"UPL Limited
Q2 FY '25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '25 Earnings Conference Call of UPL Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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, Investor Relations. Thank you, and over to you, sir.

Anurag Gupta: Thank you, Rutuja. Good afternoon, everyone. Thanks for joining us today for the results for the second quarter and half year ending 30th September 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 our 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 Seed business, Advanta, Bhupen Dubey; and CEO of our Specialty Chemicals business, Raj Tiwari.

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

Anand Vora: Thanks, Anurag. A very warm welcome to all of you who have joined us today. The business performance for Q2 shows a good recovery and provides confidence for meeting our guidance on revenue, EBITDA, and free cash flow for the full financial year.

Let me take you through some key financial highlights for quarter two. Revenue at INR11,090 crores were up by 9% year-on-year on the back of strong volume growth of 16% and a negative 7% decline due to price. Contribution for Q2 stood at INR4,180 crores which was up by 3% year-on-year; and contribution margins were at 37.7%, 220 basis points lower year-on-year, largely on account of drop in prices and regional mix.

Selling, general and administrative expenses, or SG&A as we call it, were at INR2,604 crores, up by 5% year-on-year on back of one of our customer filing for Chapter 11, resulting in an increase in provision for expected credit loss, or ECL, in LATAM region. Backing off this increase in ECL, SG&A for the quarter was nearly flat as compared to last year.

The EBITDA for Q2 stood at INR1,576 crores, flat versus last year, showing a good improvement compared to 28% drop in the preceding quarter of this financial year. We saw an improvement in EBITDA margins from 12.6% in Q1 to 14.2% in Q2, an improvement of 160 basis points.

Profit after tax, adjusted for exceptional items, associated income and minority interest showed a loss of INR443 crores as compared to a loss of INR189 crores in the previous year in the same quarter. One of the main factors contributing to the higher loss was the impact of income tax charge due to non-recognition of deferred tax asset as well as reversal of DTA in some countries, which we had recognized in the previous year.

For the quarter, we saw a marginal increase in depreciation and amortization, finance costs on back of increase in SOFR rates and margin spread due to lowering of company's rating at the beginning of the financial year. Foreign exchange charge or FX losses were at INR375 crores, higher by INR146 crores on the back of higher revenue and primarily on account of some of the countries where the cost of hedging was significantly higher, or the banks had withdrawn their operations in those countries.

Finance performance for H1. Revenue stood at INR20,157 crores, up by 5% year-on-year. Volumes were up by 16%, whereas we saw a price reduction by 10% and an exchange impact of 1%. Contribution at INR7,764 crores was down year-on-year by 5%, largely due to pricing pressure and regional mix. The drop in Contribution in Q2 year-on-year was much lower than that in Q1 year-on-year.

SG&A at INR5,043 crores were up by 1%, an increase in ECL provision being one of the large contributors to the increase. Adjusting for the ECL provision, the SG&A was lower by approximately 2%. EBITDA at INR2,721 crores showed a drop of 14% year-on-year. However, this showed a good improvement as compared to Q1 of this financial year in which the EBITDA drop was as high as 28%.

As mentioned earlier, we are seeing a continued improvement in EBITDA quarter-on-quarter. And based on the forecast we have for Q3 and full financial year, we expect to deliver the guidance of over 50% improvement by the end of this financial year. Profit after tax for H1 was a loss of INR827 crores due to lower EBITDA and a significant increase in tax provision, as mentioned earlier, in some countries due to non-recognition of DTA as well as reversal of DTA, which we had recognized in the previous years.

Moving on to working capital, net debt and free cash flows as of end of H1. The net working capital at INR14,829 crores saw a significant reduction from previous year H1, where the working capital was as high as INR20,116 crores. In number of days of sales, net working capital was at 123 days from 149 days in the previous year, a reduction of 26 days.

Inventory days stood at 117 days, a reduction of 18 days, while payables days stood at 127 days, which saw an increase of 6 days over that of the previous year. Receivable days stood at 133 days, a reduction of 2 days over that of the previous year. We also saw a reduction in non-recourse factoring by INR1,412 crores, about 12 days lower than that of the previous year.

Gross debt, net debt, and free cash flows on account of reduction in working capital and a lower spend on capital expenditure facilitated the reduction in gross debt by US$286 million and net debt by US$411 million. With our continued focus on working capital improvement, we are well positioned to achieve our target of 300 million to 400 million dollars of operational free cash flows, which would go to lower the outstanding debt.

In absolute values, net debt stood at INR27,531 crores. That's in US dollar terms at USD 3.285 billion as compared to INR30,697 crores in the end of previous year same, previous year first half, which stood at USD 3.696 billion, showing a net reduction in net debt of INR3,165 crores.

Cash and bank balance as of 30th of September was INR4,312 crores as compared to INR3,237 crores in the previous year.

With this, I hand over to Mike to take you through the UPL Corporation Global Crop Protection business more in details. Over to you, Mike.

Mike Frank: Thank you, Anand. Hello, everyone, and welcome to our second 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 market. Firstly, the fundamentals of the global crop protection market are mixed.

With destocking nearly complete, we are now seeing normalized ordering patterns; however, price pressure continues to weigh on the overall market, in part due to overcapacity issues in China and tight grower margins, specifically in global row crops. Finally, we continue to do well in maintaining and growing our market share in most regions. This is demonstrated by the customer preference to our offerings and our higher-than-industry volume growth in our first half of this year.

Let's now turn to our financial results for the quarter. I'm pleased to share that our second quarter revenue was up 4% versus last year. Growth was led by higher volumes across regions such as Latin America and Europe, demonstrating our resilience and rapid recovery from last year's challenging market conditions in these markets. Among major segments, fungicides continued with strong performance.

In Brazil, mancozeb volumes, specifically Unizeb Gold®, Manzate® and Evolution®, were prime drivers. Europe was led by Proxanil®, our premium fungicide for preventative and curative disease control in potato crops.

In herbicides, clethodim led growth in Brazil was offset by overall purchase delays in Argentina and lower volumes in North America.

Our insecticides portfolio was affected by price erosion of key active ingredients in Brazil, including acephate, acetamiprid and imidacloprid. However, this was partially offset by strong volume performance in North America. Revenue growth in our NPP BioSolutions business grew by 10% versus last year, driven by biocontrol volumes in Latin America and Europe. In addition, growth in this business was supported by biostimulants volumes such as nutrients and Biozyme in Brazil.

Our contribution margin for the Q2 compressed by around 150 basis points versus last year. You should note that sequentially, we are bridging the gap in our margins, driven by relative margin accretion in most regions. The lower margins in the Q2 versus last year were primarily due to price declines in Latin America countries, along with unfavourable mix in Europe.

Turning to SG&A, we are benefiting from operational cost leverage. However, we faced external challenges this quarter from receivable provisions, as mentioned by Anand, which totaled around $16 million. These impacts were mainly in Latin America. Importantly, we continue to improve our product mix towards our differentiated and sustainable segment with approximately 37% of the first half revenue in this financial year coming from these higher-value offerings. We are encouraged by this trend and the continued strong adoption by our customers.

Let's now review our regional performance for the quarter. In Latin America, our revenues were near flat versus last year, led by higher volumes but offset by price decline. In Brazil, volumes grew by over 30%, mainly from fungicide products; however, price erosion in key products such as Perito®, Feroce®, and Sperto® partially offset the volume impact.

Argentina was affected due to the shift in sales with dealers and growers purchasing closer to the use season, leading to overall revenue decline in the first half. Other Latin American countries were collectively flat versus last year with higher volumes offset by price erosion.

In North America, last year's headwinds resulting from returns and price adjustments have normalized this year. We continue to see good in-season demand for our products, in particular, insecticides such as bifenazate and acephate had strong volume growth and were also supported by higher fungicide volumes. Overall, the region grew by around 16% versus last year.

In Europe, our revenue was up by around 18%, led by strong fungicide growth. Further, our NPP BioSolutions were up by around 25%, driven by strong volume growth. The rest of the world was down by 2% with a decline in herbicides and insecticides, partially offset by fungicides. Overall, volume growth in Africa was moderated by a decline in Southeast Asia and Japan.

Turning to our outlook for Q3 and the full year of FY '25. We continue to expect the price of key AIs to largely remain stable with lower input costs, improved product mix and higher market share in key regions. This is expected to generate margin accretion in Q3. While headwinds are expected on account of softness in the ag-commodity prices, the freight expenses that were higher in the first half of this year are likely to normalize in the second half to previous levels. Overall, we continue to anticipate normalized margins in the second half, as indicated in our Capital Markets Day presentation.

Our team continues to remain disciplined with SG&A, and we are focused on making further improvements in our operating model and driving efficiency throughout the enterprise. We are also reassessing the potential risks of bad debt and write-offs such as in Brazil and creating plans to mitigate them.

Overall, our FY '25 focus remains on margins, the benefit of which we expect to get more pronounced in the second half of the year, though the benefit of lower input costs as well as the impact of new product launches for the fiscal year, which remain on strong footing to deliver $85 million of new revenue. Our focus on cash generation continues, and we are optimizing our inventories and other working capital items as seen in our results.

In closing, I want to thank our team and our value channel partners for the performance in this quarter, and I am confident we will see sequential margin improvement as the year progresses.

Anand Vora: Thanks, Mike. Before we get on to the Q&A, let me just provide a quick update on our other three platforms that is on our India Crop Protection business, which now runs under UPL Sustainable Agri Solutions Limited; on our Advanta our Seeds business platform, which is under the Advanta Seeds Limited; and the newly formed Superform platform, which currently for this quarter is a part of UPL Limited itself.

Giving a quick business update here. On UPL SAS, the India crop protection chemical distribution platform, we saw a good rebound in our business in Q2 with revenues at INR1,013 crores, up by 20% year-on-year, led by increased volume, primarily in herbicides as well as overall normalized channel inventory, indicating improved ground consumption of our products. While sales related to cotton were impacted due to lower sprays in northern India, we had upsides through diversification in other crops such as rice, maize and sugarcane. Contribution at INR304 crores saw a jump of 111% year-on-year.

Contribution margins at 30% were up from 17.1% in the same quarter in previous year on the back of new molecule launches and product mix. SG&A at INR101 crores were lower by 12% year-on-year, resulting in a significant improvement in EBITDA and EBITDA margins. EBITDA at INR203 crores was up by 592% year-on-year and EBITDA margins were back to the 20% level.

For H1, revenues stood at INR2,016 crores, flat year-on-year. EBITDA at INR372 crores was up by 52% and EBITDA margins were at 18.5%. Overall, the team continued its focus on improving the margins with new launches and product mix and working capital reduction through strict credit control and improving collections.

Moving on to our seed platform, Advanta Enterprises. After a challenging Q1, Advanta seeds platform saw a good improvement in Q2. Despite a flat volume, we had a quarterly revenue growth of 4% in Q2, driven equally by price and FX variance. Our revenues were driven by margin accretive growth in grain sorghum in Argentina and Australia as well as corn in India and Southeast Asian countries.

Overall, contribution margins improved by 117 basis points versus last year. We continue to maintain focus on margin improvement and cash generation in this segment and are confident that this continued momentum is expected to yield favourable results in H2 and for the full financial year.

To sum up, revenues were up in H1 by 5%, EBITDA at INR2,721 crores, sets up well for a 50% growth over previous year, considering the forecast we have for Q3 and Q4, and a reduction in gross debt by USD 286 million and net debt by $411 million, and shows that we delivered a free cash flow of USD 300 million to 400 million, which would go towards reduction in the gross debt. In summary, business is showing a good recovery in Q2 and H1.

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

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

Saurabh Jain: Thank you so much for the opportunity and congrats for broadly good set of numbers and strong recovery in India. My first question is relating to your guidance. While you mentioned about the EBITDA growth and cash flow guidance, can you also confirm your revenue guidance for the full year, FY '25, please?

Anand Vora: Yes, sure Saurabh. Thanks for joining us on the call. We continue to maintain our revenue guidance of 4% to 8%. As you see in H1, we have already covered 5% growth, so we are pretty much on track.

Saurabh Jain: Yes. I mean that is fair. But if I just try to kind of look at how the implied numbers should look for second half of this year, a 10% of revenue growth assuming a full year revenue growth of 8% would lead to 10% revenue growth in second half, which may be possible. But then if I look at it, if I compare this with the EBITDA guidance. If you were to achieve an EBITDA increase of 50%, that would imply the EBITDA margins at about 21% for the second half. What will drive such sharp improvement in EBITDA margins?

Anand Vora: So I think there are several factors for this, Saurabh. One is, of course, we are seeing fresh inventory at the current lower cost, so that is one. Most of our high-cost inventory, as we have been reporting, has now been sold. Two is, we are seeing a good increase in our differentiated product sales. Those percentages to the overall sales are going up and these are at improved margins. Third is also the regional mix. We are seeing good recovery in U.S.

As you know, U.S. and Europe, both are high-margin geographies. India results, we did announce. You did see the sharp improvement in EBITDA margins in India. So all these factors give us the confidence that we should be in a position to deliver the guidance, which is of 50% growth in EBITDA.

Saurabh Jain: I mean I can fully agree with that, but 21% kind of EBITDA margins doesn't sound to be too ambitious, given the current conditions. While there is a recovery, of course, but then going to such sharp non-normalized margins back to normalized margins looks a little farfetched?

Anand Vora: Well, we did a lot of stress testing, to be honest, I mean, before we went to the public and before we did this call and then the Board meeting also, there was a fair amount of discussion. Of course, I'll ask maybe Mike also to chip in, and we also have Ashish here with us as well as Raj Tiwari, who heads our formulation and the active ingredients business. But pretty much, we did a bit of stress testing before we came up with this guidance that we will be in a position to maintain the margins. But free to ask Mike, if you want to add something, please go ahead.

Mike Frank: Sure, Anand. Thank you. I'll maybe just add 2 points to the comments that you made. Firstly, the second half is significantly larger, at least for the global crop protection business. And so we do get operating leverage as a result of that, which is helpful to EBITDA margins. And then secondly, as we can see with our fresh inventory, as we liquidated most of our high-cost inventory through the first half, we'll also see a contribution margin expansion in the second half. And so those two things will significantly contribute to the EBITDA margin expansion in the second half.

Saurabh Jain: Thank you so much. So if we deliver this, then presumably FY '26, EBITDA margins would be better than 20% margins, is that a fair assessment for full year FY '26?

Mike Frank: So obviously, we're not yet guiding to FY '26. But look, based on our assumption that prices are now relatively flat, and we made the adjustments we've needed to make. We're getting operational leverage in our plants in India with fresh product. And so the sequential margin that we're going to see in the second half should continue beyond the second half.

Saurabh Jain: The other question is that just seeking some clarity over here. When I look at the UPL level, rest of the world revenues, it is higher by 30% Y-o-Y. But for UPL Corp., it is lower by about 2%. So this difference, which business segment is this attributed to?

Anand Vora: Sorry, can you repeat the question again?

Saurabh Jain: So what I'm saying is that if I look at the consol UPL Limited regional breakdown, the rest of the world revenue is higher Y-o-Y basis by about 30-odd percent. While UPL Corp., I think the numbers are lower by about 2% for the same geography, rest of the world. So where is the disconnect over here? Where this extra increase, which business segment it is attributed to?

Raj Tiwari: So you have other businesses. For example, your specialty business is there, which is trending much higher than UPL Corp.

Saurabh Jain: But how much would be exported in the specialty business? Because even that business if I look at the numbers that are reported, that looks like flattish Y-o-Y basis.

Raj Tiwari: Yes. On the quarter-on-quarter, it is, the revenue is flat, yes.

Saurabh Jain: Yes. Because even Advanta, if it would be attributed to Advanta, even Advanta has shown only a 4% increase Y-o-Y. So I was just wondering what am I missing over here? Maybe I can discuss it separately with the team.

Moderator: Next question is from the line of Angel Sun from Prudence Asset Management. Please go ahead.

Angel Sun: I just have two questions. One is regarding the rights issue if there's any update around that? Have you gotten approval from SEBI because per your last press release, it wasn't a bit clear? And was there any timeline to guide for the launch, moving forward?

Anand Vora: Yes. This is Anand here. You see, as we are a listed entity, and we have the regulators SEBI, as you rightly pointed out, it prohibits us from making any statement on timing of such issues. We'll certainly get the relevant and appropriate update as prescribed under the SEBI's listing agreement at appropriate time, and I will be happy to speak to you after such announcement is made.

Angel Sun: Okay. So it's fair to understand that we haven't got any approval, or you can't comment on that?

Anand Vora: I can't comment on that.

Angel Sun: I understand. Okay. And then moving on to my second question, in terms of the Advanta Seeds business, I think, also previously, there was some press release around a possible stake sale or monetization around it. Is there any further updates that you can provide that has happened over the last 1 or 2 months since the last update?

Anand Vora: No, I think, it's work in progress. We are getting our accounts and financial performance for 3 years and all those things worked out and audited and other details. And we are working on the draft red herring document. So it's work in progress. Again, we will certainly come back to the investing community as and when we have things finalized.

Moderator: The next question is from the line of Steve Byrne from Bank of America. Please go ahead.

Steve Byrne: Mike, I was curious to hear your view on a potential change in international trade if the Red Wave in the US were to impose some meaningful tariffs on exports from China into the U.S. Anything in there that might be a potential benefit to you? The other one I was curious to hear your view on is the ITC investigation in the U.S. on anticompetitive trading and contracts with crop chems, any involvement with your business on that? And anything I can glean from your outlook for that?

Mike Frank: Sure. Steve, good to hear from you. Firstly, on the situation in the US. Obviously, with the President-elect Trump coming in on a mandate of trying to make supply chains more resilient and less in dependence on China, I think that would bode well for UPL. Obviously, as an India-based manufacturer, we're prepared to continue to grow our business if the opportunity presents itself in North America. So, look, I think we have to see how the policy comes forward, and what impact there may be on crop protection products that are coming from China. If there is increased tariffs, then that would, again, bode well for us.

On the second question, Steve, the investigation from the federal government that's happening right now with respect to a couple of our competitors in the market that they're looking at anticompetitive behaviour, what is so-called loyalty programs. Again, that's out of our control. We're watching and waiting how that proceeds.

I would say, from our perspective, if the loyalty programs were found to be anticompetitive and if they were to go away, that again would open up additional opportunities for us in North America, in the US in particular, not just with our post patent business, but also with some of our differentiated products, which also get unfortunately hung up competing against some of those loyalty programs. And so again, that would be a positive turn of events for us if and when that were to conclude.

Steve Byrne: Ok, Thank you for that, and maybe a couple of outlook questions for you. One being in your - biologicals. You have some strong growth there. You commented on biostimulants, but what about anything in your pipeline you're particularly excited about in biologicals? Anything that you'd like to comment on there? And then the other one would be in Advanta Seeds, the European Union is certainly looking at more favourable regulatory scheme on using gene editing in seeds, is that a potential benefit to your seed business?

Mike Frank: Great. So Steve, I'll let Bhupen answer the question with respect to the seed business. On biologicals, as you mentioned, we saw strong growth on a year-to-date basis and again, in our Q2. Biostimulants was a part of that, but as I mentioned, we also saw a significant growth in our biocontrols business, specifically in Europe, with that business up over 25% on the quarter. And so we have a very robust portfolio. We do have some very exciting new products that are coming through the pipeline, which include biostimulants and biocontrol products.

This year, of the $85 million of new product revenue that we're expecting, over 80% of that is in the categories of differentiated or sustainable products. And so again, as we look ahead in our pipeline, over 75% of our pipeline is differentiated like biosolutions or sustainable products or differentiated products. Our whole pipeline is really geared towards that segment. And so we do expect to outpace growth in our business in our biological and sustainable portfolio just as we have in the first half of this year. Bhupen, I'll turn it over to you on the gene editing question for Europe.

Bhupen Dubey: Yes, Mike, thank you so much. Can you please repeat your question here on gene editing?

Steve Byrne: Well, it's a broad question. Is it a technology that you see meaningful benefit to you in your seed business? And then more significantly, the regulatory outlook really varies geographically. It's quite streamlined in the U.S., but it's currently effectively blocked in Europe, but that potentially is changing in another year. Any benefit to you on any of that?

Bhupen Dubey: I think there's two aspects. From a technological point of view, it is very beneficial. We are keeping an eye on it. Last time when we reviewed globally, nearly 900 gene editing projects were going on. And a very important aspect is out of that, more than 509 are only in China, so this is a very exciting technology and is progressing very well. Your question is related to the regulatory aspect of it. We just participated in the European seed conference last week. And while for the regulatory, the pathway is clear, but still some of the industries are asking a lot of questions there.

So pathway has to be evolved fully for further progress in gene editing in European countries. From Advanta’s point of view, I can add one small piece. Actually, we are already working with some of the Australian universities to enhance the size of the sorghum grain and increase the protein content. And for that we are using the gene editing tool benefit in collaboration with an Australian University. And the project is in review and progressing quite well.

Moderator: The next question is from the line of Lynn from BNP . Please go ahead.

Lynn: Just a follow-up question on the rights issuance. I think the company previously announced that you have made progress for the rights issue, and you plan to make a necessary announcement after the publication of the 2Q results. So now that the 2Q results are published, I just want to clarify if we should still be expecting this announcement about the rights issuance or is it further delay?

Anand Vora: As I mentioned earlier to a question from another investor, I think, we are constrained as we are a listed entity and SEBI, the regulators, that SEBI regulations prohibit us from making any speculative statements or any statements on the timing of such issue, which could be construed as speculative in nature. So certainly, I'll be happy to speak to you all once we make the announcement, and we can then discuss further on that.

Lynn: Sure. And my next question is regarding the rating agencies. So I know that Moody's still has you on negative rating watch due to some concerns on refinancing upcoming loans. So how has the latest communication with Moody's been?

Anand Vora: I think the communication is very healthy. We are engaged with all the three rating agencies, and we are in regular touch with them. So I think whatever information they wanted, we have been sharing in a transparent way. And they understand what's going on in the industry. Within that, I think our performance is fairly good, and they are happy to continue to engage with us on a regular basis. So I would say there's nothing or any cause of concern at least at this stage. That's the impression I have after communicating with them.

Lynn: So, the refinancing of the loan isn't really a problem anymore for Moody's?

Anand Vora: We have already made arrangements, and we have shared the details with Moody's on that.

Lynn: Sure. Thank you, and on my last question, I just want to get a sense of what is the change in volume and price on a quarter-on-quarter basis? I think in the presentation, it's more of a year-on-year basis.

Anand Vora: I didn't understand your question. You are referring to what is the volume growth?

Lynn: Yes, volume and price change on a quarter-over-quarter basis for the revenue variance.

Anand Vora: So on Q2, we saw a growth of volume of about 16% and there was a price degrowth of 7%. Whereas for first half, again, we saw volume growth of 16% and a price degrowth of 10%.

Lynn: This is on a year-over-year basis, right?

Anand Vora: That is right. Compared to previous year same quarter or same first half.

Lynn: I see. Do you have a quarter-over-quarter basis versus first quarter of FY '25?

Anand Vora: No, we don't compare that due to the seasonality nature of our business. Our business is seasonal and, therefore, it's always better to compare with that of the previous year. I just compared the EBITDA margin improvement just to show that every quarter, we are seeing an improvement in the EBITDA margins and thereby assuring that we are moving in the right direction in terms of both the EBITDA as well as the free cash flow generation.

Moderator: The next question is from the line of Antonio Gomes from Ninety-One U.K. Limited.

Antonio Gomes: A follow-up from a couple of questions from the previous person. So firstly, on the refinancing of your short-term loans, can you confirm whether or not you have been able to refinance them? And if so, could you share some broad terms?

Anand Vora: Well, I can confirm we have been able to refinance this loan, but we haven't drawn down and we won't be in a position to share the terms and conditions of this loan.

Antonio Gomes: Okay. That makes sense. The second question that I had was with regards to the rights issue. Previously, you had been providing information on the timing of when you expected this to close, at least on a broad basis. And it seems since you issued the press release saying that you were going to do it after the Q2 that something has changed with regards to what you can or cannot share. Could you just provide a little bit more detail as to why your disclosure has changed and, effectively, you can't share with the market when you expect this rights issue to occur?

Anand Vora: No, I think nothing has changed. It's just that we will come with the disclosure shortly. There is a procedure being required after the announcement of the quarter numbers. We are following that process, and we will come with the updates shortly.

Moderator: The next question is from the line of Love Sharma from JP Morgan.

Love Sharma: Just a couple of questions from me. First one, maybe on the Q3 trends, if you could indicate, given I think you reiterated the guidance for EBITDA of 50% Y-o-Y growth. I would like to understand what are you seeing in terms of pricing and volumes for Q3? And the receivable situation in Brazil, is that improving or any changes in this quarter, which you expect?

Anand Vora: I would hand over to Mike because that's a large part of our business. And maybe, Mike, if you can share some insights into Q3 forecast.

Mike Frank: Yes. Very good. Thank you for the question. As you've seen from the first half, we had very significant volume growth of 18% and price compression of 13%. Our expectation as we go into the second half of the year is that both of those trends will start to reduce. Our volume growth will no longer be in the double-digit range. It will likely be kind of in the mid-single digits.

But likewise, the pricing headwinds that we've experienced in the first half will largely dissipate. Again, if you just kind of rewind the clock, in the second half of last year, we really had reset our pricing, and which also created an issue where we also had a number of channel rebates that were also triggered as a result of that. So with those headwinds behind us, that's one of the reasons why we're expecting to see significant contribution margin growth as we go into the second half and ultimately, leverage from our SG&A, we'll also see EBITDA growth. So that's largely what we're expecting from a volume price standpoint in Q3 and in H2.

To your second question with respect to Brazil, there's been a number of issues, not just one, there was one very large distributor that filed for Chapter 11, but there are about a dozen other smaller distributors that have also filed to reorganize. A lot of that has happened in this past quarter and some of it in the Q1 of our fiscal year.

We would anticipate now that the retailers that haven't restructured they're serving their customers, they're in the process of selling crop protection products and other inputs as the season is now unfolding. And so as we see the strength of those companies and, obviously, we're watching the credit risk very closely, and we're not anticipating any other major restructuring from any of our major customers.

That being said, grower margins continue to be squeezed, especially for corn and soybean growers. In Brazil, in particular, the weakening of the Brazilian Real versus the US dollar is helping growers a little bit with their margins. And so yes, this is a situation that I would say has some risk to it. Right now soybean planting is on pace, which is good. And so assuming an average or better-than-average crop, the growers will have liquidity to pay their dealers. And then likewise, their dealers will pay us as the season unfolds. But yes, I would say that's the scenario that's kind of playing out right now as we go into the second half of the year.

Love Sharma: Just maybe as a follow-up. So given these challenges, which you are seeing somewhat on the receivable side and also even at the distributors level, does it not impact your expectation for how Q3 would unfold potentially in terms of revenue and even pricing perhaps?

Mike Frank: No. Because really what has happened, is the course correction over the last 18 months, and the channel distributors and the growers are now buying just before they need the product. And so we have a healthy order book right now in Brazil that's going to really help us finish out the Q3 and start into our Q4 of next year. So we can see that the order book is healthy, and growers are ordering as they need products.

And so now that soybeans will be largely planted over the next couple of weeks, we'll move into herbicide, insecticide, fungicide season. And as those growers need those products, they'll be going to the retail channel. Some of that is already on the shelf, but a lot of it is going to still be ordered as the season unfolds this year, which is, again, a difference in timing versus the last couple of years. And that's why we would anticipate some growth in Brazil as the season unfolds here ahead of us.

Love Sharma: Understand. Okay. That's useful. And just one more question from me. Again, kind of similar to this. I think there is still continued reduction in your factoring. Maybe a question for Anand. How does it look for going forward on 3Q basis? And does the receivable situation in Brazil play an impact here?

Anand Vora: No, I think, limits are intact for factoring. We just were reducing our cost of borrowing. The factoring cost is marginally higher as compared to plain vanilla borrowing. So we do a mix of both. And where we see the risks are high, we try to push it on the factoring because we have seen that the behaviour of the customer in making payments on new debt is very different when his receivables or his payables are factored with the bank. So we do it selectively, but we will continue to do it. And as you know we have guided for $1 billion of factoring by the end of this financial year. I think we should be in that range.

Love Sharma: Understood. And just one last question. How much is Brazil of this outstanding factoring, which you have right now?

Anand Vora: I don't have the number offhand. But I think about 50% should be Brazil out of this. We have close to $500-plus million, 50% should be Brazil.

Moderator: The next question is from the line of Sashank Agarwal, an individual investor. As there is no response, we'll move to the next question, which is from the line of Sonali from Jefferies.

Sonali: Hi Anand and team, thank you for the opportunity. Sir, firstly, I would like to confirm the FY '25 guidance that you just gave out. So it is 4% to 8% year-on-year revenue growth, 50% year-on-year absolute EBITDA growth. And I missed the numbers for FCFS, net debt and gross debt reduction.

Anand Vora: We guided for free cash flow of INR300 million to INR400 million, which would be used to repay the debt.

Sonali: And the net debt reduction guidance is?

Anand Vora: INR300 million to INR400 million, right?

Sonali: Okay. Okay. Understood. And the capex one?

Anand Vora: Capex, we have guided for about INR1,800 crores. Although for the year, up till now, we have hardly spent about INR700 crores. So we are well within the budget.

Sonali: Understood. Second thing is in terms of destocking, you did mention that destocking is nearly complete. So how many more months do you think before the normalized growth kicks in?

Anand Vora: Mike, if you can, and maybe we can also have Ashish to cover for India.

Mike Frank: Excluding India, as I mentioned earlier that we believe the destocking is largely behind us. And as seen in our volume growth year-to-date of 18%, it's an indication that we are increasing our sales from a volume standpoint, although I believe that would be an industry-leading volume growth. So I think we're now into largely into normal ordering patterns. And so we wouldn't be expecting to see destocking impact our business in the global crop protection business going forward.

Sonali: Understood. And last thing, your rights issue, we understand you cannot comment on the exact timeline, but just wanted to crosscheck. The issue is worth $500 million, right?

Anand Vora: No. We had said up to $500 million. I think the Board has come back with a guidance of about $400 million. So the issue now we plan to come up with is $400 million.

Sonali: Last one, , average cost of debt in Q2 versus last year?

Anand Vora: It's around 7%.

Sonali: And last year?

Anand Vora: Last year was, we didn't see the increase, so it was around 6.25%.

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

S. Ramesh: Thank you very much, good evening, Anand and Mike**.** So, in the UPL Corp numbers you have shared for Q2 and first half, can you give us how much of Advanta Seeds international revenue is included there?

Anand Vora: UPL Corp numbers don't include Advanta numbers. UPL Corp is our global crop protection business, ex India,.

S. Ramesh: Okay. So that is only crop. Okay. Second thing is, if you look at the kind of volume growth you're talking about, double-digit growth in first half and then single-digit growth in second half. On that base, what is the kind of ballpark volume growth we can expect assuming normal conditions of consumption and weather, say, for FY '26? Any sense you can give on that?

Anand Vora: Mike, you want to take this question?

Mike Frank: I think if you look at the grower demand for global crop protection, every year, we would expect to see somewhat of an increase as planted areas continue to go up in countries like Brazil. But again, it's in the low single digits. And as I would think about FY '26, volume growth will likely be, 5% or less.

S. Ramesh: And so in terms of pricing, when do you think we'll get some positive contribution from pricing? Will it be first half of next year, or second half? What is the ballpark sense you get on pricing power coming back?

Mike Frank: The current situation with overcapacity in China, that's likely to persist for some time. And so from a base case planning standpoint, we really do believe prices are at the bottom, and we've seen that. And in fact, for the last several quarters, prices coming out of China have been relatively flat. So if your question is, at what point would we expect an increase in those prices, it's really hard for us to predict that.

So our planning scenario is based on relatively flat prices out of China. Our supply chain teams are doing a great job of further debottlenecking and finding cost opportunities in our own supply chain. And so, even at these prices, and we'll see this in our second half, our margins will really come back to a more normalized range. We would expect that to continue into the future.

S. Ramesh: That's useful. One last thought on the balance sheet. If you exclude the rights issue proceeds and any monetization of Advanta, what is your internal marking on the net debt-to-EBITDA target for March '25?

Anand Vora: It should be just around 2 - 2.2 level, net debt-to-EBITDA. And once the rights proceeds are in, maybe we should be below 2.

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

Abhijit Akella: Just a couple from my side, Anand. One is the UPL Specialty Chemical numbers in the presentation seem to have been adjusted quite significantly from last year. The 2Q FY '24 numbers, the year ago numbers, they seem to have been adjusted quite significantly downward. So just trying to understand what the changes made there might have been.

Anand Vora: Yes, there are two reasons for this. 1) is the formulation business continues to be with UPL Limited, whereas the Specialty Chemicals business will have active ingredient and the other specialty chemicals, which we sell to the paint, pharmaceutical and lubricant industry. That's one. 2) Of course, we saw the overall price table also coming down with the reduction in the cost of manufacturing and the raw material. So these two factors led to a drop in revenues as compared to previous year.

Abhijit Akella: No, just to make my question a little clearer. The numbers for the spec chem business last year, for example, Q2 FY '24 were INR3,500 crores. And I think this time around, we've shown a number of about, sorry, just pulling it up here, it is about...

Anand Vora: INR2,600 crores this year.

Abhijit Akella: Yes, yes. So by that reduction?

Anand Vora: That is because the UPL Specialty Chemical business last year of INR3,500 crores, also includes the formulation what used to get done or gets done and supplied to UPL SAS and UPL Corp. That formulation business is part of UPL Limited and not part of Specialty because, Specialty is only now as intermediates, AgTech, Ag Intermediates and Specialty Chemicals. So both numbers are not comparable.

Abhijit Akella: Okay. So this excludes the formulations business?

Anand Vora: Yes.

Abhijit Akella: Got it. And the other question was just with regard to the tax rate. So what exactly has led to the derecognition of and disallowance of these deferred tax assets? And what's the normalized tax rate we should be working with for the full year now?

Anand Vora: No, it has been conservative. And therefore, we reversed the DTA. And I think the tax rates would vary from country to country, needless to mention because each local entity will have their own tax rates. But at an average, as we always have guided, our tax rate would be in the range of about 18% at a consolidated level.

Moderator: The next question is from the line of Vikash Agarwalla from Bank of America.

Vikash Agarwalla: Anand, a couple of questions from my side. One is a question on the customer filing for bankruptcy or the distributor filing for bankruptcy. What was the revenue exposure we had to that customer?

Anand Vora: Maybe what is relevant would be what was the outstanding. We had close to about $15 million of outstanding, out of which $8 million we recovered from the insurance company. We have made a provision in the books.

Vikash Agarwalla: Got it. And just in terms of impact of such large distributors filing for Chapter 11, how should we think about overall business impact or any disruption even if temporary on the supply chain?

Mike Frank: Maybe I can take that.

Anand Vora: Yes. Go ahead, Mike.

Mike Frank: Yes. So Vikash, obviously, the growers are going to still need the inputs, whether it be seed, fertilizer or crop protection products. And so the growers are still going to access those technologies. And obviously, by restructuring, that company is still operating, but probably with not full shelves of products. So if one of their customers' needs to go to another distributor, that's what they'll do to get the products. And again, that's quite typical. Lots of growers will buy from 2 or 3 different retailers. And so we would expect those growers to continue to buy UPL products. And if they can't get them from this distributor, then they'll go to other distributors to procure them.

Vikash Agarwalla: Got it. That's helpful. And...

Anand Vora: And just to add, as we have always said, we do take credit insurance on most of our customers, so we continue to do that.

Vikash Agarwalla: Sure. And one more, just a basic question, Anand, is when I look at the contribution margin impact on a quarter for the Q2 of FY '25 on a year-on-year basis, this is about 150 basis points lower for UPL Corp and for most of the segments, it's actually higher. But when I look at on a UPL Group level basis, the contribution margin is about 220 basis points lower. So can you help me understand how should I think about it?

Anand Vora: No. So basically, a large piece, almost 80%, 85% of our business is UPL Corporation. So that has its influence on this. And again, those are in dollars, which we converted. But when you put it in, also when you convert it into INR, there could be some impact over there also, the currency impact. So broadly, basically, I mean, there will be consolidation adjustments also which would happen as we consolidate the financials from each of these segments. So there are some utilization of capacities, which would have also knocked out part of the margins at India level.

Vikash Agarwalla: Got it. And one more question from my side is just listening to some of the previous responses on the pricing impact in the second half, is it fair to say that now where we are in terms of pricing in the current quarter or the exit quarter, and then when we compare it to the second half of FY

'24, the negative impact is not expected to be much larger on a year-on-year basis in second half of FY '25?

Anand Vora: Yes. I think we took a large knock. If you see our Q3 numbers last year, we had a drop in EBITDA by about 80%. Now that was because we had to offer special rebates to our large distributors and customers who had high-cost inventory left with them and support them in helping them to sell the inventories, which was there with them. We also had inventory with us, which was high-cost inventory.

And in order to sell those inventories, we had to mark-to-market them down considering what were the price levels prevailing at that point of time. So those things are now past us. Most of our inventory is fresh inventory. You heard me also say that our inventory number of days have significantly reduced because our team is managing the inventory very tightly, both be it at a country level or be it at a manufacturing level. So all those things, at least we don't foresee in Q3, Q4 of this year. And that gives us the confidence of delivering the margins.

Vikash Agarwalla: Perfect. And if I can ask one last question in terms of the high-cost inventory. What is there a balance which you can share?

Anand Vora: I think it should be less than $20 million, $30 million out of close to $1 billion inventory, which we have.

Moderator: The next question is from the line of Varun Ahuja from BlackRock.

Varun Ahuja Most of my questions have been answered. Just ne or two things. One, given the tight inventory management and overall working capital management, is it fair to say that the typical cyclicality and hence, the reduction in working capital and associated debt that we see in the second half, we'll start seeing that to be lower as well and just the overall movements will tend to be lower. Secondly, in terms of the drivers for 50% increase in EBITDA year-on-year, can you give us a bit more color on the visibility towards that? Is it just that you have, as you mentioned, tighter inventory, that gives you a lot more visibility plus the volume growth, or are there other factors at play?

Anand Vora: I think on the first question, it's just that we have brought in more efficiency in our inventory management. When everything we saw great growth, we grew twice what we had projected or what we had guided for growth during the COVID time. And obviously, everything was looking good and there was some laxity in inventory management, if I were to put it at the hindsight.

But I think we are trying to bring in more efficiency in inventory management. The cyclicality of business continues to remain, but that's where the skill lies that if we can manage the inventory levels and ensure that we don't lose sales is what we are trying to aim for.

On the second piece, I think we knew that we had hit the rock-bottom last year, now things will only improve from there. But at the same time, last year, we took a hit of close to about $392 million on our contribution and P&L, which was arising due to special rebates to our customers for what we had sold in the previous year, in ’22 and ‘23.

And we had to also do a mark-to-market of the inventory, which we are holding effective 1st April 2023. So we had to take the hit for those, which totaled to $392 million. And we knew that when we started this financial year, we had only about 60 million of high-cost inventory left. The rest of the inventory was all fresh.

And also, it's obvious that if we start managing the inventory better, we would have fresh inventory and which would be obviously at the new cost, which are lower. So because of both these factors, we don't expect this year that $392 million hit or a similar amount of hit is to come by.

And that gives us assurance that we should be in a good position. Last year, we delivered EBITDA of $666 million. If you add this $392 million, takes us to $1 billion, and that's slightly higher than the 50% growth in EBITDA that we have indicated over last year. So that's the broad math, which we have done before we gave the guidance.

Varun Ahuja That's helpful. Just one follow-up. I understand you can't comment on the rights issue. On other inorganic exercises, including seeds business, any updates on that? Or really what's the thought process with the recovery in industry that you're expecting, is that still going to be a priority? Or it's more of a wait and watch on the right valuations?

Anand Vora: No, I think we continue to explore opportunities. And yes, things take a bit of time. And we would just request patience. We will come with updates as soon as we have clarity around some of these things. But I mean, you know it very well, how M&As and other things take place. Until and unless it's signed, there's no point talking about it.

Moderator: The next question is from the line of Samuel from AllianceBernstein.com.

Samuel: I just have one question. This one is probably for Mike. I would like to know on a 6 to 12-month basis, if you were to rank the regions under your coverage, which regions are you more optimistic or which regions are you a little more conservative?

Mike Frank: Yes, thank you for the question. Look, if we look backwards, the regions that were problematic for us last year were really LATAM. And within LATAM, it was Brazil, and North America, and Europe. This year, we're seeing turnaround strength in Europe and North America, and we expect the same for Brazil as the year unfolds.

I think, looking over the next 12 monthsd, again, based on our new products that we've launched this year and will be launching next year; we would expect to see growth in every region. This is a perfect question because we're in this time of the year where we're starting to work on our budget planning for FY '26.

And so I don't foresee any regions where there's structural or fundamental issues. I think, again, with destocking behind us and assuming relatively flat pricing for AIs coming out of China, the improvements we made in our supply chain, the improvements we made in our operating model and cost leverage, I think, we're set to compete very aggressively going into the future. And so I would rank all of our regions with opportunity to grow over that time frame.

Samuel: All right. And then if I can, just one follow-up. You mentioned about active ingredients. I know they are both your competitor, but you also source some active ingredients from them as well. So it's kind of like there's on the revenue side and the cost side for you, I'm not looking for a number. I'm more looking for direction. For example, if the active ingredient price were to increase, is that a net accretive to UPL, and then vice versa on the other side. I just want to see a directional sense.

Mike Frank: Yes. The way I think about that, we can see that across our portfolio, whether it's in-sourced or outsourced, our margins are roughly in the mid-30s. And I think that's consistent. Obviously, when you go through a shock, either a cost up or cost down, you'll get disruption in that.

But once you're in a stabilized environment, that kind of mid-30s percent margin opportunity based on our customer intimacy, the brands that we have in the marketplace, the go-to-market model, I think that margin should be consistent. So obviously, if you're in a higher cost environment, over time, if the margins are the same, you're going to put more dollars on the bottom line.

So that's why at this lower cost environment that we're in today, we talk about getting our margins normalized. But again, that's come with some trimming on the top line from an absolute basis. And of course, that flows through the margins as well.

Samuel: Sorry, I probably didn't follow 100%. So in the current environment of active ingredient, where the active ingredients are low price and then we're in the process of seeing margin recovery as well. If the active ingredient price were to increase, I think it will push up your cost a bit, but it also allows you to sell a bit higher? Like would I be seeing margin expansion in general?

Mike Frank: Yes, I agree with that premise, although there's always some lag time as the market catches up because if prices are going up, depending on competitive market environments, it may not be instantaneous, of course, that you can increase prices. And so that's all I'm saying is through that disruptive period, margins can get depressed. But assuming we can maintain a mid-30s percent margin in our UPL Corp business, then as prices go up, from an absolute standpoint, what you're saying is true that absolute margin dollars will go up as well.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Anand Vora: Thank you very much, all of you all, for joining us on the call. In case if there's any follow-up questions, you may please reach out to Anurag or myself, and we'll be happy to provide you the answers. Thank you very much.

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