BUY
TP: Rs 710 | ⮝ 73%

UPL | Agrochemicals | 16 March 2020

Deleveraging to aid potential rerating – initiate with BUY

We explore UPL's stock potential under three scenarios and find a convincing case for +100%/200% returns in our base/bull case over the next three years. UPL should continue to gain further market leadership and transform into a significantly underlevered company by FY23, unlocking value and paving the way for a rerating. We expect strong execution, high Arysta synergies, >20% EPS growth, and cash flows to aid substantial deleveraging. Initiate with BUY and a Mar'21 TP of Rs 710 (implied 7.5x EV/EBITDA, 30% below 5Y mean).

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Gaining market share: We believe UPL's strong execution record, backed by an integrated model, innovation, wide portfolio and market reach led by LATAM, would continue to fuel 12% sales growth and market share gains (from ~9.7% to 13.9%) over FY20-FY24. The top 6 molecules and biosolutions are key drivers, accounting for >25% of expected FY24 sales. EBITDA margin levers are scale efficiency, cost synergy from Arysta, a higher branded mix and lower competitive intensity, aiding +200bps margin expansion and 21% EPS growth.

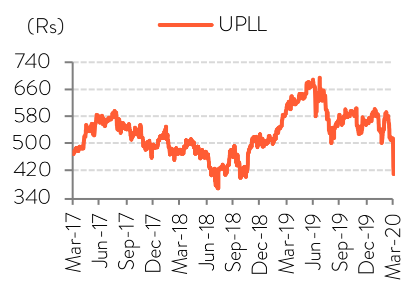
Deleveraging to aid rerating: Within the next three years, we expect improving operating results, a calibrated decrease in working capital and strong annual FCF of US$ 690mn+ to draw net debt/EBITDA down from 3.5x to 1.6x/1.1x by FY23/FY24. Releveraging of the balance sheet at 1.1x could allow UPL to buy back the 22% minority interest held by TPG/ADIA in or around FY24, rerating the equity materially with doubling of the ~11% ROCE. In our bull case, the stock would trade at a relevered FY23E EV/EBITDA of 10.1x (vs. 7-12x band for 5Y).

Initiate with BUY: We believe near-term concerns of a stressed balance sheet are in the price and current valuations are attractive at 6.6x FY21E EV/EBITDA. Our Mar'21 TP of Rs 710 is probability weighted (50% wt. for base case, 40% for bull, 10% for bear); the implied 7.5x fwd EV/EBITDA is 30% below the 5Y mean.

Ticker/Price	UPLL IN/Rs 411
Market cap	US$ 4.2bn
Shares o/s	765mn
3M ADV	US$ 25.3mn
52wk high/low	Rs 709/Rs 377
Promoter/FPI/DII	28%/44%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

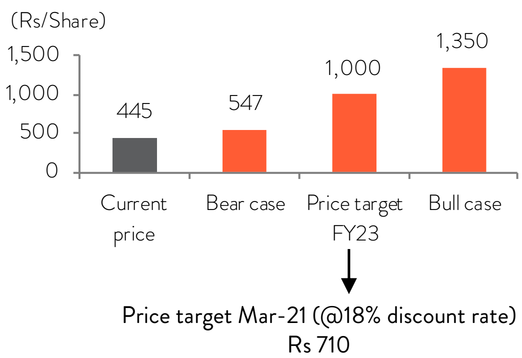
KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E	FY23E
Total revenue (Rs mn)	218,350	352,239	397,941	447,344	494,410
EBITDA (Rs mn)	38,110	74,316	86,846	100,230	113,800
Adj. net profit (Rs mn)	18,140	25,367	30,754	38,365	46,747
Adj. EPS (Rs)	23.7	33.2	40.2	50.2	61.1
Adj. EPS growth (%)	0.6	39.8	21.2	24.7	21.8
Adj. ROAE (%)	13.5	13.8	15.3	17.0	18.3
Adj. P/E (x)	17.3	12.4	10.2	8.2	6.7
EV/EBITDA (x)	9.2	6.2	6.6	5.6	4.7

Source: Company, BOBCAPS Research

Focus charts

FIG 1 – BULL AND BEAR SCENARIOS – WE SEE GOOD PROBABILITY OF BULL CASE BEING ACHIEVED



Bull Case

- Healthy margins (300bps expansion over FY20-FY24)
- Better working capital cycle, generation of significant free cash, releveraging of balance sheet in FY24 to 1.1x EBITDA and buyback of TPG/ADIA stake in UPL Corp
- Possible rerating. This would warrant a valuation of Rs 1,350 per share (203% upside from current price) over next 3 years

Bear Case

- Margin pressure (80bps expansion over FY20-FY24) and weaker Arysta synergies, resulting in 6% lower EBITDA and 10% lower profits vs. our base case
- Elevated net debt/EBITDA (1.8x in FY23), lower net debt reduction, stretched working capital and tight liquidity (cash/asset ratio of 2% vs. 5Y average of ~14%)
- Trough multiple equates to share price of Rs 547 (23% upside from current price)

FIG 2 – HEALTHY FREE CASH TO RESTORE FINANCIAL FLEXIBILITY BY FY24E

Particulars	5Y historical average	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
EBITDA		**74,316**	**86,846**	**100,230**	**113,800**	**127,136**	**142,121**
Bear case		74,316	84,356	94,691	108,087	119,342	132,453
% variation from base		0.0	(2.9)	(5.5)	(5.0)	(6.1)	(6.8)
Net Working Capital Days*	**129**	**141**	**137**	**134**	**134**	**131**	**133**
Capex		**20,000**	**23,000**	**24,000**	**23,007**	**24,387**	**25,851**
FCF		**37,114**	**39,275**	**46,267**	**55,895**	**67,955**	**67,541**
Cash-to-Assets (%)	**14.4**	**1.0**	**11.0**	**6.2**	**5.9**	**7.0**	**5.6**
Net Debt-to-EBITDA	**1.3x**	**3.4**	**2.7**	**2.1**	**1.6**	**1.1**	**0.8**
Bear case		3.5	2.9	2.3	1.8	1.4	1.1

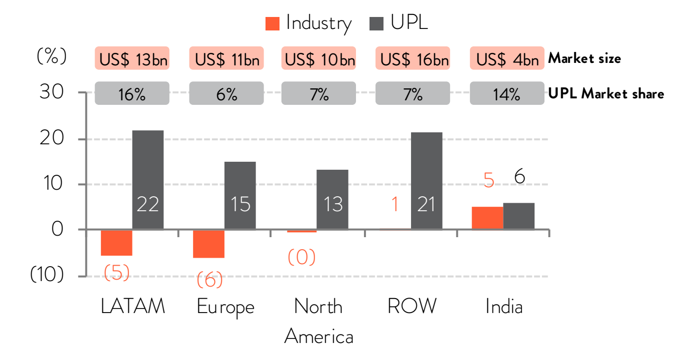
- Liquidity position is in tight spot if UPL repays US$ 400mn-430mn of debt in FY20
- Recent fund raise provides comfort, driving cash/asset levels to 7-8%

- Heathy EBITDA & working capital efficiency can support major deleveraging by FY24, yet keep liquidity adequate

vs. 2-2.2x guidance

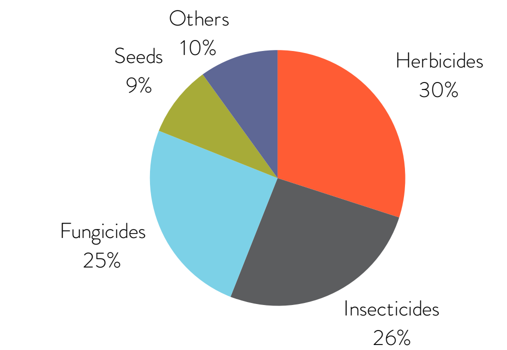
Source: Company, BOBCAPS Research | *Includes loans/advances and other current assets/liabilities

FIG 3 – SALES EXECUTION TRACK RECORD ACROSS REGIONS VS. INDUSTRY (FY15-FY19)



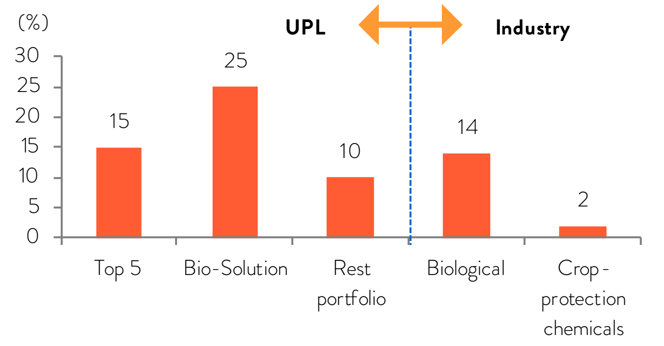
Source: Company, Industry, BOBCAPS Research

FIG 4 – SALES MIX BY PRODUCT SEGMENT – WIDER PORTFOLIO ALLOWS GREATER FLEXIBILITY



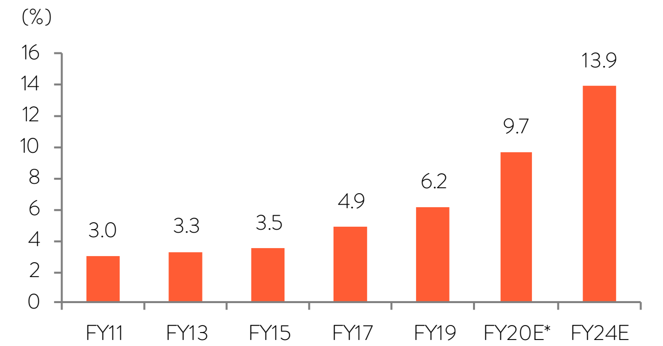
Source: Company, BOBCAPS Research

FIG 5 – KEY PORTFOLIO SALES GROWTH (FY20E-FY24E), UPL VS. INDUSTRY



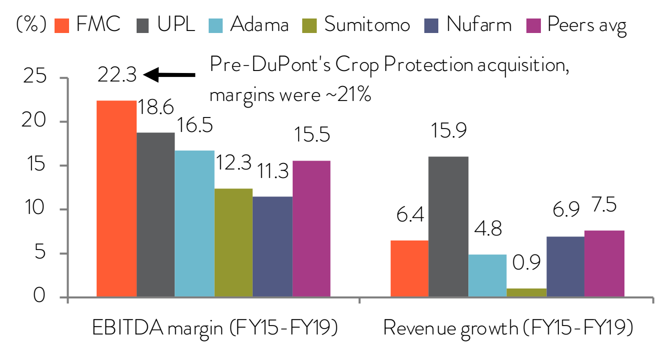
Source: Company, BOBCAPS Research

FIG 6 – UPL'S MARKET SHARE GAINS EXPECTED TO CONTINUE



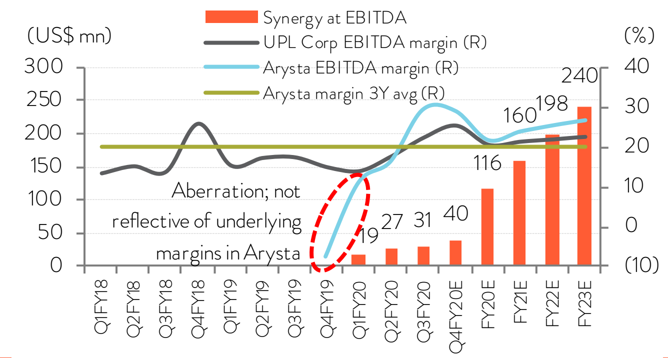
Source: Company, BOBCAPS Research | *Full-year Arysta consolidation

FIG 7 – UPL'S EBITDA MARGINS ACROSS CYCLES ARE 300-400BPS HIGHER THAN PEERS



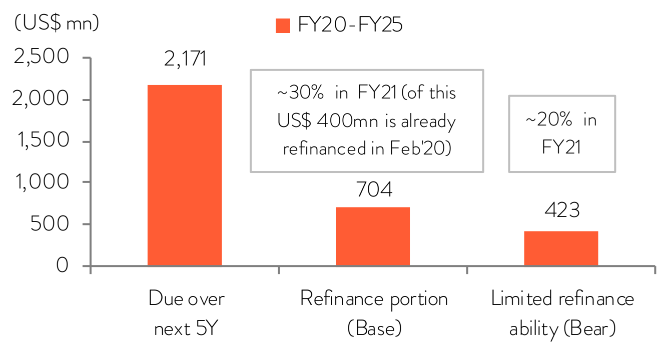
Source: Company, BOBCAPS Research

FIG 8 – AT 90% OF GUIDED COST SYNERGIES, ARYSTA CAN SURPASS 24% MARGIN TRAJECTORY BY FY22



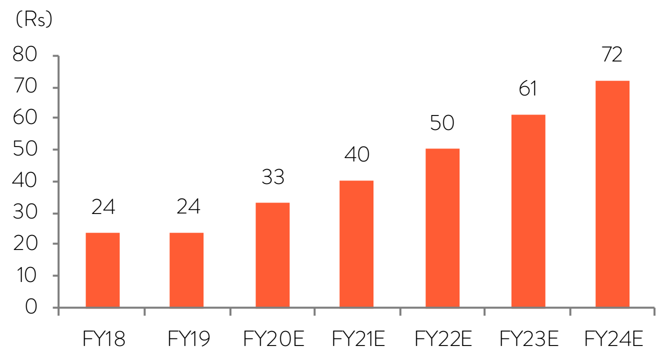
Source: Company, BOBCAPS Research

FIG 9 – UPL'S DEBT REPAYMENTS OVER NEXT FIVE YEARS ON TRACK



Source: Company, BOBCAPS Research

FIG 10 – EPS – EXPECT >20% CAGR OVER FY20-FY24, OUR EPS IS 8-10% ABOVE CONSENSUS FY21-23



Source: Company, BOBCAPS Research

FIG 11 – GLOBAL PEER VALUATION

Companies	Mcap (US$ bn)	P/E (x)			EV/EBITDA (x)			ROE (%)
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY21E
Bayer	57.7	7.3	6.5	6.1	7.0	6.4	6.0	14.1
BASF	44.9	11.3	9.8	8.7	6.8	6.3	5.8	9.1
Corteva	18.7	16.8	14.2	11.7	7.9	7.1	6.3	5.1
FMC	10.8	12.5	11.0	9.9	10.5	9.7	9.1	32.9
Nufarm	1.0	43.2	13.9	10.1	8.3	7.1	6.7	4.7
Average		**18.2**	**11.1**	**9.3**	**8.1**	**7.3**	**6.8**	**13.2**
UPL	**4.4**	**12.4**	**10.2**	**8.2**	**8.0**	**6.6**	**5.6**	**15.3**

Source: Company, BOBCAPS Research, Bloomberg

Contents

Investment summary

We see a convincing case for UPL to gain further market share across key geographies and to transform into a significantly underlevered company by FY23, thus unlocking value and paving the way for a stock rerating. In our view, strong execution across a wide portfolio, synergies from the Arysta LifeScience acquisition, >20% earnings growth through to FY24, working capital efficiency and robust annual cash flows of >US$ 690mn can lead to substantial deleveraging, from ~3.5x to 1.1x by FY24.

Our base and bull case studies suggest +100% and +200% return potential respectively in the stock at a combined 90% scenario probability over next 3 years. Stock performance has been muted vs. the Nifty over the last 12 months and UPL is now trading at 6.6x FY21E EV/EBITDA, which is attractive. Near-term concerns over a stressed balance sheet appear to be priced in. Initiate with BUY and a probability-weighted Mar'21 target price of Rs 710. Our target price implies 7.5x FY22E EV/EBITDA which is 30% below the stock's five-year mean.

- **Revenue drivers:** We expect a 12% revenue CAGR over FY20-FY24 vs. muted 1.5% growth for the global crop protection industry. Key molecules driving this growth will be Mancozeb (fungicide), Azoxystrobin (fungicide), Glufosinate (herbicide), Acephate (insecticide), Metribuzin (herbicide), Clethodim (herbicide) and the biosolutions portfolio (acquired from Arysta). We estimate a combined 20% CAGR from these products, forming over 25% of FY24 revenues. LATAM, ROW and Europe are expected to contribute 85% of the incremental sales growth over FY20-FY24, which should support an increase in UPL's global market share from ~9.7% to 13.9%.

- **Margin levers:** We model for a 14% EBITDA CAGR over FY20-FY24 led by Lower competitive intensity and pricing discipline (post global consolidation), operational efficiencies (manufacturing scale, India sourcing), and a rising share of branded products. We believe Arysta-led cost savings could positively surprise the street (Fig 19,20), fuelling +200bps margin expansion over FY20-FY24. We forecast EBITDA margins of 23.3% by FY24 (350-400bps higher than the last five-year average) and believe our margin estimates carry upside risk.

- **Key risks:** Risks to estimates include regulatory risks, erratic weather, low disease pressure, execution risk in Arysta, and lower agri-commodity prices. These would affect operating margins and keep the balance sheet stressed.

- **Estimates vs. consensus:** We are 3-5% ahead of consensus on revenues, 3-7% ahead on EBITDA and 8-10% ahead on EPS for FY21-FY23, driven by our belief in UPL's strong global positioning and our deep study of key markets. Our earnings estimates reflect a return of pricing discipline arising from potential improvement in the global crop protection market (i.e. bottoming channel inventories, better agro-commodity prices and global consolidation).

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Scenario analysis & Probability-weighted price target

We explore a probability-based price target for UPL over the next 2-3 years using the DCF and EV/EBITDA methods (Fig 12), both of which are discussed in detail later in the report. In our view, healthy operating results, an efficient working capital cycle, controlled capex, Arysta synergies and strong FCF will be critical for debt deleveraging.

We apply a 40% probability weight to our bull case – this envisages significant cash generation and balance sheet releveraging to buy out the 22% minority stake held by TPG and ADIA in UPL Corp by FY24. We apply 10% probability weight to our bear case considering UPL's decent track record with past acquisitions and in managing stressed liquidity situations; we also see low probability of a significantly weak growth outlook.

Our 12-month forward target price of Rs 710 is the outcome of an FY23 (probability-weighted) analysis. The implied 7.5x EV/EBITDA multiple is 30% lower than the stock's historical five-year adjusted average, which suggests a good scope for multiple expansion as and when UPL moves closer to our bull case.

FIG 12 – INITIATE WITH BUY AND PRICE TARGET OF RS 710

Case	Probability	FY22E	FY23E	FY24E	FY25E
Base	50%	348	405	463	519
Bull	40%	431	541	600	686
Bear	10%	46	54	63	71
Probability-weighted Target Price		**825**	**1,000**	**1,127**	**1,276**
% Upside / (Downside)			143		
Price target Rs/sh at Mar-21 (@18% discount rate)			**710**		
% upside			**73**		
Implied EV/EBITDA - FY22E (x)			7.5	The implied multiple on our FY22 target price is 25-30% lower than historical 5Y adjusted average.	
Implied P/E - FY22E (x)			14.2		
12M forward multiple (FY14-FY19) mean^					
EV/EBITDA (x)			11.4		
P/E (x)			19.6		

Source: Company, BOBCAPS Research I ^Normalising for Arysta merger on proforma basis in FY19, the EV/EBITDA was 10.5x and P/E was 18.5x

Base case – Rs 809 (▲97%) | 50% probability weight | FY23

- We factor in US$ 200mn+ of synergy at EBITDA in Year 3 (FY22) of the Arysta acquisition and believe this can be overachieved. For the ensuing year, we bake in US$ 30mn-50mn of further synergy delta, assuming a conservative 15-20% increase from the original guidance based on our study of historical M&A in the sector (Fig- 18)
- On the debt side, we have assumed US$ 700mn of fresh perpetual debt in FY21 to bridge some portion of the upcoming repayment obligation totalling

US$ 2.1bn over FY22-FY25. *As per a company press release dated 22 Feb 2020, UPL has already raised US$ 400mn via perpetual bonds with a fixed coupon of 5.25% payable semi-annually and a five-year call option/reset date.* In our view, this gives it the much-needed liquidity to meet UPL Corp's existing indebtedness – implying a greater possibility of moving to our bull scenario in coming years.

- Net working capital is assumed at an average of 136 days (FY20-FY24).
- Cash/Assets ratio is estimated to remain at below-adequate levels of ~6%.
- Net debt/EBITDA ratio is forecast to fall from 3.5x in FY20 to 1.1x by FY24.
- We expect over 200bps EBITDA margin expansion, driving an EBITDA/EPS CAGR of 14%/21% over FY20-FY24.
- Our DCF method assumes 12% weighted average cost of capital (WACC) with a risk-free rate of 3.6%, risk premium of 6.5%, beta of 1.3, terminal growth of 4% and a 12-month forward target EV/EBITDA of 9x. The resultant target price implies 11x P/E on FY24.

Bull case – Rs 1,350 (▲228%) | 40% probability weight | FY23

- We assume a releveraging of the balance sheet to buy out the minority interest (of TPG and ADIA) by FY24. This could unlock 28-30% in UPL's valuation without materially impacting the leverage.
- Net debt/EBITDA ratio is forecast to fall from 3.5x in FY20 to 1.1x by FY24 after considering the releveraging. At FY24, the Net debt/EBITDA will still be 12-15% below the five-year historical average of 1.3x.
- Net working capital is slightly better at 130 days on average (FY20-FY24).
- Cash/Assets will be maintained at adequate levels of ~9%.
- We estimate over 300bps EBITDA margin expansion, driving an EBITDA/EPS CAGR of 16%/30% over FY20-FY24.
- Our DCF method assumes 11.0% WACC, 4% terminal growth and forward target EV/EBITDA of 11x. The resultant target price implies 18.8x P/E on FY24E.

Bear case – Rs 547 (▲33%) | 10% probability weight | FY23

- Weak industry growth outlook and higher channel stocks could translate to a poor operating performance and balance sheet stress.
- Elevated net debt/EBITDA of 3.7x (as per Dec'19 results) could constrain UPL's ability to raise funds and meet a part of the obligated debt repayments arising over the next five years. We assume 13% lower net debt reduction (or a

US$ 200mn) and part-restructuring. Also, new borrowings would come at higher interest cost of 7% (vs. 5% in our base case).

- Higher net working capital at 140 days and scheduled repayments would keep the liquidity position (cash/assets) at thin levels of 2% across next five years vs. 6% in our base case and the five-year historical average of 14%.
- Arysta-related cost synergies are pegged 15% lower than our base assumptions for FY21-FY24, with 80bps EBITDA margin expansion. This leads to EBITDA/EPS growth of 12%/15% for the next five years – implying 6%/10% downside risk to our estimates – with a higher net debt/EBITDA ratio of 1.4x in FY24 (vs. 1.1x in the base case).
- Our DCF method assumes 13.0% WACC, 3% terminal growth and target EV/EBITDA of 7x. The resultant target price implies 7.6x P/E on FY24E.

Why our Bull case looks highly probable

In addition to the successful integration of Arysta and meeting cost synergy targets, we believe buying out the minority stake in UPL Corp will be extremely critical but greatly possible as early as FY24. To recap, TPG and ADIA provided funding of US$ 1.2bn for UPL's Arysta acquisition by purchasing a 22% stake in step-down subsidiary UPL Corp in Sep'18. Both investors have a three-year lock-in period expiring mid-FY22, which UPL can get extended by a year provided ROI stays intact.

Investors have the option of exiting either via IPO or by bringing in a new private equity partner (UPL has first right of refusal) or via a buyback by UPL. We attach a high probability of our bull-case scenario and it has three parts.

#1 Releverage comfort at 1.1x in our base case is very high

The company is likely to have a material cash balance and with net debt/EBITDA forecast to drop to 1.1x in FY24 (15% below five-year historical average), UPL could be significantly underlevered. Hence, management may ultimately want to re-lever the balance sheet to acquire earnings in minority interest (with the valuation at ~US$ 2.5bn-2.7bn for 22% stake). We think the best investment would be for management to buy back this stake.

#2 Heathy +20% compounded return to minority holders since FY19

While we assume one-or two-year extension to the three-year lock-in period of TPG/ADIA investment, the 20% annualised ROI in a cyclical sector is very healthy, in our view. The extension is purely based on the releveraging comfort of the UPL which we talk in Point 1 and we do not think exit pressure as long as final ROI matrix for investors stays in pre-tax 18-20% range.

#3 Buyback could unlock 30% of equity value

A share buyback from TPG/ADIA would elevate our base-case EPS by 33%. If we assume a conservative P/E ratio of 15x in FY24/FY25 (20% below the five-year mean), the buyback scenario drives up our fair value by Rs 270-300/sh on NPV basis.

Even if UPL were compelled to raise the offer price by 20%, the net impact on value unlocking will be immaterial (< 2%). Given that a buyback of non-controlling interest (NCI) looks more credible, we have not modelled for the IPO exit route, which could yield even higher value in our view.

FIG 13 – CASE SENSITIVITY ON LEVERAGE: PROBABILITY OF MOVING FROM BASE TO BULL CASE IS HIGH

Particulars		FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Base Case:							
NCI* outgo (Rs/Share)		9.0	11.5	15.0	18.4	21.8	25.8
% to pre-NCI profits		21.4	22.3	23.1	23.2	23.4	24.2
EPS (Rs/Share)		33.2	40.2	50.2	61.1	71.8	81.0
Net Debt (Rs mn)		253,049	233,503	210,347	181,581	145,515	117,905
Leverage							
Net Debt-to-EBITDA (x)		3.4	2.7	2.1	1.6	1.1	0.8
Net Debt-to-Equity (x)		1.3	1.4	1.0	0.8	0.6	0.4
Cash-to-Assets (%)		1	11	6	6	7	6
FCF (Rs mn)		37,114	39,275	46,267	55,895	67,955	67,541
Current P/E (x)		12.4	10.2	8.2	6.7	5.7	5.1
Bull Case: UPL buyout of NCI (TPG, ADIA) effective FY24							
Value of Minority Stake							
UPL Corp Total Equity Value (US$ mn)						12,207	
Value of the 22% minority stake						2,686	
Add: Cumulative share in profits till FY23 (not discounted for time value)						590	
Total return generated on Initial Capital						3,275	
Initial Capital Invested						1,200	
Total % return on Initial Capital						173	
CAGR (FY19-FY24) (%)						20	
Releverage required (Rs mn)						100,000	
Interest cost @ 7% (Rs mn)						7,000	
Net Debt (Rs mn)		248,119	222,672	199,897	166,929	150,104	99,584
FCF (Rs mn)		41,939	45,140	45,740	59,876	67,873	71,856
EPS (Rs/Share)		33.3	41.4	52.9	65.6	95.3	110.3
% change to EPS from base						**33**	**36**
	5Y avg. (FY14-FY18)						
Net Debt-to-EBITDA (x)	1.3	3.3	2.5	1.9	1.4	1.1	0.7
Net Debt-to-Equity (x)	0.8	1.3	1.4	1.0	0.8	0.7	0.5
Cash-to-Assets (%)	14.4	1.9	13.0	8.2	8.6	14.5	16.5
Target P/E (x) on net EPS accretion	19.6					15.0	
Price						352	
FY24E NPV per share @20% discounted rate					**294**		

Source: Company, BOBCAPS Research | *Non-controlling interest (NCI)

TPG/ADIA stake buyback will increase UPL's equity valuation by at least 30% and yet keeping key leverage ratios much below the five-year average

Deleveraging – The central debate

UPL's net debt has increased 7x to US$ 3.8bn following the Arysta acquisition in Sep'18, leading to a significant rise in net debt/EBITDA ratio to 3.7x currently vs. 1.3x on average over the last five years. Hence, we believe deleveraging will remain one of the central debates for investors in the medium term.

As of Sep'19, the company had gross debt of US$ 4.1bn (90% in subsidiary UPL Corp). The repayment schedule for most of its longer-term borrowings is staggered over FY20-FY28, including two bullet repayments in FY22 and FY28 worth ~US$ 800mn. We evaluate the impact of repayments on the company's liquid position in detail in our base/bear case analysis (Page 12). Leverage comfort could resume as early from FY24 in our base case while being delayed in the bear case, implying that 15-16% EBITDA growth along with strong working capital management over FY20-FY22 would be critical to deleveraging.

FIG 14 – MAJOR LONG-TERM BORROWINGS AND MATURITY PROFILE

Description	Interest rates (%)	O/s as on Sep'19		Maturity
		(US$ mn)	(Rs bn)	
ECB	3M LIBOR + 1.60	2,958.4	210	2019-2025
Bond - Listed on Singapore Stock Exchange	3.25	496.9	35	13 Oct 2021
Bond - Listed on Singapore Stock Exchange	4.50	295.7	21	8 Mar 2028
Total		**3,751**	**266**	
Consolidated Debt		4,120	293	
% to consolidated		91	91	

Source: Company, BOBCAPS Research | *Excludes NCDs

Management view

Management expects to reach 2-2.2x leverage by FY22 and targets repayment of US$ 400mn-450mn by end-FY20 (following working capital release in March). UPL is confident of delivering on these targets despite a weak industry outlook for this year. The company does not expect any material repayment in FY21 but must pay US$ 700mn in FY22 (including a US$ 500mn bullet tranche). We note that ratings agency like Moody's has given UPL till end-FY21 to part-pay debt before reassessing its rating, as per the company's recent earnings call. Net working capital days were at 126 as of Dec'19, with management guiding for 100-110 days by Mar'20.

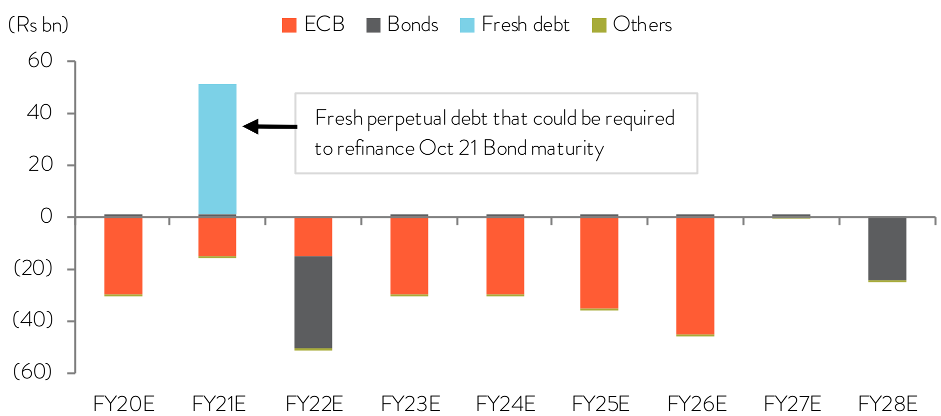
Our view

We assume 2.1x leverage for FY22 and believe that UPL would need to refinance part of the repayment obligation by borrowing roughly US$ 700mn in perpetual debt (starting FY21). We now note that part of this sum has already been raised in late Feb'20, i.e. US$ 400mn in perpetual debt at 5.25% interest rate. This eases the liquidity position for FY20 in our view, but an incremental US$ 300mn would be needed to ensure the cash/assets ratio is maintained at below-adequate levels at 6%. Our working capital assumptions are 8-10% higher than management guidance in the base case and 15% higher in the bear case.

Expect FCF generation of >US$ 690mn annually

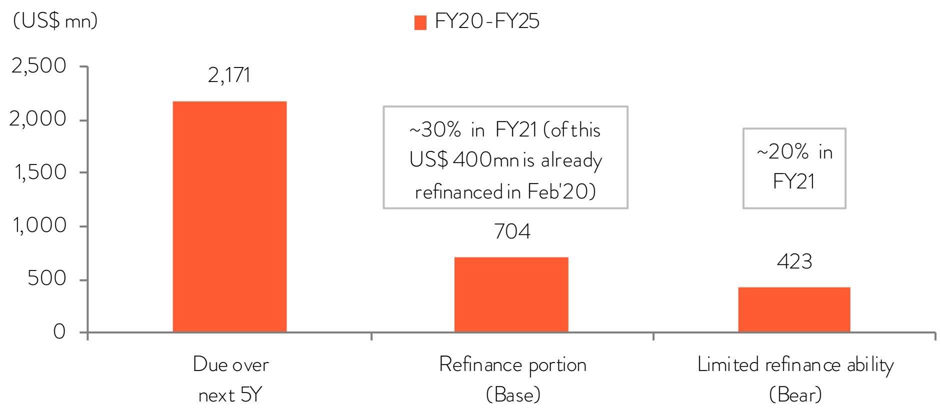
In our worst case, we model for US$ 630mn in free cash annually on average for FY20-FY24 vs. our base case of US$ 690mn (Fig 17). This is still higher than the anticipated annualised repayment schedule of US$ 440mn (debt repayment obligation at ~US$ 2.2bn till FY24). However, on accounting for US$ 150mn in estimated dividend payout, the liquidity position could fall below the five-year mean, potentially leading to fresh borrowing.

FIG 15 – REPAYMENT SCHEDULE – BASE CASE



Source: Company, BOBCAPS Research

FIG 16 – UPL'S DEBT REPAYMENTS OVER NEXT FIVE YEARS ON TRACK



Source: Company, BOBCAPS Research

FIG 17 – SCENARIO ANALYSIS FOR FCF, LEVERAGE AND LIQUIDITY

Particulars	5Y historical average	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
EBITDA		**74,316**	**86,846**	**100,230**	**113,800**	**127,136**	**142,121**
Bear case		74,316	84,356	94,691	108,087	119,342	132,453
% variation to base		0.0	(2.9)	(5.5)	(5.0)	(6.1)	(6.8)
Net working Capital Days*	**129**	**141**	**137**	**134**	**134**	**131**	**133**
Capex		**20,000**	**23,000**	**24,000**	**23,007**	**24,387**	**25,851**
FCF		**37,114**	**39,275**	**46,267**	**55,895**	**67,955**	**67,541**
Cash-to-Assets (%)	**14.4**	**1.0**	**11.0**	**6.2**	**5.9**	**7.0**	**5.6**
Net Debt-to-EBITDA	**1.3x**	**3.4**	**2.7**	**2.1**	**1.6**	**1.1**	**0.8**
Bear case		3.5	2.9	2.3	1.8	1.4	1.1

- Liquidity position is in tight spot if UPL repays US$ 400mn-430mn of debt in FY20
- Recent fund raise provides comfort, driving cash/asset levels to 7-8%

- Heathy EBITDA & working capital efficiency can support major deleveraging by FY24, yet keep liquidity adequate

vs. 2-2.2x guidance

Source: Company, BOBCAPS Research I *Including loans/advances and other current assets/liabilities

Arysta synergies – US$ 200mn target can be overachieved by Year 3

We believe UPL's operational cost synergy estimates of US$ 200mn in FY22 from the Arysta merger look realistic (tracking in line with past M&A targets) and could even be surpassed in coming months. Our analysis of the last five material mergers in the global crop protection market (Fig 18) shows that 2-3-year cost synergy targets were raised by 20-50% in most cases, roughly 9-12 months after the merger close date. Bayer-Monsanto is the only exception with a cut in synergy guidance due to regulatory review delays and above-expected divestment to get anti-trust approval.

Capitalising US$ 200mn-250mn of synergies at ~8x EV/EBITDA translates to a value of ~US$ 1.6bn-2bn. Assuming UPL captures roughly 80% of these gains, the synergies are worth a potential Rs 120-150/sh. As a base case and for the sake of prudence, we have assumed US$ 120mn/200mn of cost synergies for Year 1/ Year 3 vs. UPL's guidance of US$ 160mn/200mn.

FIG 18 – SYNERGY ESTIMATES BASED ON HISTORICAL M&A

Merger (US$ mn)	Year	Original synergy target	Revised synergy target (after 1Y of operation)	Estimated synergy % on proforma sales	Estimated synergy % on proforma EBITDA	Inc/Dec vs. Original target
Bayer-Monsanto	2017	1,500	1,200	5.5	24.8	(20.0)
DowDuPont (Corteva)	2016	3,000	3,600	4.5	24.0	20.0
Agrium-PotashCorp*	2016	500	621	3.0	13.2	24.2
Platform-Arysta	2014	65		2.4	26.3	
FMC-Cheminova	2014	100	150	3.3	25.6	50.0
ChemChina Ag ((Syngenta + ADAMA)	2017	NA		NA	NA	
Average				**3.7**	**22.8**	
UPL-Arysta	2018	200		4.4	21.5	

Source: Company, BOBCAPS Research | *Lower identifiable synergy vs. peers due to the differential operating cost structure of merged companies

Synergy guidance carries upside risk

We explicitly look at the cost synergy potential and levers at multiple levels from the Arysta integration. These aspects are discussed in detail in Fig 19 and support our thesis of UPL comfortably achieving and potentially overshooting the targeted US$ 200mn figure.

FIG 19 – COST SAVING LEVERS IN ARYSTA – US$ 200MN TARGET FOR YEAR 3 CAN BE BETTERED IN OUR VIEW

Op level	(US$ mn)	CY16/ FY17	CY17/ FY18	Cost Savings (US$ mn	Major Levers & Comments
#1	**COGS – Procurement & Direct Cost**			(99)	Arysta has been outsourcing active ingredients (AI) from 14 different manufacturing locations. We believe at least 6 of these (2 in W. Europe, rest in Colombia, S. Korea, Combodia) are overlaps with UPL, which could be optimised and integrated with UPL's local manufacturing units. UPL also expects certain share of procurement efficiencies (RM/solvents) arising from large scale, though this depends on global commodity prices. Consolidation of employees would drive >10% savings given the horizontal combination of businesses (staff cost is ~10% of Arysta sales or US$ 200mn).
	Arysta	1,086	1,122		
	% of Sales	59.7	59.1		
	UPL	1,392	1,491		
	% of Sales	57.2	55.3		
#2	**Corporate Cost (Arysta)**	33	32	(26)	Significant cost rationalisation potential from consolidation of headquarters and related support functions.
	% of Sales	1.8	1.7		
#3	**R&D Cost**			(10)	Calibrated cost savings are expected from removing duplication in research/ registration teams, targeted product filings and insourcing of R&D material. As Arysta also conducts late-stage R&D, we do not expect any significant spend reduction as this could impact the pipeline potential through 2027 (pegged at US$ 1.5bn), per the company. Access to biostimulant tech platform is revenue-synergetic.
	Arysta	39	52		
	% of Sales	2.1	2.7		
	UPL	47	52		
	% of Sales	1.9	1.9		
#4	**SG&A**			(87)	Based on our management interactions, we believe roughly 30% of Arysta's SG&A is largely related to distribution cost (warehousing, logistics, sales promotion, marketing) which could be optimised via shared resources. UPL can also leverage on Arysta's sales commissions wherever it has a subscale presence with distributors. Freight and transportation-related cost are generally non-synergetic. We also assume 15% of cost savings in administrative-related activities (such as headcount, rent and IT infrastructure cost).
	Arysta	295	304		
	% of Sales	16.2	16.0		
	UPL	428	477		
	% of Sales	17.6	17.7		
	Total Net Synergy			**(222)**	

Source: Company, BOBCAPS Research

We believe cost synergies at levels #1 and #4 in the table above could surpass our estimates due to (1) potentially higher rationalisation of employee cost than the 10% estimated given Arysta is a horizontal acquisition (similar portfolio but with an aim to expand offering/markets) and UPL already has employees exposed to Arysta's related markets (as validated by the significant reduction in employee cost in Q3FY20 over Q2, annualising at US$ 55mn); and (2) possibility of more than 15% redundancy in administrative activities. Thus, we see a high probability of the company's original US$ 200mn+ target for Year 3 (FY22) being revised upward in coming months, at least by US$ 50mn.

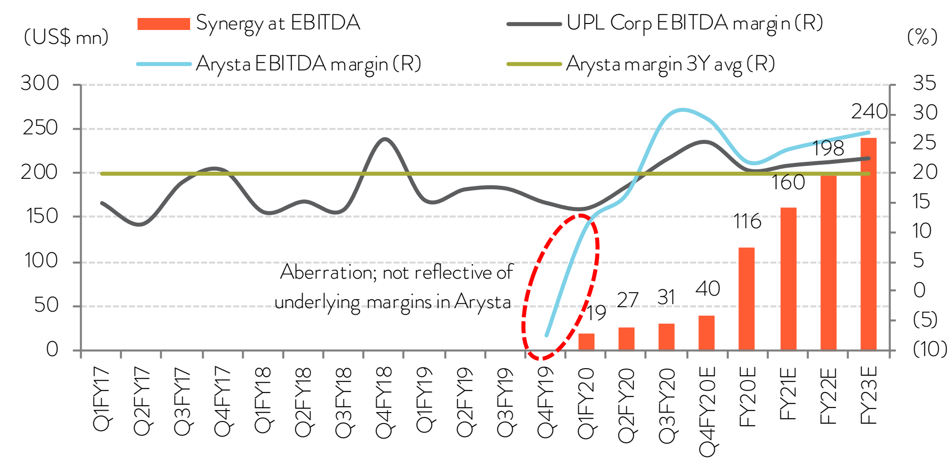
Arysta can surpass 24% margin trajectory by FY22

Investors have been concerned about the operational margin underperformance reported by UPL in the initial quarters after Arysta consolidation. Plus, implied lower synergies are driving weak expectations from UPL. We find these concerns overstated – to validate our view, we extrapolate future margins based on historical performance in the core business (UPL Corp pre-Arysta merger) and India operations, as well as disclosures on the synergies realised to date.

Our analysis indicates that Arysta's EBITDA margins including synergies are progressing well quarter over quarter from –7% in Q4FY19 (due to revaluation of Arysta-acquired inventories at fair market value, an aberration in our view) to 10% in Q1FY20, 17% in Q2. This has improved further in Q3.

We believe a reasonably good season for LATAM, US and EU markets in Q4FY20 can significantly lift overall margins for UPL Corp and Arysta close to the three-year average purely on US$ 120mn of synergies in FY20. In the ensuing years, assuming normal weather conditions, Arysta can achieve margins of over 24% by FY22 at 90% cost synergy.

FIG 20 – INITIAL WEAKNESS IN UPL CORP MARGINS HAS STARTED TO REVERSE



Source: Company, BOBCAPS Research

Global crop protection industry – Critical trends & opportunities

The global crop protection market has grown steadily at ~2.7% since FY07 and is valued at US$ 51bn (2018). This is expected to grow 1.5-2% through 2023. Brazil leads the crop protection chemicals market, followed by Asia Pacific and Europe. Herbicides, insecticides and fungicides are the three primary segments, representing ~43%, ~25% and ~29% of global industry revenue respectively. The herbicides market is expected to be the fastest growing segment, retaining its top position due to the large-scale adoption of herbicide-resistant crops in North and South America.

Over the past few years, the industry has seen a wave of consolidation by players, including ChemChina (owners of Syngenta and Adama), Bayer AG (acquired Monsanto in 2018), BASF AG, and DowDuPont (agricultural division Corteva

Agriscience spun out in Jun'19). These four companies currently control ~71% of the crop protection industry's global sales. The next tier of agrochemical producers includes post-patent players such as UPL (acquired Arysta in Sep'18), FMC, Nufarm, and Sumitomo Chemical, together accounting for 27% of global sales.

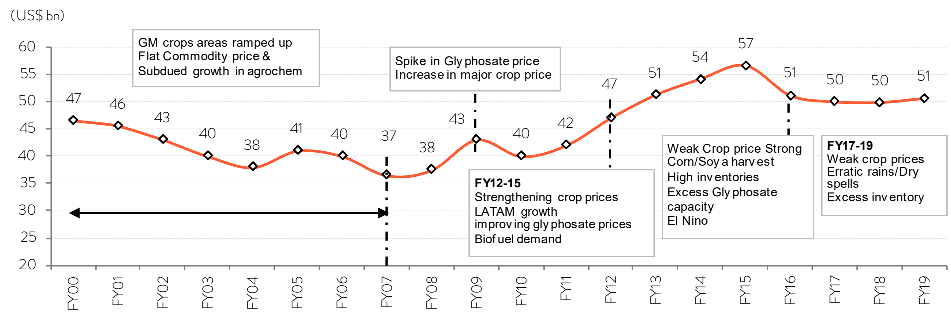
FIG 21 – CRITICAL FACTORS DRIVING POST-PATENT/GENERIC MARKETS

Macro trends	Implications and Opportunities
Growing population and declining arable land	Pressure to improve crop yield, minimise crop/post-harvest losses
Climate volatility	Diversification of geographical mix and higher channel inventories at distributor level (a negative)
Lower commodity prices	Lower farm economics, downtrading to low-cost pesticide alternatives/generics
Depleting invention pipeline, longer product development cycle and high cost of discovery	Consolidation amongst innovator companies and potential exit from smaller molecules
Off-patent market is 70% of total crop protection market and is growing faster	Companies with own registrations and expertise in off-patent chemistry should continue to gain
Stringent regulations and high entry barriers in developed markets	Diversified region mix, significant upfront investment in product registration and high barriers to entry support consolidation
Accelerated pace of change in the markets, adjacent technology and use of biosolutions	Demands reduction in the product development cycle, increased opportunity for generic companies in innovative mixture solutions over a shorter timeframe

Source: Company, Industry, BOBCAPS Research

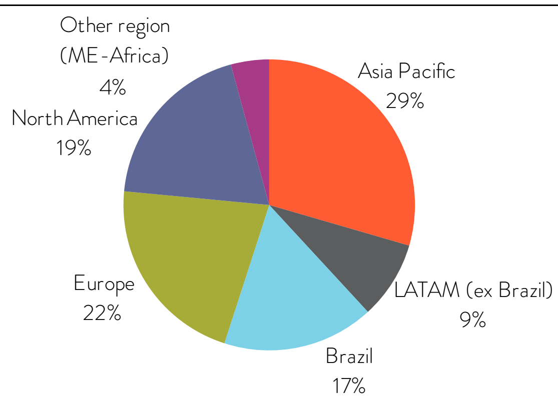
Three consecutive years of depressed growth at –3% (FY16-FY18), led by Brazil and Europe which accounted for 50% of the total market size and declined 6-8%

FIG 22 – TREND IN GLOBAL CROP PROTECTION MARKET (CPM)



Source: Company, Industry, BOBCAPS Research

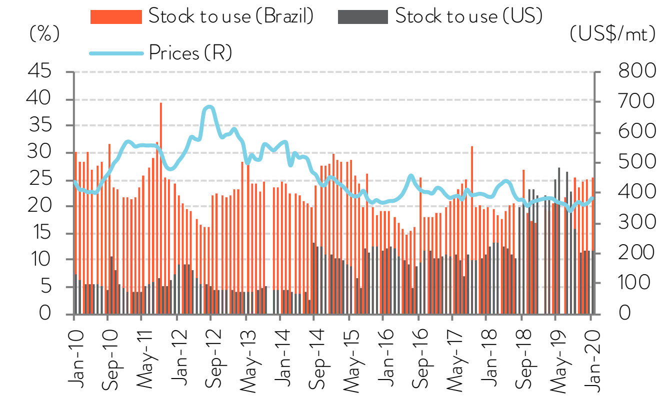
FIG 23 – GLOBAL CPM – REVENUES BY GEOGRAPHY MIX



Source: Company, BOBCAPS Research

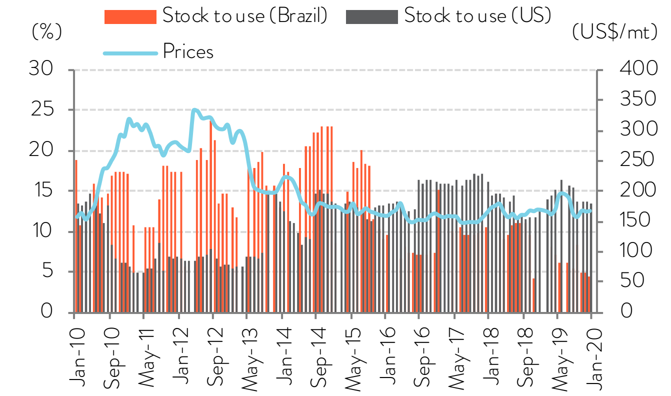
With crop prices still well below multi-year highs, farmers have less to spend and remain risk-averse when choosing inputs. Instead of pricey new products that may boost yield, many focuses on cheaper options. The recent, though modest, rise in crop prices (see below charts) suggests more agrochemicals buying next year, bolstered by pent-up demand from 2019. We strongly believe better crop prices would remain a key catalyst for agrochemical stocks in coming years.

FIG 24 – SOYBEAN: PRICE TREND & STOCK TO USE



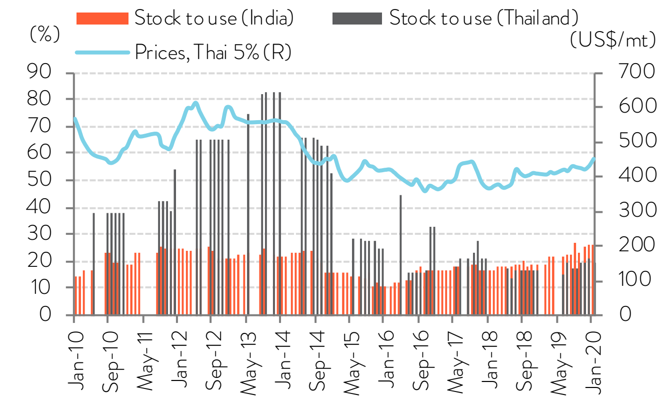
Source: Company, USDA, BOBCAPS Research

FIG 25 – CORN: PRICE TREND & STOCK TO USE



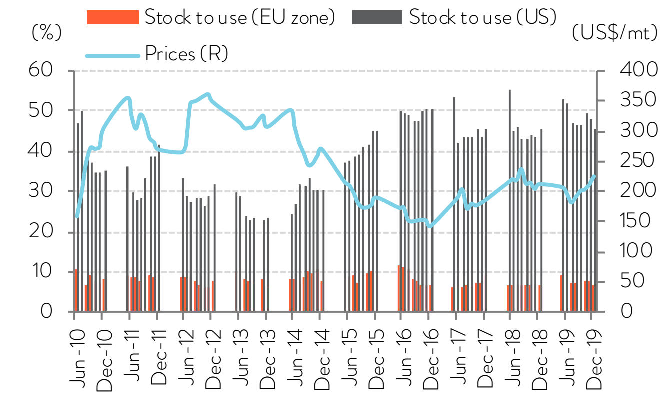
Source: Company, USDA, BOBCAPS Research

FIG 26 – RICE: PRICE TREND & STOCK TO USE



Source: Company, USDA, BOBCAPS Research

FIG 27 – WHEAT: PRICE TREND & STOCK TO USE



Source: Company, USDA, BOBCAPS Research

UPL – Diversified portfolio, industry-leading growth

Over the last four decades UPL has transformed from a leading local agrochemicals company into a significant global player with a strong presence in most key agrochem markets worldwide. Its global market share has tripled to 9.7% from 3% in FY12. A diversified portfolio in agro and specialty chemicals across a broad spectrum of crop coverage has boosted the company's operational performance over the last five years (FY15-FY19) despite significant growth challenges.

We believe the Arysta acquisition deepens UPL's ability to provide complete solutions from seed to post-harvest in most key crops and markets, and will enable it to retain leadership in the rapidly growing biosolutions segment.

Solid volume and revenue growth

UPL has clocked a 16% revenue CAGR (13% volume plus pricing) over the last five years, in contrast to a 2.8% decline in the global agrochem market. Growth has been largely driven by new product development and innovative mixtures, coupled with a strong resistance-management portfolio in key target markets such as Latin America (LATAM: Brazil, Argentina), the US and EU. The company's innovation rate (i.e. revenue contribution from new products) stood at 19% in FY19 vs. 5% in FY15.

UPL is now the fifth-largest global crop protection company, with a well-diversified portfolio across the crop value chain, 48 manufacturing facilities and a presence across >138 countries. Its global footprint has been boosted by several small-to-midsized strategic acquisitions in the past and a large acquisition in Arysta during FY19.

Arysta acquisition deepens UPL's scale

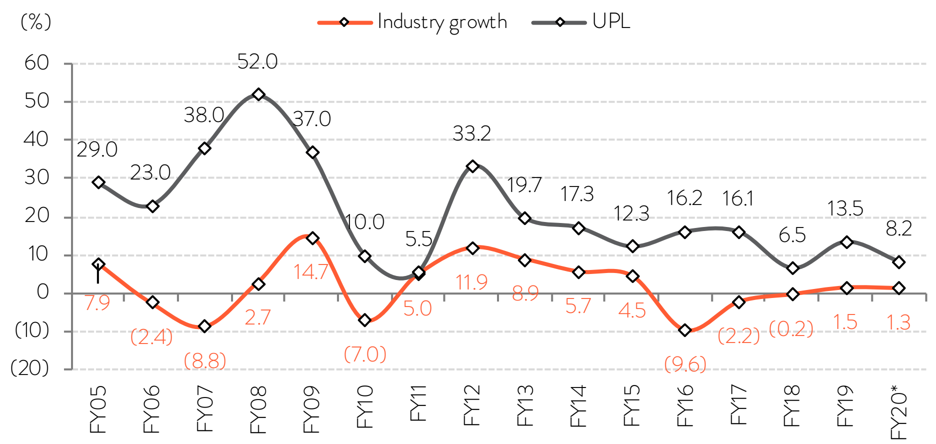
UPL acquired Arysta LifeScience in early 2019 for US$ 4.2bn, enhancing its position as a global leader in agricultural solutions with over 12,400 product registrations (from 6,600 pre-acquisition). UPL has a strong footprint in India, the Americas and Western Europe, while Arysta has a relatively deeper presence in Africa, Russia, Japan and Eastern Europe. Hence, the acquisition has expanded UPL's scale and access across Europe, Latin America and key Asia Pacific markets such as India and Australia. The company will also benefit from deeper regulatory expertise and access to local markets.

Strong, broad-based product portfolio

UPL has a wide range of products in its portfolio – fungicides, herbicides, insecticides, plant growth regulators, rodenticides, specialty chemicals, nutri-feeds, seeds and seed treatment products – that are suitable for different types of crops through label extensions, for use across multiple geographies, and across the value chain (pre- to post-harvest). This gives the company flexibility in responding to the challenges of climate change and varying levels of competition in different markets.

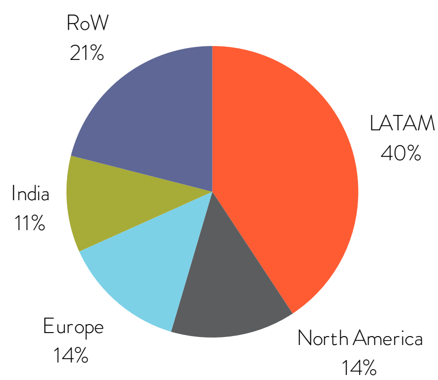
Further, Arysta's presence in biosolutions and seed treatment which are high-growth, high-margin products bolsters UPL's portfolio. We believe the complementary technologies will result in improved formulation capabilities, differentiated mixtures and a broader innovation pipeline. Together with Arysta, UPL has a comprehensive product basket of >3,000 formulations that are attractively positioned to address the diverse needs of farmers across global markets.

FIG 28 – EXECUTION TRACK RECORD



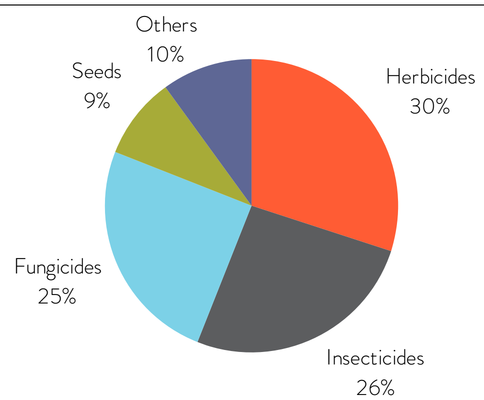
Source: Company, BOBCAPS Research I *UPL growth based on 9M reported

FIG 29 – SALES MIX BY REGION



Source: Company, BOBCAPS Research

FIG 30 – SALES MIX BY PRODUCT SEGMENT



Source: Company, BOBCAPS Research

FIG 31 – UPL GAINING SCALE ACROSS KEY CROPS POST ARYSTA M&A

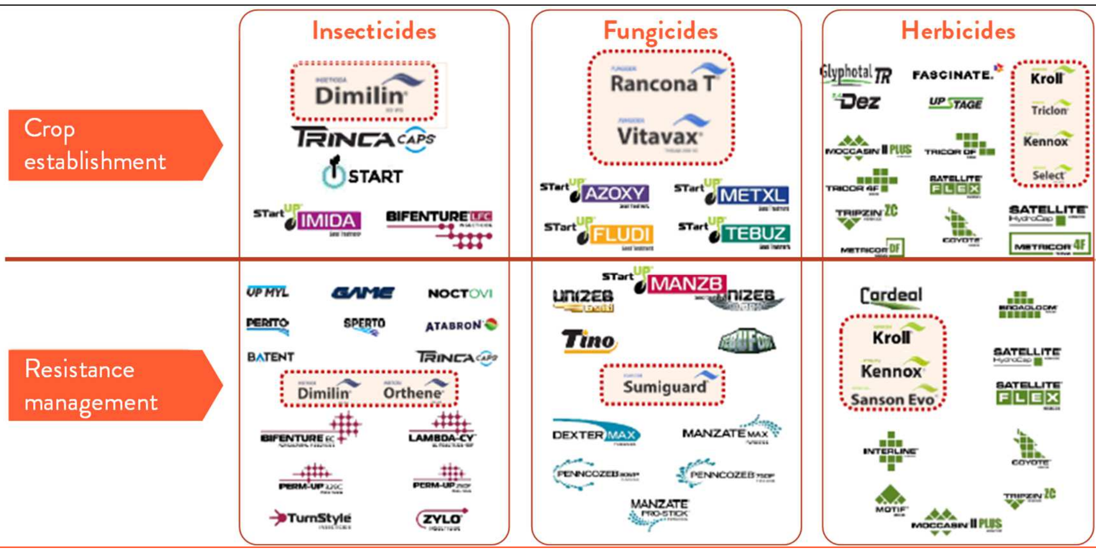
Focus	UPL exposure	Arysta exposure	Key geographies	Global market opportunity (US$ bn)
	Corn	Corn	US & Brazil	5.8
	Soybean	Soybean	US & Brazil	8.2
Crops	Fruits & Vegetables	Fruits & Vegetables	Europe, US & Brazil	10.0
	Cotton	Cereals	Europe & Brazil	10.3
	Rice	Cocoa	Asia & Brazil	5.2
	Sugar beet	Sugarcane	Europe, Asia & Brazil	3.0
	Tree nuts & Aquatics	Sunflower	North America	
Specialty Solutions	Limited	Biosolutions – pipeline of 700+ biostimulants & late-stage R&D products	All markets	6.0

Source: Company, BOBCAPS Research

FIG 32 – SOYBEAN PORTFOLIO

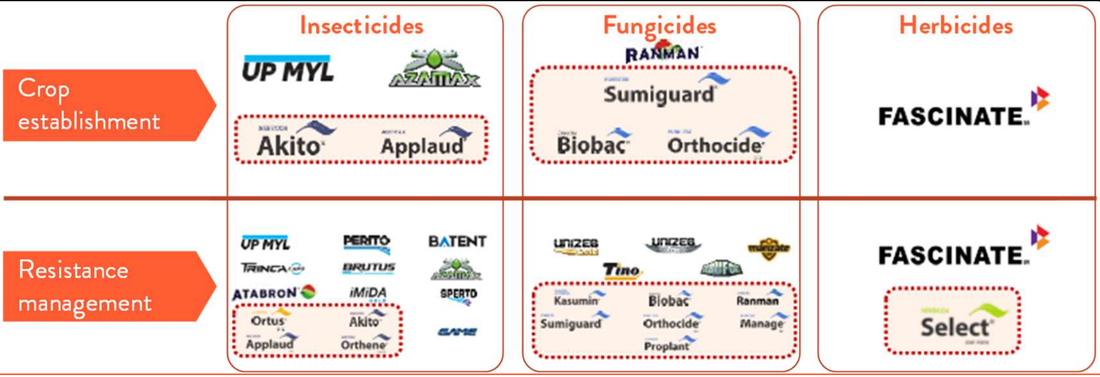
Source: Company, BOBCAPS Research | Note: Dotted boxes represent products from Arysta

FIG 33 – CORN PORTFOLIO



Source: Company, BOBCAPS Research | Note: Dotted boxes represent products from Arysta

FIG 34 – TREE NUTS & FRUITS/VEGETABLES PORTFOLIO



Source: Company, BOBCAPS Research I Note: Dotted boxes represent products from Arysta

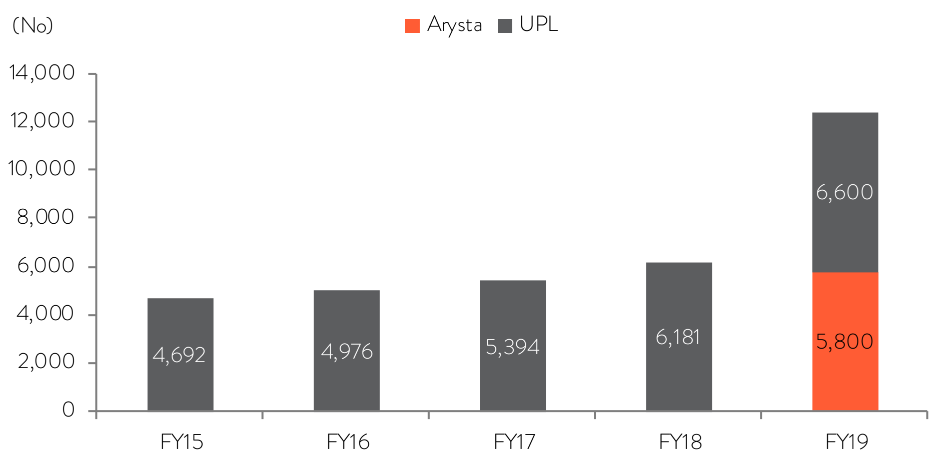
FIG 35 – BIOCONTROLS: TECHNOLOGY PLATFORM

Source: Company, BOBCAPS Research

FIG 36 – BIOSTIMULANTS: TECHNOLOGY PLATFORM

Source: Company, BOBCAPS Research

FIG 37 – PRODUCT REGISTRATION TREND – 8% CAGR FOR FY15-FY19

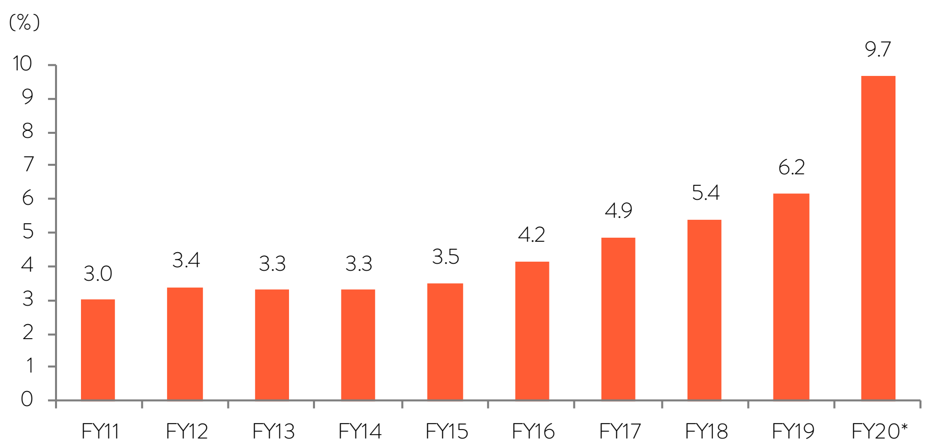


Source: Company, BOBCAPS Research

Growth in market share has been sticky

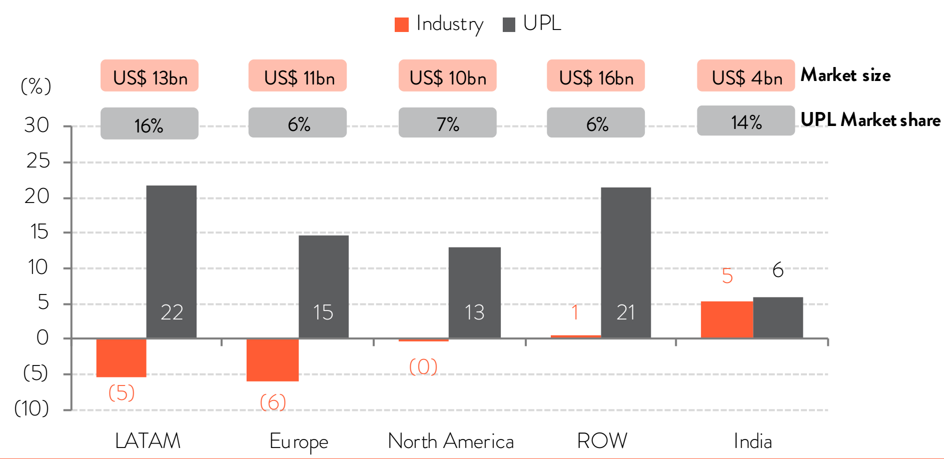
Diversity in crop coverage, a robust regional presence and backward integration for consistent, quality supply underpin UPL's 9.7% global market share. This is an increase of 7% ppt over the past decade (4% ppt due to Arysta). The last five years starting FY15 have been challenging as erratic weather conditions and excess channel inventory across LATAM, EU and the US, especially in FY16-FY17, led to market contraction. Against this backdrop, UPL reported revenue growth of 16% vs. a 2.8% drop for the crop protection industry. Revenues for UPL's peer group grew between 1% and 7% since 2015 (Fig 40).

FIG 38 – MARKET SHARE TREND



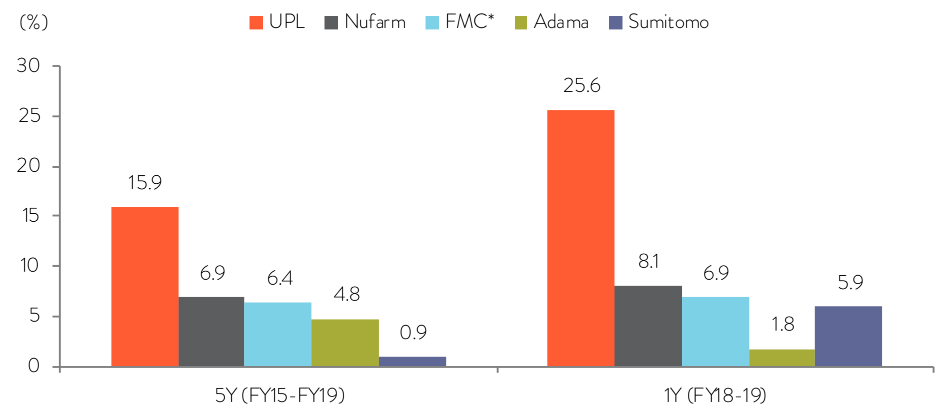
Source: Company, BOBCAPS Research | *Full year Arysta consolidation

FIG 39 – UPL REGION-WISE SALES CAGR VS. INDUSTRY & MARKET SHARE (FY15-FY19)



Source: Company, BOBCAPS Research

FIG 40 – UPL SALES GREW FASTER THAN GENERIC PEERS



Source: Company, BOBCAPS Research | *FMC calculated growth is ex-DuPont acquisition

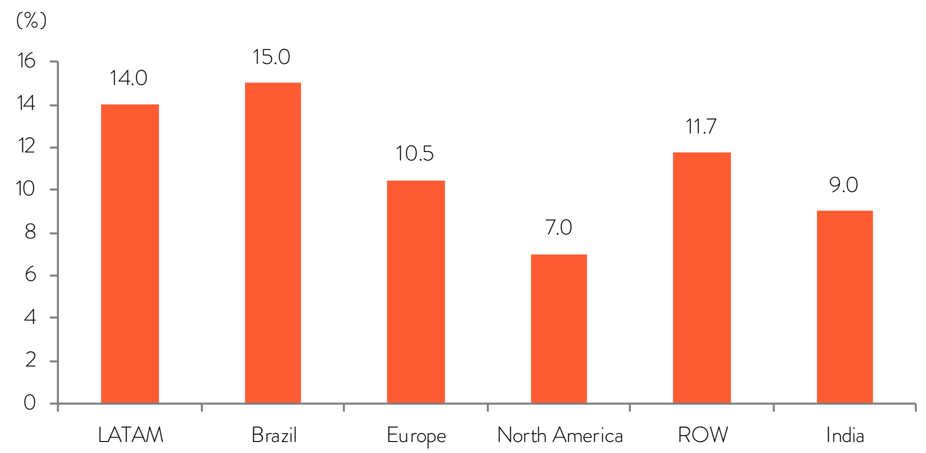
Expect 12% revenue CAGR, market share gains to continue

UPL has an integrated business model – this coupled with Arysta's differentiated portfolio and deep marketing capabilities should help the company gain market share in coming years. We believe UPL has strengthened its competitiveness over the years by way of improved manufacturing capabilities and R&D, a growing crop solution portfolio, broader market reach and experience complying with complex regulatory requirements.

Although the US$ 51bn global crop protection industry is mature and likely to see muted 1.5-2% growth, we think branded generics (within synthetic pesticides) and biosolutions can gain market share in the off-patent segment which forms roughly 65-70% of the total market. The share of off-patent molecules compared to patented and proprietary off-patent molecules has been increasing over the years. Agrochemicals worth US$ 11bn are expected to go off-patent by 2023. Assuming the global crop protection market logs a 1.5% CAGR over the next five years, we believe UPL has the potential to gain roughly 380-450bps in incremental market share (to ~13.9% by FY24).

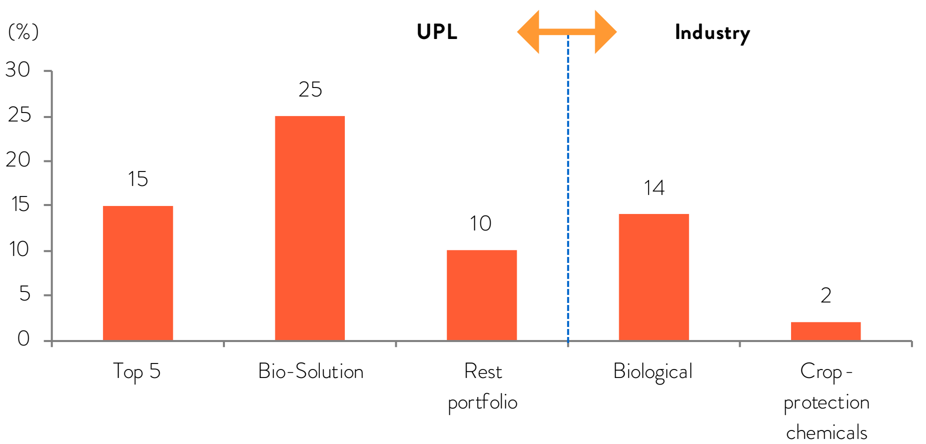
Overall, we expect a 12% revenue CAGR (FY20-FY24) for the company driven by CAGRs of 10% in crop protection, 10% in seeds and 25% in biosolutions. Management has reaffirmed its guidance of 8-10% revenue growth in FY20 which we believe is achievable given a strong 9MFY20.

FIG 41 – WE CONSERVATIVELY EXPECT A 12% SALES CAGR (FY20-FY24)



Source: Company, BOBCAPS Research

FIG 42 – KEY PORTFOLIO GROWTH (FY20-FY24), UPL VS. INDUSTRY



Source: Company, BOBCAPS Research

LATAM, ROW and Europe to fuel 85% of FY20-FY24 growth

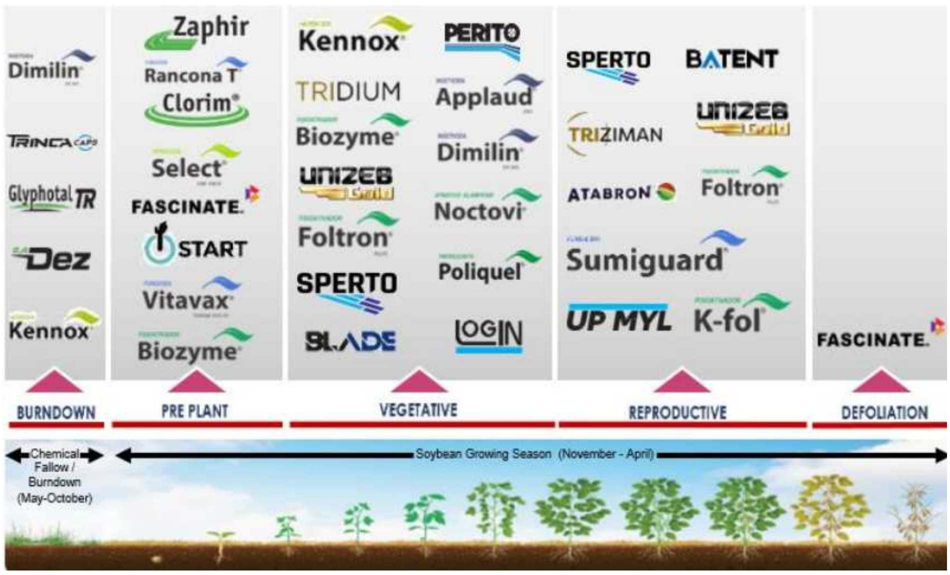
We expect UPL's strong brands and distribution reach to fuel (1) 14% growth across Brazil and Argentina over FY20-FY24 (led by fungicides – Unizeb brand franchise, Vondozeb), (2) 12% growth in ROW markets (led by non-selective herbicides Tarang/Lifeline/Aculox and fumigants like Quickphos), and (3) a 10% CAGR for Europe (led by herbicides such as BeetUp/Devrinol and fungicide brands Penncozeb/Cuprofix). Together, these products are expected to drive 85% of our projected revenue growth for the company over the next five years. We also expect 9% growth in India and 7% in North America.

Key molecules driving growth

Our interaction with the company suggests that concentration risk within the molecules have fallen post Arysta consolidation. The top 5 molecules comprising Mancozeb (fungicide), Azoxystrobin (fungicide), Glufosinate (herbicide), Acephate (insecticide) and Metribuzin (herbicide), which account for ~16% of UPL's FY20E revenues, will remain primary growth catalysts. These together with Clethodim (herbicide) and the biosolutions portfolio acquired from Arysta can grow at an estimated 20% CAGR in FY20-FY24, accounting for over 25% of FY24 revenues. We note that Arysta is a market leader in high-margin segments such as biostimulants and biocontrols that have been growing at a rapid pace of ~14%+.

UPL is aggressively promoting the ProNutiva concept across regions and crops. ProNutiva® is an exclusive program that integrates natural biosolutions – bioprotection, biostimulants and bionutrition – with conventional crop protection products to meet grower needs (including sustainable agricultural practices, improving grower economics and meeting evolving food chain requirements).

FIG 43 – PRONUTIVA CONCEPT-BASED COMPLETE SPRAY PROGRAM FOR SOYBEAN IN BRAZIL COMBINING BIOSOLUTIONS



Source: Company, BOBCAPS Research

Focus on innovation

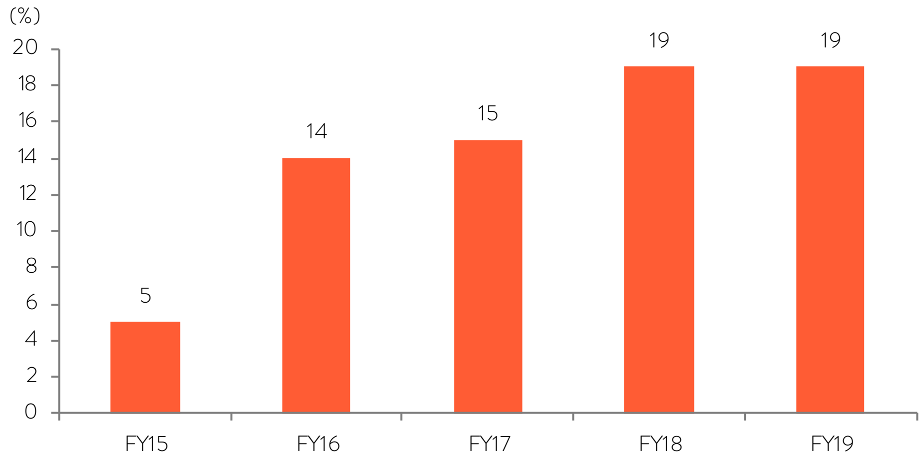
Over the years, UPL has consistently invested in research and innovation, and has built a 1,000+ strong network comprising the scientific community, research organisations, R&D companies and governments. The company has 550+ R&D professionals and 25+ R&D units spread across four continents. It was the first to manufacture ground-breaking products such as Mancozeb, Glufosinate, Pendimethalin and Zeba. UPL's innovation rate – measuring the revenue contribution of products launched during the past five years – is high at 19% (vs. 5% in FY15).

Over the last three years, a focus on adjacent technology – vector control, drought mitigation, hardier seeds and effective plant nutrients – has seen related product launches rising from 2 to 33 in FY19 (~16% of total product launches). Additionally, Arysta's portfolio of biosolutions includes more than 700 biostimulants, innovative nutrition and biocontrol products. Arysta is ranked fifth globally in biocontrols and second in biostimulants. Now, with its promising biosolution tech platform, management aims to maintain the innovation rate at current levels in the near term and cross 25% in the next five years.

Management further plans to launch 1-2 innovative and differentiated products a year in key markets. UPL recently launched two brands of the herbicide Glufosinate for soybean and corn, as Glyphosate-resistant weeds are on the rise (Glufosinate is the potential alternative to Glyphosate which has a ~US$ 5bn market globally).

Complementary tech from Arysta to support new and innovative products in coming years (e.g. ProNutiva)

FIG 44 – INNOVATION RATE



Source: Company, BOBCAPS Research

FIG 45 – INNOVATION ACROSS PRODUCT SEGMENTS BY UPL

Source: Company, BOBCAPS Research

Deepening market reach

We believe Arysta will deepen UPL's presence in Europe and the US, which are challenging markets to enter on account of strict regulatory frameworks (Europe) and consolidated distribution channels (US). Besides this, Arysta enjoys a meaningful presence in Africa, Eastern Europe and Japan, while UPL is the market leader in India. These complementary markets will widen the company's geographic footprint globally and significantly enhance revenues.

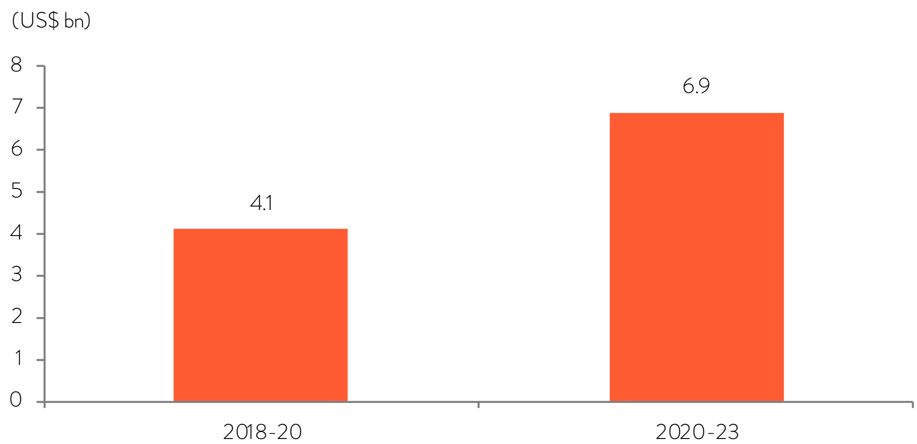
In LATAM, the two entities focus on different crops (UPL on row crops and Arysta on specialty crops), leveraging different distribution channels (cooperatives/small dealers for Arysta and large growers/dealers for UPL). Today UPL has >12,400 registrations across 138 countries, which reinforces the integrated offering and pipeline of prospective launches.

Also, UPL has been actively providing value-added solutions such as Adarsh Farm Services and Adarsh Kisan Centre which are focussed on providing free guidance for key crops, spray services using hi-tech tractors, and solution centres. The company has commercially launched its drone fleet solution for advanced crop performance in South Africa. This offers advantages over conventional performance monitoring by way of early problem detection, advancing the solution and predicting yields. The company is planning a global rollout of this service, which should help deepen its marketing presence.

Large off-patent opportunity

UPL has been one of the prominent players in off-patent molecules, with solid capabilities in formulation development. The share of off-patent molecules is expected to rise in the next five years as roughly US$ 11bn worth of products (17 AIs & 70 mixture products) lose patent protection, as per AgroPages. This presents a huge opportunity for UPL in coming years. The company has not disclosed the share of the targeted opportunity, but given its demonstrated R&D capability we believe it will be able to formulate most of the products and bring in innovative mixtures, driving market share gains.

FIG 46 – OFF-PATENT OPPORTUNITY IN NEXT 3-5 YEARS



Source: Company, AgroPages, BOBCAPS Research

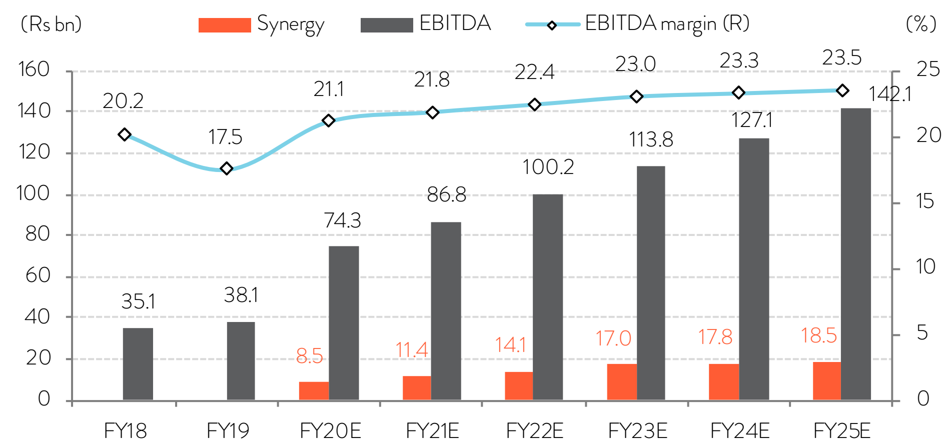
EBITDA margins to expand +200bps over FY20-FY24

UPL has successfully navigated various mid-to-long cross-cyclical challenges faced by the industry in the past. We model for >200bps expansion in operating margin from FY20 to FY24, backed by (1) a diversified regional mix, (2) focus on operational efficiency (leveraging scale, lower production cost, increased sourcing from India), (3) cost optimisation in Arysta, (4) an increasing share of branded/innovative products, and (5) market share gains further aided by lower competitive intensity (industry consolidation).

We model for EBITDA margins of 23.3% by FY24, 350-400bps higher than the previous five-year average, implying greater synergies in Arysta. These margin estimates carry upside risk, in our view.

Expect 23.3% EBITDA margins by FY24 vs 19.5% reported margins in 9MFY20

FIG 47 – EXPECT 14% EBITDA CAGR OVER FY20-FY24



Source: Company, BOBCAPS Research

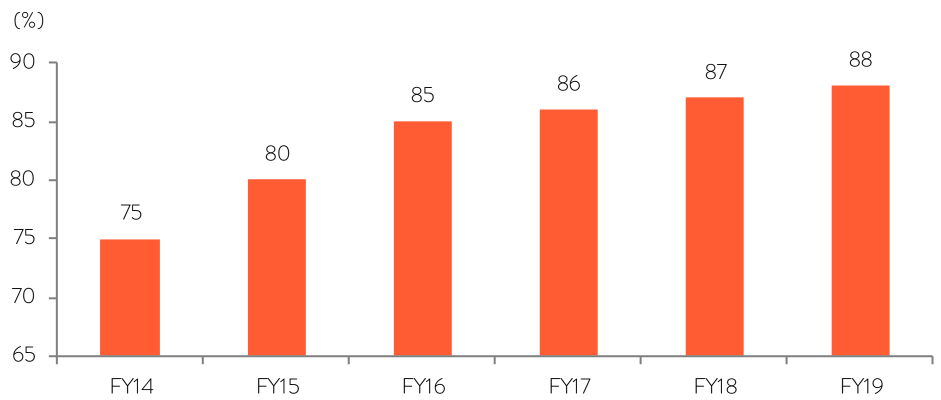
Backward integration, global manufacturing scale advantage

UPL has industry-leading manufacturing capabilities with 48 facilities globally (including 14 of Arysta), of which 16 are located in India. Cost competitiveness is higher than peers as it manufactures technicals in India (leveraging scale and lower production costs) and as most of its formulation units are closer to end consumer markets (optimising logistic costs). Further, proximity of the company's plants to key raw materials is integral to its cost edge.

UPL's ability to identify products with high-growth potential and its investments in backward integration have honed its competitiveness. The company has been routing more than 60% of its production from India, up from 50% until FY16, post commercialisation of 10 plants in FY17-FY18 (4 technical and 5 formulation units in India and 1 formulation plant in Brazil). More than 40% of the capacity is fungible, giving UPL the ability to move to a newer product if the demand pattern shifts.

The company also has proven capability in scaling capacities at low cost which strengthens overall profitability. For instance, it commissioned a new plant in Brazil in under 12 months against the normal timeframe of 18-24 months.

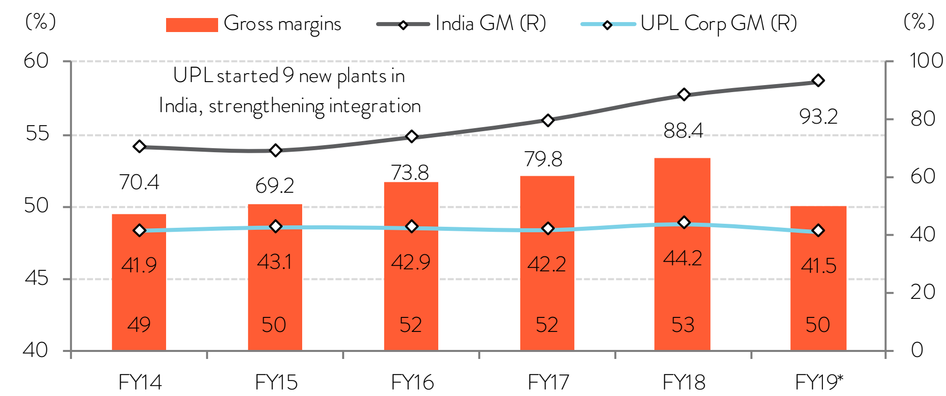
FIG 48 – INCREASING SHARE OF BRANDED GENERICS



Source: Company, BOBCAPS Research

UPL has been routing more than 60% of its production from India (vs. 50% till FY16)

FIG 49 – GROSS MARGIN TREND

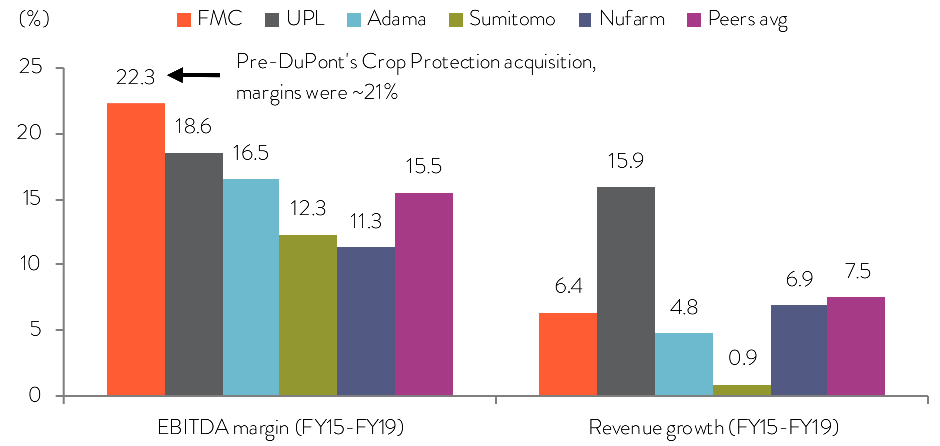


Source: Company, BOBCAPS Research | *Post-Arysta merger, acquired inventories were valued at fair market value and hence the lower gross margins in FY19 (otherwise at 52.5%)

Second-best cross-cycle margins vs. peers

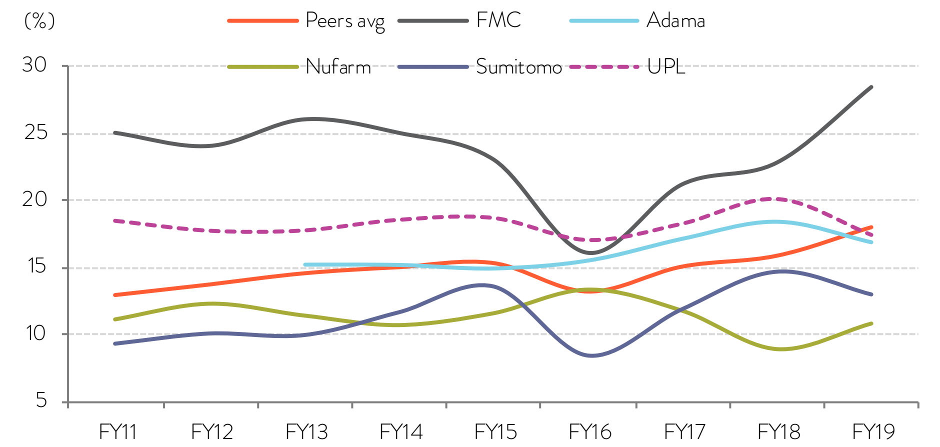
UPL has one of the best margin profiles compared to post-patent players – its EBITDA margin across cycles averaged at 19% vs. 15% for its peer set over FY15-FY19 and remained at 300-400bps premium to industry peers for this period, barring FY19 (impacted by Arysta inventory revaluation which otherwise is stable at 20%). This outperformance was against the backdrop of significant demand moderation and margin headwinds in the global agrochem industry, led by higher inventory, lower commodity prices and weather challenges. Note that we have considered a peer set with a similar business and region mix for comparison.

FIG 50 – UPL'S CROSS-CYCLE MARGINS ARE 300-400BPS BETTER VS. PEERS



Source: Company, BOBCAPS Research

FIG 51 – MARGIN TREND FOR POST-PATENT PLAYERS OVER LAST DECADE



Source: Company, BOBCAPS Research

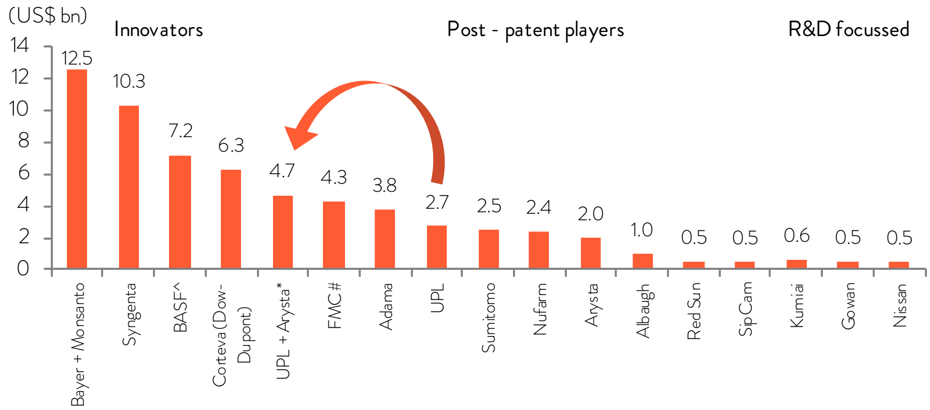
Consolidation has positive implications for margins

We believe ongoing global consolidation within generic manufacturers bodes well for larger players as it can improve pricing discipline in the market, which otherwise has been disruptive during the downcycle (due to higher channel inventory and possible downtrading by competition).

Barriers to entry for a new player remain high due to stringent regulations and the need for wider portfolios, deep market understanding and long-term business relationships. Hence, the consolidation (focus of optimising portfolio, extending regional presence and strengthening distributor network) has greater potential to boost the profit outlook for integrated generic players as market conditions improve going ahead and the off-patent opportunity broadens in the next 3-5 years.

UPL has achieved critical mass in a rapidly consolidating industry

FIG 52 – UPL AMONG THE LEADING PLAYERS IN POST-PATENT PRODUCTS



Source: Company, BOBCAPS Research | ^Acquired Bayer's herbicide & seeds business in 2018, #Acquired DuPont's agrochemicals business and sold the crop health and nutrition business to DuPont in 2017, *FY19

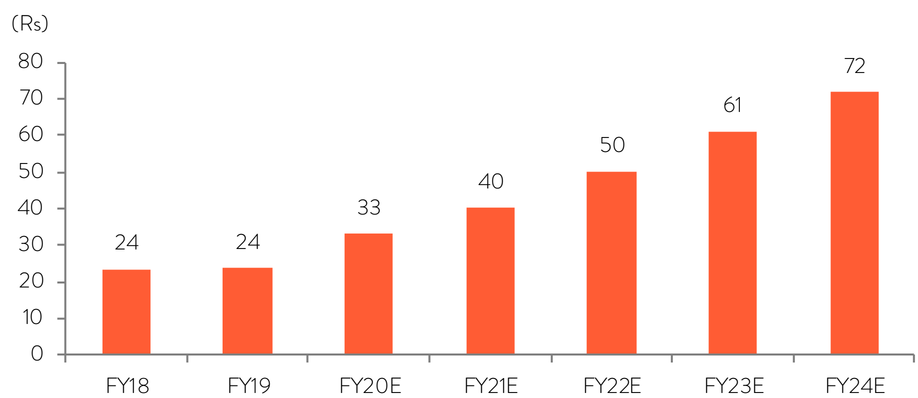
EPS to grow 21%, FCF healthy

We forecast an earnings CAGR of 21% for FY20-FY24 backed by revenue growth of 12% and EBITDA margin expansion of +200bps. Key drivers include healthy volume growth (up 10-12% over the past 3-5 years), operating leverage benefits from Arysta portfolio and market access, product mix improvement (via a widening biosolutions portfolio), and lower competitive intensity due to global consolidation.

We expect these drivers alongside working capital efficiency and controlled capex (Fig 2 in previous section) to improve free cash generation over FY20-FY24 to US$ 3.4bn+. This should support significant deleveraging over the next five years after providing for ~US$ 150mn of dividend payouts.

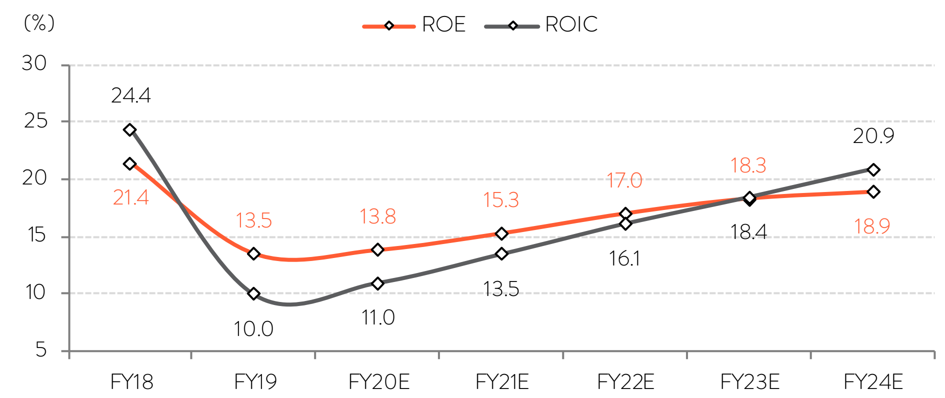
In our view, UPL's balance sheet would transition from the repair phase to a comfortable position as (1) net debt/EBITDA falls from 3.5x in FY20E to an estimated 1.1x in FY24 – 15% below the five-year mean, and (2) ROIC likely doubles from 11% by FY24, moving closer to the five-year mean.

FIG 53 – EXPECT +20% EPS CAGR OVER FY20-FY24



Source: Company, BOBCAPS Research

FIG 54 – EXPECT DOUBLING OF ROIC BY FY24



Source: Company, BOBCAPS Research

Key markets – Outlook

In this section, we discuss the growth outlook and drivers for some of UPL's key markets. On the whole, we remain positive on LATAM, EU and India given that excess inventory in the channel has moderated and the demand outlook is biased driving market place comfort. Brazil's crop protection demand for soybeans has benefitted from US-China trade tension, despite drought conditions in the south. In the US, we note growth challenges from excess channel inventory and freezing weather in the Midwest that's affecting winter wheat crops. Pricing in the broader market has remained subdued.

LATAM – expect 14% revenue CAGR

Market size: US$ 13bn (25% of total CPM)

Key markets (ex-GM crop): Brazil (US$ 8.5bn) and Argentina (US$ 2.7bn) – together accounting for 83% of LATAM market

Key crops: Soybean (area harvested 36mn ha; 2.8% growth in last three years), corn (area harvested 26m ha; 10% growth in last three years), sugarcane, coffee, fruit & vegetables

UPL market share: 17% post-Arysta (9% pre-Arysta; up 5ppt since FY15) – UPL sales grew 22% vs. market decline of 5% in last five years

Key brands: Fungicides – Unizeb Gold, Unizeb Glory, Unizeb, Vondozeb; Herbicides: Zartan, Danado, Clorim; Insecticides – Lancer, Lancer Gold, Imida Gold

Market outlook: LATAM accounts for 60% of global soybean exports, 33% of corn, 45% of coffee and ~75% of banana exports. Brazil, Argentina and Colombia are key markets for UPL. The USDA has maintained overall favourable regulatory conditions for soybean cultivation in parts of central Brazil, including the state of

Mato Grosso, the country's leading producer; however, drought conditions have raised concerns for yield prospects of summer crops in some southern and northeastern production areas. In Argentina, conditions are favourable for early planted summer crops but the market is facing economic turmoil, resulting in higher export duties for grain crops.

Key drivers: LATAM is the largest market for UPL accounting for 40% of total revenues (US$ 2bn in FY20E) and will remain a key strategic growth driver for the company. Brazil forms roughly US$ 1.3bn of annual sales (post-Arysta), i.e. 60-65% of LATAM and 26% of total revenues. The fungicides segment continues to lead in Brazil, accounting for over 50% of revenue from the region, as per management, followed by herbicides and insecticides. During FY20, crop protection demand for soybeans in Brazil has benefitted from US-China trade wars, despite drought conditions in the south. The company has also witnessed market share expansion in specialty crops and cotton.

We expect continued growth momentum and a 14% revenue CAGR from LATAM over FY20-FY24 (on a high base due to US-China trade issues), driven by –

- continuing market share gains in soyabean/corn along with base products in fungicides (Unizeb Gold, Unizeb Glory);
- scale-up from new launches in the herbicide portfolio – UPL launched Glufosinate brands in 2018 which can potentially replace Glyphosate, besides Clethodim, Amicarbazone and Propisochlor from Arysta's portfolio;
- strong leadership in Acephate;
- multiple launches in adjacent technologies (Zeba); and
- access to new AIs for herbicides such as 2, 4-D (broader application) and Tebuthiuron (sugarcane & complementary product for Amicarbazone).

Other key long-term drivers include (1) stronger ties with Brazilian farmers and access to the co-operatives chain (via Arysta), (2) ProNutiva promotion across regions and crops, (3) operating leverage in Arysta's biosolutions portfolio (via Biozyme – leading brand with 20% share of biostimulant market in Brazil and #1 biostimulant in Mexican fruits and vegetables), and (4) supply chain efficiencies that could drive the region's margins in coming years. Channel inventory with distributors is comfortable and the diverse portfolio can efficiently support UPL's market share expansion in the region.

FIG 55 – KEY FUNGICIDE BRANDS IN BRAZIL FOR ANTI-RUST

Companies	Brands	Active Ingredient
ADAMA	Horos	Tebuconazole and Picoxystrobin
ADAMA	Cronnos	Mancozeb + Picoxystrobin + Tebuconazole
Bayer	Fox	Trifloxystrobin + Prothioconazole
BASF	Opera, Orkestra	Pyraclostrobin, Fluxapyroxad
BASF	Ativum	Pyraclostrobin + Epoxiconazole + Fluxapyroxad
FMC	Battle	Carbendazim + Flutriafol
FMC	Locker	Carbendazim + Tebuconazole + Kresoxim-methyl
Rotam	Galileo, Manfil	Chlorothalonil, Mancozeb
Syngenta	Elatus	Solatenol and Azoxystrobin
UPL	Unizeb	Mancozeb

Source: Company, AgroPages, BOBCAPS Research

Europe – expect 10% revenue CAGR

Market size: US$ 11bn (21% of total CPM)

Key markets (ex-GM crop): France (US$ 2.5bn), Germany (US$ 2bn) and Italy (US$ 1.5bn), accounting for 55% of the Europe CPM

Key crops: Cereals, oilseeds, sugar beet, fruits (grapes)

UPL market share: 6.5% post-Arysta (3.5% pre-Arysta; up 1ppt since FY15) – UPL sales grew 11% vs. market decline of 5% in last five years

Key brands: Fungicides – Cuprofix, Microthiol, Penncozeb; Herbicides – Devrinol, Metafol, BeetUP

Market outlook: Western Europe (80-85% of the EU's total harvest) is one of the most challenging markets for agrochemicals due to the long registration approval period (~5 years) and complex regulations governing plant protection products – these factors also serve as barriers against market entry.

Sugar beet harvesting regions such as France, Germany and Poland have been witnessing normal precipitation, implying favourable pest conditions compared to lingering dry weather in Western/Eastern Europe. Winter crop conditions, however, have improved over the last year (positive for fruits, such as grapes, and vegetables). Adoption of advanced mixture formulations and biosolutions should drive market growth at 1-1.5% over the next five years, per industry sources.

Key drivers: UPL's Europe region sales form 14% of total revenues (i.e. US$ 700mn in FY20E) and the company has 6.5% market share. It offers crop solutions across a diversified range of high-margin crops such as sugar beet, oilseeds, fruit (grape and others) and vegetables.

We expect a 10% revenue CAGR from this geography over FY20-FY24. UPL has introduced 207 products in the market in FY19 (89 herbicides, 68 fungicides, 44 insecticides and 6 adjacent technology products). Key drivers of growth would be (1) scale-up in the FY19 launches along with base brands in herbicides such as BeetUP and Metafol, (2) deeper penetration in the specialty fruit & vegetable segment with fungicides (Cuprofix, Microthial, Chlorothalonil), and (3) key biostimulants such as Atonik, BM 86, Carpovirusine in biocontrol and Foltron.

Tough weather conditions affected West European farmers in H1FY20, increasing market channel stocks and depressing demand in H2. Market conditions are now starting to improve. Other regional challenges include France legislation (eco tax) and Brexit.

India – expect 9% revenue CAGR

Market size: US$ 3.7bn (8% of total CPM)

Key markets (ex-GM crop): Andhra Pradesh (25%), Maharashtra (15%), Punjab, Madhya Pradesh, Gujarat and Karnataka – these states account for 70% of India's pesticide consumption

Key crops: Cotton, soybean, sugarcane, rice, cereals, vegetables

UPL market share: Stable 14% share since FY15 – India sales grew 6% vs. market growth of ~4% in the last five years

Key Brands: Insecticides – Ulala, Phoskill, Lancer Gold, Atabron, Starthene; Herbicides: Saathi, Iris, Patela, Lagam; Fungicides: Saaf, Avancer Glow, Disect, Cuprofix; Fumigants: Wuxal

Market outlook: India has very fragmented land ownership (averaging one hectare per farmer), besides a lack of proper irrigation and lower pesticide consumption per hectare (0.6kg on average vs. 3-4kg globally and 13kg/ha in China) – this translates to lower crop yield as compared to other emerging markets, which presents attractive growth potential for agrochem use in coming years. Roughly 75% of the market is dominated by generic products.

India has two planting seasons: Kharif (May-Oct, monsoon dependent) which is the main season accounting for 70% of the cropping and hence pesticide application, and Rabi (Nov-Mar, mostly irrigated). Given the country's tropical climate, insecticides account for ~65%, herbicides ~16% and fungicides ~15% of consumption. India continues to face 15-25% yield loss on wheat, rice and soybean due to weeds, which provides a good growth opportunity for UPL. Herbicide use in India is at 16%, much lower than the global average of 42%. Pesticide consumption is 9% for fruit and vegetables vs. a 20% global average.

The Rabi outlook is encouraging based on sowing till 24 Jan 2020 (up 9.7% YoY), per data from the Department of Agriculture Cooperation. This is boosted by excess water levels in reservoirs across the north, east, south west and central regions. Demand for improving crop yield, greater support from the government via increasing procurement prices, and rising herbicide use would fuel growth for the industry at an estimated 5-6% CAGR over the next five years.

Key drivers: UPL has a leading 14% market share in the Indian crop protection industry with FY20E sales at ~US$ 530mn, i.e. 11% of revenues (down from FY18 levels of 18-19% due to Arysta consolidation). The company has a presence across all crops and regions in India. While the Indian market has high potential, an erratic monsoon in the last three years has led to subdued growth for the industry at 4%.

We expect a 9% revenue CAGR for UPL over FY20-FY24, supported by (1) scale-up of the 75 FY19 launches (including 22 herbicides, 17 fungicides and 10 adjacent tech products), (2) growth in power brands such as Ulala, Phoskill, Lancer Gold, Saaf and Saathi, (3) integrated pest management offering through ProNutiva which combines benefits of a biosolutions portfolio, and (4) strategic focus on vegetables and fruits.

FY19 has seen a good number of launches by UPL in the herbicides segment, leveraging the Arysta portfolio. As per management, UPL is a market leader in herbicides in North India and is expanding its presence aggressively across Uttar Pradesh and Bihar. With 15-25% of India's crop yield compromised due to weeds and low levels of herbicide consumption, we see solid growth potential for the company. Brands such as Vesta, Sweep, Iris, Dost, Saathi and Total should continue to aid growth for this segment. Emerging labour shortages, rising costs and new genetically-modified crops are expected to increase the use of herbicides by 15% per annum.

Our distributor-level interaction suggests channel inventory levels for FY20<FY19<FY18 due to limited credit from companies and weak farmer sentiments. Favourable harvest pricing (unlike FY20) and normal monsoons can boost farmer sentiment in FY21. UPL has taken some price increases (led by shortages) at the start of the season in selective herbicides and insecticides which were well absorbed, but continues to see pricing pressure on the non-selective herbicide portfolio. The coronavirus outbreak in China can lead to some product price increases largely to mitigate gross margin pressure.

Valuation methodology

Initiate with Rs 710 price target

Based on our detailed analysis of UPL's long-term growth potential, we see a compelling case for value unlocking in coming years and hence initiate coverage with BUY. Our Mar'21 target price of Rs 710 is arrived at by discounting FY23 intrinsic value – this is derived from the average fair value derived using the DCF and EV/EBITDA methodologies, probability-weighted for our scenario analysis as follows – 50% weight for our base case, 40% for the bull case and 10% for the bear case.

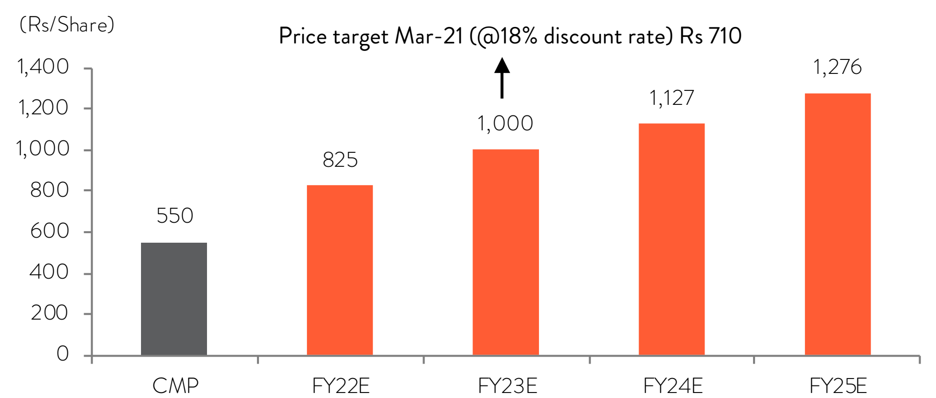
This is driven by our view that (1) healthy operating results – earnings CAGR of 21% for FY20-FY24 driven by revenue growth of 12% and EBITDA margin expansion of +200bps, (2) prudent working capital cycle management, and (3) higher-than-targeted Arysta synergies that can drive significant balance sheet comfort and releverage potential.

High probability of moving from base to bull case

We attach a high 40% probability weight for our bull case, reflecting significant cash generation and balance sheet releveraging to buy out the 22% minority stake in UPL Corp by FY24 (valued at Rs 270-300/sh). This is assuming (1) UPL would be significantly underlevered as net debt/EBITDA drops to 1.1x in FY24 (15% below five-year historical average), and (2) exiting minority investors TPG and ADIA earn a heathy compounded return of +20% on their initial investment made in FY19.

We believe the market will begin attaching a higher probability for a bull case as near-term debt refinancing headwinds get addressed. This would rerate the stock multiple closer to the 11-12x EV/EBITDA level that prevailed in FY18, in our view.

FIG 56 – INITIATE WITH BUY AND PRICE TARGET OF RS 710



Source: Company, BOBCAPS Research

Our TP implies 7.5x EV/EBITDA on FY22 (30% below 5Y mean)

At CMP, we believe the market is deeply undervaluing UPL's base business potential (i.e. continued market share gains with strong brands and above-peer volume growth across geographies) and baking in zero probability of a bull case buyback (which can drive significant value unlocking in ensuing years). Although the crop protection industry is mature and likely to see muted growth prospects, we believe the generics segment would continue to gain market share in off-patent products. Plus, industry consolidation should bring about pricing discipline and contain competitive intensity.

At our Mar'21 target price of Rs 710, the stock would trade at 7.5x FY22E EV/EBITDA. UPL is currently trading at 6.6x/5.6x FY21E/FY22E EV/EBITDA which is in line with global peers but 25-30% lower than the stock's five-year average. On a P/E basis, our TP implies a 14x multiple on FY22E EPS as against current valuations of 10.2x FY21E and 8.2x on FY22E.

FIG 57 – TARGET PRICE CALCULATION – PROBABILITY ADJUSTED

(Rs mn)	Base case	Bull case	Bear case
Operating cash flow	96,233	99,440	91,670
Free cash flow	55,895	59,876	50,747
DCF value (a)*	894,754	1,085,657	680,097
EBITDA	113,800	117,810	108,087
(includes: Arysta synergies US$ mn)	240	240	216
Target EV/EBITDA (x)	**9.0**	**11.0**	**7.0**
EV (b)	1,024,201	1,295,905	756,608
Total EV (average of a + b)	**959,478**	**1,190,781**	**718,352**
Net Debt	181,581	166,929	197,988
Net Debt-to-EBITDA (x)	1.6	1.4	1.8
Equity Value	**777,896**	**1,023,852**	**520,364**
Per share (Average of DCF based & EV/EBITDA less @ 22% Minority stake in UPL Corp)	809	1,056	547
(+) Buyback of TPG/ADIA stake (FY24 NPV basis)^	-	294	-
Value per Share (Rs)	**809**	**1,350**	**547**
% Upside/(Downside)	97	228	33
Probability weights (%)	50	40	10
Price target Mar-23	**1,000**		
% Upside	143		
Price target Rs/sh at Mar-21 (@18% discount rate)	**710**		
% upside	73		
Implied EV/EBITDA - FY22 (x)	**7.5**		
Implied P/E - FY22 (x)	**14.2**		

Source: Company, BOBCAPS Research | *We use a discount rate/terminal growth rate of 12%/4% in base case, 11%/4% in bull & 13%/3% in bear case. ^20% discount rate assumes buyback value escalates 20% from base price

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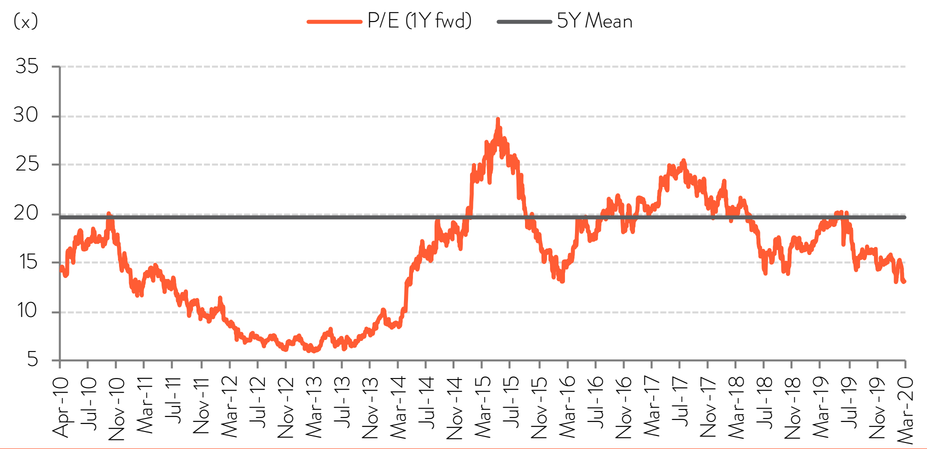
FIG 58 – GLOBAL PEER VALUATION

Companies	Mcap (US$ bn)	P/E (x)			EV/EBITDA (x)			ROE (%)
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY21E
Bayer	57.7	7.3	6.5	6.1	7.0	6.4	6.0	14.1
BASF	44.9	11.3	9.8	8.7	6.8	6.3	5.8	9.1
Corteva	18.7	16.8	14.2	11.7	7.9	7.1	6.3	5.1
FMC	10.8	12.5	11.0	9.9	10.5	9.7	9.1	32.9
Nufarm	1.0	43.2	13.9	10.1	8.3	7.1	6.7	4.7
Average		**18.2**	**11.1**	**9.3**	**8.1**	**7.3**	**6.8**	**13.2**
UPL	**4.4**	**12.4**	**10.2**	**8.2**	**7.6**	**6.6**	**5.6**	**15.3**

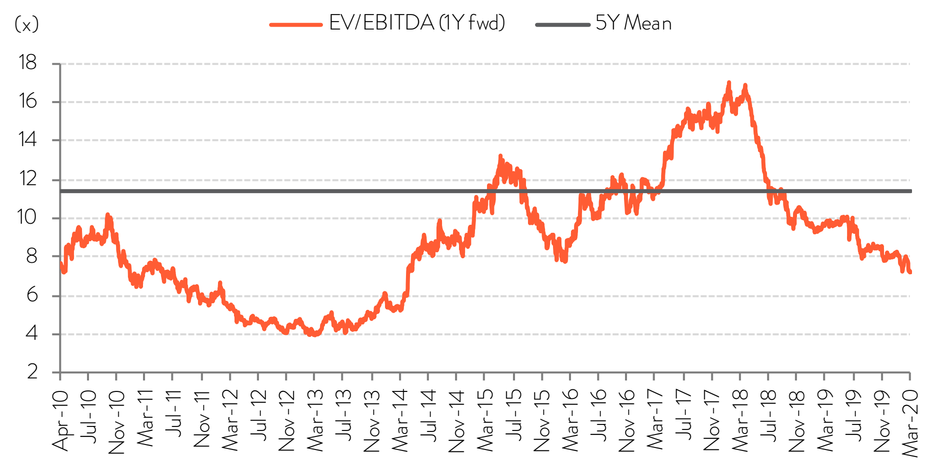
Source: Company, BOBCAPS Research, Bloomberg

FIG 59 – P/E MULTIPLE (ONE-YEAR FORWARD)



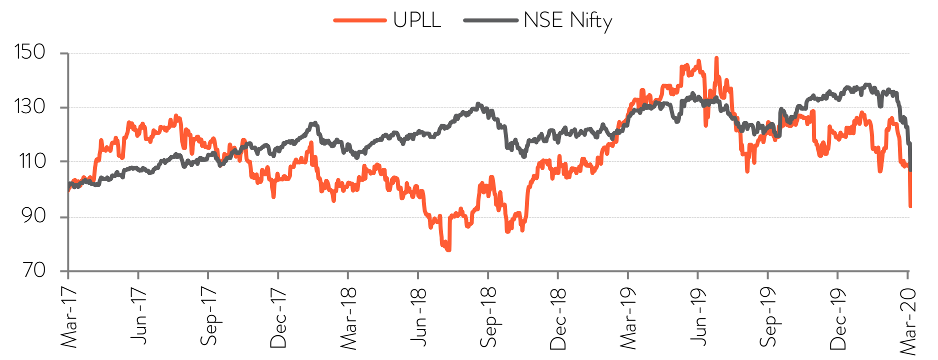
Source: Company, BOBCAPS Research

FIG 60 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Company, BOBCAPS Research

FIG 61 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Adverse climatic conditions:** Demand for UPL's crop solutions are influenced by climatic conditions, agri-commodity pricing and pest infestations. For instance, drought may reduce the need for fungicides, which could result in fewer sales and higher unsold inventories in the market, whereas excessive rain could lead to increased plant disease or weed growth, requiring growers to purchase and use more pesticides. Also, adverse agri-commodity prices could negatively impact grower profits, affecting demand for UPL's products.

- **Changing regulatory environment:** Changes in regulatory environment, particularly in the US, Brazil, China, Argentina and the EU, could adversely affect our growth estimates and margins. UPL is most sensitive to this general regulatory risk given the need to obtain and maintain pesticide registrations in every country. Many countries require re-registration of pesticides to meet new and more challenging requirements. Compliance with changing laws and regulations may involve significant costs or capital expenditures or require shifts in business practice that could result in reduced profitability.

- **Limited access to external debt financing:** UPL's near-term liquidity position is constrained by high debt leverage and depends upon its credit ratings. This could limit the company's ability to refinance borrowings, in turn restricting growth opportunities and adversely affecting operating results.

- **Shortfall in Arysta integration synergies:** Roughly 13-15% of our FY21-FY24 EBITDA is driven by Arysta-related synergies. So far, the anticipated cost savings and revenue synergies are ahead of management guidance for FY20. However, any failure in realising targeted synergies could adversely affect our margin and growth estimates

- **Higher raw material prices:** A sharp increase in crude oil prices can affect the prices of raw materials and production cost, impacting profitability. To mitigate this, UPL has backward integrated most of its operations and is less dependent on outside supply.
- **Adverse economic and political changes:** These include inflation rates, recession, trade restrictions, tariff increases or potential new tariffs and taxes that can affect UPL's business.
- **Forex risk:** The company operates in multiple markets with the US dollar, Euro, Japanese yen and British pound as major transaction currencies. Also, 85-90% of its debt is US dollar denominated. UPL takes adequate forward covers based on net open exposures as its exports act as a natural hedge.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Total revenue	**218,350**	**352,239**	**397,941**	**447,344**	**494,410**
EBITDA	38,110	74,316	86,846	100,230	113,800
Depreciation	9,690	23,222	24,082	25,022	25,962
EBIT	28,420	51,094	62,764	75,207	87,838
Net interest income/(expenses)	(9,630)	(14,157)	(16,282)	(15,352)	(13,513)
Other income/(expenses)	1,580	816	1,588	2,280	1,563
Exceptional items	0	0	0	0	0
EBT	20,370	37,753	48,070	62,136	75,888
Income taxes	1,650	5,663	8,653	12,427	15,178
Extraordinary items	(3,690)	(3,500)	0	0	0
Min. int./Inc. from associates	580	6,723	8,663	11,344	13,963
Reported net profit	**14,450**	**21,867**	**30,754**	**38,365**	**46,747**
Adjustments	(3,690)	(3,500)	0	0	0
Adjusted net profit	**18,140**	**25,367**	**30,754**	**38,365**	**46,747**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Accounts payables	93,970	107,119	121,018	136,042	150,355
Other current liabilities	15,250	12,610	14,326	16,104	17,799
Provisions	21,840	35,232	39,803	44,745	49,452
Debt funds	289,970	257,178	292,885	242,181	212,281
Other liabilities	0	0	0	0	0
Equity capital	1,020	1,530	1,530	1,530	1,530
Reserves & surplus	208,412	222,629	244,203	271,093	304,070
Shareholders' fund	209,432	224,159	245,733	272,623	305,600
Total liabilities and equities	**630,462**	**636,299**	**713,764**	**711,694**	**735,487**
Cash and cash eq.	28,510	4,129	59,382	31,834	30,699
Accounts receivables	118,160	125,455	141,732	159,328	176,091
Inventories	92,700	106,154	115,566	126,237	139,518
Other current assets	47,190	59,881	67,650	76,049	84,050
Investments	7,062	7,062	7,062	7,062	7,062
Net fixed assets	46,540	43,318	42,236	41,214	38,258
CWIP	17,830	17,830	17,830	17,830	17,830
Intangible assets	272,470	272,470	262,306	252,142	241,978
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**630,462**	**636,299**	**713,764**	**711,694**	**735,487**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Net income + Depreciation	24,140	45,089	54,836	63,387	72,709
Interest expenses	9,630	14,157	16,282	15,352	13,513
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(63,680)	(9,538)	(13,274)	(14,921)	(17,331)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**(29,910)**	**49,708**	**57,845**	**63,818**	**68,892**
Capital expenditures	(341,640)	(20,000)	(23,000)	(24,000)	(23,007)
Change in investments	3,278	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(338,362)**	**(20,000)**	**(23,000)**	**(24,000)**	**(23,007)**
Equities issued/Others	0	510	0	0	0
Debt raised/repaid	222,580	(32,792)	35,706	(50,704)	(29,900)
Interest expenses	(9,630)	(14,157)	(16,282)	(15,352)	(13,513)
Dividends paid	(4,240)	(7,650)	(9,180)	(11,475)	(13,770)
Other financing cash flows	159,132	0	10,164	10,164	10,164
Cash flow from financing	**367,842**	**(54,089)**	**20,408**	**(67,367)**	**(47,019)**
Changes in cash and cash eq.	**(430)**	**(24,381)**	**55,253**	**(27,548)**	**(1,134)**
Closing cash and cash eq.	**28,510**	**4,129**	**59,382**	**31,834**	**30,699**

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20E	FY21E	FY22E	FY23E
Reported EPS	18.9	28.6	40.2	50.2	61.1
Adjusted EPS	23.7	33.2	40.2	50.2	61.1
Dividend per share	8.0	10.0	12.0	15.0	18.0
Book value per share	229.9	249.1	277.3	312.5	355.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20E	FY21E	FY22E	FY23E
EV/Sales	1.6	1.3	1.4	1.2	1.1
EV/EBITDA	9.2	6.2	6.6	5.6	4.7
Adjusted P/E	17.3	12.4	10.2	8.2	6.7
P/BV	1.8	1.6	1.5	1.3	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20E	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	89.1	67.2	64.0	61.7	61.6
Interest burden (PBT/EBIT)	71.7	73.9	76.6	82.6	86.4
EBIT margin (EBIT/Revenue)	13.0	14.5	15.8	16.8	17.8
Asset turnover (Revenue/Avg TA)	16.6	18.0	19.5	21.2	23.9
Leverage (Avg TA/Avg Equity)	2.5	2.7	2.5	2.3	2.0
Adjusted ROAE	13.5	13.8	15.3	17.0	18.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.6	61.3	13.0	12.4	10.5
EBITDA	8.7	95.0	16.9	15.4	13.5
Adjusted EPS	0.6	39.8	21.2	24.7	21.8
Profitability & Return ratios (%)					
EBITDA margin	17.5	21.1	21.8	22.4	23.0
EBIT margin	13.0	14.5	15.8	16.8	17.8
Adjusted profit margin	8.3	7.2	7.7	8.6	9.5
Adjusted ROAE	13.5	13.8	15.3	17.0	18.3
ROCE	9.1	10.6	12.6	14.7	17.3
Working capital days (days)					
Receivables	198	130	130	130	130
Inventory	155	110	106	103	103
Payables	157	111	111	111	111
Ratios (x)					
Gross asset turnover	0.7	1.0	1.1	1.2	1.2
Current ratio	2.2	1.9	2.2	2.0	2.0
Net interest coverage ratio	3.0	3.6	3.9	4.9	6.5
Adjusted debt/equity	1.6	1.3	1.4	1.0	0.8

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

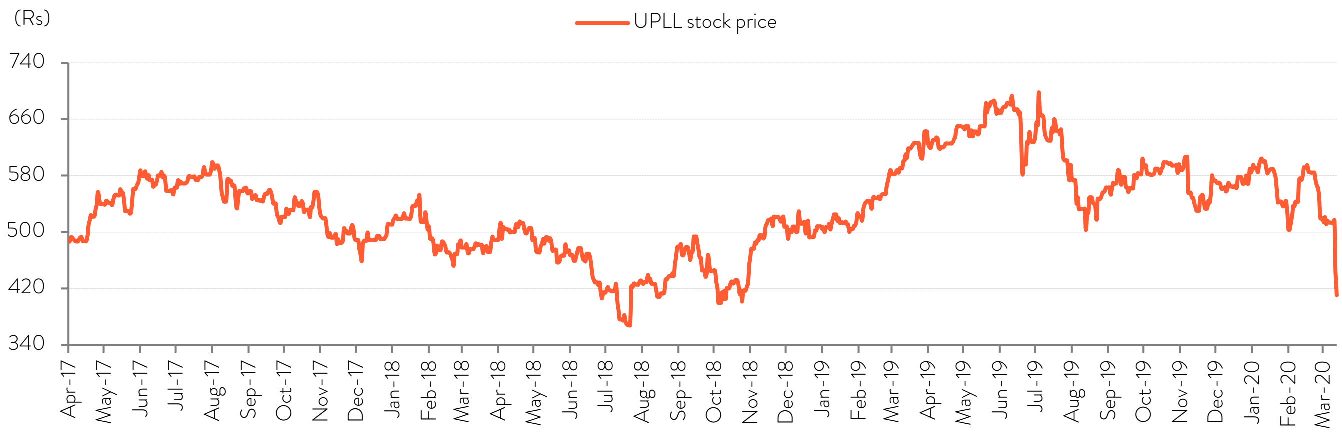
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: UPL (UPLL IN)



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

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