

BSE SENSEX 45,960 S&P CNX 13,478



#### Stock Info

Bloomberg	UPLL IN
Equity Shares (m)	765
M.Cap.(INRb)/(USDb)	335 / 5.1
52-Week Range (INR)	615 / 240
1, 6, 12 Rel. Per (%)	-5/-31/-35
12M Avg Val (INR M)	2576
Free float (%)	72.1

#### Financials Snapshot (INR b)

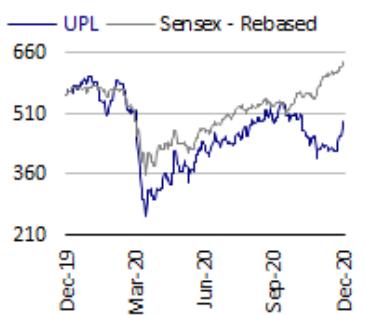
Y/E Mar	2020	2021E	2022E
Sales	357.6	384.6	419.0
EBITDA	74.4	83.8	94.3
PAT	26.6	31.5	34.6
EBITDA (%)	20.8	21.8	22.5
EPS (INR)	34.8	41.2	45.2
EPS Gr. (%)	8.0	18.4	9.6
BV/Sh. (INR)	213	242	422
<b>Ratios</b>			
Net D/E	1.5	1.2	0.9
ROE (%)	17.2	18.1	17.4
RoCE (%)	9.5	10.4	11.1
Payout (%)	25.9	20.0	20.0
<b>Valuations</b>			
P/E (x)	12.6	10.6	9.7
EV/EBITDA (x)	7.9	6.7	5.7
Div Yield (%)	1.4	1.7	2.1
FCF Yield (%)	11.9	14.0	15.4

#### Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	27.9	27.9	27.9
DII	16.2	13.2	10.9
FII	37.2	40.6	43.9
Others	18.7	18.4	17.3

FII Includes depository receipts

#### Stock Performance (1-year)



**CMP: INR438 TP: INR452(+3%)**

**Neutral**

#### Whistle-blower allegations raise governance concerns

UPLL hosted a call to clarify the whistle-blower complaint, which alleged that promoter Mr. Jaidev Shroff along with family members have siphoned off money. In this note, we have highlighted the issues involved, the management's response to the same, and recent business update. Key highlights are below:

#### Allegation

- The whistle-blower alleged that UPLL entered into rent deals with a shell company (Sadafuli), owned by its employees, and paid crores of rupees in rent for properties held by the latter, which was earlier owned by Mr. Shroff. As per the [media article](#), according to the lease-and-license agreement in 2002 signed for 66 months, the total cumulative rent, along with the deposit, comes to around INR60m. According to MCA filings made by Sadafuli during FY12-19, a total of INR249m has been paid as rent for Salisbury House. In FY19 alone, Sadafuli received INR42m as rent for the house.
- As per its FY12 AR, Mr. Shroff owned 97.8% stake in Sadafuli Finvest Pvt, which has been receiving secured and unsecured loans from multiple entities related to Mr. Shroff. In FY13, Shroff transferred his entire stake to Teknomic Consultants Pvt, which then became the holding company of Sadafuli.

#### Management's reply to the allegations

- The issue was raised in 2017 with the board and the audit committee chairman. It was investigated by the audit committee and was concluded earlier itself.
- The company denies the whistle blower is a member of the board as reported in the news article (UPLL has verified the same with board members of the last seven years) as these allegations were discussed and investigated by the audit committee and the board in 2017/2018.
- An identical whistle blower complaint was received by the audit committee of UPLL on June 2, 2017. The whistle blower committee, which comprised only independent directors, was constituted by the audit committee to investigate the allegations and all the contents of the complaint were fully disclosed. It undertook a detailed review, including each related party transaction (RPT), with the help of an independent law firm, and had concluded two-and-a-half years back that those transactions were at arm's length and in compliance with applicable laws. Thereafter, the complainant was duly informed about the findings of the audit committee and the matter was closed.
- It appears that the same whistle blower, motivated by malafide intentions, has approached the media raising the same issue again.
- The company confirms that all transactions in question were at an arms-length basis and that there has been no siphoning of funds, as alleged in the news article. It added there is no new complaint against UPLL.

### Others

- **Auditor resignation:** The auditor of UPLL's subsidiary resigned as they were not able to complete the audit on time due to lower manpower. KPMG India is still the auditor of the holding company. However, KPMG Mauritius has resigned as auditor for UPLL's subsidiary: UPL Corporations.
- The company is looking to simplify its corporate structure by reducing its subsidiaries. Over the last few years, it has been simplifying its structure. Five years back, UPLL had more than 100 subsidiaries, which has now reduced to 80 (ex-Arysta related companies).
- It is planning to prepay USD410m in debt by the end of Dec'20. This will aid in reducing gross debt. Net debt at the end of FY21 will decline as usual in the 4Q as the company generates higher CFO (due to the seasonality in the business).

### Business update

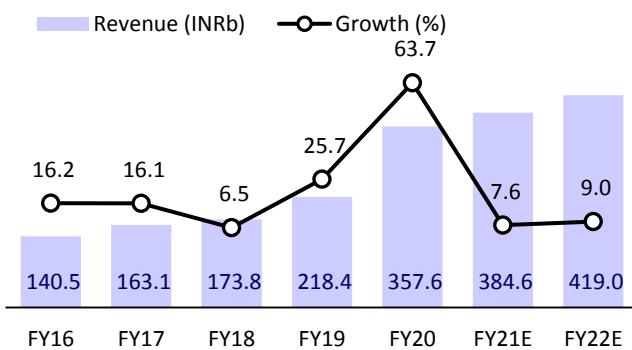
- Strong commodity prices have aided agrochemical consumption globally.
- Recently, the company inaugurated a laboratory in Bengaluru, which will undertake research in bio-solutions. This is in addition to the research going on in other geographies.
- Strategy in Brazil has panned out very well and the company is gaining market share.
- New active Ingredient plant of clethodim has just been commissioned.
- Intermediates and specialty business are also growing at 20-30% in India.

### View

- Debt remains a key concern as net debt increased by INR17.8b in 1HFY21 v/s Mar'20. Overall, its Balance Sheet has not shown a significant improvement in 1HFY21. In 2HFY21, the company is targeting to repay USD700m in debt, which would be a key trigger to watch out for.
- The stock performance in near term will remain impacted by the newsflow related to the governance issues. The medium to longer term valuation will be driven by debt reduction, simplifying the corporate structure and comfort around governance issues.
- Expect revenue/EBITDA/PAT CAGR of 8%/13%/14% over FY20-22E. We value the stock at 10x FY22E EPS and arrive at a TP of INR452/share. Maintain **Neutral**.

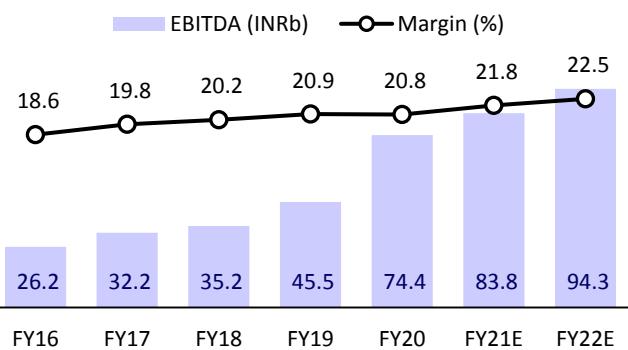
## Story in charts

**Exhibit 1: Expect 8% revenue CAGR over FY20–22E**



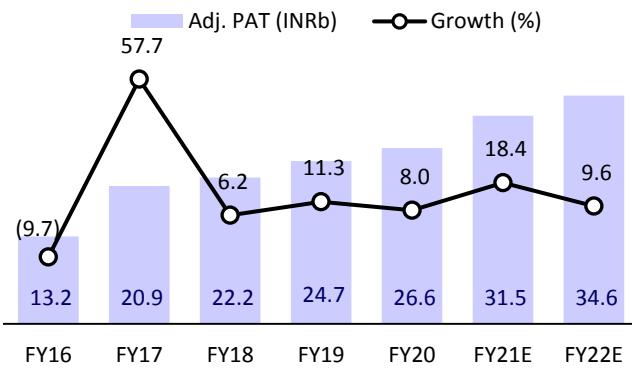
Source: Company, MOFSL

**Exhibit 2: Margin to expand 170bp over FY20–22E**



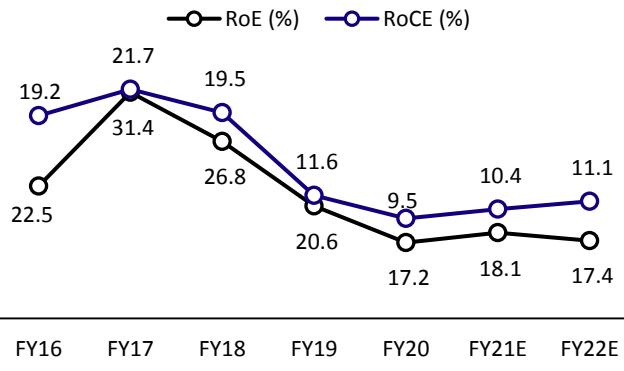
Source: Company, MOFSL

**Exhibit 3: Expect adj. PAT CAGR of 14% over FY20–22E**



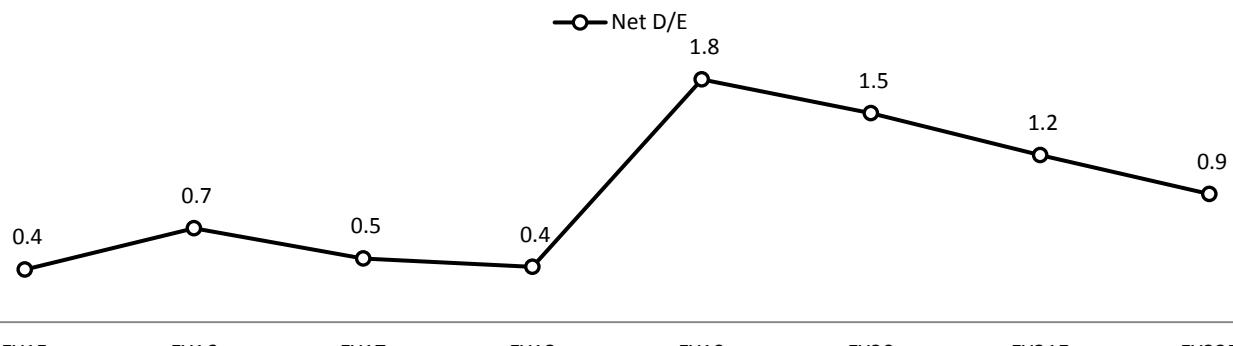
Source: Company, MOFSL

**Exhibit 4: Return ratio trend**



Source: Company, MOFSL

**Exhibit 5: Net D/E to improve (x)**



Source: Company, MOFSL

## Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Total Income from Operations</b>	<b>1,40,480</b>	<b>1,63,120</b>	<b>1,73,780</b>	<b>2,18,370</b>	<b>3,57,560</b>	<b>3,84,604</b>	<b>4,19,036</b>
Change (%)	16.2	16.1	6.5	25.7	63.7	7.6	9.0
<b>Total Expenditure</b>	<b>1,14,300</b>	<b>1,30,890</b>	<b>1,38,620</b>	<b>1,72,830</b>	<b>2,83,180</b>	<b>3,00,788</b>	<b>3,24,753</b>
% of Sales	81.4	80.2	79.8	79.1	79.2	78.2	77.5
<b>EBITDA</b>	<b>26,180</b>	<b>32,230</b>	<b>35,160</b>	<b>45,540</b>	<b>74,380</b>	<b>83,815</b>	<b>94,283</b>
Margin (%)	18.6	19.8	20.2	20.9	20.8	21.8	22.5
Depreciation	6,760	6,720	6,750	8,800	20,120	22,850	26,008
<b>EBIT</b>	<b>19,420</b>	<b>25,510</b>	<b>28,410</b>	<b>36,740</b>	<b>54,260</b>	<b>60,965</b>	<b>68,275</b>
Int. and Finance Charges	7,040	7,350	7,830	9,630	14,810	18,419	17,879
Other Income	3,160	4,440	4,140	2,400	1,040	1,920	1,467
Exchange diff on trade rec. & payables	2,230	2,380	110	2,990	3,310	130	0
<b>PBT bef. EO Exp.</b>	<b>13,310</b>	<b>20,220</b>	<b>24,610</b>	<b>26,520</b>	<b>37,180</b>	<b>44,336</b>	<b>51,863</b>
EO Items	1,290	810	630	8,930	9,650	3,110	0
<b>PBT after EO Exp.</b>	<b>12,020</b>	<b>19,410</b>	<b>23,980</b>	<b>17,590</b>	<b>27,530</b>	<b>41,226</b>	<b>51,863</b>
Total Tax	1,650	1,890	2,750	1,980	5,860	8,166	10,891
Tax Rate (%)	13.7	9.7	11.5	11.3	21.3	19.8	21.0
Prior Period Items - Income / (Expenses) - Net	0	0	0	0	0	0	0
Share of (profit)/loss of ass. & JV	850	190	930	-140	-30	-55	-61
Minority Interest	120	60	80	840	4,010	5,164	6,455
<b>Reported PAT</b>	<b>9,400</b>	<b>17,270</b>	<b>20,220</b>	<b>14,910</b>	<b>17,690</b>	<b>27,951</b>	<b>34,577</b>
<b>Adjusted PAT</b>	<b>13,238</b>	<b>20,878</b>	<b>22,163</b>	<b>24,658</b>	<b>26,638</b>	<b>31,543</b>	<b>34,577</b>
Change (%)	-9.7	57.7	6.2	11.3	8.0	18.4	9.6
Margin (%)	9.4	12.8	12.8	11.3	7.4	8.2	8.3
Consolidated - Balance Sheet							(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	860	1,010	1,020	1,020	1,530	1,530	1,530
Total Reserves	20,060	72,140	90,670	1,46,130	1,61,430	1,83,790	2,11,452
<b>Net Worth</b>	<b>58,890</b>	<b>73,970</b>	<b>91,690</b>	<b>1,47,150</b>	<b>1,62,960</b>	<b>1,85,320</b>	<b>2,12,982</b>
Minority Interest	440	330	190	34,540	33,120	38,284	44,739
Total Loans	52,580	63,610	66,380	2,91,360	2,88,120	2,78,120	2,58,120
Perpetual bonds	0	0	0	0	29,860	29,860	29,860
<b>Total Loans (Including Perpetual bond)</b>	<b>52,580</b>	<b>63,610</b>	<b>66,380</b>	<b>2,91,360</b>	<b>3,17,980</b>	<b>3,07,980</b>	<b>2,87,980</b>
Deferred Tax Liabilities	-3,900	-5,010	-4,410	21,970	27,770	27,770	27,770
<b>Capital Employed</b>	<b>1,08,010</b>	<b>1,32,900</b>	<b>1,53,850</b>	<b>4,95,020</b>	<b>5,41,830</b>	<b>5,59,354</b>	<b>5,73,471</b>
Gross Block	93,150	96,060	1,06,340	2,30,310	2,59,590	2,86,174	3,07,491
Less: Accum. Deprn.	58,700	59,540	66,290	75,090	95,210	1,18,060	1,44,068
<b>Net Fixed Assets</b>	<b>34,450</b>	<b>36,520</b>	<b>40,050</b>	<b>1,55,220</b>	<b>1,64,380</b>	<b>1,68,114</b>	<b>1,63,423</b>
Goodwill on Consolidation	4,170	4,190	4,320	1,66,270	1,82,410	1,82,410	1,82,410
Capital WIP	4,840	7,920	13,190	18,550	20,730	14,146	12,829
<b>Total Investments</b>	<b>3,350</b>	<b>3,780</b>	<b>10,340</b>	<b>7,080</b>	<b>5,580</b>	<b>5,580</b>	<b>5,580</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>1,17,980</b>	<b>1,44,700</b>	<b>1,57,240</b>	<b>2,84,540</b>	<b>3,27,730</b>	<b>3,58,842</b>	<b>3,97,135</b>
Inventory	37,870	41,560	45,380	91,330	78,500	81,806	91,338
Account Receivables	51,000	56,560	60,570	1,16,790	1,18,670	1,27,499	1,38,913
Cash and Bank Balance	11,890	28,950	28,940	28,510	67,520	80,308	87,267
Loans and Advances	17,220	17,630	22,350	47,910	63,040	69,229	79,617
<b>Curr. Liability &amp; Prov.</b>	<b>56,780</b>	<b>64,210</b>	<b>71,290</b>	<b>1,36,640</b>	<b>1,59,000</b>	<b>1,69,737</b>	<b>1,87,906</b>
Account Payables	39,620	48,850	56,750	94,230	1,02,330	1,10,124	1,22,955
Other Current Liabilities	16,120	14,270	13,430	33,770	55,320	57,691	62,855
Provisions	1,040	1,090	1,110	8,640	1,350	1,923	2,095
<b>Net Current Assets</b>	<b>61,200</b>	<b>80,490</b>	<b>85,950</b>	<b>1,47,900</b>	<b>1,68,730</b>	<b>1,89,104</b>	<b>2,09,229</b>
<b>Appl. of Funds</b>	<b>1,08,010</b>	<b>1,32,900</b>	<b>1,53,850</b>	<b>4,95,020</b>	<b>5,41,830</b>	<b>5,59,354</b>	<b>5,73,471</b>

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Basic (INR)</b>							
EPS	<b>17.3</b>	<b>27.3</b>	<b>29.0</b>	<b>32.2</b>	<b>34.8</b>	<b>41.2</b>	<b>45.2</b>
Cash EPS	26.1	36.1	37.8	43.7	61.1	71.1	120.0
BV/Share	77.0	96.7	119.9	192.4	213.0	242.2	421.7
DPS	5.0	7.0	5.3	5.3	6.0	7.3	9.0
Payout (%)	40.7	31.0	20.0	27.1	25.9	20.0	20.0
<b>Valuation (x)</b>							
P/E	25.3	16.0	15.1	13.6	12.6	10.6	9.7
Cash P/E	16.8	12.1	11.6	10.0	7.2	6.2	3.7
P/BV	5.7	4.5	3.7	2.3	2.1	1.8	1.0
EV/Sales	2.7	2.3	2.1	2.7	1.6	1.5	1.3
EV/EBITDA	14.4	11.5	10.6	13.1	7.9	6.7	5.7
Dividend Yield (%)	1.1	1.6	1.2	1.2	1.4	1.7	2.1
FCF per share	9.2	24.1	19.2	-350.0	51.9	61.1	67.6
<b>Return Ratios (%)</b>							
RoE	22.5	31.4	26.8	20.6	17.2	18.1	17.4
RoCE	19.2	21.7	19.5	11.6	9.5	10.4	11.1
RoIC	21.4	25.7	26.1	12.0	9.6	10.8	11.6
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.5	1.7	1.6	0.9	1.4	1.3	1.4
Inventory (Days)	204	194	204	319	156	156	156
Debtor (Days)	133	127	127	195	121	121	121
Creditor (Days)	213	228	255	329	203	210	210
<b>Leverage Ratio (x)</b>							
Net Debt (incl perpetual bonds)/Equity	0.7	0.5	0.4	1.8	1.5	1.2	0.9

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	13,310	20,220	24,610	26,520	37,180	44,336	51,863
Depreciation	6,760	6,720	6,750	8,800	20,120	22,850	26,008
Interest & Finance Charges	6,350	5,850	7,830	9,630	14,810	18,419	17,879
Direct Taxes Paid	-5,030	-4,040	-2,750	-1,980	-5,860	-8,166	-10,891
(Inc)/Dec in WC	-7,040	-1,210	-5,470	-10,480	30,710	-7,586	-13,166
<b>CF from Operations</b>	<b>14,350</b>	<b>27,540</b>	<b>30,970</b>	<b>32,490</b>	<b>96,960</b>	<b>69,852</b>	<b>71,692</b>
Others	-390	-850	-630	-8,930	-9,650	-3,110	0
<b>CF from Operating incl EO</b>	<b>13,960</b>	<b>26,690</b>	<b>30,340</b>	<b>23,560</b>	<b>87,310</b>	<b>66,742</b>	<b>71,692</b>
(Inc)/Dec in FA	-6,930	-8,270	-15,680	-2,91,280	-47,600	-20,000	-20,000
<b>Free Cash Flow</b>	<b>7,030</b>	<b>18,420</b>	<b>14,660</b>	<b>-2,67,720</b>	<b>39,710</b>	<b>46,742</b>	<b>51,692</b>
(Pur)/Sale of Investments	800	120	-6,560	3,260	1,500	0	0
Others	-10,728	-2,040	2,810	-21,180	19,670	0	0
<b>CF from Investments</b>	<b>-16,858</b>	<b>-10,190</b>	<b>-19,430</b>	<b>-3,09,200</b>	<b>-26,430</b>	<b>-20,000</b>	<b>-20,000</b>
Issue of Shares	0	0	-810	0	510	0	0
Inc/(Dec) in Debt	12,840	10,790	2,770	2,24,980	-3,240	-10,000	-20,000
Interest Paid	-5,860	-7,950	-7,830	-9,630	-14,810	-18,419	-17,879
Dividend Paid	-2,290	-2,280	-4,040	-4,040	-4,590	-5,590	-6,915
Others	0	0	-1,010	73,900	260	55	61
<b>CF from Fin. Activity</b>	<b>4,690</b>	<b>560</b>	<b>-10,920</b>	<b>2,85,210</b>	<b>-21,870</b>	<b>-33,954</b>	<b>-44,734</b>
<b>Inc/Dec of Cash</b>	<b>1,792</b>	<b>17,060</b>	<b>-10</b>	<b>-430</b>	<b>39,010</b>	<b>12,788</b>	<b>6,959</b>
Opening Balance	10,098	11,890	28,950	28,940	28,510	67,520	80,308
<b>Closing Balance</b>	<b>11,890</b>	<b>28,950</b>	<b>28,940</b>	<b>28,510</b>	<b>67,520</b>	<b>80,308</b>	<b>87,267</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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