

Retail Equity Research

UPL Limited

Chemicals

BSE CODE: 512070

NSE CODE: UPL

Bloomberg CODE: UPLL:IN

SENSEX: 31,605

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 388

TARGET Rs. 516

RETURN 33% ↑

(Closing: 27-05-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Consistently delivering double digit growth

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.

- Q4FY20 revenue surged 30.7% YoY (owing to Arysta acquisition), while on a comparable basis, the increase was 25.6% YoY.
- EBITDA margin improved 300bps on lower overheads and integration cost synergies. Resultantly, adjusted PAT was also up 43.5% YoY.
- Management declared a dividend of Rs. 6/share for FY20 (+12.5% YoY).
- Synergies from acquisition and gaining market share in key products should continue to drive performance. Given current upside potential, we reiterate our BUY rating on the stock with a revised target price of Rs. 516 based on 10x FY22E EPS.

Topline growth continues despite weather, FX & COVID headwinds

In Q4FY20, topline witnessed robust growth of 30.7% YoY to Rs. 11,141cr, with Agro revenue growing to Rs. 10,659 (+28.7% YoY) and Non-Agro reaching Rs. 521cr (+79.0%). On pro-forma basis, revenue rose 25.6% YoY (volumes growing at 29% YoY, partially offset by declines in prices -2% YoY and FX impact -2% YoY). Revenue growth was witnessed across all regions (except for Europe -2% YoY), with North America rising 45% YoY (robust growth in Canada due to synergies), followed by India (+36% YoY, higher volumes with a great Rabi season), Latin America (+27%, higher realizations) and Other regions (+33%, strong growth in Japan and ASEAN countries).

Margins improved on synergies

Gross profit margin expanded ~217bps YoY to 43.9%, however fell sharply by ~630bps QoQ primarily on geographical mix and FX changes. EBITDA also grew 53.8% YoY to Rs. 2,169cr, with margin improving ~300bps YoY to 19.5% (but contracted ~380bps QoQ) aided by lower fixed overhead cost and integration synergies. Adj. PAT rose 43.5% YoY to Rs. 788cr (adjusted for exceptional items related to litigation costs and integration and Stevens pass).

Key concall highlights

- Net working capital cycle reduced to 80 days in FY20 vs. 119 days in FY19.
- The Company realized cost synergies of Rs. 773cr in FY20 (well above guidance of Rs. 560cr) and recorded revenue synergies of Rs. 1,693cr.
- Management expects to achieve revenue synergies of \$200mn and cost synergies of \$150mn in FY21. Capex targeted at \$260-275mn for FY21.
- Company targets for a long-term revenue growth of 7-10% p.a. Pipeline products and higher share of Smart Farming Solutions expected at above average margins of >40%
- Management continues to focus on deleveraging and targets to improve ND/EBITDA ratio to ~2.0x by FY21-end vs. 2.9x in FY20.
- Company contributed Rs. 75cr to PM Cares Fund in April to support Government's efforts in fighting against COVID-19 crisis.

Valuation

We estimate adjusted PAT to grow at a healthy CAGR of 28.2% over FY20-22E considering synergies impact, new launches and margin expansion. Also, company remains focused on improving Balance Sheet with ongoing deleveraging efforts. Given current upside potential, we reiterate our BUY rating on the stock with a revised target price of Rs. 516 based on 10x FY22E adj. EPS.

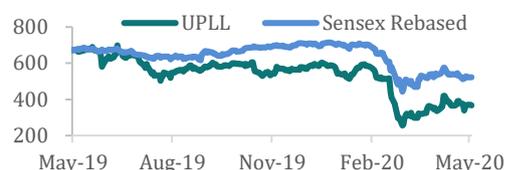
Company Data

Market Cap (cr)	Rs. 29,637
Enterprise Value (cr)	Rs. 51,736
Outstanding Shares (cr)	76.4
Free Float	72.0%
Dividend Yield	1.5%
52 week high	Rs. 709
52 week low	Rs. 240
6m average volume (lacs)	2.2
Beta	1.0
Face value	Rs. 2

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	27.9	27.9	27.9
FII's	43.9	43.5	41.9
MFs/Insti	10.9	11.5	12.6
Public	14.4	14.3	14.5
Others	2.9	2.8	3.1
Total	100.0	100.0	100.0
Promoters' pledge	2.3	2.3	8.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-29.6%	-29.8%	-42.5%
Absolute Sensex	-20.5%	-23.0%	-20.4%
Relative Return*	-9.1%	-6.8%	-22.2%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	35,756	38,233	41,211
Growth (%)	63.7	6.9	7.8
EBITDA	7,104	7,876	8,680
EBITDA Margin (%)	19.9	20.6	21.1
Adj. PAT	2,399	3,176	3,945
Growth (%)	23.5	32.4	24.2
Adj. EPS	31.4	41.6	51.6
Growth (%)	23.5	32.4	24.2
P/E	10.4	9.3	7.5
P/B	1.3	1.3	1.2
EV/EBITDA	7.1	6.6	5.5
ROE (%)	9.2	14.4	15.5
D/E	1.3	1.0	0.7

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	11,141	8,525	30.7	8,892	25.3	35,756	21,837	63.7
EBITDA	2,169	1,410	53.8	2,070	4.8	7,104	4,112	72.8
EBITDA margins	19.5	16.5	300bps	23.3	(380bps)	19.9	18.8	110bps
Depreciation	595	342	74.0	495	20.2	2,012	880	128.6
EBIT	1,574	1,068	47.4	1,575	(0.1)	5,092	3,232	57.5
Interest	187	405	(53.8)	515	(63.7)	1,481	963	53.8
Other Income	(244)	(71)	243.7	52	(569.2)	(227)	(59)	284.7
Exceptional Items	(171)	(299)	42.8	(75)	(128.0)	(623)	(451)	(38.1)
PBT	972	293	231.7	1,037	(6.3)	2,761	1,759	57.0
Tax	211	2	n.m.	199	6.0	586	198	196.0
Share of profit from Associate	23	28	(17.9)	(8)	n.m.	3	14	(78.6)
Minority Interest	167	69	142.0	129	29.5	43	84	(48.5)
Reported PAT	617	250	146.8	701	(12.0)	1,776	1,491	19.1
Adjustments	171	299	(42.8)	75	128	623	451	38.1
Adjusted PAT	788	549	43.5	776	1.5	2,399	1,942	23.5
No. of shares	76.4	76.4	-	76.5	(0.1)	76.4	76.4	-
EPS (Rs.)	10.3	7.2	43.5	10.1	1.7	31.4	25.4	23.5

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	38,478	41,983	38,233	41,211	(0.6)	(1.8)
EBITDA	8,140	9,188	7,876	8,680	(3.2)	(5.5)
Margins (%)	21.2	21.9	20.6	21.1	(56bps)	(82bps)
Adj. PAT	3,503	4,399	3,176	3,945	(9.3)	(10.3)
EPS (Rs.)	45.8	57.6	41.6	51.6	(9.3)	(10.4)



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	17,506	21,837	35,756	38,233	41,211
% change	5.0	24.7	63.7	6.9	7.8
EBITDA	3,516	4,112	7,104	7,876	8,680
% change	9.1	17.0	72.8	10.9	10.2
Depreciation	675	880	2,012	2,499	2,415
EBIT	2,841	3,232	5,092	5,377	6,265
Interest	783	963	1,481	878	736
Other Income	340	(510)	(850)	0	0
PBT	2,398	1,759	2,761	4,498	5,529
% change	23.5	(26.6)	57.0	62.9	22.9
Tax	275	198	586	945	1,161
Tax Rate (%)	11.5	11.3	21.2	21.0	21.0
Reported PAT	2,022	1,491	1,776	3,176	3,945
Adj*	63	451	623	-	-
Adj PAT	2,085	1,942	2,399	3,176	3,945
% change	15.3	(6.9)	23.5	32.4	24.2
No. of shares (cr)	76.4	76.4	76.4	76.4	76.4
Adj EPS (Rs.)	27.3	25.4	31.4	41.6	51.6
% change	15.2	(6.9)	23.5	32.4	24.2
DPS (Rs.)	5.3	5.3	6.0	6.0	6.0
CEPS (Rs.)	36.1	38.1	57.7	74.2	83.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	2,697	2,460	3,788	5,675	6,360
Non-cash adj.	-	(77)	3,790	203	131
Changes in W.C	142	(27)	1,161	147	352
C.F. Operation	2,839	2,356	8,739	6,025	6,843
Capital exp.	(1,404)	(1,553)	(1,935)	(1,880)	(1,953)
Change in inv.	(745)	(29,614)	(707)	(244)	-
Other invest.CF	56	247	(1)	126	-
C.F - Investment	(2,093)	(30,920)	(2,643)	(1,998)	(1,953)
Issue of equity	-	-	-	-	-
Issue/repay debt	286	21,966	157	(3,000)	(4,000)
Dividends paid	(369)	(424)	(457)	(459)	(459)
Other finance.CF	(718)	7,351	(1,875)	(0)	0
C.F - Finance	(801)	28,893	(2,175)	(3,459)	(4,459)
Chg. in cash	(19)	329	3,921	568	431
Closing cash	2,894	2,851	6,752	7,320	7,751

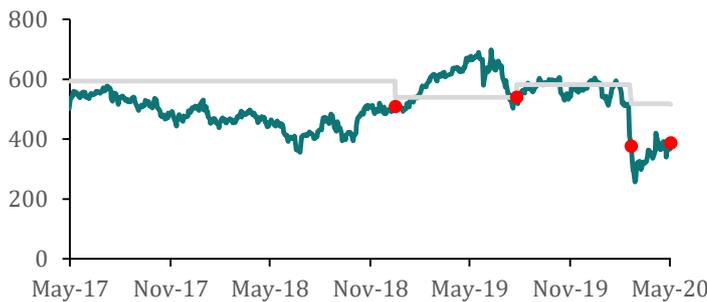
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	2,894	2,851	6,752	7,320	7,751
Accounts Receivable	6,056	11,679	11,867	13,382	14,630
Inventories	4,538	9,133	7,850	7,952	7,715
Other Cur. Assets	1,543	3,059	2,772	2,830	2,900
Investments	1,027	706	558	802	802
Gross Fixed Assets	5,685	9,047	10,982	12,862	14,815
Net Fixed Assets	2,874	4,690	5,466	5,014	4,716
CWIP	1,090	1,166	1,189	1,130	1,073
Intangible Assets	1,792	28,148	30,097	29,989	29,881
Def. Tax (Net)	529	731	1,655	1,889	2,322
Other Assets	700	1,003	1,877	1,939	1,939
Total Assets	23,043	63,166	70,083	72,247	73,729
Current Liabilities	7,008	13,783	15,388	17,291	18,820
Provisions	20	20	610	641	641
Debt Funds	6,739	28,997	28,714	25,714	21,714
Other Liabilities	88	2,197	2,777	2,899	2,927
Equity Capital	102	102	153	153	153
Reserves & Surplus	9,067	14,613	19,129	21,846	25,331
Shareholder's Fund	9,169	14,715	19,282	21,999	25,484
Minority Interest	19	3,454	3,312	3,705	4,143
Total Liabilities	23,043	63,166	70,083	72,247	73,729
BVPS (Rs.)	120	193	252	288	333

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	20.1	18.8	19.9	20.6	21.1
EBIT margin (%)	16.2	14.8	14.2	14.1	15.2
Net profit margin (%)	11.6	6.8	5.0	8.3	9.6
ROE (%)	22.1	10.1	9.2	14.4	15.5
ROCE (%)	17.8	6.9	9.9	10.5	12.2
W.C & Liquidity					
Receivables (days)	126.3	195.2	121.1	127.8	129.6
Inventory (days)	201.0	305.7	152.9	146.0	131.4
Payables (days)	251.4	329.6	199.3	220.2	227.5
Current ratio (x)	2.0	1.6	1.8	1.7	1.6
Quick ratio (x)	1.2	0.9	1.1	1.1	1.1
Turnover & Leverage					
Gross asset T.O (x)	3.3	3.0	3.6	3.2	3.0
Total asset T.O (x)	0.8	0.5	0.5	0.5	0.6
Int. coverage ratio (x)	3.6	3.4	3.4	6.1	8.5
Adj. debt/equity (x)	0.7	1.6	1.3	1.0	0.7
Valuation					
EV/Sales (x)	2.3	3.6	1.4	1.4	1.2
EV/EBITDA (x)	11.7	19.1	7.1	6.6	5.5
P/E (x)	17.8	25.2	10.4	9.3	7.5
P/BV (x)	4.1	3.3	1.3	1.3	1.2

Recommendation Summary



Dates	Rating	Target
7-Feb-17	HOLD	528
9-May-17	BUY	594
10-Jan-19	HOLD	539
20-Aug-19	HOLD	582
16-Mar-20	BUY	518
28-May-20	BUY	516

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

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