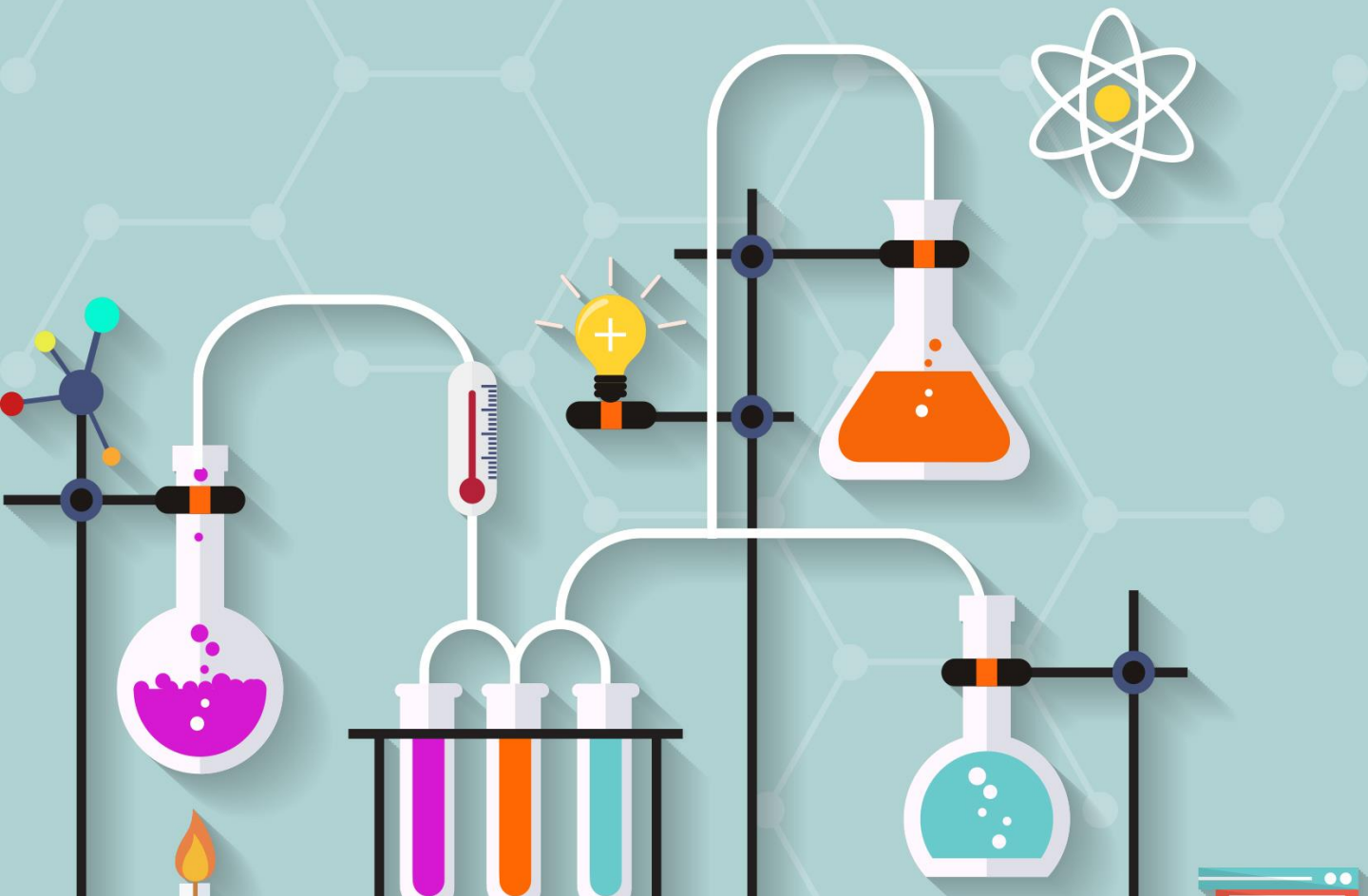


UPL Ltd.



UPL Ltd

Pricing pressure in agrochemical business continued due to excess supply from China

CMP INR 620	Target INR 684	Potential Upside 10.3%	Market Cap (INR Mn) INR 4,65,000	Recommendation ACCUMULATE	Sector Agrochemicals
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Result Highlights for Q1FY24:

- In Q1FY24, UPL's revenue de-grew -17.2% YoY/-45.9% QoQ to INR 89,630 mn. The de-growth in revenue was led by declining product prices, de-stocking of channel inventory build up and planting season delays which resulted in sluggish growth in revenue.
- EBITDA has seen a de-growth of -38.7% YoY and -51.5% QoQ which stood at INR 13,360 mn. Clearance of higher cost inventory, led to the contraction in EBITDA margin by -172 bps QoQ/-523 bps YoY to 14.9%.
- PAT saw a decline of -81.1% YoY/-79% QoQ and stood at INR 1,660 mn. PAT margin contracted sharply by -625 bps YoY/-293 bps QoQ to 1.9%.

MARKET DATA

Shares outs (Mn)	764
Mkt Cap (INR Mn)	4,65,000
52 Wk H/L (INR)	807/613
Volume Avg (3m K)	2519
Face Value (INR)	2
Bloomberg Code	UPLL IN

KEY FINANCIALS

Particulars (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,86,940	4,62,400	5,35,760	5,53,076	5,86,842
EBITDA	85,590	1,01,650	1,12,830	1,09,509	1,21,476
Adj. PAT	31,090	39,500	38,630	34,976	42,746
EPS Diluted (INR)	40.6	51.6	51.5	46.6	57.0
EBITDA Margin (%)	22.1%	22.0%	21.1%	19.8%	20.7%
NPM (%)	8.0%	8.5%	7.2%	6.3%	7.3%

Source: Company, KRChoksey Research

Revenue decline due to weak macro-environment:

In Q1FY24, UPL's revenue de-grew by 17.2 YoY/ 45.9% QoQ to INR 89,630 mn. This revenue de-growth was led by continuing trend of falling prices and poor demand from dealer level due to destocking of channel inventory. The current liquidation of agrochemical inventory is expected to result into a weak Q2FY24 and revival is expected from H2FY24. Due to prevailing macroeconomic challenges, the company has revised its revenue guidance for FY24E to a range of 1-5%, down from the previous guidance of 6-10%. Similarly, the EBITDA guidance has been adjusted to a range of 3-7%, which is lower than the earlier projection of 8-12%.

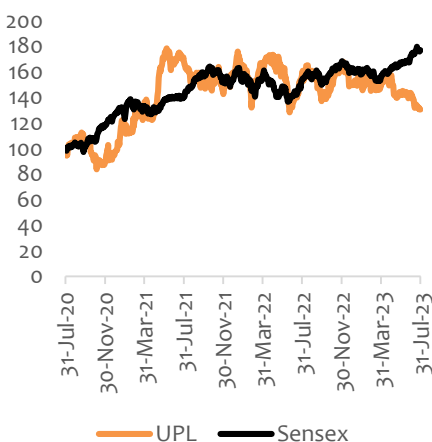
Performance in UPL Corporation:

The UPL Corporation revenue witness a 24% YoY revenue decline which stood at ~INR 58,550 Mn. The revenue declined is mainly attributable to reduction in herbicide volume and prices along with product bans in Europe. The EBITDA contracted sharply by 65% YoY and stood at INR 564 Mn. The EBITDA margins stood reduced by 1145 bps YoY at 9.6% during the quarter. The management highlights that the demand at the grower level remains strong, while channel inventory is gradually normalizing.

UPL Specialty Chemicals business performance and outlook:

The company's specialty chemicals business was transferred into a new company, UPL Specialty Chemicals during the quarter. This will result into a smoother operation and will benefit the company with easier access to capital. The Specialty Chemicals revenue witnessed a 20% YoY decline and stood at INR 31,120 Mn in Q1FY24 and EBITDA saw a 11% YoY decline at INR 4,400 Mn. The EBITDA % during the quarter stood at 14.1% which saw a 140 bps YoY expansion. The decline in revenue is primarily attributed to the slowdown in both the agrochemical and broader chemical industries. The company has entered a new chemistry segment through the commissioning of a Phosgene plant in Dahej. Additionally, Phosgene will be utilized in the group's agrochemical production, potentially boosting efficiency and innovation. Furthermore, the company has made progress in sustainability by commissioning a 61 MW hybrid wind and solar power plant, which commenced power supplies in June'23. This move is expected to reduce energy costs and the company's carbon footprint.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,532
NIFTY	19,784

SHARE HOLDING PATTERN(%)

Particulars	Jun-23 (%)	Mar-23 (%)	Dec-22 (%)
Promoters	32.4	32.4	30.7
FIIIs	37.9	38.7	37.2
DIIIs	15.3	18.3	21.7
Others	14.4	10.6	10.4
Total	100	100	100

4.7%

Revenue CAGR between FY23 and FY25E

5.2%

PAT CAGR between FY23 and FY25E

UPL Ltd

Post Result Conference Call Highlights

- i. The company's revenue declined significantly, primarily due to a slowdown in the agrochemical and broader chemical industries. Herbicide volumes and prices experienced a notable decline coupled with product bans in Europe.
- ii. The demand is impacted due to high channel inventory which is expected to normalize going forward. The channel demand is expected to remain weak in Q2FY24 and is expected to recover in H2FY24.
- iii. The high channel inventory is a build up due from Covid-19 to Russia related war resulting into distributors stocking aggressively which is now getting cleared.
- iv. The normalization in prices and clearance of current inventory is expected to occur over the coming seasons in North and South American regions and Brazil. The volume growth from India will expect some delay by ~15 days due to excessive monsoon in major regions of the country.
- v. To mitigate the impact of the revenue decline, the company has undertaken a cost reduction initiative, aiming to achieve \$100 million in savings over the next 24 months, with at least 50% of the cost reduction targeted for FY24.
- vi. The company diversified its portfolio by commissioning a Phosgene plant in Dahej during the quarter. This move allows for the manufacture and marketing of Phosgene derivative products, which will also be utilized in the group's agrochemical production.
- vii. Additionally, the company commissioned a 61 MW hybrid wind and solar power plant, commencing power supplies in June'23. This initiative is expected to help reduce energy costs and the company's carbon footprint.
- viii. Despite regional challenges, the company saw growth in some segments, driven by a differentiated and sustainable portfolio. The company expects improved performance in Q2FY24 compared to Q1FY24, aided by new product launches and better monsoon conditions.
- ix. The UPL Specialty Chemicals division's revenue was impacted in line with the overall crop protection business, but it aims to perform better in line with the recovery in the agro and specialty chemicals markets.
- x. Working capital days increased due to reduced factoring and lower payable days, affecting net debt and cash generated by the business.
- xi. The company adjusted its revenue and EBITDA growth guidance to reflect the current market conditions. The management guides a revenue growth of 1-5% in FY24E from earlier 6-10% and an EBITDA growth of 3-7% from earlier 8-12%.
- xii. The management expects the revenue growth to be driven by volumes and marginally by value as the realisations are currently in a falling trend and expected to normalize and grow from Q3FY24 onwards.

Outlook & Valuation

UPL is the largest producer of agrochemicals in India and is among the top five post-patented agrochemical manufacturers in the world. Over the years, UPL has outperformed the industry's growth rate. Moreover, the company is aiming to reduce its net debt in the medium term, with a focus on bringing the Net Debt/EBITDA ratio below 1x and maintaining its 'investment grade' credit rating. We believe improvement in market share, given its global scale and focus on high-growth products such as differentiated products, specialty chemicals, and seeds businesses, will drive its volume/revenue growth going forward. However, considering the adverse impact on the FY24 performance due to the near-term challenges of pricing pressure in the agrochemical business, we are revising our FY24/25 estimates.

At CMP of INR 620, UPL is trading at a P/E of 13.7x/10.9x to its FY24E/FY25E EPS of INR 45.2 and INR 57.0 respectively. After factoring in weak performance in Q1FY24 results and revised guidance at the lower end, we are revising our FY24E/FY25E estimates. For valuing UPL, we assigned P/E multiple of 12x, implying a target price of INR 684 per share (Previously 876), yielding an upside potential of 10.3% from the CMP. Accordingly, we changed our rating from 'BUY' to 'ACCUMULATE' rating on the shares of UPL.

Sales Growth Break Up (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Volume	6.00%	-7.00%	1.00%	1.0%	-9.0%
Price	18.00%	21.00%	13.00%	-3.0%	-10.0%
Exchange	3.00%	4.00%	7.00%	6.0%	2.0%

Source: Company, KRChoksey Research

Geographical Growth (YoY)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
North America	47.1%	23.7%	29.7%	-14.2%	-51.6%
India	8.0%	21.9%	18.5%	14.8%	-0.6%
Europe	13.5%	1.3%	2.7%	6.8%	-27.1%
LATAM	38.2%	19.8%	27.6%	11.7%	-14.4%
ROW	30.7%	21.4%	11.7%	5.8%	2.8%

Source: Company, KRChoksey Research

UPL Ltd

Financials:

Income Statement:

Particulars (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Revenues	3,86,940	4,62,400	5,35,760	5,53,076	5,86,842
Raw Material Cost	1,90,960	2,20,720	2,68,880	2,82,069	2,99,290
Gross Profit	1,95,980	2,41,680	2,66,880	2,71,007	2,87,553
Gross Margin (%)	50.6%	52.3%	49.8%	49.0%	49.0%
Employee Costs	37,120	46,220	50,560	53,648	53,989
Other Direct Expenses	73,270	93,810	1,03,490	1,07,850	1,12,087
Total Operating Expenses	1,10,390	1,40,030	1,54,050	1,61,498	1,66,076
EBITDA	85,590	1,01,650	1,12,830	1,09,509	1,21,476
EBITDA Margin (%)	22.1%	22.0%	21.1%	19.8%	20.7%
Depreciation	21,730	23,590	25,470	27,832	29,576
Other income	2,580	2,810	4,770	3,872	4,108
EBIT	63,860	78,060	87,360	81,677	91,900
EBIT Margin (%)	16.50%	16.88%	16.31%	14.77%	15.66%
Finance Cost	20,600	22,950	29,630	26,699	24,599
Exceptional Items	-4,450	-9,600	-12,570	-9,510	-10,850
Profit before Tax (PBT)	41,390	48,320	49,930	49,340	60,559
Tax Expense	6,860	5,290	7,360	7,273	8,927
Profit after Tax (PAT)	34,530	43,030	42,570	42,067	51,632
Share of P/L of associates	420	1,340	1,570	1,649	1,813
Minority Interest	6,240	8,110	8,440	9,800	10,700
Reported PAT	28,710	36,260	35,700	33,916	42,746
PAT Margin (%)	7.4%	7.8%	6.7%	6.1%	7.3%
Adj. PAT	31,090	39,500	38,630	34,976	42,746
Adj PAT Margin (%)	8.0%	8.5%	7.2%	6.3%	7.3%
Basic EPS	37.5	47.4	47.6	45.2	57.0
Adj Diluted EPS	40.6	51.6	51.5	46.6	57.0

Source: Company, KRChokseyResearch

Cashflow Statement:

Particulars (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Net Cash generated from operating activities	72,120	64,960	77,510	93,150	1,01,276
Net Cash Used In Investing Activities	-21,010	-38,190	-14,900	-35,000	-25,000
Net Cash Used in Financing Activities	-67,130	-19,210	-62,270	-48,920	-51,820
Net Inc/(Dec) in Cash & Cash Eq.	-16,020	7,560	340	9,230	24,456
Effect of Change in Forex	-2,970	2,440	1,360	0	0
Cash & Cash Equivalents at the beginning	67,520	48,530	61,200	59,670	68,900
Cash & Cash Equivalents at the end	48,530	58,530	62,900	68,900	93,355

Source: Company, KRChokseyResearch

UPL Ltd

Balance Sheet

Particulars (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,530	1,530	1,500	1,500	1,500
Reserves and surplus	1,77,480	2,15,220	2,67,080	2,93,774	3,29,298
Issue of perpetual bond	29,860	29,860	29,860	29,860	29,860
Minority Interest	36,930	46,470	55,850	65,650	76,350
Total Equity	2,45,800	2,93,080	3,54,290	3,90,784	4,37,008
Long-term borrowings	2,21,460	2,16,050	2,01,440	1,86,440	1,66,440
Deferred tax liabilities (Net)	26,620	24,750	24,620	24,620	24,620
Other long term liabilities	13,780	10,430	12,880	13,296	14,108
Long-term provisions	380	520	2,170	2,240	2,377
Total Non-current liabilities	2,62,240	2,51,750	2,41,110	2,26,596	2,07,545
Short-term borrowings	14,140	42,610	28,550	28,550	28,550
Trade payables	1,25,250	1,65,520	1,76,140	1,81,833	1,92,934
Other current liabilities	48,230	66,350	80,650	68,187	72,350
Short-term provisions	8,650	7,480	5,030	12,364	13,119
Total Current liabilities	1,96,270	2,81,960	2,90,370	2,90,935	3,06,954
Total Equity and liabilities	7,04,310	8,26,790	8,85,770	9,08,316	9,51,508
Assets					
Net Block	1,63,810	1,70,370	1,79,090	1,86,258	1,81,682
Capital work in progress	8,990	11,840	11,970	11,970	11,970
Intangible asset under development	12,180	13,170	16,210	16,210	16,210
Goodwill on consolidation	1,76,890	1,83,640	1,98,980	1,98,980	1,98,980
Investments accounted using equity method	3,800	5,600	9,730	9,730	9,730
Non-current investments	2,010	5,220	6,050	6,050	6,050
Deferred tax assets	16,660	20,760	26,610	26,610	26,610
Long-term loans and advances	1,810	670	570	588	624
Other non-current assets	13,110	18,180	15,660	16,166	17,153
Trade receivables	4,350	60	620	640	679
Total Non-current assets	4,03,610	4,29,510	4,65,490	4,73,203	4,69,689
Current Investments	370	8,400	460	460	460
Inventories	94,220	1,30,780	1,39,850	1,36,375	1,44,701
Trade receivables	1,25,910	1,53,280	1,82,240	1,81,833	1,92,934
Cash and bank balances	48,530	61,200	60,970	70,200	94,655
Short-term loans and advances	550	480	650	786	834
Other current assets	31,120	43,140	36,110	45,458	48,234
Total current assets	3,00,700	3,97,280	4,20,280	4,35,112	4,81,818
Total Assets	7,04,310	8,26,790	8,85,770	9,08,316	9,51,508

Source: Company, KRChoksey Research

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin	22.1%	22.0%	21.1%	19.8%	20.7%
Tax rate (%)	16.6%	10.9%	14.7%	14.7%	14.7%
Adj. Net Profit Margin (%)	8.0%	8.5%	7.2%	6.3%	7.3%
RoE (%)	11.7%	12.4%	10.1%	8.7%	9.8%
RoCE (%)	13.3%	14.1%	15.0%	13.5%	14.5%
Current Ratio (x)	1.5	1.4	1.4	1.5	1.6
Adj. EPS (INR per share)	40.6	51.6	51.5	46.6	57.0

Source: Company, KRChoksey Research

UPL Ltd

UPL Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
01-Aug-23	620	684	ACCUMULATE	Buy	More than 15%
11-May-23	685	876	BUY		
07-Feb-23	718	1,041	BUY		
03-Nov-22	718	1,041	BUY		
25-Oct-22	708	1,041	BUY		
03-Aug-22	731	937	BUY	Accumulate	5% – 15%
10-May-22	790	918	BUY		
04-Feb-22	774	901	BUY	Hold	0 – 5%
01-Nov-21	720	886	BUY		
03-Nov-20	417	622	BUY	Reduce	-5% – 0
12-Aug-20	487	622	BUY		
05-Jun-20	419	614	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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