"UPL Limited

Q3 FY '25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the UPL Limited Q3 FY2025 Earnings Conference Call. As a reminder, all participant lines will remain 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anurag Gupta, Head of Investor Relations. Please go ahead, sir.

Anurag Gupta: Thank you, Ryan. Good day, everyone. Thanks for joining us today for the results for the third quarter and 9 months ending 31st December 2024. The presentation, press release and the financial statements have been made available on the website and we take it that you have read the safe harbor statement.

From the management team, we have with us today, Vice Chairman, Rajendra Darak; CEO of our Global Crop Protection business, Mike Frank; CFO, Anand Vora; CEO of our India Crop Protection Platform, Ashish Dobhal; CEO of our Seeds Business, Advanta, Bhupen Dubey, CFO of our Seeds Business, Advanta, Sujay Sarkar; CEO of our Specialty Chemicals business or Superform, Raj Tiwari; Farokh Hilloo, Chief Commercial Officer, and other members of the leadership team.

We will start with Anand and Mike presenting the performance for the quarter, followed by the Q&A. With that, I now hand it over to Anand. Anand, over to you.

Anand Vora: Thank you, Anurag. A very warm welcome to all of you who have joined us today. The global crop protection market continues to see a recovery with the demand coming from across key regions. Channel destocking is largely over in major markets, and we consider this financial year FY '25 as a year of recovery. The business performance for third quarter shows a good bounce back and provides us confidence in maintaining our guidance on revenue, EBITDA and operating cash flows for the full year.

This is also corroborated by the year-to-date robust performance, which has sequentially improved over the past three quarters. Before we dive deeper into the financial performance, I would like to share updates on two recent corporate actions.

The first one is our rights issue, which was a success with issue being oversubscribed 2 times. The allotment of US$100 million or INR844 crores, representing 25% of the rights issue price, was received in December 2024. Additionally, the Rights Issue Committee met on 24th January and approved the first call on the partly paid equity shares for another INR844 crores, the record date for which it was fixed for 30th January 2025, we expect to receive the first call money by end of March 2025.

The next update is on Advanta Enterprises Limited. We have signed a definitive agreement with Alpha Wave Global under which they will invest US$350 million, US$100 million as primary investment in the company, and US$250 million as secondary through purchase of shares from UPL Limited for an approximate 12.44% stake in the company. This marks second investment in the enterprise by a global investor in a span of two years. As an update, we are awaiting clearance from the Competition Commission of India, or the CCI, for a final go-ahead. We expect to receive the CCI approval by end of February or mid-March.

Now, let me take you through some of the key financial highlights for the third quarter. Revenues stood at INR10,907 crores in Q3, a strong 10% growth versus last year. This was led by 9% growth in volumes, and 5% in pricing, offset by a 4% decline due to forex. The contribution for the third quarter stood at INR4,476 crores, a strong 66% growth on a year-on-year basis. The contribution margin stood at 41%, which is nearly 1,400 basis point jump over that of the previous year.

This significant growth was driven by better product mix, especially within the differentiated and sustainable segment, overall COGS improvement, and normalization of rebates. SG&A spend was INR2,313 crores compared to INR2,272 crores last year. The EBITDA for Q3 stood at INR2,163 crores, a 4x increase versus that of the previous year.

The EBITDA margins were 19.8%, an increase of around 1,600 basis points from 4.2% in the last year same quarter. Profit after tax, adjusted for exceptional items, associated income and minority interest showed a healthy INR828 crores as compared to a loss of INR1,217 crores in the previous year.

Let me share some of the key components leading to the net profit of INR828 crores. We had a healthy EBITDA of INR2,163 crores against INR416 crores in the same period of the previous year. Depreciation and amortization at INR689 crores was marginally higher than that of the previous year. Finance costs at INR704 crores was marginally lower due to a drop in working capital and resultant reduction in borrowings.

Effects of foreign exchange losses stood at INR108 crores, a sharp reduction from INR613 crores in Q3 of the previous year, which as you must be aware, included the Argentina devaluation.

Income tax during the current period under review, the company has received a CIT(A) order for AY 2016-17, providing a favorable judgment. Consequent to this judgment, the company has reversed the provision amounting to INR592 crores, which was created over the uncertainty over the allowability of the eligible expenditure. So, for this quarter, we are seeing a tax credit of INR499 crores against previous year tax credit of INR59 crores.

On associate companies and JVs, we have a charge of INR278 crores, largely on account of losses from Sinova and Origeo, the two Brazilian associate companies.

Moving over to the key financial highlights for the 9 months. Revenue for 9 months stood at INR31,064 crores, up by 7% year-on-year. Volumes were up by 14%, whereas we saw a price reduction by 5% and exchange impact of 2%. Contribution stood at INR12,239 crores, up year-on-year by 13%, largely due to product mix, COGS improvement and revaluation normalization in the third quarter. SG&A at INR7,356 crores were up by 1%. The EBITDA for 9 months stood at INR4,884 crores, a strong 36% growth versus last year, driven largely by higher contributions and productivity enhancement initiatives. EBITDA margins at 15.7% were up by 340 basis points over the previous year, which was at 12.3%.

Based on the year-to-date performance and Q4 forecast, we are confident of delivering the stated guidance of 50% growth in EBITDA this year. Profit after tax for year-to-date was breakeven, a significant improvement versus September 2024 and driven by strong EBITDA in Q3 and the tax reversal, as mentioned earlier.

Moving on to working capital, net debt and free cash flows as of end of December 2024.

I'm pleased to share that our working capital in December stood at INR13,280 crores, INR6,000 crores lower versus that of the previous year. This positive development was achieved through continuous focus on inventory management and tighter credit control and improved collections.

In number of days, net working capital stood at 107 days, lower from 155 days in the previous year, a reduction of 48 days. Inventory stood at 109 days, a reduction of 31 days while payables at 111 days were lower by 7 days versus that of the previous year. The receivables at 109 days, lower by 24 days versus the previous year. We also saw a reduction in non-recourse factoring by INR1,726 crores on a year-on-year basis, equivalent to 14 days lower than that of the previous year.

As regards to our debt situation, our gross debt reduced by US$815 million year-on-year, that is INR5,930 crores. As of December '24, the gross debt stood at US$3.53 billion. In INR terms, INR30,244 crores. On net debt, I would like to highlight that we reduced US$745 million versus the same period last year and also by US$264 million versus September. This is for the first time in the recent period where our December net debt was lower than that of the previous quarter. This was mainly due to significant improvements in our working capital management.

Overall, in the first 9 months, our net debt was higher by $363 million which is significantly lower than the US$1.7 billion increase in net debt during the same period in the previous year. Cash and bank balance as of 31st December was US$511 million, about INR4,374 crores as compared to US$580 million in the previous year. It is to be noted that the net debt amounts and the cash balance includes US$100 million, that's INR844 crores we have received towards the rights issue, which, as you know, the allotment was completed before December 2024. With our continued focus on working capital improvement, we are on track to achieve our target of $300 million to $400 million of operating free cash flow.

With this, I hand over to Mike to take us through UPL Corporation Global Crop Protection business in details.

Over to you, Mike.

Mike Frank: Thank you, Anand. Hello, everyone, and welcome to our third quarter FY '25 earnings call. It's great to connect again with all of you. Before we review the quarter, I'd like to share my thoughts on the crop protection market. The global crop protection market continues to rebound as farmer and dealer buying patterns are now reset. Channel destocking is largely complete in most major markets, and we continue to see normalized ordering patterns with good farm gate demand and a healthy balance between channel stocking and farm gate usage. With active ingredient prices now stable at the current levels, our considerable focus on process efficiencies have significantly contributed to improving product and EBITDA margins.

Additionally, we continue to remain focused on profitably increasing our market share as evident from our industry-leading volume growth. This continues to demonstrate the effectiveness of our customer engagement model and the value in our offerings. I'm pleased to highlight that our focus on operational excellence has positively impacted working capital, specifically through inventory optimization, tighter credit controls and reducing receivable terms. The year-to-date success that we have had with working capital improvement will help us drive towards achieving our full year free cash flow guidance.

Let's now turn to the quarterly performance. Our third quarter results show a strong bounce back and give us confidence to maintain our FY '25 guidance on revenue, EBITDA and free cash flow for the full year at the group level. This is also supported by our strong 9-month performance, which has sequentially improved over each of the past 3 quarters.

I'm pleased to share that our third quarter revenue was up by 15% versus last year. Growth was led by continued higher volumes across key regions such as Latin America and Europe. Among major segments, fungicides continued with a robust performance. In Brazil, mancozeb volume was the prime driver. And in Europe, Proxanil® was a contributor to our growth. Our insecticides portfolio in the third quarter was driven by higher acephate volumes in Brazil, partially offsetting the pricing challenges in the first half of the financial year.

Herbicides growth benefited from rebate normalization versus the previous year, mainly in North America. However, we also had volume growth in this segment across a few regions led by strong in-season demand for our products. Revenue growth in our NPP business was driven by a mix of improved pricing as well as higher volumes led by biostimulants in both Europe and Brazil. And additionally, growth was supported by biocontrol volumes in Europe. Our contribution margin for the third quarter has shown a remarkable turnaround and demonstrates our ability to earn margins in the current environment.

Overall, margin improvement has been led by improved product mix, mainly in the differentiated and sustainable segment, COGS improvement and lastly, normalization of revaluation primarily in North America and Brazil. I'm pleased to highlight that with this strong performance, our year-to-date contribution margin has grown by 470 basis points.

Importantly, we grew our differentiated and sustainable volumes by 16% versus last year, led by mancozeb based three-way Evolution® in Brazil, and acephate based Feroce®, also in Brazil. We also witnessed a strong margin improvement in our NPP portfolio. We are encouraged by this trend and the continued strong adoption of our products by our customers.

Turning to SG&A. Our focus on productivity enhancement initiatives has led to a reduction in overheads of around 5% in Indian rupee terms in the third quarter versus last year. Moving to our regional performance for the quarter, in Latin America, our revenue grew by a robust 12%, led by higher volumes, but offset by exchange impact in Brazil.

Brazil was led by mancozeb as well as acephate-based solo and mixture products. Growth in Evolution® and Feroce® also led to improvement in the overall differentiated volumes. In other parts of Latin America, volume-led growth was partially impacted by continued pricing pressure.

North America continues to experience strong demand for our products with channel inventories and rebates normalized in the region. Among key AIs, herbicides, such as s-metolachlor, had good volume growth. Overall, the region grew by a strong 67% versus last year.

Europe's revenues were up by 23%, driven by strong volumes in fungicides such as Proxanil®, which is a premium product offering for preventative and curative disease control in potato crops. Additionally, our NPP products had a strong growth versus last year in Europe, driven by volumes while also delivering margin expansion. The rest of the world was down by 4%, primarily from pricing pressure, regions such as Africa, Australia and China faced some headwinds in this regard.

Now turning to our outlook for Q4 and the full year FY '25. We expect headwinds related to softness in agri-commodity prices to continue and prices of key AIs to remain stable and range-bound. In spite of this, and as demonstrated in Q3, the tailwinds from our refreshed inventory, our strong focus on operational excellence and efficiency, all combined with robust grower demand for our products, we believe this will power our ability to compete aggressively and deliver on our EBITDA and cash flow commitments in Q4 and for full year. The team remains focused and disciplined on SG&A, and we are further evaluating efficiencies in our operating model.

Overall, we continue to focus our energies on margins, which have started to improve from the third quarter. This is expected to continue in the fourth quarter with second half margins outperforming the first half of the year, mainly due to the reasons I highlighted earlier. Our new product launches for this financial year remain on track, and we expect to deliver $85 million from these NPLs. Our attention on cash generations remains a priority, and we are further optimizing our inventories and other working capital items as seen in our results.

So, in summary, I see this quarter as a period of recovery with strong volume-led growth, lower headwinds in general for pricing and overall COGS improvement, resulting in superior EBITDA. The key highlight, however, remains the significant improvement in our working capital. I want to thank our team for their dedicated efforts and our valuable channel partners for our strong overall performance in this quarter, and I'm confident we will deliver on our financial commitments in the fourth quarter.

I'll now hand it back over to Anand, who will take you through the updates of our other platforms.

Anand, over to you.

Anand Vora: Thank you, Mike. Let me also provide a quick update on our other three platforms. That's the UPL Sustainable Agri Solutions, the India Crop Protection business; Advanta Seeds, our seeds platform, and the newly formed specialty chemicals and manufacturing platform, Superform Chemistry Limited.

I'll start with UPL SAS. We saw a recovery in Q3 with revenues at INR535 crores, up by 44% year-on-year, driven primarily by higher volumes. This has been achieved through high liquidation of sell-in, conscious placement closer to the season and lower Kharif returns.

Additionally, our growth was also supported by higher NPP volumes, that is Natural Plant Protection products, as well as selective post-emergent herbicides along with steady Rabi replacement, which continues to indicate good consumption of our offerings at the ground level.

At contribution margin, we improved by 530 basis points to 16.9% versus 11.5% in the previous year. This accretion was driven by new launches, better pricing and superior product mix. Our platform SG&A was INR114 crores, nearly flat versus last year, driven by overall cost efficiency. While our EBITDA is still in the red at negative INR24 crores for the quarter, it is a significant improvement versus last year where it stood at negative INR70 crores.

On working capital side, normalized inventory levels and tighter credit control helped improving receivables and overall lower working capital requirement. For the 9-month period, revenue stood at INR2,552 crores, 6% higher than last year, and 500 basis point higher contribution margins versus previous year.

EBITDA at INR348 crores is over 100% higher than that of the previous year. EBITDA margins at 13.7% were 650 basis points higher than that of the previous year. We expect to sustain growth in fourth quarter with margins in line with year-to-date figures and overall better cash flow versus that of the last year.

Moving on to our seeds platform, Advanta Enterprises, After a rather challenging H1, the seed platform saw a good improvement in the third quarter with a robust revenue growth of 11% versus that of the previous year. This was supported by a mix of higher volumes and better pricing, along with favorable FX impact. The key growth drivers were grain sorghum in Argentina, sunflower in Argentina and Europe and corn in India.

Overall, despite a good growth in revenue, we maintained flat contributions with margins contracting by 615 basis points, primarily due to unfavorable crop mix as well as lower recoveries due to higher input costs. EBITDA was down 15% versus last year at INR223 crores, due to lower contribution margin and conscious strategic investment in R&D and marketing we have been making to support our growth.

We continue to maintain focus on margin improvement and cash generation in this segment and are confident that this momentum is expected to yield favorable results in the fourth quarter as well.

To sum up, we have delivered a strong third quarter with a good improvement across all key indicators. Our revenue growth at 7% in 9 months is on the higher side of our stated guidance.

Further, our EBITDA growth in 9 months has been 36%, and we are on track to deliver 50% growth in EBITDA over that of the previous year, considering our forecast for Q4. With our success so far in reducing our gross and net debt versus last year, we are confident of achieving the operating free cash flow guidance of US$300 million to US$400 million. Further, with the rights issue amount of US$200 million or roughly about INR1,600 crores and the Advanta Seed proceeds of US$350 million expected within this year, we expect the net debt-to-EBITDA ratio to be around 2 for the full financial year.

With this, I hand over back to the moderator and we are ready to take questions.

Moderator: The first question comes from the line of Abhiram Iyer from Deutsche Bank.

Abhiram Iyer: Congratulations to the company on a strong set of numbers. I had two questions. One was, could you let us know what is your incremental cost of debt is at the moment? And the second question is pertaining to your upcoming perpetuals, has the company taken any plan of action to address these?

Anand Vora: So, our cost of debt is roughly around 7%, that's the average across all the debt instruments. We have bonds and we have bank loans. On the perpetual, we keep a close watch and as you know, most of our cash flows come in Q4. We have raised the rights money and we are also expecting cash inflow on the Advanta monetization. So, we'll be taking a decision, in the next couple of months.

Moderator: The next question comes from the line of Siddharth Gadekar from Equirus.

Siddharth Gadekar: Congrats on a very strong performance. I have three questions. First is on the Rest of World revenues. The Rest of World revenues have declined by 22%. Can you just give a breakdown of what has driven the growth in the Rest of World?

Anand Vora: Mike, would you take that?

Mike Frank: Sure. So, on the Rest of World, from a crop protection standpoint, our revenues were down, not by that magnitude. I would say, obviously, the Rest of World is a very large region for us. We did see some softness in the business in China as well as Australia in the third quarter. And in a few African countries, as we wait for some tender business to materialize, we also had seen that get pushed from Q3. Our Q3 and now we're expecting them in Q4.

So yes, so for the Rest of the World, from a global crop protection standpoint, the business was down a little bit based on those issues, and I would say, continued pricing headwinds for some of our products. Maybe it would be good to hear from Bhupen on the seed business as well.

Anand Vora: So, let me take this further. Basically, you saw that most of the currencies got impacted and as the dollar strengthened immediately after the domination of some and we did see some impact largely coming in currency, especially as you know, we report in INR. So that is one of the major reasons also for the sharp decline. As Mike rightly alluded, in dollar terms, we did not see as much drop. But in INR terms, we saw a significant drop.

Siddharth Gadekar: Okay. The second question is on the cost side, like we have just highlighted that over the last 12-18 months, we have improved a lot of processes. So, can you just quantify, like what is the quantum of improvement on the cost side because of our process of efficiencies and reduction in SG&A?

Anand Vora: Raj, would you take that? The cost efficiencies and other things on the production manufacturing side.

Raj Tiwari: Well, that's a continuous exercise. On the manufacturing side, we have substantially done work in terms of reducing the cost one, of course, because of raw material, but also because of the variable cost optimization. We have also optimized our fixed cost in the factory, both in terms of headcount and in terms of power, which is utilities. But on UPL Corp, Mike, you have some more colour to give?

Mike Frank: Well, yes, the other part of the question was just on SG&A efficiencies. And so, this has been an area across the enterprise where we've been, I think, really diligent in looking at our target operating model and finding ways to become more efficient. A lot of those efforts are now complete, and our current run rate should be in effect going forward.

That being said, we're always looking for additional ways to drive efficiency whether it's from AI tools or other things. Our view is we're never finished from an SG&A standpoint, we're always looking for more ways to become more efficient, but we're quite pleased with the progress that we've made over the last 18 months and giving us a new level of cost that really allows us to compete in the marketplace.

Siddharth Gadekar: Sir, last question is for Anand. Given the kind of debt reduction that we have seen in this quarter, are we still sticking to the same $300 million to $400 million free cash flow or there could be some upside to that?

Anand Vora: No, I think we saw a good reduction in the working capital and we still have some ability, as I mentioned earlier, that even our non-recourse is at lower than last year, and we had guided for $1 billion of non-recourse securitization so that should give us an ability to raise further free cash flow. But at this stage, we are sticking to the $300 million. Whatever upside comes, of course, we'll be using that to repay the debt.

Moderator: The next question comes from the line of Somaiah from Avendus Spark.

Somaiah: First question is on the pricing part. After 6 to 7 quarters, we are seeing a positive growth on the pricing front. So, you can give some color on that. So, I mean, you've been saying prices are being kind of stabilizing. So, we've now been able to take price hikes. So, the trajectory has moved from more of stabilization to now kind of a growth mode? And how do you see it going forward next quarter?

Anand Vora: Mike, would you take that?

Mike Frank: Yes, sure. So, look, from an overall pricing standpoint, we did see positive progress in Q3. That was largely based on comparing last year's Q3, where we had abnormal rebates and some high-cost inventory returns. So, I would say, if you look at our overall price performance in the quarter on a product-by-product basis, we're basically seeing now relatively flat pricing. So, we're getting some price lift based on mix. And so, as we drive more of our sales to our differentiated and sustainable product portfolio, that's giving us a mix lift in price, but generally speaking, across the portfolio, prices have largely stabilized and we're not in a cycle yet where we're seeing prices tick up.

Somaiah: But also on the different regions, if you can just give a color on is the channel inventory getting over? Is it same across regions that's the status or is there a differentiation between U.S. and LATAM. Also, in terms of pricing climate between both the regions, is it similar? Or is there any difference, please?

Mike Frank: Yes. So, from an inventory standpoint, as we talked about in the prepared remarks, we believe that for the most part, in most regions, the destocking has been complete. And there's a good balance between what dealers and distributors are buying and what they're selling them to the farmers. And so, there's always going to be some exceptions to the rule based on price or timing of when a season takes place. But generally speaking, we now believe we're in a balanced supply to the channel and the channel sales to the growers. And so, the destocking is largely complete.

I would say from a pricing standpoint, again, in the post-patent segment, those prices have been reset. They really started to reset over 12 months ago. Again, we're seeing relatively stable pricing now across the post-patent business. And in the differentiated and sustainable portfolio, which is our high-value segment, again, we're seeing very strong volume growth. We're seeing good demand for those products. We're seeing our margins continue to grow in that segment. But that's more a result of cost of goods improvement and efficiency efforts, whereas, again, prices are relatively stable in that segment as well.

Somaiah: Got it. Sir, just one last question from my side. Anand, sir, on capex outlook, how we are thinking about?

Anand Vora: No, I think we have put some constraints this year. We, as of date, we have spent about INR1,200 crores of capex, which includes the acquisition of Corteva Dithane® brand. But again, the budget of INR1,800 crores, which we had set at the beginning of the year, we hope to be below that, about INR1,500 crores to INR1,600 crores. So, there would be some cash flow protected out of the capex spend, what we had budgeted for. I guess for the next year's guidance, we'll review how based on what happens by the end of this year, and then we'll take a call on the next year.

Moderator: The next question comes from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: Congratulations on a good set of numbers. First question on the overall competitive intensity, especially in Latin America, let's say, Brazil. We have shown a YTD growth here. But if you can pass comment in terms of the pricing competition there and the pricing uptake that we have seen, which geography would have contributed to this 5% year-on-year growth that we saw in this quarter?

Mike Frank: Yes. Thank you, Ankur, for the question. Again, the pricing uptick in this quarter is really a result of the normalization of the rebates and the elimination of high-cost inventory, which was really liquidated to a large degree last year, at the same time. So, from a product-by-product basis, our prices are relatively stable in the market. But of course, with fresh inventory and now that we're running with lower inventory levels, that is also helping improve our margins. Now, from a competitive intensity standpoint, I would say every market has a high degree of competitive intensity.

I don't think that Latin America or Brazil is unique in that way. In every market, As you can see from our volume performance, we are growing volumes. I think we are growing volumes at a faster rate than the industry. And so, we're very much focused on profitably growing our market share. We've been successful doing that based on our customer engagement model.

In Brazil, as you know, we have a number of models where we work with the co-ops very closely and large distributors and dealers. We also have the Origeo platform, which is a partnership with Bunge, where we go direct to very large growers in the Mato Grosso area. That model is also proving to be successful. So, our unique approach in each market with a really strong focus on how do we engage with customers to create value for them and for farmers, that model is playing out, and it's helping us with our market share growth.

Ankur Periwal: Sure, sir. And just a second bit, there is - in the minority interest, that number from a negative has turned positive. And similarly, the associate share profit, there is a sharp jump there Q-on-Q as well as Y-o-Y. Just some thoughts there on how to look at both these line items going ahead and for FY '26?

Anand Vora: So basically, on the associate, we report at least for our 2 major associates in Brazil, that are Sinova and Origeo. We report with a quarter delay. So last year, of course, was first year. And as you know, this year, the season also started a bit late.

So last year, we had a small profit, which is reflected in the numbers whereas this year, due to delay in the season, we had losses both in Sinova and Origeo and which we hope to recover as the season comes as we report for December quarter in next quarter as well as for the full year in the subsequent quarter, we expect to recover part of these losses, which we have incurred. So largely, these are because of our losses in our Brazilian associate.

Ankur Periwal: And just on the minority as well.

Anand Vora: Yes. on the minority interest, whatever is gains or losses, we have to keep them, there's a minority interest, as you know, in various of our platforms. We do have shareholder, like in case of UPL Cayman, we have ADIA, TPG who own 22%. And in case of our seeds platform, which is KKR, and in case of India, we have Brookfield, KKR, and ADIA/ TPG with 9% holding. So pro rata, they would be sharing the losses as well as the gains.

Moderator: The next question comes from the line of Himashu Poorva from Sea Port Global.

Himashu Poorva: Congratulations on strong earnings. I had a couple of questions. So first is with regard to the perpetual callables. I think I might have missed when you're answering somebody's questions. If you can please provide a guidance on the likelihood of this being called in February? And secondly, if you can confirm and clarify the amount of rights issue proceeds that has already been completed because I see headlines of around like $400 million being approved, but I guess not all of it has been conducted yet. So those are the 2 questions.

Anand Vora: Sure. So let me take the second one first, and that probably should partly answer the first question itself. On the rights issue, you're right, we made a $400 million rights issue. And in Indian context, you're allowed to call for part payment towards proceeds of the rights issue. So, on allotment, we called for 25% of the rights issue, which is $100 million equivalent is INR844 crores. The committee has also called for the first call of another $100 million as of 30th of Jan was the book closure date.

This decision was taken by the committee on 24th Jan, and we expect to get the money in by March. In our business, Q4 is when we see a large part of our cash flow from the operations coming through as we get our money against our receivables as well as, for what we have sold in LATAM as well as in U.S. and Europe. So, we are closely monitoring the situation, and we expect to soon come up with the announcement as regards to the perpetual, whether we will go for repricing or we will call them back. So that's as of now, our position on perpetual.

Moderator: The next question comes from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: Congratulations on the good results. So, if you were to look at your Net debt to EBITDA guidance of 2x, does it include the perpetual bonds on the debt side? And are you excluding the factoring? And what are the rating agencies considering to calculate net debt, are they including the perpetual in their net Debt-to-EBITDA calculation?

Anand Vora: So, Ramesh, thanks for joining in. Perpetuals are part of net worth, so they are not included in the debt. As regards to our non-recourse securitization, the rating agencies add them back as debt. As far as the banks are concerned, they don't consider that as debt. So, what we are telling you is what the bankers look at and which is the simple calculation on net debt to EBITDA, where non-recourse securitization doesn't form a part of the debt.

S. Ramesh: Okay. Now a question to Mike. In terms of the structure of the industry, if you look ahead and consider that you'll have to depend pretty much on volume growth, what is a sense of comfort you have in terms of capturing most of that on the top line and maintaining working capital discipline to achieve stable and improving ROC, how do you see that for the industry and for UPL?

Mike Frank: Yes. Thanks, Ramesh. So, look, I think as we look forward over the next 12-plus months, I think from an industry perspective, there's going to continue to be pressure on the price side. At this point in time, our base case planning scenario is that we won't see a change in the export price out of China.

Obviously, that could change at some point. It's not a sustainable scenario where there's overcapacity and prices are basically being sold at or around the cost of goods. And so, at some point, that will likely change, but in our base case scenario, we're not assuming that in our planning. And so, I would say if that plays out, I think from a pricing standpoint, there's going to be a limitation to the ability to see much change in price.

Again, if you also overlay the fact that grower economics right now are stressed. I think the growers are really looking for every opportunity to look for how they can save money and really invest in high-quality, high-value products, which again, I think that is where we're also winning from a market share standpoint.

To your second point regarding working capital, obviously, that's been a large focus of us this year and it's really around our process improvements and using new tools, both AI and data and analytics to really hone-in on demand forecasting, lining up our production with a more just-in-time approach so that we are delivering products to our customers right when they need it. And so, we're going to continue with that discipline. So, I believe the working capital benefits that we gained this year will continue as we go into the next season.

S. Ramesh: Just one last thought. Did you look at the gross contribution and the growth in EBITDA margin, how much of this is sustainable? And to what extent will you be able to continue to gain from the decline in input costs? How do you see that?

Mike Frank: Yes. Again, from a base assumption standpoint, we have seen that we're in a fairly stable environment right now where cost of goods as well as the export prices that we track out of China are running quite stable. Obviously, there's an increase or decrease in input costs. We're seeing some active ingredients, get priced up a little bit or price down depending on which way the raw materials are going. And so again, that's our planning scenario as we go forward. Based on that and the good work that we've done across our plants from Raj and his team, we are really looking at ways that can de-bottleneck or increase yields.

We're able to compete aggressively in the marketplace. And as you've seen in our margins in Q3, we really believe that this is the margin profile going forward with the opportunity as we think about the next 12 and 24 months to continue to drive our new product launches, which are primarily in the differentiated and sustainable segment, which we know has a higher overall margin profile. And so yes, that's how we look at our margin profile going forward.

Moderator: The next question comes from the line of Steve Byrne from Bank of America.

Steve Byrne: Mike, your comments about the NPP in the slide deck really captured my attention. I was curious to hear your view on what would you rank as the primary drivers of the increased demand for your NPP products? Is it the regulatory path and registration of these NPP products? Is it just more streamlined? Is that a key driver? Is it the distribution channel that see these products as an attractive bolt-on. They can put them into their routine applications? Or is it at the grower level where these products like the biostimulants have a yield benefit? How would you rank those as driving the growth in these products?

Mike Frank: Yes. Steve, good to hear from you. Firstly, it all starts with the grower. If the grower doesn't see value in the products and technologies then ultimately, nothing else matters. And I think in our NPP business, the strength of our portfolio, the capability of our sales organization and the investment that we've made in helping train our sales team, providing them the right tools that they can walk in and talk to our dealers and our pharma customers about the value of biostimulants, that has really helped us drive that segment we've seen that every quarter this year, and we believe we're going to see it again in Q4.

Now secondly, the other part of our portfolio in NPP that's growing is our biocontrol products. And so, as you mentioned, the regulatory framework in many regions, not Europe, but many regions outside of Europe has a fast track for biocontrol products to enter the marketplace.

And so, in those markets, like Brazil, for example, we're seeing really strong success of new technologies that we've introduced in the last couple of years, including a technology and a product called Nimaxxa®, which is a 3-way fungicide for controls of nematodes. We've just got that same product registered in the U.S., and so we're now starting to commercialize that product in North America. So, it's a bit of a combination, Steve, but it all goes back to the grower. We've got to prove to the grower that these products add value on from an agronomic and economic standpoint. And as we do that, we're seeing real success across our sustainable platform.

Steve Byrne: And one more for you, and that is in the U.S. market, are you seeing any increased interest from either the wholesale or the retail distribution channel to be more interested in, say private label products or potentially more interested in something other than the primary branded products that they have contracts with. Is there increased interest in that? And is that an opportunity for you because you provide the certainty of supply that if they were to just go directly to active generic out of China, there may be less certainty on the supply, particularly with tariffs.

Mike Frank: Yes. That's a good question, Steve. As you know, the distribution network in the U.S. and North America is very consolidated. There're 5 or 6 large players. Each of them having some segment of their crop protection business in what you would call a private label approach, whether that's 10% of their sales or up to maybe 25% of the sales, depending on the strategy of the distributor, we've always viewed that as an opportunity. I would say that segment is growing slightly, it's not transforming in terms of the percent of the market.

Again, I think each of the distributors looks at it a bit differently. And so, where there's opportunity, we are growing that part of our business. Again, I think it's based on the quality of our products, the fact that we can compete aggressively on price and lastly, maybe the uncertainty over tariffs from China, all of those things contribute, I think, to the ability for us to continue to grow that segment.

Now, in addition to that, though, we're also very interested and continue to drive our branded sales in North America. And we have a number of new products that we've launched in the past few years and many products in our pipeline that are coming forward. And so, we'll continue to have a mix in North America of branded products that are going to create value for our customers and for us as well as compete in that more B2B market for that private label business.

Moderator: The next question comes from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: On the other comprehensive income, there is a negative item of about INR578 crores. Just to confirm whether that is related to the impact of rupee depreciation on the US$loan book that we have?

Anand Vora: Large part of this is that.

Abhijit Akella: Got it. And with regard to the scenario in Brazil, if I may ask question to Mike. The recent bankruptcies we've heard out of numerous distributors in Brazil. Is that having any significant impact on our business or on the industry? And if so, if you could please elaborate on that.

Mike Frank: Yes. So, we did experience in the second quarter some Chapter 11 bankruptcies that did have an impact on our business. One of our large distributors went into Chapter 11 in our second quarter, and we announced at that time an ECL of approximately US$8 million as a result of that Chapter 11. Since then, it's been quiet Q3 for us. I don't know that we've had any of our distributors file Chapter 11. The market is in Brazil right now, the soybeans are approaching the harvest season. There's a good crop that's coming. The fact that the local currency has devalued against the U.S. dollar actually helps the farmers a little bit when they go to commercialize their soybeans.

And so we're expecting coming out of harvest, which is going to happen in the next 30 to 60 days in Brazil that there's going to be a fairly good liquidity at the grower level and when growers have good liquidity, they're going to pay their bills with dealers and distributors. And that, in turn, helps provide liquidity across the market. So, I think there is still some risks what we see that banks are being more cautious in terms of their lending into the ag community, but generally, we're expecting this to normalize. And again, I think at the heart of your question, we're not seeing any additional bankruptcies that we experienced in Q3 or, of course, are expecting in Q4.

Abhijit Akella: That's really helpful. And just one last quick one for Anand, if I may. On the employee cost, please, there's a significant decline in employee cost quarter-on-quarter. So, is this a good run rate to model for subsequent quarters?

Anand Vora: Well, we have restructured some of our operations, and that has resulted in a reduction in the employee cost. And I would say, it's a good benchmark, although if we do all well in Q4, we might see some of the bonus provisions coming through, in which case, cost can go up marginally. But otherwise, this should be a good benchmark.

Moderator: The next question comes from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.

Bhavya Gandhi: Sir, if you can just help me understand the cash flow that we are going to generate out of Advanta debt repayment? Basically, I'm looking out for year 1, year 2, year 3 debt, gross debt and net debt if you can help me understand that.

Anand Vora: I mean, let's go step by step. This year, we will have $200 million coming from rights issue, about $350 million coming from Advanta monetization, of which, as I mentioned earlier, $100 million will be primary issuance, which money will be used by Advanta for its capex or for its own growth initiatives and $250 million is going to be secondary sales by UPL Limited, which will entirely go towards repayment of debt.

So, we are talking about $450 million rights plus Advanta monetization plus another $300 million free cash flow coming from operations. So, all these three, that is $450 million plus $300 million, $750 million will go towards repayment of debt.

As you know, we have one scheduled repayment of loan, which is expected in September of 2025, of $250 million. We have the perpetuals which are up for repricing or repayment between February and May of this year, which we will decide later in February or so. We have, in next financial year, $200 million additional coming from the rights issue plus the free cash flow, which would be generated during that financial year.

And in FY '26, we have close to about $750 million and in FY'27, we have $900 million. So, I would say, immediately sometime in 2025 September, $250 million is what is payable. And against which, as I mentioned earlier this year, itself, we should have close to $750 million of free cash flow available.

Bhavya Gandhi: So roughly, can you sum the number and provide the gross or net debt levels for maybe next 1 or 2 years?

Anand Vora: The way we look at it is we are first targeting to go Net Debt-to-EBITDA to below 2X. And we expect to remain between, 1.5X to 2X, or maybe go a bit lower than 1.5X. And which means if you are talking about $1 billion of EBITDA this year, then our net debt should be at about $2 billion next year and the following year, with EBITDA further growing, we are looking at set of anywhere between, I would say, $1.5 billion to $2 billion.

Bhavya Gandhi: Okay. And would it lead to any improvement in the average cost of borrowings, which is at 7%?

Anand Vora: Most of our debt is linked to the SOFR rate. Now if the SOFR rate comes down, it would not only reduce our term loan debt which is linked to SOFR, but also our working capital cost. So, both will come down because most of our borrowings, except for our bonds are linked to the SOFR rate.

Bhavya Gandhi: So roughly, what would be that rate be?

Anand Vora: Well, we have a spread of anywhere between let's put it at 175- 225 bps. That's the spread which we have. SOFR is currently at about 4.5% or 4.6%. So now if SOFR comes down, then you would see the reduction in the spread. We expect the spreads to improve by about 35 to 50 basis points., sometime by mid of July-August because when we got downgraded from investment grade to BB rating. We did see spreads on our existing loan go by 35 to 40 basis points. And we agreed to that increase on subject to if we come back to below Net Debt to EBITDA of 2X, then the same would be rolled back. So based on our financial results of March 2025, we intend to go below 2X, and we intend to approach the banks to reduce it by that 35 to 40 bps increase, which we have given to them.

Bhavya Gandhi: Got it. Just one more thing, if I can squeeze in. If you can just mention the capex trajectory for maybe next 2-3 years?

Anand Vora: I mean, generally, we guide for 1 year where our capex is where in the range of about $250 million to $300 million split, I would say, between almost equally between product registration and investments in new capacities. I think we would be maintaining those around that $250 million to $300 million. But you'll get some more color on that at the Capital Market Day when we announce our annual results and give guidance for the next financial year.

Moderator: Next question comes from the line of Love Sharma from JPMorgan.

Love Sharma: I have more of a follow-up from the previous question. If you could just highlight, I think, in some of the bank loans, you also had these covenants, which probably you had some relaxation available from FY 2025 or 2026?

If you could just update what is the status there and I think it's similar to the previous question, given the sizable maturity, which we have from next year mainly, the thought process would be to refinance, I believe at some point. If you could just indicate what is the ideal way for you to refinance that through bank market or you think potentially through public bond markets as well?

Anand Vora: So, I will take the second question first. I mean, yes, we have some payments, and we're closely watching. I mean, till the nomination of Mr. Trump, we saw nicely the rates coming down. But now with the inflationary rhetoric, which we are hearing, rates have spiked up back. We're still talking to some of our bankers, we are expecting at least 1% to 1.25% reduction during this calendar year. So, we'll be closely watching that. The good part is the spreads have come down considerably.

So that's positive. And I think with our cash flows also improving, we are expecting some improvement, which in other words, means reduction in the spreads. So probably, we will look at it, as you know, it depends on how the markets are, but we would look at either a bond or a term loan, whatever is most favorable and what gives us flexibility of repaying So that's what we would be considering. The first question was related to?

Love Sharma: Thinking on the bank loans, again, you had some of the…

Anand Vora: On the bank loan, now what we have agreed for a 35 to 40 bps increase, we said that for March '24, Net Debt-to-EBITDA of about 4.5, for March '25 at 4 and for March '26 at 3.5.

Love Sharma: But you just mentioned, so in case you achieved, let's say, something like 2x for March '25 itself, and that gives you the rollback on 35, 40 bps of repricing, which you had?

Anand Vora: That is correct.

Moderator: The next question comes from the line of Rohit Nagraj from B&K Securities.

Rohit Nagraj: Congrats on good set of numbers. Two questions. First thing that we have seen a very serious tightening of working capital over the last few quarters. If the competitive intensity increases incrementally, is there any chance of it getting loosened or is it an irreversible process and this will be the normative working capital that we will be following incrementally?

Mike Frank: Yes. Rohit, I'll maybe answer that from a global crop protection standpoint. So, with the working capital gains that we've made on a year-to-date basis have really come from both inventory management as well as shortening terms on our invoices, our DSOs. I think we're at a level where both are sustainable and probably additional opportunity on DSOs.

And so, we're going to continue to focus on that. Again, part of that is how do we match up our deliveries to customers. So that they get it right before the season, and so we can shorten that time from when it's sitting in the warehouse to the time it moves to their customer.

So that's an opportunity for us to continue to align our production scheduling. And then just generally, I think the challenge in the industry and the margin pressure that the industry been, I would expect to see some continued reduction in overall DSOs across the industry. As everyone is trying to manage working capital, everyone is dealing with interest cost and so I would expect to see over the next 1 or 2 seasons, some continued improvement at the industry level, which, of course, allows us to participate in that as well. So, I think we're at a sustainable level with some opportunity to continue to improve.

Rohit Nagraj: Got it. And second question is on the margins front. Given that I assume most of the efficiencies are already embedded in current margins, there is a little scope for further improvement. Obviously, it's a continuous process, nonetheless. But in terms of incremental scope to expand the margins, it's relatively limited. Is that assessment correct?

Mike Frank: I would say, with our current portfolio and the cost assumptions we have and the pricing assumptions, that's generally correct. However, our innovation pipeline is very strong. As we talked about, we have approximately $85 million of new product launches this year. Those products are going to scale up again over the next 3 to 5 years. We've got more new products coming next year and the year after that.

Our new product launches are heavily skewed to our differentiated and sustainable portfolio, which has a significantly higher margin profile. So, I would expect that the growth that we see in our business going forward, especially from these new products, they're going to come at a higher margin, which is going to have a positive impact across our margin profile.

Nitin Agarwal: Mike, on the contribution margin, for just taking the point that you mentioned about the contribution margins. So, with the mix that you have in mind, which can change with the higher contribution products coming through, I mean, what is the extent of gross contribution margin expansion that we can see in the best of the cases as we go forward? It's like 100 to 200 basis points? Or is this a minimal sort of contribution increase margin increase over where we are or where we finish the year at?

Mike Frank: Yes. So, Nitin, look, I would say, in any given quarter, the mix profile is going to have some impact. And as we look at our Q4 that we're participating right now, we actually have a strong mix of our differentiated sustainable portfolio. So, from a Q4 standpoint, we would expect margins to continue to be strong as they were in Q3. And then I would say, as Anand answered earlier, in May at our Capital Markets Day, we'll provide more color on how we see the business evolving in FY '26 and beyond. And so that is part of our working process right now.

As I mentioned earlier, we know we've got a strong pipeline of new innovative products that are heavily skewed to the differentiated sustainable portfolio. And so, I would expect as we get ready for our Capital Markets Day, we'll have more shape and color on that. And overall, there'll be margin accretion, I would expect as we think about the future.

Moderator: Ladies and gentlemen, we have one last participant which is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Congrats on good set of numbers. Just 2 clarifications. First, Mike, I think you mentioned that destocking is near complete. So how do you see CY '25 or FY '26 panning out in terms of overall volume growth? Would it be like high single digit? Or how do you see it?

Mike Frank: Yes. So, assuming we're right on the restocking being largely complete. I think from a volume standpoint in the next 12 months or, call it, FY '26 in our business, I think at the industry level, it's going to be mid to low single-digit volume growth. Again, our objective and what we're seeing this year with our market share gains, I think that momentum will continue to propel us. But at an industry level, I think it's going to be a little bit less than the number you suggested.

Krishan Parwani: Got it. And secondly, the interest cost coming down to INR730 crores this quarter. I can see that, that includes INR98 crores of profit rising from hedging. So, is the rest of the benefit on account of debt reduction or your interest cost has also gone down?

Anand Vora: I mean, Krishan, you would appreciate that, with the price table coming down overall, because the hedging cost of this fee, which is a differential of the interest rate between different countries. Those would come down as we see the drop in top line for the full year. So that's one. But also with the interest rates, we saw them at least for the first 9 months, there was a reduction in the interest rates we saw and which in turn resulted in reduced, what we call the forward margins, forward hedging costs.

So that helped us to bring down the cost. This is essentially a function of what is the interest rate differentials between the 2 geographies. And we try to remain as we have always said, fully hedged, but we also see for opportunities if there are like for instance in Brazil, if we sell against customers who buy all the sold in Brazilian Real, but it's linked to the dollar of the day, then we have a natural hedge available there.

So besides some of the countries, , currencies have stabilized. You saw Argentina, I think the hedging costs have come down significantly lower. Similarly, we have seen some reduction in Turkey. In Russia, we don't sell much but whatever we sell, we try to sell it against rupee denomination. So, these are some of the initiatives which we have taken, and which has helped us to bring down the hedging costs.

Moderator: Ladies and gentlemen, that concludes our question-and-answer session. I now hand the conference over to Mr. Anand Vora for his closing comments.

Anand Vora: Thank you very much for joining us on this call. If you have any follow-up questions, feel free to reach out to Anurag Gupta or myself, and we'll be happy to answer that. Thanks once again for joining us on the call.

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