

UPL (UPLL IN)

Rating: HOLD | CMP: Rs809 | TP: Rs740

July 31, 2021

Q1FY22 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current FY22E	Previous FY23E	Current FY22E	Previous 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. (%)
Net Sales	85,150	78,330	8.7	127,960	8.7
Expenditure					
Raw Materials	37,030	35,490	4.3	69,210	4.3
% of Net Sales	43.5%	45.3%		54.1%	
Employee Cost	10,300	8,700	18.4	9,660	18.4
% of Net Sales	12.1%	11.1%		7.5%	
Other Expenses	20,080	15,820	26.9	22,580	26.9
% of Net Sales	23.6%	20.2%		17.6%	
Total Expenditure	67,410	60,010	12.3	101,450	12.3
EBITDA	17,740	18,320	(3.2)	26,510	(3.2)
Margin (%)	20.8%	23.4%		20.7%	
Depreciation	5,510	5,220	5.6	5,760	5.6
EBIT	12,230	13,100	(6.6)	20,750	(6.6)
Interest	6,070	5,510	10.2	4,210	10.2
Other Income	480	670	(28.4)	490	(28.4)
PBT before EOI	6,640	8,260	(19.6)	17,030	(19.6)
EOI Gain/(Loss)	(630)	(250)	152.0	(800)	152.0
PBT after EOI	6,010	8,010	(25.0)	16,230	(25.0)
Tax	(1,520)	1,430	(206.3)	3,220	(206.3)
Tax Rate (%)	-22.9%	17.3%		18.9%	
RPAT	7,530	6,580	14.4	13,010	14.4
Minority interest	720	1,020	(29.4)	2,980	(29.4)
Profit from Associate	(40)	(50)	(20.0)	600	(20.0)
APAT	7,400	5,760	28.5	11,430	28.5
EPS	9.7	7.5	28.5	15.0	28.5

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%
LAAtAM	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
Net working Capital	126	118	116	116	135	80	84	106	117	72	91

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)					Balance Sheet Abstract (Rs m)				
Y/e Mar	FY20	FY21	FY22E	FY23E	Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	357,560	386,950	420,077	453,683	Non-Current Assets				
YoY gr. (%)	63.7	8.2	8.6	8.0	Gross Block	277,570	299,260	333,250	358,250
Cost of Goods Sold	187,430	190,960	203,737	217,768	Tangibles	112,760	132,115	134,919	157,375
Gross Profit	170,130	195,990	216,340	235,915	Intangibles	164,810	167,145	198,331	200,875
Margin (%)	47.6	50.6	51.5	52.0	Acc: Dep / Amortization	106,770	128,500	152,316	178,404
Employee Cost	33,910	37,120	41,168	44,461	Tangibles	50,390	60,645	71,886	84,198
Other Expenses	68,490	75,340	80,655	84,839	Intangibles	56,380	67,855	80,431	94,206
EBITDA	67,730	83,530	94,517	106,616	Net fixed assets	170,800	170,760	180,934	179,846
YoY gr. (%)	77.6	23.3	13.2	12.8	Tangibles	62,370	71,470	63,033	73,177
Margin (%)	18.9	21.6	22.5	23.5	Intangibles	108,430	99,290	117,900	106,669
Depreciation and Amortization	20,120	21,730	23,816	26,088	Capital Work In Progress	20,730	21,170	17,180	17,180
EBIT	47,610	61,800	70,701	80,528	Goodwill	182,410	176,890	176,890	176,890
Margin (%)	13.3	16.0	16.8	17.7	Non-Current Investments	8,380	7,990	8,751	8,986
Net Interest	14,810	20,600	15,028	13,228	Net Deferred tax assets	(11,220)	(9,960)	(9,960)	(9,960)
Other Income	1,040	2,580	2,786	3,009	Other Non-Current Assets	7,650	5,790	6,463	7,206
Profit Before Tax	33,840	43,780	58,460	70,310	Current Assets				
Margin (%)	9.5	11.3	13.9	15.5	Investments	-	370	-	-
Total Tax	5,860	6,860	9,212	11,079	Inventories	78,500	94,220	95,524	103,166
Effective tax rate (%)	17.3	15.7	15.8	15.8	Trade receivables	120,570	130,260	138,108	149,156
Profit after tax	27,980	36,920	49,248	59,231	Cash & Bank Balance	67,520	48,530	32,456	25,478
Minority interest	4,020	6,240	8,820	10,608	Other Current Assets	18,800	26,010	25,205	27,221
Share Profit from Associate	30	420	300	300	Total Assets	700,828	704,310	706,281	720,506
Adjusted PAT	23,990	31,100	40,728	48,923	Equity				
YoY gr. (%)	23.5	29.6	31.0	20.1	Equity Share Capital	1,528	1,530	1,530	1,530
Margin (%)	6.7	8.0	9.7	10.8	Other Equity	191,290	207,340	221,816	238,834
Extra Ord. Income / (Exp)	-	-	-	-	Total Networth	192,818	208,870	223,346	240,364
Reported PAT	23,990	31,100	40,728	48,923	Non-Current Liabilities				
YoY gr. (%)	23.5	29.6	31.0	20.1	Long Term borrowings	273,710	221,460	191,460	161,460
Margin (%)	6.7	8.0	9.7	10.8	Provisions	240	380	413	446
Other Comprehensive Income	-	-	-	-	Other non current liabilities	5,860	5,800	5,800	5,800
Total Comprehensive Income	23,990	31,100	40,728	48,923	Current Liabilities				
Equity Shares O/s (m)	764	765	765	765	ST Debt / Current of LT Debt	12,980	14,140	14,140	14,140
EPS (Rs)	31.4	40.7	53.2	64.0	Trade payables	102,330	125,250	132,353	142,941
Source: Company Data, PL Research					Other current liabilities	51,550	56,880	62,198	67,841
					Total Equity & Liabilities	700,828	704,310	706,281	720,506
Source: Company Data, PL Research									

Cash Flow (Rs m)					Key Financial Metrics				
Y/e Mar	FY20	FY21	FY22E	FY23E	Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	33,840	41,810	58,460	70,310	Per Share(Rs)				
Add. Depreciation	20,120	21,730	23,816	26,088	EPS	31.4	40.7	53.2	64.0
Add. Interest	14,810	20,600	15,028	13,228	CEPS	57.7	69.1	84.4	98.1
Less Financial Other Income	1,040	2,580	2,786	3,009	BVPS	252.4	273.0	292.0	314.2
Add. Other	(3,690)	(1,880)	(9,196)	(5,837)	FCF	88.5	67.5	58.2	71.7
Op. profit before WC changes	65,080	82,260	88,107	103,788	DPS	6.0	10.0	12.9	15.6
Net Changes-WC	30,500	(2,140)	195	(7,330)	Return Ratio(%)				
Direct tax	(8,190)	(7,250)	(13,818)	(16,619)	RoCE	10.4	13.4	16.2	19.1
Net cash from Op. activities	87,390	72,870	74,485	79,839	ROIC	10.1	12.6	14.7	17.1
Capital expenditures	(19,350)	(20,650)	(29,630)	(25,000)	RoE	14.1	15.5	18.8	21.1
Interest / Dividend Income	-	-	-	-	Balance Sheet				
Others	(7,838)	(3,930)	2,050	2,096	Net Debt : Equity (x)	1.1	0.9	0.8	0.6
Net Cash from Invt. activities	(27,188)	(24,580)	(27,580)	(22,904)	Net Working Capital (Days)	99	94	88	88
Issue of share cap. / premium	379	-	-	-	Valuation(x)				
Debt changes	1,170	(43,180)	(30,000)	(30,000)	PER	25.8	19.9	15.2	12.6
Dividend paid	(4,570)	(4,580)	(7,650)	(9,905)	P/B	3.2	3.0	2.8	2.6
Interest paid	(16,460)	(16,550)	(15,028)	(13,228)	P/CEPS	14.0	11.7	9.6	8.2
Others	(2,120)	(3,250)	(10,302)	(10,780)	EV/EBITDA	12.4	9.6	8.4	7.2
Net cash from Fin. activities	(21,601)	(67,560)	(62,979)	(63,913)	EV/Sales	2.3	2.1	1.9	1.7
Net change in cash	38,601	(19,270)	(16,075)	(6,977)	Dividend Yield (%)	0.7	1.2	1.6	1.9
Free Cash Flow	67,590	51,650	44,485	54,839	Source: Company Data, PL Research				

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	78,330	89,390	91,260	127,960
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
EBITDA	18,320	16,670	22,020	26,510
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
EBIT	13,100	11,340	16,600	20,750
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
Profit before Tax	8,010	6,550	10,600	16,230
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
Profit after Tax	6,580	5,430	9,510	13,010
Minority interest	1,020	740	1,500	2,980
Share Profit from Associates	(50)	(60)	(70)	600
Adjusted PAT	5,760	6,740	7,160	11,430
YoY gr. (%)	61.3	42.8	(7.7)	45.1
Margin (%)	7.4	7.5	7.8	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,760	6,740	7,160	11,430
YoY gr. (%)	61.3	42.8	(7.7)	45.1
Margin (%)	7.4	7.5	7.8	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,760	6,740	7,160	11,430
Avg. Shares O/s (m)	764	764	764	764
EPS (Rs)	7.5	8.8	9.4	15.0

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)

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

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