

January 31, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,070		1,070	
Sales (Rs. m)	5,97,698	6,46,020	5,83,213	6,30,359
% Chng.	2.5	2.5		
EBITDA (Rs. m)	1,36,873	1,49,231	1,31,806	1,44,983
% Chng.	3.8	2.9		
EPS (Rs.)	70.9	82.1	70.7	82.0
% Chng.	0.2	0.1		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	4,62,400	5,53,389	5,97,698	6,46,020
EBITDA (Rs. m)	1,01,650	1,22,852	1,36,873	1,49,231
Margin (%)	22.0	22.2	22.9	23.1
PAT (Rs. m)	38,917	45,802	54,204	62,810
EPS (Rs.)	50.9	59.9	70.9	82.1
Gr. (%)	26.9	17.7	18.3	15.9
DPS (Rs.)	10.0	10.0	10.0	10.0
Yield (%)	1.3	1.3	1.3	1.3
RoE (%)	19.7	19.6	20.0	19.8
RoCE (%)	16.4	19.3	21.0	22.3
EV/Sales (x)	1.7	1.5	1.3	1.1
EV/EBITDA (x)	7.9	6.6	5.5	4.8
PE (x)	14.9	12.6	10.7	9.2
P/BV (x)	2.7	2.3	2.0	1.7

Key Data

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52-W High / Low	Rs.848 / Rs.608
Sensex / Nifty	59,550 / 17,662
Market Cap	Rs.568bn/ \$ 6,938m
Shares Outstanding	751m
3M Avg. Daily Value	Rs.1484.38m

Shareholding Pattern (%)

Promoter's	29.96
Foreign	34.57
Domestic Institution	17.19
Public & Others	18.28
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.7	2.2	(2.5)
Relative	8.0	(1.2)	(5.0)

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Healthy operating performance; debt repayment remains key

Quick Pointers:

- Volume/price/exchange growth of 1%/13%/7% YoY in Q3.
- Net debt stood at Rs305.1bn (including perpetual bond of Rs29.8bn) down Rs9.8bn QoQ and up Rs37.6bn YoY

We fine tune our FY23E estimates by 2% to factor in 3Q'23 and 9M'23 performance, while we largely maintain our FY24/25 estimates. UPL reported results broadly in-line with our and consensus estimates with Revenue/EBITDA/PAT of Rs136.7bn/Rs30.3bn/Rs11.03bn (+21%/ +14%/ +13% YoY). Citing positive demand scenario globally coupled with better realizations, UPL remains confident to achieve upper limit of its Revenue and EBITDA growth guidance of 12-15% and 15-18% in FY23E, with growth largely driven by focus on differentiated solutions and new product launches. The company also expects to reduce its debt by USD500mn YoY in FY23E (USD1.3bn sequentially) led by a) better operating performance in subsequent quarter; b) release of working capital and c) recent restructuring of business verticals resulting into net cash inflow of USD259mn. We expect Revenue/PAT CAGR of 12%/17% over FY22-25E. Maintain 'BUY' with unchanged TP of INR1070 based on 14XSeptember FY24E EPS.

- All geographies barring Europe posted double digit growth:** Consolidated revenues at Rs136.7bn (+21% YoY) were ahead of our and consensus estimates of Rs128bn and Rs129bn respectively. Volume remained flat (up 1% YoY- led by channel destocking in few regions), while positive price variance of 13% YoY and positive 7% FX has resulted into 21% YoY growth in 3QFY23. All the regions posted positive growth with LATAM/ NAFTA/ Europe/ Row/India recording 28%/30%/3%/12%/19% YoY growth respectively. Growth was primarily driven by (a) strong growth in herbicide and insecticides segment; (b) better price realizations led by healthy demand and comfortable channel inventory and (c) accelerated growth in differentiated products across regions.
- Margins under pressure due to inflationary RM cost environment:** EBITDA margins contracted by 140bps YoY to 22.2% (PLe 22.5%) led by lower gross margins coupled with higher other expenses. Forex loss in finance cost and other income stood at Rs630mn in 3QFY23 vs Rs2.29bn in same quarter last year. Adjusted PAT came in at Rs11.03bn (PLe Rs11.3bn). Exceptional item of Rs200mn (net of tax Rs164mn) is towards loss on account of fire in plant, restructuring cost in Europe and litigation cost.
- Net debt declined Rs9.8bn QoQ:** As on December 31, 2022 net debt stood at Rs305.1bn (including perpetual bond of Rs29.9bn, considered as equity), up Rs37.6bn YoY, however down Rs9.8bn QoQ. Robust cash flow generation (Rs50.7bn in 9MFY23) coupled with additional cash inflows due to restructuring of business has resulted into sequential decline in debt in 3QFY23.

Other Key Highlights

- **LATAM- Double digit growth led by better volumes and prices:** UPL posted strong growth of 28% YoY in LATAM region primarily driven by strong growth aided by higher volumes and improved pricing in herbicide and insecticides segment in Brazil and Argentina markets. The company posted healthy growth in NPP Bio solutions in Mexican and Andean region. Though better volumes of its newly launched fungicide Evolution has supported the overall performance.
- **Europe- Ongoing geo-political tensions in the region impact sales:** UPL posted low single digit growth of 3% YoY in the European region primarily led by a) devaluation of currency in the region; b) product ban in the region; and c) ongoing geopolitical tensions between Russia and Ukraine impacting overall performance in the region. However, there was growth in Euro terms (+10% YoY). UPL recorded strong growth of +41% in differentiated products, primarily led by insecticides and fungicides portfolio.
- **North America-Favorable price & product mix aid sales in the region:** UPL posted a whopping 30% YoY growth in the NAFTA region, driven equal mix of both improved pricing and volume growth supported by favorable currency impact. Improved commodity prices coupled with favorable exchange rate has in-turn resulted into an overall healthy performance from the region. Going forward, the company remains upbeat led by better traction from non-selective herbicides supported by better price realizations. However, dry weather conditions coupled with higher channel inventory led by heavy stocking of herbicides amid supply issues remains a concern.
- **India- Better performance from Seeds division drives the show:** UPL posted 19% YoY growth in the domestic market, primarily led by healthy growth in seeds business. However, crop protection segment reported flat YoY growth led by unfavorable weather conditions and higher channel inventory resulting in lower volumes. Lower volumes were marginally mitigated by superior price realizations. Going forward, management remained positive on the subsequent quarter led by strong sugarcane portfolio and superior growth in seed treatment segment.
- **RoW- Better growth reported from SE Asian countries:** UPL posted 12% YoY growth in the RoW region, primarily led by growth in Insecticides and herbicides segment. Strong growth recorded despite higher channel inventory, pricing pressure from China and unfavorable market economies.
- **Advanta Seeds- Robust traction in Revenue and EBITDA:** Advanta seeds reported 30% YoY growth in revenues to Rs9.1bn primarily driven by a) higher volume in sorghum, sunflower and field corn coupled with superior price realizations; and b) benefits from rupee depreciation. Contribution margin improved by 300 bps YoY largely led by increase in volumes and favorable product mix of Field Corn/Sunflower/Canola in India/Argentina/Australia and B2C growth in Indonesian and Vietnam markets.
- **Net working capital- Peaked out; likely to be flat YoY by Mar-23:** NWC has increased by 13 days YoY to 121 days led by a) robust growth of 23% in

revenues till 9MFY23; b) short-term inventory build-up due to strong demand in 4QFY23 and uncertainties in supply-chain.

- Guidance:** Citing positive demand scenario globally, UPL remained confident of achieving higher end of its revenue and EBITDA growth guidance of 12-15% and 15-18% in FY23E, with growth to be driven by focus on differentiated solutions and new product launches. While on debt repayment management guided for net debt reduction of USD1.3bn sequentially and USD500mn YoY to USD2bn by 4QFY23.

Exhibit 1: Q3FY23 Result Overview (Rs mn)

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Revenue	1,36,790	1,12,970	21.1	1,25,070	9.4	3,70,070	3,03,790	21.8
Raw material costs	64,540	51,540	25.2	57,810	11.6	1,68,990	1,40,780	20.0
Gross profit	72,250	61,430	17.6	67,260	7.4	2,01,080	1,63,010	23.4
Employee costs	13,210	11,660	13.3	12,330	7.1	37,980	32,750	16.0
Other expenses	28,700	23,120	24.1	27,250	5.3	81,650	64,530	26.5
Total operating expenses	41,910	34,780	20.5	39,580	5.9	1,19,630	97,280	23.0
EBITDA	30,340	26,650	13.8	27,680	9.6	81,450	65,730	23.9
Depreciation	6,240	6,000	4.0	6,080	2.6	18,200	17,170	6.0
EBIT	24,100	20,650	16.7	21,600	11.6	63,250	48,560	30.3
Less: Interest Expense	8,940	5,290	69.0	6,440	38.8	20,570	14,950	37.6
Add: Other income	-350	-1,510	NA	-2,460	NA	-4,050	-2,590	NA
Profit Before Tax	14,810	13,850	6.9	12,700	16.6	38,630	31,020	24.5
Less: Provision for Tax	1,386	1,765	(21.5)	2,387	(41.9)	4,504	2,921	54.2
Less: Minority Interest	2,390	2,290	4.4	1,820	31.3	5,190	4,350	19.3
Adjusted Profit	11,034	9,795	12.7	8,493	29.9	28,936	23,749	21.8
Add: Exceptional items (net of tax)	164	435	(62.3)	353	(53.5)	1,156	1,279	(9.6)
Reported Profit	10,870	9,360	16.1	8,140	33.5	27,780	22,470	23.6
Adjusted EPS	14.4	12.8	12.7	11.1	29.9	37.8	31.0	21.8
As % of revenues								
COGS	47.2	45.6		46.2		45.7	46.3	
Gross profit	52.8	54.4		53.8		54.3	53.7	
Employee costs	9.7	10.3		9.9		10.3	10.8	
Other expenses	21.0	20.5		21.8		22.1	21.2	
Total operating expenses	30.6	30.8		31.6		32.3	32.0	
EBITDA	22.2	23.6		22.1		22.0	21.6	
Net profit	8.1	8.7		6.8		7.8	7.8	

Source: Company, PL

Exhibit 2: Robust growth driven by higher realizations

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Volume growth	7	18	6	15	11	3	6	(7)	1
Realization impact	1	1	2	3	13	19	18	21	13
Forex impact	(5)	(4)	1	0	0	2	3	4	7
Total (%)	3	15	9	18	24	24	27	18	21

Source: Company, PL

Exhibit 3: All geographies barring Europe posted double digit revenue growth

Geography	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
NAFTA	13,520	25,390	12,210	9,580	21,170	35,120	17,960	11,850	27,450
India	9,060	8,510	19,140	14,830	9,070	13,840	20,670	18,080	10,750
Europe	11,200	25,770	15,220	13,360	14,060	26,290	17,280	13,540	14,440
ROW	18,990	20,640	13,500	17,020	21,850	25,750	17,650	20,670	24,410
LATAM	38,490	47,660	25,070	50,880	46,830	57,610	34,640	60,920	59,740
Total Sales	91,260	1,27,970	85,140	1,05,670	1,12,980	1,58,610	1,08,200	1,25,060	1,36,790
NAFTA	5.0	4.0	18.9	23.9	56.6	38.3	47.1	23.7	29.7
India	21.0	23.2	26.7	5.3	0.1	62.6	8.0	21.9	18.5
Europe	30.1	16.9	(10.6)	30.7	25.5	2.0	13.5	1.3	2.7
ROW	6.1	(14.4)	(14.4)	13.2	15.1	24.8	30.7	21.4	11.7
LATAM	(8.4)	40.5	24.4	20.2	21.7	20.9	38.2	19.7	27.6

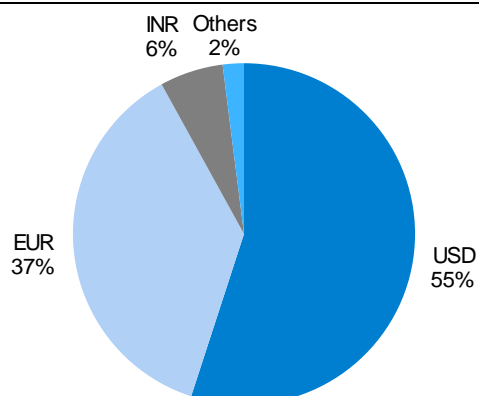
Source: Company, PL

Exhibit 4: Working Capital peaked out; Net debt down Rs9.8bn QoQ

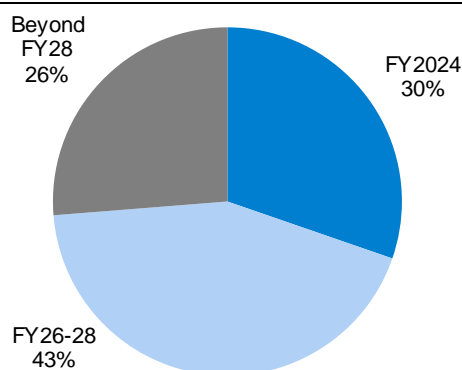
Cash Flow Metrics	1QFY23	2QFY23	3QFY23
Sources			
PAT + Depreciation	14,650	14,220	17,110
Increase in Debt	75,740	20,320	(9,840)
Total Sources	90,390	34,540	7,270
Application			
Working Capital	56,080	28,870	4,000
Capex	9,410	4,990	6,000
Dividend paid	13,550	7,550	-
Investment in subsidiaries	-	-	-
Miscellaneous	11,350	(6,870)	(2,730)
Total Utilisations	90,390	34,540	7,270

Source: Company, PL

Note: Negative figures indicate debt repaid and working capital deployment

Exhibit 5: Debt Profile of UPL- By Currency


Source: Company, PL

Exhibit 6: Debt Profile of UPL- By Maturity


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	4,62,400	5,53,389	5,97,698	6,46,020
YoY gr. (%)	19.5	19.7	8.0	8.1
Cost of Goods Sold	2,20,720	2,58,433	2,80,918	3,03,629
Gross Profit	2,41,680	2,94,956	3,16,780	3,42,390
Margin (%)	52.3	53.3	53.0	53.0
Employee Cost	46,220	55,892	59,770	64,602
Other Expenses	74,520	99,610	1,02,206	1,09,177
EBITDA	1,01,650	1,22,852	1,36,873	1,49,231
YoY gr. (%)	18.8	20.9	11.4	9.0
Margin (%)	22.0	22.2	22.9	23.1
Depreciation and Amortization	23,590	25,162	28,633	30,987
EBIT	78,060	97,690	1,08,240	1,18,244
Margin (%)	16.9	17.7	18.1	18.3
Net Interest	22,950	29,600	27,100	24,125
Other Income	(3,550)	(4,300)	(2,520)	(2,700)
Profit Before Tax	51,560	63,790	78,620	91,419
Margin (%)	11.2	11.5	13.2	14.2
Total Tax	5,873	9,569	14,152	16,455
Effective tax rate (%)	11.4	15.0	18.0	18.0
Profit after tax	45,687	54,222	64,468	74,964
Minority interest	8,110	9,760	11,604	13,493
Share Profit from Associate	1,340	1,340	1,340	1,340
Adjusted PAT	38,917	45,802	54,204	62,810
YoY gr. (%)	26.9	17.7	18.3	15.9
Margin (%)	8.4	8.3	9.1	9.7
Extra Ord. Income / (Exp)	2,657	2,800	3,000	3,000
Reported PAT	41,574	48,602	57,204	65,810
YoY gr. (%)	27.5	16.9	17.7	15.0
Margin (%)	9.0	8.8	9.6	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	41,574	48,602	57,204	65,810
Equity Shares O/s (m)	765	765	765	765
EPS (Rs)	50.9	59.9	70.9	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	3,33,270	3,57,910	3,82,550
Tangibles	1,89,790	2,22,590	2,47,230	2,71,870
Intangibles	1,10,680	1,10,680	1,10,680	1,10,680
Acc: Dep / Amortization	1,09,010	1,34,172	1,62,805	1,93,791
Tangibles	1,09,010	1,34,172	1,62,805	1,93,791
Intangibles	-	-	-	-
Net fixed assets	1,91,460	1,99,098	1,95,105	1,88,759
Tangibles	80,780	88,418	84,425	78,079
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	1,34,527	1,38,535	1,49,735
Trade receivables	1,53,340	1,89,578	2,04,757	2,21,311
Cash & Bank Balance	61,200	23,107	39,974	55,958
Other Current Assets	-	-	-	-
Total Assets	8,26,790	8,39,048	8,73,973	9,14,372
Equity				
Equity Share Capital	1,530	1,530	1,530	1,530
Other Equity	2,15,220	2,49,004	2,90,990	3,41,581
Total Networkth	2,16,750	2,50,534	2,92,520	3,43,111
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	1,69,928	1,88,561	2,03,806
Other current liabilities	73,830	77,896	82,202	86,764
Total Equity & Liabilities	8,26,790	8,39,048	8,73,973	9,14,372

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	49,660	63,790	78,620	91,419
Add. Depreciation	23,590	25,162	28,633	30,987
Add. Interest	22,950	29,600	27,100	24,125
Less Financial Other Income	(3,550)	(4,300)	(2,520)	(2,700)
Add. Other	(3,530)	(6,920)	(10,744)	(12,453)
Op. profit before WC changes	92,670	1,11,632	1,23,608	1,34,077
Net Changes-WC	(17,670)	(34,238)	888	(10,954)
Direct tax	(10,040)	(9,569)	(14,152)	(16,455)
Net cash from Op. activities	64,960	67,825	1,10,345	1,06,668
Capital expenditures	(25,650)	(32,800)	(24,640)	(24,640)
Interest / Dividend Income	2,870	(4,300)	(2,520)	(2,700)
Others	(15,410)	-	-	-
Net Cash from Inv. activities	(38,190)	(37,100)	(27,160)	(27,340)
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)	(29,600)	(27,100)	(24,125)
Others	(87,420)	-	-	-
Net cash from Fin. activities	(19,210)	(68,818)	(66,318)	(63,343)
Net change in cash	7,560	(38,093)	16,867	15,985
Free Cash Flow	38,080	35,025	85,705	82,028

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	1,58,610	1,08,210	1,25,070	1,36,790
YoY gr. (%)	24.0	27.1	18.4	21.1
Raw Material Expenses	79,940	46,640	57,810	64,540
Gross Profit	78,670	61,570	67,260	72,250
Margin (%)	49.6	56.9	53.8	52.8
EBITDA	35,920	23,430	27,680	30,340
YoY gr. (%)	26.5	25.8	35.4	13.8
Margin (%)	22.6	21.7	22.1	22.2
Depreciation / Depletion	6,420	5,880	6,080	6,240
EBIT	29,500	17,550	21,600	24,100
Margin (%)	18.6	16.2	17.3	17.6
Net Interest	6,280	6,070	5,190	9,810
Other Income	(2,680)	(360)	(3,710)	520
Profit before Tax	20,540	11,120	12,700	14,810
Margin (%)	13.0	10.3	10.2	10.8
Total Tax	2,952	730	2,387	1,386
Effective tax rate (%)	14.4	6.6	18.8	9.4
Profit after Tax	17,588	10,390	10,313	13,424
Minority interest	2,420	980	1,820	2,390
Share Profit from Associates	-	-	-	-
Adjusted PAT	15,168	9,410	8,493	11,034
YoY gr. (%)	34.4	29.1	27.4	12.7
Margin (%)	9.6	8.7	6.8	8.1
Extra Ord. Income / (Exp)	(1,378)	(640)	(353)	(164)
Reported PAT	13,790	8,770	8,140	10,870
YoY gr. (%)	29.7	29.5	28.4	16.1
Margin (%)	8.7	8.1	6.5	7.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,790	8,770	8,140	10,870
Avg. Shares O/s (m)	765	765	765	765
EPS (Rs)	19.8	12.3	11.1	14.4

Source: Company Data, PL Research

Key Financial Metrics

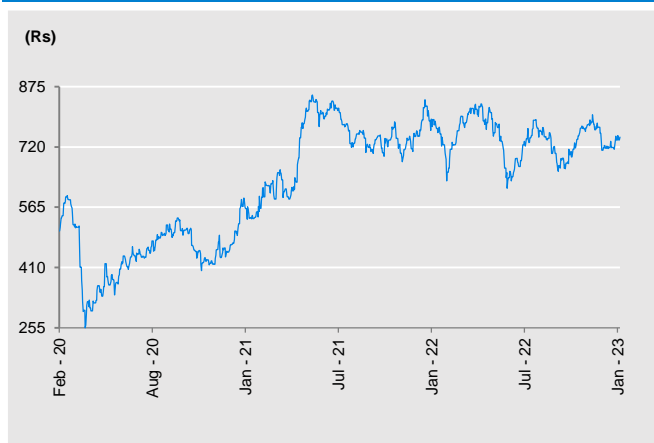
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	50.9	59.9	70.9	82.1
CEPS	81.7	92.8	108.3	122.6
BVPS	283.3	327.5	382.4	448.5
FCF	49.8	45.8	112.0	107.2
DPS	10.0	10.0	10.0	10.0
Return Ratio(%)				
RoCE	16.4	19.3	21.0	22.3
ROIC	17.0	17.5	19.0	20.8
RoE	19.7	19.6	20.0	19.8
Balance Sheet				
Net Debt : Equity (x)	1.0	0.9	0.6	0.4
Net Working Capital (Days)	94	102	94	94
Valuation(x)				
PER	14.9	12.6	10.7	9.2
P/B	2.7	2.3	2.0	1.7
P/CEPS	9.3	8.2	7.0	6.2
EV/EBITDA	7.9	6.6	5.5	4.8
EV/Sales	1.7	1.5	1.3	1.1
Dividend Yield (%)	1.3	1.3	1.3	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Revenues	4,62,400	5,53,389	5,97,698	6,46,020
India	56,900	65,435	71,979	79,176
LAAtAM	1,80,400	2,22,794	2,47,301	2,74,504
Europe	68,900	73,034	76,686	80,520
Rest of World	78,100	92,158	96,766	1,01,604
North America	78,100	99,968	1,04,966	1,10,215

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	1,070	720
2	01-Nov-22	BUY	1,070	717
3	23-Oct-22	BUY	1,020	700
4	04-Oct-22	BUY	1,020	665
5	02-Aug-22	BUY	1,020	767
6	04-Jul-22	BUY	1,010	644
7	10-May-22	BUY	1,010	778
8	08-Apr-22	BUY	990	803

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,630	4,800
2	Chambal Fertilizers & Chemicals	BUY	410	317
3	Coromandel International	BUY	1,200	903
4	Dhanuka Agritech	BUY	940	700
5	Godrej Agrovet	Accumulate	570	472
6	Insecticides India	Hold	700	715
7	P.I. Industries	BUY	4,350	3,328
8	Rallis India	Hold	240	224
9	Sharda Cropchem	BUY	660	507
10	Sumitomo Chemical India	BUY	610	490
11	UPL	BUY	1,070	720

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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