Sharekhan
by BNP PARIBAS

UPL

Delivers healthy performance

Sector: Agri Chem
Result Update

	Change
Reco: **Buy**	↑
CMP: **Rs. 543**	
Price Target: **Rs. 647**	↑

↑ Upgrade ↔ No change ↓ Downgrade

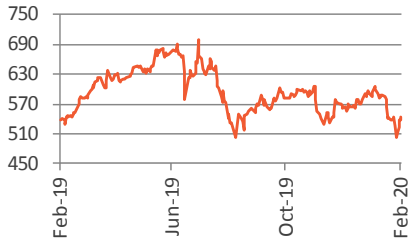
Company details

Market cap:	Rs. 41,484 cr
52-week high/low:	Rs. 709/498
NSE volume: (No of shares)	30.5 lakh
BSE code:	512070
NSE code:	UPL
Sharekhan code:	UPL
Free float: (No of shares)	55.10 cr

Shareholding (%)

Promoters	28
FII	52
DII	11
Others	9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.1	-12.8	-10.5	-0.5
Relative to Sensex	-9.7	-12.2	-16.9	-10.0

Sharekhan Research, Bloomberg

UPL Limited (UPL) reported revenue and EBITDA growth of 7% y-o-y and 22% y-o-y respectively on a like-to-like basis (i.e. including Arysta numbers in the base quarter). Operating margin improved by 280 bps y-o-y to 23.3% despite gross margin being similar at 42% owing to revenue and cost synergy at play. Revenue was backed by overall volume growth of 10% y-o-y on a comparable basis partly offset by softness in realisation (lower by 1% y-o-y) and adverse currency impact of 2%. On reported basis the company delivered a revenue growth of 80.7% y-o-y to Rs 8892 crores (4.3% below of expectation of Rs 9293 crores). Adj. EBITDA margin at 23.6% (ahead of our expectation of 21.3%) witnessed an improvement of 263 bps. Hence adj. EBITDA was up by 103.7% y-o-y to Rs 2070 crore. Higher depreciation (up by 2.7x), interest cost (increased by 2.5x) coupled with increased tax incidence (19.2% vs. 5.6% in Q3FY2019) restricted the adj. PAT growth to 32.8% y-o-y at Rs. 842 crore (above our expectation of Rs 696 crores). Reported PAT increased by 52.1% y-o-y to Rs 701 crores. Performance in the Latin America and Indian region was encouraging as revenue increased by 21% y-o-y and 42% y-o-y respectively, while that in North America and Europe was disappointing as revenue was lower by 12% y-o-y and 27% y-o-y respectively. As the new season kicks off, the management expects the inventory levels to normalise by the end of Q4FY2020E resulting in improved operating cash flow position. This will help the company to pare down debt by US$ 500 mn by end of Q4FY2020 despite capex of Rs 2000 crore for FY2020.

Key positives

- Overall volume growth of 10% y-o-y on a comparable basis.
- Strong revenue growth of 21% y-o-y and 42% y-o-y in Latin America and India respectively

Key negatives

- Overall blended realisation remains soft, down by 1% y-o-y and adverse currency movement impacts revenue by 2% on a comparable basis.
- Revenue was lower by 12% y-o-y and 27% y-o-y in North America and Europe respectively.

Our Call

Valuation: Upgrade to BUY with revised PT of Rs. 647: The Management maintains its revenue growth guidance of 8-10% and EBITDA growth of 16-20% for FY2020E on base revenue and EBITDA of Rs. 32,500 crore and Rs. 6,900 crore, respectively, along with debt reduction of ~US$ 500 million by the end of FY2020 despite capex of Rs 2000 crores. We have fine-tuned our numbers for FY2020E and FY2021E and introduced FY2022E estimates. We believe that the company will be able to deliver revenue and earnings CAGR of 10.0% and 29.5% over FY2020-22E. At CMP, the stock is trading at 17.4x/12.6x/10.4 its FY2020E/FY2021E/FY2022E earnings. As the risk-reward matrix turns favourable, we upgrade our rating on UPL Limited (UPL) to BUY with revised price target of Rs 647/share.

Key Risks

- Ongoing U.S.-China trade war might have an impact on commodity prices.
- Currency fluctuation might have an impact, as UPL has a significant presence in various geographies.

Valuation (Consolidated) — Rs cr

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Revenue	17,378	21,837	34,120	37,959	41,280
OPM (%)	22.6	18.6	22.4	23.4	24.1
Adjusted PAT	2,085	1,898	2,390	3,297	4,007
% YoY growth	15.3	(9.0)	25.9	38.0	21.5
Adjusted EPS (Rs.)	27.3	24.8	31.2	43.1	52.4
P/E (x)	19.9	21.9	17.4	12.6	10.4
P/B (x)	4.5	2.8	2.6	2.3	2.4
EV/EBITDA (x)	12.9	17.7	9.4	7.6	6.6
RoNW (%)	25.3	15.9	15.7	19.6	23.0
RoCE (%)	21.6	9.3	10.2	13.1	15.9

Arysta's financials included in FY2019 numbers since February 1, 2019; hence, they are not comparable
Source: Company, Sharekhan Research

Healthy performance: On a reported basis, UPL Limited delivered a revenue growth of 80.7% y-o-y to Rs 8892 crores (4.3% below of expectation of Rs 9293 crores). Input cost pressures coupled with a change in geographical mix and product mix led to gross margin contraction of 461 bps y-o-y to 50.2% during the quarter. However strong revenue growth led to gross profit growth of 66.0% y-o-y. As economies of scale helped to recoup the loss in gross margins, Adj. EBITDA margin at 23.6% (ahead of our expectation of 23.3%) witnessed an improvement of 263 bps. Hence adj. EBITDA was up by 103.7% y-o-y to Rs 2070 crore. Higher depreciation (up by 2.7x), interest cost (increased by 2.5x) coupled with increased tax incidence (19.2% vs. 5.6% in Q3FY2019) restricted the adj. PAT growth to 32.8% y-o-y at Rs. 842 crore (above our expectation of Rs 696 crores). Forex loss of Rs 66 crores as against forex gain of Rs 132 crores in Q3FY2019 coupled with Rs 75 crores loss as against Rs 91 crores loss in Q3FY2019 in respect of cost related to Agro fresh litigation in USA, severance and integration cost due to Arysta acquisition led to 52.1% y-o-y growth in Reported PAT at Rs 701 crores.

Volume growth of 10% y-o-y drives revenue on comparable basis during Q3FY2020: On a like-to-like basis (i.e. including Arysta numbers in the base quarter) revenue and EBITDA both grew by 7% y-o-y and 22% y-o-y respectively. Operating margin improved by 280 bps y-o-y to 23.3% despite gross margin being similar at 42% owing to revenue and cost synergy at play. Revenue was backed by overall volume growth of 10% y-o-y on a comparable basis partly offset by softness in realisation (lower by 1% y-o-y) and adverse currency impact of 2%.

Latin America contributes the highest revenue, grows by 21% y-o-y on like to like basis: UPL reported 21% y-o-y revenue growth from Latin America at Rs 4203 crores which represented 47% of the overall Q3FY2020 revenues. The strong growth of 21% in Latin America has been led by synergies benefit derived from complementary product portfolio and clients in both the legacy businesses. Also US/China trade war helped strong demand offtake in soyabean in Brazil crop protection despite a drought like condition in the south region. However, the demand environment remained challenging in Argentina owing to higher export duties for food grain crops as a result of economic turmoil. Rest of the world grew by 7% y-o-y to Rs 1884 crore (contributed 21% to overall revenues) led by healthy performance in West Africa and parts of South East Asia while the company continued to expand its presence in Ivory Coast, Ghana and Indonesia. However demand off-take was under pressure in Australia owing to drought like condition and forest fires. The Indian region witnessed a robust revenue growth of 41% y-o-y to Rs 750 crores (contributed 8% to overall revenues) led by favourable weather conditions and water levels in reservoirs for the Rabi season coupled with new launches and high value insecticides.

Revenue contribution from North America and Europe stood at Rs 1288 crores (14%) and Rs 767 crores (9%). However the businesses witnessed a decline of 12.3% yoy and 27.4% y-o-y respectively. North America business performance was impacted owing to shift in demand for soyabean to South America as a result of ongoing US-China trade war. However, the company's efforts helped it to improve market share in key herbicides and fungicides products despite adverse market environment in the region. Europe business performance was impacted owing tough weather conditions in Western Europe resulting in poor demand off-take and increased channel inventory despite healthy business performance in Southern Europe.

Working capital cycle stood unchanged: During the quarter, the company generated Rs. 2,145 crore of cash from operations while working capital cycle remained the same at 126 days for the 9MFY2020 as compared to 9MFY2019. Inventory days stood unchanged at 111 days while receivables increased by 15 days to 139 days offset by similar increase in payable days to 124 days.

Guidance for FY2020 retained: The management maintains its guidance of revenue growth of 8-10% & EBITDA growth of 16-20% on base revenue & EBITDA of Rs. 32,500 crore and Rs. 6,900 crore, respectively, for FY2020E along with debt reduction of ~US$ 500 million by end of FY2020. This is expected to translate into consolidated sales of $5 billion and EBITDA of $1 billion, resulting in EBITDA margin of 20%+ during FY2020 for the UPL combined entity. As the new season kicks off, the management expects the inventory levels to normalise by the end of Q4FY2020E resulting in improved operating cash flow position. This will help the company to pare down debt by US$ 500 mn despite capex of Rs 2000 crore for FY2020.

Results (Consolidated) — Rs cr

Particulars	Q3FY20	Q3FY19*	YoY (%)	Q2FY20	QoQ (%)
Net Sales	**8,892**	**4,921**	**80.7**	**7,817**	**13.8**
EBIDTA	**2,102**	**938**	**124.1**	**1,447**	**45.3**
Adj EBITDA	**2,070**	**1,016**	**103.7**	**1,539**	**34.5**
Depreciation	**495**	**182**	**172.0**	**476**	**4.0**
Interest	515	202	155.0	381	35.2
Other Income	20	37	(45.9)	24	(16.7)
PBT	**1,037**	**500**	**107.4**	**309**	**235.6**
Tax	199	28	610.7	99	101.0
Reported PAT	**701**	**461**	**52.1**	**166**	**322.3**
Adjusted PAT	**842**	**634**	**32.8**	**517**	**62.9**
AEPS (Rs)	10.1	7.2	40.6	6.2	64.8
			YoY (BPS)		**QoQ (BPS)**
EBIDTA Margins (%)	**23.6**	**19.1**	**458**	**18.5**	**513**
Adj EBITDA Margin (%)	**23.3**	**20.6**	**263**	**19.7**	**359**
Adjusted PAT Margin (%)	9.5	12.9	(341)	6.6	286

*Note: *denotes Q2FY2019 numbers does not include Arysta's financials; hence not comparable*

Source: Company; Sharekhan Research

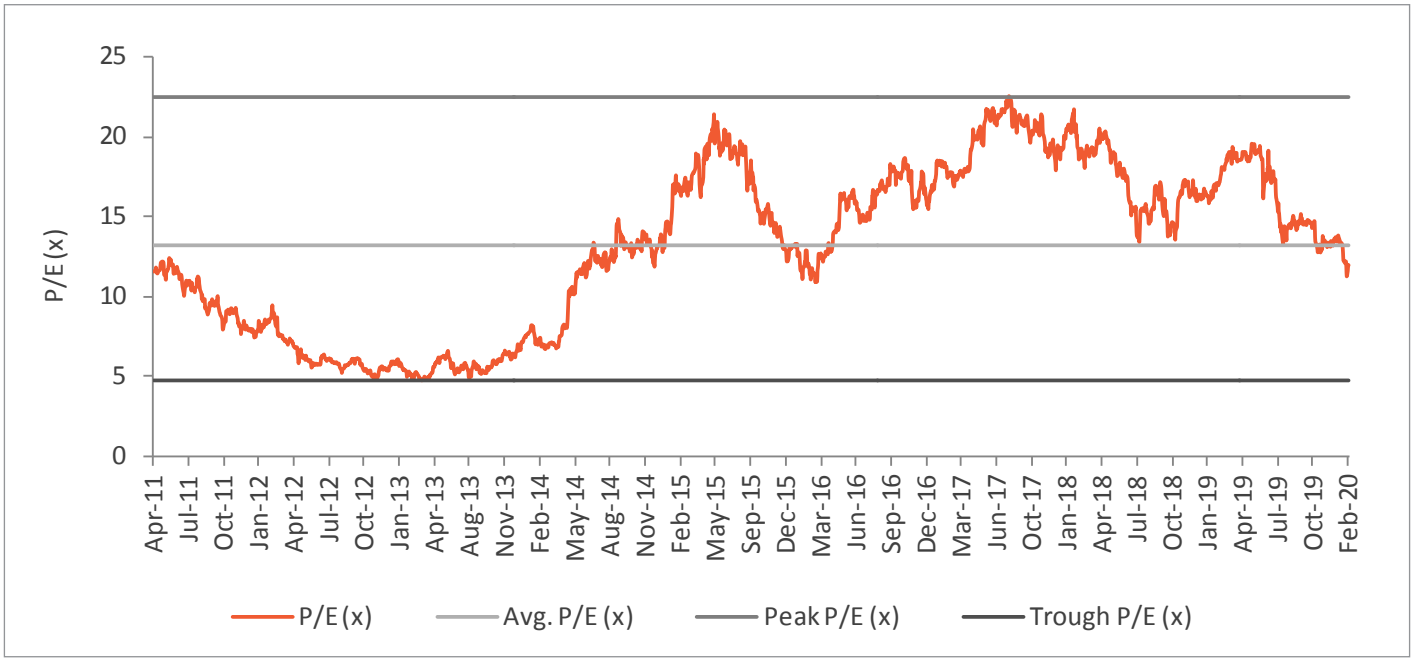
Outlook

Management reiterates FY2020 guidance and provides encouraging outlook: UPL is expected to have consolidated sales of $5 billion and EBITDA of $1 billion, resulting in EBITDA margin of 20%+ during FY2020. The management maintains its revenue growth guidance of 8-10% and EBITDA growth of 16-20% for FY2020E on base revenue and EBITDA of Rs. 32,500 crore and Rs. 6,900 crore, respectively. As the new season kicks off, the management expects the inventory levels to normalise by the end of Q4FY2020E resulting in improved operating cash flow position. This will help the company to pare down debt by US$ 500 mn despite capex of Rs 2000 crore for FY2020.

Valuation

Upgrade to BUY with revised PT of Rs. 647: The management maintains its revenue growth guidance of 8-10% and EBITDA growth of 16-20% for FY2020E on base revenue and EBITDA of Rs. 32,500 crore and Rs. 6,900 crore, respectively, along with debt reduction of ~US$ 500 million by end of FY2020 despite a capex of Rs 2000 crores. We have fine tuned our numbers for FY2020E and FY2021E and introduce FY2022E estimates and believe that the company will be able to deliver revenue and earnings CAGR of 10.0% and 29.5% over FY2020-22E. At CMP, the stock is trading at 17.4x/12.6x/10.4 its FY2020E/FY2021E/FY2022E earnings. As the risk-reward matrix turns favourable, we upgrade our rating on UPL Limited (UPL) to BUY with revised price target of Rs 647/share.

One-year forward P/E (x) band



Source: Sharekhan Research

About 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 positioning 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 presence across more than 138 countries. The company's thrust on research and innovation has helped it garner 1,023 patent 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 considering the fact that it takes between 2-5 years for getting products registered. The company has a workforce representation of over 75 countries with a total employee strength of over 10,300.

Investment theme

UPL moves up in global ranking to the fifth position post Arysta's acquisition (earlier seventh). The company has successfully integrated 25+ companies post the acquisition in the past 20 years. The company is among the top five post patent agrochemical manufacturers in the world and is the largest producer of agrochemicals in India. UPL has mostly outperformed the industry's growth rate. The acquisition (UPL + Arysta) brings in a prudent mix of own manufacturing and outsourcing, which is expected to lead to improved margin profile coupled with capital efficiencies resulting in improved return ratios. New product launches in key geographies and flowing of synergies benefits of Arysta's acquisition are likely to fuel growth at a faster pace.

Key Risks

- Ongoing U.S.-China trade war might have an impact on commodity prices.
- Currency fluctuation might have an impact, as UPL has a significant presence in various geographies.

Additional Data

Key management personnel

Rajnikant Devidas Shroff	Chairman cum Managing Director
Sandra Rajnikant Shroff	Vice Chairman
Jaidev Rajnikant Shroff	Global CEO of the Group
Vikram Rajnikant Shroff	Executive Director
Arun Chandrasen Ashar	Executive Director Finance
Diego Casanello	Global COO - Crop Protection
Sagar Kaushik	Global Head – Corporate Affairs
Rajendra Darak	Group CFO
Anand Vora	Global CFO Chief Financial Officer
Sandeep Deshmukh	Company Secretary & Compliance office

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc	3.95
2	BlackRock Inc	2.94
3	Norges Bank	2.90
4	Vanguard Group Inc	2.53
5	Mawer Investment Management Ltd	2.00
6	Invesco Ltd	1.82
7	Lazard Ltd	1.42
8	Manu Life Financial Corp	1.17
9	Dimensional Fund Advisors LPP	1.08
10	SBI Funds Management Pvt Ltd	1.06

Source: Bloomberg

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;