

BSE SENSEX	S&P CNX
33,349	10,030
Bloomberg	UPLL IN
Equity Shares (m)	505
M.Cap.(INRb)/(USDb)	316.6 / 4.3
52-Week Range (INR)	849 / 538
1, 6, 12 Rel. Per (%)	3/-13/-24
Avg Val, INRm	1466
Free float (%)	72.1

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	173.8	194.8	358.6
EBITDA	35.2	40.7	75.4
PAT	22.3	23.4	25.8
EPS (INR)	44.2	46.3	50.6
Gr. (%)	5.9	3.7	10.4
BV/Sh (INR)	181.6	216.4	263.4
RoE (%)	26.9	23.3	21.3
RoCE (%)	19.8	18.7	16.2
P/E (x)	14.1	13.6	12.3
P/BV (x)	3.4	2.9	2.4

Estimate change



TP change



Rating change


CMP: INR622
TP: INR749(+20%)
Buy

Growth momentum intact

LATAM pulls up an otherwise moderate performance

- **In-line quarter; operational performance improves:** UPLL's revenue increased 12.9% YoY to INR42.6b (our estimate: INR42.3b) in 2QFY19, driven by volume growth of 8% and price growth of 4%. EBITDA increased 17% YoY to INR8,390m (our estimate: INR8,324m) in the quarter, with the margin expanding 60bp YoY to 19.7% (in-line). Consequently, adj. PAT increased 7.8% YoY to INR3,580m (our estimate: INR3,686m). For 1HFY19, revenue grew 12% YoY, EBITDA increased 15% YoY (margin up 50bp to 20.1%) and adj. PAT rose 10% YoY. We expect the momentum to continue in 2HFY19, with revenue growth of 12% YoY and margin expansion of 80bp YoY.
- **Strong growth in LATAM; outlook positive:** LATAM business delivered robust growth of 25.8%, driven by good traction in all key countries (except Argentina, where the economic situation played a spoilsport). LATAM is an important geography for UPLL accounting for 41% of overall revenue (v/s 37% in 2QFY18). Management expects the second half to be equally strong; the farming community, too, is upbeat, given the exports opportunity emerging from the tense trade ties between the US and China. Management has maintained its growth (10-12%) and margins guidance on account of the holistic growth prospects across geographies.
- **Valuation view:** We maintain our revenue/PAT CAGR (FY18-20) estimate of 44%/8%, and continue valuing UPLL at 13x Jun'20 EPS (~15% discount to its three-year average trading multiple) on account of (a) highly leveraged balance sheet (due to Arysta acquisition) leading to increased D/E, (b) pressure on return ratios and (c) higher exposure to forex risk. However, with key drivers of growth in place, we maintain our **Buy** rating with a target price of INR749 (20% upside).

Cons.: Quarterly Earning Model

Y/E March	FY18				FY19				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY18	FY19E	FY19E	Var
Net Sales	37,230	37,700	41,940	56,910	41,340	42,570	47,224	63,660	173,780	194,794	42,255	1
YoY Change (%)	6.1	6.5	7.0	6.5	11.0	12.9	12.6	11.9	6.5	12.1	12.1	
Total Expenditure	29,730	30,510	33,650	44,730	32,870	34,180	37,590	49,442	138,620	154,082	33,930	
EBITDA	7,500	7,190	8,290	12,180	8,470	8,390	9,634	14,218	35,160	40,712	8,324	1
Margins (%)	20.1	19.1	19.8	21.4	20.5	19.7	20.4	22.3	20.2	20.9	19.7	
Depreciation	1,580	1,650	1,690	1,840	1,750	1,810	2,290	2,341	6,760	8,191	2,091	
Interest	800	1,820	1,110	4,100	1,750	1,810	830	3,238	7,830	7,628	1,750	
Other Income	1,010	760	1,190	1,180	1,230	320	1,360	1,390	4,140	4,300	760	
Exch. difference on trade rec./payable	590	420	1,130	-2,030	500	520	0	0	110	1,020	0	
PBT before EO expense	5,540	4,060	5,550	9,450	5,700	4,570	7,874	10,029	24,600	28,173	5,243	-13
Extra-Ord expense	190	310	70	60	40	570	0	0	630	610	0	
PBT	5,350	3,750	5,480	9,390	5,660	4,000	7,874	10,029	23,970	27,563	5,243	-24
Tax	480	750	-140	1,660	520	1,160	1,260	1,608	2,750	4,548	891	
Rate (%)	9.0	20.0	-2.6	17.7	9.2	29.0	16.0	16.0	11.5	16.5	17.0	
MI & P/L of Asso. Cos.	140	630	-120	370	40	140	192	636	1,020	1,008	666	
Reported PAT	4,730	2,370	5,740	7,360	5,100	2,700	6,422	7,785	20,200	22,007	3,686	-27
Adj PAT	5,010	3,320	6,320	7,650	5,590	3,580	6,422	7,785	22,300	23,377	3,686	-3
YoY Change (%)	19.9	-7.4	28.6	-9.5	11.6	7.8	1.6	1.8	5.5	4.8	11.0	
Margins (%)	13.5	8.8	15.1	13.4	13.5	8.4	13.6	12.2	12.8	12.0	8.7	

E: MOSL Estimates

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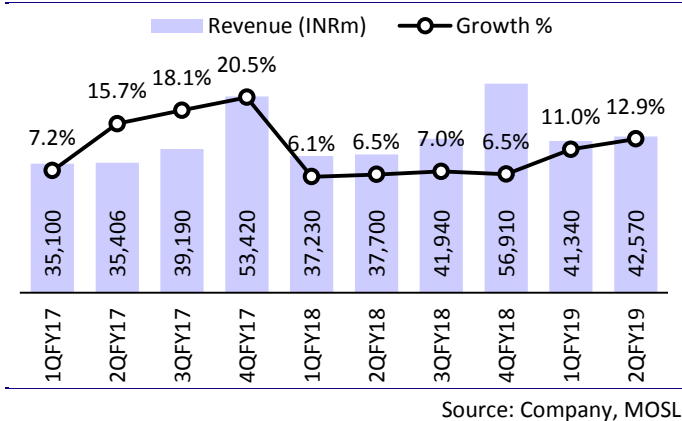
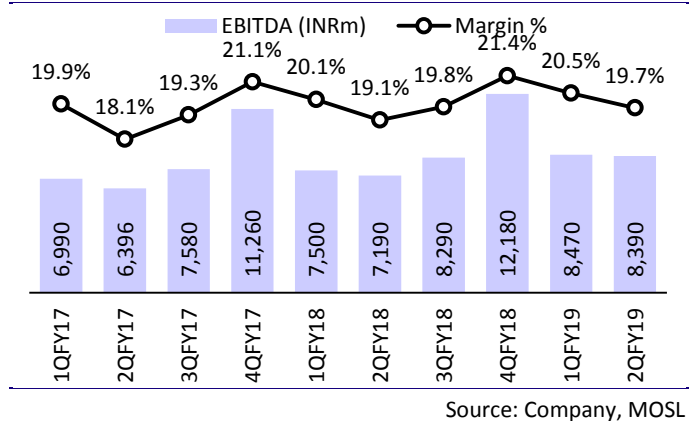
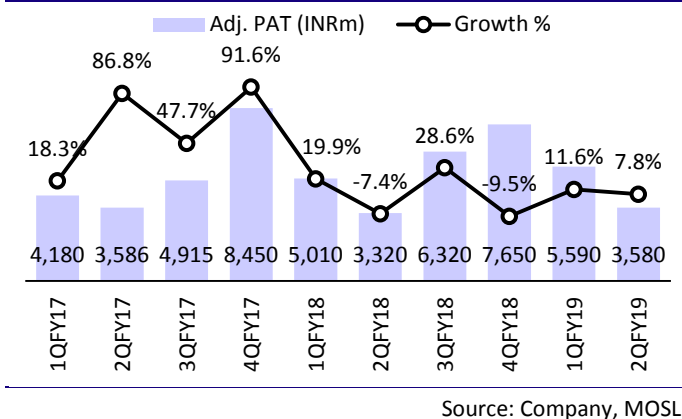
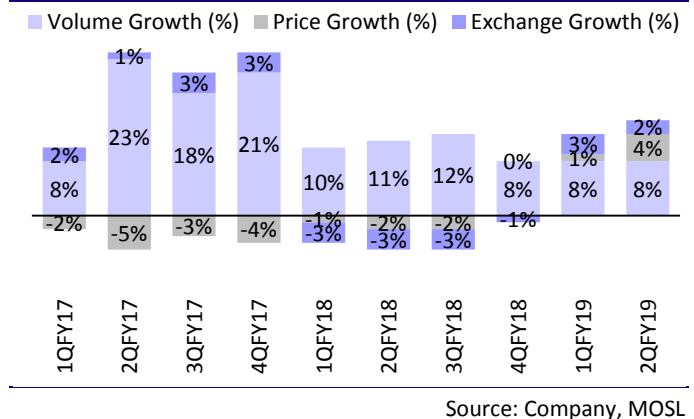
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Result in-line; operational performance improves

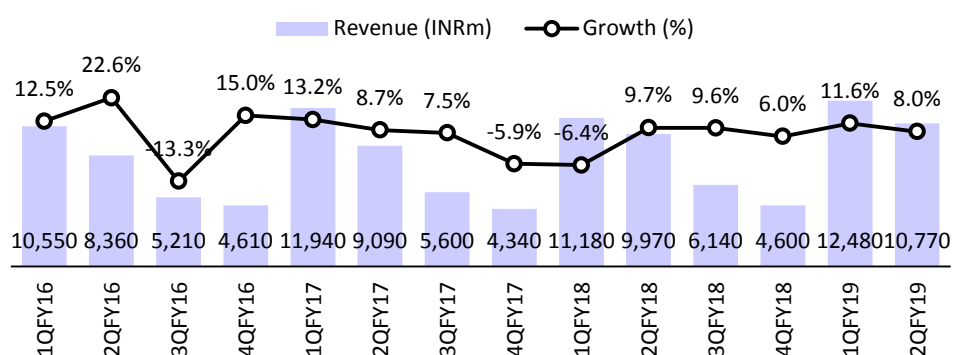
- UPL reported overall revenue of INR42.6b (est. INR42.3b) in 2QFY19, marking YoY growth of 12.9%.
- EBITDA margin expanded 60bp YoY to 19.7% (est. 19.7%) in 2QFY19, as employee expenses witnessed a decline of 80bp to 11% of net sales, partly offset by a rise of 20bp (to 44.1%) in raw material cost.
- EBITDA during the quarter stood at INR8,390m (est. of INR8,324m), implying 17% growth YoY.
- Consequently, adj. PAT grew 7.8% YoY to INR3,580m (est. INR3,686m) in 2QFY19, contained by a higher tax rate of 29% v/s 20% in 2QFY18. (PAT has been adjusted for exceptional items, forex gain/loss stated in finance cost and exchange difference on trade receivable and payable).
- In 1HFY19, overall revenue grew 12% YoY to INR83,910m, while EBITDA grew 15% YoY, with the margin expanding 50bp YoY to 20.1%. Adj. PAT grew by 10% YoY to INR9,170m in 1HFY19.
- Short-term borrowings have increased from INR6,340 as on Mar'18 to INR18,230m as on Sept'18, and so has long-term borrowings from INR58,730m as on Mar'18 to INR62,950m as on Sept'18.
- Receivables have remained flattish at INR59,390m as on Sept'18.

Exhibit 1: Quarterly revenue trend**Exhibit 2: Quarterly EBITDA trend****Exhibit 3: Quarterly adj. PAT trend****Exhibit 4: Quarterly growth break-up**

Erratic rainfall impacted cotton consumption in India

- UPLL reported a revenue of INR10,770m in India (25% contribution in 2QFY19), a growth of 8% YoY.
- The promising start to monsoon was deterred by the uneven rainfall distribution which impacted cotton in key areas of Maharashtra and Andhra Pradesh. Since, UPL has a strong portfolio in cotton, its growth was impacted.
- The company witnessed positive trend in terms of acceptance of its products Sweep Power, Avancer Glow and Delma.
- Going forward, the prognosis for Rabi crops is good, especially in the southern region where nearly all dams are at their peak capacity and plenty of water is available for crops like Chili.
- We expect India to post revenue CAGR of 14% over FY18-20E.

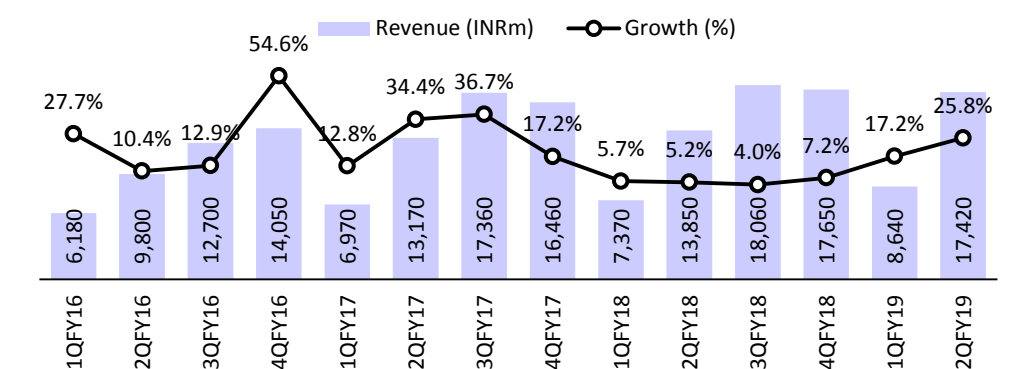
Exhibit 5: Quarterly revenue trend - India



Source: Company, MOSL

Staggering growth in LATAM

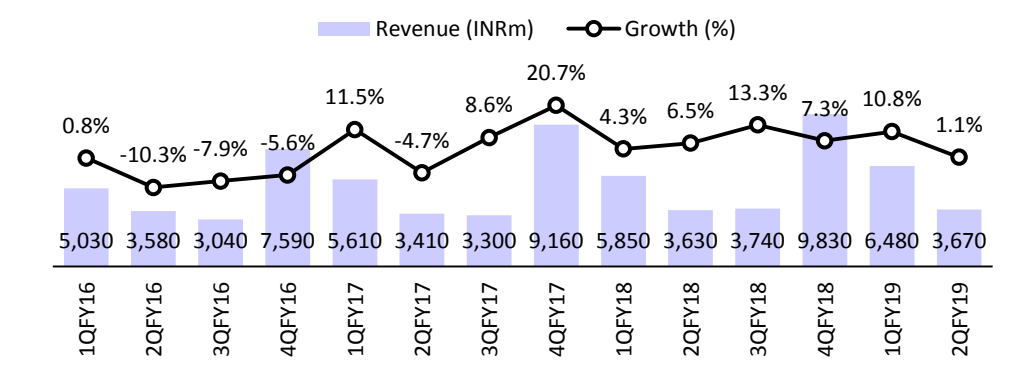
- UPLL reported a strong revenue growth of 25.8% to INR17,420 in LATAM (41% contribution in 1QFY19) driven by countries all over except Argentina because of overall economic situation.
- The company did strong campaign in south cone to replicate the success of fungicide in Brazil. Additionally, the focus in Argentina would be to maintain quality of business amid economic uncertainties.
- The management expects the second half to be equally strong and the farming community in LATAM is upbeat too because of impending export opportunities given tense ties between US and China.
- Going forward, we expect a LATAM to post a revenue CAGR of 16% over FY18-20E.

Exhibit 6: Quarterly revenue trend - LATAM

Source: Company, MOSL

Dry season in North Europe impacts sugarbeet

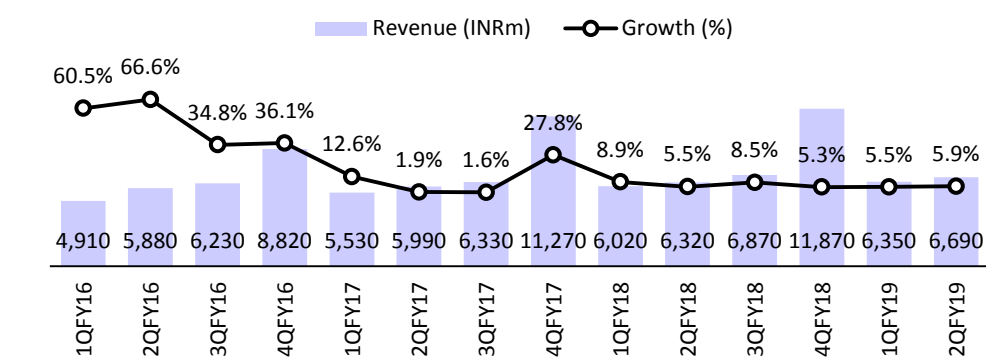
- UPLL reported a revenue growth of 1.1% to INR3,670m in Europe (9% contribution in 2QFY19) due to a dry season in North Europe impacting sugarbeet.
- The dry season resulted in low yields of sugarbeet and in-turn low herbicide consumption. However, the consumption still witnessed minor traction as the season started with low inventory.
- The southern Europe had good rainfall which helped fungicide sales in grapes and other fruit crops.
- Going forward, we expect Europe to deliver 9% revenue CAGR over FY18-20E.

Exhibit 7: Quarterly revenue trend - Europe

Source: Company, MOSL

Dry season in Australia drags RoW business

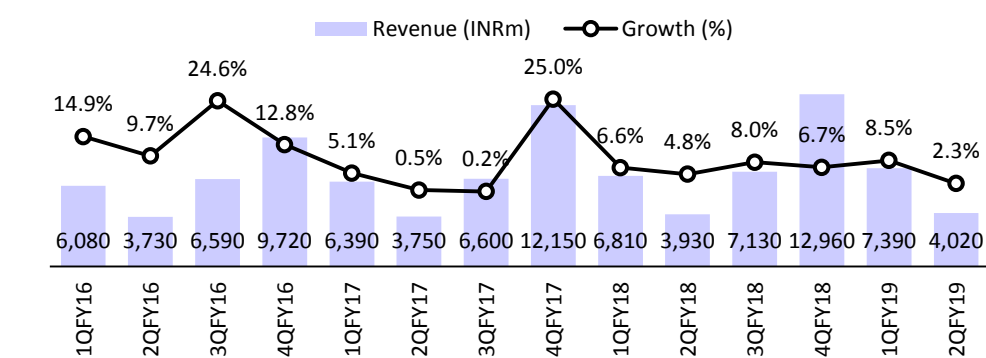
- The company registered a modest growth of 5.9% in RoW (16% contribution in 1QFY19) to INR6,690m.
- On one hand where CMET, Africa and SEA drove growth, extreme drought in Australia dragged the overall business.
- The new product registrations (Lifeline, Strim, Glory, Tridium and Zeba) aided growth in Africa. Additionally, the company also got the registration of Lifeline reinstated in Sri Lanka.
- We expect RoW to deliver a revenue CAGR of 14% over FY18-20E.

Exhibit 8: Quarterly revenue trend - RoW

Source: Company, MOSL

Delayed rains impacted North America; outlook positive

- UPL reported a revenue growth of 2.3% in North America to INR4,020m (9% contribution in 1QFY19) on account of delayed season and market inventory.
- The planting in North America was delayed on account of delayed rains which impacted pre-emergent products. This led to lost growth for UPL, however, the farmers shifted to post-emergent products where UPL has its product Lifeline.
- Going forward, the management expects advance booking for next season and also upside for their products given the import duty on Chinese products into US.
- We expect North America to post revenue CAGR of 10% over FY18-20E.

Exhibit 9: Quarterly revenue trend – North America

Source: Company, MOSL

Conference call takeaways

- The company incurred INR370m toward integration cost of Arysta in 2QFY19. Reported PAT for 1HFY19 without considering this cost was INR8,170m.
- Net working capital increased by 5 days due to an increase in inventory by 12 days, a decline receivables by 4 days, and an increase in payables by 3 days.
- Gross debt as on Sept'18 stood at INR83.9b v/s INR66.4b as on Mar'18. Net debt stood at INR63.5b as on Sept'18 v/s INR37.5b as on Mar'18. The increase in net debt can be attributed to exchange rate fluctuation (increase to the tune of INR6,050m), working capital (INR13,000m) and capex of INR8,000m incurred in 1HFY19.

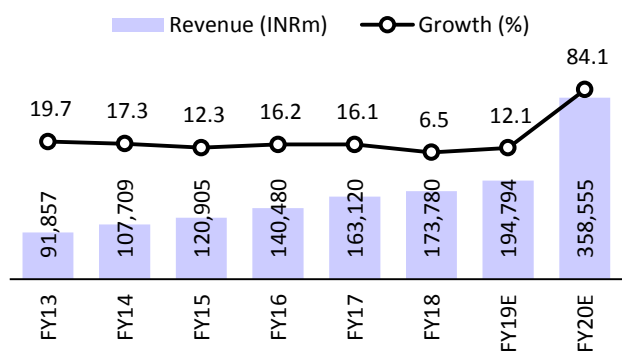
- The exceptional items reported included Arysta-related legal expenses to the tune of INR250-260m, and non-Arysta related expense of surveillance pay to the tune of INR200-250m.
- Capex guidance for FY19 stands at INR15,000m.

Valuation and view

We maintain our revenue/PAT CAGR (FY18-20) estimate of 44%/8%, and continue valuing UPL at 13x Jun'20 EPS (~15% discount to its three-year average trading multiple) on account of (a) highly leveraged balance sheet (due to Arysta acquisition) leading to increased D/E, (b) pressure on return ratios and (c) higher exposure to forex risk. However, with key drivers of growth in place, we maintain our **Buy** rating with a target price of INR749 (20% upside).

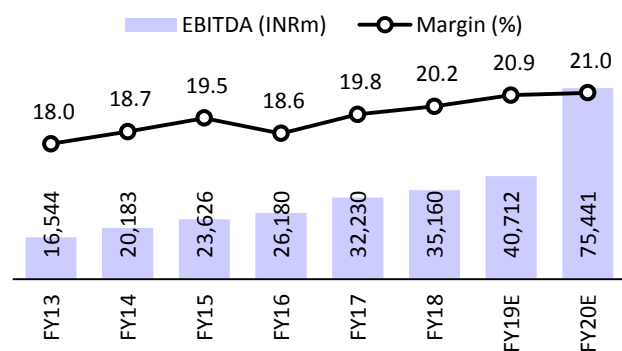
Story in charts

Exhibit 1: Expect revenue CAGR of 44% over FY18-20



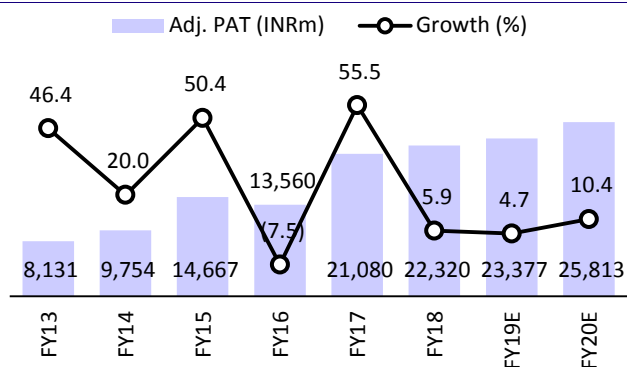
Source: Company, MOSL

Exhibit 2: Margin to expand 80bp over FY18-20



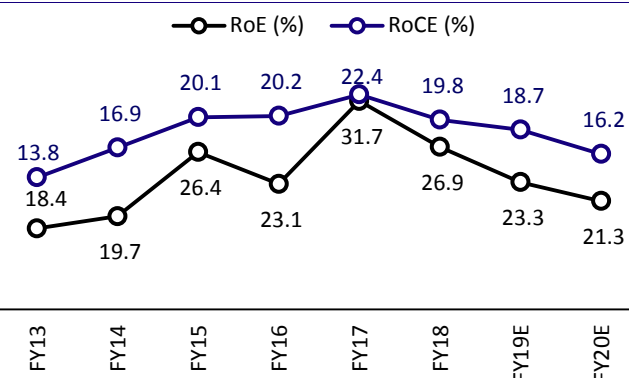
Source: Company, MOSL

Exhibit 3: Expect adj. PAT CAGR of 8% over FY18-20



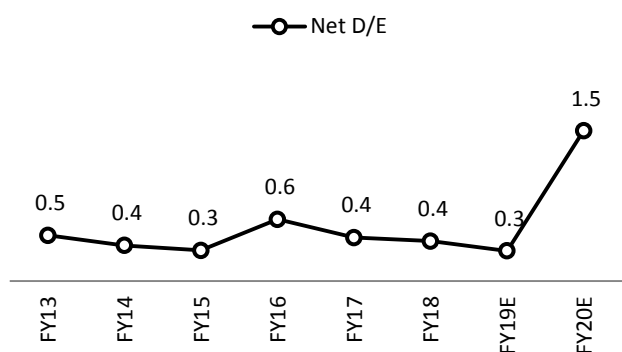
Source: Company, MOSL

Exhibit 4: Return ratios trend



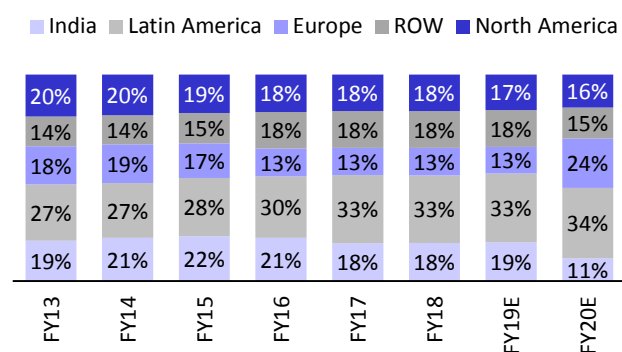
Source: Company, MOSL

Exhibit 5: Net D/E to rise



Source: Company, MOSL

Exhibit 6: Geographical mix of revenue



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement							(INR Million)	
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	91,857	107,709	120,905	140,480	163,120	173,780	194,794	358,555
Change (%)	19.7	17.3	12.3	16.2	16.1	6.5	12.1	84.1
Total Expenditure	75,313	87,526	97,279	114,300	130,890	138,620	154,082	283,114
% of Sales	82.0	81.3	80.5	81.4	80.2	79.8	79.1	79.0
EBITDA	16,544	20,183	23,626	26,180	32,230	35,160	40,712	75,441
Margin (%)	18.0	18.7	19.5	18.6	19.8	20.2	20.9	21.0
Depreciation	3,537	4,069	4,245	6,760	6,720	6,750	8,191	25,179
EBIT	13,007	16,113	19,381	19,420	25,510	28,410	32,521	50,263
Int. and Finance Charges	4,290	4,853	5,170	7,040	7,350	7,830	7,628	16,475
Other Income	1,066	1,239	911	3,160	4,440	4,140	4,300	4,000
Exchange difference on trade rec. & payables	-8	-75	939	2,230	2,380	110	1,020	0
PBT bef. EO Exp.	9,791	12,574	14,182	13,310	20,220	24,610	28,173	37,787
EO Items	150	853	30	1,290	810	630	610	0
PBT after EO Exp.	9,641	11,721	14,153	12,020	19,410	23,980	27,563	37,787
Total Tax	2,032	2,217	2,440	1,650	1,890	2,750	4,548	5,732
Tax Rate (%)	21.1	18.9	17.2	13.7	9.7	11.5	16.5	15.2
Prior Period Items - Income / (Expenses) - Net	202	156	49	0	0	0	0	0
Share of (profit)/loss of ass. & JV	-323	-221	-209	850	190	930	884	1,025
Minority Interest	-16	72	433	120	60	80	124	5,217
Reported PAT	7,746	9,498	11,440	9,400	17,270	20,220	22,007	25,813
Adjusted PAT	8,131	9,754	14,667	13,560	21,080	22,320	23,377	25,813
Change (%)	46.4	20.0	50.4	-7.5	55.5	5.9	4.7	10.4
Margin (%)	8.9	9.1	12.1	9.7	12.9	12.8	12.0	7.2

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	885	857	857	860	1,010	1,020	1,020	1,020
Total Reserves	45,567	51,617	57,746	20,060	72,140	90,670	108,280	131,994
Net Worth	46,452	52,474	58,603	58,890	73,970	91,690	109,300	133,014
Minority Interest	2,342	1,721	444	440	330	190	190	34,680
Total Loans	39,270	28,610	27,815	47,710	60,580	65,070	62,070	263,670
Deferred Tax Liabilities	-131	813	446	-3,900	-5,010	-4,410	-4,410	-4,410
Capital Employed	87,934	83,617	87,307	103,140	129,870	152,540	167,150	426,954
Gross Block	53,859	64,646	65,352	93,150	96,060	106,340	124,392	177,227
Less: Accum. Deprn.	31,734	38,560	39,537	58,700	59,540	66,290	74,481	99,660
Net Fixed Assets	22,125	26,086	25,815	34,450	36,520	40,050	49,911	77,568
Goodwill on Consolidation	12,767	12,124	14,493	4,170	4,190	4,320	4,320	149,167
Capital WIP	3,776	2,278	5,831	4,840	7,920	13,190	10,138	8,028
Total Investments	10,252	7,373	7,636	3,350	3,780	10,340	10,340	10,340
Curr. Assets, Loans&Adv.	74,310	79,731	89,064	117,980	144,700	157,240	170,983	326,199
Inventory	20,687	24,801	29,376	37,870	41,560	45,380	49,632	91,161
Account Receivables	26,850	32,085	37,930	51,000	56,560	60,570	68,311	125,740
Cash and Bank Balance	15,482	10,228	10,098	11,890	28,950	28,940	29,664	66,271
Loans and Advances	11,291	12,618	11,659	17,220	17,630	22,350	23,375	43,027
Curr. Liability & Prov.	35,296	43,973	55,532	61,650	67,240	72,600	78,542	144,347
Account Payables	20,995	26,919	32,177	39,620	48,850	56,750	56,581	103,924
Other Current Liabilities	11,184	13,373	19,207	20,990	17,300	14,740	20,659	38,027
Provisions	3,117	3,681	4,148	1,040	1,090	1,110	1,302	2,396
Net Current Assets	39,014	35,757	33,532	56,330	77,460	84,640	92,441	181,851
Appl. of Funds	87,934	83,617	87,307	103,140	129,870	152,540	167,150	426,954

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	16.1	19.3	29.0	26.9	41.7	44.2	45.8	50.6
Cash EPS	23.1	27.4	37.4	40.2	55.0	57.6	62.5	101.0
BV/Share	92.0	103.9	116.0	116.6	146.5	181.6	216.4	263.4
DPS	2.2	3.4	4.2	5.0	7.0	8.0	8.7	10.2
Payout (%)	16.7	21.1	22.6	26.9	20.5	20.0	20.0	20.0
Valuation (x)								
P/E			21.4	23.2	14.9	14.1	13.6	12.3
Cash P/E			16.6	15.5	11.3	10.8	10.0	6.2
P/BV			5.4	5.3	4.2	3.4	2.9	2.4
EV/Sales			2.7	2.5	2.1	2.0	1.8	1.4
EV/EBITDA			14.0	13.4	10.7	10.0	8.5	6.8
Dividend Yield (%)	0.4	0.5	0.7	0.8	1.1	1.3	1.4	1.6
Return Ratios (%)								
RoE	18.4	19.7	26.4	23.1	31.7	26.9	23.3	21.3
RoCE	13.8	16.9	20.1	20.2	22.4	19.8	18.7	16.2
RoIC	17.3	21.4	25.2	22.8	26.9	26.7	25.0	18.6
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	1.7	1.9	1.5	1.7	1.6	1.6	2.0
Inventory (Days)	161	166	178	204	194	204	200	200
Debtor (Days)	107	109	115	133	127	127	128	128
Creditor (Days)	163	181	195	213	228	255	228	228
Leverage Ratio (x)								
Net Debt/Equity	0.5	0.4	0.3	0.6	0.4	0.39	0.3	1.5

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	9,791	12,574	14,182	13,310	20,220	24,610	28,173	37,787
Depreciation	3,537	4,069	4,245	6,760	6,720	6,750	8,191	25,179
Interest & Finance Charges	3,769	4,323	4,576	6,350	5,850	7,830	7,628	16,475
Direct Taxes Paid	-1,638	-1,913	-2,826	-5,030	-4,040	-2,750	-4,548	-5,732
(Inc)/Dec in WC	1,043	-3,970	-5,529	-7,040	-1,210	-7,190	-7,077	-52,804
CF from Operations	16,503	15,083	14,648	14,350	27,540	29,250	32,367	20,906
Others	489	-675	-558	-390	-850	-630	-610	0
CF from Operating incl EO	16,992	14,408	14,090	13,960	26,690	28,620	31,757	20,906
(Inc)/Dec in FA	-4,457	-5,664	-5,311	-6,930	-8,270	-15,680	-15,000	-195,572
Free Cash Flow	12,535	8,744	8,780	7,030	18,420	12,940	16,757	-174,667
(Pur)/Sale of Investments	-1,738	1,791	-1,982	800	120	-6,560	0	0
Others	-1,597	1,010	2,986	-10,728	-2,040	2,810	0	10,436
CF from Investments	-7,792	-2,863	-4,307	-16,858	-10,190	-19,430	-15,000	-185,136
Issue of Shares	0	0	0	0	0	-810	0	0
Inc/(Dec) in Debt	3,807	-11,444	-689	12,840	10,790	4,490	-3,000	201,600
Interest Paid	-3,379	-4,254	-7,395	-5,860	-7,950	-7,830	-7,628	-16,475
Dividend Paid	-1,148	-1,102	-1,830	-2,290	-2,280	-4,040	-4,397	-5,157
Others	0	0	0	0	0	-1,010	-1,008	-6,242
CF from Fin. Activity	-720	-16,800	-9,913	4,690	560	-9,200	-16,033	173,725
Inc/Dec of Cash	8,481	-5,255	-130	1,792	17,060	-10	724	9,494
Opening Balance	7,002	15,482	10,228	10,098	11,890	28,950	28,940	56,776
Closing Balance	15,482	10,228	10,098	11,890	28,950	28,940	29,664	66,271

Corporate profile

Company description

UPL is the second largest post-patent global player in crop protection. It has evolved from a crop protection chemicals company into a complete agro solutions provider, offering seeds, crop protection chemicals, biologicals, soil nutrients and post-harvest solutions. It is well diversified across geographies, with revenue contribution of 32% from Latin America, 20% from India, 17% from North America, 13% from Europe, and 18% from Rest of the World.

Exhibit 1: Sensex rebased

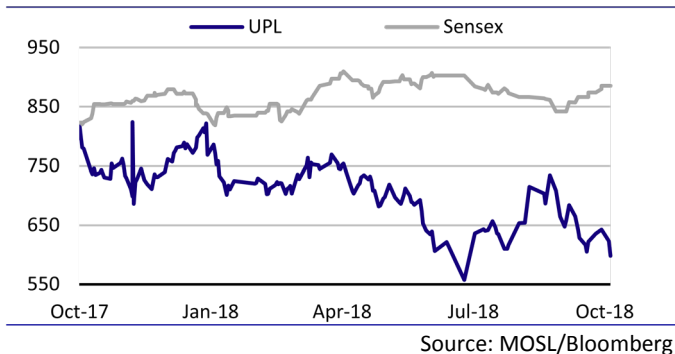


Exhibit 2: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	27.9	27.7	27.9
DII	9.0	9.5	10.9
FII	42.4	40.7	40.8
Others	20.7	22.0	20.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
JP MORGAN CHASE BANK NA	8.3
Government Pension Fund Global	2.9
Sbi Blue Chip Fund	2.7
Hdfc Trustee Company Ltd - A/C Hdfc Hybrid Equity Fund	1.9
Government Of Singapore	1.6

Source: Capitaline

Exhibit 4: Top management

Name	Designation
R D Shroff	Chairman & Managing Director
Sandra R Shroff	Vice Chairman
A C Ashar	Director (Finance)
M B Trivedi	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Jaidev R Shroff	Pradeep Goyal*
Vikram R Shroff	R Ramachandran*
A C Ashar	Vasant P Gandhi*
Hardeep Singh*	Vinod Sethi*

*Independent

Exhibit 6: Auditors

Name	Type
RA & Co	Cost Auditor
NL Bhatia & Associates	Secretarial Audit
B S R & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	45.8	46.1	-0.6
FY20	50.6	54.1	-6.4

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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