

**BUY**

TP: Rs 650 | ▲ 48%

**UPL**

| Agrochemicals

| 10 December 2020

## Old whistleblower complaint – steep correction unwarranted

**Event:** UPL's stock corrected over 15% today after a report by ET Prime cited a whistleblower complaint alleging that promoter Jaidev Shroff along with family members has siphoned off money via eight shell entities. The misappropriation pertains to 2002 and FY12-FY19. UPL clarified that this is an old complaint made in 2017 (fully disclosed) and closed in 2018. Per UPL, the eight companies named are unrelated parties incl. Teknomic Consultant, Sadafuli Finvest, Accolade Properties, Esthetic Finvest, Enviro Tech, Demuric, & Ultima Search.

### Allegations focus on two aspects – Sadafuli Finvest and Pali Hill dealings:

(1) UPL entered into a leave-and-licence agreement from Oct'02 onwards with Sadafuli for Salisbury House, an apartment in Pali Hill, Mumbai, owned by J Shroff and in which he resided. UPL allegedly facilitated renting Salisbury House back to Shroff (rent of Rs 60mn paid over 66 months). Further, roughly Rs 240.9mn in rent was paid over FY12-FY19. (2) Sadafuli (Shroff had 97.8% stake, per AR12) has been receiving secured and unsecured loans from multiple entities related to Shroff. In FY13, Shroff transferred his entire stake to Teknomic Consultants, which then became the holding company of Sadafuli.

**UPL's clarifications:** In today's analyst conference call, management clarified the following – (1) The whistleblower was motivated by mala fide intentions. (2) Several transactions under Teknomic were part of the ordinary course of business. Teknomic was owned by Sameer Mehta (unrelated party) who had an arms-length lease agreement with UPL that expired in Mar'19. (3) The allegation that Salisbury House is owned by J Shroff is incorrect. This is an old complaint raised by Shroff's wife Poonam to a UPL committee in Jul'17 and the matter, including related party transactions, was independently looked into and cleared by leading law firm J Sagar Associates in 2018.

**Our view – BUY:** UPL has faced multiple corporate governance issues in the past which are well known and reflected in the steep valuation discount of 40% vs. the 5Y average. The alleged misappropriation in this case is under US\$ 10mn but has led to the stock being pummeled today (losing >US\$ 700mn in Mcap). We see the correction as an opportunity to accumulate ahead of buoyant agronomic conditions across the US, EU and LATAM and continued price hikes in LATAM that bode well for strong H2 earnings and debt reduction for UPL. Near-term concerns of a stressed balance sheet are in the price and current valuations of 6x FY22E EV/EBITDA are compelling. BUY, Sep'21 TP Rs 650.

**Vivek Kumar**

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Ticker/Price	UPLL IN/Rs 438
Market cap	US\$ 4.6bn
Shares o/s	765mn
3M ADV	US\$ 50.0mn
52wk high/low	Rs 615/Rs 240
Promoter/FPI/DII	28%/44%/10%

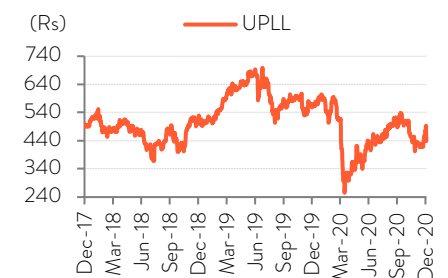
Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	381,968	421,409	459,804
EBITDA (Rs mn)	75,912	89,197	101,318
Adj. net profit (Rs mn)	26,233	33,927	42,028
Adj. EPS (Rs)	34.3	44.3	54.9
Adj. EPS growth (%)	9.4	29.3	23.9
Adj. ROAE (%)	13.5	15.8	17.5
Adj. P/E (x)	12.8	9.9	8.0
EV/EBITDA (x)	7.6	6.2	5.3

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

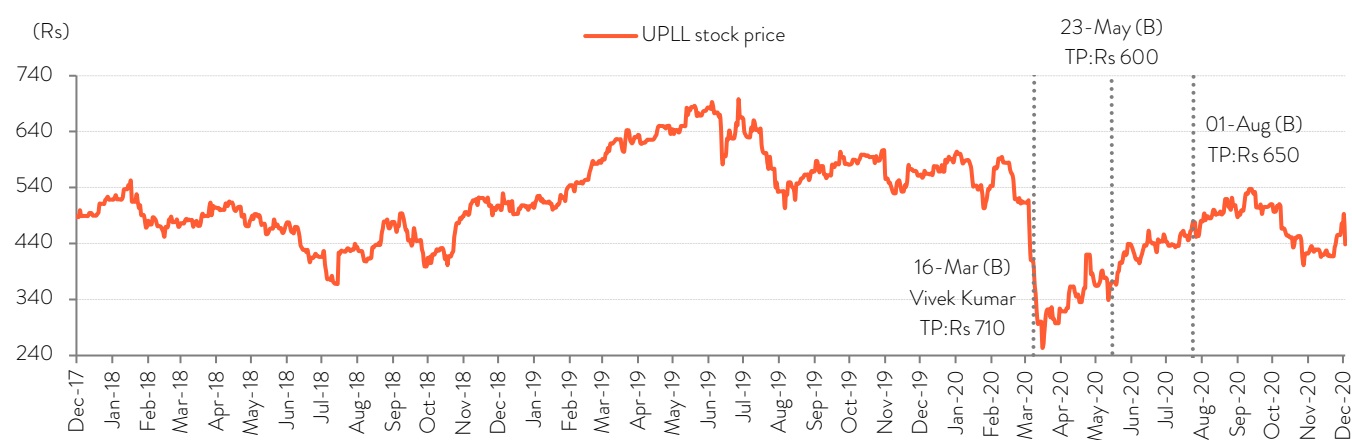
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): UPL (UPLL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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