

**CMP: INR 608**

**Rating: BUY**

**Target Price: INR 851**

**Stock Info**

BSE	512070
NSE	UPL
Bloomberg	UPLL:IN
Sector	Agrochemicals
Face Value (INR)	2
Equity Capital (INR Cr)	150
Mkt Cap (INR Cr)	45,592
52w H/L (INR)	807/576
Avg Yearly Volume (in 000')	2,165

**Shareholding Pattern %**

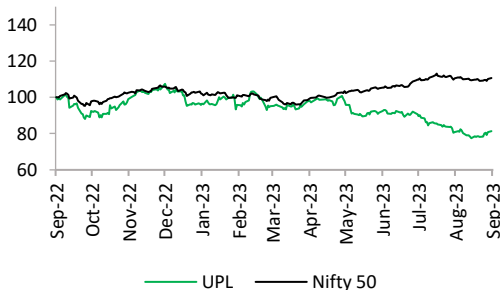
(As on Sep, 2023)

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

**Stock Performance (%)**

	1m	6m	12m
UPL	+0.3%	-14%	-19%
NIFTY	-0.3%	+10%	+11%

**UPL vs Nifty**



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**Key Drivers**

**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, a major contributor to the economy, 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. This is a favorable development for the company, given its leading position in this segment.

**Price Uptrend Set to Strengthen Alongside Growing Demand**

- Although significant demand is expected in the American and European markets during H2FY24, there has been a noticeable surge in prices for various chemical molecules.
- Notably, chemicals like paraquat, glufosinate, and glyphosate have experienced a global price increase of ~25% on a QoQ basis. This price uptrend is anticipated to improve as demand strengthens throughout the latter half of FY24.

**Traction in New Product Launches**

- 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.
- In FY23, the top five revenue-generating products were Mancozeb (fungicide), Acephate (insecticide), Glufosinate (herbicide), Acetamiprid (insecticide), and Clethodim (herbicide), collectively contributing to 35% of the total revenue.

**International 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
- The company does not anticipate a significant adverse impact from El Nino this year.

**Strong Growth and Optimistic Prospects in the Seeds Business**

- The growth in the segment was 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 improvement in volumes and price were 14% and 9% respectively and the company foresees sustained healthy demand in this segment for the remainder of FY24.

**OUTLOOK**

Channel inventories are at optimal levels and global companies anticipate improvement as the demand picks up in H2FY24. UPL has implemented backward integration in its key molecules, which contribute ~60% of its sales, enabling it to maintain cost competitiveness. Going forward, Q2FY24 appears to be shaping up more positively than Q1FY24, the company is confident that it can achieve margins on par with or even better than last year. We believe, the company will perform better in H2FY24 against the consensus estimates driven by an uptrend in price and improvement in channel inventory due to favorable demand in H2FY24. We value UPL at a PE of 10x its FY26E EPS of INR 85.1, resulting in a target price of INR 851 per share which gives an upside of 39.97% from current level. Accordingly, we assign a Buy rating on the stock. We are working on detailed numbers and note.

**Diversified Portfolio**

- The Company has a strong portfolio of more than 60 products and not a single product contributes more than 5% to the overall sales of the company. The aggressive launch of products and large offerings enables the company to diversify its product risk.

**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 which is 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.

**Rise in MSP Prices to Improve Productivity**

- The Indian Government has recently announced Minimum Support Prices (MSPs) for the 2023-24 Khariff crop season, aiming to ensure equitable compensation for farmers. This directive encompasses 14 Khariff crops, 6 Rabi crops, and 2 commercial crops. The MSP for the 14 Khariff crops has witnessed an increase ranging 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.

**Minimum Support Prices for Khariff Season (In INR per quintal)**

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

**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.

Profit & Loss (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>386,940</b>	<b>462,390</b>	<b>535,760</b>	<b>541,327</b>	<b>610,745</b>	<b>663,359</b>
Raw Material Costs	(190,960)	(220,720)	(272,810)	(281,490)	(299,265)	(318,412)
<b>Gross Profit</b>	<b>195,980</b>	<b>241,670</b>	<b>262,950</b>	<b>259,837</b>	<b>311,480</b>	<b>344,947</b>
<b>Gross Margin (%)</b>	<b>50.6%</b>	<b>52.3%</b>	<b>49.1%</b>	<b>48.0%</b>	<b>51.0%</b>	<b>52.0%</b>
Employee Cost	37,120	46,220	50,560	53,594	58,953	63,669
Other Exp	73,270	93,810	100,790	106,837	119,658	134,017
<b>EBITDA</b>	<b>85,590</b>	<b>101,640</b>	<b>111,600</b>	<b>99,406</b>	<b>132,869</b>	<b>147,260</b>
<b>EBITDA Margin %</b>	<b>22.1%</b>	<b>22.0%</b>	<b>20.8%</b>	<b>18.4%</b>	<b>21.8%</b>	<b>22.2%</b>
Depreciation	21,730	23,590	25,470	29,240	34,786	39,809
<b>EBIT</b>	<b>63,860</b>	<b>78,050</b>	<b>86,130</b>	<b>70,166</b>	<b>98,083</b>	<b>107,452</b>
Other Income	2,580	2,810	4,770	4,794	4,818	4,842
Finance costs	20,600	22,950	29,630	26,399	19,749	17,249
<b>PBT</b>	<b>45,840</b>	<b>57,910</b>	<b>61,270</b>	<b>48,561</b>	<b>83,152</b>	<b>95,045</b>
PBT margin %	11.8%	12.5%	11.4%	9.0%	13.6%	14.3%
Total taxes	6,860	5,290	7,360	7,284	14,967	17,108
<b>PAT</b>	<b>34,530</b>	<b>43,020</b>	<b>42,570</b>	<b>41,277</b>	<b>68,185</b>	<b>77,937</b>
<b>PAT Margin (%)</b>	<b>8.9%</b>	<b>9.3%</b>	<b>7.9%</b>	<b>7.6%</b>	<b>11.2%</b>	<b>11.7%</b>

Source: Company Reports, Aриhant Capital 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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