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UPL Ltd.

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Core markets to drive growth

UPL is a leading global manufacturer of crop protection products. UPL has a wide product portfolio consisting of herbicides, fungicides, insecticides & plant growth regulators. UPL markets its products in 120 countries through 74 subsidiaries. UPL has a full agri-input value chain from seeds to post-harvest chemicals. Further, the merger with Advanta will help UPL to expand its product portfolio. Importantly, exports account for 80% of UPL's revenue.

Investment Rationale

LATAM business to be the key growth driver: Latin America (LATAM) is the key market for UPL as it contributes 32% to the total revenue. During FY12-16, LATAM business grew at a CAGR of 21% on the back of new product launches & higher investments in the region. Interestingly, in FY16, UPL's revenue growth of 10% YoY was mainly driven by the outperformance of Latin American markets, which witnessed growth of 25% YoY driven by launch of 15 new products. The company has consistently launched new products to drive growth in the region. Further, UPL plans to launch 1-2 differentiated products in key global markets every year. Hence, we expect LATAM business to witness a robust CAGR of 21.5% over FY16-18E on the back of new launches coupled with increased usage of crop protection chemicals (after abolishment of export taxes and import license for agrochemicals).

Better monsoon to drive Indian business growth: India, the second largest market (contributes 20% to total revenues) for UPL, grew at a CAGR of 12.1% over FY12-16E. However, growth in FY16 stood at 3.5% YoY impacted by poor monsoon. Going forward, fungicides segment presents a growing opportunity owing to an enhanced focus on quality; the herbicide market is growing on account of rising labour costs. As a result, UPL plans to launch new products for cereals, cotton, corn, fruit and vegetables. Importantly, UPL is reducing its dependence on insecticides and focusing more on fungicides and herbicides. Given, the better monsoon this year, we expect Indian business to grow at a CAGR of 11.5% over FY16-18E.

North American business on a strong footing: UPL is currently investing in its field force in order to grow its presence & increase its competence in the delivery of crop protection solutions. It is expanding its presence in under-penetrated regions (American Midwest region), where row crops (soybean, corn and wheat) are predominant. It is continuously investing in the development of new products to capture opportunities in the herbicides and fungicides. We expect North American business to grow at CAGR of 10% led by increasing usage of agro chemicals (for fruits and vegetables) along with expansion into under-penetrated areas.

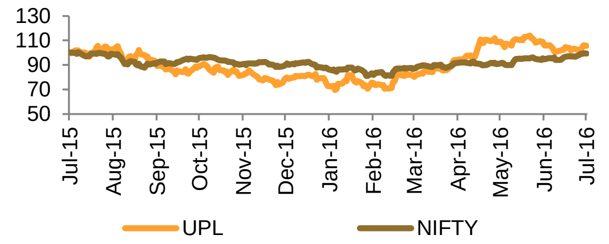
Valuation: We expect UPL revenue and PAT to grow at a CAGR of 12.5 & 17.9% respectively over FY16-18E. Further, EBITDA margins are expected to improve by 90bps on account of key launches and backward integration. Hence, we initiate UPL with a BUY rating with a TP of Rs.623 based on 14x FY18E EPS.

Market Data	
Rating	**BUY**
CMP (Rs.)	567
Target (Rs.)	623
Potential Upside	10%
Duration	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	617/342
Adj. all time High (Rs.)	617
Decline from 52WH (%)	8.8
Rise from 52WL (%)	65.7
Beta	0.4
Mkt. Cap (Rs.Cr)	24,254

Fiscal Year Ended

Y/E	FY15	FY16	FY17E	FY18E
Net sales (Rs.Cr)	12,091	13,302	14,943	16,797
Net profit (Rs.Cr)	1,246	1,355	1,537	1,909
EPS (Rs.)	29.1	31.6	35.9	44.5
P/E (x)	19.5	17.9	15.8	12.7
P/BV (x)	4.1	3.6	3.0	2.5
ROE (%)	22.4	21.4	20.7	21.5

One year Price Chart



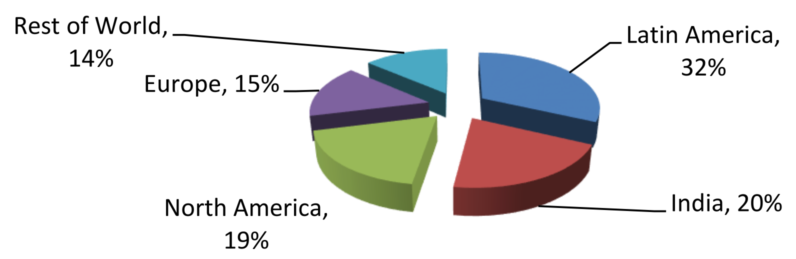
Shareholding Pattern	Mar-16	Dec-15	Chg.
Promoters (%)	29.7	29.8	0.1
Public (%)	70.3	70.2	0.1

UPL is a leading global manufacturer of crop protection products.

Company Overview

UPL is a leading global manufacturer of crop protection products. The company has a wide product portfolio consisting of herbicides, fungicides, insecticides, plant growth regulators and specialty chemicals. UPL markets its products in 120 countries through 74 subsidiaries. The company has 28 manufacturing units (13 in India, 7 in Europe, 1 in North America, 4 in Latin America and 3 in Rest of World (RoW)) across the globe. UPL has a full agri-input value chain from seeds to post-harvest chemicals. Importantly, exports account for 80% of the company's revenue.

Revenue Breakup (FY16)



Source: Company, In-house research

Farmers in Brazil and Argentina got the benefit of currency devaluation for export of commodities. This in turn led to increase acreage in Brazil & Argentina

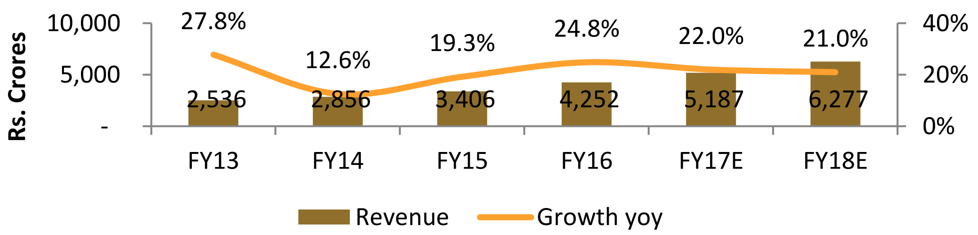
Latin America business to be the key growth driver

Latin America is the key market for UPL as it contributes 32% to the total revenue. During FY12-16, LATAM business grew at a CAGR of 21% on the back of new product launches & higher investments in the region. Interestingly, in FY16, while LATAM business grew by 25% YoY, industry reported a de-growth of 12% YoY. The strong growth was driven by 15 new product launches (highest across all competitors) in the region.

During FY16, fungicides exhibited exceptional performance owing to higher demand as a result of rust disease in Soya. Moreover, farmers in Brazil and Argentina got the benefit of currency devaluation for export of commodities. This in turn led to increase acreage in Brazil & Argentina. Further, in Argentina, export taxes were abolished on all commodities (except soya) along with removal of import license for agrochemicals. Going forward, this will aid in higher usage of agro chemicals by farmers as it reduces the price.

However, UPL witnessed reduction in insecticide segment in Brazil due to introduction of BT technology in Soya. Demand for chemicals (for fruits, vegetables and flowers) remained strong in domestic and export markets. More importantly, in order to meet the rising demand for agro chemicals, UPL will add two manufacturing facilities, one in the US and another in Brazil. Hence, we expect LATAM business to witness a robust CAGR of 21.5% over FY16-18E on the back of new launches coupled with increased usage of crop protection chemicals (after abolishment of export taxes and import license for agrochemicals).

LATAM revenue to grow at a CAGR of 21.5% over FY16-18E



Source: Company, In-house research

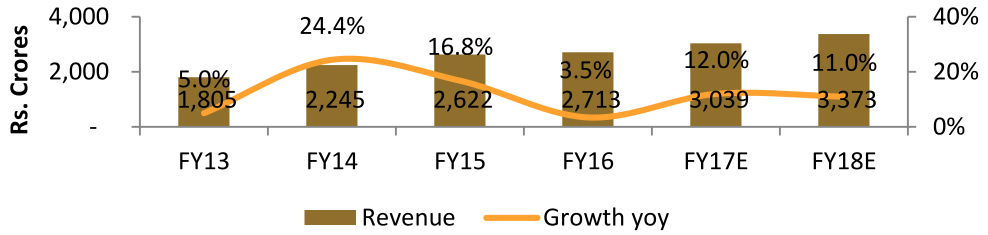
Going forward, fungicides segment presents a growing opportunity owing to an enhanced focus on quality; the herbicide market is growing on account of rising labour costs.

Better monsoon to drive Indian business growth

India, the second largest market (contributes 20% to total revenues) for UPL, grew at a CAGR of 12.1% over FY12-16E. In FY16, company reported a growth of just 3.5% as compared to industry de-growth of 6-8% on the back of poor monsoon, which affected farm output & the corresponding agrochemical usage both in Kharif & Rabi crops. However, its insecticides business received good acceptance against sucking pests (whitefly) in North India. The company's newly launched product Shagun (wheat herbicide) also performed well.

Likewise, in FY16, UPL re-launched a soybean herbicide (brand name Iris) which achieved 100% volume growth. Further, UPL launched eight products in the profitable biological segment and plans to launch variants for cereals, cotton, corn, fruit and vegetables. Going forward, fungicides segment presents a growing opportunity owing to an enhanced focus on quality; the herbicide market is growing on account of rising labour costs. As a result, UPL is reducing its dependence on insecticides and focusing on fungicides and herbicides.

Revenue of Indian business to grow at 11.5% CAGR over FY16-18E



Source: Company, In-house research

North American business on a strong footing

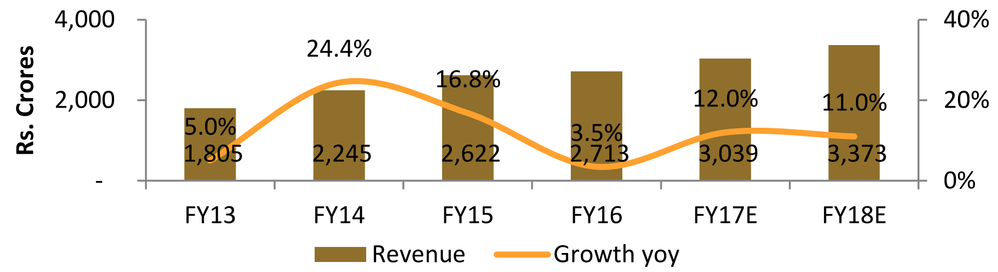
North American markets accounted for 19% of the company's consolidated revenue in FY16. This business grew by 10.3% YoY as compared to market de-growth of 4.6% in FY16. North American market de-grew during the year on account of climatic vagaries; lower purchasing power following weaker commodity prices coupled with the consolidation of distribution system that reduced market players. In FY16, sales of newly launched herbicides (Lifeline and Satellite) witnessed a healthy increase in volumes as resistant weeds infestation continues to increase in soya, cotton and corn.

UPL is currently investing in its field force in order to grow its presence & increase its competence in the delivery of crop protection solutions.

While non-selective herbicides (total weed killers) faced significant price competition, fungicide consumption reduced due to continued dry conditions in Western USA. Reduction in rice and cotton area affected the company's rice herbicides and cotton insecticides. The company's outperformance was led by its well-established name in fruit and vegetable segment with a balanced portfolio of strong brands (Manzate, Surflan, Lifeline, Assail, Penncozeb and Microthiol). The company was able to increase its market share from 2.6% to 3% on account of balanced product portfolio, ability to introduce differentiated products, local manufacturing support and prudent investment in field force. It possesses more than 100 registrations across four business units.

UPL is currently investing in its field force in order to grow its presence & increase its competence in the delivery of crop protection solutions. It is expanding its presence in under-penetrated regions (American Midwest region), where row crops (soybean, corn and wheat) are predominant. It is continuously investing in the development of new products to capture opportunities in the herbicides and fungicides. We expect North American business to grow at CAGR of 10% led by increased agro chemicals usage (for fruits and vegetables) along with expansion into under-penetrated areas.

North American business to grow at CAGR of 10% during FY16-18E



Source: Company, In-house research

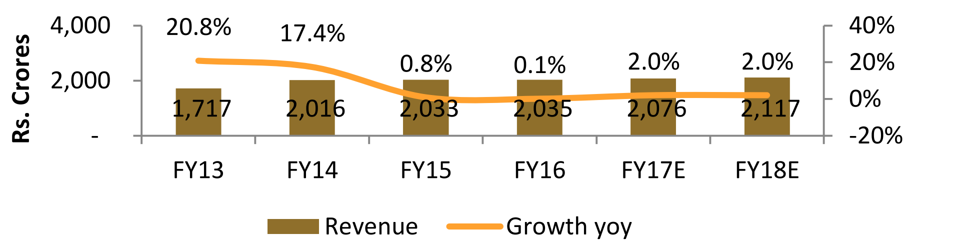
European business to report flat growth

UPL's revenue from Europe accounted for 15% of its consolidated revenue, which is 2.6% of European crop protection chemicals market (USD11.6bn) in FY16. The company reported flat growth in FY16 on account of decline in prices of agro commodities. In addition, crop acreage for sugar beet declined 15% during the year owing to reduction in subsidies. The European summer season remained disease-free, reducing the demand for fungicides among potato farmers. Further, a severe drought in Spain and other South Eastern European countries affected the business growth.

The company's Aluminum phosphide product got registered in Germany, helping to grow its business in key European market.

During FY16, the company took a number of initiatives to retain its market share by investing in new products, which protected its market position for sugar beet, potatoes, fruit and vegetables. The company's Aluminum phosphide product got registered in Germany, helping to grow its business in key European market. We expect Europe business to report a CAGR growth of just 2% on account of low usage of crop chemicals and stringent regulations on the introduction of new products.

European business to grow at a CAGR of 2% over FY16-18E



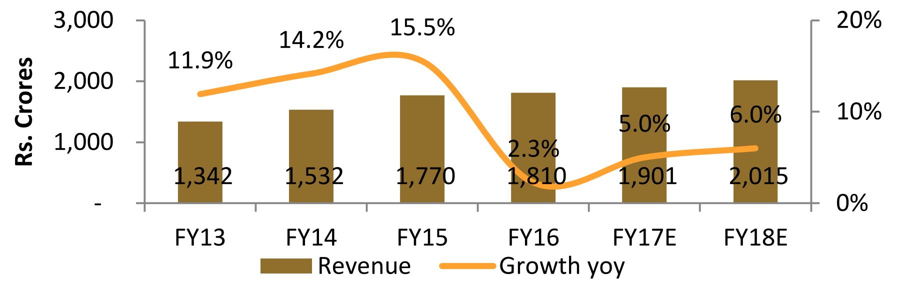
Source: Company, In-house research

RoW business to grow at CAGR of 5.5% during FY16-18E

The RoW business contributes 14% to the total revenue of the company. This business is spread across most countries in Africa, Turkey, Middle East and Asia (excluding India). In FY16, UPL outperformed the market with 2% revenue growth as against the flat growth registered by the overall market. In FY16, business growth was impacted by El-Nino in the South East Asia (key market for UPL) as well as berries crop damage in Turkey due to hailstorm affecting fungicides consumption. UPL's outperformance was driven by prudent selection of markets based on payment security, aggregation of half a dozen countries into a market cluster for marketing convenience and a comprehensive portfolio to address growing farmer needs. Going forward, UPL expects improvement in business growth on the back of increased registrations in African countries. Moreover, business in Iran is expected to grow as US lifted trade related impediments. Cotton portfolio in Pakistan got good acceptance and is expected to further support the growth of RoW business.

The company's innovation rate (measures the revenue contribution of products launched during the last five years) was 14% in FY16, an increase of 9% over last year.

RoW business to grow at a CAGR of 5.5% over FY16-18E



Source: Company, In-house research

Advanta merger to compliment the overall product portfolio

UPL acquired Advanta in all stock deal and the deal is expected to close by H1FY17. Advanta (UPL associate company) is a leading international field crops & vegetable seed company with direct presence in six countries. Integration of crop protection and seed business will provide significant growth opportunities for both the businesses and will results into cost savings of ~USD14mn (Integration of administrative and back-office functions). In FY16 (for 16 months), Advanta reported a revenue growth of 10.4% (Rs.1,670 crores). EBITDA and adj. PAT stood at Rs.281 crores, Rs.141 crores respectively.

New launches and adjacent technologies to aid growth

The company's research team works on adjacent technologies such as vector control, drought mitigation and effective plant nutrients. UPL has launched Zeba (soil nutrient) which absorbs and releases water as required by plants and reduces plant stress caused by heat & limited water availability. The company plans to launch 1-2 differentiated products in key global markets every year. In FY16, UPL filed 19 patents and launched several products with another 21 in the pipeline. UPL combines existing molecules to deliver effective products that address pests and disease. The company's innovation rate (measures the revenue contribution of products launched during the last five years) was 14% in FY16, an increase of 9% over last year.

Source: Company

Key Risks:

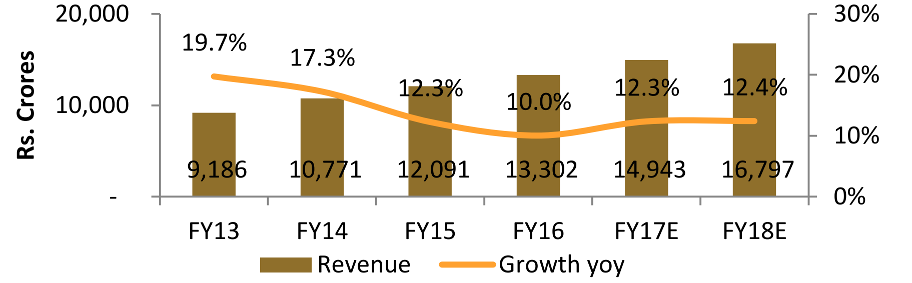
- Demand worries due to weather and seasonal effects.
- Adverse movement of global currencies and agro commodity prices.
- Increase in genetically modified seeds/crops (more resistance to diseases).

Financials

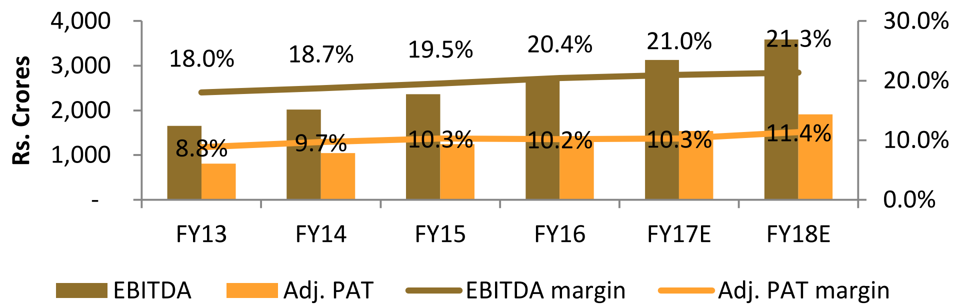
Revenue to grow at CAGR of 12.4% with EBITDA margin expansion of 90 bps

We expect UPL revenue to grow at a CAGR of 12.4% over FY16-18E on account of three factors: 1) new launches across geographies, 2) recovery in cotton and rice acreage globally and 3) better monsoon in India coupled with recovery expected in other emerging markets. Hence, we expect 90bps improvement in EBITDA margin over FY16-18E led by backward integration & shift in product mix towards biologics. We have not factored in the impact of Advanta merger in our estimates yet.

Revenue to grow at a CAGR of 12.4% over FY16-18E

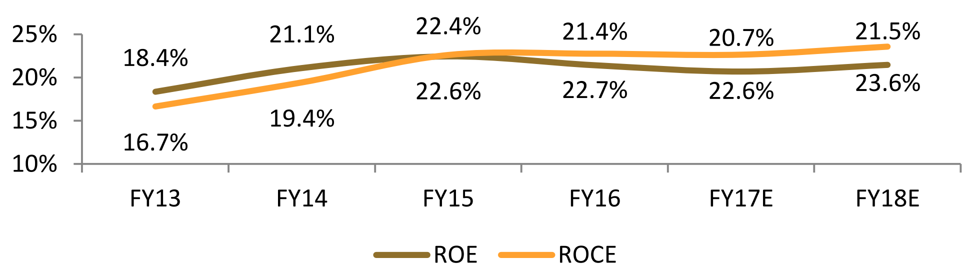


EBITDA & PAT margin to improve by 90 bps and 120 bps respectively



Source: Company, In-house research

Return ratios trend



Source: Company, In-house research

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY15	FY16	FY17E	FY18E
Total operating Income	**12,091**	**13,302**	**14,943**	**16,797**
Raw Material cost	6,016	6,411	7,203	8,096
Employee cost	1,043	1,224	1,345	1,495
Other operating expenses	2,669	2,950	3,264	3,620
EBITDA	**2,363**	**2,716**	**3,132**	**3,585**
Depreciation	425	502	569	626
EBIT	**1,938**	**2,215**	**2,562**	**2,960**
Interest cost	517	622	636	561
Other Income	91	89	90	90
Profit before tax	**1,512**	**1,682**	**2,017**	**2,489**
Tax	244	283	444	548
Profit after tax	**1,268**	**1,399**	**1,573**	**1,941**
Minority Interests	43	13	13	13
P/L from Associates	21	(31)	(23)	(20)
Adjusted PAT	**1,246**	**1,355**	**1,537**	**1,909**
E/o income / (Expense)	(102)	(56)	-	-
Reported PAT	**1,144**	**1,299**	**1,537**	**1,909**

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY15	FY16	FY17E	FY18E
Paid up capital	86	86	86	86
Reserves and Surplus	5,775	6,705	7,984	9,635
Net worth	**5,860**	**6,791**	**8,070**	**9,721**
Minority interest	44	42	55	68
Total Debt	3,284	4,238	4,238	3,738
Other non-current liabilities	647	517	543	570
Total Liabilities	**9,836**	**11,588**	**12,906**	**14,096**
Total fixed assets	2,819	3,358	3,593	3,817
Capital WIP	346	304	350	350
Goodwill	1,449	1,463	1,463	1,463
Investments	764	1,066	1,066	1,066
Net Current assets	4,085	4,854	5,838	6,745
Deferred tax assets (net)	(45)	5	5	5
Other non-current assets	418	537	591	650
Total Assets	**9,836**	**11,588**	**12,906**	**14,096**

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY15	FY16	FY17E	FY18E
Pretax profit	**1,418**	**1,704**	**1,994**	**2,469**
Depreciation	425	502	569	626
Chg. in Working Capital	(553)	(534)	(655)	(732)
Others	452	532	546	471
Tax paid	(283)	(423)	(444)	(548)
Cash flow from operating activities	**1,459**	**1,780**	**2,010**	**2,286**
Capital expenditure	(843)	(954)	(850)	(850)
Chg. in investments	137	(351)	-	-
Other investing cashflow	325	(388)	90	90
Cash flow from investing activities	**(381)**	**(1,693)**	**(760)**	**(760)**
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(69)	957	-	(500)
Dividend paid	(183)	(229)	(258)	(258)
Other financing activities	(739)	(569)	(636)	(561)
Cash flow from financing activities	**(991)**	**158**	**(894)**	**(1,319)**
Net chg in cash	86	245	357	207

Note: We have not factored in the impact of Advanta merger in our estimates yet.

Key Ratios (Consolidated)

Y/E	FY15	FY16	FY17E	FY18E
Growth (%)				
Net Sales	12.3	10.0	12.3	12.4
EBITDA	17.1	15.0	15.3	14.5
Net profit	19.4	8.7	13.5	24.2
Margin (%)				
EBITDA	19.5	20.4	21.0	21.3
EBIT	16.0	16.6	17.1	17.6
NPM	10.3	10.2	10.3	11.4
Return Ratios (%)				
RoE	22.4	21.4	20.7	21.5
RoCE	22.6	22.7	22.6	23.6
Per share data (Rs.)				
EPS	29.1	31.6	35.9	44.5
DPS	5.0	5.0	5.0	5.0
Valuation(x)				
P/E	19.5	17.9	15.8	12.7
EV/EBITDA	11.3	10.1	8.7	7.4
EV/Net Sales	2.2	2.1	1.8	1.6
P/B	4.1	3.6	3.0	2.5
Turnover Ratios (x)				
Net Sales/GFA	1.8	1.8	1.8	1.8
Sales/Total Assets	0.9	0.9	0.9	0.8

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Upside or downside is less than 10%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than equal to -10%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

***** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

***** UPL is a large-cap company

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It is affirmed that I, Abhishek Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.