Arihant Capital
Generating Wealth

Initiating Coverage
10th Oct 2023

UPL Ltd.

Solution For A Hungry Planet

CMP: INR 610

Rating: BUY

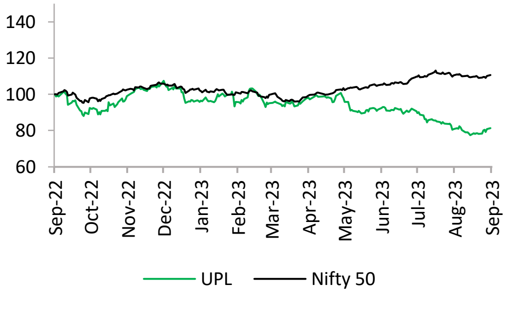
Target Price: INR 844

Stock Info	
BSE	512070
NSE	UPL
Bloomberg	UPLL:IN
Sector	Agrochemicals
Face Value (INR)	2
Equity Capital (INR Bn)	150
Mkt Cap (INR Bn)	454
52w H/L (INR)	807/576
Avg Yearly Volume (in 000')	2,165

Shareholding Pattern % *(As on Sep, 2023)*	
Promoters	32.3
FIIs	38
DIIs	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.

Investment Rationale

Anticipating Increased Demand in H2FY24 Across Different Regions

In North America, channel inventories are approaching optimal levels and are projected to improve further. The company foresees heightened demand in the upcoming third and fourth quarters, which are traditionally peak seasons. Across LATAM, the agricultural sector has expanded due to increased acreage and abundant available land, along with reduced labor costs. This increase in acreage will improve agricultural yields for the region. In Europe, the company expects a steady upswing in conventional chemicals and substantial growth in Biosolutions, a high-margin product. In the Brazilian markets, UPL is well placed to outperform the markets.

Price Uptrend to continue as channel inventories begin to decline

Although significant demand is expected in the American and European markets during H2FY24, there has been a noticeable improvement in prices for most active ingredients from their low points. Notably, chemicals like paraquat and glyphosate have experienced a global price increase of upto 25% on a QoQ basis. This price uptrend is anticipated to improve as channel inventories keep on declining in the second half of FY24, also to note that the lower prices quoted by Chinese are unsustainable in the long run.

Global presence mitigates country-specific risk

Global climate patterns have become increasingly erratic due to environmental shifts. Companies that rely heavily on a single geographic region may face vulnerability during droughts or floods. In contrast, UPL operates across more than 130 countries, ensuring a diversified presence that mitigates the potential impact of El Nino and La Nina in specific regions.

Domestic monsoon since June beginning will benefit producers of herbicides and insecticides

As per most recent survey of monsoon as of 25 Sept 2023, we witnessed mostly normal monsoon this season across India, which augurs well for the producers of Herbicides and Insecticides (incl. UPL) as good monsoon will further enhance demand of the kharif crop protection chemicals, while the Rabi crop nutrition crops will see better demand in the H2FY24.

OUTLOOK

Channel inventories have almost peaked out in China for the key chemicals and demand has picked up in Q2FY24. UPL has implemented backward integration in its key molecules, which contributes ~60% of its sales, enabling it to maintain cost competitiveness. Going forward, Q2FY24 appears to be shaping up more positively than Q1FY24. In the North America and Brazil markets, high channel inventory will be seen normalizing due to healthy farm gate demand in these regions. Overall, we believe the company is expected to perform much better in H2FY24 led by uptrend in Pricing and better demand. Hence, we initiate coverage on UPL Ltd valuing the company at PE of 10x its FY26E EPS of INR 84.4, resulting in a target price of INR 844 per share which gives an upside of 38% from current level. Accordingly, we assign a Buy rating on the stock.

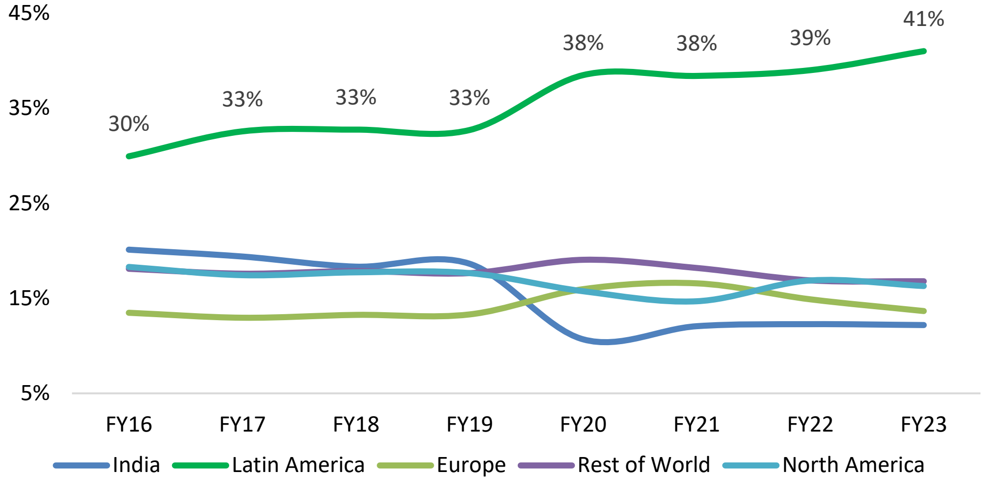
Overview

Business Model	UPL Ltd. is majorly in the business of crop protection chemicals, which includes Herbicides, insecticides and fungicides, apart from crop nutrition along side seeds and specialty chemicals. The company has presence in over 100 countries and operates through its overseas subsidiaries there. Latin American comprises of 41% of their revenue, along with North America at 16%, Europe 14%, India 12% and the Rest of the World at 17% as of FY23.
Strategic Positioning	UPL is the largest agro-chemical producer in India in terms of both revenue as well as volumes.
Competitive Edge	The company operates in low margin agrochemicals business spread across the globe requiring vast network, attracting lesser competition.
Financial Structure	UPL reported USD 3.2 bn of net debt as of June 2023, a reduction of USD 160 mn over last year with their Debt/Equity ratio at 0.8x. ADIA, Brookfield and TPG Group have invested USD 500 mn in 2022 to acquire stakes in UPL's subsidiaries: USD 300 mn for 13.33% in Advanta Enterprises and USD 200 mn for 9.09% in UPL SAS, raising USD 500 mn (Rs 40.4 bn).
Future Revenue drivers	Adverse climatic factors affecting crop productions against a rising demand from the increasing populations across the globe, requires per hectare crop yields to increase. This enforces a gradual uptrend in all kinds of Agro-chemicals and crop protection products, that will drive the future revenue for UPL Ltd.
Share Holder Value Proposition	The Promoters of the company have increased their stake from 28.96% in Sept 2022 to 32.34% in June 2023, reflecting the Management's confidence on the business prospects of the company.
Earnings Visibility	We expect Revenues/EBITDA/PAT to grow by 7.6%/10.1%/23.0% CAGR between FY23-26.
Risk	Internally, major risks include raw material price fluctuations, supply chain logistics & freight costs. External risks include, regulatory pricing, adoption of Organic Farming across more acreages and use of insect resistant seeds, etc. for farming.
Rating Rationale and Fair Value Calculation	We expect UPL Ltd's H2FY24 revenue to be much better than the H1FY24 business which got affected due to increased channel inventories in China and across Asian supply chains, which have been seen coming down in the recent past. The other trigger is from the healthy monsoon seen in India and the El Nino effect in certain South American nations and the US, which are key markets for UPL. Hence, we initiate coverage on UPL Ltd valuing the company at PE of 10x its FY26E EPS of INR 84.4, resulting in a target price of INR 844 per share which gives an upside of 38% from current level.

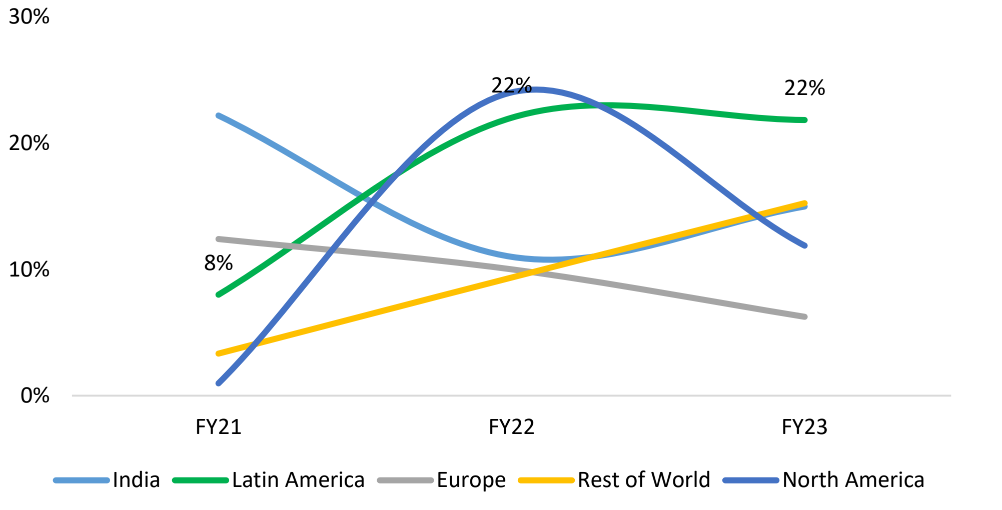
Exhibit 1: Valuation Summary

Valuation summary (Rs Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,86,940	4,62,390	5,35,750	5,43,845	6,09,303	6,61,771
EBIDTA	85,590	1,01,640	1,11,590	95,176	1,32,134	1,46,435
Net Profit	34,530	43,020	42,560	37,681	67,582	77,260
PAT Adj	33,160	45,850	47,030	30,924	55,384	63,301
Diluted EPS	43.3	59.9	62.7	41.2	73.8	84.4
P/E (x)	14.0	10.1	11.4	17.3	9.7	8.5
EV/EBIDTA (x)	7.6	6.5	6.3	7.6	5.3	4.5
P/BV (x)	2.2	1.9	1.8	1.7	1.5	1.3
RoE (%)	16.5	20.1	17.3	10.0	16.2	16.2
Debt/Equity (x)	1.0	0.9	0.6	0.6	0.4	0.3

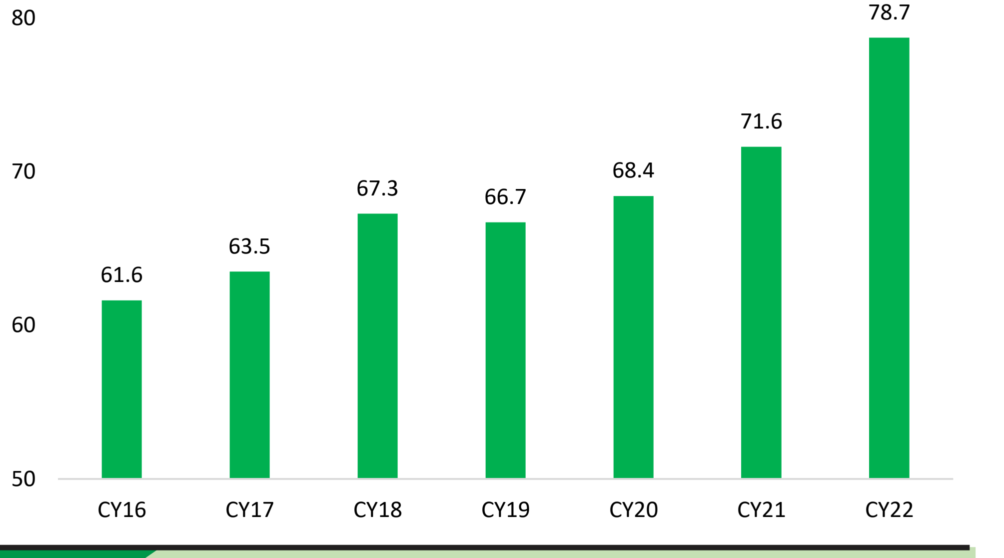
Geographical Revenue Mix (%) – Increasing share of LatAm in the Mix



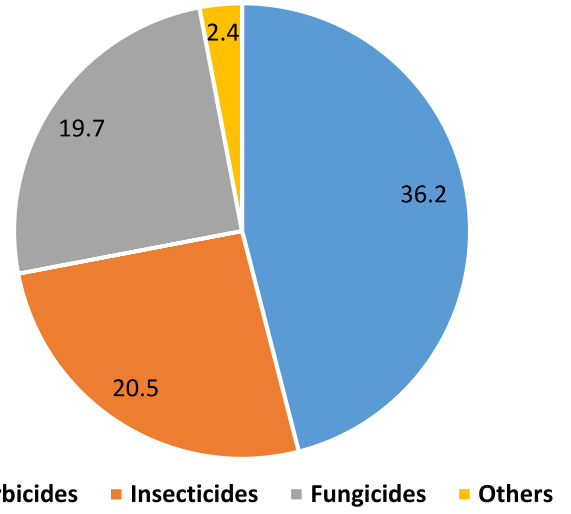
Growth by Business Region – LatAm business growing faster than other areas



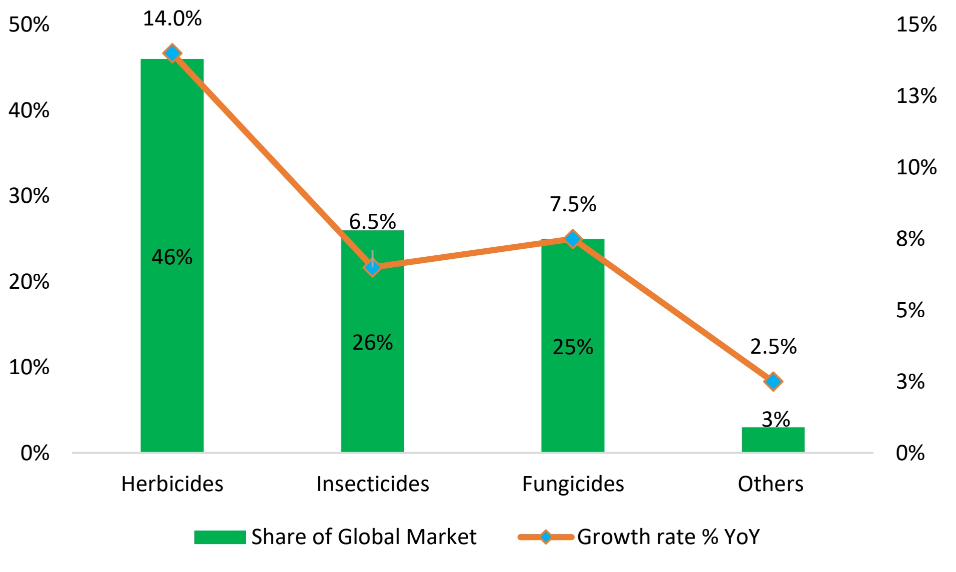
Global Crop Protection Business (in USD bn)



Crop Protection Business by Product (in USD bn)

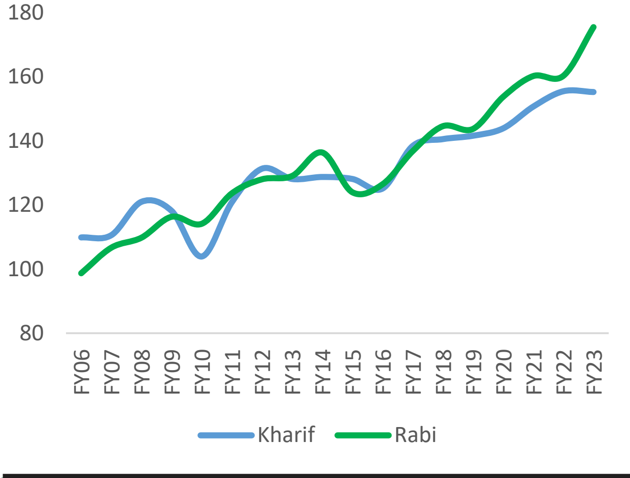


Share of Global Crop Protection Business and Annual Growth Rates (% YoY)

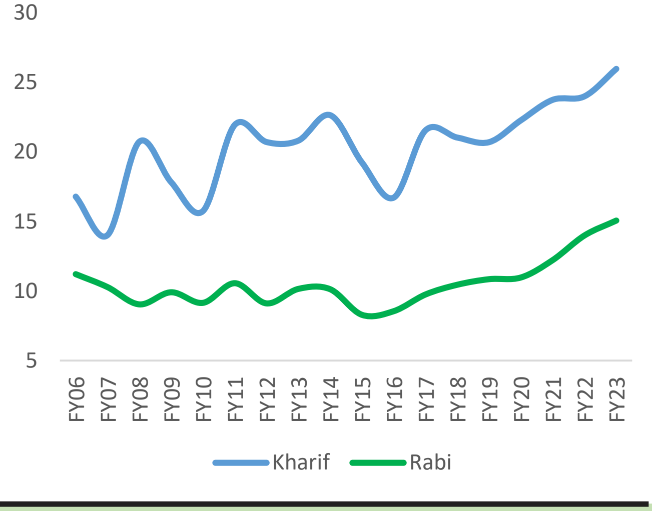


India's Agricultural Production (In Million Tonnes)

Food Grain Production (Mn Tonnes)



Oil Seed Production (Mn Tonnes)

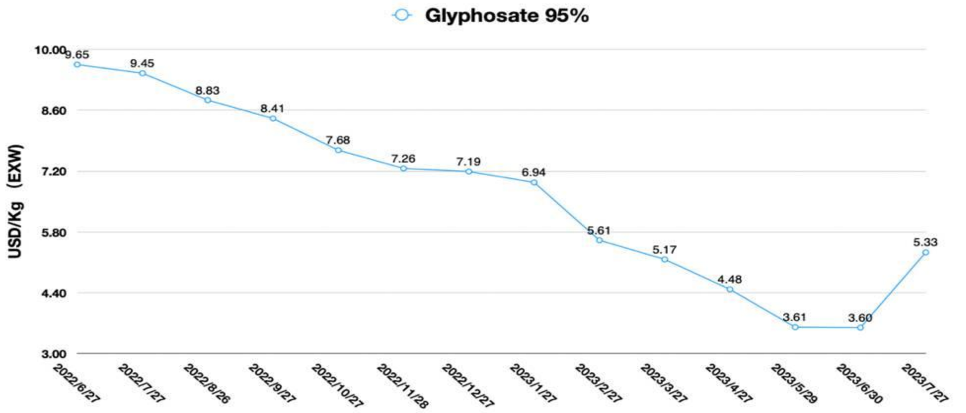


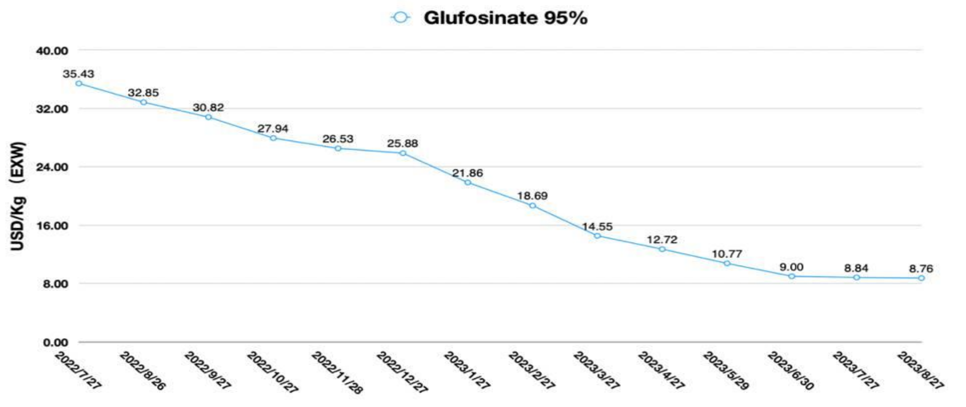
Investment Rationale

Expected turn around as channel inventories show signs of moderation

The Chinese market is one of the largest crop protection chemicals producer as well as consumer itself due to the large population of China as well as lower arable land acreage as a % of total land of China at 11.6%, which is much lower than India, Europe or Latin America. Hence, the nation requires higher yield of productivity per hectare of arable land, and uses agro chemicals of both crop protection as well as crop nutritive agro chemicals.

Due to the supply chain issues after the Russian invasion of Ukraine, the prices of fertilizers and crop protection chemicals increased acutely, which led to a gradual inventory stockpile of many crop protection chemicals across the sector globally, and more in China. With the inventory levels in China now moderating and the second half being generally seen strong for UPL with their higher revenue coming from Latin American markets which are expected to have a normal rainfall this year with marginal El Nino effect, thereby generating a robust demand for crop protection chemicals in the second half of the year.





Leading Player In Thriving Global Corn Market

Within the global seeds market, which stood at ~$50-55 Bn, corn is the foremost crop in terms of market share. In this domain, Advanta has established itself as a leader, spanning multiple geographic regions. Corn's contribution to Advanta's total revenues stands at ~45%. Globally, the cultivation of corn encompasses an extensive area of approximately 200 Mn hectares, whereas sorghum occupies a comparatively smaller footprint, estimated at 45-50 Mn hectares.

Significant demographic shifts and concurrent increases in income levels are positioning corn to play a pivotal role within the agricultural landscape. This transformation is primarily driven by the increasing demand for animal fodder. Furthermore, the mandate by the Indian government for higher ethanol percentages in traditional fuels is anticipated to substantially improve the demand for corn, given its critical role as a feedstock for ethanol production.

Corn cultivation also emerges as a lucrative crop for farmers, owing to its adaptability to regions with limited water resources. Consequently, this is expected to create a shift, characterized by a reduction in acreage allocated to rice cultivation, thereby creating more opportunities for the cultivation of corn. Advanta is poised to realize substantial benefits from the growing trend towards increased corn cultivation.

Investment Rationale

Rise in MSP Prices to Improve Productivity

The Minimum Support Price (MSP) is established to provide farmers with fair compensation, thereby motivating increased investment in agriculture. This approach indirectly contributes to long-term price stability by offering farmers higher MSP as an incentive. While a higher MSP may initially result in inflationary pressures, it ultimately encourages farmers to enhance productivity, mitigating food inflation over an extended period. The Indian Government has recently announced MSPs for the 2023-24 Kharif crop season. This directive encompasses 14 Kharif crops, 6 Rabi crops, and 2 commercial crops. The MSP for the 14 Kharif crops has increased from INR 128 per quintal to INR 805 per quintal, representing a growth rate between 5.3% and 10.4%. This rise in MSP is considered to be encouraging for the farmers and it will push the demand for agrochemical products to improve productivity. The anticipated profit margins for farmers, exceeding their production costs, are notably favorable for specific crops. Bajra is expected to yield the highest margin at 82%, followed by Tur 58%, Soybean 52%, and Urad 51%. The margin over production costs is estimated to be at least 50% for the remaining crops. In recent years, the government has actively promoted the cultivation of crops beyond cereals, including pulses, oilseeds, and Nutri-cereals/Shree Anna, by offering higher Minimum Support Prices (MSPs). Additionally, various government initiatives, such as the Rashtriya Krishi Vikas Yojana (RKVY) and the National Food Security Mission (NFSM), have been launched to encourage farmers to diversify their crop choices.

Crops	2022-23	2023-24	% Increase
Moong	7,755	8,558	10.35%
Sesamum	7,830	8,635	10.28%
Cotton (Long Staple)	6,380	7,020	10.03%
Groundnut	5,850	6,377	9.01%
Cotton (Medium Staple)	6,080	6,620	8.88%
Ragi	3,578	3,846	7.49%
Jowar-Maldandi	2,990	3,225	7.86%
Jowar- Hybrid	2,970	3,180	7.07%
Paddy- Common	2,040	2,183	7.01%
Paddy - Grade A	2,060	2,203	6.94%
Soybean (Yellow)	4,300	4,600	6.98%
Paddy-Grade A	2,060	2,203	6.94%
Maize	1,962	2,090	6.52%
Bajra	2,350	2,500	6.38%
Nigerseed	7,287	7,734	6.13%
Tur/Arhar	6,600	7,000	6.06%
Sunflower Seed	6,400	6,760	5.62%
Urad	6,600	6,950	5.30%

Source: Ministry of Agriculture & Farmers Welfare, Arihant Capital Research

Exhibit 1: Minimum Support Prices for Kharif Season (In INR per quintal)

Global presence minimizes country-specific risk

Global climate patterns are displaying increased volatility due to environmental shifts. Businesses heavily reliant on a single geographic region may face vulnerabilities during periods of droughts or floods. In contrast, UPL maintains a presence in over 130 countries, ensuring a diversified footprint that helps mitigate potential impacts from El Nino and La Nina events in specific regions. As part of a strategic realignment, the company has restructured their Crop Protection business into 2 distinct entities: International Crop Protection (UPL Corporation) and India Crop Protection (UPL SAS). This strategic division enables the company to streamline operations and effectively address the unique challenges and opportunities in each region. This approach enhances the company’s focus on market dynamics and allows to provide customized solutions as per the specific needs of customers in different regions while optimizing resources, leveraging local expertise, and driving targeted and efficient growth. Such diversification empowers UPL to hedge against seasonal challenges worldwide. The increasingly erratic global rainfall patterns, attributed to environmental changes and other factors, have minimal impact on the company due to its global presence. Any adverse effects in one region are offset by contributions from others.

Investment Rationale

Launch of New Products to Drive growth

There is an increasing requirement for new technologies, including novel modes of action, to combat resistance issues for fungicides and herbicides markets and the company aims to replace several older products in the portfolio with high margin alternatives. The successful introduction of new products such as Apache, Oxalis, Centurion, and Canora in the differentiated portfolio supported the SAS margins in Q1. Another noteworthy addition, Sperto (an insecticide), has demonstrated strong global performance.

Strong Growth and Optimistic Prospects in the Seeds Business

Company witnessed strong growth in the segment, led by traction in products like Field Corn, Fresh Corn, and Grain Sorghum paired with growth in high-margin portfolios. The company has recorded promising traction in the 'Sorghum' and anticipates favorable prospects in the medium term. During Q1FY24, the volumes and price were plummeted by 9% and 10% respectively due to the increased channel inventory issues in China that caused the prices to moderate in Q1FY24. However, in key markets such as Peru, Ecuador, Thailand, and India, tropical field corn is exhibiting strong performance. The company is currently in the process of transitioning from a B2B (business-to-business) to a B2C (business-to-consumer) market strategy in Indonesia, where a noticeable uptick in demand is being observed.

Additionally, a recent visit by a Chinese trade delegation to the USA has initiated discussions with the US sorghum industry regarding the potential purchase of a substantial 7 to 8 million tons of grain sorghum. This purchase is intended to cater to the requirements of both livestock feed and the alcohol industry in China. As a direct consequence of these negotiations, there has been a discernible increase in demand for grain sorghum, and this surge is duly reflected in the prevailing commodity prices within the market.

Source: Company Reports

Favorable Inventory Dynamics

The Glyphosate inventories in China were at ~90,000 MT in May'23 and arrived at ~46,000 MT levels in August'23, a significant ~50% reduction. Similarly, the paraquat inventories have reduced to ~1,000 MT in August'23 from ~2,000 MT in May'23. A subsequent reduction is being seen currently. Inventories for glyphosate are back to pre-COVID-19 levels while Glufosinate inventories are stabilizing in recent weeks. Normalizing glyphosate inventories and pricing should lead to normalization in Glufosinate eventually for the company.

Investment Rationale

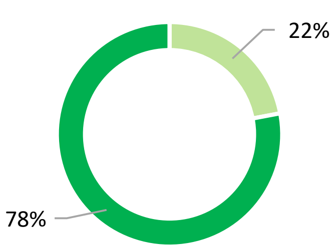
Greater operational autonomy through distinct platforms

As part of strategic realignment, the company has initiated the process of transferring its specialty chemical segment to the wholly owned subsidiary, UPL Specialty Chemicals Ltd, resulting in the establishment of four distinct and specialized platforms dedicated to achieving rapid growth: International Crop Protection (UPL Corporation), India Crop Protection (UPL SAS), Global Seeds (Advanta), and Specialty Chemicals (UPL Specialty Chemicals Ltd). Notably, they have also attracted significant investors to the Global Seeds, India Crop Protection platforms, and International Crop Protection, unlocking value for UPL shareholders and providing a more precise evaluation of these focused segments.

This strategic realignment offers a range of significant benefits for UPL. Firstly, by allowing each platform to focus on its specific area of expertise, the company will accelerate its growth, customize strategies as per unique market needs, and potentially secure market leadership within each segment. Furthermore, this realignment enhances transparency for investors and stakeholders, facilitating a more accurate valuation of each platform and the attraction of strategic investors or partnerships. Additionally, it helps mitigate risks by diversifying across platforms, optimizes operational efficiency, improves capital allocation, and fosters flexibility in responding to market dynamics. These advantages collectively empower the company to unlock the full potential of its diverse business segments, creating enhanced value for shareholders and stakeholders. Hence, the company's current focus is on the growth and expansion of these specialized platforms, and is planning on monetizing the specialty chemicals segment soon.

Platforms	International Crop Protection Platform UPL Corporation Ltd., Cayman	India Crop Protection Platform UPL Sustainable Agri Solutions Ltd.	Global Seeds Platform Advanta Enterprises Ltd.	Manufacturing & Specialty Chemicals UPL Ltd.
UPL Ltd. Holding %	78%	91%	87%	100%
Partners	ADIA, TPG	ADIA, TPG, Brookfield	KKR	
Growth Ambition	To be the fastest growing large crop protection player by offering innovative crop care solutions	Transform Indian agriculture with outcome-oriented solutions, enhancing economic resilience of >100 Mn growers	Establish leadership position in specialty crops through a combination of organic growth initiatives and bolt-on acquisitions	Continue scaling-up the platform rapidly, capitalizing on the strong sector tailwinds and enormous market potential

Source: Company Reports



- Post Patent Solutions
- Differentiated & Sustainable Solutions

Exhibit 2: Pipeline Composition

Strategic Innovation Pipeline

The company has a strong new product pipeline of $ 8.5 bn, with a targeted annual revenue projection of $ 2.5 bn by FY27. This robust pipeline comprises 25 new molecules (new Active Ingredients and Biosolutions) and 16 innovative solution platforms, spanning various developmental stages and encompassing diverse regions and crop combinations. This comprehensive approach sets a solid foundation for future growth. Notably, a significant portion of this pipeline, constituting 78%, is derived from the higher-margin differentiated and sustainable products category. This strategic composition aligns with the company’s objective of achieving a 50% revenue contribution from the differentiated and sustainable portfolio by FY27. This deliberate shift toward a greater share of differentiated and sustainable products is expected to bolster profit margins, fortify their overall product portfolio, and enhance business resilience in the medium term.

Financial Analysis

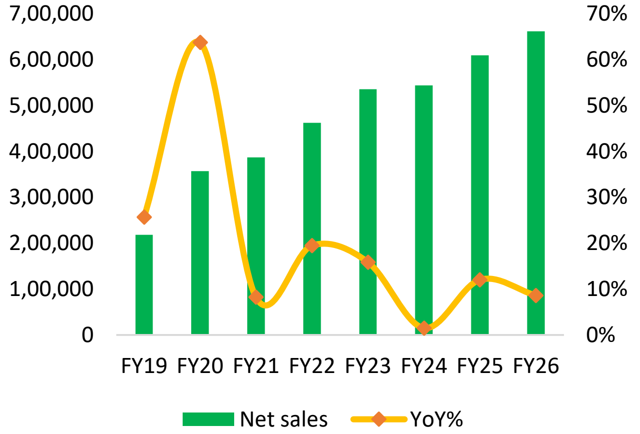


Exhibit 3: Revenues expected to grow by 23% over FY23-FY26E

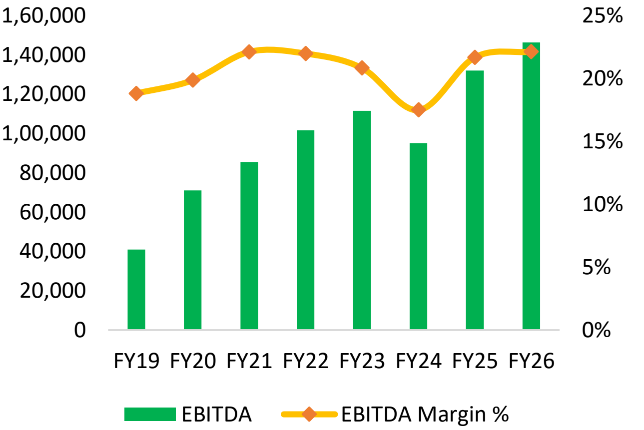


Exhibit 4: EBITDA expected to grow by 32% over FY23-FY26E

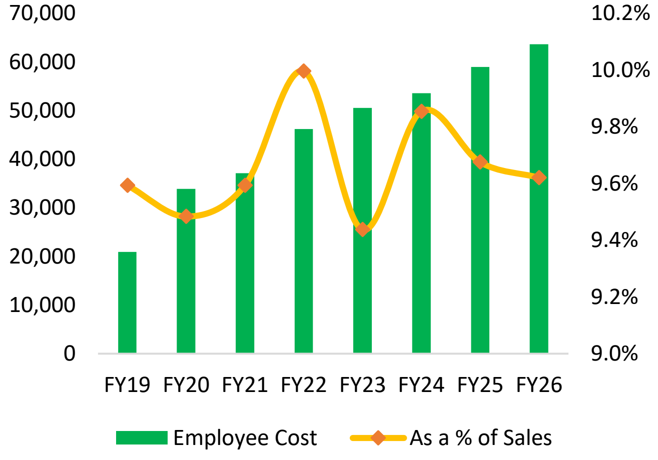


Exhibit 5: Employee Costs & as % of sales

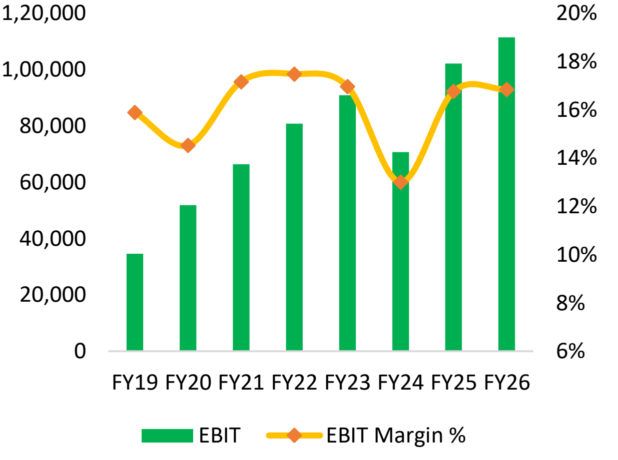


Exhibit 6: EBIT expected to grow by 25% over FY23-FY26E

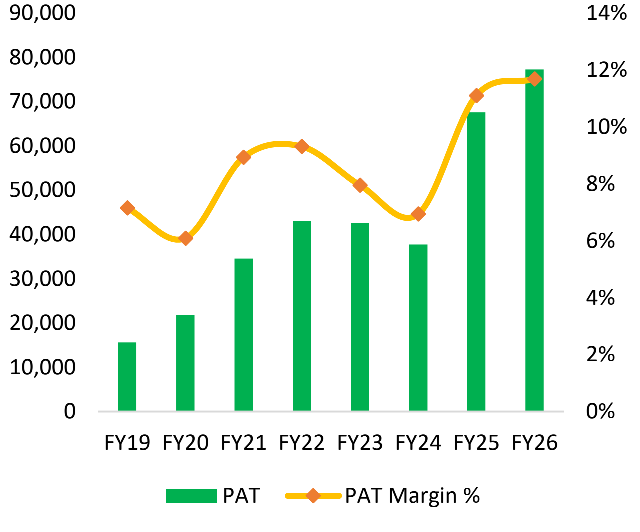


Exhibit 7: Net Profit & Margin trend in the upcoming years

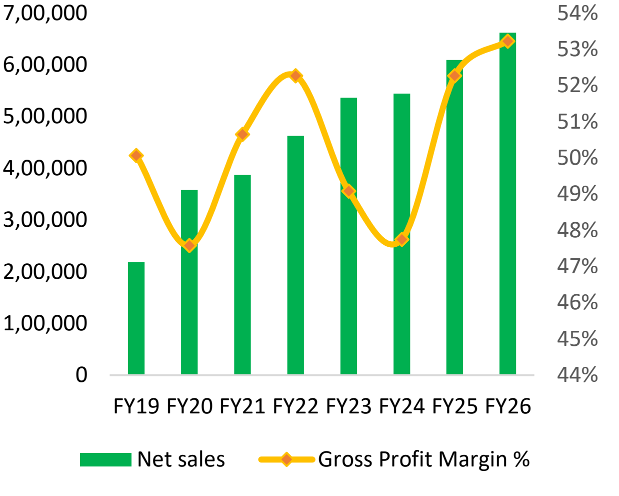


Exhibit 8: Gross Profit as % of sales

Source: Company Reports, Arihant Capital Research

Financial Analysis

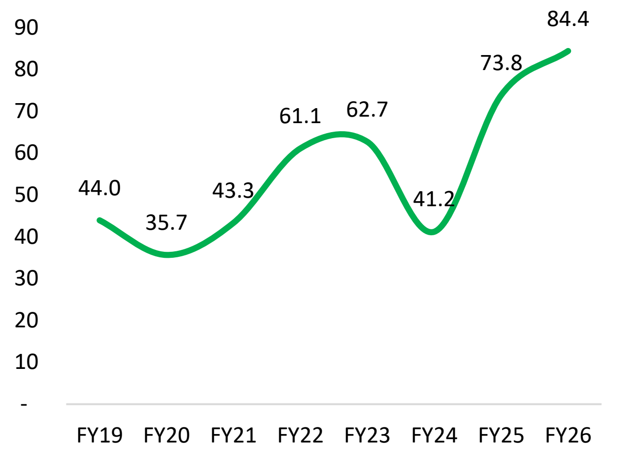


Exhibit 9: EPS expected to improve going forward

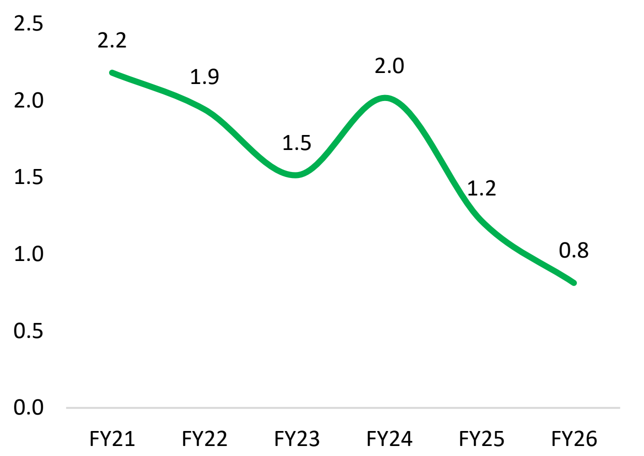


Exhibit 10: Debt to EBITDA trend

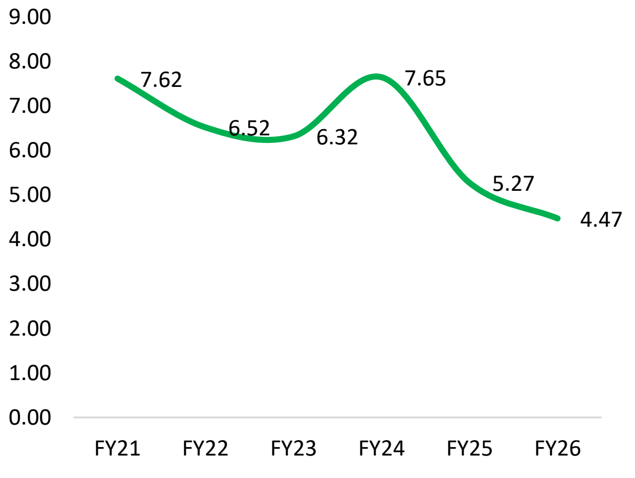


Exhibit 11: EV/EBITDA trend

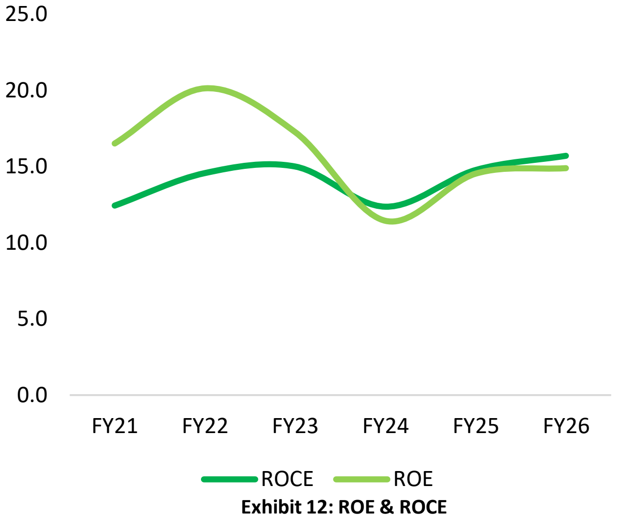


Exhibit 12: ROE & ROCE

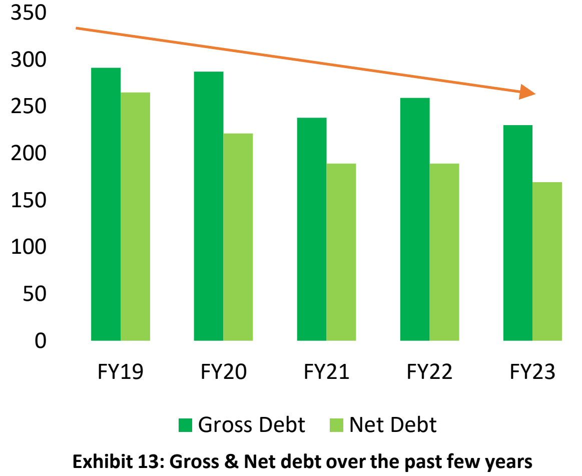


Exhibit 13: Gross & Net debt over the past few years

Focus on Debt Reduction

As of June 30, 2023, the company reduced its net debt by $160 Mn. This strategic initiative resulted in a notable reduction in net debt levels, from $3.35 Bn in June last year to $3.19 Bn. Looking forward into FY24 and beyond, the company aims to continue with its debt reduction strategy so as to enhance liquidity and optimize capital allocation. The company is targeting a debt reduction in the range of $200-300 million in FY24 and $300-400 million in FY25. This progressive approach to debt reduction not only improves the company's financial stability but also enhances its ability to allocate resources effectively toward strategic growth initiatives.

Source: Company Reports, Arihant Capital Research

Risks & Mitigation

Risk	How it affects UPL	Mitigation Measures
Credit risk	Failure in dues payment or in meeting contractual obligation by a customer or counterparty can lead to financial loss	Permissible and enforceable collaterals and guarantees. Review adherence to contractual obligations on a periodic basis. Credit insurance to cover default by customer.
Liquidity	Capital market volatilities could impact their capital access	Regular monitoring of cashflows across business units and putting in place early-warning systems to address liquidity issues well in time. Ensure sufficient credit lines are in place across subsidiaries in the required currency.
Foreign currency fluctuations	Selling products in 140+ countries in multiple currencies, exposing it to the risk of fluctuating exchange rates.	Remaining fully hedged through forward covers and natural hedges. Developing reports in the ERP system to identify and monitor mismatches in foreign currency exposures and taking appropriate steps to address these mismatches.
Cybersecurity	Global operations lead to greater reliance on internet-based applications. This increases the risks of breaches in data privacy and integrity.	Consistent investments in latest IT security systems. Setting up of adequate firewalls and disaster recovery systems. Continuous event-monitoring and defining appropriate access controls.
Regulatory Changes	Increased regulatory oversight and adverse changes to regulations in key markets. These changes can impact operations at the front-end (ban on sale/reduced usage of products) as well as back-end (ban/restrictions on manufacturing).	Stay abreast of proposed changes in regulations. Organised planning to fine-tune and adjust product portfolio in accordance with anticipated changes.
Environmental Health and Safety risk (EHS)	Changes in EHS rules and regulations. Explosion and fire hazards. Failure of mechanical, process safety and pollution control equipment. Contamination, chemical spills and other discharges or release of toxic or hazardous substances.	Staying updated on proposed changes in environmental laws. Proactive planning to adjust with the anticipated EHS changes. Ensure adequate allocation and upgradation of safety tools. Ensure regular checks for spills and chemical discharge. Develop robust awareness initiatives, foster EHS focused culture.
Warehousing and supply chain	Manufacturing facilities are exposed to risks from natural calamities, accidents, breakdowns, failure to modernise, and so on. Logistical chains too can be disrupted by natural calamities on a regional and global scale. Procurement of raw materials and other products, in terms of supplies and costs, can be adversely impacted if there are disruptions at vendor level.	Usage of technology (ERP system) to build sufficient safety stocks. Wide geographical manufacturing footprint. Reduce dependence on selected vendors and diversifying vendor base for critical supplies. Procuring appropriate insurance covers with adequate coverage levels.
Climatic conditions/ Climate Change	Frequent weather changes- drought, dry weather, and floods. Fluctuations in temperatures, excessive snow, and so on.	Strong presence in key agricultural markets of Asia, Africa, Latin America, Europe and North America helps in reducing dependence on a particular country/region. Efficient and agile supply chain capabilities enabling requisite and timely adjustments to product supplies depending on weather conditions.
Research and Development	Inability to launch innovative products. Not keeping pace with emerging technologies. Failure to identify opportunities in terms of emerging trends. Developing and launching products that do not generate commensurate returns.	Strong R&D teams focused on launching innovative formulations, mixtures and combinations resulting in a steady stream of post-patent products, which offer greater value than those offered by peers. Focused approach by maintaining annual targeted 'Innovation Rate' to ensure that there is no flagging in efforts in launching innovative products.
Changes in market dynamics/market and Industry	New market entrants. Change in marketing strategy by competitors. Increase in competitive intensity. Emerging and disruptive technologies/ marketing practices viz. genetically modified/hybrid seeds, digitisation, biotechnology, organic farming, online sale of crop protection products, and so on.	Wide product portfolio to address varying customer needs globally. Broader and less concentrated customer base in every country. Regular farmer and customer engagement to understand evolving requirements. Gathering relevant and reliable market intelligence. Continuous investment in latest technologies. Partnerships with players with expertise in newer technologies.
Pest Resistance	Due to natural evolution and overusage, pests are increasingly developing resistance to crop protection products. Instances of weeds and insects becoming resistant to proven formulations are on the rise.	Developing and launching differentiated and innovative products – combinations/mixtures. Keep making tweaks to formulations to keep pest resistance at bay. High intensity and regular farmer and customer engagement to understand trends.

Source: Company Reports, Arihant Capital Research

Industry Overview

The global agrochemicals market, stood at $235.2 Bn in 2023, is anticipated to surpass $282.2 Bn by end of 2028 in terms of revenue, marking a CAGR of ~3.7%.

Market Dynamics

❖ **Drivers:**

Empowering Agriculture Through Advancements in Chemical Solutions

The advancements in agricultural chemistry have empowered farmers across several countries, including India, China, Thailand, Vietnam, and South Korea, to embrace intensive crop management practices. This heightened awareness of crop protection chemicals has not only driven the expanded usage of pest control products but has also cultivated an understanding of the potential for more lucrative opportunities while minimizing losses. Consequently, the global agrochemicals industry has witnessed a surge in patents and product registrations, propelling its increased adoption within the agricultural sector, thus stimulating market growth.

Population Growth and Increased Food Consumption

The global population is on the rise, leading to heightened food consumption. This surge in demand for agricultural products necessitates the use of agrochemicals to enhance crop productivity and support agricultural development. As a result, the agrochemical industry is witnessing increased demand to meet the growing food requirements.

Soil Pollution and Arable Land Constraints

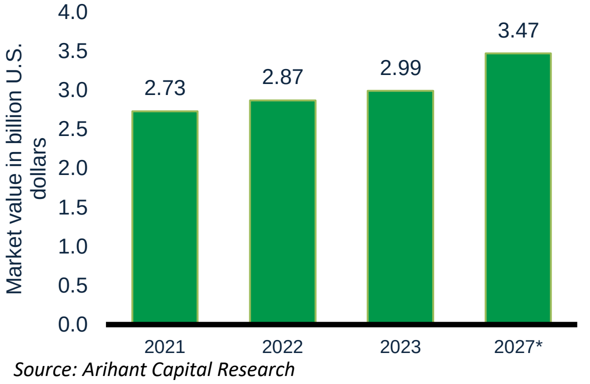
Soil pollution and limited arable land availability are pressing concerns. To maximize crop production in constrained spaces, farmers turn to fertilizers and pesticides, driving the demand for agrochemicals. These chemicals play a crucial role in optimizing land usage and maintaining soil quality.

❖ **Challenges**

When farmers continuously apply the same pesticides, they tend to eliminate vulnerable populations effectively. However, over time and with widespread, repetitive pesticide application, these targeted populations develop resistance to these chemicals.

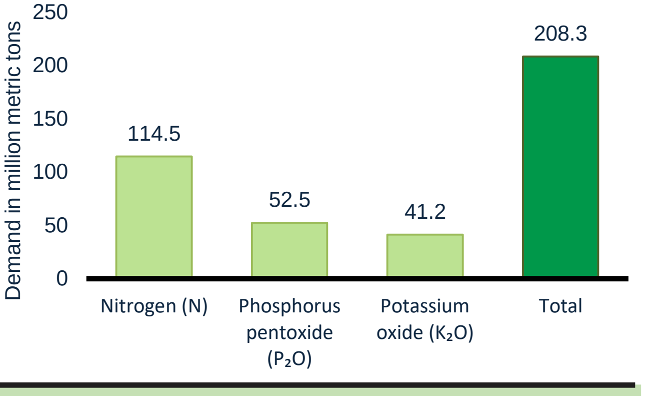
As a result, the farmers encounter resilient weed infestations, lacking the necessary equipment and expertise for eradication. These superweeds have evolved resistance to multiple herbicides. Rather than addressing the fundamental causes of resistance, agrichemical companies respond by introducing new formulations of herbicides. These formulations occasionally reintroduce older, riskier substances such as 2,4-D, dicamba, and atrazine. Consequently, this approach can result in a substantial increase in the volume of chemicals required for crop spraying According to the World Bank's 2022 assessment, fertilizer prices experienced a significant upswing, attributed to a combination of factors such as escalating input costs, disruptions in the supply chain, and export restrictions imposed by China. Notably, urea prices surged past their 2008 levels, while phosphate and potash prices approached similar highs. Subsequently, a 2023 World Bank commodity report revealed a moderation in fertilizer prices from their early 2022 peaks. Nevertheless, these prices persisted at historically elevated levels. This downward trend can be partly attributed to reduced demand, as farmers scaled back fertilizer applications due to concerns related to affordability and accessibility. Furthermore, supply-side challenges, such as production shortages in Europe, supply chain disruptions stemming from sanctions against Russia and Belarus, and trade restrictions imposed by China, continued to impact the industry's dynamics.

Exhibit 14: Market value of fertilizer additives worldwide from 2021 to 2023 with a forecast to 2027 (in $ Bn)



Source: Arihant Capital Research

Exhibit 15: Medium-term forecast for global fertilizer demand to 2025/2026, by nutrient (in million metric tons)



❖ **Herbicide Market:**

In 2022, the global crop protection market saw remarkable growth, with herbicides emerging as the leading and fastest-expanding segment, surpassing other product categories. This growth, driven by increased product prices and favorable weather conditions in key markets, resulted in a 10% overall market expansion to reach approximately $79 billion. Notably, herbicide sales thrived due to high prices of essential non-selective herbicides such as Glyphosate and Glufosinate, although currency fluctuations had some limiting effects due to certain major currencies weakening against the USD. The sales of herbicides experienced a notable upswing due to the increased prices of two significant non-selective herbicides, namely Glyphosate and Glufosinate. Within the herbicide sector, which represents the largest segment in this industry, substantial support was derived from the extensive cultivation of soybean and maize. This support was particularly evident in regions such as North and South America, where large crop areas are devoted to herbicide-tolerant genetically modified (GM) seeds.

❖ **Insecticides Market:**

The demand for insecticides was primarily fuelled by the presence of insect pressure and an expansion of crop area in Brazil. Chlorantraniliprole, a leading insecticide active ingredient based on diamide chemistry, has recently gone off-patent in some geographies. This development is expected to drive growth in volume terms for chlorantraniliprole in the future. The effectiveness of this active ingredient in controlling insects is increasingly contributing to its popularity in the market. The surge in demand for insecticides has been primarily driven by increasing insect infestation and the expansion of crop cultivation areas in Brazil. Notably, the market share of insecticides slightly surpasses that of fungicides, with Asia Pacific and South America jointly constituting ~70% of the global market. These regions exhibit substantial consumption patterns, with a major focus on fruits and vegetables, followed by soybeans and paddy crops.

❖ **Fungicide Market:**

Adverse weather conditions negatively affected the sales of fungicides in key markets such as the US and Europe. However, the fungicides market experienced relatively robust demand in Asian markets, leading to high single-digit growth for the year. Despite challenges in certain regions, the overall performance of the fungicides market remained positive. Despite adverse weather conditions having a detrimental effect on fungicide sales in key markets within the United States and Europe, the demand remained comparatively strong in Asian markets. In terms of regional contributions, Asia Pacific, South America, and Europe each account for ~30% of the total.

	Herbicides	Insecticides	Fungicides	Others (PGRs, Fumigants and Pheromones)
% Share of Global Market	46.00%	26.00%	25.00%	3.00%
YoY Growth Rate	14.00%	6-7%	7-8%	2-3%

Source: Arihant Capital Research

Exhibit 16: Category-wise growth in global markets (US$ Terms)

Regional outlook

❖ **North America:**

Crop production in the USA is expected to experience significant growth, particularly in corn and cotton, driven by expanded acreages. Soybean production is also projected to increase due to improved yields. Similarly, in Canada, higher production is anticipated for cereals and canola. However, the value of the crop protection market may be impacted by lower prices for active ingredients compared to 2022.

❖ **Central & South America:**

The crop protection market is projected to either remain stable or experience modest growth. Brazil is expected to be a key growth market, with expanded areas for corn and soybeans leading to increased production in 2023. Additionally, corn exports are forecasted to rise as China looks to Brazil as an alternative source due to supply disruptions in Ukraine and Argentina.

Despite the expected growth in Brazil's crop protection market, the overall performance may be dampened by weaknesses in Argentina (lower yields) and other markets with lower prices for corn and soybeans. However, it is important to highlight that the increasing demand for the export of fruits and vegetables has contributed to a rise in the value of crop protection use in these markets.

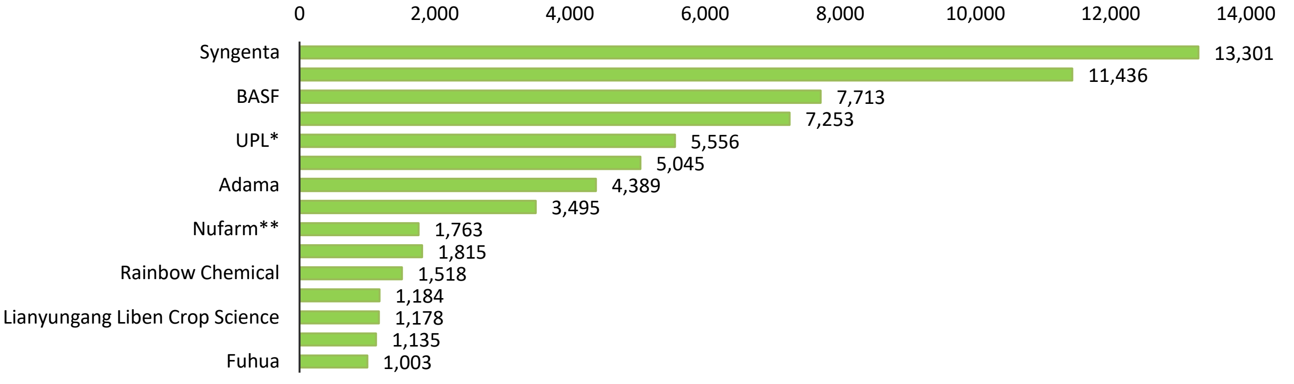
❖ **Asia-Pacific:**

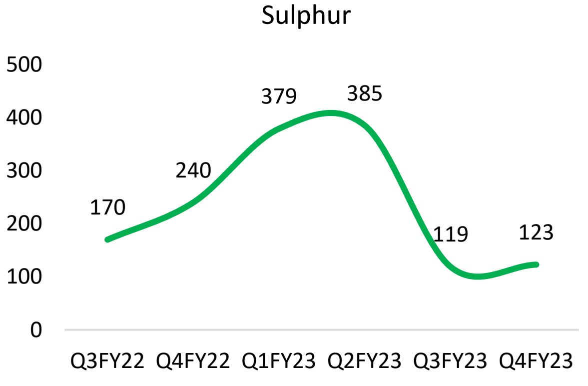
The crop protection market in 2023 is expected to be driven by favorable weather conditions in several countries, leading to increased production of key crops such as rice in China, canola and wheat in Australia, and cotton in India. However, the market may be impacted by high channel inventories, particularly in India, as well as softness in agrochemical prices and weakness in key currencies, resulting in a nominal USD impact. The Asia-Pacific region is experiencing rapid growth, fuelled by the focus on boosting production to maintain an exportable surplus and ensure quality for export markets.

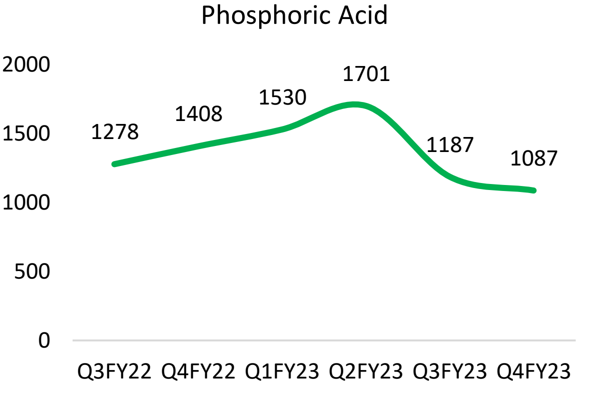
❖ **Europe:**

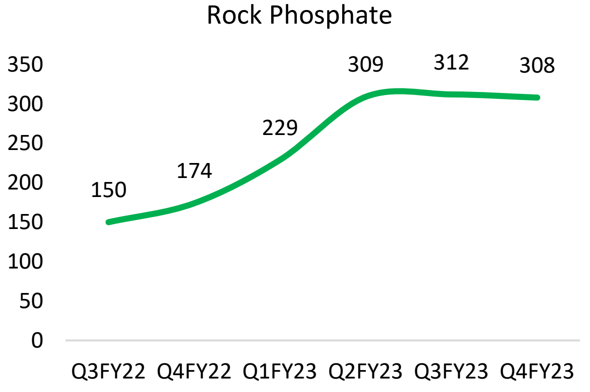
EU requirements for reduced crop protection volumes may limit the value development in Europe, but emerging markets in Eastern Europe are expected to drive demand. Favorable autumn conditions have benefitted winter crop sowing in the northern and western regions of the continent. Cereal exports are expected to rise, driven by the resumption of Ukraine's Black Sea exports and the larger wheat crop, as well as the price competitiveness of wheat from the EU and the UK. Dry conditions remain a concern in France, while Ukraine is also severely impacted by the destruction of the Kakhovka Dam.

Exhibit 17: Leading pesticide companies worldwide based on sales in 2021 (in $ Mn)









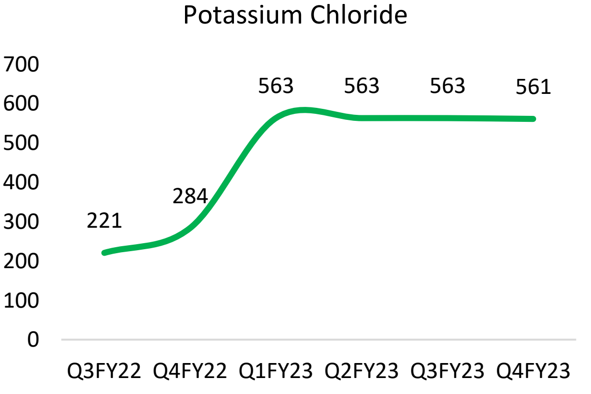


Exhibit 18: Price trends for some materials (in US $/ton)

Source: Bloomberg, Arihant Capital Research

Indian Agrochemical Industry

India holds a significant position as the fourth largest crop protection producer, commanding a 13-15% share in the global crop protection market. The Indian agricultural sector, stood at $ 435.9 Bn in 2022 and is expected to grow at a robust CAGR of ~5% from 2023 to 2028. This trajectory is expected to propel the industry's value to $ 580.82 Bn by 2028, solidifying India's position as one of the world's leading agricultural producers. In FY 2023, the crop protection market in India was estimated to be around Rs. 765 billion. The country's strong foothold in the global market contributed to significant growth in Indian agrochemical exports, driven by value-driven factors.

The growth in agrochemical exports was primarily led by an increase in formulation prices and the appreciation of the dollar during FY23. India has been benefitting from the China+1 strategy adopted by global players and the expiration of patents for certain molecules, further boosting its position in the market.
The domestic crop protection industry experienced a year-on-year growth of approximately 9-10%. This growth was supported by an expected rise in per hectare expenditure, driven by an increase in crop protection prices and the expansion of acreages under key crops. Farmers' preference for high-end chemistries also contributed to this growth. The price rise of formulations, averaging around 7-8%, and the introduction of new products in the last two years played a significant role in driving the industry forward. However, volume growth was limited due to factors such as skipped sprays in cotton caused by erratic monsoons and lower infestation of pests like brown planthoppers in crops such as paddy. On the other hand, herbicide penetration continued to increase, driven by heavier weed infestation in dry conditions, as herbicides gained preference over manual labour. During the last quarter of FY23, the performance of Indian agrochemical players was impacted by high channel inventories and the influx of low-priced Chinese generics. These factors posed challenges for the industry and influenced its overall performance.

Crop	Area Sown (in lakh hectares)	
	2023	2022
Rice	403.41	398.81
Pulses	119.91	131.17
Shri Anna / Coarse cereals	182.21	181.24
Oilseeds	191.49	193.3
Sugarcane	59.91	55.65
Jute & Mesta	6.57	6.97
Cotton	125	126.87

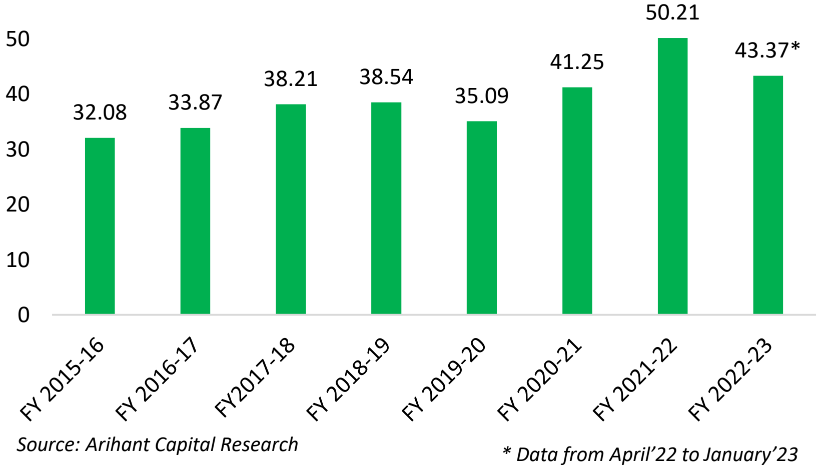
Source: PIB, Arihant Capital Research

Exhibit 19: Sowing Data

Total Khariff sowing arrive at 1088 lakh hectares with rice sowing crossing the 400 lakh hectares mark.

Crisil's projections indicate a robust 10-12% increase in the industry's revenue for the FY2024. This surge can be attributed to India's continued advantage stemming from global players' "China +1" strategy, coupled with efforts to diversify their supply chains. Additionally, the expiration of patents on key molecules further fuels this growth trajectory. Within the agrochemicals sector, exports are expected to maintain a significant share, accounting for ~53 % of the total revenue.

Exhibit 20: Agricultural Exports from India (US$ Bn)



Source: Arihant Capital Research

** Data from April'22 to January'23*

Key Takeaways On Indian Industry

- 4th Largest crop protection producer
- 13-15% India Share in Global Crop Protection Market
- 765 Billion Estimated worth of India's Crop Protection Market
- ~9-10% Domestic Crop Protection Market
- ~11-12% CAGR of the Indian Crop Protection Industry from FY22 to FY25
- ~14-15% CAGR of India's Export from FY23 to FY25

Drivers

- The increase in population, coupled with a rise in affluence, is driving a transformation in consumption patterns. Consequently, there arises an imperative to not only meet the growing demand by increasing production but also to guarantee the fulfillment of nutritional requirements.
- In India, 15-25% of potential crop production is lost due to pests, weeds and diseases. The need to improve crop productivity with a focus on the effective use of pest control measures and the adoption of weed management practices has been recognized as an important factor in increasing agricultural output.

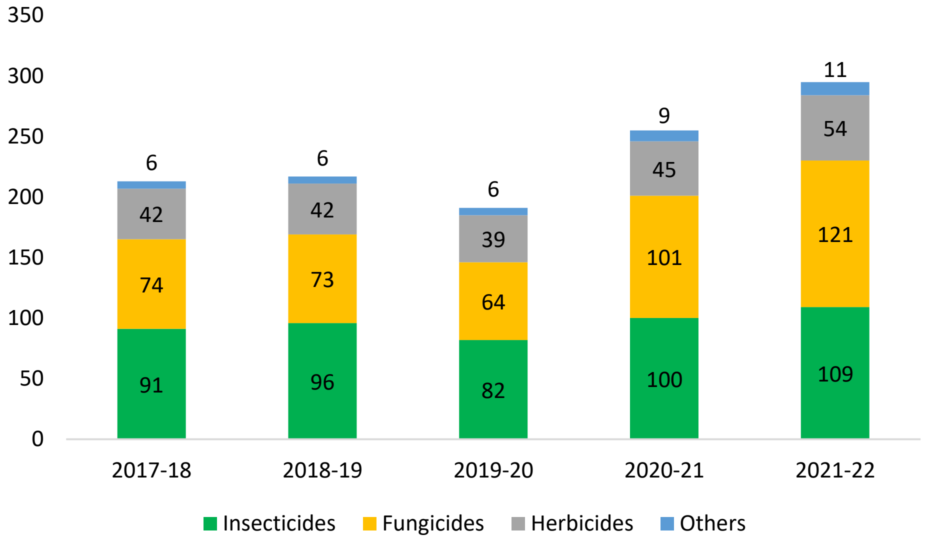


Exhibit 21: Production trend for technical grade pesticides in India (in '000 tons)

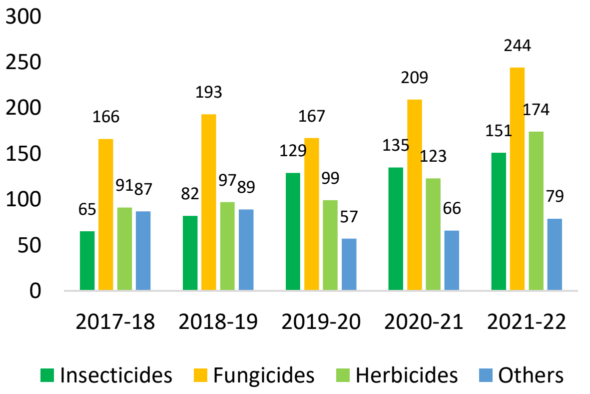


Exhibit 22: Segment-wise pesticides export volume (in '000 tonnes)

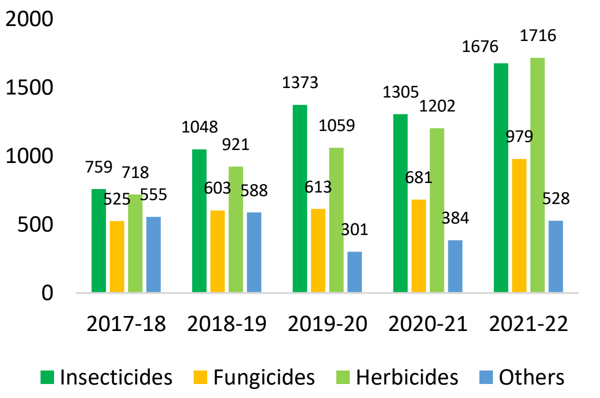


Exhibit 23: Segment-wise pesticides export value (in USD Mn)

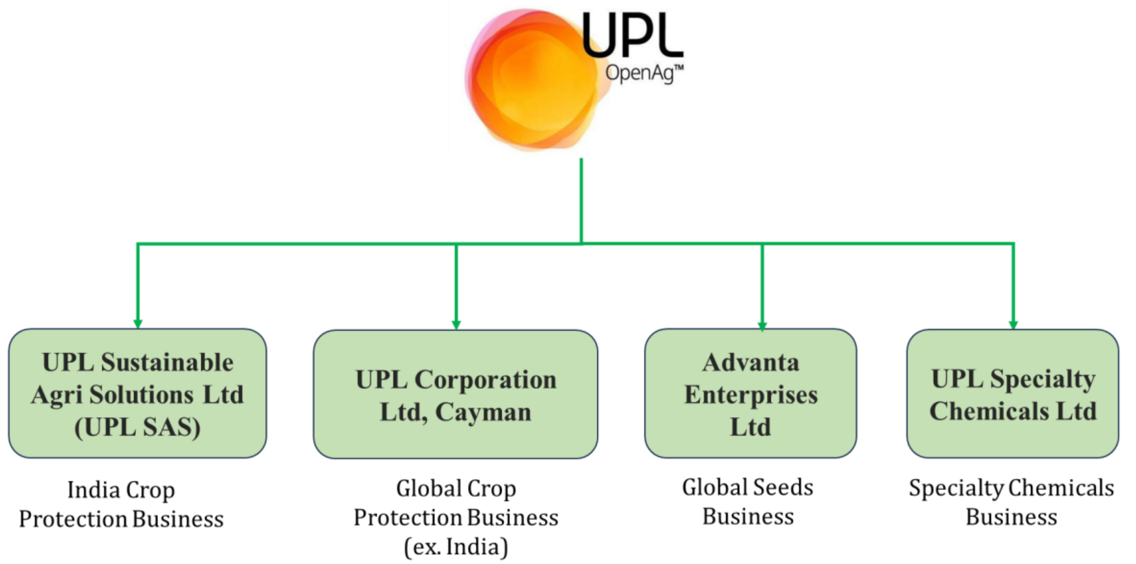
Source: Directorate of Plant Protection, Quarantine & Storage, Arihant Capital Research

About The Company

UPL Ltd. is a prominent player in the agricultural solutions sector, offering a comprehensive suite of solutions spanning the entire agriculture value chain. Their diverse portfolio encompasses everything from seeds and conventional crop protection products to innovative BioSolutions and advanced post-harvest solutions, paired with a range of physical and digital services. With a presence across the agricultural value chain, UPL's aim is to drive the development of sustainable food systems. Their solutions empower farmers to enhance crop yields, build resilience against climate change, and improve profitability by reducing production costs.

UPL provides an extensive array of solutions tailored and customized for a wide range of specialty crops on a global scale, addressing every stage of the crop's lifecycle. Their product portfolio includes both patented and post-patent agricultural solutions, covering crop protection, bio-solutions, and seed treatment. Additionally, they offer post-harvest products and agronomic services to support farmers throughout the crop cultivation process.

At present, the company functions through four distinct platforms: the Specialty Chemical Business, the India Distribution Business (UPL SAS), the Global Seeds Business (Advanta), and the International Agrochem Business (UPL Corporation). The company has planned to transfer its specialty chemical segment to a wholly-owned subsidiary, UPL Specialty Chemicals Ltd (USCL) which will be completed in the current FY, with the potential for future monetization, pending more favorable valuation conditions. The company's current strategic emphasis is centered on expanding and enhancing these operational platforms.



Source: Company Reports, Arihant Capital Research

Exhibit 24: UPL Holdings

UPL Specialty Chemicals

The platform serves as a supplier of high-quality agrochemical active ingredients and specialty chemicals to UPL Group companies (UPL Corporation and UPL SAS) as well as over 600 external B2B clients. Key chemical processes in this sector include the Grignard reaction, nitration, production of phosphorus and sulfur derivatives, chlorination, hydrogenation, phosgenation, and cyanation. This segment holds promising growth opportunities, especially in meeting the strong demand for agrochemicals within the UPL Group in the medium to long term. The platform aims to further enhance its already robust performance by introducing innovative products, exploring additional specialized chemical processes, expanding production capacities for existing products, and fostering new collaborative partnerships with external B2B stakeholders. In addition, there are growth prospects in supplying UPL Group companies due to a positive outlook for agrochemical demand in the medium to long term. The platform will continue its upward trajectory by introducing new products, delving into unique chemistry domains, expanding the production capacities of existing products, and establishing more external B2B collaborations.

About The Company

UPL SAS

This platform offers a comprehensive portfolio of crop protection, crop establishment and post-harvest solutions covering more than 90% of the crop types grown in India across different crop cycles. The company's agtech platform 'Nurture' with ~3 million registered farmers and 85,000+ retailers, coupled with a physical distribution network of 25,000 dealers, 600 experience centers called "Unimarts" enables them to establish a formidable pan-India presence.

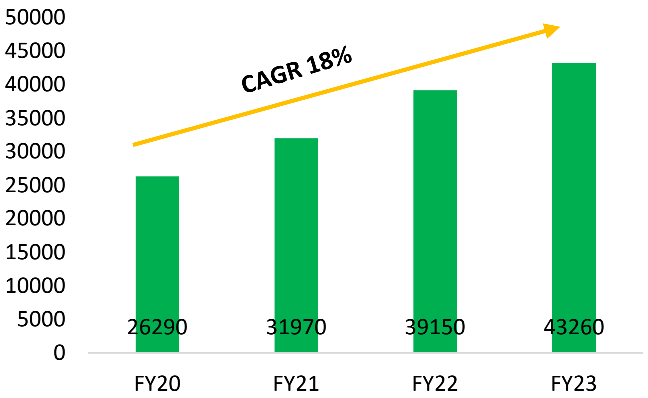


Exhibit 25: UPL SAS revenues over the years

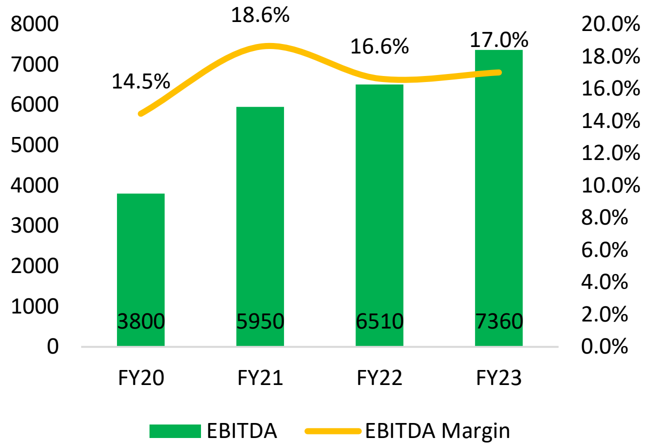


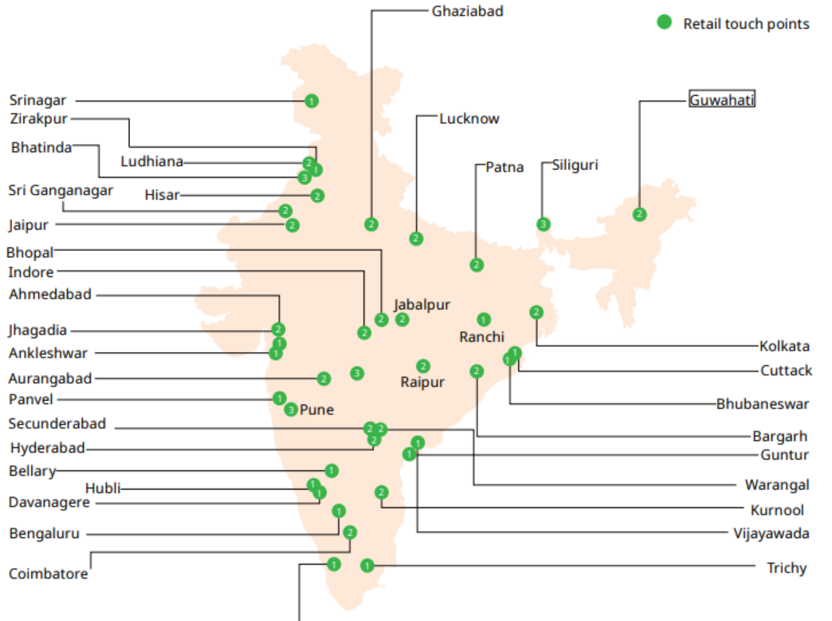
Exhibit 26: UPL SAS EBITDA & EBITDA Margins

Exhibit 27: Key brands for differentiated portfolio

Exhibit 28: Key brands for sustainable solutions

Source: Company Reports, Arihant Research

About The Company



Source: Company Reports

Exhibit 29: PAN India Market Presence of UPL SAS

UPL Corporation

UPL Corporation Ltd, is the company's international crop protection business, which markets crop protection solutions in over 130 countries. This segment is a leading provider of conventional crop protection products, BioSolutions, post-harvest solutions, and others.

Exhibit 30: UPL Corp. revenues over the years

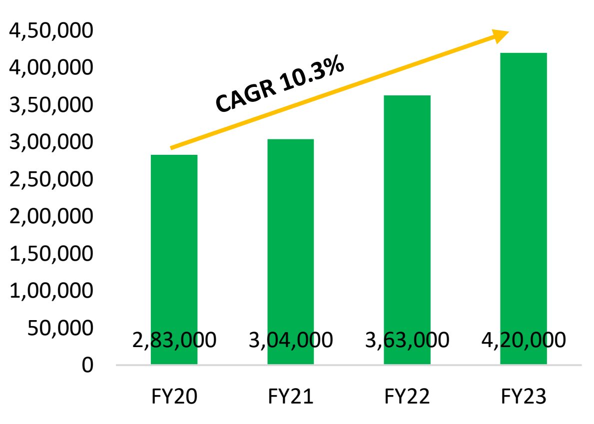
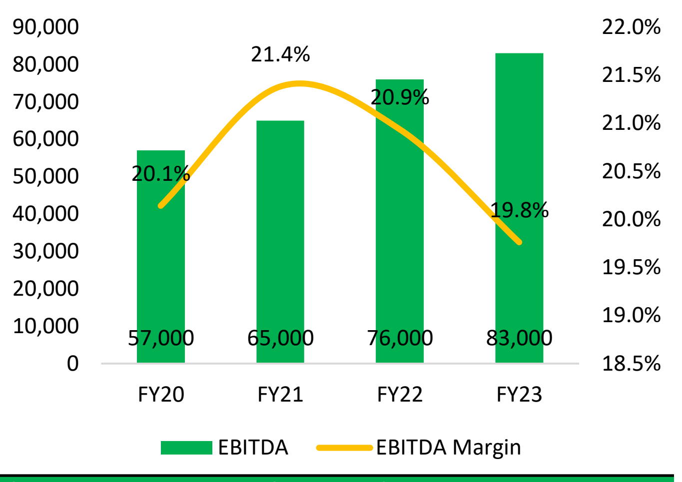


Exhibit 31: UPL Corp. EBITDA & EBITDA Margins



Product Name	Portfolio	Application	Value Created	FY23 Revenue
Feroce	Insecticide	Used as a long residual control against bug and sucker insects on soybean and corn.	Superior alternative to Perito® for improved efficacy	~INR 4,000 Mn
Evolution	Fungicide	A multi-site activity at various fungi metabolism point in soybean.	It is a better multisite technology leading to higher productivity.	~INR 7,100 Mn
Shenzi	Insecticide	Provides longer lasting protection from leps therefore, lesser frequency of spray.	It strengthens offerings in soybean, corn and cotton.	~INR 2,000 Mn

Source: Company Reports, Arihant Research

About The Company

Advanta

It is UPL's global seeds platform through which the company delivers innovative and high-quality seeds designed to promote sustainable crop production and enhance farmers' profitability. Company has a superior product portfolio backed by proprietary technology. Leveraging biotechnology and research facilities, Advanta focuses on developing resilient, climate-smart, and high-yielding seed varieties. The company's competitive edge lies in using its exceptional germplasm and expertise in technology and bioscience to produce seeds that enhance crop resilience to climate challenges, salinity, and drought. This combination has positioned Advanta prominently in the market, offering an extensive range of superior seeds.

Exhibit 32: Advanta revenues over the years

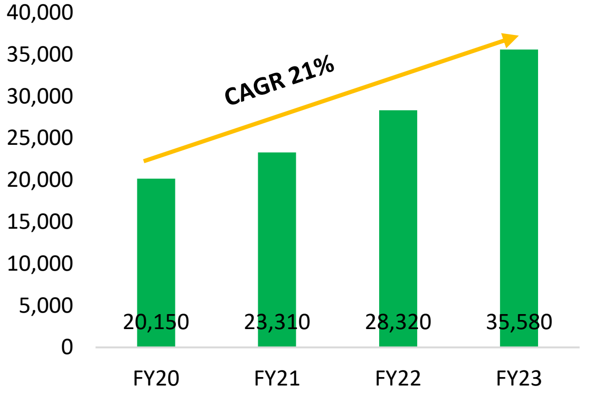
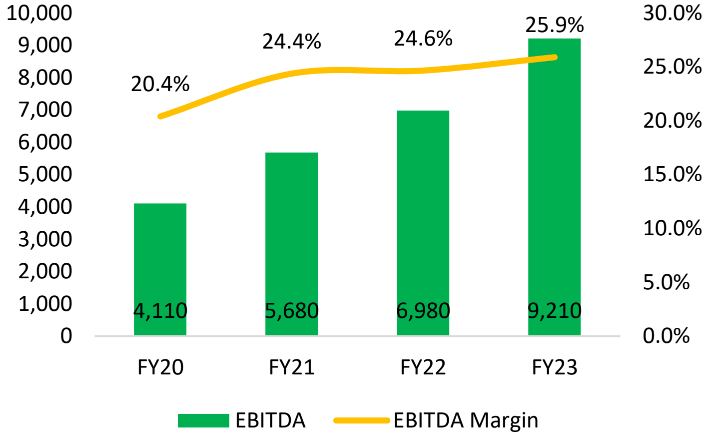


Exhibit 33: Advanta EBITDA & EBITDA Margins



Legacy

- ***1969*** *Started Red Phosphorus*
- ***1976*** *Entry into Agrochem & First Export*
- ***1980*** *Started Production of Yellow Phosphorus at Ankleshwar*
- ***1984*** *Listing on India's Stock Exchange*
- ***1994*** *Acquisition of MTM Agrochemical & Commenced operations in Jhagadia*
- ***1996*** *Started Caustic Chlorine Plant*
- ***2004*** *Established Ag Value Inc & Product Acquisitions of Surflan, Ultra Blazer, Lenacil and Chloridazon by UPL*
- ***2007*** *Won National Award for Outstanding R&D on Pollution Control and Environmental Protection*
- ***2014*** *Crossed INR 100 Bn revenue milestone*
- ***2018*** *Acquired Arysta*
- ***2022*** *Announced the launch of Flupyrimin to protect rice yields*

Source: Company Reports, Arihant Research

Key Product Portfolio

Herbicides	Brand Name	Active Ingredient
	Fascinate Flash	Glufosinate Ammonium / Oxyfluorfen
	Amicus	Metolachlor
	Strider	Bispyribac Sodium
	Amigo	Oxyflourfen
	Triskele	2,4-D Sodium Salt 440 / Metribuzin 350 / Pyrazosulfuron-Ethyl 10 WG
	Safaya	2,4-D Amine salt 58% SL
	Centurion	Clethodim 240 EC
Fungicides	**Brand Name**	**Active Ingredient**
	Terraguard	Triflumizole
	Tridium	Azoxystrobin / Mancozeb / Tebuconazole
	Taigen	Thifluzamide
	Uthane Advance	Mancozeb
	Glowed	Tebuconazole / Captan
	Devisulphur 80	Sulphur
Insecticides	**Brand Name**	**Active Ingredient**
	Argyle	Acetamiprid / Bifenthrin
	Apache	Fipronil / Flonicamid
	Imagine	Flupyrimin
	Kevuka	Flupyrimin
	Floramite	Bifenazate
	Arystaprid	Acetamiprid
	Viraat	Quinolphos / Cypermethrin
	Shenzi	Chlorantraniliprole
Water Conservation	**Brand Name**	**Active Ingredient**
	Zeba	UPDT
Biosolutions	**Brand Name**	**Active Ingredient**
	Macarena	Plant Growth Promoter
	Kixona	Entomopathogenic Nematode (EPN)
	Winero	Bio Stimulant
	Neo Root	Mycorrhizae complex

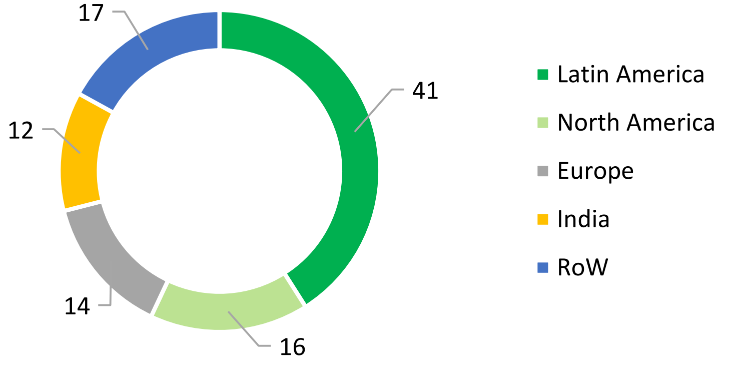


Exhibit 34: Revenue Mix by regions (%)

Leadership

Name	Position	Experience
Mr. Jai Shroff	Chairman & Group CEO, UPL Group	Mr. Jai Shroff, the Chairman & Group CEO of UPL Limited, is a renowned global figure in the Chemical & Agri-Inputs sector, he has three decades of experience both in India and across international markets.
Mr. Vikram Shroff	Vice-Chairman and Co-CEO, UPL Group	Mr. Vikram Shroff possesses extensive and diverse expertise in precision agriculture, sustainability, human resources, corporate governance, and effective problem-solving. Over the past 26 years, he has consistently taken on progressively greater roles within the UPL Group on a global scale.
Mr. Rajendra Darak	Vice-Chairman, UPL Group	Mr. Rajendra Darak, with a tenure dating back to 1997, currently holds the position of Vice-Chairman within the UPL Group. His leadership has played a pivotal role in guiding various aspects of UPL, including mergers, acquisitions, strategic expansion into new sectors, corporate finance, and resource mobilization, both domestically and internationally.
Mr. Toshan Tamhane	Chief Operating Officer, UPL Group	Mr. Toshan Tamhane, UPL Group's Global COO, oversees strategy, high-growth businesses, M&A, and sustainability initiatives. Since joining in 2020, he has led transformations, established a Corporate Venture arm, and fostered global ag-tech partnerships.
Mr. Anand Vora	CFO, UPL Limited	Mr. Anand Vora assumed the position of Global Chief Financial Officer (CFO) at UPL, joining the company from Bunge India. With over 31 years of experience, he has held senior finance roles domestically and internationally.
Mr. Mike Frank	CEO, UPL Corporation	Mr. Mike Frank, currently serving as the CEO of UPL's Global Crop Protection business brings nearly three decades of experience in the global agricultural industry, along with a wealth of industry knowledge and strategic leadership expertise to his position.
Mr. Ashish Dobhal	CEO, UPL SAS	Mr. Ashish Dobhal, currently serving as the CEO of UPL SAS, he has over 17 years of dedicated involvement in the UPL journey. His professional experience spans various countries, including Japan, China, Taiwan, the Middle East, Sri Lanka, and Bangladesh.
Mr. Raj Tiwari	CEO, Specialty Chemicals and Whole Time Director UPL Limited	Mr. Raj Tiwari has been an integral part of UPL since 2011, where he has played a pivotal role in shaping Operational Excellence, Supply Chain management, and overall business strategy. With his leadership, he has overseen UPL's Global Operations, initially serving as the Global leader for Manufacturing Projects and Lead for Indirect Procurement. He has been a key member of the Global Supply Chain and Manufacturing leadership team at UPL.
Mr. K. R. Srivastava	COO, Specialty Chemicals	Mr. K.R. Srivastava, the COO of Specialty Chemicals, has been with UPL since 1999, holding various senior leadership roles within UPL's Crop Protection business. He significantly contributed to expanding the manufacturing capabilities and enhancing operational excellence during his tenure as the leader of the Global Supply Chain & Manufacturing organization. In 2016, K.R. Srivastava assumed the role of CEO for UPL's Specialty Chemicals business, leading its global development.
Mr. Bhupen Dubey	CEO, Advanta Seeds	With 15 years at the UPL Group, Mr. Bhupen Dubey has held diverse roles, from a regional position in India to becoming the CEO of the Seeds business in 2016. He played a vital role in integrating companies like Advanta/UPL, Golden Seeds, and Unicorn, contributing to UPL's profitable and sustainable growth.

Peer Comparison

Company Name	Price (INR)	Market Cap (INR Mn)	Sales (INR Mn)	EBITDA (INR Mn)	EBITDA (Margin)	PAT (INR Mn)	ROE %	ROCE %	Basic EPS	EV/EBITDA	P/E (x)
UPL Ltd	604	4,53,520	5,35,750	1,11,590	20.83%	42,560	17.3	15.0	48	6	12.7
Rallis Inida Ltd	212	43,483	29,670	2,210	7.45%	920	5.4	7.8	5	20	47.2
Bharat Rasayan Ltd	9,400	39,014	12,340	1,470	11.91%	940	15.4	19.8	226	23	39.8
Dhanuka Agritech Ltd	837	37,962	17,000	2,710	15.94%	2,170	21.3	27.0	47	13	17.5
Bayer CropScience Ltd	5,290	2,34,060	51,400	9,540	18.56%	7,840	25.9	33.7	174	22	33.7

Source: Arihant Capital Research

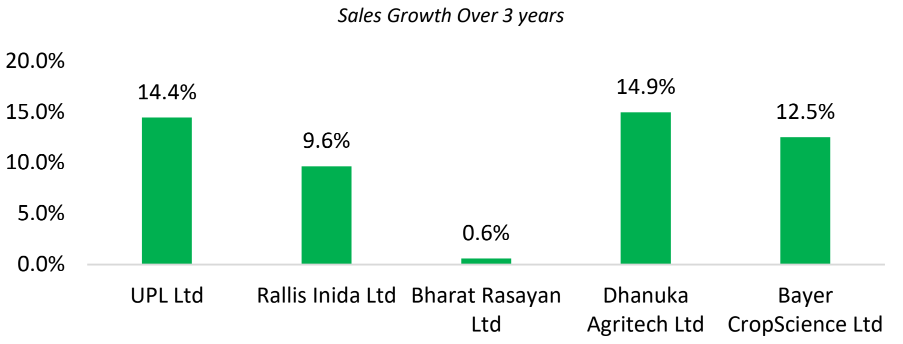


Exhibit 35: UPL revenue growth is better than most over FY21-23

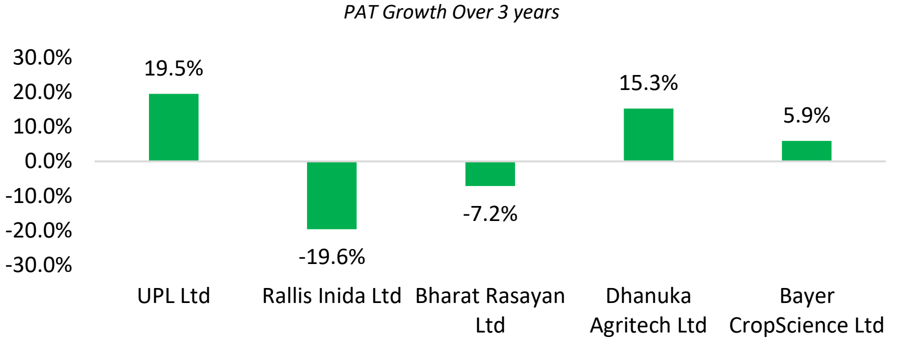


Exhibit 36: UPL PAT growth is better than competitors over FY21-23

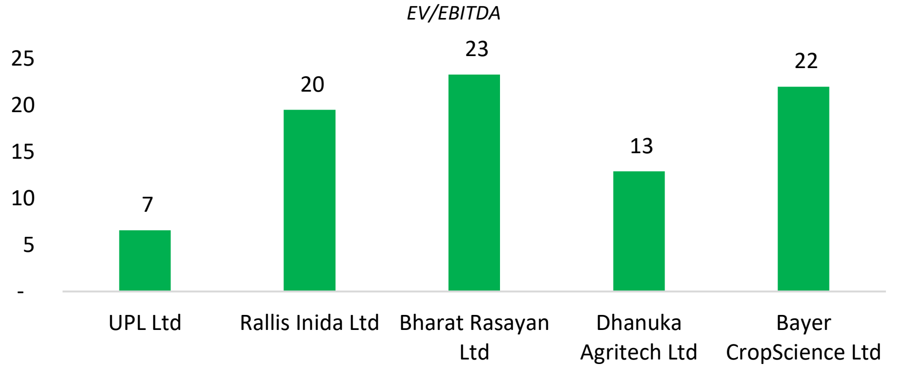


Exhibit 37: UPL has the lowest EV/EBITDA compared to peers

Peer Comparison

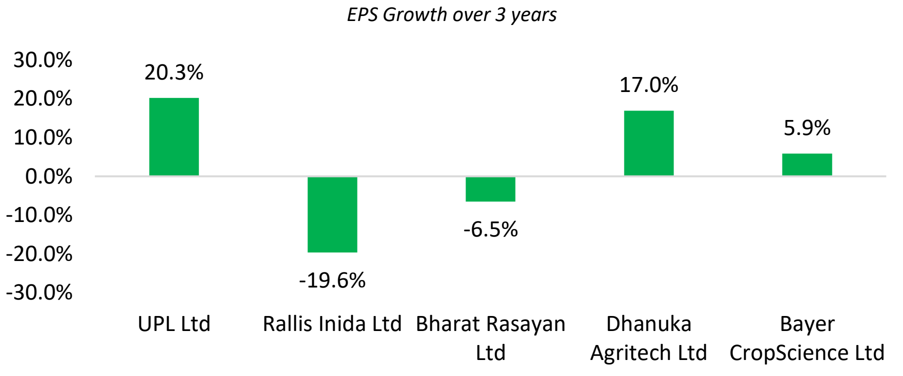


Exhibit 38: UPL has the highest EPS growth compared to peers

Recent Results – Q1FY24

Particulars (In INR Mn)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue from Operations	**89,630**	**165,690**	**108,210**	**-45.91%**	**-17.17%**
Raw Material Costs	39,300	98,210	49,190		
Gross Profit	**50,330**	**67,480**	**59,020**	**-25.41%**	**-14.72%**
Gross Margin (%)	**56.2%**	**40.7%**	**54.5%**	**1543bps**	**161bps**
Employee Cost	12,400	12,580	12,440		
Other Exp	25,200	27,680	25,120		
EBITDA	**12,730**	**27,220**	**21,460**	**-53.23%**	**-40.68%**
EBITDA Margin %	**14.2%**	**16.4%**	**19.8%**	**-223bps**	**-563bps**
Depreciation	6,360	7,270	5,880		
EBIT	**6,370**	**19,950**	**15,580**	**-68.07%**	**-59.11%**
Other Income	1,010	2,110	730		
Finance costs	7,000	9,060	5,190		
PBT	**380**	**13,000**	**11,120**	**-97.08%**	**-96.58%**
Share of (loss)/profit from JV	(570)	1,200	300		
Exceptional Items	(430)	(290)	(780)		
Total taxes	1,640	(3,110)	(590)		
PAT	**1,020**	**10,800**	**10,050**	**-90.56%**	**-89.85%**
PAT Margin (%)	**1.1%**	**6.5%**	**9.3%**	**-538bps**	**-815bps**

Source: Company Reports, Arihant Capital Research

Key Highlights

Advanta
- The revenue stands at INR 10.6 Bn (+26YoY).
- The volumes and price improved by 14% and 9% respectively.
- The growth was attributed to traction in products like Field Corn, Fresh Corn, and Grain Sorghum.

Specialty Chemicals
- The revenue stands at INR 31.1 Bn (+20% YoY), the decline is attributed to a slowdown in agrochemicals.
- Production has started in the phosgene plant at Dahej. The phosgene produced will be used to make derivative products and for internal consumption in agrochemicals thereby reducing costs for the company.

UPL Corporation
- The revenue stands at INR 58.5 Bn (-24% YoY).
- The non-selective herbicides (Glyphotal, S-metolachlor, Clethodium) faced a significant drop in volumes, especially in the Brazil and North America markets due to falling prices in post-patent products and high channel inventory. The company expects the trend to continue in Q2FY24.
- The decline in Europe was attributed to low volumes and the ban on 'Bifenazate' a high-margin active ingredient in Europe.
- The company recorded growth in China market through improved insecticides and fungicides volumes.

SAS
- The segment revenue stands at INR 12 Bn (-14% YoY).
- The company recorded traction in its new products like Apache, Oxalis, Centurion and Canora.

Other Highlights
- In FY24, the company is focused on debt reduction, targeting a range of $200-300 mn, followed by $300-400 mn in FY25. The company is also focused on optimizing working capital, with the aim of returning it to ~65-70 days by year-end (122 in Q1FY24).
- The company aims to reduce costs of $100 Mn over the next 24 months, expecting to realize 50% in FY24, as part of this strategy, they are streamlining operations by consolidating offices and warehouses, rationalizing the workforce, and reducing advertising expenses, particularly in the post-patent sector.
- Looking ahead, the company anticipates improved revenues YoY in the Nurture business for FY24, but with an expected EBITDA loss of ~INR 1,600 mn, with a projected break-even point in FY25.
- Lastly, the company has a strong pipeline, valued at ~$8.5 bn, across various stages of development and catering to different regions and crop combinations.

Guidance

The company expects the growing demand to absorb the excess inventories and guides for a 15-20% volume growth in FY24 with the distributors re-stocking from Q3 which will lead to a correction in prices. The company expects an upside in sulfur and copper-based fungicides and herbicides in H2FY24 and an overall growth led by a recovery in crop production demand and strong performance of the seeds business

Financial Statements

Profit & Loss Statement (INR Mn)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
Net sales	**3,86,940**	**4,62,390**	**5,35,750**	**5,43,845**	**6,09,303**	**6,61,771**
Growth (%)	*8.2*	*19.5*	*15.9*	*1.5*	*12.0*	*8.6*
Operating expenses	-3,01,350	-3,60,750	-4,24,160	-4,48,669	-4,77,169	-5,15,336
EBITDA	**85,590**	**1,01,640**	**1,11,590**	**95,176**	**1,32,134**	**1,46,435**
EBITDA Margin %	**22.1%**	**22.0%**	**20.8%**	**17.5%**	**21.7%**	**22.1%**
Growth (%)	*20.5*	*18.8*	*9.8*	*(14.7)*	*38.8*	*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
EBIT	**66,440**	**80,860**	**90,890**	**70,730**	**1,02,166**	**1,11,468**
Finance cost	-20,600	-22,950	-29,630	-26,399	-19,749	-17,249
Exceptional & extradordinary	-4,450	-9,600	-11,340	0	0	0
Profit before tax	**41,390**	**48,310**	**49,920**	**44,331**	**82,417**	**94,219**
Tax (current + deferred)	-6,860	-5,290	-7,360	-6,650	-14,835	-16,960
P / L form discontinuing operations	0	0	0	0	0	0
Profit / (Loss) for the period	**34,530**	**43,020**	**42,560**	**37,681**	**67,582**	**77,260**
PAT Margin %	**8.9%**	**9.3%**	**7.9%**	**6.9%**	**11.1%**	**11.7%**
P/L of Associates, Min Int, Pref Div	-5,820	-6,770	-6,870	-6,757	-12,198	-13,959
Reported Profit / (Loss)	28,710	36,250	35,690	30,924	55,384	63,301
Adjusted net profit	33,160	45,850	47,030	30,924	55,384	63,301
Growth (%)	*21.5*	*38.3*	*2.6*	*(34.2)*	*79.1*	*14.3*

Source: Company Reports, Arihant Research

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	3,17,905	3,64,472	4,11,958
Shareholders' funds	**2,08,870**	**2,46,610**	**2,98,440**	**3,19,405**	**3,65,972**	**4,13,458**
Minority Interests and others	36,930	46,470	55,850	55,850	55,850	55,850
Non-current liabilities	**2,62,240**	**2,51,750**	**2,41,110**	**2,21,110**	**1,96,110**	**1,71,110**
Long-term borrowings	2,21,460	2,16,050	2,01,440	1,81,440	1,56,440	1,31,440
Other non-current liabilities	40,780	35,700	39,670	39,670	39,670	39,670
Current liabilities	**1,96,270**	**2,81,960**	**2,90,370**	**2,78,532**	**3,11,575**	**3,38,099**
ST borrowings, Current 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	2,49,982	2,83,025	3,09,549
Total (Equity and Liabilities)	**7,04,310**	**8,26,790**	**8,85,770**	**8,74,898**	**9,29,507**	**9,78,517**
Non-current assets	**4,04,160**	**4,29,990**	**4,65,890**	**4,70,563**	**4,70,360**	**4,63,338**
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	5,438	6,093	6,618
Other non-current assets	2,11,010	2,22,640	2,41,870	2,45,954	2,49,883	2,52,144
Current assets	**3,00,150**	**3,96,800**	**4,19,880**	**4,04,335**	**4,59,147**	**5,15,179**
Cash & current investment	48,900	61,200	60,970	18,264	24,147	40,799
Other current assets	2,51,250	3,35,600	3,58,910	3,86,071	4,35,000	4,74,380
Total (Assets)	**7,04,310**	**8,26,790**	**8,85,770**	**8,74,898**	**9,29,507**	**9,78,517**
Total debt	2,35,600	2,58,660	2,29,990	2,09,990	1,84,990	1,59,990
Capital employed	5,22,180	5,87,440	6,23,950	6,24,915	6,46,482	6,68,968

Source: Company Reports, Arihant Research

Financial Statements

Cash Flow Statement (INR Mn)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
Profit before tax	**41,390**	**48,310**	**49,920**	**44,331**	**82,417**	**94,219**
Depreciation	21,730	23,590	25,470	29,240	34,786	39,809
Change in working capital	1,280	-25,850	910	-43,867	-16,541	-13,380
Total tax paid	-8,120	-11,260	-13,340	-6,650	-14,835	-16,960
Others	7,230	18,020	20,140	24,860	21,605	14,931
Cash flow from oper. (a)	**74,300**	**54,930**	**87,820**	**44,659**	**1,00,757**	**1,16,097**
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	709	890	2,582
Cash flow from inv. (b)	**-19,920**	**-36,530**	**-35,510**	**-24,251**	**-29,110**	**-27,419**
Free cash flow (a+b)	**54,380**	**18,400**	**52,310**	**20,409**	**71,647**	**88,678**
Equity raised/(repaid)	0	0	-30	0	0	0
Debt raised/(repaid)	-51,090	23,060	-28,670	-20,000	-25,000	-25,000
Dividend (incl. tax)	-8,961	-10,067	-9,959	-8,817	-15,814	-18,079
Others	-13,319	-18,723	-13,881	-34,297	-24,950	-28,943
Cash flow from fin. (c)	**-73,370**	**-5,730**	**-52,540**	**-63,115**	**-65,764**	**-72,021**
Net chg in cash (a+b+c)	**-18,990**	**12,670**	**-230**	**-42,706**	**5,883**	**16,656**

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	41.2	73.8	84.4
Growth	*21.5*	*38.3*	*4.6*	*(34.2)*	*79.1*	*14.3*
CEPS (Rs)	71.8	90.8	96.7	80.2	120.2	137.5
Book NAV/share (Rs)	273.0	322.4	397.9	425.9	488.0	551.3
Dividend/share (Rs)	10.0	10.0	10.0	10.0	11.0	11.0
Dividend payout ratio	31.2	27.8	27.9	28.5	28.6	28.6
EBITDA margin	22.1	22.0	20.8	17.5	21.7	22.1
Tax rate	15.0	9.1	12.0	15.0	18.0	18.0
RoCE	12.4	14.6	15.0	11.3	16.1	16.9
Total debt/Equity (x)	1.0	0.9	0.6	0.6	0.4	0.3
Net debt/EBITDA (x)	2.2	1.9	1.5	2.0	1.2	0.8
Net debt/Equity (x)	0.8	0.7	0.5	0.5	0.4	0.3
Du Pont Analysis - ROE						
Net margin	8.6	9.9	8.8	5.7	9.1	9.6
Asset turnover (x)	0.6	0.6	0.6	0.6	0.7	0.7
Leverage factor (x)	3.5	3.4	3.1	2.8	2.6	2.4
Return on equity	16.5	20.1	17.3	10.0	16.2	16.2

Source: Arihant Research

Valuations (x)	Mar-21	Mar-22	Mar-23	Mar 24E	Mar 25E	Mar 26E
PER	14.0	10.1	11.4	17.3	9.7	8.5
PCE	8.5	6.7	7.4	8.9	5.9	5.2
Price/Book	2.2	1.9	1.8	1.7	1.5	1.3
Yield (%)	1.6	1.8	1.6	1.4	2.5	2.9
EV/EBITDA	7.6	6.5	6.3	7.6	5.3	4.5

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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