

About UPL:

UPL is a global crop protection company operating in over 130 countries. The company is organized into four key divisions:

- **Global Crop Protection** (UPL Corporation): This division focuses on providing both generic and patented crop protection products, including fungicides, herbicides, and pesticides, to markets worldwide.
- **India Crop Protection** (UPL SAS): This division offers a wide range of crop protection products specifically tailored for the Indian market.
- **Seeds** (Advanta Enterprises): Specializing in the production and marketing of high-quality seeds, Advanta serves agricultural markets globally.
- **Speciality Chemicals** (UPL Specialty Chemicals): Engaged in the manufacture and supply of active ingredients and formulation products, this division supports other UPL group companies (UPL Corporation and UPL SAS) and also serves third-party customers.

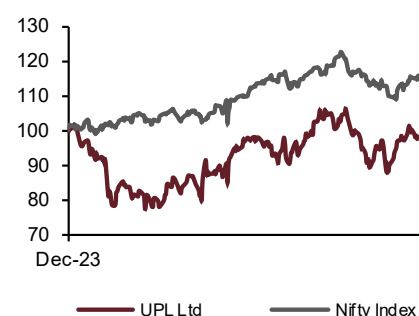
Each division plays a critical role in UPL's comprehensive portfolio of agricultural solutions, supporting the company's mission to enhance crop productivity and sustainability globally.

➤ What We Think?

We believe UPL Ltd. presents a compelling investment opportunity, driven by its large-scale operations, cost-efficient manufacturing capabilities, and extensive presence across the value chain. Additionally, the company stands to benefit from the end of the global chemicals destocking cycle and its ongoing deleveraging efforts. We expect UPL Ltd. to significantly improve its operational performance, with projected revenue growth of 8% CAGR and EBITDA growth of 26% CAGR over the next three years. This robust performance is expected to translate into favorable stock performance going forward.

Rating	TP (Rs)	Up/Dn (%)
BUY	625	23
Market data		
Current price	Rs	509
Market Cap (Rs.Bn)	(Rs Bn)	430
Market Cap (US\$ Mn)	(US\$ Mn)	5,052
Face Value	Rs	2
52 Weeks High/Low	Rs	599.53 / 429.55
Average Daily Volume	('000)	2,913
BSE Code		512070
Bloomberg		UPLL.IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	32.52	32.52
Public	67.48	67.48
Others	1	1
Total	100	100

Source: BSE

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➤ Why We Think So?

Industry Backdrop

The global crop protection industry has experienced a prolonged downcycle since December 2022. This was influenced by higher inventory levels at the distributors end coupled with an increased supply from Chinese manufacturers at lower prices. The result was an oversupply situation coupled with subdued demand, which caused significant price declines for key formulations. For example, the price of Glufosinate, a major product for UPL, dropped from \$42 per kilogram in 2022 to around \$8 currently.

We believe that prices have now reached their bottom. With limited new supply entering the market and inventory destocking largely behind, further price declines appear unlikely. We expect prices to remain within the current range for the next few months. Additionally, the prices of key active ingredients have fallen in parallel with the decline in formulation prices. With high-cost inventory largely cleared from the system, we anticipate the industry will return to more normalized margins moving forward.

Improvement in Operational Performance

UPL experienced a period of significant financial underperformance due to a challenging market environment that impacted operational performance, combined with a leveraged balance sheet that severely affected its bottom line. In FY24, UPL reported a 20% decline in revenue, with EBITDA falling 51% to INR 5,515 crores, compared to INR 11,178 crores in FY23. As a result, margins shrank by 807 basis points, reaching 12.8% from 20.9% in the previous year. Profit After Tax (PAT), after minority interest, plunged by 134%, turning into a loss of INR 1,200 crores, compared to a profit of INR 3,569 crores in FY23.

The sharp decline was mainly driven by lower volumes and price reductions, which affected revenues. Additionally, the liquidation of high-cost inventory, increased channel rebates, and higher operating and finance costs significantly impacted profitability.

With prices stabilizing at current levels and the benefits of low-cost inventory, along with a shift in product mix and a structural reduction in fixed overheads, UPL is poised to achieve a significant improvement in EBITDA. Even at current price levels, UPL expects margins to recover to a range of 18-20% by FY26, driving an EBITDA compound annual growth rate (CAGR) of 26% over the three-year period ending in March 2027.

Balance Sheet Strengthening

In 2019, UPL acquired Arysta LifeSciences, a global agrochemicals company, from Platform Specialty Products for USD 4.2 billion, funded through debt of USD 3 billion. While UPL made significant progress in reducing its leverage, bringing its net debt down to USD 2 billion (with a Net Debt to EBITDA ratio of 1.48x), changes in the operating environment hindered its deleveraging efforts. As of the end of FY24, net debt increased to USD 2.7 billion, resulting in a Net Debt to EBITDA ratio of 3.99x.

To address this, UPL has taken proactive steps, including a rights issue to raise ₹3,338 crores and monetizing its stake in Advanta Enterprises (its seeds platform) by selling a 12.5% stake to global private equity firm Alpha Wave Global for USD 250 million (in addition to USD 100 Millions of primary issuance). Additionally, the company plans to use USD 300–400 millions of free cash flow from its business to further reduce net debt. These initiatives are expected to bring UPL's net debt down to below USD 2 billion by the end of FY25.

Potential Value Unlocking at the subsidiaries

UPL has strategically structured its business into distinct platforms for each of its verticals, as outlined in the introduction. Some of these platforms include minority investments from global sovereign wealth funds and private equity firms, which could create opportunities for value unlocking through potential future listings or demergers. Given that the combined value of these platforms is substantially higher than that of the parent company (as demonstrated by past transactions), we believe these corporate actions could significantly enhance value for UPL Ltd.'s shareholders.

Entity	Valuation (Latest Round)	Date of Transaction	Investors
UPL Corp. Caymen (Arysta Business)	USD 5.4 Billion	01/02/2019	AIDA & TPG
Advanta Enterprises	USD 2.8 Billion	19/11/2024	KKR & Alpha Wave Global
UPL SAS	USD 2.2 Billion	21/10/2022	AIDA & TPG

➤ Valuation & Outlook

UPL is currently trading at a P/E multiple of 16.5x FY26E and 11.3x FY27E earnings on a fully diluted basis. We believe UPL is undervalued at these levels, as market sentiment remains cautious about the company's ability to deleverage and achieve an operational turnaround. Our positive outlook is supported by market commentary from international crop protection players, signaling the end of destocking, as well as UPL's strategic efforts to reduce its debt. **Based on this, we set a price target of INR 625 per share, valuing the company at 20x one-year forward P/E.**

➤ Financial Summary

Particulars	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	35756	38694	46240	53576	43098	46162	50688	54281
EBITDA	6773	8352	9529	10196	4539	7990	9839	11085
EBITDA Margin (%)	19%	22%	21%	19%	11%	17%	19%	20%
PAT	2178	3495	4437	4414	-1878	1039	2640	3788
EPS	29	47	59	59	-25	12	31	45

Source: Company, Bloomberg Estimates

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