



## “UPL Limited Q2 FY17 Earnings Conference Call”

**October 28, 2016**



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**Moderator:** Ladies and gentlemen, good day and welcome to UPL Limited Q2 FY17 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijayaraghavan from IDFC Securities Limited, thank you and over to you sir.

**Vijayaraghavan:** Thank you, Ali. Very good afternoon to everyone and thank you for joining us today. I would like to welcome the management team of UPL Limited and thank them for giving us this opportunity to host this call. Representing UPL Management Team, we have with us today, Mr. Arun Ashar - Director (Finance), Mr. Sagar Kaushik - COO (Global business), Mr. Anand Vora - CFO, Nitin Kolhatkar - VP (Finance) and Mr. Ashish Narkar - GM (Finance).

So now I would hand over the call to Mr. Anand Vora to make the initial remarks, which we will follow it up with Q&A. Mr. Anand.

**Anand Vora:** Thank you, Vijay. Good afternoon to you all and welcome to the financial year 2017 Q2 earnings call. As always, I will first start off with the numbers. We start off with the Q2 numbers first and then, I will take you to the H1 numbers. The gross revenue for the quarter ending September 2017 is at Rs. 3,658 crores as compared to Rs. 3,135 crores for the same period in the previous year. During this quarter, the sales volumes grew by 23%. The price decrease was about 5%, leading to a constant currency growth of 18%. The exchange impact was favourable by 1%, translating to a net increase in sales by 19%. This 23% growth in volumes is perhaps the best in the industry across the globe. The gross margins are at 38.9%, a 92 basis improvement over that of the previous year of the same period. In absolute value terms, the gross margins grew by 19%. EBITDA at 17.1% showed an improvement of 38 basis points over the same period last year.

I would just like to add here that as all companies in India have moved to Ind-AS, there has been a drop in the EBITDA margin because the way the numbers are now being presented under the Ind-AS as compared to those which were represented earlier under the Indian GAAP Accounting Standards.

So as far as the EBITDA margin is concerned, of 17.1%, if this was to be represented under the Indian GAAP, the EBITDA percentage would correspond to 18.8%. The same numbers for the previous year would be at 18.2%, thereby representing a 60 basis point improvement in the EBITDA margins for the quarter. Profit before tax at 298 crores is an increase of 29% over Rs. 231 crores last year for the same period.

Exceptional items, we generally do not cover exceptional items, but this time, we have an exceptional item for the quarter of almost 32 crores, which is a one-time cost, which is towards stamp duty paid on Advanta merger. So this is a large component of the total exceptional item.

Net profit after tax, after exceptional items is 4.6%, an increase of 10 basis point over that of the previous year of 140 crores. This year, it is at 167 crores.

The revenue breakdown in terms of geographies; India region grew by 23% from Rs. 836 crores to 1,026 crores. Again, in a flat market, this represents a significant incremental market share that we have been able to capture in India. And up till now, whatever quarterly results have been announced, this growth of 23% is perhaps the highest in the industry in India.

Latin America had a growth of 34% from 980 crores to 1,317 crores. Again, in Latin America, like in India, we have been able to grow at a much faster pace than the market growth. And this represents, again, increase in market share in most of the countries in Latin America. Europe, we had a de-growth of about 5% from Rs. 358 crores to 341 crores. Rest of the world grew by 2% from Rs. 588 crores to 599 crores. North America had a growth of 1% from 373 crores to 375 crores.

Now, I will move onto the numbers for the first half that is from the period April 2016 to September 2016. Gross revenue for the first half ended September 2016 stood at Rs. 7,302 crores as compared to 6,528 crores in H1 of financial year 2016. In the first half of financial year 2017, volumes were up by 15%, the price decrease was 4%, a constant currency growth thereby of 11%. There was a favourable exchange impact of 2% leading to a net increase in sales of 13%.

As you would again observe, a 15% growth in volumes is by far the best growth in the industry across the globe. EBITDA at 18.1% showed an improvement of 58 basis points over the same period last year. Again here, the EBITDA margins are computed based on Ind-AS, which is IFRS as adapted by India. And if we were to recast the EBITDA based on Indian GAAP, the EBITDA margins would stand at 19% for the first half. This again shows an improvement of about close to 25 basis point over that of the previous year same period. Profit before tax at 729 crores shows an increase of 20% over Rs. 609 crores last year. Net profit after tax, after exceptional items is at 527 crores this year, as compared to 465 crores in the same period previous year.

Region wise breakdown of revenues for the first half of the year is as follows; India at 2,220 crores represents a 30% of the total revenues, a 10% growth over that of the previous year. This again for the first half is a good growth as compared to other players in the industry. Latin America revenues at 2,014 crores, comprised 28% of the total revenues, and it shows a growth of 26% over that of the previous year. Like in India, in Latin America, again where most of the countries had a flat or a de-growth, we have continued to show a robust growth of almost 26% resulting again in a substantial increase in our market share.

Revenues in Europe at 902 crores, where 12% of the revenues, and they represent a growth of 5% over that of the previous year. Rest of the world at Rs. 1,152 crores, represents 16% of our total revenues, and a growth of 7%. And North America at 1,014 crores represents 14% of our total revenues and a growth of 3% over that of the preceding year same period.



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Moving onto working capital; working capital performance for September 2016 versus 2015 is as follows: Net working capital decreased by 13 days, inventory decreased by one day, receivables increased by four days, and payables increased by 16 days. So overall, the networking capital saw a reduction of 13 days. Debt and cash balance as at the end of September 2016 was gross debt at 5,778 crores as compared to March 2016 which was at 5,193 crores. Cash and cash equivalents were 928 crores as compared to March 2016, which was at 1,189 crores. Hence, the net debt is at 4,850 crores as compared to March which was at 4,004 crores.

As you all know, this is the time when we generally would have higher working capital as we build up inventories for the season, particularly in Latin America, Europe and US. At the same time, in India, there were certain delays in receivables or typically, the season has come to an end. So you will have significant increase in receivables, and you'll see that as we go into the next quarter, there will be a drop in receivables.

Further, just as a part of additional information, I would like to share that as we have informed to the stock exchange on October 6, 2016, we would like to highlight that the Company's wholly-owned subsidiary UPL Corporation, which was erstwhile Bio-win Corporation successfully completed the pricing of US \$500 million senior unsecured notes at 3.25% per annum, which were issued for a period of five years. The issuer and notes were rated by all the three global rating agencies, namely S&P, Moody's, and Fitch, all the three rating agencies rated these notes as an investment grade notes.

With this, I will hand over to Mr. Sagar Kaushik, who will take us through, to provide us the business update for the quarter. Over to you, Sagar.

**Sagar Kaushik:**

Thank you, Anand. I will give our region-wise breakdown of how the markets have performed vis-à-vis performance of UPL for the first half of our financials. So I start with India. The first half represents 10% growth. India had good rains across the country, and compared to last year, actually it is quite good. Though we still witnessed that three states Karnataka, Tamil Nadu and partly Gujarat, remained rain deficient. It's a good sign that overall there is much more crop diversification in our country. From cotton, good acreage has been diverted towards pulses, oil seeds and corn.



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Expansion of UPL actually came for our branded products and I am just highlighting two of our power brands, one is Ulala, which is gaining really lot of penetration to control the sucking insects, while Iris is our herbicide. And the expansion in pulses area supported a lot the expansion of our brand Iris in pulses as well as well soya bean. Crop nutrients are becoming and assuming lot of importance for the productivity of the crops which provide the nutrition, not just the food. And so, there, we have launched Wuxal range on the horticulture crops, which has been very nicely accepted in the horticulture segment. Advanta seeds, hybrid corn, rice, forage performance was better than last year and the business for Advanta seeds in India has also got reasonably good growth.

Latin America, for us, that includes Brazil, we have 26% growth, compared to the industry which actually saw a defect. The area of soya bean crop remains the most dominant crop. We are very well positioned with our portfolio, especially fungicide. We benefited from that. At the same time, we have launched one herbicide and one fungicide in several countries of Latin America on multiple crops and that also added to our business. There is a further devaluation of the peso in Mexico. And in US terms, there is a price dilution, which is actually affecting the profitability in Mexico for the whole industry.

We also noticed that with the change of the government, there are some new fiscal measures being taken in Argentina. And there is a sort of a new tax which has been imposed in Argentina. Based on the turnover, the government creates a virtual potential tax on the profit earned on the sales turnover and this is basically to gain access to the potential tax much more in advance. So it puts lot of pressure on the capital, even before you have sold the product in the market, otherwise you cannot clear the product from the docks. So these are some, we believe temporary obstacles which will be overcome in the coming months. Advanta seeds, we have done good business on our corn and the season for Brazil, it will come in this quarter, which is the major sowing season.

North America: North America, actually last time I had mentioned to you that there is increase in the cotton area, there is increase in the rice area, and soybean area also increased. Actually after the crop season, what we see that the productivity per hectare is much better than last year, and therefore there are more grains available, and actually it is further putting pressure on the commodity prices, and that is not really in the best interest from the farming point of view. The income for the farmers is much lower than before. Farmers are becoming much more conservative in terms of using the farm inputs, and as it always happens, the negative impact has come more on the fungicides, though there was some additional use of insecticide, which took place because of the high infestation of insects towards the last phase of the crop cycle. There is a strong price competition on non-selective herbicides. So there is a growth in volume, but for the whole industry the prices have diluted, and otherwise we have been able to launch one new acaricide, or we also call it miticides for mites, which has been very well received under the brand called Banter. Aquatic business continues to do well compared to last year, and overall sorghum and forage crops performance is weak because the area of sorghum has come down

especially in Mexico, which is part of our North America business as far as Advanta business is concerned.

Europe: Europe we have 5% growth, though the quarter was minus 5%, but for us it was the extremely good first quarter, and there we had a growth of double-digit and that is because our business this year has been quite good in the sugar beet crop. Sugar beet crop has been good and during the crop cycle, the warm rain period continued longer. We have got some extra sprays of herbicide and we were able to place some more sugar beet herbicide that gave us additional business. In Europe, the business has been quite good for fungicides, especially on cereals, which did not give us big advantage as we are not a significant player for cereal crops as yet in Europe. Otherwise, in the smaller crops where we have a good presence like potato and vine, our business has been quite good. And though the potato crop has been impacted due to unfavourable weather in countries like Italy, more floods while in France the situation prior to the harvesting was dry. So therefore, it has affected the final yield.

Final region is Rest of the world. And here, we have 7% growth. A good performance is there in South East Asia and especially, in Australia after few years, the rainfall has been normal, which has helped the business to actually come back. Competition still prevails in certain countries of Asia Pacific. We are expanding our businesses with non-selective herbicides in multiple crops in Asia. So overall, good business recovery also in Africa with the new products.

With this, I give it back to Mr. Anand.

**Anand Vora:** Thank you very much, Sagar. With this, we are ready to take questions. We will explain our position as we take questions. We have no further comments on our results.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Girish Achhipalia from Morgan Stanley. Please proceed.

**Girish Achhipalia:** Just a couple of questions, sir. Firstly, on the crop protection side, I mean what is the growth for the quarter and first half and for the seeds business on the topline?

**Anand Vora:** So for the quarter numbers, basically, we have shared with you that growth of about 19%, and as you know in Q1, we had a shortfall in terms of seed business. But now we have recovered fully. So on a quarter-to-quarter basis, topline growth is similar to that of the growth for crop protection chemicals. But at the overall level, the first half, now Advanta Seeds has almost recovered fully for the shortfall, which had in the first quarter. So, we are at the same levels of growth at 19%, at the overall level.

**Girish Achhipalia:** Thank you for the additional disclosure on the margin slides, it is really helpful, particularly given the Indian GAAP and Ind-AS changes, what will be helpful and perhaps, I do not know

whether you have it at this stage, if you can help with the similar number for full year FY16, what will be the margin for under Ind-AS?

**Anand Vora:** We thought we would share with you as we move with every quarter. But we can provide you this information separately. I do not have it at the moment.

**Girish Achhipalia:** Sir, this Sinagro, I think has led to this associate, I mean the loss from associate, is my understanding, correct?

**Anand Vora:** That is right.

**Girish Achhipalia:** And so is it fair to assume that this is got to do with under absorption, because this seasonally low period, low quarter for Sinagro and the loss would probably overturn in the second half?

**Anand Vora:** That is absolutely right, in the sense that the season begins in Brazil from now as we speak, sowing begin. So typically, they will have the revenues coming, but Q3, Q4, from a financial year are much stronger. So, we expect to see some good numbers as we move on.

**Girish Achhipalia:** And final question is on guidance. Is there any change on guidance - revenue, EBITDA, tax rate, CAPEX versus what you spelt out in Q1?

**Anand Vora:** No. There is no change. We maintain our guidance.

**Moderator:** Thank you. The next question is from the line of Trilok Agarwal from Birla Sun life. Please go ahead.

**Trilok Agarwal:** If you can explain, there are two questions I have. One is if you look at the volume growth, can you just tell us what is the growth in agro and seeds in terms of volume terms? And second is also in terms of Europe, we were discussing about the launch of cereals in Europe, we do not have a meaningful presence in that. So when is that happening in terms of regulatory approvals and all the stuff?

**Anand Vora:** On the volume growth, basically we are seeing some improvement in, as we said that I shared with you the growth numbers of volume for the crop protection chemicals, which actually combined volume growth was 23% as we have shared in Q2. And any percent as we shared for the first half, the volume growth is 15%. So, that is broadly the volume growth. Mainly, we have given the combined numbers. I do not have the specific numbers for the seed side at the moment, but I think it should be in the similar ranges. On Europe, I will hand over to Mr. Sagar to talk on that.

**Sagar Kaushik:** Well, I think that is still a project under development. So, it is going to take still couple of years to really come to the timeline. So, it is still an active project. That is how I would say it.

**Trilok Agarwal:** And just one final one, if you can just repeat what is the cash as on September 2016?

- Anand Vora:** It is 928 crores.
- Moderator:** Thank you. The next question is from Amit Kadam from LIC Mutual Fund. Please go ahead.
- Amit Kadam:** My question is on this particular piece LatAm, where we have seen a very good growth of 34% and for the half 26%. The way we have broken the entire piece for the consolidated business, can we break this thing in terms of volume, price and the currency impact for this piece, is it possible?
- Anand Vora:** We generally give it at a total company level because there are several factors which play a role. So there are different currencies. For instance in Latin America, there are some countries where we sell in dollars, some countries we sell in local currency. Similarly, if you look at countries like Brazil, the North of Brazil, we sell in dollar denominated terms whereas in South of Brazil, we sell it in Real. So we generally do not share specific region wise, we share this data at a company level, otherwise, it just gets too complex.
- Amit Kadam:** But still, can you like paint a broad picture, like how has it been, was it like more towards volume like this 34% is like volume-driven or maybe the other things like price and currency part, maybe a broad idea?
- Anand Vora:** Broadly, it is volume driven.
- Amit Kadam:** Volume driven. So majority of 34% will be like mainly towards volume?
- Anand Vora:** That is right.
- Amit Kadam:** And how the things are like demand, now if you want to just see how this entire region will pan out for us, which is one of the important contributor, next maybe in one and half year kind of things demand-wise?
- Sagar Kaushik:** Well, I think as far as Latin America is concerned, it is very progressive for us. In Brazil, the sowing has almost been completed, and it is more or less on time and area of the different key crops will not change excepting for soybean may grow a little bit still more. The final numbers are not ready from the right sources. Now, otherwise you take the rest of the regions. The impact of the currency dilution, which took place last year quite significantly. So, some price correction etc. had taken place last year itself. So, now with regard to currency, the more negative impact is taking place in Mexico because once again, there is dilution of Mexican peso. So for the coming period, I think we are very positive about all our countries in terms of the development of the business, and especially Colombia, Mexico, Argentina, little bit of caution which I had already given, that is because of the some sort of financial struggle is there. So the government is I am sure trying to do the right thing, but in the process, not all products which the industry would like to bring it to the country would happen on time. So there are some challenges, but from the agricultural point of view, crop point of view, it looks quite positive.

**Amit Kadam:** And this like final question on this space. So, how many products we launched in this particular region over Brazil as kind of thing in this particular half?

**Sagar Kaushik:** In first half, our product launch, I mentioned that there are two product launches, which happened, one herbicide and one fungicide.

**Anand Vora:** I will just answer one question, I have now the information in terms of the growth in seeds business. We are seeing a volume growth of 15% for Q2, a price growth of 8%. So total growth is about 23% for Q2, which is as I mentioned, it is pretty similar to that what we have in the crop protection side.

**Moderator:** Thank you. The question is from Aditya Jhawar from Investec. Please go ahead.

**Aditya Jhawar:** That tax benefit that has accrued to UPL on the back of Advanta merger, has there been a reversal of that? If you look at the first half tax paid, it is not Q1 plus Q2, it is not higher. Has there been a reversal of tax benefit that we have accrued?

**Anand Vora:** No, Aditya, we have put the note to our results in Q2. Basically, what has happened, we had done a provisional amortization in Q1 for seven years for the goodwill which has arisen because of the merger with Advanta. After seeking further advice and also simulating the amortization and the tax impact, we were advised that we should amortize instead of 7 years to 10 years. And this has resulted in marginal increase in taxes. And therefore, we have recast the number for Q1 for provision of tax. So, it is just this recasting is because of this amortization spread over instead of 7 to 10 years. But otherwise, pretty much the benefit of the merger and the tax benefit arising out of the merger remain intact and will continue to be there for the next 10 years instead of 7 years.

**Aditya Jhawar:** Another thing that there was an inventory write-off of around 180 million, if you can explain what this was about?

**Anand Vora:** This was basically in the seed business in the Americas. There was a seasonal failure as well as there was a change in regulation in one of the countries in Americas. This resulted in some of the seeds, which we had produced, becoming worthless, probably we have to write them off as there was a change in regulation in this country for that specific crop.

**Aditya Jhawar:** Sorry, if you can explain, what change in regulation for seeds that resulted into write-off?

**Sagar Kaushik:** What was happening is in country like Mexico, the government was promoting more of corn as compared to sorghum. And therefore, the farmers switched and moved to growing corn as compared to that of sorghum. And this was partly because of weather, seasonal changes, at the same time, the change in regulation where the government started supporting, providing huge subsidies to corn farmers and therefore, there was a shift in crop.



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- Aditya Jhawar:** So essentially, it was a cropping pattern change?
- Sagar Kaushik:** Yes, and more encouraged by regulators. It was almost 100% shift.
- Sagar Kaushik:** 100% subsidy.
- Anand Vora:** Sagar just confirms that there was 100% subsidy for corn.
- Sagar Kaushik:** For corn seed.
- Moderator:** Thank you. The next question is from Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** Couple of questions. So firstly, this is a follow-up on an earlier question related to your guidance. So your guidance currently is with reference to last year's full-year numbers which are not Ind-AS, which are Indian GAAP numbers. So, it is a bit difficult to really figure out how that will come through in absolute terms. So can you give us a broad sense on what your Ind-AS numbers would have looked like last year, for the full year both topline and margins?
- Anand Vora:** So, Prashant as I said, we have always given guidance in terms of percentage growth. And those, whether it is revenue where we have given guidance of 12% to 15% growth. So, be it on the Ind-AS or be it on the India GAAP, we will continue to show, you will see growth when we recast the numbers every quarter on a like-to-like basis, you will see a growth between 12% to 15% in revenues. We are talking about EBITDA margin improvement of 60 to 100 basis points, which we will deliver whether we show the numbers on the Ind-AS or show the corresponding number under India GAAP, you will see that improvement in margins, and the third guidance is generally we give on CAPEX and on tax rate. So, tax rate we have said that we would be in the range of 18% to 20%. Again, that is earlier guidance which we had given at the beginning of the year, where we have guided for about 20% to 25% tax rate. Post the merger announcement, we have guided for 18% to 20%. So, what we will do, Prashant, is that we will give you the reconciliation of the EBITDA margins between what would this EBITDA margin look as a percentage to sales if there were numbers were to be recast and put them as per India GAAP. Although statutorily, now we are required to publish the numbers as per Ind-AS.
- Prashant Nair:** Right. So that is fair. For our ease of forecast, if I take your first half numbers as you have reported now under Ind-AS and compare that to what, so if I take your last year's numbers, as you have now recast as per Ind-AS, and compared that to what you had reported last year under Indian GAAP, would that same proportion hold for the full year as well? So, would your margins be lower by X basis points? Can I just extrapolate what we saw in the first half to the full year?
- Anand Vora:** Yes, I think reasonably you should be able to extrapolate the numbers and arrive at it. So we are talking like if you see the first half numbers as per Ind-AS, our EBITDA is at 18.1 as compared to that as the same number if we were to recast and give you under India GAAP, it would be

19%. So you are talking about 90 to 100 bps differential between the EBITDA margins under the two GAAPs.

**Prashant Nair:** And similarly for topline Ind-AS would be higher due to...

**Anand Vora:** Ind-AS would be a bit lower because we have to back off the cash discounts and NPV. So those things will get backed off.

**Prashant Nair:** The other question related to, so if you see the big consolidation wave, which the larger peers in the space are going through, how do you see the market changing if at all, assuming all of these go through, both in terms of competitive positioning for you as well as, say, your ability to participate in any divestments that may happen?

**Sagar Kaushik:** Well, I think you did ask the question and you also answered it. And I fully agree with you.

**Prashant Nair:** No. So if I were to just build a bit on the first part. So do you think say much larger competitors would be more difficult to handle or do you think you will open up a space for yourself given that there will be big gap between the top 3 and then the rest?

**Sagar Kaushik:** So you see the consolidation, it happens for couple of reasons. Now is this consolidation for growth synergy or is this consolidation for the cost synergy, or there is a change of the business model, or there could be some other drivers, but I have listed three. I think that is where one has to choose and more than this, I cannot really speak on behalf of any specific company. But we have to just make the assumption that which consolidation is happening for what purpose. Is it a growth synergy or it is a cost energy or it is the change of business model. So, in my opinion, one of those three things would happen. And further consolidation and then it should take the further consolidation at the level of the distributors, and whether there will be consolidation at the level of the growers. So I think in my opinion, whatever the format of the consolidation be there, but the number of growers that will not dramatically change, which would mean that our ability to access more customers will be higher than the combined entities of these five or six companies. So therefore, we do not see really a major challenge, but we see more often opportunity for us. And as you rightly said, that it will also induce a potential for divestment and which could also help company like ours because we would be ready to participate in some of such opportunities to happen.

**Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

**Chirag Dagli:** Sir, I see that when you adjust the foreign exchange loan mark-to-market from the interest cost, there is a material saving quarter-on-quarter in the interest cost. Can you shed some light on this run rate being sustainable? Has this seen full blown benefit of this debt that you have raised?



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**Anand Vora:** Yes, you are right. We will see some of the benefits of the low cost debt which we could raise as we would be pushing this debt into some of our subsidiaries where the interest costs are very high, case in point being Brazil, Mexico, some even in Argentina. So this will help us to overall reduce our interest costs.

**Chirag Dagli:** So, sir, can you give some sense of what the absolute saving will be or probably this, so I did not catch the rates actually at which you borrowed and the quantum of this unsecured note that you made. And what will it substitute in terms of the current high or what is the effective cost of the current borrowing that this particular debt will substitute?

**Anand Vora:** See Chirag, as you know, just first, let me answer some of the specifics in terms of, we raised 500 million, it is raised in US dollar, it is raised at 3.25% interest rate. It is a five-year bullet transaction. Now, this we have raised in UPL Corporation, which was the erstwhile Bio-win Corporation in Mauritius. And as this company is a Hold. Co. as well as Op. Co., what we have prudently done is that from the money which we have raised, we sort of either invested in by putting in equity into subsidiaries like in Brazil or in Mexico or moved this money as short-term loans, which would help them to reduce their borrowings, which they do in the local currency, and which had 17% and 18% interest rates. And of course, Argentina, it is much higher. It is close to 30% interest there. Similarly, some of the payables, which the subsidiary had, which is used to pay to India, as you know that lot of manufacturing happens out of India, and we sell to our global subsidiaries through UPL Corporation. It has repaid its payables, which means that funds have come into India, and we have retired some of the high cost debts. I would say, in India, we borrow at an average of about 7%-7.5%. So those debts have also been reduced. And the reason for raising this in US dollars in UPL Corporation is basically, our balance sheet in UPL Corporation is in dollars. So you have a natural hedge in terms of, we have raised dollar bonds and the balance sheet is in US dollars.

**Chirag Dagli:** And then, sir, second question, in terms of your ability to participate in this divestiture that might come up. What is the comfortable debt to EBITDA that you have in your mind thinking about? Or do you think that that will be flexible depending on the asset?

**Anand Vora:** So I will just share with you one more thing, and which will probably answer the question, which you have raised. We have been granted investment grade rating for UPL Corporation on a standalone basis. And, by all the three global rating agencies and these rating agencies, when they grant you the rating, they typically look at what is our comfort in terms of debt to EBITDA, and debt to equity and other things, and we have sort of committed to them that in terms of debt to EBITDA. Currently we are at about 1.2, and we will not exceed beyond 2 debt to EBITDA, and that is on the higher side. But this is the range, which we have shared with them. And in terms of debt to equity, we said we will remain in the range of about 1 to 1.25. I hope that answers your question.

**Moderator:** Thank you. The next question is from Alok Deshpande from HSBC. Please go ahead.



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**Alok Deshpande:** My question was for Sagar. I just wanted to understand a little bit of how Asian rust in Brazil is panning out this year. So, do we see the incidence or the magnitude of Asian rust, as early as this time of the year or when do we come to know, how we are expanding out for those products?

**Sagar Kaushik:** Well, Alok, I think it is just a little bit early to make this kind of prediction. But my conversation with Brazil, they do expect that the Asian rust disease, the chances are quite good that this disease would strike from the forecast point of view. But it is still early, sowing, it starts, so we just need to wait for some more time.

**Alok Deshpande:** And second question was, compared to the products that Bayer or Syngenta has in Asian rust, what is the sort of the USP that Unizeb has against some of these other products from the top guys?

**Sagar Kaushik:** See, generally, these products which the other companies have been marketing, these products are more on the curative side. That means you apply the product once the disease is there and what we have been able to position, the performance of Unizeb is more as a protectant, which means before the disease is striking, you are able to increase the resistance of the crop against the fungus. So if you are able to do that, you are making the plant stronger and then, the infestation level either would be delayed or the virulence will be much weaker and that not only helps just the plant, but the product of any other companies which you named when you apply them after the application of Unizeb, the performance of those products also go up and I think in the private conversation with me they have admitted. So therefore, there is a unique position, just the mode of action of Unizeb has been discovered, and that is creating very good value at the level of the growers, because it is a new segment, which is protectant, which did not exist before. So that is the big innovation which UPL has been able to address.

**Alok Deshpande:** And so, if the function is different and the mode of action is different, then I guess comparing the pricing will not be much of, I mean it is not useful, right. I mean, because the function is different?

**Sagar Kaushik:** No, I think we are, as a company also, I think we price the product right. And what we would look for that the growers, they apply the product twice, and rather than pricing it at a level that you see a product must be priced according to the positioning, and the positioning is done prior to the Asian rust incident. So therefore, there is a certain practice, that you calculate the pricing for the protectant product or the curative products. So I would say per hectare basis, it may be slightly lower than the new products and all being launched by the MNCs which are patented products and all.

**Alok Deshpande:** And just one last one, on India. So we have shown very good growth in this quarter and also the first half. So in the crop protection market in India, is it fair to assume we are on par with the leader in this case Bayer or even higher in terms of market share now?



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- Sagar Kaushik:** Well, quarter-to-quarter, we do not calculate the market share, because eventually the product must be consumed on the ground. As of now, I think it is visible, your own analysis would show, we are ahead in terms of the growth compared to last year, which would mean higher market share. It is too early, I think still there are three months to go for the MNCs who follow the calendar year, and for six months to go for a company like ours.
- Moderator:** The next question is from Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** First, just on the revenue breakdown between Advanta and UPL, is it possible to just share the percentage of revenue that Advanta contributed this quarter? You had given that last quarter.
- Anand Vora:** It is 9%.
- Abhijit Akella:** 9% of 2Q consol revenues of seeds?
- Anand Vora:** That is right.
- Abhijit Akella:** And last quarter you had also been kind enough to give us the gross margin level for each of them, Advanta and UPL.
- Anand Vora:** Advanta would be in the range of about 51%.
- Abhijit Akella:** And we can assume the rest is UPL? And second, just on SinAgro. Just to refresh myself, was SinAgro there in the year-ago quarter as well? I believe it was acquired in July 2015.
- Anand Vora:** That is right, July.
- Abhijit Akella:** The seasonal loss should have been there last year as well, right, from SinAgro, but it seems to have increased a lot this year.
- Anand Vora:** Yes, last year, the operations were pretty, I would say meager. This year, they have increased the operations also, and last year, probably, I do not have ready information but as to why, but clearly we know that their operations have increased substantially during this year. Again, as I said, the sowing and all that will happen in the next three to six months, sowing and harvesting. So because of the increase in operations, we expect better results.
- Abhijit Akella:** Right. So your internal estimate, would it for it to kind of at breakeven level this year itself or you think it can take a little bit longer?
- Anand Vora:** It is difficult to make out this, but we believe that we should if things go well, if season is good, we should be able to be close to breakeven.
- Abhijit Akella:** And lastly, just on the FX side, any particular regions that the FX gains, losses are due to? And also, I guess, most of it would have been hedging related, right?

- Anand Vora:** You are right.
- Abhijit Akella:** So there would be a corresponding operating benefit within your EBITDA line as well?
- Anand Vora:** Correct, absolutely right.
- Abhijit Akella:** So it is not really, we should not consider that as a one-off?
- Anand Vora:** Absolutely.
- Abhijit Akella:** Is it mainly in the Brazil or Mexico side or?
- Anand Vora:** Actually, it is the cost of hedging which is there, but which would have given us a benefit in the operating margin.
- Abhijit Akella:** Except the losses, the FX impact seems a bit larger this quarter. So I am just wondering if any particular currencies moved a lot this quarter?
- Anand Vora:** No, see it is also a function of payables, which, we have payables, which are more than say 180 or 260, 270 days, and you would have taken a cover, and when if you see the currency has appreciated rather, but as a policy, we remain fully hedged. So that would then result in some impact of exchange, which would be there, but the corresponding gain would definitely be sitting in, or some would have already been realized also in the margins.
- Moderator:** Thank you. The next question is from Sumant Kumar from Elara Securities. Please go ahead.
- Sumant Kumar:** My question is regarding the Forex gain and loss in other income and interest cost this quarter.
- Anand Vora:** Yes, so for this quarter, in case of other income, we have 92 crores is the impact of foreign exchange. The corresponding figure for the same year, last year was 37 crores and in finance costs, in the case of exchange, we have an impact of 46 crores, corresponding figure in the previous year same quarter was 52 crores.
- Sumant Kumar:** Sir, what is the gross debt in this quarter?
- Anand Vora:** It is 5,778 crores.
- Sumant Kumar:** Sir, two consecutive quarters, we have seen a price decline. So what was the reason for that?
- Anand Vora:** As we have shared with you in the past that while some of our raw materials have linkage to the crude prices, but because they are pretty down in the crude value chain, we get the benefit of reduction in raw material prices much later, it takes almost six to eight months before we start seeing the reduction in raw material prices. Now what we are seeing is that because of the reduction in raw material prices, some of the products we have been reducing and passing on

that benefit to the customer, as some of the competitors have also been doing. So broadly, it is basically because of this reduction in raw material costs, which we are now passing on in cases of some products. And therefore, you are seeing some price reduction.

**Sumant Kumar:** So regarding EBITDA margin, we have seen in Q1, 20% and this quarter it is more than 17%. So what would be the full-year margin guidance for FY17?

**Anand Vora:** As I said, we have recast these numbers based on Ind-AS. Of course, what you are referring to is Q1, if you are referring to the Ind-AS margins, then that is fine, then there won't be any adjustment. But if you look at Ind-AS margins, Q2 where we have reported 17.2%, the corresponding numbers as we say in case of under the India GAAP, 18.8%. And the same number for the previous year same quarter was 18.2%. So these quarters, Q2 is generally I would say low in terms of revenues. It is the lowest quarter as compared to all the four quarters. And as we go towards the end of the year, we had indicated 60 to 100 bps improvement. And we are confident that we will deliver that improvement.

**Sumant Kumar:** No, you talk about the 100% impact in margin due to account change in accounting policy. So in FY16, it was 20.4%. So can we assume 19.4% plus 60% margin expansion?

**Anand Vora:** That is right.

**Moderator:** Thank you. The next question is from Amit Murarka from Deutsche Bank. Please go ahead.

**Amit Murarka:** Firstly on Brazil, again. So, one of your key competitors was bracing up for the Mancozeb product in that market. So, just wanted to know the status on the competition front, has any competition come in, or are you still pretty much are the only seller of that product in the market?

**Sagar Kaushik:** So, you are talking about which market?

**Amit Murarka:** The Brazil market, the LatAm market, basically the Unizeb product that you have. Is there any competition, or you still are the only seller?

**Sagar Kaushik:** The competition is there in Brazil even before we came. So we never said that we are the only one.

**Amit Murarka:** I am talking about Mancozeb.

**Sagar Kaushik:** I am talking about Mancozeb itself. Dow is there, they produce the Mancozeb in Brazil. We do not produce Mancozeb in Brazil. So it is a question of that who is able to create the innovation, live with the innovation and manage to lead the innovation. And presence of a product is one thing in the country, but whether you are able to address this segment to the grower is completely different. We need to have certain of the registration part for which you need to do the trial for almost three, four years. You need to come into a recommendation list of the pathologists who

are linked to the big growers, etc. So therefore all the enabling strategy, we are quite ahead in that, but competition exists.

**Amit Murarka:** No, just to understand this better, I was talking about the registration for Mancozeb for soybean crop. So you are saying that Dow has that registration also?

**Sagar Kaushik:** Well, they are in the market. I do not know about their full registration backup, but some companies are trying. You would imagine that everybody will try to participate there, I cannot speak on behalf of Dow, but chances are less that they have the registration for the crop you and me are talking.

**Amit Murarka:** Yes, that is what I was referring to when I meant that competition for Mancozeb.

**Sagar Kaushik:** Dow is in the market, but whether they are unable to sell their product on soybean, I am not very sure.

**Amit Murarka:** And secondly, on this tax accounting for, this is more for Anand. So the merger accounting that you had done in the first quarter. What I understand is now you are not accounting it in P&L or passing it through the balance sheet. Is that understanding correct?

**Anand Vora:** Yes, because you see the goodwill does not flow into the consolidated financial statement and therefore, the associated tax impact also need not flow through the P&L, we just will flow it straight into the balance sheet for the consolidated financial statement. In the standalone, you will see the goodwill there, at the same time, you will also see the tax impact in the standalone.

**Amit Murarka:** So you have restated 1Q 2017, but it does seem that 1Q 2016 tax number has not been restated because when I look at the 1H number, it seems like the number is quite low.

**Anand Vora:** Yes. So basically, what has happened, you will see that the goodwill benefit that the merger gets effective 1st April 2015. So whatever have been, we have to re-compute particularly, the tax from that day onwards taking into consideration, the impact of tax savings coming out of, because of the charge of goodwill and accordingly, we have to make certain adjustments in the tax number before we publish this number. So in Q1, we had therefore put a note that these are provisional numbers. Now, we have the advice from our advisors and from our auditors. And we, therefore, have sort of come to this conclusion that we will write off the goodwill over a period of 10 years and take the tax benefit over a period of 10 years instead of earlier of seven years. If we were to write-off over seven years, it would have been much higher amount as compared to that for the 10 years. And therefore, the amortization being a bit lower, the tax benefit will also accordingly be a bit lower.

**Moderator:** We will take the last question from the line of Ravi Mehta from Deep Financial. Please go ahead.



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- Ravi Mehta:** One question was pertaining to the Forex hit in the other income and finance cost. If you can just tell what, is it a realized loss or notional, or if you can give some light on that?
- Anand Vora:** So there will be a mix of both. There will be some which are the contracts which would have matured, and some would be because of the mark-to-market. As you know, the mark-to-market impact could get reversed in the subsequent quarter. And the realized, of course would be the permanent.
- Ravi Mehta:** Any light on what would be the mix just to understand, I mean how much we have actually realized?
- Anand Vora:** That is a complex number. We do not give that. I am sure we have the breakup otherwise these numbers would not have come, but that granularity, I do not have it at this point.
- Ravi Mehta:** And it is in both meaning the other income as well as in finance cost?
- Anand Vora:** That is right. Because in other income, it will be essentially pertaining to your receivables and payables, the working capital related and in the finance cost, it will be pertaining to loans.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Vijayaraghavan for closing comments.
- Vijayaraghavan:** Thanks, Ali. So Mr. Anand, would you like to make any closing comments?
- Anand Vora:** No. I would just like to thank everybody for joining us on this call, and from all the senior management members present on this call from UPL, we would like to wish everybody a Happy Diwali.
- Vijayaraghavan:** I too wish Happy Diwali to your team, and all the participants. It was nice having you on the call. Thanks for the detailed discussion. Looking forward to host the call next quarter.
- Anand Vora:** Thank you, Vijayaraghavan. Thank you, everybody.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.