



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

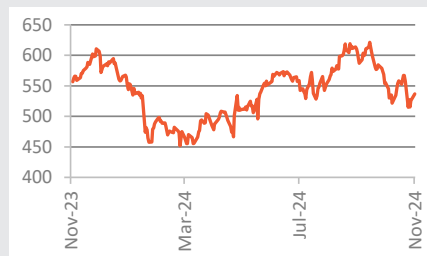
Company details

Market cap:	Rs. 41,781.83 cr
52-week high/low:	Rs. 625/448
NSE volume: (No of shares)	64.5 lakh
BSE code:	512070
NSE code:	UPL
Free float: (No of shares)	50.66 cr

Shareholding (%)

Promoters	33
FII	34
DII	18
Others	16

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.3	-4.2	5.0	-3.6
Relative to Sensex	1.5	-0.4	0.5	-21.4

Sharekhan Research, Bloomberg

UPL Ltd

Reports further loss, optimistic about H2 recovery

Agri Chem

Sharekhan code: UPL

Reco/View: Hold



CMP: Rs. 537

Price Target: Rs. 584



Upgrade



Maintain



Downgrade

Summary

- The quarter's revenue reached Rs. 11,090 crore, marking a 9% increase y-o-y and a 22% q-o-q rise.
- EBITDA for the quarter was Rs. 1,352 crore, up 2% y-o-y and 23% q-o-q.
- The company reported a loss of Rs. 585 crore, compared to a loss of Rs. 527 crore in the previous quarter and a loss of Rs. 293 crore during the same period last year.
- We maintain our HOLD rating on UPL with a revised PT of Rs. 584, given the destocking concerns and high debt. At the CMP, the stock trades at 19x/13x its FY2026E/FY2027 EPS.

There was continued volume growth across key regions, despite pricing pressure. Europe saw strong growth, driven by increased volumes of fungicides and NPP, supported by Brazil and North America. India also experienced growth, primarily driven by volume expansion and margin accretion. Seeds saw moderate growth, led by grain sorghum and corn. In Brazil, fungicide volumes, especially mancozeb, showed an increase, while Europe also saw higher fungicide volumes. However, herbicide sales were impacted in Argentina and North America, and key insecticide active ingredient (AI) prices declined in Brazil, though this was partially offset by volume growth in North America. The NPP segment performed strongly, especially biocontrol in Latin America and Europe, alongside key biostimulants in Brazil. Despite the positive volume growth, the contribution margin contracted due to overall pricing pressure, mainly in Latin America, and an unfavourable product mix in Europe. Latin America's ECL and bad debt also had an impact on overall SG&A. While farmgate demand remained strong, there were some challenges due to lower farmgate pricing. Looking ahead, pricing pressure is expected to be offset by lower input costs for key AIs in the second half of FY2025, with potential upside for margins.

Key positives

- Sustained volume growth
- Robust growth in Europe, driven by increased fungicide and NPP volumes
- Contribution margin decreased by more than 2%

Key negatives

- The company continues to face price erosion
- Rise in debt during September 2024
- Bad debt affected overall SG&A expenses

Management Commentary

- Driven by higher volumes, with sales occurring closer to the application season.
- Cotton was impacted by reduced sprays due to continuous rains in the north.
- Normalised channel inventory levels indicate improved ground consumption.
- Strong demand anticipated for Rabi season.

Revision in estimates – We have upgraded our FY2025-FY2026 earnings estimates as the company expects recovery in H2. We have also introduced FY2027 estimates.

Our Call

Valuation – Maintain HOLD with a revised PT of Rs. 584: UPL again reported a loss in Q2FY2025, with a gradual recovery anticipated in H2FY2025 due to ongoing challenges in the global agrochemical industry. Management has projected revenue growth of 4-8% and EBITDA growth of over 50% for FY2025, with gains expected to be driven primarily by the second half of the year. The company's net debt has increased further, which may eventually impact its credit rating. Given these factors, we are maintain HOLD with a revised target price (TP) of Rs. 584. At the current market price, the stock is trading at 19x/13x its FY2026/FY2027 estimated EPS.

Key Risks

- Upside risks:** Faster-than-expected recovery in demand in the global agrochemical industry, better-than-expected pricing in the post-patent market space, and earlier-than-expected balance deleveraging are key upside risks.
- Downside Risks:** A slowdown in the global agrochemical industry and delayed product launches could affect revenue growth. Currency fluctuations might hit the company, as UPL has a significant presence in various geographies. The continued oversupply of post-patented products may keep pricing/margins under check.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	53,576	43,098	43,529	47,011	51,712
OPM (%)	24%	12%	15%	17%	19%
PAT	4,414	-1,878	1,547	3,350	5,047
YoY growth (%)	10%	-134%	182%	117%	51%
EPS (Rs.)	47.56	-15.99	12.79	27.69	41.72
P/E (x)	11x	-34x	42x	19x	13x
P/BV (x)	1.1x	1.2x	1.2x	1.1x	1x
EV/EBITDA (x)	4x	11x	7x	5x	3x
RoCE (%)	14%	4%	7%	10%	12%
RoNW (%)	12%	-6%	5%	9%	12%

Source: Company; Sharekhan estimates

Q2FY2025 earnings call highlights

- ◆ The company is confident of achieving its revenue, EBITDA, and free cash flow targets for the full financial year.
- ◆ The company anticipates a slowdown in volume growth during the second half of the year, with expected growth in mid-single digits, down from 18% in the first half.
- ◆ The company is closing the margin gap, driven by margin accretion across most regions.
- ◆ Margin accretion is anticipated in Q3 due to reduced input costs, an improved product mix, and increased market share in key regions.
- ◆ The decline in raw-material costs has led to a reduction in revenue for the specialty chemicals business.
- ◆ The company has largely cleared its high-cost inventory during the first half, which is expected to contribute to margin expansion in the second half.
- ◆ The company has forecast capital expenditure (CapEx) of approximately Rs. 1,800 crore.
- ◆ The company noted that growers are now purchasing products closer to their usage time, signaling a shift in their buying behaviour.
- ◆ The company's supply chain teams are focused on debottlenecking and identifying cost-saving opportunities within their own supply chain.
- ◆ A 10% price reduction was observed in the first half of the year.
- ◆ New product launches this year and next year are expected to drive growth across all regions over the next 12 months.

Results (Consolidated)

					Rs cr
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales	11,090	10,170	9%	9,067	22%
Total expenditure	7,966	7,690	4%	12,230	-35%
Reported operating profit	1,352	1,325	2%	1,101	23%
Other Income	111	105	6%	98	13%
Depreciation	697	657	6%	660	6%
Interest	1070	871	23%	913	17%
PBT	-304	-98	210%	-374	-19%
Tax	138	-96	-244%	72	92%
PAT	-585	-293	100%	-527	11%
EPS (Rs.)	-5.09	-2.54		-6.02	
Margin (%)			BPS		BPS
Operating profit margin (OPM)	12%	13%	-84bps	12%	5bps
NPM	-5%	-3%	-239bps	-6%	54bps
Tax rate	-45%	98%	-14335bps	-19%	-2614bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Rising food demand provides ample growth opportunities for agri-input players but global inventory destocking is a concern

The Indian agrochemical industry's outlook is encouraging, primarily driven by rising foodgrain production and domestic demand, favourable regulatory reforms for farmers, and a vast opportunity from off-patent products. The government's focus is to double farmers' income (higher MSPs for crops). Above-normal monsoons and higher reservoir levels would augment demand for agri-inputs in India. We also expect exports from India to grow strongly as India is being looked upon as the preferred supplier for agri-inputs, given disruptions in China. Thus, we expect India's agrochemical industry to witness 7-8% growth annually on a sustained basis over the next few years. Moreover, international markets such as Latin America would continue to grow robustly, supported by higher demand for crop protection and farm solutions mitigating slower growth in the U.S. and Europe. Inventory destocking and pricing pressures amid rising Chinese supply would make growth challenging for global as well as domestic agrochemical companies.

■ Company Outlook – Near-term concerns; recovery expected to be gradual

High channel inventory and pricing pressures amid rising Chinese supply would make growth challenging for global as well as domestic agrochemical companies. Overall demand recovery would also be gradual in North America, Europe, and Brazil, while it could be faster in Asia. In the backdrop of industry headwinds, we believe earnings concerns for UPL would persist in the near term and earnings recovery would happen in FY2025.

■ Valuation – Maintain HOLD with a revised PT of Rs. 584

UPL again reported a loss in Q2FY2025, with a gradual recovery anticipated in H2FY2025 due to ongoing challenges in the global agrochemical industry. Management has projected revenue growth of 4-8% and EBITDA growth of over 50% for FY2025, with gains expected to be driven primarily by the second half of the year. The company's net debt has increased further, which may eventually impact its credit rating. Given these factors, we are maintain HOLD with a revised TP of Rs. 584. At the current market price, the stock is trading at 19x/13x its FY2026/FY2027 estimated EPS.

About the company

UPL is a global leader in agricultural solutions and has a healthy mix of high-value crops and high-growth geographies. The company is well positioned to achieve sustainable growth as it is present across the agricultural input segment, ranging from seeds to crop-protection products and post-harvest activities. Arysta's acquisition strengthens UPL's global position and helps it to emerge as an end-to-end solutions provider in the global agri input space. The company has manufacturing facilities across 48 locations (earlier 34) and is present across more than 138 countries. The company's thrust on research and innovation has helped it garner 1,023 patents and over 12,400 registrations. The acquisition has strengthened UPL's long-term growth prospects as product registration has doubled from its earlier levels of 6,500 because it takes between 2-5 years to get products registered. The company has a workforce representation of over 75 countries with a total employee strength of over 10,300.

Investment theme

We see earnings and RoE concern for UPL over FY2024-FY2025, given headwinds in the global agrochemical industry. Weak EBITDA would impact leverage ratios and raise concerns about a downgrade in UPL's credit rating. Hence, we have downgraded our rating on UPL to HOLD. Furthermore, we believe any demand recovery in the global agrochemical industry would only be gradual.

Key Risks

- ♦ **Upside risks:** Faster-than-expected recovery in demand in the global agrochemical industry, better-than-expected pricing in the post-patent market space, and earlier-than-expected balance deleveraging are key upside risks.
- ♦ **Downside Risks:** A slowdown in the global agrochemical industry and delayed product launches could affect revenue growth. Currency fluctuations might hit the company, as UPL has a significant presence in various geographies. The continued oversupply of post-patented products may keep pricing/margins under check.

Additional Data

Key management personnel

Jaidev Rajnikant Shroff	Chairman and Managing Director
Anand Vora	Global CFO
Vicente Gongora	CTO
Sanjay Singh	CHRO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp. of India	7.28
2	Uniphos Enterprises Ltd.	5.26
3	Massachusetts Financial Services	4.11
4	ICICI Prudential Asset Management	4.11
5	The Vanguard Group Inc.	4.03
6	BlackRock Inc.	2.78
7	SEAFARER OVERSEAS GROWTH & INC	1.23
8	Seafarer Capital Partners LLC	1.26
9	Vanguard International Value Fund	1.16
10	Dimensional Fund Advisors LP	1.02

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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