"UPL Limited Q2 & H1 FY2021 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to UPL Limited's Q2 & H1 FY2021 Results Conference Call. 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Radhika Arora from UPL Limited. Thank you and over to you, ma'am.

Radhika Arora: Thank you, operator. Good morning and good evening, ladies and gentlemen. Thanks for joining us today for the results for the quarter and half year ended 30th September 2020. On this call we will be referring to our presentation that has been shared with you and is also available on our website and we take you are having read the safe-harbor statement. From the management team we have with us Global CEO, Mr. Jai Shroff; Group CFO, Rajendra Darak; COO, Diego Casanello and Global CFO, Anand Vora and other members of the global leadership team.

We are also pleased to have with us today Mr. Stephen Dyer, he is the current President at Agrium Retail and sits on the board of UPL Corporation as an Independent Director. He chairs the audit committee for UPL Corp.

We will start the presentation with a business update from Diego followed by a financial update from Anand. With that let me handover to Diego for the business update. Over to you, Diego.

Diego Casanello: Thanks, Radhika. Good afternoon everyone. Today I am pleased to present positive financial results for the second quarter. The last time we spoke, we were seeing the early stages of an unprecedented global health crisis that continues to affect millions of people around the world. Despite the challenges our teams have adapted quickly to our new environment to ensure we continue to support farmers in keeping food production uninterrupted.

Our hearts and thoughts continues to be with the victims of this terrible pandemic. I am pleased to share that in Q2 we achieved revenue growth of 14% and EBITDA growth of 17%. This result was supported by market share gains in several territories, favourable economic conditions and an improved supply chain from Q1 was impacted by COVID.

The positive developments were partially offset by significant currency volatility in markets like Brazil, LATAM and Africa. We continue to optimize cash flow and reduced net working capital by 14 days primarily driven by inventory reductions and then an extension of accounts payable. As a result of the positive business developments we saw earnings per share improving to Rs. 6.07 per share compared to Rs. 2.17 in prior year.

As we look at the highlights of the quarter, our ability to gain business momentum despite COVID-19 and the impacts of currency weaknesses in key markets demonstrates once again

UPL's excellent competitive position and the successful appreciation and integration of **Arysta LifeScience**

Volume growth was achieved, thanks to revenue synergies from the cross selling of Legacy UPL and Legacy Arysta portfolios the continuous growth of leading brands like our herbicide Lifeline, our insecticide Sperto and our miticide Acrylamide as well as more favorable weather patterns in Brazil, US, Chile and parts of Central Europe. Although most regions have shown an important gross margin improvement negative currency effects in Brazil impacted our gross margin in the quarter.

We continue to increase prices and reduced cost of goods sold. We are confident in our ability to close the gap in the second half. Further more our focus remained on expanding our cost leadership in post patent product lines while at the same time making sure that we invest in growing our business with higher value differentiated and sustainable solutions. As we do that we will continue to drive and makes improvements.

In next you will find the slide showing the regional performance. We are pleased to announce that all regions have contributed to growth this quarter versus prior year. In LATAM we saw strong growth in Chile, Argentina and Columbia compared to prior year. Additionally there was revenue growth in Brazil despite the continued Brazilian Real devaluation and support by pricing improvements over prior quarter.

Positive weather conditions in the North American Midwest and better prices for grain commodities led to higher revenues in North America. Dry conditions in Western US increased the demand for Miticides. We also saw strong growth in our portfolio with differentiated and sustainable solutions leading to market share gains in several accounts. We achieved higher sales in Europe despite the second wave of COVID-19. Strong growth in Northern Europe is attributed to herbicides while Southern Europe experienced growth in Italy and Turkey driven by fungicides and bio-solutions.

In the rest of the world our growth can be credited to the strengthening of our go to market in China including our focus on higher value brands. China is a key market for UPL and we continue to invest in people and R&D to support our presence in that market. Additional new product launches in Vietnam and other Southeast Asian countries are resulting in growth in those countries as well.

At the same time normalization of weather patterns contribute to a strong performance in South Africa and Australia. Finally India continues to see robust growth in key products including pre-emergence herbicides and bio-solutions. Despite the COVID-19 lockdown India continue to deliver record collections, which helps our net working capital performance. I want to take this opportunity to say thank you to all our employees for their efforts this quarter and to thank farmers and partners for trusting us with their business. We will move forward in to the second half of the year with a sharp focus towards delivering on our commitments and continuing to strengthen UPL's position as a global leader. Thank you very much. I will now turn the call over to you, Anand, to provide more details about Q2 and H1 Financial results.

Anand Vora: Thank you, Diego. Thank you very much. Let me start with the key financial highlights and then I shall go in to the details of the financial numbers. We had an encouraging quarter 2 with good agronomic conditions and supportive crop prices as Diego mentioned earlier. We recovered the loss ground in Q2 with revenue growth of 14% and EBITDA growth of 17% which is reflected in the H1 performance with H1 growth of revenue of 7% and 10% growth in EBITDA on a proforma basis.

The revenues and EBITDA for the quarter were very strong even though the environment was challenging with currency volatility in some key regions. We are encouraged by our performance this quarter and Q3 and Q4 which are typically strong quarters for UPL with peak season for LATAM, US and Europe will help us deliver our future guidance.

Now moving to the slide 8, which is there in the presentation the Q2 profit and loss account. Let me take you through some of the key financial numbers in the profit and loss statement. We are comparing the financial results for Q2 financial year 2021 versus the same period in the previous year on a reported basis. I just want to clarify here when I say reported basis, it is without the impact of the purchase price allocation which we had to do last year in the same quarter as it had some impact because of the acquisition of Arysta.

These are numbers of Q2 compared with the reported numbers of Q2. The revenue was higher by 14% at Rs. 8,939 crores. This was mainly driven by 19% higher volume primarily offset by the FX impact of currency devaluation in Latin America. The regional increase is in revenues were 12% at LATAM, 9% at North America, 6% at Europe and 18% in India and the rest of the world leading at 27% increase. Gross margins were higher by 9%. Gross margin as a percentage of revenue was 40% this quarter against 42% in Q2 of last year, a decrease of 210 basis points.

The margins were lower due to price pressure in certain regions due to historically low China export prices and negative impact of currency devaluation in Latin America. This has been partially offset by reduction in cost of goods sold, cost synergy and partial increase in prices in local currency in some of these LATAM countries. We continue to optimize the fixed cost and they were flat as compared to that of Q2 of the previous financial year.

EBITDA was higher by 17% which was driven by higher gross profits.

Exceptional items for this quarter at Rs. 211 crores versus Rs. 305 crores of the same quarter last year. The exceptional items were mainly on account of $26 million which is approximately Rs. 195 crores provisioning for the closure of Rotterdam plant for optimization of our global manufacturing facilities. This includes certain portion roughly about $17 million of cash items and the balance is all non-cash expenses.

The production volume for this plant will be met by India and Columbia plants. It will be made up by India and Columbia plants. This initiative is in line with what we had communicated at the time of acquisition leading to the cost synergies. Net profit for the quarter was Rs. 464 crores versus Rs. 166 crores last year resulting in an EPS of Rs. 6.07 per share.

Moving on to the next slide, which talks about the costs and revenue synergy. The cost synergies in Q2 stood at $33 million or in INR terms about Rs. 245 crores and the cumulative cost synergies that is from last year and first half of this year are at $153 million against a target of delivering of $200 million plus by end of this financial year that is 2021. Revenue synergies for Q2 stood at $52 million in INR terms about Rs. 390 crores and cumulative revenue synergies were $300 million as of 30th September 2020 against the target of delivering $350 million revenue synergies by FY2022.

We remain committed to delivering the targeted costs and revenue synergies. Moving on to next slide, which are the H1 performance. The revenues were higher by 7% and the EBITDA was higher by 10% Year-on-Year against the proforma number. When I say the proforma numbers, they are after adjusting for the purchase price allocation adjustments in the previous year for the same first half.

On a reported basis, our EBITDA grew by 23% as compared to that of the same half year of the previous year. Gross margins were 109 basis points lower, recovery in revenues were driven by partial increase in prices in local currency. Net profit was at Rs. 1,014 crores versus Rs. 452 crores last year. Moving on to working capital. We continue to optimize the working capital and saw a reduction of 14 days over that of the previous year. The inventory for the quarter were lower at 105 days, receivables were flat at 124 days and payables at 123 days.

Payables were higher by 10 days in line with the guidance of increasing payable days as we had said at the beginning of the year. Therefore, the net working capital stood at 106 days as compared to 120 days in the previous year.

Moving on to next slide, which is on the cash flow. Cash flow from operations in H1 stood at Rs. 136 crores. Cash flow from operating activities were at Rs. 3,544 crores. The increase in working capital was in line with the seasonality of the business at Rs. 2,915 crores in H1 which as you know builds up in Q2 and Q3 and then we have a release in working capital in Q4.

Investing activities included a CAPEX of Rs. 948 crores and acquisition of which one of the major ones was Agrospec in Chile. Gross debt as on 30th September was at $4.3 billion. $500 million higher compared to March 2020 mainly on account of the bond issuance in June 2020.

As we had shared with you we had done this bond issuance and the basic purpose for this issuance was to buyback the bonds which are maturing in October 2021.

We got under the tender of $81 million of bonds. The rest of the money has been retained by us as insurance capital during this pandemic period. The net debt is at Rs. 23,841 crores as against Rs. 22,060 crores as of 31st March 2020. This is due to increase in working capital. We paid Rs. 866 crores of long term borrowings in H1. In terms of net debt as on 30th September, the net debt stood at $3.2 billion.

Despite the pandemic, the economy and the business are now getting back to normalcy. After experiencing two quarters in the year we are now more confident to aggressively work towards reduction of gross debt in H2. We remain committed to achieving the 2X net debt to EBITDA by end of FY2021, that is end of this year as committed to the rating agencies and maintaining our investment based credit rating.

As for the outlook we summarize, we believe that the strong volume driven by good weather conditions, new launches and focus on differentiated products, price increases in local currency, costs savings and synergies and further optimization of fixed costs would help us to deliver growth in revenue and EBITDA and we maintain our guidance as we had shared during the last quarter.

Before I end the presentation, we move on to the Q&A, I would like to briefly discuss a recent event of the auditor resignation at UPL Corp, the Mauritian subsidiary of UPL Limited. I would like to mention that BSR & Company LLC which is a sub-licensee of KPMG in India continues to be our statutory auditors for UPL Limited and for the consolidated financial statements of the group. KPMG Mauritius has resigned as the statutory auditor for UPL Corporation only and have been replaced by Crowe ATA, Mauritius.

As previously communicated, this was done at the request of the company for re-organizing the audit processes and bringing in efficiency in term of timely completion of audits and announcing the financial results. We have with us Mr. Stephen Dyer who is also joined us on today’s call, he is the audit committee Chairman for UPL Corp. So in case if anyone wants to have any specific questions, we will be very pleased to answer some of these questions pertaining to the resignation of the audit.

With this I would handover back to Diego for a quick update on our sustainability highlights. Thank you. Over to you, Diego.

Diego Casanello: Thanks, Anand. In the decks that you can download from the web you will find the slide that shows our sustainability performance. Sustainability is not a side note for us. It is really at the core of our strategy. These are the core of our OpenAg purpose. And it is really what multi rates all our employees, our leadership to come to work every day.

We are continuing to see our sustainability performance improve each year in the rankings of trust that the industry organizations like FTSE Russell, Dow Jones Sustainability Index and most recently also Sustainalytics in September of this year's Sustainalytics, an industry leader in ESG ratings and research, ranked UPL number one amongst 53 agrochemical companies and there are the ones that are under assessment which are most of them based on an in-depth analysis of environmental, social and governance factors.

A score of 26.2 reflects the lowest ESG risk amongst our peer group. This reflects a 38% improvement from our prior assessment. Additionally we are conducting community initiatives across 10 countries and more than 70 communities and we are recently awarded the best community program award at the 12th Global CSR Awards in the Good Governance Awards. One of our initiatives that has been announced recently it is our collaboration with FIFA Foundation a few organizations have joined forces to promote and raise awareness about sustainability development in agriculture and children education through football.

We will continue to focus on becoming a more sustainable organization and achieve our mission to make every single food product more sustainable. We will also clearly communicate our commitments and results over the course of the next quarter earnings calls.

Thank you very much and handing over back to you, Anand.

Anand Vora: Thanks Diego. Thank you very much. With this we have the senior management team Mr. Shroff, Diego, myself, Mr. Rajendra Darak and Mr. Stephen Dyer and we will be happy to take questions. Over to you, operator. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Tarang Agrawal from Old Bridge Capital Private Limited. Please go ahead.

Tarang Agrawal: Two questions from my side. One, if I look at your fixed overheads whether I see Q2 FY21 over Q2 FY20 or H1 FY21 over H1 FY20, this flat in the ballpark of Rs. 3,400 crores to Rs. 3,500 crores for the half year. So what is resulting in these expenses to be so flat and how should we see them moving forward? That is one. And the second is any additional non-recurring exceptional items that you foresee going forward in H2?

Anand Vora: I think I would say Q1 and H1 being flat. We have made conscious efforts to keep the expenses within a certain ballpark, I would say increase when we do our budgeting but this year we have been able to keep it and we also since this year's budget was prepared this was the second year of post integration so we did built-in the integration costs savings also. The synergy is also as a part of our budgeting expenses then we made a conscious effort to keep it down.

But this year also we were aided by most of the world went in to the lockdown and there were significant reduction in travel costs and other costs. So even some of the selling and promotional expenses largely were managed through virtual meetings and other things. So that helped us to keep them flat. Typically in dollar terms we make sure, we do not allow increase beyond 2.5% to 3% of in expenses at a global level.

So that is our target which we fix so one could guestimate those. This would vary from country-to-country depending upon the local currency and the inflationary rates there. But on an overall basis in dollar terms we make sure that we try to work within 2.5% to 3% increase Year-on-Year and no more. So that is broadly on the expenses.

Tarang Agrawal: And on the non-recurring exceptional cost items?

Anand Vora: I think we had guided that we would be having close to about 70 million to 100 million of exceptional items which is largely related to the integration. Most of it is over but one could see another about 15 million to 20 million more in H2. The main ones are basically towards the personnel which as I said a fair amount is over. There are some which will be coming through. The other big one which was one of the plant closure which we have fully provided for in this quarter. So I do not expect in H2 more than another 30 million if I have to put this additional and this also is on a very conservative side.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Sir, my question is firstly on the Latin America. So we have taken price hikes to offset the impact of products. How much of that you have achieved till date and how much more we can see in Q3 coming in which would aid our gross margin expansion? That is my first question. And my second question is on the China strategy. So any update on how the progress is happening on the China side especially in the B2C and developing brands in China?

Anand Vora: Diego?

Diego Casanello: With respect to Brazil I have to say that despite the strong devaluation of the Brazilian Real we were able to increase revenues in Brazil. That is what because obviously we are increasing prices in local currencies. We feel well about their ability to call it normalized US Dollar margins when it comes Fx impact for over the second halves. So that is going to help our margins in the second halves. And I will say most of the regions actually are showing better margins already today to where they were last year which is a very encouraging sign of call it the price power of the combined business now of Legacy of UPL.

With respect to China, China is a fantastic growth opportunity for us. It is a big market and we have now a very important portfolio after the acquisition of Yoloo Laoting. We have invested on people in the ground recently more than 15 people to just spread it across different territories. We are also moving more towards the B2C model where we are creating demand in helping our distribution partners pull let us say the business in the key crops.

We have been traditionally this Legacy Arysta was having emphasis more on the specialty crop market on the seed treatment market and with Legacy UPL we had a fair position in the Row crop growth market and some additional products on the specialty crop markets. So now we have a complete let us say a very vast coverage of the Chinese market.

But we are just at the beginning. We believe that we have a great opportunity in China to make China in the future one of the biggest countries for UPL.

Varshit Shah: And can you just repeat the net debt numbers?

Anand Vora: Net debt I will give you those numbers. The net debt is Rs. 23,841 crores as of 30th of September.

Moderator: Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just two questions from my side. One is the plant that you are closing what does it make? Is it the Rotterdam plant did you say I mean did I hear it correctly? And then on the gross margin side we have still in I mean last year the margin was reasonably weak and this time also the gross margin has not been that great. So should we assume that this is like there is 100% margin improvement on a 1H basis.

But I would understand that last year the margins were impacted due to the weaker geography mix, etc. So this time we have 100% margin expansion on a 1H basis. Are you like is this the normalized level or should we expect an improvement at some point in time?

Anand Vora: Go ahead, Diego.

Diego Casanello: I mean on the Rotterdam plant the technology that we were producing in that plant, we are producing in another two plants so this is nearly optimization opportunity to consolidate and be more cost efficient on that product. I mean that product is actually growing nicely that we have that sufficient capacity to that product. And on the margin I see a much expansion opportunity so I think the impact that we have seen was due to the devaluation of currency in Brazil, Mexico Columbia and some countries in Africa we have seen significant devaluation with the COVID crisis.

But historically if you look at margins in this if you see after the events like that these is a lag and there is a phase of recovery and then we are seeing also the trends in that direction. So we are confident over ability to the margin growing in next quarters. You also have to look at the quarter also from a quarter-to-quarter perspective because this is a seasonal business and the portfolio mix changes but when you compare last year's quarter to this year's quarter our expectation is to see an improvement in the coming two quarters.

Anand Vora: Just to add further from what Diego mentioned. I think last year when you are comparing we did mention to you that last year both Europe and US regions had weather related issues. This year the agronomic conditions are very good and we expect Europe and US to also bounce back and as you are aware these are our profitable markets. So one should expect, I do not think this is a new normal. One should expect good margin improvement as Diego mentioned over the next two quarters also.

Ritesh Gupta: Because what I am surprised with this is that Year-on-Year you actually have 200 bps of decline. I am just looking at your presentation which is PPA adjusted. So despite that there is a 200 bps of margin decline on a Year-on-Year basis which I believe and if you have seen a decent revenue growth and this thing to there is largely exchange lead you would attribute it to the extent that it has also aided in some of the product mix improvement or I mean I think last year Glufosinate was also under pricing pressure?

Anand Vora: It is largely to the exchange rate. You are right I mean we saw sharp decline in some of the LATAM countries exchange rate that you cannot increase the prices by 30%, 35% when you have sudden drop in the exchange rate. So it was largely because of that.

Ritesh Gupta: And if you could just highlight amount of cash that is there on the books and I think if you could elaborate as to why the company continues to hold it

Anand Vora: I think it was because of the pandemic and I think we have already initiated the process as I mentioned in my opening statements that we have reduced our debt at gross level by about Rs. 700 crores, Rs. 800 crores and we will continue to do that aggressively in the quarters. We have mentioned we have I think the world has learned to live with this pandemic. Businesses are returning back to normalcy, banks are more than happy to lend money. So we are working on a plan to bring down our cost you we move forward.

Moderator: Thank you. The next question is from the line of Ian from Invesco. Please go ahead.

Ian Hargreaves: Just wanted to towards the Mr. Dyer the Audit Chairman of UPL Corp may be just to share some of the experiences that UPL Corp has had in completing the financial statements on time and just some insights in to the decision making process to move the auditors back to Crowe and also your confidence in the resources that Crowe has to provide to UPL?

Stephen Dyer: It is Steve Dyer here. Yes, I will talk about the change in the auditors first. So just again a little bit of a background that I am sure that are already been communicated is about it is about a year ago that that change was made to KPMG originally and while doing the audits before then. Now it has really done from a consolidation's standpoint. As mentioned KPMG is audits that they at limited and consolidated level. So from an efficiency standpoint that we may transport KPMG to do the Mauritius audit to make that change at that point.

And then after following quarters it was clear that KPMG was struggling to meet the audits on a timely fashion. There were concerns not only about the quality of the information being provided but it was creating more stress in KPMG and within UPL. So after discussions with KPMG it was really a mutual decision for them to step down from that audit move back to Crowe. So as mentioned Crowe was doing that audit previously and so again no concerns from that standpoint. We actually had our first audit this last quarter with them. We had both KMPG and Crowe at the table with the Audit Committee and that transition back to Crowe went very smoothly.

So from that standpoint no concerns going forward with Crowe and then the Audit Committee will continue to have access to both Crowe and KPMG on an as a need basis as well. Just overall the comment I will make is having worked at Agrium and that was a very inquisitive company, one of the challenges is brining doing a large merger which that UPL has been going through over the last year and having gone through many of those myself at the corporate level I have been very impressed with the ability for UPL to bring the two organizations together, drive the efficiencies as well and implement the systems within the two organizations to bring that together.

So I think that has been a very strong point of UPL to bring the two organizations together to drive those efficiencies to get SAP Corporate Accounting System in place across the entities which brings a lot of good controls in place with that and consistency across the organization. So again change that was made again no concerns going forward from my standpoint is that will ultimately care of UPL Corp.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus AMC. Please go ahead.

Rahul Vora: Just wanted some highlights on the supply chains going ahead. After our Rotterdam plant shutdown what are we planning from where we were planning day versus the earlier days, how are you planning for the supply chain going ahead and logistically would it still make sense to supply from India?

Anand Vora: Go ahead, Diego please.

Diego Casanello: Sorry, Jai you want to say something?

Anand Vora: Jai, you want to go ahead, go ahead please?

Jai Shroff: Yes, so as UPL is we have just gone through a large expansion of our facility in Columbia and we are looking at rationalizing our manufacturing in the integrated new UPL and this is just part of that. Obviously we will not, we will make sure we would not lose any market share anywhere and we continue to be focused on our manufacturing cost. We believe that we have an excellent manufacturing platform and we take care of the necessary costs and rationalize all the facilities to clearly integrate the whole business properly. So this is an ongoing thing which we are working on for a while. Diego, go ahead.

Diego Casanello: No, I think that summarizes, Jai. We are always looking at how can we cement our cost leadership and be efficient in our supply chains and this is one of those steps.

Rahul Vora: Sir, just an additional question in the same context. Wanted to know if these molecules which you are producing in this facility, will it be produced in-house or will we be outsourcing to some other company in India itself?

Jai Shroff: These are in-house facilities. This will be rationalized into an in-house facility.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: First question is for Diego actually. There are news reports about a possible seize out of Mancozeb in Europe that the regulator there have highlighted that. So I will appreciate your perspective on what the timeline for this might be? How de-risked UPL is with regard to Mancozeb in Europe?

Diego Casanello: So we are waiting the official position from the European Commission. We are working on this since many years now. We are prepared for any eventualities. Obviously if Mancozeb remains in Europe, great, if not, we have plans to replace Mancozeb with other products. But with overall we believe that we have very strong arguments for defending the molecules in Europe and other parts of the world.

But Europe has a very particular approach towards the approval of crop protection products and we know that sometimes it is actually follow the same scientific approach that may be some other regions follow. So we are conscious of that and we are discussing with the authorities and waiting for the final position or final communication with regard to Mancozeb. So we will keep you updated obviously as soon as there is an official communication.

Abhijit Akella: My second question is with refer to the recent increase in crop prices that we have seen across the globe particularly in the last three months we have seen sharp increases in prices on corn, soybeans, wheat and may be several other crops as well. Plus there is a talk about La Nina effect on crop production and droughts in various parts of the world.

So I would appreciate your perspective on how it might impact UPL's business in the short term because of all these droughts and disruptions as well as may be over the medium term let us say into next year if these prices are still on these levels?

Diego Casanello: Obviously we are a global company and always we are facing here and there some drought events. Now the business is very well fragmented and very well diversified so that we are able to sustain cash flow performance despite this. I mean if you think about last year for example, that was an extreme year with respect to the events that we saw. But we are very, very largely diversified and we have technologies that somehow when you have dry periods like we saw for example in the west of the US this year, our insecticides business tends to be very stronger while our herbicide business tends to reduce.

But there is a certain offset let us say also from a technology standpoint. Overall obviously we like rain. Just to make it very clear, we like rain but we feel like our business is robust. We are working on technologies to help farmers reduce their use of water for irrigation for example to sustain dry periods in a more stronger and robust way.

For example our bio-stimulant product line that is growing significantly. It is helping farmers go through a stress period so crop stress periods. So we obviously like to have good ergonomic conditions but overall our business is robust and this is nothing new in a way. We have seen these cycles all over in the past too.

Jai Shroff: Just to add to what Diego was saying. UPL with the price increases we expect that the whole sustainable and our bio-solutions products will see an uptick not only next half but even going forward future crisis also look at and the farmers are selling their crops in to 2022 seasons already. So we are guessing a positive outlook even going forward to 22 at least in some of the markets where farmers have advanced so we are excited about our portfolio to be able to balance this whole thing up.

Moderator: Thank you. The next question is from the line of Wee Lee Cheng from Credit Suisse Asset Management. Please go ahead.

Wee Lee Cheng: Just few questions from me. One is for India the government has passed the agricultural bill that we organizes the way farmers conduct businesses. So just wanted to have your share of thought on that. Do you see that impacting your business? The agricultural bill impact on the additional do you see any change there? That is number one. Number two is, you talked about maintaining IG ratings and the debt reduction. I just wanted to have a sense of what are your strategy for this? Is that particular number and timing that you targets for the reduction?

Jai Shroff: I should take the first one. As far as any kind of transition in large market like India will cause some disruption. Overall the government is trying to make it easier for farmers to sell without restrictions. Short term these could cause some disruption but long term companies can sign contracts directly with the farmers, that is going to help. Short term and the medium term I believe that crop value chin may have some disruptions. But on the long term these all actions will really help agriculture the whole systems become more resilient. Anand, you can take the second.

Anand Vora: Yes, I will take the second. So on the net debt our commitment to the rating agencies has been that we will be ending the year as of 31st of March with net debt to EBITDA around the 2x levels which will mean that we will reduce our debt by about roughly anywhere between $700 million to $750 million. So that is our target between now and 31st March.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on Latin America. Diego, I think in the last call you mentioned there was shift of buying from the first quarter to second quarter and I think essentially even to the December quarter. Is that still valid or you are still seeing or potentially we could still see some same slip into the December quarter to support for this quarter?

Diego Casanello: So we have seen it if you remember the first quarter we talk about the first quarter being slow and that hold true. I mean volumes were significantly up in the second quarter and we see these trends progressively increasing. I think the second halves in LATAM is going to be stronger with respect to the volumes and also better pricing overall compared to the first half. The reason being that if you think about it from the perspective of a farmer whether in Brazil soya prices are at high in the last three years so it is really very good soya prices. You see also very good corn prices actually also in LATAM.

And with the depreciated currency like they have what happened is that farmer incomes are expecting to be much more favorable. So that is favoring the investment in technology, the investment in buying inputs. So together with I would say a good ergonomic conditions we have had a little bit of a delay of planting in the South of Brazil. That might impact a bit use of some fungicides. But overall we believe that the season is unfolding better in the second half than last year.

Currency volatility is something to watch. Obviously we are assuming Real at the levels of we are seeing over the last month that is the thing to watch. But assuming we continue to see these levels we are confident about the second half.

Neha Manpuria: That was my second question actually. Newspaper reports mentioning that soybean crop in Brazil I think at 25% levels versus the usual 65%, 70% levels at this time of the year because of dry weather. Is that concerning when it comes to our inventory position and particularly sales international or do you think it is still very early to call that out?

Diego Casanello: It is not something that worries us much in UPL because we have less exposed to the call it large Asian rust fungicide business in Brazil which when you have this shorter seasons in soybeans that tend to be affected a bit. The good news is that actually we are bringing products starting late this year and next year so we will be actually participating big in that market in the future. But for this year I think we have not as exposed to this impact. And overall herbicide consumption will be good and we expect the insecticide season will unfold very strong.

Moderator: Thank you. The next question is from the line of Prashant Biyani from Prabhudas Lilladher Private Limited. Please go ahead.

Prashant Biyani: Just continuing with the previous question. We have been hearing news of quite robust crop prices globally especially in Brazil. And agricultural activities are good in Europe and North America as well plus Glufosinate and Mancozeb prices are also around 40% and 20% respectively. So in that backdrop do you not think that we can beat our full year EBITDA's growth guidance of 10% to 12%? Or there is something which can offset those benefits?

Diego Casanello: So I am not sure acoustically I heard well the question. But we are confirming our guidance for the year and our outlook for the year. And that thanks to also on the back of a strong season in LATAM. So we are cautiously confident that there are good tailwinds that will help our business in the second halves in that area.

Prashant Biyani: No, I meant our guidance could, is not it a bit conservative given our decent first half performance as well?

Anand Vora: We generally do not change guidance during the year. So I think when we started off it was supposed to be aggressive. Yes, after the first half numbers it is looking easy but we generally do not change the guidance during the year. Let us hope for the best.

Diego Casanello: I think with the lot of volatility right I mean we know with the COVID environment right then the exchange rate I think we want to continue to watch how things unfold in those fields obviously in the next quarter if there is any revise but I think it is a good indication at this point in time.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: The first question is on the Brazilian currency and the margins. Now I mean the current currency range is even worse than what it was in 2Q and just if you could highlight us how should we see the margin profile from this region going forward? Is there some hedges that have got rolled off or we should continue to see that the base margins in this region should at least be maintained?

Anand Vora: Diego, you can answer this.

Diego Casanello: Yes, so as we said before that we see prices in local currency were increasing prices in local currency and the trend is in line with what we were planning. There is always a lag when you get such a very strong impact in one quarter like we saw in Brazil and in subsequent couple of lower but nevertheless devaluations after that. What you will start doing is to start adjusting your price list. You send new price list but then there is your customers have stock in the channel so it takes a certain time to bring prices up to the level they were before.

But historically we have shown that the margins over time are robust and we feel well about our ability to get there. At the same time what we are, we have an immense amount of lot of new product launches in Brazil. That is I think the good news is that we have a tremendous pipeline. That brings in more and more products that are higher in margins and that will help also our mix over time. So I think that is the statement that I think applies not only to Brazil but overall for UPL. Our pipeline is very filled, and the target and the focus of the entire team is on increasing the share of revenues that we do with what we call higher value brands.

And there is even in incentive program that awards sales reps that are actually pushing to sell those products. So let us say from the standpoint of our ability to recover in the short term the effects of the devaluation but also in the mid to long term our ability to push the right mix, I feel confident that we can see much expansion over time.

Vishnu Kumar: And the second question is on Mancozeb. Going back to the previous one of the earlier callers had also asked what will be the current proportion of Mancozeb on the combined portfolio in terms of percentages, if you could roughly gives us the number?

Diego Casanello: I do not that I have the number on the tip of my lip. It is small. I mean the good thing about our business is that no product makes more than a single digit percentage within our revenues. And also the same applies to customer; even more applies to customers and to crops and to let us say crop products combination. So it is very, very diversified and overall Mancozeb is going to continue to grow as a product despite some threats of regulatory pressures in one or the other country.

Overall the trend for Mancozeb is positive even in the worst case scenario because we have launched Mancozeb in many crops in many formulations. So again no big dependency on Mancozeb nevertheless actually Mancozeb is a tailwind for us in the coming years.

Jai Shroff: UPL has the complete portfolio of technologies. Today even if there is some pressure we have technologies which will replace that. So we believe that we will continue to keep the market share we have with our portfolio of technologies for farmers to meet this challenge of what they are facing if there is a regulatory pressure. We have known this and continuously more our strategy is based on the changes regulatory environment that we keep investing, over investing some times in terms of having the options to replace certain portfolios in case there is.

I was just saying basically we have a portfolio of technologies which can if there is any short on in particular market we have a portfolio of technologies which can replace that. And we have been working on that for a while and so we believe that we will be able to continue to keep our market share in any case. So we were quite comfortable with this situation that cause any material impact in the long term to our revenues.

Vishnu Kumar: Just a question on this again. Will Propineb be a replacement for Mancozeb or that is something that will not be?

Jai Shroff: Propineb is the same chemistry. So they will have many other replacement technologies. We can share with you at the appropriate time.

Vishnu Kumar: And just one final if I can squeeze in. Just a volume, price and FX mix? That is all.

Anand Vora: Yes, that I think we have shared in our presentation and I will just repeat it for you. For the first half our volume growth was 10% and price we had minus 1% and FX was minus 2%. So that is for the first half number. For the quarter in case you wanted to, that is for the first half number.

Vishnu Kumar: Can you share it for the quarter as well?

Anand Vora: Yes, quarter we had a robust growth of 21% in volume. We had a minus 12% in price and FX was about minus 4%.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, having successfully integrated the Arysta now for more than a year now, now we have started integrating even the supply chain activities. So is it possible to share by now what is the level of integration for Arysta's requirement is now is integrated with the current manufacturing activity what UPL is having? And what is likely that it can see in the following year or next year?

Jai Shroff: So basically this is an ongoing process. Arysta had a very asset-light business model. So we are commissioning some plants for manufacturing. Those all are being commissioned within this period of time within the next currently and within 18 months we will see lot of cost value capture in some of the manufacturing facility so that is an ongoing process. Also because we are getting more competitive, volumes are growing and we are able to continue to gain market share and keep our market share on those products.

We also where there was a lot of toll manufacturing we have excellent relationships with so many manufacturing companies in India and all over the world. And we are helping them improve their technology to reduce costs. So even the existing toll manufacturers have been able to reduce cost and we have been able to help them to improve their cost. Now these benefits will continue to come.

Surya Patra: My second question sir on the, Diego, if you can just mention about your achievements in terms of your new product launches or even different suggestions what you mentioned in the presentation. So what is your achievement so far and what is your milestones on these front let us say in the current financial year or the milestones time that you can mention?

Diego Casanello: Yes, so we will certainly give you a more detailed update on our pipeline in the future investor events. But we are very excited with the pipeline and not only the pipeline in terms of the future prospects but actually how we are tracking with the launch of new products this year and last year. We have an innovation rates that is north of 20%, I am talking about products that we have launched in the last four years.

But our target is to continue to increase that innovation over time and I would say our problems are now it is not the lack of projects, it is really we want to execute this fast and we want to execute these projects cost effectively but we have across herbicides, insecticides, fungicides, bio-solutions, a very, very good pipeline. And in some cases there are clear gaps in our portfolio but despite the large portfolio of now the combined companies we have products but we feel some remaining gaps like for example I was talking about soybean fungicides in Brazil.

We are going to participate largely in that segment and we are launching the first product in the first quarter of this year. But we have multiple launches in Europe that are not only bio- solutions that are being demanded more and more but also to see the gaps of some products from competitors that are leaving the market. So we are repositioned several of our portfolio products there. And very, very interesting also is in India. I mean the breaks that we are getting with new product if you look at our business today in India, and you look at the business 5 years back in India it has changed significantly of the amount of new technology and product launches.

So the ability that UPL has in not only the cost competitive and strong in the post patent business but also to play in this innovator space. I think it is unique in the industry and it is a result of the combination of the competencies from Legacy UPL and Legacy Arysta. And we will be giving you our detailed slide I think we will have our investor day certainly sometime in the future where we will demonstrate pipeline and are happy to share this with you also.

Surya Patra: Just last one. If you can just tell me is that the kind of a sequential witnessed in the gross margin that we have seen, what portion of that is just because of the currency devaluation?

Diego Casanello: I think you can see it in a way when you look at the price and exchange rates. You said that be sure in the deck. If you can see how much is the competitive pressure and how much it in exchange rate, then the vast majority is exchange rate. They are very clearly.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last question that is from the line of Matias Vammalle from BlueBay Asset Management. Please go ahead.

Matias Vammalle: I was wanting to get a bit more color on the deleveraging. It seems the net debt is actually unfortunately a bit up this quarter and for the first half of the year. So I was just wondering if you can help me understand a bit of the changes in this quarter, this first half and then how you are going to reconcile that with managing to land it a bit lower for the end of the year? And in line with that if you can just tell us how much for the receivable sales or this second quarter and/or the full first half?

Anand Vora: So Matias, because of the seasonality of our business typically Q1, Q2, Q3; until Q3 you will see the working capital going up and then we see a sharp drop in Q4. This has been consistent over the last I will say 7 years to 10 years. And even after the acquisition the trend remains the same because we are in the same line of business. So what you should be, if you will see our working capital has actually gone up by about close to $400 million but our net debt has gone up not that much because we have generated good cash in the first half.

But that said Q3 you will see some further net debt going up and then a sharp drop. Last year in the same quarter, I mean last year in Q4 we almost reduced our net debt by almost $1 billion, it is slightly more than that. So that is the nature of the business and we remain committed to be at net debt to EBITDA of 2x which is our commitment to all the rating agencies and that is something which we are on track. But that is something which we are looking forward to delivering as of 31st March 2021.

So that and on the receivables discounting as of 30th September, from March year end if you recollect we had about $917 million of receivables non-recourse discounted. But now numbers have dropped to about $500 million. Typically it peaks in Q4 because large of Europe and US receivables get discounted on non-recourse basis including that of Latin American some of that.

Matias Vammalle: Sorry, two questions. How much you said was outstanding at September?

Anand Vora: $500 million.

Matias Vammalle: And then perhaps the last question is, because of the recent issuance and tender transaction you are ended up with a net higher amount of cash. So you are holding about $1 billion in cash. What we have seen in some other companies and even other differences but as they increased service and some of the uncertainties subside to be using some of these extraordinary cash balances to pay down debt. Is that something that you are considering as well?

Anand Vora: Absolutely I mean there is no doubt. As I said in my opening remarks also that I think while the pandemic that is there but the world has learned to live with it. We are seeing business slowly limping back to normalcy across the globe and banks also being more now back to business as usual. So we will more certainly, we did buyback I mean we did reduced our long term debt by, it is not a significant amount but in the first half if I will put it we have reduced by about $110 million, $111 million at a gross level and definitely we will be reducing over H2 in a much more aggressive way than what we did in H1.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Anand Vora for his closing comments.

Anand Vora: Thank you everybody for joining us on this call. If you have any further questions, feel free to reach out to Radhika or to myself and we will be happy to answer any further queries. Thank you all of you.

Moderator: Thank you. Ladies and gentlemen, on behalf of UPL Limited, that concludes this conference. Thank you for joining with us and you may now disconnect your lines.