

- ❑ UPL consolidated net sales increased 8.7% to ₹85,150 million in Q1FY22 compared to Q1FY21. Sales of Agro segment has gone up 8.2% to ₹81,000 million (accounting for 95.2% of total sales). Sales of Non Agro segment has gone up 22.5% to ₹4,150 million (accounting for 4.8% of total sales).
- ❑ The company's operating profit margin has slumped from 21.8% to 20.8%, leading to 4.1% decline in operating profit to ₹17,740 million. Raw material cost as a % of total sales (net of stock adjustments) decreased from 45.3% to 43.5% while employee cost increased from 11.1% to 12.1% and other expenses rose from 20.2% to 23.6%. Reported PAT grew by 22.9% y/y to ₹6,770 million led by tax benefits, despite UPL reporting a muted operating performance during the quarter.
- ❑ India revenue grew 27% despite (i) delayed monsoons in parts, (ii) the second COVID wave, and (iii) delayed upward price revisions. Strong volume growth (~14%) in Glufosinate (Ferio, Sweep Power), coupled with higher price realization (by ~7%), aided performance. Revenue was up 24% y/y in LatAm on the back of strong growth across the region, with Brazil leading with 40% growth. Strong volume growth in Perito (by ~2x) and Sperto (by ~1.8x) in Brazil, coupled with higher price realization for Perito, led to overall growth in the region.
- ❑ North America revenue grew 19% y/y on the back of higher volumes, strong realizations, and an increase in acreage for major row crops while Europe sales de-grew 11% on supply constraints and unfavorable weather conditions. UK Mancozeb-based formulations (Manzate and Nautile) were phased out to 2Q.
- ❑ RoW revenue declined 14% y/y due to unfavorable weather conditions, lower volumes, and supply constraints, which partially offset the growth seen in some RoW regions.
- ❑ Gross debt as of Jun'21 stood at ₹251,000 million while net debt stood at ₹215,000 million as of Jun'21. In 1QFY22, UPL borrowed \$250 million in sustainability loans, taking the total sustainability loans to \$750 million. Loans were utilized entirely for acquisition loan repayments – acquisition loans currently stand at \$1,500 million. Sustainability loans were taken at the rate of LIBOR +30bps.

- ❑ Management guided the revenue growth of ~7–10%, with EBITDA growth at 12–15% and net debt to EBITDA at <2x. The global Agrochemicals market is set to gain from better farm economics on account of firm/rising global agri commodity prices, which would in turn drive agrochemical consumption.
- ❑ Strong demand for key products along with robust product pipeline is driving the momentum for revenue growth. The company's focus on cost control and higher margin products should enable margin improvement thereby improving the medium-term outlook of the business. Hence, we maintain our **BUY** rating on the stock with an upward revised target price of **₹940 per share**.

Financials:

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	FY21	FY20	Chg
Net Sales	85,150	78,330	8.7%	386,940	357,560	8.2%
Operating Expense	67,410	61,290	10.0%	304,700	289,830	5.1%
EBITDA	17,740	17,040	4.1%	82,240	67,730	21.4%
Other Income	480	1,950		3,860	2,660	
Depreciation	5,510	5,220		21,730	20,120	
EBIT	12,710	13,770	-7.7%	64,370	50,270	28.0%
Interest	6,070	5,510		20,600	16,430	
PBT	6,640	8,260	-19.6%	43,770	33,840	29.3%
Tax	(1,520)	1,430		6,860	5,860	
Exceptional Items	(630.0)	(250)		(2,380)	(6,230)	
PAT	7,530	6,580	14.4%	34,530	21,750	58.8%
Minority /Other Adj.	(760)	(1,070)		(5,820)	(3,990)	
Consolidated PAT	6,770	5,510	22.9%	28,710	17,760	61.7%

Margins	Q1-FY22	Q1-FY21	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	20.8%	21.8%	-92	21.3%	18.9%	231
Net Margin %	8.0%	7.0%	92	7.4%	5.0%	245

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	357,560	386,940	428,601	483,282
Operating Expense	289,830	303,430	340,350	383,772
EBITDA	67,730	82,240	88,251	99,510
Other Income	2,660	2,590	4,286	4,833
Depreciation	20,120	21,730	25,716	28,997
EBIT	50,270	64,370	66,821	75,346
Interest	16,430	20,600	12,461	15,823
Misc. items	(6,230)	(2,380)	-	-
PBT	27,610	41,390	54,359	59,522
Tax	5,860	6,860	10,872	11,904
Minority Interest	(3,990)	(5,820)	-	-
PAT	17,760	28,710	43,488	47,618

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	63.7%	8.2%	10.8%	12.8%
Operating Margin %	18.9%	21.3%	20.6%	20.6%
Net Margin %	5.0%	7.4%	10.1%	9.9%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
<u>Liabilities</u>				
Equity Share Capital	1,530	1,530	1,530	1,530
Reserves & Surplus	161,430	191,941	223,847	258,234
Total Shareholder's Funds	162,960	193,471	225,377	259,764
Minority Interest	33,120	33,120	33,120	33,120
Long-Term Liabilities	303,570	313,570	326,070	340,945
Other Long-term Liabilities	2,474	2,340	2,340	2,340
Deferred Tax Liability	11,220	50	50	50
Short-term Liabilities	166,860	180,571	200,012	225,530
Total	684,280	723,122	786,969	861,749
<u>Assets</u>				
Net Fixed Assets	373,940	260,538	276,483	302,167
Long-Term L&A	7,500	7,500	7,500	7,500
Non Current Investments	5,580	5,580	5,580	5,580
Other Non-Current Assets	4,850	4,850	4,850	4,850
Current Asset	292,410	444,654	492,557	541,652
Total	684,280	723,122	786,969	861,749

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	23.2	37.6	56.9	62.3
P/E (x)	33.4	20.7	13.7	12.5
P/B (x)	3.1	2.8	2.4	2.0
ROE	9.2%	13.7%	17.2%	15.9%

Source: Company, Anand Rathi Research

Rating and Target Price history:

UPL rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 12 August 2021 close.

UPL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
30-Jun-2014	BUY	480	330
27-Mar-2017	BUY	950	726
23-Jun-2020	BUY	544	446
25-Jun-2021	BUY	940	805
12-Aug-2021	BUY	940	777

Key Risks:

- ❑ Any delay in product approvals or any negative outcome of facility inspection by the USFDA can affect earnings prospects.
- ❑ The pharmaceutical industry is highly regulated in many countries and requires various approvals, licenses, registrations and permissions for business activities.



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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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