

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR643
Target Price	: INR750
Potential Return	: 17%

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**Asiamoney Brokers' Poll 2018**

✓ **Vote for ANTIQUE**

Voting closes on 10th August

**Market data**

Sensex	:	37,607
Sector	:	Agrochemicals
Market Cap (INRbn)	:	328.0
Market Cap (USDbn)	:	4.776
O/S Shares (m)	:	509.3
52-wk HI/LO (INR)	:	903/537
Avg Daily Vol ('000)	:	4,935
Bloomberg	:	UPLL IN

Source: Bloomberg

**Valuation**

	FY18	FY19e*	FY20e*
EPS	41.0	45.4	52.4
BVPS	179.8	213.2	251.1
P/E	15.7	14.2	12.3
P/BV	3.6	3.0	2.6
RoE (%)	25.3	23.1	22.6

Source: Bloomberg \* Not adjusted for Arysta

**Returns (%)**

	1m	3m	6m	12m
Absolute	4	(12)	(14)	(27)
Relative	(2)	(17)	(18)	(37)

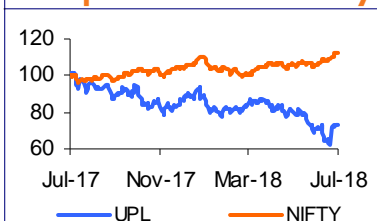
Source: Bloomberg

**Shareholding pattern**

Promoters	:	28%
Public	:	72%
Others	:	0%

Source: Bloomberg

**Price performance vs Nifty**



Source: Bloomberg Indexed to 100

**1QFY19 RESULT REVIEW**

# UPL Limited

## Resurgence of growth engine

**UPLL reported strong Q1FY19 numbers ahead of ours as well as consensus estimate. Key highlights are: (1) healthy volume growth of 8%; headwinds such as cross currency movement and realization turned into tailwinds; (2) double-digit growth in LatAm after four quarters of mid-single digit growth; outlook positive; (3) net debt increased by INR9.5bn QoQ to INR47.1bn (up INR13.8bn YoY); and (4) management maintained its guidance of constant currency revenue growth of 10-12% YoY with EBITDA growth of 12-15% YoY. The company is buoyant on the medium-term growth outlook on the back of normalizing global channel inventory position and improving key agro-commodity prices. UPLL has signed a definitive agreement to acquire a 100% stake in Arysta LifeScience Inc. (Arysta) for USD4.2bn and we are positive on the same on the back of the following: (1) UPLL will enhance its position as a global leader from No. 7 to No. 5; (2) the deal is expected to drive annual synergy of over USD200mn; and (3) it will be EPS-accretive from the first year. We model for 11%/16%/13% revenue/PBT/PAT CAGR over FY18-FY20E (excluding Arysta), led by new launches in fast-growing geographies and reduction in global inventory levels. Maintain BUY.**

### Headwinds turn into tailwinds

Consolidated revenue grew ~11% YoY to INR41.3bn, led by volume growth of 8% YoY, favorable cross currency movement (positive after four quarters), and improved realization (positive after eight quarters). UPLL is all set to achieve strong growth in FY19, led by: (1) improving channel inventory position in key markets, (2) favorable base of FY18 due to negative cross currency movement and realization, and (3) early signs of recovery in its growth engines (LatAm and India reported revenue growth of 17% and 12% YoY respectively). Management maintained its guidance of constant currency revenue growth of 10-12% YoY. North America/Europe/LatAm/India/RoW saw growth of 9%/11%/17%/12%/5% YoY in Q1FY19.

### Margin expansion on the cards

EBITDA grew 13% YoY to INR8.5bn. EBITDA margin jumped 40bps YoY to 20.5%, primarily due to saving in other expenses by 50bps and employee cost by 10bps, which was partly offset by increase in raw material cost (including overheads) by 20bps. However, excluding overheads, it has reported gross margin expansion of 60bps YoY. Adjusted PAT grew by ~5% YoY to INR5.2bn; growth was low as it was impacted by increase in finance cost (including forex impact) to INR1.8bn vs. INR0.8bn in the base quarter.

Other highlights:

- **Debt:** Net debt stood at INR47.1bn, up by INR9.5bn QoQ and INR13.8bn YoY. Management highlighted that increase in debt is seasonal in nature, led by increased working capital needs. **(refer table 3 for quarterly movement of net debt).**
- Company has generated operating cash flow of INR6.9bn in Q1FY19 **(refer table 2 for cash flow statement of Q1FY19).**
- Channel inventory position in LatAm has improved and UPLL has strong order book in Brazil.

### Valuation and outlook

UPLL has been outperforming its global peers on the strength of (1) a balanced presence across geographies, product segments and crops, (2) rising market share in high-growth countries like Brazil and India, and (3) presence across the value chain (R&D, registration, manufacturing and marketing). Maintain BUY; target price of INR750 based on 12x FY20E combined EPS (UPLL + Arysta) of INR62.8 **(refer table 1 for Combined Financial Statement).**

**Table 1: Combined Financial Statement for FY20E**

<b>INR mn (FY20)</b>	<b>Arysta</b>	<b>UPL</b>	<b>Combined</b>
Sales	136,000	215,799	351,799
<b>EBITDA pre synergy</b>	<b>28,832</b>	<b>45,574</b>	<b>74,406</b>
EBITDA %	21%	21%	21%
Synergy - Assumed*	6,800		6,800
<b>EBITDA</b>	<b>35,632</b>	<b>45,574</b>	<b>81,206</b>
EBITDA %	26%	21%	23%
Depreciation	13,539	9,920	23,459
<b>EBIT</b>	<b>22,093</b>	<b>35,654</b>	<b>57,747</b>
Interest		7,400	7,400
Interest for acquisition	8,160		8,160
Other Income		3,770	3,770
<b>PBT</b>	<b>13,933</b>	<b>32,024</b>	<b>45,957</b>
Tax	2,090	4,804	6,894
<b>PAT before MI</b>	<b>11,843</b>	<b>27,220</b>	<b>39,063</b>
MI	2,606	500	3,106
MI on UPL Corp			3,954
<b>PAT</b>	<b>9,238</b>	<b>26,720</b>	<b>32,004</b>
Share O/s	510	510	510
<b>EPS</b>		<b>52.4</b>	<b>62.8</b>
EPS Accretion/(Dilution)			19.8%
<b>Net Debt</b>	<b>204,000</b>	<b>35,809</b>	<b>239,809</b>
<b>Net Debt/EBITDA</b>	<b>5.7</b>	<b>0.8</b>	<b>3.0</b>
<b>Equity</b>		<b>128,050</b>	<b>133,334</b>
<b>Net Debt/Equity</b>		<b>0.3</b>	<b>1.8</b>
<b>Acquisition adj. RoE</b>			<b>24.0</b>
<b>Acquisition adj. Pre-tax RoCE</b>			<b>15.8</b>
<b>Current RoE</b>			<b>20.8</b>
<b>Current Pre-tax RoCE</b>			<b>21.4</b>
Consolidated FY20E EPS			62.8
Target Multiple (x)			12.0
<b>Target Price</b>			<b>750</b>
<b>CMP</b>			<b>643</b>
<b>Potential upside</b>			<b>16.6%</b>
<b>Derived EV/EBITDA</b>			<b>7.7</b>

**Assumptions**

- 1) \* Synergy of USD100mn as FY20 will be first year post acquisition.
- 2) INR/USD = INR68
- 3) Tax Rate 15%
- 4) Considered no sales/Profit growth in Arysta over FY18-20.

Source: Company, Antique

**Table 2: Cash flow analysis - Q1FY19**

<b>Cash Flow Metrics</b>	<b>Q1FY19</b>
<b>Sources</b>	
PAT + Depreciation	6,870
Working capital released	(5,260)
Increase in Debt	9,460
<b>Total Sources</b>	<b>11,070</b>
<b>Application</b>	
Capex	3,960
Miscellaneous	7,110
<b>Total Utilisations</b>	<b>11,070</b>

Source: Company, Antique

**Table 3: Seasonality in quarterly movement of net debt**

Particulars	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Gross Debt	44490	52110	42980	53940	58234.8	77090	63610	59560	64240	70250	66,390	74310
Cash	6730	5760	10678.5	14630	9288.8	20590	28800	26330	16420	16360	28,940	27250
<b>Net Debt</b>	<b>37760</b>	<b>46350</b>	<b>32301.5</b>	<b>39310</b>	<b>48946</b>	<b>56500</b>	<b>34810</b>	<b>33230</b>	<b>47820</b>	<b>53890</b>	<b>37,450</b>	<b>47060</b>

Source: Company, Antique

**Table 4: Robust volume-driven growth**

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Volume growth	23	18	21	10	11	12	8	8
Realization impact	(5)	(3)	(4)	(1)	(2)	(2)	0	1
Forex impact	1	3	3	(3)	(3)	(3)	(1)	3
<b>Total (%)</b>	<b>19</b>	<b>18</b>	<b>20</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>12</b>

Source: Company, Antique

**Table 5: Geographical analysis of revenue**

Geography	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
NAFTA	3,750	6,600	12,140	6,810	3,930	7,130	12,960	7,390
India	9,090	5,600	4,340	11,180	9,970	6,140	4,600	12,480
Europe	3,410	3,300	9,160	5,850	3,630	3,740	9,830	6,480
ROW	5,990	6,330	11,320	6,020	6,320	6,870	11,870	6,350
LATAM	13,170	17,360	16,460	7,370	13,850	18,060	17,650	8,640
<b>Total Sales</b>	<b>35,410</b>	<b>39,190</b>	<b>53,420</b>	<b>37,230</b>	<b>37,700</b>	<b>41,940</b>	<b>56,910</b>	<b>41,340</b>

Source: Company, Antique

**Table 6: YoY growth (%)**

Geography	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
NAFTA	0.5	0.2	24.9	6.7	4.8	8.0	6.8	8.5
India	8.7	7.5	-5.9	5.5	9.7	9.6	6.0	11.6
Europe	-4.7	8.6	20.7	4.1	6.5	13.3	7.3	10.8
ROW	1.9	1.6	28.3	8.9	5.5	8.5	4.9	5.5
LATAM	34.4	36.7	17.2	5.7	5.2	4.0	7.2	17.2
<b>Total Sales</b>	<b>13.0</b>	<b>16.0</b>	<b>19.3</b>	<b>6.1</b>	<b>6.5</b>	<b>7.0</b>	<b>6.5</b>	<b>11.0</b>

Source: Company, Antique

**Table 7: Actual vs. estimated performance**

(Rs mn)	Actual	Estimated	Var (%)	Consensus	Var (%)
Revenues	41,340	40,683	1.6	40,793	1.3
EBITDA	8,470	8,279	2.3	8,127	4.2
EBITDA margin (%)	20.5	20.3	14	19.9	57
Adjusted PAT	5,160	4,822	7.0	5,057	2.0

Source: Company, Antique

**Table 8: Financial snapshot - Consolidated**

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
<b>Revenue</b>	<b>41,340</b>	<b>37,230</b>	<b>11.0</b>	<b>56,910</b>	<b>(27.4)</b>
Raw material costs	18,390	16,470	11.7	29,020	(36.6)
<b>Gross profit</b>	<b>22,950</b>	<b>20,760</b>	<b>10.5</b>	<b>27,890</b>	<b>(17.7)</b>
Employee costs	4,540	4,120	10.2	4,300	5.6
Other expenses	9,940	9,140	8.8	11,410	(12.9)
Total operating expenses	14,480	13,260	9.2	15,710	(7.8)
<b>EBITDA</b>	<b>8,470</b>	<b>7,500</b>	<b>12.9</b>	<b>12,180</b>	<b>(30.5)</b>
Depreciation	1,750	1,580	10.8	1,840	(4.9)
<b>EBIT</b>	<b>6,720</b>	<b>5,920</b>	<b>13.5</b>	<b>10,340</b>	<b>(35.0)</b>
Less: Interest Expense	2,250	1,390	61.9	2,070	8.7
Add: Other income	1,230	1,010	21.8	1,180	4.2
<b>Profit Before Tax</b>	<b>5,700</b>	<b>5,540</b>	<b>2.9</b>	<b>9,450</b>	<b>(39.7)</b>
Less: Provision for Tax	520	480	8.3	1,660	(68.7)
Less: Minority Interest	20	120	(83.3)	360	(94.4)
<b>Adjusted Profit</b>	<b>5,160</b>	<b>4,940</b>	<b>4.5</b>	<b>7,430</b>	<b>(30.6)</b>
Add: Exceptional items (net of tax)	(40)	(190)		(60)	
<b>Reported Profit</b>	<b>5,120</b>	<b>4,750</b>	<b>7.8</b>	<b>7,370</b>	<b>(30.5)</b>
<b>Adjusted EPS</b>	<b>10.1</b>	<b>9.7</b>	<b>4.5</b>	<b>14.6</b>	<b>(30.6)</b>
<b>As % of revenues</b>					
COGS	44.5	44.2		51.0	
Gross profit	55.5	55.8		49.0	
Employee costs	11.0	11.1		7.6	
Other expenses	24.0	24.6		20.0	
Total operating expenses	35.0	35.6		27.6	
EBITDA	20.5	20.1		21.4	
Net profit	12.5	13.3		13.1	

Source: Company, Antique

## Financials

### Profit and loss account (INRm)

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
<b>Net Revenue</b>		<b>140,480</b>	<b>163,120</b>	<b>173,780</b>	<b>193,502</b>	<b>215,799</b>
Op. Expenses		116,530	133,270	138,730	153,650	170,225
<b>EBITDA</b>		<b>23,950</b>	<b>29,850</b>	<b>35,050</b>	<b>39,852</b>	<b>45,574</b>
Depreciation		6,760	6,720	6,760	8,340	9,920
<b>EBIT</b>		<b>17,190</b>	<b>23,130</b>	<b>28,290</b>	<b>31,512</b>	<b>35,654</b>
Other income		3,160	4,440	4,140	4,170	3,770
Interest Exp.		7,040	7,350	7,830	7,850	7,400
Extra Ordinary Items-gain/(loss)		1,290	810	630	-	-
<b>Reported PBT</b>		<b>12,020</b>	<b>19,410</b>	<b>23,970</b>	<b>27,832</b>	<b>32,024</b>
Tax		1,650	1,890	2,750	4,175	4,804
<b>Reported PAT</b>		<b>10,370</b>	<b>17,520</b>	<b>21,220</b>	<b>23,657</b>	<b>27,220</b>
Minority Int./Profit (loss) From Asso.		850	190	930	500	500
<b>Net Profit</b>		<b>11,220</b>	<b>17,710</b>	<b>22,150</b>	<b>24,157</b>	<b>27,720</b>
<b>Adjusted PAT</b>		<b>10,810</b>	<b>18,140</b>	<b>20,920</b>	<b>23,157</b>	<b>26,720</b>
<b>Adjusted EPS (INR)</b>		<b>25.2</b>	<b>35.6</b>	<b>41.0</b>	<b>45.4</b>	<b>52.4</b>

### Balance sheet (INRm)

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
Share Capital		860	1,010	1,020	1,020	1,020
Reserves & Surplus		58,030	72,960	90,670	107,683	127,030
<b>Networth</b>		<b>58,890</b>	<b>73,970</b>	<b>91,690</b>	<b>108,703</b>	<b>128,050</b>
Debt		52,580	63,610	66,390	61,390	56,390
Minority Interest		440	330	190	190	190
Net deferred Tax liabilities		(3,900)	(5,010)	(4,410)	(4,410)	(4,410)
<b>Capital Employed</b>		<b>108,010</b>	<b>132,900</b>	<b>153,860</b>	<b>165,873</b>	<b>180,220</b>
Gross Fixed Assets		59,240	62,900	73,490	87,490	101,490
Accumulated Depreciation		22,830	24,390	31,150	39,490	49,411
Capital work in progress		3,120	6,330	10,900	10,900	10,900
<b>Net Fixed Assets</b>		<b>39,530</b>	<b>44,840</b>	<b>53,240</b>	<b>58,900</b>	<b>62,979</b>
Goodwill		4,170	4,190	4,320	4,320	4,320
Investments		3,350	3,780	10,340	10,340	10,340
Non Current Investments		3,350	3,780	10,270	10,270	10,270
Current Investments		-	-	70	70	70
<b>Current Assets, Loans &amp; Adv.</b>		<b>117,740</b>	<b>144,300</b>	<b>157,240</b>	<b>163,438</b>	<b>180,671</b>
Inventory		37,870	41,560	45,380	49,733	55,317
Debtors		51,010	56,560	60,570	67,444	75,215
Cash & Bank balance		11,890	28,950	28,940	20,559	20,581
Loans & advances and others		16,970	17,230	22,350	25,703	29,558
<b>Current Liabilities &amp; Prov.</b>		<b>56,780</b>	<b>64,210</b>	<b>71,280</b>	<b>71,125</b>	<b>78,090</b>
Liabilities		51,010	59,340	67,850	67,604	74,469
Provisions		5,770	4,870	3,430	3,521	3,621
<b>Net Current Assets</b>		<b>60,960</b>	<b>80,090</b>	<b>85,960</b>	<b>92,313</b>	<b>102,581</b>
<b>Application of Funds</b>		<b>108,010</b>	<b>132,900</b>	<b>153,860</b>	<b>165,873</b>	<b>180,220</b>

### Per share data

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
No. of shares (m)		429	509	510	510	510
Diluted no. of shares (m)		429	509	510	510	510
BVPS (INR)		137.4	145.2	179.8	213.2	251.1
CEPS (INR)		40.0	47.6	54.9	62.7	72.8
DPS (INR)		5.0	6.9	8.0	10.0	12.0

Source: Company, Antique

\* Not adjusted for Arysta due to lack of financial information

### Cash flow statement (INRm)

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
<b>PBT</b>		<b>13,310</b>	<b>20,220</b>	<b>23,970</b>	<b>27,832</b>	<b>32,024</b>
Depreciation & amortisation		6,760	6,720	6,760	8,340	9,920
Interest expense		7,040	7,350	7,830	7,850	7,400
(Inc)/Dec in working capital		(7,040)	(1,210)	(5,880)	(14,734)	(10,246)
Tax paid		(4,420)	(3,410)	(2,750)	(4,175)	(4,804)
Less: Interest/Div. Income Recd.		(690)	(1,500)	(4,140)	(4,170)	(3,770)
Other operating Cash Flow		(1,000)	(1,480)	(300)	(500)	(500)
<b>CF from operating activities</b>		<b>13,960</b>	<b>26,690</b>	<b>25,490</b>	<b>20,443</b>	<b>30,025</b>
Capital expenditure		(10,120)	(12,030)	(14,840)	(14,000)	(14,000)
Inc/(Dec) in investments		(7,500)	840	(6,690)	-	-
Add: Interest/Div. Income Recd.		550	1,230	4,140	4,170	3,770
<b>CF from investing activities</b>		<b>(17,070)</b>	<b>(9,960)</b>	<b>(17,390)</b>	<b>(9,830)</b>	<b>(10,230)</b>
Inc/(Dec) in share capital		-	-	(810)	-	-
Inc/(Dec) in debt		12,840	10,790	2,780	(5,000)	(5,000)
Dividend Paid		(2,290)	(2,280)	(4,915)	(6,144)	(7,373)
Others		(6,010)	(8,180)	(4,845)	(7,850)	(7,400)
<b>CF from financing activities</b>		<b>4,540</b>	<b>330</b>	<b>(7,790)</b>	<b>(18,994)</b>	<b>(19,773)</b>
<b>Net cash flow</b>		<b>1,430</b>	<b>17,060</b>	<b>310</b>	<b>(8,381)</b>	<b>22</b>
Opening balance		10,460	11,890	28,950	28,940	20,559
<b>Closing balance</b>		<b>11,890</b>	<b>28,950</b>	<b>29,260</b>	<b>20,559</b>	<b>20,581</b>

### Growth indicators (%)

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
Revenue(%)		16.2	16.1	6.5	11.3	11.5
EBITDA(%)		1.4	24.6	17.4	13.7	14.4
Adj PAT(%)		(6.2)	67.8	15.3	10.7	15.4
Adj EPS(%)		(6.2)	41.2	15.2	10.7	15.4

### Valuation (x)

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
P/E		25.5	18.1	15.7	14.2	12.3
P/BV		4.7	4.4	3.6	3.0	2.6
EV/EBITDA		15.4	12.1	10.4	9.2	8.0
EV/Sales		2.6	2.2	2.1	1.9	1.7
Dividend Yield (%)		0.8	1.1	1.2	1.6	1.9

### Financial ratios

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
RoE (%)		18.4	27.3	25.3	23.1	22.6
RoCE (%)		20.3	22.9	22.6	22.3	22.8
Asset/T.O (x)		1.6	1.4	1.3	1.3	1.4
Net Debt/Equity (x)		0.7	0.5	0.4	0.4	0.3
EBIT/Interest (x)		2.9	3.8	4.1	4.5	5.3

### Margins (%)

Year-ended	March 31	FY16	FY17	FY18	FY19e*	FY20e*
EBITDA Margin(%)		17.0	18.3	20.2	20.6	21.1
EBIT Margin(%)		12.2	14.2	16.3	16.3	16.5
PAT Margin(%)		7.5	10.8	11.8	11.7	12.2

Source: Company Antique

\* Not adjusted for Arysta due to lack of financial information

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