

UPL

Refer to important disclosures at the end of this report

Despite subdued revenues, merger synergies lead to margin beat

CMP: Rs 478
as of (July 31, 2020)

TP: Rs 560 (▲)
12 months

Rating: BUY (■)

Upside: 17.1 %



We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

Cash from operations increases 85% yoy

- UPL delivered an EBITDA beat on our/consensus estimates by 3%/8% despite a miss on the revenue front. EBITDA margin improved 345bps yoy to 24.3% (excl. 96bps impact of the donation to PM Cares Fund) and was ahead of our estimate.
- Merger synergies and a strong start to the season in July in LatAm place UPL on track to deliver 7.6% revenue growth (higher end of management's guidance of 6-8%) in FY21. We increase FY21/22E EBITDA estimates by 4%/5% and EPS by 6%/4%.
- Cash from operations for Q1FY21 increased 85% yoy to Rs8.7bn (vs. Rs4.7bn), mainly due to higher payable days and lower receivable days. Payable and receivable days improved by 23 days and 8 days, respectively, despite tighter supply-chain terms.
- We maintain Buy and raise TP to Rs560 from Rs500 as we roll forward to 7x Jun-22E EV/EBITDA and raise EBITDA estimates. Maintain OW stance in EAP. We continue to believe that UPL is on path to re-rate from its 5-yr low valuations toward its 5-yr mean valuations due to: 1) continued market share gains; 2) margin improvement on the back of synergies; and 3) reduction in adj. net debt/EBITDA to 2.0x by FY22E which could trigger a rating upgrade in FY22.

Revenue decline due to pre-buying in North America and deferral in LatAm: UPL's Q1FY21 revenue was marginally lower by 0.9% yoy. This was mainly due to pre-buying in Q4FY20 by the trade channel in North America to mitigate Covid-19-related supply-chain challenges. The volatility in currencies (BRL) led to a deferral in placement in LatAm to Q2FY20 (usually starts in June) as the trade channel intended to reduce its price risk. Management indicated that revenue in LatAm has picked up in July and the season appears to be on track.

Maintains net debt/EBITDA target of 2.0x by March-21: UPL has guided for net debt/EBITDA target of 2.0x by March-21 from 2.9x as of March-20. UPL's guidance considers perpetual bonds as equity. Our calculations suggest that UPL should be able to achieve net debt/EBITDA of 2.3x (excl. perpetual bonds) by March-21. Hence, if UPL achieves its guidance, we believe it would re-rate faster on receding concerns on deleveraging.

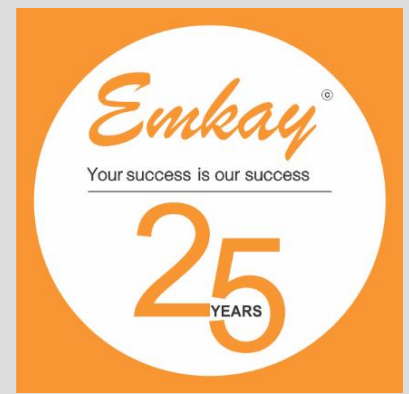
Outlook: re-rating to continue; maintain OW stance: UPL has started recovering from its 5-yr low rolling 1-yr fwd EV/EITDA of 5.0x in Mar-20 to 6.6x today. Valuation remains comfortable as it is still below the 5-yr mean of 10.5x EV/EBITDA. Improving margins (and EBITDA) and faster deleveraging remain the key catalysts for re-rating. Maintain Buy and OW position in our EAP with a revised TP of Rs560, as we roll forward to 7x Jun-22E EV/EBITDA and raise FY21/22E EBITDA estimates by 4%/5%. Key risks: adverse weather, regulatory risk, supply-chain disruptions and forex.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Agri Input & Chemicals \(page 15\)](#)

Financial Snapshot (Consolidated)

| (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------|---------|---------|---------|---------|---------|
| Net Sales | 218,370 | 357,560 | 384,912 | 409,326 | 432,183 |
| EBITDA | 42,550 | 71,220 | 83,799 | 91,136 | 96,502 |
| EBITDA Margin (%) | 19.5 | 19.9 | 21.8 | 22.3 | 22.3 |
| APAT | 26,050 | 27,853 | 28,374 | 32,814 | 37,720 |
| EPS (Rs) | 34.1 | 36.4 | 37.1 | 42.9 | 49.3 |
| EPS (% chg) | 24.9 | 6.9 | 1.9 | 15.6 | 15.0 |
| ROE (%) | 21.9 | 18.0 | 16.3 | 16.5 | 16.5 |
| P/E (x) | 14.0 | 13.1 | 12.9 | 11.1 | 9.7 |
| EV/EBITDA (x) | 14.7 | 8.6 | 7.1 | 6.1 | 5.4 |
| P/BV (x) | 2.5 | 2.2 | 2.0 | 1.7 | 1.5 |

Source: Company, Emkay Research



Change in Estimates

| | |
|-------------------------|------|
| EPS Chg FY21E/FY22E (%) | 6/4 |
| Target Price change (%) | 12.0 |
| Target Period (Months) | 12 |
| Previous Reco | BUY |

Emkay vs Consensus

| | EPS Estimates | |
|-------------------------|---------------|-------|
| | FY21E | FY22E |
| Emkay | 37.1 | 42.9 |
| Consensus | 37.2 | 47.2 |
| Mean Consensus TP (12M) | Rs 552 | |

Stock Details

| | |
|------------------------------|------------|
| Bloomberg Code | UPL IN |
| Face Value (Rs) | 2 |
| Shares outstanding (mn) | 764 |
| 52 Week H/L | 618 / 240 |
| M Cap (Rs bn/USD bn) | 365 / 4.88 |
| Daily Avg Volume (nos.) | 7,368,927 |
| Daily Avg Turnover (US\$ mn) | 40.6 |

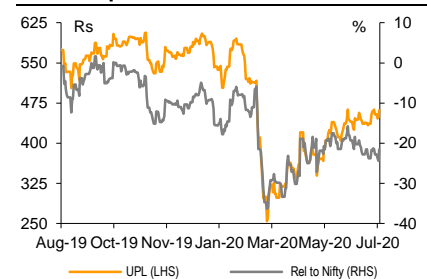
Shareholding Pattern Jun '20

| | |
|-------------------|-------|
| Promoters | 27.9% |
| FIIs | 40.6% |
| DIIIs | 12.9% |
| Public and Others | 18.7% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|---------------|----|----|-----|------|
| Absolute | 12 | 14 | (9) | (20) |
| Rel. to Nifty | 5 | 1 | (2) | (19) |

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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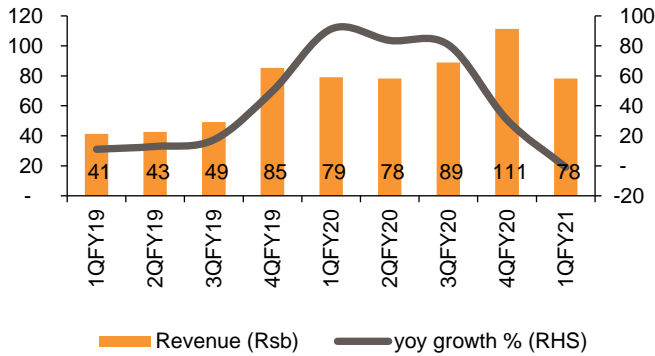
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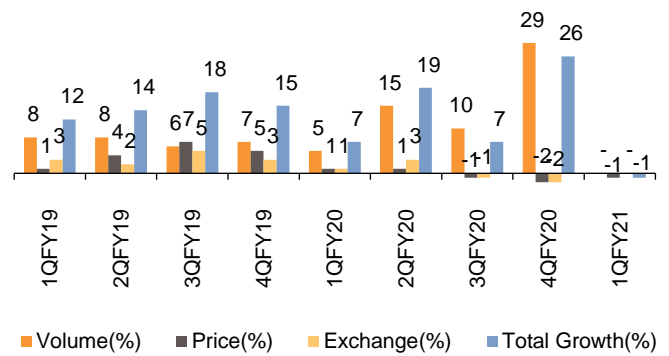
Story in Charts

Exhibit 1: Flat volume growth in Q1FY21 due to pre-buying in Q4...



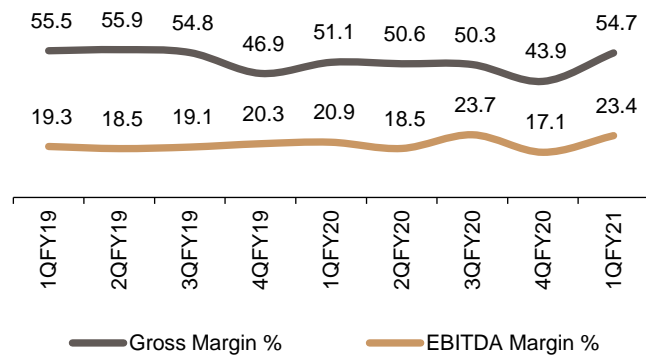
Source: Company, Emkay Research

Exhibit 2: ... and deferral of placement to Q2 in LatAm



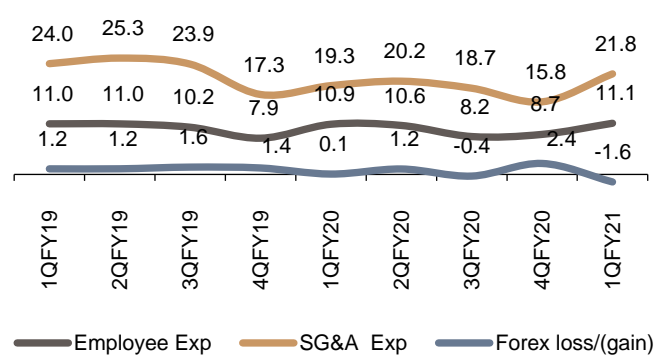
Source: Company, Emkay Research

Exhibit 3: Merger synergies aid margin expansion



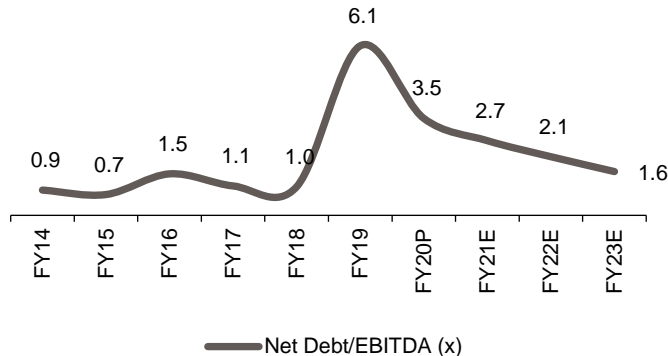
Source: Company, Emkay Research

Exhibit 4: Forex gain aids margin



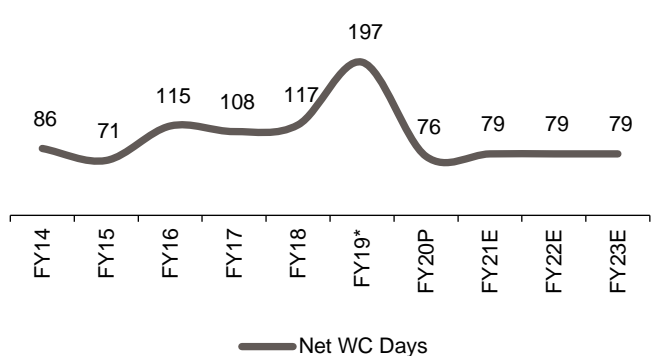
Source: Company, Emkay Research, all fig are as % of revenue

Exhibit 5: Net debt/EBITDA to be in investment grade by FY22E



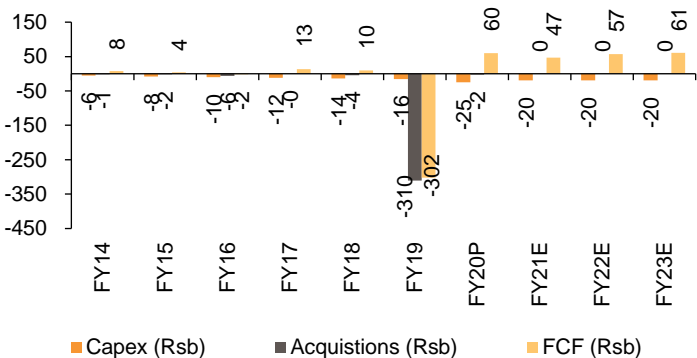
Source: Company, Emkay Research

Exhibit 6: Working capital to remain stable in FY21-FY23E



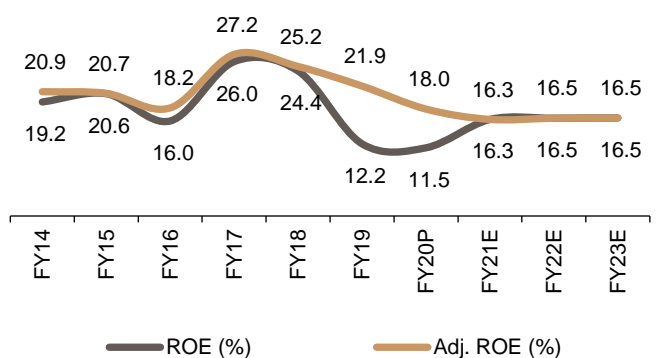
Source: Company, Emkay Research, *Arysta acquisition impact

Exhibit 7: USD625/750mn FCF in FY21/FY22E



Source: Company, Emkay Research

Exhibit 8: ROE to expand 502bps over FY20-22E



Source: Company, Emkay Research, Adj. ROE for one offs and exceptional items

Merger synergies aid EBITDA margin improvement

Change in geographic mix (low LatAm contribution) and product mix (more branded sales in India) led to 20bps gross margin expansion

Merger synergies led to 8% reduction in fixed overheads

Gross margins improve 20bps due to a change in geographic mix

UPL's gross margin expanded 20bps yoy to 43% on a change in geographic mix in favor of India and away from LatAm due to the deferral of Q1 placement to Q2 in LatAm. Within India, the branded business increased 36% yoy which led to improved product mix in favor of high-margin products. The India business was aided by cross-selling of Arysta products and favorable agronomical conditions, leading to a higher share of branded sales.

UPL's gross margins, including direct costs, has improved 20bps against our profit and loss account-derived figure of 355bps due to high third-party manufacturing, which is reflected in other expenses.

Exhibit 9: 173bps improvement in core EBITDA margin

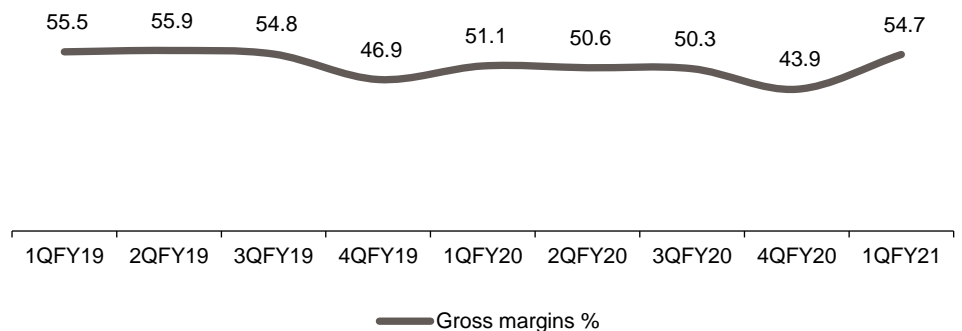
| Rs bn | Q1FY20 | Q1FY21 | yoy change |
|--------------------------|--------|--------|------------|
| Revenue | 79.1 | 78.3 | -1% |
| Gross Margin % | 43% | 43% | 20bps |
| Fixed Overheads | 17.4 | 16.0 | -8% |
| Core EBITDA | 16.6 | 17.8 | 7% |
| Core EBITDA margin % | 21.0% | 22.7% | 173bps |
| One-off Expense | 0 | (0.75) | |
| EBITDA | 16.6 | 17.0 | |
| EBITDA margin % | 21.0% | 21.8% | 77bps |
| Forex gain/(loss) | (0.06) | 1.28 | |
| Reported EBITDA | 16.53 | 18.32 | |
| Reported EBITDA margin % | 20.9% | 23.4% | 249bps |

Source: Company, Emkay Research

Forex gain and merger synergies offset one-time donation impact

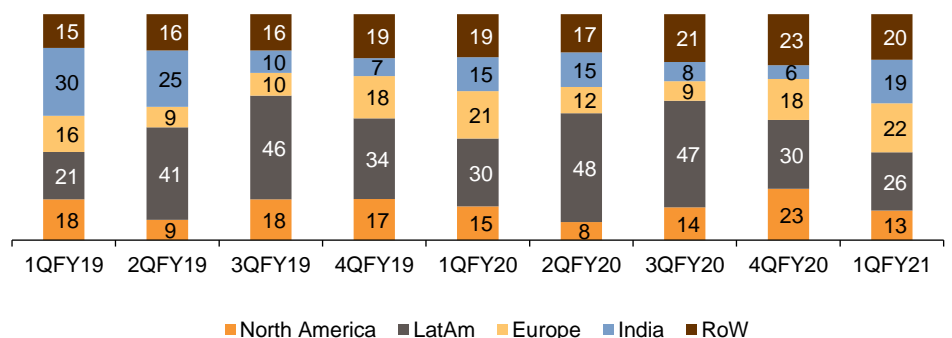
EBITDA margin expansion of 249bps was higher than the gross margin improvement of 20bps due to a forex gain of Rs1.28bn and reduction in fixed overheads by 8% on merger synergies. The forex gain aided EBITDA margin by 161bps.

Exhibit 10: Favorable product mix and higher third-party manufacturing pushes gross margins higher

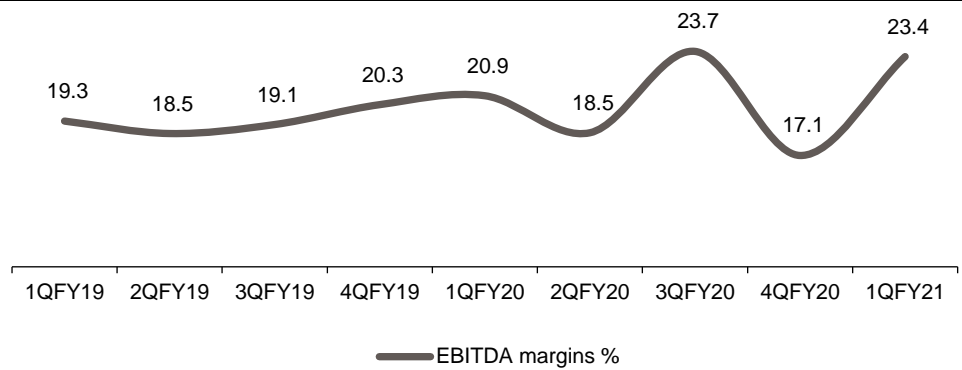


Source: Company, Emkay Research, adjusted for PPA impact on COGS

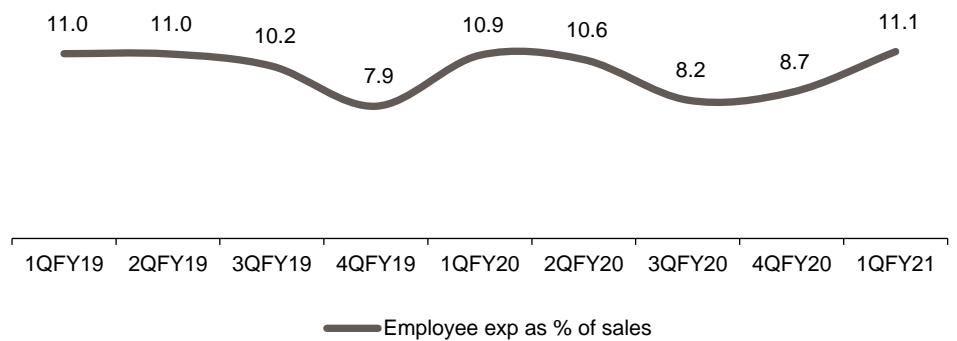
Exhibit 11: Increase in India revenue due to strong season and deferred sales in LatAm



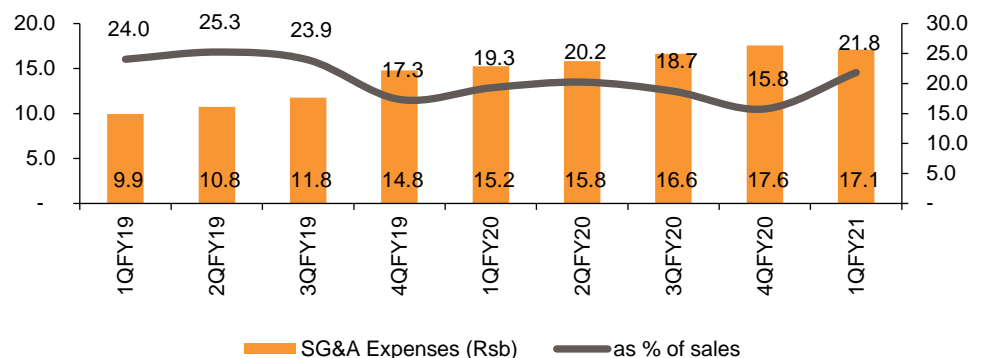
Source: Company, Emkay Research

Exhibit 12: EBITDA margin expansion of 249bps yoy to 23.4%

Source: Company, Emkay Research

Exhibit 13: Employee expense increased 22bps to 11.1% of sales

Source: Company, Emkay Research

Exhibit 14: 13% yoy increase in other expenses due to higher third-party manufacturing

Source: Company, Emkay Research

Revenue synergy aided revenue growth by 70bps in Q1FY20

UPL achieved revenue synergies of Rs530mn in Q1FY21 which aided revenue growth by 70bps yoy. Excluding revenue synergies, revenue declined 160bps yoy due to pre-buying in North America and deferral in LatAm. Cumulatively, UPL has achieved USD247mn in revenue synergies and is on track to achieve USD350mn revenue synergy run-rate ahead of the scheduled March-22.

UPL has achieved USD120m cumulative cost synergies against its March-21 exit run-rate target of USD200mn. UPL has guided for USD150mn synergy in P&L and USD200mn exit run-rate for FY21E.

Exhibit 15: Merger synergies on track

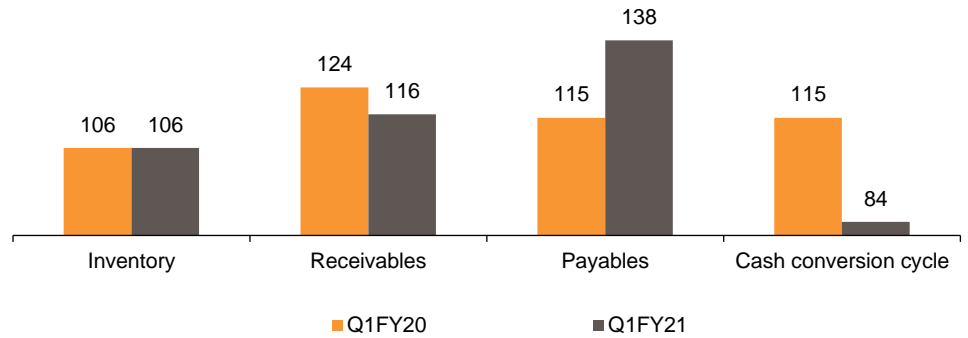
| USD mn | Run-rate target | | | Achieved | | |
|---------|-----------------|--------|--------|----------|--------|------------------------|
| | Year 1 | Year 2 | Year 3 | FY20 | Q1FY21 | Cumulative till Q1FY21 |
| Revenue | 100 | NA | 350 | 240 | 7 | 247 |
| Cost | 120 | 200 | NA | 109 | 11 | 120 |

Source: Company, Emkay Research

Continuous improvement in working capital helps increase cash from operations

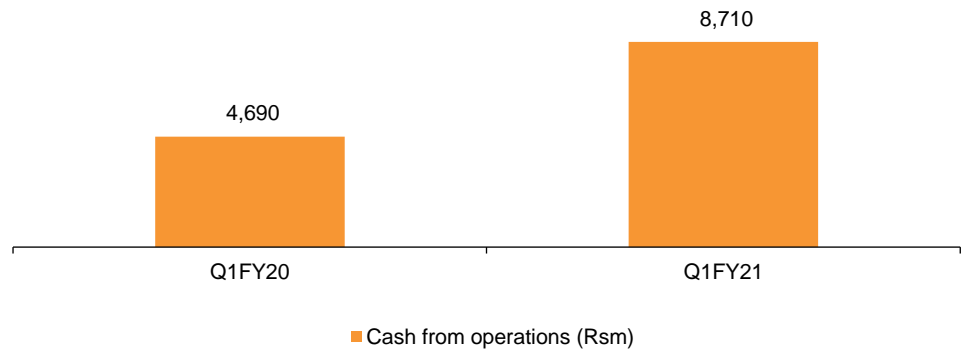
UPL's cash conversion cycle improved by 31 days yoy to 84 days. Receivable days improved by 8 days which we believe is due to higher factoring. However, payable days improved significantly by 23days to 138days. Management guided that it is working to improve payable days further to improve operating cash flow.

Exhibit 16: Payable days improve by 23 days



Source: Company, Emkay Research

Exhibit 17: 85% increase in cash from operations (net of WC changes)



Source: Company, Emkay Research

Net debt/EBITDA target of 2x by Mar-21 looks ambitious

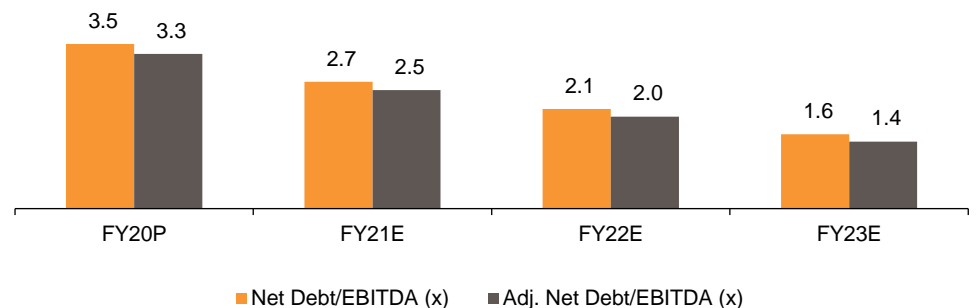
Incremental improvement in working capital looks difficult

UPL has set a target to reduce its net debt/EBITDA to 2.0x from current 3.3x (as of Mar-20 and 50% of perpetual bonds considered as equity). UPL has already used up its levers in payables and it is below historical levels. We do not anticipate any meaningful change in receivable days except if UPL goes for higher factoring. We believe that the improvement in payables would be offset by slightly higher inventory levels going ahead.

Expect net debt/EBITDA at 2.7x/2.1x/1.6x by FY21/FY22/FY23

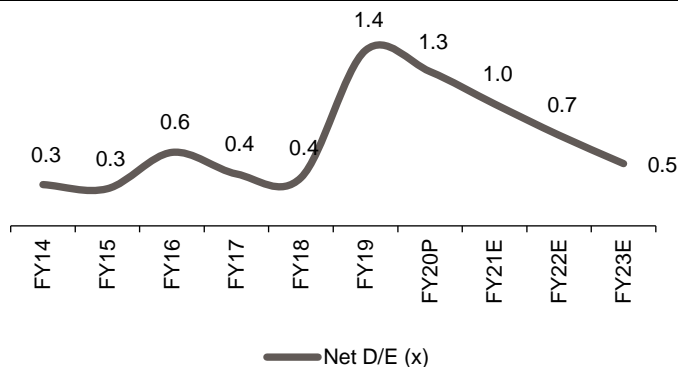
We expect UPL's net debt/EBITDA to improve to 2.7x/2.1x/1.6x by FY21/22/23E from 3.5x in FY20. As per the covenants of rating agency Moody's, perpetual debt is considered as equity to the extent of 50%. Hence, we expect adj. net debt/EBITDA to improve to 2.5x/2.0x/1.4x by FY21/22/23E. In our view, UPL would have to resort to higher factoring of receivables to achieve its target of 2.0x net debt/EBITDA by Mar-21.

Exhibit 18: Adj. net debt/EBITDA would improve but could fall short of guidance



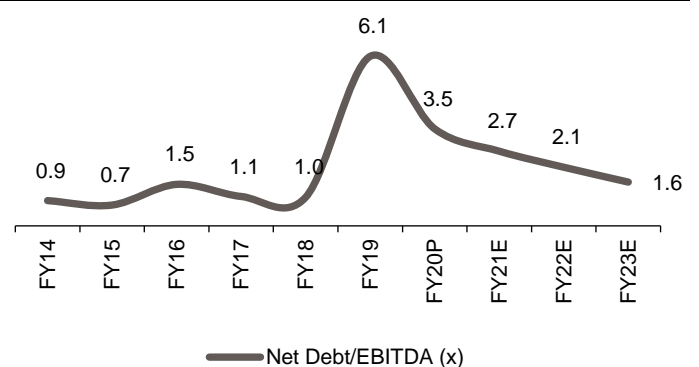
Source: Company, Emkay Research

Exhibit 19: Net D/E to improve over FY21-22E



Source: Company, Emkay Research

Exhibit 20: Net debt/EBITDA to be near investment grade in FY22E



Source: Company, Emkay Research

Exhibit 21: Quarterly debt movement

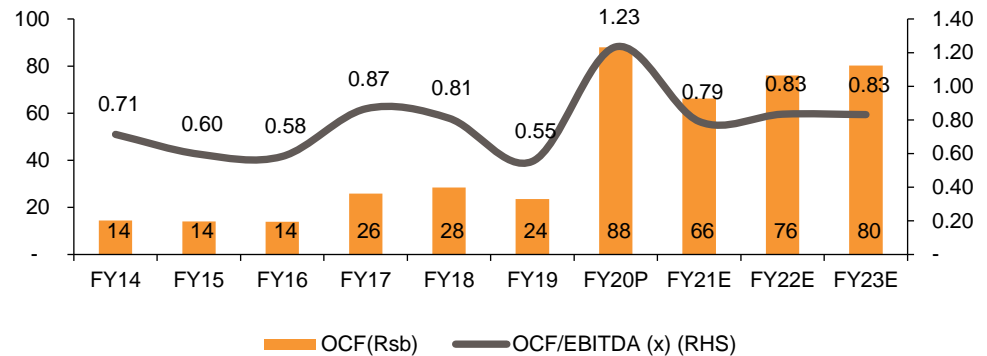
| | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross Debt (Rs bn) | 74 | 84 | 84 | 292 | 292 | 309 | 316 | 317 | 326 |
| Net Debt (Rs bn) | 47 | 64 | 71 | 263 | 270 | 289 | 297 | 249 | 221 |

Source: Company, Emkay Research

Expect USD625mn/750mn FCF in FY21/22E

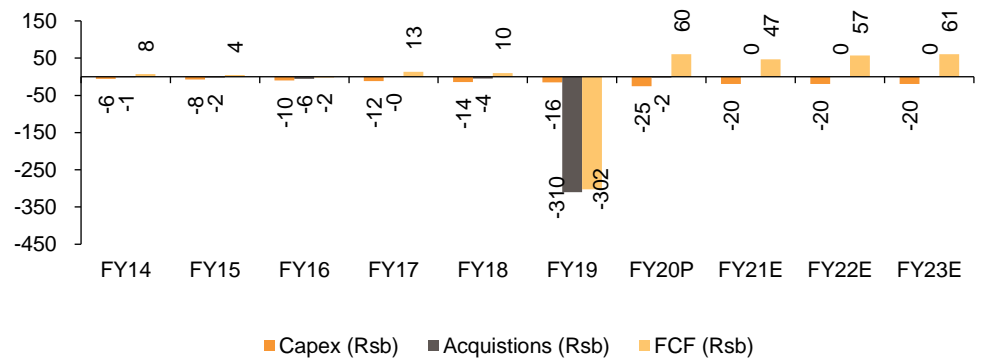
We expect UPL to generate OCF of Rs66bn/76bn in FY21/22E. We expect OCF/EBITDA ratio at a healthy 79%/83% in FY21/22E. With a capex of Rs20bn each in FY21/22E, we expect FCF of Rs47bn/57bn in FY21/22E. At USD/INR rate of 75, this translates into USD626mn/756mn FCF in FY21/22E, which is quite comfortable and is on track to deleverage.

Exhibit 22: Healthy OCF/EBITDA ratio of >80% over FY21-23



Source: Company, Emkay Research

Exhibit 23: USD625mn/750mn FCF in FY21/22E



Source: Company, Emkay Research

Exhibit 24: Cash flow summary

| Rs bn | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20P | FY21E | FY22E | FY23E |
|-----------------------------|-----------|-----------|----------|-----------|-----------|------------|-----------|-----------|-----------|----------|
| OCF | 14 | 14 | 14 | 26 | 28 | 24 | 88 | 66 | 76 | 80 |
| Capex + Acquisitions | -7 | -10 | -16 | -12 | -19 | -326 | -28 | -19 | -19 | -19 |
| FCF | 8 | 4 | -2 | 13 | 10 | -302 | 60 | 47 | 57 | 61 |
| Other investment activities | 3 | 6 | -1 | 2 | -2 | 6 | 1 | 2 | 3 | 4 |
| Financing activities | -17 | -10 | 5 | 1 | -8 | 289 | -22 | 12 | -66 | -63 |
| Change in cash | -7 | -0 | 1 | 17 | -0 | -11 | 39 | 61 | -6 | 1 |

Source: Company, Emkay Research

Exhibit 25: Actual vs. Estimates (Q1FY21)

| (Rs mn) | Actual | Estimate | | % variation | | Comments |
|---------------|--------|----------|-----------|-------------|-----------|--|
| | | Emkay | Consensus | Emkay | Consensus | |
| Sales | 78,330 | 88,618 | 85,279 | -12% | -8% | Lower than estimate due to higher deferral of sales in LatAm |
| EBITDA | 18,320 | 17,867 | 16,972 | 3% | 8% | Higher merger synergies lead to margin beat |
| EBITDA Margin | 23.4% | 20.2% | 19.9% | 323 bps | 349 bps | |
| PAT | 5,510 | 7,168 | 5,254 | -23% | 5% | Below our estimates due to higher finance cost on the back of higher factoring |

Source: Company, Bloomberg, Emkay Research

Exhibit 26: Quarterly result summary

| Rs mn | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | YoY% | QoQ% |
|------------------------------|---------------|---------------|---------------|----------------|---------------|--------------|---------------|
| Sales | 79,060 | 78,170 | 88,920 | 111,410 | 78,330 | (0.9) | (29.7) |
| Cost of Raw Material | 38,630 | 38,630 | 44,200 | 62,480 | 35,490 | (8.1) | (43.2) |
| as % of sales | 48.86 | 49.42 | 49.71 | 56.08 | 45.31 | | |
| Employee expenses | 8,610 | 8,310 | 7,310 | 9,680 | 8,700 | 1.0 | (10.1) |
| as % of sales | 10.89 | 10.63 | 8.22 | 8.69 | 11.11 | | |
| S&D Expenses | 15,300 | 16,740 | 16,320 | 20,210 | 15,820 | 3.4 | (21.7) |
| as % of sales | 19.35 | 21.41 | 18.35 | 18.14 | 20.20 | | |
| Total Expenditure | 62,540 | 63,680 | 67,830 | 92,370 | 60,010 | (4.0) | (35.0) |
| EBITDA | 16,520 | 14,490 | 21,090 | 19,040 | 18,320 | 10.9 | (3.8) |
| Depreciation | 4,460 | 4,560 | 4,470 | 4,650 | 5,220 | 17.0 | 12.3 |
| EBIT | 12,060 | 9,930 | 16,620 | 14,390 | 13,100 | 8.6 | (9.0) |
| Other Income | 390 | 240 | 200 | 210 | 670 | 71.8 | 219.0 |
| Interest cost | 3,980 | 3,810 | 5,150 | 1,870 | 5,510 | 38.4 | 194.7 |
| PBT | 8,470 | 6,360 | 11,670 | 12,730 | 8,260 | (2.5) | (35.1) |
| Total Tax | 770 | 1,120 | 2,180 | 2,540 | 1,430 | 85.7 | (43.7) |
| PAT before Minority Interest | 7,700 | 5,240 | 9,490 | 10,190 | 6,830 | (11.3) | (33.0) |
| Minority Interest | 690 | 140 | 1,290 | 1,670 | 1,020 | | |
| P&L from associate/JV | -40 | -80 | -80 | 230 | -50 | | |
| PAT before extra | 6,970 | 5,020 | 8,120 | 8,750 | 5,760 | (17.4) | (34.2) |
| Exceptional Items | 720 | 3,050 | 750 | 1,710 | 250 | | |
| PPA - Arysta | 3,400 | 1,080 | 360 | 870 | 0 | | |
| Reported PAT | 2,850 | 890 | 7,010 | 6,170 | 5,510 | 93.3 | (10.7) |

| Margins (%) | | | | | | bps | bps |
|--------------------|------|------|------|------|------|-------|-------|
| EBIDTA | 20.9 | 18.5 | 23.7 | 17.1 | 23.4 | 249 | 630 |
| EBIT | 15.3 | 12.7 | 18.7 | 12.9 | 16.7 | 147 | 381 |
| PBT | 10.7 | 8.1 | 13.1 | 11.4 | 10.5 | (17) | (88) |
| PAT | 9.7 | 6.7 | 10.7 | 9.1 | 8.7 | (102) | (43) |
| Effective Tax rate | 9.1 | 17.6 | 18.7 | 20.0 | 17.3 | 822 | (264) |

Source: Company, Emkay Research

Exhibit 27: Changes in estimates

| All fig in Rs mn (except % and EPS) | FY21E | | | FY22E | | | FY23E |
|--|---------|---------|----------|---------|---------|----------|---------|
| | Old | New | % change | Old | New | % change | New |
| Revenues | 374,118 | 384,912 | 3% | 396,256 | 409,326 | 3% | 432,183 |
| EBITDA | 80,470 | 83,799 | 4% | 87,033 | 91,136 | 5% | 96,502 |
| EBITDA margins, % | 21.5% | 21.8% | 26 bps | 22.0% | 22.3% | 30 bps | 22.3% |
| Net profits | 26,721 | 28,374 | 6% | 31,635 | 32,814 | 4% | 37,720 |
| EPS | 34.9 | 37.1 | 6% | 41.4 | 42.9 | 4% | 49.3 |

Source: Emkay Research

Exhibit 28: Key assumptions

| Revenue growth % | FY16 | FY17 | FY18 | FY19 | FY20P | FY21E | FY22E | FY23E |
|-----------------------------|-------------|-------------|------------|-------------|-------------|-------------|------------|------------|
| North America | 15.6 | 10.6 | 6.8 | 12.8 | 62.0 | 3.0 | 3.0 | 3.0 |
| Latin America | 25.4 | 26.3 | 5.5 | 24.9 | 93.5 | 11.0 | 7.0 | 6.0 |
| Europe | - | 5.3 | 11.6 | 7.3 | 16.5 | 1.0 | 3.0 | 3.0 |
| India | 2.8 | 9.9 | 7.6 | 3.5 | 15.9 | 13.0 | 8.0 | 8.0 |
| ROW | 43.6 | 14.8 | 6.6 | 5.9 | 117.4 | 7.0 | 9.0 | 7.0 |
| Total Revenue growth | 16.2 | 16.1 | 6.5 | 14.3 | 80.0 | 7.6 | 6.3 | 5.6 |

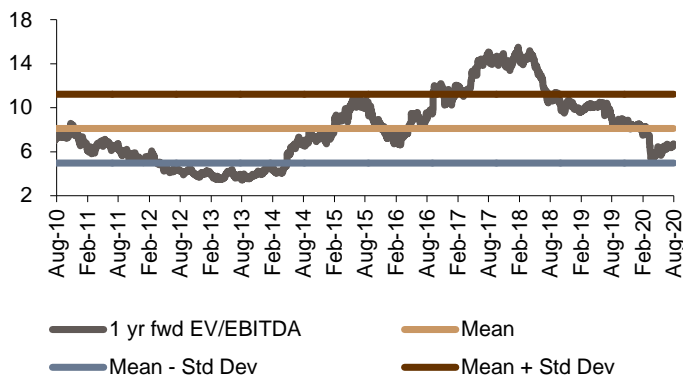
Source: Company, Emkay Research

Valuations: Re-rating to continue; maintain strong Buy and OW in our EAP

UPL has started recovering from its 5-yr low rolling 1-yr fwd EV/EITDA of 5.0x in Mar-20 to 6.6x now. Valuation remains comfortable as it is still below the 5-yr mean of 10.5x EV/EBITDA. Improving margins (and EBITDA) and faster deleveraging remain the key catalysts for re-rating. Maintain Buy and OW stance in EAP with a revised TP of Rs560 as we roll forward to 7x Jun-22E EV/EBITDA and raise FY21/22 EBITDA estimates by 4%/5%.

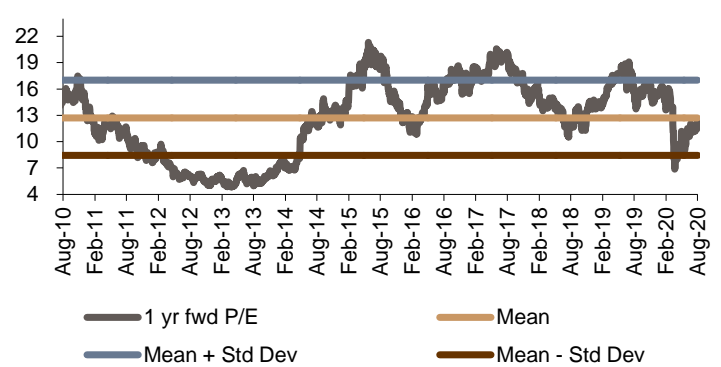
At 6.1x FY22E EV/EBITDA, UPL trades 23% cheaper than its global peers average despite higher growth and 33% lower than its 5-yr mean EV/EBITDA multiple. On a P/E basis, UPL is trading at 11.1x FY22E EPS, which is at a 32% discount to its 5-year average of 16.4x.

Exhibit 29: UPL's 1-yr fwd EV/EBITDA chart



Source: Company, Bloomberg, Emkay Research

Exhibit 30: UPL' 1-yr fwd P/E chart



Source: Company, Bloomberg, Emkay Research

Exhibit 31: Peer comparison

| Global Company | Mcap (USD mn) | P/E (x) | | | EV/EBITDA (x) | | | ROE (%) | | |
|----------------------|---------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | | CY19 | CY20E | CY21E | CY19 | CY20E | CY21E | CY19 | CY20E | CY21E |
| Corteva Inc | 21,400 | 23.1 | 20.9 | 17.3 | 11.6 | 9.1 | 8.2 | 3.5 | 3.8 | 4.5 |
| Bayer AG | 64,996 | 8.7 | 8.1 | 7.3 | 7.8 | 7.3 | 6.4 | 13.1 | 10.4 | 10.5 |
| BASF SE | 50,635 | 12.1 | 23.4 | 13.7 | 7.4 | 8.6 | 7.3 | 11.2 | 3.2 | 6.8 |
| FMC Corp | 13,728 | 18.1 | 16.7 | 14.6 | 13.7 | 12.9 | 11.8 | 27.3 | 30.1 | 30.3 |
| Nufarm Ltd/Australia | 1,091 | 18.8 | | 19.6 | 7.7 | 7.4 | 6.1 | 5.0 | (0.3) | 3.3 |
| Global Avg. | | 16.2 | 17.3 | 14.5 | 9.6 | 9.1 | 7.9 | 12.0 | 9.4 | 11.1 |
| Domestic Company | Mcap (USD mn) | P/E (x) | | | EV/EBITDA (x) | | | ROE (%) | | |
| | | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E |
| UPL* | 4,875 | 13.1 | 12.9 | 11.1 | 8.6 | 7.1 | 6.1 | 18.0 | 16.3 | 16.5 |
| PI Industries* | 3,565 | 53.2 | 40.6 | 29.2 | 34.3 | 25.6 | 19.1 | 18.5 | 21.1 | 24.5 |
| Rallis India* | 755 | 32.6 | 25.1 | 21.8 | 21.9 | 16.5 | 13.9 | 12.9 | 15.0 | 15.4 |
| Dhanuka Agritech | 503 | 28.9 | 20.7 | 18.2 | 22.2 | 15.7 | 13.6 | 18.9 | 23.6 | 23.4 |
| Bayer CropScience | 3,331 | 56.1 | 39.0 | 33.7 | 39.0 | 29.6 | 25.4 | 21.7 | 22.0 | 21.7 |
| Sharda Cropchem | 355 | 23.4 | 14.0 | 12.0 | 9.2 | 6.5 | 5.4 | 8.3 | 12.1 | 12.4 |
| Sumitomo Chemical | 1,780 | 54.5 | 45.7 | 37.0 | NA | 32.7 | 26.6 | 19.0 | 21.2 | 22.2 |
| Domestic Avg. | | 37.4 | 28.3 | 23.3 | 22.5 | 19.1 | 15.7 | 16.8 | 18.8 | 19.4 |

Source: Bloomberg, *Emkay Research Estimates

Earnings call highlights

Revenue

- Q1FY21 revenues were subdued due to the postponement of orders in LatAm due to forex volatility and pre-buying in North America in Q4FY20 on account of Covid-19.
- India branded business revenue increased 36% yoy with strong performance in insecticides, herbicides and bio solutions aided by cross selling of Arysta products.
- Growth in ROW was due to strong growth in South East Asia, led by merger synergies and timely monsoons. However, it was marginally impacted by adverse forex movement in Africa.
- Management believes UPL's Glufosinate product could have significant opportunity as it is a substitute for Dicamba and Glyphosate.

Regions

- India: Robust start to the Kharif season on the back of favorable weather conditions. During the quarter, the company recorded strong cash collections from its customers.
- ROW: Management highlighted that demand in the region was recovering due to timely monsoons. Vietnam witnessed an increase in sales for Herbicides.
- Europe: Despite challenging environment in South Europe (Spain, France and Italy), UPL was able to report growth on increased campaign for herbicides in North Europe. However, there is some deferral of orders to Q2 due to supply-chain constraints.
- North America: Adjusting for pre-buying in Q4 from the region, UPL reported 40%+ growth. Management remains confident for growth from the region of good agronomic conditions and expects to benefit from the US-China trade war as customers look to diversify.
- LatAm: UPL continues to increase prices in local currency to compensate for currency depreciation. Management expects Q2 to offset the revenue lost in Q1 with orders in hand. Agronomic conditions in LatAm continues to improve with an increase in acreages for soybean and corn.

Guidance

- Management guided for revenue growth of 6-8% in FY21 under current conditions
- EBITDA growth of 10-12% in FY21.
- Management guided for an EBITDA margin of 24-25% in the next few years

Margins

- UPL has taken a price hike to offset the currency impact in LatAm.
- Gross margins improved on favorable product mix (high-margin products) and geographic mix (higher sales in India).
- Reduction in employee cost (planned redundancy) and reduced travel cost on account of Covid-19 also aided margins.

Balance sheet

- Overall net W improved by 34 days to 84 days (vs. 115 days in Q1FY20) on account of an improvement in payable days to 138 days (vs. 115 days in Q1FY20) and receivable days to 116 days (vs. 124 days in Q1FY20). Management expects further improvement in working capital in FY21, mainly on due to an improvement in payable days.
- Gross debt increased by 13% qoq to Rs326bn due to the fund raise in June to buy back USD500mn of bonds maturing in Oct-21. Net debt remained flat qoq at Rs221bn.
- Capex for the quarter stood at Rs5.3bn

Others

- UPL has commenced a R&D center in the US which would enable the company to introduce new products with the help of other innovative partners.
- Since UPL is backward-integrated for the manufacturing of its products, the company would not have any major impact for raw materials due to the China floods.

Key Financials (Consolidated)**Income Statement**

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Sales | 218,370 | 357,560 | 384,912 | 409,326 | 432,183 |
| Expenditure | 175,820 | 286,340 | 301,113 | 318,189 | 335,680 |
| EBITDA | 42,550 | 71,220 | 83,799 | 91,136 | 96,502 |
| Depreciation | 8,670 | 17,937 | 23,155 | 24,342 | 25,530 |
| EBIT | 33,880 | 53,283 | 60,645 | 66,794 | 70,972 |
| Other Income | 2,400 | 1,040 | 2,306 | 2,801 | 3,627 |
| Interest expenses | 9,630 | 14,810 | 20,462 | 20,425 | 18,046 |
| PBT | 26,650 | 39,513 | 42,489 | 49,170 | 56,554 |
| Tax | 20 | 7,670 | 8,498 | 9,834 | 11,311 |
| Extraordinary Items | 11,580 | 10,090 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | 720 | 4,020 | 5,787 | 6,692 | 7,693 |
| Reported Net Income | 14,470 | 17,763 | 28,374 | 32,814 | 37,720 |
| Adjusted PAT | 26,050 | 27,853 | 28,374 | 32,814 | 37,720 |

Balance Sheet

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|----------------|----------------|----------------|----------------|----------------|
| Equity share capital | 1,020 | 1,530 | 1,530 | 1,530 | 1,530 |
| Reserves & surplus | 145,430 | 161,430 | 184,449 | 211,143 | 242,743 |
| Net worth | 146,450 | 162,960 | 185,979 | 212,673 | 244,273 |
| Minority Interest | 33,580 | 33,120 | 38,907 | 45,599 | 53,292 |
| Loan Funds | 288,610 | 316,550 | 354,330 | 315,330 | 276,330 |
| Net deferred tax liability | 19,940 | 11,310 | 11,317 | 11,323 | 11,329 |
| Total Liabilities | 488,580 | 523,940 | 590,533 | 584,925 | 585,224 |
| Net block | 319,270 | 353,723 | 350,068 | 345,226 | 339,196 |
| Investment | 7,080 | 5,580 | 5,580 | 5,580 | 5,580 |
| Current Assets | 270,860 | 300,487 | 388,555 | 398,852 | 415,536 |
| Cash & bank balance | 28,510 | 67,517 | 128,706 | 122,641 | 124,009 |
| Other Current Assets | 29,420 | 31,930 | 34,373 | 36,553 | 38,594 |
| Current liabilities & Provision | 126,460 | 156,580 | 174,401 | 185,462 | 195,819 |
| Net current assets | 144,400 | 143,907 | 214,155 | 213,389 | 219,718 |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 488,580 | 523,940 | 590,533 | 584,925 | 585,224 |

Cash Flow

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| PBT (Ex-Other income) (NI+Dep) | 24,250 | 38,473 | 40,183 | 46,369 | 52,927 |
| Other Non-Cash items | 0 | 0 | 0 | 0 | 0 |
| Chg in working cap | (36,040) | 30,870 | (9,052) | (5,293) | (4,956) |
| Operating Cashflow | 23,560 | 87,910 | 66,250 | 76,009 | 80,236 |
| Capital expenditure | (341,700) | (57,470) | (19,500) | (19,500) | (19,500) |
| Free Cash Flow | (318,140) | 30,440 | 46,750 | 56,509 | 60,736 |
| Investments | 3,260 | 1,500 | 0 | 0 | 0 |
| Other Investing Cash Flow | 16,360 | 28,330 | 170 | 170 | 170 |
| Investing Cashflow | (319,680) | (26,600) | (17,024) | (16,529) | (15,703) |
| Equity Capital Raised | 0 | 510 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | 223,540 | 27,940 | 37,780 | (39,000) | (39,000) |
| Dividend paid (incl tax) | (3,575) | (4,070) | (4,590) | (5,355) | (6,120) |
| Other Financing Cash Flow | 74,986 | (31,903) | (765) | (765) | 0 |
| Financing Cashflow | 285,321 | (22,333) | 11,963 | (65,545) | (63,166) |
| Net chg in cash | (10,800) | 38,977 | 61,189 | (6,065) | 1,367 |
| Opening cash position | 39,060 | 28,260 | 67,237 | 128,426 | 122,361 |
| Closing cash position | 28,510 | 67,517 | 128,706 | 122,641 | 124,009 |

Source: Company, Emkay Research

Key Ratios

| Profitability (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin | 19.5 | 19.9 | 21.8 | 22.3 | 22.3 |
| EBIT Margin | 15.5 | 14.9 | 15.8 | 16.3 | 16.4 |
| Effective Tax Rate | 0.1 | 19.4 | 20.0 | 20.0 | 20.0 |
| Net Margin | 12.2 | 8.9 | 8.8 | 9.6 | 10.5 |
| ROCE | 11.3 | 10.7 | 11.3 | 11.8 | 12.8 |
| ROE | 21.9 | 18.0 | 16.3 | 16.5 | 16.5 |
| RoIC | 12.7 | 12.3 | 14.0 | 15.3 | 16.3 |

| Per Share Data (Rs) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS | 34.1 | 36.4 | 37.1 | 42.9 | 49.3 |
| CEPS | 45.4 | 59.9 | 67.4 | 74.7 | 82.7 |
| BVPS | 191.4 | 213.0 | 243.1 | 278.0 | 319.3 |
| DPS | 4.7 | 5.3 | 6.0 | 7.0 | 8.0 |

| Valuations (x) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER | 14.0 | 13.1 | 12.9 | 11.1 | 9.7 |
| P/CEPS | 10.5 | 8.0 | 7.1 | 6.4 | 5.8 |
| P/BV | 2.5 | 2.2 | 2.0 | 1.7 | 1.5 |
| EV / Sales | 2.9 | 1.7 | 1.5 | 1.4 | 1.2 |
| EV / EBITDA | 14.7 | 8.6 | 7.1 | 6.1 | 5.4 |
| Dividend Yield (%) | 1.0 | 1.1 | 1.3 | 1.5 | 1.7 |

| Gearing Ratio (x) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity | 1.8 | 1.5 | 1.2 | 0.9 | 0.6 |
| Net Debt/EBIDTA | 6.1 | 3.5 | 2.7 | 2.1 | 1.6 |
| Working Cap Cycle (days) | 193.7 | 78.0 | 81.0 | 80.9 | 80.8 |

| Growth (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 25.7 | 63.7 | 7.6 | 6.3 | 5.6 |
| EBITDA | 21.4 | 67.4 | 17.7 | 8.8 | 5.9 |
| EBIT | 19.7 | 57.3 | 13.8 | 10.1 | 6.3 |
| PAT | (28.4) | 22.8 | 59.7 | 15.6 | 15.0 |

| Quarterly (Rs mn) | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 79,060 | 78,170 | 88,920 | 111,410 | 78,330 |
| EBITDA | 16,520 | 14,490 | 21,090 | 19,040 | 18,320 |
| EBITDA Margin (%) | 20.9 | 18.5 | 23.7 | 17.1 | 23.4 |
| PAT | 2,850 | 890 | 7,010 | 6,170 | 5,510 |
| EPS (Rs) | 3.7 | 1.2 | 9.2 | 8.1 | 7.2 |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Jul-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 27.9 | 27.9 | 27.9 | 27.9 | 27.9 |
| FIs | 43.1 | 43.8 | 43.5 | 41.9 | 40.6 |
| DIs | 9.6 | 10.6 | 11.1 | 12.3 | 12.9 |
| Public and Others | 19.5 | 17.7 | 17.5 | 18.0 | 18.7 |

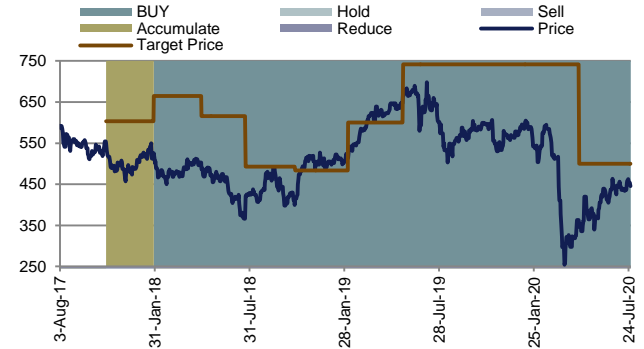
Source: Capitaline

RECOMMENDATION HISTORY TABLE

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|-----------|---------------|-----|-----------------|------------|----------------|
| 22-May-20 | 371 | 500 | 12m | Buy | Varshit Shah |
| 19-May-20 | 340 | 500 | 12m | Buy | Varshit Shah |
| 17-May-20 | 379 | 500 | 12m | Buy | Varshit Shah |
| 3-May-20 | 420 | 500 | 12m | Buy | Varshit Shah |
| 20-Apr-20 | 355 | 500 | 12m | Buy | Varshit Shah |
| 20-May-19 | 679 | 742 | 12m | Buy | Amar Mourya |
| 4-Feb-19 | 514 | 600 | 12m | Buy | Amar Mourya |
| 11-Jan-19 | 522 | 483 | 12m | Buy | Amar Mourya |
| 26-Oct-18 | 415 | 483 | 12m | Buy | Amar Mourya |
| 31-Jul-18 | 429 | 493 | 12m | Buy | Pratik Tholiya |
| 23-Jul-18 | 421 | 493 | 12m | Buy | Pratik Tholiya |
| 30-Apr-18 | 487 | 615 | 12m | Buy | Pratik Tholiya |
| 29-Jan-18 | 526 | 665 | 12m | Buy | Pratik Tholiya |
| 30-Oct-17 | 550 | 603 | 12m | Accumulate | Sumant Kumar |

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Agri Input & Chemicals



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Sector

Agro-Chemicals and Fertilizers

Analyst bio

Varshit Shah is a Chartered Accountant and a commerce graduate from Narsee Monjee College of Commerce and Economics, Mumbai. He comes with total eight years of experience across sectors such as Chemicals, Education, Telecom, IT and Midcaps. His team currently covers 12 stocks in Agro Chemicals, Fertilizers and Midcaps.

EAP sector portfolio

| Company Name | BSE200 Weight | EAP Weight | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|-----------------------------------|---------------|-------------|-----------|-------------|-------------------------|
| Agri Input & Chemicals | 0.94 | 0.94 | 0% | 0 | 100.00 |
| Bayer CropScience* | 0.13 | 0.13 | -2% | 0 | 13.59 |
| Chambal Fertilisers* | 0.00 | 0.00 | NA | 0 | 0.00 |
| Coromandel International | 0.14 | 0.13 | -10% | -1 | 13.80 |
| DCM Shriram* | 0.00 | 0.00 | NA | 0 | 0.00 |
| Deepak Fertilisers* | 0.00 | 0.00 | NA | 0 | 0.00 |
| Dhanuka Agritech | 0.00 | 0.00 | NA | 0 | 0.00 |
| GSFC* | 0.00 | 0.00 | NA | 0 | 0.00 |
| Insecticides India* | 0.00 | 0.00 | NA | 0 | 0.00 |
| PI Industries | 0.24 | 0.25 | 4% | 1 | 26.28 |
| Rallis India | 0.00 | 0.00 | NA | 0 | 0.00 |
| Sharda Cropchem* | 0.00 | 0.00 | NA | 0 | 0.00 |
| UPL | 0.43 | 0.44 | 2% | 1 | 46.32 |
| Cash | 0.00 | 0.00 | NA | 0 | 0.0 |

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

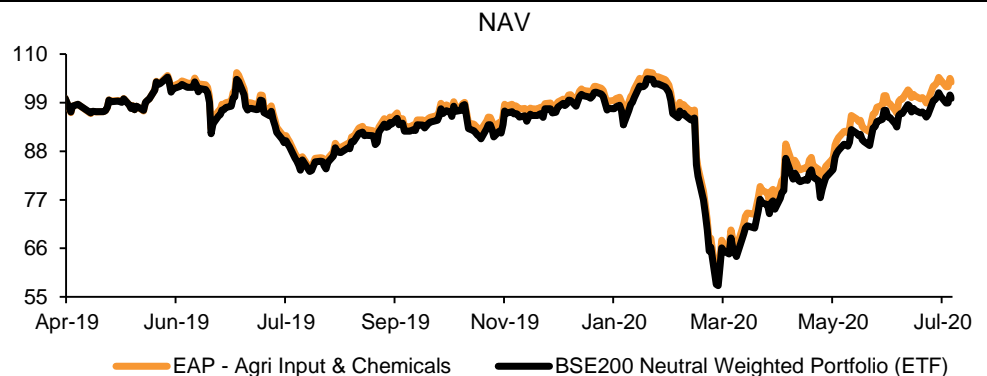
Sector portfolio NAV

| | Base | | | | | Latest |
|---|----------|-----------|-----------|-----------|-----------|-----------|
| | 1-Apr-19 | 27-Oct-19 | 30-Jan-20 | 30-Apr-20 | 30-Jun-20 | 30-Jul-20 |
| EAP - Agri Input & Chemicals | 100.0 | 98.5 | 100.2 | 89.7 | 96.6 | 103.8 |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0 | 97.2 | 98.5 | 86.4 | 93.5 | 100.1 |

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY | Over 15% |
| HOLD | Between -5% to 15% |
| SELL | Below -5% |

Completed Date: 02 Aug 2020 21:58:25 (SGT)

Dissemination Date: 02 Aug 2020 21:59:25 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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