

31 October 2023

India | Equity Research | Q2FY24 result review

UPL Limited

Agriculture

Weak performance amidst industry headwinds; steep reduction in guidance

UPL reported a weak Q2FY24 primarily on channel destocking and higher pricing pressure. All segments reported revenue decline YoY. However, differentiated and sustainable product portfolio posted volume growth of 11% YoY. Also, the seed business recorded 10% revenue growth YoY. Management indicated a relatively better H2FY24 primarily on (1) start of crop season in key operating regions, (2) reduction in high-cost inventory and (3) reduction in channel destocking. Also, management indicated volume growth to improve from Q4FY24. However, it has further reduced its overall annual guidance. We cut our earnings sharply to factor in subdued H1FY24, lower guidance and prevalent industry headwinds. Downgrade to **HOLD** (from **Add**) with a revised DCF-based TP of INR 562 (implied FY25 P/E: 13x; earlier TP: INR 673).

Q2FY24 results

UPL reported revenue decline of 18.7% YoY. EBITDA and PAT declined 42.8% and 81.7%, respectively YoY. EBITDA margin contracted 667bps YoY due to revenue decline and increase in staff costs. The revenue declined primarily on channel destocking and pricing pressure. Volumes and price realisations declined 7% and 15%, respectively YoY.

Likely revival in H2FY24

The company indicated a relatively better H2FY24 due to (1) key regions entering into major crop season, (2) exhaustion of most of the high-cost inventory, (3) normalising channel inventory and (4) likely revival in molecule prices. The company indicates that the prices are likely to remain subdued but volume growth is likely to be strong in H1FY25.

Reduction in revenue and earnings guidance

The company has cut its FY24 revenue growth guidance from +1-5% to flat, and EBITDA growth guidance from +3-7% to flat to -5%. While the industry-wide impact is likely to hurt UPL, we believe if the company is able to gain market shares, it will be DCF accretive.

Valuation and risks

We downgrade the stock to **HOLD** due to weak H1FY24 results, revision in guidance and industry headwinds. Our revised DCF-based TP stands at INR 562 (implied FY25 P/E: 13x; earlier TP: INR 673). Key risks are higher competition and steep input inflation.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	5,35,760	4,65,414	4,88,527	5,12,833
EBITDA	1,12,830	83,309	99,660	1,07,695
EBITDA Margin (%)	21.1	17.9	20.4	21.0
Net Profit	45,140	21,697	32,971	38,395
EPS (INR)	59.0	28.4	43.1	50.2
EPS % Chg YoY	6.7	(51.9)	52.0	16.5
P/E (x)	9.1	19.0	12.5	10.7
EV/EBITDA (x)	5.1	6.6	5.2	4.4
RoCE (%)	13.3	7.2	8.6	9.0
RoE (%)	13.9	6.0	8.5	9.2

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Nilesh Patil

nilesh.patil@icicisecurities.com

Market Data

Market Cap (INR)	404bn
Market Cap (USD)	4,857mn
Bloomberg Code	UPLL IN
Reuters Code	UPLL.BO
52-week Range (INR)	807 /532
Free Float (%)	67.0
ADTV-3M (mn) (USD)	20.9

Price Performance (%)	3m	6m	12m
Absolute	(12.4)	(26.0)	(23.3)
Relative to Sensex	(9.6)	(32.0)	(31.6)

ESG Disclosure	2021	2022	Change
ESG score	63.6	64.8	1.3
Environment	52.5	54.5	2.0
Social	47.0	48.8	1.8
Governance	91.1	91.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.0	0.0
EBITDA	(17.3)	(6.2)
EPS	(40.8)	(15.6)

Previous Reports

01-08-2023: [Q1FY24 result review](#)

19-05-2023: [Q4FY23 result review](#)

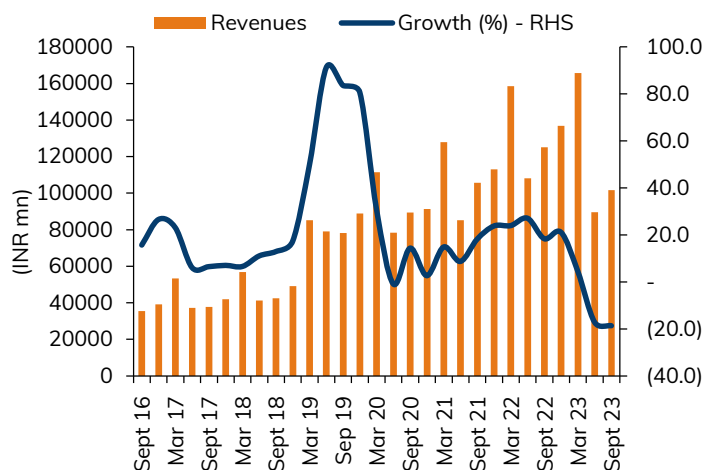
Exhibit 1: Q2FY24 financial performance

Y/e March (INR mn)	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Revenue	1,01,700	1,25,070	(18.7)	89,630	13.5
Expenditure					
Raw materials	52,320	57,810	(9.5)	39,300	33.1
% of revenue	51.4	46.2		43.8	
Employee cost	12,510	12,330	1.5	12,400	0.9
% of revenue	12.3	9.9		13.8	
Other expenditure	20,740	26,750	(22.5)	21,380	(3.0)
% of revenue	20.4	21.4		23.9	
Total expenditure	85,570	96,890	(11.7)	73,080	17.1
EBITDA	16,130	28,180	(42.8)	16,550	(2.5)
EBITDA margin	15.9	22.5		18.5	
Depreciation	6,570	6,080	8.1	6,360	3.3
EBIT	9,560	22,100	(56.7)	10,190	(6.2)
Interest Expenses	8,710	6,440	35.2	7,000	24.4
Other Income	1,050	780	34.6	1,010	4.0
Income from Associates	(2,040)	(270)	-	(570)	-
Profit Before Tax	(140)	16,170	-	3,630	-
Income Taxes	(960)	2,310	(141.6)	(1,640)	(41.5)
Profit After Tax	820	13,860	(94.1)	5,270	(84.4)
Prof. Dividend/ Minority Interest	(1,300)	2,260	(157.5)	(810)	60.5
Net profit	2,120	11,600	(81.7)	6,080	(65.1)
Forex income/ cost	(2,500)	(3,240)		(3,190)	
Extraordinary Expenses	(2,370)	1,840		(1,770)	
Profit for Shareholders	(2,750)	10,200	-	1,120	-

Source: Company data, I-Sec research

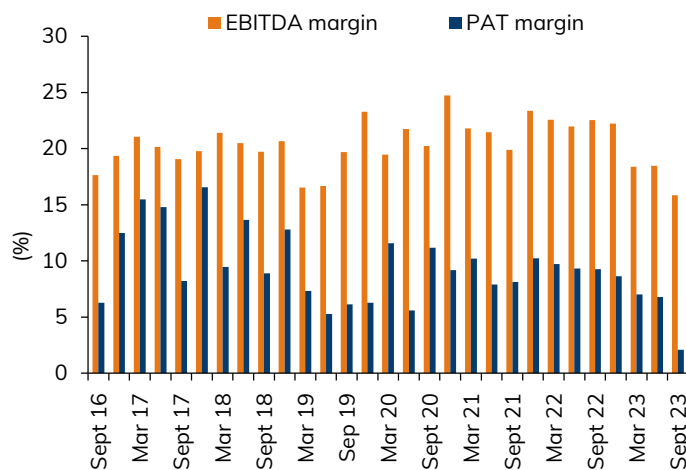
Key performance highlights

Exhibit 2: Revenues and revenue growth



Source: Company data, I-Sec research

Exhibit 3: EBITDA and PAT margin

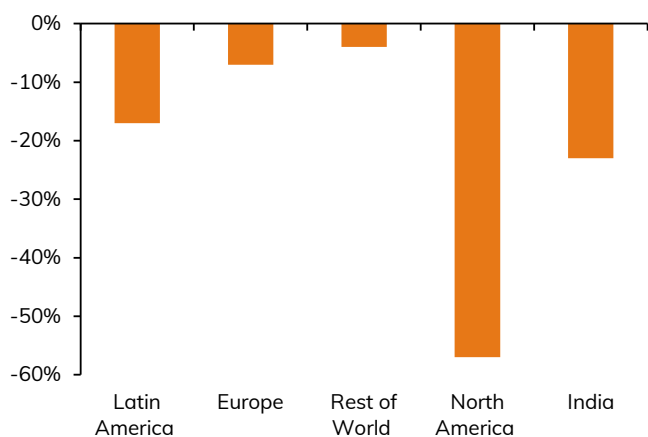


Source: Company data, I-Sec research

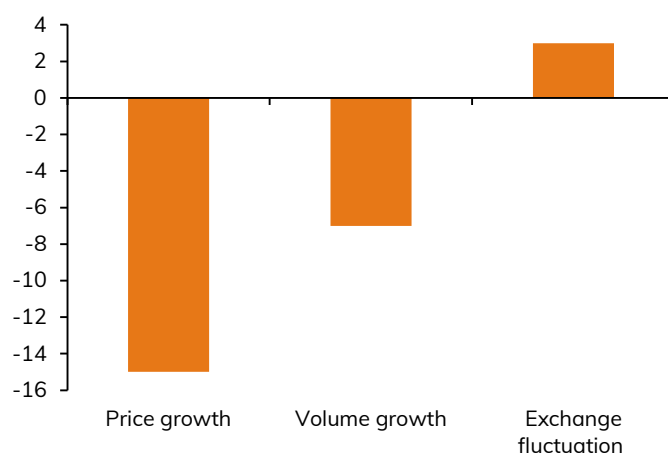
Exhibit 4: Q2FY24 Segment-wise financial performance

INR mn	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Revenues					
Agro activity	97,150	1,18,890	-18.3%	84,450	15.0%
Non Agro activity	5,390	7,140	-24.5%	6,250	-13.8%
Others/ Unallocated	(840)	(960)	-12.5%	(1,070)	-21.5%
Total	1,01,700	1,25,070	-18.7%	89,630	13.5%
EBIT					
Agro activity	8,980	20,180	-55.5%	8,440	6.4%
Non Agro activity	630	1,250	-49.6%	870	-27.6%
Others/ Unallocated	-	-	-	-	-
Total	9,610	21,430	-55.2%	9,310	3.2%
EBIT margin (%)					
Agro activity	9.2%	17.0%		10.0%	
Non Agro activity	11.7%	17.5%		13.9%	
Others/ Unallocated	0.0%	0.0%		0.0%	
Total	9.4%	17.1%		10.3%	

Source: Company data, I-Sec research

Exhibit 5: Revenue growth rate* by region – Q2FY24


Source: Company data, I-Sec research. *Crop protection

Exhibit 6: Revenue growth breakup – Q2FY24


Source: Company data, I-Sec research

Q2FY24 results and conference call highlights

- **Q2FY24 update:** Q2FY24 was impacted by (1) channel destocking and (2) price decline across the regions. Also, unfavourable weather conditions in India and some parts of Asia weighed on performance.
- **Volume and value growth:** The company registered de-growth on 3 key parameters: (1) Volume: -7%; (2) Price: -15% and currency exchange: +3% YoY
International business registered volume growth driven by high-margin sustainable products.
- **Working Capital:** NWC days increased by 25 days YoY to 149 days in Q2FY24. The reduction in payable days primarily led to an increase in NWC days. The management indicated it to normalize in H2FY24 and to be in line with last year.
- **Guidance:** The management revised revenue guidance lower to flattish growth YoY (earlier: in the 1-5% range YoY). Also, EBITDA is likely to remain flat or post 5% de-growth YoY (earlier: in the 3-7% range YoY).

The management indicated relatively better H2FY24 against H1FY24 on improved performance in North America, LATAM and Europe (likely to enter into Crop season). The company indicated that strong volume growth is likely in Q4FY24 but pricing is likely to remain under pressure.

- **Debt update:** Net debt increased by USD 197mn in Q2FY24 on account of a decline in factoring and higher working capital (lower payable days).

The company aims to reduce gross debt by USD 500mn by FY24 over FY23 positioning. The key triggers for the same are (1) slowing down capex and (2) likely better cash generation in H2FY24.

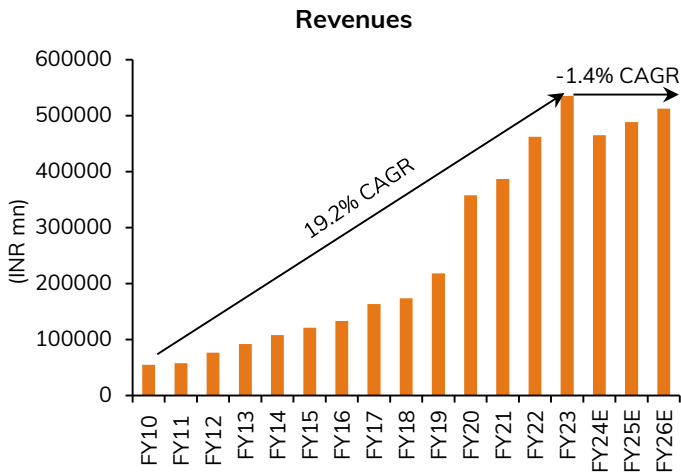
Factoring is likely to be at a similar level of USD 1.4bn. Interest cost on borrowings has increased. The benchmark rate rose by 200bps. The average cost of borrowing stood at 7% per annum.

- **Glyphosate update:** The selling prices of the product have come down significantly YoY. However, the cost has been reduced. Thus, there is limited impact. The company has adjusted the prices corresponding to market prices. The company expects a moderate volume increase in H2FY24.

It indicated that overall FY24 is challenging for the product but FY25 onwards growth is likely to resume.

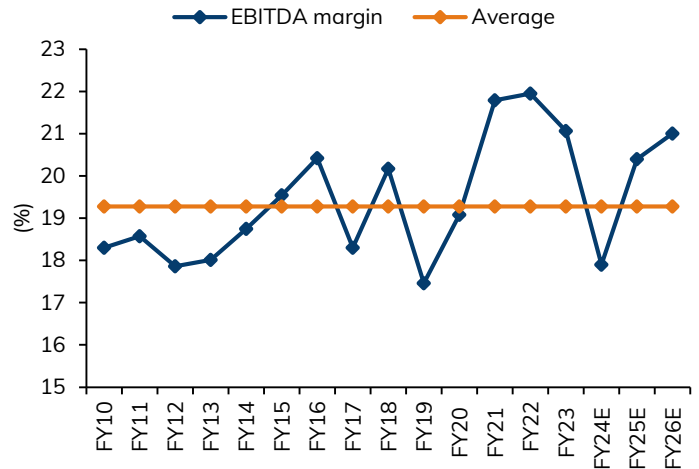
Key financial charts (consolidated)

Exhibit 7: Revenues and growth rates



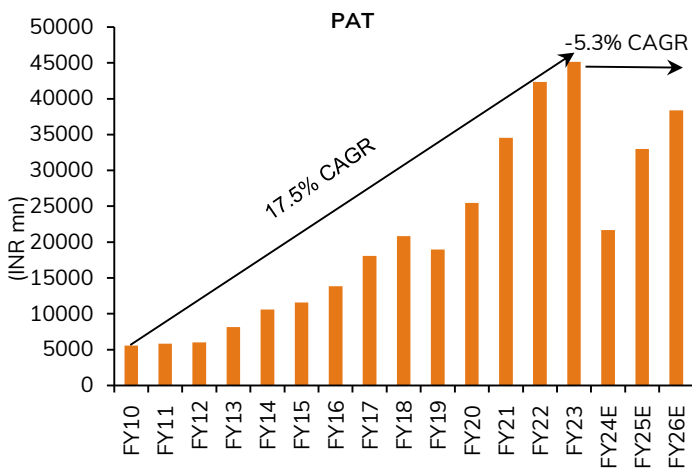
Source: Company data, I-Sec research

Exhibit 8: EBITDA margin



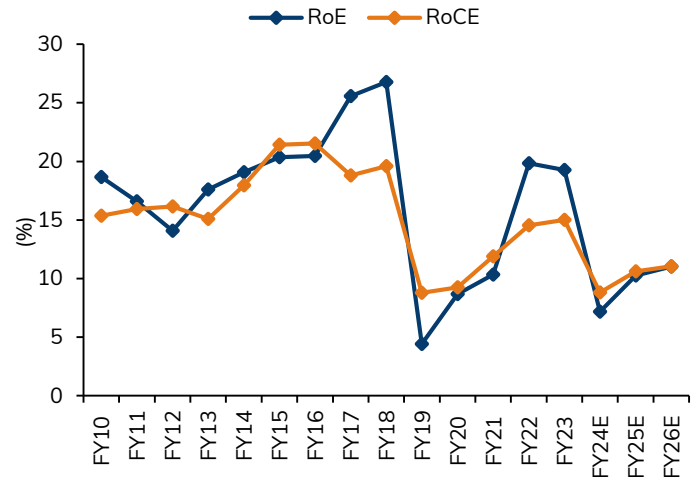
Source: Company data, I-Sec research

Exhibit 9: Net profit and growth rates



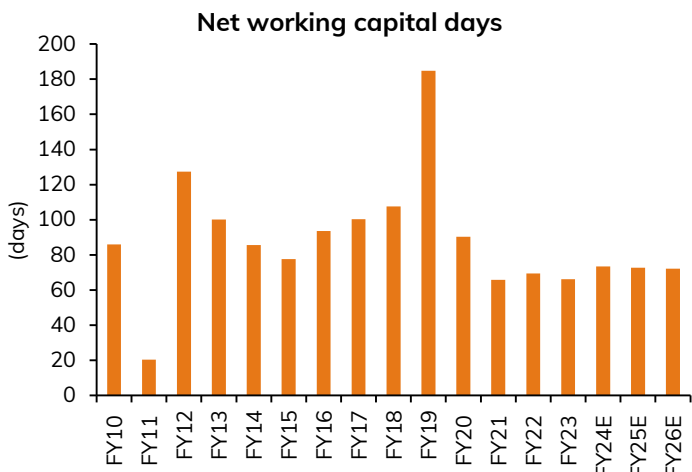
Source: Company data, I-Sec research

Exhibit 10: Return ratios



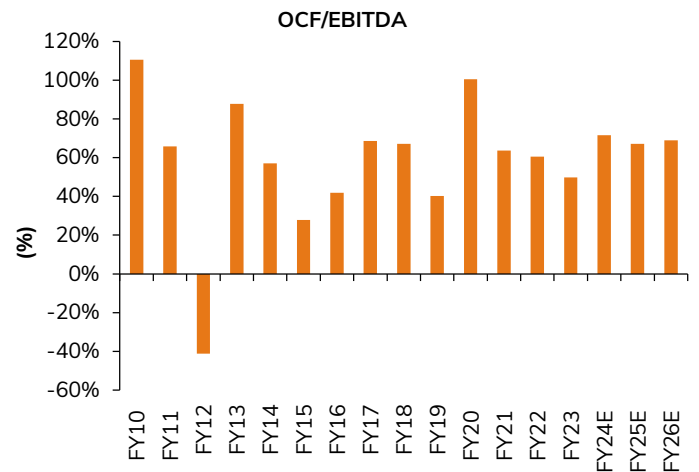
Source: Company data, I-Sec research

Exhibit 11: Net working capital days



Source: Company data, I-Sec research

Exhibit 12: OCF/EBITDA



Source: Company data, I-Sec research

Valuation and risks

We value the stock on DCF basis with a revised target price of INR 562. At this target price, implied P/E works out to 13x FY25E EPS. Downgrade to HOLD from ADD earlier.

Exhibit 13: DCF-based valuation

Particulars	Amt (INR)
Cost of Equity (%)	12.6%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (INR mn)	2,59,474
Discounted terminal value (INR mn)	1,70,318
Total equity value (INR mn)	4,29,792
Value per share (INR)	562

Source: I-Sec research

Risks

Lower-than-expected offtake of new products

Any failure of new products may impact our estimates.

Sharp increase in input prices and competition

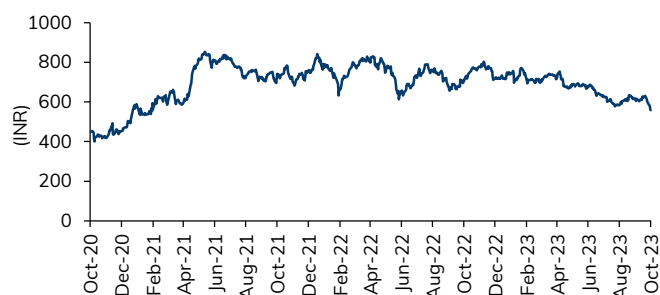
Any major increase in commodity prices and/or competitive pressures could impact our earnings estimates.

Exhibit 14: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	32.4	32.4	32.4
Institutional investors	57.0	57.2	54.9
MFs and others	5.4	5.4	7.6
FIs/Insurance	8.4	8.6	8.7
FIIIs	43.2	43.2	38.6
Others	10.6	10.4	12.7

Source: Bloomberg, I-Sec research

Exhibit 15: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	5,35,760	4,65,414	4,88,527	5,12,833
Operating Expenses	4,22,930	3,82,105	3,88,868	4,05,138
EBITDA	1,12,830	83,309	99,660	1,07,695
EBITDA Margin (%)	21.1	17.9	20.4	21.0
Depreciation & Amortization	25,470	30,025	33,232	35,392
EBIT	87,360	53,284	66,428	72,303
Interest expenditure	29,630	23,174	22,965	22,756
Other Non-operating Income	4,770	1,850	2,331	2,902
Recurring PBT	62,500	31,960	45,793	52,448
Profit / (Loss) from Associates	(1,570)	(150)	(150)	(150)
Less: Taxes	7,360	5,913	8,472	9,703
PAT	55,140	26,047	37,321	42,745
Less: Minority Interest	11,570	4,500	4,500	4,500
Extraordinaries (Net)	7,530	-	-	-
Net Income (Reported)	52,670	21,697	32,971	38,395
Net Income (Adjusted)	45,140	21,697	32,971	38,395

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	4,19,820	3,87,006	4,15,423	4,51,997
of which cash & cash eqv.	60,970	69,998	83,547	1,04,538
Total Current Liabilities & Provisions	2,61,820	2,23,399	2,34,493	2,46,160
Net Current Assets	1,58,000	1,63,607	1,80,930	2,05,838
Investments	24,030	39,030	54,030	69,030
Net Fixed Assets	1,88,150	2,11,305	2,05,073	1,96,681
ROU Assets	-	-	-	-
Capital Work-in-Progress	28,180	-	-	-
Total Intangible Assets	1,98,980	1,98,980	1,98,980	1,98,980
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	5,97,340	6,12,922	6,39,014	6,70,529
Liabilities				
Borrowings	2,45,040	2,42,840	2,40,640	2,38,440
Deferred Tax Liability	(1,990)	(1,990)	(1,990)	(1,990)
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,500	1,500	1,500	1,500
Reserves & Surplus	2,96,940	3,10,222	3,34,014	3,63,229
Total Net Worth	2,98,440	3,11,722	3,35,514	3,64,729
Minority Interest	55,850	60,350	64,850	69,350
Total Liabilities	5,97,340	6,12,922	6,39,014	6,70,529

Source Company data, I-Sec research

Exhibit 18: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	1,36,790	1,65,690	89,630	1,01,700
% growth (YOY)	21.1	4.5	(17.2)	(18.7)
EBITDA	30,420	30,470	16,550	16,130
Margin %	22.2	18.4	18.5	15.9
Other Income	1,150	2,110	1,010	1,050
Extraordinaries	10,780	(1,580)	(1,770)	(2,370)
Adjusted Net Profit	21,090	7,120	1,120	(2,750)

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	56,200	59,643	66,930	74,371
Working Capital Changes	(13,690)	3,420	(3,774)	(3,917)
Capital Commitments	(23,600)	(25,000)	(27,000)	(27,000)
Free Cashflow	32,600	34,643	39,930	47,371
Other investing cashflow	27,160	(15,000)	(15,000)	(15,000)
Cashflow from Investing Activities	3,560	(40,000)	(42,000)	(42,000)
Issue of Share Capital	(13,550)	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(36,290)	(2,200)	(2,200)	(2,200)
Dividend paid	(7,500)	(8,415)	(9,180)	(9,180)
Others	-	-	-	-
Cash flow from Financing Activities	(57,340)	(10,615)	(11,380)	(11,380)
Chg. in Cash & Bank balance	2,420	9,028	13,550	20,991
Closing cash & balance	61,370	79,025	97,097	1,25,528

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	59.0	28.4	43.1	50.2
Adjusted EPS (Diluted)	59.0	28.4	43.1	50.2
Cash EPS	92.3	67.6	86.5	96.5
Dividend per share (DPS)	9.8	11.0	12.0	12.0
Book Value per share (BV)	390.1	407.5	438.6	476.8
Dividend Payout (%)	16.6	38.8	27.8	23.9
Growth (%)				
Net Sales	15.9	(13.1)	5.0	5.0
EBITDA	11.2	(26.2)	19.6	8.1
EPS (INR)	6.7	(51.9)	52.0	16.5
Valuation Ratios (x)				
P/E	9.1	19.0	12.5	10.7
P/CEPS	5.8	8.0	6.2	5.6
P/BV	1.4	1.3	1.2	1.1
EV / EBITDA	5.1	6.6	5.2	4.4
P/ Sales	0.8	0.9	0.8	0.8
Dividend Yield (%)	1.8	2.0	2.2	2.2
Operating Ratios				
Gross Profit Margins (%)	49.1	46.5	49.0	49.6
EBITDA Margins (%)	21.1	17.9	20.4	21.0
Effective Tax Rate (%)	11.8	18.5	18.5	18.5
Net Profit Margins (%)	8.4	4.7	6.7	7.5
NWC / Total Assets (%)	16.2	15.3	15.2	15.1
Net Debt / Equity (x)	0.5	0.4	0.3	0.1
Net Debt / EBITDA (x)	1.4	1.6	1.0	0.6
Profitability Ratios				
RoCE (%)	13.3	7.2	8.6	9.0
RoE (%)	13.9	6.0	8.5	9.2
RoIC (%)	13.3	7.2	8.6	9.0
Fixed Asset Turnover (x)	1.6	1.2	1.2	1.2
Inventory Turnover Days	102.3	88.2	97.2	97.2
Receivables Days	133.3	115.4	127.1	127.1
Payables Days	187.8	159.5	175.7	175.7

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
