21, it generated CFO of INR5.5b).
- Debt repayment and cash generation would be a key trigger to watch out for going forward.
- The stock has traded at an average P/E of 13.5x over the last three years on a one-year forward basis. We have ascribed 11x P/E (~20% discount to its three-year average) as high debt is a key concern for the company.
- We maintain our **Neutral** view with a TP of INR631/share.

**Exhibit 1: One-year forward P/E (x)**



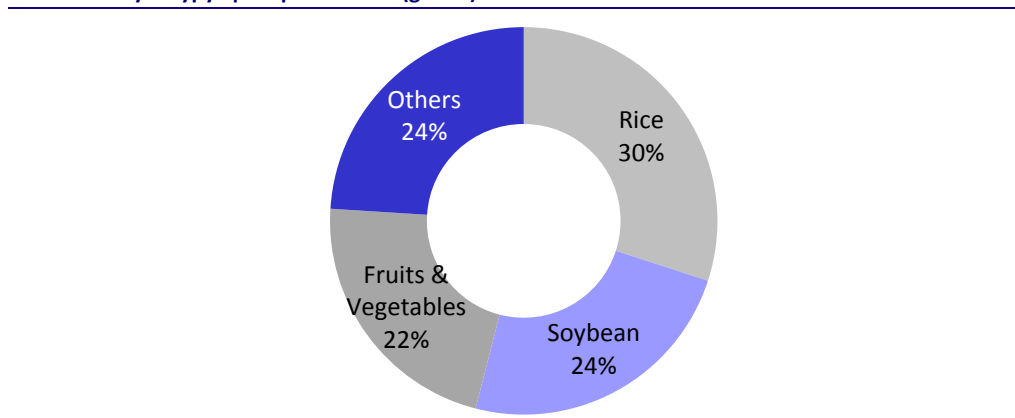
Source: MOFSL

**Exhibit 2: Expect global Rynaxypyr market to grow at 4.4% CAGR over CY19-25E**



Source: Industry, MOFSL

**Exhibit 3: Rynaxypyr | Crop-wise uses (global)**



Source: Industry, MOFSL

**Exhibit 4: Types of patent for Rynaxypyr**

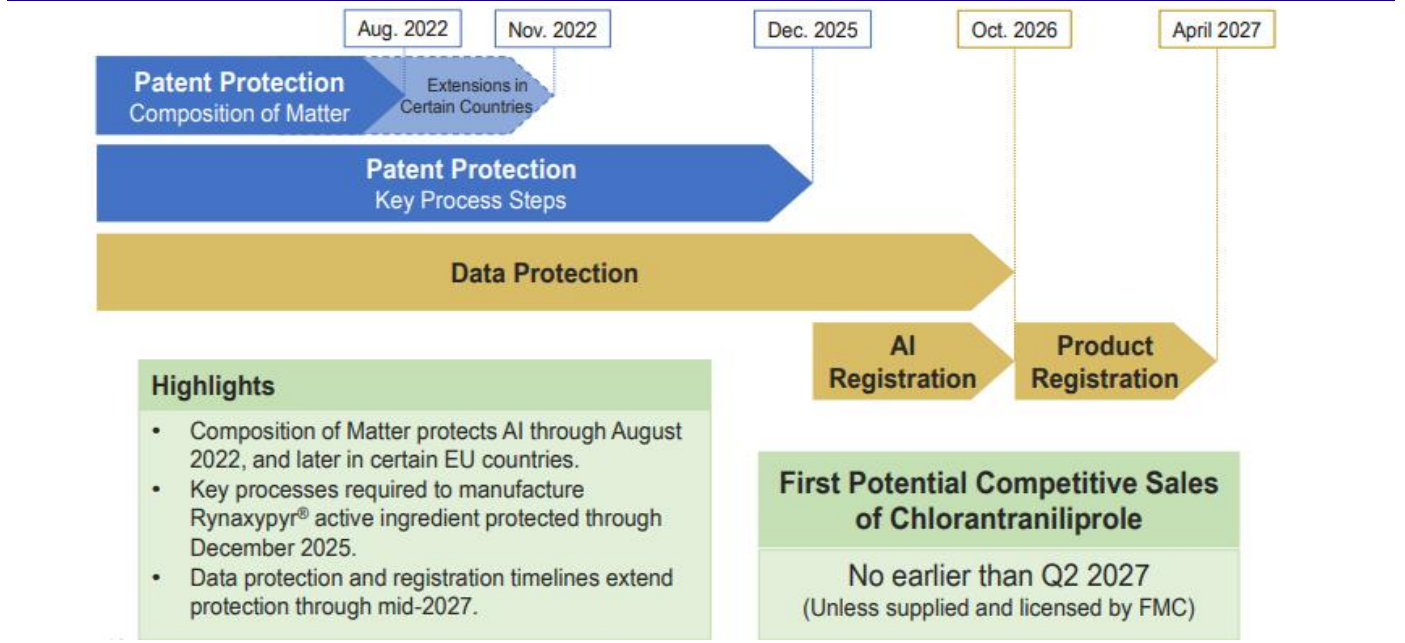
PATENT TYPE	SUMMARY
<b>Composition of Matter Patents</b> (AI and certain intermediates)	Protects proprietary molecular structure of active ingredient (AI) and molecular structure of certain intermediates.
<b>Process Patents</b> (AI and key intermediates)	Protects the manufacturing processes for the AI and the key intermediates used to make the AI.
<b>Formulation Patents</b>	Protects product formulations that use the AI.
<b>Use Patents</b>	Protects how a product is used.
<b>Application Patents</b>	Protects the methods or approaches to apply products.

Diamides Patent Families	Countries	Patents*
>30	76	~1,000

\*Granted and pending

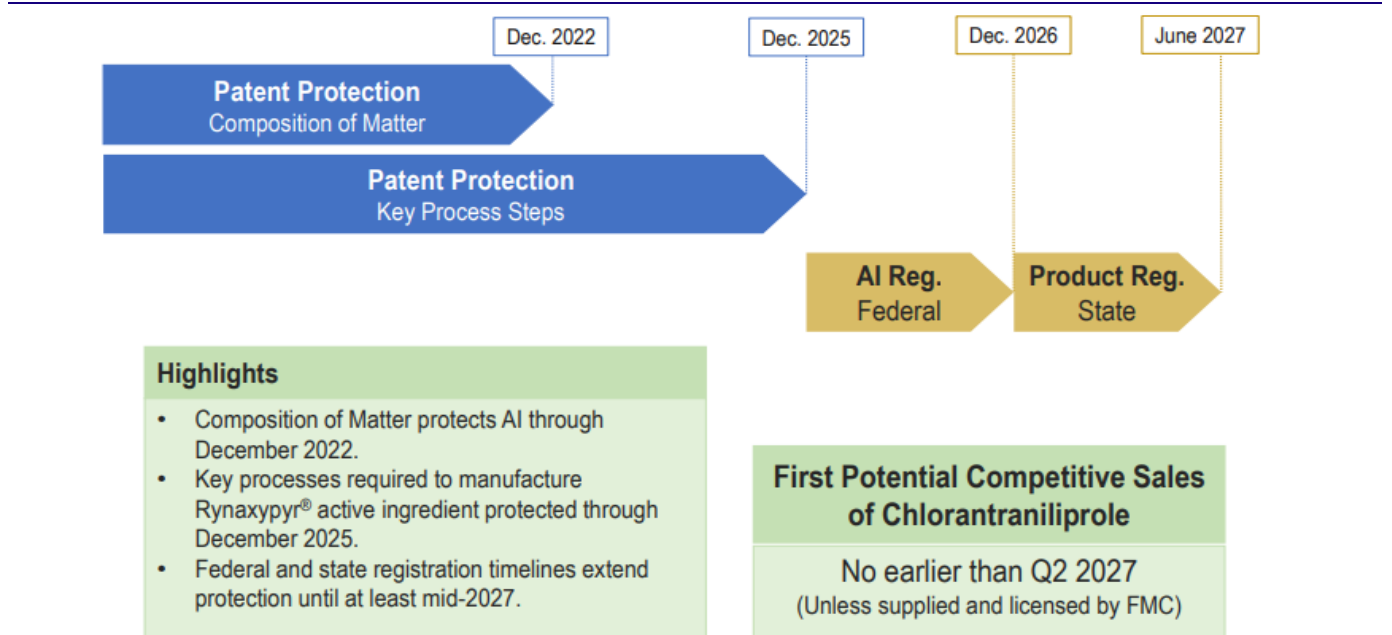
Source: FMC PPT, MOFSL

**Exhibit 5: Rynaxypyr AI patent protection in Europe**



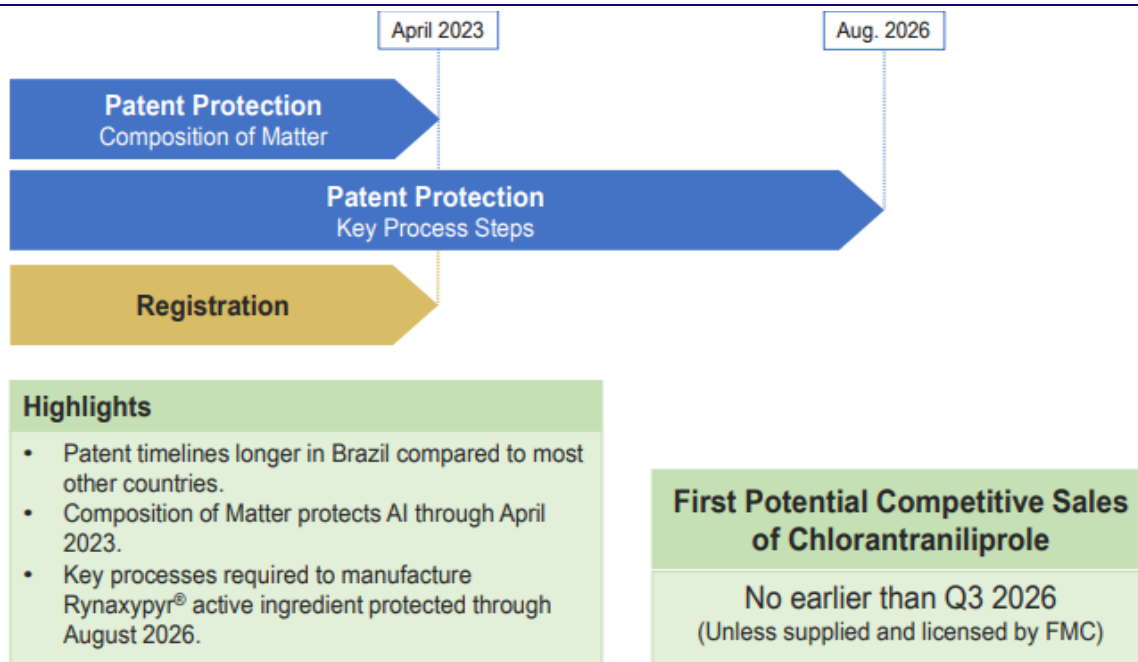
Source: FMC PPT, MOFSL

**Exhibit 6: Rynaxypyr AI patent protection in the US**



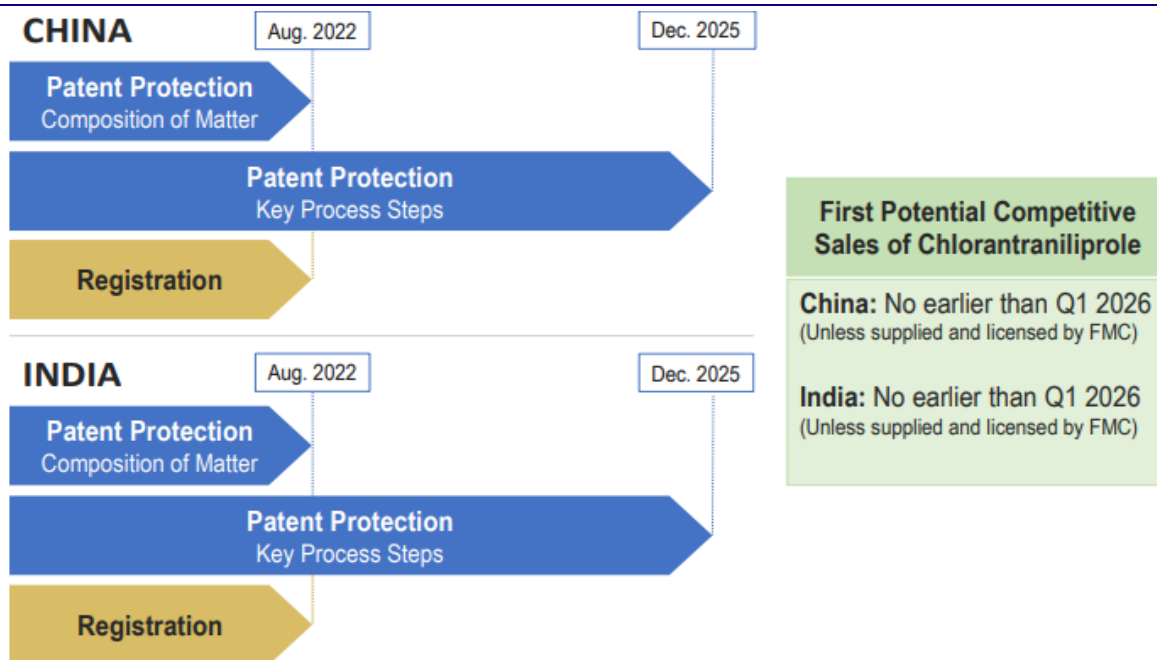
Source: FMC PPT, MOFSL

**Exhibit 7: Rynaxypyr AI patent protection in Brazil**



Source: FMC PPT, MOFSL

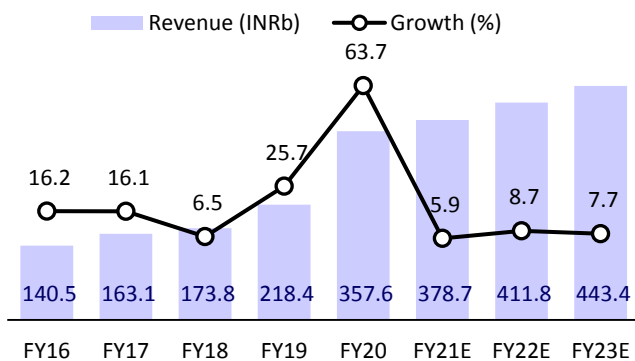
**Exhibit 8: Rynaxypyr AI patent protection in China and India**



Source: FMC PPT, MOFSL

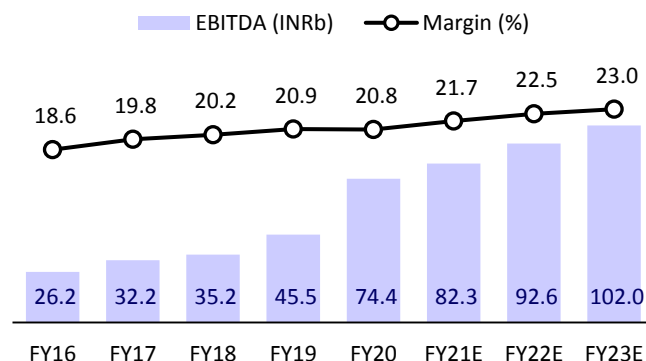
## Story in charts

**Exhibit 1: Expect 8% revenue CAGR over FY21-23E**



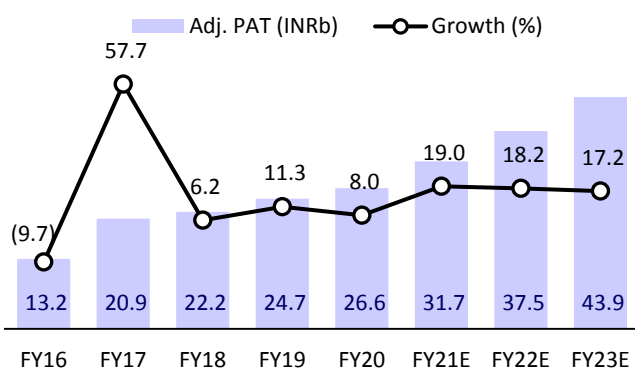
Source: Company, MOFSL

**Exhibit 2: Margin to expand 130bp over FY21-23E**



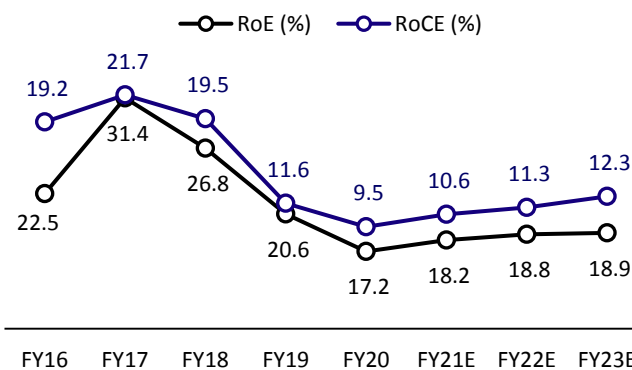
Source: Company, MOFSL

**Exhibit 3: Expect 18% adjusted PAT CAGR over FY21-23E**



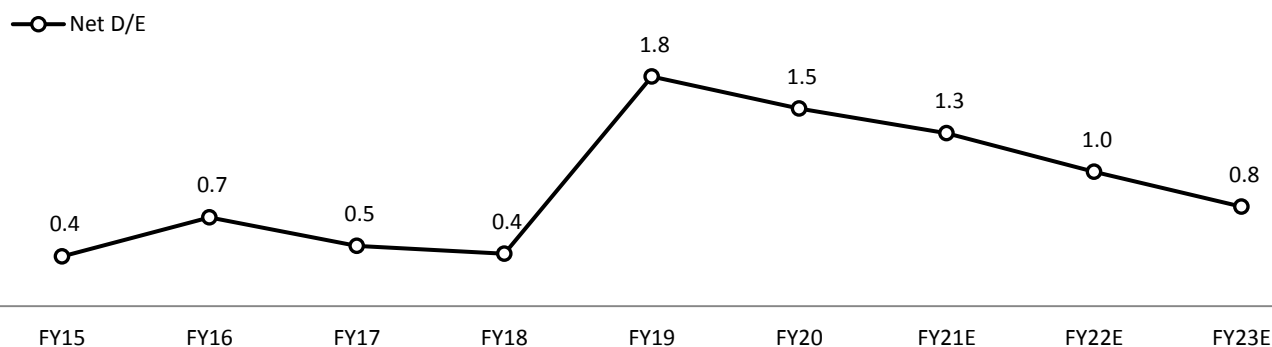
Source: Company, MOFSL

**Exhibit 4: Trend in return ratios**



Source: Company, MOFSL

**Exhibit 5: Net debt-to-equity to improve (x)**



Source: Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Income from Operations</b>	<b>1,40,480</b>	<b>1,63,120</b>	<b>1,73,780</b>	<b>2,18,370</b>	<b>3,57,560</b>	<b>3,78,695</b>	<b>4,11,765</b>	<b>4,43,356</b>
Change (%)	16.2	16.1	6.5	25.7	63.7	5.9	8.7	7.7
<b>Total Expenditure</b>	<b>1,14,300</b>	<b>1,30,890</b>	<b>1,38,620</b>	<b>1,72,830</b>	<b>2,83,180</b>	<b>2,96,427</b>	<b>3,19,118</b>	<b>3,41,384</b>
% of Sales	81.4	80.2	79.8	79.1	79.2	78.3	77.5	77.0
<b>EBITDA</b>	<b>26,180</b>	<b>32,230</b>	<b>35,160</b>	<b>45,540</b>	<b>74,380</b>	<b>82,268</b>	<b>92,647</b>	<b>1,01,972</b>
Margin (%)	18.6	19.8	20.2	20.9	20.8	21.7	22.5	23.0
Depreciation	6,760	6,720	6,750	8,800	20,120	22,170	24,197	25,955
<b>EBIT</b>	<b>19,420</b>	<b>25,510</b>	<b>28,410</b>	<b>36,740</b>	<b>54,260</b>	<b>60,098</b>	<b>68,450</b>	<b>76,017</b>
Int. and Finance Charges	7,040	7,350	7,830	9,630	14,810	20,890	16,389	15,014
Other Income	3,160	4,440	4,140	2,400	1,040	2,340	2,471	2,527
Exchange diff on trade rec. and payables	2,230	2,380	110	2,990	3,310	190	0	0
<b>PBT bef. EO Exp.</b>	<b>13,310</b>	<b>20,220</b>	<b>24,610</b>	<b>26,520</b>	<b>37,180</b>	<b>41,358</b>	<b>54,532</b>	<b>63,530</b>
EO Items	1,290	810	630	8,930	9,650	2,330	0	0
<b>PBT after EO Exp.</b>	<b>12,020</b>	<b>19,410</b>	<b>23,980</b>	<b>17,590</b>	<b>27,530</b>	<b>39,028</b>	<b>54,532</b>	<b>63,530</b>
Total Tax	1,650	1,890	2,750	1,980	5,860	6,691	11,452	13,341
Tax Rate (%)	13.7	9.7	11.5	11.3	21.3	17.1	21.0	21.0
Prior Period Items - Income/(Exp.) - Net	0	0	0	0	0	0	0	0
Share of (profit)/loss of ass. and JV	850	190	930	-140	-30	-73	-80	-88
Minority Interest	120	60	80	840	4,010	5,181	5,699	6,382
<b>Reported PAT</b>	<b>9,400</b>	<b>17,270</b>	<b>20,220</b>	<b>14,910</b>	<b>17,690</b>	<b>27,230</b>	<b>37,462</b>	<b>43,895</b>
<b>Adjusted PAT</b>	<b>13,238</b>	<b>20,878</b>	<b>22,163</b>	<b>24,658</b>	<b>26,638</b>	<b>31,697</b>	<b>37,462</b>	<b>43,895</b>
Change (%)	-9.7	57.7	6.2	11.3	8.0	19.0	18.2	17.2
Margin (%)	9.4	12.8	12.8	11.3	7.4	8.4	9.1	9.9

### Consolidated Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	860	1,010	1,020	1,020	1,530	1,530	1,530	1,530
Total Reserves	20,060	72,140	90,670	1,46,130	1,61,430	1,83,214	2,13,183	2,48,299
<b>Net Worth</b>	<b>58,890</b>	<b>73,970</b>	<b>91,690</b>	<b>1,47,150</b>	<b>1,62,960</b>	<b>1,84,744</b>	<b>2,14,713</b>	<b>2,49,829</b>
Minority Interest	440	330	190	34,540	33,120	38,301	43,999	50,381
Total Loans	52,580	63,610	66,380	2,91,360	2,88,120	2,78,120	2,58,120	2,28,120
Perpetual bonds	0	0	0	0	29,860	29,860	29,860	29,860
<b>Total Loans (Including Perpetual bond)</b>	<b>52,580</b>	<b>63,610</b>	<b>66,380</b>	<b>2,91,360</b>	<b>3,17,980</b>	<b>3,07,980</b>	<b>2,87,980</b>	<b>2,57,980</b>
Deferred Tax Liabilities	-3,900	-5,010	-4,410	21,970	27,770	27,770	27,770	27,770
<b>Capital Employed</b>	<b>1,08,010</b>	<b>1,32,900</b>	<b>1,53,850</b>	<b>4,95,020</b>	<b>5,41,830</b>	<b>5,58,794</b>	<b>5,74,462</b>	<b>5,85,961</b>
Gross Block	93,150	96,060	1,06,340	2,30,310	2,59,590	2,84,924	3,05,241	3,27,804
Less: Accum. Deprn.	58,700	59,540	66,290	75,090	95,210	1,17,380	1,41,577	1,67,532
<b>Net Fixed Assets</b>	<b>34,450</b>	<b>36,520</b>	<b>40,050</b>	<b>1,55,220</b>	<b>1,64,380</b>	<b>1,67,544</b>	<b>1,63,664</b>	<b>1,60,273</b>
Goodwill on Consolidation	4,170	4,190	4,320	1,66,270	1,82,410	1,82,410	1,82,410	1,82,410
Capital WIP	4,840	7,920	13,190	18,550	20,730	12,896	12,579	15,016
<b>Total Investments</b>	<b>3,350</b>	<b>3,780</b>	<b>10,340</b>	<b>7,080</b>	<b>5,580</b>	<b>5,580</b>	<b>5,580</b>	<b>5,580</b>
<b>Curr. Assets, Loans and Adv.</b>	<b>1,17,980</b>	<b>1,44,700</b>	<b>1,57,240</b>	<b>2,84,540</b>	<b>3,27,730</b>	<b>3,35,985</b>	<b>3,74,287</b>	<b>3,99,071</b>
Inventory	37,870	41,560	45,380	91,330	78,500	81,662	93,206	1,00,159
Account Receivables	51,000	56,560	60,570	1,16,790	1,18,670	1,19,315	1,35,375	1,45,761
Cash and Bank Balance	11,890	28,950	28,940	28,510	67,520	59,269	63,353	64,480
Loans and Advances	17,220	17,630	22,350	47,910	63,040	75,739	82,353	88,671
<b>Curr. Liability and Prov.</b>	<b>56,780</b>	<b>64,210</b>	<b>71,290</b>	<b>1,36,640</b>	<b>1,59,000</b>	<b>1,45,621</b>	<b>1,64,057</b>	<b>1,76,389</b>
Account Payables	39,620	48,850	56,750	94,230	1,02,330	1,05,858	1,20,822	1,29,836
Other Current Liabilities	16,120	14,270	13,430	33,770	55,320	37,869	41,177	44,336
Provisions	1,040	1,090	1,110	8,640	1,350	1,893	2,059	2,217
<b>Net Current Assets</b>	<b>61,200</b>	<b>80,490</b>	<b>85,950</b>	<b>1,47,900</b>	<b>1,68,730</b>	<b>1,90,364</b>	<b>2,10,229</b>	<b>2,22,682</b>
<b>Appl. of Funds</b>	<b>1,08,010</b>	<b>1,32,900</b>	<b>1,53,850</b>	<b>4,95,020</b>	<b>5,41,830</b>	<b>5,58,794</b>	<b>5,74,462</b>	<b>5,85,961</b>



## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Basic (INR)</b>								
EPS	17.3	27.3	29.0	32.2	34.8	41.4	49.0	57.4
Cash EPS	26.1	36.1	37.8	43.7	61.1	70.4	122.1	138.3
BV/Share	77.0	96.7	119.9	192.4	213.0	241.5	425.2	494.7
DPS	5.0	7.0	5.3	5.3	6.0	7.1	9.8	11.5
Payout (%)	40.7	31.0	20.0	27.1	25.9	20.0	20.0	20.0
<b>Valuation (x)</b>								
P/E				19.5	18.1	15.2	12.9	11.0
Cash P/E				14.4	10.3	8.9	5.2	4.6
P/BV				3.3	3.0	2.6	1.5	1.3
EV/Sales				3.4	2.0	1.9	1.7	1.5
EV/EBITDA				16.4	9.8	8.9	7.6	6.6
Dividend Yield (%)				0.8	1.0	1.1	1.6	1.8
FCF per share				-350.0	51.9	36.6	62.6	71.7
<b>Return Ratios (%)</b>								
RoE	22.5	31.4	26.8	20.6	17.2	18.2	18.8	18.9
RoCE	19.2	21.7	19.5	11.6	9.5	10.6	11.3	12.3
RoIC	21.4	25.7	26.1	12.0	9.6	10.7	11.1	12.1
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.5	1.7	1.6	0.9	1.4	1.3	1.3	1.4
Inventory (Days)	204	194	204	319	156	162	162	162
Debtor (Days)	133	127	127	195	121	115	120	120
Creditor (Days)	213	228	255	329	203	210	210	210
<b>Leverage Ratio (x)</b>								
Net Debt (incl. perpetual bonds)/Equity	0.7	0.5	0.4	1.8	1.5	1.3	1.0	0.8

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	13,310	20,220	24,610	26,520	37,180	41,358	54,532	63,530
Depreciation	6,760	6,720	6,750	8,800	20,120	22,170	24,197	25,955
Interest and Finance Charges	6,350	5,850	7,830	9,630	14,810	20,890	16,389	15,014
Direct Taxes Paid	-5,030	-4,040	-2,750	-1,980	-5,860	-6,691	-11,452	-13,341
(Inc.)/Dec. in WC	-7,040	-1,210	-5,470	-10,480	30,710	-29,885	-15,781	-11,327
<b>CF from Operations</b>	<b>14,350</b>	<b>27,540</b>	<b>30,970</b>	<b>32,490</b>	<b>96,960</b>	<b>47,842</b>	<b>67,885</b>	<b>79,831</b>
Others	-390	-850	-630	-8,930	-9,650	-2,330	0	0
<b>CF from operations incl. EO</b>	<b>13,960</b>	<b>26,690</b>	<b>30,340</b>	<b>23,560</b>	<b>87,310</b>	<b>45,512</b>	<b>67,885</b>	<b>79,831</b>
(Inc.)/Dec. in FA	-6,930	-8,270	-15,680	-2,91,280	-47,600	-17,500	-20,000	-25,000
<b>Free Cash Flow</b>	<b>7,030</b>	<b>18,420</b>	<b>14,660</b>	<b>-2,67,720</b>	<b>39,710</b>	<b>28,012</b>	<b>47,885</b>	<b>54,831</b>
(Pur.)/Sale of Investments	800	120	-6,560	3,260	1,500	0	0	0
Others	-10,728	-2,040	2,810	-21,180	19,670	0	0	0
<b>CF from Investments</b>	<b>-16,858</b>	<b>-10,190</b>	<b>-19,430</b>	<b>-3,09,200</b>	<b>-26,430</b>	<b>-17,500</b>	<b>-20,000</b>	<b>-25,000</b>
Issue of Shares	0	0	-810	0	510	0	0	0
Inc./(Dec.) in Debt	12,840	10,790	2,770	2,24,980	-3,240	-10,000	-20,000	-30,000
Interest Paid	-5,860	-7,950	-7,830	-9,630	-14,810	-20,890	-16,389	-15,014
Dividend Paid	-2,290	-2,280	-4,040	-4,040	-4,590	-5,446	-7,492	-8,779
Others	0	0	-1,010	73,900	260	73	80	88
<b>CF from Fin. Activity</b>	<b>4,690</b>	<b>560</b>	<b>-10,920</b>	<b>2,85,210</b>	<b>-21,870</b>	<b>-36,263</b>	<b>-43,801</b>	<b>-53,705</b>
<b>Inc./Dec. in Cash</b>	<b>1,792</b>	<b>17,060</b>	<b>-10</b>	<b>-430</b>	<b>39,010</b>	<b>-8,251</b>	<b>4,084</b>	<b>1,127</b>
Opening Balance	10,098	11,890	28,950	28,940	28,510	67,520	59,269	63,353
<b>Closing Balance</b>	<b>11,890</b>	<b>28,950</b>	<b>28,940</b>	<b>28,510</b>	<b>67,520</b>	<b>59,269</b>	<b>63,353</b>	<b>64,480</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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