

**Delayed destocking and Rebates impacting business, recovery expected after H1CY24**

**CMP: INR 534**

**Rating: BUY**

**Target Price: INR 767**

**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)	780/526
Avg Yearly Volume (in 000')	2,165

**Shareholding Pattern %**

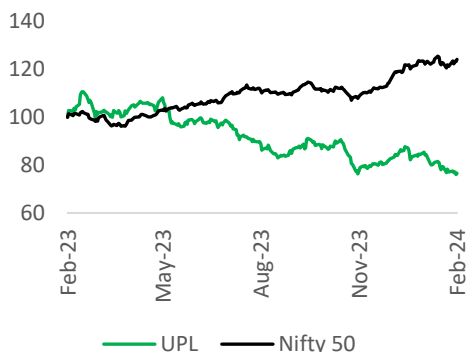
(As on Dec, 2023)

Promoters	32.35
FIIIs	37.69
DIIIs	16.82
Public & Others	13.14

**Stock Performance (%)**

	1m	6m	12m
UPL	-9.2%	-11.2%	-25.5%
NIFTY	1.6%	12.8%	22.4%

**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 Demand recovery in H2CY24 Across Different Regions**

Channel inventories remained high across most geographies forcing the company to offer deeper rebates. Revenue was down across regions: Latin America down by 30% YoY to INR 38.9 bn, North America was down by 67% to INR 6.3 bn, Europe was down by 46% to INR 5.35 bn while Rest of the World increased marginally by 2% YoY to INR 15.19 bn. In India, Crop Protection was down by 34% YoY due to poor Rabi season demand in Telangana and Karnataka along with lower cotton crop acreage in Northern India.

**Price recovery to come from Q2FY25 as inventory destocking delays**

UPL's largest markets in Latin America excluding Brazil, saw good demand of Insecticides and Fungicides growing business by 7% YoY. The company continued support for its distributors offering deep discounts on high cost inventories impacting their contribution margins which contracted by 15% in Q3FY24 over last year.

**Debt levels to remain elevated in the Near Term**

The Company announced a rights issue of USD 500 mn to reduce debts last month. The Net Debt stands at USD 3.7 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. We expect prices stabilize no lower than current levels for most Crop Protection molecules across regions, and Q4FY24 margins will be better than Q3FY24 margins.

**OUTLOOK**

Channel inventories de-stocking has picked up in most regions, however, competitive discounts on high cost inventories. UPL has implemented cost effective measures due to which the SG&A expenses reduced by 19% in Q3FY24 over last year and the company intends to reduce FY25 SG&A expenses by USD 100 mn against FY23 expenses. Due to the Q3FY24 earnings and lower guidance for the full year FY24, we have reduced our estimates for the current year and FY25E 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 10x of its revised FY26E EPS of INR 76.7, with a target price of INR 767 per share giving an upside of 44% from current levels with BUY ratings.

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

Valuation summary (Rs Bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	387	462	536	405	515	649
EBIDTA	86	102	112	42	84	140
Net Profit	35	43	43	-10	27	70
PAT Adj	33	46	47	-8	22	58
Diluted EPS	43.3	59.9	62.7	(11.1)	29.2	76.7
P/E (x)	12.4	9.0	11.4	(64.1)	24.5	9.3
EV/EBIDTA (x)	7.0	6.0	6.3	17.3	8.7	5.1
P/BV (x)	2.0	1.7	1.8	1.9	1.8	1.5
RoE (%)	16.5	20.1	17.3	(2.9)	7.5	17.4
Debt/Equity (x)	1.0	0.9	0.6	0.7	0.6	0.4

Particulars (Consolidated)(In INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
<b>Revenue from Operations</b>	<b>98,870</b>	<b>1,01,700</b>	<b>1,36,790</b>	<b>-2.8%</b>	<b>-27.7%</b>
Raw Material Costs	63,230	52,320	66,220	20.9%	-4.5%
<b>Gross Profit</b>	<b>35,640</b>	<b>49,380</b>	<b>70,570</b>	<b>-27.8%</b>	<b>-49.5%</b>
<b>Gross Margin (%)</b>	<b>36.0%</b>	<b>48.6%</b>	<b>51.6%</b>	<b>-25.8%</b>	<b>-30.1%</b>
Employee Cost	11,550	12,510	13,210	-7.7%	-12.6%
Other Exp	23,160	23,620	28,520	-1.9%	-18.8%
<b>EBITDA</b>	<b>930</b>	<b>13,250</b>	<b>28,840</b>	<b>-93.0%</b>	<b>-96.8%</b>
<b>EBITDA Margin %</b>	<b>0.9%</b>	<b>13.0%</b>	<b>21.1%</b>	<b>-92.8%</b>	<b>-95.5%</b>
Depreciation	6,760	6,570	6,240	2.9%	8.3%
<b>EBIT</b>	<b>(5,830)</b>	<b>6,680</b>	<b>22,600</b>	<b>-187.3%</b>	<b>-125.8%</b>
Other Income	1,510	1,050	1,150	43.8%	31.3%
Finance costs	11,910	8,710	8,940	36.7%	33.2%
<b>PBT</b>	<b>(16,230)</b>	<b>(980)</b>	<b>14,810</b>	<b>1556.1%</b>	<b>-209.6%</b>
Share of (loss)/profit from JV	(260)	(2,040)	340	-87.3%	-176.5%
Exceptional Items	(170)	(870)	(200)	-80.5%	-15.0%
Total taxes	590	960	(1,350)	-38.5%	-143.7%
<b>PAT</b>	<b>(16,070)</b>	<b>(2,930)</b>	<b>13,600</b>	<b>448.5%</b>	<b>-218.2%</b>
<b>PAT Margin (%)</b>	<b>-16.3%</b>	<b>-2.9%</b>	<b>9.9%</b>	<b>464.2%</b>	<b>-263.5%</b>

### Concall Highlights

#### Guidance:

- The Management expects the Q4FY24 revenue to remain impacted over last year, however, they believe the margins would improve sequentially.
- Management expects channel inventory to normalize in Latin America, while destocking to take a few more quarters for the markets of North America, Europe and Brazil.
- Management is expecting normalized performance from Q2FY25 as destocking continues.
- The Management intends to see Net Debt levels of USD 2.5 bn in sometime, for which they recently announced the capital raising of USD 500 mn as well.

#### Key Highlights

- Revenue came down to INR 98.8 bn, decreasing by 27.7% YoY/2.8% QoQ, EBITDA came down to INR 930 mn against INR 13.2 bn in Q2FY24 as the company posted Net Loss of INR 16.07 bn against Loss of INR 2.93 bn in Q2FY24 and INR 13.6 bn Profits in Q3FY24.
- Net debt increased by further USD 439 mn during Q3FY24 to the tune of USD 3.77 bn.
- The Management acknowledged that the global crop protection business continues to see headwinds due to prolonged destocking and Pricing pressure is keeping prices at lower levels.
- The Company kept supporting their supply chain partners by offering higher rebates which impacted the contribution profits as contribution margins contracted by 15% in Q3 versus that of the Q3FY23. The proforma contribution would have been INR 15.32 bn had there been no Pricing and inventory crisis, and contribution margins would have contracted by only 3% instead of 15%.

**Concall Highlights (Continued)**

- Similarly, 9MFY24 pro forma contribution would have been INR 20.79 bn and contribution margins would have hardly contracted against 9MFY23 instead of reported 5.5%.
- The newer & lower cost inventory is gradually replacing old higher cost inventory at a rather gradual manner.
- Cost reduction initiatives are seen yielding results as SG&A expenses came down by 19% YoY in Q3FY24.
- Performance of UPL SAS, the India crop protection platform in Q3FY24 was impacted as revenues contracted by 34% YoY while EBITDA declined by 47% YoY. The Management attributes the poor rabi season in Telangana and Karnataka, and lower acreage of Cotton in northern Indian states.
- Also, the lower demand of Glufosinate due to elevated channel stock and increased competition impacted the results. However, going ahead the management expects the Glufosinate demand to recover in the Kharif season.
- The Digital Platform “Nurture” is seeing good traction as there were launches of exclusive retail online brands in the farm services for farmers.
- Advanta, the global seed platform, delivered healthy growth for 9MFY24 as revenues grew by 11% YoY at INR 30.29 bn, driven by higher prices and volumes in Sunflower, Corn, Canola, Sorghum and Vegetables portfolios.
- The contribution margins increased by 531 bps YoY during the quarter on account of improved mix, lower cost of sales and improved B2C performance in Indonesia and Vietnam. EBITDA during Q3 FY24 was up by 1% YoY and 16% YoY during 9MFY24, aided by healthy contribution margins & controlled overheads. Management expects to close FY24 with low double digit growth in the same.
- For the UPL SAS, revenue declined by 34% YoY to INR 3.71 bn in Q3FY24. Lower cotton acreage in North India along with a poor Rabi season in Telangana and Karnataka led to poor performance. The EBITDA declined by 47% YoY to a loss of INR 0.7 bn, during the quarter.
- Average cost of Borrowing for the quarter stood at ~7% p.a. while Forex Loss increased significantly to INR 6.13 bn for which the management attributes the devaluation of Argentina Peso during the period along with that of Turkey as well.
- There was a decline in Payables by USD 568 mn YoY while the company announced USD 500 mn recently (INR 42 bn) rights issue to augment cash flows. The Company is looking for further raising of funds as the rights.
- The Company faced business headwinds due to channel destocking in North America, Europe and Brazil, impacting volumes. Brazil and North America faced margin pressure from rebates. North America revenue was down by 67% YoY to INR 6.3 bn.
- Management explained that even though the Raw Material prices have stabilized this quarter against the previous quarter, the decline in prices has been sharp due to the rebates that the company had to give to distributors impacting their topline by 6% in Q3FY24.
- In Latin America, the Company’s revenue was down by 30% due to price decline, to INR 38.9 bn against INR 55.83 bn in Q3FY23, especially due to Brazil market impacted by both Insecticides and Herbicides. However, the Management claims that the market share in Brazil has grown from 8.5% to 9.1% in Q3FY24 due to better demand for Fungicides. The Rest of Latin America grew by 7% YoY driven by Insecticides and Fungicides.
- In Europe, the revenue declined by 46% due to destocking as well as product bans, to INR 5.35 bn against INR 9.99 bn in Q3FY23.
- Chinese markets saw growth of Insecticides while Turkish market growth was led by Herbicides.
- The Rest of the World revenue was up by 2% YoY to INR 15.19 bn.
- The company’s working capital days increased by 34 days YoY to 155 days. This increase was mainly due to a 16 day reduction in payable days, resulting from a sharp decline in procurement while the receivable days were higher by 16 days due to a reduction in non recourse factoring. Adjusting for the factoring impact, the receivable days actually improved by 7 days.

## 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>4,05,082</b>	<b>5,15,060</b>	<b>6,49,008</b>
<i>Growth (%)</i>	8.2	19.5	15.9	(24.4)	27.1	26.0
Operating expenses	-3,01,350	-3,60,750	-4,24,160	-3,62,972	-4,30,990	-5,09,210
<b>EBITDA</b>	<b>85,590</b>	<b>1,01,640</b>	<b>1,11,590</b>	<b>42,110</b>	<b>84,070</b>	<b>1,39,798</b>
<b>EBITDA Margin %</b>	<b>22.1%</b>	<b>22.0%</b>	<b>20.8%</b>	<b>10.4%</b>	<b>16.3%</b>	<b>21.5%</b>
<i>Growth (%)</i>	20.5	18.8	9.8	(62.3)	99.6	66.3
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>17,664</b>	<b>54,102</b>	<b>1,04,832</b>
Finance cost	-20,600	-22,950	-29,630	-29,834	-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>-12,170</b>	<b>32,453</b>	<b>85,683</b>
Tax (current + deferred)	-6,860	-5,290	-7,360	1,826	-5,841	-15,423
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>-10,345</b>	<b>26,611</b>	<b>70,260</b>
<b>PAT Margin %</b>	<b>8.9%</b>	<b>9.3%</b>	<b>7.9%</b>	<b>-2.6%</b>	<b>5.2%</b>	<b>10.8%</b>
P/L of Associates, Min Int, Pref Div	-5,820	-6,770	-6,870	1,984	-4,741	-12,685
Reported Profit / (Loss)	28,710	36,250	35,690	-8,361	21,870	57,575
Adjusted net profit	33,160	45,850	47,030	-8,361	21,870	57,575
<i>Growth (%)</i>	21.5	38.3	2.6			163.3

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	2,78,620	3,02,911	3,54,258
<b>Shareholders' funds</b>	<b>2,08,870</b>	<b>2,46,610</b>	<b>2,98,440</b>	<b>2,80,120</b>	<b>3,04,411</b>	<b>3,55,758</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>2,12,038</b>	<b>2,65,119</b>	<b>3,31,645</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	1,83,488	2,36,569	3,03,095
<b>Total (Equity and Liabilities)</b>	<b>7,04,310</b>	<b>8,26,790</b>	<b>8,85,770</b>	<b>7,88,118</b>	<b>8,40,489</b>	<b>9,33,363</b>
<b>Non-current assets</b>	<b>4,04,160</b>	<b>4,29,990</b>	<b>4,65,890</b>	<b>4,62,623</b>	<b>4,64,320</b>	<b>4,62,456</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	4,051	5,151	6,490
Other non-current assets	2,11,010	2,22,640	2,41,870	2,39,403	2,44,785	2,51,390
<b>Current assets</b>	<b>3,00,150</b>	<b>3,96,800</b>	<b>4,19,880</b>	<b>3,25,495</b>	<b>3,76,169</b>	<b>4,70,907</b>
Cash & current investment	48,900	61,200	60,970	37,930	8,452	5,676
Other current assets	2,51,250	3,35,600	3,58,910	2,87,565	3,67,717	4,65,231
<b>Total (Assets)</b>	<b>7,04,310</b>	<b>8,26,790</b>	<b>8,85,770</b>	<b>7,88,118</b>	<b>8,40,489</b>	<b>9,33,363</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	6,04,630	6,03,921	6,30,268

Source: Company Reports, Arihant 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>-12,170</b>	<b>32,453</b>	<b>85,683</b>
Depreciation	21,730	23,590	25,470	29,240	34,786	39,809
Change in working capital	1,280	-25,850	910	-10,468	-28,171	-32,327
Total tax paid	-8,120	-11,260	-13,340	1,826	-5,841	-15,423
Others	7,230	18,020	20,140	24,860	25,040	16,831
<b>Cash flow from oper. (a)</b>	<b>74,300</b>	<b>54,930</b>	<b>87,820</b>	<b>33,468</b>	<b>50,057</b>	<b>92,050</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	7,261	-565	-1,762
<b>Cash flow from inv. (b)</b>	<b>-19,920</b>	<b>-36,530</b>	<b>-35,510</b>	<b>-17,699</b>	<b>-30,565</b>	<b>-31,763</b>
<b>Free cash flow (a+b)</b>	<b>54,380</b>	<b>18,400</b>	<b>52,310</b>	<b>15,769</b>	<b>19,492</b>	<b>60,288</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	2,421	-6,227	-16,441
Others	-13,319	-18,723	-13,881	-40,230	-17,743	-21,619
<b>Cash flow from fin. (c)</b>	<b>-73,370</b>	<b>-5,730</b>	<b>-52,540</b>	<b>-38,809</b>	<b>-48,970</b>	<b>-63,060</b>
<b>Net chg in cash (a+b+c)</b>	<b>-18,990</b>	<b>12,670</b>	<b>-230</b>	<b>-23,040</b>	<b>-29,477</b>	<b>-2,773</b>

Key Ratios (%)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	43.3	59.9	62.7	(11.1)	29.2	76.8
<i>Growth</i>	21.5	38.3	4.6			163.3
CEPS (Rs)	71.8	90.8	96.7	27.8	75.5	129.8
Book NAV/share (Rs)	273.0	322.4	397.9	373.5	405.9	474.3
Dividend/share (Rs)	10.0	10.0	10.0	10.0	11.0	11.0
Dividend payout ratio	31.2	27.8	27.9	29.0	28.5	28.6
EBITDA margin	22.1	22.0	20.8	10.4	16.3	21.5
Tax rate	15.0	9.1	12.0	15.0	18.0	18.0
RoCE	12.4	14.6	15.0	2.9	9.0	17.0
Total debt/Equity (x)	1.0	0.9	0.6	0.7	0.6	0.4
Net debt/EBITDA (x)	2.2	1.9	1.5	4.5	2.3	1.2
Net debt/Equity (x)	0.8	0.7	0.5	0.6	0.5	0.4
<b>Du Pont Analysis - ROE</b>						
Net margin	8.6	9.9	8.8	(2.1)	4.2	8.9
Asset turnover (x)	0.6	0.6	0.6	0.5	0.6	0.7
Leverage factor (x)	3.5	3.4	3.1	2.9	2.8	2.7
Return on equity	16.5	20.1	17.3	(2.9)	7.5	17.4

Valuations (x)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
PER	12.4	9.0	11.4	(64.1)	24.5	9.3
PCE	7.5	5.9	7.4	25.7	9.5	5.5
Price/Book	2.0	1.7	1.8	1.9	1.8	1.5
Yield (%)	1.9	2.1	1.6	(0.4)	1.0	2.6
EV/EBITDA	7.0	6.0	6.3	17.3	8.7	5.1

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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