

# UPL (UPLL IN)

Rating: HOLD | CMP: Rs809 | TP: Rs740

July 31, 2021

## Q1FY22 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	740		740	
Sales (Rs. m)	420,077	453,683	420,077	453,683
% Chng.	-	-	-	-
EBITDA (Rs. m)	94,517	106,616	94,517	106,616
% Chng.	-	-	-	-
EPS (Rs.)	53.2	64.0	53.2	64.0
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	357,560	386,950	420,077	453,683
EBITDA (Rs. m)	67,730	83,530	94,517	106,616
Margin (%)	18.9	21.6	22.5	23.5
PAT (Rs. m)	23,990	31,100	40,728	48,923
EPS (Rs.)	31.4	40.7	53.2	64.0
Gr. (%)	(17.5)	29.5	31.0	20.1
DPS (Rs.)	6.0	10.0	12.9	15.6
Yield (%)	0.7	1.2	1.6	1.9
RoE (%)	14.1	15.5	18.8	21.1
RoCE (%)	10.4	13.4	16.2	19.1
EV/Sales (x)	2.3	2.1	1.9	1.7
EV/EBITDA (x)	12.4	9.6	8.4	7.2
PE (x)	25.8	19.9	15.2	12.6
P/BV (x)	3.2	3.0	2.8	2.6

### Key Data

UPLL.BO | UPLL IN

52-W High / Low	Rs.865 / Rs.399
Sensex / Nifty	52,587 / 15,763
Market Cap	Rs.618bn / \$ 8,300m
Shares Outstanding	764m
3M Avg. Daily Value	Rs.10268.05m

### Shareholding Pattern (%)

Promoter's	27.96
Foreign	37.82
Domestic Institution	15.84
Public & Others	18.38
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	2.0	44.2	74.0
Relative	1.8	26.9	24.9

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## Higher fixed overheads negate impact of 182 bps gross margin expansion

### Quick Pointers:

- Volume and pricing growth across LatAM, India and NAFTA
- Europe and RoW impacted by weather issues

**UPL reported lower than expected results with topline growth of 9% to Rs 85 bn (PLe Rs 87 bn) led by 6%/2%/1% volumes/realisations/exchange impact. India/ LatAM/ NAFTA business grew by 27%/ 24%/ 19% while Europe/RoW business declined 11%/14% YoY due to weather related issues. Net debt was higher by Rs 25.5 bn QoQ @ Rs 214.7 bn due to higher working capital, which was up by 7 days to 91. The management guidance of 7-10% topline growth, 12-15% EBITDA growth and less than 2x Net debt:EBITDA for FY22 remains intact and will be driven by its sustainable solutions (carved out into a new entity) and strong agrochemicals demand worldwide, given remunerative crop prices & supply chain issues. Erratic weather in Europe, LatAM and India stands as a key monitorable for short term, as it may create temporary demand disruption. Maintain 'HOLD' with TP of Rs 740 based on 7x FY23 EV/EBITDA.**

**PBT down 25% YoY:** 11% increase in Fixed overheads deployment of resources in towards NPP & Nurture farm (2 new global business unit created) and higher freight cost led to 255 bps in EBITDA margin (to 21.2%) despite 182 bps expansion in gross margin (to 56.5%). Finance cost was dragged by Rs 202 mn of MTM hedges and exchange impact on booking of advance orders in excess of USD 500 mn in Brazil. These hedges ensure that USD realisation of these orders stay protected.

**24% growth in LatAM driven by Brazil:** UPL witnessed 40% revenue growth in Brazil, while business from other countries was flat YoY. Mexico business was impacted by severe drought. Brazilian business recorded sharp volume growth in brands like Perito (2x) & Sperto (by 1.8x) and realisation increase in brands like Perito. Price increase is expected further in Q2 for Unizeb Gold and Perito.

**India business up 27%:** Growth driven by both volume and price. Glufosinate volumes grew 14%. The company has increased its price by 7%.

**NAFTA business growth of 19% driven by strong seasonal outlook:** Higher commodity prices coupled with increase in acreage of key row crops and price hikes drove growth. The company saw strong growth in post patent molecules.

**Unfavourable weather pulls down Europe and RoW:** European business declined 11% driven by decline in South European countries. Business in France was impacted by higher competition in Clethodim molecules.

Row business declined 14% due to weather issues in China and supply constraints in various countries. Supply constraints of Glufosinate Ammonium impacted its sales in China and Vietnam.

## Exhibit 1: Increase in fixed overheads negate gross margin expansion

Y/e March (Rs mn)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
<b>Net Sales</b>	<b>85,150</b>	<b>78,330</b>	<b>8.7</b>	<b>127,960</b>	<b>8.7</b>
<b>Expenditure</b>					
Raw Materials	37,030	35,490	4.3	69,210	4.3
<i>% of Net Sales</i>	<i>43.5%</i>	<i>45.3%</i>		<i>54.1%</i>	
Employee Cost	10,300	8,700	18.4	9,660	18.4
<i>% of Net Sales</i>	<i>12.1%</i>	<i>11.1%</i>		<i>7.5%</i>	
Other Expenses	20,080	15,820	26.9	22,580	26.9
<i>% of Net Sales</i>	<i>23.6%</i>	<i>20.2%</i>		<i>17.6%</i>	
Total Expenditure	67,410	60,010	12.3	101,450	12.3
<b>EBITDA</b>	<b>17,740</b>	<b>18,320</b>	<b>(3.2)</b>	<b>26,510</b>	<b>(3.2)</b>
<i>Margin (%)</i>	<i>20.8%</i>	<i>23.4%</i>		<i>20.7%</i>	
Depreciation	5,510	5,220	5.6	5,760	5.6
<b>EBIT</b>	<b>12,230</b>	<b>13,100</b>	<b>(6.6)</b>	<b>20,750</b>	<b>(6.6)</b>
Interest	6,070	5,510	10.2	4,210	10.2
Other Income	480	670	(28.4)	490	(28.4)
<b>PBT before EOI</b>	<b>6,640</b>	<b>8,260</b>	<b>(19.6)</b>	<b>17,030</b>	<b>(19.6)</b>
EOI Gain/(Loss)	(630)	(250)	152.0	(800)	152.0
<b>PBT after EOI</b>	<b>6,010</b>	<b>8,010</b>	<b>(25.0)</b>	<b>16,230</b>	<b>(25.0)</b>
Tax	(1,520)	1,430	(206.3)	3,220	(206.3)
<i>Tax Rate (%)</i>	<i>-22.9%</i>	<i>17.3%</i>		<i>18.9%</i>	
<b>RPAT</b>	<b>7,530</b>	<b>6,580</b>	<b>14.4</b>	<b>13,010</b>	<b>14.4</b>
Minority interest	720	1,020	(29.4)	2,980	(29.4)
Profit from Associate	(40)	(50)	(20.0)	600	(20.0)
<b>APAT</b>	<b>7,400</b>	<b>5,760</b>	<b>28.5</b>	<b>11,430</b>	<b>28.5</b>
<b>EPS</b>	<b>9.7</b>	<b>7.5</b>	<b>28.5</b>	<b>15.0</b>	<b>28.5</b>

Source: Company, PL

## Exhibit 2: Volume growth of 6%

Revenue growth Break up	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	4QFY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	1QFY22
Volume growth	6%	7%	5%	15%	10%	29%	0%	19%	7%	18%	6%
Price Increase	7%	5%	1%	-1%	-1%	-2%	-1%	-1%	1%	1%	2%
Exchange Impact	5%	3%	1%	-3%	-2%	-2%	0%	-4%	-5%	-4%	1%

Source: Company, PL

## Exhibit 3: India/LatAM/NAFTA driving growth for UPL

Revenue growth across geographies	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	4QFY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	1QFY22
India	-13.7%	10.2%	-7.7%	6.2%	41.3%	36.5%	26.7%	17.9%	21.0%	23.0%	26.7%
LATAM	91.7%	50.8%	25.1%	24.3%	21.4%	27.5%	-16.0%	12.4%	-8.4%	40.5%	24.4%
Europe	182.4%	115.2%	0.2%	7.1%	-18.5%	4.2%	0.9%	6.2%	30.1%	16.9%	-10.6%
Rest of World	155.7%	55.6%	3.4%	-14.4%	1.9%	25.7%	10.3%	27.2%	6.1%	-11.2%	-14.4%
North America	105.9%	34.3%	5.9%	12.9%	-12.3%	45.4%	-14.1%	8.7%	5.0%	0.3%	18.9%

Source: Company, PL

**Exhibit 4: Share of LaTAM back of earlier levels**

Sales Mix	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	4QFY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	1QFY22
India	6%	6%	15%	15%	8%	6%	19%	16%	10%	7%	22%
LaTAM	42%	30%	30%	48%	47%	30%	26%	47%	42%	37%	29%
Europe	13%	24%	21%	12%	10%	20%	22%	11%	12%	20%	18%
Rest of World	21%	21%	18%	15%	20%	21%	20%	17%	21%	16%	16%
North America	18%	20%	15%	9%	14%	23%	13%	9%	15%	20%	14%

Source: Company, PL

**Exhibit 5: Working capital marginally higher in Q1**

Working Capital	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	4QFY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	1QFY22
Inventory Days	111	106	107	109	111	81	106	105	119	90	118
Receivables days	124	135	122	121	126	118	116	124	120	113	118
Payable days	109	123	113	114	102	119	138	123	122	131	145
<b>Net working Capital</b>	<b>126</b>	<b>118</b>	<b>116</b>	<b>116</b>	<b>135</b>	<b>80</b>	<b>84</b>	<b>106</b>	<b>117</b>	<b>72</b>	<b>91</b>

Source: Company, PL

**Exhibit 6: Sales Mix in favour of LaTAM**

Geography	Q1FY22		Q1FY21		Q4FY21	
	Revenue	Sales Mix	Revenue	Sales Mix	Revenue	Sales Mix
India	19,140	22%	15,110	19%	8,510	7%
Latin America	25,070	29%	20,150	26%	47,670	37%
Europe	15,220	18%	17,030	22%	25,770	20%
North America	13,500	16%	15,780	20%	20,630	16%
Rest of World	12,210	14%	10,270	13%	25,390	20%

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>357,560</b>	<b>386,950</b>	<b>420,077</b>	<b>453,683</b>
YoY gr. (%)	63.7	8.2	8.6	8.0
Cost of Goods Sold	187,430	190,960	203,737	217,768
Gross Profit	170,130	195,990	216,340	235,915
Margin (%)	47.6	50.6	51.5	52.0
Employee Cost	33,910	37,120	41,168	44,461
Other Expenses	68,490	75,340	80,655	84,839
<b>EBITDA</b>	<b>67,730</b>	<b>83,530</b>	<b>94,517</b>	<b>106,616</b>
YoY gr. (%)	77.6	23.3	13.2	12.8
Margin (%)	18.9	21.6	22.5	23.5
Depreciation and Amortization	20,120	21,730	23,816	26,088
<b>EBIT</b>	<b>47,610</b>	<b>61,800</b>	<b>70,701</b>	<b>80,528</b>
Margin (%)	13.3	16.0	16.8	17.7
Net Interest	14,810	20,600	15,028	13,228
Other Income	1,040	2,580	2,786	3,009
<b>Profit Before Tax</b>	<b>33,840</b>	<b>43,780</b>	<b>58,460</b>	<b>70,310</b>
Margin (%)	9.5	11.3	13.9	15.5
Total Tax	5,860	6,860	9,212	11,079
Effective tax rate (%)	17.3	15.7	15.8	15.8
<b>Profit after tax</b>	<b>27,980</b>	<b>36,920</b>	<b>49,248</b>	<b>59,231</b>
Minority interest	4,020	6,240	8,820	10,608
Share Profit from Associate	30	420	300	300
<b>Adjusted PAT</b>	<b>23,990</b>	<b>31,100</b>	<b>40,728</b>	<b>48,923</b>
YoY gr. (%)	23.5	29.6	31.0	20.1
Margin (%)	6.7	8.0	9.7	10.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>23,990</b>	<b>31,100</b>	<b>40,728</b>	<b>48,923</b>
YoY gr. (%)	23.5	29.6	31.0	20.1
Margin (%)	6.7	8.0	9.7	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,990	31,100	40,728	48,923
<b>Equity Shares O/s (m)</b>	<b>764</b>	<b>765</b>	<b>765</b>	<b>765</b>
<b>EPS (Rs)</b>	<b>31.4</b>	<b>40.7</b>	<b>53.2</b>	<b>64.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>277,570</b>	<b>299,260</b>	<b>333,250</b>	<b>358,250</b>
Tangibles	112,760	132,115	134,919	157,375
Intangibles	164,810	167,145	198,331	200,875
<b>Acc: Dep / Amortization</b>	<b>106,770</b>	<b>128,500</b>	<b>152,316</b>	<b>178,404</b>
Tangibles	50,390	60,645	71,886	84,198
Intangibles	56,380	67,855	80,431	94,206
<b>Net fixed assets</b>	<b>170,800</b>	<b>170,760</b>	<b>180,934</b>	<b>179,846</b>
Tangibles	62,370	71,470	63,033	73,177
Intangibles	108,430	99,290	117,900	106,669
Capital Work In Progress	20,730	21,170	17,180	17,180
Goodwill	182,410	176,890	176,890	176,890
Non-Current Investments	8,380	7,990	8,751	8,986
Net Deferred tax assets	(11,220)	(9,960)	(9,960)	(9,960)
Other Non-Current Assets	7,650	5,790	6,463	7,206
<b>Current Assets</b>				
Investments	-	370	-	-
Inventories	78,500	94,220	95,524	103,166
Trade receivables	120,570	130,260	138,108	149,156
Cash & Bank Balance	67,520	48,530	32,456	25,478
Other Current Assets	18,800	26,010	25,205	27,221
<b>Total Assets</b>	<b>700,828</b>	<b>704,310</b>	<b>706,281</b>	<b>720,506</b>
<b>Equity</b>				
Equity Share Capital	1,528	1,530	1,530	1,530
Other Equity	191,290	207,340	221,816	238,834
<b>Total Networth</b>	<b>192,818</b>	<b>208,870</b>	<b>223,346</b>	<b>240,364</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	273,710	221,460	191,460	161,460
Provisions	240	380	413	446
Other non current liabilities	5,860	5,800	5,800	5,800
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	12,980	14,140	14,140	14,140
Trade payables	102,330	125,250	132,353	142,941
Other current liabilities	51,550	56,880	62,198	67,841
<b>Total Equity &amp; Liabilities</b>	<b>700,828</b>	<b>704,310</b>	<b>706,281</b>	<b>720,506</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	33,840	41,810	58,460	70,310
Add. Depreciation	20,120	21,730	23,816	26,088
Add. Interest	14,810	20,600	15,028	13,228
Less Financial Other Income	1,040	2,580	2,786	3,009
Add. Other	(3,690)	(1,880)	(9,196)	(5,837)
Op. profit before WC changes	65,080	82,260	88,107	103,788
Net Changes-WC	30,500	(2,140)	195	(7,330)
Direct tax	(8,190)	(7,250)	(13,818)	(16,619)
<b>Net cash from Op. activities</b>	<b>87,390</b>	<b>72,870</b>	<b>74,485</b>	<b>79,839</b>
Capital expenditures	(19,350)	(20,650)	(29,630)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	(7,838)	(3,930)	2,050	2,096
<b>Net Cash from Invst. activities</b>	<b>(27,188)</b>	<b>(24,580)</b>	<b>(27,580)</b>	<b>(22,904)</b>
Issue of share cap. / premium	379	-	-	-
Debt changes	1,170	(43,180)	(30,000)	(30,000)
Dividend paid	(4,570)	(4,580)	(7,650)	(9,905)
Interest paid	(16,460)	(16,550)	(15,028)	(13,228)
Others	(2,120)	(3,250)	(10,302)	(10,780)
<b>Net cash from Fin. activities</b>	<b>(21,601)</b>	<b>(67,560)</b>	<b>(62,979)</b>	<b>(63,913)</b>
<b>Net change in cash</b>	<b>38,601</b>	<b>(19,270)</b>	<b>(16,075)</b>	<b>(6,977)</b>
Free Cash Flow	67,590	51,650	44,485	54,839

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	31.4	40.7	53.2	64.0
CEPS	57.7	69.1	84.4	98.1
BVPS	252.4	273.0	292.0	314.2
FCF	88.5	67.5	58.2	71.7
DPS	6.0	10.0	12.9	15.6
<b>Return Ratio(%)</b>				
RoCE	10.4	13.4	16.2	19.1
ROIC	10.1	12.6	14.7	17.1
RoE	14.1	15.5	18.8	21.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.1	0.9	0.8	0.6
Net Working Capital (Days)	99	94	88	88
<b>Valuation(x)</b>				
PER	25.8	19.9	15.2	12.6
P/B	3.2	3.0	2.8	2.6
P/CEPS	14.0	11.7	9.6	8.2
EV/EBITDA	12.4	9.6	8.4	7.2
EV/Sales	2.3	2.1	1.9	1.7
Dividend Yield (%)	0.7	1.2	1.6	1.9

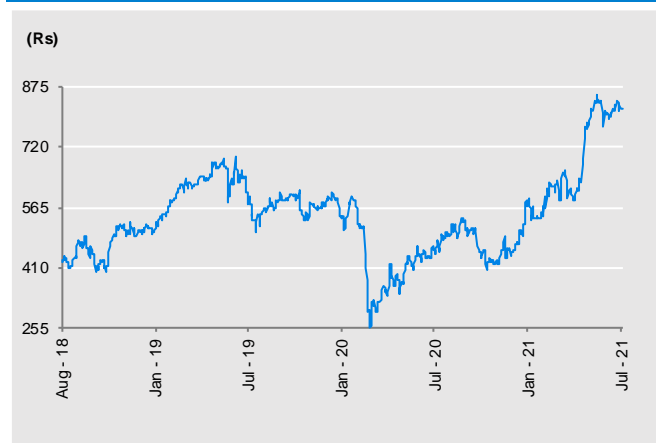
Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Net Revenue</b>	<b>78,330</b>	<b>89,390</b>	<b>91,260</b>	<b>127,960</b>
YoY gr. (%)	(0.9)	14.4	2.6	14.9
Raw Material Expenses	35,490	45,090	41,170	69,210
Gross Profit	42,840	44,300	50,090	58,750
Margin (%)	54.7	49.6	54.9	45.9
<b>EBITDA</b>	<b>18,320</b>	<b>16,670</b>	<b>22,020</b>	<b>26,510</b>
YoY gr. (%)	39.6	15.2	4.8	39.2
Margin (%)	23.4	18.6	24.1	20.7
Depreciation / Depletion	5,220	5,330	5,420	5,760
<b>EBIT</b>	<b>13,100</b>	<b>11,340</b>	<b>16,600</b>	<b>20,750</b>
Margin (%)	16.7	12.7	18.2	16.2
Net Interest	5,510	3,430	7,450	4,210
Other Income	670	750	670	490
<b>Profit before Tax</b>	<b>8,010</b>	<b>6,550</b>	<b>10,600</b>	<b>16,230</b>
Margin (%)	10.2	7.3	11.6	12.7
Total Tax	1,430	1,120	1,090	3,220
Effective tax rate (%)	17.9	17.1	10.3	19.8
<b>Profit after Tax</b>	<b>6,580</b>	<b>5,430</b>	<b>9,510</b>	<b>13,010</b>
Minority interest	1,020	740	1,500	2,980
Share Profit from Associates	(50)	(60)	(70)	600
<b>Adjusted PAT</b>	<b>5,760</b>	<b>6,740</b>	<b>7,160</b>	<b>11,430</b>
YoY gr. (%)	61.3	42.8	(7.7)	45.1
Margin (%)	7.4	7.5	7.8	8.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,760</b>	<b>6,740</b>	<b>7,160</b>	<b>11,430</b>
YoY gr. (%)	61.3	42.8	(7.7)	45.1
Margin (%)	7.4	7.5	7.8	8.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>5,760</b>	<b>6,740</b>	<b>7,160</b>	<b>11,430</b>
Avg. Shares O/s (m)	764	764	764	764
<b>EPS (Rs)</b>	<b>7.5</b>	<b>8.8</b>	<b>9.4</b>	<b>15.0</b>

Source: Company Data, PL Research

## Price Chart



## Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Jul-21	Hold	740	803
2	13-May-21	Hold	740	692
3	8-Apr-21	Hold	659	653
4	30-Jan-21	Accumulate	601	561
5	11-Jan-21	BUY	606	497
6	31-Oct-20	BUY	606	453
7	10-Oct-20	BUY	606	497
8	25-Aug-20	BUY	606	492
9	2-Aug-20	BUY	606	478

## Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	6,506	5,650
2	Coromandel International	Accumulate	991	887
3	Dhanuka Agritech	Hold	996	1,005
4	Godrej Agrovet	Hold	638	655
5	Insecticides India	Accumulate	817	737
6	P.I. Industries	UR	-	2,976
7	Rallis India	Hold	321	326
8	Sharda Cropchem	BUY	457	350
9	Sumitomo Chemical India	Hold	369	423
10	UPL	Hold	740	803

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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