

**CMP: INR 533**

**Rating: BUY**

**Target Price: INR 783**

**Stock Info**

BSE	512070
NSE	UPL
Bloomberg	UPLL:IN
Sector	Agrochemicals
Face Value (INR)	2
Equity Capital (INR Bn)	150
Mkt Cap (INR Bn)	416
52w H/L (INR)	807/576
Avg Yearly Volume (in 000')	2,165

**Shareholding Pattern %**

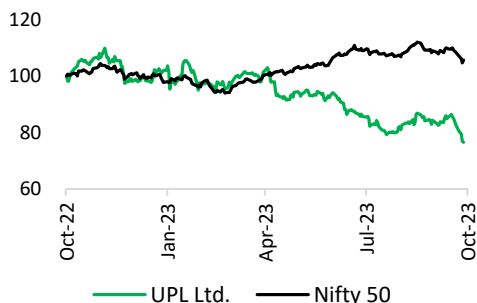
(As on Sep, 2023)

Promoters	32.3
FII's	38
DII's	15.2
Public & Others	14.5

**Stock Performance (%)**

	1m	6m	12m
UPL	-0.7%	-16.7%	-12.6%
NIFTY	-0.3%	+11%	+13%

**UPL vs Nifty**



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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 Increased Demand in H2FY24 Across Different Regions**

In North America, channel inventories are still high as per Management, and demand in H2FY24 may not pick up before the end of H1CY24, i.e. by June 2024. The LatAm region which is key markets for the company, the company saw a growth volume-wise across all countries except in Brazil. Going ahead, we believe in Brazil, the demand will be back in the H2FY24 as the increase in land acreage is increasing along side summer crop season in the southern hemisphere.

**Price Uptrend to come from Q4FY24 as channel inventories decline**

Although significant demand is expected in the Latin American and European markets during H2FY24, there has been a noticeable improvement in prices for most active ingredients from their low points. We believe the prices for most agro-chemicals have stabilized at their lowest levels, and volume growth and price increases from these levels will come from Q4FY24 onwards.

**Domestic demand remains intact except for cotton**

Demand for domestic kharif season crops was lower than expected due to the dry spell in the month of August. The seeds business for the cotton crops was lower as the company saw poor demand in western region for cotton. However, rabi season crop cycle remains intact as it is lesser dependent on rains, and is chief season for several grain crops like Wheat, maize, etc. in the northern, eastern and central parts of India.

**OUTLOOK**

Channel inventories de-stocking has picked up in most regions around the world. UPL has implemented cost efficiency measures during the quarter which will help them cut costs by USD 100 mn for the year. In the North America and Brazil markets, high channel inventory will be normalizing from Q4FY24 onwards. Due to the Q2FY24 earnings and lower guidance for the full year FY24 earnings and EBITDA growth, we have reduced our estimates for the current year, but main tain our estimates for subsequent years. We believe the company is expected to perform much better in H2FY24 led by price uptrend and volume growth. Hence, we remain positive on UPL Ltd, valuing the company at PE of 10x of its FY26E EPS of INR 78.3, with a target price of INR 783 per share giving an upside of 45% from current levels with BUY ratings.

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

Valuation summary (Rs Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,86,940	4,62,390	5,35,750	5,36,184	6,00,640	6,52,319
EBIDTA	85,590	1,01,640	1,11,590	80,852	1,27,716	1,41,520
Net Profit	34,530	43,020	42,560	24,537	62,401	71,672
PAT Adj	33,160	45,850	47,030	20,172	51,146	58,729
Diluted EPS	43.3	59.9	62.7	26.9	68.2	78.3
P/E (x)	14.0	10.1	11.4	26.6	10.5	9.1
EV/EBIDTA (x)	7.6	6.5	6.3	9.1	5.5	4.7
P/BV (x)	2.2	1.9	1.8	1.7	1.5	1.3
RoE (%)	16.5	20.1	17.3	6.6	15.4	15.6
Debt/Equity (x)	1.0	0.9	0.6	0.6	0.5	0.4

Particulars (In INR Mn)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
<b>Revenue from Operations</b>	<b>1,01,700</b>	<b>89,630</b>	<b>1,25,070</b>	<b>13.47%</b>	<b>-18.69%</b>
Raw Material Costs	52,320	39,300	57,810	33.13%	-9.50%
<b>Gross Profit</b>	<b>49,380</b>	<b>50,330</b>	<b>67,260</b>	<b>-1.89%</b>	<b>-26.58%</b>
<b>Gross Margin (%)</b>	<b>48.6%</b>	<b>56.2%</b>	<b>53.8%</b>	<b>-13.53%</b>	<b>-9.71%</b>
Employee Cost	12,510	12,400	12,330	0.89%	1.46%
Other Exp	23,620	25,200	30,490	-6.27%	-22.53%
<b>EBITDA</b>	<b>13,250</b>	<b>12,730</b>	<b>24,440</b>	<b>4.08%</b>	<b>-45.79%</b>
<b>EBITDA Margin %</b>	<b>13.0%</b>	<b>14.2%</b>	<b>19.5%</b>	<b>-8.27%</b>	<b>-33.33%</b>
Depreciation	6,570	6,360	6,080	3.30%	8.06%
<b>EBIT</b>	<b>6,680</b>	<b>6,370</b>	<b>18,360</b>	<b>4.87%</b>	<b>-63.62%</b>
Other Income	1,050	1,010	780	3.96%	34.62%
Finance costs	8,710	7,000	6,440	24.43%	35.25%
<b>PBT</b>	<b>(980)</b>	<b>380</b>	<b>12,700</b>	<b>-357.89%</b>	<b>-107.72%</b>
Share of (loss)/profit from JV	(2,040)	(570)	(270)	257.89%	655.56%
Exceptional Items	(870)	(430)	(430)	102.33%	102.33%
Total taxes	960	1,640	(2,310)	-41.46%	-141.56%
<b>PAT</b>	<b>(2,930)</b>	<b>1,020</b>	<b>9,690</b>	<b>-387.25%</b>	<b>-130.24%</b>
<b>PAT Margin (%)</b>	<b>-2.9%</b>	<b>1.1%</b>	<b>7.7%</b>	<b>-353.16%</b>	<b>-137.19%</b>

## Concall Highlights

### Management Guidance:

- Management is expecting volume increase across the board for the H2FY24, especially Q4FY24, but no growth from US markets in FY24. The Management expects the demand to come back in the US markets by mid of CY2024.
- The Management does not expects the prices to rise anywhere near FY21 and FY22 highs anytime soon. Hence, the companies in the Agro-chemical space will have to accept that fact and work on their volume growth and operating leverage.
- Expecting volume growth in Q3 on a YoY basis, but no Price uptrend in Q3. By Q4, the Management expects the price levels to increase sequentially as destocking would have happened for most chemicals.
- Management expects to reduce their Net Debt by USD 300 mn for FY24 end in order to get better Credit Rating from International Rating Agencies and maintaining investment grade ratings.
- Last year the company had USD 700 mn of Cash Balances, while this year the Company is looking to have USD 200 mn. The company wants to reduce the pace of their capex plans in order to save cash flows.

**Concall Highlights (Continued)****Key Highlights:**

- The de-stocking exercise is taking time in the US and LatAm, which are their key markets.
- In Brazil there was market degrowth due to high channel inventory. However, apart from Brazil, there was volume growth across all markets in Latin America. The weather in the central and north of the country is very stable and the total land acreage in Brazil has increased to 45 lakh hectare. Hence, with no El Nino effect in LatAm, the Management expects the Q4 demand to be strong.
- In Europe, revenue declined by 8% over last year due to high channel inventories.
- The Management explains that the India market is more of B2C type of market. The Prices have also not declined as much in proportion to the International markets.
- On the Domestic front, the cotton business in India got affected due to Pink Ball Worm. Then there was a month-long dry spell in the month of August.
- At the Group level the Contribution margins declined by 250 bps. Fixed Overheads for the quarter came down by 3% over last year.
- Advanta delivered 17% in revenue and 25% contribution Profit for the H1FY24.
- Headwinds included Acreage contraction for crops like cotton and other summer pulses.
- Forex loss in Q2FY24 was INR 2.24 bn due to currency devaluations.
- WC days increased by 25 days to 149 days on a YoY basis.
- Net Debt increased by USD 197 mn over last year and USD 503 mn over previous quarter.
- Guidance for the full year FY24 has been cut down to Flat from earlier +1 to +5% YoY and EBITDA growth of 0% to (-5)% from earlier guidance of +3 to +7%.
- Absolute inventories is INR 182bn and previous year it was INR 194 bn. In terms of Volume it will be 50-60% higher than last year.
- In H2, the Crops like Wheat, etc, have very strong Portfolio and demand.
- Management believes in the H2, the volume increases across the board as most companies have already done de-stocking by now. The Management intends to see the inventory levels to come back to lower levels seen during March 2022.
- Management does not expects the Inventory de-stocking has completed yet.
- Aiming to reduce Gross Debt by 500 mn, Net Debt reduction will be USD 300 mn, out of which USD 50 mn is reduced from Capex plans. Management is expecting a robust H2, which will generate some good cash flows helping them bring down their Gross Debt by USD 500 mn.
- The Management is working on a Cost reduction Program to reduce up to USD 100 mn in the H2, of which USD 9 mn got reduced in Q2FY24.

## Financial Statements

Income Statement (INR Mn)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
<b>Net sales</b>	<b>3,86,940</b>	<b>4,62,390</b>	<b>5,35,750</b>	<b>5,36,184</b>	<b>6,00,640</b>	<b>6,52,319</b>
<i>Growth (%)</i>	8.2	19.5	15.9	0.1	12.0	8.6
Operating expenses	-3,01,350	-3,60,750	-4,24,160	-4,55,332	-4,72,925	-5,10,799
<b>EBITDA</b>	<b>85,590</b>	<b>1,01,640</b>	<b>1,11,590</b>	<b>80,852</b>	<b>1,27,716</b>	<b>1,41,520</b>
<b>EBITDA Margin %</b>	<b>22.1%</b>	<b>22.0%</b>	<b>20.8%</b>	<b>15.1%</b>	<b>21.3%</b>	<b>21.7%</b>
<i>Growth (%)</i>	20.5	18.8	9.8	(27.5)	58.0	10.8
Depreciation	-21,730	-23,590	-25,470	-29,240	-34,786	-39,809
Other income	2,580	2,810	4,770	4,794	4,818	4,842
<b>EBIT</b>	<b>66,440</b>	<b>80,860</b>	<b>90,890</b>	<b>56,406</b>	<b>97,748</b>	<b>1,06,553</b>
Finance cost	-20,600	-22,950	-29,630	-27,539	-21,649	-19,149
Exceptional & extraordinary	-4,450	-9,600	-11,340	0	0	0
<b>Profit before tax</b>	<b>41,390</b>	<b>48,310</b>	<b>49,920</b>	<b>28,867</b>	<b>76,099</b>	<b>87,404</b>
Tax (current + deferred)	-6,860	-5,290	-7,360	-4,330	-13,698	-15,733
P / L form discontinuing operations	0	0	0	0	0	0
<b>Profit / (Loss) for the period</b>	<b>34,530</b>	<b>43,020</b>	<b>42,560</b>	<b>24,537</b>	<b>62,401</b>	<b>71,672</b>
<b>PAT Margin %</b>	<b>8.9%</b>	<b>9.3%</b>	<b>7.9%</b>	<b>4.6%</b>	<b>10.4%</b>	<b>11.0%</b>
P/L of Associates, Min Int, Pref Div	-5,820	-6,770	-6,870	-4,365	-11,255	-12,942
Reported Profit / (Loss)	28,710	36,250	35,690	20,172	51,146	58,729
Adjusted net profit	33,160	45,850	47,030	20,172	51,146	58,729
<i>Growth (%)</i>	21.5	38.3	2.6	(57.1)	153.5	14.8

Balance Sheet (INR Mn)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
Share capital	1,530	1,530	1,500	1,500	1,500	1,500
Reserves & surplus	2,07,340	2,45,080	2,96,940	3,07,153	3,52,557	3,96,685
<b>Shareholders' funds</b>	<b>2,08,870</b>	<b>2,46,610</b>	<b>2,98,440</b>	<b>3,08,653</b>	<b>3,54,057</b>	<b>3,98,185</b>
Minority Interests and others	36,930	46,470	55,850	55,850	55,850	55,850
<b>Non-current liabilities</b>	<b>2,62,240</b>	<b>2,51,750</b>	<b>2,41,110</b>	<b>2,40,110</b>	<b>2,15,110</b>	<b>1,90,110</b>
Long-term borrowings	2,21,460	2,16,050	2,01,440	2,00,440	1,75,440	1,50,440
Other non-current liabilities	40,780	35,700	39,670	39,670	39,670	39,670
<b>Current liabilities</b>	<b>1,96,270</b>	<b>2,81,960</b>	<b>2,90,370</b>	<b>2,74,121</b>	<b>3,07,181</b>	<b>3,33,284</b>
ST borrowings, Curr maturity	14,140	42,610	28,550	28,550	28,550	28,550
Other current liabilities	1,82,130	2,39,350	2,61,820	2,45,571	2,78,631	3,04,734
<b>Total (Equity and Liabilities)</b>	<b>7,04,310</b>	<b>8,26,790</b>	<b>8,85,770</b>	<b>8,78,734</b>	<b>9,32,198</b>	<b>9,77,429</b>
<b>Non-current assets</b>	<b>4,04,160</b>	<b>4,29,990</b>	<b>4,65,890</b>	<b>4,69,754</b>	<b>4,69,742</b>	<b>4,62,667</b>
Fixed assets (Net block)	1,84,980	1,95,380	2,07,270	2,02,990	1,98,204	1,88,397
Non-current Investments	6,360	11,300	16,180	16,180	16,180	16,180
Long-term loans and advances	1,810	670	570	5,362	6,006	6,523
Other non-current assets	2,11,010	2,22,640	2,41,870	2,45,222	2,49,352	2,51,568
<b>Current assets</b>	<b>3,00,150</b>	<b>3,96,800</b>	<b>4,19,880</b>	<b>4,08,980</b>	<b>4,62,456</b>	<b>5,14,761</b>
Cash & current investment	48,900	61,200	60,970	28,347	33,640	47,157
Other current assets	2,51,250	3,35,600	3,58,910	3,80,633	4,28,816	4,67,604
<b>Total (Assets)</b>	<b>7,04,310</b>	<b>8,26,790</b>	<b>8,85,770</b>	<b>8,78,734</b>	<b>9,32,198</b>	<b>9,77,429</b>
Total debt	2,35,600	2,58,660	2,29,990	2,28,990	2,03,990	1,78,990
Capital employed	5,22,180	5,87,440	6,23,950	6,33,163	6,53,567	6,72,695

Source: Company Reports, Aриhant Research

## Financial Statements

Cash Flow Statement (INR Mn)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
<b>Profit before tax</b>	<b>41,390</b>	<b>48,310</b>	<b>49,920</b>	<b>28,867</b>	<b>76,099</b>	<b>87,404</b>
Depreciation	21,730	23,590	25,470	29,240	34,786	39,809
Change in working capital	1,280	-25,850	910	-42,764	-15,767	-13,202
Total tax paid	-8,120	-11,260	-13,340	-4,330	-13,698	-15,733
Others	7,230	18,020	20,140	24,860	22,745	16,831
<b>Cash flow from oper. (a)</b>	<b>74,300</b>	<b>54,930</b>	<b>87,820</b>	<b>33,758</b>	<b>98,250</b>	<b>1,12,587</b>
Capital expenditure	-21,600	-33,990	-37,360	-24,960	-30,000	-30,001
Change in investments	-640	-4,570	-4,880	0	0	0
Others	2,320	2,030	6,730	1,441	688	2,627
<b>Cash flow from inv. (b)</b>	<b>-19,920</b>	<b>-36,530</b>	<b>-35,510</b>	<b>-23,519</b>	<b>-29,312</b>	<b>-27,374</b>
<b>Free cash flow (a+b)</b>	<b>54,380</b>	<b>18,400</b>	<b>52,310</b>	<b>10,239</b>	<b>68,939</b>	<b>85,213</b>
Equity raised/(repaid)	0	0	-30	0	0	0
Debt raised/(repaid)	-51,090	23,060	-28,670	-1,000	-25,000	-25,000
Dividend (incl. tax)	-8,961	-10,067	-9,959	-5,742	-14,602	-16,771
Others	-13,319	-18,723	-13,881	-36,121	-24,044	-29,921
<b>Cash flow from fin. (c)</b>	<b>-73,370</b>	<b>-5,730</b>	<b>-52,540</b>	<b>-42,863</b>	<b>-63,646</b>	<b>-71,692</b>
<b>Net chg in cash (a+b+c)</b>	<b>-18,990</b>	<b>12,670</b>	<b>-230</b>	<b>-32,623</b>	<b>5,293</b>	<b>13,521</b>

Source: Company Reports, Arihant Research

Key Ratios (%)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	43.3	59.9	62.7	26.9	68.2	78.3
Growth	21.5	38.3	4.6	(57.1)	153.5	14.8
CEPS (Rs)	71.8	90.8	96.7	65.9	114.6	131.4
Book NAV/share (Rs)	273.0	322.4	397.9	411.5	472.1	530.9
Dividend/share (Rs)	10.0	10.0	10.0	10.0	11.0	11.0
Dividend payout ratio	31.2	27.8	27.9	28.5	28.5	28.6
EBITDA margin	22.1	22.0	20.8	15.1	21.3	21.7
Tax rate	15.0	9.1	12.0	15.0	18.0	18.0
RoCE	12.4	14.6	15.0	9.0	15.2	16.1
Total debt/Equity (x)	1.0	0.9	0.6	0.6	0.5	0.4
Net debt/EBITDA (x)	2.2	1.9	1.5	2.5	1.3	0.9
Net debt/Equity (x)	0.8	0.7	0.5	0.6	0.4	0.3
<b>Du Pont Analysis - ROE</b>						
Net margin	8.6	9.9	8.8	3.8	8.5	9.0
Asset turnover (x)	0.6	0.6	0.6	0.6	0.7	0.7
Leverage factor (x)	3.5	3.4	3.1	2.9	2.7	2.5
Return on equity	16.5	20.1	17.3	6.6	15.4	15.6

Source: Arihant Research

Valuation (x)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
PER	12.4	9.0	11.4	26.6	10.5	9.1
PCE	7.5	5.9	7.4	10.8	6.2	5.4
Price/Book	2.0	1.7	1.8	1.7	1.5	1.3
Yield (%)	1.9	2.1	1.6	0.9	2.3	2.7
EV/EBITDA	7.0	6.0	6.3	9.1	5.5	4.7

Source: Arihant Research

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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%

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