



Company Name	: UPL LIMITED
BSE Code	: 512070
Time Duration	: 1 year
CMP	: ₹746 (as on 09 Nov., 2017)
Target Price	: ₹945

The value pick for the month of November is UPL Limited. The company has grown at a CAGR of 26% over the last 5 years and has a high ROE in the range of 25-35 over the last 3 years.

UPL is a leading producer of crop protection products, intermediates, speciality chemicals and other industrial chemicals. The company has a global footprint with the highest exposure to Latin America (32.4%) followed by India (20%), North America (17.3%) and Europe (12.9%). Also, other countries contributed 17.5% to the company's revenue. We see that the company has been increasing its revenue contribution from LatAm and India with revenues increasing to 37% and 26% in Q2FY18. Agro activities contributed 95% to the revenue, while 5% was from non-agro activities.

The company's share price witnessed a correction due to its inability to pass on the increase in raw material prices to customer due to high supply and low demand. Also with higher international exposure (~74%) the exchange rate fluctuations have dented sales growth. The company has maintained its growth guidance of 12-15% (excluding forex and price fluctuations) translating into an actual growth rate of 8-10% in Q2FY18 versus 12-15% for FY18. Due to high inventory build-up globally, the agro activities sales were impacted globally and volumes were in low single digits.

We see that on the volume basis, the 11% growth was higher than its peers. We see pricing pressures to impact over a medium term, while currency exchange rate is more short-term in nature. Hence, we expect a revival in the overall revenue from FY19.

Focus on LatAm and India

In India, company's power brands have gained good traction and normal monsoon has helped to hold the growth momentum intact. We see that growth in Q2FY18 quarter was 10% yoy in the Indian market. However, the delay of onset of monsoon in South India impacted the volumes this quarter. The company's management believes that delayed monsoon would benefit Rabi crop sowing and provide volume growth for its agribusiness.

We expect that with an increase in sowing area, the volumes should pick up, however, the ability to pass on the raw material price hikes will be minimal.

LatAm region has been a growth area for the company. Due to high inventory, the growth has been in mid-single digits. However,

the key triggers for the company are the positive response for fungicides, collaboration with Bayer for the promotion of fungicide in Brazil and good monsoon in Mexico. Collaboration with Bayer is expected to strengthen the distribution muscle of the company.

Other regions providing support

Europe is also expected to see some green shoots and is likely to benefit the company. The growth rate has picked up in Q2FY18. Company's herbicide segment is expected to see an uptick due to low channel inventory in Europe and might benefit from speciality crops like potatoes, cereals, etc.

In the US too, herbicide is doing well, however pricing pressure remains in the market. The company benefited from the ban on Monsanto's Dicamba herbicide and we see this as a temporary windfall for the company. There is more benefit seen from a firming of Soya Bean and corn prices which could lift the pesticides sales. Also, other Asian regions are expected to see traction.

New plant in Dahej and constant innovation

The company recently announced its plans to invest Rs. 6,000 Cr to set up a manufacturing plant at Dahej for agrochemicals and intermediaries. The company at the start of the year had guided for a capex of 11 billion and we see company exploring speciality agrochemicals to drive growth.

We believe in UPL's ability to beat the industry due to new product launches and increase in innovation rate from 5% in FY15 to 15% in FY17. This has helped it to gain 4% market share in 2016 from 3% in 2015.

Financial performance

In FY17, the sales increased by 16.3% yoy to Rs. 16,679 Cr and

Assets and Liabilities (Consolidated) as on 201709(U)			
(Rs in Crore)			
Share Capital	156.00	Net Block	3979.00
Reserve	7784.00	Long term Investments	1051.00
Share Holder's Funds	7940.00	Short term investments	2.00
Long Term Debt - Calc	5382.00	Total Investments	1053.00
Short Term Debt - Calc	830.00	Cash and Bank Bal	1641.00
Total Debt - Calc	6212.00	Net Current Assets	6302.00

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EBITDA of 26.3% yoy to Rs. 2,923 Cr. EBITDA margins increased by ~190bps. The high volume growth led to spike in PAT by 68.9% yoy to Rs. 1,752 Cr.

In Q2FY18, revenue grew by of 6.5% yoy to Rs. 377 Cr. The growth was hampered owing to subdued sales from agro activities which grew by 2.6% yoy to Rs. 362 Cr, while non-agro activity reported growth of 9.2% yoy to Rs. 20.1 billion. Also, other income fell by 7% yoy leading. However, PAT growth was still

decent at 43.6% yoy to Rs23.7 billion.

Valuation

UPL is currently trading at 19.32x on TTM basis which is lowest amongst the company's peers – Rallis India, Monsanto and Bayer CropSciences. We see the company due to its innovation, better business prospects in agro business, capex plans and improving monsoon footprint to lead to 26% upside from current levels to reach target price of Rs. 945 per share over a period of a year.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	16312.00	14048.00	12090.52	10770.88	9185.70
Total Income	16807.00	14364.00	12181.63	10902.23	9293.07
Total Expenditure	13331.00	11653.00	9826.71	8768.16	7551.47
PBIDT	3476.00	2711.00	2354.92	2134.07	1741.60
PAT	1752.00	1037.00	1166.36	934.85	740.71
Dividend %	350.00	250.00	250.00	200.00	125.00
Adj. EPS(Rs)	34.14	21.86	26.69	22.16	17.50

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201709	201706	Q on Q Var%	201609	Y on Y Var%
Net Sales	3770.00	3851.00	-2.10	3658.00	3.06
Total Expenditure	3115.00	3110.00	0.16	3156.00	-1.30
PBIDT (Excl OI)	655.00	741.00	-11.61	502.00	30.48
PAT	300.00	487.00	-38.40	197.00	52.28
PBIDTM% (Excl OI)	17.37	19.24	-9.72	13.72	26.60
PBIDTM%	19.39	21.86	-11.30	15.97	21.42
PATM%	7.96	12.65	-37.08	5.39	47.68
Adj. EPS(Rs)	4.65	9.27	-49.84	3.27	42.20

