nuvama institutional equities

UPL

RESULT UPDATE

Signs of revival; guidance maintained

UPL reported a robust Q3FY25 performance citing recovery in agrochemical demand after six consecutive quarters of contraction. The company reported growth across businesses and geographies (except ROW), and continued to raise cash from stake sales as part of its business re-alignment strategy to reduce debt. Net debt decreased to INR258.7bn for the first time sequentially.

We are cutting UPL's FY25E EPS by 6%, and raising its FY26E/27E EPS by 12%/10% anticipating a likely revival in the demand environment. We maintain 'BUY' with a revised target price of INR705 (earlier INR590), valuing the stock at an unchanged 13x on a rollover to Q3FY27E EPS.

Winds of change; demand bouncing back

UPL reported revenue growth of 10% YoY led by volume/price/currency growth of 9%/5%/(4)%. Strong volume growth was seen coming from Latam and Europe, whereas margins were bettered by sales of NPP solutions in Europe and Brazil. Management expects to achieve their business targets (50% YoY EBITDA growth). UPL expects the 3QFY25 exit EBITDA margin of 19.6% to be sustainable as a large part of active ingredient portfolio has seen stabilisation. UPL has significantly worked on reducing working capital days, down by 48 days YoY to 107 days.

Debt pangs addressed well

Q3FY25 benefitted from lower interest cost and tax reversal of previous years. The interest cost reduction was partly due to hedging profits of ~INR980mn coupled with some benefit from lower interest rates. UPL was able to report a sequential net debt reduction after many quarters. Net debt stands at INR25.87bn, lower by INR54.7bn in Q3FY25. UPL further expects proceeds of USD200mn from a rights issue and USD350mn from stake sale of Advanta, of which USD250mn will be utilised to pay down debt. The total debt reduction in FY25 will be to the tune of USD750mn (including OCF). We bake in a net debt reduction of ~USD400mn for FY 26E and ~USD450mn for FY27E. The perpetual bonds are slated for repricing or repayment between Feb-25 and May-25, which will be decided by the board later in terms of the two options available. The company expects net debt/EBITDA to be below 2x. Its average cost of debt stands at 7%.

Restructuring plans still on the anvil

UPL raised USD350mn from Alpha Wave Global, through an equity stake sale of 12.44% for repaying debt in parent entity. Meanwhile, the company is also expecting approvals in Feb/Mar-25 from the CCI for restructuring Advanta's business.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	109,070	98,870	10.3	110,900	(1.7)
EBITDA	21,620	4,160	419.7	15,750	37.3
Adjusted Profit	7,417	(12,351)	(160.1)	(4,765)	(255.7)
Diluted EPS (INR)	9.6	(16.5)	(158.1)	(6.4)	(250.6)

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	604
12 month price target (INR)	705
52 Week High/Low	618/430
Market cap (INR bn/USD bn)	435/5.0
Free float (%)	72.1
Avg. daily value traded (INR mn)	1,324.6

SHAREHOLDING PATTERN

	Jan-25	Dec-24	Sep-24
Promoter	33.50%	33.50%	32.51%
FII	32.52%	32.52%	34.22%
DII	18.89%	18.89%	19.89%
Pledge	%	%	%

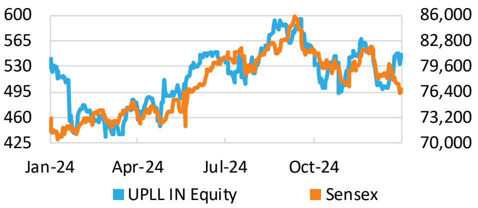
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	430,990	466,313	513,692	565,062
EBITDA	55,160	81,992	100,832	110,915
Adjusted profit	290	11,726	34,043	42,919
Diluted EPS (INR)	0.4	15.6	45.4	57.2
EPS growth (%)	(99.4)	3,943.6	190.3	26.1
RoAE (%)	(4.2)	1.3	11.4	13.0
P/E (x)	1,562.1	38.6	13.3	10.6
EV/EBITDA (x)	12.3	8.3	6.4	5.5
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	466,313	513,692	-0.47%	1.51%
EBITDA	81,992	100,832	-2.81%	-8.63%
Adjusted profit	11,726	34,043	-5.95%	12.38%
Diluted EPS (INR)	15.6	45.4	-5.95%	12.38%

PRICE PERFORMANCE



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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	430,990	466,313	513,692	565,062
Gross profit	186,050	228,494	261,983	288,181
Employee costs	46,820	51,502	56,652	62,317
Other expenses	84,070	94,999	104,499	114,949
EBITDA	55,160	81,992	100,832	110,915
Depreciation	27,630	27,408	30,251	33,900
Less: Interest expense	38,520	35,309	24,924	18,382
Add: Other income	4,830	4,854	5,097	5,352
Profit before tax	(20,860)	12,630	50,754	63,986
Prov for tax	(2,090)	2,903	9,136	11,517
Less: Other adj	0	0	0	0
Reported profit	(11,990)	3,726	34,043	42,919
Less: Excp.item (net)	12,280	8,000	0	0
Adjusted profit	290	11,726	34,043	42,919
Diluted shares o/s	750	750	750	750
Adjusted diluted EPS	0.4	15.6	45.4	57.2
DPS (INR)	0	0	0	0
Tax rate (%)	10.0	23.0	18.0	18.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	1,500	1,500	1,500	1,500
Reserves	276,430	280,156	311,555	346,150
Shareholders funds	277,930	281,656	313,055	347,650
Minority interest	49,130	52,040	61,196	72,739
Borrowings	284,380	244,380	194,380	154,380
Trade payables	0	0	0	0
Other liabs & prov	27,920	27,920	27,920	27,920
Total liabilities	651,130	617,766	608,320	614,459
Net block	309,440	364,908	421,219	481,179
Intangible assets	312,070	312,070	312,070	312,070
Capital WIP	11,060	11,060	11,060	11,060
Total fixed assets	632,570	688,038	744,349	804,309
Non current inv	18,930	18,930	18,930	18,930
Cash/cash equivalent	60,360	20,663	5,274	2,884
Sundry debtors	163,540	179,351	190,256	209,282
Loans & advances	430	1,181	1,302	867
Other assets	204,840	228,304	247,848	267,343
Total assets	651,130	617,766	608,320	614,459

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
India growth (%)	(0.2)	0.1	0.1	0.1
America growth (%)	(0.6)	0.5	0.1	0.1
Europe growth (%)	(0.1)	0.3	0.1	0.1
EBITDA margin (%)	12.8	17.6	19.6	19.6
Net profit margin (%)	0.1	2.5	6.6	7.6
Revenue growth (% YoY)	(19.6)	8.2	10.2	10.0
EBITDA growth (% YoY)	(50.6)	48.6	23.0	10.0
Adj. profit growth (%)	(99.4)	3,943.6	190.3	26.1

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	(16,360)	13,226	41,618	52,468
Add: Depreciation	27,630	27,408	30,251	33,900
Interest (net of tax)	38,520	35,309	24,924	18,382
Others	(2,760)	(323)	(4,413)	(3,035)
Less: Changes in WC	(20,550)	(49,248)	(5,721)	(13,333)
Operating cash flow	26,480	26,372	86,658	88,382
Less: Capex	(28,940)	15,830	(26,060)	(26,060)
Free cash flow	(2,460)	42,202	60,598	62,322

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	5.8	6.3	6.3	6.3
Repo rate (%)	5.5	5.0	5.0	5.0
USD/INR (average)	78.0	77.0	77.0	77.0
LATAMgrowth (%)	(0.2)	0	0.1	0.1
RoW growth (%)	0.1	(0.1)	0.1	0.1
Gross margin (%)	0.4	0.5	0.5	0.5
Net Debt/EBITDA (x)	4.1	2.7	1.9	1.4

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	(4.2)	1.3	11.4	13.0
RoCE (%)	5.4	10.0	13.2	14.4
Inventory days	199	210	222	222
Receivable days	146	134	131	129
Payable days	0	0	0	0
Working cap (% sales)	76.3	79.1	77.8	77.5
Gross debt/equity (x)	0.9	0.7	0.5	0.4
Net debt/equity (x)	0.7	0.7	0.5	0.4
Interest coverage (x)	0.7	1.5	2.8	4.2

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	1,562.1	38.6	13.3	10.6
Price/BV (x)	1.6	1.6	1.4	1.3
EV/EBITDA (x)	12.3	8.3	6.4	5.5
Dividend yield (%)	0	0	0	0

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	(99.4)	3,943.6	190.3	26.1
RoE (%)	(4.2)	1.3	11.4	13.0
EBITDA growth (%)	(50.6)	48.6	23.0	10.0
Payout ratio (%)	nm	0	0	0

Source: Company and Nuvama estimates

Exhibit 1: Quarterly financial snapshot (INR mn)

Year to March	Q3FY25	3QFY24	% YOY	2QFY25	% QoQ	FY25E	FY26E	FY27E
Revenues	109,070	98,870	10.3	110,900	(1.7)	466,313	513,692	565,062
Raw material	53,290	63,230	(15.7)	58,230	(8.5)	237,820	251,709	276,880
Staff costs	11,840	11,550	2.5	13,370	(11.4)	51,502	56,652	62,317
Other expenditure	22,320	19,930	12.0	23,550	(5.2)	94,999	104,499	114,949
Total expenditure	87,450	94,710	(7.7)	95,150	(8.1)	384,321	412,860	454,147
EBITDA	21,620	4,160	419.7	15,750	37.3	81,992	100,832	110,915
Depreciation	6,880	6,760	1.8	6,970	(1.3)	27,408	30,251	33,900
EBIT	14,740	(2,600)		8,780		54,585	70,581	77,016
Less: Interest Expense	7,300	11,910	(38.7)	10,700	(31.8)	35,309	24,924	18,382
Add: Other income	1,700	1,510	12.6	1,110	53.2	4,854	5,097	5,352
Profit Before Tax	9,140	(13,000)	(170.3)	(810)	(1,228.4)	24,130	50,754	63,986
Less: Provision for Tax	(4,990)	(590)	745.8	1,380		2,903	9,136	11,517
Less: Minority Interest	0	(3,900)	(100.0)	(1,420)	(100.0)	6,000	7,574	9,549
Add: Share of profit from associates	(2,780)	(260)		(1,350)		0	0	0
Add: Exceptional items (net of tax)	(1,113)	(181)		(335)		0	0	0
Reported Profit	8,530	(12,170)	(170.1)	(4,430)	(292.6)	15,226	34,043	42,919
Adjusted Profit	7,417	(12,351)	(160.1)	(4,765)	(255.7)	11,726	34,043	42,919
Equity capital (FV INR 2)	1,550	1,500		1,500		1,500	1,500	1,500
No. of Diluted shares outstanding (mn)	775	750		750		750	750	750
Adjusted Diluted EPS	9.6	(16.5)	(158.1)	(6.4)	(250.6)	15.6	45.4	57.2
As % of net revenues								
Raw material	48.9	64.0	(1,509.4)	52.5	(364.8)	51.0	49.0	49.0
Staff expenses	10.9	11.7		12.1		11.0	11.0	11.0
Other expenses	20.5	20.2		21.2		20.4	20.3	20.3
EBITDA	19.8	4.2	1,561.5	14.2	562.0	17.6	19.6	19.6
Net profit	6.8	(12.5)	1,929.3	(4.3)		2.5	6.6	7.6

Source: Company, Nuvama Research

Exhibit 2: Segmental information

Revenue	Q3FY23	Q4FY23	FY 23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	FY 24	Q1FY25	Q2FY25	Q3FY25
UPL Corp	113,100	137,200	419,760	58,550	74,150	74,130	101,900	308,730	61,400	76,760	84,970
YoY (%)				-23.5%	-20.2%	-34.5%	-25.7%	-26.5%	4.9%	3.5%	14.6%
UPL SAS	5,580	10,620	43,250	12,030	8,430	3,710	4,290	28,460	10,030	10,130	5,350
YoY (%)				-13.8%	-35.6%	-33.5%	-59.6%	-34.2%	-16.6%	20.2%	44.2%
Advanta	9,100	8,350	35,590	10,610	10,700	8,980	11,190	41,480	9,850	11,110	9,990
YoY (%)				26.0%	10.1%	-1.3%	34.0%	16.5%	-7.2%	3.8%	11.2%
UPL Specialty	41390	25480	151,440	31,120	35,000	18,540	15,740	100,400	21,450	26,010	28,520
YoY (%)				-19.7%	-23.6%	-55.2%	-38.2%	-33.7%	-31.1%	-25.7%	53.8%
Total	169,170	181,650	650,040	112,310	128,280	105,360	133,120	479,070	102,730	124,010	128,830
Less: Inter segment revenue											
Net sales from operations	169,170	181,650	650,040	112,310	128,280	105,360	133,120	479,070	102,730	124,010	128,830
Segment Results (EBITDA)											
UPL Corp	23410	23800	81,790	5,640	8,180	-2,150	9,200	20,870	3,130	7,450	16,540
YoY (%)				-65.1%	-55.6%	-109.2%	-61.3%	-74.5%	-44.5%	-8.9%	-869.3%
EBITDA Margin	20.7%	17.3%	19.5%	9.6%	11.0%	-2.9%	9.0%	6.8%	5.1%	9.7%	19.5%
UPL SAS	-480	1460	6,600	2,150	300	-700	-410	1,340	1,690	2,030	-240
YoY (%)				-32.0%	-87.8%	45.8%	-128.1%	-79.7%	-21.4%	576.7%	-65.7%
EBITDA Margin	-8.6%	13.7%	15.3%	17.9%	3.6%	-18.9%	-9.6%	4.7%	16.8%	20.0%	-4.5%
Advanta	2620	1270	8,980	3,640	2,650	2,640	1,740	10,670	2,540	2,520	2,240
YoY (%)				54.2%	-2.9%	0.8%	37.0%	18.8%	-30.2%	-4.9%	-15.2%
EBITDA Margin	28.8%	15.2%	25.2%	34.3%	24.8%	29.4%	15.5%	25.7%	25.8%	22.7%	22.4%
UPL Specialty	4960	2080	17,230	4,400	4,970	4,040	1,000	14,410	2,720	3,120	2,080
YoY (%)				-10.6%	-5.7%	-18.5%	-51.9%	-16.4%	-38.2%	-37.2%	-48.5%
EBITDA Margin	12.0%	8.2%	11.4%	14.1%	14.2%	21.8%	6.4%	14.4%	12.7%	12.0%	7.3%
Total	25,550	26,530	97,370	15,830	16,100	3,830	11,530	32,880	10,080	15,120	20,620

Source: Company, Nuvama Research

Q3FY25 conference call key takeaways

Financial performance

- **SG&A expenses:** Selling, General & Administrative (SG&A) expenses saw a marginal increase year-over-year (YoY), rising to INR23.1bn from INR22.7bn in the previous year.
- **Lower interest costs:** The company benefited from reduced interest expenses YoY, driven primarily by a decline in working capital (WC) requirements and a reduction in overall borrowings.
- **Tax benefit**: A favourable tax order related to previous financial years (FY16–18) led to a tax write-back, contributing positively to overall profitability.
- **Net debt reduction**: For the first time, the company reported a sequential decline in net debt during the December quarter, reflecting improved cash flow management and financial discipline.

Business performance

- **Market recovery**: UPL continues to witness a recovery in demand across its key markets.
- **Inventory clearance**: Channel inventory levels have largely normalized across major markets, setting the stage for a more balanced supply-demand environment moving forward.
- **Rights issue update**: The USD400mn rights issue approved in December is progressing as planned. Of this, USD100mn (INR8.4bn) was received in December, and the first call for another USD100mn is scheduled for January 30.
- **Perpetual bonds decision**: The company is evaluating whether to reprice or call back its perpetual bonds. While rating agencies classify these bonds as debt, they are considered part of UPL's net worth. A decision on this is expected soon.
- **Regulatory approval**: The company anticipates receiving Competition Commission of India (CCI) approval for its planned restructuring by end-March or early-April 2025.
- **Demand normalization**: With improved buying patterns and normalized usage trends, the company expects steady demand going forward.
- **Active Ingredients (AIs) pricing**: Prices of active ingredients remain stable, with no indication of a major upcycle in the near term.
- **Market share expansion**: Volume growth suggests that UPL is actively working on increasing its market share across key segments.
- **Post-patent portfolio**: Pricing for post-patent products has remained stable, and margins are steadily improving, particularly in segments focusing on sustainable and differentiated solutions.
- **Capital expenditure (capex)**: The company incurred INR12bn in capex over 9m FY25, which includes a small strategic acquisition.
- **China pricing trends**: UPL does not anticipate any near-term changes in pricing trends from China, suggesting price stability for key raw materials.

- **Raw material costs**: Raw material (RM) prices have remained largely stable, helping sustain margins.
- **Margin outlook**: The company expects the current 3Q margin profile to be maintained in subsequent quarters.
- **Biocontrol segment growth**: UPL's biocontrol business continues to show strong traction in Brazil, with fast-track regulatory approvals in Europe and other key regions.
- **Brazil market challenges**: A few Chapter 11 bankruptcy cases have emerged in Brazil, including one involving a major UPL distributor in 2Q. However, UPL does not expect further bankruptcies in 3Q or 4Q.
- **Working capital management**: The industry is adapting to a new working capital environment, driven by the higher cost of financing. UPL expects these conditions to persist for the foreseeable future.
- **Margin sustainability**: UPL believes that current margin levels are sustainable, with future upside coming from new products that focus heavily on differentiated and sustainable solutions.

UPL Corporation performance

- **Fungicides:** The company continues to see steady growth in fungicide sales.
- **Insecticides:** Growth in the insecticide segment was primarily driven by higher Acephate volumes in Brazil.
- **Herbicides**: Demand for herbicides remained strong, with North America contributing significantly to growth.
- **Sustainable portfolio**: Sustainable product volumes witnessed a 16% YoY increase, reinforcing UPL's strategy of focusing on eco-friendly agricultural solutions.
- **Regional performance**: Some regions, including Africa, Australia, and China, faced headwinds during the period, impacting overall performance.

UPL SAS performance

- **Strong sales execution**: UPL SAS benefitted from high liquidation, selective product placements, and lower Kharif season returns.
- **Working capital control**: Tighter credit control measures helped reduce working capital requirements, improving cash flows.

Advanta performance

- **Margin contraction**: Advanta faced margin pressure due to an unfavorable crop mix and lower recoveries caused by higher input costs.
- **Future strategy**: The company is focusing on margin improvement and cash generation, with favorable results expected in 4Q.

FY25 guidance (maintained)

- **FY26 volume growth**: Expected to remain in the mid-to-low single digits.
- **Agrochemical price trends**: Prices of key active ingredients are expected to stay stable and range-bound, with overall agrochemical price softness continuing.
- **Revenue growth outlook**: Projected at 4-8% YoY.

- **EBITDA growth**: The company aims for a 50%+ YoY improvement in EBITDA.
- **Operating free cash flow (OCF)**: Expected to be in the range of USD300-400mn.
- **Focus on margins**: 2H margins are expected to be significantly better than 1H, reflecting stronger profitability in the latter half of the year.

Debt management strategy

- FY25 Net Debt/EBITDA: Targeting 2.0x, supported by:

1. USD200mn from the rights issue.
2. USD350mn from the Advanta transaction, of which USD250mn will be used for debt repayment.
3. Total Debt Repayment in FY25: USD750mn, including repayments funded by OCF.

FY26 plans

- USD200mn from the rights issue.
- OCF from FY26 to support additional repayments.

Upcoming debt obligations

- USD750mn due in CY26.
- USD900mn due in CY27.
- Overall Cost of Debt: 7%, reflecting an efficient borrowing strategy.

Capex plans

- FY25 Capex Guidance: Initially planned at INR18.0bn, but actual spending is expected to be around INR15.0-16.0bn.

FY26 financial projections

- Net debt/EBITDA expected to be >1.5x.
- Net debt to be in the range of USD1.5-2.0bn.
- Normal Capex for the year projected at USD250-300mn

Company Description

UPL, incorporated in 1969, is a global player in the agro-chemicals industry with strong presence in off-patent market of US and Europe. UPL ranks among the Top five generic agro-chemical companies in the world. Historically, the company has managed to deliver high growth rates based on its strategy to acquire small agrochemical companies and tail-end brands of big players in US and Europe.

Investment theme

UPL is a direct proxy for increase in demand for food crops due to rising commodity prices, high population growth and high demand for bio-fuel. It has historically focused on acquisitions of smaller companies and brands to achieve higher growth than the market. Moreover large acquisitions like Mancozeb, RiceCo, SIB, DVA Agro, provide further upside. The recent acquisition of Arysta, will further increase UPL's global scale and make it the fifth largest agrochemical player globally.

Key Risks

Demand concerns due to cyclical and seasonal effects

The agro-chemical industry, in general, is cyclical with demands for some products seasonal in nature. Seasonal usage follows varying agricultural seasonal patterns, weather conditions and pest related pressures. This volatility impacts the overall demand for agro-chemicals. This seasonality risk is somewhat mitigated for UPL, given its geographic reach and non-dependence on any one geography for sales.

Volatility in input prices and company's limited ability to pass on costs

The company operates broadly under the concept of 'pass-through', where lower raw material costs benefits are passed on to consumers as lower prices and vice versa. High volatility in prices of raw materials for agro chemicals, leads to lower price realization and can cause margin pressures given that the average holding period of inventory is 3-4 months.

Increase in GM crops usage negative for agro chemicals

Growth in GM crops (biotech products) poses a structural risk to agro-chemicals usage, as GM crops have more resistance to pests and diseases relative to non-GM crops. This could typically lead to reduction in pesticide usage.

Forex Risk

UPL, like most companies with a large export interface, faces risks from an appreciating INR. Further at the operational level company has higher exposure to EUR (given the large exposure from Cerexagri operations) which has been recently been volatile. Most of the forex liabilities are in USD. However, the company has a natural hedge on its imports and on manufacturing done at its international locations.

Additional Data

Management

CEO	Jai Shroff
CFO	Anand Vora
COO	Carlos Pellicer
Chairman	Rajnikant Shroff
Auditor	B S R & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
Massachusetts F	4.10	Dimensional Fun	1.03
Vanguard Group	4.03	Lazard	1.02
ICICI Prulife	3.99	Mirae asset	0.77
Blackrock	2.78	HDFC ANC	0.75
Seafarer capita	1.43	FlexShares Trus	0.70

**Latest public data*

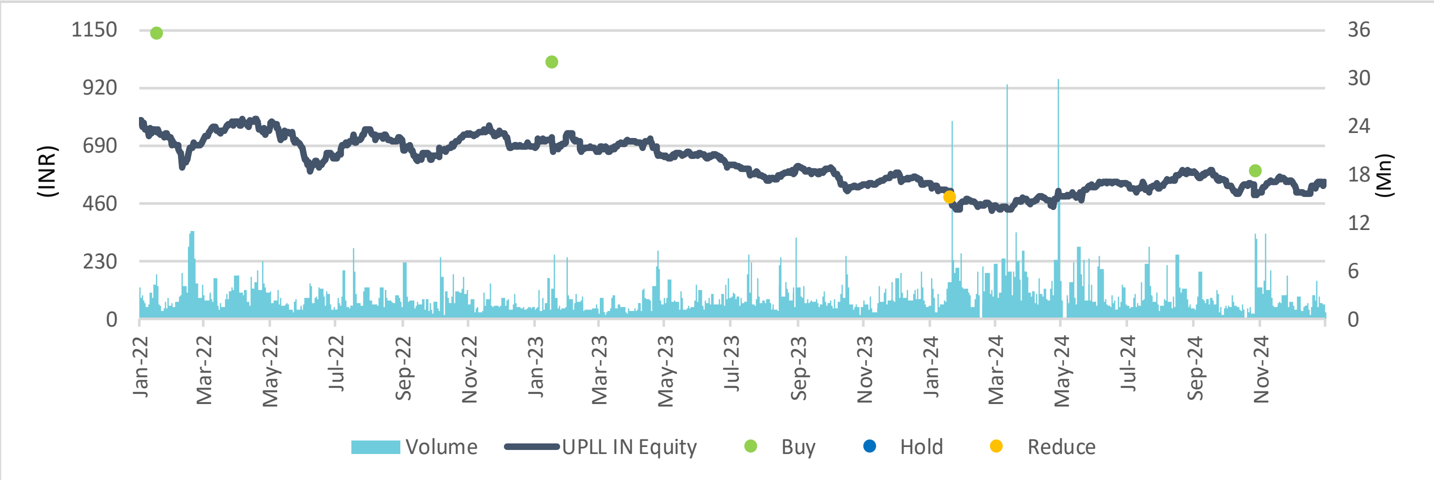
Recent Company Research

Date	Title	Price	Reco
11-Nov-24	Margin expansion in the offing; *Result Update*	515	Buy
02-Aug-24	Margin woes persist; *Result Update*	538	Reduce
14-May-24	An unforeseen overshoot; guidance tepid; *Result Update*	534	Reduce

Recent Sector Research

Date	Name of Co./Sector	Title
24-Jan-25	Sharda Cropchem	Volumes and margins both improve ; *Result Update*
17-Jan-25	Rallis India	Challenging quarter; *Result Update*
09-Jan-25	Agri Inputs	Mixed bag...; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	226
Hold	<15% and >-5%	64
Reduce	<-5%	27

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