

Retail Equity Research

UPL Limited

Chemicals

BSE CODE: 512070

NSE CODE: UPL

Bloomberg CODE: UPLL:IN

SENSEX: 37,402

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 542

TARGET Rs. 582

RETURN 7%



(Closing: 19-08-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Q1 growth due to M&A; FY20 target optimistic

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

- Q1FY20 revenue surged 91.2% YoY to Rs. 7,906cr (-7.3% QoQ; beating Street estimates by 9.7%), driven by contribution from Arysta acquisition. Excluding M&A effects, revenue grew 6.7% YoY.
- EBITDA margin declined 470bps YoY to 15.8% on account of purchase price allocation (PPA) adjustment on inventory of Rs. 412cr. Ignoring the PPA effect, EBITDA margin expanded ~50bps YoY to 21.0%.
- Adj. PAT fell 51.4% YoY to Rs. 250cr (after adjusting for integration costs of Rs. 72cr).
- We maintain our HOLD rating on the stock, with a revised target price of Rs. 582, based on 12x FY21E adj. EPS.

LatAm drives topline growth

Revenue grew 91.2% YoY to Rs. 7,906cr in Q1FY20 with revenue from Agro activities increasing 92.3% YoY (helped by Arysta acquisition) and non-agro revenue rising 82.4%. On pro-forma basis, total revenue was up 6.7% YoY (6% adjusted for currency effects, of which, 5% growth on volume and 1% due to price effect). Geographically, the revenue growth was primarily led by Latin America (+25.0% YoY; contributing 30% of revenue) amidst higher demand from Brazil. Also, the company witnessed rising revenue in North America (+6.0% YoY; 15% of revenue) and Rest of the World (+7.0% YoY; 19% of revenue), but partly offset by revenue declines in Europe (-3.0% YoY; 21% of revenue) and India (-8.0% YoY owing to lack of rainfall and product placement; 15% of revenue). Management expects the second half of the year to be stronger than H1FY20 and also expects to benefit from the diversified sourcing of global users on account of disruption in Chinese raw material supplies.

Margins impacted by unfavourable mix and PPA adjustment

EBITDA margin shrank 470bps YoY to 15.8% due to longer inventory holding periods and a one-time purchase price allocation adjustment of Rs. 412cr. Additionally, increased sales in lower-margin regions pointed to an unfavourable revenue mix. However, overall EBITDA rose 47.2% YoY to Rs. 1,247cr in Q1FY20 primarily helped by contribution from Arysta acquisition (pro-forma EBITDA up 11.0% YoY). Reported net profit of Rs. 178cr (-65.1% YoY) was impacted by higher D&A and interest expenses with adoption of IAS 116. However, adj. PAT (excluding integration costs of Rs. 72cr) fell 51.4% YoY.

Key concall highlights

- Revenue synergies of USD 20mn and cost synergies of USD19mn achieved during the quarter. Management targets to deliver USD 100mn in revenue synergies and USD 80mn in cost synergies in FY20.
- Interest cost to reduce on account of debt refinancing at lower rates.
- Management has maintained its revenue and EBITDA growth guidance of 8-10% and 16-20% respectively for FY20.

Valuation

Our FY20 revenue and EBITDA estimates are below the mid-point of guidance by 1% and 6% respectively. The company is currently trading at a P/E of 13.9x FY20E. We roll forward to FY21E and maintain our HOLD rating on the stock, with a revised target price of Rs. 582, based on 12x FY21E adj. EPS.

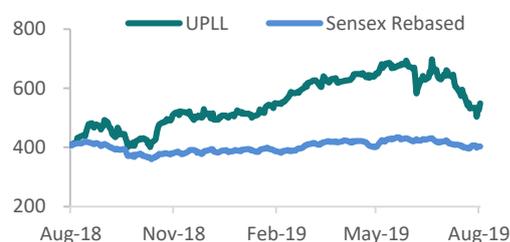
Company Data

Market Cap (cr)	Rs. 41,425
Enterprise Value (cr)	Rs. 69,065
Outstanding Shares (cr)	76.4
Free Float	72.0%
Dividend Yield	1.0%
52 week high	Rs. 709
52 week low	Rs. 388
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs. 2

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	27.9	27.9	27.9
FIIIs	41.9	42.8	42.9
MFs/Insti	9.9	9.5	9.9
Public	15.1	14.7	14.5
Others	5.2	5.2	4.8
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-16.6%	-0.8%	31.3%
Absolute Sensex	-1.5%	5.7%	-1.6%
Relative Return*	-15.1%	-6.4%	32.9%

*over- or underperformance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	21,837	35,025	38,334
Growth (%)	24.7	60.4	9.4
EBITDA	4,112	7,647	8,590
EBITDA Margin (%)	18.8	21.8	22.4
Adj. PAT	1,898	2,974	3,705
Growth (%)	-9.0	56.7	24.6
Adj. EPS	24.8	38.9	48.5
Growth (%)	-9.0	56.7	24.6
P/E	25.7	13.9	11.2
P/B	3.3	2.4	2.0
EV/EBITDA	19.1	9.0	7.7
ROE (%)	9.9	16.9	18.0
D/E	1.6	1.2	0.9

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs. cr)	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	7,906	4,134	91.2	8,525	(7.3)
EBITDA	1,247	847	47.2	1,410	(11.6)
EBITDA margins	15.8	20.5	(470bps)	16.5	(70bps)
Depreciation	577	175	229.7	431	33.9
EBIT	669	672	(0.4)	979	(31.7)
Interest	398	175	127.4	405	(1.7)
Other Income	33	73	(54.8)	(71)	n.m.
Exceptional Items	(72)	(4)	n.m.	(299)	(75.9)
PBT	232	566	(59.0)	204	13.7
Tax	12	52	(76.9)	(31)	n.m.
Share of profit from Associate	(4)	(2)	(100.0)	28	n.m.
Minority Interest	38	2	n.m.	57	(33.3)
Reported PAT	178	510	(65.1)	206	(13.6)
Adjustments	72	4	n.m.	299	n.m.
Adjusted PAT	250	514	(51.4)	505	(50.5)
No. of shares	76.4	76.4	-	76.4	-
EPS (Rs.)	3.3	6.7	(50.7)	6.6	(50.0)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	21,631	-	35,025	38,334	61.9	-
EBITDA	4,536	-	7,647	8,590	68.6	-
Margins (%)	21.0	-	21.8	22.4	80bps	-
Adj. PAT	2,616	-	2,974	3,705	13.7	-
EPS	34.2	-	38.9	48.5	13.7	-



PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	16,680	17,506	21,837	35,025	38,334
% change	25.4	5.0	24.7	60.4	9.4
EBITDA	3,223	3,516	4,112	7,647	8,590
% change	18.7	9.1	17.0	86.0	12.3
Depreciation	672	675	969	2,292	2,290
EBIT	2,551	2,841	3,143	5,355	6,300
Interest	735	783	963	1,543	1,402
Other Income	125	340	(510)	125	132
PBT	1,941	2,398	1,670	3,937	5,029
% change	19.4	23.5	(30.4)	135.8	27.7
Tax	189	275	165	538	687
Tax Rate (%)	9.7	11.5	9.9	13.7	13.7
Reported PAT	1,727	2,022	1,447	2,902	3,705
Adj*	81	63	451	72	-
Adj PAT	1,808	2,085	1,898	2,974	3,705
% change	24.7	15.3	(9.0)	56.7	24.6
No. of shares (cr)	76.3	76.4	76.4	76.4	76.4
Adj EPS (Rs)	23.7	27.3	24.8	38.9	48.5
% change	24.9	15.2	(9.0)	56.7	24.6
DPS (Rs)	4.7	5.3	5.3	5.3	5.3
CEPS (Rs)	32.5	36.1	37.5	68.9	78.5

CASH FLOW

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	2,399	2,697	2,416	5,194	5,995
Non-cash adj.	297	-	(33)	1,693	1,736
Changes in W.C	(27)	142	(27)	293	935
C.F. Operation	2,669	2,839	2,356	7,181	8,666
Capital exp.	(1,203)	(1,404)	(1,553)	(2,578)	(2,971)
Change in inv.	(10)	(745)	(30,662)	(388)	(244)
Other invest.CF	214	56	247	111	126
C.F - Investment	(999)	(2,093)	(31,968)	(2,855)	(3,089)
Issue of equity	-	-	-	-	-
Issue/repay debt	1,079	286	21,966	(3,000)	(3,000)
Dividends paid	(228)	(369)	(424)	(407)	(407)
Other finance.CF	(795)	(718)	7,352	(1,543)	(1,402)
C.F - Finance	56	(801)	28,894	(4,950)	(4,810)
Chg. in cash	1,703	(19)	(718)	(624)	767
Closing cash	2,894	2,894	2,851	2,227	2,994

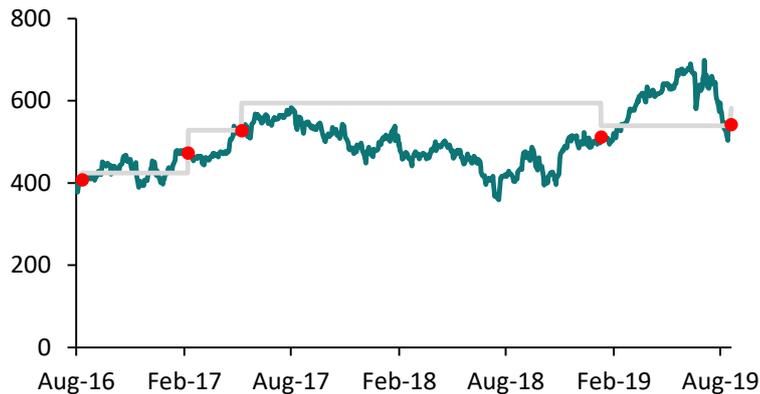
BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	2,894	2,894	2,851	2,227	2,994
Accounts Receivable	5,656	6,056	11,812	15,761	16,483
Inventories	4,156	4,538	9,270	12,294	13,041
Other Cur. Assets	991	1,543	3,059	3,277	3,332
Investments	379	1,027	706	1,094	1,338
Gross Fixed Assets	4,922	5,685	9,011	11,589	14,560
Net Fixed Assets	2,483	2,874	4,654	4,615	4,824
CWIP	633	1,090	1,166	1,189	1,201
Intangible Assets	1,747	1,792	27,864	28,165	28,626
Def. Tax (Net)	670	529	731	1,344	1,717
Other Assets	772	700	935	938	1,000
Total Assets	20,380	23,043	63,048	70,905	74,556
Current Liabilities	6,277	7,008	13,086	20,789	23,303
Provisions	58	20	20	21	22
Debt Funds	6,436	6,739	28,997	25,997	22,997
Other Liabilities	179	88	2,942	3,030	3,121
Equity Capital	101	102	102	102	102
Reserves & Surplus	7,296	9,067	14,543	17,095	20,486
Shareholder's Fund	7,398	9,169	14,645	17,197	20,588
Minority Interest	33	19	3,358	3,870	4,524
Total Liabilities	20,380	23,043	63,048	70,905	74,556
BVPS (Rs)	97	120	192	225	270

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	19.3	20.1	18.8	21.8	22.4
EBIT margin (%)	15.3	16.2	14.4	15.3	16.4
Net profit margin (%)	10.4	11.6	6.6	8.3	9.7
ROE (%)	23.3	22.1	9.9	16.9	18.0
ROCE (%)	18.4	17.8	6.7	11.4	13.1
W.C & Liquidity					
Receivables (days)	123.8	126.3	197.4	164.3	157.0
Inventory (days)	185.3	201.0	310.3	237.3	230.0
Payables (days)	217.4	251.4	315.4	322.1	336.7
Current ratio (x)	2.0	2.0	1.7	1.4	1.4
Quick ratio (x)	1.2	1.2	0.9	0.8	0.8
Turnover & Leverage					
Gross asset T.O (x)	3.1	3.3	3.0	3.4	2.9
Total asset T.O (x)	0.9	0.8	0.5	0.5	0.5
Int. covge. ratio (x)	3.5	3.6	3.3	3.5	4.5
Adj. debt/equity (x)	0.9	0.7	1.6	1.2	0.9
Valuation					
EV/Sales (x)	2.4	2.3	3.6	2.0	1.7
EV/EBITDA (x)	12.5	11.7	19.1	9.0	7.7
P/E (x)	20.3	17.8	25.7	13.9	11.2
P/BV (x)	5.0	4.1	3.3	2.4	2.0

Recommendation Summary



Dates	Rating	Target
11-Aug-16	HOLD	424
7-Feb-17	HOLD	528
9-May-17	BUY	594
10-Jan-19	HOLD	539
20-Aug-19	HOLD	582

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0%- 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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

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Neutral - The analyst has no investment opinion on the stock under review.

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