

Delayed destocking and global supplies still remain hot, recovery expected after H1CY25

CMP: INR 538

Rating: BUY

Target Price: INR 690

Stock Info

BSE	512070
NSE	UPL
Bloomberg	UPLL:IN
Sector	Agrochemicals
Face Value (INR)	2
Equity Capital (INR Bn)	150
Mkt Cap (INR Bn)	389
52w H/L (INR)	699/448
Avg Yearly Volume (in 000')	2,165

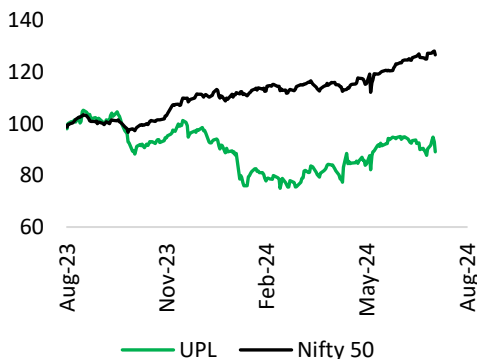
Shareholding Pattern %

(As on June, 2024)

Promoters	32.51
FII's	34.51
DII's	15.73
Public & Others	17.23

Stock Performance (%)	1m	6m	12m
UPL	-6.7%	12.3%	-11.8%
NIFTY	1.7%	13.5%	26.6%

UPL vs Nifty



Adhishek Jain
abhishhek.jain@arihantcapital.com
022-422548871

Anmol Das
anmol.das@arihantcapital.com
022-67114834

UPL Ltd, formerly known as United Phosphorus Ltd, is a prominent Indian multinational corporation specializing in the production and distribution of a diverse range of agrochemical products. UPL has a presence in more than 100 countries. UPL's core portfolio encompasses an array of crop protection solutions, including herbicides, insecticides, fungicides and biocides. These products play a vital role in protecting crops against pests, diseases, and weeds, while concurrently enhancing crop yields. Furthermore, UPL extends its expertise to post-harvest preservation, offering fungicides and insecticides designed to protect stored crops.

Anticipating Demand recovery in H2CY25 Across Different Regions

Channel inventories came down in some of the geographies offering some relief. Revenue was down across regions: Latin America down by 10% YoY to INR 26.6 bn, India was down by 9% YoY to INR 18.7 bn, North America was up by 42% to INR 12.3 bn, Europe was up by 13% YoY to INR 14.2 bn while Rest of the World increased marginally by 3% YoY to INR 18.7 bn. In India, Crop Protection was down by 17% YoY due to poor start to monsoon season demand in Telangana and Karnataka along with lower cotton crop acreage in Northern India.

Price recovery to come beyond Q2FY25 as inventory destocking getting over

UPL's largest markets in Latin America including Brazil, saw good demand of Insecticides and Fungicides. However, they witnessed Brazil impacted by price erosion of Insecticides while Columbia witnessed headwinds due to weather issues in the region.

Debt levels to remain elevated in the Near Term

The Company intends to close the rights issue of USD 500 mn to reduce debts to be completed by FY25 end. The Net Debt stands at USD 5.33 bn, which we believe will remain at high levels in the near future, although the Management intends to bring it down to USD 2.5 bn levels. In Q1FY25, the Net Debt increased by \$ 639 mn QoQ from \$ 4.7 bn in Q4FY24.

OUTLOOK

Channel inventories de-stocking has picked up in most regions with North America almost cleared out. The Management has said that they will no longer be giving discounts for new despatches. UPL has implemented cost effective measures due to which the SG&A expenses reduced by 3% in Q1FY25 over last year and the company intends to reduce FY25 SG&A expenses by USD 100 mn against FY24 expenses. Due to the Q1FY25 earnings and lower guidance for the full year FY25, we have reduced our estimates for the current year and FY26E but believe demand to pick up from later part of FY25 and beyond. Hence, we remain positive on UPL Ltd, valuing the company at PE of 8x of its revised FY27E EPS of INR 86.2, with a revised target price of INR 690 per share (earlier INR 767) giving an upside of 28% from current levels with BUY ratings.

Link to Our Initiating Coverage Report: [Click Here](#)

Valuation summary (Rs Bn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	536	431	515	649	714
EBIDTA	112	55	84	140	152
Net Profit	43	-7	27	70	79
PAT Adj	47	-5	22	58	65
Diluted EPS	62.7	(6.2)	29.2	76.8	86.2
P/E (x)	11.4	(116.1)	24.5	9.3	8.3
EV/EBIDTA (x)	6.3	13.2	8.7	5.1	4.4
P/BV (x)	1.8	1.9	1.8	1.5	1.3
RoE (%)	17.3	(1.6)	7.5	17.4	17.0
Debt/Equity (x)	0.6	0.7	0.6	0.4	0.3

Particulars (Consolidated)(In INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue from Operations	90,670	1,40,780	89,630	-35.6%	1.2%
Raw Material Costs	45,200	90,090	39,300	-49.8%	15.0%
Gross Profit	45,470	50,690	50,330	-10.3%	-9.7%
Gross Margin (%)	50.1%	36.0%	56.2%	39.3%	-10.7%
Employee Cost	13,370	10,360	12,400	29.1%	7.8%
Other Exp	21,090	21,850	25,200	-3.5%	-16.3%
EBITDA	11,010	18,480	12,730	-40.4%	-13.5%
EBITDA Margin %	12.1%	13.1%	14.2%	-7.5%	-14.5%
Depreciation	6,600	7,940	6,360	-16.9%	3.8%
EBIT	4,410	10,540	6,370	-58.2%	-30.8%
Other Income	980	1,260	1,010	-22.2%	-3.0%
Finance costs	9,130	10,900	7,000	-16.2%	30.4%
PBT	(3,740)	900	380	-515.6%	-1084.2%
Share of (loss)/profit from JV	(320)	450	(570)	-171.1%	-43.9%
Exceptional Items	(490)	(1,050)	(430)	-53.3%	14.0%
Total taxes	-720	-1,100	1,640	-34.5%	-143.9%
PAT	(5,270)	(800)	1,020	558.8%	-616.7%
PAT Margin (%)	-5.8%	-0.6%	1.1%	922.8%	-610.7%

Concall Highlights

Guidance:

- The Management anticipates an increase in profitability and free cash flow in H2FY25.
- The Company guided for a \$100 mn savings in SG&A cost for FY25. The Management envisages cash flow from operation of \$300-400 mn in FY25, which would enable them to reduce finance cost and debt.
- They anticipate a revenue growth of 4-8%, driven by EBITDA growth of 50% for FY25 as against FY24.
- The Company expects key input costs to remain stable for the coming quarters, and this might lead to an expansion in margins. The Management plans no rebates for the coming quarters.

Key Highlights (Consolidated):

- Revenue came at INR 90,670 mn, down 35.6 % QoQ/ up 1% YoY.
- EBITDA came at INR 11,450 mn, down 40.7% QoQ/ down 28% YoY.
- EBITDA Margins came at 12.6% for Q1FY25 down 110 bps QoQ / down 520 bps YoY.
- Net Loss reported INR 3,840 mn against a Net Profit of INR 400 mn in Q4FY24/ down by 331% YoY.
- During the period, contribution margin contracted by 600 bps as against Q1FY24 primarily due to price decline, increase in freight costs and partial liquidation of high cost inventories, although there was marginal improvement on account of lower input costs.
- Net debt increased by \$639 million in Q1FY25 on a sequential basis. The corresponding increase last year was \$1,136 million.
- In absolute terms, there was a 3% reduction of sales, general and administrative expense (SG&A) on a YoY basis.
- Net working capital days during Q1FY25 decreased by 1 day to 121 days.

Latin America:

- Revenue for Q1FY25 was INR 24,520 mn, a decrease of 9% YoY. The volume growth in Brazil was offset by the price decline in the region. Columbia was affected due to weather issues, leading to muted demands.

North America:

- North America generated a revenue of INR 10,980 mn during the quarter, an increase of 66% YoY. Demand for herbicides and fungicides remained strong during Q1FY25, showing an increase in natural plant protection revenue driven by higher volume.

Europe:

- The Company generated revenue of INR 13,370 mn from Europe, translating to a 9% YoY growth.
- In Europe, the Company saw strong volume led growth in fungicides.
- NPP revenue doubled as compared to last year's same quarter, driven by higher volumes. Majority of growth in Europe was contributed by the Mediterranean countries.

Rest of the World:

- Revenue increased by 3% YoY to INR 12,060 mn during Q1FY25. Growth in Africa was flat, in Q1FY25. There was a growth in herbicides, which was partially offset by decline in insecticides.

Advanta Seeds: Seeds business faced headwinds on account of weather challenges that impacted production, created inventory shortages and supply constraints, leading to a revenue and EBITDA drop of 7% and 30% YoY respectively.

UPL SAS: The Company postponed sales to July to optimize working capital efficiently, which led to lower sales against previous year. The Company's online platform generated revenue of INR 69 mn during the quarter and EBITDA loss narrowed by INR143 mn YoY.

Other Business Updates:

- The Company plans to close the rights issue by the end of FY25. The process was delayed due to clarification sought by the regulatory authorities. Average cost of debt for the quarter was 7.5% as against 5.5-6% in the same quarter previous year.
- The company sold \$10-12 mn of high-cost inventory during the quarter, and has an inventory of \$40 mn still left.
- The Management acknowledged that Brazil markets faced headwinds due to Chinese dumping while North American markets channel inventories have very much cleared out.
- In Latin America, Brazil was impacted by price erosion in Insecticides. Columbia saw a lot of challenges in terms of weather.
- Africa & China markets led the growth in volumes for the company while Japanese Yen posed challenges on Forex hedging.

Financial Statements

Income Statement

Income Statement (INR Mn)	Mar-23	Mar-24	Mar 25E	Mar 26E	Mar 27E
Net sales	5,35,750	4,30,980	5,15,060	6,49,008	7,13,909
<i>Growth (%)</i>	15.9	(19.6)	19.5	26.0	10.0
Operating expenses	-4,24,160	-3,75,830	-4,30,990	-5,09,210	-5,61,538
EBITDA	1,11,590	55,150	84,070	1,39,798	1,52,371
EBITDA Margin %	20.8%	12.8%	16.3%	21.5%	21.3%
<i>Growth (%)</i>	9.8	(50.6)	52.4	66.3	9.0
Depreciation	-25,470	-27,630	-34,786	-39,809	-44,309
Other income	4,770	4,830	4,818	4,842	4,866
EBIT	90,890	32,350	54,102	1,04,832	1,12,929
Finance cost	-29,630	-38,520	-21,649	-19,149	-16,649
Exceptional & extraordinary	-11,340	-2,520	0	0	0
Profit before tax	49,920	-8,690	32,453	85,683	96,280
Tax (current + deferred)	-7,360	2,090	-5,841	-15,423	-17,330
P / L form discontinuing operations	0	0	0	0	0
Profit / (Loss) for the period	42,560	-6,600	26,611	70,260	78,949
PAT Margin %	7.9%	-1.5%	5.2%	10.8%	11.1%
P/L of Associates, Min Int, Pref Div	-6,870	1,984	-4,741	-12,685	-14,267
Reported Profit / (Loss)	35,690	-4,616	21,870	57,575	64,683
Adjusted net profit	47,030	-4,616	21,870	57,575	64,683

Balance Sheet

Balance Sheet (INR Mn)	Mar-23	Mar-24	Mar 25E	Mar 26E	Mar 27E
Share capital	1,500	1,500	1,500	1,500	1,500
Reserves & surplus	2,96,940	2,78,620	3,02,911	3,54,258	4,02,500
Shareholders' funds	2,98,440	2,80,120	3,04,411	3,55,758	4,04,000
Minority Intersts and others	55,850	55,850	55,850	55,850	55,850
Non-current liabilities	2,41,110	2,40,110	2,15,110	1,90,110	1,65,110
Long-term borrowings	2,01,440	2,00,440	1,75,440	1,50,440	1,25,440
Other non-current liabilities	39,670	39,670	39,670	39,670	39,670
Current liabilities	2,90,370	2,12,038	2,65,119	3,31,645	3,62,100
ST borrowings, Curr maturity	28,550	28,550	28,550	28,550	28,550
Other current liabilities	2,61,820	1,83,488	2,36,569	3,03,095	3,33,550
Total (Equity and Liabilities)	8,85,770	7,88,118	8,40,489	9,33,363	9,87,060
Non-current assets	4,65,890	4,62,623	4,64,320	4,62,456	4,51,451
Fixed assets (Net block)	2,07,270	2,02,990	1,98,204	1,88,397	1,74,089
Non-current Investments	16,180	16,180	16,180	16,180	16,180
Long-term loans and advances	570	4,051	5,151	6,490	7,139
Other non-current assets	2,41,870	2,39,403	2,44,785	2,51,390	2,54,043
Current assets	4,19,880	3,25,495	3,76,169	4,70,907	5,35,609
Cash & current investment	60,970	37,930	8,452	5,676	23,856
Other current assets	3,58,910	2,87,565	3,67,717	4,65,231	5,11,754
Total (Assets)	8,85,770	7,88,118	8,40,489	9,33,363	9,87,060
Total debt	2,29,990	2,28,990	2,03,990	1,78,990	1,53,990
Capital employed	6,23,950	6,04,630	6,03,921	6,30,268	6,53,510

Source: Company Reports, Arihant Research

Financial Statements

Cash Flow Statement

Cash Flow Statement (INR Mn)	Mar-23	Mar-24	Mar 25E	Mar 26E	Mar 27E
Profit before tax	49,920	-8,690	32,453	85,683	96,280
Depreciation	25,470	27,630	34,786	39,809	44,309
Change in working capital	910	-10,468	-28,171	-32,327	-16,717
Total tax paid	-13,340	2,090	-5,841	-15,423	-17,330
Others	20,140	24,860	33,690	16,831	14,309
Cash flow from oper. (a)	87,820	44,252	50,057	92,050	1,18,326
Capital expenditure	-37,360	-23,350	-30,000	-30,001	-30,001
Change in investments	-4,880	0	0	0	0
Others	6,730	7,297	-565	-1,762	2,214
Cash flow from inv. (b)	-35,510	-16,053	-30,565	-31,763	-27,787
Free cash flow (a+b)	52,310	28,200	19,492	60,288	90,539
Equity raised/(repaid)	-30	0	0	0	0
Debt raised/(repaid)	-28,670	-1,000	-25,000	-25,000	-25,000
Dividend (incl. tax)	-9,959	2,421	-6,227	-16,441	-18,474
Others	-13,881	-52,661	-17,743	-21,619	-28,881
Cash flow from fin. (c)	-52,540	-51,240	-48,970	-63,060	-72,356
Net chg in cash (a+b+c)	-230	-23,040	-29,477	-2,773	18,184

Key ratios

Key Ratios (%)	Mar-23	Mar-24	Mar 25E	Mar 26E	Mar 27E
Adjusted EPS (Rs)	62.7	(6.2)	29.2	76.8	86.2
<i>Growth</i>	4.6			163.3	12.3
CEPS (Rs)	96.7	30.7	75.5	129.8	145.3
Book NAV/share (Rs)	397.9	373.5	405.9	474.3	538.7
Dividend/share (Rs)	10.0	10.0	11.0	11.0	11.0
Dividend payout ratio	27.9	52.4	28.5	28.6	28.6
EBITDA margin	20.8	12.8	16.3	21.5	21.3
Tax rate	12.0	24.1	18.0	18.0	18.0
RoCE	15.0	5.3	9.0	17.0	17.6
Total debt/Equity (x)	0.6	0.7	0.6	0.4	0.3
Net debt/EBITDA (x)	1.5	3.5	2.3	1.2	0.9
Net debt/Equity (x)	0.5	0.6	0.5	0.4	0.3
Du Pont Analysis - ROE					
Net margin	8.8	(1.1)	4.2	8.9	9.1
Asset turnover (x)	0.6	0.5	0.6	0.7	0.7
Leverage factor (x)	3.1	2.9	2.8	2.7	2.5
Return on equity	17.3	(1.6)	7.5	17.4	17.0

Valuations

Valuations (x)	Mar-23	Mar-24	Mar 25E	Mar 26E	Mar 27E
PER	11.4	(116.1)	24.5	9.3	8.3
PCE	7.4	23.3	9.5	5.5	4.9
Price/Book	1.8	1.9	1.8	1.5	1.3
Yield (%)	1.6	(0.4)	1.0	2.6	2.9
EV/EBITDA	6.3	13.2	8.7	5.1	4.4

Source: Arianth Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880