

Result Update

Q2 FY24

UPL Ltd.

Institutional
Research

Weak operational performance continues

The company posted a revenue decline of 18.7% YoY / up 13.5% QoQ to Rs. 10,170 crores, below market expectations of Rs. 10,836 crores. The quarter was impacted by headwinds affecting the overall industry. For FY24, the company expects revenue growth to remain flat compared to its earlier guidance, which pegged the revenue growth between 1% and 5%. UPL reported annual revenue decline in international geographies such as Latin America (-17%), Europe (-7%), India (-23%), North America (-57%) and the Rest of the World (-4%). EBITDA decreased 45.8% YoY / up 4.1% QoQ to Rs. 1,325 crores, while EBITDA margin stood at 13.0% (down 651bps YoY) in Q2FY24, owing to a contraction in gross margins by 412bps YoY to 48.6%. In Q2FY24, the loss stood at Rs. 293 crores, against market expectations of a profit. UPL's elevated inventory levels will gradually subside with strong farmgate demand in H2FY24 as North America, Latin America, and Europe enter cropping season.

Valuation and Outlook

The global agrochemical industry has been going through a challenging phase over the last two quarters as distributors destocked and focused on tactical purchases amid elevated channel inventory levels and intense price competition. These factors significantly impacted its revenue and profitability for Q2FY24. However, we see a pick-up in volumes (+1% YoY) in the crop protection business (ex-India) led by the resilient performance of the differentiated and sustainable portfolio. Further, the company has taken cost reduction initiatives over the next two years to improve margins. As we advance, the company is optimistic about progressively improved performance in H2FY24 as key geographies of North America, Latin America, and Europe enter major cropping seasons. Overall, UPL is executing well in this challenging market and expects operational performance to be back on track by H2FY24, which will further improve business as the cycle normalizes.

Key Highlights

Particulars (Rs. Crs.)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Sales	12,507	8,963	10,170	-18.7%	13.5%
Gross Profit	6,588	5,033	4,938	-25.0%	-1.9%
Gross Margin (%)	52.7%	56.2%	48.6%	-412bps	-760bps
EBITDA	2,444	1,273	1,325	-45.8%	4.1%
OPM (%)	19.5%	14.2%	13.0%	-651bps	-117bps
Net Profit	969	102	-293	-130.2%	-387.3%
Net Profit Margin (%)	7.7%	1.1%	-2.9%	-1063bps	-402bps

Source: Company, BP Equities Research

Sector Outlook

Neutral

Stock

CMP (Rs.)	534
BSE code	512070
NSE Symbol	UPL
Bloomberg	UPLL IN
Reuters	UPLL. BO

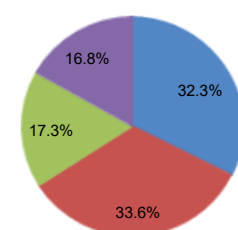
Key Data

Nifty	18,989
52 Week H/L (Rs.)	807/528
O/s Shares (Mn)	751
Market Cap (Rs. bn)	400
Face Value (Rs.)	2

Average Volume

3 months	288,073
6 months	267,945
1 year	231,475

Share Holding Pattern (%)



■ Promoters ■ FII ■ DII ■ Others

Relative Price Chart



Research Analyst

Prathamesh Masdekar

Prathamesh.masdekar@bpwealth.com
022-61596158

Key Concall Highlights

UPL Global Crop Protection (excluding India):

(1) The revenue growth for the quarter was lower mainly on account of channel destocking and pricing pressure in the herbicides segment, especially in glufosinate, glyphosate, clethodim, and s-metolachlor, particularly in North America and Brazil. (2) The herbicides segment accounted for around 75% of the annual decline in Q2FY24 revenue of UPL Corporation. (3) Margins are expected to improve due to preemptive actions being taken on cost reduction. These measures are expected to have a positive impact of around US\$100 mn in the next 24 months. The initiative is on track, and the company anticipates a cost saving of US\$50 mn in FY2024. (4) The management expects H2FY24 to be better than H1FY24 due to the beginning of the crop season in the next quarter in Europe, North America and Latin America.

UPL Sustainable Agri Solutions (India):

(1) The revenue growth for the quarter was impacted by lower possessions for key crops such as cotton, exceptionally high channel inventory, erratic rainfall in August and September and higher than usual sales return. (2) Management indicated that the price correction in India for UPL is far lower than in global markets, given that UPL enjoys market leadership in its key products and opted to defend prices. (3) The company expects significantly improved performance in H2FY24, led by new product launches and higher grower demand.

“UPL has revised their revenue growth guidance to flat from 1-5% for FY2024 and EBITDA growth guidance to 0 to(-5%) from 3-7%.”

Advanta Enterprises:

(1) The company has continued to deliver robust growth with improved operating profitability driven by higher prices and volumes in the Sunflower, Corn, Canola, Sorghum, and vegetables portfolios, partially offset by volume reductions in Brazil Soya, Australia Sorghum & Ecuador Corn portfolios. (2) The company's margins increased due to an improved product mix containing high-margin products and a good recovery in the Indian vegetable business. (3) The company expects healthy demand for the remaining H2FY24.

Cost optimization initiatives: The company is undertaking USD 100 mn cost reduction initiatives over the next two years, with 50% realized in FY24. UPL had already achieved a US\$9mn cost reduction by the end of Q2FY24, and another 50% is expected in H2FY24, with the balance in H1FY25.

Volume growth: The company registered revenue de-growth on three key parameters such as Volume -7%, Price -15% and currency exchange +3% YoY. International business registered volume growth driven by high-margin sustainable products.

Debt update: The company aims to reduce its gross debt by USD 500 mn annually for FY24, led by a reduction in capex guidance and better cash generation in H2FY24.



Key Financials

YE March (Rs. Crs.)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	38,694	46,240	53,576	52,346	56,328
Growth %	-89.2%	19.5%	15.9%	-2.3%	7.6%
EBIDTA	8,352	9,529	10,196	10184	11535
Growth%	-87.7%	14.1%	7.0%	-0.1%	13.3%
Net Profit	3,495	4,437	4,414	3269	4348
Growth %	-84.0%	27.0%	-0.5%	-25.9%	33.0%
Diluted EPS	46.5	59.1	58.8	43.55	57.92

Profitability & Valuation

EBIDTA (%)	21.6%	20.6%	19.0%	19.5%	20.5%
NPM (%)	9.0%	9.6%	8.2%	6.2%	7.7%
ROE (%)	17.3%	14.6%	13.1%	10.7%	13.0%
ROCE (%)	14.2%	16.3%	16.1%	11.5%	14.7%
P/E (x)	11.4	9.0	9.0	12.2	9.2
EV/EBITDA (x)	8.7	8.7	6.3	6.1	5.5
Net Debt/ EBITDA (x)	2.3	2.1	1.7	1.5	1.1

Source: Company, Bloomberg Estimates

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392