

Retail Equity Research

UPL Limited

Chemicals

BSE CODE: 512070

NSE CODE: UPL

Bloomberg CODE: UPLL:IN

SENSEX: 37,663

12M Investment period

Rating as per Large Cap

CMP Rs. 454

TARGET Rs. 601

RETURN 32% ↑

(Closing:05-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Margin improved on cost synergy

UPL Ltd. is a global agriculture solutions company engaged in the agrochemicals and industrial chemicals business with manufacturing sites across the world. Through recent expansion, the company has become a leader in global food systems as well.

- Revenue declined marginally 0.9% YoY impacted by 1% YoY decline in price, while volume and foreign exchange impact stood at flat YoY.
- Despite weak topline and COVID-19, EBITDA grew 29.3% YoY to Rs. 1,704cr (+2.7% YoY on Pro-forma basis), and margin expanded by 510bps YoY to 21.8% benefitted by cost synergy, superior product mix, along with raw material savings.
- Resultantly, net profit surged 93.3% YoY to Rs. 551cr Q1FY21.
- Superior product mix, improved margin owing to cost synergy, coupled with addition of new geography are likely to support company's outlook over the medium term. Therefore, we maintained our rating to BUY on the stock with a revised price target of Rs. 601 based on 12x FY22E EPS.

LATAM business hurts top-line

UPL revenue marginally fell 0.9% YoY to Rs. 7,833cr, on supply chain disruption in Latin America, North America amidst COVID-19, partially offset by strong growth in India and Rest of the world (RoW) market. LATAM revenue was down 16.0% YoY to Rs. 2,015cr owing to FX volatility in Brazil and delay in order. Also, North America revenue dragged by 14.1% YoY to Rs. 1,027cr on pre-buying in Q4FY20, led by COVID-19. However, India outshines 26.7% YoY to Rs. 1,511cr, backed by robust growth ~36% YoY in Insecticides and Herbicides. Besides, RoW also rose 10.3% YoY to Rs. 1,578cr on growth in South- East Asia and Vietnam. While, Europe witnessed to see muted growth 0.9% YoY to Rs. 1,703cr on supply disruption and delay in sales to Q2FY21.

Margin expansion supported by cost synergy

Despite the challenging time, EBITDA stood at Rs. 1,704cr, up by 29.3% YoY, with EBITDA margin improved 510bps YoY to 21.8%, aided by raw material savings, cost synergies, better product and regional mix. Notably, company recorded a ~8% decline in fixed cost owing to lower SG&A and COVID-19 related contingencies. We anticipate further reduction in cost should support margin sustainability over the medium term.

Key concall highlights

- Management indicated revenue and EBITDA growth would be in range of 8-10% and 10-12% YoY, respectively for FY21.
- Company intend to reduce net debt of USD 500mn in FY21, however company is consciously taking any call on debt repayment or holding cash due to uncertain macro-economic environment led by COVID.
- Management stated that Arysta merger synergy benefit targets on both revenue and costs are on track. Following this, in 1Q21, company recorded revenue and cost synergy of Rs. 53cr and Rs. 83cr, respectively.
- Net working capital cycle declined by 31days to 84days in 1QFY21.

Valuation

Given, cost competitiveness, improved margin, further optimization in fixed cost, should support company's outlook over the medium term. Additionally, we remain positive on the stock as we believe that strong demand of CPC products is likely to derive growth further. Hence, we maintained BUY rating on the stock with a revised price target of Rs. 601 based on 12x FY22E adj. EPS.

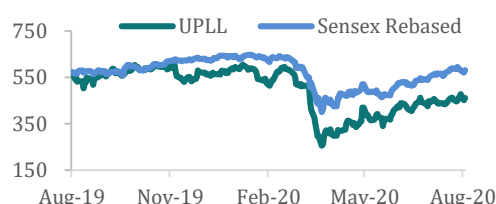
Company Data

Market Cap (cr)	Rs. 34,682
Enterprise Value (cr)	Rs. 58,595
Outstanding Shares (cr)	76.5
Free Float	72.0%
Dividend Yield	1.3%
52 week high	Rs. 618
52 week low	Rs. 240
6m average volume (lacs)	0.3
Beta	1.0
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	27.9	27.9	27.9
FII's	43.5	41.9	40.6
MFs/Insti	11.5	12.6	13.2
Public	14.3	14.5	15.0
Others	2.8	3.1	3.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	17.3%	-15.6%	-16.1%
Absolute Sensex	19.7%	-8.5%	2.6%
Relative Return*	-2.5%	-7.1%	-18.8%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	35,756	38,588	41,593
Growth (%)	63.7	7.9	7.8
EBITDA	7,104	8,012	9,035
EBITDA Margin (%)	19.9	20.8	21.7
Adj. PAT	2,399	3,030	3,827
Growth (%)	23.5	26.3	26.3
Adj. EPS	31.4	39.6	50.1
Growth (%)	23.5	26.3	26.3
P/E	10.4	11.4	9.1
P/B	1.3	1.6	1.4
EV/EBITDA	7.1	7.3	6.3
ROE (%)	9.2	13.9	15.2
D/E	1.3	1.1	1.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	7,833	7,906	(0.9)	11,141	(29.7)
EBITDA	1,704	1,318	29.3	2,169	(21.4)
EBITDA margins	21.8	16.7	510bps	19.5	230bps
Depreciation	522	446	17.0	595	(12.3)
EBIT	1,182	872	35.6	1,574	(24.9)
Interest	551	398	38.4	187	194.7
Other Income	195	33	490.9	(244)	179.9
Exceptional Items	(25)	(72)	65.3	(171)	85.4
PBT	801	435	84.1	972	(17.6)
Tax	143	77	85.7	211	(32.2)
Share of profit from Associate	-	-	n.m.	-	n.m.
Minority Interest	102	69	47.8	167	(38.9)
Reported PAT	551	285	93.3	617	(10.7)
Adjustments	25	72	(65.3)	171	(85.4)
Adj. PAT	576	357	61.3	788	(26.9)
No. of shares	76.5	76.2	0.4	76.4	0.1
Adj. EPS (Rs.)	7.5	4.7	60.7	10.3	(27.0)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	38,233	41,211	38,588	41,593	0.9	0.9
EBITDA	7,876	8,680	8,012	9,035	1.7	4.1
Margins (%)	20.6	21.1	20.8	21.7	20bps	60bps
Adj. PAT	3,176	3,945	3,030	3,827	(4.6)	(3)
Adj. EPS	41.6	51.6	39.6	50.1	(4.6)	(3)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	17,506	21,837	35,756	38,588	41,593
% change	5.0	24.7	63.7	7.9	7.8
EBITDA	3,516	4,112	7,104	8,012	9,035
% change	9.1	17.0	72.8	12.8	12.8
Depreciation	675	880	2,012	2,143	2,115
EBIT	2,841	3,232	5,092	5,869	6,920
Interest	783	963	1,481	1,428	1,307
Other Income	340	(510)	(850)	0	0
PBT	2,398	1,759	2,761	4,442	5,613
% change	23.5	(26.6)	57.0	60.9	26.4
Tax	275	198	586	933	1,179
Tax Rate (%)	11.5	11.3	21.2	21.0	21.0
Reported PAT	2,022	1,491	1,776	3,030	3,827
Adj*	63	451	623	-	-
Adj PAT	2,085	1,942	2,399	3,030	3,827
% change	15.3	(6.9)	23.5	26.3	26.3
No. of shares (cr)	76.4	76.4	76.4	76.4	76.4
Adj EPS (Rs.)	27.3	25.4	31.4	39.6	50.1
% change	15.2	(6.9)	23.5	26.3	26.3
DPS (Rs.)	5.3	5.3	6.0	6.0	6.0
CEPS (Rs.)	36.1	38.1	57.7	67.7	77.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	2,894	2,851	6,752	8,607	10,469
Accounts Receivable	6,056	11,679	11,867	13,120	14,766
Inventories	4,538	9,133	7,850	8,347	9,121
Other Cur. Assets	1,543	3,059	2,772	2,839	2,909
Investments	1,027	706	558	802	802
Gross Fixed Assets	5,685	9,047	10,982	12,880	14,852
Net Fixed Assets	2,874	4,690	5,466	5,388	5,410
CWIP	1,090	1,166	1,189	1,130	1,073
Intangible Assets	1,792	28,148	30,097	29,989	29,881
Def. Tax (Net)	529	731	1,655	1,865	2,358
Other Assets	700	1,003	1,877	1,939	1,939
Total Assets	23,043	63,166	70,083	74,025	78,728
Current Liabilities	7,008	13,783	15,388	16,113	16,798
Provisions	20	20	610	641	641
Debt Funds	6,739	28,997	28,714	28,714	28,714
Other Liabilities	88	2,197	2,777	2,899	2,927
Equity Capital	102	102	153	153	153
Reserves & Surplus	9,067	14,613	19,129	21,700	25,068
Shareholder's Fund	9,169	14,715	19,282	21,853	25,221
Minority Interest	19	3,454	3,312	3,805	4,428
Total Liabilities	23,043	63,166	70,083	74,025	78,728
BVPS (Rs.)	120	193	252	286	330

CASH FLOW

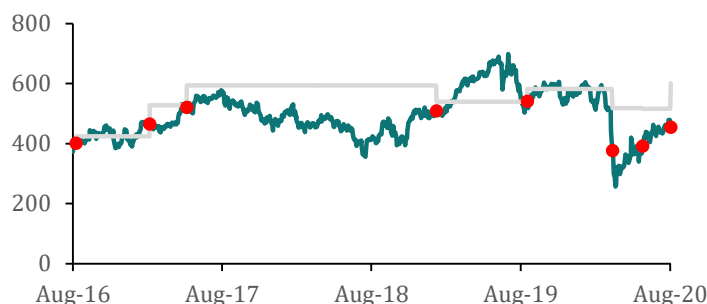
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	2,697	2,460	3,788	5,174	5,942
Non-cash adj.	-	(77)	3,790	339	257
Changes in W.C	142	(27)	1,161	(1,183)	(1,905)
C.F. Operation	2,839	2,356	8,739	4,330	4,294
Capital exp.	(1,404)	(1,553)	(1,935)	(1,898)	(1,972)
Change in inv.	(745)	(29,614)	(707)	(244)	-
Other invest.CF	56	247	(1)	126	-
C.F - Investment	(2,093)	(30,920)	(2,643)	(2,016)	(1,972)
Issue of equity	-	-	-	-	-
Issue/repay debt	286	21,966	157	-	-
Dividends paid	(369)	(424)	(457)	(459)	(459)
Other finance.CF	(718)	7,351	(1,875)	-	-
C.F - Finance	(801)	28,893	(2,175)	(459)	(459)
Chg. in cash	(19)	329	3,921	1,855	1,862
Closing cash	2,894	2,851	6,752	8,607	10,469

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	20.1	18.8	19.9	20.8	21.7
EBIT margin (%)	16.2	14.8	14.2	15.2	16.6
Net profit mgn.(%)	11.6	6.8	5.0	7.9	9.2
ROE (%)	22.1	10.1	9.2	13.9	15.2
ROCE (%)	17.8	6.9	9.9	10.8	11.9
W.C & Liquidity					
Receivables (days)	126.3	195.2	121.1	124.1	129.6
Inventory (days)	201.0	305.7	152.9	153.3	157.0
Payables (days)	251.4	329.6	199.3	198.3	194.7
Current ratio (x)	2.0	1.6	1.8	1.9	2.1
Quick ratio (x)	1.2	0.9	1.1	1.2	1.4
Turnover & Leverage					
Gross asset T.O (x)	3.3	3.0	3.6	3.2	3.0
Total asset T.O (x)	0.8	0.5	0.5	0.5	0.5
Int. coverage ratio (x)	3.6	3.4	3.4	4.1	5.3
Adj. debt/equity (x)	0.7	1.6	1.3	1.1	1.0
Valuation					
EV/Sales (x)	2.3	3.6	1.4	1.5	1.4
EV/EBITDA (x)	11.7	19.1	7.1	7.3	6.3
P/E (x)	17.8	25.2	10.4	11.4	9.1
P/BV (x)	4.1	3.3	1.3	1.6	1.4



Recommendation Summary



Dates	Rating	Target
7-Feb-17	HOLD	528
9-May-17	BUY	594
10-Jan-19	HOLD	539
20-Aug-19	HOLD	582
16-Mar-20	BUY	518
28-May-20	BUY	516
6-Aug-20	BUY	601

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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