

Result Update

Q3 FY24

UPL Ltd.

Institutional
Research

Results miss street estimates; Weak operational performance continues

The company posted a revenue decline of 27.7% YoY / down 2.8% QoQ to Rs. 9,887 crores, below market expectations of Rs. 11,060 crores. The quarterly revenue continued to be impacted by global channel destocking and ongoing pricing pressure in the post-patent segment across key markets. UPL reported annual revenue decline in international geographies such as Latin America (-28%), Europe (-30%), India (-20%), and North America (-64%). EBITDA decreased 96.8% YoY / down 93.0% QoQ to Rs. 93 crores, while EBITDA margin stood at 0.9% (down 2,014bps YoY) in Q3FY24, owing to high-cost inventory liquidation and higher rebates led margin contraction. In Q3FY24, the loss stood at Rs. 1,607 crores, against market expectations of a loss of Rs. 241 crores. UPL Global Crop Protection's expect normalized business performance from Q2FY25 as destocking subsides across key markets. However, UPL Advanta had a healthy EBITDA growth in 9MFY24 driven by improved contribution margins and controlled overheads and is expected to close FY24 with low double-digit growth in EBITDA.

Valuation and Outlook

The global agrochemical industry has been going through a challenging phase over the last two-three quarters as destocking continued to weigh down the global agrochemical market. Overall, prices remained stable sequentially in the crop protection business but came off significantly as the high base of previous year amid intense post patent price competition. These factors significantly impacted its revenue and profitability for Q3FY24. However, we see a pick-up in volumes in Latin America, and a double-digit growth in revenue in the RoW region. Further, the company has taken cost reduction initiatives over the next two years to improve margins. As we advance, the company is optimistic of progressively improved performance in Q4FY24 and Q1FY25 as key geographies of North America, Latin America, and Europe enter major cropping season. Overall, UPL is executing well in this challenging market and expects operational performance to be back on track by Q2FY25, which will further improve business as the cycle normalizes.

Key Highlights

Particulars (Rs. Crs.)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Sales	13,679	10,170	9,887	-27.7%	-2.8%
Gross Profit	7,057	4,938	3,564	-49.5%	-27.8%
Gross Margin (%)	51.6%	48.6%	36.0%	-1,554bps	-1,251bps
EBITDA	2,884	1,325	93	-96.8%	-93.0%
OPM (%)	21.1%	13.0%	0.9%	-2,014bps	-1,209bps
Net Profit	1,360	-293	-1,607	-218.2%	448.5%
Net Profit Margin (%)	9.9%	-2.9%	-16.3%	-2,620bps	-1,337bps

Source: Company, BP Equities Research

Sector Outlook

Neutral

Stock

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

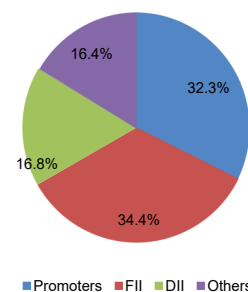
Key Data

Nifty	21,854
52 Week H/L (Rs.)	780/498
O/s Shares (Mn)	751
Market Cap (Rs. bn)	378
Face Value (Rs.)	2

Average Volume

3 months	2,595,570
6 months	2,713,490
1 year	2,473,880

Share Holding Pattern (%)



Relative Price Chart



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Key Concall Highlights

UPL Global Crop Protection (excluding India):

(1) The global crop protection industry continues to navigate a challenging phase as headwinds in prolonged destocking and elevated pricing pressure persist. (2) The company continued to support channel partners by extending higher rebates and accepting sales returns, which impacted revenues for the quarter. (3) The management expects normalized business performance from Q2FY25 as destocking subsides across key markets.

UPL Sustainable Agri Solutions (India):

(1) The key factors for the revenue decline was poor rabi season in Telangana and Karnataka and low cotton acreage in North India, which led to high sales returns. The low glufosinate demand due to elevated channel stock and increased competition also impacted the results. (2) Management expects glufosinate demand to recover in the coming kharif season. Furthermore, UPL is also introducing new products to diversify crop mix. (3) The company continues to see challenging conditions in Q4FY24.

Advanta Enterprises:

(1) The company delivered healthy growth for 9MFY24 driven by higher prices and volumes in sunflower, corn, canola, sorghum and vegetable portfolios. (2) The company's operating profit grew faster at 16%, driven by improved contribution and controlled overheads. (3) The company expects to close FY24 with low double-digit growth in EBITDA.

"According to UPL's management, the company has a 15% price advantage over China for its top 15 products."

Cost Optimization Initiatives:

The company is undertaking USD 100 mn cost reduction initiatives over the next two years, with 50% realized in FY24. UPL cost reduction initiatives yielded results, as the company reduced SG&A expense by 19% YoY in Q3FY24. UPL is on track to reduce SG&A expenses by Rs. 100 million in FY25.

Volume Growth:

The company registered revenue de-growth on two key parameters: Volume -5%, and Price -24% YoY.

Debt Update:

The company aims for a rights issue to reduce its debt up to USD 500 million.



Key Financials

YE March (Rs. Crs.)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	38,694	46,240	53,576	47,403	51,551
Growth %	-89.2%	19.5%	15.9%	-11.5%	8.8%
EBIDTA	8,352	9,529	10,196	7,934	10,127
Growth%	-87.7%	14.1%	7.0%	-22.2%	27.6%
Net Profit	3,495	4,437	4,414	2456	3257
Growth %	-84.0%	27.0%	-0.5%	-44.4%	32.6%
Diluted EPS	37.6	47.4	47.6	34.5	50.4
EBIDTA (%)	21.6%	20.6%	19.0%	16.7%	19.6%
NPM (%)	9.0%	9.6%	8.2%	5.2%	6.3%
ROE (%)	17.3%	14.6%	13.1%	5.6%	10.6%
ROCE (%)	14.2%	16.3%	16.1%	8.5%	12.7%
P/E (x)	14.2	11.2	11.2	15.5	10.6
EV/EBITDA (x)	8.7	8.7	8.1	10.0	7.5
Net Debt/ EBITDA (x)	2.3	2.1	1.7	2.2	1.4

Source: Company, Bloomberg Estimates

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

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