"UPL Limited Q1 FY-23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to UPL's First Quarter FY2023 Conference Call. As a reminder, all participant lines will be in the listen only mode. 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Radhika Arora. Thank you and over to you ma'am.

Radhika Arora: Thank you Inba. Good morning and good evening to everyone. Thanks for joining us today for the first quarter results ended June 30th, 2022. On this call, we will be referring to a presentation that is available on our website. And we take it that you have read the Safe Harbor Statement given in the presentation.

From the management team, we have with us today Global CEO - Jai Shroff, but he is down with a bad throat so I would apologize on his behalf that he won't be able to present today. We do have our Group CFO - Rajendra Darak, President and COO – Mike Frank, Global CFO - Anand Vora, and Global Chief Supply Chain Officer - Raj Tiwari. We are also joined by the Head of our India business, Mr. Ashish Dobhal.

We will start with an overview and financial update from Mike and Anand and followed by the Q&A. With that, let me now hand it over to Mike. Mike, over to you.

Mike Frank: Thank you Radhika, and hello everyone. It's been a fast and exciting first six months for UPL. Best of all has been working with our amazing team around the globe, as we hope farmers become more successful, with a commitment to reimagine sustainability in everything that we do. We continue to operate in a highly volatile and uncertain world, and we take pride in the agility of our team, strong customer relationships, unique backward integration, and our supply chain resilience to address these challenges head on. Our strong results in the first quarter demonstrate this competitive advantage.

I would like to also highlight two important achievements for the last quarter:

First, we're excited about our recently announced collaboration with Bunge for the creation of Origeo in Brazil, which is subject to any trust approvals. This innovative company will increase productivity, profitability, and sustainability for farmers in five states of the north and northeast region of Brazil.

Secondly, after extensive trials, we have also launched the first Flupyrimin-based insecticide in India to protect rice yields by controlling brown plant hopper and yellow stem borer on rice, making it an important milestone with regards to our collaboration with Mitsui Chemical Subsidiary 'MMAG'.

So, now turning to our performance highlights in Q1:

We have experienced strong growth across the Americas, in particular, as the favorable market conditions and strong commodity prices allowed us to improve gross margins in Brazil and we grew both in terms of volumes and price in the US market. Our team is Europe faced multiple challenges, including unfavorable weather conditions, the impact of product bans, and of course the war in Ukraine, as well as the overall devaluation of the currency. Despite all those challenges, we did see healthy growth in our European business. In India, the application timing was impacted by delayed planting.

So, moving to the financial results:

Our Revenue as well as our EBITDA for the quarter have both grown robustly by 27% and 26% respectively versus Q1 of last fiscal year. The growth in revenue was led by significantly improved price realizations, coupled with a healthy volume increase, despite the multiple challenges. Our contribution margins stood at around 44% enabled by 18% higher product prices offsetting the inflationary input and freight costs. Our EBITDA margins lowered slightly because of increased investment in SG&A. The key driver for this SG&A increase was related to employee costs, which saw an increase of approximately INR 214 crores. We intentionally increased our headcount versus last year in the areas of R&D, our NPP BioSolutions business and in our southeast Asia business where we're transitioning that business to a B2C model.

Let us now talk about the performance of our regions in the quarter:

In Latin America, we achieved a strong 38% growth led by our herbicide portfolio and through improved pricing. The growth was mostly led by Brazil, driven by a robust demand for post emergent herbicides, and strong price realization. Argentina and Andean countries also contributed to overall growth of the region, mostly driven by herbicides. As another highlight in Latin America, our NPP BioSolutions business achieved a strong double-digit growth in Mexico and the Andean countries. In North America, revenue grew by 47% in this quarter, due to higher volumes as well as improved price realization. Our performance was supported by high commodity prices, with strong growth in both US and Canada despite challenges, which included the drought in western US, where we have a strong NPP BioSolutions business, this did impact that part of our business in Q1 in that specialty crop market.

The pre-emergent herbicides have led the growth in the region through a mix of volume and price. We also successfully launched our new three-way herbicide in soybeans called 'Preview'. I visited our US field technical team last week, and the field results are looking fantastic. We expect 'Preview' to really start ramping up in the next crop season. In Europe, we grew by a robust 13%. This strong performance has been achieved through increased volume growth and higher price realization. Among major countries, growth in France was led by NPP BioSolutions, Central Europe grew through a mix of volume increase as well as price. The European business achieved this growth despite multiple challenges which I mentioned earlier, including the devaluation of the Euro by around 6% against the INR versus last year.

In India, we achieved a moderate growth of 8% much impacted by the delayed planting of key crops. Regarding crop protection, our NPP BioSolutions portfolio delivered strong growth, in addition, we are pleased that our Flupyrimin-based sales have started in the last quarter. Among other businesses, Advanta's growth has been led by strong demand in corn and canola portfolios. Due to the recent start to the monsoon season, we are now seeing significant product applications in the field, which will set up for a strong Q2.

The rest of the world delivered a 31% growth in revenues driven by significant increases in volumes and supported by improved price. Significant growth in Southeast Asia, Australia and New Zealand were led by insecticides and fungicides despite the supply constraints. This was helped by the PT Excel acquisition in Indonesia, further strong growth was also achieved in Western and Central Africa, largely driven by our insecticides portfolio. Sales in China were negatively impacted by unfavorable weather that affected key crops and by channel stocks, while Japan performance was impacted due to the devaluation of the Japanese yen.

During our capital markets day presentation in May, we emphasized the importance of our Advanta business. For this reason, we would like to share the financial details of Advanta for the first quarter. Advanta had a strong performance with revenue growth of 28% led by field corn in India, canola in Australia, and field corn and fresh corn in Thailand. We also saw an improvement of 20 basis points in contribution margins driven by improved pricing and product mix, and an overall EBITDA increase of 28%, impacted by higher investment in SG&A to pursue our B2C strategy.

As part of our reimagining sustainability efforts, in the last quarter we hosted the 2nd OpenAg Symposium in partnership with the University of Oxford, and the Oxford India Center for Sustainable Development, and discuss the role of global agriculture on the path to net zero. Also, we have launched our first ever Africa sustainability report, showcasing UPLs commitment to farmers and food systems across the continent.

Before I head over to Anand, on our Global CFO, I would like to highlight that we are poised to deliver strong growth for the year. Considering this positive outlook, we are revising our FY23 guidance to 12% to 15% growth for revenue and 15% to 18% growth for EBITDA. Our strong Q1 performance anticipated robust demand for our portfolio of solutions for the rest of the year. We will also be very diligent with SG&A, as we are experiencing inflation across our various SG&A components. Lastly, and very importantly, we are also laser focused on the working capital management front and delivering a strong net cash flow for the year. While Anand will get into the details on working capital and net debt, I would like to emphasize here that we remain committed to deliver 80 days of working capital by the end of the year. Finally, I would like to congratulate and thank our team for their resilience, dedication and unified focus in delivering such strong performance in this quarter despite challenges on several fronts.

I will now turn it over to Anand to take a deeper dive into the financial performance.

Anand Vora: Thank you, Mike. A warm welcome to all of you who have joined us today. I'll begin by discussing the key financial highlights for the first quarter and then take you through the detail financials. At the outset, I'm delighted to share that we have delivered a solid all-around operational performance during the first quarter marked by robust growth in both revenue and profitability. Delivering such a solid performance against the backdrop of challenging macro environment and significant input cost pressures vindicates the robustness of our business model, and, more importantly, our team's ability to adjust and deliver superior performance in a dynamic environment.

Talking specifically about our year-on-year performance on the key financial metrics in Q1. We ended the first quarter with revenues of over 10,800 Crores, reporting a robust growth of 27%, of which 6% came from volume growth, 18% from price increase, and 3% due to favorable exchange impact. Almost all major regions delivered double digit growth, and as Mike alluded to earlier, we are confident of a strong performance in Q2 including in India, which had seen muted growth in Q1 due to the delayed monsoon. Contribution margins were higher by 7 basis points on the back of improved margins in our herbicide portfolio, and improved margins in our Latin American markets. SG&A expenses rose by 29%, as the company invested in building teams, and capabilities to grow its differentiated and sustainable portfolio, strengthen distribution capabilities, and normalization of overheads post COVID. However, it's heartening to see that were still able to keep our EBITDA margins intact and deliver a strong EBITDA growth of 26%.

Strong contribution and EBITDA growth led to a 29% growth in net profit after taxes, minority interest and exceptional cost. On the finance cost and other income, let me share with you certain details. As you would have seen, the finance costs in Q1 are lower by INR 88 crores, this reduction is largely on account of gains on hedges taken against advance orders. Overall interest cost for the quarter has gone up to 478 crores on the back of increase in the LIBOR rates and the base rates in most of the countries. As regards other income for the quarter, we had an expense of INR 124 crores versus INR 41 crores in the same quarter of last year. This again was largely on account of the mark-to-market loss on receivables and payables across various geographies. Therefore, the net exchange gain year-on-year for the quarter has been INR 183 crores.

Tax for the quarter was INR 59 crores and we expect to end the year as per the guidance of 12% to 15% of expected tax rates that's the ETR. In the same quarter of previous year, due to losses in Brazil in Q1 on account of foreign exchange impact and recognition of certain deferred tax assets in our Swiss subsidiary, we had a net tax credit of 152 crores. Furthermore, minority interest in the first quarter of this year rose significantly due to the superior performance of our global business. Despite the increase in tax and minority interest, we reported a net profit growth of 29% to 877 crores, while the earnings per share grew by 33% to INR Rs.10.76.

The first quarter also witnessed an increase of INR 5,608 crores in net working capital on a sequential basis. This was primarily on account of four major factors, 1) we saw a robust growth in sales of 27%, 2) there was a conscious reduction in factoring quantum by almost INR 3,000 crores sequentially in Q1 FY23 as compared to INR 619 crores in Q1 FY22. This was done largely to optimize the interest costs in certain geographies, which saw a disproportionate spike in factoring premium. As a result of this, the receivables, and net working capital were higher by 28 days. 3) Inventory is higher by 10 days due to the build-up in inventory on account of strong demand and uncertainties around the supply chain.

However, notwithstanding the reduced factoring and the forex impact of INR 588 crores, the increase in net working capital would have been lower at INR 1,931 crores vis-à-vis the INR 5,608 crores, reflecting actually a reduction of 11 days year-on-year.

The net debt at the end of first quarter stood at INR 26,480 crores higher by INR 7,574 crores as compared to the March 2022 levels, primarily due to significant increase in working capital as highlighted earlier. However, adjusting for the reduced factoring of INR 3,000 odd crores and the forex impact of INR 1,093 crores, the implied increase in net debt on a sequential basis would have been lower at INR 3,392 crores vis-à-vis INR 7,574 crores. Accordingly, the implied net debt would have been around INR 22,300 crores as of June 2022 as compared to 26,480 crores as is reported. Going forward, we expect the working capital days to be in line with our guidance of 80 days by the end of the year. This would lead to a significant release of working capital in second half of FY23, enabling us to manage our net debt position effectively by the end of the year. Further, as Mike highlighted, we have revised both our Revenue and EBITDA growth guidance for FY23 upwards by 300 basis point and 500 basis point respectively, considering the improved performance. On this optimistic note, I would hand over back to the operator and we can start the question-and-answer session. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Prashant Biyani from Elara Capital. Please go ahead.

Prashant Biyani: Sir, what would be the mandate of our JV with Bunge and why to form a new JV after Bunge’s investment in Sinagro?

Mike Frank: Hello, Prashant. I’ll take that question. So, this is the second venture that we have entered with Bunge. We see them as a very good partner for our business in Brazil, they have an extensive soybean trading business as you likely know and they are very strong particularly in the country of Brazil. The opportunity we have with Origeo is, in the five states where that business is focused, largely those are large growers that are not served by existing retailers in that region. And so there’s not a significant overlap between our Sinagro business and the geography where the Origeo business is being focused. And so, this is an opportunity for us to take an entire portfolio to these large growers and work with them in a way that not only brings them solutions, focusing on sustainability and yield, but also a complete package including the buying of their grain on the back-end, which helps from a risk management standpoint. So, it’s a very unique model and we're very excited about this opportunity to really grow our business in that region of Brazil, where we don't have a significant presence today.

Prashant Biyani: Sure. So, secondly, while Europe is going through a very unfortunate gas crisis, but business wise, it would be beneficial for Agchem players or it may be loss of business due to lower agriculture activity?

Mike Frank: Yes, so Prashant, the agricultural activity continues across Europe. Obviously, there has been an impact with the conflict in Ukraine, as well as hot dry conditions across much of Europe over the past month, especially. That being said, we continue to see opportunities for our portfolio in Europe. Our NPP business is exceptionally strong in Europe and so we've seen good growth of that business in several countries. But, the gas situation, I would say is not impacting agriculture, and not impacting what farmers are doing in the field. And therefore, our business continues to evolve and we're having good momentum there.

Prashant Biyani: Sir, would we have any nutrient-based products, which can be placed against fertilizers, because fertilizers have become quite expensive now, so it may be an opportunity for those nutrient based products to be sold?

Mike Frank: Yes, absolutely. And it's a very exciting part of our NPP portfolio, where we have Microbials and other nutritional products, which really help growers create stronger roots, and ultimately manage some of their increasing cost that they're seeing with fertilizer, maybe I'll ask Ashish to provide some color to this situation. We have a very strong portfolio in India and we've expanded it recently. So, Ashish, maybe you can highlight some of the opportunities and products that we are selling in India and how they are helping farmers with managing their overall fertilizer costs.

Ashish Dobhal: So, fertilizer scarcity is a big, big problem in India, and I think we are very well equipped for it. We have perhaps the biggest biosolution portfolio in India starting right from the time when soil is prepared, we have micro enzyme base product, which actually helps to absorb more fertilizers and other nutrients from soil. We have products like phosphate solubilizing bacteria, which can promote the level of plant-absorbable phosphorus in the soil. Fertilizers is one thing, but we also have a huge challenge on the kind of heat wave that we are seeing in India, and we are very well placed for that, as we have certain abiotic stress products, which are very established products, then we have the full range of products which can help to counter the fertilizer shortage. In addition to this, we also have liquid fertilizers, which are having a good macro and micro-nutrient mix.

Moderator: Thank you. We will take the next question from the line of Girish Achhipalia for Morgan Stanley. Please go ahead.

Girish Achhipalia: Is it possible to guide a range on interest cost, because we are saying that 80 days is a networking capital at the end of the year. Obviously, your expectation or interest cost would have increased, given what is happening. So, if you can guide on that range. Secondly, what is the net debt reduction guidance. And does it include the share buyback or is it excluding the share buyback amount that you've already spent in Q1?

Anand Vora: Thanks Girish, this is Anand here. On the interest cost you are right, there is a spike because of the increase in LIBOR, or SOFR, and we have seen corresponding increase in base rates across most countries. And we expect at least at the interest cost level, I'm not talking about finance cost, the interest cost to be anywhere in the range of around US$ 300 million. And on the net debt guidance, we have told at the beginning of the year, we are looking at US$ 400 million reduction. As Mike also alluded, we are committed to rein in the working capital, and we are at least at this stage maintaining our guidance, but we will keep you updated as we move forward quarter-on-quarter. All efforts are being made to see wherever possible to reduce the working capital and the net debt.

Girish Achhipalia: So, is this US$ 400 million gross of the share buyback or net of the share buyback?

Anand Vora: It's gross of the share buyback.

Girish Achhipalia: Okay. And if you can guide on the CAPEX, because your run rate on growth is a surprise on the upside. Is there any upward guidance to that and I also see exceptional items, insurance claim worth close to INR 600 odd crores. So, if you can provide any color on when this money would be received?

Anand Vora: So, as far as CAPEX, we are not changing the guidance, we are retaining our guidance or what we had said at the beginning of the year, capex for the year would be around US$ 325 million. And as far as the insurance claim is concerned, these are large amounts and insurance companies are taking a bit of time. But we are confident of getting this claim, either in this quarter or by the end of next quarter. So, that's the plan as of now. That's what we hear from the insurance companies.

Moderator: Thank you. Our next question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: I had a similar question sort of mirroring on the net debt reduction. Now, obviously we are targeting US$ 400 million net debt reduction over the year. And it's gone in the opposite direction because of the lower receivables factoring. So, is it fair to say that towards the end of the year, the reduction might potentially come from the reversal of this lower factoring or would this come through a different avenue in terms of paying down debt from our cash flows?

Anand Vora: For this quarter, at least, we did the assessment, and we chose to go for the borrowings rather than factoring, but we'll keep assessing the situation. Typically, as you know at least in the beginning in Q1, Q2, and Q3 the working capital keeps going up, and then in Q4, we have the drop in working capital, as we see the collections coming through from Latin America, as well as from the European and US markets. So, that's the trajectory, if you look at last five years, you will see the working capital going up, quarter-on-quarter and then it drops in Q4. As far as factoring is concerned, we would like to maintain it at the same levels, because what we are seeing is that increasingly as far as the rating agencies are concerned, they don't give us the benefit of factoring although almost not a single dollar of factoring is with recourse, all our factoring is without recourse. So, clearly, and also as far as delinquencies is concerned in terms of our receivables, it's a very low ratio and further we also take credit insurance. So, we will now see as we move forward, the arbitrage opportunities that are available, how much higher are the factoring costs. As I mentioned, also in certain geographies, in Q1, we saw the factoring cost shoot up, and so we decided to go for plain vanilla borrowing. So, we will continue to keep evaluating. But as I said, we will also work towards the net debt reduction target what we had guided for the beginning of the year.

Abhiram Iyer: Got it. And just a sort of a quick question on your perpetual bonds. What's the company's current status on the same, is it to be called at the first date or is it a decision that should be taken later and maybe only at the step up date?

Anand Vora: Well, by definition they're perpetual. So, we'll wait closer to the after five and a half years, when there's an interest reset and we will take it up with the board and decide as to how we want to deal with it, whether we would like to continue or discontinue. Some of the rating agencies, even if we continue after five and a half years, do not give us the benefit of 50% of it being treated as equity. So, we will take a call when we are closer to the date, which is at the end of five and a half years, where the interest reset is to be done.

Moderator: Thank you. Next question is from the line of Antonio Luiz Gomes from Ninety One. Please go ahead.

Antonio Luiz Gomes: I just had a couple of questions regarding your financial policy. You mentioned the US$ 400 million net debt reduction and as you've mentioned the receivables factoring, you're looking to keep it stable. I was just wondering on the equity, any dividends or share buybacks you are planning on going forward and what kind of free cash flow you're looking at overall, towards the end of the year. Thank you.

Anand Vora: Thanks, Antonio for joining us. So, Antonio as far as share buyback is concerned, we've done it at the beginning of the year. And given the regulations in India, we cannot do one for the next from now, and therefore at least for this financial year, statutorily we cannot do a buyback, not that we have any intentions of doing a share buyback again, having just completed one. As far as dividends, we do have a policy which is put up on the website, we typically declare anywhere between 20% to 25% of our PAT as dividends. And that's a policy unless there is, at the end of the year based on the financial results and the cash flow, the Board decides then we may change the policy, but I don't see that happening. That's been a consistent policy for many years now.

And whatever free cash we have, goes to reduce our debt besides whatever is the budgeted Capex and the other budgeted expenses. So, that's broadly our financial policy on free cash flow.

Moderator: Thank you. Our next question is from line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: So, just a couple from my side. First is on the guidance. Just wanted to clarify whether this 15% to 18% EBITDA growth guidance is on a US dollar basis. And should we take the FY22 base of EBITDA as $1.368 billion, would that be the right assumption to make?

Anand Vora: Abhijit we must go with INR, as that's our reporting currency.

Abhijit Akella: Okay. So, it's on INR basis okay. And second, on the balance sheet front, this guidance of 80 days for net working capital, the last part of presentation showed a net working capital days of 69 days, as of March 22. So, how should we read that, is there a 10 day increase in net working capital that you're talking about and the other thing I just wanted to check was on Latin America, last quarter we had guided it to about single digit revenue growth for fiscal 2023. But it seems to be growing considerably faster than we had anticipated which probably puts pressure on the working capital. So, how do we sort of manage that situation. Thanks.

Anand Vora: No, so you're right, we delivered 69 days and it would be our endeavor to keep improving on the working capital cycle, we always give a bit of a conservative guidance and therefore we have always, even last year we had guided for 80 days or around those levels. And we maintained that, the business model which we follow and for the business of our size, we will rather be conservative than to overshoot our guidance. But as you have seen, last year also, we delivered much better numbers on working capital and that endeavor to keep reducing our working capital year-on-year is something which we continue doing.

Mike Frank: So, obviously coming out of Q1, which is a smaller quarter for us. But we clearly have significant momentum in Latin America with overall growth of 38%. So, as we increase our overall guidance on revenue, we would expect that Latin America will be greater than the single digit growth. And so that would be our expectation. Now, there are parts of Latin America, where working capital is quite efficient, and other parts, such as Brazil, where our working capital is not quite as efficient. So, we're working with our teams there and with our partners and we're looking for ways to improve the working capital efficiency. I do believe that we will be successful in doing that to an extent this year, although it'll likely be a multiple year journey. But, depending on where our growth is, it does have an impact on overall working capital. So, that would be the color on our Latin America growth.

Moderator: Thank you. Our next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.

S Ramesh: My first thought is on the stupendous performance in Latin America and North America and to see the ground level data point and commentary, we have been talking about, hearing negative news on the weather and the expensive cost of chemicals and fertilizers. So, what has exactly driven this growth, in spite of all the challenges and is there any inventory you have pushed to the trade which explains the volume growth. And secondly, what is the current status on your credit rating?

Mike Frank: Yes. So, maybe I'll start with the Latin American, North American business, and then Anand you can talk about the credit rating. So, generally speaking coming into the planting season, in the Americas, the weather was generally in a good situation, again other than, I would say some parts of Mexico, and then the western part of the US where it's been extremely dry. So, the crop got planted, the row crops got planted, and our portfolio performed very well. Now, look the entire market was strong. So, as the rest of the industry will be reporting over the next several weeks, I would expect that there's overall strong market growth across the Americas. I do think our performance is going to be on the high side, both from a price and volume standpoint. And, you talked about product cost, there's no question of course, including with our portfolio, that the prices are higher, of course our cost are higher as well, when you look at the grower margins, based on strong commodity prices for low crops, generally across the Americas, the income statement is going to be strong, margins will be strong for growers across that region. So, that's how it's played out. In terms of inventory, look I do think there was probably a little bit of incremental buying this year in anticipation of a strong market and with everyone a bit concerned about product availability. When we look at our portfolio, in particular, we believe that channel stocks are in a good position and so with our core products in the marketplace, we think that we are well positioned from a channel stock standpoint. And on top of that, we've got a number of new products that we're launching, over 80 products in total, around the world, and some very significant blockbusters that we're launching in Brazil and the US. So, we are very optimistic, we're going to continue to see strong growth for the rest of the year across that region. Anand maybe you can then pick up on the credit rating question.

Anand Vora: Thanks, Mike. Ramesh, that's something on which we are engaging with the rating agencies, we are extremely conscious of our investment grade rating. And if you do a simple calculation of Net Debt to EBITDA, we are well below two, which is the threshold for investment grade rating, and we are well below that.. Having said that, each rating agency has a different model, some of them add back the non-recourse, some add back certain amount of cash, which is on the balance sheet, they only consider part of the cash on balance sheet as free cash, the others, they consider it as a part of the business requirement, and so on, so forth. So, there are different formulas. So, we keep monitoring the situation, we work hard to make sure we remain at investment grade rating, and we keep engaging with the rating agencies on a regular basis.

S Ramesh: Thank you. So, if I might just squeeze in one more question. In terms of your guidance are you expecting normalized weather for the rest of the year, what is the risk to that in case of any commodity price deflation, would that have a negative impact on your margin as you cut prices, some thoughts on that?

Mike Frank: So, based on our guidance, I would say we are expecting reasonable weather throughout the key growing areas. That being said, much of Q2 and now even parts of Q3, we do have orders in hand, supply chain is working hard to deliver against that opportunity. So, we wouldn't anticipate price pressures necessarily in Q2 and Q3. Look at some point if grain commodity prices come down and grower margins are challenged, that would be a different scenario. That's not what we're seeing right now, we're seeing grower margins being strong. And so, look, it's a dynamic marketplace and at this point in time we're still in an inflationary environment from a both cost of goods standpoint, as well as in terms of SG&A. And again, grower margins based on commodity prices, have supported this the current market dynamics.

Moderator: Thank you. Our next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: In the Americas, we have reported very strong growth . So, is it possible to share what is the volume rise and what is the price rise in North American and Latin America. And secondly, whether this growth is to some extent contributed by the operational challenges, that your European peers would be currently facing, whether you have realized any benefit of that competitive advantage?

Mike Frank: Yes, thank you for the question. So, as we provided in the materials, overall the volume increase was 6%, price increase 18%. I would say, specific to your question. In North America, it was heavily weighted towards volume and in Latin America, it was heavily weighted towards price. And so there was some difference between those two markets. Volumes were, less of a contribution in Latin America and we did see really strong herbicide, insecticide fungicide movement in North America. And so our volumes, there were quite strong. So, that's just from a volume versus price perspective. Look, we haven't seen any impact from an operating standpoint, across our competitors. Supply chain continues to be a challenge, including freight and logistics. The resiliency of our supply chain is clearly one of our competitive advantages. As I talk to our customers especially some of the global retailers and distributor companies that really understand the impact of global logistics, we are viewed as a company that can be extremely reliable in delivering products and that has given us a competitive advantage. And so that's an advantage that's going to be durable, but specifically with respect to the European competitors, we haven't seen anything specific at this point in time.

Surya Patra: Sure, sir. Sir, just an extended question on this. So, how should we look at this gross margin scenario, see while the prices has gone up by 18% and there is a favorable currency factor, still, the gross margins Y-o-Y have remained flat. So, how should one see the gross margin panning out moving forward?

Mike Frank: So, if you kind of zoom out on the situation and look at our portfolio, last year about 30% of our portfolio sales were differentiated and sustainable products and about 70% were post–patent. As we look ahead and look to say over the next five years, we believe the evolution of that mix will move more towards a 50:50 mix. As we see the performance in our portfolio today, we can see that cost of goods impact has a much lower overall impact on our differentiated and sustainable products and so that part of our portfolio is extremely durable. If we see commodity prices change going forward, obviously the post patent part of our mix is impacted at a higher rate based on cost of goods, as well as commodity prices. And so that part of our portfolio will be more dynamic as the markets evolve, and the differentiated and sustainable products, which is our fastest growing segment overall, if you look over the next three to five years that part is less impacted by this volatility in cost and commodity prices.

Surya Patra: Okay. So, just a quick question on the NPP BioSolutions, it has performed strongly this quarter across various regions. So, can you share what is our cumulative number for the quarter?

Mike Frank: Yes, so we don't break out by segment on a quarter-by-quarter basis, we provide that guidance on the year and so, we guided for the year that we expect our mix will be approximately 31-32% towards the sustainable and differentiated products this year. Q1 is a smaller quarter for that part of our business and so I would say there is not a lot to read through based on how Q1 played out. That being said, just like Ashish talked about, from an India perspective there is a lot of interest and growers are looking at the significant portfolio that we do have in BioSolutions and we continue to add to that portfolio from an innovation and a collaboration standpoint. So, yes we're very excited about that part of our business. We're leading in that whole sustainability front right now, and we are looking for more collaborations going forward. And so we do expect that we'll see good growth in that part of our business, as the quarters evolve. And like I said, the first quarter is not a significant quarter, specifically globally for the NPP portfolio.

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

Vishnu Kumar: Want to understand on the ground level measures that we are actually doing to bring down the working capital base or be it the debtors or even inventory or the payables, because it appears that we are growing the fastest in the market which has the highest working capital base, so this is becoming a circular reference every quarter for us. So, how do we really break this or at least on the ground are we doing something different, so that at least that going forward working capital days could slightly come off, if you could help us understand on this?

Anand Vora: Mike, maybe you can start and then I will chip in?

Mike Frank: Yes, perfect Anand. So, look, it's a very important question and we do have a lot of focus on this specific area with all of our teams on the ground. And we're working closely with our customers, and we are looking for opportunities to look at our portfolio, again as we look at our differentiated and sustainable portfolio, where margins are strong. We continue to want to have commercial terms, which really benefit those products and allow us to grow that part of our business, exponentially. As we look at just the margin profile of our entire business and, just like in any businesses there's parts of our portfolio that are lower margin and so as we think of our business going forward, we're going to be more discerning on payment terms and credit that we provide on the lower margin part of our portfolio. But again, this is going to be evolutionary in nature, not revolutionary. And so it's, something that we're very focused on, as Anand and I both mentioned, we're committed to getting to 80 days of working capital by the time we get to the end of the year, and our teams are working hard to make sure that we deliver against that.

Anand Vora: Thanks. Maybe, we have Global Head of Supply Chain Raj Tiwari, he can some of the initiatives which we are taking on inventory management, he can share that. Raj over to you.

Raj Tiwari: Yes, so on inventory front, in the first quarter, we have a bit of higher inventory levels as compared to last year. It's basically because of the fact that India saw muted growth, and we are building the inventory for bigger Q2 and Q3 looking at the growth momentum that we have, and as you have noticed in the previous years, that generally we do that build up and then in the Q4, you'll find that our inventory comes down dramatically, and we are confident of delivering on the inventory days guidance what we had given earlier.

Raj Tiwari: On the specifical measures, we are running a project specifically on inventory measurement wherein we are looking at building the inventory at technical level and not at formulation, so that we can be closer to the market and when the demand comes up, at that point of time, we can quickly formulate and serve the market especially for LATAM and in the US. And as I mentioned during our annual investors meet, we are targeting a 10% reduction on the inventory days as compared to last year end and that I'm confident that we should be able to achieve.

Anand Vora: Thanks. So, to your question Vishnu, there are several initiatives being taken. And as also Mike mentioned in his initial remarks, we are really working hard to make sure that we manage and see how we can improve on our working capital and there are several initiatives being taken both on the receivable and on inventory side. So, it's a clear focus area, and we are quite confident that we will be able to bring some positive changes by the end of this year.

Vishnu Kumar: Got it sir. And just on the commodity prices on one side, we are seeing some softening. And secondly, we are taking price hikes, wanted to understand that next couple of quarters should our margins expand and also a connected point, if crude were to stay stabilize at 100 or say closer to 90, then is there a possibility of a faster working capital release, because as of March we were probably at 100, 115 when we closed and assume if it ends up slightly lower then should we see the guidance of US$ 400 million net debt reduction go up slightly. This is a hypothetical question, but at least directionally is it as possible?

Mike Frank: Yes, so on commodity prices they did spike up three or four months ago. And, of course we've seen at least in most row crops, those prices have come back down. Generally, the prices are very strong and as I mentioned earlier, grower margins are still supported, based on both current and future commodity prices. In terms of our margin expectations, we do expect an increase in margins for the year again depending on what happens with cost of goods. As the quarters play out, we'll see how that evolves, but we would anticipate a little bit of a strengthening of margins as the year plays out and especially as we look at Q2, Q3.

Vishnu Kumar: Got it sir. And one more question if I may, in Brazil we've been growing pretty fast as one of the previous participants was also asking if our European competitors are not able to supply in the market, do we have a significant headroom for growth in this market or we are more or less there from a medium-term angle if you could just give some direction on this?

Mike Frank: We are not anticipating that there's going to be significant shortages, but look we've got a very strong portfolio in Brazil. We have our OpenAg farm, where we are focused specifically on UPL products in both soybeans and corn. Over 70% of all the inputs on this research and demo farm are UPL products and so we have a portfolio that really scans across both crops. And on that farm we're seeing yields much higher than average yields and so we're very confident in our portfolio. We are launching new products this year, like evolution, lifeline zinc, which is one of our important herbicides.. So, as the market evolves, and if certain situations happen with our competitors, again we'll use our agility as one of our core strengths to take advantage of any opportunities.

Moderator: Thank you. Our next question is from line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Three questions from my side. One, while the Brazil is the biggest for production market and we've been doing reasonably well there, but it is also a sizable portion of your business now, which brings in a reasonable amount of concentration risk, whether it's geography or purely in terms of balance sheet. So, how should we see this, sort of getting hedged over a span of next 2-3 years, do we anticipate this part of the market to contribute lower than what it does right now and if so, what are the steps that are going to be taken to sort of address that, that's number one. Number two, if you could give us a sense on what your working capital cycles are across the major markets that you operate in. And number three, the fire incident at Ankleshwar, did it have an impact on your business in Q1, if so if you would give us some qualitative sense as to how it impacted your business, that's it thank you.

Mike Frank: Okay, while we answer that in reverse order, so Raj why don't you take the market and then Anand you can take the working capital cycle.

Raj Tiwari: So, this fire was in a plant which is used to make Monocrotophos and there is a very small impact, basically in the India business, as Monocrotophos is India based. Out of the total requirements of Monocrotophos for the year, around 50% of the volume we already had in hand. So, it's only about 50%, volume loss of business, which is quite small.

Anand Vora: Thanks Raj. And so Tarang on the working capital by region, we generally don't share that data, because it depends on multiple factor such as we do, or we don't do factoring in some markets, and then further, the terms vary from each market to market and then within that also the crop the terms vary. So, it depends on what sort of weather, what cropping is done and that determines the working capital, because in certain markets it has to be based on the default crop terms in certain markets. So, it varies from market to market. Over to you Mike.

Mike Frank: On Brazil, so if you look out over the next two or three years, the reality is we've got strong momentum in Brazil, but also in many regions outside of Brazil. So, I wouldn't anticipate a material change in the mix of our business from a geographic standpoint, in the next two or three years. And so with our NPP business, that really has a global opportunity for us and probably weighted very heavily on Europe and so, we do have a number of layers of growth that we are aggressively pursuing, outside of Brazil. That being said, our Brazil business and portfolio is extremely strong and so we're going to see strong growth in that market though, as well.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, the question is on our reduction in receivables factoring per se. Just wanted to understand that the reduction in factoring, which are the primary key markets where you have reduced the factoring and where do you see that going forward?

Anand Vora: Thanks, Rohan. So, Rohan, currently at least, we have reduced factoring in Latin America, where the interest costs have gone significantly higher. So, we are monitoring the situation, at least I don't see the costs coming down over next one or two quarters. So, we will probably compensate for that by doing more factoring in other markets like US and Europe, that's the plan as of now. Let's see, how the interest rate behave as we move forward.

Rohan Gupta: And sir secondly, definitely not only just to improve our cash flows but factoring also protects you against any payment failures. So, do you see that in this Latin American market where you have reduced factoring leads to increased risk of bad debts and further increase in overall working capital cycle overall?

Anand Vora: So, we looked at those aspects, and based on that only we took a decision that it's better to go plain vanilla loans instead of going for factoring because we looked at the track record over the last three years, and we have extremely low, bad debts. So, we were quite comfortable and considering that the interest cost have gone up almost three times more, the CDI what we call in Brazil, and some of the other Latin countries, the basic bank rates, they have gone up almost 300%. They were 4% to 6% and now they are in the range of 12% to 15%. So, it makes sense to reduce the factoring quantum in these certain markets.

Rohan Gupta: And just last from my side. So, on the upward revision of the guidance for Revenue and EBITDA, can you just give some more color that this is primarily driven by what? Are there certain markets where you are seeing higher growth versus few months earlier?

Mike Frank: Yes, so Rohan, I would say again, we're likely to see very strong growth across the Americas, in Southeast Asia, in Australia, in India, and Africa. All those markets will contribute to our growth and give us confidence in the revised guidance that we issued today.

Moderator: Thank you. Ladies and gentleman in the interest of time, we'll be taking a last question that's from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: My first question is on the FMC contract. So, where are we currently, and when are we expecting material benefits from this particular collaboration. Thank you.

Mike Frank: So, maybe there are two aspects to that one. One is from the supply chain standpoint, the other one is from a commercial standpoint. So, Raj, will talk about the supply chain piece of it later. On the commercial side, we have started commercializing CTPR in a number of markets, as we look at the next 24 months, we have the opportunity to commercialize in more and more markets. And so for FY23, this will not be a material part of our business. But looking at FY24 and beyond, it will become a more important part of our business. But Raj, maybe you can also talk about it from a supply chain standpoint.

Raj Tiwari: Yes, thanks. So, Rohan on the CTPR on the supply chain side agreement. We have already commissioned the plant in the last quarter, which is Q1 of this year, and we have started, already commercializing supplies to FMC.

Rohit Nagraj: Thanks, Sir. Second question again, harping on the working capital, so, the higher working capital, is it also function of gaining market share from competitors or is it purely based on the other factors that we have elucidated in our discussion. Thank you.

Mike Frank: So, specifically we are not using let's say, our balance sheet to try and gain advantage over competitors and so we're not going out with extended terms or something like that, to gain an advantage. In fact, we're being very diligent with how we position our products. That being said, with our increase in volume of 6%, it's likely on the higher side. So, I do believe we are gaining share in the marketplace, we really think it's based on the strength of our portfolio, our go-to-market approach, and the relationships that we've established with our customers. And again, given the resilient supply chain that we have, we're getting the benefit of that, when customers are looking at alternatives, and they're deciding to de risk their business by partnering with us and so those are the advantages that we have, I would say, in our business right now.

Rohit Nagraj: Alright, got it. Just one last clarification on revenue growth guidance of 12% to 15%, what is the volume growth that we are considering?

Mike Frank: So, again coming out of Q1, we saw about one quarter of our revenue increase was from volume and about three quarters from price, if you ignore the currency impact. I would say that ratio will likely make up our growth as we look ahead to the whole year. So, there'll be a piece of it a quarter to a third, that will be volume related, and two thirds to three quarters that will be more price related.

Anand Vora: Okay, thank you very much everybody, for joining us on this call. If you have any follow up questions, feel free to either reach out to me or to Radhika. We'll be happy to answer your questions. Thanks once again for joining us on the call.

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