

October 23, 2022

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,020		1,020	
Sales (Rs. m)	5,73,953	6,20,333	5,73,953	6,20,333
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,32,009	1,42,677	1,32,009	1,42,677
% Chng.	-	-	-	-
EPS (Rs.)	72.9	82.1	72.9	82.1
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	4,62,400	5,31,423	5,73,953	6,20,333
EBITDA (Rs. m)	1,01,650	1,19,039	1,32,009	1,42,677
Margin (%)	22.0	22.4	23.0	23.0
PAT (Rs. m)	38,917	47,059	55,744	62,827
EPS (Rs.)	50.9	61.5	72.9	82.1
Gr. (%)	26.9	20.9	18.5	12.7
DPS (Rs.)	10.0	10.0	10.0	10.0
Yield (%)	1.4	1.4	1.4	1.4
RoE (%)	19.7	20.1	20.3	19.5
RoCE (%)	16.4	18.2	20.0	20.9
EV/Sales (x)	1.6	1.4	1.2	1.0
EV/EBITDA (x)	7.4	6.3	5.3	4.5
PE (x)	13.8	11.4	9.6	8.5
P/BV (x)	2.5	2.1	1.8	1.5

Key Data

[UPLL.BO](#) | [UPLL IN](#)

52-W High / Low	Rs.848 / Rs.608
Sensex / Nifty	59,307 / 17,576
Market Cap	Rs.526bn/ \$ 6,356m
Shares Outstanding	751m
3M Avg. Daily Value	Rs.1754.85m

Shareholding Pattern (%)

Promoter's	28.96
Foreign	36.45
Domestic Institution	16.45
Public & Others	18.14
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.4)	(15.6)	(2.4)
Relative	(2.2)	(17.5)	0.3

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Business restructuring to unlock value in long term

UPL announced strategic corporate realignment of its existing business by creating 4 distinct business verticals in the consolidated entity 1) India Agritech (crop protection + Digital); 2) Global crop protection (Excl. India business); 3) Global seeds; 4) Manufacturing and specialty chemicals + others business through investments by marquee investors (ADIA, TPG, Brookfield and KKR) investing a total of USD500mn in two of these business platforms (valuing these entities at ~USD4.5bn which is equally split between the two; implying a deal multiple of ~26x FY22 EBITDA). While, ADIA and TPG will receive USD241mn for their exit from Non-crop protection in UPL Corp. (material subsidiary) business (valuation at 11x FY22 EBITDA) resulting into net proceeds of USD259mn to UPL Ltd.

We believe, with net proceeds of USD259mn (~Rs 20 bn) (<1% of EBITDA dilution) is likely to be utilized towards debt reduction and working capital requirement of the company and would not meaningfully impact earnings profile in the near term. While, on a longer term basis, it is a positive move in terms of unlocking fair value of each of the business segments. Hence citing the above reasons, we keep our EPS estimates for FY23/24E unchanged. Maintain BUY with an unchanged target price of Rs1020 based on 14x FY24E EPS.

India Agtech Platform- UPL SAS (sustainable agriculture solutions) which comprises of India crop protection business, SWAL and Nurture, where UPL Ltd. holds 90.9% and remaining 9.09% would be held by ADIA, TPG, and Brookfield together for an outlay of USD200mn (Rs15.8bn) at an equity valuation of USD2.2bn (~Rs174bn) valuing the entity at 27x FY22 EBITDA.

Global Crop Protection business (excl. India) will be housed under UPL Ltd, Cayman. As a part of the realignment, ADIA & TPG's 22.2% holding to be moved from UPL Corp. to UPL Ltd, Cayman; and ADIA / TPG to exit the non-crop business (International Seeds and other global business) for a consideration of USD 241 mn for their 22.2% holding. UPL Corp to divest 'international seeds business to Advanta Enterprises, while it continues to own 100% of the 'other global business.

Global Seeds- Advanta Enterprises- is incorporated as a wholly owned subsidiary of UPL Ltd. In India. This entity will house both India and International seed business. KKR is investing USD 300mn for 13.33% stake in the company at an equity valuation of Rs184.5bn (USD2.25bn), valuing the entity at 26x FY22 EBITDA.

Manufacturing and Specialty chemicals- Under this business segment, the Indian manufacturing and global specialty chemical business would remain with UPL Ltd. While UPL Corp. (100% subsidiary of UPL Ltd) to house other global non-crop business of Decco (post-harvest solutions), animal health and health & nutrition business.

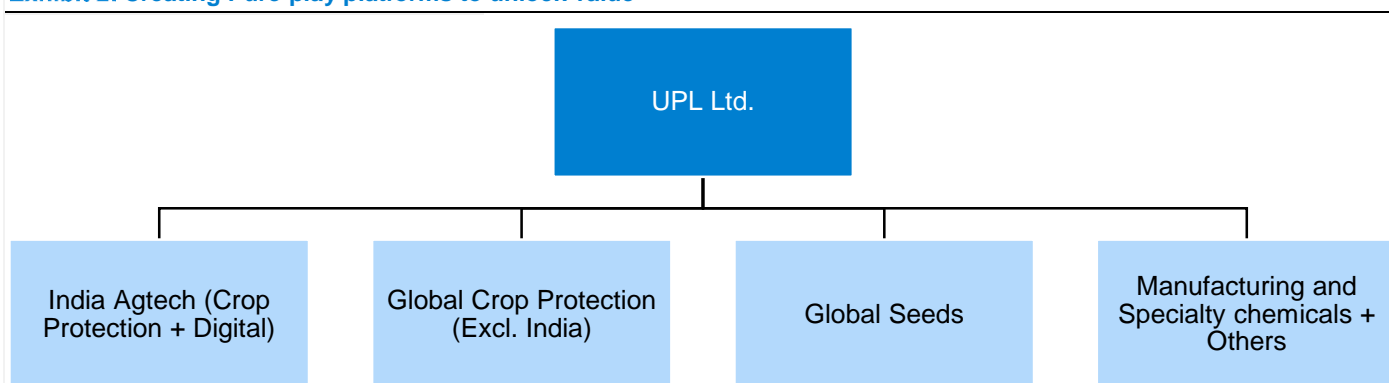
Exhibit 1: Implied Valuation as on FY22 based on recent fund raise

Particulars (Rs Mn)	Revenue	EBITDA	EBITDA Margins (%)	Fund Raise	Enterprise Value (EV)	EV/EBITDA (x)
UPL Ltd. (Consolidated)	4,62,400	1,01,650	22.0%		8,01,043	7.9
UPL SAS	38,940	6,490	16.7%	15,800	1,73,800	26.8
Advanta Enterprise	28,320	6,990	24.7%	24,600	1,84,500	26.4
UPL- Manufacturing and Specialty chemicals	1,45,740	13,100	9.0%			
UPL Cayman	3,80,370	74,990	19.7%	NA	4,42,743	4.9
Other business	13,150	2,900	22.1%			
Total		1,04,470			8,01,043	7.7

Source: PL, Company

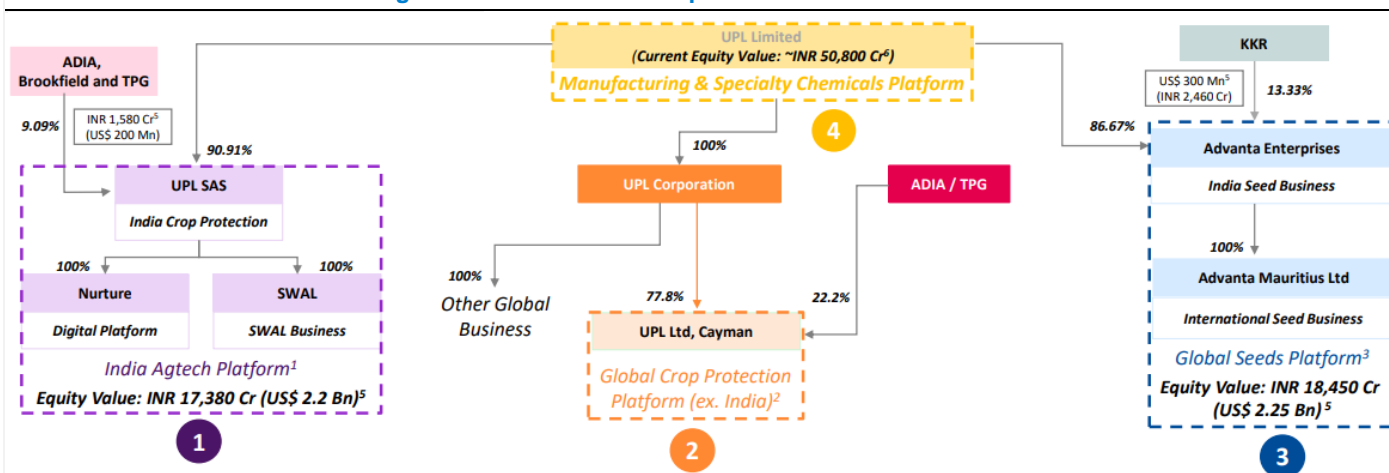
Note: UPL SAS EBITDA adjusted for investment of Rs2.8bn in Nurture farm

Exhibit 2: Creating Pure-play platforms to unlock value



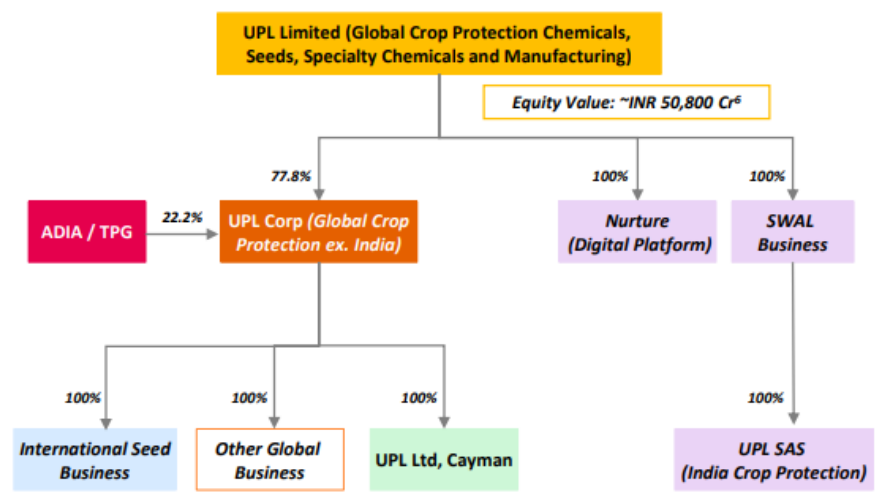
Source: Company, PL

Exhibit 3: Investments from strategic investors in business platforms



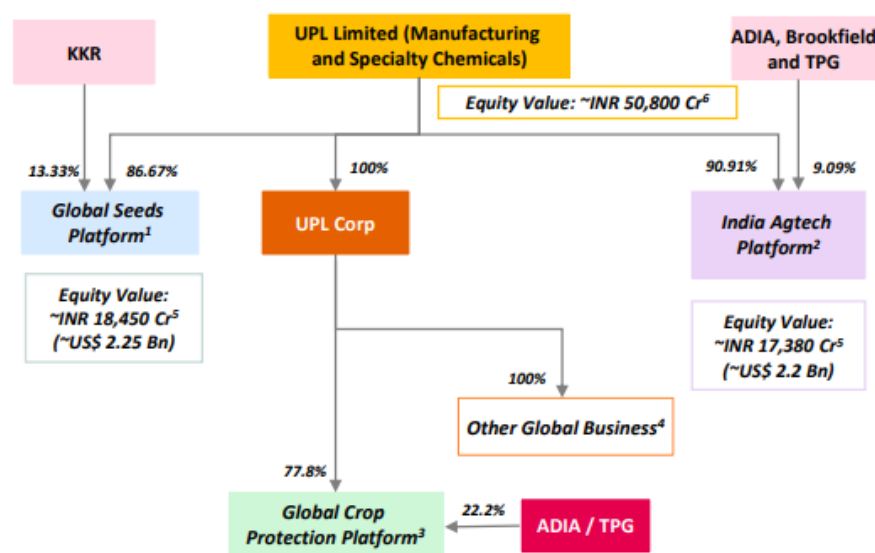
Source: Company, PL

Exhibit 4: Current Corporate Structure of UPL Ltd



Source: Company, PL

Exhibit 5: Post Re-alignment- Corporate Structure of UPL Ltd.

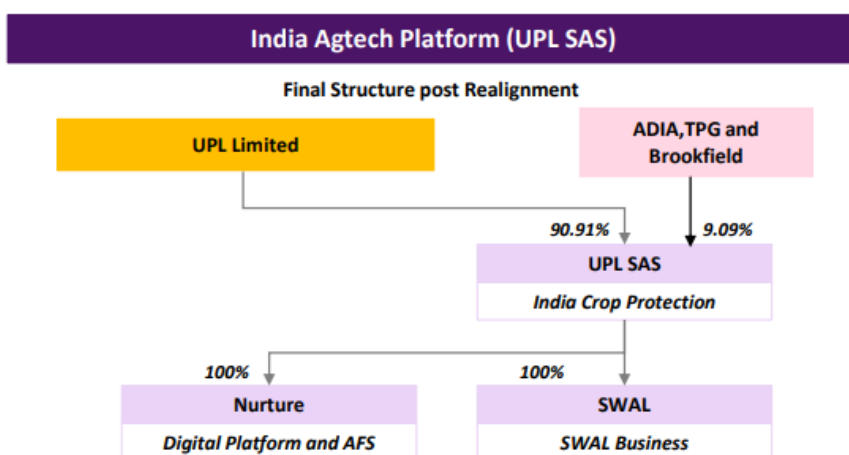


Source: Company, PL

UPL SAS to hold integrated India Agtech-based businesses

As a part of realignment, UPL SAS (Sustainable Agri Solutions), a wholly-owned subsidiary in India, will now hold India crop protection, digital platform nurture farm, Adarsh Farm Services and SWAL business.

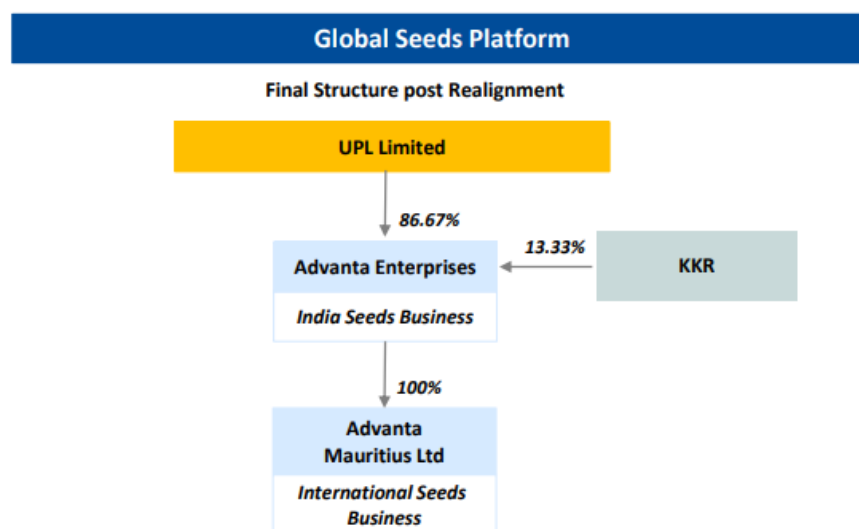
ADIA, Brookfield and TPG, together will hold 9.09% stake for a combined investment of USD200m (Rs15.8bn) in UPL SAS. This implies an equity valuation of USD2.2bn (Rs17.4bn). With FY22 adjusted EBITDA of ~Rs6.5bn and based on the above valuations, the EV/EBITDA multiple assigned to UPL SAS is 26x.

Exhibit 6: India Agtech Platform (UPL SAS)


Source: Company, PL

KKR to invest USD300mn in Advanta Enterprises

UPL Ltd. has incorporated a new subsidiary- Advanta Enterprises, which will house India and international seeds business. With fresh investment of USD300mn, KKR will hold 13.33% stake in Advanta Enterprises. This implies a post-money equity valuation of USD2.25bn (Rs18.45bn). Advanta Enterprises FY22 EBITDA stood at Rs6.9bn which implies EV/EBITDA multiple for the deal is 26x.

Exhibit 7: Advanta Enterprise


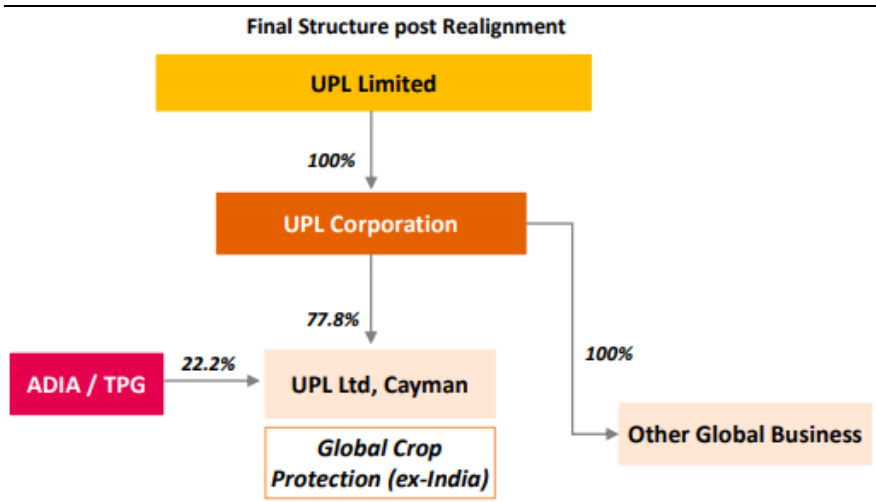
Source: Company, PL

ADIA and TPG will continue to hold 22.2% stake for International crop protection

With the realignment in the holding structure in UPL Corp. (raised USD1.2bn for 22.2% stake from ADIA and TPG to fund acquisition of Arysta Life science) ADIA and TPG will exit from non-crop protection businesses (i.e. Seeds and other non-core businesses) of UPL Corp. for a valuation of USD241mn (~12x FY22 EV/EBITDA). The non-core businesses will be held by UPL Corp. comprising of Decco (post-harvest solutions), animal health and nutrition. The residual international crop protection business will be transferred from UPL Corp to UPL Cayman where ADIA and TPG will hold 22.2% in UPL Cayman.

International CP business to be transferred from UPL Corp. to step down subsidiary UPL Ltd, Cayman

Exhibit 8: UPL Cayman to be the holding company for International CP business



Source: Company, PL

Manufacturing and Specialty Chemicals intact within UPL The India bulk and formulation manufacturing along with specialty chemicals business will remain intact within UPL at a standalone level. Management pointed out that the business will continue to earn manufacturing margins accrued in India. Materials transferred from India to UPL’s global network will continue to get transferred at arm’s length. Distribution and marketing margin for sales outside India would then be accrued in the hands of international subsidiaries.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	4,62,400	5,31,423	5,73,953	6,20,333
YoY gr. (%)	19.5	14.9	8.0	8.1
Cost of Goods Sold	2,20,720	2,57,209	2,76,645	2,99,000
Gross Profit	2,41,680	2,74,214	2,97,308	3,21,332
Margin (%)	52.3	51.6	51.8	51.8
Employee Cost	46,220	54,205	58,543	63,274
Other Expenses	74,520	85,028	89,537	96,152
EBITDA	1,01,650	1,19,039	1,32,009	1,42,677
YoY gr. (%)	18.8	17.1	10.9	8.1
Margin (%)	22.0	22.4	23.0	23.0
Depreciation and Amortization	23,590	26,685	28,706	30,726
EBIT	78,060	92,353	1,03,303	1,11,950
Margin (%)	16.9	17.4	18.0	18.0
Net Interest	22,950	23,700	21,350	19,150
Other Income	(3,550)	200	(20)	(200)
Profit Before Tax	51,560	68,853	81,933	92,600
Margin (%)	11.2	13.0	14.3	14.9
Total Tax	5,873	13,771	16,387	18,520
Effective tax rate (%)	11.4	20.0	20.0	20.0
Profit after tax	45,687	55,083	65,547	74,080
Minority interest	8,110	9,364	11,143	12,594
Share Profit from Associate	1,340	1,340	1,340	1,340
Adjusted PAT	38,917	47,059	55,744	62,827
YoY gr. (%)	26.9	20.9	18.5	12.7
Margin (%)	8.4	8.9	9.7	10.1
Extra Ord. Income / (Exp)	2,657	2,500	2,500	2,500
Reported PAT	41,574	49,559	58,244	65,327
YoY gr. (%)	27.5	19.2	17.5	12.2
Margin (%)	9.0	9.3	10.1	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	41,574	49,559	58,244	65,327
Equity Shares O/s (m)	765	765	765	765
EPS (Rs)	50.9	61.5	72.9	82.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	3,00,470	3,25,430	3,50,070	3,74,710
Tangibles	1,89,790	2,14,750	2,39,390	2,64,030
Intangibles	1,10,680	1,10,680	1,10,680	1,10,680
Acc: Dep / Amortization	1,09,010	1,35,695	1,64,401	1,95,127
Tangibles	1,09,010	1,35,695	1,64,401	1,95,127
Intangibles	-	-	-	-
Net fixed assets	1,91,460	1,89,735	1,85,669	1,79,583
Tangibles	80,780	79,055	74,989	68,903
Intangibles	1,10,680	1,10,680	1,10,680	1,10,680
Capital Work In Progress	11,840	11,840	11,840	11,840
Goodwill	1,83,640	1,83,640	1,83,640	1,83,640
Non-Current Investments	10,820	10,820	10,820	10,820
Net Deferred tax assets	(3,990)	(3,990)	(3,990)	(3,990)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	8,400	8,400	8,400	8,400
Inventories	1,30,780	1,33,889	1,36,428	1,47,452
Trade receivables	1,53,340	1,82,053	1,96,623	2,12,511
Cash & Bank Balance	61,200	41,385	60,380	77,223
Other Current Assets	-	-	-	-
Total Assets	8,26,790	8,39,800	8,74,701	9,15,378
Equity				
Equity Share Capital	1,530	1,530	1,530	1,530
Other Equity	2,15,220	2,50,560	2,94,586	3,45,694
Total Networkth	2,16,750	2,52,090	2,96,116	3,47,224
Non-Current Liabilities				
Long Term borrowings	2,45,910	2,15,910	1,85,910	1,55,910
Provisions	-	-	-	-
Other non current liabilities	10,950	10,950	10,950	10,950
Current Liabilities				
ST Debt / Current of LT Debt	42,610	42,610	42,610	42,610
Trade payables	1,65,520	1,69,124	1,85,693	2,00,699
Other current liabilities	73,830	77,896	82,202	86,764
Total Equity & Liabilities	8,26,790	8,39,800	8,74,701	9,15,378

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	49,660	68,853	81,933	92,600
Add. Depreciation	23,590	26,685	28,706	30,726
Add. Interest	22,950	23,700	21,350	19,150
Less Financial Other Income	(3,550)	200	(20)	(200)
Add. Other	(3,530)	(10,724)	(12,283)	(13,554)
Op. profit before WC changes	92,670	1,08,515	1,19,706	1,28,923
Net Changes-WC	(17,670)	(26,881)	904	(10,352)
Direct tax	(10,040)	(13,771)	(16,387)	(18,520)
Net cash from Op. activities	64,960	67,863	1,04,224	1,00,051
Capital expenditures	(25,650)	(24,960)	(24,640)	(24,640)
Interest / Dividend Income	2,870	200	(20)	(200)
Others	(15,410)	-	-	-
Net Cash from Inv. activities	(38,190)	(24,760)	(24,660)	(24,840)
Issue of share cap. / premium	-	-	-	-
Debt changes	96,840	(30,000)	(30,000)	(30,000)
Dividend paid	(9,220)	(9,218)	(9,218)	(9,218)
Interest paid	(19,410)	(23,700)	(21,350)	(19,150)
Others	(87,420)	-	-	-
Net cash from Fin. activities	(19,210)	(62,918)	(60,568)	(58,368)
Net change in cash	7,560	(19,815)	18,995	16,843
Free Cash Flow	64,960	67,863	1,04,224	1,00,051

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23E
Net Revenue	1,12,970	1,58,610	1,08,210	1,21,066
YoY gr. (%)	23.8	24.0	27.1	14.6
Raw Material Expenses	51,540	79,940	46,640	60,896
Gross Profit	61,430	78,670	61,570	60,170
Margin (%)	54.4	49.6	56.9	49.7
EBITDA	26,650	35,920	23,430	22,310
YoY gr. (%)	20.7	26.5	25.8	9.1
Margin (%)	23.6	22.6	21.7	18.4
Depreciation / Depletion	6,000	6,420	5,880	6,113
EBIT	20,650	29,500	17,550	16,197
Margin (%)	18.3	18.6	16.2	13.4
Net Interest	5,210	6,280	6,070	4,508
Other Income	(1,590)	(2,680)	(360)	(500)
Profit before Tax	13,850	20,540	11,120	11,189
Margin (%)	12.3	13.0	10.3	9.2
Total Tax	1,765	2,952	730	2,685
Effective tax rate (%)	12.7	14.4	6.6	24.0
Profit after Tax	12,085	17,588	10,390	8,504
Minority interest	2,290	2,420	980	1,020
Share Profit from Associates	-	-	-	-
Adjusted PAT	9,795	15,168	9,410	7,483
YoY gr. (%)	35.0	34.4	29.1	12.2
Margin (%)	8.7	9.6	8.7	6.2
Extra Ord. Income / (Exp)	(435)	(1,378)	(640)	-
Reported PAT	9,360	13,790	8,770	7,483
YoY gr. (%)	17.9	29.7	29.5	18.0
Margin (%)	8.3	8.7	8.1	6.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,360	13,790	8,770	7,483
Avg. Shares O/s (m)	765	765	765	765
EPS (Rs)	12.8	19.8	12.3	9.8

Source: Company Data, PL Research

Key Financial Metrics

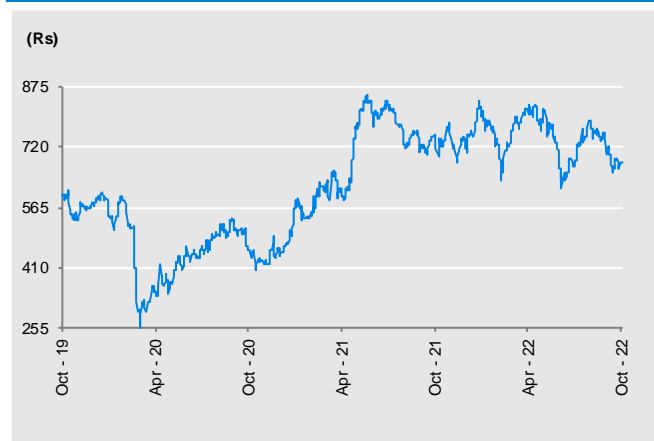
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	50.9	61.5	72.9	82.1
CEPS	81.7	96.4	110.4	122.3
BVPS	283.3	329.5	387.1	453.9
FCF	84.9	88.7	136.2	130.8
DPS	10.0	10.0	10.0	10.0
Return Ratio(%)				
RoCE	16.4	18.2	20.0	20.9
ROIC	17.0	16.1	18.4	19.9
RoE	19.7	20.1	20.3	19.5
Balance Sheet				
Net Debt : Equity (x)	1.0	0.8	0.5	0.3
Net Working Capital (Days)	94	101	94	94
Valuation(x)				
PER	13.8	11.4	9.6	8.5
P/B	2.5	2.1	1.8	1.5
P/CEPS	8.6	7.3	6.3	5.7
EV/EBITDA	7.4	6.3	5.3	4.5
EV/Sales	1.6	1.4	1.2	1.0
Dividend Yield (%)	1.4	1.4	1.4	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Revenues	4,62,400	5,31,423	5,73,953	6,20,333
India	56,900	63,728	70,101	77,111
LAtAM	1,80,400	2,12,872	2,36,288	2,62,280
Europe	68,900	74,412	78,133	82,039
Rest of World	78,100	89,815	94,306	99,021
North America	78,100	90,596	95,126	99,882

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	BUY	1,020	665
2	02-Aug-22	BUY	1,020	767
3	04-Jul-22	BUY	1,010	644
4	10-May-22	BUY	1,010	778
5	08-Apr-22	BUY	990	803
6	31-Jan-22	BUY	980	777
7	12-Jan-22	BUY	910	822
8	27-Dec-21	BUY	910	747

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,650	4,803
2	Chambal Fertilizers & Chemicals	BUY	480	320
3	Coromandel International	BUY	1,200	973
4	Dhanuka Agritech	BUY	850	658
5	Godrej Agrovet	Accumulate	570	520
6	Insecticides India	Hold	920	701
7	P.I. Industries	BUY	3,450	2,956
8	Rallis India	BUY	250	226
9	Sharda Cropchem	BUY	740	431
10	Sumitomo Chemical India	BUY	510	511
11	UPL	BUY	1,020	665

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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