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Company update and TP
change

Agriculture

Target price: Rs665

Target price revision

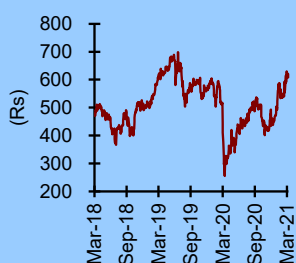
Rs665 from Rs600

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	27.9	27.9	27.9
Institutional investors	53.4	53.4	51.7
MFs and others	4.5	5.1	4.6
FIs/Bank/Ins	8.1	10.8	11.3
FIIIs	40.8	37.3	35.8
Others	18.7	18.7	20.4

Source: BSE

Price chart



INDIA

UPL



ADD

Maintained

Multiple levers to maintain margins despite inflation in input prices

Rs626

While the street seems concerned about rising input prices and its likely impact on UPL's EBITDA margin, we note the company has maintained the margin in a narrow band of 17.5-20.4% over the relatively long period from FY09 to FY21E. UPL has multiple levers to sustain the margin at the said level, the levers being: 1) selective price hikes and tweaking of trade margins; 2) improvement in revenue mix; and 3) cost-saving initiatives. Besides, while its global market share stands at ~10%, it is the leader in its key markets such as India, Chile, Mexico and Columbia, which we believe indicates strong pricing power. Company will continue to benefit from synergy benefits as well as operating leverage in FY22E-FY23E too. We maintain our ADD rating on the stock with a revised DCF-based target price of Rs665, implying 13x FY23E EPS (earlier target price: Rs600).

- ▶ **EBITDA margin in a narrow range over FY09-FY21E:** Despite volatility in prices of crude oil and crude oil derivatives, UPL has maintained its EBITDA margin in a narrow range of 17.5-20.4% over FY09-FY21E. While input prices and other costs (e.g. port handling expenses) are rising, we model the company to maintain its EBITDA margin at ~19.7% over FY22E-FY23E.
- ▶ **Multiple levers to maintain EBITDA margin at existing levels:** Historically, UPL has maintained its margins via: 1) selective price hikes; 2) improvement in revenue mix; 3) change in geographic mix; and 4) cost-saving initiatives. In FY22E, it will also benefit from synergy and operating leverage.
- ▶ **Synergy benefits on track as per plan:** Cost synergy benefits worth US\$109mn were achieved in FY20 and an additional US\$79mn in 9MFY21. Revenue synergy benefits worth US\$240mn were reaped in FY20 followed by another US\$114mn in 9MFY21. UPL is on track to achieve its targeted synergy benefits in FY21E-FY22E.
- ▶ **Market leadership in key geographies:** While the company has a global market share of 10%, it is the leader in its key markets such as India, Mexico, Columbia and Chile, where it enjoys stronger pricing power. Its business in other markets such as Africa and China is also on a growth path. Higher growth in these geographies will lead to the benefits of operating leverage.
- ▶ **Guidance maintained:** UPL has maintained its guidance of 6-8% revenue growth and 10-12% EBITDA growth in FY21. Cost-saving measures initiated post-lockdown and synergy benefits are leading to expansion in EBITDA margin. Company also expects net working capital days and net debt to decline by FY21-end.
- ▶ **Maintain ADD:** We model UPL to report revenue and PAT CAGRs of 8.4% and 16% respectively, over FY20-FY23E. We remain confident of value creation with RoE at 14.4% in FY23E (higher than the cost of equity). Maintain **ADD** with a revised DCF-based target price of Rs665 (13x FY23E EPS; earlier target price: Rs600).

Market Cap	Rs478bn/US\$6.6bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	UPLL.BO/UPLL IN	Net Revenue (Rs mn)	3,57,560	3,79,597	4,16,045	4,56,002
Shares Outstanding (mn)	764.0	Net Profit (Rs mn)	24,980	28,142	33,413	39,023
52-week Range (Rs)	639/240	Dil. EPS (Rs)	32.7	36.8	43.7	51.0
Free Float (%)	75.0	% Chg YoY	31.6	12.7	18.7	16.8
FII (%)	35.8	P/E (x)	19.2	17.0	14.3	12.3
Daily Volume (US\$'000)	66,241	CEPS (Rs)	62.9	69.9	79.8	89.0
Absolute Return 3m (%)	35.9	EV/EBITDA (x)	11.2	10.3	9.2	8.4
Absolute Return 12m (%)	110.8	Dividend Yield (%)	1.0	1.0	1.1	1.3
Sensex Return 3m (%)	6.3	RoCE (%)	9.2	9.4	10.3	10.9
Sensex Return 12m (%)	78.3	RoE (%)	8.7	13.1	13.9	14.4

Research Analyst:

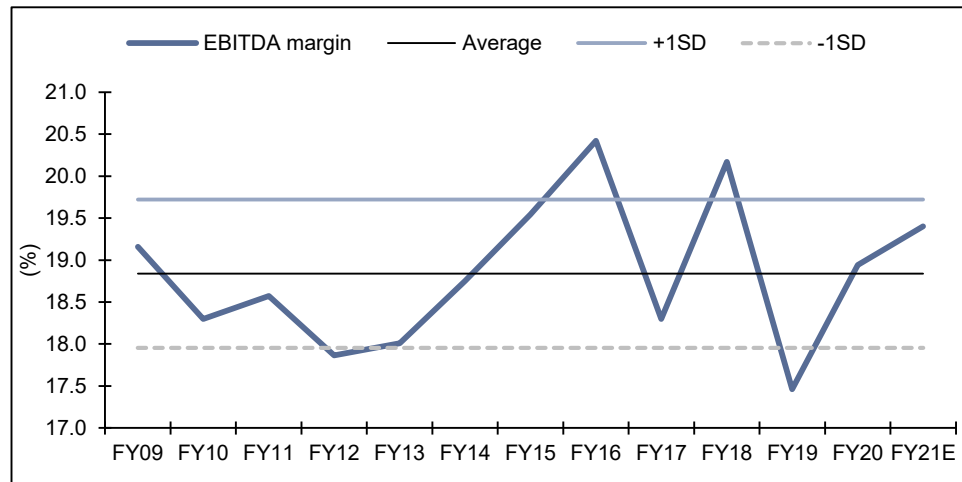
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EBITDA margin volatility is low

UPL's EBITDA margin volatility is extremely low with the coefficient of variation (standard deviation/average) over FY09-FY21E at just 0.05. EBITDA margin has remained in a narrow band of 17.5-20.4% over FY09-FY21E

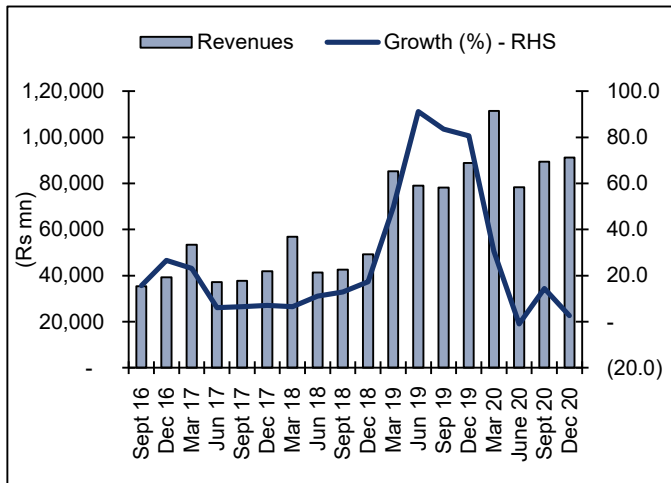
Chart 1: EBITDA margin volatility is low



Source: Company data, I-Sec research

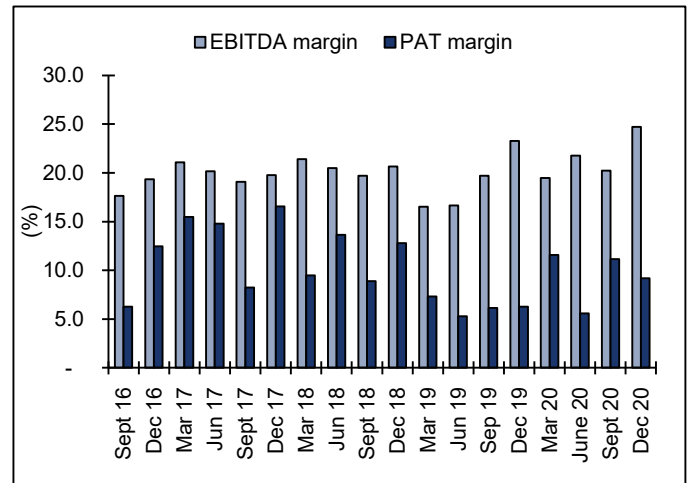
Key performance highlights (Q3FY21)

Chart 2: Revenues and revenue growth



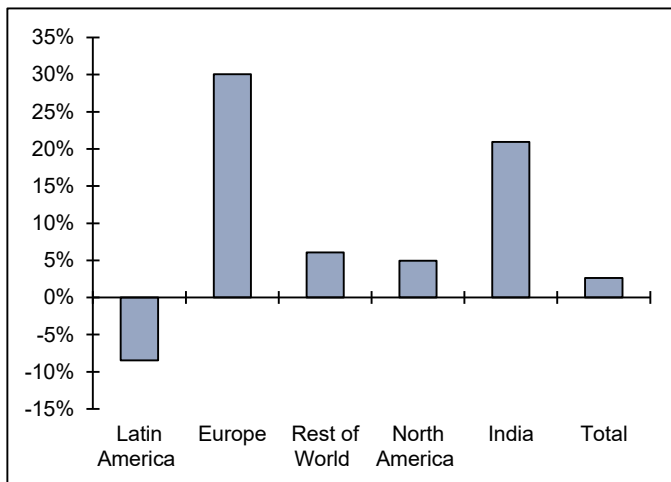
Source: Company data, I-Sec research

Chart 3: EBITDA and PAT margin



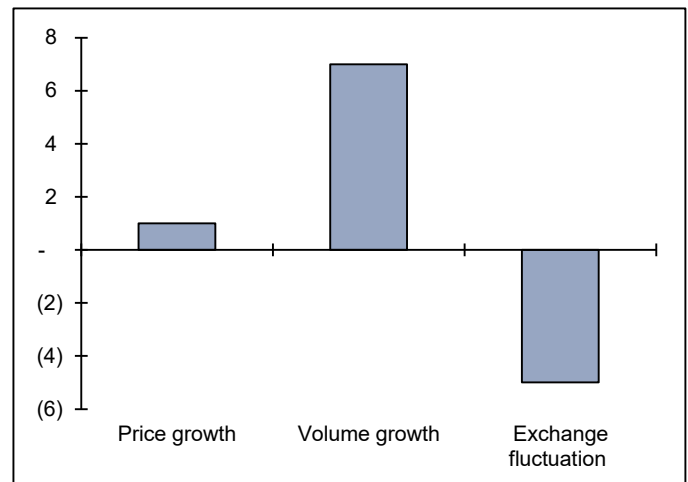
Source: Company data, I-Sec research

Chart 4: Region-wise revenue growth rates



Source: Company data, I-Sec research

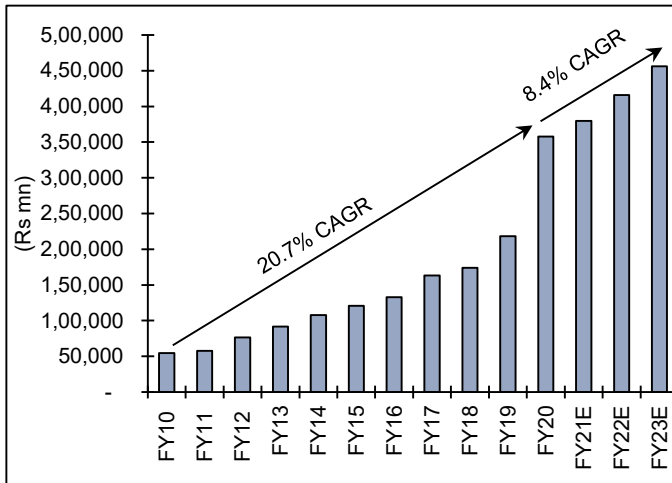
Chart 5: Revenue growth breakup (YoY)



Source: Company data, I-Sec research

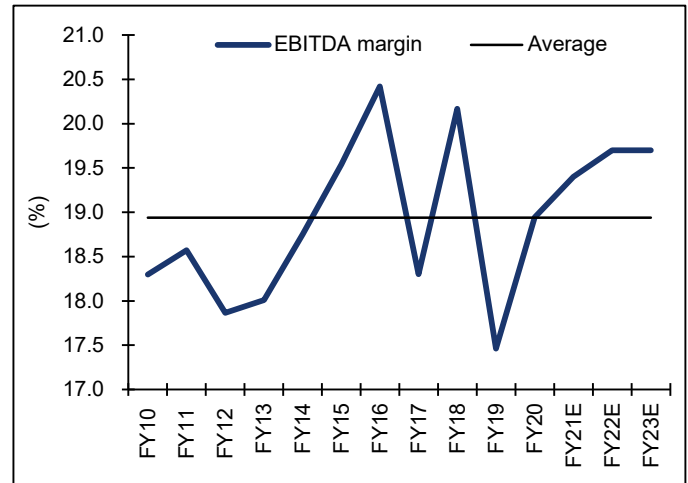
Key financial charts (consolidated)

Chart 6: Revenue and growth rates



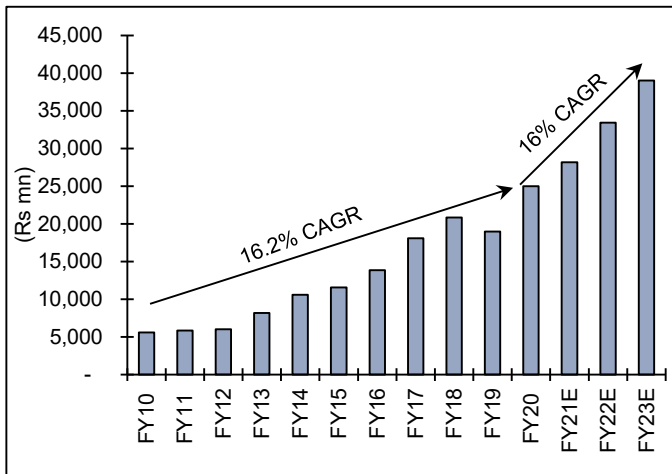
Source: Company data, I-Sec research

Chart 7: EBITDA margin trend



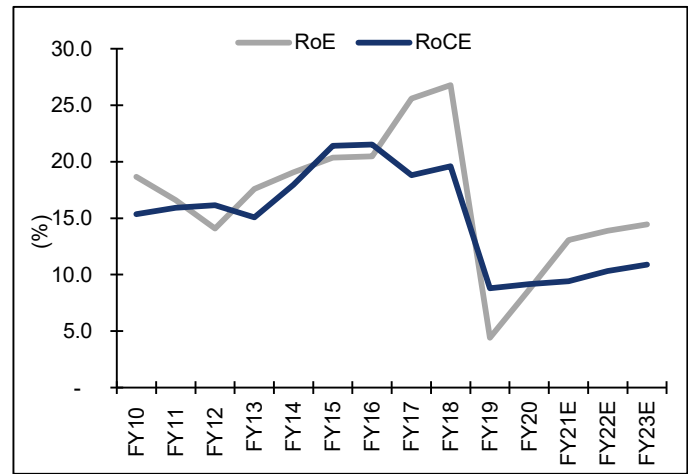
Source: Company data, I-Sec research

Chart 8: Net profit and growth rates on the rise



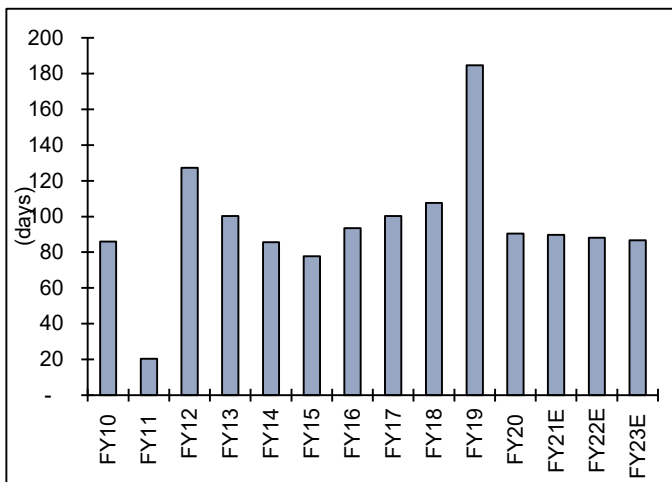
Source: Company data, I-Sec research

Chart 9: Healthy return ratios



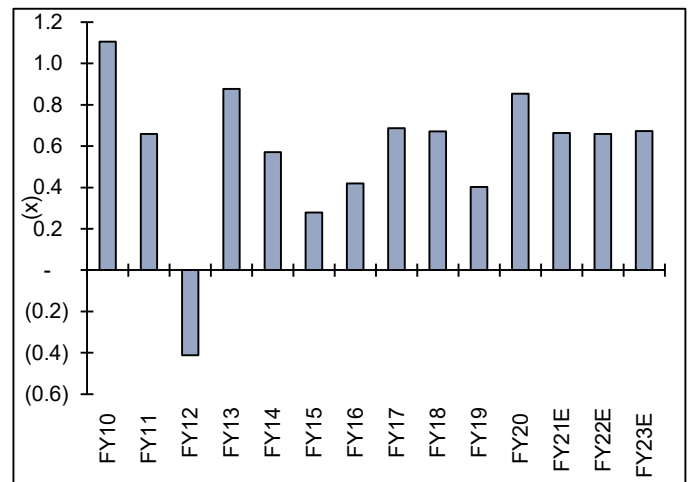
Source: Company data, I-Sec research

Chart 10: Net working capital days



Source: Company data, I-Sec research

Chart 11: OCF/EBITDA remains strong



Source: Company data, I-Sec research

Valuation and risks

We model UPL to report revenue and PAT CAGRs of 8.4% and 16% over FY20-FY23E, respectively. We expect RoE to improve to 14.4% in FY23E from 8.7% in FY20. We value the stock on DCF basis with a target price of Rs665. At this price, implied P/E works out to 13x FY23E EPS. Maintain **ADD**.

Table 1: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	11.9
Terminal growth rate (%)	3.0
Discounted interim cash flows (Rs mn)	2,63,234
Discounted terminal value (Rs mn)	2,45,491
Total equity value (Rs mn)	5,08,725
Value per share (Rs)	665

Source: Company data, I-Sec research

Risks

Lower than expected offtake of new products

Any failure of new products may impact our estimates.

Sharp increase in input prices and competition

Any major increase in commodity prices and/or competitive pressures will impact our earnings estimates.

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	3,57,560	3,79,597	4,16,045	4,56,002
Operating Expenses	2,89,830	3,05,955	3,34,084	3,66,170
EBITDA	67,730	73,642	81,961	89,832
% margins	18.9	19.4	19.7	19.7
Depreciation & Amortisation	20,120	22,147	24,250	25,702
Gross Interest	14,810	14,787	13,982	13,872
Other Income	1,040	1,453	1,379	1,733
Recurring PBT	33,840	38,161	45,108	51,992
Less: Taxes	5,860	6,869	8,345	9,618
Less: Minority Interest	-	-	-	-
Net Income (Reported)	24,980	28,142	33,413	39,023
Extraordinaries (Net)	(8,820)	-	-	-
Recurring Net Income	16,160	28,142	33,413	39,023

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	2,92,410	2,87,587	3,17,242	3,54,413
of which cash & cash eqv.	67,520	50,089	58,697	72,892
Total Current Liabilities & Provisions	1,36,380	1,44,247	1,58,097	1,73,281
Net Current Assets	1,56,030	1,43,340	1,59,145	1,81,132
Investments	24,350	34,350	49,350	64,350
Net Fixed Assets	1,64,380	1,83,963	1,81,714	1,78,012
Capital Work-in-Progress	20,730	-	-	-
Total Assets	5,47,900	5,44,064	5,72,619	6,05,904
Liabilities				
Borrowings	3,10,740	2,80,740	2,78,540	2,76,340
Deferred Tax Liability	11,220	11,220	11,220	11,220
Minority Interest	33,120	36,420	39,920	43,420
Equity Share Capital	1,530	1,530	1,530	1,530
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	1,91,290	2,14,154	2,41,409	2,73,394
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	1,92,820	2,15,684	2,42,939	2,74,924
Total Liabilities	5,47,900	5,44,064	5,72,619	6,05,904

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Mar 20	June 20	Sept 20	Dec 20
Net sales	1,11,410	78,330	89,390	91,260
% growth (YoY)	30.7	(0.9)	14.4	2.6
EBITDA	21,690	17,040	18,080	22,560
Margin (%)	19.5	21.8	20.2	24.7
Other income	210	670	750	670
Extraordinaries (Net)	(10,490)	(1,550)	(10,000)	(1,820)
Adjusted Net profit	(240)	4,110	(1,430)	6,500

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	35,820	53,589	61,163	68,225
Working Capital Changes	22,020	(4,741)	(7,196)	(7,793)
Capital Commitments	(50,800)	(21,000)	(22,000)	(22,000)
Free Cashflow	7,040	27,847	31,967	38,432
Cashflow from Investing Activities	(7,920)	(10,000)	(15,000)	(15,000)
Issue of Share Capital Inc (Dec) in Borrowings	-	-	-	-
20,570	(30,000)	(2,200)	(2,200)	
Dividend paid	(35,895)	(5,279)	(6,158)	(7,038)
Change in Deferred Tax Liability	(10,890)	-	-	-
Chg. in Cash & Bank balance	(16,205)	(17,431)	8,608	14,194

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	32.7	36.8	43.7	51.0
Cash EPS	59.0	65.7	75.4	84.6
Dividend per share (DPS)	6.0	6.0	7.0	8.0
Book Value per share (BV)	266.7	296.6	332.2	374.0
Growth (%)				
Net Sales	63.7	6.2	9.6	9.6
EBITDA	77.6	8.7	11.3	9.6
PAT	31.6	12.7	18.7	16.8
DPS	12.5	-	16.7	14.3
Valuation Ratios (x)				
P/E	19.2	17.0	14.3	12.3
P/CEPS	10.6	9.5	8.3	7.4
P/BV	2.3	2.1	1.9	1.7
EV / EBITDA	11.2	10.3	9.2	8.4
EV / Sales	2.1	2.0	1.8	1.7

Operating Ratios

Raw Material / Sales (%)	52.4	52.1	51.8	51.8
Employee cost / Sales (%)	9.5	9.3	9.3	9.3
SG&A / Sales (%)	2.0	2.0	2.0	2.0
Other Income / PBT (%)	3.1	3.8	3.1	3.3
Effective Tax Rate (%)	17.3	18.0	18.5	18.5
Working Capital (days)	90.4	89.7	88.1	86.6
Inventory Turnover (days)	80.1	80.3	80.3	80.3
Receivables (days)	121.1	120.5	120.5	120.5
Payables (days)	104.5	105.9	105.9	105.9
Net D/E (x)	1.4	1.2	1.0	0.9

Profitability Ratios (%)

Net Income Margins	7.8	8.2	8.8	9.3
RoACE	9.2	9.4	10.3	10.9
RoAE	8.7	13.1	13.9	14.4
Dividend Payout	18.4	16.3	16.0	15.7
Dividend Yield	1.0	1.0	1.1	1.3
EBITDA Margins	18.9	19.4	19.7	19.7

Source: Company data, I-Sec research

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