

*Prices seen stabilizing at current levels,
recovery expected from H2FY24*

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)	389
52w H/L (INR)	699/448
Avg Yearly Volume (in 000')	2,165

Shareholding Pattern %

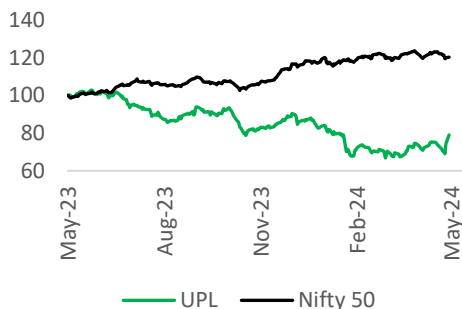
(As on March, 2024)

Promoters	32.34
FII's	33.64
DII's	15.33
Public & Others	18.68

Stock Performance (%) 1m 6m 12m

UPL	10.2%	-3.9%	-20.1%
NIFTY	-0.8%	12.3%	20.1%

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 H2FY25 Across Different Regions

Channel inventories remained high across most geographies forcing the company to offer deeper rebates. Revenue in Q4FY24 was down across regions: Latin America down by 26%, North America was down by 53%, Europe was down by 13% while Rest of the World decreased marginally by 5% YoY. In India, Crop Protection was down by 60% 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 H2FY25 as destocking expected to be over 80%

UPL's largest markets in Latin America excluding Brazil, saw good demand growth 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 Q4FY24 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 which is expected to conclude by end of Q2FY25. The Net Debt stands at USD 2.6 bn, which we believe will remain at high levels in the near future but reduce over FY25 and FY26. We expect prices to stabilize no lower than current levels for most Crop Protection molecules across regions, and H2FY25 margins to be better than FY24 margins.

OUTLOOK

Channel inventories de-stocking has picked up in most regions, with the Management stating of up to 80% destocking complete across geographies. UPL has implemented cost effective measures due to which the SG&A expenses reduced in Q4FY24 over last year and the company intends to reduce FY25 SG&A expenses by USD 100 mn against FY24 expenses. Due to the Q4FY24 earnings and improved guidance for the full year FY25, we have maintain our estimates for the FY25E but believe demand to pick up from later part of FY25 and beyond as prices are seen stabilizing at lower levels. Hence, we remain positive on UPL Ltd, valuing the company at revised PE of 7x of its FY26E EPS of INR 109, with a target price of INR 767 per share giving an upside of 42% from current levels with BUY ratings.

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

Valuation summary (Rs Bn)	FY23	FY24	FY25E	FY26E
Net Sales	536	431	515	649
EBIDTA	112	55	117	176
Net Profit	43	-19	54	100
PAT Adj	47	-0	44	82
Diluted EPS	62.7	(0.6)	58.7	109.5
P/E (x)	11.4	(1,198.5)	12.2	6.5
EV/EBIDTA (x)	6.3	13.6	6.2	3.8
P/BV (x)	1.8	1.9	1.7	1.4
RoE (%)	17.3	(0.2)	14.7	22.9

Particulars (Consolidated)(In INR Mn)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Revenue from Operations	1,40,780	98,870	1,65,690	42.4%	-15.0%
Raw Material Costs	90,090	63,230	98,210	42.5%	-8.3%
Gross Profit	50,690	35,640	67,480	42.2%	-24.9%
Gross Margin (%)	36.0%	36.0%	40.7%	-0.1%	-11.6%
Employee Cost	10,360	11,550	12,580	-10.3%	-17.6%
Other Exp	21,850	23,160	27,680	-5.7%	-21.1%
EBITDA	18,480	930	27,220	1887.1%	-32.1%
EBITDA Margin %	13.1%	0.9%	16.4%	1295.5%	-20.1%
Depreciation	7,940	6,760	7,270	17.5%	9.2%
EBIT	10,540	(5,830)	19,950	-280.8%	-47.2%
Other Income	1,260	1,510	2,110	-16.6%	-40.3%
Finance costs	10,900	11,910	9,060	-8.5%	20.3%
PBT	900	(16,230)	13,000	-105.5%	-93.1%
Share of (loss)/profit from JV	450	(260)	1,200	-273.1%	-62.5%
Exceptional Items	(1,050)	(170)	(290)	517.6%	262.1%
Total taxes	(1,100)	590	(3,110)	-286.4%	-64.6%
PAT	(800)	(16,070)	10,800	-95.0%	-107.4%
PAT Margin (%)	-0.6%	-16.3%	6.5%	-96.5%	-108.7%

Concall Highlights

Guidance:

- The Company expects to achieve revenue growth of 4-8% for FY25.
- The Company expects an EBITDA growth of 50% in FY25 against FY24.
- In FY25, the Company expects to reduce debt by USD 300-400 mn from their Free Cash Flow generation.
- The Management says that the guidance for FY25 was based on the perceived volume growth in mid single digits for FY25 with the prices remaining stable.
- The Management does not expects the prices of agro chemicals to see much of any increase as the demand scenario remains muted while capacity still exists across the globe.
- The Rights Issue of the company is expected to be concluded by the end of Q2FY25, which may get delayed to Q3FY25 at most.

Key Highlights

- The Management expects continuous channel inventory destocking to continue during H1FY25.
- The Company's Net Debt has increased by USD 200 mn as the Group continued investing for future growth of the company.

Concall Highlights (Continued)

- The Management attributed the decline in the FY24 EBITDA levels to the transitory impact of unusually high rebates and high cost inventory.
- The Company had commissioned 62 MW of Wind & Solar Hybrid Power Plant during the year FY24 which has caused green power consumption of 30% during the year FY24 against 8% in FY23.
- In Q4FY24, the company's volume declined by 2% YoY while prices came down by 15% YoY for the products against Q4FY23.
- The High Cost Inventory had a contribution impact of INR 11.8 bn during Q4FY24.
- Similarly, Q4FY24 saw transitory higher rebates of 5% YoY against last year.
- The Management expects the high cost inventory to be replaced by H2FY25.
- The Management does not believe the prices of agro-chemicals to revive during FY25.
- Performance of UPL SAS, the India crop protection platform in Q4FY24 was impacted as revenues contracted by 60% YoY while EBITDA came down to negative INR 410 mn. The Management attributed the lower acreage of Cotton in northern Indian states for the poor demand of the business.
- 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 upcoming 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 Q4FY24 as revenues grew by 34% YoY at INR 11.2 bn, driven by higher prices and volumes in Corn, Canola and Sorghum.
- The contribution margins decreased by 670 bps YoY during the quarter on account of improved mix, lower cost of sales and improved B2C performance in Australia, Thailand and Indonesia. EBITDA during Q4FY24 was up by 38% YoY, aided by healthy contribution margins & controlled overheads. Management expects FY25 with low double digit growth in the same for the full year.
- Average cost of Debt for the company was at ~7% p.a.
- There was an increase in Payables, Receivables and Inventory during the year while the company's working capital cycle increased from 64 days in FY23 to 86 days in FY24.
- The Company faced business headwinds due to channel destocking in North America, Europe and Brazil, impacting volumes. However, for the Brazil, North America and domestic Indian markets are expected to see turnaround in FY25.
- Management explained that even though the Raw Material prices have stabilized during 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 15% in Q4FY24.
- The Company saw a decline in revenue across all markets during the year with the revenues down by INR 16.3 bn in Latin America, by INR 14.7 bn in North America, by INR 3.4 bn in Europe and by INR 1 bn in the Rest of the World markets (Asia Pacific majorly).

Financial Statements

Income Statement (INR Mn)	Mar-21	Mar-22	Mar-23	Mar-24	Mar 25E	Mar 26E
Net sales	3,86,940	4,62,390	5,35,750	4,30,980	5,15,060	6,49,008
Growth (%)	8.2	19.5	15.9	(19.6)	19.5	26.0
Operating expenses	-3,01,350	-3,60,750	-4,24,160	-3,75,830	-3,98,040	-4,72,604
EBITDA	85,590	1,01,640	1,11,590	55,150	1,17,020	1,76,405
EBITDA Margin %	22.1%	22.0%	20.8%	12.8%	22.7%	27.2%
Growth (%)	20.5	18.8	9.8	(50.6)	112.2	50.7
Depreciation	-21,730	-23,590	-25,470	-27,630	-34,786	-39,809
Other income	2,580	2,810	4,770	4,830	4,854	4,878
EBIT	66,440	80,860	90,890	87,610	87,088	1,41,475
Finance cost	-20,600	-22,950	-29,630	-38,520	-21,649	-19,149
Exceptional & extraordinary	-4,450	-9,600	-11,340	-1,050	0	0
Profit before tax	41,390	48,310	49,920	-20,870	65,439	1,22,326
Tax (current + deferred)	-6,860	-5,290	-7,360	-2,090	-11,779	-22,019
P / L form discontinuing operations	0	0	0	0	0	0
Profit / (Loss) for the period	34,530	43,020	42,560	-18,780	53,660	1,00,307
PAT Margin %	8.9%	9.3%	7.9%	-4.4%	10.4%	15.5%
P/L of Associates, Min Int, Pref Div	-5,820	-6,770	-6,870	2,955	-9,664	-18,154
Reported Profit / (Loss)	28,710	36,250	35,690	-447	43,996	82,153
Adjusted net profit	33,160	45,850	47,030	-447	43,996	82,153
Growth (%)	21.5	38.3	2.6			86.7

Source: Company Reports, Arihant Research

Balance Sheet (INR Mn)	Mar-21	Mar-22	Mar-23	Mar-24	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	2,46,570	3,21,920	3,91,516
Shareholders' funds	2,08,870	2,46,610	2,98,440	2,48,070	3,23,420	3,93,016
Minority Interests and others	36,930	46,470	55,850	78,990	49,130	49,130
Non-current liabilities	2,62,240	2,51,750	2,41,110	2,79,790	2,15,110	1,90,110
Long-term borrowings	2,21,460	2,16,050	2,01,440	2,40,100	1,75,440	1,50,440
Other non-current liabilities	40,780	35,700	39,670	39,690	39,670	39,670
Current liabilities	1,96,270	2,81,960	2,90,370	2,23,439	2,67,494	3,34,283
ST borrowings, Curr maturity	14,140	42,610	28,550	44,280	28,550	28,550
Other current liabilities	1,82,130	2,39,350	2,61,820	2,24,330	2,38,944	3,05,733
Total (Equity and Liabilities)	7,04,310	8,26,790	8,85,770	8,75,460	8,55,153	9,66,539
Non-current assets	4,04,160	4,29,990	4,65,890	4,82,180	4,67,118	4,65,386
Fixed assets (Net block)	1,84,980	1,95,380	2,07,270	3,09,980	1,99,814	1,90,007
Non-current Investments	6,360	11,300	16,180	16,180	16,180	16,180
Long-term loans and advances	1,810	670	570	4,310	5,151	6,490
Other non-current assets	2,11,010	2,22,640	2,41,870	1,51,710	2,45,973	2,52,709
Current assets	3,00,150	3,96,800	4,19,880	3,92,990	3,88,036	5,01,153
Cash & current investment	48,900	61,200	60,970	60,360	20,319	35,923
Other current assets	2,51,250	3,35,600	3,58,910	3,32,630	3,67,717	4,65,231
Total (Assets)	7,04,310	8,26,790	8,85,770	8,75,460	8,55,153	9,66,539
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	5,93,544	6,16,210	6,60,806

Source: Company Reports, Arihant Research

Financial Statements

Cash Flow Statement (INR Mn)	Mar-21	Mar-22	Mar-23	Mar-24	Mar 25E	Mar 26E
Profit before tax	41,390	48,310	49,920	-20,870	65,439	1,22,326
Depreciation	21,730	23,590	25,470	27,630	34,786	39,809
Change in working capital	1,280	-25,850	910	-17,711	-18,553	-32,064
Total tax paid	-8,120	-11,260	-13,340	2,768	-11,779	-22,019
Others	7,230	18,020	20,140	24,860	48,390	16,795
Cash flow from oper. (a)	74,300	54,930	87,820	40,207	86,688	1,22,324
Capital expenditure	-21,600	-33,990	-37,360	-24,960	-30,000	-30,001
Change in investments	-640	-4,570	-4,880	-4330	-4850	-4623
Others	2,320	2,030	6,730	6,579	-998	-1,857
Cash flow from inv. (b)	-19,920	-36,530	-35,510	-18,381	-30,998	-31,858
Free cash flow (a+b)	54,380	18,400	52,310	21,826	55,690	90,466
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	3,670	-12,557	-23,472
Others	-13,319	-18,723	-13,881	-68,194	-15,087	-26,387
Cash flow from fin. (c)	-73,370	-5,730	-52,540	-65,524	-52,643	-74,858
Net chg in cash (a+b+c)	-18,990	12,670	-230	-43,698	3,046	15,608

Key Ratios (%)	Mar-21	Mar-22	Mar-23	Mar-24	Mar 25E	Mar 26E
Adjusted EPS (Rs)	43.3	59.9	62.7	(0.6)	58.7	109.5
<i>Growth</i>	21.5	38.3	4.6			86.7
CEPS (Rs)	71.8	90.8	96.7	36.2	105.0	162.6
Book NAV/share (Rs)	273.0	322.4	397.9	367.7	431.2	524.0
Dividend/share (Rs)	10.0	10.0	10.0	10.0	11.0	11.0
Dividend payout ratio	31.2	27.8	27.9	820.4	28.5	28.6
EBITDA margin	22.1	22.0	20.8	12.8	22.7	27.2
Tax rate	15.0	9.1	12.0	44.9	18.0	18.0
RoCE	12.4	14.6	15.0	5.3	14.4	22.2
Total debt/Equity (x)	1.0	0.9	0.6	0.7	0.5	0.4
Net debt/EBITDA (x)	2.2	1.9	1.5	3.8	1.6	0.8
Net debt/Equity (x)	0.8	0.7	0.5	0.7	0.5	0.3
Du Pont Analysis - ROE						
Net margin	8.6	9.9	8.8	(0.1)	8.5	12.7
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	2.7	2.5
Return on equity	16.5	20.1	17.3	(0.2)	14.7	22.9

Valuations (x)	Mar-21	Mar-22	Mar-23	Mar-24	Mar 25E	Mar 26E
PER	12.4	9.0	11.4	(1,198.5)	12.2	6.5
PCE	7.5	5.9	7.4	19.7	6.8	4.4
Price/Book	2.0	1.7	1.8	1.9	1.7	1.4
Yield (%)	1.9	2.1	1.6	(0.6)	2.0	3.7
EV/EBITDA	7.0	6.0	6.3	13.6	6.2	3.8

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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