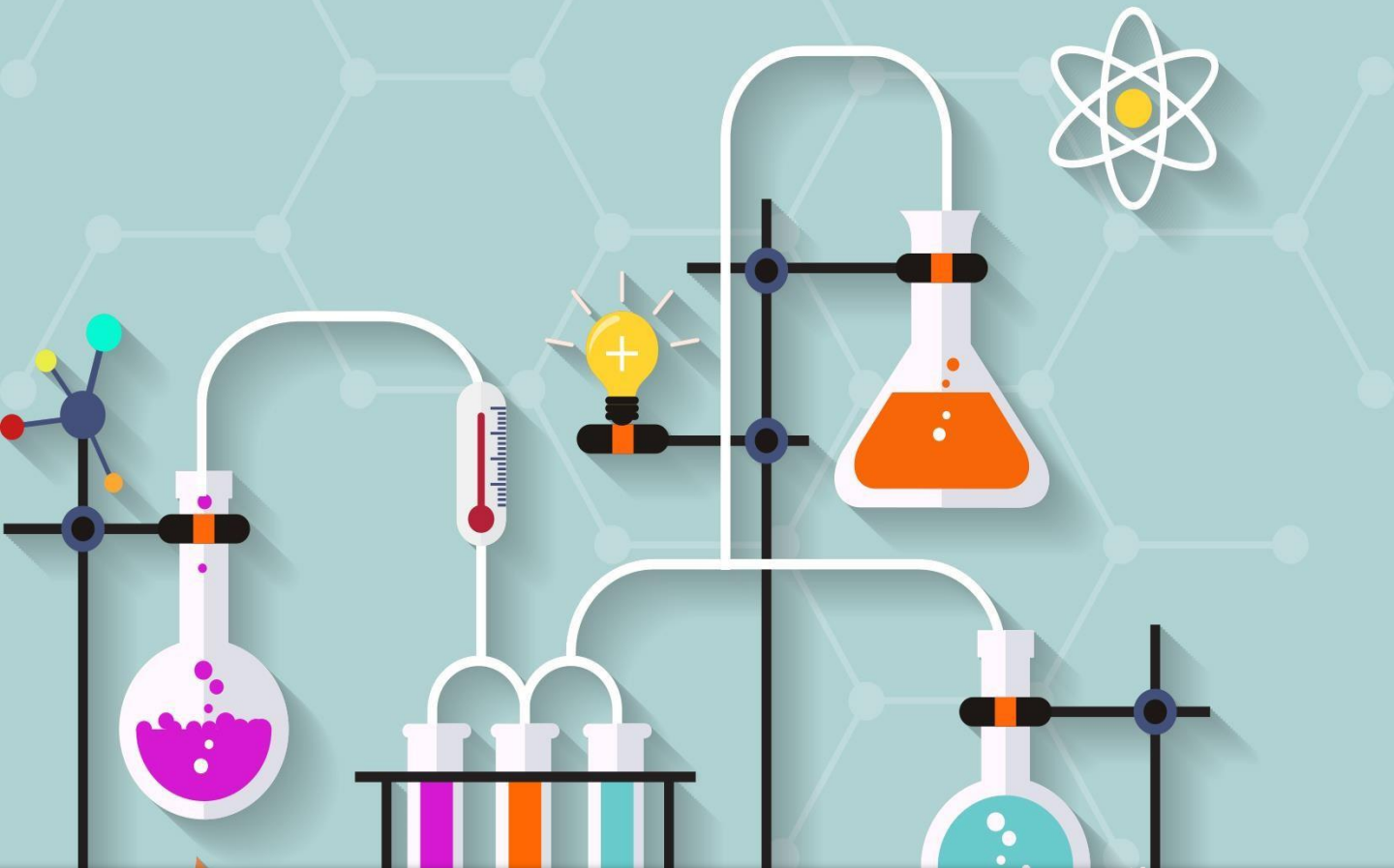


UPL Ltd



UPL Ltd.
Robust volume growth offset by continued price decline

CMP* INR 529	Target INR 534	Potential Upside 1.0%	Market Cap (INR Mn) INR 3,95,457	Recommendation HOLD	Sector Specialty Chemicals
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Result Highlights of Q1FY25:

- UPL's revenue missed our estimate (-2.9%) due to a steep decline in price realization. The EBITDA missed our estimate due to better-than-expected operating expenses and liquidation of high-cost inventory.
- We believe the short-term pain will persist due to the use of high-cost inventory in upcoming quarter and ongoing price decline which will likely continue to pressure margins. However, we expect a recovery in H2FY25E, supported by anticipated improvements in the supply chain and sustained volume growth.
- Currently, the stock is trading at PE multiples of 17.1x/11.3x, based on FY25E/FY26E EPS, respectively. We assign a P/E multiple of 11.4x (maintained) on FY26E EPS of INR 46.7 (maintained) to arrive at a target price of INR 534/share (maintained). Given the 1.0% upside potential, we maintain our "HOLD" rating on the stock.

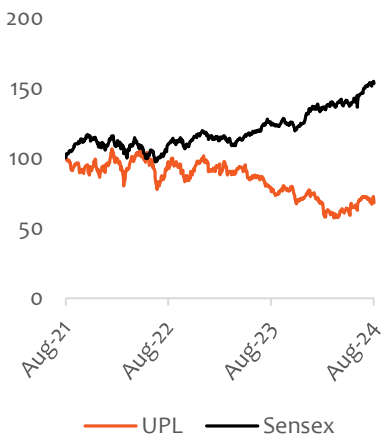
MARKET DATA

Shares outs (Mn)	751
Equity Cap (INR Mn)	2,77,930
Mkt Cap (INR Mn)	3,95,457
52 Wk H/L (INR)	639/448
Volume Avg (3m K)	3,868
Face Value (INR)	2
Bloomberg Code	UPLL IN

KEY FINANCIALS

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	462,400	535,760	430,980	450,681	503,563
EBITDA	101,500	112,830	56,060	99,307	110,784
EBITDA margin (%)	22.0%	21.1%	13.0%	22.0%	22.0%
Adj PAT	39,350	38,630	(13,610)	22,834	35,053
Adj PAT margin (%)	8.5%	7.2%	-3.2%	5.1%	7.0%
Adj EPS	51.4	51.5	(18.1)	30.4	46.7
P/E (x)	11.5	11.6	NA	17.1	11.3

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Flat revenue growth due to decline in price realization

- For Q1FY25, UPL's revenue grew by 1.2% YoY (-35.6% QoQ) to INR 90,670 Mn due to 16.0% growth in volume which was partially offset by 14.0% decline in price realization and 1.0% forex loss.
- The revenue in North America (13.6% of revenue) grew by 42.0% YoY (-19.0% QoQ) to INR 12,350 Mn. The revenue in Europe (15.7% of revenue) grew by 13.2% YoY (-53.7% QoQ) to INR 14,250 Mn. The revenue in Rest of World (RoW) (20.7% of revenue) grew by 3.4% YoY (-43.2% QoQ) to INR 18,760 Mn.
- The revenue in Latin America (29.3% of revenue) declined by 10.3% YoY (-46.5% QoQ) to INR 26,590 Mn due to price drop. The revenue in India (20.6% of revenue) declined by 8.9% YoY (+55.7% QoQ) to INR 18,720 Mn due to postponement of sales for Q2FY25E.
- North America and Europe had strong volume growth driven by herbicides and fungicides. In Brazil, volume growth was offset by price decline.
- The Company maintained the revenue growth guidance of 4.0% to 8.0% for FY25E.

Increase in freight cost and high-cost inventory impacted profitability

- EBITDA declined by 25.5% YoY (-35.4% QoQ) to INR 12,330 Mn. The EBITDA margin contracted 487 bps YoY (+5 bps QoQ) to 13.6%, primarily due to price decline, increase in freight expenses, and partial liquidation of high-cost inventory.
- The Company made an adj. loss of INR 2,480 Mn as against adj. PAT of INR 2,720 Mn in Q1FY24 and adj. PAT of 1,210 Mn in Q4FY24. The Company reported a loss of INR 3,840 Mn as against PAT of INR 1,660 Mn in Q1FY24 and PAT of INR 400 Mn in Q4FY24.

MARKET INFO

SENSEX	78,759
NIFTY	24,056

SHARE HOLDING PATTERN (%)

Particulars	Jun-24	Mar-24	Dec-23
Promoters	32.5	32.5	32.5
FIIIs	34.5	33.6	34.4
DIIIs	15.7	15.3	16.8
Others	17.3	18.6	16.3
Total	100.0	100.0	100.0

*Based on previous closing



Revenue CAGR between FY23 and FY26E



Adj. PAT CAGR between FY23 and FY26E

UPL Ltd.

Key Concall Highlights:

- **Weather challenges** impacted production, created **inventory shortages**, and **supply chain constraints**, leading to an impact on EBITDA margins in Advanta, the seeds platform.
- **Supply chain constraints** are expected to **continue in Q2FY25E**, but the situation is expected to change from October to December with the arrival of new stock.
- **Price erosion in insecticides** such as Perito, Feroce, and Sperto **impacted revenue in Brazil**.
- Key Mancozeb-based **fungicides** such as UNIZEB GOLD and Evolution were also **impacted due to price softening**.
- The Company experienced an overall **price decline of key active ingredients in North America**, which **partially offset volume growth**.
- In **Brazil**, margins improved due to **reduction in input costs**, despite price erosion in certain products.
- The Company sold **very little high-cost inventory in Q1FY25**, with about **USD 40 Mn** remaining to be sold in **Q2FY25E**.
- The Company reported a **decrease of 1 day in net working capital** days due to an increase in payable days (+4 days) and a decrease of inventory days (-8 days) which was partially offset by an increase in receivable days (+11 days).
- The Company is focused on **optimizing inventories** as part of its working capital management.
- **Net debt increased by USD 639 Mn** in Q1FY25 compared to a USD 1.136 Bn rise in Q1FY24.
- Importantly, despite a significant 400 bps YoY increase in the SOFR benchmark rate and an additional 30 bps in costs following a credit downgrade, the Company's net finance costs remained stable.

Valuation and view:

UPL experienced flat revenue growth in Q1FY25 with strong volume growth partially offset by double digit decline in price realization. Geographies such as North America, Europe and RoW showed positive YoY revenue growth, while Latin America and India saw a decline in YoY revenue growth. The significant decline in YoY margins and profitability suggests that the Company is facing headwinds, particularly in pricing. We believe the short-term pain will persist due to the use of high-cost inventory in upcoming quarter and ongoing price decline which will likely continue to pressure margins. However, we expect a recovery in H2FY25E, supported by anticipated improvements in the supply chain and sustained volume growth. **We largely maintain our FY25E/FY26E EPS estimates respectively. The stock appreciated 3.3% since our last update. Currently, the stock is trading at PE multiples of 17.1x/11.3x, based on FY25E/FY26E EPS, respectively. We expect the revenue to grow at -2.0% CAGR and PAT to grow at -3.2% CAGR over FY23-FY26E. We assign a P/E multiple of 11.4x (maintained) on FY26E EPS of INR 46.7 (maintained) to arrive at a target price of INR 534/share (maintained). Given the 1.0% upside potential, we maintain our "HOLD" rating on the stock.**

Revenue mix

Sales Growth (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Volume	-9.0%	-7.0%	-5.0%	-2.0%	16.0%
Price	-10.0%	-15.0%	-24.0%	-15.0%	-14.0%
Exchange	2.0%	3.0%	1.0%	2.0%	-1.0%

Geographical Growth (YoY)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
North America	-51.6%	-57.2%	-63.9%	-49.4%	42.0%
India	-0.6%	-23.3%	-20.0%	-24.1%	-8.9%
Europe	-27.1%	-6.7%	-30.3%	9.7%	13.2%
LATAM	-14.4%	-17.4%	-28.3%	-22.8%	-10.3%
ROW	2.8%	-4.2%	12.4%	21.0%	3.4%

Revenue Mix (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
North America	9.7%	5.0%	10.0%	10.8%	13.6%
India	22.9%	13.6%	8.7%	8.5%	20.6%
Europe	14.0%	12.4%	10.2%	21.9%	15.7%
LATAM	33.1%	49.5%	43.4%	35.3%	29.3%
ROW	20.2%	19.5%	27.8%	23.4%	20.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, KRChoksey Research

UPL Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenues	462,400	535,760	430,980	450,681	503,563
Raw Material Cost	220,720	272,810	244,940	217,431	246,746
Gross Profit	241,680	262,950	186,040	233,250	256,817
Gross Margin (%)	52.3%	49.1%	43.2%	51.8%	51.0%
Employee Costs	46,220	50,560	46,820	45,771	55,392
Other Direct Expenses	93,960	99,560	83,160	88,172	90,641
Total Operating Expenses	140,180	150,120	129,980	133,943	146,033
EBITDA	101,500	112,830	56,060	99,307	110,784
EBITDA Margin (%)	22.0%	21.1%	13.0%	22.0%	22.0%
Depreciation	23,590	25,470	27,630	27,705	26,936
Other income	2,810	4,770	4,830	4,400	4,029
EBIT	77,910	87,360	28,430	71,602	83,848
EBIT Margin (%)	16.85%	16.31%	6.60%	15.89%	16.65%
Finance Cost	22,950	29,630	38,520	36,898	31,448
Exceptional Items	-9,600	-12,570	1,610	380	0
Profit before Tax (PBT)	48,320	49,930	(18,450)	33,414	48,875
Tax Expense	5,290	7,360	(2,090)	7,920	10,071
Profit after Tax (PAT)	43,030	42,570	(16,360)	25,494	38,803
Share of P/L of associates	1,340	1,570	(2,420)	-1,280	-2,000
Minority Interest	8,110	8,440	(6,780)	1,000	1,750
Reported PAT	36,260	35,700	(12,000)	23,214	35,053
PAT Margin (%)	7.8%	6.7%	(2.8%)	5.2%	7.0%
Adj. PAT	39,350	38,630	(13,610)	22,834	35,053
Adj PAT Margin (%)	8.5%	7.2%	(3.2%)	5.1%	7.0%
Basic EPS	45.9	45.8	(17.8)	31.0	46.7
Adj Diluted EPS	51.4	51.5	(18.1)	30.4	46.7

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Net Cash generated from/(used in) operating activities	64,960	77,510	18,220	114,572	85,326
Net Cash Used In Investing Activities	(38,190)	(14,900)	(24,780)	(15,000)	(25,000)
Net Cash Used in Financing Activities	(19,210)	(62,270)	1,640	(133,510)	(51,448)
Effect of Change in Forex	2,440	1,360	4,680	0	0
Net Inc/(Dec) in Cash & Cash Eq.	10,000	1,700	(240)	(33,938)	8,878
Cash & Cash Equivalents at the beg	47,970	57,970	59,670	59,430	25,492
Cash & Cash Equivalents at the end	57,970	59,670	59,430	25,492	34,370

Source: Company, KRChoksey Research

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin	22.0%	21.1%	13.0%	22.0%	22.0%
Tax rate (%)	10.0%	15.9%	11.3%	11.3%	11.3%
Adj. Net Profit Margin (%)	8.5%	7.2%	(3.2%)	5.1%	7.0%
RoE (%)	12.4%	10.1%	(3.7%)	6.7%	9.2%
RoCE (%)	14.1%	15.0%	4.6%	13.3%	15.1%
Current Ratio (x)	1.4	1.4	1.5	1.3	1.4
Adj. EPS (INR per share)	51.4	51.5	(18.1)	30.4	46.7

Source: Company, KRChoksey Research

UPL Ltd.

Exhibit 3: Balance Sheet

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Share capital	1,530	1,500	1,500	1,500	1,500
Reserves and surplus	215,220	267,080	246,570	262,562	297,615
Issue of perpetual bond	29,860	29,860	29,860	29,860	29,860
Minority Interest	46,470	55,850	49,130	50,130	51,880
Total Equity	293,080	354,290	327,060	344,052	380,855
Long-term borrowings	216,050	201,440	240,100	166,440	146,440
Deferred tax liabilities (Net)	25,120	24,620	24,060	24,060	24,060
Other long term liabilities	10,430	12,880	11,770	10,835	12,106
Long-term provisions	2,350	2,170	3,860	1,825	2,040
Total Non-current liabilities	253,950	241,110	279,790	203,160	184,646
Short-term borrowings	42,610	28,550	44,280	28,550	28,550
Trade payables	165,520	176,140	156,840	148,169	165,555
Other current liabilities	66,360	80,650	64,340	55,563	62,083
Short-term provisions	5,270	5,030	3,150	10,075	11,257
Total Current liabilities	279,760	290,370	268,610	242,358	267,445
Total Equity and liabilities	826,790	885,770	875,460	789,570	832,946
Assets					
Net Block	170,370	179,090	176,070	163,365	161,429
Capital work in progress	11,840	11,970	11,060	11,060	11,060
Intangible asset under development	13,170	16,210	18,590	18,590	18,590
Goodwill on consolidation	183,640	198,980	201,840	201,840	201,840
Investments accounted using equity method	5,600	9,730	12,380	12,380	12,380
Non-current investments	5,220	6,050	6,550	6,550	6,550
Deferred tax assets	20,760	26,610	35,950	35,950	35,950
Long-term loans and advances	670	570	230	479	536
Other non-current assets	18,180	15,660	19,410	13,173	14,719
Trade receivables	60	620	100	522	583
Total Non-current assets	429,510	465,490	482,180	463,909	463,636
Current Investments	8,400	460	2,610	2,610	2,610
Inventories	130,780	139,850	127,760	111,127	124,166
Trade receivables	153,280	182,240	163,540	148,169	165,555
Cash and bank balances	57,970	59,670	59,430	25,492	34,370
Short-term loans and advances	0	250	200	0	0
Other current assets	43,140	36,110	38,520	37,042	41,389
Total current assets	396,800	419,880	392,990	325,371	369,020
Total Assets	826,790	885,770	875,460	789,570	832,946

Source: Company, KRChoksey Research

UPL Ltd.

UPL Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
06-Aug-24	529	534	HOLD
22-May-24	512	534	HOLD
06-Feb-24	482	487	HOLD
15-Nov-23	554	600	ACCUMULATE
01-Aug-23	620	684	ACCUMULATE
11-May-23	685	876	BUY
07-Feb-23	718	1,041	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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