VALUE PICK

Value Pick: UPL Limited (UPL)

CMP: ₹446
Target: ₹544

ANANDRATHI

Rationale:

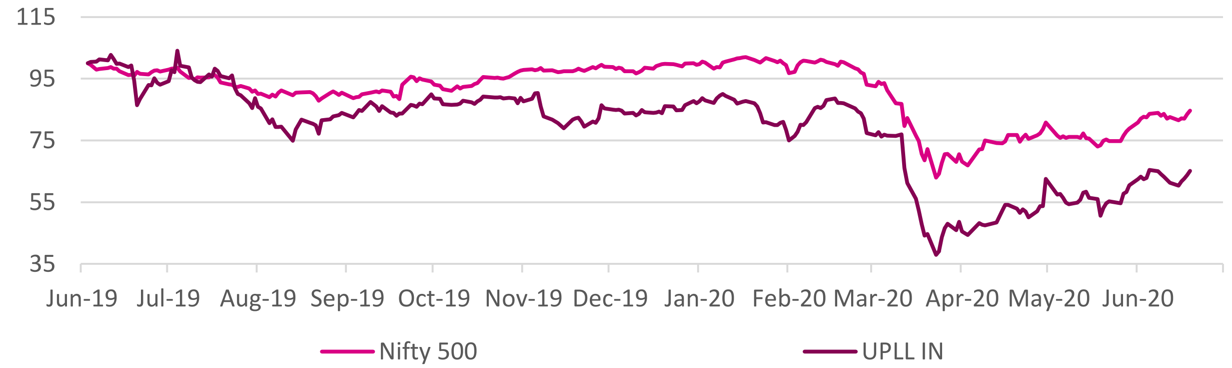
- Founded in 1969, UPL Limited is one of the top 5 crop protection product companies worldwide. The company's diverse product portfolio includes fungicides, herbicides, insecticides, plant growth regulators, rodenticides, specialty chemicals, nutri-feeds, seeds and seed treatment products.
- In 2019, UPL strengthened its product offering and market position with the acquisition of Arysta LifeScience which has presence in the fast growing proprietary post-patent space. Arysta's strong portfolio of crop protection solutions including BioSolutions and seed treatment products enhanced UPL's portfolio and helped UPL in expanding footprint in Africa, Russia and Easter Europe. UPL currently has 48 manufacturing facilities across the world and presence in more than 130 countries.
- Region wise, during FY20, Latin America constituted 38% of total revenues, followed by 16% in North America, 15% in Europe, 11% in India while rest of the world accounted for 20% of the revenues. All the regions witnessed double digit revenue growth except Europe which de-grew as dry and hot weather conditions impacted crop yields. UPL intends to strengthen its presence in markets like Asia and Africa for driving further growth.
- The acquisition of Arysta for $4.2 billion increased leverage of UPL as the company funded the transaction through a combination of fresh equity and $3 billion debt. Addressing debt concerns, UPL reduced net debt-to-EBITDA from 3.7 to 2.9 levels at end of FY20 and remains committed to further lower to about 2 levels by FY21 to maintain its investment-grade rating.
- Also, UPL remains focused on reducing net working capital and has lowered net working capital days from 119 days in FY19 to 80 days in FY20. Inventory days declined by 25 days to 81 days, receivables days declined by 17 days to 118 days, while payables days reduced by 4 days to 119 days at the end of FY20. The company looks to further reduce working capital levels.
- Given a robust R&D, UPL boasts of a strong product pipeline of active ingredients with focus on tapping opportunity in the growing post-patent market as well as increase market share in the proprietary chemical market. The company looks to a revenue potential of about ₹200 billion with these projects reaching sales maturity in a period between 5 and 8 years.
- For FY21, management sees continued growth in revenue and EBITDA and expects to reduce fixed costs. Also , the company will continue to invest in Capex, R&D and digital projects. Amid the CVID-19 crisis, all the manufacturing plants are operational and buffer stocks are maintained for key products.
- The current environment remains challenging, however, the farm sector's growth prospects look positive as governments around the world remain focused on food security with stable agricultural production.
- We believe UPL remains well positioned for long term growth, given its, strong market position, diverse product offering, expectations of reduced debt levels, and decent revenue and cost synergies from Arysta acquisition. We reiterate our BUY rating on UPL Ltd. with a target price **₹544 per share.**

52 Week L/H	240 /709
Avg. Daily Volume (3M) ('000)	7,317
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	764/340,764
Shareholding (Promoters/Institutions/Others)	28%/55%/17%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	218,370	357,560	383,712	416,498
EBITDA	38,180	67,730	79,524	89,689
EBITDA Margin	17.5%	18.9%	20.72%	21.53%
PAT	14,910	17,760	28,448	35,549
PAT Margin	6.8%	5.0%	7.4%	8.5%
EPS (₹)	19.5	23.2	37.2	46.5
P/E (x)	22.9	19.2	12.0	9.6

Source: Company, Bloomberg Consensus. Note: Prices are as on 22 June 2020 close.

Price Performance (Jun'19=100)



Value Pick: NESTLÉ India Limited (NESTIND)

CMP: ₹16,141
Target: ₹18,710

ANAND RATHI

Rationale:

- NESTLÉ India Limited is one of the leading players in the Indian FMCG industry with over 100 years presence, enjoying market leadership in about 85% of its product portfolio. The company's diverse range of products comprises Milk Products and Nutrition, Prepared dishes and Cooking aids, Powdered and Liquid Beverages and Confectionery offered through a strong portfolio of brands including Nescafé, Ceregrow, Nangrow, Maggi, Milkybar, Kit Kat, Milkmaid and Nestea.

- NESTLÉ India benefits from the continued technology support from its parent - Switzerland-based NESTLÉ S.A - which holds a 62.76% stake in the company. The sustained growth story of the company has been supported by pan India presence with strong distribution network and 8 well established manufacturing facilities.

- During CY19, revenues grew 9.6% year over year (y/y) to ₹123,689 million driven by domestic sales. Continuing the growth trend, revenues grew 10.8% y/y in Q1CY20 driven by higher domestic as well as export sales. The quarter witnessed strong performance in MAGGI, KITKAT and Nestlé MUNCH. Though the out of home sector performance was subdued amid the COVID-19 crisis, contribution from Ecommerce went up considerably during the reported quarter. The trend of higher commodity prices (including milk and its derivatives) witnessed in recent quarters is likely to continue in the near future. However, we believe that the company's several efforts towards cost management, technology leverage and strengthening distribution capabilities should continue to drive overall profitability.

- As part of several strategic efforts to drive growth, the company remains focused on continued innovation and expansion of product offerings, increasing its retail outlets from 4.4 million in 2018 to the range off 5.5-6million, accelerating penetration in small towns, tier-2, tier-3 cities while further expanding presence in rural market. Additionally, the company looks to seize opportunity in the out of home channels and e-commerce space .

- In view of the COVID-19 scenario, earlier this month management stated that the company has resumed operations at all of its manufacturing locations and distribution centres/warehouses. Also, the company does not foresee any specific challenge in terms of its capital or financial resources and does not expect a major deviation in profitability. Further, management highlighted that the company has a strong cash position and is well positioned to meet its financial commitments. Additionally, the company continues to witness demand for most of its products and remains focused on product availability to consumers.

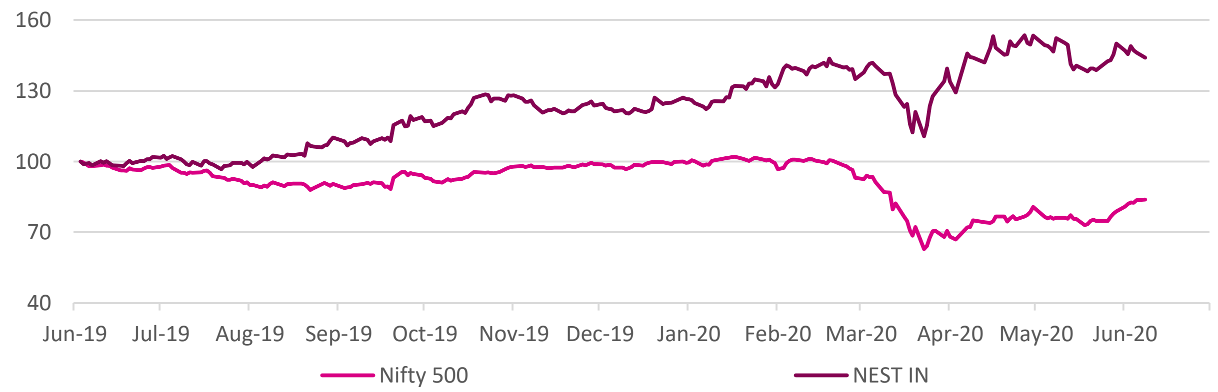
- We remain optimistic given the company's diverse product mix, strong market position with solid brand recognition, expanding distribution network, healthy financials and favourable traits in the domestic processed foods industry. We reiterate our **BUY** rating on NESTLÉ India Ltd. with a target price **₹18,710 per share.**

52 Week L/H	11,265/18,370
Avg. Daily Volume (3M) ('000)	180
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	96/1,556,246
Shareholding (Promoters/Institutions/Others)	63%/21%/16%

(In ₹ mn)	CY-18	CY-19	CY-20E	CY-21E
Net Sales	112,923	123,689	133,722	150,838
EBITDA	26,166	28,643	31,415	35,437
EBITDA Margin	23.2%	23.2%	23.5%	23.5%
PAT	16,069	19,696	21,847	24,783
PAT Margin	14.2%	15.9%	16.3%	16.4%
EPS (₹)	166.7	204.3	226.6	257.0
P/E (x)	96.8	79.0	71.2	62.8

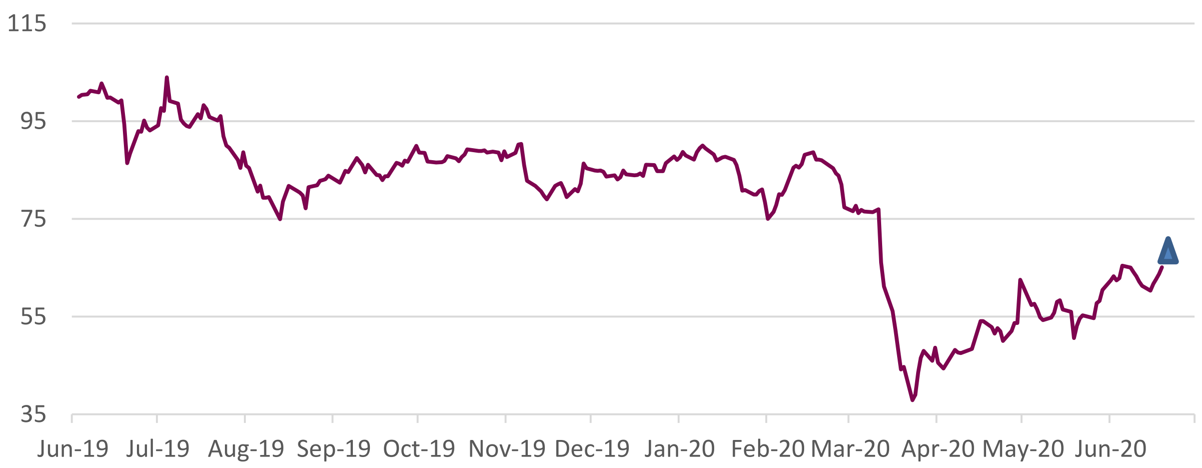
Source: Company, Anand Rathi Research. Note: Prices are as on 22 June 2020 close.

Price Performance (Jun'19=100)

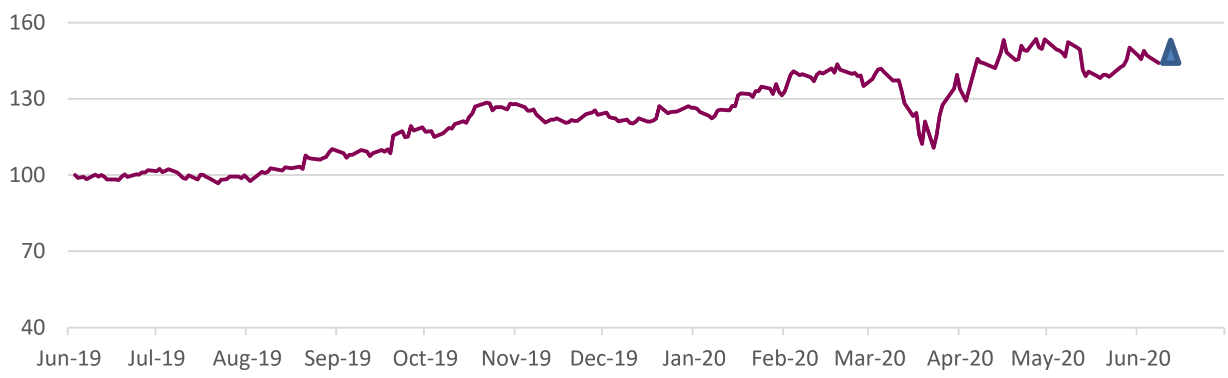


Rating & Target Price History

UPL rating history & price chart



NESTLEIND rating history & price chart



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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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