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Q4FY21 result review and TP revision

Agriculture

Target price: Rs735

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 1.0	↑ 0.0
EBITDA	↑ 8.1	↑ 7.1
PAT	↑ 7.3	↑ 4.4

Target price revision

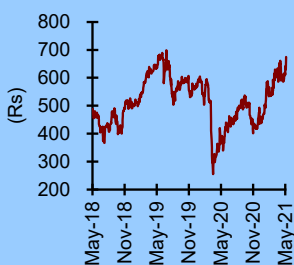
Rs735 from Rs665

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	27.9	27.9	28.0
Institutional investors	53.4	51.7	53.7
MFs and others	5.1	4.6	4.4
FIs/Bank/Ins	10.8	11.3	10.9
FIs	37.3	35.8	38.4
Others	18.7	20.4	18.3

Source: BSE

Price chart



INDIA

UPL

ADD

Maintained

Rs692

Strong volume growth maintained

Highlights from Q4FY21 result: (1) All regions except North America have reported strong growth during FY21. In spite of forex fluctuations, the company reported strong growth in Brazil and normal monsoon helped India business report strong 22% growth; (2) change in revenue mix, cost-saving measures post-covid and synergy benefits helped EBITDA margin expand 230bps YoY; and (3) synergy benefits are as per the company's stated plan and the net working capital days reduced to 66 in FY21 vs 90 in FY20. We model steady improvement in return ratios due to (i) synergy benefits and higher margins, and (ii) reduction in net working capital days. We model an earnings CAGR of 8.6% over FY21-FY23E with RoIC > cost of equity. We maintain ADD rating on the stock with a DCF-based revised target price of Rs735 implying 13.8x FY23E (earlier TP: Rs665).

- Q4FY21 performance:** The company reported revenue, EBITDA and adjusted PAT growth of 14.9%, 28.6% and 1.3%, respectively, YoY. Gross margin expanded 200bps due to improvement in revenue mix. EBITDA margin expanded 230bps YoY. During the year volume growth was 11%, but realisations were flat, and there was 3% impact of forex fluctuations.
- All regions ex-North America performed well:** In FY21 the company has reported strong growth in India (22%), Europe (12%), Latin America (8%) and Rest of World (3%). However, due to supply constraints, UPL's revenue were stable in North America. In spite of Forex devaluation, it reported strong growth in Brazil.
- Guidance for FY22:** UPL has guided of 7-10% revenue growth and 12-15% EBITDA growth in FY22. Cost-saving measures initiated post-covid and synergy benefits are leading to EBITDA margin expansion. The company also expects to reduce net debt to EBITDA ratio below 2X.
- Synergy benefits on track as per plan:** Cost synergy benefits worth US\$109mn were achieved in FY20 with additional US\$126mn in FY21. Revenue synergy benefits worth US\$240mn were reaped in FY20 with additional US\$203mn in FY21. We believe the company is on track to achieve its targeted synergy benefits in FY22E-FY23E.
- Expect improvement in return ratios:** UPL is working on three broad strategies to improve return ratios: (1) Improve revenues via market share gains, (2) improve margins via synergy benefits and lower input prices, and (3) reduce working capital days, which corrected to 66 at the end of FY21 from 90 in FY20. We expect RoE to increase to 15.5% in FY23E from 10.3% in FY20.
- Maintain ADD:** We model UPL to report both revenue and PAT CAGR of 8.6%, over FY21-FY23E. We remain confident of value creation with RoIC > cost of equity. We maintain ADD rating on the stock with a revised target price of Rs735 (13.8x FY23E; earlier TP: Rs.665).

Market Cap	Rs528bn/US\$7.2bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	UPLL.BO/UPLL IN	Net Revenue (Rs mn)	3,57,560	3,86,940	4,20,035	4,55,990
Shares Outstanding (mn)	764.0	Net Profit (Rs mn)	24,980	34,560	35,864	40,741
52-week Range (Rs)	692/340	Dil. EPS (Rs)	32.7	45.2	46.9	53.3
Free Float (%)	72.0	% Chg YoY	31.6	38.4	3.8	13.6
FII (%)	38.4	P/E (x)	17.1	12.4	11.9	10.5
Daily Volume (US\$'000)	72,151	CEPS (Rs)	62.9	77.7	83.4	92.7
Absolute Return 3m (%)	29.1	EV/EBITDA (x)	9.8	7.9	7.5	6.9
Absolute Return 12m (%)	86.9	Dividend Yield (%)	1.1	1.8	2.0	2.1
Sensex Return 3m (%)	(5.4)	RoCE (%)	9.2	11.9	12.3	12.6
Sensex Return 12m (%)	56.9	RoE (%)	8.7	10.3	15.4	15.5

Please refer to important disclosures at the end of this report

Research Analyst:

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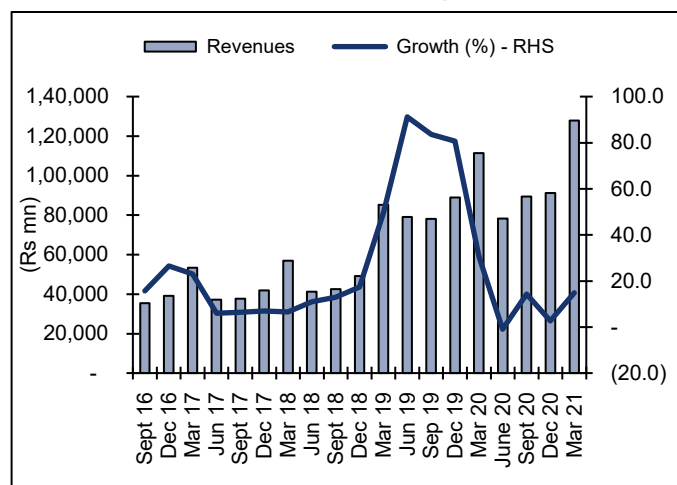
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Table 1: Q4FY21 financial performance*(Rs mn, year ending March 31)*

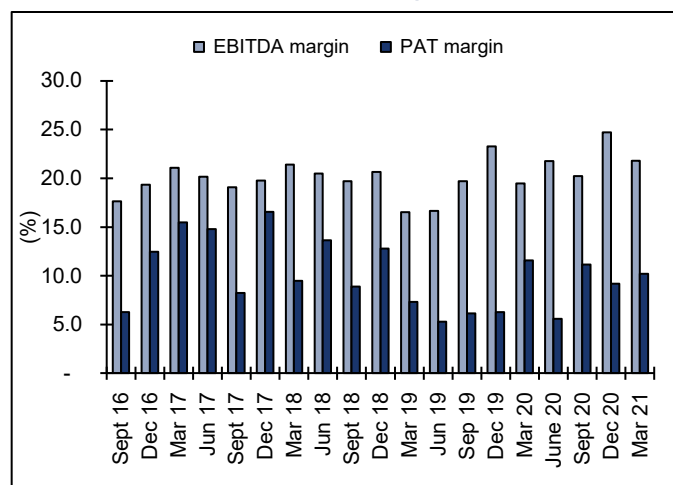
	Q4FY21	Q4FY20	YoY gr.	Q3FY21	QoQ gr.
Revenue	1,27,960	1,11,410	14.9	91,260	40.2
Expenditure					
Raw materials	69,210	62,480	10.8	41,170	68.1
% of revenue	54.1	56.1		45.1	
Employee cost	9,660	9,680	(0.2)	9,520	1.5
% of revenue	7.5	8.7		10.4	
Other expenditure	21,200	17,560	20.7	18,010	17.7
% of revenue	16.6	15.8		19.7	
Total expenditure	1,00,070	89,720	11.5	68,700	45.7
EBITDA	27,890	21,690	28.6	22,560	23.6
EBITDA margin	21.8	19.5		24.7	
Depreciation	5,760	5,950	(3.2)	5,420	6.3
EBIT	22,130	15,740	40.6	17,140	29.1
Interest Expenses	4,210	1,870	125.1	7,450	(43.5)
Other Income	490	210	133.3	670	(26.9)
Income from Associates	600	230	160.9	(70)	(957.1)
Profit Before Tax	19,010	14,310	32.8	10,290	84.7
Income Taxes	3,220	2,110	52.6	1,090	195.4
Profit After Tax	15,790	12,200	29.4	9,200	71.6
Pref Dividend/ Minority Interest	2,720	(700)	(488.6)	820	231.7
Net profit	13,070	12,900	1.3	8,380	56.0
Forex income/ cost	(1,880)	(2,650)		(60)	
Extraordinary Expenses	1,510	(10,490)		(1,820)	
Profit for Shareholders	12,700	(240)	(5,391.7)	6,500	95.4

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenues and revenue growth

Source: Company data, I-Sec research

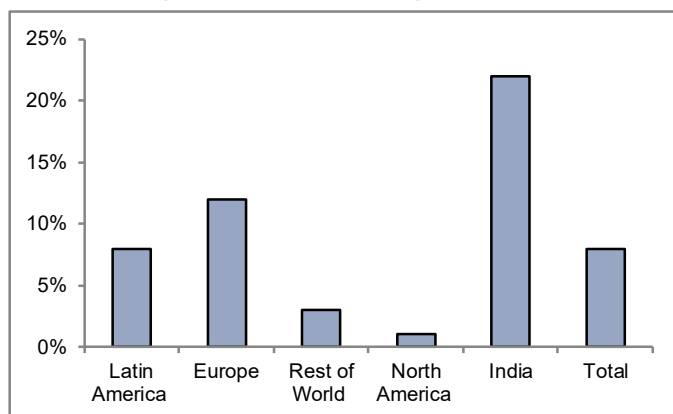
Chart 2: EBITDA and PAT margin

Source: Company data, I-Sec research

Key highlights from Q4FY21 result and conference call

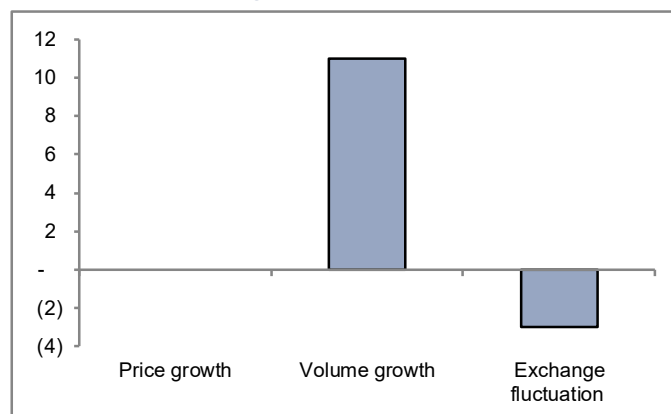
- The company registered a revenue growth of 8% in FY21, driven by 22%, 12% and 8% revenue growth in India, Europe and Latin America, respectively. Volume growth was 11%. However, adverse forex movements affected company's revenues.
- The company reported growth of 14.9%, 28.6% and 1.3% YoY in Q4FY21 revenues, EBITDA and PAT, respectively.
- It achieved Rs8,820mn cost synergies and Rs.14bn revenue synergies in FY21.
- In the crop protection segment, the post-patent solutions contributed to 71% of revenues in FY21. The company plans to bring it down to 50% by FY26 which will improve the EBITDA margin.
- In order to deliver innovation, the company has reinvested >2.5% annual revenues in R&D. Innovation rate, defined as the % of total sales from products launched in last 5 years, was flat for the year.
- The Jhagadia plant in Gujarat resumed its operations in the second week of April'21.
- While the company reduced its debt in FY21, the finance cost was higher due to one-time pre-payment charges.
- The company became the rank-1 Agrochemical company in ESG by Sustainalytics in Sept'20. It gained from the sustainability loan available and replaced \$500mn acquisition loan to reduce interest cost by 30bps.
- The company plans to launch patented *Flupyrimin* and *Gaxy* as sustainable solutions for the soil and seed health segment in next 5 years.
- It guided for revenue growth of 7-10% and EBITDA growth of 12-15%, respectively in FY22. Net Debt to EBITDA ratio is likely to be below 2x.
- It plans capex of \$300mn in FY22, a growth of ~9% from FY21.
- The effective tax rate will continue to be ~18%

Chart 3: Region-wise revenue growth rates FY21



Source: Company data, I-Sec research

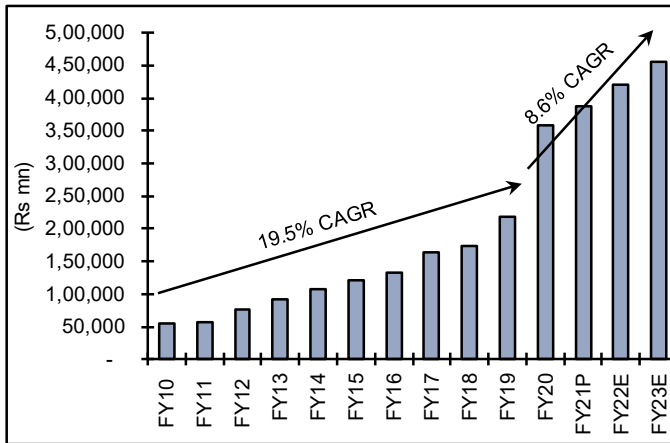
Chart 4: Revenue growth breakup FY21



Source: Company data, I-Sec research

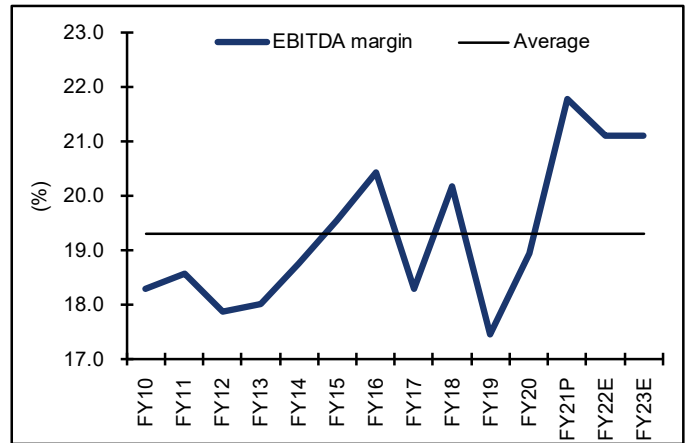
Key financial charts (consolidated)

Chart 5: Revenue and growth rates



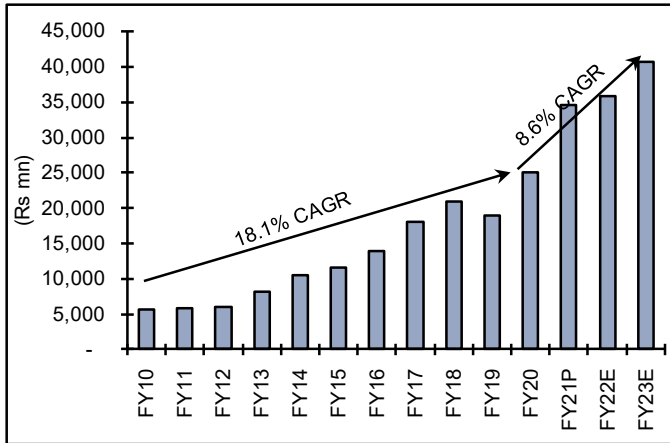
Source: Company data, I-Sec research

Chart 6: EBITDA margin



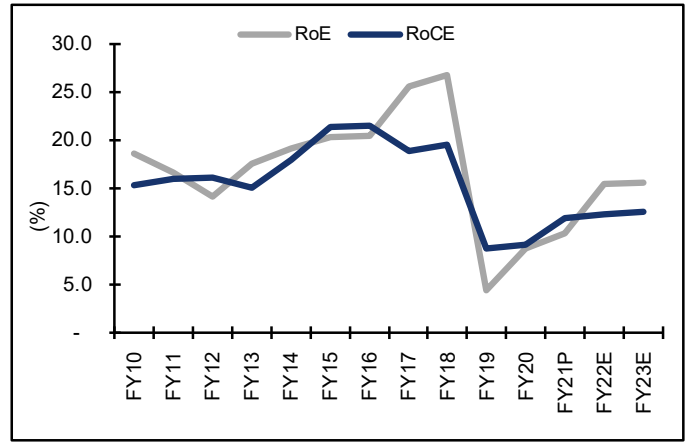
Source: Company data, I-Sec research

Chart 7: Net profit and growth rates



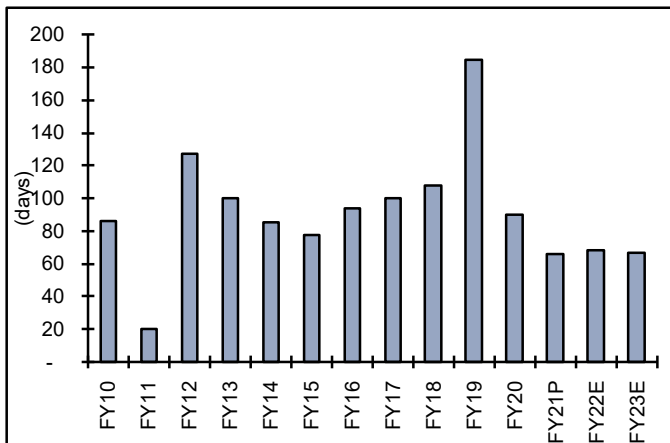
Source: Company data, I-Sec research

Chart 8: Return ratios



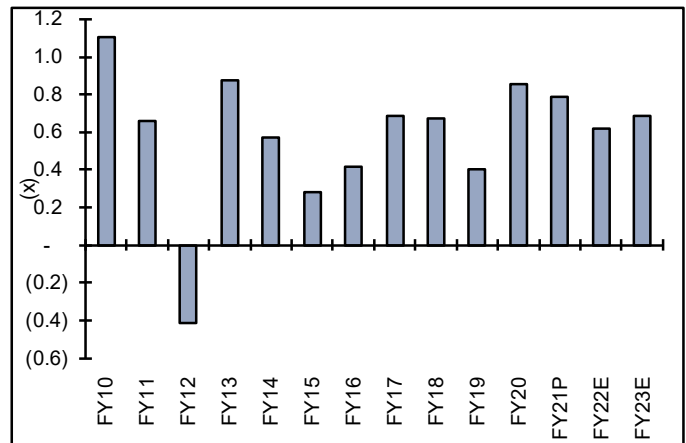
Source: Company data, I-Sec research

Chart 9: Net working capital days



Source: Company data, I-Sec research

Chart 10: OCF/EBITDA



Source: Company data, I-Sec research

Valuation and risks

We model UPL to report both revenue and PAT CAGR of 8.6% over FY21-FY23E. We expect RoE to improve to 15.5% in FY23E from 10.3% in FY21. We value the stock on DCF basis with a target price of Rs735. At this target price, implied P/E works out to 13.8x FY23E EPS. We maintain ADD rating.

Table 2: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	11.6%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (Rs mn)	2,78,043
Discounted terminal value (Rs mn)	2,84,457
Total equity value (Rs mn)	5,62,500
Value per share (Rs)	735

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 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	3,57,560	3,86,940	4,20,035	4,55,990
Operating Expenses	2,89,830	3,02,620	3,31,408	3,59,776
EBITDA	67,730	84,320	88,627	96,214
% margins	18.9	21.8	21.1	21.1
Depreciation & Amortisation	20,120	21,730	24,596	26,795
Gross Interest	14,810	20,600	17,406	17,252
Other Income	1,040	2,580	1,491	1,933
Recurring PBT	33,840	44,570	48,116	54,100
Less: Taxes	5,860	6,860	8,901	10,008
Less: Minority Interest	-	-	-	-
Net Income (Reported)	24,980	34,560	35,864	40,741
Extraordinaries (Net)	(8,820)	(12,680)	-	-
Recurring Net Income	16,160	21,880	35,864	40,741

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	2,92,410	3,00,330	3,27,761	3,66,958
of which cash & cash eqv.	67,520	48,530	55,672	73,373
Total Current Liabilities & Provisions	1,36,380	1,82,130	1,93,216	2,09,756
Net Current Assets	1,56,030	1,18,200	1,34,545	1,57,202
Investments	24,350	18,500	33,500	48,500
Net Fixed Assets	1,64,380	1,70,760	1,89,334	1,84,539
Capital Work-in-Progress	20,730	21,170	-	-
Total Assets	5,47,900	5,05,520	5,34,269	5,67,131
Liabilities				
Borrowings	3,10,740	2,49,760	2,47,560	2,45,360
Deferred Tax Liability	11,220	9,960	9,960	9,960
Minority Interest	33,120	36,930	40,430	43,930
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	2,07,340	2,34,789	2,66,351
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	1,92,820	2,08,870	2,36,319	2,67,881
Total Liabilities	5,47,900	5,05,520	5,34,269	5,67,131

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	June 20	Sept 20	Dec 20	Mar 21
Net sales	78,330	89,390	91,260	1,27,960
% growth (YoY)	(0.9)	14.4	2.6	14.9
EBITDA	17,040	18,080	22,560	27,890
Margin (%)	21.8	20.2	24.7	21.8
Other income	670	750	670	490
Extraordinaries (Net)	(1,550)	(10,000)	(1,820)	1,510
Adjusted Net profit	4,110	(1,430)	6,500	12,700

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	35,820	47,420	63,960	71,037
Working Capital Changes	22,020	18,840	(9,204)	(4,955)
Capital Commitments	(50,800)	(23,030)	(22,000)	(22,000)
Free Cashflow	7,040	43,230	32,757	44,082
Cashflow from Investing Activities	(7,920)	5,850	(15,000)	(15,000)
Issue of Share Capital Inc (Dec) in Borrowings	-	-	-	-
20,570	(60,980)	(2,200)	(2,200)	
Dividend paid	(35,895)	(7,090)	(8,415)	(9,180)
Change in Deferred Tax Liability	(10,890)	(1,260)	-	-
Chg. in Cash & Bank balance	(16,205)	(18,990)	7,142	17,702

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	32.7	45.2	46.9	53.3
Cash EPS	59.0	73.6	79.0	88.3
Dividend per share (DPS)	6.0	10.0	11.0	12.0
Book Value per share (BV)	266.7	286.1	321.9	363.2
Growth (%)				
Net Sales	63.7	8.2	8.6	8.6
EBITDA	77.6	24.5	5.1	8.6
PAT	31.6	38.4	3.8	13.6
DPS	12.5	66.7	10.0	9.1
Valuation Ratios (x)				
P/E	17.1	12.4	11.9	10.5
P/CEPS	9.5	7.6	7.1	6.3
P/BV	2.1	2.0	1.7	1.5
EV / EBITDA	9.8	7.9	7.5	6.9
EV / Sales	1.9	1.7	1.6	1.5

Operating Ratios

Raw Material / Sales (%)	52.4	49.4	50.0	50.0
Employee cost / Sales (%)	9.5	9.6	9.6	9.6
SG&A / Sales (%)	2.0	2.0	2.0	2.0
Other Income / PBT (%)	3.1	5.8	3.1	3.6
Effective Tax Rate (%)	17.3	15.4	18.5	18.5
Working Capital (days)	90.4	65.7	68.5	67.1
Inventory Turnover (days)	80.1	88.9	87.6	87.6
Receivables (days)	121.1	118.8	120.5	120.5
Payables (days)	104.5	163.6	160.6	160.6
Net D/E (x)	1.4	1.1	0.9	0.8

Profitability Ratios (%)

Net Income Margins	7.8	9.7	9.3	9.7
RoACE	9.2	11.9	12.3	12.6
RoAE	8.7	10.3	15.4	15.5
Dividend Payout	18.4	22.1	23.5	22.5
Dividend Yield	1.1	1.8	2.0	2.1
EBITDA Margins	18.9	21.8	21.1	21.1

Source: Company data, I-Sec research

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