

INDUSTRY AGROCHEMICAL

CMP (as on 31 Jul 2018) Rs 643

Target Price Rs 700

Nifty 11,357

Sensex 37,607

KEY STOCK DATA

Bloomberg UPLL IN

No. of Shares (mn) 509

MCap (Rs bn) / (\$ mn) 328/4,784

6m avg traded value (Rs mn) 1,330

STOCK PERFORMANCE (%)

52 Week high / low Rs 903/537

3M 6M 12M

Absolute (%) (11.8) (14.4) (26.6)

Relative (%) (18.7) (18.9) (42.2)

SHAREHOLDING PATTERN (%)

Promoters 27.86

FIs & Local MFs 13.06

FPIs 45.76

Public & Others 13.32

Source : BSE

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Entering a bigger league

UPL reported Sales/EBITDA/APAT growth of 11.0/15.3/7.8% to Rs 41.3bn/Rs 7.97bn/Rs 5.15bn respectively. India business reported a growth of 11.0% YoY to Rs 12.4bn on a lower base, while Latam business showed a recovery with a growth of 17.2% YoY to Rs 8.6bn.

UPL's long-term prospects remain positive, led by (1) Acquisition of Arysta (UPL is set to become the 5th Largest agro-chemical player globally), (2) Easing channel inventory globally, (3) Synergy benefits post the Arysta acquisition, (4) Consolidation across geographies, (5) Strong order-book in Brazil and recovery in the Latam business.

We are expecting the acquisition of Arysta to be EPS accretive (by ~Rs 4.5 in FY20E) and have accordingly changed our FY20E estimates and rolled forward FY21E numbers. The acquisition of Arysta is likely to compliment UPL in terms of (1) Geographical mix (2) Segment mix and (3) Product mix.

We change our valuation methodology from P/E to EV/EBITDA to into account the levered balance sheet

Financial Summary (Consolidated)

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY19E	FY20E	FY21E
Net Sales	41,340	37,230	11.0	56,910	(27.4)	173,780	194,392	220,968	248,358
EBITDA	7,970	6,910	15.3	14,210	(43.9)	35,050	38,847	44,148	48,667
APAT	5,150	5,230	(1.5)	5,100	1.0	20,220	22,855	26,723	30,056
Diluted EPS (Rs)	10.0	9.3	7.8	14.4	(30.7)	39.6	44.8	52.4	58.9
P/E (x)						16.2	14.3	12.3	10.9
EV / EBITDA (x)						10.4	8.9	7.7	6.8
RoE (%)						24.4	22.7	22.2	21.0

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

(acquisition of Arysta will be funded by a US\$3.0bn debt). We now value UPL at 9.0x Jun'20 EV/EBITDA and maintain Buy with a revised target price of Rs 700 (implied P/E of 12.6x Jun'20 EPS).

Highlights of the quarter

- **Revenue growth break-up:** Volume was up +8% YoY; exchange impact was +3% and price impact was +1%.
- **Revenue growth across geographies:** Revenue growth across geographies like ROW (+5.7%), North America (+8.5%), Latin America (+17.2%) and Europe (+10.8%). India reported a decent growth of 11.6%.
- **Working capital situation:** Net working capital cycle during the qtr remained flat at 93 days.
- **Near-term outlook:** With 74% of the country witnessing normal rainfall, agro-chemical companies are likely to benefit. However, the agri commodities' price trend, weather across geographies, procurement policy by the government for higher MSP's to aid farmers and exchange rates are key monitorables.

Sales growth was led by good performance in India and Latam business.

Growth in India was driven by key brands – Ullala, Iris, Dost Super, Saaf and Eros.

There was a currency impact of a positive 3%, with Volume growth of 8% YoY in 1QFY19.

Quarterly Financials Snapshot (Consolidated)

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Sales	41,340	37,230	11.0	56,910	(27.4)
Material Expenses	18,390	16,470	11.7	29,020	(36.6)
Employee Expenses	4,540	4,120	10.2	4,300	5.6
Other Expenses	10,440	9,730	7.3	9,380	11.3
EBITDA	7,970	6,910	15.3	14,210	(43.9)
Depreciation	1,750	1,580	10.8	1,840	(4.9)
EBIT	6,220	5,330	16.7	12,370	(49.7)
Other Income (Including EO)	1,190	820	45.1	1,120	6.3
Interest	1,700	300	466.7	6,360	(73.3)
PBT	5,710	5,850	(2.4)	7,130	(19.9)
Tax	520	480	8.3	1,660	(68.7)
PAT	5,190	5,370	(3.4)	5,470	(5.1)
Minority Interest/Associate	(40)	140	na	370	(110.8)
RPAT	5,150	5,230	(1.5)	5,100	1.0
EO Items (Adj For Tax)	10.0	9.3	7.8	14.4	(30.7)
APAT	41,340	37,230	11.0	56,910	(27.4)
AEPS (Rs/sh)	18,390	16,470	11.7	29,020	(36.6)

Source: Company, HDFC sec Inst Research

Margin Analysis

	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (pbs)
Material Expenses As % Of Net Sales	44.5	44.2	25	51.0	(651)
Employee Expenses As % Of Net Sales	11.0	11.1	(8)	7.6	343
Other Expenses As % Of Net Sales	25.3	26.1	(88)	16.5	877
EBITDA Margin (%)	19.3	18.6	72	25.0	(569)
Net Profit Margin (%)	12.5	14.0	(159)	9.0	350
Tax Rate (%)	9.1	8.2	90	23.3	(1,418)

Source: Company, HDFC sec Inst Research

Segmental Revenues

	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
North America	7,390	6,810	8.5	12,960	(43.0)
India	12,480	11,180	11.6	4,600	171.3
Europe	6,480	5,850	10.8	9,830	(34.1)
RoW	6,350	6,010	5.7	11,870	(46.5)
Latin America	8,640	7,370	17.2	17,650	(51.0)
Total	41,340	37,220	11.1	56,910	(27.4)

Source: Company, HDFC sec Inst Research

We have accounted for a US\$ 3.0bn debt on books due to the acquisition of Arysta.

We believe acquisition of Arysta is likely to be accretive by ~Rs 4.5.

Assumptions

	FY18	FY19	FY20E	FY21E
Revenues YoY Growth (%)				
North America	6.8	10.0	11.0	10.0
India	7.6	13.0	15.0	13.0
Europe	7.3	10.0	13.0	11.0
Rest of World	6.6	10.0	11.0	10.0
Latin America	5.5	14.0	16.0	15.0
Gross Margin (%)	53.3	53.0	48.6	48.7
Tax Rate (%)	11.5	13.0	17.0	17.0
Cash conversion cycle (days)	108	120	120	140
Capex (Rs bn)	13.2	10.4	181.8	18.0

Source: Company, HDFC sec Inst Research

Change In Estimates

	FY19E Old	FY19E New	Ch (%)	FY20E Old	FY20E New	Ch (%)
Revenues	194,392	194,392	-	220,968	357,349	61.7
EBITDA	38,847	38,847	-	44,701	71,849	60.7
PAT	22,855	22,855	-	27,193	28,337	4.2
EPS (Rs/sh)	44.8	44.8	-	53.3	55.6	4.2

Source: HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Rating*	TP (Rs/sh)*	EPS (Rs/sh)			P/E (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
AGROCHEMICALS													
UPL	328	643	BUY	700	44.8	53.6	60.7	14.3	12.0	10.6	22.7	22.6	21.5
PI Industries	110	807	BUY	874	30.1	34.9	39.1	26.8	23.1	20.6	19.8	19.4	18.4
Rallis India	39	200	BUY	275	9.8	11.8	13.9	20.4	17.0	14.4	15.6	17.4	18.4
Dhanuka Agritech	27	554	BUY	676	28.0	30.7	35.0	19.8	18.0	19.3	20.1	18.9	18.5
Insecticides India	16	757	BUY	914	45.1	53.8	59.3	16.8	14.1	12.8	15.8	16.1	15.3

Source: Company, HDFC sec Inst Research, *As per previous published report

Income Statement (Consolidated)

(Rs mn)	FY18	FY19E	FY20E	FY21E
Net Sales	173,780	194,392	357,349	390,195
Growth (%)	6.5	11.9	83.8	9.2
Material Expenses	81,120	91,364	183,509	200,235
Employee Expenses	17,130	18,843	25,487	28,036
Other Operating Expenses	40,480	45,338	76,505	84,489
EBIDTA	35,050	38,847	71,849	77,434
EBIDTA Margin (%)	20.2	20.0	20.1	19.8
EBIDTA Growth (%)	17.4	10.8	85.0	7.8
Depreciation	6,750	7,069	24,362	25,285
EBIT	28,300	31,778	47,486	52,150
Other Income (Including EO Items)	4,140	4,061	2,681	2,681
Interest & Financial Charges	7,830	8,071	15,628	15,930
PBT	630	567	-	-
Tax	23,980	27,201	34,539	38,901
RPAT	2,750	3,536	5,872	6,613
Minority Interest	21,230	23,665	28,667	32,288
Profit From Associates	80	80	593	624
EO (Loss) / Profit (Net Of Tax)	(930)	(730)	(730)	(730)
APAT	20,220	22,855	27,344	30,934
APAT Growth (%)	17.1	13.0	19.6	13.1
AEPS	39.6	44.8	53.6	60.7
AEPS Growth (%)	17.1	13.0	19.6	13.1

Source: Company, HDFC sec Inst Research,

Balance Sheet (Consolidated)

(Rs mn)	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS				
Share Capital	1,020	1,020	1,020	1,020
Reserves	90,670	108,851	130,673	155,472
Total Shareholders Funds	91,690	109,871	131,693	156,492
Minority Interest	190	270	863	1,487
Long-term Debt	58,730	39,730	243,730	238,730
Short-term Debt	6,340	5,340	4,340	3,340
Total Debt	65,070	45,070	248,070	242,070
Long-term Provisions & Others	2,520	2,520	2,520	2,520
TOTAL SOURCES OF FUNDS	159,470	157,731	383,146	402,569
APPLICATION OF FUNDS				
Net Block	40,050	44,653	194,498	187,214
CWIP	13,190	8,290	5,290	5,290
Goodwill on Consolidation	4,320	4,320	4,320	4,320
Investments	10,270	10,270	10,270	10,270
LT Loans & Advances	7,000	7,000	7,000	7,000
Inventories	45,380	53,258	97,904	106,903
Debtors	60,560	63,910	117,485	149,664
Cash & Equivalents	29,010	28,825	57,833	56,790
ST Loans & Advances	1,470	1,470	1,470	1,470
Other Current Assets	13,890	13,890	23,272	21,542
Current Assets	150,310	161,353	297,963	336,369
Creditors	56,750	69,235	127,275	138,973
Other Current Liabilities & Provns	13,330	13,330	13,330	13,330
Current Liabilities	70,080	82,565	140,605	152,303
Net Current Assets	80,230	78,787	157,358	184,065
Net Deferred Tax Asset	4,410	4,410	4,410	4,410
TOTAL APPLICATION OF FUNDS	159,470	157,731	383,146	402,569

Source: Company, HDFC sec Inst Research,

Cash Flow (Consolidated)

(Rs mn)	FY18	FY19E	FY20E	FY21E
Reported PBT	24,610	27,768	34,539	38,901
Non-operating & EO Items	(4,140)	(4,061)	(2,681)	(2,681)
Interest Expenses	7,830	8,071	15,628	15,930
Depreciation	6,750	7,069	24,362	25,285
Working Capital Change	(6,110)	1,258	(40,181)	(29,479)
Tax Paid	(2,750)	(3,536)	(5,872)	(6,613)
OPERATING CASH FLOW (a)	26,190	36,569	25,796	41,342
Capex	(13,150)	(10,388)	(181,819)	(18,000)
<i>Free Cash Flow (FCF)</i>	<i>13,040</i>	<i>26,180</i>	<i>(156,023)</i>	<i>23,342</i>
Investments	(6,490)	-	-	-
Non-operating Income	4,140	4,061	2,681	2,681
Others	(70)	-	0	-
INVESTING CASH FLOW (b)	(15,570)	(6,327)	(179,138)	(15,319)
Debt Issuance/(Repaid)	4,490	(19,000)	204,000	(5,000)
Interest Expenses	(7,830)	(8,071)	(15,628)	(15,930)
<i>FCFE</i>	<i>9,700</i>	<i>(891)</i>	<i>32,349</i>	<i>2,412</i>
Share Capital Issuance	-	-	-	-
Dividend	(4,743)	(4,674)	(5,522)	(6,135)
Others	(2,547)	1,319	(500)	(0)
FINANCING CASH FLOW (c)	(10,630)	(30,426)	182,350	(27,065)
NET CASH FLOW (a+b+c)	(10)	(185)	29,007	(1,042)
EO Items, Others	70	-	-	-
Closing Cash & Equivalents	29,010	28,825	57,833	56,790

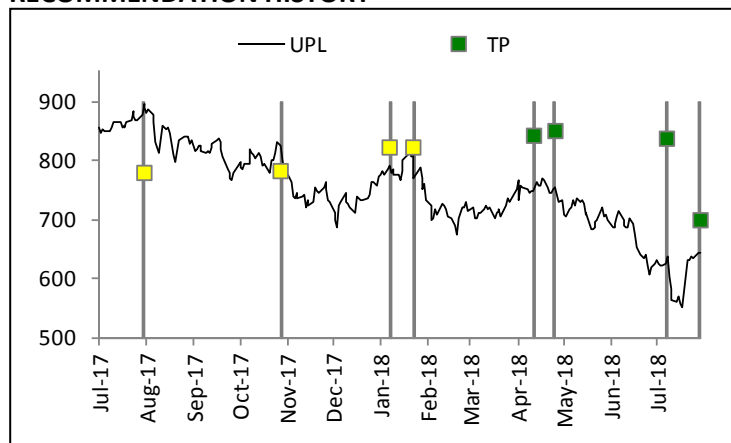
Source: Company, HDFC sec Inst Research,

Key Ratios

	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)				
GPM	53.3	53.0	48.6	48.7
EBITDA Margin	20.2	20.0	20.1	19.8
EBIT Margin	16.3	16.3	13.3	13.4
APAT Margin	11.6	11.8	7.7	7.9
RoE	24.4	22.7	22.6	21.5
Core RoCE	22.5	23.7	17.9	13.0
RoCE	18.2	18.8	14.9	11.2
EFFICIENCY				
Tax Rate (%)	11.5	13.0	17.0	17.0
Asset Turnover (x)	1.2	1.2	1.3	1.0
Inventory (days)	95	100	100	100
Debtors (days)	127	120	120	140
Other Current Assets (days)	32	30	30	30
Payables (days)	119	130	130	130
Other Current Liab & Provns (days)	28	0	0	0
Cash Conversion Cycle (days)	108	120	120	140
Debt/EBITDA (x)	1.9	1.2	3.5	3.1
Net D/E	0.4	0.1	1.4	1.2
Interest Coverage	3.6	3.9	3.0	3.3
PER SHARE DATA (Rs/sh)				
EPS	39.6	44.8	53.6	60.7
CEPS	52.9	58.7	101.4	110.2
DPS	7.7	7.6	9.0	10.0
BV	179.8	215.4	258.2	306.8
VALUATION				
P/E	16.2	14.3	12.0	10.6
P/BV	3.6	3.0	2.5	2.1
EV/EBITDA	10.4	8.9	7.2	6.6
Dividend Yield (%)	1.2	1.2	1.4	1.6
OCF/EV (%)	7.2	10.6	6.3	7.0
FCF/EV (%)	3.6	7.1	4.0	4.6
FCFE/Mcap (%)	1.6	5.0	1.6	2.4

Source: Company, HDFC sec Inst Research,

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
1-Aug-17	877	NEU	780
30-Oct-17	823	NEU	782
9-Jan-18	784	NEU	823
26-Jan-18	769	NEU	823
13-Apr-18	748	BUY	843
30-Apr-18	754	BUY	851
9-Jul-18	621	BUY	838
31-Jul-18	643	BUY	700

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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