

February 4, 2019

Q3FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	975		975	
Sales (Rs. m)	208,409	226,098	208,409	226,098
% Chng.	-	-	-	-
EBITDA (Rs. m)	43,870	47,368	43,870	47,368
% Chng.	-	-	-	-
EPS (Rs.)	52.8	59.4	52.8	59.4
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	173,780	191,059	208,409	226,098
EBITDA (Rs. m)	35,160	39,454	43,870	47,368
Margin (%)	20.2	20.7	21.1	21.0
PAT (Rs. m)	19,480	23,890	26,913	30,312
EPS (Rs.)	38.2	46.8	52.8	59.4
Gr. (%)	7.1	22.6	12.7	12.6
DPS (Rs.)	8.0	9.6	10.8	12.1
Yield (%)	1.0	1.2	1.4	1.6
RoE (%)	23.5	24.6	25.5	25.0
RoCE (%)	19.3	19.1	20.3	21.4
EV/Sales (x)	2.5	2.3	2.0	1.8
EV/EBITDA (x)	12.2	11.0	9.5	8.6
PE (x)	20.1	16.4	14.6	12.9
P/BV (x)	4.3	3.8	3.6	2.9

Key Data

UPLL.BO | UPLL IN

52-W High / Low	Rs.800 / Rs.537
Sensex / Nifty	36,583 / 10,912
Market Cap	Rs.392bn / \$ 5,465m
Shares Outstanding	509m
3M Avg. Daily Value	Rs.2919.34m

Shareholding Pattern (%)

Promoter's	28.27
Foreign	41.93
Domestic Institution	9.56
Public & Others	20.24
Promoter Pledge (Rs bn)	2.54

Stock Performance (%)

	1M	6M	12M
Absolute	1.7	20.0	5.0
Relative	(0.7)	23.2	0.6

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Core business on firm footing, exceptional drag profit!!!

UPLL's solid 17.3% topline growth was driven almost equally by volume (+6%), Price hikes (+7%) and positive impact of exchange rates (+5%). Geographically, LatAM (+27%), Europe (+37%) and North America (+22%) aided growth. Price hikes and firm control over costs led to EBITDA margin expansion of 90 bps YoY to 20.6%. Robust performance of the core business (PBT before exceptional and forex loss was up 10.7% YoY; PLe- +1.2%) was marginally dragged by Rs 1.7 bn worth of exceptional items & forex loss. On completion of acquisition of Arysta Lifescience, UPLL also unveiled its new purpose i.e. "OpenAg" which stands for creating open minded and win-win partnerships. Arysta's overall setup compliments UPLL in all aspects and will thereby create significant synergies on both revenue and cost front. Size is unlikely to hinder growth for UPLL in a significant way even post acquisition. It is targeting revenue of US\$ 7 bn (~US\$ 4.5-4.7 bn currently) and 10% market share by 2022. While UPLL will consolidate financials of February and March in its Q4 & FY19 financials, we are not doing the same due to unavailability of specific cost items of Arysta. We expect UPL to clock topline and bottomline growth of 32.8% and 34.7% between FY18-21E. Maintain Buy rating with price target of Rs 975 based on 8x FY21 EV/EBITDA on post-Arysta financials (Target multiple is inline with what the innovators/ global agrochemical companies are garnering globally).

- **LatAM sales up 26.5%:** UPLL continued its outperformance in the LatAM market (market growth in Brazil @ 18%) with 27% growth driven by Unizeb, Sperto and successful launch of a herbicide (branded as Strim).
- **European revenues up 37% despite industry decline of 10%:** Stable sugarbeet acreages, traction for Mancozeb in France, Metamitron in Russia and Sulphur & Copper products in Italy & Spain were key factors for strong growth.
- **Taking back the unsold inventory led to 21% decline in India business:** Amidst high inventory in the market for the industry, UPL consciously took back inventory leading to decline in revenue. Declining income of farmers and weather related issues is leading to high inventory. Decision by several states like Punjab, Haryana and Maharashtra to restrict the usage of organophosphorus compound also impacted sales.
- **Other highlights:** (a) Net working capital days increased by 4 days YoY to 117 largely led by higher inventory days at 131 (+14 days YoY). (b) Gross debt stands at Rs 84.4 bn (Rs 83.9 bn in Q2) and Net debt stands at Rs 71.0 bn (Rs 63.5 bn in Q2). (c) UPL maintains synergy benefits of ~US \$ 350 mn on topline and ~US \$ 200 mn on cost side post Arysta acquisition. (d) Q4 will include 2 months of Arysta financials.

Exhibit 1: EOI and forex loss eating into profits

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	49,210	41,940	17.3	42,570	133,120	116,870	13.9
Expenditure							
Raw Materials	22,230	19,070	16.6	18,760	59,380	52,100	14.0
<i>% of Net Sales</i>	<i>45.2</i>	<i>45.5</i>		<i>44.1</i>	<i>44.6</i>	<i>44.6</i>	
Employee Cost	5,040	4,250	18.6	4,670	14,250	12,830	11.1
<i>% of Net Sales</i>	<i>10.2</i>	<i>10.1</i>		<i>11.0</i>	<i>10.7</i>	<i>11.0</i>	
Other Expenses	11,780	10,330	14.0	10,750	32,470	28,960	12.1
<i>% of Net Sales</i>	<i>23.9</i>	<i>24.6</i>		<i>25.3</i>	<i>24.4</i>	<i>24.8</i>	
Total Expenditure	39,050	33,650	16.0	34,180	106,100	93,890	13.0
EBITDA	10,160	8,290	22.6	8,390	27,020	22,980	17.6
<i>Margin (%)</i>	<i>20.6</i>	<i>19.8</i>		<i>19.7</i>	<i>20.3</i>	<i>19.7</i>	
Depreciation	1,820	1,690	7.7	1,810	5,380	4,920	9.3
EBIT	8,340	6,600	26.4	6,580	21,640	18,060	19.8
Interest	1,980	1,710	15.8	2,020	5,800	4,610	25.8
Other Income	370	1,190	(68.9)	320	1,920	2,960	(35.1)
PBT before EOI	6,730	6,080	10.7	4,880	17,760	16,410	8.2
EOI Gain/(Loss)	(1,730)	(600)	NA	(880)	(3,100)	(1,830)	NA
PBT after EOI	5,000	5,480	(8.8)	4,000	14,660	14,580	
Tax	280	(140)	NA	1,160	1,960	1,090	79.8
<i>Tax Rate (%)</i>	<i>4.2</i>	<i>-2.3</i>		<i>23.8</i>	<i>11.0</i>	<i>6.6</i>	
RPAT	4,720	5,620	(16.0)	2,840	12,700	13,490	(5.9)
Minority interest	60	50	20.0	60	140	80	75.0
Profit from Associate	(80)	170	NA	(80)	(180)	(570)	NA
APAT	6,310	6,340	(0.5)	3,580	15,480	14,670	5.5

Source: Company, PL

Exhibit 2: Price Increase aiding margin expansion

Revenue growth Break up	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Volume growth	21%	10%	11%	12%	8%	8%	8%	6%
Price Increase	-4%	-1%	-2%	-2%	0%	1%	4%	7%
Exchange Impact	3%	-3%	-3%	-3%	-1%	3%	2%	5%

Source: Company, PL

Exhibit 3: +20% decline in India business revenue was a key negative

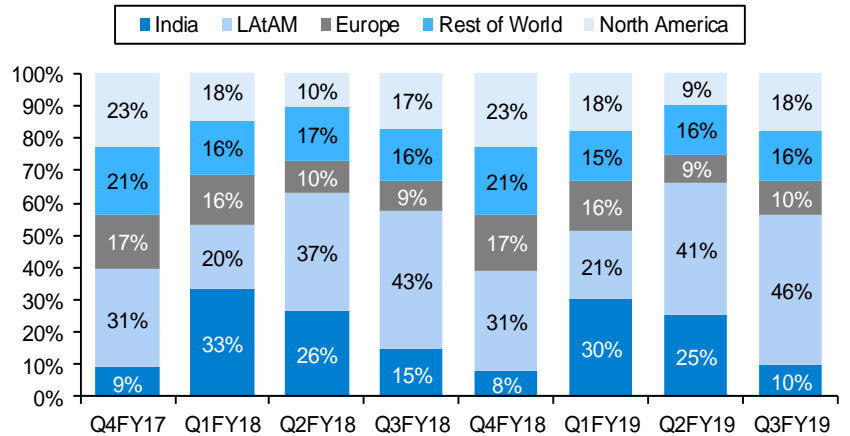
Revenue growth across geographies	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
India	5.6%	4.4%	9.7%	10.0%	5.0%	11.6%	8.0%	-20.8%
LAtAM	17.2%	5.7%	5.2%	4.0%	7.2%	17.2%	25.8%	26.5%
Europe	20.7%	4.3%	6.5%	13.7%	7.3%	10.8%	1.1%	36.6%
Rest of World	27.8%	8.9%	5.5%	8.0%	5.3%	5.5%	5.9%	12.7%
North America	25.0%	6.6%	4.8%	8.0%	6.7%	8.5%	2.3%	21.5%

Source: Company, PL

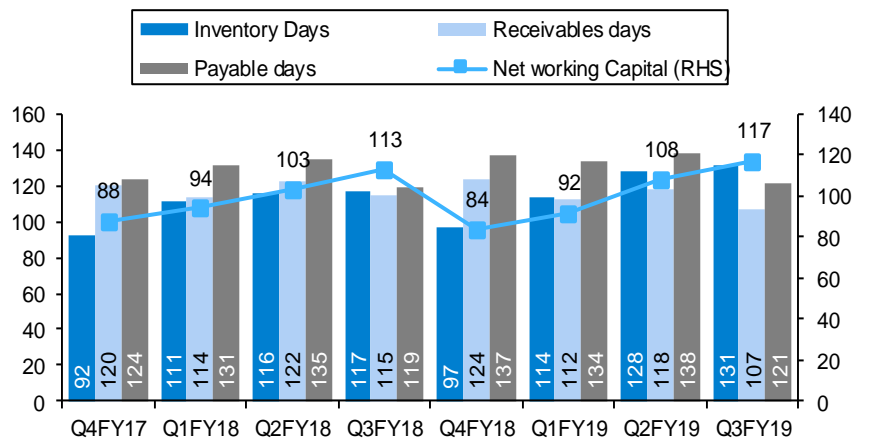
Exhibit 4: Gross debt largely unchanged QoQ

Debt in Rs bn	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Gross Debt	63.1	60.0	62.1	70.3	65.1	74.3	83.9	84.4
Net Debt	28.9	33.0	45.9	53.9	36.1	47.1	63.5	71.0

Source: Company, PL

Exhibit 5: Q3 is a LatAM heavy quarter (Sales Mix)


Source: Company, PL

Exhibit 6: Net working capital days increased marginally due to higher inventory days


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	173,780	191,059	208,409	226,098
YoY gr. (%)	6.5	9.9	9.1	8.5
Cost of Goods Sold	81,120	88,747	96,598	105,136
Gross Profit	92,660	102,312	111,812	120,962
Margin (%)	53.3	53.6	53.7	53.5
Employee Cost	17,130	18,533	20,007	22,158
Other Expenses	40,370	44,326	47,934	51,437
EBITDA	35,160	39,454	43,870	47,368
YoY gr. (%)	17.8	12.2	11.2	8.0
Margin (%)	20.2	20.7	21.1	21.0
Depreciation and Amortization	6,750	7,469	8,273	8,978
EBIT	28,410	31,985	35,597	38,389
Margin (%)	16.3	16.7	17.1	17.0
Net Interest	7,830	7,603	7,548	6,443
Other Income	4,140	3,767	3,654	3,910
Profit Before Tax	23,980	28,150	31,703	35,857
Margin (%)	13.8	14.7	15.2	15.9
Total Tax	2,750	3,659	4,280	5,020
Effective tax rate (%)	11.5	13.0	13.5	14.0
Profit after tax	21,230	24,490	27,423	30,837
Minority interest	80	100	110	125
Share Profit from Associate	(930)	(500)	(400)	(400)
Adjusted PAT	19,480	23,890	26,913	30,312
YoY gr. (%)	7.7	22.6	12.7	12.6
Margin (%)	11.2	12.5	12.9	13.4
Extra Ord. Income / (Exp)	(740)	-	-	-
Reported PAT	20,220	23,890	26,913	30,312
YoY gr. (%)	7.1	18.2	12.7	12.6
Margin (%)	11.6	12.5	12.9	13.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	20,220	23,890	26,913	30,312
Equity Shares O/s (m)	510	510	510	510
EPS (Rs)	38.2	46.8	52.8	59.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	114,490	130,390	145,390	153,890
Tangibles	56,850	64,745	72,193	76,414
Intangibles	57,640	65,645	73,197	77,476
Acc: Dep / Amortization	67,830	75,299	90,467	90,467
Tangibles	28,110	31,205	37,491	37,491
Intangibles	39,720	44,094	52,976	52,976
Net fixed assets	46,660	55,091	54,923	63,423
Tangibles	28,740	33,540	34,702	38,923
Intangibles	17,920	21,551	20,221	24,500
Capital Work In Progress	10,900	10,000	5,000	2,500
Goodwill	-	-	-	-
Non-Current Investments	12,130	12,849	13,084	13,322
Net Deferred tax assets	4,410	4,410	4,410	4,410
Other Non-Current Assets	5,130	6,192	6,956	7,810
Current Assets				
Investments	-	-	-	-
Inventories	45,380	46,063	48,534	52,653
Trade receivables	60,560	64,384	66,234	71,236
Cash & Bank Balance	28,940	34,397	38,347	38,104
Other Current Assets	12,030	15,667	15,005	16,279
Total Assets	230,430	257,776	257,324	274,888
Equity				
Equity Share Capital	1,020	1,020	1,020	1,020
Other Equity	90,670	101,335	107,886	132,369
Total Network	91,690	102,355	108,906	133,389
Non-Current Liabilities				
Long Term borrowings	58,730	68,730	58,730	48,730
Provisions	200	573	625	678
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	6,340	6,340	5,340	4,340
Trade payables	56,750	60,720	62,808	65,042
Other current liabilities	13,330	13,112	14,380	15,732
Total Equity & Liabilities	230,430	257,776	257,324	274,888

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	24,610	28,150	31,703	35,857
Add. Depreciation	6,750	7,469	8,273	8,978
Add. Interest	7,830	7,603	7,548	6,443
Less Financial Other Income	4,140	3,767	3,654	3,910
Add. Other	(5,110)	(1,311)	(3,221)	(3,468)
Op. profit before WC changes	34,080	41,910	44,304	47,810
Net Changes-WC	(3,230)	(6,250)	922	(7,958)
Direct tax	(2,490)	(7,319)	(8,560)	(10,040)
Net cash from Op. activities	28,360	28,341	36,666	29,812
Capital expenditures	(18,270)	(15,000)	(10,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	(2,650)	664	551	807
Net Cash from Inv. activities	(20,920)	(14,336)	(9,449)	(5,193)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,860	10,000	(11,000)	(11,000)
Dividend paid	(3,690)	(4,894)	(5,851)	(6,537)
Interest paid	(7,170)	(7,603)	(7,548)	(6,443)
Others	351	(5,701)	1,132	(882)
Net cash from Fin. activities	(7,649)	(8,198)	(23,267)	(24,861)
Net change in cash	(209)	5,808	3,950	(243)
Free Cash Flow	14,230	13,341	26,666	23,812

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	56,910	41,340	42,570	49,210
YoY gr. (%)	6.5	11.0	12.9	17.3
Raw Material Expenses	29,020	18,390	18,760	22,230
Gross Profit	27,890	22,950	23,810	26,980
Margin (%)	49.0	55.5	55.9	54.8
EBITDA	12,180	8,470	8,390	10,160
YoY gr. (%)	46.9	(30.5)	-	-
Margin (%)	21.4	20.5	19.7	20.6
Depreciation / Depletion	1,840	1,750	1,810	1,820
EBIT	10,340	6,720	6,580	8,340
Margin (%)	18.2	16.3	15.5	16.9
Net Interest	1,840	1,800	2,020	1,980
Other Income	1,180	1,230	320	370
Profit before Tax	9,390	5,660	4,000	5,000
Margin (%)	16.5	13.7	9.4	10.2
Total Tax	1,660	520	1,160	280
Effective tax rate (%)	17.7	9.2	29.0	5.6
Profit after Tax	7,730	5,140	2,840	4,720
Minority interest	10	20	60	60
Share Profit from Associates	(360)	(20)	(80)	(80)
Adjusted PAT	7,650	5,590	3,580	6,310
YoY gr. (%)	(9.5)	11.6	7.8	(0.5)
Margin (%)	13.4	13.5	8.4	12.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,650	5,590	3,580	6,310
YoY gr. (%)	(9.5)	11.6	7.8	(0.5)
Margin (%)	13.4	13.5	8.4	12.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,650	5,590	3,580	6,310
Avg. Shares O/s (m)	510	510	510	510
EPS (Rs)	15.0	11.0	7.0	12.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	38.2	46.8	52.8	59.4
CEPS	51.4	61.5	69.0	77.0
BVPS	179.8	200.7	213.5	261.5
FCF	27.9	26.2	52.3	46.7
DPS	8.0	9.6	10.8	12.1
Return Ratio(%)				
RoCE	19.3	19.1	20.3	21.4
ROIC	21.3	21.0	22.5	23.3
RoE	23.5	24.6	25.5	25.0
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.2	0.1
Net Working Capital (Days)	103	95	91	95
Valuation(x)				
PER	20.1	16.4	14.6	12.9
P/B	4.3	3.8	3.6	2.9
P/CEPS	15.0	12.5	11.2	10.0
EV/EBITDA	12.2	11.0	9.5	8.6
EV/Sales	2.5	2.3	2.0	1.8
Dividend Yield (%)	1.0	1.2	1.4	1.6

Source: Company Data, PL Research

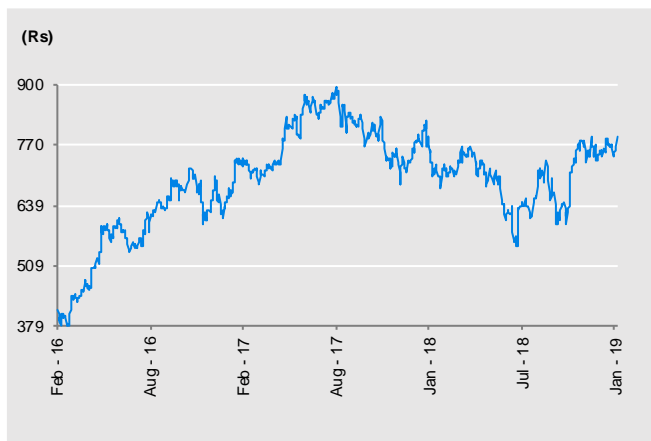
Key Operating Metrics (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Revenues				
India	31,890	36,591	40,627	44,283
LAAtAM	56,920	61,844	67,410	74,151
Europe	23,050	25,254	27,274	29,456
Rest of World	31,090	33,877	36,926	39,142
North America	30,830	33,493	36,172	39,066

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-19	BUY	975	764

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Hold	4,523	4,261
2	Dhanuka Agritech	BUY	605	418
3	Insecticides India	BUY	896	572
4	P.I. Industries	Accumulate	924	864
5	Rallis India	BUY	242	164
6	Sharda Cropchem	BUY	444	305
7	UPL	BUY	975	764

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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