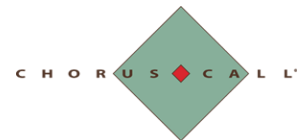




“UPL Limited

Q1 FY '25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the UPL Limited Q1 FY 2025 Earnings Conference Call. As a reminder, all participant lines will be in 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 Ms. Sonalika Dhar. Thank you, and over to you, ma'am.

Sonalika Dhar: Thanks, Sejal. Good afternoon, everyone. Thanks for joining us today for the results for Q1 ending June 30, '24. 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 our management team, we have with us today, Chairman and Group CEO, Jai Shroff; 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 Seed Business Advanta, Bhupen Dubey; and CEO of our Specialty Chemicals business, Mr. Raj Tiwari and other members of the leadership team.

With that, I now hand it over to Anand. Anand, over to you.

Anand Vora: Thanks, Sonalika, A warm welcome to all of you who have joined us today. Before I talk on the key financial highlights for the first quarter, I'd like to state that overall results of the first quarter have set the trend for a near normal year, and we are reasonably confident of delivering the guidance, especially with regard to the EBITDA growth and reduction in debt.

In summary, it has been -- it has indeed been a good beginning to this financial year. And as stated at the Capital Market Day, we expect good growth in profitability and free cash flow in H2 of this financial year. Revenue growth for the first quarter was flat at 1%, driven by 16% increase in volumes, 14% decline in price and a negative 1% FX impact.

Contribution margins were lower by 620 basis points at 39.5% year-on-year, primarily due to price decline, increase in trade expenses and partial liquidation of high-cost inventory. But also since we saw some improvement on account of lower input costs, while contribution margins were lower year-on-year, the margin was higher by 470 basis points over full year FY '24, indicating stabilization of prices. Our efforts to reduce SG&A continue, reflecting in a 3% reduction in the cost year-on-year.

We are on track to drop our SG&A further and look to deliver on the \$100 million savings in FY '25 as per our guidance. With sales remaining flat on account of volume growth negated by price pressure, there was a drop in contribution profit leading to a drop in EBITDA, which stood at INR1,145 crores. However, the decline of 28% year-on-year was lower than the 32% decline we saw last year, showcasing a trend reversal in business.

Our Global Crop Protection business grew by 5% and Mike will take you through region-wide details of our international business and the outlook for the year. At UPL SAS (UPL Sustainable Agri Solutions), we continued our efforts to restructure our business through strict credit policies and tighter credit terms, which led to a postponement of sales closer to season and consequent impact on Q1 revenues. However, our contribution margin improved. Working capital was

reduced and cash flows improved, giving us confidence that this is the right structural move for us in India. Our focus on SG&A reduction continues, and we saw a drop of 5% year-on-year.

Advanta, our seeds platform saw some headwinds in Q1 on account of weather challenges that impacted production, created inventory shortages and supply chain constraints leading to an impact on contribution and EBITDA margin. Sales were lower by 7% and EBITDA by 13%. Marginal price increase help to offset the high cost of goods in the seeds business.

Moving on to working capital. We are happy to report that our net working capital decreased by 1 day as of 30th of June 2025 versus an increase of 14 days for the same period last year. Net debt grew at a significantly lower rate than previous year. Our net debt increased by 639 million in June '24 versus 1.136 billion in June '23. Our net finance costs remained largely flat despite the rise in benchmark rates, that's the SOFR rate by almost 400 basis points year-on-year and a 30 basis point incremental cost on account of the credit downgrade.

The tax for the quarter is the normal tax charge, while in the previous year, we've got benefit of deferred tax allowance, resulting in a negative tax charge. Net loss for the quarter was INR384 crores on account of 28% drop in EBITDA. However, we continue to maintain our guidance for the year of an EBITDA growth of greater than 50% over FY '24 and cash flow from operations of 300 million to 400 million, enabling us to reduce interest costs and return to profitability. As was highlighted by Mr. Shroff at the Capital Markets Day, improving our cash flow and strengthening our cash balance continues to remain one of our key focus areas.

As regards to the rights issue, we expect to positively close the same within the financial year. On the monetization of some of our platforms, it is also being simultaneously considered as we evaluate various options. Overall, led by the gradual recovery in crop protection demand and the implementation of cost optimization efforts, we expect the revenue for the full year FY '25 to be in the range of 4% to 8%, largely driven by volume and EBITDA growth of greater than 50% over that of FY '24. On the cash flow and balance sheet front, our focus of generating healthy cash flows and deleveraging will continue.

With this, I'll hand over to Mike to take you through the UPL Corporation or our Global Crop Protection Capital platform and financial results. Over to you, Mike.

Mike Frank:

Thank you, Anand, and hello, everyone, and welcome to our first quarter fiscal year 2025's Earnings Call. It's great to connect again after our Capital Markets Day earlier this year. Now before we review the quarter, I'd like to share some thoughts on the market itself. First, we continue to see strong fundamentals in the global crop protection market with farm-gate demand for our products at or above last year levels. And we continue to gain share in most key regions as the market normalizes. This is enabled by our strong customer approach and demonstrated again in our first quarter performance.

Let us turn to our financial results for the quarter. I'm happy to share that our first quarter showcased growth, demonstrating our ability to recover rapidly from last year's industry challenges and successfully increased our market share. Among key segments, herbicides growth was strong in North America. Driven across our portfolio, our herbicide performance in

Brazil was also solid. Fungicides growth was led by higher volumes in Europe and North America. Revenue growth in our Natural Plant Protection, NPP, business was also strong, up 10% versus the first quarter last year, really driven by a strong performance in Europe and other regions.

Our contribution margin compressed by around 600 basis points versus the first quarter of FY '24. This was due, as Anand mentioned, due to price decline, partial liquidation of high-cost inventory and increased freight expenses emerging from the ongoing geopolitical issues. We maintained the revenue mix from our differentiated and sustainable portfolio with one third of our first quarter revenue coming from these higher-value offerings. We're encouraged by this trend and the continued strong adoption of these offerings by our customers.

Let's now review our regional performance for the quarter. In Latin America, our revenue was down by 9% due to price decline. Brazil had strong volume growth, demonstrating our ability to continue to increase our market share; however, Brazil was impacted by price erosion in insecticides such as Perito, Feroce, and Sperto. Additionally, key Mancozeb-based fungicide such as Unizeb Gold and Evolution were also impacted due to price softening, but we also saw an improvement in margins on account of reduction in input costs.

In Argentina, this region was impacted by a shift in sales with growers deciding to purchase closer to the use season and Colombia started the year with severe weather-related challenges. Thankfully, those have largely abated by now, but it did lead to an overall decline in revenue on our first quarter in Colombia.

In North America, with channel destocking challenges mostly over, we saw good in-season demand for our products. In particular, herbicide led volume growth was also supported by fungicides, but partially offset by overall price decline of key AIs. In fact, our volume led our growth and it drove revenue for the region up by 66% in the quarter. Additionally, I'm pleased to share that the NPP business was also up around 10%, led by biostimulants. After a challenging FY '24, we are confident that the North American region will continue to perform strongly for the rest of this year.

In Europe, our revenue was up by around 9%, led by fungicide volumes. Further, NPP in the region grew by 56% versus last year. Just as in North America, the strong volume growth of over 20% was driven by in-season demand and thus, the majority of the sales this quarter were also applied in the field, setting up for a good restocking season later this year. In the Rest of the World region, this region and group of countries was up by around 3% with herbicide growth offset by a decline in insecticides. Volume growth of 17% indicates a continued share gain in this region. Overall, while Africa and China led the growth, the Japanese yen was a headwind for us in this region.

So turning our outlook to Q2 and the full year for FY '25, we expect the prices of key AIs to remain stable as in the past few quarters. With lower input costs, we do expect to see an upside in our margins for the rest of the year. While we expect some headwinds on account of softness in ag commodity prices, along with higher freight expenses, we continue to anticipate margins to normalize in the second half, just as we indicated in our Capital Markets Day presentation.

From an SG&A perspective, we continue to remain disciplined and the organization is focused on making improvements in the operating model and driving efficiency throughout the enterprise. Overall, for FY '25, we continue to focus on margins. The benefit of which is expected to get more pronounced in the second half of the year once our high-cost inventory is fully liquidated. Our focus on cash generation continues, and we are optimizing our inventories and other working capital items. And finally, we continue to build on our new product pipeline with a strong footing to deliver our committed amount of \$85 million of revenue from new launches this year.

In closing, I just want to thank our team and our valuable channel partners for the strong performance this quarter, and I'm confident we'll see sequential margin improvement as the year progresses. With this, we are now open for Q&A.

Moderator: Thank you very much. We will now begin the question-and answer session. The first question is from the line of Saurabh Jain from HSBC.

Saurabh Jain: If you can hear me, my question is relating to the North American market. Can you give more details what led to such strong sudden volume growth in the first quarter? And is it more like a temporary one-off restocking event? Or is it going to sustain for the rest of the year? And if yes, then what could be that quantum? And if there is -- first thing, are the inventories completely normalized now in that region? And if yes, then why there isn't a recovery in the end product pricing?

Mike Frank: Yes, very good question. So in North America, as we saw evolve through last year, because of destocking, the channel went into the season, I would say, with a little bit less inventory than normal. And so as the in-season business then presented itself, which really does in our first quarter, we did have opportunities, again, primarily in herbicides to complete the in-season application business.

And so again, I think this is going to be a new normal trend where the channel tries to move to more of a just-in-time inventory position, stocking a little bit less and trying to then fill orders in-season, and that's exactly how both North America and Europe played out, which is why we saw the volume growth in both of those regions, which were really in-season businesses this year.

So to the second part of your question, we would say that largely, the channel destocking has been complete. Obviously, there's unique situations maybe on a product basis or a country basis, where there's always going to be a little bit of balancing going on. But for the most part, as you saw with our strong volume growth of 25%, that's again a strong indication that the destocking is largely behind us now.

In terms of pricing opportunities, again, we are looking for opportunities where we can take price on the quarter. Price was a clear headwind for us in our first quarter. Again, it's comparing to a quarter last year where prices were quite a bit higher than they were right now. So what I would expect as the year plays out, I don't think there's going to be very material price increase opportunities but our margins will improve and the pricing difference on a quarter-by-quarter

basis will start to normalize as we go from Q2 to Q4 this year. So that's what I would expect from a pricing standpoint.

Saurabh Jain:

Okay. That is helpful. Also, on the same thing, we understand that the production coming out of China has also been very, very strong. For instance, a major product is glufosinate in North America, the pricing downward trend continues. So how do you see the competition from China for the rest of the year when you say that there should be a sustained recovery in the U.S. markets? Can incremental volume from China again just impact and [inaudible 0:18:21]?

Mike Frank:

Yes. So you broke up a little bit for me at the end. But look, as you know, one of the strengths of UPL is our supply chain capability with the vast majority of our production coming out of India, from a quality, reliability and a cost standpoint, we can compete against anybody in the world. And so again, what we're seeing is our margins are starting to normalize across our portfolio. Obviously, there could be certain AI in the mix where there could be higher or lower margins. But what we're focused on is really managing our supply chain, looking for cost efficiencies wherever we can and our teams have done a great job of doing that.

And so we'll be very competitive across our portfolio. We know that China prices are lower than they were a few years ago. Largely, they've stabilized from what we're seeing over the last 3 or 4 quarters. We're not expecting to see prices increase this year. They could. But we also don't expect them to go down really much from this point either. And so -- that's our base assumption that we're baking into how we're forecasting the rest of the year.

Saurabh Jain:

Okay. That is helpful. My second question would be on the India business. I understand that on the same product, glufosinate, there has been an introduction of minimum import prices. So first part of the question is that has this benefited us in the first quarter in terms of securing our market shares or improving the margins? And secondly, I understand there has also been a proposal to introduce antidumping duties, which is under investigation. How confident you are about that?

What would be the time line? And the third part of the question is, are you looking to further -- are you or the industry looking to ask for any further MIPs or ADDs on any of the other products from China to safeguard from China?

Anand Vora:

Thanks. Good question. I think India, we have a slightly different position on glufosinate. I think we have a brand, which is there in the market for the last 3 to 4 years. So we do get the benefit of the overall cost coming down and the brand positioning that we have in the market. So we are not competing with the other generics because we think we have a different position in terms of the brand. So we have 2 brands in the market with our 2 companies and some mixtures, which are in the market, and we are seeing very good growth in the product energy.

I think antidumping is something, which is more for the regulators and the government to sort of look at. We are following it up closely, but this is something that is more up to the governments and regulators, and then for us to do anything. But with our brands, we are pretty confident to grow this product in future also in India because this product eventually is the sale of chemistry, which will definitely grow in India because there's a lot of market potential in terms of where this product can go.

- Saurabh Jain:** Okay. And are you also looking to kind of -- you or the industry, do you think possibilities of more such antidumping requests for investigations for any of the other product segments coming out of China? What would be your reading on that?
- Anand Vora:** I think it's very difficult to say. Unless Raj has a different opinion about it. But it's more with the government to see what kind of products are coming from China than for us to make any comments on it.
- Moderator:** The next question is from the line of Vikash Agarwalla from Bank of America.
- Vikash Agarwalla:** Couple of questions from my side, and this is a bit more structural. Just want to understand, based on what you said and keeping in backdrop, the guidance you have of 4% to 8% revenue growth and 50% EBITDA growth. While if I look at the first quarter numbers, revenue is 1% higher, EBITDA is about 28% lower. So what are the triggers or what will change, which will make that FY '25 guidance that you will -- if you can explain that? That is my first question.
- Anand Vora:** Sure. So Vikash, you see the -- our margins -- contribution margins have come back. And in this quarter, we sold very little of high-cost inventory, which we had left from the previous year. We still have something to sell in next quarter, but it's a very small amount, about just below \$40 million. So the improvement in the contribution margin, if you see the first quarter contribution margins are at about 39 -- close to 40%, which is more or less the normalized margins, which we had I would say, if you ignore '23, FY '23 and '22 and '21. So that gives us the confidence.
- And what we have also seen is that prices have stabilized, as I mentioned in my commentary, and good volume growth across board. Across various regions, we are seeing a good volume growth. This gives us confidence that the first quarter being -- generally, it's largely Asia, but from Q3 and Q4, or I would say, end of Q2 and then Q3, Q4, we will start seeing the larger markets season beginning, that's in Latin America, followed by Europe and U.S. And the volume, the way they are growing, we do believe that we should be on target, both in terms of revenue as well as in terms of EBITDA growth.
- Mike Frank:** And maybe, Vik, it's Mike here. I'll just add to Anand's comments. As we reported last year, especially in the second half, we had significant expenses due to both returns and rebates to support the channel as prices came down. And with high certainty, we expect that to normalize this year, especially in the second half. And so on a comparative basis, we're highly confident that we're going to see significant margin improvement and EBITDA growth as we go through, in particular, the second half of the year.
- Vikash Agarwalla:** No, that's helpful. Maybe the other way to understand a little more about it is what was maybe the impact from rebate or special discount in the first quarter, which led to EBITDA not performing as much as expected?
- Anand Vora:** No. I mean, we didn't have -- the regular rebates were there. There were no special rebates given. But as I said, we did sell about close to just around \$10 million to \$12 million of high-cost inventory, which we had. Obviously, on those inventory, we've made lower margins. So nothing significant and that's why you saw the contribution margin returning back to about 40%, around 39.6% level.

Vikash Agarwalla: Okay. Okay. Got it. And my second question is, for rights issue, Anand, you had mentioned that the target is to complete by FY '25, end of FY '25. While I think the earlier target was more to complete in this calendar year, has -- is there any delay or any change on that side, which is leading to...

Anand Vora: No. I think -- I mean, we're just being a bit cautious after having made the announcement some time back. As you know, we made the announcement last year and then we had certain regulatory -- I mean, some questions by the regulator, which we have addressed now. And we are fairly confident that by end of Q3 or by mid Q4, we should see the rights issue on.

Vikash Agarwalla: Got it. Got it. Maybe one quick follow-up actually on the first question itself. And I'm trying to understand the drivers here is, if I look at UPL Corporation revenue, it's 5% higher on a year-on-year basis for this quarter. While if you look at the factoring numbers, it is actually lower. So my assumption was that the pickup in revenue in Brazil and North America probably drives the factoring number as well. If you can explain that, what's driving the factoring number lower?

Anand Vora: Yes. We consciously didn't go for the factoring option just to keep our interest costs lower. While we have shared in the past that our factoring cost is not significantly higher than the cost of borrowing through working capital limits. But we did find the working capital limits cheaper, so we reverted to that option. If you look at our interest costs, they are down by about INR10 crores, as compared to that of the previous year same quarter.

And this is despite the SOFR going up by almost 400 basis points over that of the previous year same quarter plus the 30 basis point increase, which we had to give to most of our lenders due to the downgrade. So it was largely the decision to reduce the high-cost borrowings or in other words, reduce the factoring, which was a bit high cost and revert to low-cost working capital finance.

Moderator: The next question is from the line of Saloni from Jefferies Group.

Sonali Salgaonkar: This is Sonali Salgaonkar from Jefferies. So my first question is regarding the debt again. What is our average cost of debt as of Q1 versus last year?

Anand Vora: 7.5%.

Sonali Salgaonkar: It's 7.5%. And what was it last year Q1?

Anand Vora: Last year, Q1 was roughly in the range of about 5.5% to 6%.

Sonali Salgaonkar: Understand. Understand. Sir, also on that I'm just confirming, our deleveraging guidance is \$300 million to \$400 million, excluding rights issue proceeds for FY '25. Is that correct? We maintain that?

Anand Vora: That is right.

Sonali Salgaonkar: Okay. Sir, my second question is on differentiated and sustainable mix. Could you please help us with the number as to what it is currently of your sales right now versus last year? And what's your target?

- Anand Vora:** Mike, do you want to...
- Mike Frank:** Yes, for Q1, as we reported, the mix was about 1/3 differentiated and sustainable and 67% post patent. What we indicated at Capital Markets Day is that we expect this year, the mix is going to be roughly 60-40, around 60% being post patent and 40% being differentiated and sustainable. And so that's where we have our line of sight to. And I think with our new product launches that are heavily skewed this year and the past few years towards differentiated and sustainable products. As the year plays out, I think we're going to get very close to that 60-40 mix by the end of the year.
- Sonali Salgaonkar:** Understand. Also, sir, in terms of -- we did hear you talk about the recovery in H2 with the pricing stabilizing? But of the overall oversupply situation in the industry and pressure from Chinese generics, do you still think that pricing can potentially stabilize over the next 2, 3 quarters?
- Anand Vora:** We lost the line?
- Moderator:** No sir, we are connected.
- Anand Vora:** No, they're saying whether the prices stabilize over the next 2 to 3 quarters, given oversupply from China.
- Raj Tiwari:** Prices largely have -- even now, in last 3 months, if you see, it is largely stabilized, barring one insecticide and one herbicide. But I mean if you see the prices currently, that looks like that it's like at cost or with a very thin margin these guys are selling. So they're just trying to recover the fixed cost. So I do believe that these prices have really bottomed out and don't see much room there for further erosion.
- Sonali Salgaonkar:** Understood, sir. And just one last question. In the Capital Markets Day, you had alluded to achieving about \$100 million in cost savings in FY '25 due to cost optimization. Could you just throw some light as to what cost optimization you are talking about?
- Anand Vora:** We are -- essentially, I mean, the \$100 million, what we've talked about the cost optimization, needless to mention it, rationalization of some of our employee cost, I mean, manpower essentially. So that's one, as you know, manpower constitutes roughly about 50% of our SG&A. And then, of course, the other are the travel and advertising and promotion and some of these other costs, consultants, costs and other costs that we are looking to rationalize.
- So also, we are working towards bringing in more efficiency. We have set up a global business service center, which were essentially to start off with finance, supply chain, logistics and some of the HR work carried out in some of the high-cost geographies have moved to these GBS and their processing and providing the support. So these are some of the initiatives, which we have taken -- and through these initiatives, we have set ourselves a goal to reduce our SG&A by about \$100 million for the full financial year.
- Moderator:** The next question is from the line of Imtiaz from Barclays.

- Imtiaz:** I have 2 here. The first one, I just wanted to get some clarity with regards to the answer you just gave, stating that the prices have stabilized in the last quarter. But in your disclosures, you have mentioned that revenue growth for the first quarter was flat driven by 16% increase in volumes and 14% decline in prices. So I'm just -- if you could just clarify on this point?
- Raj Tiwari:** This price degrowth as compared to Q1FY24 sales, what I was talking to you was on supply side, I think the question, which was raised to us was on prices in terms of the prices from China, which means in terms of supply. What you are talking about is price degrowth, which we have shown is in terms of the selling price as compared to last year's first quarter, right?
- Imtiaz:** Okay. Understand.
- Raj Tiwari:** Have I answered the question?
- Imtiaz:** Yes, yes. Second one is with regards to your rights issue. Have you gotten the SEBI approval for the rights issue?
- Anand Vora:** I mean, we are in the process of filing the DRHP and we would be going under the fast track, so we expect to get those things clearance by, as I mentioned earlier, either by end of Q3, we'll come up with the issue or by mid of Q4.
- Imtiaz:** Okay. Sorry. In your May call, your Investor Day in May, I think you mentioned that after the release of your FY '24 results financials that you were going to submit the application. I think if I'm not mistaken, by end of June or July, but now you are saying you are going to submit? Can you just clarify on this?
- Anand Vora:** There has been some clarifications, which have been sort and the bankers are handling that with the regulators, and we have provided those clarifications. And that has caused some delay.
- Imtiaz:** What's causing the delay? I mean, just clarifications or anything specific you are able to mention?
- Anand Vora:** No. I mean, as I mentioned earlier, we are waiting for the financial results to come. We have the draft, DRHP. We needed some clarity. As you know, we restructured some of our businesses and we needed clarity around that. If you recollect the financial results shows a business held for sale, which is our what we call the specialty division, which we are moving into a 100% subsidiary. So as per the accounting standards, those are required to be put as a business held for sale and it appeared in the annual results as one liner, and there was some confusion as to how to present it in the reality. So those things have been sorted out as we speak.
- Imtiaz:** Okay. And if I can just follow up on this rights issue. Is the promoter still underwriting, the promoter group still committed to picking up all rights not subscribed? And how do they plan to fund their subscription to the rights?
- Anand Vora:** Imtiaz, I can answer the first one. The second one, I won't be able to answer. They have underwritten the issue and they will be under the SEBI guidance. As promoters they have to subscribe fully. In fact, they have to give an undertaking to that effect to the SEBI.

- Moderator:** The next question is from the line of Himanshu from Seaport Global.
- Himanshu:** I have a couple of them, if you can please help me. So first, with respect to your liquidity, I see that your cash balances have actually declined significantly in the last quarter from \$750 million to \$407 million. Can you please throw some light on this, like what were the real reasons? And what will be the liquidity levels that you would wish to maintain going into the year-end? That's my first question.
- Anand Vora:** Sure. So basically, if you see the trend of cashflow due to the seasonality of our business, if you see Q4 of every financial year is a time, is the period during which we get maximum cash inflows. And that's because that's the nature of the business okay, let me share with you, the Latin American business season starts from September.
- So typically, they have a longer credit period and they pay after the harvesting happens in Jan-Feb and their payment comes after that. Europe and U.S. have a similar pattern, Europe has a shorter payment cycle and season starts in Q3 or by end of calendar quarter or by end December to January-February. And generally, the payment comes by February-March.
- And U.S., whatever we sell, we largely put it under our nonrecourse program. So that money also comes in. And then we do have sometimes advanced collection happening in Asian markets. So our maximum cash flows come in Q4, and that's how some of them come right towards the end of the year.
- And that's why we do have a very awkward situation since we end our year on 31st March. We have maximum cash during that period, around that time. You will see, if you go back to the last 5 years, every year, you would see maximum cash as of 31st March. And obviously, our cash requirement across various subsidiaries all put together is not more than \$350 million to \$400 million.
- Himanshu:** Okay. Another question is more on the perpetuals. You have this U.S. dollar perpetuals, which are callable next year in February. Any plans about calling them or financing them? Will it be safe to assume that given the planned rights issue, you might use some of the proceeds to partially call these bonds
- Anand Vora:** I mean, we haven't taken that decision. As you know, perpetuals 2 years back or 1 year, 1.5 years back, they were the most expensive debt on our books. Today, they are one of the cheaper debts, which is sitting on our books. We will definitely, out of the free cash flow generated from the business as well as on the rights proceeds, we will use it to reduce our debt. But we haven't taken a decision as of now whether it would be going to be used to buy back the perpetuals or whether we will use this for repaying some other debt.
- Himanshu:** Okay. But do you plan to take a decision sometime by, say, end of this calendar year? Or you will leave it for the renewal date
- Anand Vora:** As I said, it's all a function of what is the most expensive debt, which is on our books. And I mean, if you see the pricing today of the perpetuals there, I think, the market -- or the way they are priced, it does assume that at least the market is not expecting us to pay back is what we see

based on the pricing, what we are seeing what its quoting at. But that doesn't mean that's not our view. That's what the market is thinking

Moderator: The next question is from the line of Daniel Chng from BlackRock.

Daniel Chng: Just a very quick question from me. As we see the volume and price impacts year-on-year from the first quarter of last year to this current quarter. Can you give a sense for us in terms of how the volume and price changes were like between the fourth quarter of last year and this quarter meaning quarter-ending March and quarter-ending June, what the volume and price changes were that you saw?

Anand Vora: Mike, did you get that question right? Or you want him to repeat it?

Mike Frank: Well, I heard about the volume price on this quarter and comparing it to Q4, was that the question?

Daniel Chng: Yes, that's correct.

Mike Frank: Yes. I mean I don't have my fingertips on the Q4 volume-price relationship in the global crop protection business, Anand. I'm not sure if you have that in front of you. But this quarter, as we reported, price was down about 20% and volumes were up 25%.

Now again, I think it's going to be somewhat exaggerated this quarter where we expect in future quarters, volumes will be, they're not going to track 25% each quarter. They're going to be more muted than that based on our revenue guidance, but the price impact is also going to be significantly less. Again, if you just kind of rewind to take back to last year, we started Q1 with a lot of our products still priced at the higher rates than we had from the previous year.

And starting in Q2, prices really started coming down. And so that's why we're going to see more of a normalization in pricing as we go through the rest of the year. The next 3 quarters are all bigger quarters Q1. And so again, while we do expect to see some volume increase as we go through the year, we won't be at the magnitude that we expect you know that we saw in Q1. But Anand, can you pull back from Q4?

Anand Vora: Yes. So Mike, for the last entire financial year, we had volume was down by 6%, and price was down by 17%. And just for Q4, and just so that everybody is clear, this is for Q4, we are comparing with Q4 of the previous year, that's of FY '23, volume was down by 2% in Q4 and the price was down by 15%. So on an average, one can say that the full year, we had a volume degrowth of roughly 5% to 6% and a price degrowth of about 15% last year.

Moderator: Daniel, does that answer your question?

Daniel Chng: I was actually more interested in the first quarter of '25 versus the fourth quarter of '24. But no worries, we can move on.

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

Abhijit Akella: Just a couple. One on the India business, UPL SAS. The slide talks about some impact on sales for the next 2 quarters as a result of the transition to tighter credit and inventory norms. So any sort of outlook you could help us with regarding what sort of growth this business can post for the full year fiscal '25?

Ashish Dobhal: We are not giving region-specific guidance. But I think with the tightening of the working capital, it's only the phasing, which shifts a little bit. So in the sense that if you're phasing very closer to the season, the sales from one quarter goes to the other quarter. But by and large, we are seeing that the Indian monsoon outlook, which is a very important factor for our country is looking better.

And with that, phasing might be a bit here and there, but we feel most of our brands in India should be coming back to normal or the growth track. And we also have some new product introductions, which should also help. But we don't see any decline in sales because of contraction or being a bit tight on the working capital. But at the end of the day, we definitely feel that this will be a much better quality business in next 2 to 3 quarters. The only difference might be in the phasing of the sales.

Abhijit Akella: Understood. And on Advanta, the outlook for next year in terms of production and cost, given that the entire industry seems to be sort of short of inventories for this year, is it getting more competitive to sort of source seed for next season? And therefore, could there be some pressure on sourcing costs in the seed business?

Anand Vora: Bhupen?

Bhupen Dubey: Yes. Bhupen here from Dubai. You're right, some of the companies are facing this problem on supply constraint because of the primarily with the adverse weather condition. Going forward, normally in Asian continent, there are 2 seed planting windows. One is a wet season, which is a monsoon and another is a dry season.

So ideally, the dry season is the best production in terms of productivity as well as cost structure. What we have done is that we have taken a call to significantly go for the production in wet season. As a result of that, the cost of production goes up because productivity is quite low relatively. But we continue to maintain our position in terms of market share. So that is one point.

Second point, as you are aware, India biofuel driven price of the end product, the farmer level is quite good, probably highest in the world. The Indian farmers are getting INR2,300 per quintal on an average. So they have a very good profitability profile. And the result of that they are comfortable in terms of price increases.

So the product where we have a good differentiated positions, we are able to pass on the increased price there. So this is kind of a trend we look at in our scenario. But from Advanta perspective, we see this supply constraint to be continued in quarter 2 also. We will start getting the new arrival sometime in end of September or early October. So situation will change in October to December period.

- Abhijit Akella:** That's really helpful colour. And one last quick thing for me. Just on the finance cost breakdown slide, the interest on leases and others is down significantly on a year-on-year basis. Is this largely because of the decline in factoring of receivables?
- Anand Vora:** Correct. That's right, Abhijit.
- Moderator:** The next question is from the line of Bharat Shettigar from Standard Chartered Bank. Mr. Bharat, may I request you to unmute your line and speak. Due to no response from the current participant, we will move on to the next participant. The next question is from the line of Abhiram Iyer from Deutsche Bank.
- Abhiram Iyer:** My first one was related to your employee expenses. They've sort of risen year-on-year and quarter-on-quarter. Any particular rationale for that? And the second question has got to do with pricing. You mentioned in the presentation that potentially found a bottom for the lower prices that we're seeing in the industry, yet it's basically down 14% on a year-on-year basis. That itself was down about 10% on the previous year. So are we expecting a sort of similar drop, that 10% drop to continue into Q2 given Q2 last year was already a 15% drop on the previous year there?
- Anand Vora:** Mike, do you want to take both the questions, employee cost and product cost?
- Mike Frank:** Yes. So on the employee expense, I mean, I think he's talking at the overall enterprise, Anand, so maybe I'll let you take that one. Look, on, as I said, on pricing going forward, we don't expect to see this near the magnitude of pricing impact that we saw in Q1.
- Again, if you go back to last year, we started taking prices and normalizing prices to the current level really when we got into Q2 and Q3. And so there will likely still be some pricing headwinds that will show up in Q2. And for the most part, I think the pricing headwinds will almost completely go away in the second half of the year. So that's what I would expect just from a timing standpoint.
- In terms of employee expenses from a global crop protection standpoint, what we saw this quarter, is a normalization of our bonuses from an accrual standpoint. So there was some incremental expense due to that, again, from a comparison to last year. So fewer head count as Anand said earlier, which was the savings. Somewhat offsetting that, though, was the bonus accrual that is being normalized this year as we track with Q1.
- Abhiram Iyer:** Understood. Understood. And on your, one last final question. On your factoring reduction, you mentioned that this is primarily because going to a lower cost is obviously more beneficial for the company. Does the total limit still remain the same here that you have? So in case, say, your cost of debt comes down as interest rates normalize on a macro basis, you're free to go back to more factoring?
- Anand Vora:** That's right. The limits are very much in place.
- Moderator:** The next question is from the line of Surabhi from SMIFS Capital Markets Limited.

Surabhi: Sir, my question is, can you explain the reason for PAT loss this quarter? And when do you expect it to become positive?

Anand Vora: As we mentioned during our Capital Market Day also and Mike alluded upon it even on this call, we expect H2 -- generally H2 for us is a larger -- I mean, Q3, Q4 or H2 is larger than H1. And as we see the price stabilization and the benefits of low-cost inventory all flowing through, we expect -- and with the volumes also growing, we expect to come back to a positive profit PAT sometime in H2.

Moderator: The next question is from the line of Vishnu Kumar from Avendus Spark.

Vishnu Kumar: So when we talk about the margin improvement, especially at the gross level, if you could help us understand, which reason is giving you the maximum pain given that we've done probably better in U.S. I'm guessing that market is better and Brazil generally is not a great market. So just some understanding there, how the season has been? And in our second half, when we say that kind of been better and second half is more of a Brazil-heavy season, so how does that really pan out for recovery in margins?

Anand Vora: Sure. Mike, will you...

Mike Frank: Yes. Sure. So that's a very good question. As we look forward, firstly, in all the regions, we are expecting margins to normalize. And as you said, there are some regions that have higher margins traditionally that we would expect to continue to have those higher margins like Europe, for example. This specific quarter, Q1 for us in North America, even though it was a good quarter from a revenue growth standpoint because it was also the region where we liquidated some of our high-cost inventory, we actually saw margins compress on a Q-over-Q basis.

And so North America had the most challenges this past quarter from a margin perspective. The rest of the regions were largely in line with where we would see them normally. So that's just the colour on Q1. But even in North America, as we go through Q2 and beyond, we are expecting margins to normalize.

Vishnu Kumar: Just on this, the high cost inventory, Brazilian major season is like the second half for us. Are we -- I mean, is there any additional stock that we need to clear there or across the various regions that we are operating, do we still need to take some more rebate, discounts or inventories that we still need some correction into 2H? Or we think most of it is done by 1H?

Mike Frank: Yes. I mean so again, from a rebate and a return perspective, we do expect those to normalize through the rest of this year. And even in Q1, rebates and returns were normalized. And so we're not expecting to see any extraordinary rebates or returns or revaluations this year like we had last year.

The business in Brazil, which you said is second half, for us, the Q2 was also a big quarter in Brazil. And again, as the distribution channel is buying inventory closer to the season, the season really gets ramped up, say, starting in September. And so we do expect good growth and good sales in Brazil through Q2 and, of course, Q3. And so that's how the Brazil business is going to ramp up for us.

- Vishnu Kumar:** Got it. And just to be, just to understand this, again, much of the second half margin improvement seems to be coming from the fact that last year, third quarter and fourth quarter, the technical prices were probably slightly lower than what it currently is. So that helps a little bit better in terms of pricing. Is that the way to understand of the second half recovery? This prices second half to, the second half, if prices stays here, we will probably see some improvement.
- Mike Frank:** Yes, that's right. And so our expectation is pricing will be relatively stable in Q3 and Q4 this year versus where they were last year, Q3, Q4, we'll get the benefit of lower cost of goods. So that will be accretive to margins. And then again, we won't have the extraordinary items that we had last year that impacted our income statement. So both of those impacts will be positive to the income statement in the second half of the year.
- Vishnu Kumar:** Got it, sir. And one last question, if I may. Obviously, a very tough question to answer. When do you think the Chinese extraordinary level of exports and pricing will normalize, your conversations with the industry, when do you think this will probably at least turn for the better?
- Raj Tiwari:** No it's a question of when the overcapacity situation will become normal. So therefore, the question is that when the capacities will get shut because of non-viability, some consolidation, it doesn't look to be happening for next -- at least next 2 to 3 quarters. So we expect that on the cost side, the prices to be subdued at a similar level because it has really bottomed out. So that's the answer. But when the prices will start again inching up, I mean, it's very difficult to pinpoint and say that from this quarter, it will start coming up.
- Moderator:** Ladies and gentlemen, due to time constraint, we will take that as the last question. I would now like to hand the conference over to Mr. Anand Vora for closing comments.
- Anand Vora:** Thank you. Thank you, everyone, for joining us on today's call. In case if there's any follow-up questions, you may reach out to either Sonalika Dhar or myself, and we'll be happy to provide you the answers. Thank you once again.
- Moderator:** On behalf of UPL Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.